

Letter from the Editor

BY ALBERT J. MILLS

Welcome to the fall issue of 2015. As with issues over the past three years, the current issue is devoted to papers that were presented at the annual conference of the Atlantic Schools of Business. Three of the papers (Blotnick and Mann; MacLean and deLamirande; MacDonald and Dunnett) were presented at the 2014 Halifax conference hosted by Mount Saint Vincent University (MSVU), and one of the papers (Deal and Shaffner) was from the 2015 Fredericton conference hosted by the University of New Brunswick (UNB). We will be looking for more papers from the 2015 conference for our spring issue in 2016.

Like the ASB itself, the four papers represent a good geographical balance, with one from Mount Saint Vincent University (MSVU), one from Saint Mary's University (SMU), one from Cape Breton University, and one from Crandall University.

### ASB 2016

Speaking of the ASB conference, the 2016 venue is Halifax and the host will be Saint Mary's University's Sobey School of Business – co-chaired by Albert J. Mills and Jean Helms Mills. The date for the event will be Friday, September 30 to Sunday, October 2 and the conference will take place at Saint Mary's University. The conference hotel is the Lord Nelson, where we have secured a room-parking rate of \$165 + taxes and \$159 + taxes without parking. The theme for the conference is: 'The business of knowledge /The knowledge of business'. The keynote speaker is Dr. Martin Parker, Professor of Organization and Culture at the School of Management at Leicester University in the UK. He is also the former editor of the journal *Organization*. Professor Parker will speak on 'What is Business School Knowledge?'. This year we hope to encourage international co-chairs to work alongside our 'local' colleagues – stay tuned.

Please save the date and for further developments check us out at <http://asb.acadiau.ca> or contact us at [albert.mills@smu.ca](mailto:albert.mills@smu.ca) or [jean.mills@smu.ca](mailto:jean.mills@smu.ca)

### The Papers

Our opening paper is by two SMU Master of Business Administration (MBA) students - Nicholous M. Deal and Ellen C. Shaffner. The paper originated from a final assignment for their MBA class on gender and examines the topic of 'Reimagining the Breadwinner: Masculinity, Femininity, and the Construction of Gender Roles'. Despite competition from at least three other sessions, Nicholous and Ellen presented to a full room, obviously anxious to hear more about the research. The audience was also paying homage to Nicholous and Ellen for winning the 'Best Student Paper'.

Based on in-depth interviews with heterosexual married couples, Nic and Ellen examined the extent to which gendered images of 'the breadwinner' were changing over time and whether people adopted different gender strategies (e.g., ways of relating to other men and women) at work than at home. Their findings suggest a growing number of female breadwinners "continues to transform the family dynamic" and this has an impact at work as men and women adopt different strategies for dealing with gender differences.

Moving across the road to MSVU (actually it is about a 15 minute drive!) Karen Blotnick and Linda Mann move our focus to "The Impact of Professional Advice, Social and Marketing Influencers, and Self-Efficacy on the Health Capital of University Students". The theme also shifts from a study by (MBA) students to a study of (undergraduate) students!

Based on a study of 188 (mostly first year) students from two universities in Nova Scotia, the study revealed that professional advice/information had no significant effect on students' healthy life

styles; nor did social and marketing influences. However, students with high self-efficacy (“self perceived confidence”) were seven times more likely than students with lower self-efficacy ratings to adopt a healthy life style. Implications for future educational programs, as well as further research, are discussed.

Moving several hours up the road from Halifax, to the beautiful Cape Breton, Lynn MacLean and Patrick deLamirande, in the first of our cases, examine the challenges of municipal management through a case study of the Town of Springhill, Nova Scotia. On May 15, 2014 Springhill applied to the Nova Scotia Utility and Review Board for dissolution of their municipal status and Lynn and Patrick examine “several of the financial and socioeconomic challenges” involved. The result is a case geared to assist students in understanding Canadian public sector accounting, analysis of selected public sector financial statements, and use of the Financial Condition Index (Province of Nova Scotia) as an analysis tool. The case ends with an instructor’s teaching note.

Our fourth and final contribution moves us across the border to New Brunswick and on to Crandall University. Robert MacDonald and Jonathan Dunnett focus on Connetik Interactive, a Moncton-based company, to challenge students to deal with organizational change and evaluate opportunities for growth. The overall objective of the case “is to allow students to conduct environmental and other appropriate analysis to determine whether an expansion opportunity is appropriate at this stage of an I.T. firm’s development”. As with the previous case, this one ends with an instructor’s manual.

We hope that the various contributions to this issue of the *Workplace Review* are of interest to faculty throughout Atlantic Canada and we look forward to further contributions from across the region.

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## **REIMAGINING THE BREADWINNER: MASCULINITY, FEMININITY, AND THE CONSTRUCTION OF GENDER ROLES<sup>1</sup>**

This paper examines the gendered experiences of married couples where the wife is the primary breadwinner. We draw on in-depth interviews of heterosexual couples, analyze responses separately, and blend elements of autoethnography throughout our analysis. Data collected demonstrates reimagined gender roles at work and home.

### **Introduction**

As women gain access to higher-level positions and become breadwinners in their households, the implications of these momentous changes in all spheres merit close investigation. Research on breadwinning links it closely with conceptualizations of identity and the affirmation of masculinity that providing financially involves (Connell, 1995; Novikova et al., 2005). In the dichotomy of masculine-feminine that is verbalized through associative traits, breadwinning has long been described in mostly masculine terms (Bernard, 1981; Demos, 1974). So what happens when a female is the breadwinner?

In this paper, we focus our lens on identity creation and the spectrum of masculine and feminine traits, social construction of gender, breadwinning, and the implications on identity at home and at work for female breadwinners and their partners. We begin with a literature review of identity and trait theory, breadwinning, and the social construction of gender. Next, we use this foundational work to inform our preliminary analysis of five interviews that we completed with heterosexual couples in which the females are the breadwinners. The male co-author also briefly reflected autoethnographically on his own experiences as we strive to understand the ways in which women who are breadwinners can achieve a balance of roles outside of the traditional conceptualizations of masculinity and femininity, both at work and at home. In providing a clear road map from the onset of this paper, three research questions are raised to seek clarity in redefining the breadwinner role: (1) Are there any differences, between the male and female gender, in defining and valuing the importance of breadwinning within a relationship dynamic? (2) Do female breadwinners exhibit or experience more masculine traits, either at work or home, considering their role as the breadwinner? (3) Do the males in these heterosexual couples have a different understanding of masculinity or experience a feminizing of their role, either at work or home?

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<sup>1</sup> Both co-authors wish to gratefully acknowledge the encouragement and feedback received from Dr. Patricia Bradshaw and Dr. David Wicks, of Saint Mary's University as this paper was born out of their co-taught MBA course Women in Business; Dr. Gabrielle Durepos and Dr. Mallika Das, of Mount Saint Vincent University, for providing timely criticism and guidance throughout the revision process; and the Atlantic Schools of Business annual conference for fostering a supportive and welcoming environment for us as graduate students.

### **Masculinity, Femininity & Management**

Masculinity and femininity are terms used to describe a person's gender identity (Stets & Burke, 2000). Gender is crucially different from sex in that sex is biological, while the concept of gender is a social construct. Meaning is, thus, drawn from and imposed by society. Regardless of their sex, individuals draw their identity from the idea or dimensions of masculinity and femininity (Ashmore, Del Boca, & Wohlers, 1986). Some men will identify as more feminine, and some women may identify as more masculine. The normal association is that men are masculine and women are feminine; this is the stereotype that culture and society has imposed and enacted in the western world (Spence, 1984). In spite of the predominant stereotypes, gender identity may be highly varied among individuals, though it is certainly influenced by the existing stereotypes, gender roles, and gender attitudes as well (Stets & Burke, 2000). From this spectrum or dimension of masculinity and femininity, societal and cultural understandings, and expectations of stereotypes and their associated behaviours, it is possible to delineate masculine and feminine traits. These traits are behaviours that we have assigned meaning to, and the meaning is either feminine or masculine (instrumental or expressive) in its assignation; for example, the word "aggressive" would describe a masculine trait, a behaviour we largely associate with males. In contrast, the word "nurturing" is usually understood to be a feminine trait, in that it is a behaviour we associate most often with females (Constantinople & Deese, 1973; Spence & Buckner, 2000). This classification of masculine and feminine has many applications beyond the concern of individuals.

A significant amount of research conducted around the idea of gender and leadership or management exists in research literature (Koenig et al, 2011; Powell & Greenhaus, 2010; Chen & Powell 2012). The prevailing themes of identity and work in the latter half of the twentieth century seem to focus on the process of un-gendering women, consistent with the wave of liberal feminism in the seventies and eighties (Beggs & Doolittle, 1993; Dion & Schuller, 1990). Research looks at feminine and masculine stereotypes, how women are perceived in the workplace, and how they might adjust their behaviours to better fit in as both women and workers in the workplace environment. For example, research of this era indicates that women who title themselves "Miss" instead of by their name or another prefix in the office were respected and accepted as middle managers (Dion & Schuller, 1990). Research also examined how men and women would take on leadership differently in leaderless groups, and how their gender impacted this behaviour (Eagly, Karau & Miller, 1991). The research themes seem to be largely based on gender differences and blending in by minimizing certain traits. Even of late, focus has remained on what women can do to become one of the crowd; that is, to suppress their more feminine traits and overcome their gender in the workplace (Swiss, 2001).

This focus on removing feminine gender identity in favour of replicating a masculinized workplace has begun to shift in the more recent literature of the twenty first century (Powell & Greenhaus, 2010; Eagly, Karau & Mischel, 2002). Previous research in this vein acknowledges the shift towards feminine leadership; as more women enter the workforce and become managers, it is argued that managerial stereotypes are in fact becoming less masculine, thereby creating an environment in which that un-gendering of the eighties and nineties is becoming slightly less necessary (Powell et al, 2002). Less necessary is a critical point; research still supports that managers are seen as predominantly masculine, suggesting that despite the awareness of increases in female managers and leaders, the actual change in perceptions has been slight.

By 2011, research of leader stereotypes begins to show that the perpetuation of leadership as masculine has been decreasing over time (Koenig et al, 2011; Paustin-Underdahl et al., 2014). Women perceive leadership as being masculine less, though men still predominantly understand it as a masculine construct. There is some suggestion that stereotypes of both leadership and women have shifted over time, creating less role incongruity between the two ideas (Koenig et al., 2011).

Despite these shifts, researchers still question the benefits of women blending in, versus attempting to disrupt expectations of their gender at work. The ongoing debate, as to if women should act like men to better their chances of beating gender bias in traditionally male workplaces, remains highly contested (Paustian-Underdahl et al., 2014; Wessel et al., 2015). For example, acting like men is presented as a potential solution for the barriers that women face in accessing STEM and other highly masculinized industries or role, such as top leadership positions. Research suggests women emphasize their achievement-oriented traits (i.e. those traits that are traditionally masculine or agentic) to avoid drawing attention to their gender when applying for jobs in traditionally masculine environments (Wessel et al., 2015).

Despite inroads in the disruption of traditional gender stereotypes and some increased fluidity in masculine and feminine classifications of associative traits, identity is still thought of largely in dichotomous terms, with the predominant stereotypes serving to disadvantage women at work (Paustian-Underdahl et al., 2014; Wessel et al., 2015).

### **Interface of Work and Home**

Gender identity and ideas of masculinity and femininity also come into play when examining impacts on personal relationships. Men who do not view themselves as sufficiently masculine in their husband role, and women who feel a failure of femininity as a wife, are likely less satisfied overall in their marriages (Langis et al., 1994). This is reinforced by strong societal stereotypes for these archetypal gender roles of husband and wife (Nyquist et al., 1985). In addition to the considerations of identity in conventional marital roles at home, it is important to consider the socioeconomic shifts that have occurred in the last twenty years. As women have become more prevalent in the workplace, there is research that shows breadwinning wives and their husbands actually preserve the male dominance stereotype at home despite atypical roles at work (Tichenor, 2005).

Bringing the ways in which gender identities play out at home together with the ways in which they affect the workplace, it is possible to better understand the complexity identity of those who may fulfill irregular gender roles at home. Separating the role and identity of an individual at home from that required or expected of the individual at work is complex (Powell & Greenhaus, 2010). Decisions made at work and at home by men and women are affected by family-domain factors and work-domain decisions, two things which are mediated by family role salience, or the level of importance one puts on their family (Chen & Powell, 2012). Family role salience, in turn, is mediated by femininity. The more feminine an individual identifies, the greater their family role salience. This means that the decisions a woman may make in business or at home are impacted significantly by factors that are dependent on identity (Chen & Powell, 2012). The interfacing of gender identity with roles at work and home and the impact it may pose on factors like breadwinning is important to acknowledge.

### **Breadwinning**

Scholars from various disciplines have sought to construct definitions of breadwinning and associate meaning with its function. Breadwinning, in a familial context, is the ongoing metaphoric exchange between an individual's work and its resulting economic benefit to provide for the family's wants and needs (Horrell & Humphries, 1997). Through much of recorded history, breadwinning has been reservedly male to the extent to which the "man of the house" is able to provide financial support for his family. Hood (1986) conceptualized the male breadwinner status as a man's earnings in relation to that of his wife, providing a basis of financial support for his immediate family.

This “provider” type is captured in literature as the provision of a wage/salary that supports a dependent spouse and children – almost always the stay-at-home mother and “her” children (Horrell & Humphries, 1997; Lewis, 2001; Raley, Mattingly, & Bianchi, 2006; Speakman & Marchington, 1999). Bernard (1993) wrote of an ideology that was observed of being a good provider: “a man whose wife did [does] not have to enter the labor force” (p. 119). Framed in such terms, breadwinning is thus rooted in sociological inquiries of gender relations in family roles, involved in historical processes, and present in economic structures (Connell, 1995; Ferree, 1990; Hood, 1986).

The patriarchal provider model required a housewife counterpart in order to exist socially. Under the common law, the patriarch was dubbed “head of household,” and wielded legal and economic advantage over the subservient wife:

He owned his wife's and children's services, and had the sole right to collect wages for their work outside the home. He owned his wife's personal property outright, and had the right to manage and control all of his wife's real property during marriage, which included the right to use or lease property, and to keep any rents and profits from it. (Babcock, Freedman, Norton, & Ross, 1975, p. 561)

The nuclear family is impressively adaptive, especially during periods of social change as households seek to individualize meaning (Moen & Wethington, 1992). This is evidenced throughout the early days of the industrial age when families, regardless of age and gender, worked together in fields of productive labour (Tilly & Scott, 1978). When shifts of opinion and subsequently, legislation, forbade the involvement of both women and children from labour fields, the “living wage” was conceptualized (Glickman, 1997). This shift from a “working family economy” necessitated the “breadwinner/homemaker economy” (Moen & Yu, 2000), which led to a gendered separation of paid and domestic work spheres. Among the many historical implications of this paradigm shift was the relegation of women from places of work, albeit informal labour employment, to roles of reproductive work and reserve wage labourers (Goode, 1963). From this perspective, the male breadwinner model was an imposition forced unto families, irrespective of the individualities of each family member (Nicholas & Oxley, 1994).

The male role as the family breadwinner has been observed as a central aspect of hegemonic masculinity. One important aspect preoccupied with this type of masculinity is success (Bernard, 1981). The male breadwinner was expected to demonstrate “strength, cunning, inventiveness, endurance – a whole range of traits henceforth defined as exclusively masculine” (Demos, 1974: 436). As a social examination of his masculinity, breadwinners were judged according to a superficial criteria “that endows a moneymaking man with sexiness and virility, and is based on man’s dominance, strength, and ability to provide for and care for ‘his’ woman” (Gould, 1974, p. 97).

Spanning numerous national contexts, breadwinning and masculinity are closely linked (Connell, 1995; Novikova et al., 2005). In a capitalist economic structure, the link between masculinity and paid employment is historically founded upon the assumption that men are the primary breadwinners (Crompton, 2006; Kimmel, 1993; Lewis, 1992). The traditional male provider model has seldom been attainable for impoverished men, especially those belonging to racial and ethnic minority groups (Collins, 1989, 1998; McAdoo & McAdoo, 1998; Rubin, 1994; Zinn, 1989).

Gerson (1993) found that American men whose wives engaged in employment opportunities outside of the home felt strongly about being the main providers. If the lines of breadwinning, in terms of income derived from outside of the home, are blurred as a woman’s contributions reach near-parity with

her husband's, both she and her husband are apt to revere his employment as providing for the family while her income is "supplemental" and not as significant (Ferree, 1994; Moen & Sweet, 2003; Potuchek, 1997; Raley, Mattingly, & Bianchi, 2006).

This male breadwinner model persisted throughout much of recorded history until its challenge by women as they pursued post-secondary education, entered the paid labour force in record numbers, and made significant strides within professional work during the late twentieth century (Bernard, 1993; Lewis, 2001; Goode, 1994; Gerson, 1993; Kimmel, 1998; White & Rogers, 2000). Ultimately, the undoubted progress has benefited women in greater opportunities: the reworking of gendered roles, structural change in work, and choice in sexual and familial relationships (Creighton, 1999). This movement toward societal prominence provided a significant shift, contributed to an observable erosion of the patriarchal breadwinner model and emphasized the beginning of a change in attitudes toward women's employment (Brewster & Padavic, 2000).

### **Social Construction Of Gender**

Societal acceptance of our gendered perspective that views women and men as naturally separate, defined categories of being (Garfinkel, 1967) is primarily predicated on a conception of sex-based behaviours and traits (see Henley, 1985; Hochschild, 1973; Tresmer, 1975). Through this analysis of sex and gender, we are afforded a glimpse into the construction of gender in that gender is typified as a continuous creation of meaning rather than a portrayal of social interaction that is "created" (Gerson & Peiss, 1985).

#### *Gender as a Social Institution*

In arguing for gender as a social institution within sociological literature, Martin (2004) lends support to the social aspect of gender construction, albeit through an institutionalized lens. Connell (1987) viewed people as being situated inside institutionalization processes that facilitate and constrain human practice. Emphasis is placed on three themes: historicity, personal agency, and power.

"The idea of historicity is about change produced by human practice, about people being inside the process" (Connell, 1987: 143). People are active participants in making of this (process) in the social world, and not merely actors with reactions. Gender, thus, is not a fixed state transcending time bounds; it varies and is answerable to our human agency (Connell, 1987; Howson, 2006; Martin, 2004).

Social organizations are thematic of power for their ability to yield differences – prominent and nuanced – to the allocation of resources, privilege, and opportunities (Balzer, 2002; Cox, 1987; Lukes, 1974). The discussion of gender and social institution should include power (Acker, 1992), for ignoring its overarching theme would be detrimental to comprehending "[the] structures of inequality and exploitation" (Collins, 1998: 150). The view of power within social institutions further challenges the tendency of researchers to assume gender is "at play" in primary group contexts (i.e. face-to-face communication) (Risman, 1998).

The conceptualization of gender as an institution seeks to explain the origin and perpetuation of its social construction. In positioning the institutionalization of gender, Lorber (1994: 10) observed a paradoxical conundrum: "The prime paradox of gender is that in order to dismantle the institution you must first make it ... visible." Like Acker (1992), Lorber believed gender to be embedded in all institutions, yet Lorber (1994) regarded gender as an ideology, not as an institution per se, which that seeks to shape individual and group perceptions regardless of contradictory evidence (i.e. "paradox").

Gender as an institution is one important way for human beings to experience, organize, and make sense of their lives (Lorber, 1994). These institutions, in the sense of identity, power, and change, entail apparent social norms that recur (Giddens, 1984), recycle (Connell, 1987), or are reinforced (through repetition) by group members.

In common-sense understanding gender is a property of individual people. When biological determinism is abandoned, gender is still seen in terms of socially produced individual character. It is a considerable leap to think of gender as being also a property of collectivities, institutions, and historical processes. This view is... required by evidence and experience... There are gender phenomena of major importance which simply cannot be grasped as properties of individuals, however much properties of individuals are implicated in them. (Connell, 1987, p. 139)

In this regard, actors within the social institutional framework “do gender” – whether that be enacted in public realms (i.e. on a subway, at school, in the workplace), private settings, individually, and/or collectively (Acker, 1990, 1992, Britton, 2003; Martin, 2003; Pierce, 1995, Ridgeway & Smith-Lovin, 1999; West & Zimmerman, 1987).

### *“Doing Gender”*

The encompassing nature of gender, in that it is pervasive and unavoidable, is constantly created and re-created from human interaction within social order. Gender is “any arrangement which leads us to judge an individual’s... acts not to be a manifestation of strangeness” (Goffman, 1983, p. 27). Similar to the cultural dynamic of our human social system, we continually construct gender through our individualized engagement in activities that reinforces an accepted masculine and feminine trait. Thus, gender is a production that depends on everyone constantly “doing gender” (West & Zimmerman, 1987). Deutsch (2007) argued that this type of gender construction is “an ongoing emergent aspect of social interaction” (p. 107).

West and Zimmerman (1987) first wrote of “doing gender” as a theoretical paradigm that views gender not as something “we” (collective) *are*, but rather, something we *do*. It is in that vein that gender is socially constructed through the actions of individuals, with self-awareness of public scrutiny that ultimately determines what is appropriate masculine or feminine behaviour (Deutsch, 2007). “Doing gender means creating differences between girls and boys and women and men, differences that are not natural, essential, or biological. Once the differences have been constructed, they are used to reinforce the ‘essentialness’ of gender,” (West & Zimmerman, 1987, p. 137). Thus, the basis of gendered difference is accomplished through socialization, in that it is created within social relationships.

## **Methodology**

In keeping with our desire to immerse ourselves in the field of feminism inquiry and qualitative research methods – a desire that arose from personal experience with female breadwinning – we conducted a study focusing on but not limited to, the implications of self-identity, breadwinning in a familial context, and the construction of gender. The major research questions, as outlined in our introduction are: (1) Are there any differences, between the male and female gender, in defining and valuing the importance of breadwinning within a relationship dynamic? (2) Do female breadwinners exhibit or experience more masculine traits, either at work or home? (3) Do the males in heterosexual



relationships have a different understanding of masculinity or experience a feminizing of their role, either at work or home?

In making sense of these research questions, we selected the use of a semi-structured interview format, involving a prepared list of questions used as a guide in discussing the overall narrative of breadwinning, and masculinity and femininity roles within a familial context. We used a similar guide for both female and male participants, with only minor adjustments to account for sex-type language in the questions for each respective sex. By asking similar questions to the male and female participants, we hoped to identify common themes among and between the couples. In identifying these common themes, and through an analysis accounting for emotion and reaction, we intended to gain insight into points of interest on breadwinning and identity.

Interviews were chosen over other methods (i.e. surveys, observations, and content-analysis), because they provide insight into the creation of individualized meaning. "The qualitative research interview attempts to understand the world from the subjects' point of view, to unfold the meaning of peoples' experiences, to uncover their lived world prior to scientific explanation" (Kvale & Brinkmann, 2009, p. 1). Interviewees were encouraged to expound and elaborate; seeking answers with depth, meaning, and context, according to the individual situation (Arksey & Knight, 1999; Bryman & Bell, 2015).

The five individuals we interviewed consisted of two married (heterosexual) couples whose names have been changed: Zara & Kevin, Irene & Emerson, and Meredith, who is the spouse of one of us. In keeping with our desire to personally involve ourselves in the research, which arose from our personal experience with female breadwinning, the sample size (six individuals including the male co-author) also incorporates an autoethnographic approach to analyze our own response to the themes uncovered throughout the interview process. These interviewees came from various occupational groups: office administration, retail pharmacy, tourism and hospitality management, and automotive service. For the purposes of this preliminary research, we identified these individuals through a targeted sampling approach (Bryman & Bell, 2015), whereas study participants are selected on the basis of convenient accessibility and close proximity.

The interviews were all conducted in person and were a one-on-one type format with each participant. The female author interviewed the female participants, and the male author interviewed the male participants. This approach was intentional and also a choice of convenience as we often met the couples together but interviewed each participant separately. We considered completing an interview with both couples together, however, we decided that for the constraints of this paper and time, we would focus on the participants individually and consider their individual responses. Each interview lasted thirty to sixty minutes. The interviews were digitally recorded and thematically summarized for analysis.

As previously mentioned, we made some use of autoethnographic methods due to our personal experience with breadwinning. The autoethnographic tradition seeks to evoke descriptions of personal and interpersonal experience. This is accomplished first by discovering cultural experience patterns evidenced by interviews, and then describing these themes using the art of storytelling, showing and telling, and authorial voice (Ellis, Adams, & Bochner, 2011). The autoethnographer, thus, uses personal experience in developing a meaningful analysis, and produces accessible text which would otherwise be disregarded from more traditional research philosophy (Bochner, 1997).

## Results

We conducted four full interviews with two couples, and one interview of the spouse of one author is highlighted with comments from the co-author speaking from the autoethnographic tradition. Here we will position each couple and provide a thematic analysis of the interviews.

1. *Irene & Emerson*: Irene is in her early thirties and Emerson is nearing his later twenties. They have been married for nearly seven years and have two children. Irene works as an office administrator at a local college, while Emerson works overnight as a customer service representative, earning a low-wage typical of the hotel industry. Irene makes more money than Emerson. A particularly important part of this couple's life is their faith; they play an integral role in the ministry of a local church.
2. *Zara & Kevin*: Zara and Kevin are in their early forties. They have been married for more than a decade and have one child together. Zara is a practicing pharmacist and is a store owner at a local retail pharmacy, managing a team of pharmacists, pharmacy technicians, cosmeticians, management, and retail staff. Her husband, Kevin, originally worked as a car serviceperson but later returned to vocational school to train in the supply chain management field. He is currently on long-term disability due to an unexpected illness.
3. Meredith is also a practicing pharmacist and is thirty years old. She has been married to one of the authors for nearly four years and they currently have no children. Her partner is a fulltime graduate student at a local university studying management/business administration, making Meredith the sole breadwinner of their family. Meredith and her partner are both actively involved in a local church, and their faith plays an important role in their life.

### *Breadwinning: A Consensus of Meaning with Male Sentiments of Pride*

It was generally observed that, across interviews from both genders, a consistent pattern emerged regarding the meaning of breadwinning. Each participant defined breadwinning in financial terms. However, the female interviewees emphasized language that reinforces the etymological sense of "winning the family bread" whereas it is the person who *brings home* the most money. This particular finding is unsurprising in that breadwinning has long been viewed solely in terms of primary-earner status within a relationship dynamic. In comparison to their female partners, the males interviewed associated the term breadwinning with career success in addition to the financial aspect. While this difference is minor, it demonstrates a consensus in meaning between genders while recognizing the male preoccupation with themes of financial strength, success, and materialism.

In describing the emotional tones of female breadwinning, Kevin provides an affectionate discourse that highlights pride in his wife's work. He is under no illusions about their family dynamic, recognizing it is unlikely in the future to succeed his wife in being the breadwinner. Instead, he feels a vicarious-like sense of pride, as Zara is among a shrinking group of female franchisees in retail pharmacy in Nova Scotia.

Some of my friends would have problems with the fact that their wives make more money than them... I think about it sometimes with Zara, but to me, she put in the time, the hours, and the hard work to get to where she is. I am proud of everything that she has accomplished... She's not an overconfident person or a cocky person. She's pretty humble and pretty down to earth... To me, it is very impressive.

He notes his experience of having a female manager in the workplace while working in supply chain management. While he did not have any issue with reporting to a female, it was evident through her passive aggressive behaviour that she was not particularly welcomed as an authority. There was an obvious gender difference with his colleagues as they consistently undermined the female manager's functional role by seeking instruction from male superiors. This discouraged the manager and affected her work performance – a domain credited to personal agency while ignoring the systemic structures of micro-organizational power. While reflecting on his own experience, Kevin constructed a parallel to the workplace of his wife that reinforced this notion of pride that Zara has overcome in the gender specific barriers of retail pharmacy management: "I feel as though I can be proud that Zara is in charge at work."

Speaking as both a contributing author of this study and secondary-earner husband, I can also identify with the feeling of pride for the success of my wife. Taking an autoethnographic approach, I am also proud of what my wife has accomplished in an industry with hidden power structures favoring the male pharmacist. Her perseverance in navigating the waters of systemic discrimination, and aspiring to the management role, has demonstrated resilience that I myself cannot personally identify with. I not only feel proud of her determination but anticipate the joy in her eventual promotion to management.

### *A Breadwinning Woman in a Man's World*

The basis of doing gender is accomplished through socialized construction of meaning. While individuals draw on ideals about what it is to make a meaningful contribution in the workplace, there is evidence that female breadwinners feel restricted by their gender identity. Through our interviews with each woman, their exertion of more traditional masculine traits contributed to legitimacy in this socially constructed world that emphasizes male-bound success. Below we will illustrate the experiences of our female breadwinner interviewees.

The healthcare profession has been historically masculine in nature, other than nursing in a hospital setting. Given the prominence of pharmacy as the initial point of contact in community healthcare, the role of a pharmacist is complicated as patients of all backgrounds and temperaments seek their professional advice and service. Often, patients are unforgiving in their conduct. Both Meredith and Zara described their masculine strategy of being emotionally detached, directive, and their need to be seen as in control with certain patients as a proven coping mechanism with problematic patients. Zara felt that her refusal to show any type of emotion other than what is expected of a pharmacist is characteristic of the profession's evolution: predominately male until the formalized programming of pharmacy curriculum in post-secondary education. In other words, a female in the masculine world of pharmacy must play the game or else be played.

Irene is employed as an office administrator at a local community college in Halifax. She does not see herself enacting masculine traits at work, mostly due to her work being viewed as traditionally female. However, Irene identifies with having a greater latitude of autonomy and empowerment at work, even as an office administrator, than at home as she relies on her husband to lead the family in nearly every domain. This was also an important aspect – the male head of household – to Zara as well, despite the difference in the respective backgrounds with concern to faith.

Importantly, each interviewee discussed her gender role at home as being typically feminine. They themselves felt that their breadwinner status did not interfere with their sense of femininity. While they felt as though their jobs require a sense of masculinity, they quickly reverted back to their gendered familial roles after work. Irene captured the essence of our interviews with the females in defending her breadwinner status and of being secure in her feminine role as a mother and wife: "There are things I can

do as a female... but I don't want to... and I choose not to. I feel feminine at home even if I am the breadwinner in a world of men.”

### *The Male Experience of a Feminizing Role at Home*

In keeping with the social construction of gender theme of this study, we identified instances where males often view their work experience in masculine terms while describing a certain feminization in their role within their family. More specifically, the male interviewees felt a dissonance between masculine and feminine traits in their caregiving at home. Interviewees indicated that this intrapersonal tension is managed by understanding their family dynamic, female breadwinning and the greater involvement of fathers in child rearing, is a growing trend in the 21<sup>st</sup> century.

One way the male interviewees felt a dissonance between masculine and feminine traits in their role as a father is through their experience at work. Our male interviewees described traditional male traits of strength, decision, and logic as key masculine traits exhibited at work. Such traits were viewed as being “essential” in their work within customer service and contributing to the achievement of organizational objectives. However, they also found that demonstrating more feminine traits at work provided a certain level of interpersonal success that masculine-dominated traits cannot achieve. Emerson, a customer service representative in the hospitality industry, discusses how intentionally projecting a caring and gentle demeanor has proven effective in his work:

That is really what guest services is [about] – caring. Sometimes I have to be very intentional about it... We have repeat customers, and for those who you develop a relationship with, that [caring] starts to come naturally... Here's what you know: The upset repeat customer is coming back next week and you don't want him coming back wondering if his stay will be good. He's coming back and you care about that.

Kevin, a specialist in supply chain management, also tells a similar story of projecting a stereotypically feminine trait in achieving results at work:

I'm a good listener. When you work in a company with over thirty people, there's at least thirty different problems. You've got to be able to listen to people. When we're trying to meet a deadline but little Sally is sick, and you need John to work twelve hours overtime, you have to be able to hear his side of the story. His personal life, you don't want to interfere with his professional life but it happens all the time. It's real life.

At home, masculine traits of strength and logic may not always be appropriate when parenting young children. Our male interviewees discussed seeing the benefit of using self-described feminine traits as caring, listening, and loving in raising their children. Aside from the transactional nature of leveraging “best organizational practices” in the home as fathers, the males describe using feminine traits as being bound by personal agency. They felt that they are not bound by social expectations of being an involved father (i.e. a calm and gentle man weakened by his wife's breadwinning status).

Another key finding in the feminizing role at home had to do with the male's childhood and specifically, how the father's emotional absence affected their view of childcare as a man. A common thread throughout the experience of our male interviewees was their emotionally-detached father/father-figure during childhood. Only one (out of three male participants in total) had their biological father

present in the home. Two male participants had a step-father and regarded their mother as the chief caregiver and provider. Regardless of their family-of-origin, each male interviewee expressed a commitment to be “emotionally invested” in their own family. One can only speculate motive, however, the tone of the conversation enabled us to believe the feminine characteristic of “emotion” is used to compensate for the lack thereof of a fatherly love stemming from childhood experience. Speaking from my own childhood experience, I endeavoured from a young age to not only be a father that I had not known, but also that of an emotional support in all aspects of the home. In this case, the male interviewees unabashedly relish their affection for their children and are comfortable with that being a label of femininity.

### **Discussion**

The central contribution of this study is that it combines traditional gender themes of trait theory, family income, and social construction of gender while considering the familial and work-related dynamics of a female breadwinner. In providing empirical support for the theoretical claim that masculine and feminine traits are characterized differently at work than at home, we feel that the interactional processes in both domains have reinforced gendered differences (Duetsch, 2007; Risman, 2009). We also endeavoured to investigate the differences between male and female definitions of breadwinning. Throughout the interviews, we found individual factors shaped the decision to have men be secondary-earners within their family; these factors included the current economic climate, personal choice, and education attainment as rationale. As a collective, neither gender acknowledged the breadwinner status to be of significant importance within their respective relationship, regardless of who earns more money. Being engaged in meaningful work was a theme with our female interviewees whereas men felt a genuine sense of pride in their wives’ work. Specifically, male participants felt a sense of responsibility and duty at home to support the advancement of their spouses’ careers. This type of family dynamic appears to provide increased support for women’s employment.

The interpretation of our findings should consider several key limitations. First, we recognize the limited sample size of our study restricts inferences to the general population. The use of a convenience sample of female breadwinning couples means that the extent to which the diverse experience of the interviewees represents the experiences of the population of female breadwinners is largely unknown. We also recognize that involving ourselves in the research process has a variety of consequences. However, we could not conceive a way that we could complete the research without being personally involved, as the consenting participants we interviewed had pre-existing professional relationships, in varying degrees, with the authors. We choose to acknowledge this bias, and hope it has enriched the analysis of our findings. In addition, as previously discussed, the demographic characteristics of the couples interviewed provides information about the heterosexual, predominately white, middle/upper-class, Canadian family experience. Future research will need to consider the role of sexual orientation, ethnicity, race, and other factors in shaping the experiences of the family and work dynamics in couples featuring a prominent breadwinner.

### **Conclusion**

Throughout this study, we have sought to characterize the advancement of women in societal prominence, where the growing number of female breadwinners continue to transform the family dynamic. Considering trait theory, we have found that both men and women leverage gender traits to their advantage in both work and home settings. From the findings of our study, we believe the disruption of patriarchal dominance, social structures, and work norms to be inevitable as women attain higher levels of

education and benefit from economic restructuring. Women are thus poised to support their families financially in a greater dimension than ever before, complete with partners who may be more in favour of female breadwinners in the household than previous research suggests.

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## **THE IMPACT OF PROFESSIONAL ADVICE, SOCIAL AND MARKETING INFLUENCERS, AND SELF-EFFICACY, ON THE HEALTH CAPITAL OF UNIVERSITY STUDENTS<sup>1</sup>**

Logistic regression was conducted to determine the relative influence of professional advice, social and marketing influencers, and self-efficacy, on university students' health capital. The results demonstrated that students with high levels of self-efficacy were seven times more likely to have high levels of health capital. Social/marketing influences and professional health advisors were not statistically significant. This has implications for health marketing by universities and health agencies concerned about the wellbeing of university students and future citizens.

### **Introduction**

Good health is enhanced by practicing healthy eating, active lifestyle and avoiding high risk behaviours such as tobacco use and excessive alcohol consumption. For example chronic health problems related obesity and tobacco use include heart disease, diabetes, various cancers as well as susceptibility to disease and poor mental health (Qi, Phillips, & Hopman, 2006; Enwald, Niemela, Keinanen-Kiukaanniemi, Leppaluoto, Jansas, et al., 2011; Lockwood & Wohl, 2012).

Part of the challenge when dealing with an aging population and socialized healthcare is to encourage individuals to take positive steps to establish and maintain a healthy lifestyle. The earlier these good health behaviours are learned the easier it is to adopt them for life. Therefore, our education system at all levels has an important role to play in promoting and supporting the development of their students' healthy lifestyles.

University students have not been known for their healthy lifestyles (Kim, Ahn, & No, 2012; Gores, 2008). Many are away from home for the first time and are faced with making decisions about their personal nutrition and fitness. The mythical "freshman 15" is a reference to the weight gain that many see in their first year of study (Gores, 2008; Holm-Denoma, Joiner, Vohs & Heatherton, 2008). The buffet-style presentation of many campus cafeterias may contribute to poor portion control and over eating (Gores, 2008) as may frequency of snacking high calorie items (Holm-Denoma, Joiner, Vohs & Heatherton, 2008). However, if college students can learn positive healthy behaviours it may lead to a lasting lifestyle change (Gores, 2008).

This research focused on the health capital of university students. Health capital refers to the level of commitment and engagement the student participants had towards maintaining a healthy lifestyle as determined by self-reported level of physical activity and healthy eating behaviour and perceived overall level of health.

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<sup>1</sup> The authors wish to acknowledge the contribution of student research assistant, Phillip Joy (MSc) to this research.

The research also focused on influences on healthy behaviours and in particular, healthy eating. Influencers studied included family and friends; professionals such as nutritionists and personal trainers; selected marketing communications such as magazines and websites; and self-efficacy as determined by self-perceived confidence to follow eating behaviours (Von Ah, Ebert, Ngamvitroj, Park, Duck-Hee, 2004; Yilmaz, 2014).

### **Healthy Eating/Active Lifestyle**

The trend towards maintaining wellness and preventing disease is important in nations with socialized medical care as populations mature and chronic diseases manifest themselves. Health capital can be defined as the total investment one makes in his/her health such as engaging in healthy eating and active lifestyles (Suresh, Ravichandran, & Ganesan, 2011). Researchers have shown that health capital may be declining for many Canadians, as obesity and diabetes rates soar, and consumers continue to make poor food choices, supersize their servings and are inactive.

Enwald et al. (2011) stated that a combination of nutritious meal choices, regular exercise and maintaining a healthy weight can prevent the onset of type 2 diabetes. They believed that onset of this disease can be prevented by using early lifestyle interventions (Enwald et al., 2011, p. 132). They also noted that not only do most people underestimate their risk of developing type 2 diabetes, they lack knowledge of how to prevent the disease.

Canadian researchers found that lower socio-economic status was associated with more sedentary lifestyles and lower levels of fruit and vegetable consumption (Qi et al., 2006). They also found that low income levels were associated with greater engagement in activities that negatively impacted health, including smoking, alcohol consumption, and failure to use routine health screening to prevent disease (such as dental check-ups, breast self-examinations and mammography, and other routine medical tests).

Dehghan, Akhtar-Danesh, and Merchant (2011) reported that more than three-quarters of Canadians do not eat the required number of fruit and vegetable servings per day. Socio-economic status has been linked to poor food choices and health outcomes in many studies. Cerin, Frank, and Salles et al. (2011) noted that not only was higher socio-economic status a precursor to good health, it was even difficult to access healthy food in supermarkets in low income areas. While this may be a result of market demand for less healthy food products, it contributes to poor health among some of the most vulnerable consumers.

Porter, Claycomb, and Kraft (2008) identified physical fitness and nutritional knowledge as two key components of a wellness lifestyle. Physical fitness was determined to be the result of regular exercise, which also was credited with maintaining not only physical health, but also psychological health. They also believed that nutritional knowledge (referred to as nutritional awareness (Porter et al., 2008, p. 55) was equally important. Psychological health was also related to boosting one's ability to cope with stress.

### **Self-Efficacy and Healthy Lifestyle**

Porter, Kraft, and Claycomb (2003) define wellness as:

“a general psychological state attained through a lifestyle comprising a belief in one's responsibility for his or her own health, an awareness of the influence of environmental and nutritional factors on personal health, knowledge of the causes of stress and stress

management techniques, the active practice of physical fitness activities, the maintenance of healthy social relationships, and the pursuit of a satisfying spiritual life.” (p. 193)

The authors defined “personal health responsibility” as taking a proactive approach to one’s mental and physical health (p. 195).

Self-efficacy is a measure of confidence in one’s ability to achieve a certain goal. Yilmaz (2014) describes self-efficacy as “the power to evaluate individuals’ own potential and the health resources available in their own environment along with taking action” (p. 233). Yilmaz (2014) notes that self-confidence and self-esteem are important in an individual’s ability to acquire knowledge from their environment and apply in their personal lives. Research has also shown that individuals with self-efficacy are better able to maintain their healthy habits in times of stress. In the world of the college student, this can include resisting unhealthy behaviours (drinking alcohol and using tobacco) in a high peer pressure environment (Yilmaz, 2014, p. 233).

Lockwood et al. (2012) noted that healthy lifestyle knowledge is not sufficient to result in behavioural change: that self-efficacy is required to link both knowledge and results. Therefore, self-efficacy is linked to personal health responsibility in that the individual believes that they can achieve the goal (self-efficacy), so they take strategic steps to make it happen (personal health responsibility). According to Lockwood et al. (2012), when consumers make choices that lead to positive health outcomes, their confidence grows. This has a positive impact on self-efficacy related to that particular health choice, resulting in sustained healthy behaviour change (p.629). The researchers concluded that any program designed to change wellness behaviour should focus on increasing self-efficacy.

Von Ah, Ebert, Ngamvitroj, Park, et al. (2004) examined various influencers of health behaviours, including the components of the Health Belief Model, among 161 college students and found that self-efficacy was the most significant predictor. Self-efficacy was measured by self-reported ratings of one’s confidence in performing the various health behaviours.

Kim et al. (2012) also focused on the Health Belief Model in predicting college students’ health behaviour. The Health Belief Model is based on the premise that individuals hold beliefs about their susceptibility to various illnesses, as well as the severity of the illnesses themselves. Individuals also hold beliefs regarding barriers to actions that can prevent illness, as well as the benefits of activities to prevent illness. If the perceived benefits exceed the perceived threats, individuals should be motivated to protect themselves from illness by engaging in healthy lifestyles (Kim et al., 2012, p. 551). Their research confirmed that college students who had high perceptions of benefits of healthy eating/active lifestyle, combined with a perceived low barrier to healthy eating, had higher behavioural intentions to engage in healthy eating/active lifestyle than those who did not. Also, confidence had a positive impact on perceptions of benefits and barriers for both healthy eating and physical activity. Nutrition knowledge was positively linked to increased confidence levels, indicating the importance of subsidizing information to build confidence and therefore self-efficacy.

### **Social, Marketing, and Professional Influences on Healthy Lifestyle**

Enwald, et al. (2011) noted that despite access to a great deal of health and wellness information, populations in the Western world continue to lead unhealthy lifestyles which has resulted in high incidences of obesity, type 2 diabetes and other chronic health conditions. According to these authors a

key challenge is how to communicate health and nutrition information in such a way that it actually has an impact on lifestyles.

Research has been conducted into the information-seeking activities of those looking for health-related information. Ramirez, Freres, Martinez, Lewis, Bourgoin, et al. (2013) noted that most seekers tend to research specific health issues or conditions. Enwald et al. (2011) concluded that mass media communication did not seem to effectively communicate with those who have health issues. Instead, they believed that information tailored to a specific audience who identifies with the health need is a more effective way to break through the clutter (p. 133).

Health information sources may be clinical or non-clinical (Enwald et al., 2011; Ramirez et al., 2013). Ramirez et al. (2013) found that those seeking information on dieting for weight loss consulted a variety of different information sources, including the Internet, family, friends, newspapers, magazines, television, radio, and physicians and other health professionals. The researchers found statistically significant differences in the impact of the information sources used on specific behaviours. Non-clinical information sources were better predictors of exercise and fruit and vegetable consumption than were the use of professional information sources such as physicians and other health professionals (Ramirez, et al., p. 538).

Lee (2010) postulated that there is an interaction between media/marketing information sources and interpersonal communication for healthy lifestyle information, such that reliance on media for information wanes as individuals become more involved in relevant interpersonal communications. As their information needs are met by more context-based interpersonal discussion, they reach a level of information sufficiency that no longer requires subsidization of their knowledge through media or marketing sources (Lee, 2010, p. 54). The research results revealed that television and the Internet were important providers of healthy lifestyle information as was interpersonal communication. However, the latter was used significantly less by those with lower socio-economic status, indicating that the media was a more important information source for that particular group of health consumers.

Freisling, Hass, and Elmadfa (2009) showed that exposure to certain media had a statistically significant impact on adolescent consumption of fruit and vegetables. Radio ads increased consumption for both food groups, as did professional booklets and the Internet. In addition, articles in newspapers and magazines increased consumption of fruit.

Research has shown statistically significant differences in the reliance of various information sources based on demographic profiles. McKay, Houser, Blumberg, and Goldberg (2006) found that those with lower education levels relied more heavily on nutrition information from physicians, neighbours, and television, and women relied more upon friends for information more than men did (McKay et al., 2006, p. 1109). Overall, physicians, newspapers, magazines and television were commonly used sources for nutrition information.

Ostry, Young, and Hughes (2008) demonstrated that the Internet is not necessarily a reliable source of nutrition information. Upon examining selected websites for their accuracy based on Canada's Food Guide for healthy eating, researchers noted that many were not congruent with the Canada Food Guide. The website with the lowest level of congruency was About.com, while the most reliable website was CanadianHealthNetwork.ca. However, their research also showed that other professional websites were only congruent with Canada's Food Guide about two-thirds of the time, such as WebMD and Doctissimo.fr. These findings raise concerns about the validity of the information found online and the ability of Internet resources to subsidize consumer's health information in a reliable way.

Enwald et al. (2011) asserted that the key to effective communication is tailoring it to the needs of those who are experiencing pre-diabetic conditions or other health challenges. Tailored health information is designed to appeal to specific groups who are experiencing health challenges. However, Enwald et al. (2011) conceded that research tailored information may be more effective in creating changes in eating habits than in pushing people to engage in more physical activity (p.133). They also found that those who were most unaffected by tailored health information were those with poor self-ratings for physical fitness. This means that it may be very challenging to connect with those who do not perceive their health behaviours as risky and who have no underlying illness.

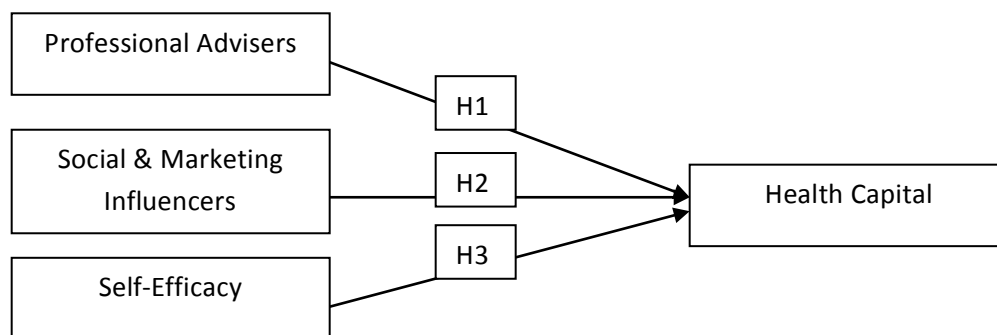
Lockwood et al. (2012) promoted the use of formal education, in the form of a college course on wellness, as a method to increase both knowledge of healthy lifestyle and encourage behavioural change among college students. In a controlled study, the researchers demonstrated that a 15 week course was sufficient to create such change. However, it could not be demonstrated that such changes would be long-lived. Despite this limitation, formal education could be effective in communicating relevant information. Knowledge is an important part of enhancing consumer confidence and self-efficacy for healthy lifestyles.

### Research Goals & Hypotheses

The goals of this research were to better understand the overall health of university students and the influencers that impacted their health choices. A key objective of the research was to determine the relative impact of each influence on students' health capital. A final objective of the research was to explore ways to impact students' health capital through marketing media focusing on magazines and web-based communication strategies. A theoretical model was created to capture each influencer and its potential impact on health capital. The model appears in Figure 1. The hypotheses tested within the model included the following:

1. Use of professional advice will positively influence university students' health capital.
2. Involvement with social and marketing/media information sources (social influencers) will positively influence university students' health capital.
3. High levels of self-efficacy will positively influence university students' health capital.

**Figure 1: Theoretical Model of Influencers on University Students' Self-Efficacy for Health Eating/Active Lifestyle**



## **Methodology**

A student survey was administered during the 2012-2013 academic term to students in two Nova Scotia universities. Data was collected by means of a survey distributed to students via email through their university professors. Students at all levels of study were invited to participate. The research was cleared by authors' university research ethics board prior to data collection. A total of 188 usable surveys were completed. In return for survey completion students' names were entered into a draw for one of fifteen Amazon.ca gift cards. Data analyses were weighted based on university population to compensate for over and under representation from each university group.

Frequencies were run for all variables in the analysis. The health capital variable was created by summing responses to three variables: overall health rating, activity level, and eating a healthy diet. The variables were measured on a five-point Likert scale ranging from 1) strongly agree to 5) strongly disagree. The scale was created by conducting a confirmatory factor analysis on scale items to ensure unidimensionality and following up with a scale reliability analysis. The criterion for the factor analysis included factor scores of at least .40 in the single-factor solution. The criterion for the reliability analysis was an alpha level of at least .60.

A principal components exploratory factor analysis with varimax rotation was conducted on the ten influencer variables to eliminate correlations between the independent variables prior to conducting a logistic regression analysis. The information source influencer variables included exposure to the following information sources: the Internet (web), books, magazines, friends, family, health professional, and personal trainer. These influencer variables were measured as dummy coded dichotomies with 0 indicating no exposure to the information source and 1 indicator exposure. In addition, three variables relating to self-efficacy were also included in the factor analysis. These three variables measured students' confidence in their ability to eat a nutritious diet both during the academic term and outside the academic term, as well as a self-rating of their nutrition knowledge. Each of these variables was measured on a five-point Likert scale ranging from 1) very high to 5) very low. To have consistent variable scales for the factor analyses these variables were also dummy coded. Those with scale ratings of 1 or 2 were coded as possessing the attribute with a code of 1, while those with scale ratings of 3 or higher were coded as not possessing the attribute with a code of zero. Factor scores were saved for three resulting factors that captured the following influencers: professional advisers, social influencers, and self-efficacy.

The influencer factor scores were subjected to a single step direct entry logistic regression analysis to classify respondents as having high or low health capital ratings. Prior to conducting the logistic regression the health capital variable was dummy coded to provide a bivariate dependent variable so that students with high health capital were coded as 1, and students with mid to low health capital levels were coded as 0.

Bivariate correlations were run prior to conducting the analysis to identify potential problems with multicollinearity among the factor scores. The resulting analysis revealed no statistically significant correlations between the predictor variables as would be expected given that an orthogonal rotation was used in the exploratory factor analysis.

Logistic regression does not require multivariate normality, so the underlying distribution of the variables was not a consideration. The suitability of the technique was examined using a variety of methods. Hosmer and Lemeshow Chi-Square was used to ensure that the assumption of a linear model was not violated. MacFadden's R<sup>2</sup> was calculated to determine how much better the theoretical model predicted higher health capital measures over the constant-only base model. Cross-classification of cases was used to determine how accurately the model predicted university students' health capital.

As a multivariate technique, the accuracy of logistic regression can be limited by sample size. However, 167 university students were included in the final analysis sample. With three predictors and one dependent variable the ratio of cases to variables was approximately 42:1, greatly exceeding the 10:1 criterion recommended for multivariate research and eliminating concerns about a sparse sample constraint.

## **Results**

### **Descriptive Statistics**

A sample of 188 students responded to the survey. The majority of respondents were women (78.6%). Respondents ranged in age from 17 to 55 years old with an average age of 22 years (SD=4.72). Nearly one-third were in their first year of university and more than half of those responding were in their first or second year of university. Most were single (80%) and 19% were married or living in a common law relationship.

Regarding nutritional knowledge, 47.3% believed they had high to very high nutrition knowledge with a mean of 2.5 on a 5-point scale where they rated their knowledge on a scale from 1) very high to 5) very poor. Over 33% rated their confidence in their ability to eat a nutritious diet outside of the academic term as high or very high, with a mean rating of 2.13 on a five-point scale ranging from 1) very high to 5) very poor. This rating was statistically lower than their average scale rating of 2.76 for confidence during the academic term, where 68.7% of students rated their confidence to eat a nutritious diet as high or very high. The scale is reverse coded, indicating that they feel less confident when making eating choices within the campus environment ( $t(165)=8.591, p=.000$ ).

Nearly 49% of the students either agreed, or strongly agreed, that they ate healthy meals with 26% choosing a neutral point on a five-point scale ranging from 1) strongly agree to 5) strongly disagree. The scale average was 2.64 (SD=.964). Over half said they were satisfied or very satisfied with their health. The average scale rating for their health self-rating was 2.51 (SD=.879) a five-point scale ranging from 1) very satisfied to 5) very unsatisfied. When asked to rate their level of physical activity on a scale ranging from 1) very active to 5) very inactive, most said they were moderately active (48.5%). Only 18.9% said they were inactive or very inactive and nearly 30% said they were either active or very active. The scale average for physical activity was 2.78 (SD=.876).

Use of various information sources for nutritional information showed a distinct preference for the Internet (71.3%), followed by family (65%), friends (52%), and magazines (50.7%). The remaining information sources had fewer than 50% of the respondents using them as a resource: health professionals (47.7%), books (44.7%), and personal trainers (20.2%). Descriptive statistics are summarized in Table 1.

### **Health Capital Scale**

Health capital is a measure of the extent to which individuals embrace a healthy lifestyle. A scale was created by summing three measures of compliance with healthy eating/active lifestyle requirements: activity level, eating healthy meals, and being satisfied with one's health level. The three scaled questions were summed to create a health capital score.

The score ranged from 3 to 14, where the lower level was an indicator of a higher level of health capital. The average scale rating was 7.86 (SD=2.02). To facilitate a binary logistic regression dependent variable, the scale was dummy coded to indicate low (0) and high (1) levels of health capital.



**Table 1: Descriptive Statistics**

Descriptor	Rating: 1 or 2	Rating: 3	Rating 4:5	Mean	Std. Deviation
Nutrition knowledge (n=180)	Very high or high: 47.3%	Moderate: 42.4%	Very low or low: 8.6%	2.5	.811
Nutrition confidence during academic term (n=166)	Very high or high: 33.6%	Moderate: 45.6%	Very low or low: 20.8%	2.76*	.988
Nutrition confidence outside of academic term (n=166)	Very high or high: 68.7%	Moderate: 24.3%	Very low or low: 7%	2.13*	.882
Health satisfaction (n=186)	Very satisfied or satisfied: 56.2%	Neutral: 29.7%	Very unsatisfied or Unsatisfied: 14.1%	2.51	.879
Activity level (n=186)	Very active or active: 32.6%	Moderately active: 48.5%	Very inactive or inactive: 18.9%	2.78	.876
Eat healthy meals (n=166)	Strongly agree or agree: 48.7%	Neutral: 29.3%	Strongly disagree or disagree: 22%	2.64	.964
Gender (n=188)	Male: 21.4% Female: 78.6%				
Age (n=187)	Range: 17 to 55			22.08	4.715
Marital Status (n=185)	Single: 80.2% Married/Living with Partner: 19% Separated or Divorced: 0.7%				
Year of Study (n=188)	First year: 32.6% Second year: 21.4% Third year: 16.6% Fourth year: 15.5% Five or more years: 13.9%				
Information Source	Used (n=180)				
Internet	71.3%				
Books	44.7%				
Magazines	50.7%				
Friends	52.3%				
Family	65%				
Health professional	47.6%				
Personal trainer	20.2%				

\*Means statistically different at the .01 level:  $t(165) = 8.591$ .

To do so, scale scores of 1 through 6 were coded as high measures (1), as they reflected the highest levels in the five-point scale ratings for the three original variables. Any measures higher than 6 were coded as low health capital with a zero value. After dummy coding, 25.1% of respondents were rated as having high health capital.

Prior to summing the scale and creating the dummy coded variable for binary logistic regression, the health capital scale was tested for unidimensionality and reliability. A confirmatory factor analysis revealed that they three variables measured a single construct with a minimum factor loading of .74. The factor explained 56.6% of the variation in the model. Cronbach’s alpha for the additive scale was .61. These measures met the criteria for unidimensionality and reliability. The results are summarized in Table 2.

**Table 2: Scale Development for Health Capital**

Scale Items	Factor Loading
Activity level	.770
Health rating	.744
Eat healthy meals	.743
Variance Explained = 56.6%	Cronbach’s Alpha = .61

**Factor Analysis of Influencer Variables**

Ten variables were factor analyzed to reduce multicollinearity prior to conducting a logistic regression on health capital. These measures included the information sources used, self-rating of nutrition knowledge, and confidence measures both during and outside of the academic term. Knowledge level and confidence variables were dummy coded prior to the factor analysis to make the variables consistent with the information source measures.

The variables were subjected to an exploratory factor analysis using a principal components analysis with varimax rotation. Factors were extracted until eigenvalues fell below a cut off of 1.0. Three factors were extracted, explaining 53.8% of the variance in the model. Factor loadings fell across the three factors with values of .484 to .781. The loadings were strong and well defined. The factor scores were saved to use as independent predictors in the logistic regression analysis.

Health professionals, books, and personal trainers loaded on one factor that explained 18.7% of the variance. This factor was named Professional Advice. Family, friends, the Internet, and magazines loaded on one factor that explained 17.6% of the variance. This factor was named Social and Marketing Influencers. The last factor explained 17.5% of the variance in the model and consisted of confidence to eat healthy meals both during and outside of the academic term, and nutrition knowledge. This factor was named Self-Efficacy. The results of the exploratory factor analysis are shown in Table 3.

**Table 3: Exploratory Factor Analysis of Healthy Eating/Active Lifestyle Influencers**

Descriptors & Factor Loadings	F1: Professional Advice	F2: Social & Marketing Influencers	F3: Self-Efficacy
Health professional	.774		
Books	.729		
Personal trainer	.672		
Family		.750	
Friends		.716	
Internet		.511	
Magazines		.484	
Confidence to eat healthy during academic term			.781
Confidence to eat healthy			.730

outside of academic term			
Nutrition knowledge			.632
Eigenvalue	2.157	1.951	1.267
Variance Explained	18.7%	17.6%	17.5%

**Regression Analysis**

A bivariate logistic regression analysis was conducted on the factor scores as predictors of health capital among university students and to test the hypotheses in the theoretical model. The hypothesized regression model was:

$$\text{Health capital (ODDS)} = f(\text{professional advice, social/marketing influencers, self-efficacy})$$

A test of the full regression model against an intercept-only model was statistically significant ( $\chi^2=64.714$ ,  $df=3$ ,  $p=.000$ ). Professional advice and social/marketing influencers were not statistically significant. Self-efficacy was significant ( $p=.000$ ) with a regression coefficient of 1.074 and an odds ratio of 7.197. The constant of -2.033 was also statistically significant. The odds ratio indicated that university students with a high self-efficacy were over 7 times more likely to have high health capital than students without a high self-efficacy. The 95% confidence interval around this predictor ranged from 3.7 to 14.1. This means that the odds of having a high health capital ranges from nearly 4 to 14 times for those with high levels of self-efficacy. The resulting regression equation was:

$$\text{Health capital (ODDS)} = -2.033 + 1.974 (\text{Self-efficacy}).$$

Based on the odds ratio the probability of having a high health capital was .88 for those who had high self-efficacy measures.

The regression analysis correctly classified 85% of all cases and 65.8% of those with high health capital measures. The Hosmer and Lemeshow  $\chi^2$  was not statistically significant ( $\chi^2 = 8.715$ ,  $df=8$ ,  $p=.367$ ) indicating that the data fit with a linear model. McFadden's  $R^2$  indicated that the resulting regression equation explained 66% of the variance in health capital. The resulting regression analysis is shown in Table 4.

**Table 4. Logistic Regression Predicting the Likelihood of Having High Health Capital Based on Professional and Social Influences and Self-Efficacy\***

Predictor	B	Wald $\chi^2$ (df=1)	Sig.	Exp(B) (ODDS)	95% Confidence Interval Exp(B) (ODDS)	
					Lower	Upper
Professional Advice	.290	1.407	.236	1.337	.827	2.160
Social & Marketing Influences	.099	.202	.653	1.104	.717	1.699
Self-Efficacy	1.974	32.761	.000	7.197	3.661	14.148
Constant	-2.033	35.850	.000	.131		

\*Sample size = 174/188

## **Discussion**

The first hypothesis was that professional information sources, such as that from health professionals, books, and personal trainers, would have an impact on health capital. Such information sources may be seen as more credible resources and may be sought out by those with various medical conditions. However, the results were not statistically significant indicating that professional advice did not increase the likelihood of high levels of health capital. Therefore, the null hypothesis could not be rejected.

Ramirez et al. (2013) also found that health professionals were not sought out as information sources in favour of mass media. These findings reject the results from other research that professional sources were taken as more credible by older adults (McKay et al., 2006). One reason why this finding was not evident in the current study may be because it focused on young adults (average age of 22 years), who may rely less on professional information sources. Previous research has also shown that information targeted to the specific needs of healthy consumers with more complex or acute medical needs may be more effective to communicate with such a cohort. Presumably, some of this targeted information could come from health professionals. This cohort would not be reflected in the current sample because most reported that they were satisfied with their health and there were no indicators of chronic or complex medical conditions in the student sample.

The second hypothesis stated that social and marketing influences, such as family members, friends, and media (the Internet and magazines), would increase the likelihood of increased health capital by subsidizing consumer information. However, the regression did not confirm this hypothesis and social influencers was not statistically significant. Therefore, the Null Hypothesis was accepted. Having access to social influencers did not predict health capital. This finding is not consistent with findings from some previous research that found magazine articles subsidized information and had a positive impact on healthy eating (Freisling et al., 2009). Healthy eating would be included in health capital and would have shown up in this analysis. One reason for this difference may be that the study by Freisling et al. (2009) focused on adolescents, while this study focused on college students. Possibly the relevance of magazine articles as a source of health-related information might wanes as a person matures from adolescent to young adult.

The last hypothesis stated that the higher one's level of self-efficacy for healthy eating/active lifestyle, the greater the likelihood of increased health capital. This assumption was borne out by the analysis. A high level of self-efficacy increased the likelihood of having high health capital by more than seven times, thereby rejecting the Null Hypothesis. This finding confirms what has been discovered in previous research: that self-efficacy may be the most important contributor to healthy eating/active lifestyle and that it is a key component in motivating consumers to change their health behaviour. Yilmaz (2014), Porter et al. (2003, 2008), and Lockwood et al. (2012) all describe various aspects of self-confidence and self-efficacy. All contend that self-efficacy is a critical element in both motivation and producing actual lifestyle change. An interesting finding from the current study is that when professional advice, social influences, and self-efficacy, are compared as predictors of health capital, only self-efficacy emerges as being statistically significant.

## **Conclusions and Recommendations**

This research examined how key influencers predicted health capital among university students. Health capital is a measure that captures one's total commitment to, and embracing of, a healthy eating/active lifestyle. Health capital is a measure focused on outcomes of behaviour.

Influencers of behaviour involve social interactions (such as involvement with friends and family), as well as marketing media influencers (such as the Internet and magazines as measured in this research). It is very difficult to capture the essence of all of these influencers in a single study, and choosing different influencers (such as broadcast media), may have resulted in different findings. Future research should consider other influencers and information sources.

It is possible that combining professional advisers and social/marketing influencers in a different regression equation without including self-efficacy would show that they have a statistically significant result. However, such an approach would be testing a different model than in the one tested in the current study. The significance of self-efficacy as a predictor of health capital among university students does not preclude other significant predictors, or combinations of predictors, in future studies. However, it does demonstrate the importance of self-efficacy in creating behaviour change. This finding demonstrates that marketing efforts alone, whether employed by health care professionals directly or via media campaigns, have limited impact on the university cohort. This finding can be extended to social influencers which are frequently harnessed to communicate with health consumers. Clearly, any communication directed to university students that is designed to improve their health must first be geared to increasing their confidence in their ability to achieve the goal. Such an undertaking would likely require more engaging activities than marketing communications can provide, possibly involving formal wellness training as recommended by Lockwood et al. (2012) or a social marketing approach as suggested by Deshpande, Basil and Basil (2009). Social marketing can influence self-efficacy by encouraging voluntary behaviour change with appealing options along with appropriate social, environmental and policy supports.

This research has some limitations which should be considered when interpreting the research results. The sample was drawn from two universities in Nova Scotia. While the sample size was robust, it is not likely to be representative of university students as a whole. Also, the sample skew to first and second year undergraduate students, while delivering the younger university cohort which was of great interest in this study, may not be a fair representation of university students in general. However, the results of this study are intriguing and they contribute to research in health marketing, while also providing ideas to guide future research into the marketing of healthy eating/active lifestyle to the student population in Nova Scotia.

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## THE FUTURE OF SPRINGHILL<sup>1</sup>

In May 2014, three towns located in Nova Scotia applied to the Nova Scotia Utility and Review Board (NSUARB) for dissolution of their municipal status: Springhill on May 15, Hantsport on May 20, and Bridgetown on May 27. *The Future of Springhill* is a case study that examines several of the financial and socioeconomic challenges faced by the Town of Springhill that led to such a decision.

### Introduction

It was 4:30 p.m. on March 4, 2014 and the Mayor, Acting CAO and all four councillors were in attendance for a special meeting of the Springhill Town Council. There was only one item on the agenda – the dissolution of the Town of Springhill. The town was struggling financially and its future viability uncertain. Costs and debt continued to rise and while Council had looked for ways to increase revenue and decrease costs over the previous 16 months, they were not successful. The town was projecting a preliminary deficit of \$342,111 for the fiscal year just ending March 31, 2014 and anticipated that a further \$500,000 in uncollectable bad debts would need to be recognized in 2013/14.<sup>2</sup> And with a decreasing population, how could the town continue to sustain itself? Should the town follow Canso's<sup>3</sup> lead and give up its charter as a town and amalgamate with the surrounding rural municipality?

### Springhill – A Brief History

Springhill is a small town, occupying only 11.5 square kilometres in Cumberland County, Nova Scotia. When the town was incorporated in 1889, coal mining had already been established as a community mainstay, an industry that grew and proved to be the economic lifeblood for the town throughout the first half of the twentieth century.

Over the years there were several disasters in the Springhill coal mines, the best known being the ‘Big Bump’ of 1958. At 8:00 p.m. on October 23, an underground earthquake shook both the town and the 4,200 metre mine, the deepest coal mine in North America at the time, trapping 174 miners underground. Seventy-four miners perished in the disaster and 100 miners were rescued, 12 of whom were saved 8½ days after the disaster struck. The operator of the mines, Dominion Steel & Coal Corporation Ltd, shut down its mining operations in Springhill in 1959 and by 1962 the mines were closed and never reopened.

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<sup>1</sup> This case is based on historical events and not intended to illustrate either effective or ineffective decision-making.

<sup>2</sup> MB-14-05: Town of Springhill - Application to Dissolve the Town,” Case No M06158, Nova Scotia Utility & Review Board.

<sup>3</sup> The Town of Canso dissolved on July 1, 2012 and amalgamated with the Municipality of the District of Guysborough.

While the closure of the mining industry was an economic blow and marked the end of an era for Springhill, it was not the end for the town. Although an economically depressed area, the town is now home to numerous businesses, a modern hospital and other health care facilities, a new Community Centre and Arena, and a Nova Scotia Community College campus. In addition, the Springhill Institution is located in the town, a medium-security federal penitentiary that opened in 1967 and has a capacity for 550 male inmates. The town has numerous tourism attractions including the Miners Museum where visitors can tour an underground coal mine and the Anne Murray Centre, which showcases the life and times of the internationally known singer Anne Murray who was born and raised in Springhill.

Ground water has filled the abandoned coal mines, providing a geothermal energy resource that is currently utilized by several Springhill businesses. In January 2014, the province of Nova Scotia granted final approval for the town of Springhill's municipal geothermal program to use underground water to help provide clean and efficient energy to the town.

### **Demographic and Income Challenges – Nova Scotia and Springhill**

Statistics Canada reported that the population of Nova Scotia increased from 913,462 in 2006 to 921,727 in 2011. This modest growth rate of 0.9% was the lowest of the four Atlantic Canadian provinces and significantly lower than the national increase of 5.9%. Over the same timeframe, the population of Springhill dropped from 3,941 to 3,868 people. In 2011, the proportion of population that was 65 and older was 15.7% in the province of Nova Scotia and 18.3% in the town of Springhill.

While Nova Scotia's population increased to 948,700 people by 2012, the increase is not expected to be long-lived. The Report of the Nova Scotia Commission on Building Our New Economy (2014) projects that by 2038, the province's population will decline to 926,300. Furthermore, it is anticipated that the province's employment age demographic (18 – 64) will contract over this time period and the proportion of population aged 65 and older will increase from 17.2% to 28.6%. Nova Scotia continues to experience an outmigration of skilled workers and educated youth to other regions of Canada, most notably, Alberta. By 2036, it is anticipated that Nova Scotia will have 100,000 fewer working age people as compared to 2010.

In 2011, the average income for individuals in Springhill was \$29,470 per year, much lower than the provincial average of \$35,478 and national average of \$40,650. Springhill families had an average income of \$61,667 whereas the provincial average was \$79,838. A total of 34.3% of the population in private households in Springhill had low income status in 2011 compared to a provincial rate of 17.4% and a national rate of 14.9%.<sup>4</sup>

In comparison to the rest of Canada, economic performance in Nova Scotia has been poor. While improved economic performance is predicted for the province, it is not expected to match national growth. Growth is predicted to be strongest in the Halifax region, but not positive for other areas of the province, with more rural areas expected to have a more difficult economic time. These challenging economic circumstances have affected property assessment growth, with little to even loss in property assessment value experienced by certain remote municipalities.

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<sup>4</sup> Most municipal socioeconomic information is based on census data. The last census date was 2011 and the next is scheduled for 2016.



### Property Taxes in Nova Scotia

Property taxes (residential and business) are the most important source of revenue for all municipalities in Nova Scotia. For the fiscal year ending March 31, 2014, on average, 75 percent of municipal revenue was generated by property taxes. This does not include grants-in-lieu which are legislated provincial and federal grants for eligible tax exempt property equal to the amount that would be paid if the property were not tax-exempt.

Significant increases in the housing market across Canada in the early part of the 21<sup>st</sup> century caused large increases in property tax assessments and resulted in increased taxes for many property owners. To control the fast growth of property assessments, the government of Nova Scotia put legislation in place in 2004 to limit property assessment increases. Known as the Capped Assessment Program (CAP), it provides the provincial government with the ability to limit or ‘cap’ increases in assessed eligible residential and resource property values.

Since April 1, 2008, the Property Valuation Services Corporation (PVSC), a municipally-controlled non-profit corporation, calculates assessment values of properties located in Nova Scotia. These assessments (called the assessment role) are provided to municipalities each January and are used by municipalities to set the property tax rate required to generate sufficient revenues to provide programs and services. Those property owners eligible for the CAP receive a capped assessment value and a market value assessment.<sup>5</sup> Municipalities calculate and charge taxes based on the lower capped value. For example, assume the annual tax rate set by a municipality is \$2.25 per \$100 of taxable assessment, the market value of a property is \$200,000 and the ‘capped’ assessment value is \$150,000. The property tax would be based on the capped value and amount to \$3,375. All properties in Nova Scotia are assessed annually by the PVSC, but the annual taxable assessed value for a given year is the value that was determined two years earlier.

#### *Municipal Tax Revenues - Springhill*

For the fiscal year ended March 31, 2014, Springhill’s audited consolidated statement of operations (Appendix 2) reported total revenue of \$8,336,405, with the largest component coming from net municipal taxes of \$5,404,251. Appendix 3 contains a schedule of property and other taxes for the fiscal year ended March 31, 2014, with comparative figures for 2013.

Springhill’s residential property taxes, assessed at a rate \$2.25 per \$100 of taxable assessment, represented the second-highest tax rate in Nova Scotia in 2014. The town has approximately 2,000 accounts and tax billings are issued once per year. Table 1 details the town’s assessment rate and history from 2010 to 2014.

**Table 1. Assessment History – Residential**

<b>Year</b>	<b>Market Assessment</b>	<b>Capped Assessment</b>	<b>% Growth (Market)</b>	<b>% Growth (CAP)</b>	<b>Residential Tax Rate (per \$100 of assessment)</b>
<b>2010</b>	\$ 92,072,400	\$ 89,821,000			\$ 2.25
<b>2011</b>	97,850,500	92,536,800	6.3%	3.0%	\$ 2.25
<b>2012</b>	99,754,600	95,427,900	1.9%	3.1%	\$ 2.25

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<sup>5</sup> In 2008, Nova Scotia linked the prescribed CAP rate to the CPI rate and made registration automatic whereby an eligible property facing an assessment increase more than the CPI is automatically eligible for the CAP.

<b>2013</b>	100,082,300	96,195,000	0.7%	0.8%	\$ 2.25
<b>2014</b>	100,773,400	96,725,900	0.3%	0.6%	\$ 2.25

Source: "Overview of Information that Led to the Decision by Council to Consider Dissolving," Town of Springhill, May 15, 2014.

Springhill's commercial taxes were assessed at a rate of \$5.53 per \$100 of taxable assessment and generated tax revenue amounting to \$554,858 for the 2014 fiscal year (2013 - \$603,648). Table 2 details the town's commercial assessment rate and history from 2010 to 2014.

**Table 2. Assessment History – Commercial**

<b>Year</b>	<b>Market Assessment</b>	<b>% Growth</b>	<b>Commercial Tax Rate (per \$100 of assessment)</b>
<b>2010</b>	\$ 10,325,600		\$ 5.38
<b>2011</b>	10,880,400	5%	\$ 5.53
<b>2012</b>	11,141,700	2%	\$ 5.53
<b>2013</b>	10,720,900	-4%	\$ 5.53
<b>2014</b>	10,201,300	-5%	\$ 5.53

Source: "Overview of Information that Led to the Decision by Council to Consider Dissolving", Town of Springhill, May 15, 2014.

Springhill's audited financial statements for 2014 reported government grants-in-lieu of property taxes in the amount \$1,870,687 (2013 - \$1,809,565). The major provincial and federal grants-in-lieu for the town of Springhill are summarized in Table 3.

**Table 3. Assessments for Grants-in-Lieu of Taxes (2013/14)**

	<b>Market Value Assessment</b>	
	<b>Commercial</b>	<b>Residential</b>
<b>Provincial</b>		
Land & Fire Tower	\$ 22,500	-
<b>Federal</b>		
Canada Post	\$ 171,400	-
Springhill Penitentiary	\$ 31,218,400	\$3,543,300

Source: Application to NSUARB for Dissolution, Town of Springhill, (filed May 15, 2014).

#### *Taxes Receivable*

At March 31, 2014, Springhill's consolidated statement of financial position (Appendix 4) reported taxes receivable of \$1,007,883 (2013 - \$929,166). The notes to the financial statements disclosed that taxes receivable were recorded net of an allowance of for doubtful accounts amounting to \$599,910 (2013 - \$596,801).

#### *Financial Condition Index*

The Financial Condition Index (FCI) is an online financial condition measurement tool developed by the Province of Nova Scotia, the Union of Nova Scotia Municipalities and the Association of Municipal Administrators. The website user has the option of generating a one-year or a three-year

comparative FCI report for any of the province's municipalities.<sup>6</sup> An FCI report provides information on three dimensions of financial condition: Revenue Dimension, Budget Dimension, and the Debt & Capital Dimension. A municipality's FCI report provides a score for five indicators within each dimension, the class average for each indicator and a recommended indicator threshold. Recommended threshold scores represent a municipal performance guideline for each indicator and are determined based on research and consider the normal operating range for Nova Scotia municipalities. FCI reports are colour coded to assist the reader with interpreting the results (the legend can be found in Appendix 6). Springhill's FCI reports for the 2012, 2013 and 2014 can be found in Exhibit 6. Appendix 7 provides a listing of the 15 indicators, contains a description of how each rating is calculated and a corresponding brief definition or rationale.

### Conclusion

The summer of 2014 would mark the Town of Springhill's 125<sup>th</sup> anniversary. If the Mayor and council vote in favour of the town's dissolution, the milestone anniversary could be the last one celebrated by the community. The town was struggling and on March 4, 2014, the future of Springhill as a town was about to be decided. Establishing a new governance model by amalgamating with the surrounding municipality of Cumberland was an option. But first, the Mayor and his council have to make a decision. Would a motion be passed to apply to the Nova Scotia Utility and Review Board for dissolution?

### Appendix 1: Additional Case Information

1. The audited consolidated financial statements for the fiscal year ended March 31, 2014 were issued on September 24, 2014. An unqualified audit opinion was issued. The financial statements were prepared in accordance with Canadian Public Sector Accounting Standards for local governments as established by the Public Sector Accounting Board (PSAB). They reported on municipal operations, the Town of Springhill Water Utility and Cumberland Joint Services Management Authority (CJSMA). The Town of Springhill has a partnership with CJSMA which operates a landfill site and uses proportionate consolidation to report its investment.
2. In Nova Scotia, municipalities are not allowed to incur debt as a result of operating deficits, but may borrow funds to purchase or construct capital assets.
3. The FCI report data was available for the public as follows: 2011/12 – May 15, 2014; 2012/13 and 2013/14 – February 17, 2015.
4. Property taxes in Cumberland County for 2014/15 are \$1.04/100 for residential property and \$2.63/100 for commercial property.
5. The audited financial statements for the fiscal year ended March 31, 2014 state that the budget adopted by Council on June 3, 2014 was not prepared on a basis consistent with that used to report actual results. As such, the budgeted surplus of \$1,009,943 reported on the consolidated statement of operations was derived as follows:

Town of Springhill budgeted annual surplus	\$ 228,617
Add: Principal payments on long-term debt	<u>781,326</u>
	<u>\$1,009,943</u>

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<sup>6</sup> To view a sample report, go to <http://novascotia.ca/dma/finance/indicator/fci.asp>.

6. The audited financial statements for the fiscal year ended March 31, 2014 restated certain amounts for the year ended March 31, 2013 for the following items: Employee vacation and sick leave entitlements; the town's proportion of the CJSMA liability for landfill closure and post-closure costs; the town's share of the assets, liabilities, revenues and expenses of CJSMA; and, revenue inappropriately recognized for municipal taxes levied and related interest on town owned properties.

**Appendix 2**  
**Town of Springhill**  
**Consolidated Statement of Operations**  
**For the Year Ended March 31, 2014, with comparative figures for 2013**

	Budget 2014	2014	2013
<b>Revenue</b>			
Net municipal taxes ( <i>Exhibit 3</i> )	\$ 5,482,865	\$ 5,404,251	\$ 5,373,079
User fees and sales of goods	960,360	1,324,520	1,221,541
Government transfers for operations	930,121	930,759	924,719
Interest and penalties on taxes	204,100	203,548	212,277
Investment income (loss)	240	1,707	(23,281)
Other	2,600	6,083	11,064
Capital contributions	-	80,075	24,948
Government transfers for capital	-	360,044	404,879
Other grant revenue	-	25,418	22,097
	7,580,286	8,336,405	8,171,323
<b>Expenses</b>			
Amortization of tangible capital assets	162,052	918,558	932,328
Cumberland Joint Services Management Authority	-	287,353	316,549
Environmental development services	75,880	41,835	57,047
Environmental health services	612,683	557,392	556,802
General government services	904,904	954,651	917,357
Protective services	1,987,510	2,039,144	2,072,488
Public health services	2,150	1,812	(138)
Recreation and cultural services	920,970	956,143	872,236
Transportation services	954,551	1,302,478	1,113,485
Water utility	949,643	1,018,070	1,003,336
	6,570,343	8,077,436	7,841,490
<b>Annual surplus</b>	1,009,943	258,969	329,833
<b>Accumulated surplus, beginning of year</b>			
<b>As previously reported</b>	25,550,284	25,550,284	25,839,735
<b>Prior period adjustments (<i>Exhibit 1</i>)</b>	-	-	(619,284)
<b>As restated</b>	25,550,284	25,550,284	25,220,451
<b>Accumulated surplus, end of year</b>	\$26,560,227	\$25,809,253	\$25,550,284

**Appendix 3**  
**Town of Springhill**  
**Schedule of Property and Other Taxes**  
**For the Year Ended March 31, 2014, with comparative figures for 2013**

	Budget 2014	2014	2013
<b>Taxation</b>			
Real property taxes	\$ 2,120,184	\$ 2,103,420	\$ 2,057,781
Waste collection fees	222,400	218,409	220,654
Business taxes	592,866	554,858	603,648
Government grants in lieu of property taxes	1,872,657	1,870,687	1,809,565
Special assessments and local improvement taxes	20,000	14,682	16,287
Water rates	1,214,800	1,204,733	1,223,653
	<u>6,042,907</u>	<u>5,966,789</u>	<u>5,931,581</u>
<b>Requisitions</b>			
Appropriations to Cumberland District School Board*	425,042	425,042	415,411
NS Department of Housing	135,000	137,496	143,091
	<u>560,042</u>	<u>562,538</u>	<u>558,502</u>
<b>Net Municipal Taxes</b>	<u>\$ 5,482,865</u>	<u>\$ 5,404,251</u>	<u>\$ 5,373,079</u>

\* Municipalities in Nova Scotia are required to finance the operations of various provincial departments and boards based on formulas defined in legislation.

**Appendix 4**  
**Town of Springhill**  
**Consolidated Statement of Financial Position**  
**March 31, 2014, with comparative figures for 2014**

	2014	2013
<b>Financial Assets</b>		
Cash and term deposits	\$ 2,072,504	\$ 1,554,172
Restricted cash and temporary investments	1,330,002	1,164,636
Taxes receivable, net of asset valuation allowances	1,007,883	929,166
Other receivables	465,261	588,201
	<u>4,875,560</u>	<u>4,236,175</u>
<b>Liabilities</b>		
Accounts payable and accruals	7969,792	871,484
Bank indebtedness	3,602,557	2,936,090
Deferred revenue & other long term liabilities	48,402	50,599
Long term debt	4,394,779	5,144,381
Landfill closure and post-closure liability	282,458	238,801
	<u>9,297,988</u>	<u>9,241,355</u>
<b>Net Debt</b>	<u>(4,422,338)</u>	<u>(5,005,180)</u>
<b>Non Financial Assets</b>		
Inventory	303,561	288,721
Prepaid expenses	169,148	207,047
Deferred charges	14,435	15,545
Tangible capital assets (net)	29,744,447	30,044,151
	<u>30,231, 591</u>	<u>30,555,464</u>

Accumulated Surplus

\$25,809,253    \$25,550,284

**Appendix 5**  
**Town of Springhill**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended March 31, 2014, with comparative figures for 2013**

	2014	2013
<b>Cash flows from operating activities:</b>		
Annual surplus	\$ 258,969	\$ 329,833
Non-cash items included in surplus:		
Amortization of tangible capital assets	918,558	932,328
Non-cash charges to operations (net change):		
Decrease (increase) in taxes receivable	(78,717)	(128,133)
Decrease in other receivables	122,940	234,607
Increase in inventory for consumptions	(14,840)	(55,002)
Decrease (increase) in prepaid	37,899	(42,390)
Decrease in deferred charges	1,110	2,052
Decrease (increase) in accounts payable and accrued liabilities	98,308	(79,396)
Decrease in deferred revenue	(2,197)	-
Increase in landfill closure and post-closure liability	43,657	41,354
	1,385,687	1,235,253
<b>Cash flows from capital activities:</b>		
Purchase of tangible capital assets	(618,854)	(355,521)
	(618,854)	(355,521)
<b>Cash flows from financing activities:</b>		
Proceeds of long-term debt	-	1,551,290
Repayments on long-term debt	(749,602)	(2,262,374)
	(749,602)	(711,084)
<b>Increase in cash position</b>	17,231	168,648
<b>Cash and cash equivalents, beginning of year</b>	(217,282)	(385,930)
<b>Cash and cash equivalents, end of year</b>	\$ (200,051)	\$ (217,282)
<b>Cash and cash equivalents is represented by:</b>		
Cash and term deposits	2,072,504	1,554,172
Restricted cash and temporary investments	1,330,002	1,164,636
Bank indebtedness	(3,602,557)	(2,936,090)
	\$ (200,051)	\$ (217,282)

**Appendix 6: Town of Springhill - Financial Condition Index (2012 -2014)**

Revenue Dimension	Springhill			Town Average			Threshold
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	
Reliance on Government Transfers	13.8	13.7	13.6	11.0	10.5	9.9	Below 15%
Uncollected Taxes (%)	53.8	53.9	40.6	9.7	9.7	9.1	Below 10%
3-Year Change in Tax Base (%) (See note 1)	6.4	7.3	8.6	5.4	7.2	7.3	2012 > 8.37% 2013 > 6.20%
Commercial Property Assessment (%)	10.5	10.4	10.0	23.1	22.2	21.6	Above 20%
Reliance on Single Business/Institution (%)	22.4	22.2	22.4	7.2	6.2	5.9	Below 10%
<b>Budget Dimension</b>							
Residential Tax Effort (%)	2.9	3.1	2.9	3.3	3.7	3.9	Below 4%
Deficits in the Last Five years (#)	1.0	1.0	2.0	1.0	0.7	0.5	Below 1
Budgeted Expenditures Accuracy (%)	-1.0	-3.6	-13.7	3.8	4.1	3.9	Between -5% And +5%
Liquidity (Ratio)	1.0	1.0	0.5	1.5	1.6	1.4	Above 1.0
Operating Reserves (%) (See note 2)	0.0	0.0	0.0	8.0	15.8	14.6	2012 > 5%; 2013 & 2014 > 10%
<b>Debt &amp; Capital Dimension</b>							
Debt Service (%)	8.5	8.7	11.3	7.4	7.8	7.9	Below 15%
Outstanding Debt (%)	2.3	2.0	1.6	1.3	1.3	1.3	Below 3.5%
Undepreciated Assets (%)	65.2	63.4	61.5	58.6	57.7	56.4	Above 60%
5-year Capital Purchases (%)	155.1	131.1	120.5	211.6	196.0	181.5	Above 100%
5-year Contributions to Capital Reserves (%)	0.0	0.0	0.0	8.2	11.0	14.6	Above 10%

Note 1: The three year change in tax base varies each year by change in 3 year CPI.

Note 2: In 2011/12, the threshold was set at 5%. In 2012/13 the threshold increased to 10%.

**Legend for FCI Report:**

<b>Green</b>	The FCI Indicator Score <b>meets or exceeds</b> the Threshold and the Town Average
<b>Yellow</b>	The FCI Indicator Score <b>meets or exceeds</b> the Threshold but <b>does not meet</b> the Town Average
<b>Red</b>	The FCI indicator <b>does not meet</b> the Threshold

**Appendix 7: Financial Condition Index – Indicator, Formula, and Definition/Rationale**

<b>Indicator</b>	<b>Formula</b>	<b>Definition/Rationale</b>
Reliance on Government Transfers (%)	Total government transfers ÷ Total revenue	An indicator of a municipality's reliance on transfers from provincial and federal governments.
Uncollected Taxes (%)	Uncollected taxes (all years, less valuation allowances) ÷ Total taxes billed in current fiscal year	Compares cumulative unpaid taxes, net of adjustments, with the current amount billed by the municipality.
3-Year Change in Tax Base (%)	(Current Uniform Assessment – Uniform Assessment 3rd Prior Year) ÷ Uniform assessment 3rd Prior Year	Illustrates the growth in the municipality's property assessment.
Commercial Property Assessment (%)	Total taxable commercial assessment ÷ Total taxable assessment (Grants-in-lieu are not included)	A measurement of economic activity in the municipality.
Reliance on Single Business/Institution (%)	Taxable assessment value of the largest business or institution ÷ Uniform assessment	Shows how much a municipality's tax base depends on a single commercial or institutional account.
Residential Tax Effort (%)	(Total residential tax revenue ÷ Total dwelling units) ÷ (Median household income)	% of average household's income required to pay the average tax bill.
Deficits in the Last Five Years (#)	Number of non-consolidated operating deficits in the last 5 years	Indicates how many deficits a municipality ran in the last five years.
Budgeted Expenditures Accuracy (%)	(Budgeted expenditures - Actual expenditures) ÷ Budgeted expenditures	Reflects accuracy with projecting revenues and expenditures.
Liquidity	Total short term operating assets ÷ Total short term liabilities	The municipality's ability to pay bills in the short term.
Operating Reserves (%)	(Total operating reserve fund balance + accumulated surplus of the general operating fund) ÷ Total operating expenditures	Compares total operating reserves to a single year's operating budget.
Debt Service (%)	Principal and interest paid on long term debt ÷ Total own source revenue	% of a municipality's revenue devoted to debt repayment and allows analysis of only the revenue within council's control.
Outstanding Debt (%)	Total outstanding long term debt ÷ Total uniform assessment	Provides an indication of how much debt a municipality is carrying in relation to their tax base.
Undepreciated Assets (%)	Total net book value of capital assets ÷ Total gross cost of capital assets	Provides an estimate of the useful life left in a municipality's capital assets.
5-year Capital Purchases (%)	Total purchases of capital assets over a 5-year period ÷ Total depreciation accrued over the same 5-year period	Compares how fast a municipality is investing in capital assets and how quickly their assets are aging.
5-year Contributions to Capital Reserves (%)	Total contributions to capital reserves over a 5-year period ÷ Total depreciation accrued over the same 5-year period	This indicator shows how quickly a municipality is accumulating capital reserves compared to how quickly their assets are aging.*

Source: Indicator Definitions (<http://www.novascotia.ca/dma/finance/indicator/definitions.asp?def=12>)

*\*Indicator data available only from 2010 onward. As a result, the 2012 score is based on three years of data, the 2013 score is based on four years of data, and the 2014 score is based on five years of data.)*



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## **THE FUTURE OF SPRINGHILL INSTRUCTOR'S TEACHING NOTE**

### **Case Summary**

The Mayor and his council are about to vote on a motion to apply to the Nova Scotia Utility and Review Board for dissolution of the Town of Springhill. The town was struggling; costs and debt continued to rise and while Council had looked for ways to increase revenue and decrease costs over the previous 16 months, they were not successful. And with a decreasing and aging population, the viability of the town was in question. The case reviews some of the information that would be considered by the Mayor and the council in reaching their decision.

### **Objectives of the Case**

While such a decision warrants investigation that extends well beyond the facts presented in this case, it does provide students with select items that council would consider prior to casting their votes on the matter of dissolution. Analysis of financial statements prepared using public sector accounting is required.

### **Basic Pedagogy**

*Courses:* The case is recommended for use in an Advanced Financial Accounting class.

*Level:* The case is recommended for use in an undergraduate business program.

*Prerequisites:* Students should have completed an introductory level economics course and be enrolled in an Advanced Financial Accounting course. Students should have an understanding of analyzing financial statements, other financial information and socioeconomic data.

### **Key Issues**

- Financial and socioeconomic considerations relevant to the future viability of a town.

### **Research Methodology**

- This is a research case based upon secondary public sources.

### **Relevant Theory**

- Public sector accounting in Canada.
- Analysis of select public sector financial statements.
- Use of the Financial Condition Index (Province of Nova Scotia) as an analysis tool.

### **Discussion Questions**

1. Perform a financial analysis on Springhill's consolidated financial statements provided in the case. Your analysis should consider other financial information provided and the town's financial condition index report for the three years ending March 31, 2014 where appropriate.
2. Pursuant to Section 72 (4) of the *Municipal Government Act*, any deficit incurred in the year shall be included in estimates for the following year. Assume that Springhill's deficit for the year-ended March 31, 2014 was \$842,111, as initially expected and answer the following questions.

- a) What options are available to a municipality with regards to covering a deficit?
  - b) Estimate the increase in tax rate that would be required for Springhill to cover an \$842,111 deficit. (Use the town's tax base and rates provided for 2014.)
  - c) Is increasing the tax rate a feasible option for Springhill? Why or why not?
3. Assume you are one of the councillors attending the meeting on March 4. Comment on additional information you would like to consider or examine before a decision could be made.

### **Suggested Responses**

1. **Perform a financial analysis on Springhill's consolidated financial statements provided in the case. Your analysis should consider other financial information provided and the town's financial condition index report for the three years ending March 31, 2014 where appropriate.**

#### **a. Consolidated Statement of Operations**

The consolidated statement of operations reports the surplus or deficit from operations and the change in accumulated operating surplus or deficit for the period. Students should perform a two-year trend analysis, compare actual to budget for 2014, and provide comments as appropriate. Springhill's FCI Report (Appendix 6) should be incorporated into the analysis.

**Revenues:** Actual revenue of \$8,336,405 for 2014 exceeded both the budget and the prior year results (\$7,580,286 and \$8,171,323, respectively). Actual total revenue exceeded budget by \$756,119, primarily due to revenues that were not budgeted and actual revenues for user fees and sale of goods coming in at \$364,160 above budget. The increase in actual total revenue over the prior year amounted to \$165,082 (2.02%) is primarily due to additional revenue earned from user fees and sale of goods, up \$102,979 over the prior year. Additional information is not provided in the case to support an explanation. Students can identify the positive variances for this line item (actual and budget) and suggest further information would be required for a complete analysis.

Two revenue items reported on the consolidated statement of operations can be discussed in more detail: net municipal taxes and interest and penalties on taxes. Appendix 3 provides the detail for the net municipal taxes line. The largest component of taxation is real property taxes which had a slight increase of only \$45,639 over 2013. Table 1 reflects minimal growth in the town's tax base with only slight increases in both the market and CAP assessments for residential properties. In addition, the tax rates have remained stagnant.

Actual business taxes of \$554,858 for 2014 have not met the budgeted figure of \$592,866 and are down \$48,790 (8.1%) over the prior year. This is troublesome because it appears that the decline may be the start of a negative trend for the town. This is supported by the fact that market assessment for commercial property has suffered decreases in 2013 (-4%) and 2014 (-5%). And, there is a 2-year lag on assessment values, so the 2014 tax rate is applied to the 2012 assessment values. Further declines in assessment values are not yet reflected in the tax base. Springhill's FCI report shows red scores for the commercial property assessment indicator, rates that hover at about one-half of the recommended town threshold of 20% and just below one-half of the town averages in each of the three years ending March 31, 2014. This suggests a low level of economic activity in the town.

However, grants-in-lieu of property taxes are not included when calculating the commercial property assessment FCI indicator. Springhill's financial statements reveal that grants-in-lieu are the second largest component of taxation revenues, amounting to \$1,870,687 for 2014, an increase over the prior year of \$61,122 (3.4%) and coming in only slightly under the budget of \$1,872,657. Springhill's FCI Report shows that the town received red scores for the reliance on a single business/institution indicator, with

scores of just over 20% in each of the three years. These scores were significantly higher than the town average scores (7.2%, 6.2% and 5.9%) and the recommended threshold of 10%. The calculation for this indicator is based on the uniform assessment, and as such, grants-in-lieu are included in the determination of the score. A review of Table 3 (Federal and Provincial Assessment for Grants-in-lieu) quickly identifies that it is the Springhill Penitentiary that the town relies upon. As such, is such a reliance deserving of a red score? Students can easily estimate the portion of grants-in-lieu attributable to Springhill as follows:

Commercial (\$31,218,400/100 x \$5.53)	\$ 1,726,377
Residential (\$3,543,300/100 x \$2.25)	79,724
	<u>\$ 1,806,101</u>

Interest and penalties on taxes will be discussed when taxes receivable at March 31, 2014 is discussed.

**Expenses.** Students should provide an overview analysis on the expenses reported on Springhill's consolidated statement of operations for 2014 and note that in total, expenses increased 3% over the prior year (in comparison, revenues increased by 2.02% over the prior year). In addition, the total actual expenses of \$8,077,436 were significantly higher than the total budgeted expenditures of \$6,570,343. Five line items can be identified as being both in excess of budget and up over the prior year (general government services, protective services, recreation and cultural services, transportation services and water utility). These line items are core to providing services to the town's constituents. What we do not know, however, is if these expenses increased because Springhill provided more services or if it cost more to provide the same services.

Springhill's FCI score for the budgeted expenditures accuracy indicator was -13.7% for 2014, meaning that the town's actual expenses were more than what was budgeted. Springhill's performance did not meet the recommended threshold (-5% to +5%) and fell well outside the town average (-3.9% to +3.9%). This may cause students to cast doubt on Springhill's ability to budget. Some students may choose to focus on the variance of budget to actual for amortization (budget - \$162,052; actual - \$918,558), but this should be deterred. Encourage students to consider its impact on cash flow. A brief discussion on the importance for budgeting for the CJSMA expense should note that the cost is a responsibility of the town.

**Surplus/Accumulated surplus:** Students should note that Springhill reported a surplus for the 2014 year, not a deficit as anticipated. The surplus of \$258,969 was less than both the budgeted amount (\$1,009,943) and the prior year (\$329,833). Information is provided on the prior period adjustment posted against the 2013 fiscal year. Students should comment on the importance of reporting on the town's expenses/liabilities for which the town is responsible. (See Appendix 1, note 6)

Students may note that Springhill has not been maintaining the recommended operating reserves (See FCI report) and argue that it is a sign of financial weakness. The lack of operating reserves can restrict the town's ability to plan for the future and may have a negative impact on its viability. However, it may also mean that the town's policy is to keep tax rates down, rather than increase rates so as to build reserves. In Springhill's case, it may be that council knows that an increase in the tax rates to build reserves could ultimately lead to higher receivables and an increase in uncollectible accounts.

## **b. Consolidated Statement of Financial Position**

A key item reported on the statement of financial position is Springhill's net debt position. It is calculated by deducting liabilities from financial assets. Net debt is an important indicator of a government's financial position as it provides a measure of future revenues required to pay for past transactions and events (PS 1201.037). Springhill's consolidated statement of financial position reflects a net financial

liability position of \$(4,422,338) which indicates that at March 31, 2014, the financial resources on hand were insufficient to finance future operations.

Two items reported on the consolidated statement of financial position should be discussed: taxes receivable and bank indebtedness. Taxes receivable increased from \$929,166 in 2013 to \$1,007,883 in 2014 (an 8.5% increase). The FCI report indicates that town has been experiencing difficulty with collecting taxes levied. Springhill received a red score for the uncollected taxes indicator for each of the three years in their FCI report. The scores (2012 – 53.8%; 2013 – 53.9%; 2014 – 40.6%) are significantly higher than the town average for each year and the annual recommended threshold of below 10%. [Note that the score expresses the total value of property taxes billed but not yet collected for the current and all previous years (less valuation allowances) as a percentage of the current year's taxes billed. Students may incorrectly assume that the FCI indicator is for uncollected taxes for one year only.]

The second item, bank indebtedness increased by \$666,467 to \$3,602,557 at March 31, 2014. Encourage students to consider how the uncollected tax position is contributing to the increased bank indebtedness. Springhill budgets and collects interest and penalties on taxes. An increase in receivables will increase this revenue. However, if the town is experiencing collection difficulties, the interest charged on tax accounts may not be collected. Timely collection of accounts would be preferred to recording interest revenue; collection of accounts would improve cash flow, decrease interest expense and decrease reliance on bank indebtedness.

Additional information on the town's cash position can be found in the consolidated statement of cash flows. Note the cash flows for financing activities section identifies that the town repaid long-term debt in the amount of \$749,602. Springhill's FCI scores for the debt service and outstanding debt indicators exceed the provincial town average for each year but are within the recommended threshold. Students may consider that this is a 'good thing.' However, care must be taken when interpreting these indicators. The outstanding debt indicator expresses debt as a percentage of the town's assessed tax base, a base that is subject to a two-year lag. Note that as per the FCI report, Springhill has not been contributing to capital reserves and as such, future capital acquisitions will have to be funded from operations<sup>7</sup> or through the acquisition of debt, each of which will have implications for the town's cash flow position.

It should also be noted that Springhill's liquidity FCI indicator of 0.5 for 2014 is below the recommended threshold of 1.0 and the town average of 1.4. Students should be comfortable with a discussion on liquidity and the implications poor liquidity has on future viability.

Many students may not examine non-financial assets or at minimum, provide a cursory overview on the variances. PS 1201.038 notes that reporting on a government's liabilities and financial assets alone is not sufficient to provide an adequate description of a government's financial position. By reporting on non-financial assets, a more complete understanding of a government's debt position, financial position and future operating requirements is presented. Non-financial assets are those that are normally employed to provide future services and include prepaid expenses, supplies inventory and deferred charges. In addition, it also includes tangible capital assets, those assets that have economic lives extending beyond the accounting period and used by government units to provide services (e.g. - buildings, equipment and roads). Such assets require operating and maintenance expenditures, costs that generally increase as capital assets age.

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<sup>7</sup> Capital acquisition may be funded via non-repayable capital grants.<sup>7</sup>

Students should conclude their analysis by indicating if Springhill’s financial performance and position cast doubt on the town’s future viability. Also, students may incorporate relevant socioeconomic data into their analysis to highlight concerns. Several issues have been discussed below (question 2).

**2. Pursuant to Section 72 (4) of the *Municipal Government Act*, any deficit incurred in the year shall be included in estimates for the following year. Assume that Springhill’s deficit for the year ended March 31, 2014 was \$842,111, as initially expected and answer the following questions.**

**a) What options are available to a municipality with regards to covering a deficit?**

While various options may be presents, consider the following three options:

- i. Increase tax rates on residential and/or commercial property. (Consider public response to increase taxes but not a corresponding increase in services.)
- ii. Find efficiencies in current spending. (Note that Springhill has searched for efficiencies, but not able to find any.)
- iii. Reduce services provided to constituents. (Consider the public response to a decrease in services without a corresponding decrease in tax rates.)

**b) Estimate the increase in tax rate that would be required for Springhill to cover an \$842,111 deficit. (Use the town’s tax base and rates provided for 2014.)**

*Step 1: Determine taxable assessment base.*

	<u>Residential</u>	<u>Commercial</u>
Residential assessment (capped)	\$ 96,725,900	
Commercial assessment		\$ 10,201,300
Grants in Lieu		
Provincial	22,500	
Federal	3,714,700	31,218,400
	<u>\$ 100,463,100</u>	<u>\$ 41,419,700</u>

*Step 2: Estimate increase to tax rates required to fund estimated deficit.*

a. Total taxable assessment base [(residential + commercial)/\$100]	\$1,418,828
b. Projected deficit for 2014 (\$342,111 + \$500,000)	\$ 842,111
c. Increased rate per \$100 of assessment required to fund deficit (b/a)	\$0.59

This is a simplistic estimate that is based on two key assumptions. First, there will be a balanced budget which is a reasonable assumption as towns should not be budgeting for a deficit position. Second, the current total tax base is a reasonable proxy to estimate tax revenue. A significant portion of the residential tax base is subject to CAP and the percentage increase under CAP was less than 1% for both 2013 and 2014 (See Table 1). The commercial sector tax base has declined over the same time period, decreasing by 4% in 2013 and 5% in 2014. So, while the residential tax base will likely increase, the commercial tax base is expected to decrease.

The calculation demonstrates the significant tax burden that could be imposed on taxpayers. The \$0.59 increase to the current tax rates would see the commercial tax rate increase by 10.7%, to \$6.12 per \$100 of assessment. The residential tax rate increase by a whopping 26.2%, to \$2.84 per \$100 of assessment. So, an owner of a property with taxable assessment value of \$150,000 would see their annual property taxes increase from \$3,325 to \$4,260.

**c) Is increasing the tax rate a feasible option for Springhill? Why or why not?**

Most students would likely argue that such an increase is not a feasible option. Arguments that could be put forward to support this position include:

- While the increase in tax may cover a deficit, it would not provide increased services to the town's population.
- Springhill faces demographic challenges (decreasing and aging population), a situation that will likely deteriorate without economic growth. This will impact on Springhill's ability to generate revenue from property taxes as fewer people owning property means a lower tax base on which to assess property taxes.
- Even if tax rates are increased, that doesn't mean property taxes will be paid. Springhill is already experiencing collection problems, so an increase in the rate could mean a higher amount of uncollectible accounts, increased interest and penalties, and no improvement to cash flow. In 2011, 34.3% of the population in private households in Town of Springhill have low income status which implies that increased tax rates would be difficult for many to pay.
- If there is any economic growth in Cumberland County, new businesses or homeowners would likely set up outside the town boundaries. Springhill is a small town, occupying only 11.5 square kilometres and the county, with rates that are substantially lower than those set for the town, would be more attractive.

**c. Assume you are one of the councillors attending the meeting on March 4. Comment on additional information you would like to consider or examine before a decision could be made.**

Students should readily recognize that sufficient information has not been presented in the case to make a final decision. Encourage students to propose additional information that they would require to assist with making such a decision, explaining why such information would assist. Some items or questions that may be proposed are as follows:

- *How do the people of Springhill feel about the potential dissolution?* (Loss of identity, potential for decreased services, other considerations.) A town plebiscite is not required prior to a council vote. So, if students consider that this is 'the appropriate thing to do,' remind them that there will be associated costs. Furthermore, what would be accomplished by a 'no' vote (next steps)?
- *Transitions costs.* What costs could the town incur as a result of transition? (Legal, HR support and other one-time implementation costs.)
- *Is the Municipality of Cumberland County agreeable to a merger?* Does the county have to assume Springhill's debt? Will the taxpayers of Springhill continue to be slow in paying their tax bills and could this mean cash flow issues for the county?
- *Will Springhill's tax rates decrease?* Town services are greater than those provided by the county, so will this lead to a multi-tiered tax rate tied to the services provided to taxpayers located in different areas of the county.
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Students should be made aware of the fact that the application for dissolution is only the beginning of a very detailed process, and that dissolution is not necessarily the outcome. In Nova Scotia, an application for dissolution must be made with the Utility and Review Board. Following this, the town will be notified of additional requirements to comply with the NSUARB process including a preliminary order and other hearings, the preparation and filing of studies and reports to assist with the decision process and other information as deemed relevant by the NSUARB.

### **Epilogue**

On March 4, 2014, the motion to move forward with the dissolution process was carried at the special meeting of the Springhill Town Council. The application was filed with the NSUARB on May 15, 2014 and included a recommended dissolution date of April 1, 2015. On January 21, 2015, the NSUARB issued its decision granting dissolution to the Town of Springhill effective 11:59 p.m. on March 31, 2015.



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## **EVALUATING OPPORTUNITIES FOR GROWTH: CONNETIK INTERACTION AND THE KITCHENER DECISION<sup>1</sup>**

### **Abstract**

Decisions concerning growth are typically problematic for small and medium sized enterprises, given the often limited resources (financial, informational, etc.) possessed by such organizations. Connetik Interactive is a growing IT firm based in Moncton, N.B. that is presently facing an expansion decision.

Karl Roy turned his car into his spot, put it into park, and turned it off. With a sigh he looked at his newly purchased and renovated building and said, “We’ve got a good thing going on here, but I think it’s go time. It’s time to really start building this business. We need to make it bigger, and better. Opportunity is knocking.”

As he slipped his keys into his pocket and opened his office door, he began to prepare himself mentally for the coming day.

### **Start Me Up!**

Connetik Interactive had its beginnings in 2001 in Riverview, N.B. as Connetik Computer Solutions. Based in suburban Riverview, the firm offered a variety of services ranging from web site and graphics design, computer networking, and computer sales and service. In 2003, the company incorporated under the name Connetik Technologies Inc., and in late 2004, major strategic changes were made which pushed Connetik in a more focused direction - concentrating on web site development, web programming and internet based marketing.

In 2005, Connetik moved from Riverview to a new location at 1702 Main Street, a highly visible part of the neighboring city of Moncton. The new facility allowed Connetik to expand in staff and service offerings. By 2006, the company had changed its name to “Connetik Interactive” as it started to involve itself more fully in the interactive marketing industry, as well as continuing to pursue the development of web technologies used to power highly effective web sites. In 2008, business and workforce rapidly outgrew the Main Street location and the company had to move once again. Connetik relocated to 95 Millennium Boulevard - a 20,000 square foot facility which would enable the company to expand in the

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<sup>1</sup> The authors wish to thank company president Karl Roy for his interest and participation in this project. This case was prepared as a catalyst for discussion and is not intended to illustrate either effective or ineffective decision-making. It is based on actual events, although some information may have been disguised for purposes of confidentiality. This work is copyright, and shall not be reproduced without permission of the authors. Questions or comments may be directed to Robert MacDonald ([robert.macdonald@crandallu.ca](mailto:robert.macdonald@crandallu.ca))

future if required. A building that once housed a local pub was transformed over a few months into what would become the corporate headquarters of Connetik Interactive.

### **Let's Get It On**

Karl Roy was a native of Moncton with a long standing interest in technology and especially computers. He and a friend, James Currie, had begun Connetik together in 2001. Karl had spearheaded the web component, while James managed the networking. Eventually, the two made a strategic decision to split into different companies, with Karl maintaining his database of web clients and the Connetik name.

With Karl at the helm the firm evolved into a leading web development, internet marketing and programming company. Enhanced products combined with expertise led the business to grow from Karl and a few employees to over twelve personnel. Many had been hired within the last two years, leaving Karl struggling at times to integrate new staff while managing his workload.

While the company was based in Moncton, its operations were not limited by geography. Karl had worked hard to establish a client base that reached as far as Vancouver, the United States, and Europe. Connetik was able to secure and maintain these clients through a combination of superior product and service know-how, as well as an emphasis on personal relationships.

Karl knew that in order to continue expanding his business, Connetik would need to be perceived by its clients as superior with respect to its products and services. Thus when the company moved into internet marketing in 2006, Karl had sought to bring fresh ideas to the table. As such, Connetik began developing specialized content and landing pages<sup>2</sup>, search engine<sup>3</sup> and website optimization<sup>4</sup> services. Additionally, the company was able to supplement e-content with more traditional brochures, business cards, posters, and other forms of tangible advertising, ultimately providing clients with a well-rounded marketing option. Karl found that by going beyond the traditional webpage marketing model offered by most of his competitors, he was able to demonstrate value to his clients and show them that internet marketing was no longer limited to “just a website.”

### **Welcome to the Jungle<sup>5</sup>**

While internet marketing had begun to take off, that sector was not the only golden egg Connetik possessed. As part of its product development, Connetik had developed a software package – the Cura Suite - which allowed clients possessing various levels of technological expertise to easily manage their data. The Cura suite consisted of WebCura, InfoCura, and AppCura which - after further development - were aligned in one single solution: WebCura. WebCura was a Content Management System (CMS) engineered with the end-user in mind, allowing them to edit content on their websites themselves with great ease. As Karl described it, “It’s much like Microsoft Word. Give an expert user the software and they can do a lot with it.” He also noted that even a basic user would still be able to apply the software without any level of difficulty.

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<sup>2</sup> Special pages that would showcase a particular aspect or piece of information the client wanted to share.

<sup>3</sup> Optimizing search results means that the client’s website would be more likely to appear at the topic of a search query when a search is made.

<sup>4</sup> Clients often have certain web pages that they wish to be seen. Through traffic analysis, Connetik was able to offer ways to ensure those viewing the website would have a greater chance of going to those certain pages.

<sup>5</sup> For a list of the capabilities of WebCura, refer to Appendix D.

Not only was WebCura user friendly, but it could be accessed from any computer with an internet connection, anytime, anywhere. It also gave clients the ability to maintain a website with all the ease of a template page, but with a customized look. Clients could also keep their webpage current without having to keep a web-developer on staff, or without having to outsource the business, resulting in potential cost savings. As Karl stated, “people don’t want to spend money to update their sites”, and WebCura enabled customers to stay up to date with minimal associated cost.

Another advantage Connetik had in the CMS field was cost. Many CMS suites were expensive (ranging into the thousands of dollars), and tended to become obsolete very quickly due to perpetual changes in technology. To combat this Connetik had developed WebCura to stay current and up to date through regular updates and downloads.

Connetik was not alone in feeling it had a good thing in WebCura – even competitors saw its value, so much so that Connetik had begun selling them the software. One such company, TTI Technology, saw a significant decrease in turnover time from initial concept to finished product when WebCura was introduced. TTI enjoyed time savings (and thus cost savings) that came from being able to exploit templates as opposed to building from scratch, and their own clients enjoyed the benefits of being able to maintain their own websites (much like Connetik’s clients).

One significant concern in the software industry was software pirating and reverse engineering. While Karl realized that software pirating was a threat, he realized that it was very much “par for the course.” When it was initially developed, Karl had considered WebCura to be five years ahead of its time, but more recently he had seen many knock-offs appear on the market. There was even free software available (though it required a high level of technical expertise to implement). This “freeware” was also open source<sup>6</sup>, and as such was vulnerable to attack, or hacking. Nevertheless, given the expense associated with many CMS suites, and the potential for freeware CMS applications to be compromised, Karl believed that Connetik should be safe. With its name recognition and established brand, he felt that those competitors who might attempt to hack the source code<sup>7</sup> would likely look at WebCura’s nominal fee and buy it instead.

Initially, Connetik had positioned WebCura as a hosted solution, meaning that clients would have to host their website with Connetik, but Karl had soon realized the potential value of switching to a product based solution. This meant that Connetik would generate revenue in two ways. First, companies that chose (or continued) to have a website hosted with Connetik would have WebCura included as a part of the monthly cost for their site. Through this, clients would receive perpetual software updates, thus enabling them to always have the most up-to-date interface and tools to meet their respective needs.

The second method for earning revenue was strictly a product based solution. Consumers could buy the WebCura software, receive one year of free updates, and then pay an annual fee any updates thereafter. Under this approach customers could buy the software, and then host their website with whomever they desired. The benefits available to the consumer with this model were clear and easy-to-use software, a current CMS application, and no web-hosting restrictions.

While it may have seemed to the outside observer that allowing consumers to take care of their own website and content would detract from Connetik’s profitability, Karl did not see it that way. For Connetik and its small-business clients, there were mutual benefits - Connetik had a perpetual revenue stream coming from the hosted site or WebCura subscription, while the client could manage content

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<sup>6</sup> Open source denotes a code which is available to any computer user. The user is able to modify the coding to their liking, allowing for customizability.

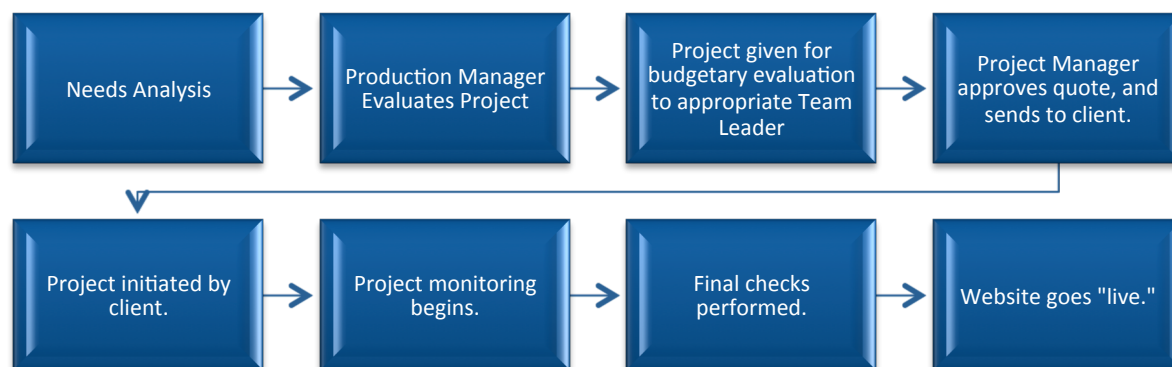
<sup>7</sup> Source code denotes the building blocks of a computer program or application.

without having to dole out fees for services that may or may not be required. Even so, Connetik was not entirely out of the services market – the company continued to assist larger clients who preferred a “hands off” approach to their site, using Connetik to implement changes as requested. In this type of situation, Connetik was not only paid hosting and WebCura fees, but was also paid for updating the client’s information.<sup>8</sup>

### Whip It!

Karl knew that a great business was built on great people, and he had spent considerable time finding them. He had also worked through trial and error to perfect what he believed to be a well-structured work flow. When Connetik was founded, the business had a general manager and a number of positions determined by function (i.e. marketing, programming, and web development). As the business evolved, Karl had realized that this structure was not working well – accordingly he went to work to refine the company’s structure. The new structure he devised was cross-functional in nature and Karl immediately saw improvements both in productivity and stress levels. Karl ran things as President and CEO; his right hand man - Brent Wagner - worked as the production manager and as such was responsible for ensuring that projects were being completed on budget and on time. Brent supervised teams which were comprised of a designer, a programmer, and a coder, and each team was headed-up by a team leader.

The new structure brought about a new work flow: sales representatives would contact prospective clients and then meet to perform a needs analysis. The needs analysis was a standard tool that Connetik used to help better understand the client. The sales representative would then pass the project along to Brent, who would evaluate it and then deliver it to the appropriate team leader, who would evaluate it and develop a cost projection based upon an hourly cost driver. This would then be submitted to Brent for approval. Finally, a quote would go back to the customer for approval prior to beginning the project. Brent worked to ensure that the quote was followed, and that hour and target dates were being met. If these targets were being met, then the project was coming in on budget (which was the ultimate goal of Karl’s refinements). As a final part of the process, teams would ensure that checklists were complete before the final product went “live.”<sup>9</sup> This would determine that there were no errors in the site or program, all links worked, emails functioned, the site was search engine friendly, was compatible with Macintosh computers, and so on. This checking represented the culmination of every job that Connetik performed (Figure 1).



<sup>8</sup> For examples from Connetik’s client portfolio, please refer to Appendices A, B, and C.

<sup>9</sup> That is, the website or product would be published online, or accessed by the client.

### **Figure 1. Connetik's New Work Flow**

Of course not every job was ideal. The nature of the industry seemed defined at times by two words: *scope creep*. Scope creep denoted growth in the size of a project. Often, clients would engage Connetik, but following the initial consultation (and initial planning stages) clients would often realize that they required different features, or different tools to meet their needs. For instance, a client might desire a website to showcase its business, but then realize that it could easily incorporate e-commerce into the website. With scope creep as a given, Karl and his team worked hard to ensure that original deadlines were met. While this created additional work at times (and subsequently additional stress), the Connetik team worked together to ensure the success of the project, and ultimately the client. This proved to be yet another advantage of the redesigned workflow, as it helped to ensure scope creep was dealt with promptly.

### **Fight the Power**

While Connetik had been building and expanding its operations, a threat was looming - the nation of India. While most consumers did not realize it, a significant amount of Canadian web development was being sent offshore. With outsourcing cost savings of 20 to 30 percent,<sup>10</sup> 65 per cent of the global industry in offshore IT,<sup>11</sup> and 46 per cent of the global Business Process Offshoring (BPO),<sup>12</sup> India had grown in the past ten years to be a significant player in the IT world.<sup>13</sup> India's growth was so strong that even with an estimated 2.3 million IT and BPO personnel, the nation was still anticipating a shortage of 500,000 workers.<sup>14</sup> India boasted many strengths and advantages for those companies looking to outsource, including:

- Abundance of technically skilled labor
- Low cost workforce
- Quality of service
- Regulatory environment
- Robustness of infrastructure
- Knowledge of English
- Time zone attractiveness<sup>15</sup>

The web development industry as a whole was no different than many industries in North America - consumers wanted the best product, for the lowest price. By utilizing offshore resources such as those available in India, Canadian companies were able to send development overseas, thereby reducing project costs, which made them more competitive on a cost basis in the marketplace. While Karl realized that India could be a threat, he had established a policy for his company, one which he felt would help to ensure Canadian jobs – “inshore outsourcing.” Karl firmly believed in keeping jobs in Canada, and while he realized that other companies might be able to undercut Connetik with respect to web development, he felt that through personal contact and client relationship, the strength of WebCura,

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<sup>10</sup> [http://www.cdhowe.org/pdf/commentary\\_235.pdf](http://www.cdhowe.org/pdf/commentary_235.pdf)

<sup>11</sup> In 2007, most offshoring/outsourcing projects were related to product and software development. (Offshoring Reaches the C-Suite: 2007-2008 ORN Survey Report, The Conference Board,2009)

<sup>12</sup> BPO is generally recognized to stand for Business Process Outsourcing. But, for the purpose of simplicity, in this report it stands for Business Process Offshoring—the practice of running business processes sent by companies to either their own units in offshore locations or to providers in offshore locations.

<sup>13</sup> [http://www.mckinsey.com/locations/india/mckinseyonindia/pdf/NASSCOM\\_McKinsey\\_Report\\_2005.pdf](http://www.mckinsey.com/locations/india/mckinseyonindia/pdf/NASSCOM_McKinsey_Report_2005.pdf)

<sup>14</sup> [http://www.mckinsey.com/locations/india/mckinseyonindia/pdf/NASSCOM\\_McKinsey\\_Report\\_2005.pdf](http://www.mckinsey.com/locations/india/mckinseyonindia/pdf/NASSCOM_McKinsey_Report_2005.pdf)

<sup>15</sup> <http://www.frost.com/prod/servlet/cif-econ-insight.pag?docid=39745707>

and even potentially running slimmer profit margins if necessary, Connetik would still be able to compete with any off shoring that might occur. To date, Connetik had not seen any major impact on its business.

While it was true that most anyone could design a website for a client, Connetik felt the differentiation it provided was key. Not only could the company design a great site, it could also offer complimentary services, including traffic analytics<sup>16</sup>, whereby the firm could demonstrate potential for improvement to the client, and provide quantifiable results when changes were implemented on a site. As Karl noted, “a company that charges \$10,000 a month but helps you earn \$40,000-\$60,000 [is what you want to have].” Because Connetik operated to bring value to its clients, clients did not mind spending money as they realized a significant return on investment.

Going forward, Karl felt that consultation services (such as traffic analytics) held the key to the future. While he realized that web design would always be a backbone of the company (especially due to the life span of a website - normally 5 years or less), he saw potential in post-design consulting. He estimated that within the next few years 65-70% of his business would consist of the post-design consulting services that Connetik could offer clients. Karl believed that Connetik would find itself performing functions like examining the web traffic on a client’s webpage, and then creating solutions to “funnel” users to a certain page through design elements, thereby ensuring the client’s target audience received the information the client wished to convey. Post-design consulting was structured to provide clients with the ability to use their website as a dynamic means of capitalizing on potential markets, not just as a static display. Through post-design consulting, on-going dialogue would occur between Connetik and the client to ensure that the client’s goals were being met, and that the client was truly seeing every advantage possible for their marketing dollar.

### **Bust a Move?**

In step with the changing nature of the I.T. sector, Connetik’s vision for expansion had also changed. Karl felt that given the current state of the business - its human resources and arsenal of products and services - now was the time to look at expansion. Karl felt there were many locations to which the business could go, and the company had performed market research beginning in 2006 to help determine exactly what would be the best move. Connetik developed an ideal market whereby it estimated a minimum required population of 150,000, and an environment which was not saturated by competition. Interestingly, Connetik - in Karl’s opinion - had been unable to find a market saturated with competition. As the company sought to identify competitors that were around or at its level, it realized that there were very few direct competitors. Many of the firms that were in the same sector provided many of the same types of services, but Karl perceived that there was a significant lack of quality in the websites they produced, and a lack of supplementary services that were on par with Connetik’s offerings. In Karl’s mind, the market was very much a “blue ocean”<sup>17</sup>, and he liked the potential. Along with population and market potential, there were other factors that needed to be considered before a potential move: cost of operating (including phones, internet, rent, etc.) as well as proximity to other major centers.

As Karl began to research potential locations, he kept coming back to one city – Kitchener, Ontario. There were several things that he liked about Kitchener. First, he had personal connections in the form of friends there. Second, the geography and costs were similar to what he knew in Moncton. Kitchener and its surrounding area was home to approximately 500,000-600,000 people, and within a one hour drive there were other major centers like Hamilton, Burlington, Mississauga, Guelph, and London.

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<sup>16</sup> Traffic Analytics denotes the observation of user click patterns (and which pages they view) on a webpage.

<sup>17</sup> A “blue ocean” denotes a market which is wide open, as opposed to a “red ocean”, which denotes saturation.

He also liked the “consumer attitude” - from Karl’s point of view people in Kitchener did not mind spending money for a good quality product. In the Maritimes Karl felt that he might have to work hard to try and sell his product or services, but Ontarians were different - when provided with quality they were much more willing to spend money. As he pondered the possibilities he found Kitchener more and more appealing.

Qualifier	Moncton	Kitchener
Population (2006)	126,424	451,235
Population (2001)	118,678	414,284
Total private dwellings	55,252	177,879
Population density (km <sup>2</sup> )	52.5	545.6
Land area (km <sup>2</sup> )	2,405.91	827.07
Median income (2005)	\$50,405	\$64,984 <sup>18</sup>
In the labour force	70,955	257,695
Unemployment rate	6.2%	5.6%
New housing price index <sup>19</sup>	116.8	142.2
Consumer Price Index <sup>20</sup>	~113	~113

**Table 1. Comparison Data for Moncton, NB and Kitchener, ON<sup>21,22</sup>**

### Something About the Way You Look Tonight

Karl was toying with the idea of launching a pilot project in Kitchener and he had a vision for how he felt things could work out. The office in Kitchener would be a sales office - a sales representative would contract work (much like the process in Moncton) and then follow the ordinary process of a customer needs analysis, sending the work back to Moncton in order to have the work and quote approved. The advantage of a local sales representative was that clients would receive the personal touch and relationship with Connetik that the company valued so much. The representatives would be able to build and maintain relationships in their local territory, which would help ensure recurring revenue for the company. This pilot project, Karl figured, would serve as a template for future offices. He had a vision of sales offices across Canada, and perhaps someday beyond.

But, as with any potential expansion, there were worries: what about corporate identity? One of Connetik’s principal assets was its established client relationships, which was coupled with a high rate of customer satisfaction. Without personnel to directly control and help convey the corporate ethos, could the Connetik brand be held intact?

Karl had toyed with the idea of relocating Moncton staffers to a new office, but had ultimately felt that the employees should stay in Moncton - many of his staff had family in the region. He concluded that the potential expansion would be best served by having sales offices planted “away”, with development still being done in Moncton. But still Karl wondered – was he being overconfident in his

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<sup>18</sup> <http://www.citystats.ca/city/Ontario/Kitchener.html> (accessed August 17, 2010).

<sup>19</sup> The New Housing Price Index (NHPI) is a monthly series that measures changes over time in the contractors' selling prices of new residential houses, where detailed specifications pertaining to each house remain the same between two consecutive periods.

<sup>20</sup> The data for the two cities in this table are an interpolation of available data.

<sup>21</sup> Statistics Canada. 2007. *Moncton, New Brunswick* (table). *2006 Community Profiles*. 2006 Census. Statistics Canada Catalogue no. 92-591-XWE. Ottawa. Released March 13, 2007. <http://www12.statcan.ca/census-recensement/2006/dp-pd/prof/92-591/index.cfm?Lang=E> (accessed August 10, 2010).

<sup>22</sup> Statistics Canada website <http://www.statscan.ca> (accessed April 10, 2010)

foray into a new market? While Connetik knew its core competencies, and thought it understood the market and potential rivals, was this actually the case? Had they evaluated all the relevant factors for potential expansion?

### **Money, Money, Money, Money!**

One of the biggest challenges facing Connetik was money. While Connetik was doing well in Karl's eyes, he was always cognizant of cash flow. The normal process of collection from clients was that of a progress payment. While the size of the job could vary drastically, a basic site development project would usually require 50% up front, and then 50% upon completion. Different arrangements were made for larger jobs, which would generally require smaller percentages but a greater payment frequency. The common issue between both smaller and larger jobs, however, was that regardless of whether a job was completed, employees had to be paid. The end result could be a company with a good current ratio but a real cash shortage.<sup>23</sup>

Job completion could also depend on client motivation. Some clients who were initially very enthused about a project could become difficult to contact while others hesitated to sign off at various points during the project, thereby stalling the proceedings.

### **Should I Stay or Should I go?**

Karl sat in his office, pondering the future. Connetik was at a decision point. Could a company consistently praised for its "great work" from their clients in Moncton make it in Kitchener? Was now the time to expand? With the normal collection practices of the industry, would Connetik have enough cash flow to keep operations going? Was there any way in which they could improve collection procedures? Karl hit a button to compose a new email. It was time to get his team together, and figure this thing out.

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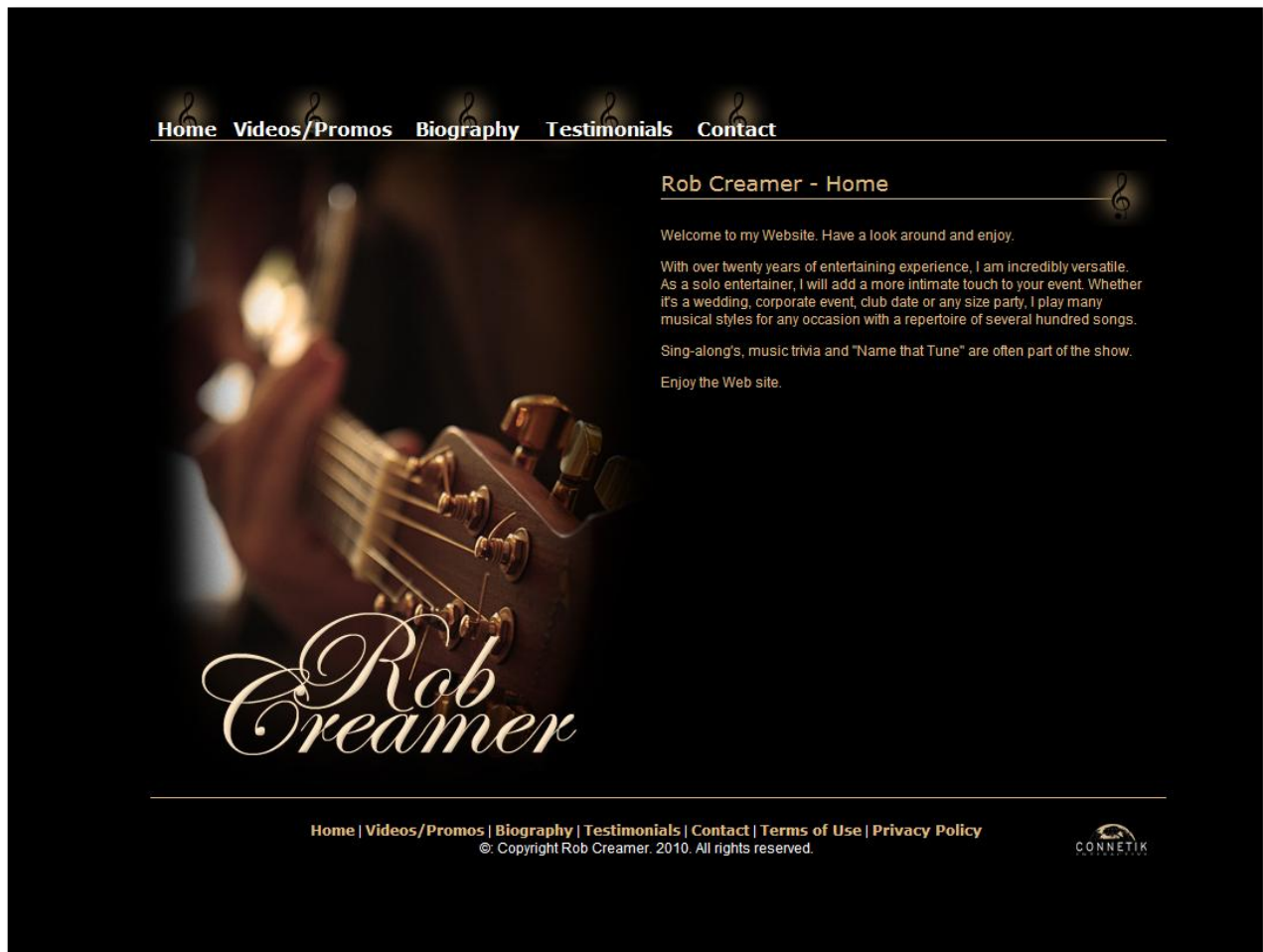
<sup>23</sup> Connetik follows standard industry practice for collection. Companies that demand payment in full prior to the completion of work are generally known to be "fly by night" Companies (here today, gone tomorrow). Industry norms include the extension of credit to clients for services or development work, which can create low cash-flow conditions.



## Appendix A

### Sample Connetik Webpage: Client Rob Creamer

Below was a webpage for one of Connetik's clients. This website was made for a musician based in Moncton. The page was simple, but offered viewers an opportunity to listen to sample music, hear reviews of the performer, as well as an opportunity to contact the proprietor.



## Appendix B

### Sample Connetik Webpage: Client Hart Realty

This webpage was an example of a page for a real estate company. The page offered viewers the opportunity to see the team members, see what properties were available, and even to see some of the featured homes that were possibilities to own.

**Hart Realty**  
Home The Hart Advantage Sales Team Our Partners Contact Us  
Current Listings Open Houses Featured Homes Developments

**We Do TURN KEY Homes!**

132 Mill Road, Moncton NB E1A 4A5 (506) 388-HART (4278)

**VISIT** Our Open Houses **OPEN HOUSE** View List

**VIEW** Our Listings Online Start Search

**FREE** Market Evaluation & Construction Consultation Make Request

**COME IN** And Visit! 132 Mill Road, Moncton NB

**Homes with HART!**

- ADVERTISEMENTS -

**Obtain a TD Canada Trust Mortgage Pre-approval and shop with confidence!**

**Get pre-approved today! To book an appointment call:**  
Tel (506) 878-0737  
Fax (506) 855-6020  
E: dan.romain@td.com

Dan Romain TD Canada Trust

**CDR Sandless**

Hart Realty Inc. is proud to be a locally owned and operated independent company in the Greater Moncton area.

We are located at 132 Mill Road in our beautifully renovated 1871 Heritage home. Our Heritage property was built by impeccable craftsmen who took pride in their work. We continue that tradition today.

## Appendix C

### Sample Connetik Webpage: Client Baths and Kitchens Unlimited

This page was constructed for a Bath and Kitchen company. It used contemporary, clean design which was reflective of the company. Clients could obtain information about the company, and well as browse through various photos for ideas and inspiration.

**Baths & Kitchens**  
unlimited

home  
about us  
• baths  
• kitchens  
services  
photo gallery  
faq  
contact us

View our bath products! [go](#)

Planning a new construction or renovation?  
Schedule a private consultation!  
**506.867.7640**

unique. original.  
**incomparable.**

Anyone who has ever watched even five minutes of home improvement television knows that bathrooms and kitchens not only sell houses, but with today's busy lifestyles are the most often renovated, most often updated and most often enjoyed rooms in the house.

**Baths & Kitchens Unlimited** specializes in fixtures and fittings for the kitchen and bath and displays a multitude of products for every taste and

With the help of the **expert staff** at Baths & Kitchens Unlimited, you can transform your bathroom into a personal oasis where you can relax and unwind.

If a **dream kitchen** is your desire, Baths & Kitchens Unlimited has everything to turn your dream into a beautiful, functional, delicious reality.

welcome

## Appendix D

### WebCura Capabilities<sup>24</sup>

**Cura (cure-a):** *The Latin word for management or administration*

WebCURA is a feature-packed web site CMS that allows you to manage every aspect of your web site and web marketing needs from one central location. Since it is a modular-based system, we can custom program any feature specific to your business.

#### Features include:

- Full featured content editing (text, images, links, voices, PDF, etc.)
- Online image resizer (allows you to resize your images without having to use complex image editing software to keep them small and loading quickly)
- Portfolio management system
- Product listing system
- Online coupon management system
- Photo gallery management system
- Blog management system
- E-Mail marketing management system
- Latest news auto propagate system (customized)
- Includes hosting of the web site / database
- Detailed web stats
- Integrates with ShopCURA for e-commerce
- Integrates with AppliCURA for secure application processing

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<sup>24</sup> [http://www.connetik.com/content\\_management\\_products.php](http://www.connetik.com/content_management_products.php)

**Appendix E**

**Connetik Comparative Income Statements**

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Revenue</b>				
Hosted Services	121,088	99,279	87,335	59,683
Webcura	59,208	39,305	25,200	21,077
Development Services	303,556	311,843	238,825	207,599
Misc. revenue	37,573	15,180	10,424	5,086
<b>Net Sales</b>	<b>521,425</b>	<b>465,607</b>	<b>361,784</b>	<b>293,445</b>
Other Revenue	101,466	24,072	5,473	17,179
<b>Total Revenue</b>	<b>622,891</b>	<b>489,679</b>	<b>367,257</b>	<b>310,624</b>
<b>Expenses</b>				
COGS	27,519	15,821	9,538	8,473
Payroll	305,632	258,544	246,267	142,153
General / Administrative	137,917	225,084	71,825	73,173
<b>Total Expenses</b>	<b>471,068</b>	<b>499,449</b>	<b>327,630</b>	<b>223,799</b>
<b>Net Income (Loss)</b>	<b>151,823</b>	<b>9,770</b>	<b>39,627</b>	<b>86,825</b>

## Appendix F

### Connetik Comparative Balance Sheets

	2009	2008	2007	2006
<b>Current Assets</b>				
Accounts Receivable	78,399	77,135	40,178	72,613
Cash	4,698	4,422	(3,750)	4,081
Bank	9,381	(6,804)	17,570	18,842
Allowance for Doubtful Acc	3,211	(2,803)	(1,730)	(1,730)
<b>Total Current Assets</b>	<b>95,689</b>	<b>71,950</b>	<b>52,268</b>	<b>93,806</b>
<b>Capital Assets</b>				
Net Equip and Software	48,756	42,937	36,755	22,856
Net Leaseholds	-	-	58,731	25,701
Building (Including depreciation)	330,303	347,582		
Land	54,155	54,155		
<b>Total Capital Assets</b>	<b>433,214</b>	<b>444,674</b>	<b>95,486</b>	<b>48,557</b>
<b>Total Assets</b>	<b>528,903</b>	<b>516,624</b>	<b>147,754</b>	<b>142,363</b>
<b>Current Liabilities</b>				
Accounts Payable	41,599	37,831	16,325	1,377
Corporate Tax Payable	6,221	(89,032)	5,988	4,279
Misc.	3,241	2,598	3,109	4,599
<b>Total Current Liabilities</b>	<b>51,061</b>	<b>(48,603)</b>	<b>25,422</b>	<b>10,255</b>
Building Loan	299,641	314,250	-	-
Loans from Shareholder	29,998	33,332	-	-
Misc.	9,337	10,321	29,241	17,917
<b>Total LT Liabilities</b>	<b>338,976</b>	<b>357,903</b>	<b>29,241</b>	<b>17,917</b>
<b>Total Liability</b>	<b>390,037</b>	<b>309,300</b>	<b>54,663</b>	<b>28,172</b>
<b>Total Equity</b>	<b>138,866</b>	<b>207,234</b>	<b>93,091</b>	<b>114,191</b>
<b>Total Liabilities &amp; Equity</b>	<b>528,903</b>	<b>516,534</b>	<b>147,754</b>	<b>142,363</b>

## EVALUATING OPPORTUNITIES FOR GROWTH: CONNETIK INTERACTIVE AND THE KITCHENER DECISION

### INSTRUCTOR'S MANUAL TO THE CASE

Decisions concerning growth are typically problematic for small and medium sized enterprises, given the often limited resources (financial, informational, etc.) possessed by such organizations. Connetik Interactive is a growing IT firm based in Moncton, N.B. that is presently facing an expansion decision.

#### Summary

*Evaluating Opportunities for Growth: Connetik Interactive and the Kitchener Decision* describes the history and operations of a Moncton-based internet marketing and software development firm. It explores owner Karl Roy's perspective on the company's positioning within the industry, and his conviction that the time has come to expand geographically. His choice is Kitchener, Ontario, and as such readers are challenged to consider the opportunity and Connetik's readiness to pursue it.

#### Case Objective

The objective of the case is to allow students to conduct environmental and other appropriate analysis to determine whether an expansion opportunity is appropriate at this stage of an I.T. firm's development.

#### Basic Pedagogy

This case would be suitable for an introductory or upper level management course.

- **Level:** undergraduate.
- **Position in the Course:** following a discussion of managerial decision making, environmental analysis, or diversification strategy.
- **Prerequisite Knowledge Required:** Students will require an understanding of basic financial principles, as well as various tools for environmental analysis (e.g. SWOT, Porter's Five Forces, etc.).

#### Research Methodology

The case is based on primary data collected from a personal interview with the company CEO, and secondary data from published sources. The narrative construction is historical, predating the decision for expansion within the business.

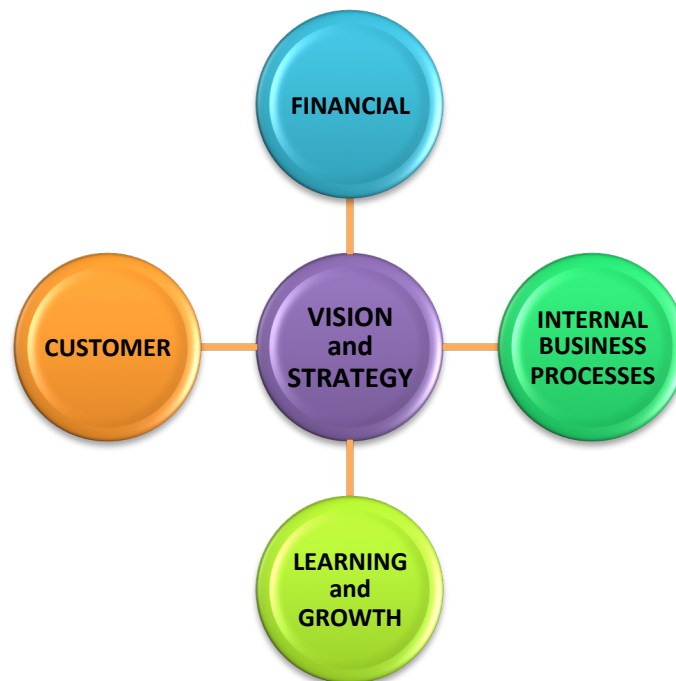
#### Key Issues

- Decision making
- Environmental assessment (situational awareness)

- Geographic expansion (diversification)
- Management of software development enterprises.

### Suggested Analysis / Theoretical Linkages

Instructors may draw upon a number of frameworks when using the case – one such tool appropriate to this case is the balanced scorecard.



The balanced scorecard examines Learning and Growth, Customer Satisfaction, Financial Indicators, and Internal business processes. Connetik is demonstrating the following characteristics in each category:

- *Learning and Growth:* the company has grown since its inception from two to twelve employees. Additionally, it has employed and developed new technologies and products, including the WebCura suite to make it competitive in the marketplace.
- *Customer:* Connetik takes pride in its ability to satisfy the customer. The personal touch and connection is very important to the firm, and it continues to maintain this ideal by its “inshoring” activities.
- *Financial:* with the information provided, there are several ratios that can help provide insight to the firm’s financial performance.



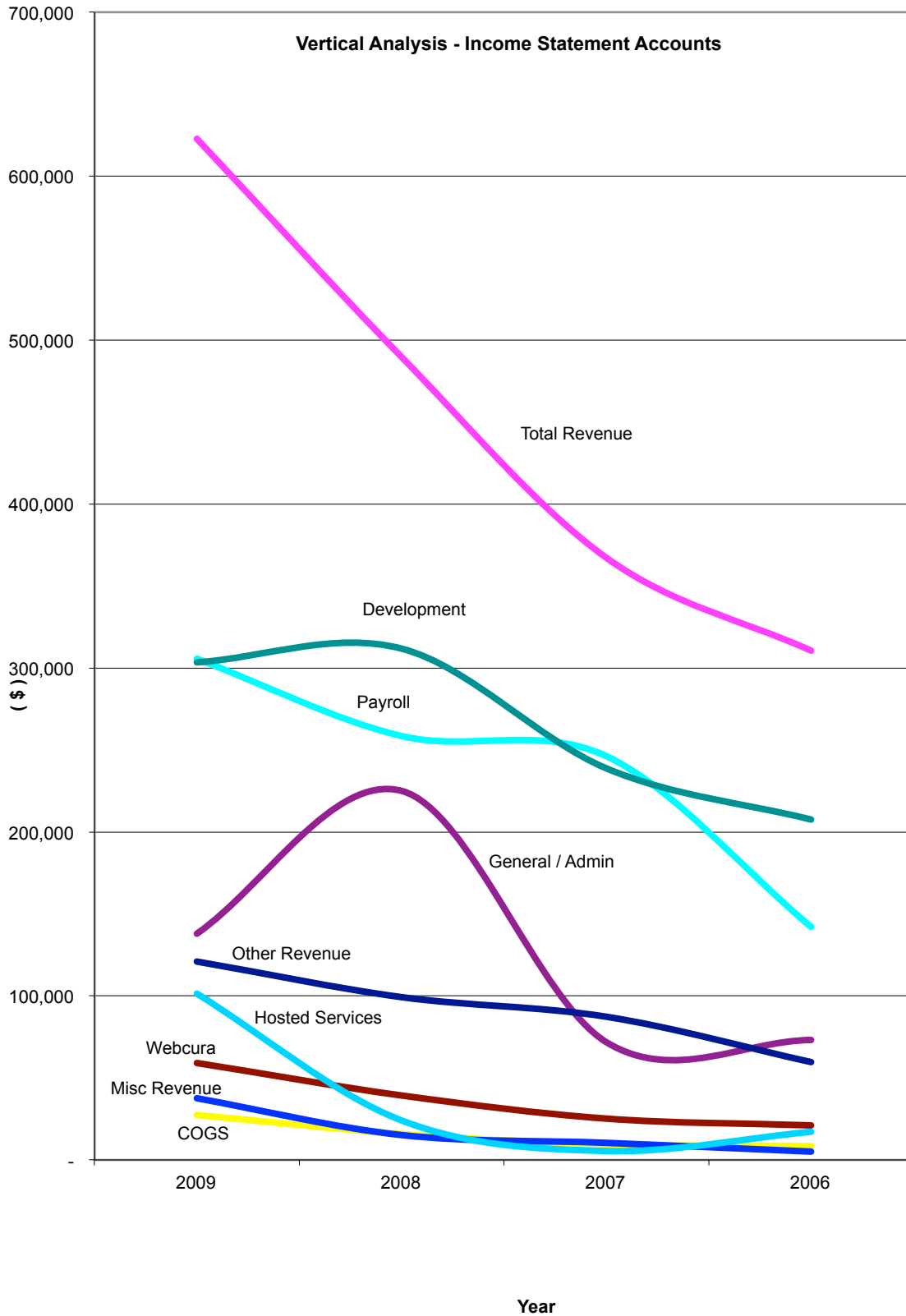
<b>Financial Ratios</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Profitability Ratios</b>				
Gross Margin (net sales-COGS)/net sales	0.95	0.97	0.97	0.97
Profit Margin Net Profit/Net Sales	0.29	(0.02)	0.11	0.30
Return On Assets Net income/Total Assets	0.29	(0.02)	0.27	0.61
<b>Liquidity Ratios</b>				
Current Ratio current assets/current liabilities	1.87	(1.48)	2.06	9.15
<b>Activity Ratios</b>				
Asset Turnover net sales/total assets	0.99	0.90	2.45	2.06
Receivables Conversion net sales/receivables x 365	2427.58	2203.24	3286.65	1475.04
<b>Leverage Ratios</b>				
Debt Ratio total liabilities/total assets	0.74	0.60	0.37	0.20
Debt to Equity LTD/OE	2.44	1.73	0.31	0.16

With respect to financial ratios, trends are fairly consistent across the board. The large credit on taxes payable in 2008 served to skew the current ratio. Also notable in 2006 is the high level on the current ratio, although Connetik seemed to smooth out the current ratio closer to a level of 2. With the purchase of the building in 2008, asset turnover does not reflect as favorably as it once did, although the short-term trend indicates that asset turnover will increase again. The firm appears to be in a worse position with respect to debt ratio, but the 2008 figure is misleading, again because of the large credit in tax payable. Indications seem to be that the firm is paying down its long term debt, retiring \$18,927 in long term liabilities from 2008-2009.

Students should consider the preparation of a cash flow statement to demonstrate Connetik's position. Once again the 2008 purchase of the building and land is noteworthy. As a point of interest as alluded to in the case, receivables collection can pose a problem for firms (such as Connetik) due to industry norms around payment. While not completely insignificant, it would seem that given the other factors in the cash flow statement, receivables are not a "make or break" factor for Connetik, thus indicating they are doing a suitable job in conversion.

**Connetik Interactive Cash Flow Statement**

<b>Period ending</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Net income</b>	<b>151,823</b>	<b>(9,770)</b>	<b>17,046</b>
<b>Operating activities, cash flows provided by or used in:</b>			
Depreciation and amortization	17,279	0	0
Adjustments to net income	-	-	-
Decrease (increase) in accounts receivable	(1,264)	(36,957)	32,435
Increase (decrease) in liabilities (A/P, taxes payable)	99,664		
Decrease (increase) in inventories	-	-	-
Increase (decrease) in other operating activities	-	-	-
<b>Net cash flow from operating activities</b>	<b>267,502</b>	<b>(46,727)</b>	<b>49,481</b>
<b>Investing activities, cash flows provided by or used in:</b>			
Equipment and Software	(5,819)	(6,182)	(13,899)
Building	-	(347,582)	-
Land		(54,155)	
<b>Net cash flows from investing activities</b>	<b>(5,819)</b>	<b>(407,919)</b>	<b>(13,899)</b>
<b>Financing activities, cash flows provided by or used in:</b>			
Increase (decrease) in debt			
Other cash flows from financing activities			
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>261,683</b>	<b>(454,646)</b>	<b>35,582</b>



As a point of further discussion, a vertical analysis of Connetik’s income statement is provided (previous page). As the graph demonstrates, as the company has grown there has been a

reasonably direct relationship between revenues and expenses. The one exception to this is in 2008, when General and Administration related expenses spiked, apparently an outlier that does not seem to undermine the supposition that the business is continuing to build in a positive growth.

- *Internal Business Process:* Connetik has gone through some growing pains. As noted it now has a process which goes from customer needs, travels through the organization to the team leaders, and back up the chain of command. This process is reportedly ensuring success with projects, and has refined the formerly disorganized practices.

Another analysis tool appropriate to this case is a SWOT analysis.



### Strengths

Connetik has a number of strengths. It has great software, its consulting services are utilized and enjoyed by numerous clients, it has good brand recognition within the marketplace, it has excellent technical skill (demonstrated by the “blue ocean”) and it has an excellent team whereby it is prepared for expansion. It has also greatly improved its accounts receivable collection practices within the last few years.

### Weaknesses

Connetik does not have many inherent weaknesses, other than perhaps some instability with addition of staff, as well as cash flow. Given the nature of the business, cash flow is likely one of the biggest internal factors that could inhibit the business.

### Opportunities

Connetik does have numerous opportunities, including expansion of their business model through sales offices, further product development, and further growth of the WebCura software with respect to market share.

## **Threats**

There are possible threats to the business, including the deconstruction of Connetik's source code for WebCura, and possible loss of business to offshore competitors.

## **Suggested Discussion Questions**

- 1. If you were Karl, in your efforts to expand your business and brand, would you franchise? Why, or why not?**
- 2. Connetik used a metric of location, operational cost, and market potential for its proposed expansion. Are there any other measures that would prove useful in examining a potential market for suitability?**

## **Suggested Responses**

- 1. If you were Karl, in your efforts to expand your business and brand, would you franchise? Why, or why not?**

While franchising would certainly provide a means by which the company could expand, it could be problematic. For instance, one thing that Connetik values highly is the personal touch of the business, and the reputation it has established. By franchising, the potential exists for detriment to the corporate name. Additionally, with franchising, quality could become an issue. All things considered, franchising does not appear to be the best option for expansion.

- 2. Connetik used a metric of location, operational cost, and market potential for its proposed expansion. Are there any other measures that would prove useful in examining a potential market for suitability?**

Connetik seemingly used a solid metric for determining the suitability of a new market. It understands its business, and its competition. By establishing a standard population size considered essential to the adequate support for the business, it was very easily able to identify other peripheral factors (such as operational cost) that made a good fit for the business.

## **Teaching Suggestions**

This case could be examined as an in-class assignment, allowing for some lively debate and exchange of ideas. By allowing students to first engage the material, and asking them to apply the concepts in the suggested analysis, as well as other analysis tools, the instructor could use this as a means of formative assessment.

The instructor could also use this as a means of summative assessment through student case analysis. This case could be used as an individual case, or in a group setting. An advantage for utilization within a group is it could allow for expansion of ideas for presentation.

## **Epilogue**

Karl decided to expand to Kitchener, and is in the process of continuing to develop the office there. Connetik has established a number of clients, and continues to work to secure a greater share of the local market.