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LETTER FROM THE EDITOR

As the African Journal of Corporate Governance Research (AJCGR) editor, it is my deepest gratitude to present to you the 2022 issue. The *AJCGR* provides an open-access platform for publishing peer-reviewed, high-quality impact and original manuscripts in the corporate governance field. In addition, the journal is committed to developing the science and practices of corporate governance in the African continent and the world at large.

The *AJCGR* thus provides an international platform that can be summarised as deeply concerned with promoting strategic global financial stability through embedding good corporate governance, enterprise risk management, and assurance.

The AJCGR covers the main corporate governance issues such as Board composition and practices, Board diversity, Control and regulation, Corporate ethics, Corporate social responsibility, Disclosure and transparency, Leadership, SME governance, NGO governance, State-Owned Entities Governance, Governance in the public sector, Regulation and practices, Risk management and assurance, IT governance, Computer Auditing, integrated reporting, Shareholder activism, Sustainability accounting and reporting, Taxation for sustainable governance, Taxation and business survival and Business tax risk management.

We are looking forward to having another issue in 2023.

Best wishes,
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KEY CHALLENGES BLACK PROSPECTIVE CHARTERED ACCOUNTANTS CONTINUE TO FACE: A LITERATURE REVIEW

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Abstract

One of the South African Institute of Chartered Accountants (SAICA)'s goals is to reduce inequalities. However, the country is currently experiencing a shortage of chartered accountants (CAs) and from the few CAs registered with SAICA, only a minority are black CAs. This has raised cause for concern as it shows that the goal to reduce inequality is further from being achieved. This study aims to identify the factors that have led to such concerns as well as the effectiveness of the actions taken by SAICA, employers, and universities to alleviate them. The study also provides further recommendations on actions to be taken to further improve the success of blacks towards qualifying as chartered accountants. A systematic literature review was undertaken to critically investigate the key challenges faced by prospective black CAs as well as the actions taken to address them. The methodology used consisted of critical document analysis of published articles, journals, dissertations, news reports, as well as news interviews. This study also considers factors such as the Fourth Industrial Revolution as well as the COVID-19 pandemic which were not fully investigated in previous studies undertaken. The main findings obtained identify that the key factors affecting black students include a variety of obstacles ranging from interpersonal to external factors. The student/trainee's background including their foundation of education, home environment, and exposure stood out as the most relevant factors as they had an impact on the other challenges. The study's results also show that despite the continued existence of the challenges, recognisable progress has been made over the past few years.

Keywords: SAICA, Blacks, Education, Chartered accountant, Accounting, Trainee.

1. BACKGROUND AND INTRODUCTION

Throughout the years, multiple research studies have been published identifying challenges faced by students as they journey toward qualifying as chartered accountants. Most of these studies focused on the factors affecting the student's academic performance, while some focused on the challenges faced by students as they transition from one stage of the journey to another. Only a few of these studies focused on the challenges faced by black students in particular, and of those, only a few focused on the full chartered accountancy journey and not just one stage of it.

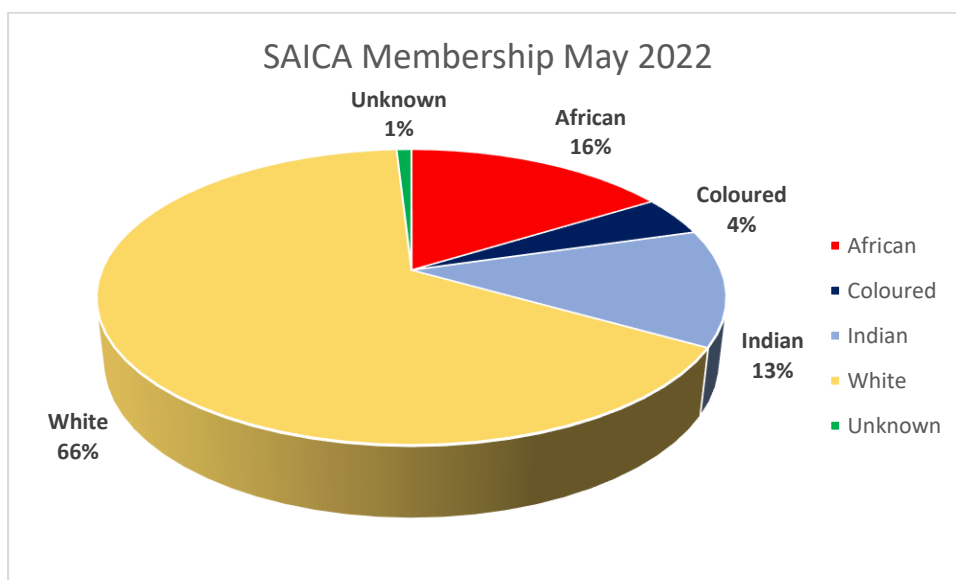
Chartered Accountants play an important role in South Africa. The South African Institute of Chartered Accountants (hereafter referred to as SAICA) is responsible for the training of Chartered Accountants

in South Africa. The Chartered Accountancy profession is very prestigious with CAs(SA) holding high-ranking positions in both the public and private sectors. The Chief Financial Officers of 74% of the Johannesburg Stock Exchange's Top 200 companies are registered CAs(SA), while a third of the Top 40 Chief Executive Officers are CAs(SA) (SAICA, 2020). The CA(SA) designation promises a great career for anyone who qualifies. CAs (SA) are also able to work within any industry they choose, thereby being able to provide more job opportunities and contributing to making South Africa a better place.

Up until its independence, South Africa was governed by Apartheid laws aimed at separating whites and blacks in all aspects. Almost 3 decades later, the country is still suffering from the aftermath of such laws. In March 2022, a study by a Washington-based institution revealed that South Africa is the most unequal country in the world with race being considered as the determining factor. The white population (10%) was identified as owning more than 80% of the wealth in the country (ALJAZEERA, 2022).

Most of SAICA's goals seek to close the gap caused by Apartheid by reducing inequalities. SAICA seeks to do so by reducing income inequalities, promoting inclusion, ending discrimination, and encouraging development and investment in the country (SAICA, 2022). The most recent South African Census (2011) reveals that black Africans make up the majority (79.2%) of the country's population (Statistics South Africa, 2012). In order for SAICA to meet its goals, it needs to produce majority of black chartered accountants. However, this is not the case.

Figure 1: Pie Chart Depiction of the SAICA CA(SA) Membership Statistics



Source: Author's Analysis

South Africa is currently experiencing a shortage of chartered accountants. As of May 2022, the SAICA's membership statistics reveal that there are a total of 50 325 registered chartered accountants with only 17 183 (34.14%) being blacks (SAICA, 2022). White chartered accountants make up 65.85% of the members. The pass rates of black candidates in the qualifying board exams have also been alarming. This shows that SAICA is not anywhere near accomplishing its goals but is instead moving further backward. This brings about a need to investigate the causes of such to help alleviate them.

The purpose of this study is:

- to identify the key challenges still faced by black prospective chartered accountants on their journey toward being a CA(SA);
- to critically analyse each challenge identified and its accuracy; and
- to provide recommendations to SAICA, employers, educators, and anyone else committed to the cause on how such challenges could be addressed.

According to the Broad-Based Black Economic Empowerment Act of 2003, "black people" is a generic term that means black Africans, Coloureds, and Indians. This study uses the term "black" in the same context.

2. LITERATURE REVIEW

Multiple studies have been done to identify challenges faced by students on their journey toward a CA(SA) qualification. Only a few studies have focused on the black population in particular. Throughout the years, with the emergence of the Fourth Industrial Revolution (4IR) and the impact of the COVID-19 pandemic, newer challenges have emerged. These challenges need to be identified and potential solutions provided, to help SAICA, employers, and educators to support black students on their CA journey (Van Wyk, 2011).

In a study conducted by Van Wyk (2011), several factors were identified as affecting the accounting examination success of students. Accounting examination success is very vital to qualifying as a chartered accountant with SAICA as they examine your competence. However, the study was focused on all students and not just black students. Thereby, leaving out certain factors that are only faced by black students. Boshoff and Carstens (2003) investigated the impact of apartheid on the CA profession. Although their study only identified challenges leading up to 2001, most are still relevant and evident to date. Wiese (2006) further identified more challenges faced by black students.

All the challenges that were identified and on which this study will focus are:

- Academic background;
- Language;
- Inadequate Support;

- Adaptability to change; and
- Other identified factors.

The following sections of this study will critically analyse the identified challenges, as well as clearly explain their effect on the students.

a. Academic Backgrounds

Boshoff and Carstens (2003) found that the education black students are subject to from a foundation stage is not sufficient enough to properly prepare them for tertiary education. This factor was also identified by Byrne and Flood (2008), who stated that students are more likely to perform well in first-year university accounting courses if they have the right level of expectation and preparation from high school.

Factors that also affect students' high school performance include the school's culture and management, the qualification of teachers, resources, as well as the involvement of the parents in their schoolwork (Hendriks & Dunn, 2021).

In her study, Van Wyk (2011) concludes that candidates who attained their undergraduate degrees within the allotted time were more likely to pass SAICA's Initial Test of Competence (ITC) board exam. She further states that those who take longer than one year (especially longer than two years) to complete their Certificate in the Theory of Accounting (CTA) are more likely to find the board exam challenging.

2.1 Language

Multiple studies have identified that students tend to do poorly when not examined in their first language. Van Wyk (2011) found that students with English or Afrikaans as their first language had a higher success rate than those with a different first language.

Another study by Wiese (2006) revealed that regardless of Van Wyk's findings, black students would still rather write the board exams in English than in their first language. The study also argued against a statement made by SAICA, that black trainee accountants find it difficult to articulate their thoughts in a language that is not their first language.

2.2 Inadequate Support

Different forms of support have been identified throughout different research studies. In 2021, South African universities had a high dropout rate of almost 60% (Fundi Connect, 2021). The time taken to complete qualifications is also longer than the allotted time. Only around 5% of black students obtain a bachelor's degree after matric (South African Market Insights, 2020). Black students struggle to complete or do well in their university studies and qualifying board exams due to a lack of support such as emotional, financial, as well as study guidance. Parker (2010) also identified an unsupportive home environment as a factor.

2.3 Adaptability to Change

The CA journey is a long and rigorous one. It also requires one to be able to adapt to each of the changes required along the way. One of these changes is transitioning from high school to university. Most black students struggle with this as it introduces a whole new environment from what they are used to. The Covid-19 pandemic has also made it even more challenging as universities have moved towards a more hybrid form of learning.

Another change identified in previous studies is the transition into the corporate world. Wiese (2006) found that most black trainee accountants lack social skills and then concluded that this was a result of being brought up with a different set of cultural values compared to most white people.

2.4 Other Identified Factors

In an interview with Newsroom Afrika in May 2021, SAICA's Executive Director Robert Zwane stated that not much support is provided to black students by institutions. Funding for tuition and food allowances is not enough, more needs to be done. In the same interview, Advancement of Black Accountants of SA (ABASA)'s national Head of Education, Chuma Mjali stated that the biggest challenge faced was that black students do not get appropriate exposure. Firms also provide vacation work programmes to help provide students with a taste of what their lives would be like once they complete studying, as well as to help them be work ready. However, the selection criteria for some of these programmes seem to pose a challenge to previously disadvantaged students due to the nature of questioning.

Another challenge that was identified has to do with board examination performance. Roos (2009) found that attending a board course had a significant impact on how well one performed on a board exam. Results were further supported by Van Wyk (2011). The study also found that first-time candidates were more likely to pass the ITC and that the chances of passing decreased as the number of attempts increased. Another factor that was also identified to play an effect here, was age. The younger candidates were more likely to be successful.

The Assessment of Professional Competence (APC) is the final CA qualifying board exam that is assessed in the form of a business case study. The case study is based on a complex real-life business scenario (SAICA, 2022).

These case studies are as complex as possible. They require one to be able to understand all forms of business practices in existence. This is a challenge to most candidates who have not been fully exposed to certain industries or business practices. Most firms pay board course fees for their trainees to get preparations for such, however, they only pay for your first attempt towards the exam. Should one fail, one will have to pay hefty fees themselves to repeat the course. This becomes more challenging as at that stage, the chances of passing are lower as it is now the second attempt.

Despite the existence of such challenges, a slow but steady improvement in the SAICA membership statistics can be recognized.

Figure 2: Tabular depiction of SAICA membership growth from May 2019 to May 2022

Population	May 2019	May 2022	% Of Growth
African	6104	8143	33.40%
Coloured	1782	2175	22.05%
Indian	5419	6406	18.21%
White	31657	33141	4.69%
Unknown	371	459	23.72%
Total	45333	50324	11.01%

Source: Author's analysis

Although blacks (as defined in the BBBEE Act) are still the minority group, progress in the growth numbers is evident. This could indicate that a few of the challenges faced in the past have been addressed. In just 3 years, the number of registered black CAs(SA) has increased.

3. RESEARCH METHODOLOGY

3.1 Discussion of Methodology Selected

A research method is a process of data collection to uncover new information or create a better understanding of a topic (University of Newcastle Library Guides, 2022). Research methodology, however, is the justification of how the researcher used a particular research method and how the study was designed to ensure it produced valid and reliable results while fulfilling the study's purpose and aim (Jansen & Warren, 2020).

The purpose of this study was to investigate and critically analyse the key challenges affecting black prospective chartered accountants on their journey towards being a CA(SA) as well as provide recommendations on alleviating them. To better understand and interpret such challenges, a qualitative research approach in the form of document analysis was conducted.

Qualitative research aims to understand the existence of a social phenomenon and give meaning to its reality (McLeod, 2019). It makes use of non-numerical, descriptive, exploratory, and narrative methods. This approach seeks to answer the questions, of "how" and "why" the phenomenon exists. The selection of this approach was influenced by the purpose of this research study. By answering the "how" and "why" the key challenges affecting black prospective chartered accountants exist, a critical analysis can be made, and recommendations formulated.

Document analysis is a form of qualitative research in which the researcher reviews and evaluates already existing material to provide meaning and interpretation around a specific topic (Bowen, 2009). This provides researchers with a wide variety of texts to look at to provide great quality research (NVivo Blog, 2020). A document analysis was used to gather the challenges previously identified through former studies to evaluate their accuracy as well as the progress that has been made since the publication of such studies. Another reason the document analysis was used is that previous studies conducted on similar topics provided data that extended beyond my reach, thereby providing me with access to information collected from a variety of places.

A qualitative document analysis research approach was the most suitable method to fulfil the purpose of this study.

3.2 Research Design and Data Collection Process

The sources used to collect data for this study were all obtained from publicly available sources. No alterations were made. As the primary focus of this study was on the challenges faced by blacks, the sources selected were those that primarily dealt with the previously disadvantaged population. Sources selected date from the beginning of South Africa's democracy (the end of Apartheid laws) to date. This was done so to evaluate the progress made from then to now on challenges evident in such findings. The data collected from each source was compared to data from the other sources to identify challenges that stand out as key challenges. The findings of this study were then compared to the conclusions made on such key challenges in the previous studies to develop a description of the challenges and provide some recommendations to SAICA, educators, and employers seeking to promote equity within the CA profession. Section 4.5.2 makes mention of a TOPP training firm but makes no mention of the name of such a firm. This was done so to protect the identity of the firm.

4. EMPIRICAL FINDINGS

The following sections will present the finding on each of the identified key challenges.

4.1 Academic Background

Due to the Apartheid laws which were aimed at separating blacks and whites, black education was treated differently from white education. The amount of funding given to black schools was less than the amount given to white schools. This resulted in there being inadequate resources in black schools, which due to the high number of the black population, were overcrowded. On average, the teacher-pupil ratios were 1:39 in black schools, 1:24 in Asian schools, 1:27 in coloured schools, and 1:18 in white schools (Ocampo, 2004). The state of South African public schools is still to fully recover from such.

The South African school system is one of the most unequal systems in the world (Sterne, 2021). Based on the Department of Education's 2018 statistics, of the 23471 public schools in the country, 85.51% have no laboratories, 76.77% have no library, 71.99% have no internet, 1.02% have no electricity, and

0.16% have no sanitation. The schools still lack resources and appropriate funding. Due to their locations and free-to-cheap tuition fees, public schools are predominantly black.

When comparing the findings of Boshoff and Carstens (2003), Byrne and Flood (2008), Hendriks and Dunn (2021), and Van Wyk (2011), it appears that the academic background of a student from as early as primary school can impact their success on the professional board exam. Based on the above-mentioned studies, it appears that black students will be more likely to succeed in passing their ITC board exam if they had a solid academic background. A common consensus exists among the findings, revealing that success in a board exam is impacted by success in tertiary education performance, which is also impacted by the level of preparation provided by high school education.

Looking at all this, it all goes back to the foundation level education. Black students with inferior primary and high school education are not as properly equipped for the CA journey, this is a challenge that needs to be addressed in the preparation of future black students to undergo the journey.

Throughout the years, multiple initiatives such as SAICA's Thuthuka have been launched to help university students cover the effects of inferior education. Thuthuka came into existence in 2002 and has created over 1400 qualified CAs(SA) since then (SAICA, 2022). This indicates that progress has been made since its introduction.

4.2 Language

It is not completely surprising that black candidates would rather be examined in English instead of their first language. There are schools in South Africa that still offer Afrikaans as a language of instruction. For example, Stellenbosch University offers courses in Afrikaans, English, and IsiXhosa.

Making the SAICA board exams available in other languages as well will not do much good at this point. For such to provide a change, candidates will need to be trained to learn their first languages right from the beginning. If most schools and universities in South Africa offered classes in other local languages, it could result in the students performing better, as research has shown that students tend to do well when examined in their first language.

Had the respondents in the study conducted by Wiese (2006) been offered their education in their first language right from the basic stages, there are great chances that they would have stated that they would prefer to write the board exams in their first language and not in English.

4.3 Inadequate Support

Most black students come from low socio-economic backgrounds where they assume a lot of responsibility within their households. Research has also shown that most black students who are first-generation graduates hardly get much support from family. The factors that have been identified to cause this include their families not having a clear understanding of the purpose of education and also

not being able to provide any form of support. Most students rely on the National Student Financial Aid Scheme (NSFAS) for the funding of their tertiary education. NSFAS does not fund postgraduate qualifications which usually results in students who do not qualify for other bursaries and scholarships, opting to get employment after obtaining an undergraduate qualification and registering with UNISA for their CTA studies. As this option allows them to work while studying part-time.

Most black parents do not understand the purpose of a postgraduate qualification when studying towards a CA qualification. Once the student graduates with a bachelor's degree, they assume the student is ready to work and provide for them.

With the hard lockdown in March 2020, universities had to close, sending all students in university residences home in the process. The lockdown which was initially intended to be a few weeks was extended countless times. Universities then resorted to online learning to save the academic year. Mostly, black students felt the effect of this the most. Having to move back home during a nationwide lockdown and study from there was a huge challenge. It was even harder for students from rural areas with bad network reception, as well as those living in overcrowded homes.

The CA journey is one rigorous one. It can take a toll on an individual. Emotional and mental support is very vital. For one to be able to provide you with this, they need to know that you need it. It is difficult to know what someone needs unless you understand what they are going through. Most black students do not have such as they come from families who have no idea what it is they endure. This is another challenge that is valid and needs to be addressed.

4.4 Adaptability to Change

A quote from American writer, Alvin Toffler goes, “The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn and relearn.”

Change is a constant part of our lives. As the above quote states, the 21st century requires one to be able to unlearn their old ways and relearn the new ways. A lot of students struggle with this. The minimum requirements for a CA-stream bachelor's degree require one to achieve a minimum of 60% in Mathematics (SAICA, 2020). This indicates that one needs to be good at mathematics to gain admission into a CA bachelor's degree. Everyone studying towards a Bachelor of Accounting Science degree obtained a good mark in mathematics, a subject deemed to be one of the most difficult subjects in school. These students have learned their way around getting a good understanding in high school. The problem then arises when those students arrive at university and fail to unlearn their ways of grasping high school content and relearn the new ways of understanding university-level content.

This is another identified challenge affecting black students. Universities provide a completely new environment from the one they have been trained in and are used to. With the emergence of the fourth

industrial revolution (4IR), universities have been continuously taking steps to ensure the readiness of their students for a 4IR-intensive workplace. Most black students are introduced to gadgets such as laptops for the first time in such settings. Having to learn how to be familiar with them while already having to use them as classes will have progress poses a challenge to most.

In 2020, the country faced a nationwide shutdown which led to universities such as the University of Johannesburg introducing online learning. Two years later, the university has now adopted what is called hybrid learning. Classes are offered both online and in person. Black students feel the effects of such changes the most as most of them have not been previously exposed to such as compared to white students.

The process of unlearning and relearning becomes applicable again after graduation and once within the workplace. Another challenge is posed here as cultural differences come into play. As discussed above, the CA profession is white-dominated. Black trainee accountants are brought out of their comfort zone which results in a lack of confidence and social skills. Research findings show that most black trainees prefer not to attend social functions organised by their firms as the setting is uncomfortable for them. This affects their ability to interact with their colleagues and work well in teamwork situations, which are frequent in the accounting business. This once again poses another challenge.

4.5 Other Identified Factors

4.5.1 Exposure

Knowledge of the CA profession has not been as widely spread as SAICA intends for it to be. There are a lot of students in high school who study Accounting with Mathematics Literacy instead of Mathematics and get to university to find that they will have to bridge or take an extended course despite excelling in their grade 12 studies. Most black students from rural areas do not know what a CA is (Zwane & Mjali, 2021). While most white students know one or two chartered accountants in their lives and can seek guidance and mentorship, that is not available to most black students.

Students tend to do well in their university studies when they have the right preparation (Byrne & Flood, 2008). It poses a challenge if students do not know about the profession they venture into as they will not know how to prepare for it.

4.5.2 Vacation and Work Readiness Programmes

Firms launched initiatives to address imbalances of the past (Boshoff & Carstens, 2003). These include mentorship programmes and vacation work. Vacation work positions are also intended at offering students an experience of being in the actual firm and seeing how the work they learned at school can be put to use in a real-life situation.

One of the TOPP training offices has a vacation work programme that seems to have a disadvantageous application process. The firm requires you to provide a character analysis of the character you relate with from the Nickelodeon TV show, Spongebob Squarepants. Previously disadvantaged students who never had access to DStv shows, would not be able to provide an answer to that question. The question has a field presence check therefore there is no way to move on to the next stage without providing an answer to the question.

Such selection criteria that refer to items not everyone had an opportunity to have access to opens a gap that should be in actuality closed.

4.5.3 Board Course Attendance

Attending a board course is very important in the determination of a candidate's success in the ITC and APC board exams. APC case studies are based on actual business practices. For example, a past case study required candidates to formulate substantive procedures to use to obtain audit evidence on an airport checking-in system.

Such a question requires one to be able to understand how such a system works. They need to be able to know what checking into a flight entails. Someone who has never seen the inside of an airport before will not be able to formulate such procedures. Therefore, this will lead to them being deemed incompetent and failing the exam.

This then results in them having to take on another board course class at their own expense as should they not be able to take it, their chances of passing are low. Such poses a challenge to most black people who have not had the privilege of experiencing certain industries and business studies.

Another question that arises is, what could cause one to pass their bachelor's and honour's degrees but fail their board exam? Clearly, for someone to get admission into writing the board exam, they would have passed their CTA as it is a prerequisite.

Through research, my findings have shown that board exams are set by different lecturers from different universities and then one is randomly selected to be the main exam. When students get too comfortable with a certain lecturer's way of testing, it limits them to all the other possible ways a question could be tested. This results in them being caught by surprise in the actual exam and failing to answer appropriately.

5. RECOMMENDATIONS

To address the challenge of inferior education backgrounds, I would recommend that universities should work towards identifying students from previously disadvantaged backgrounds and offering them assistance with guidance or tutorship programmes that are specifically aimed at helping them settle into university. SAICA and employers should also take the initiatives to invest in their future employees

from the foundation phases. They could aid in school education. Perhaps, fund the provision of university preparatory classes.

The state of public schools is in dire need of assistance. Entities and individuals who seek to promote equity within South Africa could play a role by “adopting” a school and aiding where needed. The impact of Apartheid on education will not be fully resolved in such a short time, it will take quite a while for that.

IsiZulu and IsiXhosa are two of the most popular languages in South Africa, with a combined 38.7% of the population having it as a first language (Statistics South Africa, 2012). These two languages could be introduced as available languages of instruction in schools to help promote the development of learners. Should this be successful, more languages could be introduced as well. The languages will need to be made available from as early as grade R.

Black students need to be provided with more support than just financial support. The financial support needs to come with financial literacy support as well as programmes that provide emotional support. SAICA, bursaries, and universities should offer more mentorship programmes as well as motivational talks or seminars from people from similar backgrounds who have made it as chartered accountants. There is room for more investigation into the areas of support that black students need to be provided with.

Universities should pay special attention to students from previously disadvantaged backgrounds and perhaps have a programme in place to help them get settled in the environment. Universities should also promote random teams and group projects that encourage diversity. Groups where students are randomly allocated into groups. This avoids students from working in the same groups all the time. It also develops interpersonal skills within the individuals, thereby better preparing the students for future work environments with people from diverse backgrounds.

Firms should also promote the attendance of workshops and work functions where black students can get to know their white colleagues. Workshops should also be arranged where the focus is made on the different cultures and all counterparts educated on each culture. More diversity in work projects and audit teams should also be encouraged. Firms should have a system in place that allocates a diverse group of employees into one group.

SAICA, firms, and other accountancy boards such as ABASA, should promote the CA profession throughout the country. More talks, public speaking, and general endorsement of the profession should be made. They need to visit schools in rural areas as well to provide black students in those areas with exposure to the profession.

Firms need to be more sensitive to students from previously disadvantaged backgrounds. Vacation work programmes provide a great opportunity for students; therefore, every student deserves a fair chance towards such. Firms should revise their selection criteria and their requirements to better provide a chance to black students. All firms should open their doors to every applicant regardless of whether or not they are fluent in Afrikaans or drive their car.

SAICA should be more sensitive to its candidates in the way it examines its board exams. Case studies should incorporate relatable scenarios for everyone.

6. CONCLUSION AND LIMITATIONS

This study was aimed at identifying key challenges affecting black prospective chartered accountants on their CA journey. This was done to analyse the impact and accuracy of such challenges. The study further made recommendations on which such challenges could be alleviated. The main finding of this study was that the key challenges affecting black prospective chartered accountants are their academic background, language, adaptability to change, exposure to the CA profession, as well as external factors such as firm requirements and board examination methods of assessment.

The study also shows that there has been growth in the number of registered CAs(SA) over the past 3 years. With the growth rate of Africans being at 33.40%, Coloureds at 22.05% and Indians at 18.21%

An important limitation of this study was that due to time constraints, first-hand material through interviews and surveys could not be obtained. The membership statistics on SAICA's website do not go beyond 2019, which posed another limitation to the study. The list of identified challenges is not exhaustive and therefore, there is room for further research on the challenges experienced by blacks on their CA journey.

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ANALYSING THE JOURNEY OF REVENUE AUTHORITIES IN THE COMMONWEALTH REALM ON BECOMING 4IR-CENTRIC: WITH A FOCUS ON SOUTH AFRICA

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Abstract

The Fourth Industrial Revolution brought forth a technological wave rushing through the norms of industries. As new technologies and discoveries emerge, so does the need to adapt to changes and improve the way we do things. Revenue authorities worldwide have begun implementing 4IR technologies, such as the SARS Vision 2024 plan, into their systems and processes. This research paper attempts to illustrate some of these technologies, with brief descriptions, through an analysis of the various documents issued by these Revenue authorities. In line with limitations applied to this scope, this paper shall analyse a sample of Commonwealth countries due to similarities with the South African tax laws. This paper has found in the selection that all countries have invested extensively in 4IR technologies, with a significant focus on automation and Big Data analytical capabilities. A focus on improving their interactions with taxpayers has also seen positive improvements. The findings support the purpose by describing interesting features of the positive effects of 4IR integration, together with supporting figures. This paper sets out the methodology for gathering data by outlining the document analysis research method follows, as well as the various steps that went into sampling the list of Commonwealth countries and issued reports that served as the foundations of this paper. The paper concludes by emphasising the importance and positive impacts of 4IR and also attempts to briefly highlight the importance of a balanced and complete view of the effects of 4IR by making mention of interesting propositions of changes to tax legislation that Revenue authorities should consider in a 4IR-world.

Keywords: Fourth Industrial Revolution, 4IR, Revenue Authorities, SARS, Automation, Technologies, Cloud computing, Big data analytics, Blockchain, Machine learning, Artificial intelligence, Commonwealth.

1. INTRODUCTION

The etymology of the word “revolution” plants its roots in Late Latin “revolutio”, which translates to “a turn-around”. This is symbolic of the change that time has been subjected to undergo. Change, which resulted in the First Industrial Revolution characterised by the invention of steam-powered engines and mass-production factories. In its constant nature, change brought the Second and Third Industrial

Revolutions characterised by discoveries from electric power and industrial inventions to the introduction of the Digital Age (Górka, 2021).

As we evolve, it is the nature of civilisations to raise questions about how things were done and how they could be done better. The curiosity to question inspires creativity, and creativity inspires the new. This is embodied in a quote by British historian Arnold Toynbee, who once said, “the nature of the breakdowns of civilisations can be summed up in three points: a failure of creative power in the minority, an answering withdrawal of mimesis on the part of the majority, and a consequent loss of social unity in the society as a whole”. This quote by Toynbee points out how society will continue to question lest they face their breakdown, and so we find ourselves at the onset of the Fourth Industrial Revolution (hereafter, 4IR).

The Fourth Industrial Revolution has brought forth a technological wave with the potential to disrupt and change every business process, the intricacies of economic systems, and the way individuals in a particular profession perform their various duties. This wave has washed away the old ways of doing business and how humans interact with others in social settings and interact with their “metallic counterparts” in their private lives.

There are numerous 4IR technologies worth mentioning that either possess the current ability or potential to bring change. Globalisation has seen its expansion due to the advancement of the Internet and the incorporation of the Internet of Things (IoT). The interconnectivity resulting from IoT has connected people to machines and machines to machines allowing for greater efficiency in, for example, the automation of manufacturing plants and the convenience of smart homes. As our lives become more digitised, Big Data analytics has become a valuable tool for extracting and analysing large amounts of information. Blockchain and its ground-breaking principles of a decentralised, distributed ledger are on their way toward potentially changing the way audits are conducted in the future. Cloud computing has made large amounts of data accessible anywhere in the world. Artificial Intelligence (AI) and machine learning have made leaps and bounds in automating many internal administrative processes in businesses. Other notable technologies include self-driving cars, drone technology for logistics or area surveyance, quantum computing, and advanced robotics in the manufacturing and health industry.

4IR casts a wide net over many areas of society, and as such, Revenue authorities worldwide have begun to implement 4IR technologies into their systems. The catalyst of this paper is attributed to the ‘SARS VISION 2024’ plan. VISION 2024 is a strategic five-year plan announced by the South African Revenue Service (SARS) in February 2020, aiming to rebuild the taxation system in South Africa into a “smart and modern organisation with unquestionable integrity, trusted by government, the public and our international peers”. This strategic plan raises the question, “What about other Revenue Authorities around the globe?” giving birth to the purpose of this research paper.

2. PURPOSE, SCOPE, AND LIMITATIONS

The purpose of this research paper is to analyse a series of documents to illustrate a timeline of events that successfully depicts how revenue authorities around the globe have evolved their taxation systems to become 4IR-centric.

The above statement shall be broken down into subtopics addressing the following branches of the above main purpose:

- Analysis of SARS-issued annual reports and plans. The outcome is to map a timeline of events and decisions taken by SARS in its transition from its old strategy to the current dynamic, 4IR-relevant strategy.
- To expand on the above analysis into other regions around the globe. The outcome is to provide a brief descriptive analysis of 4IR technologies employed by other revenue authorities.
- To conclude that 4IR has and can significantly change how taxes are administered.

The scope of this research paper mainly consists of two topics, namely, the Fourth Industrial Revolution and Revenue Authorities around the globe.

The limitations present in the scope are as follows:

- Regarding revenue authorities, the paper limits the Study to countries that are part of the Commonwealth.
- Of the Commonwealth countries, a further limitation will be applied to the Study and will only consider South Africa, the UK, New Zealand, Australia, India, and Canada.
- Contrary to the above point, the Study of India has been omitted from this report after final considerations. Difficulty in gathering data was experienced. The taxing structure of India is broken down into multiple departments, which made it difficult for me to collect accurate annual reports. It is also observable that the country's official language is Hindi, as opposed to the typical usage of English in the rest of the sample of countries. This made it challenging to gather articles as an alternative to annual reports.
- The analysis of annual reports shall be limited to those last issued within a reasonable time before the deadline date that would allow for a detailed analysis, e.g., the SARS annual report of 2022 was not utilised in the analysis due to its unavailability.
- The Study of reports issued includes limitations such as sensitive information, in line with tax administration laws, that have been subsequently redacted from public disclosure. Additionally, due to some documents being approximately 400 pages, there is a slight chance that

technologies might have been unintentionally omitted from the tables. This is due to difficulties experienced in analysing multiple and large documents.

3. LITERATURE REVIEW

3.1 SOUTH AFRICA - SARS VISION 2024

3.1.1 Background

The South African Revenue Service (SARS) is the sole revenue authority that holds dominion over tax collection in South Africa. The company's affairs are governed by the SARS Act of 1997, allowing it to function as “an organ of the state within the public administration, but as an institution outside the public service”. Its policies are designed by the National Treasury and under the effective control of the Minister of Finance.

The Revenue Authority has undergone many significant changes over the years. It underwent a restructuring in 1994 during the post-apartheid era. In the year 2000, the electronic filing system for tax returns of SA citizens was launched by certain private companies. This fee-based model was later changed and relaunched by the SARS commission in 2003 as a free service. SARS continued to outsource internal updates/upgrades to the system until 2010, which the company later internalised in 2015.

3.1.2 Technologies Integrated into the SARS Tax System

SOURCE <i>WITH COMMENTS</i>	TECHNOLOGY UTILISED	DESCRIPTION
OLD STRATEGY		
2015 Annual report	<ul style="list-style-type: none"> Continued use of SARS e-filing and upgrades 	<ul style="list-style-type: none"> Facilitate electronic submissions of tax returns, enable taxpayers to register a trading name online from an extensive list of choices, and allows taxpayers to consolidate details of their tax products without visiting a branch.
	<ul style="list-style-type: none"> Manifest processing system (MPR) 	<ul style="list-style-type: none"> Processes all reports traders must submit to Customs to transport cargo in and out of SA.
	<ul style="list-style-type: none"> Customs risk engine 	<ul style="list-style-type: none"> SARS can better identify under-declared, misclassified, and prohibited/restricted goods. Combats illegal trade.

	<ul style="list-style-type: none"> Initiated the development of the automation of provisional payments for customs and excise 	<ul style="list-style-type: none"> New system was designed to supplement the existing customs declaration system.
	<ul style="list-style-type: none"> Implementation of a Customs Traveller Management System (TMS) 	<ul style="list-style-type: none"> Assists with organisational and administrative processes. Integrates with the SARS risk engine to better identify illicit trade.
	<ul style="list-style-type: none"> Installing additional cargo, baggage, and container scanners 	<ul style="list-style-type: none"> Assists in managing debt write-off and impairment.
	<ul style="list-style-type: none"> Quality assurance system 	<ul style="list-style-type: none"> Replaced the manual process of handling overdue debt and outstanding returns. The system automatically notifies individuals through SMS/email or alerts a SARS employee when a notification fails by creating a case.
	<ul style="list-style-type: none"> Introduction of an automated revenue collection system. 	<ul style="list-style-type: none"> Facilitate compliance checks, integrated audits, and an online return form.
	<ul style="list-style-type: none"> Implementation of a modernise trust system 	<ul style="list-style-type: none"> Track verifications and checks, as well as related working papers and templates.
	<ul style="list-style-type: none"> Replaced manual audit of trusts with an automated workflow management system 	<ul style="list-style-type: none"> Faster responses to complaints. Allows a single integrated facility to monitor, assess, resolve, track, and review complaints.

	<ul style="list-style-type: none"> Complaints management system 	<ul style="list-style-type: none"> The first phase was completed and designed to provide stakeholders with a single comprehensive display of their relationship with SARS.
	<ul style="list-style-type: none"> Single registration system 	<ul style="list-style-type: none"> Facilitate the transfer of electronic information between the CIPC and SARS.
	<ul style="list-style-type: none"> Message queue interface 	<ul style="list-style-type: none"> Switching manual applications to fully online applications of clearance certificates.
	<ul style="list-style-type: none"> Upgrades to the Tax clearance certificate system 	<ul style="list-style-type: none"> Part of a range of security improvements and biometrics. Adapted from the IBM website, the platform is described as an intelligent security platform that integrates security information and event management, log management, configuration monitoring, network behaviour anomaly detection, risk management, vulnerability management, network vulnerability scanning, full packet capture, and network forensics.
	<ul style="list-style-type: none"> IBM Qradar security event management platform 	<ul style="list-style-type: none"> They are designed to store business-critical records.
	<ul style="list-style-type: none"> Automated Number Plate Recognition (ANPR) systems 	<ul style="list-style-type: none"> Utilised at Durban harbour to scan cargo containers. Assists SARS in identifying illicit trade activities.
2016	<ul style="list-style-type: none"> Automated state warehouse solution 	<ul style="list-style-type: none"> Allows for effective tracking, management, and accounting of goods in state warehouses to comply with legislation. The system can generate supporting documents for consignments that are deposited. Bar code scanning when entering and leaving allows for automatic stock updates by the system.

	<ul style="list-style-type: none"> Multiple assistive manifest processing systems 	<ul style="list-style-type: none"> Automation of customs clearance certificates. Assists with the following: <ul style="list-style-type: none"> Matching clearances to cargo reports for assurance purposes Full paperless reporting Generating operational reports Security upgrades for the processing of trucks through land borders. Better control over goods-in-transit
2017	<ul style="list-style-type: none"> Data Analytics 	<ul style="list-style-type: none"> Improved efficiency by driving management performance with valuable data and enhancing revenue and operational performance.
	<ul style="list-style-type: none"> PULSe electronic dashboards 	<ul style="list-style-type: none"> Promotes a common management framework and analysis of SARS performance over all devices. Information is readily available.
	<ul style="list-style-type: none"> STARS room 	<ul style="list-style-type: none"> Newly implemented and serves as the 'nerve centre' for management and decision-making.
	<ul style="list-style-type: none"> Final phase of the Tax Compliance system 	<ul style="list-style-type: none"> Printing certificates without visiting a branch reduces administrative tasks and combats corruption and electronic verification.
	<ul style="list-style-type: none"> Data protection programme 	<ul style="list-style-type: none"> Ensure crucial data security is intact and prevent data loss and theft.
	<ul style="list-style-type: none"> E-sourcing automated solutions 	<ul style="list-style-type: none"> Assist in procurement processes.
	<ul style="list-style-type: none"> Infographic design, visualisation, and data storytelling 	<ul style="list-style-type: none"> Assists in visualising strategy and business optimisation through robust data-driven insights.

	<ul style="list-style-type: none"> • Predictive analytical models 	<ul style="list-style-type: none"> • The report notes seven models currently operational and used to analyse taxpayer behaviour.
	<ul style="list-style-type: none"> • Advanced analytics 	<ul style="list-style-type: none"> • Used to understand business performance at a micro-level.
	<ul style="list-style-type: none"> • Proof of concept for 'Information Central' designed 	<ul style="list-style-type: none"> • Concept details a single hub connected to electronic dashboards to interface taxpayer forecasts, scenarios, comparisons etc.
	<ul style="list-style-type: none"> • Electronic DNA and Taxpayer Verification 	<ul style="list-style-type: none"> • Serves as enhancements to Tax Compliance Systems to combat fraud and corruption.
FIRST MENTION OF THE SARS VISION 2024 PLAN		
2019 <i>A new commissioner takes on a new role, and SARS embarks on its new Vision 2024 for the upcoming five tax years.</i>	<ul style="list-style-type: none"> • Track and trace marker technology 	<ul style="list-style-type: none"> • SARS Can track the transport of excisable goods along the supply chain.
	<ul style="list-style-type: none"> • Phase 2 upgrades to the Tax Clearance Certificate system 	<ul style="list-style-type: none"> • Linkage was created with the National Treasury to improve tax compliance of government suppliers.
	<ul style="list-style-type: none"> • Mass improvements to Information Communications Technology 	<ul style="list-style-type: none"> • Systems designed to mitigate cybercrimes such as the delivery of a company-wide information security programme, USB lockdown, and other projects such as Data Loss Prevention and Mobile Device Management. A mobile system will monitor and control all devices with sensitive information. Automated reports give feedback on unauthorised activities.
	<ul style="list-style-type: none"> • Hypertext Markup Language 5 project 	<ul style="list-style-type: none"> • Converting SARS forms to the latest technology allows for easier use and better customer experiences.
	<ul style="list-style-type: none"> • Cloud technologies 	<ul style="list-style-type: none"> • Exploration of cloud technologies and adopting a cloud policy for its Human Resource System.

		<ul style="list-style-type: none"> Blockchain technologies 	<ul style="list-style-type: none"> Exploration of a proof of concept to identify synergies with other state-owned enterprises.
		<ul style="list-style-type: none"> Development of an Excise Risk Engine 	<ul style="list-style-type: none"> Designed for better control over risk profiling and compliance and better risk management over illicit trade and smuggling.
2020	<i>Year 1 of Vision 2024</i>	<ul style="list-style-type: none"> Post Clearance Audit e-Case workflow 	<ul style="list-style-type: none"> Implemented Phase 1 successfully and designed to meet revenue targets for customs and excise. Phase 2 is in progress and includes debt management inventory and the automation of multiple audit letters and schedules.
		<ul style="list-style-type: none"> Passenger Risk Engine 	<ul style="list-style-type: none"> Phase 1 was implemented at OR Tambo and designed to mitigate risks.
		<ul style="list-style-type: none"> Conceptual design completed for a fully automated taxpayer registration and management 	<ul style="list-style-type: none"> In line with plans for Vision 2024.
2021	<i>Year 2 of Vision 2024</i>	<ul style="list-style-type: none"> Data Analytics 	<ul style="list-style-type: none"> Enabled SARS to detect non-compliance. “26 000 citizens with economic activity exceeding R1 million who were not registered for tax, as well as 200 taxpayers who were flagged for unexplained wealth where information regarding offshore investments did not correlate to their tax liability declared”.
		<ul style="list-style-type: none"> Development of machine learning models 	<ul style="list-style-type: none"> Detect risk and enforce compliance. Assist with revenue forecasting, debt propensity, under-declarations, determining which taxpayers are eligible to file, refund fraud detection, and predicting gross income.
2023	Annual performance plan	<ul style="list-style-type: none"> SARS noted emerging technologies in its 	<ul style="list-style-type: none"> Aims to use these technologies to ease the compliance burden. Employee work will shift from admin work to more analytical tasks.

	report, namely; blockchain, 5G, AI, machine learning and cloud computing	SARS aims to invest in new systems and digital processes and create an effortless taxpayer experience. Build new skills to adapt to new technologies and encourage taxpayers to use online platforms.
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3.2 Other Commonwealth Countries and the Adoption of 4IR into their Respective Tax Systems

SOURCE	4IR TECHNOLOGY	DESCRIPTION
UNITED KINGDOM (UK)		
<p><i>The primary revenue authority is Her Majesty's Revenue Customs (HMRC. It is a body reporting to HM Treasury which acts as the sphere of government responsible for public finance. However, payments can be made to at least three different governments; HMRC, devolved governments such as Scotland and Wales, and local governments through council taxes. Revenue Scotland (RS) and the Welsh Revenue Authority (WRA) handle the HMRC's responsibilities regarding collecting taxes in those countries. The UK consists of England, Wales, Scotland, and Northern Ireland.</i></p>		
2016 Annual report	<ul style="list-style-type: none"> • Launch of new online tax services 	<ul style="list-style-type: none"> • "Personal Tax account" and "Business Tax account" was launched. Results were that a large majority of returns were submitted online by the deadline date, a record statistic then. The number of customers signed up for online personal tax accounts increased rapidly from this year onwards. Accounts are hosted on the cloud on a multi-digital platform.
2017	<ul style="list-style-type: none"> • Cloud computing 	<ul style="list-style-type: none"> • The report notes that most of HMRC's services have been migrated to faster, cheaper, and more stable cloud-based platforms.
2018	<ul style="list-style-type: none"> • Webchats 	<ul style="list-style-type: none"> • Made use of live webchats to handle customer consultations instead of physical interactions.

2019	<ul style="list-style-type: none"> Launched a new service for Digital Recordkeeping and VAT filings 	<ul style="list-style-type: none"> Digitise the VAT payments process, thereby avoiding costly HMRC compliance interventions.
	<ul style="list-style-type: none"> Data Analytics 	<ul style="list-style-type: none"> Use data to do the following; identify who is not paying the correct tax from wealthy individuals, understand customer needs, address risks to revenue, and identify non-compliance.
	<ul style="list-style-type: none"> Robotic Process Automation 	<ul style="list-style-type: none"> A substantially large number of robotic automations were deployed to handle millions of transactions. Seventy-eight robotic automation conducted 15.7 million transactions. Makes it easier to deliver services and alleviates employees from customer-facing work.
2020 (omitted)		
2021	<ul style="list-style-type: none"> Virtual assistant “Ruth” 	<ul style="list-style-type: none"> In response to COVID-19, HMRC launched a virtual assistant designed to handle tax queries. Makes use of artificial intelligence and machine learning.
2022	<ul style="list-style-type: none"> Digital Prompts 	<ul style="list-style-type: none"> Simple online tools are used to notify users when data entered into the online system automatically matches HMRC’s data.
CANADA		
<p><i>The Main Revenue authority is the Canada Revenue Agency (CRA). The CRA is responsible for collecting taxes over most provincial and territorial regions, except for Quebec. Residents of Quebec file with the CRA and Revenue Quebec as separate taxes are governed by the two authorities. The main types of taxes include Personal Income Tax using tax brackets, Capital Gains Tax, Goods and Services Tax (GST), and Corporate Tax.</i></p>		
Summary of the Corporate Business Plan (2018-2020 Tax Year)	<ul style="list-style-type: none"> Explores the possibility of 	<ul style="list-style-type: none"> Better understanding customer needs and expectations as a mode to alter the quality of results.

	<ul style="list-style-type: none"> predictive analytics 	
	<ul style="list-style-type: none"> Data Analytics 	<ul style="list-style-type: none"> Development of data mining models to support enhanced risk assessments.
	<ul style="list-style-type: none"> Automation 	<ul style="list-style-type: none"> Use automation of entity management systems to enhance risk assessment processes and automate the matching process for EFT data with taxpayer data.
	<ul style="list-style-type: none"> Advanced algorithms 	<ul style="list-style-type: none"> Creation of algorithms to detect fraud and non-compliance within large companies and among the wealthy.
	<ul style="list-style-type: none"> Existing Automated Benefits Planning service 	<ul style="list-style-type: none"> Used to automate the process of applying for child benefit programs.
(2019-2021 Tax Year)	<ul style="list-style-type: none"> AI 	<ul style="list-style-type: none"> Exploring artificial intelligence to develop tools that address large tax-evasion possibly. Exploring subsets of AI such as machine learning may introduce systems that may provide immediate responses to essential tax and CRA questions.
	<ul style="list-style-type: none"> Automation 	<ul style="list-style-type: none"> Launch a new online filing service for registered charities by late 2018.
	<ul style="list-style-type: none"> Advanced analytics 	<ul style="list-style-type: none"> In the process of developing and testing predictive models directed at taxpayer non-compliance. Designed to improve decisions, resources, and time management, leading to more significant impacts.
	<ul style="list-style-type: none"> Data mining models 	<ul style="list-style-type: none"> Develop data mining models to enhance the automated process of directing files to the correct workload during the collection process.

(2020-2022 Tax Year)	<ul style="list-style-type: none"> Blockchain 	<ul style="list-style-type: none"> The report notes the potential usage of distributed ledger technology to advance systems.
	<ul style="list-style-type: none"> Knowledge Sharing Platform 	<ul style="list-style-type: none"> Development of a global online tool to encourage the exchange of information between international tax authorities, thereby enhancing tax systems in developing nations.
(202-2023 Tax Year)	<ul style="list-style-type: none"> Automation 	<ul style="list-style-type: none"> Further, build on automated algorithms directed at risk assessment of wealthy individuals and companies.
	<ul style="list-style-type: none"> Machine learning models 	<ul style="list-style-type: none"> Continued commitment towards building machine learning models that enhance customer experiences.
(2022-2024 Tax Year)	<ul style="list-style-type: none"> AI 	<ul style="list-style-type: none"> Explore the usage of AI in assisting with taxpayer obligations and tax understanding.
	<ul style="list-style-type: none"> Machine learning models 	<ul style="list-style-type: none"> Development of models that use algorithms for analysing data from news articles relevant to the CRA. It recognises keywords and phrases to extract and summarise information.
	<ul style="list-style-type: none"> “The Simplifier” 	<ul style="list-style-type: none"> Collaborating with Lakehead University to develop a tool for simplifying tax and benefit content. Makes use of AI and Natural Language Processing. Designed to improve employees’ ability to provide simple answers to questions by reducing text complexity.
	<ul style="list-style-type: none"> Digital Mailroom Project 	<ul style="list-style-type: none"> Intended to convert documents from multiple sources into digital copies.
(2023-2025 Tax Year)	<ul style="list-style-type: none"> Machine learning 	<ul style="list-style-type: none"> Replacing actual data with synthetic data for processing, analysing, and processing. Crucial

		to CRA as most microdata is sensitive and requires extreme security.
	<ul style="list-style-type: none"> Secure Drop Zone initiative 	<ul style="list-style-type: none"> Development of a secure two-way channel between CRA and third parties outside of CRA portals.
	<ul style="list-style-type: none"> Real-time virtual learning 	<ul style="list-style-type: none"> Covid-19 pandemic has created a space for these technologies to exist as an essential business process. Provided for new opportunities to be discovered behind leveraging data.
AUSTRALIA		
<i>The revenue authority is the Australian Tax Office (ATO). The main types of taxes include Personal Income Tax, Capital Gains Tax, Corporate Tax and GST.</i>		
ATO website	<ul style="list-style-type: none"> Virtual Assistant “Alex” 	<ul style="list-style-type: none"> Implemented into the ATO website, the virtual assistant was introduced in 2016 to replace face-to-face interactions and assist customers with their queries more efficiently. Individuals and companies can ask questions related to their personal taxes, company taxes, filing returns, deductions etc.
ATO Website	<ul style="list-style-type: none"> myGovID 	<ul style="list-style-type: none"> An application developed by the ATO in collaboration with other parties is designed to provide online verification of users to grant access to online government services. The technology uses data encryption, cryptography, facial recognition, and biometrics to offer security features.
2020 Annual Report	<ul style="list-style-type: none"> Single Touch Payroll 	<ul style="list-style-type: none"> STP is a digital end-to-end service platform launched by the ATO in 2018 to report payroll and superannuation information by employers and allows for prefilling on returns. 2020 saw phase 2 of this project by expanding its data capabilities.

	<ul style="list-style-type: none"> • Communications Toolbar 	<ul style="list-style-type: none"> • The software allows staff to manage client interactions across numerous channels from a single location.
	<ul style="list-style-type: none"> • Virtual desktop platform 	<ul style="list-style-type: none"> • Replaces previous system allowing for increased capacity of remote workers due to COVID-19.
2021 Annual Report	<ul style="list-style-type: none"> • Data Analytics 	<ul style="list-style-type: none"> • Usage of data and analytical technologies to prefill over 85million pieces of data.
	<ul style="list-style-type: none"> • CbC (country-by-country) interact 	<ul style="list-style-type: none"> • Tool designed to make unstructured data from reports usable, accessible and discoverable by ATO employees.
2022 Corporate plan	<ul style="list-style-type: none"> • Big Data Analytics 	<ul style="list-style-type: none"> • The ATO has noted a few deliverables planned for 2024. They plan to standardise data-sourcing priorities and processes to improve the quality of old data, expand verifiable data used for prefilling, develop new risk models for clients to deliver a tailored experience, and introduce cloud technologies for its tax and superannuation systems.
NEW ZEALAND (NZ)		
<p><i>The revenue authority is the Inland Revenue Department (Te Tari Taake). The main types of taxes include Income tax (PAYE) and Goods and Services Tax (GST).</i></p>		
2022 March Final Transformation Update	<ul style="list-style-type: none"> • Digitisation 	<ul style="list-style-type: none"> • The IRD launched its new revised corporate strategy in 2016. The strategy was implemented in four stages from 2017-2021 with a vision of creating an innovative and efficient digital service; greater sharing of information and intelligence; better implementation of policy changes; advanced risk assessment capability; integrated delivery of services; and flexible, scalable and reliable technologies. The strategy will ultimately realise a revenue system that is highly

		automated, customer-orientated, real-time, and digital.
2017	<ul style="list-style-type: none"> • Simplified Tax and Revenue system (SMART) 	<ul style="list-style-type: none"> • Purchased a new tax system from US company, FAST enterprises. The package was a commercial, off-the-shelf product.
	<ul style="list-style-type: none"> • GST services moved to a new technology platform (Stage 1) 	<ul style="list-style-type: none"> • Streamline the tax process. Allows customers to file tax returns, payment options, and set up due dates, all without contacting the IRD.
2018	<ul style="list-style-type: none"> • Large transfer of data of certain taxes to the new system (Stage 2) 	<ul style="list-style-type: none"> • Further streamline the tax process.
	<ul style="list-style-type: none"> • Virtual rooms 	<ul style="list-style-type: none"> • Escalated the usage of virtual rooms for meetings through Skype and video conferencing.
	<ul style="list-style-type: none"> • Cloud computing 	<ul style="list-style-type: none"> • Moved data from emails and drives to the cloud for more excellent storage and access.
2019	<ul style="list-style-type: none"> • Stage 3 of digital business transformation 	<ul style="list-style-type: none"> • Migration of income tax services and others to the new system. Automating taxes for individuals who only earn income reported to IRD, so they don't need to submit anything. Vamped up the usage of remote working through new toolsets. Analytical capabilities have allowed new systems to identify returns or assessments before they are completed, for a high likelihood of fraud and false non-business expenses or income manipulation.
2020	<ul style="list-style-type: none"> • Stage 3 of digital business transformation 	<ul style="list-style-type: none"> • Migration of PAYE, student loans etc. to new system.
	<ul style="list-style-type: none"> • Cloud computing 	<ul style="list-style-type: none"> • Introduced 'Atea'. Atea is a cloud-based system used for enterprise support services and enhancing daily administrative tasks through

		sets of tools. The new system facilitated remote budgeting and forecasting during the Covid-19 pandemic. It also enhances employee compensation and fraud/error identification.
	<ul style="list-style-type: none"> • Data analytics 	<ul style="list-style-type: none"> • Tools within the new system identify errors and issues, make use of risk indicators built into the system to identify fraud, and are able to identify patterns in and understand customer behaviour.
	<ul style="list-style-type: none"> • E-invoicing 	<ul style="list-style-type: none"> • First government agency in NZ to introduce electronic invoicing. Replaces the entire time-consuming and inefficient paper-process.
2021	<ul style="list-style-type: none"> • Final stage of digital business transformation 	<ul style="list-style-type: none"> • Migration of paid parental leave, unclaimed money, duties, foreign trusts, and child support services to new system.

4. SUMMARY OF FINDINGS

From the Study of the document sources contained in the literature review, it is apparent that all five revenue authorities have invested heavily into digitising their services for better efficiency and results over the years.

South Africa, in particular, has invested significant resources into automating and improving its Customs and Excise department. Perhaps the most notable technology mentioned earlier is the use of Risk Engines. Risk engines are intelligent software systems that use input data, supplemented by machine learning models and advanced analytical technologies, to analyse operational risks and identify patterns to achieve predictions that mitigate other risks. In an article titled ‘How risk engines could solve a biometric dilemma’, the author Salvatore Sinno explains that risk engines utilise a set of rules and apply these to various business processes, thereby ensuring appropriate levels of assurances are implemented. These risk-based computer algorithms assess and respond to risks based on different signals from process-start to end. They are intelligent and flexible in that the system continuously learns from behavioural patterns of risks and input data and adjusts its responses to the changing landscape (Sinno, 2018). SARS has adopted Customs, Excise, and Passenger risk engines to enforce compliance and combat illicit trade activities.

Figure 1, taken from the SARS 2021 Annual Report, summarises some of the effects of these advanced systems

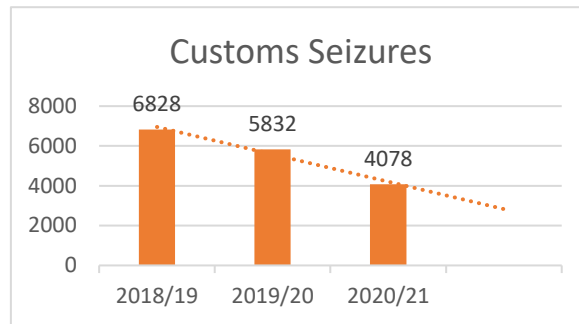


Figure 1: Depicts how the usage of risk engines has combatted the number of possible illegal goods. Trend depicts a downward line over the years, indicating a successful decrease

A common buzzword found in the reports issued by the sample of countries is “Automation”. Significant investments have been made into replacing manual administrative tasks in the internal processes of these tax authorities. This is apparent as automation using digital services is a field of 4IR that has seen numerous advancements in society as almost all business processes, regardless of industry, are hosted on a digital platform. The rapid escalation of digitisation can be linked to the concept of IoT. The findings submit that these revenue authorities have digitised administrative tasks to achieve a more efficient and effective collection of taxes, make it easier for taxpayers to submit returns, address customer queries and reduce the response time of issuing assessments.

The findings present the changes in reporting requirements due to new ‘smart’ strategies. These revenue authorities have experienced a greater need for transparency and communication of digitisation efforts. Reports now contain more information on internal online systems as technologies become more complex. New performance measures and statistics to assess the success and effects of new technologies now accompany reports. An example can be made of reports containing statistics on how data literate taxpayers are, conducted through surveys. Budgets behind spending on new technologies require great detail and more frequent reporting.

Among the streams of thought behind this paper was the question of to what extent COVID-19 has affected the progress of digitisation strategies. Since these revenue authorities are considered essential services, much would have been done to ensure that all departments remain functional and that any impediments to digitisation strategies or ‘smart’ business transformation were minimised. It is interesting to note that contrary to adverse effects, these authorities have experienced a positive impact as lockdowns served as a catalyst for technologies like virtual meetings to flourish.

Another interesting finding is that due to the drive to become more 4IR-centric, existing physical structures such as buildings often need renovations to support new technologies. The findings support a detailed plan by the HMRC in its 2019 annual report whereby they will restructure their 170 offices into 13 modern regional centres, five specialist sites, a head office, and eight transitional sites operating until 2027/28. These regional centres are a cornerstone of their digitisation strategy with a modern build realising high-speed digital infrastructure, flexible work environments, and adequate staff collaboration. The 2022 report notes that nine regional centres have been constructed so far.

This paper finds that a common consequence of adopting advanced and new technologies into the tax system is tackling the issues of cybersecurity, employee education and training, and enhancing public awareness. This paper argues that to illustrate how tax authorities have become 4IR-centric, an essential element is to discuss how online security systems have been improved or added, as well as how stakeholders' skills and knowledge have been adapted to new processes. After all, a successful digitisation strategy incorporates new technological structures into everyday operations and improves the integrity of existing foundations. Some findings relating to the above-supporting initiatives are mentioned below:

- Canada
 - Highlighted the need to protect taxpayer personal information and data. Declaration of proactive responses to promote the importance of security, uphold privacy rights per legislation, and clarify its position on public accountability regarding sensitive information.
 - Highlighted its commitment to creating a learning culture by empowering employees with access to learning solutions that maintain and add skills in line with digital transformation.
- New Zealand (2018 Report)
 - Significant efforts to enhance stakeholder understanding of new changes, such as
 - emails to 355,000 business customers and 24,000 tax agents and bookkeepers
 - +260 seminars attended by business and professional tax customers
 - webinars, attended by +6000 customers
 - classroom sessions where +700 employees completed online training
 - 'My Capabilities' assessment tool helps employees understand their skills and develop further

- ‘Enabling You’ online portal designed to assist employees with navigating changes to decision-making and workflow
- UK
 - 2019 report notes:
 - The establishment of a Data Governance Board to lead data strategy.
 - compliance with the General Data Protection Regulation, effective since May 2018
 - existence of a Cyber Security Controls Centre to protect data and public confidence
 - tools such as JIRA and Confluence to help manage and track employee work
 - 2021 report notes:
 - Decommissioning obsolete IT systems to ensure resilience and security of systems
- SA
 - Learning and development initiatives through training sessions addressing, in part, information technology
 - +12 700 (2019/20) and +8100 (2020/21) employees attended
 - 2021 report notes that more than 4500 employees were tested for susceptibility to phishing attacks, thus strengthening cyber security.
- Australia
 - 2020 report notes the launching of the 2024 Workforce Strategy, which included initiatives such as developing new tools to carry out learning and development and holding approximately 6600 staff capability appraisals.
 - The ATO held an expo in 2019 designed to educate the public about its usage of data analytics. This included a ‘hackathon’, a showcase of new tools, and an open discussion on data ethics.

The findings also attempt to illustrate the importance of budgeting for the success of large-scale projects such as those envisaged in this paper. Whilst most of the issued reports in the sample selected did not provide a simple overview of the financial resources employed to carry out the strategy, an exception

can be made for New Zealand, which attributes the successful completion of its business transformation strategy in mid-2021 to strong budget control measures.

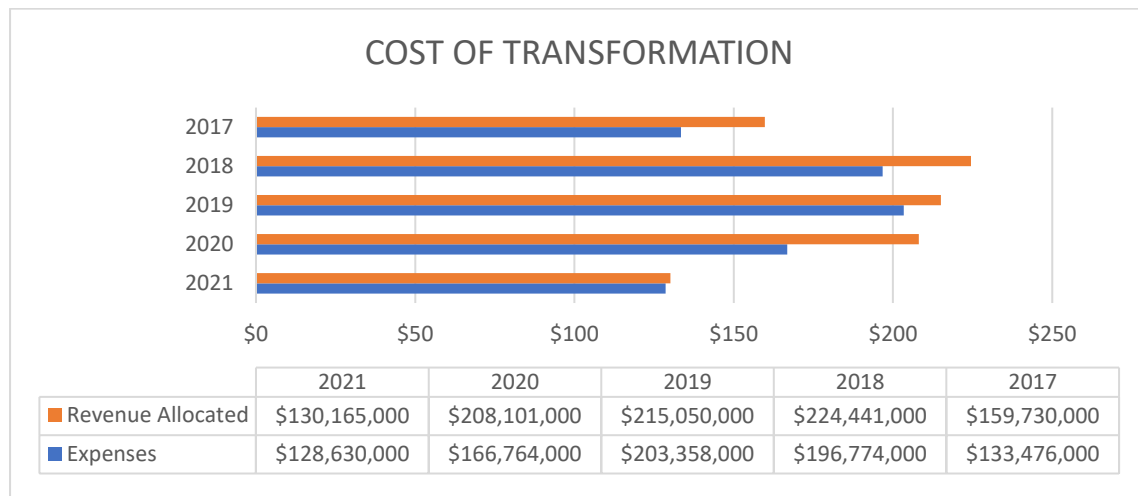


Figure 2: Indicates a surplus of funds leftover in all years of NZ’s business transformation. Surplus funds are returned to Treasury.

5. RESEARCH METHODOLOGY

5.1 Research Methods

Research methodology refers to a theory of how an inquiry should proceed and involves the analysis of the assumptions, principles, and procedures taken to submit an inquiry (Schwardt, 2007). It is important not to confuse “methodology” with “method”. A methodology offers the theoretical underpinning for comprehending which method, set of methods, or practices can be applied (Igwenagu, 2016).

Research methods come in a multitude of forms. This paper employs a mixed-method approach, utilising both qualitative and quantitative research. However, it is crucial to note that more reliance is placed on qualitative research methods. Qualitative research is aimed at the development of theories and understanding, whilst quantitative research is aimed at testing theories, outlining facts, illustrating relationships between variables, and outcome prediction (Van der Merwe, 1996). A mixed-method approach involves using mixed data, numerical and text, and alternate tools such as statistics and analysis (Bazeley, 2003).

As stated, more reliance is placed on qualitative methods. Qualitative document analysis is utilised in this paper. Document analysis is a systematic procedure for reviewing printed or electronic documents (Bowen, 2009). This paper only makes use of electronic material. Corbin & Strauss (2008) and Rapley (2007) – cited in Bowen (2009) – explain that document analysis requires data to be examined and interpreted to gain meaning, understanding, and knowledge.

To satisfy the main purpose and produce its findings, the documents in this paper serve the following purposes:

- Provide data within the context of tax authorities and their actions taken to become 4ir-centric
- Raise questions about the actions taken
- As a means of outlining the journey taken from the beginning to the end of a digital strategy

The document analysis method was chosen with particular advantages in mind, such as the cost-effectiveness of locating information, the availability of information on public domains, and the efficiency of extracting data.

5.2 Sampling Countries

Sampling involves the selection of a subset of individuals from a defined population to estimate the characteristics of the entire population (Igwenagu, 2016).

The sampling process began with South Africa serving as this paper's starting point and nucleus. The sample was then expanded by including only Commonwealth countries. The Commonwealth is a voluntary association of 56 independent countries sharing similar laws and legislations. The taxing similarities served as the basis of this selection. However, obtaining reports from 56 countries was not feasible or logical.

A decision was to combine the list of Commonwealth countries with Global Finance’s list of “Most Technologically Advanced Countries in the World 2022”. The list on the Global Finance website consisted of 64 global countries. The reason behind this was simply the case that these counties are more likely to incorporate new and advanced technologies into their environments. From these two lists, six countries appeared in both: South Africa, the UK, New Zealand, Australia, Canada, and India. India is omitted due to limitations expressed earlier in this report. Figure 3 was extracted from this list.

RANKING	COUNTRY	COMPOSITE SCORE
1	South Korea	6.52
2	United States	5.10
16	Canada	2.89
17	United Kingdom	2.84
21	Australia	2.00
29	New Zealand	0.46
53	South Africa	-3.22
58	India	-5.10

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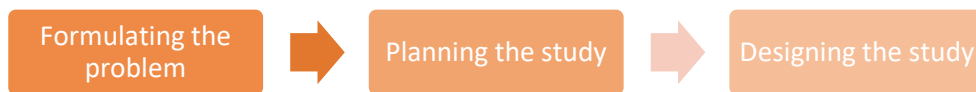
Figure 3: Global Finance 2022 Ranking of the World's Most Technologically Advanced Countries

This report explains the composite scores simply, as a complex understanding is beyond my capabilities. The final scores are determined through a calculation using the following variables, amalgamated to symbolise tech knowledge, the ability to develop new technologies, and the capacity to create and advance innovation.

- Internet users as a percentage of a country’s population
- LTE users as a percentage of a country’s population
- A Digital Competitiveness Score provided by IMD (International Institute for Management Development)
- The final metric is a measure of the Portion of GDP a country invests in research and developments

5.3 Sampling Reports and Further Data Extraction Methods

The following method illustrates the process of selecting and sampling reports, as well as further data extraction techniques. This method can be found in “Fundamentals of research and methodology and data collection” (Igwenagu, 2016).



Formulating the problem is linked to the main purpose of this paper. It can be simply explained by the question, “Where do I find information that details the actions taken by, for example, SARS, in becoming 4IR-centric”.

Planning the Study involved first determining the coverage of my data. A finite amount of information was identified as only a limited amount of information can provide a clear view of the inner workings of the relevant taxing authorities.

- I first identified the taxing authority in charge of each of the five countries.
- I then located the official websites for each authority, thus ensuring the reliability of my data.
- I then navigated to the section on the website where I could locate reports issued by the authority. These included annual reports, corporate plans, annual performance plans, and a summary of corporate business plans.

- d. I then considered whether or not to apply a sample to the reports based on only reviewing reports from a chosen tax year. The decision was taken to use a sample as reviewing reports ranging from approximately 50-400 page documents would be too time-consuming and may impact the quality of my data

Designing the Study was carried out as follows:

- a. I carried the sampling of my reports
 - i. A decision was taken only to include reports from 2015 and onwards. My decision was motivated by the term “Fourth Industrial Revolution” becoming a buzzword after a speech by the Chair of the World Economic Forum in 2015. Organisations would be more likely to provide insight into 4IR after such events
 - ii. I then took each country separately and searched for reports similar to the nature of presentations and disclosures in an annual report. In the event of the availability of a report detailing information more specific to strategy rather than financial performance and position, these were then used. This is why certain countries in the sample, like Canada, make use of corporate business plans rather than annual reports
 - iii. In some instances, adequate and relevant information could not be located in a report. This is why certain tax years from 2015 and onwards were omitted from the table.
- b. Web data such as articles and contents not in a report from the official websites were also utilised to achieve the main purpose.
- c. CNTRL+F function utilised to locate keywords. Utilised this function to extract the data depicted in figure 1 and 2. Searched for the keywords “customs” and “revenue allocated” given its commonality in all reports used to extract data from.

6. CONCLUSION

It is without a doubt that 4IR has impacted the operations of Revenue Authorities in the sample, with large investments made, particularly in the automation field. These automation projects have positively impacted previous results as faster, and more efficient internal processes have facilitated more rigid tax collection. It has also greatly removed the barriers between state and taxpayer by allowing taxpayers a more “hands-on” approach to their tax affairs. These advancements could be argued as “just the beginning” of 4IR. In the future, perhaps we may see these complex 4IR technologies, such as blockchain, integrated into the tax system. In theory, real-time taxation through blockchain technology could greatly enhance tax collection and reduce tax debt over the years. The security features of blockchain could also improve the state's tax management. This research paper wishes to conclude that

whilst this paper has only illustrated the positive effects of 4IR up to this point, it is important to present to the reader a balanced view. The impacts of 4IR on taxation systems may also realise in the future significant changes in terms of tax legislation. McCredie, Sadiq & Chapple (2019) propose new tax legislations that Revenue Authorities should consider implementing. Their article employs the John Rawls theory of justice (equal distribution of resources, rights & opportunities) as a foundation for these new tax legislations, some of which include a Pigouvian Tax and a Tax on Economic Rents.

A Pigouvian tax is a tax designed to offset the consequences and social costs of production and consumption activities that are not integrated into market prices but are borne by external parties. An example of this is taxing tobacco and alcohol. Therefore, the article proposes a tax on automation that targets the costs of replacing human labour incurred by governments through unemployment support. Tax on Economic Rents are taxes on earnings above the level required to address production costs and reward capital providers at the market average. These taxes are not without criticism as they could hamper the progress of innovation, and thus 4IR.

It is evident that Revenue Authorities should not only “go with the tide” and advance tax administration but should also consider changes in tax legislation resulting from 4IR technologies.

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THE COST VERSUS BENEFIT IN THE CONTEXT OF CORPORATE SOCIAL RESPONSIBILITY IN A SOUTH AFRICAN-BASED COMPANY

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Abstract

Corporate Social Responsibility is a subsection of ethics prevalent in the modern world. An increasing number of businesses embrace this responsibility voluntarily and legally, depending on its impact on their surroundings. The businesses involved in these deeds incur certain costs and a portion of their resources to achieve this responsibility. Having established this, it brings us to the topic of discussion to understand the Cost Versus Benefit Principle in the context of Corporate Social Responsibility within the South African environment. Concerning the literature, numerous related studies around this went into extensive detail, with components making up the basis of our current understanding. Through this, a company was critically evaluated to conclude the relationship between the cost and benefit of being a responsible corporate citizen. After the findings have been consolidated, it can be confirmed that the cost can be quantified regardless of the time it takes to materialise. However, the benefit is unquantifiable because of the extent of pervasiveness and integration between factors. Therefore, the relationship can be regarded as undefined due to the complex facts and circumstances surrounding the benefits received from all persons the responsibility affects. It can be recommended that for business activities relating to social responsibility, a cost versus benefit analysis is to be completed if not already completed. Further research may include frameworks and models to be developed to understand the relationship better. The main limiting factor is time, as more in-depth analyses could have been completed and more companies analysed.

Keywords: Corporate Social Responsibility, Cost Versus Benefit, Ethics, Relationship

1. INTRODUCTION

1.1. Background to the Research

Aspiring chartered accountants become aware at an early stage of their studies of ethical conduct and behaviour impacting on life's decisions, especially those made in a corporate workspace, from a commercial, academic perspective through the ethical triangle, which has the components of the good for self and other (Rossouw & Van Vuuren, 2017). Corporate social responsibility places emphasis on philanthropy concerning the local community's replenishment. The top vertex is an illustration that gives rise to the good in the triangle (Mugova, 2019, pp. 1-13). The benefit equates to the business being one's self while not forgetting the betterment of the community in the context of others. It is an appropriate aspect of ethics to choose from as all individuals will end up in the world of work regardless

of their career path, and this responsibility links directly to the workplace. A relevant quote by Lyndon B Johnson states, “Nothing comes free. Nothing. Not even good, especially not good.”. The simple fact remains that corporate social responsibility is considered ‘good.’ Still, as per Lyndon B Johnson, nothing comes for free regardless of whether it is moral or immoral.

Therefore, even the deed of corporate social responsibility has a price to pay. The price paid is the responsibility of the business. Whether monetary or non-monetary, it still needs to be settled. The question arises, what is the cost at arms-length in a standard business transaction between market participants, compared to the benefit obtained in multiple ways that are not necessarily cash? The question raised above is the root of this research and the establishment of this topic. Ethics or, more specifically, corporate social responsibility should be a cornerstone of every business; however, the corresponding benefit needs to be analysed to ensure that there is at minimum a mutualistic relationship where there is equilibrium.

The achievement of interdependence may include utilising the cost versus benefit principle, where the analysis can determine the relationship between the two variables. The concepts explained led to the origination of the ultimate combination of the cost versus benefit in the context of corporate social responsibility. As with any research, there has to be a context, and this background leans more toward a South African perspective due to enterprises located in the South African environment. South Africa is selected as there is no thorough research on this topic in this specific setting.

1.2 Corporate Social Responsibility

Corporate social responsibility (Hereafter, CSR) is a word that establishes various meanings for unique individuals in numerous circumstances. All these distinctive understandings may be authentic in different contexts that apply to the relevant situations and conditions. A holistic idea that relates to the business as being a part of a community in which it takes residence, we can therefore look at the entity as a separately identifiable juristic person within society, and like any other ‘person,’ there are certain rights with corresponding responsibilities that are to be carried out (Walsh & Donaldson, 2015, pp. 181-207). The concept of CSR stems from the corresponding responsibilities which need to be borne by the business through policy and requirements of listing as well as laws and regulations if applicable (Rossouw & Van Vuuren, 2017, pp. 30-39).

A juristic person also interacts with society, creating a network of relations that produces benefits (Rossouw & Van Vuuren, 2017, p. 4) in voluminous ways for the business. Through these interactions, there are duties to the stakeholders involved directly and indirectly in the business. These stakeholders come from four pillars: the natural environment, the social environment, and the workplace, not forgetting the economy (Refer to Appendix 1) (Rossouw & Van Vuuren, 2017, pp. 30-39). Within this model, there have been advancements, and alterations to the four-pillar structure from the structure of

Crane, Matten and Spence (2007). In earlier times, the model looked dissimilar. There were three pillars rather than four which consisted of the moral pillar, which meant doing the correct thing; the second pillar consisted of the social pillar, which envisaged community integration along with the third pillar, which explored the economy having sustenance in the long term (Tichy et al., 1997).

We can see the pillars' evolution from 1997 to 2007. As times changed, so did the pillars, as it was necessary to ensure that the concept of CSR stayed prevalent. However, there is a golden thread as the numerous pillars deal with similar ideas, and the various headings in the three pillar model group specific philosophies, whereas the four pillar model further expands individual notions. An idea taken highly prevalent is the presence in the economy, as this is a foundation for the other pillars. It does not take preference but plays a unique part in which the other pillars are interdependent. This study will encapsulate the four-pillar model as per Crane, Matten and Spence (2007).

1.3 Cost Versus Benefit Principle

The cost versus benefit is an economic evaluation seen as comprehensive in the larger context (Robinson, 1993). This practice has become a vital aspect of making decisions globally and has developed a reputation in forming part of the decision-making toolbox. The primary purpose considered is the decision to be made concerning the corresponding consequences or benefits to be achieved (Dreze & Stern, 1987), and is used in an infinite number of scenarios for anything that requires a conclusion for the different alternatives at hand. Due to the cost versus benefit approach being universal, it can be deemed suitable for the context of this paper. Another way of understanding this idea is by saying, 'what you put in is what you should get out' – Anonymous. If retrieval is more than the costs, then the benefits would exceed the costs. In this process, we should not forget to choose the best alternative to maximise the benefit as a financial manager should (Madiba, 2020).

1.4 Research Problem

In a South African context, there is mandatory and voluntary CSR. One of the mandatory areas where CSR is required leans more towards where there are laws and regulations. Voluntary would look at persons such as juristics, including natural persons getting involved in CSR out of their own free will, bettering one or all of the pillars of CSR. Exploring the mandatory segment of CSR, the purpose would be more toward the need for the community not to get destroyed at the bare minimum, and more of the voluntary aspect would be where there is an enhancement of the community at large. The concept is applicable in the U.S and South African contexts (Pinkston & Carroll, 1994). Although entities display CSR through mandatory or voluntary efforts (Lindgreen & Swaen, 2010), it is still challenging to uphold this status quo because there is a constant struggle with CSR (Lindgreen & Swaen, 2010). There is significance because the resources required for the CSR process are tremendous, especially in the

different industries and further into the business, as CSR is tailor-made for the industry and, more specifically, the business based on several factors.

The tremendous process of obtaining resources to satisfy the responsibility will be activity specific. However, in any process, there would need to be meticulous planning regardless of the activity. Through this, there is a famous quote by Benjamin Franklin: “If You Fail to Plan, You Are Planning to Fail.” An auditing context confirms the words of Benjamin Franklin due to the first stage of the audit process being the planning stage, as this is the skeleton of the task at hand. Much effort goes into planning, let alone the other stages of the process. Due to the planning stage being complex, the stages following planning would need to be at the high standard set at the beginning, which will continue until completion. Other secondary processes may compose the main stages within the actual process’s main stages, ultimately leading to one extensive process. CSR is at a large scale in the corporate world, and combining the extensive process with the scale of CSR can be seen as significant.

1.5 Problem Statement

The leading cause for concern is the need for CSR in South Africa and the parallel costs associated with this responsibility while not omitting the equivalent benefit obtained by the enterprise.

1.6 Research Question

Does the cost of CSR within the selected companies correlate to or exceed the benefit obtained to give the businesses the competitive edge they need to be sustainable?

1.7 Research Objective

The primary objective of this research is to assess the cost versus benefit principle in the context of CSR for the companies selected within the given timeframe. In a more superficial tone, we want to understand whether the resources (cost) invested for CSR will yield insufficient benefit rather than an excessive benefit for the business or, in exceptional circumstances, the cost will mirror the benefit.

2. RELATED LITERATURE REVIEW

The studies focused on several aspects of CSR, which have established various conclusions and theories. Consequently, the literature review will be more theoretical, where these various viewpoints will be contrasted based on their belief with their supporting evidence. Research has been conducted concerning this topic as far back as the 1970s. These ideas are not something foreign but relatively specific things that have been inaugurated over time and have been dynamically crafted based on the particular circumstances at a point in time. The arrangement of philosophies, facts and conditions are formulated surrounding conclusions in the different periods. An exemplification will occur in the evolution of these theories. New conclusions will be reached based on the current facts, surroundings, and evidence.

Milton Friedman (1970) was the first recognised theory that touched on CSR, which occurred in the 1970s and still stands today (Friedman, 1970). The view he had leaned more towards was the primary goal of profits and nothing else, everything centred around profits. The basis of his reaction was due to the clear distinction between two domains, which are known as the political and economic domains (Levitt, 1958). What is meant by this is that a business is within the economic domain, which generates profits, and the political domain should be responsible for the social responsibility and not corporates. In addition to this statement, Friedman argues that CSR is just abuse and misuse of resources within the corporation (McWilliams, et al., 2006). Milton (1970) further concludes that the business's social responsibility is to increase its bottom line. These related to the cost being more significant than the benefit, leading to CSR's opposition in a business.

Barnard's (1938) contribution before Friedman and Levitt viewed CSR in a more favourable way in which Edward Freeman (1984) stemmed the Stakeholder Theory (McWilliams, et al., 2006) due to both being in favour of CSR. Many role-players form part of a business, and they can influence the performance of the business in many ways through their existence and core competencies. Shareholders are essential in a business as they contribute funds by purchasing shares when issued or through the stock exchange (JSE, 2022). However, according to Freeman (1984), it is inadequate for management to spotlight shareholders solely. We can understand this by a common fact that shareholders provide the capital, but sustainability stems from stakeholders as customers who form part of a community provide income through sales, and suppliers deliver the goods sold. All these stakeholders, including non-financial, are dependent on each other in some way. Therefore, the theory as per Edward Freeman (1984) touches on the benefits of CSR to the stakeholders other than financial to be vital, and if this is not visible, there would be a downward spiral of all stakeholders due to its dependency, which could most likely negatively impact the business (McWilliams, et al., 2006).

The stewardship theory occurred in the early 90s, which dealt with a crucial aspect of morals and the importance of doing the correct thing regardless of how these actions would positively or negatively impact the firm's financial position (McWilliams, et al., 2006). The explanation happens through interpretations which link with the topic of discussion. This theory pursues the correct pathway regardless of the effect on the entity's financial position. Therefore, this theory ignores the cost of the achievement of doing the correct thing. For better understanding, the correct thing should be at any cost. The correct thing should be followed in all circumstances. However, various alternatives to achieve this goal could suit the business's needs and financial situation without neglecting the morality to follow. To break down the previous phrase, the cost of the correct thing should be equivalent to the benefit for the business and the greater good for all parties involved.

In 1995 there were two rare approaches to social responsibility and from the view of the resources within a firm. These two connected ideas were established by Jennings and Zandbergen (1995) and Hart

(1995). However, Jones did the extension of the stakeholder theory in the same year through a combination of two indirectly related ideas. McWilliams further built on the supposed model that Hart established in 2002. The conclusion reached based on the institutional theory (Jennings & Zandbergen, 1995) is that there is a vital role to be played by institutions when looking at the consensus of the organisation, which is seen as being sustainable in an ecological manner (McWilliams, et al., 2006). It is seen as a predominantly environmental aspect and being a responsible citizen from environmental and social responsibility perspectives. Jones's approach looked at the economic theory in addition to the institutional theory to supplement the stakeholder theory and, while using all these sources, realised continuous interactions between those that have an interest in the business based on two factors known as cooperation as well as trust, which gave rise to ethicality as well as honesty (Jones, 1995).

A firm from a resource perspective in a CSR view was first applied in 1995 by Hart in theory. The resource perspective had previous successors, but Hart brought it to light within CSR and later enhanced it by McWilliams in 2002 (McWilliams, et al., 2006). Hart established that resources come mainly from the environment, and these resources were continuously used by businesses to produce their product and achieve their strategic considerations; thus, the belief that resources need to be sustainable further led to environmental responsibility, which would incidentally yield a sustained competitive advantage (Hart, 1995). This idea curtailed by Hart was later tested empirically and confirmed by a study (Russo & Fouts, 1997). Russo and Fouts proved that economic performance had a direct positive correlation to environmental performance through a study done in two years on many firms exceeding 200, and this in-turn grew the industry and further having a mutualistic relationship on the environment as well as economic performance, meaning these factors were reliant on each other. A political outlook was brought to the table by McWilliams in 2002, stating that any strategies brought through from a political angle would create an added competitive advantage.

A framework was developed for the implications and motivation in a strategic viewpoint to optimise a firm's decision-making that encompasses CSR (Paul & Siegal, 2006). A vital point raised concerning the action to carry out CSR and the additional resources acquired for the CSR activity must correspond to the benefit obtained to ensure that the higher cost associated with the resources must be offset with any benefit. The related article attempts to fill a gap in the economic aspect of CSR due to the leading literature having a dominant environmental approach. Two significant points are addressed in the study; namely, the first concept relates to the good marketable outputs in conjunction with social outputs imposed methodologically. However, there are specific issues connecting to the outputs mentioned above, which are seen in a certain sense as substandard given the other related outputs. Secondly, the relation between social and environmental regulation in an empirical format while also considering economic productivity. The findings were in the banking as well as the manufacturing industry.

The banking sector was split into two groups which are CSR and non-CSR banks. There were no differentials in technical feasibility for banks receiving excellent ratings compared to banks receiving satisfactory ratings. The differential comes when we look at cost efficiency; however, recouping of the cost through responsibility that their resources were initially used. According to this study, the corporate social banks had no differences compared to the non- corporate social banks because these banks involved in CSR have a benefit regardless of whether it is monetary or not. The second part of the study dealt with coal-fired plants, these plants part-took in an environmental initiative which substantially benefitted the environment through the measurement of EPI. The firm individually benefitted by becoming more environmentally friendly and adapting the plant's production practices to a more environmentally friendly output. On a routine basis, if there were an increase in efficiency, there would be more toxic outputs, but the firms being more environmentally friendly reduces their toxic output while being efficient. These outputs are recognised by socially responsible firms regardless of whether they are excellent or unacceptable. These studies were conducted in a U.S context. (Paul & Siegal, 2006).

In comparing classical and a more modern view of CSR, various other specifications were also studied, such as diverse orientations, institutional realities, and cultures, all of which were in a Lebanese environment. Within this study, there was a division into two particular camps, one more of a classical perspective, which aligned with the perspective of the business being a legal person with two primary responsibilities: making profits and abiding by laws and regulations. In the second camp, with a modern perspective, there is more consideration of the social aspect of the business. The individuals in the second camp had a mindset of protecting and conserving resources, which further uses the concept of philanthropy. The second camp had a spectrum of concepts which they felt were necessary under the heading of CSR. These were the need to conserve the environment, community development and conserving other related resources to a business. A data collection was done by this research which was represented in a geographical diagram with various clusters of Lebanese managers for CSR. The graph below (figure 1) represents the model used to collect data and the clusters within the model used to categorise the data. (Quazi & O'Brien, 2000). Appendix 2 discusses the four views.

FIGURE 1 A Two-Dimensional Model of Corporate Social Responsibility (Quazi and O'Brien, 2000).

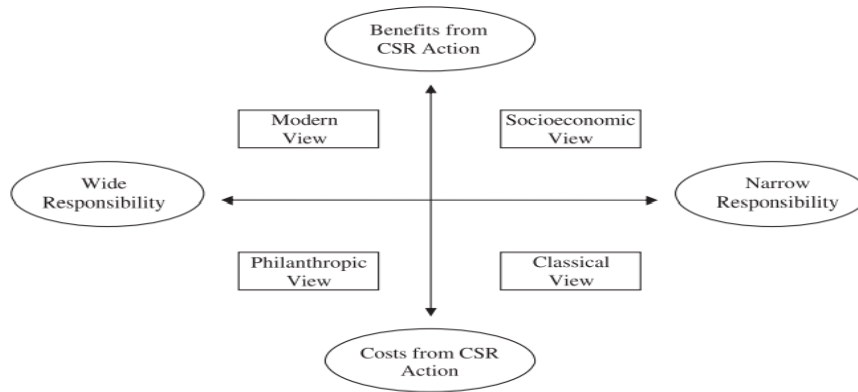
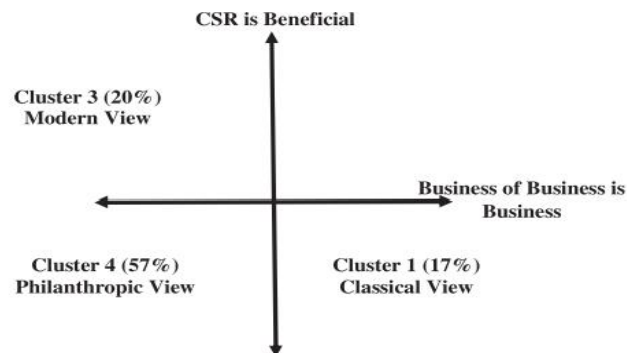


Figure 2 represents the data collected in the study mentioned above by Jamali and Sidani. (JAMALI & SIDANI, 2008).

FIGURE 2 Cluster Representation of Lebanese Managers in Relation to CSR.



It is evident from the results that the modern view and the philanthropic clusters supporting CSR take up approximately seventy-seven per cent of the result. A substantial amount further indicates that Lebanese people are moving away from the classical perspective and being societal-driven.

An article was written to better understand the impact of a business's social responsibility on the perceived value and related benefit in the consumer's eyes. A second specification tested, such as the judgement of price fairness and the corresponding differential levied on it, due to a firm which is responsible in a social manner which utilises a price higher than the competition. The findings displayed that the average consumer had a more significant benefit perceived in the firm that uses social responsibility as a competitive edge. In addition, they were willing to pay a maximum of 10% more for

the product offered by the business. Where the social responsibility directly impacted the individual customer, there was more significant support than that for an impact that is not seen as direct. Every study is subject to certain limitations with this study. The main limitation was that the individuals who part-take in the study gave answers correlated with societal expectations. The second limitation was the use of a sample that is convenient with non-probabilistic characteristics. This research's effect on the market was that people should use CSR as an edge in business due to people feeling confident in their purchase as it incentivised something which benefits society and simultaneously achieves business goals. Another practical implication was that entities should invest in CSR projects as they give growth to sustainability. (Ferreira et al., 2010).

A bridge in research formed by Christopher Wickert, Andreas Georg Scherer, and Laura J. Spence deals with a metaphor of talking and walking in the ambit of responsibility in a social sense with factors or the cost to the organisation as well as contemplating the size of the firm. The phrase talking refers to the act of communication and letting the more significant part of stakeholders know that the business is CSR inclined and supports the movement to create a sustainable environment for business and other areas that CSR impacts positively. The word walking is used in the frame of reference of physically carrying out the activity that the business speaks about when looking at CSR because walking is a physical action; this is the reason for its application. The stereotype of large firms having the ability to carry out CSR in contrast with smaller firms is explored. Firms that are smaller despite having limited resources apply a more substantive approach, ensuring that their social responsibility is fulfilled. An understanding of there is no formal structures for smaller-based firms but rather behavioural principles that guide CSR. In smaller firms, it is less costly than in larger corporate firms to complete the task of CSR. Therefore, the stereotype of larger firms' ability to do more socially responsible deeds has been proved otherwise. (Wickert et al., 2016).

In a South African context for social responsibility, we can draw our attention to the King report, which is the primary source of corporate governance recognised as a best practice due to it not being legislation (PwC, 2016). More specifically, the King four report was issued on 1 November 2016, while the initial ideas of the King report series are dated as far back as nineteen-ninety-two for the first report on King (IoDSA, 2022). The focus is, however, on the latest report on King with specific reference to principle three, stating that: "The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen". (IoDSA, 2022). The recommended practices in this principle address that the governing body should follow this specific approach and need to be directly related to the constitution as anything not in correspondence with this is void. The foundation of a company comprises strategy, values, core purpose, and conduct that should be congruent to being a responsible corporate citizen. The last areas of interest for being an excellent corporate citizen deal with four areas: the

workplace, society at large, the economy, and the sustainability of the environment. These headings closely link to the pillars previously discussed within the background of the study. (IoDSA, 2016).

The Covid-19 pandemic took the world by storm, and CSR was needed more than ever as the various entities had to cater for the community. It represented the society as per the King report. Philanthropy in the form of donations was a necessity for all members of a community. Due to the origination of the pandemic being in Wuhan, China, it was the most donations recorded since the devastating earthquake in 2008 known as Sichuan. The undertaken study was on firms that are A-share listed, which form part of the major stock exchanges of China in the year in which covid originated. The core of the study related to CSR and the individual responses to philanthropy in a corporate environment during the global pandemic. A new approach for this study as score the technical dimension of Rankins ratings with annual donation lag as a proxy for performance and disclosure of CSR and the gap between the two. The findings from these results were that the symbolic and substantive strategies in the global crisis of covid to have material differential responses. In a particular context, the CSR gap negatively correlates to the crisis and the donation level. Therefore, as the CSR gap increases, the level of crisis donation decreases (Zhong et al., 2021).

3. RESEARCH METHODOLOGY

This chapter of the dissertation will elaborate on the methodological approach followed in collecting data for the study by looking at the research problem and the type of data used to answer the problem. Exploring the methods used for data collection was considered the next step. Following the data collection methods, an analysis takes place based on the data to describe the methods used in the research. The final step that forms part of the research methodology was the methodological choices that were justified and evaluated. The process mentioned above will be the structure of this chapter in the research to ensure that readers can follow the flow of the collection of data as well as analysis and other areas of interest applicable in this chapter.

The methodological approach is understood by first reflecting on the problem statement at hand, which deals with what is seen as the cause-and-effect relationship that established a context related explicitly to South Africa. It is relevant because, as it stands, as per Sir Isaac Newton, every action has an equal and opposite reaction. Therefore, the cause can be seen as specific resources used, and the related action or effect is seen as the benefit produced regardless of the benefit used, alternatively burdening the company. In essence, the data collected from integrated reports of random companies is more qualitative. However, specific quantitative data was also used to establish a fair market value of resources. Due to integrated reports being used, the data is seen as secondary data.

The methods of data collection are seen as more generic as the integrated reports were used and interpreted as well as other information that is readily available to the public such as among other things

press releases and valid documentation by the businesses while not forgetting any related press conferences in addition to Stock Exchange News Reports. Specific statistics and ratios were used based on the financial statements obtained, a component of the integrated reports. The companies selected were chosen randomly from the Johannesburg Securities Exchange, and further information was obtained from the different company's websites and other reliable sources after the random selection. All information obtained on the selected companies would be filtered for CSR by looking at issued notes and other related material which aids CSR. Two significant variables that are considered consist of the business's industry and size, which can look at various perspectives among other variables.

Methods of analysis and process were used and grouped into quantitative and qualitative aspects as a combination of these. However, the data used is more qualitative. The quantitative data was obtained from the financial statements of the integrated report and other reliable sources. The data collected is secondary data used to fill the quantitative aspect of the research. These values were used in various ratios, compared through percentages, and represented in graphs to reflect like with like and conclusions based on these amounts. However, more effort was directed to the qualitative facet because patterns were established to answer the research question through the results. The captured information will be interpreted to identify any particular themes and images to understand the relation between cost better and benefit with CSR as an underlying factor.

The process chosen relates to the topic investigated because the best way to understand a company and its resources is to go through the integrated report, which summarises what happened for the year. Within the report are statements, policies, and other valuable material that can be used effectively and interpreted efficiently without going to the company directly. The financial statements of listed companies must be published; thus, the information is easily obtainable by selecting the companies from the securities exchange and finding their integrated reports on their website. If a company's information is published, other analysts may use this for more meaningful summarised data may be found which is reliable. With all the information readily available by the process used, it can be interpreted and used for this study to understand the investigated relationship.

Other methods could be used, but these methods can be seen as inefficient, and longer processes would need to be taken into account by many unnecessary variables. The data obtained in many other ways could also raise particular ethical concerns, which could comprise the research holistically. These ethical concerns could breach confidentiality as well as offend people who are of different views when it comes to the topic of CSR. Therefore, where information is publicly available is the best approach, and understanding, as well as ideas and realisations, will be proven based on the given information accredited by the business. The method taken above would contribute to new knowledge by people taking a route where information is readily available so the inefficient routes can be eliminated and the pooling of information that is seen as unethical is also avoided.

The currently followed approach has cons, but the pros outweigh these. As only secondary data is used, there was no use of primary data through which surveys were done and interviews completed, and because of this, there is no data directly obtained by the researcher on which conclusions can be based. The limitations section within the research paper elaborates why this approach could not have been possible and leads the reader to understand that the current process followed is the most efficient in the given circumstances. The other advantage which is not so apparent is that there needs to be a massive consideration in ethically obtaining data. Therefore the use of publicly available data, which is secondary, reduces this risk. Further to the readily available data, it is seen as reliable and formal (public companies are audited) without bias and prejudice, which offends any person. The approach followed will ensure that the researcher comes to reasonable conclusions, such as determining the cost versus benefit in the context of CSR.

4. SUMMARY OF FINDINGS

A study was completed which is more qualitative with extensive data based on a multinational business called Sasol Limited (Sasol). This study investigated the cost versus benefit principle in the context of CSR for a South African-based company. Within the 2021 year of assessment, there was an investment of R526.2 million in CSR compared to just over \$8.5 billion worth of revenue (Sasol, 2021, p. 47). The CSR expenditure is insignificant compared to revenue. However, it makes all the difference through extensive projects interpreted as part of CSR's description and pillars through understanding while considering numerous factors. Above the business's CSR that has taken place, the business also believes in the triple bottom line being the People, Planet and the Profit-driving the business. Six categories have been used directly from Sasol interpreted as CSR. These categories are the role of Sasol in society, human rights, investment in society, the process of due diligence for human rights, governance and environmental responsibility. These six categories are part of sustainability for Sasol's purposes (Refer to Appendix 4).

There are extensive initiatives within the six categories that have been taken for purposes of CSR. They summarised descriptions of each project in six groups that were provided with some amounts disclosed and some not. In other initiatives, some amounts are quantifiable, which is not disclosed, but there is also unquantifiability of specific amounts because of the project's lifespan, budgets are in place, but these are not available in the public field. In certain groups, the description in some instances goes as far as making reasonable assumptions of the resources as per an analysis completed based on the characteristics of the project. The majority of CSR lies with the environmental responsibility due to Sasol's operations. Four main categories are dealt with in the environment that are explored under the heading. This responsibility is in a more legal sense; thus, the disclosure of this is necessary, but there are other initiatives which are purely voluntary. The five remaining areas of concern are more voluntary, with a few legal aspects incorporated.

Under each heading and sub-heading, the information is summarised to give the reader an understanding of the activities in place to ensure that the business is an excellent corporate citizen. The findings go into as much detail as possible with the resources available. This information gives a holistic view of what is happening in the business concerning CSR. With all the available information, a well-rounded corporate citizen can be seen satisfying all the various pillars of CSR. The actions of Sasol's initiatives are also enforced policies and procedures. It ensures that the business does not run into fines and penalties that could cost the business its going concern and the ability to continue as one because of non-compliance that could have been avoided.

5. RESEARCH FINDINGS

5.1 SASOL Limited

A brief introduction based on the business is that Sasol Limited (hereafter, Sasol) is a company that specialises in energy and chemicals and has a head office in Sandton, Johannesburg in South Africa. According to the Forbes list of two-thousand, Sasol is ranked nine-hundred-and-seventy-three globally for twenty-twenty-two and one-hundred-and-sixty-nine for the world's top female-friendly companies for twenty-twenty-one (Forbes, 2022). It illustrates the enormous footprint Sasol has in the world. This corporation invested in the twenty-twenty-one year of assessment five-hundred-and-twenty-six-point-two million rands in corporate social investment as per the most recent published integrated report (Sasol, 2021, p. 28). Sasol is involved in numerous projects to meet its corporate social responsibility. The individual projects will be broken down as far as possible, and the related benefit will accompany the project. Based on these two variables, a conclusion will be reached if the cost versus benefit is less than, equal to, or greater than each other. The different acts of being a corporate social citizen are not readily available. Therefore, specific projects will be grouped as CSR considering many factors.

Sasol considers the triple bottom line as per John Elkington consisting of people, planet, and profits. They also further prioritise four main sustainable development goals in line with CSR's four pillars. These goals are, among other things, thirteen others (Refer to Appendix 3) combatting climate change and the impacts it has, the patterns of production and sustained consumption thereof, and development that is sustainable through partnerships on a global scale in addition to the sustained growth of the economy and employment which is productive and decent (Sasol, 2022). These alone take CSR to a new level and benefit all stakeholders and non-stakeholders in numerous ways that cannot be described due to the ripple effect. However, to better understand the so-called cause-and-effect relationship, we need to unpack these goals into smaller pieces further to ensure we get a more direct cost and related benefit or burden. Within the current year of twenty-twenty-two, there are six areas of interest to be considered in corporate social responsibility, which are: the role of Sasol in society, the investment in society, the environmental responsibility, the governance, the due diligence process for human rights and finally human rights of each individual (Refer to Appendix 4).

5.1.1 SASOL in Society

The table below summarises Sasol’s initiatives within the society for the past twelve months ranging from the most recent to the least recent, specifically regarding South Africa (Sasol, 2022). The core resources used are categorised into seven parts which mainly consist of capital, people, time, information, materials, machines as well as tools and lastly, energy coupled with technology (BCSD, 2022).

Name of project	Resources used	Value (R)	Pillar of CSR	Description
1) Keep a Girl Child in School	Capital Time People Materials	216 000	Social	During May, the Sasolburg and Ekandustria operations team donated a year’s supply of Sanitary towels.
2) Sasol funds Six NPOs in Alexandra township	Capital	190 000 (Assumed each, not specific)	Social Economic	A partnership formed with Retail Convenience Centre (Hereafter, RCC) by Sasol Marlboro Gardens has issued funding to six registered NPOs under its Friendly Neighbour social impact initiative.
3) Ekandustria Matric Awards Ceremony	People Capital Time Information Technology	Not disclosed	Social	The matric awards at the beginning of February celebrated achievements which are seen as outstanding for the twenty-twenty-one. It was in the district five region for best-performing teachers and students.
4) Sasol donates school uniform kits	Materials Capital People Time	Not disclosed	Social	At the end of January, before the commencement of the twenty-twenty-two academic year, seventy children across five different primary schools in Tembisa received school uniform kits from Sasol RCC and Sasol Tembisa RCC.
5) National Research Foundation (Hereafter, NRF) and	People Time Information Technology Capital	Not disclosed	Social Workplace	In December 2021, two cooperation agreements which are seen as significant were signed by Sasol and the NRF to jointly sponsor and aid the next aspiring generation of researchers in the field of science and engineering.

Sasol partner up				
6) Covid-19 Medical resources donated in KwaZulu-Natal	Capital Information Materials Machines Tools Technology	1 700 000	Social Workplace Economy	Donation of medical resources to the KwaZulu-Natal Department of Health
7) Sasol and critical energy stakeholders establish the Energy Council of South Africa	All seven resources	Not disclosed	Social Environmental	On 2 November, the energy council of South Africa was launched to create sustainable energy for the country. This central council plans on everything being green and sustainable for the future
8) Boitjhorisong Welding Training Centre	All seven resources	Not disclosed	Social Workplace Economy	Sasol, in partnership with Afrox and Aurex Constructors, has launched this training centre to ensure the skills and development of the youth while not forgetting the economic growth that comes with this project.
9) Vaccine rollout donation	Capital People Time Information Material Tools	Not disclosed	Social Workplace Economy	Various resources such as vaccines and medical equipment have been donated to Gauteng, Free State and Mpumalanga to drive vaccine roll outs
10) Healthcare workers have been honoured by Sasol Pinehaven	Time Capital People	Not disclosed	Social Workplace	A recognition of healthcare workers was given at Sasol RCC for leading the fight against covid 19 for workers forming part of Dr Yusuf Dadoo and Netcare Pinehaven.
11) Donation of Medical Equipment	Capital Materials Machines & Tools	Not disclosed	Social Workplace Economy	In support of the covid-19 vaccine rollout, various medical equipment has been donated to the Free State provincial government

12) Work skills for those with intellectual disability challenges	Capital People Time Information Materials Technology	Not disclosed	Social Workplace Economy	Sasol and The Living Link partnered up to sponsor twelve students with disabilities in an intellectual aspect to take part in a workplace readiness programme for adult integration in the workplace. The living link is a non-profit organisation accredited with SETA services.

5.1.2 Investment in Society

Sasol supports many initiatives; however, there is a further expansion to the concept of “Sasol in Society” through another idea which is known as the “Social investment” (Sasol, 2022). The idea of social investment has many other areas of interest and further exhibits Sasol’s involvement in CSR and promises to society that Sasol will fulfil. The promises comprise many things; however, the central concept is sustainability through collaboration with stakeholders to ensure inclusiveness. It can be achieved through and with the enhancement of the quality of people’s lives. There is a further commitment to using value chains seen as extensive and facilitating local supply chains. Within the social investment domain, there are five specific areas of interest which deal with development in education and skills as well as the community in which small businesses reside while not forgetting to protect the environment in the process together with ensuring that there is volunteerism among employees of Sasol (Refer to Appendix 5).

The development of skills and education deals with three other supporting headings, which encompass the promotion of children’s development at an early age, the enablement of vocational and training in a technical manner, as well as the advancement of research that helps support and grows education in South Africa, ensuring the republic becomes more academically inclined. Furthermore, when developing any community, the three things considered vital include the basic need for water together with sanitation falling under the category of infrastructure, the enablement of healthcare facilities and the training of entrepreneurs, which starts with the growth in the community leading to growth in the economy. With entrepreneurs comes the starting of businesses, the third focal point of interest that deals with developing small businesses. We can see and understand that Sasol plays a positive role for the greater good every step of the way.

Sasol’s core business deals directly with the environment; therefore, the business needs to protect it, ensuring its sustainability. Environmental education and environmental-based projects within the

communities and not forgetting offsets supporting the environment are needed. It ensures that Sasol can be relevant and continuously looks for ways to benefit the environment simultaneously with the business itself. As a corporate giant, it is best to give back to the community through human interaction, and Sasol has a realisation for that as employee volunteerism brings us to the final aspect of Sasol's social investment. Sasol firmly believes that the employees forming part of the business do good, ensuring that people still do their part while working for a company. These five aspects give the community a sense that Sasol cares and can deliver on promises made through its various initiatives.

5.1.3 Human Rights of Each Individual

Where there is acceptance as natural persons, there is an entitlement to various rights, and Sasol's understanding of this has put some policies and frameworks in place to ensure that it is fully enforced. These policies and frameworks consist of five significant statements to ensure that not only in private life but also in work life that human rights are held at utmost importance (Sasol, 2022). As per Sasol's Human Rights Policy volume one, one of the main goals is to proceed with business in a lawful, transparent, and fair way while not forgetting the avoidance of adverse human rights impacts (Sasol, 2022). Business is conducted in line with the business's location or within its jurisdictions. There is a correlation with CSR as it looks at a perspective of the workplace specifically as these are all internal documents that apply within Sasol. Therefore, the pillar of the workplace in this instance is satisfied. There are also grievance processes to ensure human rights are not infringed; there are processes in place to deal with this.

5.1.4 Environmental Responsibility

Sasol is a company that relies heavily on natural resources as these are the raw materials they use to make their products. A few natural resources utilised include water, crude oil, coal and natural gas. Therefore, it is evident that the business impacts the environment, which is unavoidable; because of this, there is a constant urge to reduce these impacts to as low as possible. This urge gives the business various responsibilities to the environment legally, but Sasol goes beyond this and does additional CSR to ensure its going concern. The business's environmental footprint is significant; thus, policies encapsulating these aspects are imperative. Based on their resource usage from the environment, Sasol mitigates these risks to ensure environmental sustainability. There are benefits to the natural environment, society, and continuity of capital through the progression of the business. The model for the environment uses six aspects: the change of climate, the water supply, the disposal of any waste, the quality of air, the biodiversity on land and the compliance with laws and regulations for the environment. These will be further analysed to get a good overview of their CSR towards the environment.

5.1.4.1 Change within the Climate

As per the Sasol climate change report (Sasol, 2021), the company fully supports the Paris agreement reached in December 2015 at the United Nations Climate Change Conference in Paris. The agreement sets out three crucial goals which deal with the environment. These include the limitation of the global temperature increase to 2 degrees Celsius while bringing this 2-degree limit to 1.5 degrees Celsius over time. This goal can be achieved by the greenhouse gasses emitted being at a deficit. The second goal is to ensure the review of the commitment of the related countries every five years. The final goal is the provision of finance to countries that are still developing to ensure that the first goal is abided by, as well as to enhance adaptability to climate change and the strengthening of resilience while achieving the mitigation of climate change in developing countries. (United Nations, 2015). These three goals identified in the Paris Agreement directly correlate with Sasol's Climate Change report.

In 2021 Sasol also further launched a strategy consistent with the Paris agreement. This strategy is the "2050 net zero emissions ambition (Hereafter, Net Zero) and future Sasol strategy" (Sasol, 2021, p. 3). In the efforts to achieve its 2050 strategy, it significantly increased the minimum target from 10% to a minimum of 30% fewer emissions for the business relating to energy by 2030 for scopes 1 and 2. Internationally there is an effort for scopes 1 and 2 to achieve a reduction of approximately 30% in emissions by 2030. There is scope three aiming for a 20% reduction in the use of energy products toward 2050. With all these goals, we can witness a genuine intention of the business to combat climate change and ensure that its part is fulfilled to stop or even slow down climate change.

5.1.4.2 Water

The demand for water on a global scale is at an exponential increase, and a large portion of operations in Sasol is dependent on the world's water supply. While knowing this, maintaining the water supply is needed, especially with the recent drought occurring in countries within the African Continent (Sasol, 2022). Experts established that the significant risk experienced for water supply is within the water supply in South Africa. Sasol estimates that approximately 88% of the group's water depends on the Integrated Vaal River System. The supply is stable in the short term, but water shortages in the long term may occur due to the imbalances that have been investigated. Water shortages are risks, and all essential risks are mitigated to ensure the business remains relevant in these circumstances. Management's response through experts is activities related to catchments and sites. More understandably, water is advanced to all catchment users. Sasol supports the Department of Water and Sanitation to ensure that water losses are reduced, and over and above this initiative, mine water is treated and recovered as per phase 2 of the Lesotho highlands water project. (Sasol, 2021, pp. 1-2).

5.1.4.3 Waste Disposal

In life, there will always be waste; even humans produce particular wastes, which works the same way with a business, specifically Sasol. Waste disposal is considered a more legal than the voluntary aspect of CSR. The waste produced by Sasol is disposed of in a way that satisfies all legal requirements through a waste management hierarchy. Sasol, as a business, has different processes and procedures. Wastes are produced specifically for each process, and the wastes are dealt with according to specific regulatory requirements. Despite following protocol, there is a further exploration to reduce this waste and improve waste management practices through initiatives implemented by management, such as alternative usage solutions of waste. The closure of legacy sites and discontinuance of waste disposal practices ensuring that rehabilitation of these sites is completed before reopening or at least planned or in the process of being rehabilitated. (Sasol, 2022) .

5.1.4.4 Quality of Air

A connection between quality air and operations at Sasol exists; therefore, responsibility needs to be exhibited by the business. Practices that are accepted internationally are the approach used for air quality management to ensure that the responsibility of air quality is upheld. Air quality is another legal requirement enforced by law and not merely voluntary CSR. The use of technology is used in this instance through engineering studies to identify feasible abatement solutions. The business is still on the verge of achieving compliance; through the compliance not achieved, extensions As these regulations to be met are seen as extreme for a company such as Sasol due to the size and volumes of outputs produced; however, efforts are still made to bring it in line with the various processes. (Sasol, 2022).

In 2020 Sasol had to adhere to standards that applied to new plants commissioned. Standards adhered to 98%, and an extension to 2025 has been granted because of this tremendous process ensuring 2% does not impact the environment negatively in the future. The goal has been accomplished in all aspects except for one specific plant operation based in Mpumalanga. There are efforts of compliance when looking at the emissions through coal as an option to reduce the discharge of more harmful substances such as Sulphur Dioxide. The reduction is an upside in line with the emission reduction strategy. Due to it being a strategy implying long-term implications as this is seen as a complex switch and will extend beyond 2025. Using more coal to reduce unavoidable emissions goes against a long-term vision of migrating from coal use. New synergies are being explored to ensure that the best alternative complies with all external and internal laws and regulations (Sasol, 2021, pp. 44-47).

A licensing system regulates all activities based on locations of operations. The licences are very strict in that emissions are not in line with regulations, and further air quality reports due with regulations are to be submitted timeously in South Africa (Sasol, 2022). Based on this, there is an involvement of plans and revision of plans to improve the priority areas of the Highveld and Vaal to ensure continuous and

consistent compliance. Through ongoing compliance prior to 2015, there was an investment in various projects in the different locations with the goal that has been achieved of compliance with minimum emissions standards for air quality with exceptions and postponements that have been granted lawfully with proper processes followed. These compliances that have been postponed are closely being worked on. (Sasol, 2021, p. 47).

5.1.4.5 Biodiversity on Land Together with Environmental Compliance

The business recognises the need to be responsible for wildlife land and biodiversity while complying with the environmental regulations as the operations of the business impact these. The policies and procedures in place for other aspects dealing with sustainability apply in this context. Sasol operating in the natural environment gives rise to the care of the environment and the care for biodiversity and land. In line with their responsibility, they have the following aspects in mind: the prevention of the deterioration of pure land size, the concern for flora and fauna based on land, and lastly, the groundwater quantity and quality (Sasol, 2022). Everything related to the environment mentioned thus far follows the environmental framework and compliance externally and internally (Sasol, 2022).

5.1.5 Due Diligence Process for Human Rights

Over and above the human rights of Sasol, there is a Due Diligence process for Human Rights. Under this area of CSR, we can see that this relates more to the workplace pillar of the CSR 4 pillar model. There is guidance regarding due diligence, seen in various questionnaires to stakeholders such as suppliers. There are also self-assessment questionnaires with the topic of discussion of business and human rights. Human rights are further built on clauses for these two topics (Sasol, 2022). Sasol goes as far as issuing guidance for human rights about due diligence based on mergers and acquisitions. When looking at human rights processes, failure to comply leads to different risks, which are seen as detrimental these risks include a range of reputational, legal, financial and operational spheres specifically relating to mergers and acquisitions (Sasol, 2021, p. 1). These risks must be mitigated and avoided to ensure that these risks do not materialise, having an effect that could cause significant business harm in the various risk domains. The mitigation occurs through questionnaires previously mentioned to better understand before engaging in activities leading to risks. (Sasol, 2022, pp. 1-4)

5.1.6. Governance

The final aspect being considered is the sustainability of governance implemented in the business to ensure that management acts as a custodian for all shareholders and other stakeholders involved. Governance is a field in business that needs to be taken seriously by management so that the business runs as smoothly as possible. Sasol also strives for this because of numerous policies and procedures that are in place which will be discussed, explored, and evaluated. These sound business practices will assure the business is on top of its governance because of its extensive nature and being more inherently exposed to non-compliance. With Covid-19 being a significant factor in operations for Sasol while not

omitting the volatility of business in a macroeconomic realm, a vast number of challenges arose that the business needed to respond to quickly. Responses include the containment of costs and getting leverage under control, with other factors to consider, such as the environmental impact in which regulations must be followed as per laws.

As per the fundamentals of enterprise risk management (Hereafter, ERM), we see five essential concepts for risk management to be mitigated. The first fundamental principle is accountability, which is needed in all businesses regardless of the number of variables considered. Accountability reinforces the idea that the tone is set by top management and risk owners who are accountable for their risks to be optimally equipped to handle these risks in line with the business's shared values. Within any business, the need for relevant business knowledge is the second essential principle. Sasol understood that any events seen as a threat or uncertain to the business are identified and responded to immediately. The responses are in line with the risk appetite and tolerance of the group. Thirdly risk management is event-based. Any reality bringing the risk to life through an event is responded to so that there are no deviations to the strategic business model or business objectives. The magnitude of risks is considered, and risks are ranked to determine the priority of the risks. These risks are regularly and consistently reviewed in light of new information (Sasol, 2021, p. 24).

The fourth pillar leads from the third because the third fundamental principle deals with event-based risk management, and the fourth counters the third with responsiveness in a risk-based scenario. In essence, the fourth encapsulates the response to a volatile and uncertain event that could materially affect the business; this effect will have a tremendous impact on the strategic or financial objectives of the business as well as other objectives that apply to Sasol in their various processes. With that being said, it brings us to our fifth and final fundamental principle of assurance; this principle is aimed at management practices that carry a fair amount of risk. These management risk practices are reviewed and reported to emphasise that management knows its custodian duties. These assurance reports include mandatory oversight and governance structures (Sasol, 2022). The statutory and non-statutory risks to requirements are reported to the stakeholders, ensuring understanding of the business's position. The risks are internal, so we move our attention span within the workplace.

When looking at governance, it is more likely that we will consider the board of directors as they steer the business and give it direction. Looking at Sasol's board, there is independence, which helps with effective unbiased judgement on decisions that affect the business. Therefore, the business can be seen as compliant with the board's composition of the King IV Report on corporate governance. The board's focus is to terminate any non-compliance with the legal framework for the Republic of South Africa. The termination means that the company supports the competition laws applicable to all businesses and other laws such as environmental laws, health and safety while also remembering to always adhere to other mandatory regulations. The last recorded year where all compliance occurred was the 2018

financial year. From the evidence presented in light of this research paper, it can be agreed upon that the governance in these aspects is followed as well as other policies and procedures that might not have been mentioned are utilised to adhere to the essential group requirements and standards of governance (Sasol, 2022).

When something is seen as vital in a business, it needs first to be determined and how Sasol determines this is by a step process which identifies, then prioritises and authenticates a response in which a report is issued. In identifying, we have first to use different perspectives as this can change how things are viewed. A tremendous amount of research is done in the identification phase. Within identifying, there would have been more than one thing identified due to the extensiveness of the research. Through this, we have to rank what was acknowledged once the first two steps are completed for determining material matters and a need to collate an effective response to these priorities as this has a detrimental impact on the business. All factors in the first three steps need to be reported to ensure that management is aware of them and can take a strategic approach to the situation (Sasol, 2021, p. 21).

6. CONCLUSION

The purpose of this research was to utilise the cost versus benefit principle in the context of CSR. Based on the analysis consisting of a dominant qualitative aspect and a minimal quantitative aspect built on the chosen company, the costs associated with CSR are more confidential. However, the total cost of the corporate social investment is an estimated R526.2 million. It can be concluded that the benefit or burden related to that is unquantifiable because CSR is a pervasive concept that will affect the business in different outlooks that are too complex to understand. It means that it may negatively affect one perspective, but another area of concern or multiple areas of concern may be benefited in a manner that exceeds the negative individually or in combination with each other. The findings that have been obtained relate more to the compliance with the company at hand with the various CSR pillars and legal and voluntary frameworks to ensure compliance. In this regard, it can be confirmed that the business complies with all CSR memorandums, whether legal or voluntary, going beyond what is expected to meet constructive societal obligations based on the evidence obtained.

This approach is due to the complexity of this study through understanding and going through the process to obtain this un (Russo & Fouts, 1997) understanding. The expectation was to establish the relation of two variables of cost and benefit for CSR, but in light of the findings, the unquantifiability of benefit is illustrated. The results matched expectations to a certain extent as the business has high costs when looking at CSR, which is backed up by all the activities within the findings that are carried out by the business. However, there was an inability to recognise the benefit because of its complexity. The methodology was followed in most aspects as various sources were used to obtain Sasol's involvement in CSR. The question now arises about the quantifiable benefit of the cost versus benefit principle in the context of CSR. The recommendation for all businesses, in general, is to start

considering the cost and the related benefit when CSR is carried out with a possibility of disclosure where it is allowed if not already carried out.

Despite the unquantifiability of the benefits, everything completed in this research led us to understand that the ability to quantify the benefit has not been developed. The overall CSR relating to Sasol has been described in detail and what their CSR entails. The operations, work, and other aspects have been filtered through to get to their core CSR activities. This article identified the unquantifiability of the benefit of CSR not only in a South African environment but all over the world. The research filled this gap. Due to it being in South Africa, it is the first of its kind from a South African perspective. The research further represents the opportunity to develop a model or framework for the benefit of all persons, from juristic to natural persons.

7. LIMITATIONS OF RESEARCH

- Time – This factor had a significant impact on the extent of research conducted as well as the ability to do more. In addition to this, the Post Graduate Diploma in Accounting Sciences, also known as Certificate in the Theory of Accounting unaccompanied by research, is a challenging year. Most of the time spent was on the four disciplines, which are Accounting 4, Taxation 4, Auditing 4, and Financial Management 4, to keep up to date and understand the work to ensure success at the end of the year. Due to this, research was at the back end of the workload. The circumstances and facts of the year time significantly impacted the quality of work as well as presentation and amount of research completed. Other companies were not considered because of this particular constraint
- Inadequate knowledge of research – Another limitation experienced was the background of the research. In the first attempt to conduct research, an understanding was needed to establish the importance of each chapter of the dissertation and ensure that the information presented is in line with the status quo. The inadequate knowledge further contributed to the time constraint.
- The actual cost spent on CSR – The costs of the majority of the projects were not disclosed, which led the research to be more qualitative than quantitative. Even though a total was disclosed, the aim was to break down the total into its components and understand the benefits individually to ensure maximum benefit from each project. Furthermore, to understand the ranking of prioritisation.
- Unquantifiability of benefits – The benefits were unquantifiable due to the pervasive nature of CSR. The business could not pinpoint the direct benefit due to the endless possibilities that could be experienced.
- The access to 2022 financial statements has not been granted or published – The company has a financial year end of 30 June. Sasol is a company with an enormous financial footprint. Therefore, the consolidation process is complex and takes time. In addition, it still needs to be

audited and presented at the Annual General Meeting before being issued to the public. Considering all these factors, access to financial statements is currently doubtful, bringing the probability to 0.

- Inability to access internal confidential documents and information needed – Certain pieces of information are confidential and not available to the public because these amounts could not be retrieved and analysed for purposes of the research.

8. AREAS FOR FURTHER RESEARCH

- To conduct a study on other companies and/or industries and/or countries based on their corporate social responsibility to the cost versus benefit and compare with this research or other research.
- To compose a model or framework to measure the cost versus benefit in the context of corporate social responsibility
- Other related topics to CSR as this concept is unlimited.

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ASSESSING THE ADOPTION LEVELS OF PRINCIPLES OF IMPACT INVESTING BY ASSET MANAGEMENT COMPANIES IN SOUTH AFRICA

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Abstract

Impact investing is an investment strategy that aims to generate both a financial return as well as a positive social or environmental impact (or both). Impact investment funds offer market-related returns alongside creating a positive impact (targeting themes such as renewable energy, job creation, and affordable healthcare). This makes them compelling investments. The objective of this research paper was to investigate the level of adoption of principles of impact investing by asset management companies (AMC) in South Africa. This was achieved through a document analysis by inspecting the investment funds offered by asset management companies in South Africa. The data was collected from various types of documents available on the AMC websites, such as fund fact sheets, brochures, minimum disclosure documents (MDD), and impact reports. The results of this research revealed that 11% of AMCs offered impact funds with a total of 37 impact funds offered by AMCs in South Africa. Previous studies have researched the adoption of impact investing from a global perspective, the value of impact investing, measuring impact in impact investing, and opportunities and challenges of impact investing. This study is unique as it provides new evidence regarding the level of adoption of impact investing by asset management companies in South Africa and provides comprehensive insight into how the funds are set up and offered. The adoption of impact investing and the offering of impact investment funds are possible solutions for improving the current economic, environmental, and social state of South Africa.

Keywords: Impact investing, Impact funds, Social impact, Environmental impact, Sustainability, Asset managers, South Africa.

1. INTRODUCTION

1.1 Background

The current state of South Africa and its economy leaves much to be desired. Statistics quantify the extent of the crises causing daily suffering to many South Africans. Quarter 1 results from Statistics South African (StatsSA) (2022a) represent unemployment (expanded definition) at 45.5%. Assessing the education crisis reveals, 29,3% of pupils aged 18 years and 46,3% of 19-year-olds had dropped out of school, with reasons for non-attendance being illness, disability, poor academic performance, and lack of money for fees (StatsSA, 2022b). South Africa's healthcare is entrenched in inequality, 71,9%

of households rely on public healthcare while only 27% of private healthcare (StatSA, 2022c). Housing is also an issue with only 80,1% of SA households living in formal dwellings. 13,6% live in RDP houses, however, around 10% had concerns regarding the quality of the walls and roofs (StatsSA, 2018). Furthermore, only 45.2% of households had access to piped water in their dwelling (StatsSA, 2022c). These key metrics reveal the extent of the lack of basic goods and services for the majority of South Africans.

Social and environmental issues, similar to the ones presented above, have sparked responses in the private sector, both locally and globally, through initiatives such as environmental, social, and governance (ESG) integration as well as Corporate Social Responsibility (CSR). However, the market sentiment has been that there is no or a weak correlation between making a social or environmental impact and receiving a financial return. Therefore, in a capitalist society, there has been a lack of profit motive to solve the social and environmental issues South Africa faces (Urban and George, 2018:62). Perhaps more robust, and innovative responses are required to contribute to solving South Africa's problems while also attracting investors.

Impact investing is one of these more robust and innovative solutions. According to the Global Impact Investing Network (GIIN) (2022a), Impact investing is an investment strategy to produce a social or environmental impact while also yielding a financial return ranging from return on capital to market-related returns. The objective of impact investing is to provide capital to organisations that have the aim of solving the challenges society faces – such as job creation, accessible and affordable housing, healthcare, education, and micro-financing as well as environmental issues such as climate change, the need for renewable energy (GIIN, 2022a).

According to the UN Principles of Responsible Investment (PRI) (2022), Impact investing is a type of responsible investment (RI) strategy (also known as investing for impact (IFI)). Responsible investing encompasses a broader range of investment objectives and criteria. Examples of responsible investment approaches are ESG integration, ethical screening, investor engagement, and impact investing (PRI, 2022). According to Giamporcaro, Dhlamini, Matshaka, Jhavary, and Leaf-Wright (2022), South Africa has 357 IFI funds, with impact investing and sustainability-themed investing attracting the least amount of assets when compared to ESG integration and screening which attract the most amount of assets.

It may seem that impact investing is interchangeable with the other RI approaches, however, impact investing has core principles that differentiate it from the other RI strategies. Below is a table differentiating the RI approaches.

Table 1: Table Showing the Differences between the RI Approaches as well as CSR.

	Sub-category	Description
Responsible Investment (RI) approach:	Impact investing:	Impact investing is an investment strategy to generate a financial and social and/or environmental return (GIIN, 2022a). Impact investing is intentional and examines the impact the core business model of the organisation creates.
	ESG incorporation	Considering Environmental, Social, and Governance (ESG) issues include <i>Integration</i> and <i>screening</i> . <i>Integration</i> is the inclusion of ESG factors into the investment decision-making process. <i>Screening</i> involves ruling out potential investees based on ethical criteria (Principles of Responsible Investment, 2022). ESG often fails to consider the core business model of the organisation (Shell is rated AA by MSCI ESG rating, an example of a bad player with good ESG (Shell, 2022))
	Investor engagement	Investor Engagement is a strategy whereby investors partake in decision-making through proxy voting and board participation to improve the existing investee’s ESG or other business practices (Principles of Responsible Investment, 2022).
Good Corporate Citizenship	Corporate Social responsibility (CSR):	CSR is doing good for the society around you. CSR is philanthropic and there is no expectation of a financial return (Corporate Finance Institute, 2022b).

Source: Author’s Compilation from various sources.

There are a variety of ways the principles of impact investing are implemented. The following is an example of a successful company demonstrating the power of impact investing. Leapfrog's slogan – “*Profit with purpose: outstanding financial return and outsized impact*” demonstrates the fundamental principle of impact investing. In 2021, Leapfrog’s portfolio of impact investments achieved \$3.6 billion in revenue and 27% revenue growth (Leapfrog, 2022a). One of Leapfrog's impact investments is a R50 million investment in AllLife which provides affordable life cover for people living with HIV or Diabetes in South Africa. AllLife has grown into a profitable business (financial return) while delivering impact by offering life cover to a category of policyholders that have been previously neglected (or offered at exorbitant premiums) by normal life insurance providers as they were seen to be ‘uninsurable’ (GIIN, 2022b). After Leapfrogs investment in AllLife, its revenue doubled, and has become an impact

investing success story reaching 100 000 people and selling \$751 million in life cover (Leapfrog, 2022b).

1.2 Research Problem and Question

1.2.1 Research Problem

Having introduced the topic of impact investing and providing the background above, the problem, that this research aims to solve, is that it is unclear what the level of adoption of impact investing by AMCs in South Africa is. The reason for it being unclear is that it is a relatively new concept (first introduced in 2007 by the Rockefeller Foundation) and remains fairly under research (McCallum & Viviers, 2020).

1.2.2 Research question

What is the level of adoption of principles of impact investing by AMC in South Africa?

1.3 Objective, Scope, and significance

1.3.1 Objective

The objective of this research paper is to assess the level of adoption of principles of impact investing by asset management companies (AMCs) in South Africa. Furthermore, achieving the above objective will provide insight into how AMCs are adopting impact investing (consequential objective). If an asset management company offers clients an impact investment fund that is based on principles of impact investing, it can be established that the AMC is adopting impact investing. This research paper will assess to what level AMCs are adopting impact investing.

1.3.2 Significance

This study is significant as there is no other research that provides comprehensive data regarding the current level of adoption of impact investing by asset management companies in South Africa. By recording the current level of adoption by AMCs, it is valuable for future research that could use the data this paper aims to provide to track the future growth of impact investing. The study will also contribute insight regarding the way AMCs are adopting the principles of impact investing (type of impact, size [AUM], and the number of funds). Furthermore, it will identify any challenges regarding the adoption of impact investments.

1.3.3 Scope

According to Hand, Dithrich, Sunderji, & Nova (2020), asset managers make up 65% of the world's impact investors. As they represent the largest proportion of impact investors, Asset Management Companies (AMC) in South Africa will be the target of this study.

1.3.4 Limitations

This study is not without its limitations. Firstly, since the study only assesses asset management companies, there may be impact investments held by other types of entities (such as venture capital

firms, pension funds, and foundations or NGOs) which are excluded from the data collection and findings. The implication of this is that the study will provide data for the adoption of impact investing by AMCs and not *all entities* in South Africa. Secondly, no database of impact funds exists in South Africa thus, the accuracy of the findings is based on the author's ability to identify impact fund offerings by AMCs.

1.4 Other important definitions

An *Asset management company* is “a firm that invests a pooled fund of capital on behalf of its clients. The capital is used to fund different investments in various asset classes” (Corporate Finance Institute, 2022a).

Assets under management (AUM) is the “total market value of the investment that a person or entity manages on behalf of clients” (Investopedia, 2022).

Investment funds are “investment products created with the sole purpose of gathering investors' capital and investing that capital collectively through a portfolio of financial instruments such as stocks, bonds, and other securities” (European Commission, 2022).

Impact investing is defined within the research paper.

2. LITERATURE REVIEW

2.1 Understanding Impact Investing

According to Rangan, Appleby and Moon (2012:1), the fundamental purpose of impact investing is to significantly contribute to solving the many social and environmental problems the world faces. The intention is not to replace philanthropy or government aid, but rather to add a market-based approach to supporting positive social and environmental change.

Monteiro (2016) claims that a key characteristic of impact investing is that it is intentional. The investor's intent needs to be a social or environmental impact, this impact must not be accidental. This is also how impact investing differs from other socially responsible investing which tends to “screen for harm” rather than explicitly seeking positive impact (Rangan et al., 2012:2).

There is a misconception that investments that target social and environmental impact cannot yield a financial return (Urban & George, 2018:62). However, Ragan et al. (2012:1) suggests impact investing is breaking this misconception and creating opportunities for positive social or environmental impact organisations to access capital from investors looking for financial returns in addition to measurable social and environmental results. Thus, impact investing is for investors who want to “do good while doing well” (Brest & Born, 2013).

2.2 Global Overview of Impact Investing

2.2.1 Size and Characteristics of the Global Impact Investing Market

According to Hand et al. (2020:40), as of the end of 2019, the current estimated size of the impact investing globally is USD 715 billion in assets under management (AUM) by 1 720 organisations. This market is made up of a range of different types of investors, geographical locations, and investor sizes. This is compared to the end of 2018 which estimated the size of the impact investing industry to be USD 502 billion AUM (Mudaliar, Bass, Dithrich & Nova, 2019). This shows a year-on-year growth of 42%.

Comparatively, at the end of 2019, globally, the value of AUM was USD 90.7 trillion (Statista, 2022). Making impact investment market a 0,8% portion of the total global market. At the end of 2018, the total value of AUM globally was USD 79.1 trillion, showing a year-on-year growth of 14,6%. From this, it appears that the impact investing industry is growing faster than the total industry (42% growth compared to 14,6%)

Research done by Hand et al. (2020:1) reveals that, based on 294 respondents, the organisation types adopting impact investing are made up of 65% asset managers (51% for-profit, 14% Not-for-profit), 14% foundations, 5% DFIs, as well as small percentages of pension funds, insurance companies, family offices, and other organisations.

The research also reveals that 77% of impact investors are located in developed countries, with most impact investors being located in the USA (45%) and Europe, and the United Kingdom (26%). In 2019 7% of organisations adopting impact investing were situated in various African countries (Hand et al., 2020:2).

Furthermore, the research reveals that from a global perspective, the most prevalent asset class (ranked by AUM) is private debt (21%), followed by public equity (19%), private equity (17%), publicly traded debt (17%), and real estate (17%) as well as small percentages of equity-like debt, cash, and other asset classes (Hand et al., 2020:36).

Finally, impact investments are made in a wide range of sectors. The sectors include energy (e.g. renewable energy), financial services (e.g. microfinance), forestry, food and agriculture, housing (e.g. affordable urban housing), healthcare, and also includes infrastructure (e.g. clean water for rural communities), and education. With 60% of impact investors targeting both social and environmental impact, 34% social impact, and 6% environmental impact (Hand et al., 2020:33,44).

2.3 Generating a Financial Return with Impact Investing

The financial return is core to the principles of impact investing. According to Mogapi, Sutherland & Wilson-Prangley (2019:398), it is generally accepted that impact investing includes a financial return ranging from capital preservation to above-market rates.

Rangan et al. (2012) distinguish between two types of impact investors: *Impact first investors* and *financial-first investors*. Impact-first investors' main intention is accomplishing social or environmental impact and is more likely to accept lower financial returns (at least capital preservation), while financial-first investors' main intention is to yield a financial return, with the social or environmental impact being secondary” (Rangan et al., 2012:3; Derwall, Koedijk & Horst, 2011).

According to global research done by Hand et al. (2020:4), out of 294 respondents, the majority of investors (67%) target risk-adjusted market-rate returns, while 18% of impact investors target close to, but below, market rates and 15% target capital preservation. This substantiates the research by Rangan (2012) and Mogapi et al. (2019) that impact investors' target range of financial returns from capital preservation to above-market rates. Furthermore, 20% of impact investments outperformed financial expectations, while 68% were in line with expectations and 12% underperformed (Hand et al., 2020).

2.4 Opportunities and Challenges for Impact Investing in South Africa

2.4.1 Barriers and Challenges

Even though the main objective of this research is not to assess opportunities and challenges, understanding the barriers to impact investing will help understand the reasons why lower levels of adoption might be observed. Barriers and challenges should be overcome for the market to grow and achieve higher levels of adoption. These barriers are mentioned in the literature reviewed.

Impact investing is still regarded as a “niche market” and is still in its early stage of development (McCallum & Viviers, 2020:3). Consequently, institutional investors could deem the impact investing market too high risk due to a lack of widespread track record or recorded success stories and thus not in their client's best interest (Sales, 2015:32).

Sales (2015:31) discusses another challenge for investors is difficulty sourcing investments that meet both the financial and positive impact expectations. While according to Burand (2015:59), there is a lack of “high-quality investment opportunities with track records”. This is confirmed by research by McCallum & Viviers (2020:6) whereby interviewees confirmed the shortage of “investment ready deals” presented the greatest barrier to impact investing. The shortage of “investment-ready deals” was due to impact investments being in the early stages of the lifecycle (rather than later-stage which is more appealing) and not being financially worthwhile (McCallum & Viviers, 2020:6).

Furthermore, it was also noted in McCallum & Vivier's (2020:6) research that there is a "negative perception" among South African Investors that impact investing cannot generate market-related risk-adjusted returns. However, the asset managers interviewed by McCallum & Viviers (2020:6) said this perception is "unfounded".

One of the core characteristics of impact investing is being "measurable" (GIIN, 2022b). While Bozean (2013:19) believes, "we can only achieve what you can measure." Despite this, impact investing does not have a globally established system of measuring social and environmental impact (Urban, 2018). Measurement of impact is a complex element of impact investing, and the lack of a standardised measurement system makes it challenging to compare and evaluate the impact of investments (Sales, 2015).

In contrast to this, in research by McCallum & Viviers (2020:6) it was found most asset managers in South Africa believed that there are "enough standardised metrics available to measure impact" (such as IRIS+). However, these available systems are criticised as being "restrictive" and not fully "satisfactory". Consequently, investors develop their metrics for investments to measure impact which has led to inconsistency in tracking impact.

McCallum & Viviers (2020:6) further found that a shortage of knowledge on how to report impact and a lack of a reporting standard on impact makes reporting impact "inconsistent and not comparable".

2.4.2 Opportunities

According to Mudaliar, Moynihans, Bass, Roberts and DeMarsh (2016a), while impact investing is still in its early stages it has the potential for a lot of growth. Impact investing is observed to be not only one of the fastest-growing Responsible Investing strategies worldwide but one of the fastest-growing investment strategies (Mayor, 2019; Mudaliar, Pineiro, & Bass, 2016b).

Research by McCallum & Viviers (2020:7) confirmed that the local South African impact investment market is growing through an increased number of impact investments managed. However, it was noted that interest is growing more than the actual demand for impact funds.

There are other opportunities frequently mentioned in the literature. Opportunities should be taken advantage of to gain higher levels of adoption of impact investing. The ability to return risk-adjusted, market-related returns (as mentioned above in the section: generating a financial return) and the ability to generate a social and environmental impact (as mentioned above) are two of the most commonly mentioned opportunities in literature (McCallum & Viviers, 2020:9; Mogapi et al., 2019:409).

2.5 Summary of Principles of Impact Investing

The above literature review presents the characteristics that make up the principles of impact investing. The main characteristics are: investments made to generate an intentional and measurable positive impact with a financial return (across a range of asset classes). The adoption of these principles will be analysed to assess the level of adoption.

3. METHODOLOGY

3.1 Research Methodology

The objective of this study is to assess the level of adoption of impact investing by asset management companies in South Africa. Document analysis as a qualitative research method will be utilised to achieve this objective. Bowen (2009) defines document analysis as “a systematic procedure for reviewing or evaluating documents—both printed and electronic material ... to elicit meaning, gain understanding, and develop empirical knowledge.” According to Bowen (2009), document analysis produces data that is organised into themes or categories to be assessed. A document analysis of the current funds offered by asset management companies in South Africa will be completed to accomplish the research objective.

3.2 Research Approach

3.2.1 Steps to Follow in the Document Analysis

Since no South African database of South African impact investment funds exists, creative problem-solving was required to identify impact investment funds offered by asset management companies (AMCs).

Step 1: A list of asset management companies in South Africa was required. This was done by obtaining a list of institutional investors from the South African Reserve Bank (SARB) and filtering the list to represent only asset management companies. In this way, 105 AMCs were discovered.

To present a more accurate presentation of the level of adoption of impact investing, no sample was selected. Rather the full list of AMCs was tested. This was since some smaller, boutique AMCs were formed to offer impact investment funds. Selecting a sample of AMCs (for example ranking them based on AUM size) would scope out the smaller AMCs.

Step 2: To identify whether the identified AMCs offered an impact fund, the following formula was applied to each AMC on the list:

The following formula was inputted into a search engine (Google). The formula contains keywords that, if the AMC was adopting impact investing, would trigger a result on the AMCs website and thus be able to identify whether they offer an impact investment fund.

The formula is: “AMC name” + keywords

Keywords = “impact investing”; “Impact investment”; and “Impact fund”

In a table in excel, it was recorded whether these keywords were mentioned on the AMCs website (yes or no). If these keywords were mentioned, further research was done on the fund (refer to step 3). If no mention of the keywords on their website, then it would be fair to assume that the AMC does not offer an impact investment fund.

Step 3: To *obtain information regarding the impact investments*, documents were required to be sourced. AMCs have comprehensive websites, with the majority disclosing information regarding their funds or offerings. This is done employing fund information, fact sheets, and minimum disclosure documents (MDD). Furthermore, many AMCs publish reports. The above documents are all publicly available on AMC's websites and were analysed to extract further information regarding the impact of the investment.

Step 4: The following criterion was established, using principles of impact investing from the literature review, to achieve the objective of assessing the level of adoption of Impact investing.

Table 2: Criteria for Assessing the AMCs

	<i>Example:</i>
The number of impact investment funds offered by the AMC	2
<u>Fund 1:</u>	
Name of the Impact Investment fund	<i>Impact Fund</i>
Size of the Impact Investment fund	<i>R 600 million</i>
Type of impact investment (social, environmental, or both)	<i>Both</i>
Description of Fund	<i>Impact fund investing in renewable energy.</i>
<u>Additional characteristics (not all impact funds disclosed):</u>	
Capital structure / Asset class	<i>Private Equity</i>
Minimum investment	<i>R 10 000</i>
Target return	<i>CPI + 4%</i>
Fund Performance	<i>12%</i>
Measurement of impact tool / Impact KPI	<i># Job Creation and KWh renewable energy generated</i>

Impact Performance	<i>5 000 jobs created and 10 000 KWh generated</i>
Disclosure type	<i>Impact report</i>

Source: author's compilation.

Step 5: For every impact investment fund offered by the identified AMC impact investors, data was collected in an excel table in response to the criteria in table 2 (above).

Step 6: The data were analysed in the findings section (4.2).

4. RESULTS AND DISCUSSION

4.1 Findings

The results of the data collection will be discussed and analysed in this section. Refer to Appendix 1 for the results of the data collection step 2. Below find the findings from step 4.

Table 3: Representing the Data Collection for Step 4 Assessing the Adoption Levels of Principles of Impact Investing

Asset management company (AMC)	Assessing the adoption of the principles of impact investing											
	Number of Impact Investing funds offered by the AMC	Names of the Impact Investment funds	Size of the fund (Assets under management) in R 'million	Type of Impact Investment (social, environmental or both)	Description of the impact of the fund:	Additional:						
						Capital Structure / Asset Class	Minimum investment	Target return	Fund (Financial) performance	Measurement of impact tool Impact KPI's	Impact Performance	Disclosure type (fund fact sheet, sustainability report)
Aluwani Capital Partners Pty Ltd	1	Aluwani Alternatives	700 (target R 3 000)	Both	"The Fund favours high impact and infrastructure investments with the aim of creating employment and sustainable essential services, whilst providing access to high yielding assets for investors. The Fund has a broad mandate across sectors, with a particular emphasis on opportunities that promote environmental awareness, social cohesion and economic development" (Aluwani, 2022).	Unlisted credit and equity	R 50 million	CPI + 5%	N/A	N/A	N/A	Brochure
Ashburton Fund Managers Pty Ltd	1	Atlantics Credit Enhanced Fund	680	Social	"The fund invests in unlisted credit opportunities that provide measurable, positive social impact, including the tracking of job creation at a portfolio level" (Ashburton, 2017).	unlisted credit	N/A	CPI + 3%	N/A	tracking job creation	N/A	Alternative Investing Document
Melville Douglas Investment Management Pty Ltd	1	Global Impact Fund	10 194	Both	"The objective is to be provide long term capital growth by investing in companies where the business model is highly aligned to achieving a positive impact on society and the environment" (Melville Douglas, 2022).	Equity	Class A: R 250 000 Class X: R 1 600 000 000	N/A	-10,42%	N/A	N/A	Minimum Disclosure Document (MDD)
Momentum Alternative Investments Pty Ltd	4	Momentum Impact fund	300 - 500	Both	Access to a portfolio of impact assets across the three sub-funds (below).	unlisted private equity and debt	N/A	CPI + 6%	N/A	N/A	N/A	Brochure
		Momentum Alternative Energy Fund		Environmental	"The portfolio invests in the equity and debt instruments of sustainable energy companies and projects. Sustainable energy companies are those which are engaged in alternative energy technologies" (Momentum, 2021).				N/A	N/A		
		Momentum Social Infrastrucutre Fund		Social	"Investments are aimed at supporting the provision of student housing in the high quality affordable housing as well as rural and peri-urban retail shopping centres " (Momentum, 2021).				"providing early yield"	measurable impact metrics as part of the Impact Measurement and management Framework		
		Momentum Diversified Infrastrucuture Fund		Social	"This is a impact portfolio that is invested in core infrastructure assets that provide essential services and have measurable impact outcomes" (Momentum, 2021).				13% distribution yield	N/A		

Old Mutual Alternative Investments Pty Ltd	5	Education Investment Impact Fund of South Africa	1 400	Social	"EduFund aspires to make a positive impact in the education sector in South Africa, across selected sub-sectors and market segments, as well as meeting other socially responsible investment objectives, such as contributing to employment creation, transformation and environmental sustainability" (Old Mutual, 2022).	Debt and Equity	N/A	"Attractive risk adjusted returns"	N/A	27 000 leamer capacity goal	1 200 leamer capacity to date	Website
		Housing Impact Fund South Africa (HIFSA)	9 150	Social	"HIFSA invests in various aspects of the housing value chain, from the development of housing projects, rental accommodation and student accommodation, through to the provision of mortgage and incremental housing finance, with a focus on the Affordable Market segment" (Old Mutual, 2022).	Debt and Equity				40 000 Houses and even transferred Rental units and student beds financed	17 500 Houses & even transferred 17 300 Rental units and student beds transferred	
		Old Mututal Retirement Accomodation Fund (OMRAF)	2 000	Social	"OMRAF invests in new developments and existing facilities, across life right, sectional title, freehold and rental typologies, as well as associated retirement services, in partnership with experienced developers, specialist operators and service providers, to provide quality retirement accommodation solutions to the retired market" (Old Mutual, 2022).	Debt and Equity				Units completed	1 400 completed units 400 units under construction	
		Schools and Education Investment Impact Fund South Africa (SEIIFSA)	1 400	Social	"SEIIFSA's objective is to provide investors with attractive risk-adjusted returns by making investments that improve the quality of education in South Africa, with a primary focus on the upgrading of existing or building of new independent schools in the Affordable Market segment"	Debt and Equity				Number of schools invested in and learners passed through the schools (goal 30 000)	39 Schools and 23 600 learners	
		Financial Sector Charter Fund	8 000	Social	"The Financial Sector Charter Fund (FSC Fund) makes direct investments and investments into other impact funds managed by OMAI, across the Housing, Education and SMME & Consumer Finance sectors in South Africa, with a focus on the Affordable Market segment" (Old Mutual, 2022).	Debt and Equity				SME and consumer loans	357 100 SME and consumer loans financed	
Prescient Investment Management Pty Ltd	1	Prescient Clean energy and Infrastructure Debt Fund	1 700	Both	"An actively managed fund, currently housing 16 projects. Fund investments include wind, solar and water assets" (Prescient, 2021).	Debt	N/A	CPI + 4,5%	9,31%	N/A	N/A	Sustainability Report
Public Investment Corporation	4	Developmental Investments South Africa	N/A	Social	"The Developmental Investments South Africa Portfolio's purpose and objective is to invest in unlisted South African entities to achieve the defined return and developmental objectives" (Public Investment Corporation (PIC), 2022).	Debt and Equity	N/A	Only mention that the is an aim to achieve "Financial returns"	N/A	N/A	N/A	Website
		Developmental Infrastructure Investments South Africa		Both	"To invest in unlisted South African based entities, established for the purposes of developing and/or maintaining infrastructure (Environmental, social and economic [e.g. renewable energy, recycling, affordable housing and education]), while aiming to achieve financial and developmental returns" (Public Investment Corporation (PIC), 2022).							
		Developmental Investments Rest of Africa		Social	To invest in unlisted African (excluding South Africa) based entities for the purposes of achieving financial and developmental returns" (Public Investment Corporation (PIC), 2022).							
		Developmental Investments in Intermediaries in South Africa		Social	"To provide capital to intermediaries in South Africa for the purpose of investing in South African-based entities to achieve financial and developmental returns (e.g. SME financing)" (Public Investment Corporation (PIC), 2022).							

Sanlam Investment Management Pty Ltd	7	Resilient Investment Fund	280	social	"The Resilient Investment Fund is a private debt fund that focuses on lending to established SMEs in South Africa (that provide basic needs such as housing, education, energy and access to financing) and which require capital to continue to grow, but are not able to access finance from traditional sources, due to the constraints of the lender" (Sanlam, 2021a).	Debt	R 20 million	Jibar + 3%	9,53% since inception (annualised)	Houses built # Jobs created homes with green energy supplied	3 274 Houses built 472 Jobs created 64 homes with green energy supplied	Sustainable investments and impact report
		Investors Legacy SME debt fund	1 000	Social	"This strategy provides debt finance to good quality SMEs in various sectors that have been negatively impacted by the coronavirus pandemic. The intention is to generate financial returns for investors while preserving and creating jobs" (Sanlam, 2022a).	Debt	R 50 million	3 month JIBAR + 6%	N/A	Use IRIS+ to measure KPIs such as job preservation, growth, access and quality	N/A	Website
		Investors Legacy Private Equity Fund	3 000	Social	"This strategy provides equity and quasi-equity liquidity to medium-sized South African companies to ensure business continuity, with a focus on job preservation, inclusive growth and job quality, while seeking equity returns across a diversified portfolio of investments" (Sanlam, 2022a).	Equity		3 month JIBAR + 2-3%				
		Investors Legacy Corporate Debt Strategy	3 000	Social	"This strategy provides debt finance to medium and large-sized corporates negatively impacted by the coronavirus pandemic but have strong underlying credit fundamentals and are likely to deliver strong financial performance post-pandemic. This strategy also aims to preserve and create jobs" (Sanlam, 2022a).	Debt		25% IRR				
		Climate investor one	14 162	Both	"Climate Investor One, Climate Fund Managers' first facility, is focused on renewable energy infrastructure" (Sanlam, 2021b).	N/A	N/A	N/A	N/A	Renewable power production employment Annual Avoided GHG Emissions	In 2020: 546 GWh produced 7 357 employed 228 770 GHG emissions avoided 1 148 224 people with improved access to Renewable energy	Sustainable investments and impact report
		Climate investor two	11 236	Both	"Climate Investor Two is a financing facility mandated to invest in water, sanitation and ocean infrastructure projects" (Sanlam, 2021b).	N/A	N/A	N/A	N/A	5.5 billion litres of water and waste water treat supply 14 million people with safe access to water 4 million to sanitation avoid 3.5 million tins of CO2 emissions Restore 75 000 hectares of wetland and coastal eco systems	N/A	Sustainable investments and impact report
		Sustainable infrastructure Fund	5 000	both	"Invest in assets across renewable energy, conventional energy, transportation, communication, water and waste-related assets. The projects we select provide additional benefits to our communities and our country. Key benefits include: job creation, increased economic activity, improved consumer and business confidence, while long-term benefits include: increased economic capacity and high forward linkages to the wider economy for future generations" (Sanlam, 2022b).	Debt and Equity	R 25 million	CPI + 4,5%	N/A	N/A	N/A	Brochure

Stanlib Asset Management Pty Ltd	2	Khanyisa Impact fund	3 000	Both	"The Fund's focus is to make credit investments into assets that display measurable impact benefits. Underpinning this approach is the global drive to meet the Sustainable Development Goals (SDGs) launched by the United Nations in 2015 to help meet a wide range of developmental targets by 2030. 3 themes: Infrastructure (e.g. affordable housing, healthcare, education); Financial inclusion (e.g. SME financing); and agriculture (e.g. food security)" (Stanlib, 2022).	Debt	N/A	CPI + 4%	N/A	qualitative and quantitative Social Return on Investment (e.g. number of housing units built); CO2 emission reduction	N/A	Brochure
		Infrastructure Investment Fund	10 000	Both	"STANLIB Infrastructure firmly believes that private sector capital will play an increasing role in funding the upgrading and maintaining South Africa's infrastructure base as well as have a significantly positive impact on surrounding local communities as well as actively engaging around environmentally sustainable business practices, corporate governance and has a specific focus on social impact initiatives in local communities" (Stanlib, 2021).	N/A	N/A	CPI + 4%	N/A	Job creation Tonnes of CO2 saved Social economic development expenditure	N/A	Presentation
Futuregrowth Asset Management	7	Agri-Funds (3 similar funds at varied lifestages)	N/A	social	"The funds aim to provide investors with a developmental vehicle that facilitates agricultural development, farming infrastructure, social, environmental and economic development in southern Africa, and incorporates a proven investment model to address sustainable rural development and agricultural initiatives" (Futuregrowth, 2022a).	Debt and Equity	N/A	CPI + 10%	N/A	main theme: # Jobs created (permanent and seasonal)	Agri-Fund 2; 2 287 Seasonal workers 391 Permanent workers employed	Fund Fact sheet & Impact report
		Community Property	5 800	social	"The Futuregrowth Community Property Composite is a portfolio specialising in the acquisition of new and existing shopping centres which cater to the needs of underserved communities throughout South Africa and forms part of Future-growth's suite of developmental investments" (Futuregrowth, 2022b).	Property	R 25 million	CPI + 4%	13,06% Since inception	# Jobs created	10 541 Jobs created in total	Quarterly report
		Development equity	3 400	Both	"The Futuregrowth Development Equity Composite, a portfolio specialising in equity and related investments in socially responsible projects and businesses or developmental assets, forms part of Futuregrowth's suite of developmental investments" (Futuregrowth, 2022c).	Equity, mezzanine and debt instrument (unlisted)	at managers discretion	CPI + 10%	N/A	Renewable energy produced # Jobs created % woman in leadership economic empowerment of PDIs Transformation	5 534 Direct jobs created 83% held by black	Impact report
		Infrastructure & Development Bond	17 900	Both	"The Fund aims to provide investors with a vehicle that facilitates infrastructural, social, environmental and economic development in southern Africa and delivers on a variety of social impact outcomes such as job creation, affordable housing, access to services and healthcare" (Futuregrowth, 2022d).	Debt	R 15 million	All bond index + 1%	12,02% since Inception (annualised)	Renewable energy produced # Jobs created % woman in leadership economic empowerment of PDIs Transformation	62 567 Direct jobs created 83% held by blacks	Impact report
		Power Debt	10 000	Both	"The Fund is largely invested in renewable energy deals that form part of the Department of Energy's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). The Fund delivers on a variety of social impact requirements such as job creation & skills transfer" (Futuregrowth, 2022e).	Debt	R 50 million	STeFI +2.25%	10,19% since Inception (annualised)	Renewable energy produced # Jobs created % woman in leadership economic empowerment of PDIs Transformation	1 043 Direct jobs created 83% black held	Impact report

Mergence	3	Mergence Infrastructure & Development Equity Fund	953	Both	"The Fund will focus on building a diversified portfolio of infrastructure and developmental assets that will meet the Fund objectives of supporting economic growth and infrastructure development while yielding sound returns to investors. Socio-economic infrastructure assets include renewable energy plants, social housing, student accommodation, schools, energy efficient programmes and hospitals" (Mergence, 2022a).	unlisted equity & quasi equity (mezzanine debt)	N/A	CPI + 7%	16,94% since inception (annualised)	impact metrics such as local content, local procurement, and local ownership, housing and job creation.	N/A	Fact sheet
		Mergence Infrastructure & Development Debt Fund	377	Both	"The Mergence Infrastructure & Development Debt Fund is a socially responsible fund that invests in projects, businesses, organisations and funds that encourage and enhance growth and development in South Africa. This Fund aims to invest in debt investments issued to create positive and sustainable social and/or economic impact beyond the financial return" (Mergence, 2022b).	Unlisted and listed Debt	R 100 million	CPI + 3%	9,42% since inception (annualised)	The Fund utilises a detailed process to evaluate and verify the social and environmental impact of each investment. Approved investments will be expected to achieve the Fund's financial return objectives, whilst also satisfying social impact, environmental and governance criteria.	N/A	Fact Sheet
		Mergence Renewable Energy Debt Fund I & 2	616	Both	"The Mergence Renewable Energy Debt Fund is a Development Impact Fund which seeks to provide commercially viable investments into the renewable energy sector enabling investors to achieve targeted investment returns together with social and environmental impact" (Mergence, 2022c).	Debt	N/A	3 month JIBAR + 3%	10,47% since inception (annualised)	The Fund aims to invest in projects which are structured to deliver socio-economic targets in excess of the minimum thresholds, therefore taking into account local content, local procurement, and local ownership and job creation.	N/A	Fact sheet
Novare	1	Novare South African Impact Fund	2 000 (aim, still funding)	Both	"Any investment made by the fund will address one or more of the UN's 17 Sustainable Development Goals that are aimed at ending poverty, protecting the planet, and ensuring prosperity for all, with the objective of achieving a more sustainable planet by 2030 and making the world a better place" (Novare, 2022).	Equity	N/A	CPI + 12%	N/A	N/A	N/A	Website

Source: Author's Compilation.

4.2 Analysis of Findings and Discussion

Table 3 and 4 (above) provides helpful insight into the level of adoption of impact investing and shows how AMCs have taken the principles of impact investing and adopted them to offer an impact fund offering.

As per the table above, 109 Asset management companies (AMC) were assessed whether they offered impact investments as fund options. Out of the 109 AMCs, 12 AMCs (11%) offered one or more impact investment funds. In total, out of the AMCs tested, 37 Impact investment funds were identified with total assets under management (AUM) of R 127 448 000 000.

In comparison, 1 547 funds are managed in total in South Africa (Giamporcaro et al., 2022). According to Alexander Forbes (2020), these asset managers manage in total R 5 441 billion in AUM. Therefore, it can be estimated impact investing represents 2,3% of the total of South Africa's asset managers' AUM and about 2,3% of the total number of funds. In the literature review, it was observed that the global impact investing market makes up 0,8% of total global AUM. This comparison could indicate that South Africa is experiencing higher levels of market penetration of impact investing compared to global penetration.

Based on the findings, the average AUM per asset manager is R 11 586 million (USD 714 million at a spot rate of R16,22: 1 USD). This compared to the global research by Hand et al. (2020) which found that on average respondents managed USD 1.4 billion. It can be concluded that on average South African AMCs are managing smaller sizes of funds compared to the global average which could indicate lower levels of adoption regarding average AUM size.

Based on Table 3 (above), the average number of impact funds offered was 2,8 funds per fund manager. Futuregrowth and Sanlam both offer the greatest number of funds (being 7). Both Sanlam and Futuregrowth also have the biggest AUM, each being around R 37 billion (USD 2,28 billion). This is above the global average.

The descriptions of the funds (as recorded in Table 3) confirms that 100% of the impact investment funds are intentional for achieving positive impact (social or environmental). *Intentional for positive impact* are core characteristics of impact investing which make up the principles.

The findings, furthermore, provide insight regarding the type of positive impact the investments are targeting. As can be seen in Figure 1 (below), 51% of impact funds target social impact, 46% of funds target both social and environmental impact, and 3% of funds target environmental impact. This is somewhat in line with what was observed in the literature review that globally 60% of impact investors

target both social and environmental impact, 34% social and 6% environmental. However, from the findings, it can be seen in South Africa a greater focus is placed on targeting social issues over environmental issues which could be due to the greater number of social crises South Africa faces.

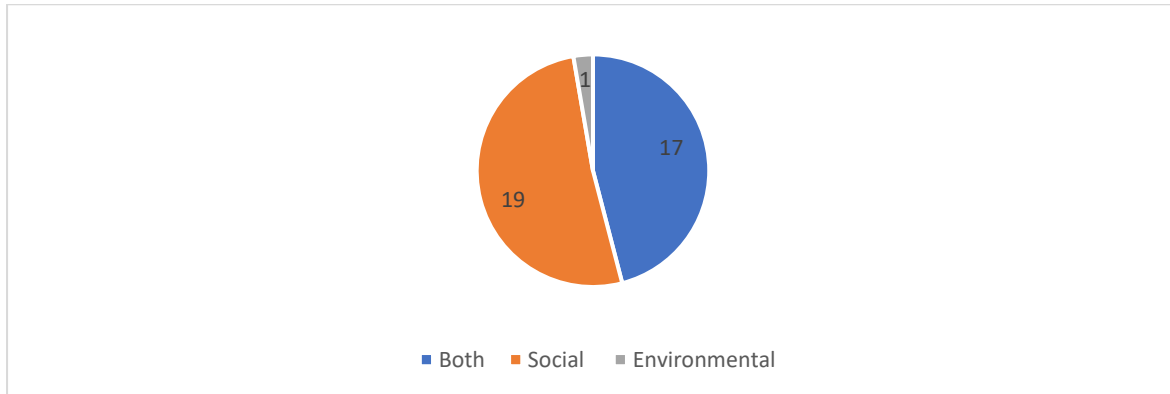


Figure 1: Table Representing the Type of Impact the Investments Target

Source: Author's Findings

Furthermore, Table 3 provides insight into the capital structure or asset class composition of the impact investments (excluding funds that did not disclose asset class). From Figure 2 (below), 50% of the fund's asset class was both equity and debt, mostly indicated as unlisted or private debt and equity. 31% of the fund's asset class was debt (primarily unlisted/private), 9% was equity and 9% was other. Other included asset classes such as mezzanine debt, quasi-equity, and property)

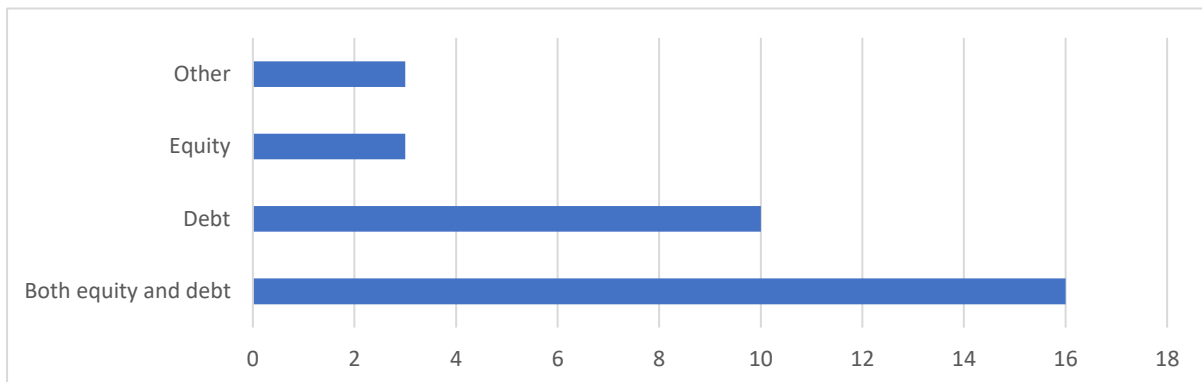


Figure 2: Graph Representing the Asset Class Composition

Source: Author's Findings

From AMCs that disclosed target returns, it can be seen in table 3 that 100% of them targeted a return above capital preservation (risk-adjusted and market-related). This confirms that impact investments

are not philanthropic and have the objective of financial return (which is a core characteristic of impact investing).

Of the 11 impact investment funds that disclosed the fund's performance, 60% of the fund's performance outperformed expectations (target return), 20% of the fund's performance met expectations and 20% was below expectations. In comparison, the literature reveals that globally only 20% of funds exceed financial expectations. This is great evidence that can be used as success stories to increase the level of adoption.

The findings in table 3 also provide valuable insight regarding the measurement of impact. Of the AMCs that disclosed this information, it was observed that most of the AMCs developed their metrics to measure impact. These tailored metrics applied to the type of impact and sector the fund was targeting. Only 1 AMC utilized IRIS+, which is one of the most widely used systems for measurement (Hand et al., 2020). This confirms the research by McCallum & Viviers (2019) where respondents felt restricted and limited by standardised metrics and develop their metrics for measuring impact. The lack of a standardised system of measuring impact makes impact funds non-comparable and therefore could be a reason for lower levels of adoption.

While collecting data it was observed that several of the assessed AMCs linked impact investing with the United Nations Sustainability Development Goals (UN SDG). The United Nations (UN) published 17 Sustainability Development Goals (SDGs) in 2015 which “provide a shared blueprint for peace and prosperity for people and the planet, now and into the future”. The 17 SDGs include targets and indicators per SDG to end poverty, improve health and education, reducing inequality, tackling climate change, preserving oceans and forests, and boosting economic growth (United Nations, 2022).

It is evident that impact investing is closely aligned with the UN SDG, as such several funds disclosed what SDG the impact fund was contributing to. It was also observed that the AMCs would use the UN SDG indicators to create the metrics with which to measure impact.

Table 3 also recorded how information was made available to the public. Disclosure types included (in descending order of most prevalent) websites (35%), reports (24%), brochures (22%), fact sheets (8%), presentations (3%), MDD (3%). Throughout the data collection process, it was also observed that there is no standardised method of reporting and disclosing the impact funds (and impact). Certain AMCs disclose minimal information while other AMCs publish comprehensive reports. This is in line with the barrier mentioned in the literature review regarding the lack of reporting standardisation leading to non-comparability.

In addition to the challenges presented in the literature review, it was also observed that the minimum investment could be a barrier to higher adoption levels. As per table 3, certain funds disclosed a minimum investment, ranging from R 250 000 to R 1 600 000 000, with the mode (appeared the most often) being R50 million as a minimum investment. This could present as a barrier to higher levels of adoption of impact investing as it makes the funds inaccessible other than for high-net-worth individuals or other institutional investors.

Lastly, it was observed that most of the funds were in the early stage of the lifespan of the investment. This could further contribute as a barrier to higher levels of adoption, as investors prefer to see historic evidence of financial return and positive impact.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

The objective of this study was to assess the level of adoption of principles of impact investing by asset management companies (AMCs) in South Africa. If an asset management company offered clients an impact investment fund that is based on principles of impact investing it can be established that the AMC is adopting impact investing. The results of this research are that the adoption level of impact investing by AMC in South Africa (SA) is: 11% of total SA asset managers, offering impact investments which makes up 2,3% of the total number of funds offered by SA AMC and 2,3% of the total value of assets managed by SA asset managers.

Furthermore, the findings are valuable as they provided insight into the method of adoption of impact investing by asset managers. These insights include characteristics such as the number of funds, size of funds, type of impact, asset class, target, actual return, measurement of impact, and disclosure type. This exhibited how the AMC has taken the principles of impact investing and adopted them to offer an impact fund offering.

Throughout the literature review, as well as in the data collection, several challenges and barriers to impact investing that may be preventing higher levels of adoption were presented and observed. These challenges, such as non-standardised measurement and reporting, lack of investment-ready deals, and others should be addressed to enable impact investing to continue to grow.

Impact investing presents a unique opportunity to not only contribute to solving South Africa's social and environmental crises but to make a profit while doing it. While it appears, based on the literature review and observations during the data collection, that impact investing in South Africa is still in its early stages of development, the global growth of impact investing (43% growth in 2020 from 2019) indicates that the impact investing market continues to develop. As such, the hope is that the adoption of impact investing by AMCs in South Africa will continue to grow and gain traction.

6. LIMITATIONS AND AREAS OF FURTHER RESEARCH

Throughout the research process, several **limitations** (in addition to the ones listed in 1.3.4) were experienced. It should be noted that the study was limited to those asset management companies that were listed on the SARB list (which was the most comprehensive list identified). However, despite this, while research was conducted it was found that there was 3 major impact investing players (Futuregrowth, Mergence, Novare), that are classified as asset managers, which were omitted from the list. These AMCs were therefore added to the list, as not including them in the study would have produced inaccurate and incomplete data. Despite best efforts to identify all omissions for the SARB list, there could still be other omissions that were missed. Furthermore, not all information was disclosed for all AMCs and thus the assessment was limited to the information available.

The research also identified areas for further research. It appears that impact investing is being used to contribute to the United Nations Sustainability Development Goals (UN SDGs). A future study could assess the contribution of institutional investors to the UN SDGs. The research was also limited to AMCs and thus further research could look broader at venture capital firms, pension funds, or other institutional investors. Lastly, based on noticing the lack of a standard reporting format, a future study could contribute by proposing a standardised reporting format for reporting impact.

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CORPORATE LIFE CYCLE AND THE DETERMINANTS OF DIVIDEND POLICY IN LISTED SOUTH AFRICAN NON-FINANCIAL FIRMS

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Abstract

Despite decades of extensive research, the real motivation behind corporate dividend payments remains unclear. A universal theory explaining why firms choose to or not to pay dividends has remained elusive due to varying national, institutional, and firm-specific characteristics. This study investigates whether the firm-specific factors, including the firms' life cycle stages, influence the dividend decisions of the non-financial firms listed on the Johannesburg Stock Exchange (JSE). As such, non-financial firms listed on the JSE were studied using a panel data regression to establish the factors that determine corporate dividend policy. The twenty-year financial data, post the global credit crisis of 2009 was obtained from the IRESS database. The observations are for the period 2011 to 2020. The findings reveal that non-financial firms listed on the JSE, which are in the decline stage, significantly reduce dividend payments and that return on equity, growth opportunities, and firm size all positively impact dividend payments.

Keywords: Corporate life cycle, Dividend irrelevancy, Dividend relevancy

1. INTRODUCTION

Corporate earnings distribution and retention remain among the most essential decisions in corporate finance. Managers are expected to retain and reinvest earnings when there are viable investment opportunities available, otherwise, they are expected to return earnings to shareholders through dividends and share buybacks. Despite the growth in research on dividends, researchers are still befuddled with the motivation behind dividend payments (Arko, Abor, Adjasi, & Amidu, 2014). Studies have thus far been unable to produce a universal theory on why firms pay dividends. This is because there are different characteristics peculiar to each peculiar country, including institutional and firm-specific characteristics (Baker & Weigand, 2015).

Dividend policy affects firm value as in most cases share prices react to changes in dividend policy (Anton, 2016). While this relationship gives rise to the temptation to follow a high payout dividend policy, Huang, and Paul (2017) have warned that such a temptation would leave the firm with little internal resources to invest in growth opportunities. It then follows that those charged with governance must navigate an optimal payout policy that balances the benefits of dividend payout and the benefits of retaining earnings for future growth opportunities. The overarching goal should be optimizing the sustainability of a firm and smoothing the market performance (stock price) of a firm.

The objective of this study is to determine which factors drive the dividend payment decisions of corporates listed on the Johannesburg Stock Exchange (JSE). While there are several corporate dividend policy studies, the majority of these have focused on developed economies. The few studies that have focused on firms in developing economies have largely been inconsistent in their findings. Those that focused on South Africa (Firer, Gilbert, & Maytham, 2008; Nyere & Wesson, 2019) were conducted during a period when several regulatory changes were implemented. Such changes include the 1999 amendment that made share repurchases a legal vehicle for earnings distribution, the more stringent liquidity, and solvency threshold and the transition from the secondary tax on companies (STC) to the Dividend Withholding Tax (DWT) that came into effect on 1st April 2012.

This study investigates the factors influencing dividend policy dynamics in South African firms to post the last regulatory change, DWC, of 2012. The study extends the work of Nyere and Wesson (2019) by incorporating the effects of corporate life cycle dynamics in understanding corporate dividend policy. This study is different from that of Munzhelele, Ntungufhadzeni, Wolmarans, and Hall (2021) as it introduces a dynamic measure of the firm life cycle. This is done to overcome the assumption of a monotonous linear life cycle path.

2. REVIEW OF RELATED LITERATURE

Corporate dividend policy has been a subject of research interest for several decades. As a result, various theories exist explaining how firms decide on their dividend policies. This section discusses these theories in detail.

Miller and Modigliani (1961) argued that dividends are irrelevant to firm value. As such, any time spent contemplating dividend policy is time wasted. In coming to this conclusion, Miller and Modigliani made several assumptions such as the existence of perfect markets, a world with no taxes, no information asymmetry, and no transaction costs to conclude that shareholders' value is not altered by whether a company pays dividends or not (Nyere & Wesson, 2019). A myriad of theories, such as the bird-in-hand theory, the signaling hypothesis, and the agency theory, have been extensively used to explain why firms actively manage their dividend payout policies (Yousef, Tanna, & Patra, 2020).

The bird-in-hand theory argues that dividends are more certain than the share price will appreciate. According to Gordon and Lintner (1956), there is a direct relationship between dividend payments and firm value as shareholders view dividends as less risky than the promise of future capital gains. Accordingly, this theory argues that firms should set a high dividend payout ratio to maximise stock price (Priya & Mohanasundari, 2016). To reduce the uncertainty of future outcomes, shareholders prefer to receive dividends over future capital gains (Nawir, Hashim, Hiung, & Hadi, 2022)

The signalling theory views dividend policy as a tool to disseminate information regarding the firm's future economic prospects to existing and potential investors (Meza, Baez, Rodriguez, & Toledo, 2020).

The theory argues that there is information asymmetry between managers and shareholders and managers either increase or decrease dividend payments to signal the firm's prospects (Arko, Abor, Adjasi, & Amidu, 2014). Consequently, shareholders will interpret dividend payments as a signal of future profitability and non-dividend payments as a harbinger of future financial distress (Priya & Mohanasundari, 2016; Nawir et al., 2022). Dividends are sticky and any sudden decrease in dividend payouts is detrimental to investors' confidence in the future earnings potential of the firm (Arko, Abor, Adjasi, & Amidu, 2014). Nawir et al. (2022) argued that distributing a lower-than-expected dividend will depress a firm's share price as investors offload their shareholdings in the firm. The signaling hypothesis thus predicts the relationship between dividend payments and future firm-specific factors such as profitability (Meza et al., 2020).

Miller and Modigliani's (1961) irrelevancy theory assumes goal congruency between managers and shareholders. However, in the real world, there is often a conflict of interest between corporate managers (agents) and outside shareholders (principals) (Jensen & Meckling, 1976). For instance, managers often consume excessive perquisites out of retained corporate earnings and sometimes invest the retained earnings in negative NPV projects for empire-building and to avoid giving back the money to shareholders (Greiner & Sun, 2021).

The agency theory argues that dividend policy can be a mechanism to reduce agency costs. For instance, by increasing dividends, a company mops up excess liquidity (free cash flow) that managers can misappropriate (Athari, Adaoglu, & Bektas, 2016). Managers will then be forced to raise funds from the capital markets which subject firms to circumscribing scrutiny thus reducing suboptimal investments. The monitoring by capital markets ensures that managers act in the best interest of outside investors (Chireka & Fakoya, 2017). These suppositions are supported by Ahmed (2015) who found that the dividend payout ratio is positively and significantly related to liquidity while Al-Kayed (2017) found a significant relationship between dividend payments and leverage.

2.1 The Firm Life Cycle Theory of Dividends

Despite the postulations of the above theories and related empirical studies, dividend payout policy remains a mystery, especially in emerging economies like South Africa (Munzhelele, Wolmarans, & Hall, 2021). Recent studies have sought to explain dividend policy through the lens of the firm life cycle theory (Bulan & Subramanian, 2009; Meza et al., 2020; Youcef et al., 2020). The firm life cycle theory posits that from the time a firm is introduced to the market, it grows through stages characterized by differing resources and cash-generating capabilities (Lyden, 1975).

Due to the varying resource and capacity factors in different life cycle stages, firms often have different managerial styles and priorities (Ferreira, Azevedo, & Cruz, 2011). For instance, DeAngelo and DeAngelo, and Stulz (2006) identified a firm life cycle as a key factor that explains a firm's propensity

to pay dividends. Munzhelele et al. (2021) attempt to explain how the corporate life cycle determines dividend policy in the context of South African firms. However, like most other dividend life cycle studies, the findings of DeAngelo et al., (2006) and Munzhelele et al., (2021) are weakened by the use of linear measurement of the firm life cycle. These linear approaches assume that firms progress linearly, without exception, from introduction to decline and rule out corporate rejuvenation, suggesting that companies can reinvent themselves through product and market development (Drobetz et al., 2015).

This study introduces the dynamic model of Dickinson (2011) to approximate the life cycle stages of each firm using its cash flows. This study thus furthers the work of Munzhelele et al. (2021) by using a non-monotonous proxy for the firm life cycle stage. Furthermore, our approach is similar to that used for United States of America (USA) firms by Bhattacharya, Chang, and Li (2020). Our study thus makes an essential contribution to the literature on the firm life cycle and dividend policy by focussing on the developing economy of South Africa.

2.2 Empirical hypotheses

2.2.1 Leverage

As posited by the agency theory, dividends are instrumental in managing the agency conflict between debtholders and equity shareholders (Arko, Abor, Adjasi, & Amidu, 2014). Since a firm's leverage can signal financial distress, either in the short or long term, debtholders often use debt covenants or increase the cost of debt to discourage firms from depleting the collateral base through dividend payments (Abor & Fiador, 2013). As such, firms with high leverage ratios tend to have lower dividend payout rates (Kaźmierska-Jóźwiak, 2015).

H1: There is a negative relationship between leverage and dividend payout rate.

2.2.2 Cash Holdings

Firms require cash to pay dividends, and as such, firms with high cash holding levels are more likely to pay more dividends than firms with cash shortages (Kaźmierska-Jóźwiak, 2015). According to the bird-in-hand theory, cash generated by a firm must be distributed to shareholders who prefer the certainty of cash benefits today over future capital gains.

H2: Cash holdings are positively related to the dividend payout rate

2.2.3 Liquidity

Liquidity refers to the ability, of a firm, to meet its short-term obligations as they fall due. Section 46 of the new Companies Act of 2008 (RSA, 2008), which came into effect on the 1st of May 2011, sets a liquidity threshold that must be satisfied before a firm can distribute cash dividends (Nyere & Wesson, 2019). Therefore, the level of dividend payout will depend on the firm's liquidity ratios. Further,

shareholders will prefer to receive dividends to avoid the extraction of liquidity by self-seeking managers.

H3: Liquidity is positively associated with the dividend payout rate

2.2.4 Profitability

Prior studies identify profitability to be an important determinant of dividend policy. Following the pecking order theory, profitable firms will generate enough retained earnings to satisfy investment needs with the remainder being distributed as dividends (Nyere & Wesson, 2019). Firms share their successes with their shareholders in the form of profits after interest and tax. The more profitable a firm is, the more dividends it can distribute (Wahjudi, 2019).

H4a: There is a positive relationship between profitability and dividend payout rate

Moreover, dividends are regarded as a signal of prospects (Meza et al., 2020). Therefore, this study postulates that dividend payments will be related to future equity returns.

H4b: A positive relationship exists between dividend payment and future return on equity (ROE).

2.2.5 Investment Opportunities

Firms with many investment opportunities tend to increase their retained earnings which are a cheaper source of finance for growth than external finance (Nyere & Wesson, 2019). In addition, firms with positive Net Present Value (NPV) investment opportunities tend to signal by increasing retained earnings by reducing dividend distributions, which in turn saves the firms the high flotation costs incurred when raising finance from the capital markets (Arko, Abor, Adjasi, & Amidu, 2014).

H5: There is a negative relationship between investment opportunities and dividend payout rate

2.2.6 Firm Size

Large firms are often more well-diversified than smaller ones and will thus have a lesser risk of financial distress and bankruptcy (Kaźmierska-Jóźwiak, 2015). Thus, larger firms have better access to capital markets, enhancing their dividend payout capacity (Mehta, 2012). This is consistent with the solvency requirement of section 46 of the South African Companies Act of 2008 which requires firms to pass the solvency test before they can pay cash dividends (Nyere & Wesson, 2019).

H6: There is a positive relationship between firm size and dividend payout rate

2.2.7 Firm Life Cycle

While prior studies use retained earnings to assets (Boćoc & Pirtea, 2014), growth opportunities (Dewasiri, et al., 2019), and returned earnings as a ratio of total equity (Munzhelele et al., 2021) to proxy firm life cycle, these measures are poor proxies of firm life cycle stages as it assumes linear progression with no room to rejuvenate (Drobeta, Halling, & Schröder, 2015). To overcome the

problems of univariate measures of the corporate life cycle, this study employs the dynamic life cycle model of Dickinson (2011). The model identifies four life cycle stages: (i) the introduction, (ii) the growth, (iii) maturity, and (iv) the decline stages as the observable stages of corporate evolution. Dickinson (2011) argues that corporate cash flow patterns are different in each life-cycle stage and that by observing the cash flows generated from operating, investing, and financing activities, the firm life cycle stage can be ascertained (Table 1).

Table 1: Firm Life Cycle Proxies

	(1) Introduction	(2) Growth	(3) Maturity	(4) Decline
Operating CF	-	+	+	-
Investing CF	-	-	-	+
Financing CF	+	+	-	+/-

Adapted from Dickinson (2011)

H7: There is no relationship between the firm life cycle stage and the dividend payout rate

3. METHODOLOGY

To test the hypotheses above, this study employs panel data analysis to investigate how firms adapt their dividend policies in each of the four life cycle stages. Financial data required for this empirical study are obtained from IRESS database that keeps all financial data of firms listed on the Johannesburg Stock Exchange. The sample study consists of 113 listed firms drawn from across all industries while observations are taken from the year 2011 until 2018. Firms with missing variables were excluded from the sample. The study applied the random effects panel data regression estimator to analyse the relationship between corporate life-cycle and dividend payout policies.

The following model was used estimate the relationship between dividend payments and corporate life cycle:

$$DIV_{i,t} = \alpha_{it} + \beta_1 I_{i,t} + \beta_2 G_{i,t} + \beta_3 M_{i,t} + \beta_4 D_{i,t} + \beta_5 D_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 LEV_{i,t} + \beta_8 MTB_{i,t} + \beta_9 LIQ_{i,t} + \beta_{10} ROE_{i,t} + \beta_{11} ROE_{i,t+1} + \beta_{12} CASH_{i,t} + \beta_{13} DIV_{i,t-1} + u_{i,t}$$

The variables used in the above regression are defined in Table 2 below.

Table 2: Definition of Variables

Variables	Code	Description
Dependent variable:		
Dividend payment	DIV	A dummy variable takes the value of 1 if a firm paid a dividend and 0 if no dividend was paid.
Independent variables:		
Introduction stage	I	Firms are classified into this stage if they have negative cash flows from operating activities; negative cash flows from investing activities and positive cash flows from financing activities
Growth stage	G	Firms are said to be in this stage if they have positive cash flows from operating activities; negative cash flows from investing activities and positive cash flows from financing activities.
Mature stage	M	Mature firms are those that exhibit positive cash flows from operating activities and negative cash flows from both investing and financing activities.
Decline stage	D	Declining firms will have negative operating cash flows; positive investing cash flows and either positive or negative cash flows from financing activities.
Control Variables		
Firm Size	SIZE	The natural log of total assets
Leverage	LEV	The ratio of total debt to total assets
Investment opportunities	MTB	The ratio of the book value of total assets minus the book value of equity plus the market value of assets
Liquidity asset substitutes	LIQ	The ratio of net working capital less total cash to total assets
Profitability	ROE	Return on Equity (ROE)
Cash holdings	CASH	The ratio of total cash and cash equivalents to total assets

4. RESULTS AND INTERPRETATION

The Pearson correlation (Table 3) shows that the correlations among the variables are relatively small suggesting that there are no linear relationships among the independent variables.

Table 3: Pearson Correlation Matrix

	DIV	I	G	M	D	ROE	LEV	MTB	CASH	SIZE	LIQ
DIV	1.0000										
I	(0.0318)	1.0000									
G	0.0572	(0.2422)	1.0000								
M	(0.0073)	(0.2510)	(0.6013)	1.0000							
D	(0.0350)	(0.0547)	(0.1311)	(0.1358)	1.0000						
ROE	0.0044	(0.0385)	0.0064	0.0120	0.0184	1.0000					
LEV	0.0171	0.0424	0.0675	(0.0205)	(0.0396)	0.0802	1.0000				
MTB	0.0177	0.0489	0.0180	0.0193	(0.0458)	(0.7054)	0.0990	1.0000			
CASH	(0.0131)	(0.0121)	(0.0312)	0.0065	0.0295	(0.0044)	(0.0046)	(0.0233)	1.0000		
SIZE	0.0315	(0.1374)	0.1705	0.0284	(0.0809)	0.0455	0.1411	0.0264	(0.0976)	1.0000	
LIQ	0.0041	(0.0249)	(0.0038)	0.0302	(0.0209)	0.0009	0.0499	(0.0214)	0.8803	(0.0648)	1.0000

Notes: The table presents the correlations of all the variables used in this study. The sample consists of 904 firm-year observations from 2011 to 2018 from 113 non-financial firms in South Africa with financial data from the IRESS database. Definitions of the variables are given in Table 2

The Hausmann specification test is insignificant showing that the null hypothesis cannot be rejected. Therefore, the random effects model is more appropriate than the fixed effects model. Both the R-squared and the Wald test show that the random effects regression model is a good fit for this investigation.

The regression results (Table 4) show that all firm life cycle stages, except the decline stage, have an insignificant influence on dividend payment. Consistent with the firm life cycle theory, firms in the introductory stage cannot pay dividends as in this stage firms are financially constrained. Consistent with Munzhelele et al. (2021), we find no significant relationship between growth firms and dividend payments. The life cycle theory also posits that firms in the growth stage have more growth opportunities and all available resources are committed to these growth opportunities. As such, firms in the growth stage do not pay dividends. We also find no significant relationship between dividend payments and the mature stage. This is consistent with Bhattacharya et al. (2020) who found that mature U.S firms make no significant changes to their dividend policy as they try to rejuvenate to the growth stage.

Our findings differ from Munzhelele et al. (2021) in that we find a negative and significant relationship between firms in the decline stage and dividend payments. Our results suggest that firms in the decline stage significantly lower dividend payments as they attempt to accumulate resources to rejuvenate their economic fortunes. This is consistent with Flavin and O'Connor (2017) who found that Korean firms significantly lower their dividends when in the decline stage.

About the other firm-specific factors, we find a positive and significant relationship between return on equity (ROE) and dividend payment, suggesting that firms distribute dividends out of the return on equity, such as retained earnings. This supports the bird-in-hand theory that posits that investors prefer to receive, from their available returns, dividends over future capital gains and dividends. The relationship between the market-to-book (MTB) ratio and dividend payment is also significantly positive. This is consistent with the signaling theory that posits that firms with prospects will signal these through paying dividends.

Our results also show a positive relationship between firm size and dividend payment suggesting that larger firms are more likely to make dividend payments than smaller firms. This is consistent with the findings of Fama and French (2001), DeAngelo et al. (2006), and Yousef, Tanna, and Patra (2021) who explained that large firms are normally more profitable, with higher retained earnings from which they can pay dividends.

Table 4: Random Effects Regression Results

DIV	Coef.	P>[t]
I	(0.1183)	0.107
G	0.0387	0.507
M	0.0214	0.707
D	(0.2747)	0.014**
ROE	0.0002	0.061*
LEV	(0.0613)	0.433
MTB	0.0083	0.063*
CASH	0.0070	0.915
SIZE	0.0250	0.026**
LIQ	0.0081	0.541

Notes: This table presents the panel regression estimation of corporate dividend policy on corporate life cycle stages and firm-specific control variables. The t-statistics based on robust standard errors clustered by firms are also shown. The determinants of Dividend payments are estimated using the random effects model. The determinants of target Dividend payments include life cycle stages, market-to-book ratio, size, liquid assets, leverage, and cash holdings. Detailed definitions of all variables are in Table 2. The sample consists of 113 non-financial firms listed on the JSE from 2011 to 2018 with no missing observations on variables. Significance levels are indicated as follows: * = 10%, ** = 5%, *** = 1%.

5. CONCLUSION

The majority of dividend policy studies have used linear proxies for the firm life cycle, ignoring the ability of firms to rejuvenate and move to precede and more viable life cycle stages. This study is the first to investigate the relationship between non-monotonous firm life cycle stages and South African firms' propensity to pay dividends. By applying the Dickinson et al. (2012) dynamic measure of the firm life cycle, this study makes new contributions to dividend policy literature which has previously confined firms to a non-reversible linear progression along the life cycle stages. Contrary to the findings of static studies, this investigation found that firms in the introductory, growth and mature stages do not alter dividend payments as they are content to stay in the most viable stages. However, if the firm enters the decline stage, a significant reduction in dividend payments. Our results also show that dividend payments have a positive and significant relationship with return on equity, growth opportunities (MTB), and firm size, consistent with the bird-in-hand theory and the signaling theory. This study enhances our understanding of the impact of the life cycle on dividend policy. Investors ought to understand that firms will seek to utilize available resources to position themselves in viable markets and only pay dividends out of the return on equity and to signal prospects.

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EFFECT OF CORPORATE GOVERNANCE MECHANISM AND AUDIT REPORT LAG ON FINANCIAL PERFORMANCE: EVIDENCE FROM MONEY DEPOSIT BANKS IN NIGERIA

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Abstract

This paper examined the effect of corporate governance mechanisms and audit report lag on the financial performance of quoted firms in Nigeria. The influence of board gender diversity, independent directors, board size, and CEO duality on return on assets was also evaluated. From a pool of nineteen (19) money deposit banks listed on the Nigerian Stock Exchange as of December 2018, eleven (11) were chosen due to the availability of data for a period of five years spanning 2014 to 2018. Secondary data used in the empirical analysis was derived from the annual reports of the sampled banks and the data was analyzed using correlation and regression techniques. Findings revealed that the average value of audit report lag (ARL) is 74 days with the minimum being 31 days and the maximum being 117 days. While audit report lag and board independence are negatively related to a firm's performance, board gender diversity and board size showed positive relation to performance, though at a non-significant level. The study concludes that timeliness of audit reports has no significant relationship with a firm's performance but companies that are timely in their financial reporting practices have been reported to find it easier to attract capital and a good reputation, therefore the study recommends that banks' directors ensure continuity in prompt publication and submission of audited financial reports to the Nigerian Stock Exchange.

Keywords: Audit lag, Board gender diversity, Independent directors, Board size, CEO duality

1. INTRODUCTION

Information is said to be timely only when it is available to users and is capable of influencing decisions. Agyei-Mensah (2018) submitted that even though a lack of timeliness can rob a financial report of the relevance it ought to have, timeliness alone cannot determine the relevance of information. According to Al-Ajmi (2008), the greater the number of days it takes to publish an annual report, the less useful the information contained in the report becomes. According to the International Accounting Standards Board (IASB, 2010), certain qualitative attributes enhance the usefulness of the information contained in a financial report. While relevance and faithful representation make up the fundamental qualities, comparability and understanding are referred to as enhancing qualities. One of the auxiliaries of relevance is timeliness.

Turel (2010) concluded that timeliness provides a platform for market integrity and efficiency to protect investors and reduce risk, which in turn will improve financial reporting quality. In light of the importance of timeliness to investors and other stakeholders, the effectiveness of corporate governance mechanisms in contributing to achieving timeliness cannot be overlooked.

In the United States of America, accelerated filers are required to submit annual reports within 75 days after the end of the period while large accelerated filers are to submit theirs not later than 60 days (Abernathy, Kubick & Masli, 2018). Ghanaian companies on the other hand are required to publish within 42 days after year-end (Agyeman, Aboagye & Ahali, 2013). According to The Nigerian Stock Exchange rules, listed companies are to publish annual reports not later than 90 days after the end of a year. In 2017, more than 31 companies defaulted, with 19 being in the financial services sector. While Fidelity Bank was fined #5.5 million nairas for default in 2018, Diamond Bank was slammed with a fine of #4.9 million nairas. This portrays a danger signal because most of these banks are money deposit banks and such default leading to fines can erode the confidence of investors in such banks. Therefore, the purpose of this study is to investigate the effect of corporate governance mechanisms and audit report lag on the financial performance of money deposit banks in Nigeria.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The theory upon which this study is hinged is the Agency theory. Propounded by Jensen and Meckling (1976), agency theory assumes that the interest of the principal and agent varies and that the principal can control or reduce this by giving incentives to the agent and incurring expenses from activities designed to monitor and limit the self-interest activities of the agent. The agency problem, according to Jensen and Meckling (1976), arises from the division of ownership and control, in which management, as rational human beings, prioritizes their interests over those of shareholders. Due to management's intelligence hegemony as insiders, this agency dilemma leads to information asymmetry. It has been proposed that knowledge asymmetry causes an adverse selection dilemma, which results in the undervaluation of a firm's equity in the marketplace, resulting in a loss of wealth for shareholders. To avoid or minimize the selfish interest of the agent, governance structures such as board sub-committees consisting of directors with the necessary qualities such as independence, competence, and experience are needed to reduce knowledge asymmetry (Wiseman, Cuevas-Rodriguez & Gomez-Mejia, 2012). According to agency theory, a larger number of outside directors might keep an eye on managers' self-interest and therefore reduce agency costs. A high percentage of independent directors on the board, according to Kelton and Yang (2008), could help to increase the monitoring of managerial opportunism. As a result, they can reduce the likelihood of management hiding information (promptly). As a result, a board dominated by neutral non-executive directors who are unaffected by management desires tends

to improve a company's compliance with transparency standards, potentially resulting in timely financial reporting (Agyei-Mensah,2018).

2.1 Audit Report Lag and Financial Performance

Though there are two forms of reporting lags identified in the literature: audit report lag and management report lag. The audit report lag is the time between the end of a company's fiscal year and the release of its audited financial reports, while the management report lag is the time between the end of a company's fiscal year and the publication of its audited financial reports (Zaitul, 2010). The focus of this study is audit report lag. According to Abernathy, Kubick, and Masli (2018), audit report lag is considered a measure of audit efficiency which captures the ability of the management to facilitate the audit process and negotiations with the auditor. Oussi and Boilila (2018) define audit lag as the number of calendar days elapsing between the balance sheet date and the audit report date.

Schwartz and Soo (1996) concluded that delays in audit reports can diminish the value of public disclosures relevant to the pricing of securities and can lead to inequity among market participants who do not share similar access to private information. Abernathy, Beyer, Masli, and Stefaniak (2014) submitted that audit report lag is an important measure of timeliness because it provides a publicly available, objective measure of how efficiently an organization can publish its audited financial statements and captures, among other factors, management's ability to facilitate the audit and financial reporting process.

According to Nelson and Shukeri (2011), companies that report losses are more likely to have a longer audit lag than companies that report income. According to Bijalwan and Madan (2013), firm performance is positively linked to the timeliness, disclosure, and corporate governance practices. Zaitul (2010) concluded that large boards contribute to increased audit lag while small boards tend to shorten audit lag. Timeliness of annual financial reports, according to Alkhatib and Marji (2012), is a critical factor in the use of appropriate information by external consumers and in affecting their decision-making process.

According to Afify (2009), the timeliness of audit opinion disclosure is critical in presenting recent evidence regarding eligible opinions' ability to deliver knowledge to the capital market. According to Hakansson (1977), delays jeopardize the ideal of fair access to knowledge for all investors, making audit opinion timeliness critical. Givoly and Palmon (1982) concluded that audit report lag is the single most important determinant of the timeliness of earnings announcements which is associated with market reactions.

2.2 Corporate Governance Mechanisms and Financial Performance

Variables of corporate governance to be considered in this study include board gender diversity, independent directors, the board size, and CEO duality.

2.3 Board Gender Diversity

According to agency theory, a board with a balanced gender makeup will increase board flexibility and administrative oversight (Cabedo & Tirado, 2004; Elzahar & Hussainey, 2012). Gender diversity literature is focused on the premise that women bring various qualities to the board of directors, which allows them to better track management decision-making. Gender diversity, on the other hand, is likely to have negative consequences for a company. The findings on the connection between board gender diversity and firm performance have been mixed.

Adams and Ferreira (2009) looked into the impact of female board members on the success and governance of a group of US companies. They discovered that although female board members devote more time to monitoring, their overall impact on firm performance is negative. Darmadi (2013) also discovered that female top executive representation is negatively connected to both Tobin's Q and ROA, implying that female representation isn't linked to improved firm results. When comparing firms with all-male board members to firms with at least two female board members, Carter, Simkins, and Simpson (2003) found that firms with at least two female board members performed better on ROA and Tobin's Q.

2.3 Independent Directors as a Percentage (Non-Executive Directors)

Non-executive directors are non-employee members of a company's board of directors. They are sometimes used as a control mechanism since they conduct independent monitoring. Independent directors' impact on firm success has also shown mixed results. Luna and Tang (2007) discovered a connection between independent directors and firm success. However, Azeez (2015) concluded that non-executive members do not have any impact on performance. According to Kelton and Yang (2008), the monitoring of managerial opportunism can be intensified by the high presence of independent directors thereby reducing management's chance of withholding information. Consequently, a board dominated by independent non-executive directors who are free from management interests tends to enhance a firm's compliance with disclosure requirements, which may lead to timely financial reporting.

2.5 Board size

The corporate governance of a company is heavily influenced by the board of directors. From the standpoint of agency theory, it can be argued that a broader board is more likely to address agency issues simply because more individuals would be monitoring management decisions. Larger boards have collective expertise and are more capable of executing their duties and may equally be capable of having abridged management control (Hussainey and Larger boards have more collective experience and are better able to carry out their responsibilities, as well as having less managerial power (Hussainey and Wang, 2010). Ujunwa (2012)'s findings reported that a negative association exists between board size and firm performance.

2.6 CEO Duality

A situation where the joint roles of the CEO and Chairman are performed by one person is commonly referred to as CEO duality. In the popular saga of collapsed US companies (Enron and WorldCom), CEO duality has been blamed for the inefficiency of the boards (Jackling & Johl, 2009). Ujunwa (2012) posited that a CEO may lead the board in favor of executives such as providing the board with limited information about the company. The theory of agency strongly recommends that the roles of the CEO and Chairman be separated to promote effective monitoring of the board. Empirical evidence on the impact of CEO duality on the financial performance of firms is mixed. While Kyereboah-Coleman and Biekpe, 2006; Ujunwa, 2012) found a negative relationship between CEO duality and the firm's financial performance; Donaldson and Davis (1991) found a positive relationship between CEO duality and firm performance. Rodriguez-Fernandez, Fernandez-Alonso, and Rodriguez-Rodriguez (2014) did not find any relationship between CEO duality and firm performance.

2.7 Return on Assets

Since the advent of modern business relations, return on assets has been a hot topic in scientific debates because it represents the true scene of business success. Via multilateral approaches, a lot of literature has been written about the theoretical and practical aspects of return on assets. Furthermore, multinational audit firms periodically provide monitoring reports on recent developments in the implementation of the return on assets principle and its limitations.

Financial ratio analysis was used by Lassala, Apetrei, and Sapina (2017) to investigate the effect of company financial results on sustainability. According to their research, return on assets is a key predictor of a company's long-term viability in particular industries.

2.8 Hypotheses

The objective of this paper is to investigate how the audit report lag and selected corporate governance variables affect the financial performance of money deposit banks in Nigeria. The following hypotheses were formulated based on the objectives of the study and the literature reviewed:

H₀1. A significant relationship exists between audit report lag and ROA.

H₀2. There is a significant relationship between board gender diversity and ROA.

H₀3. There is a significant relationship between board size and ROA.

H₀4. There is a significant relationship between the proportion of independent directors and ROA.

H₀5. A significant relationship exists between CEO duality and ROA.

3. METHODOLOGY

3.1 Model Specification

To test the validity of the hypotheses stated, the following model by Agyei-Mensah, (2018) was adopted:

$$ROA = A + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + e$$

where ROA the return on assets; a the constant (the intercept); X1 the board size; X2 the independent board members; X3 the audit committee; X4 the institutional ownership; X5 the block ownership concentration; X6 the firm size; X7 the audit reporting lag (timeliness of financial reporting); X8 the liquidity; X9 the leverage; X10 the board gender diversity; e the error term.

After incorporating the study's variables and two firm-specific control variables (Big4 and Audit fees), we have:

$$ROA_{it} = \alpha + \beta_1 ARL_{it} + \beta_2 BDG_{it} + \beta_3 BOS_{it} + \beta_4 IND_{it} + \beta_5 CEOD_{it} + \beta_6 BIG_{it} + \beta_7 AUDFEE_{it} + \epsilon_{it}$$

Table 1: Variables Measurement

Variable	Acronym	Measurement
Return on Asset	ROA	Net income divided by total assets
Audit Report Lag	ARL	Number of days between a firm's accounting year-end and audit report date
Board gender diversity	BDG	Number of female directors on the board
Board Size	BOS	Total number of directors on the board
Independent Directors	IND	Number of independent directors on the board
CEO Duality	CEOD	1 if CEO is not the chair, 0 if otherwise
BIG 4 (control variable)	BIG	1 if the firm is audited by one of the Big 4, 0 if otherwise
Audit Fees	AUDFEE	Reported Audit fees

Source: Author's computation (2020)

3.2 Population, Sample and Source of Data

The population of the study includes the nineteen (19) money deposit banks listed on the Nigerian Stock Exchange as at December 2018 out of which eleven (11) were chosen due to the availability of data and convenience for the periods 2014 to 2018. Secondary data used in the empirical analysis was derived from the annual reports of the sampled banks.

4. DATA ANALYSES AND PRESENTATION OF RESULTS

4.1 Descriptive Statistics

From Table 2, ROA has a mean value of 1.7760 percent (SD 1.37753percent) minimum value of 0.14 percent, and a maximum value of 6.20 percent. This indicates that the mean value of sampled firm's performance over the five years was averagely low. The average value of audit report lag (ARL) is 74 days with the minimum being 31 days and the maximum being 117 days. The implication is that majority of the sampled banks comply with the 90 days requirements of the Nigerian Stock Exchange. On average, there are 3 females on the boards of banks sampled with 7 being the maximum; and all sampled banks have separate persons holding the offices of Chairman and Chief Executive Directors, this is considered good for effective corporate governance. Results also indicated that there are firms with no independent members on the board, this is against the Stock Exchange rules, the Company and Allied Matters Act, and the 2016 National Code of Corporate Governance. Almost all the sampled banks were audited by Big 4 Audit firms, this could also indicate audits of sampled firms were carried out to the best international standard.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	55	.14	6.20	1.7760	1.37753
ARL	55	31.00	117.00	74.5636	18.58191
BDG	55	.00	7.00	3.2564	1.56226
BOS	55	4.00	21.00	13.9091	3.03237
BIND	55	.00	8.00	2.2727	1.28315
CEOD	55	1.00	1.00	1.0000	0.0000
BIG4	55	.00	1.00	.9455	.22918
AUDFEE	55	64	535	266.89	124.904
Valid N (listwise)	55				

Source: Author's computation (2020)

4.2 Correlation Analysis

Table 3 presents the correlation matrix and shows that return on asset is negatively correlated to audit report lag and board gender diversity and is positively correlated to board size, board independence, Big 4 and audit fees. Also, When the correlation between independent variables is greater than 0.80, according to Emory (1982), multicollinearity can be a concern. Table 3 shows that there are no signs of extreme multicollinearity problems in the association between variables since none of the variables are above the threshold.

Table 3: Correlations

		ROA	ARL	BDG	BOS	CEOD	BIND	BIG4	AUDFEE
ROA	Pearson Correlation	1							
	Sig. (2-tailed)								
ARL	Pearson Correlation	-.309	1						
	Sig. (2-tailed)	.022							
BDG	Pearson Correlation	-.006	.393	1					
	Sig. (2-tailed)	.965	.003						
BOS	Pearson Correlation	.080	.155	.297	1				
	Sig. (2-tailed)	.563	.258	.028					
CEOD	Pearson Correlation	. ^a	. ^a	. ^a	. ^a	. ^a	. ^a	. ^a	. ^a
	Sig. (2-tailed)
BIND	Pearson Correlation	.042	-.122	.010	-.060	. ^a	1		
	Sig. (2-tailed)	.758	.374	.944	.663	.			

BIG4	Pearson Correlation	.191	.073	.040	.073	. ^a	.114	1	
	Sig. (2-tailed)	.162	.598	.773	.598	.	.405		
AUDFEE	Pearson Correlation	.485	-.404	-.236	.037	. ^a	.161	.363	1
	Sig. (2-tailed)	.000	.002	.083	.787	.	.241	.006	

a. CEOD was omitted because it was a constant variable.

Source: Author's computation(2020)

4.3 Regression Analysis

The independent and dependent variables were checked for multi-co linearity and problems of serial or autocorrelation. The variable inflation factor (VIF) and tolerance revealed that the correlation is not harmful. A cause for concern arises if the largest VIF is > 10 (Pallant, 2011). Also, the tolerance is > 0.20 for all the variables (the smallest tolerance being 0.658). Below 0.20 in tolerance statistics shows a potential problem in multicollinearity. It can be safely concluded that the study is not subject to autocorrelation and colinearity problems.

Table 4 shows R^2 under the model was 0.284, which indicate that this model is capable of explaining 28.4 percent of the variability in the return of asset of the sampled banks under study. The adjusted R^2 indicates that 19.4 percent of the variation in the dependent variable in the model is explained by variations in the independent variables.

Table 5 shows the results of the regression analysis as $ROA = 0.855 - 0.016ARL + 0.147BDG + 0.019BOS - 0.062BIND + 0.298BIG4 + 0.005AUDFEE$. While audit report lag and board independence are negatively related to a firm's performance, board gender diversity, the board size, Big 4 and audit fees show positive relation to performance.

On the impact of audit report lag on firm performance, results in Table 5 indicate that ARL has a negative relationship with ROA and is not statistically significant at 0.05 level ($p = 0.142$) thus rejecting the first hypothesis that audit report lag has a significant relationship with ROA. The negative sign indicates that when companies record low financial performance, the likely tendency is to delay the disclosure of such to the public. The findings are in opposition with that of Agyei-Mensah (2018) who found a significant relationship between ARL and ROA.

None of the corporate governance attributes showed a significant relationship with ROA. This is also against the *a priori* expectation and findings of Assenga, Aly and Hussainey (2018) who reported a negative but significant relationship between CEO duality and ROA. Board independence showed a negative relationship which is not in tandem with the agency theory which suggests that independent directors reduce the possibility for opportunistic behavior by the management thereby enhancing profitability and ultimately enhancing performance. Results also indicate that there is a significantly positive relationship between audit fees and ROA.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.533 ^a	.284	.194	1.23667

a. Predictors: (Constant), AUDFEE, BOS, BIND, BIG4, BDG, ARL

Table 5: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.855	1.251		.683	.498	
	ARL	-.016	.011	-.219	-1.494	.142	.694
	BDG	.147	.123	.167	1.195	.238	.767
	BOS	.019	.059	.041	.317	.752	.887
	BIND	-.062	.134	-.058	-.460	.647	.953
	BIG4	.298	.819	.050	.364	.718	.804
	AUDFEE	.005	.002	.426	2.827	.007	.658

a. Dependent Variable: ROA

Source: Author's computation(2020)

5. CONCLUSION AND RECOMMENDATION

Hinged on the agency theory, the study examined the impact of corporate governance mechanisms and audit report lag on the financial performance of money deposit banks in Nigeria. Audit report lag was measured as the days that elapse between a bank's year-end and the date the auditor's report was signed while return on asset was used to proxy financial performance. The descriptive statistics indicate that over the five years, the mean value of audit report lag (ARL) is 74 days with the maximum being 117 days and the minimum being 31 days. The implication is that majority of the sampled banks comply with the 90 days requirements of the Nigerian Stock Exchange. The study concludes that timeliness of audit reports has no significant relationship with a firm's performance but companies that are timely in their financial reporting practices have been reported to find it easier to attract capital and a good reputation, therefore the study recommends that banks' directors ensure continuity in prompt publication and submission of audited financial reports to the Nigerian Stock Exchange.

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TAX TREATMENT AND INCENTIVES OF BLOCKCHAIN SYSTEMS

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Abstract

In a world that is in the Fourth Industrial Revolution, blockchain is a key technology. Since it is an important factor, the financial industry wants to find different ways to account for its treatment. One of the disciplines in the financial sector is the field of taxation. The industry is very focused on the treatment of the cryptocurrency element of blockchain but very little on the treatment of the crypto asset or distributed ledger system element. This research study aims to address the possible tax treatment of the distributed ledger system element of blockchain and provide possible tax incentives. This will be done by interpreting the Income Tax Act No. 58 of 1962 and getting opinions from tax experts.

Keywords: Blockchain, Blockchain systems, Crypto assets, Distributed ledger technology, Tax incentives, Tax treatment.

1. INTRODUCTION

In the ever-evolving world of the Fourth Industrial Revolution (hereafter as 4IR), businesses are implementing 4IR technologies to remain competitive in the work environment and the online markets. According to PWC's website, 4IR can be classified with technologies of artificial intelligence, robotics and automation, big data, and 3D printing to mention a few (n.d.). One of the technologies that have impacted the 4IR is blockchain; ranging from the commonly known use of cryptocurrencies, smart contracts that can be used for managing educational certificates and medical records (Treleaven, Brown, & Yang, 2017:17), to distributed ledger systems.

An overview description of blockchain is a digital ledger that is stored and distributed amongst various computer systems and networks. Due to the nature of being shared or distributed, it allows any device within the community or network to access the data. This network does not have a central authority due to its nature of being shared and distributed to all devices. Devices on the network will validate any new connections, as well as validate any data that will be amended or added to the network. Blockchain consists of individual nodes or blocks, containing particular information, that is all linked to each other. These links are created through the use of cryptographic technology (Yaga, Mell, Roby, & Scarfone, 2018: iv - v). Due to the blockchain system requiring various approval and validation protocols, whilst

being shared “publicly” to the devices on the network, it prohibits unauthorised modification or removal of information. This creates integrity in a blockchain system (Golosova & Romanovs, 2018: 5).

To demonstrate how a blockchain system works, the following futuristic car dealership example will be used and aided by diagram 1 below. A car retailer has a blockchain ledger or system that records each sales transaction. When a new sale occurs, a device will record the initial information (point 1 on the diagram). It subsequently sends the request to process the information to other devices on that blockchain network (point 2). The other devices (or nodes) will validate the initial device to ensure it comes from a valid source on the network (point 3). If approved, the nodes will verify the details of the transaction, such as the: amount, date, buyer, VAT etc. (points 3 and 4). Once the details are verified, it will store this sale in a block on the blockchain ledger/system (points 5 and 6). Since the block is in a chain, previous blocks cannot be removed (as it would disrupt the entire chain). This gives the blockchain its element of integrity (which auditors or SARS officials could use as an audit trail).

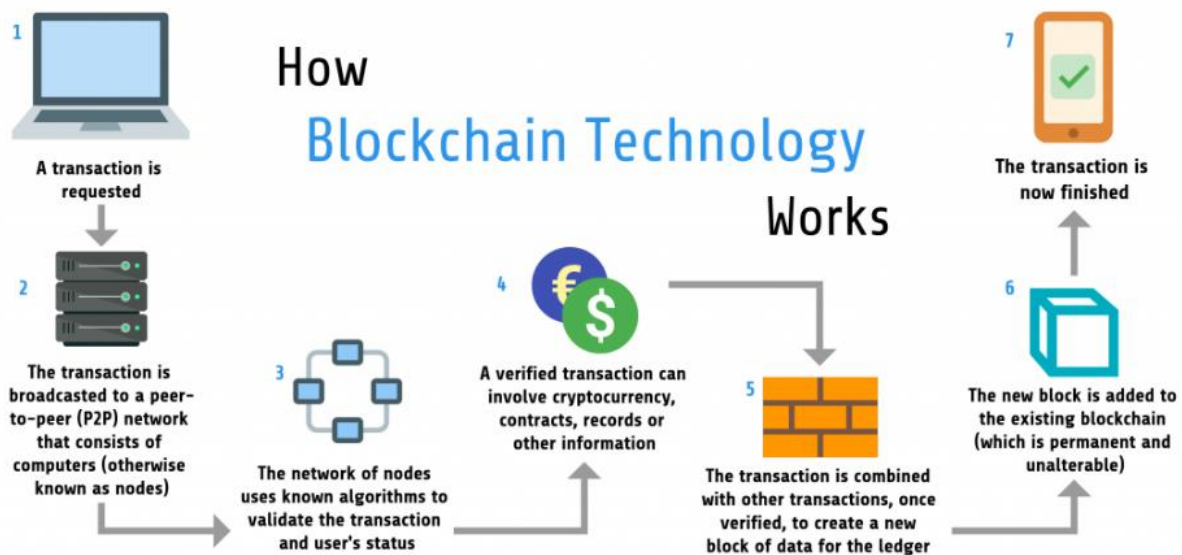


Diagram 1: IP Specialist, 2019

Despite living in the 4IR world, we can still be certain of two things in life, excluding changes from each revolution: death and taxes. Taxation, like the other disciplines in the financial sector, has found and is finding ways to account for the treatment of 4IR technologies. Blockchain is no exception, whether it be accounting for the treatment of the distributed ledger system or cryptocurrencies. If one had created or acquired a blockchain system, one may ask the questions: what is the tax treatment of such a system, and are there any tax incentives for a blockchain distributed ledger system available to the taxpayer?

1.1 Objective and scope

In the current environment, blockchain distributed ledger systems (hereafter blockchain systems) are categorised with cryptocurrency technologies like Bitcoin. SARS has treatments in place to account for the gains resulting from the movements of cryptocurrencies. Although blockchain systems form the backbone for cryptocurrencies, they can have a separate purpose such as a distributed ledger system counterpart for recording information. A distinction has to be made between the cryptocurrency element and the distributed ledger system element of blockchain.

A fair amount of research has gone into the treatment of the cryptocurrency element of blockchain and its tax treatment. Although the accounting profession has determined a basic treatment for the blockchain system, little research has been done on the blockchain system from a tax perspective. For this research study, the South African Tax legislation under the Income Tax Act No. 58 of 1962 (1962) governed by the South African Revenue Service will be used (hereafter as the Income Tax Act and SARS respectively). The selection of the South African taxation system is based on the availability of the researcher, as well as SARS not having a specific treatment of blockchain systems or any allowance for such a system within the Income Tax Act.

This research study has two objectives. The first objective aims to address the possible tax treatment, classification, and identification of a blockchain system concerning the Income Tax Act. The second objective of this research study aims to identify if there are any allowance(s) of a blockchain system that could be made available to the taxpayer in the future. This will be done by looking at existing legislation, SARS's website, and what other taxation authorities have done. For the second objective, in addition to the methods above, the opinions of tax experts will be used to reinforce and substantiate the interpretations.

2. LITERATURE REVIEW

According to the Financial and Consumer Services Commission website, the crypto asset element of blockchain can be described as “purely digital assets that use public (or private) ledgers of the internet“. This public or private ledger is then distributed over many computer networks, creating a distributed ledger (n.d.). These ledgers act similarly to an Access or Excel database, which are then secured with cryptography and encryption to protect the data (Smith, Petkov, & Lahijani, 2019: 62, 65). Whilst cryptocurrencies are digital currencies that function off blockchain systems, they can be exchanged similarly to normal currencies for goods, services, speculation, and for capital appreciation. The best representation of a cryptocurrency is Bitcoin (n.d.).

Another distinction that has to be made is that of a public blockchain system versus that of a private blockchain system. Blockchain is normally seen as a public distributed ledger, like that of Bitcoin, which has no central authority due to being shared on public networks. Should a taxpayer have a

blockchain system to manage one of its business functions, such as the recording of sales or VAT transactions, there will be a need for an element of privacy and confidentiality in their operations. Thus, a private blockchain system would be used in this context. Invitations would be required from participants before they could join. This partially goes against the decentralised element of blockchain. However, it does create benefits like faster processing and finalising of information, as fewer copies of the database are needed (Smith, Petkov, & Lahijani, 2019: 63-64).

Blockchain is a wonderful 4IR technology, but it has its advantages and disadvantages. According to Golosova and Romanovs, benefits include: all data is recorded and cannot be changed (as mentioned in the introduction) which gives the system its integrity, the information on the system is shared amongst its participants, there is a large amount of encryption on the network, and every participant has a copy of the database which acts as a backup. Another advantage is if there is a problem with the structure or information, the nature of the blockchain creates an audit trail that allows users to trace the issue back to the source (2018: 5-6).

The disadvantages of a blockchain system include the actual system and computer processing power consuming a large amount of energy/electricity, and errors occurring in the encryption leading to further errors. Sometimes this doesn't fully stop invalid data from being input, and because it is an online system it can be prone to cyber-attacks (Golosova & Romanovs, 2018: 5-6). However, some of these disadvantages are mitigated due to the nature of the private blockchain systems. Fewer participants will result in fewer copies, therefore less processing power needed and energy saved. This is what makes blockchain systems beneficial in the near 4IR future.

Besides the normal functions of blockchain, there are others relating to the fields of auditing, accountancy, and taxation. In terms of auditing, there would be some risk for auditors to the blockchain system. This would be as: an internal control function, an asset in the company's records, and associated judgments or estimates. The auditors would need to see if they have the necessary skills or expertise to audit the system. (Smith, Petkov, & Lahijani, 2019: 70-71). Positively, the auditors would have an audit trail if they could rely on the internal control functions associated with the blockchain system (Fischer, 2018: 5).

In the accountancy field, the blockchain system should process the transactions or information, as all the validation is done by the system (acting like accounting software). Although it doesn't prevent poor data from being fed to the system, the processing of the information should be correctly accounted for (Smith, Petkov, & Lahijani, 2019: 75). Lastly concerning taxation, SARS and other revenue services could be participants in these systems. This would allow them to verify the type of taxation the company is or should be paying. Due to all these benefits, SARS could create an incentive for blockchain systems.

This would encourage companies to develop or acquire such systems and subsequently progress the community in the 4IR world.

SARS's current perspective of the blockchain system is that it is the same as the rest of the blockchain technologies (i.e. it has grouped crypto assets or cryptocurrencies with the blockchain systems) (n.d.). Since both elements of blockchain are treated in the same manner, this would mean the following for the taxation of the blockchain systems by comparing it to the cryptocurrencies treatment:

- Disposing of the blockchain systems in the ordinary course of business (a taxpayer that manufactures these blockchain systems and subsequently sells them) would be deemed to be included in gross income.
- Acquisition of such systems would trigger Capital Gains Tax and be treated in terms of the Eighth Schedule of the Income Tax Act (determining the values for base cost and eventually proceeds of such systems).
- Expenses associated with the blockchain system would result in claiming deductions for said expenses, providing it is in the production of income as per Section 11(a) of the Income Tax Act (hereafter any section will be abbreviated as Sxx) (n.d.).

If one had to look at the principles of a good taxation system, one would look at the four basic tax maxims by Adam Smith. These can be summarised as a contribution to the government in proportion to one's abilities, taxes paid must be of a certain value, levied at a convenient time to the taxpayer, and taxes should be levied as little as possible (Haupt, 2020: 2). Now in comparison to the treatment of blockchain systems, the only issue from these four maxims is the certainty principle. Since SARS broadens the definition and scope of cryptocurrencies to crypto assets, it creates some uncertainty in the tax treatment of the blockchain systems.

SARS is not the only revenue service that has followed this approach in dealing with blockchain. The selection of tax authorities is based on authorities that have tax treatments concerning blockchain. However, no tax authority has a precise treatment of a blockchain system. The Australian Taxation Office (ATO) has classified cryptocurrencies and the blockchain system element under a crypto asset definition. Consequently, they focus on the cryptocurrency element. They classify the treatment of these crypto assets as property, either being taxed as capital gains tax or normal taxes depending on its use (n.d.). Which is consistent with SARS's treatment.

In an article by Rennock, Cohn, and Butcher, they say that the Internal Revenue Service (IRS - tax office of the United States of America) treats blockchain only as cryptocurrencies (2018: 42). That would infer that their tax treatment is not broad enough to catch the treatment of the blockchain systems. Lastly looking at the Her Majesty's Revenue and Customs (HMRC - tax office of the United Kingdom), classified cryptocurrencies as crypto assets that make use of distributed ledger technologies. They

follow the same treatment as the ATO and SARS, being dependent on how the crypto asset is bought, used, or sold (n.d.). Looking at the 3 revenue services, SARS's treatment is on par with the other tax authorities mentioned, but all fall short in the treatment of a blockchain system.

From the above, it can be noted that the tax authorities focus more on the cryptocurrency treatment rather than the treatment of the blockchain system. The main reason is due to the cryptocurrency market is larger than the blockchain system market. Only the ATO and SARS widened their scopes by changing the wording from cryptocurrencies to crypto assets. This is the gap in the literature, as there is no precise treatment of a blockchain system globally or in terms of SARS. Consequently, this leads to having no allowances or incentives in place for such a blockchain system for the taxpayer.

3. RESEARCH METHODOLOGY

A qualitative approach will be used in this research study. According to Bhandari, qualitative research is the gathering of data, which by its nature isn't numerical, to analyse and understand an opinion or concept. The methods of gathering the data include amongst others: interviews, surveys with open-ended questions, and observations. The benefits of using qualitative research include flexibility by not having a rigid structure in data collection, providing meaningful insight from people's responses, and following on to the generation of new ideas or perspectives (2022). This research study is suited for qualitative research methodology as it would yield better results for interpreting or analysing the Income Tax Act and providing insight into the possible allowance for the blockchain system.

This research study will have two phases. The first phase will use document analysis, which "is the systematic procedure for reviewing and evaluating documents" (Bowen, 2009:27). Here the researcher will use the relevant legislation and guidelines from SARS to determine the possible tax treatment, classification, and identification of a blockchain system. This approach will also be used for identifying the possible allowance. However, Bowen also mentioned that document analysis is not always the strongest form of evidence for research material (2009: 38).

Due to the researcher's minimal experience in the field of taxation, it may result in a limitation of the interpretation of the Income Tax Act for possible allowance(s) for the blockchain system. Hence to compensate for the lack of experience, this research study will incorporate opinions from tax experts. These taxation experts are lecturers in the field of taxation at the University of Johannesburg. The selection of University of Johannesburg lecturers is based on time constraints surrounding the research study and convenience for the researcher. These expert opinions will add value to the researcher's interpretations of the Income Tax Act and provide insight into a possible allowance for the blockchain system.

Thus, the second phase will be a semi-structured questionnaire aimed at determining the possible allowances that can be considered for a blockchain system. These questionnaires, which are sent via a google form to the lecturers, meet the ethical and confidentiality requirements of the university.

Questionnaires will be used as a means of gathering the opinions of the tax experts. Online questionnaires are both a cheaper and quicker medium of gathering information according to Cleave. Cleave also mentions that online questionnaires can reach more participants faster over the internet. This allows the participant flexibility when it comes to answering the questions, as they will be able to answer the questionnaire in their own time. The downside of questionnaires is: there is no way to seek clarity for vague answers (compared with an interview), or that they may get “questionnaire-taking fatigue” which may generate poor results (2021). To avoid this, the questionnaires of this research study have kept questions to a minimum yet kept the open-ended questions to satisfy the qualitative research methodology of sampling. The use of questionnaires as a medium of collecting data is also a result of time constraints surrounding the research study as mentioned above.

4. INTERPRETATION

5.1 General classification of a blockchain system

This section deals with the researcher’s interpretations of the basic classification and tax treatment of a blockchain system. This is followed by the researcher’s analysis of a potential allowance for the blockchain system. When looking at the treatment and the possible allowances, it is important to note the manner of acquiring the blockchain system for tax purposes. The following methods of acquisition that this research study will look at are the acquisition or purchasing of a blockchain system, acquiring the licensing for the right of use of the blockchain system (similar to that of cloud storage like OneDrive), and the internal generation of a blockchain system.

From SARS’s perspective, they would classify the blockchain system or distributed ledger as they would with other crypto assets and cryptocurrencies (as mentioned above). This would mean that any expenses associated with the blockchain system would be deductible for income tax purposes providing it meets the S11(a) criteria (see appendix 3). If it is capital in nature, it would be treated in terms of the 8th Schedule and will not get an upfront deduction in terms of S11(a). The main issue that the taxpayer would encounter would be if the blockchain system is capital in nature from the S11(a) criteria. In terms of Section 102 of the Tax Administration Act No. 28 of 2011, the burden of proof lies with the taxpayer to prove whether an amount is deductible (2011).

Since the Income Tax Act does not define what capital in nature entails, one has to look at case law principles to determine if it is capital in nature. One of the prevalent cases is that of BP Southern Africa (Pty) Ltd v The Commissioner for SARS (2007) (hereafter as BPSA), where they deducted a lump sum of upfront rental payments and claimed S11(a). SARS disputed this and claimed the amount was capital

in nature as it related to 20 years of services. The judgment ruled in SARS's favour and said it was capital in nature. The principle that arose from this court case was that if an enduring benefit is created, the amount will be capital in nature (2007: 15 para. 25). In the short term it is difficult to prove whether an amount is capital in nature, but the longer the period the greater the chance that an enduring benefit is created and thus being capital in nature.

There have been other court cases that have dealt with similar matters and have resulted in outcomes that all fall in line with BPSA. The court case *New State Areas Ltd v CIR* (1946), questioned whether an expense is about the cost to run an income-earning structure versus creating that income-earning structure (Oosthuizen, 2013: 379). Concerning the BPSA case, creating a structure creates a benefit that will endure over a long period versus payments that are to operate said structure. In *British Insulated and Helsby Cables Ltd v Atherton* (1926), the case also deals with the principle of an enduring benefit and that the longer the benefit endures the greater chance it is being capital in nature. *Vallambrosa Rubber Co v Farmer* (1910) court case dealt with lump sums. The larger an amount, the greater the chance it may be seen as capital in nature. When referring to BPSA, they incurred a large upfront payment which was deemed to be capital in nature (Oosthuizen, 2013: 380).

Concerning blockchain systems, these systems would last over a significant amount of time. This is due to the blocks in the blockchain requiring previous blocks to maintain the system's integrity. From this, it can be noted that these blockchain systems will most probably create an enduring benefit to the taxpayer in the long term (as per BPSA's principle). Thus, blockchain systems would be capital in nature. That would mean that the taxpayer would be unable to claim S11(a) and would not get a full upfront deduction. Any subsequent expenses incurred concerning the blockchain system (like electricity to run the system), providing the expenses are in the production of income as per S11(a), will be a deductible expense as per *New State Areas Ltd v CIR* (1946). This falls in line with SARS's general treatment of crypto assets concerning related expenses.

This would also mean that the blockchain system would be treated as a normal asset under the Eighth Schedule. It would include: the cost to acquire or design the asset which would form part of its base cost of paragraph 20, and proceeds would be included under the disposal of the asset in paragraph 35. Paragraphs 20 and 35 would be done after calculating any capital allowances and or recoupments on the blockchain system. This would all be used to calculate the capital gain or loss of the blockchain system concerning the total taxable capital gain or assessed capital loss of the taxpayer.

When a taxpayer eventually disposed of the blockchain system, e.g. to acquire a new system or in an event of liquidation, the proceeds would be excluded from gross income. The gross income definition says to exclude amounts that are capital in nature (see appendix 3). Since blockchain systems are capital in nature their proceeds from disposal won't be included in gross income. Although there may be

recoupments applicable if there is an allowance for these systems. The disposal of these systems would trigger capital gains tax as mentioned above. However, should a taxpayer develop these blockchain systems to be sold in the market, this would mean that the systems would be classified as trading stock. That would entail that the taxpayer would be able to claim S11(a) for the development of the systems for sale. Subsequently, the sales would be included in gross income. Both these tax treatments, for the acquisition of a system and selling blockchain systems in the ordinary course of business, are similar to SARS's general treatment of crypto assets.

As mentioned at the start of the interpretation section, it is important to distinguish between the method of acquiring the blockchain system. Referring back to BPSA's principle of an enduring benefit, the longer the period the greater chance an enduring benefit is made. In this case, it was also made prevalent that royalty expenses were deductible, but one must determine the purpose of the expenses (Oosthuizen, 2013: 374). The recurring payments would not create an enduring benefit, as when the payment occurs it creates a "benefit" for that respective period. That would entail that the benefit will not endure in the long term past the period that payment relates. Since the licence payments to use a blockchain system would not create an enduring benefit, and are similar to royalty payments, these payments are not of a capital nature and one would be able to claim a Section 11(a) deduction on those payments. This method of using a blockchain system is outside of SARS's scope concerning crypto asset treatment.

4.2 Possible Allowances

Now that the blockchain systems are classified as capital in nature (if not acquired through a licence), the question arises of whether a taxpayer can claim any capital allowances or special deductions on these systems. Here SARS has no allowance currently in place for blockchain systems. In determining the potential allowance for these systems, the interpretation will consider both existing sections in the Income Tax Act as well as possibly adapting existing sections to incorporate blockchain systems. For this interpretation, it is assumed that if a blockchain system is acquired through licencing, the taxpayer will be able to claim a Section 11(a) deduction.

When analysing the relevant existing sections in the Income Tax Act, one has to look at the sections or allowances that deal with intangible assets, as blockchain by its nature is an intangible asset (Lahijani, Petkov, Smith: 75). Hence a section like Section 12C won't be considered as it deals with tangible assets. Section 11(e) is a section where assets can get an allowance if there are no other specific allowances available. However, they deal with common mundane items like furniture, computers, fittings etc. Thus, more relevant existing sections from Income Tax Act dealing with intangible assets are Section 11(gC) and section 11D.

Section 11(gC)'s scope is in the acquisition of patents, designs, copyright and trademarks. Here Section 11(gC) gives either a 5% or 10% allowance depending on the type of item and amount (see

appendix 3), provided it is used in the production of income. Section 11(gC) seems to be the appropriate allowance to cater to the acquisition of a blockchain system. The percentage category that should be used for the blockchain system is the 10% allowance. The reason why the blockchain system should include a 10% allowance, is that this allowance would then incentivise taxpayers to acquire these systems. This would also encourage other taxpayers to develop such systems that could be sold on the market. In expanding the allowance and encouraging taxpayers to invest resources into blockchain systems, it will progress society in the 4IR. Therefore, SARS should expand S11(gC) paragraph (aa) (B) to incorporate blockchain systems.

S11D speaks to research and development. In terms of S11D (1) (b) (iii), it includes creating and developing a computer program (see appendix 3). This entails that internally generated blockchain systems would fall in the ambit of S11D. The allowance that S11D grants, in respect of S11D (2) (a) after meeting that paragraph's scope requirements, is 150% of all expenses incurred for research and development. Similarly to S11(gC), expanding S11D to incorporate blockchain systems would encourage taxpayers to put resources aside to generate their blockchain systems and advance society in the 4IR. However, S11D currently has a sunset date, 1 October 2022. This date has been extended until 31 December 2023 in the National Budget speech (National Budget, 2022: 46-47). Although S11D fits this allowance for generating a blockchain system, this might not be a viable allowance in the future.

A summary of the proposed tax treatments and allowances can be summarised in diagram 2 below.

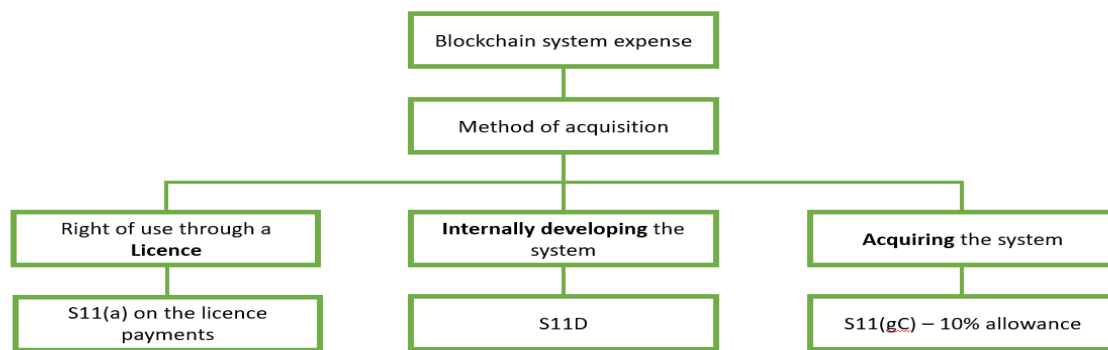


Diagram 2: Possible tax treatments of a blockchain system

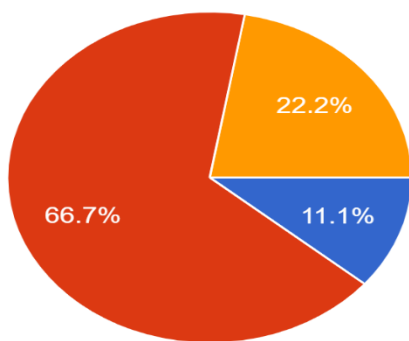
In respect of the allowances mentioned above, one could relate them to the treatment of the intellectual property. In an article by Oosthuizen, he investigates the possible deductions available to a taxpayer concerning intellectual property. In his overview, he shows all the possible allowances and treatments of intellectual property. The overview shows: that acquiring the right of use of the intellectual property will qualify for S11(a), the acquiring of the intellectual property will get a Section 11(gC) allowance, and the research and development of the intellectual property will get a Section 11D allowance (2013:

375). Concerning Oosthuizen’s overview, it can be noted that blockchain systems could share a common tax treatment with intellectual property due to their intangible nature.

Regardless of whether the sections can be amended for the allowances of a blockchain system, one must remember Section 23B relating to double tax. S23B (1) says that if two or more allowances or deductions are available, the taxpayer can only use one deduction (see appendix 3). An example would be claiming S11(a) through the licencing costs and claiming Section11(gC) allowance on the system. Similarly, there is a proviso in Section11D subsection 1 (h), saying that one cannot claim Section11D if you have claimed expenditure as per Section 11(gC) (see appendix 3).

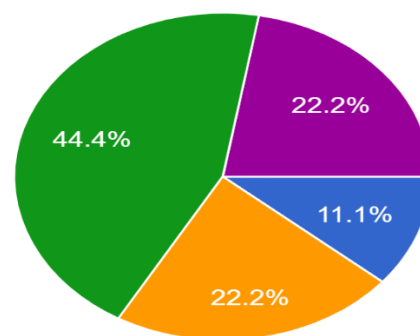
5. FINDINGS FROM QUESTIONNAIRES

Before the lecturers could answer any questions on the possible allowances, they had to indicate their highest qualification type and how many years they have lectured in the field of taxation. A total of nine lecturers completed the questionnaire. The majority of the lecturers hold at least a Master's level degree - NQF 9 (see pie chart 1). 89% of lecturers have at least lectured for more than five years in the field of taxation, and 66% have over 10 years (see pie chart 2). This means that the lecturers in the sample have both sufficient qualifications and experience to be regarded as tax experts. Their written responses are found in Appendix 4.



- PHD (NQF 10)
- Masters (NQF 9)
- Honours or Post-Grad (NQF 8)

Pie chart 1: Level of qualification

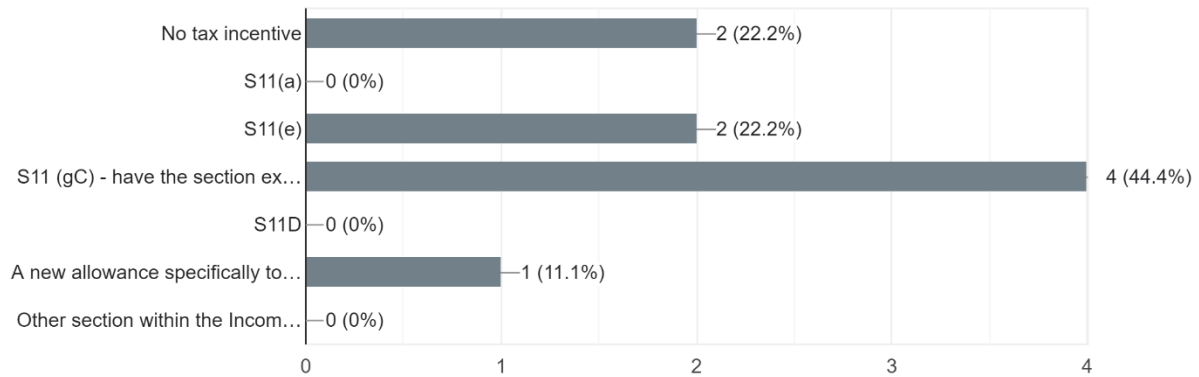


- 0 - 1 years
- 2 - 5 years
- 6 - 10 years
- 11 - 20 years
- 21 + years

Pie chart 2: Years lecturing taxation

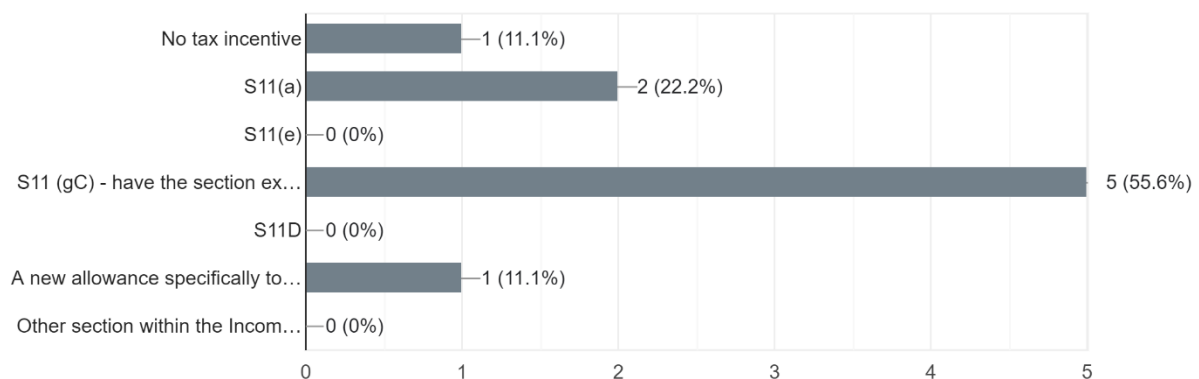
The most commonly held view amongst the lecturers was that S11(gC) would be the most appropriate tax treatment (see graph 1 on the following page and Appendix 4: responses to question 1.2). Those responses show a similar stance to the preceding interpretation section, namely, it is either the acquiring of a system or the acquiring of an accounting package. Two lecturers said that no incentive should be granted (see responses 2 and 7). In response 2, the lecturer thought that a blockchain system is similar to goodwill and trademarks which can be manipulated and thus excluded from S11(gC). Response 7

held the view that there should be no incentive for blockchain systems. This response was held by the lecturer when considering the other tax treatments throughout the questionnaire. Response 3 brought up the matter that one could try claiming S11(e) as per the Binding General Ruling No. 7 in the Income Tax Act, which includes computer software. The response relating to the new allowance or section will be evaluated later.



*Graph 1: Possible allowances for the **acquiring** of the blockchain system*

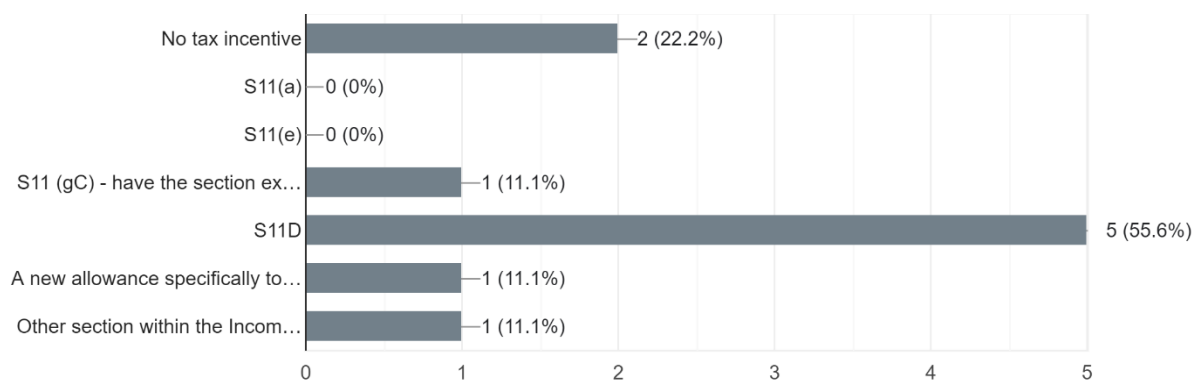
Regarding the acquiring of the license, the majority of lecturers selected Section 11(gC) as the most appropriate tax treatment (see graph 2 below and Appendix 4: responses to question 2.2). This is different from the findings in the interpretation section which supported S11(a). The responses of the lecturers focused on the wording in Section11(gC) that says any expense to acquire “a blockchain system” (see appendix 3). Two lecturers (in responses 2 and 4), mentioned that S11(a) would apply. Response 4 follows the same approach as mentioned in the interpretation section relating to enduring benefit. From these two views, it is possible that both opinions could be correct and a taxpayer could claim a deduction under either. However, one must remember S23B will limit the source of deductions to one section.



Graph 2: Possible allowances for the acquiring of the licence for the blockchain system

Regarding the view of internally developed blockchain systems, the majority of lecturers selected S11D as the most appropriate tax treatment (see graph 3 on the next page and Appendix 4: responses to

question 3.2). The responses follow a similar trend to the interpretation section above. It is noted in this particular question, one lecturer (see response 5) made use of the option provided in all questions of the questionnaire to provide more than one possible tax treatment. The two sections were firstly S11D, and then S11(gC). The reason was that the creation of the blockchain system could be seen as the creation of intellectual property. Responses 4 and 9 thought that there should be no allowance. These responses match their previous responses in question 1.2. One lecturer (see response 7) recommended that s11(gB) could apply. This section deals with the granting of a patent or registering of a design or trademark. This could apply to registration costs of a blockchain system, but probably not the development of the system.



Graph 3: Possible allowances for the internal development of a blockchain system

Lecturers could have opted to add additional feedback to the researcher (Appendix 4: responses to other input). One lecturer mentioned that if these systems are held as trading stock, then Section 22 applies (see response 1). This is in line with the interpretation section and SARS treatment of crypto assets that are held for trading. Another lecturer appreciated the splitting of blockchain into cryptocurrencies and blockchain systems (see response 2). The last response by a lecturer (see response 3), was that the lecturer took a “negative” approach toward possible allowances for these systems (as per the lecturer’s response throughout the questionnaire).

As alluded to earlier, one of the lecturers mentioned that a new section may be more applicable (see appendix 4: responses to question 1.2, response 1). This new section would deal with intricacies like the scope and define terms of a blockchain system. This would result in “bringing certainty in terms of the deductibility of the costs relating to the blockchain”. As noted from the results in graphs 1 to 3, there is uncertainty surrounding the tax treatment for the possible allowance. Having a new section would also solve the issue of uncertainty concerning Adam Smith’s four tax maxims. Additionally, it bypasses the issue of Section 11D being sunset and not being available to use as a future allowance. The new section could even incorporate similar treatments to that of Section 11(gC), Section 11D, and or Section 11(e).

6. CONCLUSION

It can be noted that blockchain is a useful technology in the 4IR. It is important to make the distinction between the cryptocurrency element of blockchain and the distributed ledger system element. These distributed ledger systems could function similarly to that accounting software, for the recording and processing of financial data. Despite blockchain having its advantages and disadvantages, blockchain systems have additional implications for disciplines in the financial industry. The types of blockchain systems that will be used in the future will most probably be hosted on private networks. This counteracts some of the disadvantages of a blockchain system. SARS and other tax authorities do not have tax treatments or incentives in place for blockchain systems, but they treat the blockchain systems together with cryptocurrencies.

To summarise the interpretation section, it is proposed that the general tax treatment of a blockchain system be capital in nature and therefore not qualify for a general deduction. This is similar to SARS's general treatment concerning crypto assets. Unless it is the acquiring of a licence to use a blockchain system, where the re-occurring licence cost will be deductible under Section 11(a). The above treatment adheres with SARS's general treatment of crypto assets regarding the disposal of a blockchain system, selling blockchain systems in the ordinary course of business, and any associated or related expenses.

Since the system is capital in nature, be it acquired or internally developed, existing allowances with modifications could be Section 11(gC) for the acquisition of a blockchain system and Section 11D for the internal generation. In Section 11(gC), the allowance category should be the 10% allowance. Section 11D will be an appropriate allowance, but the allowance has a sunset clause which could hinder the possibility of using this allowance in the future for internally generated blockchain systems. Thus, in totality, blockchain systems could be treated in a similar way to how allowances work for intangible assets and intellectual property.

When comparing the interpretation to the responses from the lecturers, the following difference and similarities can be noted. The acquisition of a blockchain system should get a Section 11(gC) allowance, which is in line with the interpretation section. One could even claim a possible Section 11(e) wear and tear allowance. For the acquiring of the licence to use a blockchain system, one needs to analyse the scope of Section 11(gC) to determine whether one can claim the allowance. Alternatively, one can claim a Section 11(a) allowance on the licencing expense. For the internal development of the blockchain system, Section 11D would be an appropriate deduction. This follows the same pattern as that of the interpretation section.

There are additional considerations for the possible allowances used for a blockchain system. Such considerations include Section 23B which will limit the sources of deductions that one can claim. One must factor in the element of manipulation and possible abuse by taxpayers of these tax treatments on

blockchain systems. Then there is the consideration of adding a possible new allowance to the Income Tax Act. This may bring clarity or certainty to the scope and deductibility of expenses relating to the blockchain system. It would also resolve the issue of not getting a Section 11D allowance once it has reached the sunset date. Should a taxpayer make and sell blockchain systems in the ordinary course of business, it will be considered trading stock and follow SARS's general approach with crypto assets.

There are some limitations to this research study, such as the blockchain systems still being in early development (Fischer, 2018: 5; Smith, Petkov, & Lahijani, 2019: 74). Given that blockchain systems are in early development, this would entail that taxpayers would be incurring large research costs for developing these systems. This results in taxpayers who are developing these blockchain systems to maintain high levels of privacy, because they want to maintain their competitive advantage.

Timing was a limitation, as the questionnaires were sent to the lecturers when they were busy setting tests. This could have resulted in questionnaire taking fatigue or some lecturers rushing their responses. Given the complexity of the topic, interviews may have been a more appropriate tool for the gathering of responses in comparison to questionnaires. Then there is the limitation of diversity of view in only using University of Johannesburg lecturers as tax experts. However, this leaves room for future research by enquiring from other academia or experts in the field of taxation about their opinions on the tax treatment of blockchain systems. Alternatively, one can ask tax practitioners how they accounted for the tax treatment of their blockchain systems, once taxpayers start creating these types of systems. Other areas of future research can also include whether a new section for 4IR technologies should be created, to incentive taxpayers and or give clarity on their treatment.

In conclusion: A new section should be implemented to deal with the tax treatment of a blockchain system. Until a new section is created, a taxpayer should attempt to claim the respective allowances for the different methods of acquiring a blockchain system as proposed. The existing allowances that one can claim include Section 11(a), Section 11(e), Section 11(gC) and Section 11D (subject to Section 23B). When SARS reviews the taxpayer's tax return, SARS will then either accept or reject the tax treatment and allowances claimed by the taxpayer for their blockchain system.

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CORPORATE GOVERNANCE DEFICIENCIES IN SOUTH AFRICA: A HINDRANCE TO INVESTMENT IN SOUTH AFRICAN COMPANIES?

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Abstract

The tough economic environment in South Africa incorporated with a lack of investment in companies has meant that numerous business (small to large) has struggled to adapt and succeed in the South African business sector. Economic leaders argue that South Africa is a leading country to invest in (both in terms of local and foreign investment), whilst poor corporate governance and a breach of ethical codes in various South African companies possibly hinder investment opportunities for companies. Amidst an increase in corporate scandals in most recent years, investment opportunities have significantly decreased due to the lack of trust that investors have in large corporates as a result of negligence and fraudulent intentions of directors and senior management within large South African companies. The study at hand gives an overall look into the impact a lack of corporate governance has on investment opportunities for companies across the country. A detailed content analysis surrounding both corporate governance deficiencies in the country as well as investment into the country was done to establish the underlying link between the two. The content analysis was done to establish a link between governance and investment by analyzing a select group of South African companies that experienced large corporate scandals and failures to give context to the most significant governance deficiencies in companies across the country. These drivers are largely common to most companies in the country that face a surging downhill spiral due to a lack of effective governance structures. The content analysis was broken down into two focus areas corporate governance in South Africa and secondly the investment outlook in the country amidst recent developments in investment requirements. Through content analysis and drawing links between corporate governance deficiencies and what investors are looking for, the connections between the two were confirmed illustrating a significant correlation between the two in the progressing 21st century. The common drivers of corporate governance were summarized into 3 categories focusing on the integrity of management, ineffective controls, and fraudulent transactions.

1. INTRODUCTION

King code IV and the Companies Act 71 of 2008 set out key corporate governance and ethical considerations that South African companies should take into account. King IV defines corporate governance as “the exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes: ethical culture, good performance, effective control and legitimacy” (SAICA , 2021/2022). Over the past few years, the country has seen the partial

to complete failure of large companies from state-owned entities such as SAA and SABC, to other businesses such as Steinhoff and VBS Mutual Bank. The failure of such businesses is largely to blame for poor governance structures (Mail & Guardian, 2018). With the impact of Covid-19 incorporated with the ineffectiveness of governance structures, companies have seen steady declines in overall financial performance which combined with poor governance saw the closure of many businesses in the country.

The King code on corporate governance (King IV) places responsibility on the governing body of the company to lead ethically and effectively and indicates that the governing body of a company should act as the custodian of corporate governance in the company (SAICA , 2021/2022). Corporate companies in South Africa foster a drastic approach to corporate governance, however, businesses continue to fail, with the governing bodies of many companies accepting no responsibility for the actions that occurred. In most recent times, poor board oversight and a reluctance to change have meant most companies could not continue as a going concern for the foreseeable future.

Comair, one of the largest airliners to grace South African airspace in June 2022, decided to liquidate the company after not being able to obtain adequate financing to keep the airliner afloat. Poor strategic decision-making led to a lack of financing ending in the decision to liquidate the company. Like many other businesses in the country, investors were reluctant to put money into the business with the company not being able to show that it was financially viable for the foreseeable future. Investment firms around the globe are reluctant to invest money into what used to be a thriving South African economy with one investor stating, "Your own guys have no confidence so why I would?" (Verwoed, 2018). It is clear to see that a steady decline in business growth over the past years with an increase in corporate failures and scandals has meant that investors' outlook on the country had been tainted.

South Africa is no stranger to negative publicity in the business space as many investors are reluctant to invest in the country due to the large failures of South African state-owned entities due to poor management and governance failures. The largest of the failing SOEs is the national power supplier, Eskom. In a study done by the Institute of Economic Justice, it was concluded that Eskom is "plunging the economy into a state of crisis" (Department of Economic Justice, 2022). "High returns" created from poor maintenance of assets and a piling up of infrastructure damage meaning large parts of the country have been for the last couple of years, plunged into darkness, clearly indicating the need for effective governance structures in the country. Companies like Eskom hinder investment as most investors want a stable supply of power for their businesses.

Business integrity and the view of management on how they conduct business are particularly important to investors. An investor wants to be able to invest their money and assets in companies whose ethical codes of practice and governance structures are effective in the daily functioning of the company.

Corporate governance is an essential tool to achieve growth and better financial performance in companies as it creates a trustworthy relationship between investors and the boards of companies that could potentially “reduce the risk to investors” (Price, 2019).

1.2 Purpose

The purpose of the following study is to create a link between ineffective corporate governance in the country and what investors are requiring when investing in the modern corporate world. A wide variety of reports express their opinions on the significance of governance in South African companies or give a brief view of how investment is impacted by corporate governance. None of the studies however draw major links between the above-mentioned aspects clearly and concisely. This study will summarize findings from various reports to create these links between investment requirements and corporate governance (focused on ineffective corporate governance).

1.3 Design Overview

This research report aims to give an overview of the related investment and ineffective corporate governance. A small group of South African companies will be analyzed (including SOEs) to critically evaluate common corporate governance failures in the companies. The common drivers of corporate governance failures will be analyzed to first summarize the most significant corporate governance issues within the country. The study will then go on to critically evaluate the modern needs of investors to give context to the most recent developments in investment requirements. The most significant corporate governance issues will then be compared to what investors are looking for to analyze whether corporate governance is hindering any investment in the country due to the ineffective governance structures.

1.4 Limitations

The study at hand only analyses a select group of large South African companies, as such the results found in the study do not apply to all South African companies, but rather to a few companies with a lack of effective governance structures/companies that had large corporate scandals behind their name. A limitation to the amount of data that could be investigated for this research paper existed as a large number of corporate governance issues are not disclosed to the general public, but are rather disclosed by various reporting agencies. As such a large amount of the data collected was analyzed by a wide variety of open-source websites and articles available to the general public, the study in no way covers an exhaustive list of governance issues or investment requirements.

2. COMPANIES ACT AND KING IV: A BRIEF OVERVIEW

It is important to note that King IV is a code of best practice for companies to follow whilst the Companies Act 71 of 2008 is legislated in South Africa.

2.1 Companies Act 71 of 2008

The companies Act 71 of 2008 serves the purpose of governing the effective establishment and running of major companies within South Africa. Companies in South Africa from incorporation are obligated to comply with the act. The companies Act goes into detail in the practices that should be adhered to in terms of governance of companies including the board of directors, actions that are deemed to be allowed and not allowed in terms of directors, and directors' liability, amongst others. Governance practices of companies should at all times adhere to the companies act and any non-compliance with the act can be punishable, with far-reaching consequences including holding the directors of companies liable for actions committed by them that is fraudulent or misleading in their capacity as director.

2.2 King IV

The King IV code on corporate governance is a code of best practices in companies that companies are encouraged to comply with. A vast majority of elements in the report have underlying links to the Companies Act 71 of 2008. The report however focuses on corporate governance within entities in South Africa and lays out practices to ensure companies are good corporate citizens. The underlying principles of the report include integrated thinking, corporate citizenship, stakeholder inclusivity, and the organization as an integral part of society. The fundamental goal of the report is to achieve effective corporate governance in companies which can build stakeholder trust, create more profitable companies and ensure effective leadership within companies.

3. RELATED LITERATURE REVIEW

3.1 Background

For the literature to follow, the following terms will be used:

- Corporate Governance: The system by which a company is directed and controlled (ICAEW, 2022)
- King IV report on corporate governance: A structured report containing principles and recommended practices aimed at achieving governance outcomes (KPMG, 2022)
- Environmental, social and governance awareness (ESG): ESG refers to the criteria used to determine the impact (in terms of sustainability and ethicality) that investment has on companies. (Price Water House Coopers, 2022)

Corporate governance in South Africa has been given greater prominence in the corporate space of the country in recent years. Amidst large company failures and poor resource allocation mainly in state-owned enterprises, many have questioned the effective functioning and governance of these entities. In South Africa, companies focus on the dominant Anglo-American corporate governance model, the aim of such a system is the maximization of shareholders' wealth (Padayachee, 2013). With such a model, certain risks arise such as personal financial interests, intentions to defraud, a lack of goal congruence

within companies, and an approach that does not foster the underlying principles of both King IV and the Companies Act 71 of 2008.

“For an economy to attract productive, sustainable local and foreign investment, a stable investment climate along with a supportive investment policy framework is necessary” (Department of Economic Justice, 2022). Investment into the country has faced many barriers to entry including unstable resources such as electricity supply by state-owned entity Eskom, and other factors such as investments following an ESG approach. ESG awareness brings about the core objective of determining what impact (in terms of sustainability and ethicality) investments in companies have. The key defining feature of ESG is that the model brings in the impact of societal and governance needs as opposed to older models focusing solely on shareholder returns. A key tool in such focus is companies' integrated reports which not only touch on financial performance but which critically assess the impact companies have on non-financial performance indicators. *It is safe to say that investments and governance are becoming more interlinked in recent times.*

3.2 Corporate Governance in South Africa: A Brief Outline of Corporate Governance Before 1994

Before the inception of the King report on corporate governance, corporate governance within companies was not a priority in South Africa. Investment decisions were based solely on the success of a company (measured in terms of how profitable a company was or how big the asset base of the company was) and did not take into account- amongst others- human, environmental, and societal capital within companies. Such a system of focusing solely on how profitable a company was, was brought about by factors such as “A presence of powerful individuals, strong western companies, and a lack of governance debate” (Padayachee, 2013). A lack of understanding of the impact non-financial factors had on business profitability and a lack of public interest within companies before 1994 contributed to the lack of focus on ethical frameworks and governance. The common story told by various literature on corporate governance before 1994, echoed the lack of independence, transparency, and integrity within company structures, management/owners often ran companies based on their interests and objectives (Jonty Tshipa, 2017). The focus of business in the 20th century was profit maximization for shareholders with little to no regard for other stakeholders involved in the company, and barely any fundamental governance structures/frameworks were evident within the majority of companies.

It can thus be concluded that prior to 1994, decisions (investment and general business) were focused on profit maximization and self-interest objectives with little or no regard to corporate governance

3.3 Corporate Governance and Corporate Failures in South Africa Post-1994

In a report on corporate governance in South Africa done by Vishnu Padayachee, he described the changing governance philosophy in the country as “old boys club to ubuntu” (Padayachee, 2013). The report indicated that the country has moved to a business industry that places focus on corporate governance as opposed to a lack of corporate governance before 1994. This comes as no surprise as corporate governance has become a priority for many investors in recent years. Companies have now shifted from the old profit-driven entities to newer integrated companies (combining stakeholders, ethical frameworks, environment, and financial performance), all often set out in many companies' integrated reports. Business leaders and industry leaders in the country have often stressed the importance of corporate governance in South Africa over the last decade, however, large amounts of business leaders and those charged with leadership and governance within entities have been the same person that has been found guilty of misconduct, fraud, theft, and other serious offenses. So why do corporate failures still happen when corporate governance has gained so much prominence over recent years?

Those charged with governance and leadership within entities are normally trusted individuals (trusted by company management, the board, and shareholders). However, when ***too much freedom and power is placed in the hands of those in charge, self-interest threats are almost inevitable***. In a report by Price Water House Cooper, it was found that “the value of economic crimes in South Africa has increased while the rate of reported economic crime has decreased, the rate of which senior management has been involved has increased from 20% in 2020 to 34% in 2021.” (Price Water House Cooper, 2022). Economic crimes (often leading to corporate failures) are still a major challenge for South Africa.

Ahmed, 2016 brought a unique study into the reasoning behind corporate failures in which he stated that “a lack of protection against the abuse of power by directors in companies was an unsustainable long-term problem in the country”. Directors of companies serve the purpose to “make the strategic and operational decisions of the company and are responsible for ensuring the company meets its statutory obligations” (Deloitte, 2013). However, ***if a company is being steered by the wrong captain, it is bound to fail***. It is further seen that due to fraud, theft, and other illegal activities by senior management or directors, companies such as VBS Bank Mutual have had to stop operating, or in other less severe cases, companies have seen a drastic knock-on effect on their profit. Would an investor want to invest in a company that is unprofitable and surrounded by scandal

Nkemele (2019) in a study done at the University of Free state indicated that amidst large corporate failures, disclosure has become of utmost significance. One of the most important needs for investors is the disclosure of important financial information (both qualitative and quantitative). However, with recent corporate scandals, a gap in directors' actions and the information disclosed exists. This

sentiment was shared in various studies done by academics from various South African universities. In a particular literature study by Thabane, 2018 it was seen that the constant changing of boards and a lack of effective controls in South African companies hindered both performance and investors' "need" to invest in various South African companies.

3.4 Investment Outlook in South Africa

Investment into South Africa has been a rollercoaster journey for the country with massive booms during the time of Gold Rush in South Africa to lower levels of investment in recent years amidst a plague of corporate scandals in the country. The government of South Africa in recent reports stay optimistic that South Africa is still a leading country to invest in but to a reasonable third party, due to large corporate failures and a lack of investment it could be argued that global investors are rather detoured from investing in South Africa. In a literature study published by *Govington & Burling LLP* investment in the country fell from \$4.6 billion to \$2.5 billion (Govender, 2021). The public interest has become a significant influence on who and where global investors invest in. The first pivotal study conducted by N. Mans-Kemp and S. Viviers (University of Stellenbosch) a direct correlation was drawn between sound corporate governance and financial performance as well as market valuation, two of which are important KPIs for investment decisions (Mens-Kemp, 2018). However, the study also concluded on negative relationships between corporate governance and factors such as profitability. The second important study brought into the matter of whether investors are willing to invest more in companies with sound corporate governance, the results showed that investors and institutional investors were willing "to pay a price premium for shares and investments into companies in South Africa, provided there was sound corporate governance" (Jonty Tshipa, 2017). This stance is shared with local investors as well as recent investments are following an ESG approach and taking into account the non-financial impact that companies have.

3.5 Does investing in sound corporate governance yield positive effects?

In a study conducted by Mens-Kemp et al. (2017), investment and corporate governance were analysed concerning an analysis comparing corporate governance structures to EPS of companies in South Africa in a more detailed qualitative analysis. The study investigated the relationship of financial performance between companies in South Africa with varied corporate governance structures, with some companies showing better correlations with financial performance and good corporate governance, others showing mixed relationships but very few showing no significant impact between the two. Corporate governance in the country largely depends on the attitude of large companies, how they foster governance and ethics, how they express their views of governance to company personnel, and how they ensure the constant development of ethics and effective leadership within their companies. This sentiment is shared by various studies (not a large number of studies) conducted concerning investment and key business

performance indicators and solidifies the increased link between positive corporate governance leading to better performance and possibly higher levels of investment in companies.

4. RESEARCH

4.1 Research Methodology and Design

Research methodology can be described as the process and tools used to find the solutions to a problem. According to William Zikmund a Research design is defined as the “master plan” specifying the methods and procedures for analysing and collecting the needed information”. The goal of the research methodology and design is to create solutions from an organized set of information, with a clear goal. Different methods of research methodology exist including content analysis. The goal of content analysis is “the systematic examination of communicative material, originating from mass media in particular” (Mayring, 2004).

The research methodology employed for this research was a critical content analysis used to systematically investigate the links and differences between corporate governance and investment in the country. Content analysis creates an advantage in critically analysing information in that it is transparent, does not require a research participant, and can allow links to be drawn about information from a sample of information (University, 2022). Content analysis can largely be either qualitative or quantitative. For purposes of the research done, a focus (mainly) was placed on qualitative studies and resources.

4.2 Research Methodology Description

Over recent years South Africa has been plagued by various large corporate failures, some failures have been recognized globally due to their size. The companies chosen for the specific study include Steinhoff International holdings, Tongaat Hulett, EOH, state-owned entity South African Airways, KPMG, and various Gupta-owned companies. The common drivers of corporate failures in these companies (focused on a lack of corporate governance) were analysed. The impact these common drivers have on the investment outlook in the country was then explored and the relevant links were drawn.

It is important to note that the above research explores the business sector of the country (South Africa) as a whole and includes both the public and private sectors.

4.3 RESEARCH FINDINGS

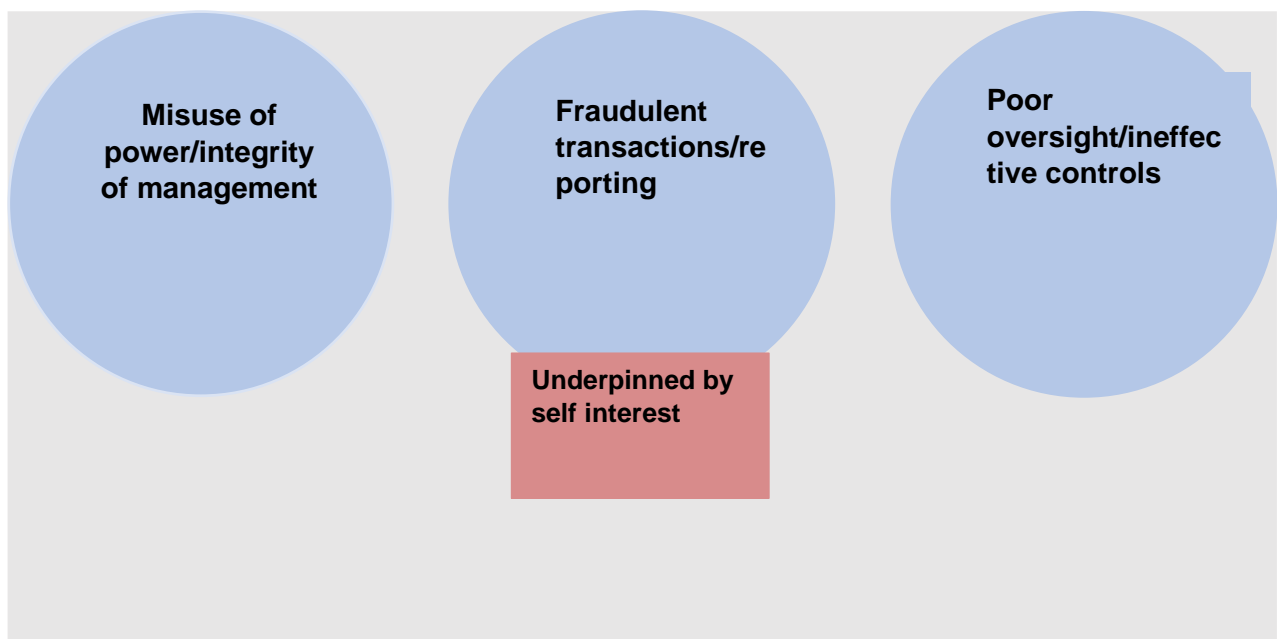
4.3.1 Drivers of Corporate Failures

Company	Period	Magnitude (financial)- if applicable	Most pivotal drivers of corporate failures
Steinhoff International Holdings	Uncovered from 2017 to 2018. Originally detected by Deloitte and later investigated by Price Water House Coopers	± R7.6 billion	<ul style="list-style-type: none"> • Off-balance sheet companies to hide losses • Management's intention to defraud • Fictitious transactions supported by fake documentation
Tongaat Hulett	Discovered from 2022	±R2.4 billion	<ul style="list-style-type: none"> • Greed and misuse of power • Self-interest • Poor corporate governance including a lack of director and management oversight
South African Airways		±R16 billion in losses recorded	<ul style="list-style-type: none"> • Leadership struggles • Political interference • Poor judged financial decisions such as the maintenance of aircraft • Failure of acting in the best interest of the company by directors (financial greed both individually and to show good company performance)
EOH		±R1.5 billion	<ul style="list-style-type: none"> • Governance failings and mismanagement • Poor oversight mechanisms in place • A lack of supervision • Poor internal controls
KPMG			<ul style="list-style-type: none"> • Management Integrity comprised/lack of independence

			<ul style="list-style-type: none"> • Various accounting NOCLAR • Lack of oversight/effective controls
Gupta owned companies			<ul style="list-style-type: none"> • Lack of independence/management integrity • Fraudulent transactions leading to “hiding certain transactions”
Sources of above information:	(Lungisa, 2017) (Motsoeneng, 2019) (Planing, 2018) (roussow, 2018) (Paddy, 2022) (Cokayne, 2022) (Wyk, 2022) (Wasserman, 2020) (Rakabe, 2020) (BusinessTech, 2019)		

Important to note: some results and research are limited in that they are gathered from various sites and articles, a lack of reports and reviews by academics exist due to a lack of information being disclosed to public or the events being too recent to review. Further analysis and interpretation would need to be done. The following results provide an oversight onto the main reasons the companies reached partial to full corporate failure.

The above can be summarized into 3 categories as follows:



Major corporate governance issue leading to consideration	Category as above (if applicable)	Investors consideration
Corporate scandals, increase in misrepresented financial statements	Fraudulent transactions/reporting	<ul style="list-style-type: none"> • Trustworthy financial reporting • Open and honest management • Greater assurance of assertions by management
Investors following an ESG approach to investing (as set out below) due to companies ignoring their impact on non-financial aspects of business	Self-interest (focusing on financial performance)	<ul style="list-style-type: none"> • Need for integrated reporting • Impact of non-financial indicators • Aspects including environment, society and governance
(i)Non-compliance with laws and regulations (ii)Breach of confidential client/business information	Poor oversight/lack of controls	<ul style="list-style-type: none"> • Investors looking more for companies that comply with King IV (even though it is not legislated) • Compliance with the Companies Act 71 of 2008 • Compliance with POPI act 2021
The disrepute of South African businesses' reputation due to large-scale scandals as a result of poor oversight and lack of management integrity	The integrity of management/ lack of effective controls	<ul style="list-style-type: none"> • Reputation as a good corporate citizen

		<ul style="list-style-type: none"> • Eco-friendly companies • Companies that provide for communities (even though this does not yield any return) • Companies that take societal needs into account
Other considerations: <ul style="list-style-type: none"> • Diversity • Financial performance • Liquidity and solvency • Carbon footprint • Higher-quality corporate reporting • Business actions and link to strategy 		
Sources of all the above information	(accountants, 2013) (POPIA, 2022) (PWC, 2014) (Tocchini, 2022) (Klopper, 2002) (Ferreira, 2014) (Marx, 2021) (OECD, 1999)	

4.3.3 Application of Findings

Corporate Scandals and Investment

Amidst increased corporate scandals, it is clear that investors' appetite for more trustworthy relationships with the management and directors of a company. At the end of the day, all investors want assurance on their investments, to know that their investments are being held by the right personnel, who can provide them with a return on investment. Although not the most important, profit maximization for investors and shareholders within a company is a big part of the profitability and success of companies. As such boards/senior management are compelled to act in the best interest of the company to ensure the company continues to run as a going concern and can provide relatively good returns for all investors concerned in the business. Risk at the overall financial statement level as well as at the assertion level will be reduced to a relatively low level as a result of management being more honest and open, increasing the standards of integrity and ethics within the company. From personal

experience in working in the retail sector for 3 years, managements views and the way they run a business and how much support and growth opportunities are given to employees plays a vital part in how successful a company is, and also reduces aspects such as fraud, theft and other non-financial aspects.

Modern ESG requirements and investment

A shift from the “profit maximization” focus to a modern, “all stakeholder approach” has been seen across markets within South Africa as well as on the global scale. ESG reporting brings in a new approach to investment decisions requiring a business to disclose its impact on almost every stakeholder within the company as a measure of profitability and ethics. Companies can no longer operate “under the belt” as larger public interest in various corporates within the country, has been observed. Investors now require a “greater” reason to invest than just financial profits and often have more trust in companies whose objectives include all stakeholders as opposed to just those directly impacting financial performance. Triple bottom-line reporting has become pivotal to financial reporting.

Non-compliance with laws and regulations and investment

The Companies Act 71 of 2008 and King IV report on corporate governance both echo the same message, compliance with ethics and good corporate governance. Investors are more likely to invest in companies that comply with the act and report. Amidst corporate scandals, compliance has been questioned heavily, indicating many companies are placing a “blind eye” on directors’ actions and simply placing too much trust in the hands of this senior management personnel. Investments in recent times have taken massive knocks due to reckless and fraudulent trading by those in charge of large corporates, emphasizing the need for strong enforcement of laws and regulations to ensure management are investing investor funds in the best interest of the company and not in the best interest of themselves, which often leads to stakeholder’s needs being *overlooked in pursuit of profit-driven investment decisions*.

The Reputation of Companies and Investment

A company's reputation is particularly important when deciding which companies to invest in. Investors want to associate themselves with companies that prove to be good corporate citizens, drivers of positive change, and companies that give back with no expected return (the majority of investors, some investors still focusing on the profit-driven investment decision model). Aspects such as a company's carbon footprint, how companies contribute to societal and environmental needs, and how companies view corporate social responsibility/investment have become of utmost importance to investors. Compare this to investment decisions in the 20th century and you can see the move from investment decisions based on company profits and asset base, to companies’ contribution and impact on non-financial performance indicators. As Public interest in companies increases as a result of increased technological communication and greater customer power, companies’ reputations can easily take a knock from any

bad publicity, which will negatively affect which investors would want to associate themselves with you. *Investors are now looking for an all-inclusive approach to investment decisions.*

5. CONCLUSION

From the study findings, a clear link between corporate governance and modern investment requirements was drawn. Investment decisions are gradually moving towards the all-inclusive approach as public interest and companies' impact on non-financial performance indicators is increasing. A lack of effective governance structures underpinned by a lack of management integrity and self-interest threats has created an unstable business environment in South Africa. As a result investment opportunities are following a more stringent approach to providing investment opportunities to companies, requiring more investment decisions to be based on corporate governance and ethical considerations such as compliance with laws and regulations, integrated reporting, societal needs, and environmental impact. The study achieved its purpose of giving an overview of the outlook between investment and corporate governance deficiencies with detailed content analysis and personal application to findings.

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THE EFFECTIVENESS OF TAXPAYER EDUCATION PROGRAMS ON SMALL BUSINESS ENTERPRISES' TAX COMPLIANCE IN SOUTH AFRICA

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Abstract

Tax provides the government with revenue to allow them to provide infrastructure, capital, and services for its citizens and for the development of its economy. However, South Africa does not collect as much revenue as it should. In particular, Small and Medium Enterprises (SMEs) play an extremely important role in South Africa's economy as they have the potential to generate large sums of revenue for the government. SMEs in the informal sector of the South African economy is unregulated, and this has resulted in poor compliance. Thus, posing a problem to the country's growth. The literature review shows a directly proportional relationship between tax compliance and tax education. Thus, a need arose to educate SMEs in order to encourage the payment of their taxes, which inevitably can lead to the improvement of the state of the economy. The research endeavours to establish SME taxpayers' awareness of tax education programs. In addition to the aforementioned, the researcher will assess the SME taxpayers' understanding of current programs in place to alleviate the lack of taxpayer education and the effectiveness of these programs on tax compliance, an area that is under-researched. A google form questionnaire was administered to 10 SMEs to test the effectiveness and awareness of the tax education programs in the City of Johannesburg Metropolitan Municipality district in Gauteng. The SMEs that participated in this research provided their own unique responses. The data was analysed and presented using tables and graphs. The results of this research are indicative that, these SMEs believe that the government is acting inadequately to improve tax education in South Africa. The results are also indicative that the programs implemented by SARS are effective in improving SMEs' understanding of the various tax laws and regulations. However, majority of the SMEs who participated in this study were unaware of the tax education programs implemented by SARS. Thus, this research recommends that SARS should consider effective communication methods and creating more awareness regarding the tax education programs as this will foster an improvement in taxpayers' education which will lead to an improvement in tax compliance. The lack of taxpayer's awareness of these educational programs results in lesser of a need to test the effectiveness of the educational programs.

Keywords: Tax, SMEs, Tax compliance, Tax education.

1. INTRODUCTION

1.1 Background to the Research

In 1789 Benjamin Franklin gave us the famous quote regarding taxes. He said, “*nothing is certain except death and taxes.*” Taxation is one of the most important elements in managing national income. In South Africa, tax is a compulsory levy, imposed by the government and SARS on South African citizens. It is imposed on income and capital assets. (Olatunbosun, 2015). SARS is the main tax authority in South Africa. In South Africa, the taxpayer can be a corporate body or individual. Taxpayers running a business are further categorized as micro, small, medium, or large depending on their turnover and the number of employees. Irrespective of the category, all these businesses are required to comply with PAYE, VAT, income tax, provisional tax, withholding tax, and customs duties. (Olatunbosun, 2015). The rationale for imposing taxes on the citizens of a country is to generate revenue to enable government to fund public expenditure. Taxes also function as a method to reduce inequalities by redistributing wealth to decrease the income gap between the wealthy and the poverty-stricken. (Dup, 2014).

Tax compliance is defined as the process of carrying out the taxpayer’s obligation to file tax returns and make obligatory payments to SARS. In certain instances, the various tax acts and SARS may require, a taxpayer to provide documents and explanations, which must be done in a timely manner (Helhel & Ahmed, 2014). One of the biggest problems facing SARS is ‘*non-compliance.*’ The lack of voluntary tax compliance results in SARS using costly and coercive methods to enforce tax compliance. (Machogu & Amayi, 2013). Prior literature only focuses on two factors that increase compliance and tax revenue, namely: deterrence (i.e., tax audits, penalties) and tax morale. (Moore & Prichard, 2017). The third factor related to tax compliance is tax education. This third factor is a new topic that being researched and is linked to tax compliance. This is because the link between tax education and tax compliance and the importance of tax education was only established by Misra in 2004. However, certain aspects of this topic remain under-researched. Taxpayer education can help taxpayers understand complex tax systems. The third factor (i.e., taxpayer education) is the focus of this research.

“*Knowledge about tax can shape attitudes towards compliance and can help navigate complex tax systems. They may be more encouraged to comply voluntarily.*” (Mascagni & Santoro, 2018). The above quote highlights that tax education and hence plays a pivotal role in enhancing voluntary tax compliance. Taxpayer education programs have been implemented by SARS as a strategy for improving tax education among taxpayers. These programs can help improve taxpayers understanding of the tax laws and procedures and it provides training, counselling, and support to many taxpayers, through different sources namely, the SARS YouTube channel, mobile tax units, websites, seminars, etc. However, only effective tax education programs can enlighten taxpayers on the use of taxes paid by them and can have a significant influence on their understanding of the concept of taxation, which will lead to voluntary compliance to pay their taxes (Ameyaw, Oppong, Abruquah, & Ashalley, 2016). Thus,

effective tax education programs can help the government achieve their objective to raise tax revenue and achieve tax compliance. (Dup, 2014) However, as mentioned above it must be noted that this problem can only be minimized by implementing effective tax education programs.

1.2 Statement of the Problem

In South Africa, the government faces a major concern regarding low tax compliance. The low tax compliance limits governments' ability to raise revenue. This revenue gives the government an opportunity to provide more infrastructure and services to enhance the citizens standard of living. The government tried to improve the low revenue levels by imposing taxes on individuals and corporate bodies as taxation is an important source of revenue for the government. However, this has not solved the problem as it does not bring in the revenue required by the government (Misra, 2004). The problem stemmed from taxpayers' lack of tax compliance. In particular, Small and Medium Enterprises (SMEs) in the South African economy were found to be on the SARS high-risk list of non-compliance. (Ramharak, 2016). SARS found that SMEs are a vital part of the economy as they improve income generation, providing job opportunities, and is a contributor to GDP (SARS, 2012).

Alfred E. Neuman said that: *"Today, it takes more brains and effort to make out the income-tax form than it does to make the income."*

The above quote is relatively relatable in the South African context, especially for individuals and entities paying taxes. The problems ranging from the topic of taxation include poor administration and failure to collect sufficient tax revenues, etc. The reason why taxation has not solved the problem is that taxpayers lack the appropriate amount of tax education which would facilitate their understanding of the tax system by the taxpayers. Taxpayer education is a powerful tool that improves taxpayers understanding of the tax laws and procedures. Taxpayer education has the power to enable maximise revenue collection for the government and most importantly, voluntary tax compliance. Tax education improves taxpayers awareness of their responsibility to pay taxes and the sanctions to be imposed if they are non-compliant with the tax laws (Jerene & Adimasu, 2016). A negative attitude towards the tax system and the tax authorities leads to tax non-compliance. (The World Bank Group, 2018).

As mentioned above, the SME segment of taxpayers is the focus of this research, as they have the potential to increase South Africa's tax revenue. SMEs poses a threat to voluntary tax compliance due to their nature. SMEs fall into two sectors, namely, the formal sector and the informal sector. A large segment of SMEs that should not be falling apart from the informal sector, in the City of Johannesburg Metropolitan Municipality district exhibit low tax compliance levels. SMEs' non-compliance may be a result of failure to register their businesses because they believe that they only operate a small shop, or because their turnover is minimal. Alternatively, the non-compliance may be found to be unintentional, as SME taxpayers might not be aware of the tax laws and procedures due to ignorance. Thus, posing a further problem as more people are transitioning into the informal sector because this sector remains

untaxed. This hampers the government's ability to achieve its revenue targets and consequently, its vision of development. This problem can be solved by implementing effective tax education programs., which will provide SMEs with the necessary tax education to improve their understanding of the tax laws and procedures as well as create a positive tax compliance attitude (Machogu & Amayi, 2013).

Prior literature focused on tax compliance, and taxpayers' morale i.e., audits, penalties, and fines and only a few pieces of prior literature focused on how tax compliance behaviour affects taxpayer education among SMEs. Prior literature failed to focus on the effectiveness of the various taxpayer education programs in improving taxpayer education, especially those falling within the Johannesburg District. SMEs in the Johannesburg district exhibit low tax compliance levels. The government can create dozens of programs to improve tax education, but if the effectiveness of these programs is not investigated, then the work they are putting in is aimless. Furthermore, if taxpayers are unaware of the tax education programs implemented by SARS, then the government will not achieve their revenue targets from the tax money collected. This showed a need to investigate the taxpayers' awareness of the various taxpayer education programs implemented to improve taxpayer education. Additionally, there is a need to investigate the effectiveness of these education programs in improving SMEs in the Johannesburg district tax compliance.

1.3 Objectives of the research

1.3.1 The objective of this research is to firstly, determine SME s' awareness of the tax educational programs (namely, the YouTube (SARS TV Channel), the documents on the SARS website, the Mobile Tax Units, the SARS MobiApp and the webinars) offered by SARS to SMEs.

1.3.2 The objective of this research is to secondly, establish the effectiveness of taxpayer education programs implemented by SARS (namely, the YouTube (SARS TV Channel), the documents on the SARS website, the Mobile Tax Units, the SARS MobiApp and the webinars) on improving tax compliance among SMEs in the City of Johannesburg Metropolitan Municipality district in Gauteng, South Africa.

1.4 Research Questions

To address the objective of the research, the researcher pursued to answer the following research questions:

1.4.1 Are SME owners aware of the tax educational programs (namely, the YouTube (SARS TV Channel), the documents on the SARS website, the Mobile Tax Units, the SARS MobiApp and the webinars) offered by SARS to SMEs?

1.4.2 Additionally, are the current programmes implemented by SARS effective (namely, the YouTube (SARS TV Channel), the documents on the SARS website, the Mobile Tax Units, the SARS MobiApp and the webinars) in improving taxpayer education of SMEs in South Africa?

1.5 Scope and Limitations of the Research

The researcher faced limitations in sending out the questionnaires as many were issued to the participants and only a few responses were returned. The questionnaires had a very low reply rate (less than 20). This may have resulted in biasness as the results may have varied if those who did not reply, replied. Additionally, due to time constraints the researcher could only administer the 10 responses received. Secondly, the researcher found a limited amount of prior literature based on tax education, thus indicating that it was an under-researched topic. Thirdly, the use of questionnaires to perform this research study creates a level of subjectivity, as the taxpayers answering the questions may not be truthful when answering the questions or they may end up misinterpreting the question posed to them. The above may not be taken into consideration by the researcher.

Lastly, the researcher also encountered great difficulty in determining an appropriate sample size as there are millions of SMEs in South Africa. Thus, the research was limited to SMEs in the City of Johannesburg Metropolitan Municipality district in Gauteng (South Africa). The population of the aforementioned district is about 6,5 million South African citizens (Macrotrends, 2022). In the first quarter of 2021, there is a total of 2 325 203 SMEs (excluding micro-enterprises) were registered in South Africa (SEDA, 2021). The target population for this research are those taxpayers who deal with SMEs within the City of Johannesburg Metropolitan Municipality district. Restricting the research to the Johannesburg district helped to produce this deliverable in a timely manner, as opposed to a large population which could have taken more time and resources.

1.6 Significance of the Research

It is unclear if small business enterprises have awareness of programs implemented by SARS to alleviate non-compliance. This makes it difficult to assess the effectiveness of these programmes. The aim of this research is to assess the understanding of current programs in place to alleviate the lack of taxpayer education among SME taxpayers. The questionnaire will be administered to the owners or representatives of the SMEs. Essentially, the questionnaire aims to test the awareness of the taxpayer education programs offered by SARS to the SMEs and whether these businesses find these programs to be effective or not to alleviate non-compliance. It is anticipated that the results of this research will provide the government and SARS with grounds to develop efficient tax education programs to enhance tax compliance behaviour among SMEs. Furthermore, this research will provide researchers and scholars with developing knowledge in the field of tax education and compliance.

In South Africa, there is no prior literature on the effectiveness of the taxpayer education programs implemented by SARS. Thus, the literature review section of this research will establish the link between the tax education programs and tax compliance and it will provide an overview of the educational programs that are being implemented in South Africa. Furthermore, the literature review

will highlight the challenges and the elements of success for the taxpayer education program, based on the SARS educational programs reviewed. In the analysis section of this research, the researcher investigates the awareness and effectiveness of these programs, by administering a questionnaire to 10 SME taxpayers in the City of Johannesburg Metropolitan Municipality district. The data analysis phase of this research will help prove whether these programs are effective or not and it will prove whether the SMEs are aware of the tax education programs. Lastly, the researcher will conclude by providing insight into whether the taxpayers are aware of the tax education programs or not and whether the research will either conclude whether the tax education programs are effective or not.

2. LITERATURE REVIEW

The purpose of this section is to explore prior literature provided by researchers who have contributed to linking the need for improving tax education programs for SMEs in South Africa to tax compliance. Additionally, the objective of this section is to determine whether tax education improves tax compliance. Currently, there is a limited amount of prior research on tax education that investigates SMEs' level of tax education and the effectiveness thereof. Furthermore, many prior literature pieces focused on SMEs outside South Africa. However, the available literature is used in this research to aid the understanding of SMEs in South Africa. This research is divided into six main parts which will: firstly, define SMEs; secondly, investigate what is tax and the need for taxation within the South African context, thirdly, define what is tax compliance for SMEs, fourthly, illustrate the importance of tax education for SMEs; and lastly, briefly explain the programs implemented by SARS to enhance tax education of SMEs and tax compliance.

2.1 Small and Medium Enterprises (SMEs)

SMEs are catalysts of development and economic growth in South Africa. SMEs promote diversification through their development of the economy. (Smulders & Naidoo, 2013) Innovative SMEs can promote growth in exports and the international market. In addition, SMEs reduce unemployment in South Africa (The Banking Association South Africa, 2021). In 2021, the world bank reported that SMEs contributed 34% of the Gross Domestic Product (GDP) (International Finance Corporation, 2018). In the first quarter of 2021, SEDA reported that SMEs employ over 64% (9.8 million economy-wide employment), and it is the solution to the government's unemployment problem. (SEDA, 2021). Additionally, in the first quarter of 2021, SEDA reported that 67% of SMEs operating in the informal sector, and 33% of SMEs are operating in the formal sector. (SEDA, 2021) SMEs in the formal sector operate in a regulated environment where they must be tax compliant with SARS. In contrast, the SMEs in the informal sector do not have to be tax compliant with SARS

Due to the specialised nature and importance of SMEs, the government's focus is on not affecting the SMEs. SMEs function in the formal sector and the informal sector. SMEs play an important role in creating jobs, uplifting society, and contributing a considerable amount of tax revenue to the South

African government. (The Banking Association South Africa, 2021) Thus, the millions of SMEs in both the informal sector and the formal sector are vitally important for the government. The SMEs in the City of Johannesburg district are characterized as, beauty parlours and nail bars, grocery vendors, bars, electronic stores, restaurants, chemists, salons, barbers, internet cafes, tailors, hotels, motels, guest houses and educational facilities, etc. From a taxation perspective, there is no single definition of an SME. However, for this research two different definitions will be identified. The first definition is from the National Small Business Act and the second definition is from the government's revenue body: SARS.

2.1.1 Defining SMEs: The National Small Business Act view

The National Small Business Act defines an SME as: *“a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more persons which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy”* (South African Government, 1996). Furthermore, the National Small Business Act classifies SMEs in South Africa into three categories, namely: micro, small, and medium entities (South African Government, 1996).

- The enterprise in the medium category employs between 50 and 200 employees. The categorisation puts them in an annual turnover bracket of between R14 million and R70 million. Furthermore, these enterprises are registered for tax. (The Banking Association South Africa, 2021)
- The enterprise in the small category has an income slightly above the poverty line and they make up thousands of the enterprises in South Africa. The categorisation puts them in an annual turnover bracket of between R6 million and R15 million. These enterprises employ between 20 and 50 employees. Furthermore, these enterprises that are owner-managed are registered for tax (The Banking Association South Africa, 2021)
- The enterprise in the micro category has a turnover below the voluntary VAT registration limit of R50000. These enterprises provide a livelihood to millions of individuals in South Africa. The categorisation puts them in an annual turnover bracket of between an amount below R200000 and R5 million. These enterprises employ between 2 and 19 employees. (The Banking Association South Africa, 2021)
 - Some of these enterprises with an annual turnover lower than R200000 and less than 5 employees fall into the informal sector. These businesses lack structure, and they operate with cash. Thus, these enterprises are not registered for tax. (The Banking Association South Africa, 2021)
 - Alternatively, some of the enterprises with an annual turnover of between R1 million and R5 million and between 10 and 20 employees fall into the formal sector. Thus,

making these enterprises eligible to be registered for tax. (The Banking Association South Africa, 2021)

2.1.2. Defining SMEs: SARS View

Alternatively, SARS has adopted a different definition of small businesses. This definition is found in section 12E of the income tax act. An enterprise is categorised as a small business if they have a gross income that does not exceed R20 million and more than 20% of its income must not be derived from investment income. Furthermore, the members/shareholders must not hold shares/interests in other entities during any year of assessment, the entity must not be regarded as a personal service provider and the business must be classified as a closed corporation (CC), a personal liability company, or a Private Company (SARS, 2020/2021). The definitions above will both be used in this research to decipher if the researcher is using an SME and to decipher the category of the SME used in the research. The use is defined as follows:

- To decipher if this is an SME – SARS definition in S12E of the income tax act
- To decipher the category of the SME - the National Small Business Act's definition

2.2 Taxation in the South African Context

Turner, Smith, and Gurd defined tax as “*a compulsory financial contribution imposed by a government to raise revenue, levied on income or property of persons or organisations, on the production costs or sales of goods and services.*”(Turner, Smith, & Gurd, 1998). In South Africa. SARS (South African Revenue Services) is the body corporate developed by the South African government and they are responsible for collecting tax revenue. The South African tax system is based on the Income Tax Act 58 of 1962, the VAT Act 89 of 1991 and the Customs Act 91 of 1964. The tax revenue is from individuals and different body corporates. There are two categories of taxes levied on taxpayers, namely direct and indirect taxes. Direct taxes entail income tax, property tax, PAYE, turnover tax, and taxes on assets (capital gains tax). Indirect taxes entail sales taxes (VAT) and customs taxes. (Olatunbosun, 2015). The rationale for imposing taxes on the citizens of a country is to generate revenues for the government to enable them to fund public expenditure. (Dup, 2014).

The world bank group asserts that the following are the main purposes of collecting tax revenue (The World Bank Group, 2018):

1. To foster and encourage economic growth.
2. To fund social programs and public investments.
3. To fund health and education infrastructure and other services.
4. To fund public goods and services.
5. To redistribute wealth from the rich to the poor.

Despite these many purposes, South African citizens are reluctant from paying taxes. This non-voluntary tax compliance has become problematic for the South African government.

2.3 Taxation of SMEs in South Africa

Tax is revised annually for SMEs in South Africa. The focus of this research is SMEs. The South African government is moving towards simplified tax laws and tax procedures. The South African government is doing this to encourage expansion and increased job creation within the economy (Intan, Abdul-Jabbar, Alshira'h, & Samsudin, 2016). Some of the ways SARS undertook to simplify the tax procedures and tax laws include:

- Introducing tax incentives (which include simplified tax procedures) for SMEs
- Simplifying the tax compliance system, by introducing eFiling and the SARS MobiApp to make the procedures simpler and easier.
- SARS introduced Small Business Corporations tax for SMEs. This form of tax is applied to many SMEs in South Africa. SMEs must meet five characteristics in terms of section S12E of the income tax act, to be taxed at a flat income tax rate of 28%. SBC tax allows businesses to apply an accelerated depreciation allowance against their taxable income. (SARS, 2020/2021)
- Alternatively, from 1 March 2009, SARS introduced a simplified tax system for SMEs called turnover tax.
 - Turnover tax replaces VAT, Income Tax, Capital Gains Tax, Provisional Tax and Dividends Tax for microenterprises. Thus, providing a single tax system for SMEs. For microbusinesses to qualify for turnover tax, their turnover should be less than R 1 million for the financial year
 - For the year ended 28 February 2022, SMEs with a turnover greater than and equal to R335 000 will be liable for turnover tax. An amount below the R335 000 tax threshold shall not be liable for turnover tax.
 - In complying with turnover tax, SMEs' compliance burden is lessened as it simplifies the filing and payment processes. It also reduces the cost of compliance by eliminating existing taxation structures and it reduces the time it takes to file and pay taxes.
 - Finally, turnover tax is a final tax that does not require SME taxpayers to file VAT returns and annual income tax returns and it eliminates the need to register for VAT. (SARS, 2022)].
- Lastly by providing tax education programs to educate SMEs

Despite the simplified tax laws and procedures, tax compliance continues to pose challenges for SMEs.

2.4 Tax Compliance of SMEs

Letsoalo defines tax compliance as “*the degree to which taxpayers and traders, along with intermediaries like practitioners and clearing agents meet their legal obligations*” (Letsoalo, 2014). Tax compliance is the taxpayers' willingness and ability to comply with tax laws and procedures in a timely manner (Helhel & Ahmed, 2014). One of the biggest problems facing SARS is ‘*non-compliance*.’ As mentioned above, SMEs are the focus of this research. Ramharak identifies that despite SMEs' great importance in the South African economy, millions of SMEs end up failing due to various compliance burdens (Ramharak, 2016). Mascagni and Santoro believed that SMEs' non-compliance resulted in SMEs failing to register their businesses because the SMEs believe that they only operate a small shop, or because their turnover is low. Alternatively, Mascagni and Santoro, found that non-compliance may be unintentional, as the SME taxpayers might not be aware of the tax laws and procedures due to ignorance. (Mascagni & Santoro, What Is the Role of Taxpayer Education in Africa?, 2018).

Ramharak identifies the following tax compliance burdens for SMEs (Ramharak, 2016):

- Filing the Corporate Income Tax (ITR14) form
- Filing the Provisional Tax (IRP6) form
- Deregistration.
- Taxpayer registration
- Filing tax returns through the e-filing system
- Costs incurred in the course of record-keeping, preparation of tax returns and the hiring of tax practitioners.
- Payment of taxes in a timely manner
- Correct declaration of taxes

Moore and Prichard identified that SMEs fall into two sectors, namely, the formal sector and the informal sector. (Moore & Prichard, 2017). Machogu and Amayi, described that the nature of SMEs poses a threat to voluntary tax compliance. SMEs within the City of Johannesburg Metropolitan Municipality district take advantage of their small sizes by not declaring their existence and by not submitting their tax return to SARS, thus making most of them tax non-compliant. The SMEs that fall as part of the informal sector remain untaxed, and more people are transitioning into this sector. This hampers the government's ability to achieve its revenue targets and consequently, it hampers the government's vision of development. Machogu and Amayi highlighted other strategies to improve tax compliance among SMEs, such as tax audits and investigations. However, these strategies are costly and time intensive. (Machogu & Amayi, 2013).

Machogu and Amayi's research aimed to determine the factors that affect tax compliance among taxpayers (Machogu & Amayi, 2013). They found the following factors that made taxpayers non-compliant:

- Taxpayers did not declare the correct taxable income,
- Taxpayers found the tax system to be too complex
- Taxpayers were ignorant of the tax procedures,
- Taxpayers lacked tax knowledge to understand the tax laws and procedures.
- Taxpayers did not find it essential to pay taxes and had negative tax morale.
- Taxpayers lacked an understanding of the possible consequences of non-compliance

In the year 2008 the National Treasury Republic of South Africa partners with the United States Government to conduct a compliance report. Their sample included 1000 SMEs in the formal sector. The aim of their study was to investigate the costs of compliance for these SMEs in South Africa. The following key findings were used to evaluate the tax compliance costs facing the SMEs (USAID, 2008):

1. The survey found that one third of SMEs were dependent on external expertise and the remaining two thirds of SMEs relied on in-house expertise to attend to general record-keeping and bookkeeping. In relation to the two-thirds, some enterprises had the available expertise, while others did not outsource because they were unable to afford it. The primary reason for outsourcing was the highly specialised nature of the tax field.
2. The study found that employees' taxes (PAYE, UIF and SDL) is the second highest amount of time to do the taxes, while VAT took the highest amount of time to do the taxes. Smaller enterprises spent a greater amount of time filing returns for taxes. This observation corresponded to the above low rate of outsourcing this function.
3. 45% of medium-sized enterprises used certified tax practitioners for various tax matters. While small-sized enterprises barely relied on using tax practitioners, they relied on their own knowledge, due to not being able to afford it.
4. The survey also examined SME taxpayers' access to SARS. Greater than half of the SMEs visited SARS in 2007. The study found that small-sized enterprises visited SARS more often in comparison to medium-sized enterprises. This may be due to their inability to afford to outsource their tax function. Furthermore, the study found that three out of four quarters of these SMEs took between 45 to 120 minutes to get to the SARS offices. However, SARS took on average 5-15 minutes to attend to their visitors.
5. The SMEs suggested that SARS could improve compliance by bringing the location of SARS offices closer to where businesses were located. This could lower the time and travel costs SMEs incur to visit the SARS offices.

6. The survey also found that a sixth of SMEs preferred simpler and easier tax procedures for registration and filing. This could have been achieved by shortening the forms and sampling the language used.
7. A tenth of enterprises believed SARS could provide education and training to SMEs to enhance compliance.
8. The survey revealed that SARS lacked proper communication about incentives and other tax-related matters with SMEs. Many of the SMEs indicated that if communication is SARS could improve compliance.

The above study surveyed the opinions of SMEs to allow SARS to input measures to achieve greater degrees of tax compliance (USAID, 2008). Many other studies and surveys showed the same results as the USAID survey. Thus, despite there being a lapse of time, the results provided by the above survey are still relevant today. This will be proven in the research analysis section of the report. This section proved that SMEs in South Africa cease to exist, due to the high compliance costs. As mentioned above, prior literature mainly focused on two factors that increase compliance and tax revenue, namely: deterrence (i.e., tax audits, penalties) and tax morale. The third factor that is related to tax compliance is tax education. This factor is under-researched in prior literature and is the focus of this research. The following section will use prior literature to examine the importance of tax education and how tax education can improve tax compliance.

2.5 Importance of Tax Education

SARS and the South African tax system relies on taxpayers being able to determine the amount to pay their tax obligations. The success of this system depends on taxpayers' knowledge of the tax laws and procedures. The concept of taxpayer education was introduced in South Africa to transform the ignorance of the taxpayers' obligations into compliance. Misra illustrated that the goal of tax education includes increasing compliance, reducing the SME's tax burden and providing knowledge, assistance, and other services, to improve SMEs understanding and compliance with the tax laws and tax procedures (Misra, 2004). Mascagni and Santoro's research focused on tax education being the solution to Africa's taxpayers' non-compliance problem. They identified the solution to this problem to be effective tax education programs, which will provide SMEs with the necessary tax education to enable them to understand tax laws and procedures as well as create a positive tax compliance attitude (Mascagni & Santoro, What Is the Role of Taxpayer Education in Africa?, 2018).

In addition, McKerchar, Evans & Loo, also explained that SMEs may be non-compliant because of a lack of tax knowledge (McKerchar, Evans, & Loo, 2012). In Malaysia, McKerchar, Evans & Loo found that taxpayer education had a positive impact on tax compliance (McKerchar, Evans, & Loo, 2012). In addition, Saad conducted 33 interviews in Malaysia to investigate the link between tax education and tax compliance (Saad, 2014). The survey found that tax education is a component of voluntary tax

compliance, and the complexity of the various tax acts is the reason why many are non-compliant. Saad concluded that by increasing tax knowledge through tax education, the above non-compliance problems will be solved (Saad, 2014).

Furthermore, SARS Commissioner also found taxpayer education to be a key feature of tax compliance reforms. This was implied when SARS started rolling out the tax education programs, several years ago. The SARS Taxpayer Education division performs functions at the request of the taxpayer. SARS created the Taxpayer Education programs to respond to concerns surrounding tax compliance. These programs were implemented to address the various compliance issues affecting SMEs, such as registering to pay taxes, filing tax returns, and paying the various taxes. Therefore, despite that there is a limited amount of research on the effectiveness of the tax education programs in South Africa, there is a small amount of prior literature that focuses on linking tax education to voluntary tax compliance.

2.5.1 Tax Education Programs and Tax Compliance

The different taxpayer education programs adopted by SARS in the City of Johannesburg district will be measured in terms of their effectiveness and taxpayers' awareness of the programs. This section (section 2.5.1.) and the data analytics section will be used to determine taxpayers' awareness and the effectiveness of the tax education programs.

2.5.1.1 Electronic Tax Education Programs:

The electronic tax education programs are explained below:

- Electronic taxpayer education programs- webinars, SARS TV Channel, the documents on the SARS website, SARS Mobi-app.
 - The electronic taxpayer education programs were measured in terms of taxpayers understanding of the material provided by SARS, the ability of the program to improve tax compliance and awareness of the SARS website, the SARS App, and the online educative materials.
 - To expand on the SARS TV Channel (YouTube Channel), their channel has 21 200 subscribers (August 2022).
 - However, there is no documentation pertaining to the effectiveness of these seminars.
 - Furthermore, some of the videos on the channel have the commenting function turned off and some have no comments at all.
 - Thus, the researcher could not establish if these programs were effective using the resources available and thus, it will be established in section 4.
 - To expand on the webinars held by SARS, their website reports the exact dates, times, zoom link location and educational topics.

- However, the website does not report any statistics on attendance or the effectiveness of these seminars.
- Thus, the researcher could not establish if these programs were effective using the resources available and thus, it was established in section 4.

2.5.1.2 In-person Taxpayer Education Programs:

- The in-person taxpayer education programs are- Mobile tax Unit, Seminars. The two programs are explained below:
 - The in-person, taxpayer education was measured in terms of awareness of the seminars and mobile tax units, the quantity of the educative information provided, and the usability of the information provided. (i.e., the effectiveness)
 - To expand on the mobile tax units, the OECD reported the following in 2015 (OECD, 2015):
 - The Mobile Tax Units were implemented by SARS to help South African citizens pay taxes be more tax compliance, by improving their tax knowledge.
 - The mobile tax units offered services including the filing and submitting of tax returns.
 - Furthermore, the OECD reported that in the year 2013, 77 367 taxpayers visited the mobile tax units to register as taxpayers, submit tax returns and observe their tax status.
 - The OECD confirmed that the mobile tax units improved the tax knowledge and tax morale of those taxpayers who visited it.
 - Thus, this data allows the researcher to conclude that the mobile tax units are effective in improving tax education and this improves tax compliance. However, it may only be effective for those who use the service and for those who are aware that this service is at their disposal.
- In 2012, SARS reported that they have conducted “*thousands of workshops, printed millions of brochures, produced training videos, and interacted via our branches, call centre and outreach activities with millions of taxpayers and traders to help them understand and meet their obligations.*” However, the document does not report any statistics on the effectiveness of these programs in improving tax education (SARS, 2012).
- Furthermore, in 2012 SARS simplified the tax procedures through their eFiling tool, and this document goes further to report that over 95% of the income tax returns were conducted electronically (SARS, 2012). The SARS eFiling tool is an educational tool that improves tax compliance as it simplifies the process.

- Furthermore, both sets of programs were measured in accordance with taxpayers' awareness and knowledge of the education programs embedded in the taxpayers, by administering a questionnaire to 10 SMEs to test the above functions.

2.5.1.3 Tax Compliance

There is an assumption that the implementation of the tax education programs results in tax compliance.

- The effect of the educational programs on taxpayers' attitude to tax compliance was determined by administering a questionnaire to 10 SMEs.
- Thus, the researcher could not establish if these programs had a positive or negative effect on tax compliance using the resources available and thus, it was established in section 4.

As mentioned in the previous section, SARS has adopted the objective of improving tax education to improve voluntary tax compliance. The sections above illustrate the various taxpayer education programs implemented by SARS in South Africa of which some are innovative, like the mobile tax units, while others are more traditional (i.e., seminars and electronic documents). However, as seen above, the educational programs lack a review of the effectiveness and taxpayers' awareness. Thus, displaying a common trait of a lack of evaluation of the programs. The researcher was also limited in finding information pertaining to the effectiveness, impact and on a large-scale taxpayer's awareness of these programs. Thus, there is a need for more evaluation of these programs. The limit of the information explained above prevents the researcher from evaluating the impact of the tax education programs.

3. RESEARCH METHODOLOGY

3.1. Introduction

According to JW Creswell and JD Creswell, research approaches are "*detailed methods of data collection, analysis, and interpretation.*" This detailed approach involves methods and decisions made by the researcher that outlines the approach that was used to research a topic. The research design is a procedure of inquiry of the research question through research methods of collecting data, analysing the data, and interpreting the data. Selecting a research approach is based on the research problem that the researcher must solve. (Creswell & Creswell, 2013). This section (section 3) describes the research design, target population, sample design, data collection instruments, ethical considerations and data presentation and analysis.

3.2 Research Design

A mixed-method research paradigm was executed. JW Creswell and JD Creswell, defined this method as "*an approach to an inquiry involving collecting both quantitative and qualitative data.*" The researcher used this combined approach to understand the research problem and to neutralise the weaknesses of each methodology. (Creswell & Creswell, 2013). The researcher aimed to determine

taxpayers' awareness of the tax education programs implemented by SARS and to establish the effectiveness of these programs in improving tax compliance among SMEs. The researcher issued questionnaires to determine taxpayers' awareness of the tax education programs implemented by SARS and to establish the effectiveness of these programs in improving tax compliance among SMEs. Additionally, the researcher uses the questionnaires to gain recommendations from the taxpayers of what SARS can do better to improve tax education, which can alleviate tax noncompliance.

This is an empirical study as this research involves the collection and analysis of primary data and secondary data. The primary sources incorporate information provided by the participants from the questionnaires. Secondary sources of data were collected from the SARS website and academic journals. The method of inquiry is a self-designed questionnaire, where the design is based on the literature review. It is an appropriate data collection tool, and it is supported by previous literature. The questionnaire took the participants less than 30 minutes to complete. The study is also exploratory in nature, as it aims to answer the research question and provide insight. (Saunders, Lewis, & Thornhill, 2009).

3.3 Target Population

This research study aims to focus on SMEs in South Africa, in the City of Johannesburg District. The sampling was based on a homogenous selection of businesses to ensure that an in-depth understanding of this study could be achieved. The selected business owners fit into the category of SMEs. (Saunders, Lewis, & Thornhill, 2009)

3.4 Sample Design

Saunders, Lewis and Thornhill indicated that the population depends on what the researcher requires to meet the objectives of the research study. Additionally, the point when the data reaches saturation should be considered. (Saunders, Lewis, & Thornhill, 2009). Therefore, the researcher used the objectives of the research study to select a sample. Saunders, Lewis and Thornhill provide guidance on the number of samples when sending out questionnaires to a homogenous group. A sample size consisting of 10 to 12 SME business owners or representatives located in South Africa, in the City of Johannesburg District is sufficient for this research study. (Saunders, Lewis, & Thornhill, 2009) With reference to Ramharak's research, the sample size of 10 respondents can be further validated to be more purposive. (Ramharak S. , 2016).

3.5 Data Collection Instruments

Questionnaires assist in gathering valid, relevant, and reliable data that address the research objectives. (Ramharak, 2016). The questionnaire is composed of open-ended and unstructured questions. Data was collected through a self-designed questionnaire using an online google form. The participants were aware of the objectives of the study, and they were also made aware that their participation in the study

is voluntary. The participants were informed in the introductory paragraph included in the google form that the information about their organisation will remain confidential.

The Google form will consist of 'Yes' or 'No' questions, select response questions and questions that require the organization to respond to. The questionnaire is subdivided into 3 sections. Section A is relating to demographic information (excluding the owner's name and the name of the organization.), Section B relates to more open-ended questions about tax compliance and Section C which relates the SMEs owner's awareness of the tax education programs provided by SARS and the effectiveness of these programmes on improving taxpayer education. Section B and C has more open-ended questions that the researcher used to identify the tax knowledge SME owners had and to establish the effectiveness of these programmes on improving tax knowledge the SME owners lacked.

3.6 Ethical Considerations

The research study requires research ethics to be completed in this study. The completed research ethics include:

- Obtaining an ethical clearance from the Research Ethics Committee at the University of Johannesburg.

3.7 Data Presentation and Analysis

The researcher utilised tables and bar charts to present the information gathered. The visuals made it easier to analyse and interpret the information provided by the participants.

4. ANALYSIS OF DATA FROM THE QUESTIONNAIRE

4.1 Introduction

The previous section contained the literature review, which aided the researcher in exploring and developing the various research questions with the aim of answering the research problem. The Analysis of Data section of the research provides an overview of the data collected from the questionnaires. The findings from the research questions posed to the participants of the questionnaire were analysed, interpreted, organized, and presented in the form of words and graphs.

4.2 Sample of the Data Collected

A sample of 10 SMEs in the City of Johannesburg Metropolitan Municipality district in Gauteng was selected for this research. The participants were selected based on the nature of the business (classified as an SME) and the owners had to have no tax education background. Other aspects relating to the SMEs were based on the researcher's random selection. To ensure that the researcher meets the sample size set out above, twenty-five (25) questionnaires were issued. Out of the twenty-five (25) questionnaires issued, ten (10) questionnaires were returned to the researcher. Thus, the researcher received 40% of the overall questionnaires issued. The 40% is adequate for the researcher to analyse

and interpret the results, as it meets the able sample size. The researcher used narrative analysis and analytical aids (bar graphs and tables) to analyse and interpret the data. (Saunders, Lewis, & Thornhill, 2009).

4.3 Overview of the Questionnaire

The research involves the completion of a questionnaire that is subdivided into 3 sections. The questionnaire was compiled into a Google form that consists of 'Yes' or 'No' questions, select response questions and questions that required the organization to respond to. Section A relates to demographic information (excluding the name of the SME owner and the name of the organization.), Section B relates to more open-ended questions about tax compliance and Section C relates to their awareness of the tax education programs provided by SARS and the effectiveness of these programs in improving taxpayer education. Section B and C will be used by the researcher to identify the tax knowledge SME owners have and to establish the effectiveness of these programs in improving tax knowledge the SME owners lacked.

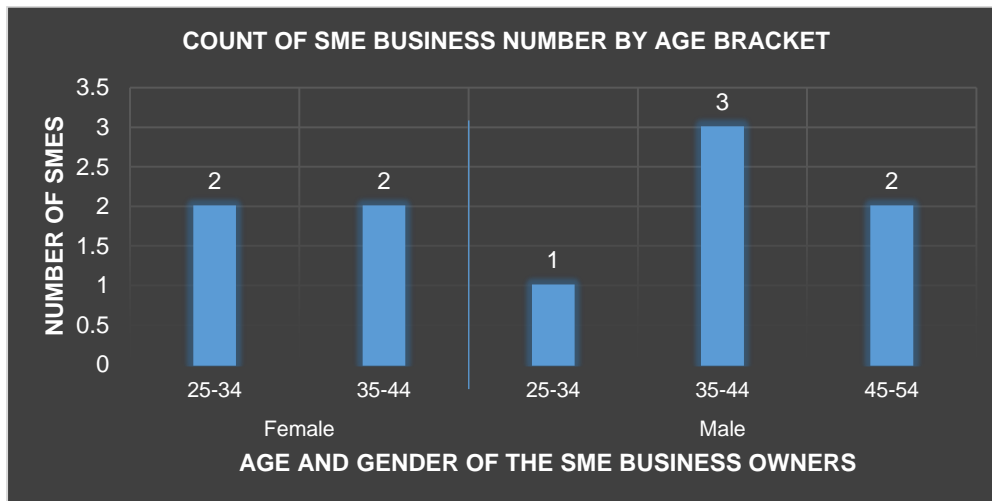
4.4 Demographic Information

Table 1: A Tabular Presentation of Demographic Information Obtained from the Respondents

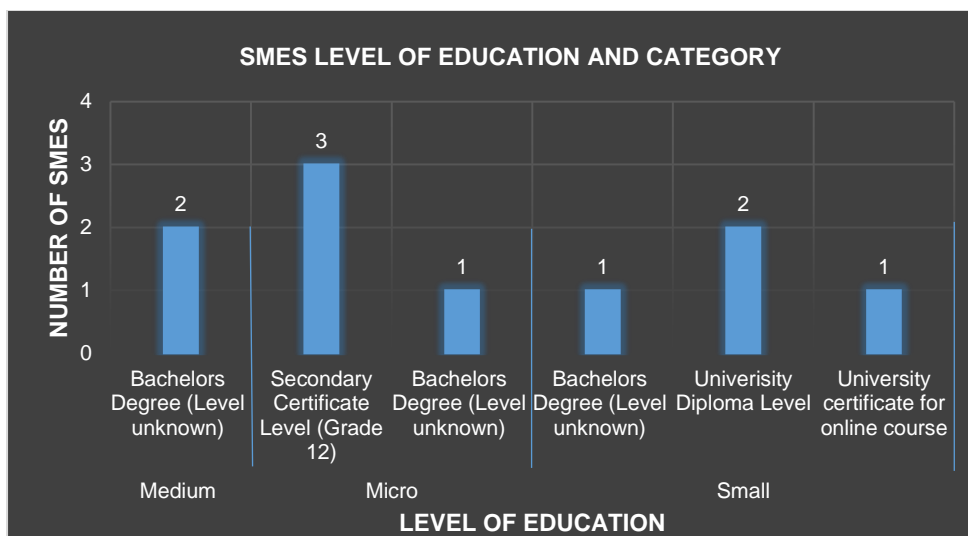
Gender	Main area of operation	Years in operation	Highest level of education (not tax related)	Gender	Age bracket	Annual Turnover	No. of employees	Category of SME
1	Pharmaceutical industries	9	Bachelor's Degree (Level unknown)	Male	35-44	R4 m	10	Micro
2	Grocery Stores industry (Wholesale Trade)	34	Bachelor's Degree (Level unknown)	Male	45-54	R37 m	104	Medium
3	Grocery Stores industry (Wholesale Trade)	10	University Diploma Level	Female	25-34	R11 m	25	Small
4	Pharmaceutical industries	23	Bachelor's Degree (Level unknown)	Male	35-44	R14 m	20	Small
5	Grocery Stores industry (Wholesale Trade)	23	Bachelor's Degree (Level unknown)	Male	45-54	R43 m	121	Medium
6	Retail Industry (stationery)	21	University Diploma Level	Male	35-44	R7 m	31	Small
7	Grain-based food industry (bakery)	11	Secondary Certificate Level (Grade 12)	Female	25-34	R1,75 m	18	Micro
8	Retail Industry (stationery and other)	15	University certificate for online course	Female	35-44	R9 m	22	Small
9	Personal Services Industry (Consulting Services)	6	Secondary Certificate Level (Grade 12)	Male	35-44	R0,9 m	13	Micro

10	Hospitality (Catering services)	8	Secondary Certificate Level (Grade 12)	Female	25-34	R4,2 m	45	Micro
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Graph 1: A Graphical Presentation of the Gender and the Age of the Respondents.



Graph 2: A Graphical Presentation of the Level of Education Obtained by the SME Taxpayer and the Category the SME Falls into.



Findings:

- Both table 1 and graph 1 above, shows that the highest percentage of age respondents i.e., 50% were in the age bracket of 35-44 while only 30% of the respondents were in the age bracket of 25-34 years and only 20% of the respondents were in the age bracket of 45-54 years. Furthermore, it was found that 40% of the respondents are females and 60% of the respondents are males.
- S12E of the income tax act and the definition of small, medium, and micro businesses in the National Small Business Act will be used to determine if the researcher is dealing with an SME. The researcher found that the definition in the National Small Business Act is more detailed and more specific, thus this definition was used more to identify the category the SME falls in.

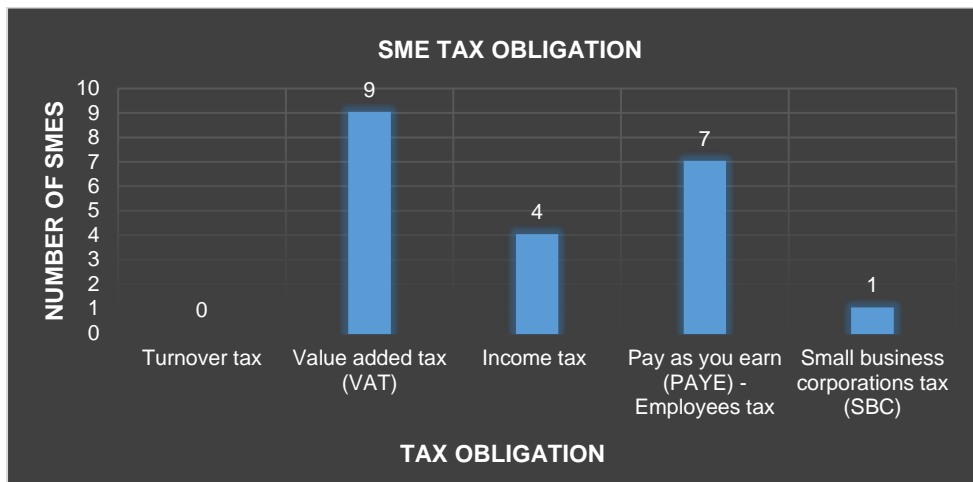
- Both table 1 and graph 2 above, indicates that the sample consisted of four micro-sized enterprises, four small-sized enterprises and two medium-sized enterprises. This spread of categories of enterprises helps the researcher assess the objective of the study from all angles. (All of the businesses identified in table 1 are SMEs in accordance with the definitions mentioned above).
- Both table 1 and graph 2 above, indicates that all the SME taxpayers have obtained a certain level of education. However, this is not sufficient for the researcher to conclude that SMEs are knowledgeable in the field of tax.

4.5 Tax Compliance

Table 2: A Tabular Presentation of the SME's Tax Obligation Obtained from the Respondents

Responses provided by the SME taxpayers relating to their tax obligation	1	2	3	4	5	6	7	8	9	10
	Micro	Medium	Small	Small	Medium	Small	Micro	Small	Micro	Micro
Turnover tax	N	N	N	N	N	N	N	N	N	N
Value-added tax (VAT)	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Income tax	N	Y	N	N	Y	Y	N	Y	N	N
Pay as you earn (PAYE) – Employees' tax	Y	P	N	Y	P	P	P	P	N	N
Small business corporation tax (SBC)	N	N	N	N	N	Y	N	N	N	N
Note: Y = Yes, N = No, P = Partial of employees were paid salaries and wages and others were paid non-taxable wages										

Graph 3: A Graphical Presentation of SME's Tax Obligation Obtained from the Respondents.



Below is table 3 which presents a summary of the responses provided by the 10 SMEs in the questionnaire. The question requires the respondents to select a response based on how they feel about different tax compliance determinants.

Table 3: A Tabular Presentation of the Responses Provided by SME Taxpayers Relating to Various Tax Compliance Matters.

Responses provided by the SME taxpayers relating to the following tax compliance matters	1	2	3	4	5	6	7	8	9	10
	Micro	Medium	Small	Small	Medium	Small	Micro	Small	Micro	Micro
The SME taxpayers prepare and file their own tax returns	Y	N	N	Y	N	Y	Y	Y	Y	Y
Are the SME taxpayers aware of the tax returns filing date?	Y	N	N	N	N	Y	Y	N	N	Y
Did the SME taxpayers employ a tax practitioner or an accountant to handle their businesses' tax affairs?	N	Y	Y	N	Y	N	N	N	N	N
Do the SME taxpayers feel that it is unfair to pay taxes?	Y	Y	N	Y	Y	N	N	Y	Y	N
Do SME taxpayers feel that tax laws and procedures should be respected?	Y	Y	Y	N	N	Y	Y	N	N	Y
Do SME taxpayers feel that the tax authorities are not spending tax revenue on public service provision and infrastructure?	Y	N	N	Y	N	N	N	Y	Y	N
Do SME taxpayer feel that there are dishonest tax collectors?	Y	Y	N	Y	Y	Y	N	Y	Y	N
Note: Y = Yes, N = No										

Findings:

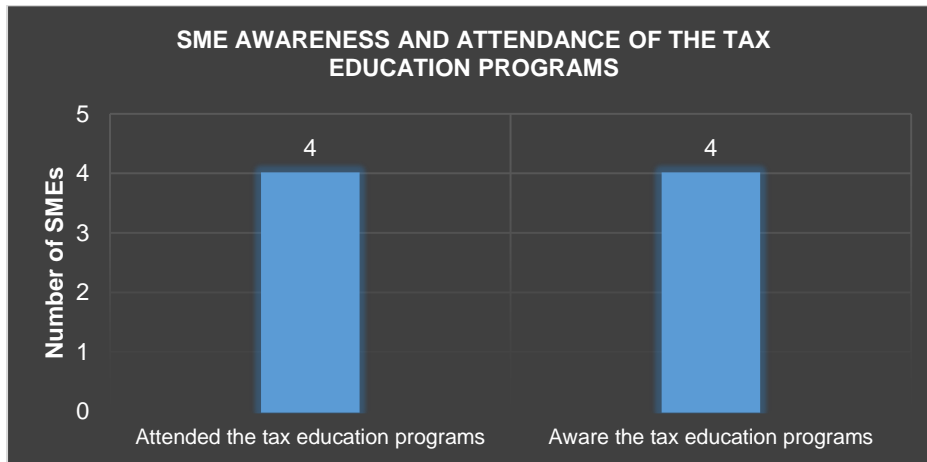
- Both table 2 and graph 3, show that the highest percentage of tax obligation was PAYE with 90%, VAT followed at 70% and then income tax with 40%. 0% of the taxpayers registered for turnover tax. (This is reasonable as none of the entities would have met all the tax compliance criteria.) 10% of the respondents are registered to pay Small Business Corporations tax.
- Table 3 findings:
 - Firstly, table 3 shows that 30% of the respondents were assisted with the filing of their returns, of which 20% are medium-sized enterprises. The latter 70% of the respondents were not assisted with the filing of their returns. Furthermore, all the medium-sized enterprises in the sample we found to use certified tax practitioners for various tax matters. While small and micro-sized enterprises barely relied on using tax practitioners, they relied on their own knowledge. This could be linked to their ability to afford it.
 - Secondly, table 3 provides evidence that 60% of the respondents were unaware of the filing date for the tax returns, while the latter 40% of the respondents were aware of the filing date for the tax returns.
 - Thirdly, table 3 reveals that 50% of the respondents feel that paying tax is unfair, while the remaining 50% of the respondents feel that paying tax is fair. These responses could be linked to the SMEs understanding of tax and the need for taxes in South Africa.
 - Lastly, table 3 also reveals that 60% of the respondents feel that the tax authorities are not spending tax revenue on public service provision and infrastructure.
- Based on the results presented above, the researcher could conclude that the uneducated SME taxpayers have a negative tax morale and attitude towards tax compliance, tax authorities and the payment of tax revenue.

4.6 Tax Education

Table 4: A Tabular Presentation of the Responses Provided by SME Taxpayers' Relating to their Awareness of the Tax Education Programs Implemented by SARS.

Responses provided by the SME relating to SME's tax education programs	1	2	3	4	5	6	7	8	9	10
	Micro	Medium	Small	Small	Medium	Small	Micro	Small	Micro	Micro
Are SME owners aware of any taxpayer education programs conducted by SARS?	N	N	Y	N	N	Y	Y	N	N	Y
Have the SME owners attended any of the taxpayer education programs?	N	N	Y	N	N	Y	Y	N	N	Y
Note: Y = Yes, N = No										

Graph 4: A graphical presentation of SME’s awareness of the tax education programs implemented by SARS.



The respondents were represented with a table to indicate the aspects of taxation they were trained on by SARS when they attended the SARS educational sessions and the effectiveness of these educational sessions in improving taxpayers’ knowledge and tax compliance.

Table 5: A Tabular Presentation of the Responses Provided by SME Taxpayers' Highlighting the Areas the Taxpayers were Trained on.

Responses provided by the SME taxpayers relating to the areas of taxpayer education training that the SME owners have been trained on	1	2	3	4	5	6	7	8	9	10
	Micro	Medium	Small	Small	Medium	Small	Micro	Small	Micro	Micro
The taxpayer was OR was not trained on the programs (indicated below) implemented by SARS	N	N	Y	N	N	Y	Y	N	N	Y
Corporate Income Tax (ITR14) and how to complete the ITR14 form	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Income Tax and how to complete the employee's tax certificate (IRP5)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Small Business Corporation (SBC) process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Turnover tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Taxpayer registration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Filing tax returns through the efilng system and how to apply for efilng	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Record keeping	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Payment of taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government's use of citizens' taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Importance of taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Note: <input type="checkbox"/> = trained by SARS, <input type="checkbox"/> = not being trained by SARS, N = Not trained (the taxpayer has not attended any of the above programs and as seen above, was not aware that these programs existed), Y – Yes trained, the ticks below represent the programs the taxpayer was trained on)</p>										

Table 6: A Tabular Presentation of the Responses Provided by SME Taxpayers' Highlighting Whether These Taxpayer Education Programs Have Been Effective in Training the SMEs.

Responses relating to the effectiveness of the taxpayer education programs the SME taxpayers have been trained on	1	2	3	4	5	6	7	8	9	10
	Micro	Medium	Small	Small	Medium	Small	Micro	Small	Micro	Micro
Webinars	N/A	N/A	N/A	N/A	N/A	N/A	H	N/A	N/A	N/A
SARS TV Channel (YouTube channel)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	H
Documents on SARS website	N/A	N/A	M	N/A	N/A	H	M	N/A	N/A	N/A
Mobile Tax Units	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SARS MobiApp	N/A	N/A	L	N/A	N/A	L	L	N/A	N/A	L
Seminars	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<p>Note: NE = Not effective, L = Low effective rate, M = Moderate effective rate, H = High effective rate, N/A = I did not know the program existed/ I did not need the program (already educated)</p>										

Table 7: A Tabular Presentation of the Responses Provided by SME Taxpayers' Relating to the Effect of the SARS Education Programs on Improving Their Tax Education.

Responses provided by the SME taxpayers relating to the SARS education programs	1	2	3	4	5	6	7	8	9	10
	Micro	Medium	Small	Small	Medium	Small	Micro	Small	Micro	Micro
The education program enlightened the taxpayer on the need to pay tax.	N/A	N/A	H	N/A	N/A	L	H	N/A	N/A	H
The education program has enabled taxpayers to file their returns easily	N/A	N/A	L	N/A	N/A	H	H	N/A	N/A	H
The education program implemented by SARS resulted in an increase in the taxpayer's willingness to pay tax.	N/A	N/A	H	N/A	N/A	H	H	N/A	N/A	H
Note: NE = Not effective, L = Low effective rate, H = High effective rate, N/A = I did not know the program existed/I did not need the program (already educated)										

Findings:

- Both table 4 and graph 4, provide evidence that 40% of the respondents were aware of the taxpayer education programs conducted by SARS, while the latter 60% were not aware of the taxpayer education programs conducted by SARS.
- In tables 5 to 7, with reference to only SME numbers 3, 6, 7 and 10 (i.e., the 40%), the following was found:
 - Firstly, table 5 reveals various aspects these SMEs were trained on.
 - Secondly, table 6 reveals that SME 7 used webinars and this SME found these webinars to be highly effective.
 - Thirdly, table 6 reveals that SME 10 used the SARS Youtube Channel and this SME found the Youtube channel to be highly effective.
 - Fourthly, table 6 reveals that SME 3, 6 and 7 used the documents on the SARS website and these SMEs found these documents on the SARS website to be either highly effective or moderately effective.
 - Fifthly, table 6 reveals that all 4 of the SMEs (i.e., SME 3,6,7, and 10) used the SARS MobiApp and these SMEs found the app to be lowly effective, i.e., ineffective. However, SARS indicated that the aim of the MobiApp was not to educate but to provide simplified tax procedures which leads to simplifying the tax compliance process.
 - Lastly, table 6 reveals that 0% of the respondents were trained on the Mobile tax Units and the seminars held by SARS. Thus, the effectiveness of these programs could not be assessed.
 - The researcher believes that the reason behind the SMEs not attending the in-person programs may be because of the lack of awareness of these programs, or the travel costs that might have been incurred by the taxpayer if they had to travel to the mobile tax units or seminars.
 - However, the reason for the SMEs not using the above programs remains unknown.
- In combination with the results provided in table 3, and table 7 (in relation to the four SMEs that were found to be aware of the tax education programs), the tax education programs have succeeded in their aim to improve taxpayers' education in certain tax matters and table 3 reveals that these SMEs have a positive tax morale and attitude towards tax compliance.
 - This can be seen when assessing the responses provided by SMEs 3,6,7 and 10 as these SMEs were trained on the use and the importance of taxes. Their attitude towards tax compliance is dissimilar in comparison to the other uneducated SMEs.
 - Furthermore, it was found that these SMEs who obtained the training fell between the age bracket of 25-34 age. This result can be associated with their willingness to adapt to the

technological environment, as all the tax matters they were trained on were accessed using technology.

4.7 Summary of Findings

Overall, it can be argued that all 10 SMEs are experts in their industry of business, but the lack knowledge about tax. The results of the questionnaire show that 40% of the respondents are tax compliant because of the training received from the electronic taxpayer education programs, while the remaining 60% are made up of a combination of tax compliant citizens and non-tax compliant citizens. A part of the 60% was due to a lack of tax knowledge and not necessarily an intention to avoid paying tax consequences. Thus, relating to their level of tax education, tax-educated taxpayers were found to be more tax compliant. These study findings affirmed that the education programs organized by SARS improves taxpayers' understanding of the tax system and their confidence in fulfilling their responsibilities as taxpayers. This research links tax education to tax compliance and finds that effective tax education programs can be used to enhance tax compliance.

4.8 Recommendations and Responses Provided by the SMEs

The last part of the questionnaire asks the SME taxpayers to provide responses and recommendations SARS can implement to make taxpayers knowledgeable enough to understand tax and the various compliance issues. The respondents provided the following responses:

1. The ministry of education should introduce a subject called taxation in the South African schools' curriculum and furthermore, they should include a public taxation course in the South African schools' curriculum. In addition, it should be compulsory for every university student to take a taxation course. This is a valid recommendation as tax is a major source of revenue for the South African government to fund public expenditure. This form of education has the potential to improve taxpayers' awareness of their responsibility to pay tax and the non-compliance sanctions to be imposed. Lastly, this form of education could improve tax morale and foster a positive taxpayers' tax compliance attitude.
2. An SME believed that SARS lacked proper communication about the tax education programs, as many of them did not know they existed until the questionnaires were given to them. Thus, they recommended that SARS should improve its manner and mechanisms of communication, which could ultimately improve compliance. By advertising their seminars and workshops on television or in local newspapers.
3. Many SMEs felt that the in-person taxpayer education programs were not easily accessible, and one enterprise found that they did not attend a tax education program because they spent a large amount of time commuting to get to the program as they were none conducted in their area of

operation. Thus, the SMEs suggested that SARS brings the location of the in-person tax programs closer to where the SME businesses are located.

5. CONCLUSION

Taxation is a major source of revenue for the South African government, and it enables the government, to provide more infrastructure and services to enhance the standard of living of the people. However, the South African government faces a major concern regarding low tax compliance. Compliance was found to be influenced by taxpayers' level of tax education on their social responsibility to pay and the tax laws and procedures. South Africa's tax system depends on the public to submit their own returns and comply with other tax matters. Thus, the government and SARS depend on the citizens of South Africa to get tax revenue. This research focussed on SMEs in the Johannesburg District. SARS found this high-risk group of taxpayers to be tax non-compliant due to the operating nature of these entities or the ignorance of the owners.

Many SMEs operate in the informal sector as they fail to register their businesses because they believe that their turnover is low. Alternatively, the non-compliance may be unintentional, as SME taxpayers might not be aware of the tax laws and procedures due to ignorance. South African citizens' lack of voluntary tax compliance results in SARS using costly and coercive methods namely: deterrence (i.e., tax audits, penalties) to improve tax compliance. However, recently prior literature focuses on a new factor that has proven to improve tax compliance. This factor was proven to be tax education. Prior researchers proved that tax education can improve taxpayers understanding of the tax system and it can create a positive tax compliance attitude. The researcher uses prior literature to illustrate the link between tax education and tax compliance and the importance of tax education. However, the awareness and effectiveness of these tax education programs was under-researched. The researcher then aimed to determine the awareness and the effectiveness of the taxpayer education programs on tax compliance among SMEs in Johannesburg Municipality district in Gauteng (South Africa).

The researcher used a questionnaire to investigate the objectives of the research. The researcher used a sample of 10 SMEs that were uneducated in terms of tax-related matters. The data obtained from the questionnaire provided that 60% of the SMEs failed to benefit from the tax education programs implemented by SARS due to their lack of awareness of the programs and of the tax law and how tax revenue is spent. The 60% portion of taxpayers lacked tax education, which is key to tax compliance. The data also reported that the entire sample of SME taxpayers found it difficult to understand how the government uses the tax revenue as the data proves that all the SMEs see tax officials as corrupt. Thus, the above negatively correlates with tax morale and results in non-compliance with the tax laws and procedures.

In contrast, the latter 40% of the respondents were aware of the tax education programs and this entire portion of SMEs attended the tax education programs. The 40% portion of the SMEs were found to have a positive attitude toward tax compliance. Furthermore, these SMEs understand the tax subject they were educated on. The questionnaire found that the education programs relating to the 40% of the SMEs enlightened them on their responsibility to pay taxes and resulted in an increase in the taxpayer's willingness to pay a specific tax. The education programs organized by SARS enhance taxpayers' ability to understand the South African tax system (which requires the taxpayer to self-assess their tax obligations) they improve SMEs' tax compliance. Thus, SARS should continue implementing the current tax education programs as 40% of the respondents were found to be tax compliant because of the training received from taxpayer education programs.

In conclusion, taxpayer education is necessary to increase taxpayers' understanding, awareness, and interpretation of taxation laws, procedures, and the role of tax in the development of the South African economy. These education programs aid the government by explaining to the public how the money collected is used by the government. However, the government can only achieve this objective by implementing effective tax education programs that many taxpayers are aware of. Thus, greater efforts are needed to establish effective tax education programs for SME taxpayers, as this will improve tax compliance, tax morale, and, eventually, tax revenue. Lastly, this research aims to provide future researchers with a better understanding of the need for taxpayer education.

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