JGBAT

Journal of Global Business and Technology

SELECTED CONTENTS

In Cooperation with the
Global Business and Technology Association

The Journal of Global Business and Technology

Volume 17, Number 1, Spring 2021

Website

Further information, including subscription details, are available on the Global Business and Technology Association website at: www.gbata.org

All full papers submitted to the Journal of Global Business and Technology are subject to a double-blind peer reviewing process, using subject specialists selected for their expert knowledge.

The Journal of Global Business and Technology, in cooperation with the Global Business and Technology Association, is listed with [1] Scopus, [2] Cabell's International Journalytics, [3] EBSCO's Academic Search, and [4] ProQuest's database including the International Bibliography of Social Sciences (IBSS). This allows researchers from throughout the world to access articles from the journal.

TABLE OF CONTENTS

Abstract: *The purpose of this paper is to analyse post-colonial African public administration in order to determine its effects in Africa's persistent underdevelopment and suboptimal economic growth. The paper seeks to interrogate the connections between Africa's suboptimal economic performance and underdevelopment with historical trauma that has been consistently exploited as justification for the propensity of African leaders to claim victimhood and to scapegoat failures in governance. It draws from the nexus of the theory of historical trauma and historical materialism, which shows that claims of victimhood are not static. Examples of the Israel Jews, Palestinians as well as South Afrikaners and Blacks are discussed in order to demonstrate that claims of victimhood can be reconfigured and replaced with time. Furthermore, the paper highlights the reality that Africa's economic and social material bases have virtually remained fixed in colonial history when those of other continents and/or countries that may have experienced comparable historical trauma had successfully progressed. It argues that scapegoating of the colonial legacy is not uncommon among African leaders, in the face of governance deficiencies, which are exposed in the continent's public administration. The paper notes that governance and visionary leadership which are highly recommended for improving development and economic growth, are generally ignored in African public administration. In the current era, there is evidence that suggests that Africa's problem of underdevelopment and suboptimal economic performance is a function of widespread and endemic bureaucratic corruption, which is the antithesis of good governance. This paper recommends that African political leaders need to first liberate themselves and their peoples from historical trauma largely through adoption and adherence to principles, values and ethics subsumed under good governance in all spheres of society, inclusive of the economic and social material production. The paper cautions that the removal of African leaders from power, albeit through democratic means, is not a durable solution because history proves that the removal of one political regime and replacement with another in government has resulted in the same ills of governance deficiencies, with regularity in most of Africa. It is evident that such corruption benefits politicians and public officials and that it has, as a result, remained difficult, if not improbable, to eradicate while historical trauma remain a reasonable scapegoat among cohorts of political leaders from one generation to the other.*

Abstract: The aim of this paper is to determine if the dividend policy of SMEs listed on the Alternative Exchange (AltX) has a relationship with stock price volatility. Stock prices and dividends are important factors in creating and increasing stockholders' wealth, especially for small and medium-sized enterprises (SME), which rely on investor support, with implications for these companies, especially those in developing economies. This paper uses secondary data from 2010 to 2015 to perform panel data regression analysis. The results show that dividend policy has a significant relationship with stock price volatility; however, the amount of dividends in relation to earnings was insignificant. Also, the results indicate that companies could reduce their stock price volatility by changing their dividend policy to be dividend-paying. In addition, the paper notes that investors of these SMEs were more concerned with the distribution of dividends than the amount. These findings may aid SMEs in creating strategies that positively impact their businesses and encourage stronger investor support. As SME exchanges gain the attention of more investors and as more entrepreneurs are encouraged to consider listing their SME on these exchanges, further business and economic growth can be encouraged. The paper asserts that understanding the relationship between stock price volatility and dividend policy of SME companies on the AltX contributes to knowledge. Also, the findings shed light on the role of dividend policy in reducing stock price volatility for listed SMEs in developing economies, which can further encourage investor support and enhance financial access for these companies; hence, the dividend-paying policy is recommended for these SMEs.

Abstract: This paper investigates determinants of household savings, as participants in the overall economy in South Africa, as well as their role in economic growth. Savings and investment are central to the country's economic growth. Household savings ensure stable levels of consumption during the time of loss of income or pension period. South African national accounts data have not shown enhancement in the household saving ratio from the time when there was Global Financial Crisis. The paper uses autoregressive distributed lags (ARDL) methodology to analyze determinants of household savings; and, it finds that household disposable income and consumption were the most significant determinants of household savings in the long-run. Also, it establishes a direct relationship between household savings and economic vitality. The ARDL error correction model (ECM) estimated a very high speed of adjustment of 65%, meaning that the model will not take long to restore back to equilibrium. The paper hopes to assist the process of devising strategies for improving the South African economy; and it recommends that appropriate policies be developed and strengthened in order to incentivize household savings, which are, in the long-run, essential for development and economic growth. Furthermore, the paper points out the obvious fact that savings act as a contingency for individuals and countries in the event of economic downturns and financial crisis; and, therefore, that it is in the interest of society to incentivize household savings.

Abstract: The paper investigates public finance investment and the influence of mutual funds in government stocks on investment activity, using the BRICS countries data. Investment has been recognized as one of the most volatile expenditure components over the business cycle. Investment

activity should therefore be convenient, practical and efficient as investment activity can enhance economic growth. The paper uses panel unit root test, panel autoregressive distributed lag model (PARDL), panel cointegration tests, Engle-Granger causality test, impulse response functions and variance decomposition tests. The panel unit root tests confirms different orders of cointegration; and, panel cointegration tests, where one lag was used, indicated the presence of a long-run relationship among investment activity and mutual funds. The findings corroborate the idea that investment activity is positively impacted by mutual funds in the long run as suggested by the PARDL model. The Engle-Granger casualty test shows a unidirectional causality from investment activity to government stock on corporations as well as from government stock on bonds to liquid assets. The impulse response function test indicates that the impulse percentage of fluctuation and the variables did contribute to each other, from various periods in the short and the long run. The results show a long run relationship between the variables as they move together in the long run and mutual funds having a positive effect on investment activity. The paper recommends that mutual fund policy makers need to develop policies that will lead to financial stability and increase the performance of financial institutions. These policies should be able to help financial institutions in making investment decisions that will further benefit them and the country's economy not only in the short term but also in the long term. Furthermore, critical evaluation is needed to avoid investment shocks, instability of investment activity, instability of financial markets and that of the economy as a whole.

Abstract: The paper examines the role of South African metropolitan cities (metros) in advancing local economic development (LED) through engagements with external actors. Globalization is increasingly changing the roles and players in international affairs. Cities are increasingly affected by global issues such as COVID-19, the global financial crisis of 2008, and climate change, and they have had to step up and engage with external actors, especially in recent years. In order to shield local economies from devastating declines, local governments have become more actively involved in pursuing LED initiatives. Furthermore, due to the increasing interconnectedness arising from globalization, cities have become more integrated into global markets, and have increased their efforts to become more competitive in order to attract foreign investment, and to establish themselves as ideal places for head offices and outsource services. In light of the economic decline caused by the COVID-19 lockdown measures, it is now, more than ever, pertinent for South African local governments to become active participants in the global arena as agents of economic cooperation and development. This paper argues that there is immense value in metros' engagements with external actors for economic cooperation because such arrangements have the potential to promote local economic development. The paper concludes that South Africa's legislative framework is, in its current form, not fully supportive or enabling for cities to exploit this development avenue. Instead, the legislative framework is riddled with contradictions and impediments that disable cities from exploring external economic engagements for economic cooperation and local development.

Abstract: The paper examines the legislative requirements for small business tax compliance as a key factor in the impairment of the capacity of these businesses to contribute optimally towards local

economies, with specific reference to guesthouses in Mahikeng Town, South Africa. Globally, small businesses are generally faced with a variety of regulations for compliance, including tax compliance regulations. While complying with the tax regulations, small businesses have to incur compliance costs. Additionally, small businesses are often affected by red tape in their pursued for compliance with tax regulations as compared to large and established companies because small businesses are less proficient in dealing with the complexities of such regulations and are unable to spread the costs of compliance across large-scale operations. The study reported in this paper included literature review as well as questionnaire surveys and interviews among guesthouse owners and managers. The paper reveals, among other things, that while South African Revenue Services (SARS) continues to issue guidelines to assist small business owners to complete and file tax returns on their own, these guidelines appear to be complicated for the sampled guesthouses, which have continued to employ professional tax practitioners who charge them for their services, therefore increasing their compliance costs. It is found that the cost of securing tax practitioners for small business tax compliance is hefty and that it undermines the capacity of guesthouses' contribution to the local economies. The paper finds that whereas SARS has provided guidelines, they have not been user-friendly for guesthouse managers and owners in Mahikeng, with the result that they have continued to hire tax practitioners at a hefty cost to their revenues. To this extent, this paper concludes that the legislative requirement for tax compliance is for Mahikeng guesthouses a costly disincentive that detracts from their capacity to contribute to the local economies. It is, therefore, recommended that SARS needs to revise and simplify small businesses tax compliance guidelines in order to reduce the costs. Such revisions and simplification needs to take into account the characteristic features of small business owners and managers, which include educational deficiencies, language challenges, limiting skills set and digital connectivity and expertise defects. For this reason, SARS guidelines for small businesses tax compliance need to include provision of qualified tax practitioners by this institution itself at no fee to small businesses.

Abstract: This paper seeks to test the notion of functionality of cooperatives in the socio-economic development with respect to poor communities, using the case of Chris Hani District Municipality in South Africa. Globally, cooperatives are generally believed to be functionally effective as instruments for the promotion of socio-economic development in poor communities. South Africa expends substantial amounts of resources in promoting the use of cooperatives to enhance socio-economic development; and, they have consistently been part of the country's development frameworks to reduce poverty, unemployment and inequality. For this paper, a purposive sample of 254 respondents were surveyed and 14 key informants the Chris Hani District Municipality (CHDM) in the Eastern Cape. Also, 12 focus groups were established for the purposes of discussion. The survey was conducted in ways that ensured adequacy of triangulation and inclusiveness of differences. Using thematic and content analyses, a variety of underlying patterns and meanings were uncovered. The findings in this paper corroborates the idea that cooperatives play an important role in enhancing the socio-economic development. The paper shows that communities in the CHDM use cooperatives in their pursuit of socio-economic development. However, the paper also points to the environment that is less enabling for cooperatives in that it diminishes their functionality in the promotion of socio-economic development. Having established that the functionality of cooperatives in socio-economic development is dependent upon the environmental contexts, this paper proposes strategies that could be used to create an appropriate enabling environment.

Abstract: The aim of this paper is to analyze the pros and cons that accompany the introduction of the Enterprise Resource Planning (ERP) systems in higher education institutions (HEIs) with respect to financial reporting and auditing, in order to determine the potential effects thereof. The ERP, specifically the Oracle system, which is used in HEIs to prepare financial reports and for auditing has to be sound and valid; and, its regular upgrades needs to be smooth in order that it may not disrupt the processes of financial reporting and auditing. Where upgrades are introduced in a shoddy manner, they have tended to be disruptive to the core business and performance of HEIs. Based on survey data, drawn from key informants that are internal to HEIs as well as external auditors, this paper points to complexities attendant to the upgrades to the ERP systems in HEIs in South Africa in ways that question the appropriateness of such upgrades as well as the operational readiness of institutions. Also, the paper provides survey results that support the principle underlying the regularity of upgrades to the ERP systems. The paper finds that notwithstanding the numerous threats associated with ERP upgrades, the nature of their effects is largely dependent upon a series of factors such as the state of management support, communication, staff training and development. It also highlights specific mitigation measures that are appropriate for reducing the risks associated with ERP system upgrades, whilst enhancing the attainment of desirable effects. Furthermore, it is recommended that an institutional policy framework has to be developed and implemented wherein the executive management of the institution is required to inculcate a culture of continuous adjustments to the ERP systems upgrades in order that resourcing, preparations and implementation of the ERP systems upgrades should not be discretionary. Also, the ERP systems and upgrades training has to be incorporated into the institutional human resources staff development policies. As a matter of institutional policy, the executive management needs to be required to provide resources for backup as well as external expertise and skills for the mitigation of potential ERP systems upgrade risks as contingency measures that enhance staff confidence in the security of transitions.

ACKNOWLEDGEMENTS FROM THE EDITOR-IN-CHIEF

I am very pleased to offer this special issue on very important contemporary topics dealing with the continent of Africa. All of the manuscripts will add immensely to the growing body of knowledge in the literature.

I would like to express my overwhelming appreciation for the hard work of the Special Issue Guest Editors, Prof. Mokoko Sebola from the University of South Africa and Prof. Johannes Tsheola from the Institute of Public Affairs & Governance in South Africa. The Special Issue Guest Editors put many hours into this issue selecting and soliciting reviewers, proofing the submissions, and working with the authors to ensure each paper was ready for publication. In addition to preparing papers for publication, they had to deliver the news to the individuals whose work was not accepted for publication. The Guest Editors' enthusiasm for the issue and willingness to step outside of their regular duties was essential to the issue coming together.

I would also like to express my great gratitude to the Managing Editor, Prof. F. Victor Lu for discussing the guidelines with the authors, formatting the papers, and his other duties that are important to publishing a journal issue.

N. Delener, Ph.D.
Editor-in-Chief

EDITORAL FROM THE GUEST EDITORS ON THE THEME OF "CAPITALIST ECONOMY, TOXICITY OF COLONIALISM, INVESTMENT, BUSINESS, AND THE LOCAL-GLOBAL DIALECT"

This special issue is inspired by the reality that whereas the *Economist* (January 08, 1994, p.16) expressed optimism that there was no "wonder that buckets of foreign money ... continue to slosh into the emerging stock markets of the world's poorer countries" in the 1980s, Africa has to-date demonstrated the perennial "toxicity of colonialism" (Johnston, Taylor & Watts, 1995; Harvey, 1996). The *Economist*'s (1994) optimism was not unfounded because "the inflow of foreign investment into the developing world has been especially dynamic," prompting suggestions that there would be "rapid changes in the balance of the world economy" (Johnston, Taylor & Watts, 1995: 15). Whereas contemporary realities have been that the rich capitalist world has continued to tower "over the whole world economy," it has been equally true that the *Economist*'s (1994) optimism was justifiable because there was an apparent "propulsive force" of rapid industrialization of the so-called newly industrialized countries (NICs) such as Taiwan, Singapore, South Korea and Hong Kong as well as Thailand, China and Malaysia, with the "transnationalization of capital" (Johnston, Taylor & Watts, 1995: 15). However, African countries have been and are conspicuously absent from the list of the NICs that defined the so-called second wave of industrialization. The vexed question to frame is why Africa as a whole has appeared to be excluded from the wave of industrialization that accompanied the transnationalization of capital and the ascendency of globalization?

It is evident that "capitalism cannot be so readily captured and constrained" (Johnston, Taylor & Watts, 1995: 17); however, governments across the world have continued, sometimes with heavy costs, to "pursue economic growth in an increasingly competitive global economy where competition for investment capital and entrepreneurial initiatives is fierce" (Richmond, 1994: 177). One of the prime strategies has been to encourage "business immigration;" and, the latter has not been unproblematic because it has, among other effects, inflated "real estate prices" as rich foreign business people purchased property in developing countries (Richmond, 1994: 177), thereby exacerbating inequalities at the national and local scales. The inequalities within a single national space have been spatially-nested complex multiple-webs because the "geo-economic restructuring, capital flows and their effects," attended to the ascendency of globalization and the transnationalization of capital, have been "highly uneven" (Johnston, Taylor & Watts, 1995: 15). Without suggesting that government investment in encouraging business immigration into the developing worlds may have been fruitless expenditure of the meagre resources, global market volatility have repeatedly and conclusively demonstrated that rather than being "fixed," resources have been "dynamic and changing" in the history of capitalism (Harvey, 1996: 147).

Governments in the developing world, in particular, have "experienced difficulty ensuring that the funds were invested in the way intended and were obliged to adopt monitoring programs to achieve this and minimize abuse" (Nash, 1987 cited in Richmond, 1994: 177). In general, governments have had negligible power over foreign business and capital because the transnationalization of capital and globalization were, in simplistic treatment of geographic scales, exercises in the transfer of "real power 'upwards' from states to the global" (Taylor, Watts & Johnston, 1995: 9). For instance, vehicle, clothing, textile and footwear industries that invested in the so-called economic zones in developing countries are protected in such a way that would maintain low paying unskilled and semi-skilled jobs, thereby impairing the capacity of governments from "restructuring the economy towards high technology, and design intensive industries" (Fitzgerald, 1988: 40 cited in Richmond, 1994: 177). That is, the

transnationalization of capital and globalization are complex processes that involve "a local-global dialectic, where local events constitute global structures which then impinge on local events in an iterative continuum" (Watts, 1992 cited in Taylor, Watts & Johnston, 1995: 9). As Taylor, Watts & Johnston (1995: 9) describe it, a local-global dialectic mean that "Local communities may be buffeted by global forces but they are not helpless victims with no coping strategies…. neither can they be autonomous of the world they inhabit, so that their strategies will invariably involve consequences beyond their direct control." However, formal power is located at the national scale of the state, which has "the capacity to affect both local communities and the wider international scene" (Taylor, Watts & Johnston, 1995: 9).

According to Harvey (1996: 229), the state is a necessary institution for the survival of capitalism because "in almost all arenas of economic calculations," the hegemonic market institutions use interest rates to "fix time horizons." Virtually all actors in the global economy, inclusive of states and private institutions, "engage in commodity exchange mediated by money" and its unavoidable valuations (Harvey, 1996: 157). The levers and parameters of global money valuations are effectively outside the immediate sphere of control of localities. For these reasons, the prime purpose of the rhetoric of economic viability and sustainability "is to direct public policy towards thinking about time horizons well beyond those encountered in the market" (Harvey, 1996: 229). Hence, the Keynesian maxim that "the short-run is the only reasonable time horizon over which to operationalize economic and political decisions," because "in the long run we are all dead" (Harvey, 1996: 229), appears to have captivated the capitalist world economy for general acceptability, especially among the economists. These are the issues that the papers in this special issue are ceased with from the local dimension of the local-global dialectics.

CONTRIBUTIONS TO THE SPECIAL ISSUE

This special issue consists of 8 papers that engage the local-global dialectic in respect of South Africa's economic conundrum. The first paper, however, provides a broader continental context before zooming into the South African parameters for explaining the absence of innovativeness in the pursuit of economic and social change. Whilst the central consideration to each paper remains economic in character, the topics are variously couched with a combination of the following subjects: public administration and economic growth; dividend policy and small business enterprises; economic performance, investment and business; stock exchange and small business enterprises; household savings and local economic development; government stocks, mutual funds and financial markets; agricultural production, communal farming, commercial viability and sustainability, commercialization and financialization of agriculture; spatial development planning and local government; legislative frameworks for small businesses tax compliance costs; household industries and skills development; the Global Internal Audit Competency Framework and creditworthiness; functionality of cooperatives in socio-economic development; and, financial reporting and auditing in higher education.

In a scene setting paper, the **first paper by M.P. Sebola** examines the post-colonial African public administration in order to determine its effects in Africa's persistent underdevelopment and suboptimal economic growth. From the historical materialism prism, Sebola interrogates the connections between Africa's suboptimal economic performance and underdevelopment with historical trauma that has been consistently exploited as justification for the propensity of African leaders to claim victimhood and to scapegoat failures in governance. The paper draws from the nexus of the theory of historical trauma and historical materialism, to show that claims of victimhood are not static. Teasing out illustrations from the Israel Jews, Palestinians as well as South Afrikaners and Blacks, the paper demonstrates that claims of victimhood can be reconfigured and replaced with time. The paper highlights the reality that Africa's economic and social material bases have virtually remained fixed in colonial history when those of other continents and/or countries that may have experienced comparable historical trauma had successfully progressed.

The **second paper by L. Pelcher and J. Bolton** uses panel data regression analysis to determine if the dividend policy of SMEs listed on the Alternative Exchange (AltX) has a relationship with stock price volatility. Pelcher & Bolton hold that stock prices and dividends are important factors in creating and increasing stockholders' wealth, especially for small and medium-sized enterprises (SME), which rely on investor support, in developing economies. Drawing from the 2010 to 2015 secondary data, Pelcher & Bolton perform panel data regression analysis from which they observe that dividend policy has a significant relationship with stock price volatility, but that the amount of dividends in relation to earnings was insignificant. In the final analysis, the paper advises that dividend policy that reduces stock price volatility for listed SMEs in developing economies, can equally encourage investor support and enhance financial access for SMEs.

The **third paper by O. Ralarala & M. Masipa** investigates the determinants of household savings, their effect on levels of household consumption as well as on the overall economy in South Africa. Ralarala & Masipa accept the notion that savings and investment are central to a country's economic growth, whereas household savings ensure stable levels of consumption during the time of loss of income. Using the autoregressive distributed lags (ARDL) methodology to analyze determinants of household savings, the paper finds that household disposable income and consumption were the most significant determinants of household savings in the long-run.

The **fourth paper by D.M. Kgomo** analyses the influence of mutual funds in government stocks on investment activity, using data from the BRICS countries. Kgomo recognizes investment as one of the most volatile expenditure components over the business cycle and notes, therefore, that investment activity should be convenient, practical and efficient as it can enhance economic growth. The paper conducts panel unit root test, panel autoregressive distributed lag model (PARDL), panel cointegration tests, Engle-Granger causality test, impulse response functions and variance decomposition tests. Based on the test results, the paper corroborates the idea that investment activity is positively impacted by mutual funds in the long run.

The **fifth paper by M.R. Maziwisa** examines the role of South African metropolitan cities in advancing local economic development (LED) through engagements with external actors. Maziwisa argues that globalization is increasingly changing the roles and players in international affairs and that, local governments have become actively involved in pursuing LED. To be precise, the paper notes that cities have become more integrated into global markets and that they have increased their efforts to become more competitive in order to attract foreign investment and to establish themselves as ideal places for head offices and outsource services. In light of the economic decline caused by the COVID-19 lockdown measures, it is now, more than ever, pertinent for South African local governments to become active participants in the global arena as agents of economic cooperation and development. Maziwisa shows that there is immense value in cities' engagements with external actors for economic cooperation because such arrangements have the potential to promote local economic development.

The **sixth paper by S. Sekgota & L.J. Mamaile** assesses the legislative requirement for small business tax compliance as a key factor in the impairment of the capacity of these businesses to contribute optimally towards the local economies. Sekgota & Mamaile state that while complying with the tax regulations, small businesses have to incur compliance costs and that they are often affected by red tape in the requirements for compliance with the regulations because they are less proficient in dealing with the complexities of regulation and are unable to spread the costs of compliance across large-scale operations. The paper reveals that, while South African Revenue Services (SARS) continues to issue guidelines to assist small business owners to complete and file tax returns on their own, these guidelines appear to be complicated for small businesses, which have continued to employ professional tax practitioners who charge them for their services, therefore increasing their compliance costs.

The **seventh paper by Z.G. Gotyi, K.I. Theletsane, & W.D. Erasmus** tests the notion of functionality of cooperatives in socio-economic development with respect to poor communities, using the case of Chris Hani District Municipality in South Africa. Globally, Gotyi, Theletsane & Erasmus assert, cooperatives are generally believed to be functionally effective as instruments for the promotion of socio-economic development in poor communities. The paper shows that South Africa expends substantial amounts of resources in promoting the use of cooperatives to enhance socio-economic development and that cooperatives have consistently been part of the country's development frameworks to reduce poverty, unemployment and inequality. Having established that the functionality of cooperatives in socio-economic development is dependent upon the environmental contexts, the paper proposes strategies that could be used to create an appropriate enabling environment.

The **eighth paper by L. Nzama** examines the pros and cons that accompany the introduction of the Enterprise Resource Planning (ERP) systems in higher education institutions (HEIs) with respect to financial reporting and auditing, in order to determine the potential effects thereof. Nzama notes that the ERP, specifically the Oracle system, which is used in HEIs to prepare financial reports and for auditing has to be sound and valid; and, that its regular upgrades needs to be smooth in order that it may not disrupt the processes of financial reporting and auditing. The paper finds that where upgrades are introduced in a shoddy manner, they have tended to be disruptive to the core business and performance of HEIs. Also, it finds that notwithstanding the numerous threats associated with ERP upgrades, the nature of their effects is largely dependent upon a series of factors such as the state of management support, communication, staff training and development.

REFERENCES

Harvey, D., (1996). *Justice, Nature and the Geography of Difference*. Oxford: Blackwell.

Johnston, R.J., Taylor, P.J. & Watts, M.J., (1995). The reconfiguration of late twentieth-century Capitalism. In Johnston, R.J., Taylor, P.J. & Watts, M.J. (eds.). *Geographies of Global Change: Remapping the World in the Late Twentieth Century*. Oxford: Blackwell, pp.13-17.

Richmond, A.H., (1994). *Global Apartheid: Refugees, Racism, and the New World Order*. Oxford: Oxford University Press.

Taylor, P.J., Watts, M.J. & Johnston, R.J., (1995). Global change at the end of the twentieth century. In Johnston, R.J., Taylor, P.J. & Watts, M.J. (eds.). *Geographies of Global Change: Remapping the World in the Late Twentieth Century*. Oxford: Blackwell, pp.1-10.

M.P. Sebola, Ph.D., Guest Editor
J.P. Tsheola, Ph.D., Guest Editor

NOTE FROM THE EDITORS

As an interdisciplinary indexed journal, *The Journal of Global Business and Technology (JGBAT)* serves academicians and practitioners in the fields of global business and technology management and their related areas. JGBAT is also an appropriate outlet for manuscripts designed to be of interest, concern, and applied value to its audience of professionals and scholars.

Readers will note that our attempt to bridge the gap between theory and practice has been successful. We cannot thank our reviewers enough for having been so professional and effective in reiterating to contributors the need to provide managerial applications of their research. As is now obvious, the majority of the articles include a section on managerial implications of research. We wish to reiterate once again our sincere thanks to JGBAT reviewers for having induced contributors to answer the "so what?" question that every *Journal of Global Business and Technology* article is required to address.

Thank you for your interest in the journal and we are looking forward to receiving your submissions. For submissions guidelines and requirements, please refer to the Manuscript Guidelines at the end of this publication.

N. Delener, Ph.D., Editor-in-Chief
F. Victor Lu, Ph.D., Managing Editor
M.P. Sebola, Ph.D., Guest Editor
J.P. Tsheola, Ph.D., Guest Editor

REVIEWERS

Dr. Davood Askarany	University of Auckland, New Zealand
Dr. Erhan Aslanoglu	Piri Reis University, Turkey
Dr. Tamer Mohamed Atef	Sultan Qaboos University, Sultanate of Oman
Dr. Alba Caicedo Barreth	University of Guayaquil, Ecuador
Dr. Homer T. Bonitsis	New Jersey Institute of Technology, USA
Dr. Vida Lucia Botes	University of Waikato, New Zealand
Dr. Gordon Bowen	Northumbria University, U.K.
Dr. Piotr Bula	Cracow University of Economics, Poland
Dr. Dagmar Caganova	Slovak University of Technology in Bratislava, Slovakia
Prof. Hong Long Chen	National University of Tainan, Taiwan ROC
Dr. Koen Dittrich	Erasmus University of Rotterdam, The Netherlands
Dr. Zenzo Dube	National University of Science and Technology, Zimbabwe
Dr. Maria Eduarda da Silva Teixeira Fernandes	Polytechnic Institute of Leiria, Portugal
Dr. Nikolay Filinov	National Research University– Higher School of Economics, Russia
Prof. Hisao Fujimoto	Osaka University of Economics, Japan
Dr. Leonora Fuxman	St. John's University, USA
Prof. Eric Girard	Siena College, U.S.A.
Dr. Abdel Halabi	Federation University, Australia
Dr. Frederic Jallat	ESCP Europe - European School of Management, France
Dr. Rim Jallouli	Manouba University, Tunisia
Dr. Halil Kiymaz	Rollins College, USA
Dr. Stephen Ko	The Hong Kong Polytechnic University, Hong Kong R.O.C.
Dr. Samad Kolahi	UNITEC Institute of Technology, New Zealand
Dr. Daniel Koys	DePaul University, USA
Dr. Ines Lisboa	Polytechnic Institute of Leiria, Portugal
Dr. José Luís Martins	Polytechnic Institute of Leiria, Portugal
Dr. Miguel Martins	University for the Creative Arts, UK
Dr. Ajay K. Manrai	University of Delaware, USA
Dr. Samir R. Moussalli	Huntingdon College, USA
Dr. Juergen Muehlbacher	Vienna University of Economics & Business, Austria
Dr. Marina Novelli	University of Brighton, UK
Dr. Wilson Ozuem	University of Cumbria, UK
Dr. Kathleen Park	Boston University, USA
Dr. Nathalie Prime	ESCP Europe-European School of Management, France
Dr. Leonel Cezar Rodrigues	University Nove de Julho, Brazil
Dr. Christina Schweikert	St. John's University, USA
Dr. Klaus Solberg Soilen	Blekinge Institute of Technology, Sweden
Dr. Carlos Trevia	Pontifical Catholic University of Rio de Janeiro, Brazil
Dr. Clare Weeden	University of Brighton, UK
Dr. Ondrej Zizlavsky	Brno University of Technology, Czech Republic

POST-COLONIAL AFRICAN ECONOMIC AND SOCIAL CHANGE: A HALLMARK OF COLONIAL PUBLIC ADMINISTRATION HISTORICAL MATERIALISM

M. P. Sebola

ABSTRACT

The purpose of this paper is to analyse post-colonial African public administration in order to determine its effects in Africa's persistent underdevelopment and suboptimal economic growth. The paper seeks to interrogate the connections between Africa's suboptimal economic performance and underdevelopment with historical trauma that has been consistently exploited as justification for the propensity of African leaders to claim victimhood and to scapegoat failures in governance. It draws from the nexus of the theory of historical trauma and historical materialism, which shows that claims of victimhood are not static. Examples of the Israel Jews, Palestinians as well as South Afrikaners and Blacks are discussed in order to demonstrate that claims of victimhood can be reconfigured and replaced with time. Furthermore, the paper highlights the reality that Africa's economic and social material bases have virtually remained fixed in colonial history when those of other continents and/or countries that may have experienced comparable historical trauma had successfully progressed. It argues that scapegoating of the colonial legacy is not uncommon among African leaders, in the face of governance deficiencies, which are exposed in the continent's public administration. The paper notes that governance and visionary leadership which are highly recommended for improving development and economic growth, are generally ignored in African public administration. In the current era, there is evidence that suggests that Africa's problem of underdevelopment and suboptimal economic performance is a function of widespread and endemic bureaucratic corruption, which is the antithesis of good governance. This paper recommends that African political leaders need to first liberate themselves and their peoples from historical trauma largely through adoption and adherence to principles, values and ethics subsumed under good governance in all spheres of society, inclusive of the economic and social material production. The paper cautions that the removal of African leaders from power, albeit through democratic means, is not a durable solution because history proves that the removal of one political regime and replacement with another in government has resulted in the same ills of governance deficiencies, with regularity in most of Africa. It is evident that such corruption benefits politicians and public officials and that it has, as a result, remained difficult, if not improbable, to eradicate while historical trauma remain a reasonable scapegoat among cohorts of political leaders from one generation to the other.

Mokoko Sebola *holds a Doctoral degree and is a professor of Public Administration. He is a Research Fellow at the University of South Africa. Professor Sebola is the founding Editor of both the Journal and the International Conference on Public Administration & Development Alternatives. He has established himself as a scholar with national and international acclaim, having received several Awards including that of his peers in the South African Association of Public Administration & Management in 2014.*

INTRODUCTION

The past century has attested to the notion that Africa might find it difficult to dissociate itself from its colonial history; hence, the notion of post-colonialism has itself been contested for absence of pragmatism. Following Nhema (2016), Tambalas & Chasukwa (2020) opine that colonial civil service institutions have continued to facilitate and characterize the post-colonial African public administration. It appears that colonial institutions and structures have become enduring skeletons of the aspirations of a post-colonial socio-economic and political future of the continent (Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). Historical materialism shows that as African actors "develop their material production" in the hope of altering their history, the resultant socio-economic and political patterns and processes have consistently produced continuities, rather than discontinuities. For this reason, Africa has continued to experience "underdevelopment," which is in essence a systematic process of economic and social development that is uneven in space and time. This paper, therefore, applies historical materialism as an analytical method to examine the historical development of social relations in order to solicit understanding of the economic and social material bases of the African societies.

The paper notes that African institutions are generally problematic in that they imperil the capacity of cohorts of actors and leaders, of all persuasions, from conceiving nuance ethos and aspirations, in both economic and political sense, as required by the citizenry (Bojang, 2020). Sebola (2019) reiterates the unnoticeable colonial jacket in the new African politicians' office; and, this idea is corroborated by Tambulasi & Chasukwa (2020). It is also not in dispute that African scholars and politicians continue to borrow ideas, concepts and institutional designs from Western countries (Itika, de Reder & Tollenaar, 2011; Bojang, 2020; Tsheola & Sebola, 2020). There is agreement that the historical circumstances of most African states have fixed their routines into a system of borrowing from the West, a regularity which has unfortunately been associated Africa's continued underdevelopment and poor economic growth (Bojang, 2020). However, there are those who argue that Africa should continue to borrow from the West because of, as they see it, the acclaimed successful administrative systems achieved through trial and error (Itika *et al.*, 2011; Roland, 2020; Tambulasi & Chasukwa, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). This intellectual positioning suggests that Africa would not be innovative in its own way anytime sooner because the administrative systems of the West too are in a state of flux. The other school of thought is that the applications of Western administrative systems in Africa is inappropriate because they are not coherent with the African environment (Bojang, 2020; Tsheola & Sebola, 2020). It is in this context that, the failure of the current African public administration is always associated with historical linkages with the former colonial masters. Whereas scholars have identified significant causes of underdevelopment and lower economic growth in most African countries, there has been negligible attention on historical factor that underlie underdevelopment and lower economic growth on the continent. As a result, most African politicians and administrators have tended to be seized with history of the continent or countries to the detriment of the current administration for development and the economy, with the result underdevelopment and lower economic growth persisted unabated (Bojang, 2020; Chiweza & Msiska, 2020; Roland, 2020; Tambulasi & Chasukwa, 2020; Tsheola & Sebola, 2020; Lassou, Hopper & Ntim, in press). A major question raised in this paper is: How does Africa's colonial history of "material production" affect the continent's current Public Administration of the economic and social relations. In essence, this paper examines the question of the effects of Africa's colonial establishments on the ongoing reproduction of the systems that sustain underdevelopment and poor economic performance. In answering the question, the paper examines the following aspects: The historical trauma theory, post-colonial African Public Administration, underdevelopment and economic growth in Africa as well as the potential virtues of history contributing to the current search for nuance development and economic growth.

THE HISTORICAL TRAUMA THEORY AND HISTORICAL MATERIALISM

The paper is grounded on the historical trauma theory**.** The term historical trauma generally refers to "an event or a set of events, that happen to a group of people who share a specific identity such as nationality, tribal affiliation, ethnicity, race and or religious affiliation" (Andrasik, 2019: 1). Conching & Thayer (2019: 74) define it as a "collectively experienced trauma in an ancestral generation that is associated with poor mental and physical health outcomes in descendent generation". Most studies on historical trauma theory focus mainly on the public health sciences, rather than the social sciences, specifically on the mental health of the victims to the exclusion of the ideological effect. Also, it is often argued that the trauma can be passed onto future generations (Maxwell, 2014; Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press), wherein contemporary generations have the propensity to understand and accept their ongoing "material production" as continuities of the past.

People affected by historical trauma always portray themselves as victims and they need, from time to time, to be perceived as such; and, they expect sympathy from both the perceived victimiser and the bystanders (Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). Indigenous population across the globe had suffered numerous kinds of historical trauma. Brown-Rice (2013: 118) blames "some European cultures which have engaged in behaviours which have resulted in purposeful and systematic destruction of natives". But in Africa the worse trauma experienced is that related to colonization. Sotero (2006) points out that historical trauma victims are people who have been subjected to colonialism, slavery war and genocide. People who have suffered from this kind of trauma are likely to show characteristics of low self-esteem about themselves which are often characters displayed by subsequent generations, in the absence of proper health and political counselling as well as material wellbeing interventions. More often in the African continent, political leaders prefer to stay in the past by recreating themselves as victims of colonialization, rather than focussing on improving the socio-economic and political conditions (Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). That is, trauma affects them in fulfilling their political programmes, as well as in executing their economic and national development agendas. The ultimate results are that political leaders fail in their duties, attracting blame from both the former colonizers as well as their own constituencies for failing both the democratization and development experimentations.

This paper situates its argument in the nexus of historical trauma and historical materialism in that the conscious decision of African political leaders to present themselves and their continent through the victimhood prism, has inevitably affected the material conditions adversely. Hence, scholars have historically questioned the reality that Africa is so rich with mineral resources and such other endowments, yet the continent has persistently remained a "scorched earth." Whereas the historical trauma theory explains the victimhood propensity of most of Africa, historical materialism point out that it is through such mental psychology and conduct that social relations that are conducive to underdevelopment are perpetuated in ways that create and recreate suboptimal and substandard economic material bases for society. That is, the ongoing economic underperformance and the absence of progressive social change in Africa has continued to remain a function of the subjugation and extraversion of contemporary African actors to historical material production fixated in colonialism.

POST-COLONIAL AFRICAN PUBLIC ADMINISTRATION

Although post-colonial African public administration brought about hope to the citizenry, the resultant effect has been disastrous to both development and the economy. Edigheji (2005: 1) maintains that "the history of post independent Africa is that of a monumental democratic and developmental failures". Sebola & Tsheola (2019: vii) rightly argue that "the independence of the majority of African states from colonial rule and administration in the early 1960's and the establishment of the Organisation of African Unity (OAU), now African Union (AU), sparked hope about the total emancipation of African peoples". However, such dream of an African post-colonial state resulted into an unrealisable pipe dream (Sebola, 2019; Bojang, 2020; Lassou, Hopper & Ntim, in press). Until today it remains difficult to conclude on what the real causes of such failures are in the African public administration. Many African political leaders were doomed to failure even as they assumed public office, in which instance the majority thereof continued to apportion blame on "western interference" and history (Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). However, in the Southern African Development Community (SADC), only a few of leaders such as Nelson Mandela (South Africa), Quett Masire (Botswana) and Festus Mogae (Botswana) left political office with integrity, whereas the majority of African political leaders like Thabo Mbeki (South Africa), Jacob Zuma (South Africa), Robert Mugabe (Zimbabwe) were virtually pushed out of office in the face of numerous political scandals.

Tsheola & Nembambula (2015: 16) argue that "Given the arbitrariness of the colonial partitioning of Africa and the war riddled history of population displacements, there are no verifiable 'nation states' on the continent; and, the phenomenon of despotic autocracy has often manifested along the ethnic and racial, sometime religious, divides within states". Many scholars have linked the failed African post-colonial public administration to corruption, poor leadership and governance, as well as failure to govern a diverse society as well as poor policy implementation (Radelet, 2010; Amadi & Ekwekwe, 2014; Sebola, 2014, 2019; Poncian & Mugaya, 2015; Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). On the other hand, Nhema (2016) notes that one of the major weaknesses of a post-colonial African public administration is the relationship between the politician and public administrators. Politicians are sceptical to expend more resources to create an effective and efficient bureaucracy because they feel bureaucrats are a threat in their political space and their political ambitions. Such unnoticed competition between policy makers and the implementers have regularly resulted in public administration deficiencies. More often, instead of looking at the cause, African politicians have focussed on their previous trauma as a cause of their failure to perform in public office. Indeed, where Africans were accused of excessive corruption they have defended themselves through victimhood of colonization and colonial legacy prejudice (Amadi & Ekwekwe, 2014; Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press).

LIVED EXPERIENCES OF HISTORICAL TRAUMA THEORY

Many nations around the world experienced trauma which often hold back their progress in terms of "the material bases of society" from one generation to the other (Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). More cases of historical trauma have been attended to by public health scholars to determine how historical trauma affects descendants of the victims', years after the incidents had happened (Sotero, 2006; Heart, Elkins & Altschul, 2011; Brown-Rice, 2013; Cromer, Gray, Vasquez & Freyd, 2017; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). However, the limitations of these studies are that they only focussed on Americans and Indian cases. Visser (2015: 251) also attests to the fact that "trauma theories are stuck within the Euro-American conceptual and historical frameworks". Very few studies, if they exist, have focussed squarely on African affairs and the effect of the historical trauma on the performance of African politicians and public officials in their public offices. The well-known international historical trauma cases are indeed Colonization of Africa (by the West), the Holocaust (by Germany), The South African Afrikaner

Concentration (by British government) and the Rwandan genocide (by Civilians against a particular group), apartheid trauma in South Africa (by South African Nationalist government).

Colonization and Historical Trauma

Colonization of Africa itself had led to numerous traumas such as diseases from Europe, slavery, homicide through extermination, displacements from own country and lands, sexual and physical abuse and violence and victimization by colonial officials (Andrasik, 2019; Roland, 2020; Guarnieri & Rainer, 2021). This trauma came to be carried by future generations who had often suffered psychologically; and, directly and metaphorically, Visser (2015: 252) posits that such trauma "is a sudden, sharp piercing of a membrane as for instance, by a sharp object implanted in the psyche, where it remains in its original form, hidden behind the screen of consciousness, but making itself known through some serious symptoms". Although colonization was abolished decades ago, current politicians who were not born then have however continued to refer to its historical effects on their performance in public offices. Visser (2015) suggests that there is a need to decolonize some of the traumas scholarship because most of the traumas examined are generally that of post–colonial origin. Colonization is seen as a system which had caused permanent damage to the colonized, especially by disrupting the social, economic and cultural reproduction (Maxwell, 2014; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press); however, the rebuilding of such social relations will not be easy to accomplish. Most Africans enslaved in America and other parts of the West have finally accepted the fate of having lost identity of their families in Africa. At the most, they fought for equal rights and justice in America. Even though America ensured such rights in the law, the trauma of racial discrimination remain practical.

The German Holocaust against European Jews

The Israeli Jews scattered in Europe experienced the worst trauma of the German holocaust. Even so, according to Lutz & Lutz (1995), the Israeli Jews did not suffer such German persecution in isolation because the Gypsis and the Roma were also targets of extermination by the racial Nazi German who regarded other racial groups as inferior to the Aryan population (Vashem, 2019; Haas, 2008). The reason why other targeted racial groups were ignored in the historical narratives is because Hitler had vowed to exterminate all the Jews. Also, the number of Roma and Gypsis victims killed at the time ranged between 200 and 500 thousand as compared to millions of Jews killed. The historical narrative suggests that about 5.7 million Jews were killed through the holocaust genocide. However, the number cannot be confirmed as accurate since it ranges between 5.1 and 6 million. The number could have gone up if Germany would have defeated Russia or the war could have lasted longer because Hitler's attitude was to wipe them all through extermination, anti-Semitism, mass executions, deportation trains, rationally orchestrated operations and industrially organized extension camps (Lutz & Lutz, 1995).

Owing to the Jews holocaust, the European Jews felt very much hated by the Germans while they were left to die in the hands of Germans while the whole nation was watching. Like all other victims of historical trauma, they want the whole nation to feel pity for their misery. Harff (2003), however, notes that the holocaust is a learning curve for policy makers to plan forward. While the European Jews wants the whole nation to develop empathy for the German misery, the Israeli Jews are accused of Palestinian genocide which makes empathy to their Jewish nation difficult. An Israeli Minister, Ayelet Shaked, posted a statement on Facebook on June 2014 claiming that "the entire Palestinian people is the enemy." She called for the destruction of Palestine, including its elderly and its women, its cities and villages, its property and its infrastructure." Her post also called for the killing of Palestinian mothers who give birth to, what she derogatorily described as, "little snakes" (Centre for Constitutional Rights, 2019: 6). The question here is whether or not the Jews are not able to succeed on their own notwithstanding their historical trauma. Significantly, it seems that despite their dislike of the Germans due to the historical trauma, the Israeli Jews are able to continue their way of life notwithstanding the historical trauma

without fixating their material bases in history, which is a complete opposite of how contemporary Africans have sought to perceive and act upon their the ongoing development of their material production. Heart (2003: 10), however, observes that some victims "carry internal intuitive representations of generational trauma, which become the organising concepts in their lives and perpetuate trauma transfer to successive generation." Often in the history of blame and victimhood, there would be contradictions which often counteract and, sometimes, cancel the perceived victimhood of others who view themselves as victims. Even though the Holocaust survivors blame their Israeli nation for genocide against the Palestinian that does not exclude themselves from being hated by the Palestinian for the very same reason for which they hate Germans. Hiebert (2008) notes that genocide is a resultant effect of crises, war and revolution. Therefore, any state that is facing the three preconditions of genocide that fails to properly and carefully manage such situations, such a state would be likely to experience genocide of sections of its population.

The South African Afrikaner Concentration (by British Government)

The Afrikaner in South Africa had spent most of their time calling themselves victims of the British government in South Africa. An extant literature exists to suggest that the British government in South Africa treated them in the most inhumane way possible. In the Anglo-Boer War they were regarded as victims because some European countries such as Poland with no colonial history sympathized with them as victims (Szlanta, 2017) who fought for their freedom against the British imperialism. Historical narratives show that the South African British colonial government established concentration camps for women, children and Boers who had surrendered. The Boers are said to have encouraged their families to go to the concentration camps while they would be fighting against the British government, utilizing the guerrilla tactics (Smith & Stucki, 2011), while those captured were kept as Prisoners of War in different camps.

Although the White camps had about 150 000 inmates (women, children and black domestic servants) about 25 000 deaths were reported from White concentration camps. About 22 000 British soldiers and 12 000 African Blacks lost their lives in the war (*BBC News*, 2019). However, in the whole historical narrative only the Afrikaners emerged as victims of trauma suffered from the Anglo-Boer war. Pretorius (2010: 42) writes that "complain about anonymity of black dead in the concentration camps in comparison to white deceased whose names were inscribed on graves and marble slabs cannot be blamed on Afrikaner nationalists, because neither the British camp authorities or families of black people who died elected to record such deaths, because of illiteracy they did not even record names of their next of kin as whites did in concentration camps". Illiteracy and practice in this instance could be beside the point, because even the war was called the Anglo-Boer War. Heyningen (2010) attests that the written material about the South African concentration camps in the Anglo-Boer War is confined to the suffering and mortality of Boer women and children. Yet, all pictures biasedly focussed only on the white victims seeking sympathy from the international community. Blacks who suffered the same fate from the Anglo-Boer war were totally ignored by both the media as well as in the politics and public discourse.

In a military strategy that ended badly in political terms, the British colonial government drafted 200 soldiers against only 45 000 Afrikaners in the Boer Republics. The barbaric methods adopted by the British government, as Jewell (2003) observes, provided a positive benefit for the Boers while creating a public relations disaster for the British government. Even though the Afrikaner society emerged victorious where they were portrayed as victims of the British regime, it did not take long for them to victimize the African Black through apartheid legislation. They became the worst political traumatizers in the globe by legislating apartheid policy which had failed in all countries. Like in the Jewish Holocaust case, the concentration camp victimhood is counteracted and cancelled by the apartheid legislation in which new victims emerged; hence, this paper turns attention to the South African Blacks below.

Apartheid Trauma in South Africa (by the South African Nationalist Government)

The African National Congress (ANC) had put the apartheid on the United Nations agenda since 1946 (Reddy, 1987: 41; Sebola, 2019). Apartheid has since been considered crime against humanity; and, numerous international organizations such as the United Nations and the International Criminal Court of Justice have included it in their statutes (Lingaas, 2015). Despite the fact that such criminalization of apartheid was adopted in 1973, the Nationalist Party in South Africa continued to legitimize it until 1994 when it was peacefully defeated by the ANC in first inclusive democratic elections. Important to note is the fact that the National Party competed with the ANC and other Black political parties, amidst poor public relations. Already in those elections, black Africans campaigned as victims of over 500 years of slavery, separatist development and apartheid in their own country. They campaigned as victims of historical traumatization by Europeans and Afrikaners through colonization and apartheid systems for generations since at least 1652.

Like colonization, apartheid in South Africa resulted in displacement of people through forced removals, mass killings of those with descending views against the state. In South Africa, events such as the "Sharpeville Massacre", the 16 June 1976 students' demonstrations as well as the capital punishment imposed on various political prisoners, are but a few examples of the apartheid regime atrocities. While prior to 1994, South Africa was about the divide between Blacks and Whites, during the Mandela era a little was said about victimized Blacks; instead, the former president focussed on nation building through the rainbow nation flagship (Harris, 2004). However, subsequent leaders continued the narrative of victimhood from apartheid to bolster empathy from the black electorates. Only the two eras of democratic government of the ANC maintained the image of a historically traumatized society intact. The era of Jacob Zuma regime, spanning from 2009 to 2018, has appeared to reconfigure the trauma victimhood against the Afrikaners because that regime's failure to focus on public administration subjected the rest of the country to corruption scandals, thereby giving Afrikaners the opportunity to reconstruct and recover from the political shame of apartheid.

AFRICA'S MATERIAL ECONOMIC AND SOCIAL PRODUCTION: HISTORICAL TRAUMA OR SCAPEGOAT?

Africa is a continent characterized by underdevelopment and poor economic growth. It is denoted as the lowest income region in the world (Anaele, 2014; Ojo, 2016; Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). Whilst India and China have shown good economic progress and have reduced poverty, Africa's development has remained frustrated and stagnated (Bhattacharyya, 2007). Both development and economic failure by post-independent African states is disappointing because such states have undergone several political and economic reforms (Bojang, 2017, 2020). Most African scholars do not dissociate underdevelopment and economic growth of Africa from historical circumstances and experiences in the continent. Consistently, African politicians place blame on their historical past as having a negative effect on their ability to resolve their own administrative and political problems (Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press). Asafa (2015: 76) writes that "There are, after all, good reasons for prying into the past with a historian telescope and trying to see more clearly what happened, instead of being content with legend or fantasy." The debate that Africa is rich in natural resources however with a lower net worth balance is not only intriguing (Nhema, 2016), but it is absurd.

The idea that Africa is rich in natural resources is however not shared by all scholars of African affairs (Sebola, 2018). While the notion of Africa's wealth in gold, diamonds, oil and other coveted resources (Siyum, 2018) is pioneered in most literature, it is not clearly known how such competitive

economic advantage is not capitalized on. Is it possible that most African political leaders could ably identify that and act on it? Indeed, most African countries such as Botswana, South Africa and others, have had good political leaders; however, negligible work has been done to capitalize on this potential. Notable is that both the GDP and the GNP has been declining in Africa, while those in the West see growth increased through, among other things, innovation and open society at work. Fifty percent of the continent's GNP is generated by only three states such as South Africa, Egypt and Nigeria (Makki, 2001). Asafa (2015) blames Africa's underdevelopment and economic failures on the elite and their external intermediaries, the West. In trying to determine whether slave trade, colonial institutions and malaria have an effect on underdevelopment in Africa, Bhattacharyya (2007) discovers that malaria matters the most as a cause while other historical factors only demonstrated to be statistically significant.

Whereas numerous rationales for underdevelopment and suboptimal economic growth were mentioned, such as bad governance, weak political institutions, corruption and administration (Bojang, 2017, 2020; Sebola, 2019; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press), the lack of strategic visionary leadership among African politicians is the most pertinent trait lacking (Augustine, 2018). Learning from the West's history of capitalist mode of production, it is apparent that only good governance could create an enabling environment for improved economic growth through industrialization (Anaele, 2014). Although many commentators still maintain that underdevelopment in Africa is due to the twin evils of slavery and colonization (Ojo, 2016; Bojang, 2020; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in press), modern literature point to corruption as a major contributor to both underdevelopment and suboptimal economic growth in Africa. Corruption is often perpetrated by those in higher authority who are supposed to be implementing the law (Sebola, 2015); however, they end up being the one to disregard such laws and economically benefitting themselves as well as the select elites while impoverishing the poor (Mbaku, 1996). Moreover, it is argued that colonial history still affects Africa's development because the West only changed the game of slavery by commodity export growth (Frankema. 2015: 1). According to Deaton (1999: 23), "policy makers, economists as well as historians of African economic development have seen this exports as both a hope and a curse". Africa received more than one trillion US dollars during the last 50 years (Alemu & Lee, 2015) as foreign development aid. However, such funds have not been effectively used to address development and/or economic growth problems in Africa.

Several initiatives were indeed attempted over many years, following Africa's independence from colonial administration. These interventions include, among others: the 1980 Lagos Action Plan; the 1986-1990 Priority Programme of Economic Redressing of Africa; Complementary UN Programme for Economic Redressing and Development for Africa; ECA Alternative Structural Adjustment Programme for Africa; and, the Africa Scope of Reference for SAPS for Socio-Economic Redressing and Transformation (Nkurayija, 2011). Indeed, Africa is well known of having initiated development programmes for economic recovery. African politicians often articulate such visions so well on the occasion of their signing agreements and treaties, whilst implementation and/or enforcement remained unattended as pipe dreams.

Several empirical studies have demonstrated that Africa only requires good governance in order to resolve poor economic growth and underdevelopment (Fayissa & Nsiah, 2010; Nkurayija, 2011; Anaele, 2014; Bojang, 2020; Lassou, Hopper & Ntim, in press). While governance related problems were identified in most literature, African leaders have taken negligible actions seem to resolve the identified ills. What is clear is that Africa does not only fail to implement development and economic recovery plans, but also fails to heed the call for improving good governance, which by implication will help eradicate corruption. It is indeed very clear that despite geographical conditions advanced as cause of underdevelopment and poor economic potential (Sebola, 2018), historical slave trade legacy and colonization appear to be sound reason underlying perpetual underdevelopment and poor economic growth in Africa (Zamfir, 2016; Roland, 2020; Guarnieri & Rainer, 2021; Lassou, Hopper & Ntim, in

press). It is very strange that the slavery narrative suggests that slavery only took place in West Africa and Ghana only. Ghana itself, which was supposed to be traumatised, is conversely moderately doing well economically compared to other African countries that may have had lesser effects from colonization. While literature has debated such causes and effects so profoundly, the question is whether it is acceptable that Africans would forever rely on historical material conditions of colonization and, in the case of South Africa, apartheid, to justify their continued governance calamities. All continents and countries have their history and challenges, yet they are able to progress in their economic and social material bases as societies by developing nuance societal relations and systems that effectively alter historical patterns and processes of material production of disadvantage. In the current world, India and China are regarded as the fastest growing emerging economies notwithstanding the fact that they had both undergone comparable historical and/or colonial traumas. It appears to be tenable to argue that African political leaders need to first liberate themselves and their peoples from historical trauma if they hope to alter the colonial economic and social material production of disadvantage. Good governance and visionary leadership are the answer to Africa's misery of underdevelopment and suboptimal economic performance.

CONCLUSION AND RECOMMENDATION

This paper has interrogated the connections between Africa's suboptimal economic performance and underdevelopment with historical trauma that has been consistently exploited as justification for the propensity to claim victimhood and to scapegoat failures in governance. The paper drew from the nexus of the theory of historical trauma and historical materialism, which shows that claims of victimhood are not static. The examples of the Israel Jews, Palestinians as well as South Afrikaners and Blacks were instructive in demonstrating that claims of victimhood can be reconfigured and replaced with time. Also, the paper has highlighted the reality that Africa's economic and social material bases have virtually remained fixed in colonial history when those of other continents and/or countries that may have experienced comparable historical trauma had successfully progressed. Scapegoating of the colonial legacy is not uncommon among African leaders, in the face of governance failures.

This paper recommends that African political leaders need to first liberate themselves and their peoples from historical trauma largely through adoption and adherence to principles, values and ethics subsumed under good governance in all spheres of society, inclusive of the economic and social material production. Governance and visionary leadership which are highly recommended for improving development and economic growth, are generally ignored in African public administration. In the current era, there is evidence that suggests that Africa's problem of underdevelopment and suboptimal economic performance is a function of widespread bureaucratic corruption, which is the antithesis of good governance. It is evident that such corruption benefits politicians and public officials and that it has, as a result, remained difficult, if not improbable, to eradicate while historical trauma remain a reasonable scapegoat among cohorts of political leaders from one generation to the other. Unsurprisingly, the removal of one political regime and replacement with another in government through democratic elections has resulted in the same ills of governance deficiencies, with regularity.

The paper recommends that African countries need to adopt regional and continental integration policies that refocus their external relations from their imperialist colonial legacies. Whereas the AU has served to galvanize African countries towards continentally-oriented external relations, there has been a problem of externally-sourced sovereignty and legitimacy. For this reason, the paper recommends that the AU itself has to be instrumental in ensuring that African states' sovereignty and legitimacy are regionally and continentally sourced. A third challenge for African states has always been fundraising from beyond the continent. It is, therefore, pertinent to recommend that African states need to conduct fundraising as a collective under the AU umbrella, rather than as individual baggers at the doorsteps of the former

imperial masters. These three recommendations are not necessarily easy to implement because none of the 54 African countries has to the will to be the first as that could carry deleterious national consequences. For this reason, this paper recommends that future research focus on the specific details of the possible governance mechanisms that African states could adopt, individually and collectively under the AU, to divert their international relations from their former imperial colonial masters to source sovereignty and legitimacy from each other.

REFERENCES

Alemu, A.M. & Lee, J., (2015). Foreign aid on economic growth in Africa: A comparison of low and middle-income countries. *South African Journal of Economic Management Studies,* 18(4): 449-462.

Amadi, L. & Ekwekwe, E., (2014). Corruption and development administration in Africa: Institutional approach. *Academic Journals,* 8(6): 163-174.

Anaele, C., (2014). Governance and Under-Development of Sub-Sahara Africa. *Historical Research Letter,* 11: 41-47.

Andrasik, M., (2019). *Historical Trauma and the Health and Wellbeing of Communities of Color.* https://www.hvtn.org/en/community/community-compass/vol18-issue1/historical-trauma.html (Accessed: November 08, 2019).

Asafa, J., (2015). The triple causes of African underdevelopment: Colonial capitalism, state terrorism and racism. *Academic Journals,* 7(3): 75-91.

Augustine, A.O., (2018). The crisis of underdevelopment in Sub-Saharan Africa: Multi-dimensional perspectives. *Journal of Political Science and Public Affairs,* 6(4): 1-9.

BBC News, 2019. Second Boer War records database goes online. https://www.bbc.com/news/10390469 (Accessed: November 09, 2019).

Bhattacharyya, S., (2007). *Root Causes of African Underdevelopment.* Canberra: Australian National University.

Bojang, M.B.S., (2017). Critical issues affecting Africa's development: E-government, democracy and democratic principles, and governance as an alternative for socio-economic development in Africa. *International Journal of Youth Economy,* 1(1): 41-55.

Bojang, M.B.S., (2020). Beyond new public management paradigm: The public value paradigm and its implications for public sector managers. *Journal of Public Value and Administrative Insight,* 3(1): 1-10.

Brown-Rice, K., (2013). Examining the theory of historical trauma among Native Americans. *The Professional Counsellor,* 3(3): 117-130.

Centre for Constitutional Rights, (2016). *The Genocide of the Palestinian People: An International Law and Human Rights Perspective.* https://ccrjustice.org/genocide-palestinian-people-international-law-and-human-rights (Accessed: November 08, 2019).

Chiweza, A.L. & Msiska, Y., (2020). Practices and perceptions of the politics-administration dichotomy in Malawian local government. *Journal of Public Administration and Development Alternatives*, 5(3): 27-48.

Conching, A.K.S. & Thayer, Z., (2019). Biological pathways for historical trauma to affect health: A conceptual model focusing on epigenetic modifications. *Social Sciences and Medicine,* 230: 74-82.

Cromer, L.D., Gray, M.E., Vasquez, L. & Freyd, J.J., (2017). The relationship of acculturation to historical loss awareness, institutional betrayal, and the intergenerational transmission of trauma in the American Indian experience. *Journal of Cross-Cultural Psychology,* 49(1): 99-114.

Deaton, A., (1999). Commodity prices and growth in Africa. *Journal of Economic Perspectives,* 13(3): 23-40.

Edigheji, O., (2005). *A Democratic Developmental State in Africa?* Johannesburg: Centre for Policy Studies.

Ediheji, O., (2005). *A Democratic Developmental State in Africa?* Johannesburg: Centre for Policy Studies.

Fayissa, B. & Nsiah, C. 2010. The impact of governance on economic growth: further evidence for Africa. Department of Economics and Finance Working Paper Series, December 2010. Middle Tennessee State University, USA.

Frankema, E., (2015). *How Africa's Colonial History Affects its Development.* https://www.weforum.org/agenda/2015/07/how-africas-colonial-history-affects-its-development/ (Accessed: November 06, 2019).

Guarnieri, E. & Rainer, H., (2021). Colonialism and female empowerment: A two-sided legacy. *Journal of Development Economics*, 151: 1-20.

Haas, F., (2008). German science and black racism- roots of the Nazi Holocaust. *The FASEB Journal,* 22: 332-337.

Harff, B., (2003). No lessons learned from the Holocaust? Assessing risks of genocide and political mass murder since 1955. *American Political Science Review,* 97(1): 57-73.

Harris, B., (2004). Arranging Prejudice: Exploring Hate Crime in Post-apartheid South Africa. Johannesburg: Centre for Study of Violence and Reconciliation.

Heart, M.Y.H.B., (2003). The historical trauma response among natives and relationship with substance abuse: A Lakota illustration. *Journal of Psychoactive Drugs,* 53(1): 7-13.

Heart, M.Y.H.B., Chase, J., Elkins, J. & Altschul, D.B., (2011). Historical trauma among indigenous people of the Americas: Concepts, research, and clinical considerations. *Journal of Psychoactive Drugs,* 43(4): 282-290.

Heyningen, E., (2010). A tool for modernisation? The Boer Concentration Camps of the South African War, 1900-1902. *South African Journal of Science,* 106(5): 1-10.

Hiebert, M.S., (2008). Theorizing destruction: Reflections on the state of comparative genocide theory. *Genocide Studies and Prevention,* 3(3): 309-339.

Itika, J., de Reder, K. & Tollenaar, A., (2011). Theories and stories in African Public Administration. *African Public Administration and Management Series,* 1: 1-11.

Jewell, J.R., (2003). Using barbaric methods in South Africa: The British Concentration Camp Policy during the Anglo-Boer War. *Scientia Militaria,* 31(1): 1-18.

Lassou, P.J.C., Hopper, T. & Ntim, C., (in press). How the colonial legacy frames state audit institutions in Benin that fail to curb corruption. *Critical Perspectives on Accounting*, https://doi.org/10.1016/j.cpa.2020.102168

Lingaas, C., (2015). The crime against humanity of apartheid in a post-apartheid world. *OSLaw Review,* 2: 86-115.

Lutz, B.D. & Lutz, J.M., (1995). Gypsies as victims of the holocaust. *Holocaust and Genocide Studies,* 9(3): 346-359.

Makki, F., (2001). Post-colonial Africa and the world economy: The long waves of uneven development. *Journal of World-Systems Research,* 21(1): 124-146.

Maxwell, K., (2014). Historicizing historical trauma theory: Troubling the trans-generational transmission paradigm. *Transcultural Psychiatry,* 5(3): 407-435.

Mbaku, J.M., (1996). Bureaucratic corruption in Africa: The futility of clean-ups. *The Cato Journal,* 16(1): 1-17.

Nhema, A.G., (2016). Public Administration and the development of Africa: A critical assessment. *Journal of Public Administration and Governance,* 6(1): 6-19.

Nkurayija, J., (2011). *The Requirements for the African Continent's Development: "Linking Peace, Governance, Economic Growth and Global Interdependence".* http://www.culturaldiplomacy.org/academy/content/pdf/participant-papers/africa/Jean-De-La-Croix-Nkurayija-The-Requirements-For-The-African-Continent's-Development-Linking-Economic-Growth.pdf (Accessed: November 09, 2019).

Ojo, E.O., (2016). Underdevelopment in Africa: Theories and facts. *The Journal of Social, Political and Economic Studies,* 41(1): 89-103.

Poncian, J. & Mgaya, E., (2015). Africa's leadership challenges in the 21st century: What can leaders learn from Africa's pre-colonial leadership and governance? *International Journal of Social Science Studies,* 3(3): 106-115.

Pretorius, F., (2010). The white concentration camps of the Anglo-Boer War: A debate without end. *Historia,* 55(2): 34-49.

Radelet, S., (2010). *Emerging Africa: How 17 Countries are Leading the Way.* Washington, D.C.: Centre for Global Development.

Reddy, E.S., (1987). *Struggle for Freedom in Southern Africa: Its International Significance*. New Delhi: Mainstream.

Roland, G., (2020). The deep historical roots of modern culture: A comparative perspective. *Journal of Comparative Economics*, 48: 483-508.

Sebola, M.P. & Tsheola, J.P., (2019). African states' post-independence utopia and reality. *African Journal of Public Affairs,* 11: vii-viii.

Sebola, M.P., (2014). Administrative policies for good governance in Africa: Makers, implementers, liars and no integrity. *Journal of Public Administration*, 49(4): 995-1007.

Sebola, M.P., (2015). Access to information and use thereof in South African politics and media: Is strict regulation required? *Global Media Journal TR Edition*, 6(11): 431-446.

Sebola, M.P., (2018). African states extraversion, weak nations and the creation of autocrats. *African Journal of Public Affairs,* 10(2): 49-59.

Sebola, M.P., (2019). Africa's States Post-Colonial Dream. *African Journal of Public Affairs,* 11: 1-13.

Siyum, N., (2018). Why Africa remains underdeveloped despite its potential? Which theory can help Africa to develop? *Crimson Publishers,* 1(2): 1-5.

Smith, I.R. & Stucki, A., (2011). The colonial development of concentration camps, 1868-1902. *The Journal of Imperial and Commonwealth History,* 39(3): 417-437.

Sotero, M., (2006). *A Conceptual Model of Historical Trauma: Implications for Public Health Practice and Research*. Las Vegas: University of Nevada.

Szlanta, P., (2017). Long distance solidarity: Polish public opinion and Boer War, 1899-1902. *Werkwinkel,* 12(1): 49-69.

Tambulasi, R. & Chasukwa, M., (2020). Tiptoeing towards a representative bureaucracy: Engendering gender equality in Malawi Public Service. *Journal of Public Administration and Development Alternatives,* 5(3): 76-92.

Tsheola, J. & Nembambula, P., (2015). Governance and transformational leadership dilemmas for merged universities in a democratic South Africa. *Bangladesh e-Journal of Sociology,* 12(1): 1-16.

Tsheola, J. & Sebola, M.P., (2020). World "history in the making," politics of putridity of lived experiences: Global pandemic and racism. *Journal of Public Administration and Development Alternatives,* 5(1): 1-19.

Vashem Y., (2019). *European Holocaust Remembrance Infrastructure*. Brussels: European Commission.

Visser, I., (2015). Decoloning trauma theory: Retrospect and prospects. *Journal of Humanities,* 4: 250-265.

Zamfir, I., (2016). *Africa's Economic Growth Taking Off or Slowing Down? In-Depth Analysis.* Brussels: European Parliamentary Research Services.

DIVIDEND POLICY, STOCK PRICE VOLATILITY AND WEALTH MAXIMIZATION FOR AltX LISTED COMPANIES IN DEVELOPING ECONOMIES

L. Pelcher and J. Bolton

ABSTRACT

The aim of this paper is to determine if the dividend policy of SMEs listed on the Alternative Exchange (AltX) has a relationship with stock price volatility. Stock prices and dividends are important factors in creating and increasing stockholders' wealth, especially for small and medium-sized enterprises (SME), which rely on investor support, with implications for these companies, especially those in developing economies. This paper uses secondary data from 2010 to 2015 to perform panel data regression analysis. The results show that dividend policy has a significant relationship with stock price volatility; however, the amount of dividends in relation to earnings was insignificant. Also, the results indicate that companies could reduce their stock price volatility by changing their dividend policy to be dividend-paying. In addition, the paper notes that investors of these SMEs were more concerned with the distribution of dividends than the amount. These findings may aid SMEs in creating strategies that positively impact their businesses and encourage stronger investor support. As SME exchanges gain the attention of more investors and as more entrepreneurs are encouraged to consider listing their SME on these exchanges, further business and economic growth can be encouraged. The paper asserts that understanding the relationship between stock price volatility and dividend policy of SME companies on the AltX contributes to knowledge. Also, the findings shed light on the role of dividend policy in reducing stock price volatility for listed SMEs in developing economies, which can further encourage investor support and enhance financial access for these companies; hence, the dividend-paying policy is recommended for these SMEs.

INTRODUCTION

According to a report by the World Federation of Exchanges (WFE, 2018), the importance of small and medium-sized enterprises (SMEs) to a country's economy is widely acknowledged, often

Lydia Pelcher is a Lecturer and emerging researcher in the Department of Commercial Accounting at the University of Johannesburg in South Africa. She holds a Master's degree in Finance and her research interests are in dividend policy, decision-making, capital structure and accounting education

Jordy Bolton is a Lecturer in the Department of Finance and Investment Management at the University of Johannesburg in South Africa. Bolton holds a Master's degree in Investment Analysis from the University of Tilburg in the Netherlands; and, she has keen interest in the research areas of the AltX, Behavioural Finance, Impact Investing and Serious Games. She has successfully presented papers at the University of Johannesburg Value Conference and the International Conference of Applied Economics.

leading to the establishment of SME-focused exchanges which facilitate access to finance for these companies. The WFE (2018) reports that 6 807 companies are listed on 33 SME exchange markets, of which 42.2% exist in the Asia-Pacific (APAC) region, 48.48% in the Europe, Middle East and Africa region (EMEA) and 9.09% in the Americas (WFE, 2018). Although SME exchanges are small when compared to their mainboards, this report provides evidence of the growth in SME exchanges. Furthermore, the WFE report explains how member exchanges of the WFE have made a concerted effort to also support and grow financial access for SMEs, which is especially needed for developing economies. In South Africa, SMEs can list on the Alternative Exchange (AltX) of the Johannesburg Stock Exchange Limited (JSE). According to the JSE (n.d.), these companies are often in high growth stages and require further financial support. Listing on an SME exchange, like the AltX, therefore provides access to investor capital. Listed SMEs, however, will not only need to aim towards sustained company growth but long-term wealth maximization for their stockholders as well.

Stockholders' wealth maximization is a critical goal for any company (Mouton & Smith, 2016). This can be achieved by means of a dividend pay-out to stockholders and/or the capital growth in the company's stock's price (Els, van Gaalen, Strydom & Beekman, 2015). Thus, both capital growth and dividends are a matter of concern for investors. For most companies, the capital growth of a company's stock price is uncertain and, therefore, increases the risk of such investments. Prospective stockholders will evaluate this uncertainty before investing in a company's stock. For SME companies, this risk or uncertainty, is often perceived to be higher than larger companies. In terms of dividend pay-outs, studies, including Fama & French (2001) and DeAngelo & DeAngelo (2006), have noted, that the dividend policies of high growth-stage companies, like listed SMEs, generally focus on retaining all earnings for future growth purposes. It is then theorised that these high growth stage companies generally do not pay out dividends.

Baskin (1989) proposed that by using dividend policy, companies can manipulate the stock price volatility, and thereby influence the risk of stock price growth. While much literature exists on dividend policy, there is little research on the impact that dividend policy may have for listed SMEs in developing economies; and how these listed SMEs may use dividend policy in accessing investor capital and achieving long term wealth maximization and growth. Current research on the AltX is limited. As a result, the purpose of this paper is to determine if dividend policy has an association with stock price volatility for companies listed on the AltX. This will further enlist investor support and enhancing financial access for SMEs in developing economies. This paper expands the literature on the association of dividend policy with stock price volatility for listed SMEs in developing economies. It further identifies whether management can use dividend policy to influence stock price volatility, and thereby reduce the risk for investors, while still achieving sustainable growth. These findings will assist listed SMEs to access finance by attracting investors and help them achieve shareholder wealth maximization and growth, further contributing to their importance in a country's economy. While the scope of the study is limited to the AltX in South Africa, there is merit to consider its modalities for other developing economies.

Research on AltX is severely limited and most existing research focus on larger companies, especially in recent times. Different from the limited existing and dated research, this paper determines the association between the dividend policy and stock price volatility for companies listed on the AltX. The significance of the paper is that its finding could potentially encourage further enlisting of investor support and enhancing of financial access for SMEs in developing economies. One other significance of this paper which renders it different from existing research is that it identifies the capabilities of management using dividend policy to influence stock price volatility, and thereby reduce the risk for investors, while simultaneously achieving sustainable growth.

THEORETICAL FRAMEWORK: DIVIDEND IRRELEVANCE AND RELEVANCE THEORIES

The theoretical framework used in this paper is based on two contrasting dividend theories, namely, the dividend irrelevance and the dividend relevance theory. The dividend irrelevance theory was developed by Modigliani & Miller (1958) and Miller & Modigliani (1961). This theory posits that dividends do not hold any relevance for the stock price and, therefore, its volatility. According to this theory an investor could sell stocks to generate cash, which would otherwise be received from dividends, thereby creating cash flow without being reliant on dividend payments. This then, according to Rashid & Rahman (2008), implies that the dividend policy of the company would not influence an increase or decrease in the stock price (and subsequent stock price volatility).

Contrary to the above is the dividend relevance theory. Originally proposed by Lintner (1956) and Gordon (1959), this theory holds that the announcement of dividend pay-outs influences stock prices depending on how the announcement is received by investors. Following this, Baskin (1989) proposed that by using the dividend policy, companies could manipulate the stock price volatility (by increasing or decreasing it) and in so doing, influence the risk exposure of such stock investments.

Dividend Policy

The dividend policy of a company is a critical driver of stockholders' wealth maximization. Achieving and maintaining wealth maximization ensures sustainable growth for the company (Murtaza, Iqbal, Ullah, Rasheed & Basit, 2018). Both stock price volatility and dividend policy are taken into account by investors when making investment decisions to maximize their wealth (Baskin, 1989). If a factor such as a dividend policy shows a significant relationship with stock price volatility, investors will be able to consider a company's dividend policy as valuable information when making an investment decision (Baskin, 1989). Similarly, being aware of this relationship and knowing an investors' preference for risk will be an important strategic consideration for a company when developing its dividend policy (Hussainey, Mgbame, & Chijoke-Mgbame, 2010), especially for high growth companies in developing markets.

The theoretical framework of this study relies upon the dividend irrelevance theory and the dividend relevance theory. While there are many theories applicable to the relevance of dividends, this paper focuses on the signalling theory and agency theory which have been identified as relevant and the predominant concern for investors of high growth companies and, therefore, listed SMEs.

Signalling Theory

The signalling effect of dividends relates to the belief of investors that management can and does, convey information about expected future cash flows when dividends are declared by the company (Bhana, 2007; Erasmus, 2013). Bhattacharya (1979) was one of the first to develop a model proving that dividends include informational value and can be used as a signalling tool to investors. Investors regard an increase in dividends as a signal of a sustainable increase in company profit (Brav, Graham, Harvey & Michaely, 2005). Lintner (1956), furthermore, maintains that managers believe dividends portray a real picture of company earnings, as well as its future expectations. Accordingly, Murtaza *et al.* (2018) point out that managers of companies can use dividend policy – dividend payments and increases from previous dividend payments – to signal to investors whether they expect an increase in future earnings, information that investors use for investment purposes. This increase will only occur if a company can sustainably continue with the increased dividends in future years (Brav *et al.*, 2005).

Some researchers, however, recognize that a signalling effect may exist but claim that the informational content of declaring dividends can be vague (Easterbrook, 1984) and may only have a short-term effect (Black & Scholes, 1974). Research from the USA (Brav *et al.*, 2005) and South Africa (Firer, Gilbert & Maytham, 2008) states that although managers recognise that investors believe in the signalling power of dividends, it is rarely used for such purposes. The perceived signalling effect may, however, play an important role in the relationship between dividends and the stock price for SMEs. A company's stock should then become more desirable for investors when its dividend policy conveys adequate information. This increased demand for stocks could influence the price of the stocks, and, therefore, the stock price volatility. It is then useful for management not only to understand how the dividend policy decision can influence its stock price volatility, but also if it can be used to reduce price volatility and facilitate the growth of small and medium-sized companies.

Agency Theory

Jensen & Meckling (1976), who were among the first to propose the agency theory, state that a conflict of interest might arise when the company's managers have to act on behalf of the stockholders without being stockholders themselves. This could occur when surplus funds from earnings are available to a manager over and above retained earnings, and after dividends have been distributed. Surplus funds in excess of the required retained earnings need to be invested in "value-creating investment opportunities" (Erasmus, 2013: 16). Such opportunities are usually found within a company and can be used to maximize stockholder wealth. If the manager is unable to invest the funds appropriately, the funds could be perceived as having been mismanaged. The proposed solution to this problem is to pay further dividends (Mitton, 2004).

By paying dividends from the surplus funds rather than retaining the cash, managers are visibly increasing stockholders' wealth and acting in their best interests (Firer *et al.*, 2008). Mitigating the perceived agency problem by paying dividends can result in increased demand for such stocks, thereby increasing the stock price. Stockholders, however, may sell their stocks if they feel an agency problem is not being addressed, resulting in a volatile stock price. If the dividend policy is, therefore, not structured in a prudent manner, trying to mitigate a possible agency problem at the end of each financial year could further result in increased stock price volatility.

Further to the varying support of the dividend theories, results from studies on the relationship between dividend policy and stock price volatility have been mixed. It is, therefore, impossible to draw a general conclusion applicable to all companies. Some studies done on developing economies are shown in table 1.

Table 1: Studies on Emerging Markets

Asia-Pacific countries (APAC): Studies in developing economies		
Authors	**Country**	**Findings**
Nazir, Abdullah & Nawaz (2012)	Pakistan	Negative relationship of dividend yield and dividend pay-out ratio with stock price volatility, concluding that dividend policy has a negative relationship with stock price volatility.
Hashemijoo et al. (2012)	Malaysia	Significant negative relationship of dividend yield and dividend pay-out ratio with stock price volatility.
Nguyen, Bui & Do (2019)	Vietnam	Significant negative relationship of dividend yield and dividend pay-out ratio with stock price volatility.

Table 1: Studies on Emerging Markets (Cont'd)

Europe, Middle East and Africa (EMEA): Studies in developing economies		
Authors	**Country**	**Findings**
Kamyabi & Nazemi (2014)	Iran	Positive relationship between dividend yield and stock price volatility, but no relationship between the dividend pay-out ratio and stock price volatility.
Lashgari & Ahmadi (2014)	Iran	Significant negative relationship between dividend pay-out ratio and stock price volatility.
Kenyoru, Kundu & Kibiwott (2013)	Kenya	Positive relationship between dividend yield and stock price volatility and a negative relationship between dividend pay-out ratio and stock price volatility.
Ilaboya & Aggreh, (2013)	Nigeria	Significant positive relationship between dividend yield and stock price volatility and an insignificant relationship between dividend pay-out ratio and stock price volatility.
Jecheche (2012)	Zimbabwe	Significant relationship of dividend yield and dividend pay-out ratio.
Ahmad et al. (2018)	Jordan	Significant negative relationship of dividend yield and dividend pay-out ratio.

Source: Authors' construct

The Alternative Exchange

The AltX is a platform for SMEs to list, gain access to public capital and broaden their stockholder base. Such companies are also known as high-growth companies because they are deemed to be in the early stages of development. Companies listed on the AltX differ from those on the Main Board in terms of size, earnings, stockholders' interest and growth phase (Kruger, 2014). Such differences are material and could result in investor sentiment and approach towards AltX companies that differ compared to those of Main Board companies. Listing on the AltX provides access to public capital (Brougham-Cook, n.d.), and SMEs in high growth phases, in pursuit capital for sustainable growth, therefore, seek to list on the AltX to achieve this.

Stock Price Volatility and Dividend Policy

Dividend policy can be used as a strategic consideration for management of listed SMEs and especially those in developing economies, in achieving access to capital and sustainable growth. The payment of dividends may influence the stock price volatility, lowering the risk of investing in such companies and thereby attracting further public capital and investment. There is, however, scant research on such companies and the relationship between stock price volatility and dividend policy for listed SMEs on the AltX, which is the focus of this paper. Determining whether investor sentiment, as reflected in stock price volatility, has a relationship with dividend policy decisions is therefore of importance for these companies. Furthermore, it may have implications in terms of accessing capital in developing economies.

It has been noted that stock prices react to the news, especially that which pertains to the company itself. The market then buys or sells stocks based on the informational content of this news (Balachandran, 2003). This results in a volatile stock price, as prices react to new company information such as declared dividends, a change in managing directors or the extent to which this further information differs from what was expected by the market (Ilaboya & Aggreh, 2013). Stock price volatility, therefore, represents risk within a company (Baskin, 1989). Stock price volatility is then used as an indication of the risk to which investors are exposed (Baskin, 1989; Hussainey *et al.*, 2010). Reduced stock price volatility will contribute to investors' confidence when faced with the decision of making a stock investment. Keeping with the maximization of stockholders' wealth, a consistent and sustainable increase in stock price is preferred by investors, especially when invested in a developing market. The aim is, therefore, to determine whether dividend policy can be used to limit the volatility of AltX listed SMEs stock prices and thereby reduce their perceived risk.

RESEARCH METHODOLOGY

As already indicated, secondary data for AltX listed companies was collected for the sample period of 2010 to 2015. McGregor BFA and INET Bridge were used to source published financial reports, stock prices and relevant financial ratios for the companies. Annual data was collected as financial reports are published annually. Where the data was available more frequently, the figures for the company's year-end were used as a measure for consistency.

Purposive sampling was applied using two criteria: first, company stocks had to be actively traded on the AltX during the sample period; and second, the company should have declared dividends at least once during the sample period. Twenty-six companies were actively traded; and, thirteen of them declared dividends, thus yielding a sample of thirteen companies.

Quantitative analysis was conducted using statistical modelling, following an approach used by Baskin (1989). Baskin (1989) theorises an association between stock price volatility and dividend policy, deems it important to include control variables. As a result, these variables have been included to control for other possible influences on stock price volatility. This is to ensure that the results of an association between dividend policy and stock price volatility will be more apparent. The independent control variables selected were based on those found in the literature (Baskin, 1989; Hashemijoo, Ardekani, & Younesi, 2012).

As both time and cross-sectional elements exist in the data set, panel data analysis was used. The number of observations then increased from 13 to 78. In support of this, De Jager (2008) prescribed panel data analysis as an alternative research method when the timeframe of the sample is small. This method helps to enrich the number of observations by measuring the time elements as well as the cross-sectional elements. Additionally, panel data analysis allows for the inclusion of heterogeneity between the sample companies (Brooks, 2008; Mouton & Smith, 2016). This contributed to the robustness of the analysis as the companies in the sample are from different industries. Panel data analysis has been successfully used in similar studies of dividend policy and stock price volatility (Ahmad, Alrjoub, & Alrabba, 2018; Ilaboya & Aggreh, 2013; Kamyabi & Nazemi, 2014; Lashgari & Ahmadi, 2014; Nazir *et al.*, 2012; Nazir, Nawaz, Anwar & Ahmed, 2010).

Panel data analysis prescribes the application of three models when analysing data: the pooled model, the fixed-effects model and the random-effects model. The pooled regression assumes homogeneity of the cross-sectional elements (Brooks, 2008). It is, thus, assumed that in the pooled regression, there are no relevant differences between companies. The fixed-effects model assumes the heterogeneity of the cross-sectional elements (Brooks, 2008). It is, thus, assumed that for the fixed-effects

model, the differences between companies are relevant and need to be accounted for. The random-effects model assumes heterogeneity of the cross-sectional elements and that those differences are captured in the error term (Brooks, 2008). It is, thus, assumed that for the random-effects model, differences exist and are captured in the error term. Diagnostic tests – the test of redundancy and the Hausman test – were also applied to determine the most appropriate model in analysing the data.

The three models, pooled, fixed effects and random effects, are displayed as equation 1, 2 and 3, respectively:

$$Y_{it} = \alpha + \beta x_{it} + u_{it} \qquad (1)$$

$$Y_{it} = \alpha + \beta x_{it} + \mu_{it} + v_{it} \qquad (2)$$

$$Y_{it} = \alpha + \beta x_{it} + \omega_{it} \qquad (3)$$

The regression equation used to estimate each model was as follows:

$$Pvol_{it} = \alpha_{it} + \beta DY_{it} + \beta Payout_{it} + \beta Size_{it} + \beta Evol_{it} + \beta Lev_{it} + \beta GIA_{it} + \varepsilon_{it} \qquad (4)$$

The variables, along with their abbreviations, are displayed in table 2.

Table 2: Dependent Variable and Independent Variables

Dependent variable	Independent variables	
	Main independent variables	**Control variables**
Stock price volatility ($Pvol_{it}$)	Dividend yield (DY_{it})	Company size ($Size_{it}$)
	Dividend pay-out ratio ($Payout_{it}$)	Earnings volatility ($Evol_{it}$) Leverage (Lev_{it}) Growth in assets (GIA_{it})

Source: Baskin (1989) and authors' construction

Variables

An explanation, and where necessary the calculation, of each variable is given in table 3.

Table 3: Calculation of Each Variable

Variable	Calculation
$Pvol_{it}$	Stock price volatility [(highest stock price – lowest stock price)/(highest stock price + lowest stock price) / 2] 2
DY_{it}	Dividend yield ratio
$Payout_{it}$	Earnings per stock / dividends per stock
$Size_{it}$	Log of market value
$Evol_{it}$	Square root of ratio of operating income to total assets minus the average of the ratio of operating income to total assets over the 6-year period
Lev_{it}	Leverage ratio

GIA$_{it}$	Change in total assets / total assets

Source: Baskin (1989) and authors' construction

While there are different methods of calculating stock price volatility (Balachandran, Khan, Mather & Theobald, 2019; Wang, Diao, Pan & Wu, 2019), this paper adopts the formula used by Baskin (1989). Dividend policy is represented by the two independent variables − dividend yield and pay-out. The dividend yield represents the dividends paid in relation to the stock price. Dividend pay-out represents the dividends per stock in relation to the earnings per stock**.** These two variables encapsulate the two aspects of the dividend policy decision. Firstly, the amount of dividends being paid in relation to the current stock price. Secondly, the decision of how many dividends in relation to earnings should be paid. This is a complicated decision for high growth companies as more dividends paid means less recapitalised earnings.

The null hypothesis formulated for this study is as follows:
H$_0$: No association exists between stock price volatility and dividend policy.

Thus, extended to:
H$_1$: No association exists between stock price volatility and dividend yield.
H$_2$: No association exists between stock price volatility and dividend pay-out.

The independent control variables were included based on their potential influence on company-specific risk; therefore, stock price volatility. The control variables included were company size, earnings volatility, leverage ratio and growth in assets. The calculation of each control variable is shown in Table 3.

RESULTS AND DISCUSSION

The results of each model − pooled, fixed and random effects − are shown in table 4. Diagnostic tests were conducted to determine which of the three models was most appropriate to explain the association between stock price volatility and dividend policy.

Table 4: Results of the Panel Models

	Pooled model		Fixed effects model		Random effects model	
Variable	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability
DY	-0.0280	0.0236**	-0.0358	0.0105**	-0.0314	0.0112**
PAYOUT	-0.0012	0.9537	0.0059	0.7772	0.0015	0.9403
SIZE	-0.0983	0.0366**	-0.2294	0.0902***	-0.1125	0.0593*
EVOL	0.2116	0.7211	-0.2989	0.6654	-0.0139	0.9818
LEV	0.4087	0.0688***	0.1813	0.6527	0.3499	0.1895
GIA	-0.0598	0.3939	-0.0594	0.4078	-0.0751	0.2554
C	1.8320	0.0015***	3.5779	0.0299**	2.0579	0.0046***

* 10% significance level
** 5% significance level
*** 1% significance level
Source: Eviews estimation and authors' construction

The results of the pooled model in table 4 shows the coefficient of -0.0280 indicates that dividend yield has a statistically significant negative association with stock price volatility. The dividend pay-out ratio was statistically insignificant; however, it displays a negative (coefficient of -0.0012) relationship with stock price volatility. The fixed-effects model indicated that dividend yield had a significantly negative association with stock price, with a coefficient of -0.0358. The results of the dividend pay-out ratio indicate a positive but insignificant association towards stock price volatility.

A test for redundancy was performed to determine which model, the fixed-effects model or pooled-model, is better for the analysis of the study. The results (table 5) indicate that the heterogeneity between companies is relevant and, therefore, the fixed-effects model is more appropriate in explaining the association between stock price volatility and dividend policy.

Table 5: Results of the Test for Redundancy

Effects Test		Probability
Cross-section F		0.0265**
Cross-section Chi-square		0.0050

* 10% significance level
** 5% significance level
*** 1% significance level
Source: Eviews estimation and authors' construction

Furthermore, the results of the random-effects model (table 4) indicated a statistically significant negative association between dividend yield and stock price volatility. The results of the dividend pay-out, however, indicated a positive (0.0015) but statistically insignificant association with stock price volatility.

The Hausman test was then performed to determine whether the random-effects model or fixed-effects is a better explanatory model. The null hypothesis of the Hausman test assumes that multicollinearity exists in the error term. According to the results (table 6), the null hypothesis could not be rejected, indicating that the fixed-effects model is the most appropriate model to use in interpreting the association between stock price volatility and dividend policy.

Table 6: Results of the Hausman Test

Test summary	Chi-square statistic	Probability
Cross-section random	5.851628	0.0440**

* 10% significance level
** 5% significance level
*** 1% significance level
Source: Eviews estimation and authors' construction

It was, therefore, apparent that the heterogeneity between companies is important and can, as a result, be considered by using the fixed-effects model. This was as expected because of the sample companies, listed on the AltX trade in different industries.

The association between stock price volatility and the dividend yield was found to be negative and statistically significant. This finding confirms the theory that dividends are relevant to stock prices, where investors reward companies that pay dividends, thereby reducing stock price volatility. Since stock

price volatility is an indication of risk, decreased stock price volatility may indicate a lower risk for investors, implying a more stable investment. This may further imply the existence of the signalling theory. This is especially relevant to SMEs who are often seen as high risk. This higher risk can be attributed to a lack of available information (Hashemijoo *et al.*, 2012). One should consider that a number of the sample companies had not consistently paid dividends and, therefore, information by means of dividend payments was scarce, resulting in higher stock price volatility.

The association between stock price volatility and dividend pay-out, although statistically insignificant, indicated a positive relationship. This was consistent with studies conducted in Nigeria (Ilaboya & Aggreh, 2013), Pakistan (Nazir *et al.*, 2012) and Malaysia (Hashemijoo *et al.*, 2012). Although insignificant, this result does indicate an indifference of investors to the amount of dividends paid out. This may then further indicate that the agency theory is not present for these companies. This indifference may be a result of the high-growth characteristic of the companies listed on AltX (JSE, n.d.), suggesting that investors assumed and accepted that a portion of the earnings would be retained within the company to facilitate growth and expansion. It is, therefore, not surprising that low to no investor expectation was evident regarding the number of dividends paid from earnings. In other words, dividends in relation to earnings of SMEs in developing economies, such as those listed on the AltX in South Africa, are not yet pertinent to investor expectation. This is especially important for smaller companies, who should aim for optimal dividend distribution that will still ensure sustainable and maximum growth.

The results reported in this paper contribute to the theoretical literature of the AltX and listed SMEs by providing further research on the relevance of dividend policy for these companies and for investors. The dividend yield was noted to have a significant association with stock price volatility while dividend pay-out was found to be insignificant. This may be evidence that the signalling theory exists for listed SMEs in developing economies and that investors believe dividends are a good signal of the company's future prospects. This further indicates that stock price volatility may decrease when dividends are declared, leading investors to remain invested in the company. Companies could pay dividends to secure further investment, thereby increasing their growth opportunities, although a causal relationship has not been established in this paper. Paying dividends could signal to investors that a company is growing towards a stable financial state. It should be further noted that to the benefit for AltX companies, the amount of dividends is not yet relevant.

CONCLUSION AND RECOMMENDATION

The paper has shown that SMEs list on smaller exchanges, such as the AltX, in order to gain access to capital. It is, therefore, important for these companies to aim for stockholder wealth maximization and sustainable growth. Currently, it is believed that high-growth companies are not inclined to pay dividends but to retain all earnings from profits for growth purposes. The paper has cited various research on the association between stock price volatility and dividend policy as well as the various theories and contrasting explanations. Baskin's (1989) theorization that the dividend policy of a company was associated with stock price volatility and could be manipulated to decrease the investment risk for investors, was adopted. The paper examined the relationship between dividend policy and the stock price volatility for SMEs listed on the JSE Ltd AltX in developing economies.

From the panel data regression analysis, the paper found that dividend policy, including the decision on whether dividends should be declared or not, was an important consideration for the management of SMEs. It was further evident that stock price volatility can be reduced when dividends are declared, as the company controls it dividend policy. Furthermore, the results showed that as long as dividends were declared, the amount was unimportant. It is, therefore, apparent that investors considered

dividends paid by these companies as an important criterion when assessing risk. The paper recommends that companies should take this into account when structuring their dividend policies. This information will be useful for companies which list on the AltX to gain further capital investment and promote sustainable growth. It is believed that SMEs have a greater risk and, therefore, potentially greater stock price volatility than larger ones. By issuing dividends, such companies may reduce their risk and further attract investment capital from stockholders and work towards sustainable growth. It should be noted that although causality was not tested in this paper, the recommendations are predicated on the assumption that the management of a company has control over the dividend decision and, thus, an association was deemed important. Future research could investigate the causality between stock price volatility and dividend policy and additional systematic factors that may influence stock price volatility for listed SMEs in developing economies.

From a managerial perspective, the findings of this paper could assist listed SMEs to access finance by attracting investors and by helping them to achieve shareholder wealth maximization and growth. More importantly, the paper determines, unlike existing research, that the dividends of SMEs listed on the JSE Ltd AltX needs to be declared as a matter of management dividend policy. There is evidence that stock price volatility can be reduced when dividends are declared; and, it is managerially prudent that a company controls its dividend policy, irrespective of the amount involved. Additionally, it is managerially prudent that a company controls and structures its dividend policy, even where the dividends are small, because investors consider dividends paid by companies as an important criterion when assessing risk. From a management point of view, this information is useful for companies which list on the AltX to gain further capital investment and promote sustainable growth. Given that SMEs have a greater risk, and, therefore, potentially greater stock price volatility than larger ones, issuing dividends may reduce their risk and further attract investment capital from stockholders and enhance the chances of sustainable growth. Also, positive perceptions of AltX management in the national economy could be enhanced. Future research could investigate the causality between stock price volatility and dividend policy as well as additional systematic factors that may influence stock price volatility for listed SMEs in developing economies.

REFERENCES

Ahmad, M.A., Alrjoub, A.M.S. & Alrabba, H.M., (2018). The effect of dividend policy on stock price volatility: Empirical evidence from Amman Stock Exchange. *Academy of Accounting and Financial Studies Journal,* 22(2): 1–8.

Balachandran, B., (2003). UK interim and final dividend reductions: A note on price reaction. *The European Journal of Finance*, 9(4): 379–390.

Balachandran, B., Khan, A., Mather, P. & Theobald, M., (2019). Insider ownership and dividend policy in an imputation tax environment. *Journal of Corporate Finance,* 54: 153–167.

Baskin, J., (1989). Dividend policy and the volatility of common stocks. *The Journal of Portfolio Management*, 15(3): 19–25.

Bhana, N., (2007). The market reaction to open market stock repurchases announcements: The South African experience. *Investment Analysts Journal*, 65: 25–36.

Bhattacharya, S., (1979). Imperfect information, dividend policy, and "The bird in the hand" fallacy. *The Bell Journal of Economics*, 10(1): 259–270.

Black, F. & Scholes, M., (1974). The effects of dividend yield and dividend policy on common stock prices and returns. *Journal of Financial Economics*, 1: 1–22.

Brav, A., Graham, J.R., Harvey, C.R. & Michaely, R., (2005). Payout policy in the 21st century. *Journal of Financial Economics*, 77(3): 483–527.

Brooks, C., (2008). *Introductory Econometrics for Finance,* (2nd edn.). Cambridge: Cambridge University Press.

Brougham-Cook, L., (n.d.). New Beginnings. *JSE Magazine.* http://www.jsemagazine.co.za/market-place/new-beginnings/ (Accessed: January 23, 2018).

DeAngelo, H. & DeAngelo, L., (2006). The irrelevance of the MM dividend irrelevance theorem. *Journal of Financial Economics*, 79(2): 293–315.

De Jager, P., (2008). Panel data techniques and accounting research. *Meditari Accountancy Research*, 16(2): 53–68.

Easterbrook, F.H., (1984). Two agency-cost explanations of dividends. *American Economic Review*, 74(4): 650–659.

Els, G., van Gaalen, R., Strydom, N.T. & Beekman, E., (2015). *Fundamentals of Finance. A Practical Guide to the World of Finance,* (6th edn.). Durban, South Africa: Lexis Nexis.

Erasmus, P., (2013). The influence of dividend yield and dividend stability on stock returns: Implications for dividend policy formulation. *Journal of Economic and Financial Sciences*, 6(1): 13–32.

Fama, E.F. & French, K.R. (2001). Disappearing dividends: Changing firm characteristics or lower propensity to pay? *Journal of Financial Economics*, 60: 3–43.

Firer, C., Gilbert, E. & Maytham, A., (2008). Dividend policy in South Africa. *Investment Analysts Journal*, 68: 5–20.

Gordon, M.J., (1959). Dividends, earnings, and stock prices. *The Review of Economic and Statistics*, 41(2): 99–105.

Hashemijoo, M., Ardekani, A.M. & Younesi, N., (2012). The impact of dividend policy on stock price volatility in the Malaysian Stock Market. *Journal of Business Studies Quarterly*, 4(1): 111–129.

Hussainey, K., Mgbame, C.O. & Chijoke-Mgbame, A.M., (2010). Dividend policy and stock price volatility: UK evidence. *The Journal of Risk Finance*, 12(1): 57–68.

Ilaboya, O.J. & Aggreh, M., (2013). Dividend policy and stock price volatility. *Journal of Asian Development*, 2(2): 109–112.

Jecheche, P., (2012). Dividend policy and stock price volatility: A case of the Zimbabwe stock exchange. *Journal of Comprehensive Research – Accounting & Finance,* 10: 1-13.

Jensen, M.C. & Meckling, W.H., (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3: 305–360.

Johannesburg Stock Exchange (JSE), (n.d.) *Guidelines to Listing on the JSE.* https://www.jse.co.za/content/JSESpecificationsItems/Guidelines%20to%20Listing%20on%20the%20JSE.pdf (Accessed: July 27, 2016).

Kamyabi, Y. & Nazemi, E., (2014). Investigating relationships between dividend policy and stock price volatility of firms accepted at Tehran Stock Exchange. *Applied Mathematics in Engineering, Management and Technology*, 2(6): 622–630.

Kenyoru, N.D., Kundu, S.A. & Kibiwott, L.P., (2013). Dividend policy and stock price volatility in Kenya. *Research Journal of Finance and Accounting*, 4(6): 115–120.

Kruger, R., (2014). Has the transition of AltX-listed companies to the main board of the Johannesburg Stock Exchange met with success? http://cluteinstitute.com/conference-proceedings/2014MUPapers/Article 180.pdf (Accessed: July 28, 2016).

Lashgari, Z. & Ahmadi, M., (2014). The impact of dividend policy on stock price volatility in the Tehran Stock Exchange. *Kuwait Chapter of Arabian Journal of Business and Management Review*, 3(10): 273–283.

Lintner, J., (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *The American Economic Review*, 46(2): 97–113.

Miller, M.H. & Modigliani, F., (1961). Dividend policy, growth and the valuation of stocks. *The Journal of Business,* 34(4): 411-433.

Mitton, T., (2004). Corporate governance and dividend policy in emerging markets. *Emerging Markets Review*, 5(4): 409–426.

Modigliani, F. & Miller, M.H., (1958). The cost of capital, corporation finance and the theory of investment. *The American Economic Review*, 48(3): 261–297.

Mouton, M. & Smith, N., (2016). Company determinants of capital structure on the JSE Ltd and the influence of the 2008 financial crisis. *Journal of Economic and Financial Sciences*, 9(3): 789-806.

Murtaza, M., Iqbal, M.M., Ullah, Z., Rasheed, H. & Basit, A., (2018). An analytical review of dividend policy theories. *Journal of Advanced Research in Business and Management Studies,* 11(1): 62-76.

Nazir, M.S., Nawaz, M.M., Anwar, W. & Ahmed, F., (2010). Determinants of stock price volatility in Karachi Stock Exchange: The mediating role of corporate dividend policy. *International Research Journal of Finance and Economics*, 55: 100–107.

Nazir, M.S., Abdullah, A. & Nawaz, M.M., (2012). How dividend policy affects volatility of stock prices of financial sector firms of Pakistan. *American Journal of Scientific Research*, 61: 132–139.

Nguyen, D.T., Bui, M.H. & Do, D.H., (2019). The relationship of dividend policy and share price volatility: A case in Vietnam. *Annals of Economics and Finance,* 20(1): 123–136.

Rashid, A. & Rahman, A.Z.M.A., (2008). Dividend policy and stock price volatility: Evidence from Bangladesh. *Journal of Applied Business and Economics*, 8(4): 71–81.

Salari, N., Abbasian, E. & Pakizeh, K., (2014). Effect of dividend policy measures on stock price volatility in Tehran Stock Exchange. *International Journal of Finance, Accounting and Economic Studies*, 2(1): 27–36.

Wang, Y., Diao, Z., Pan, Z. & Wu, C., (2019). Heterogeneous beliefs and aggregate market volatility revisited: New evidence from China. *Pacific-Basin Finance Journal,* 55: 127-141.

World Federation of Exchanges, (2018). *An Overview of WFE SME Markets.* 2 October 2018. https://www.world-exchanges.org/storage/app/media/research/Studies_Reports/2018/WFE%20Overview%20of%20SME%20Markets%20Report%20October%202018.pdf (Accessed: September 01, 2019).

DETERMINANTS AND ECONOMICS OF HOUSEHOLD SAVINGS IN SOUTH AFRICA

O. Ralarala and M. Masipa

ABSTRACT

This paper investigates determinants of household savings, as participants in the overall economy in South Africa, as well as their role in economic growth. Savings and investment are central to the country's economic growth. Household savings ensure stable levels of consumption during the time of loss of income or pension period. South African national accounts data have not shown enhancement in the household saving ratio from the time when there was Global Financial Crisis. The paper uses autoregressive distributed lags (ARDL) methodology to analyze determinants of household savings; and, it finds that household disposable income and consumption were the most significant determinants of household savings in the long-run. Also, it establishes a direct relationship between household savings and economic vitality. The ARDL error correction model (ECM) estimated a very high speed of adjustment of 65%, meaning that the model will not take long to restore back to equilibrium. The paper hopes to assist the process of devising strategies for improving the South African economy; and, it recommends that appropriate policies be developed and strengthened in order to incentivize household savings, which are, in the long-run, essential for development and economic growth. Furthermore, the paper points out the obvious fact that savings act as a contingency for individuals and countries in the event of economic downturns and financial crisis; and, therefore, that it is in the interest of society to incentivize household savings.

Keywords*:* Household Savings; Economic Growth; Disposable Income; Livelihood; Autoregressive Distributed Lag

INTRODUCTION AND BACKGROUND

Saving and investment are central to the country's economic development (Larbi, 2013; Chitema & Chitongo, 2020; Gross, Notowidigdo & Wang, 2020; Jin, Zhao, Song & Zhao, 2021; Lydon & McIndoe-Calder, 2021). Savings in a country is defined as income produced that is not used immediately but put in a way that will provide returns to the economy in future (Prinsloo, 2000; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). Thus, this paper investigates determinants of household savings in South Africa. Private savings comprise of corporate savings and household savings, which form part of the gross savings in the national accounts. Prinsloo (2000), Byrne, Hopkins, McIndoe-Calder & Sherman (2020), Gross *et al.* (2020), Jin *et al.* (2021), Lydon & McIndoe-Calder (2021)

Ombeswa Ralarala *is a Doctoral Candidate in Economics and a temporary Lecturer in the Department of Economics at the University of Limpopo in South Africa. She has successfully published papers in accredited journals as well as chapters in edited books and papers in accredited conference proceedings. In 2019, she was awarded with the Meritorious Performance for her Master's degree in Economics by the Economics Research Southern Africa in collaboration with the University of Limpopo.*

Mokgethwa Masipa *holds an Honors degree in Economics and is currently employed at the SPAR Group in South Africa. His research interest is in the economics of household savings in South Africa.*

describe savings by households as the amount not consumed after paying direct taxes. Households regard savings as one of the important economic activities (Zhuk, 2015) because they ensure stability in consumption levels during times when consumers lose their income in cases such as pension or job loss (Byrne et al., 2020; Chitema & Chitongo, 2020; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). Aggregated household savings measure a portion of national household disposable income not used for final consumption. These can be used as a source of investment and have an enormous contribution to the economic growth of a country and its finance budget deficit (Kivanç, 2015; Chitema & Chitongo, 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). Mahdzan & Tabiani (2013), Gross *et al.* (2020), Jin *et al.* (2021) and Lydon & McIndoe-Calder (2021) support the importance of saving emphasizing how important savings are for long-term development and economic growth. Furthermore, savings come in handy for both individuals and countries when the economy experiences downturns and financial crisis (Mahdzan & Tabiani, 2013; Byrne et al., 2020; Chitema & Chitongo, 2020; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021).

According to the South African national accounts data, there has not been any improvement in the household savings ratio since the period of Global Financial Crisis (figure 1). Mongale, Mukuddem-Petersen, Petersen & Meniago (2013) state that, before the Global Financial Crisis, South Africa had about 15%. Figure 1 depicts household savings from the year 1990 to 2015, which shows a downward trend of savings after the highest point between 1990 and 1995. As such household savings have been declining reaching the negatives since 2005. The decline implies that the tendency of dissaving among South Africans has been increasing since 2005.

Figure 1: Household Savings in South Africa from 1990 to 2015
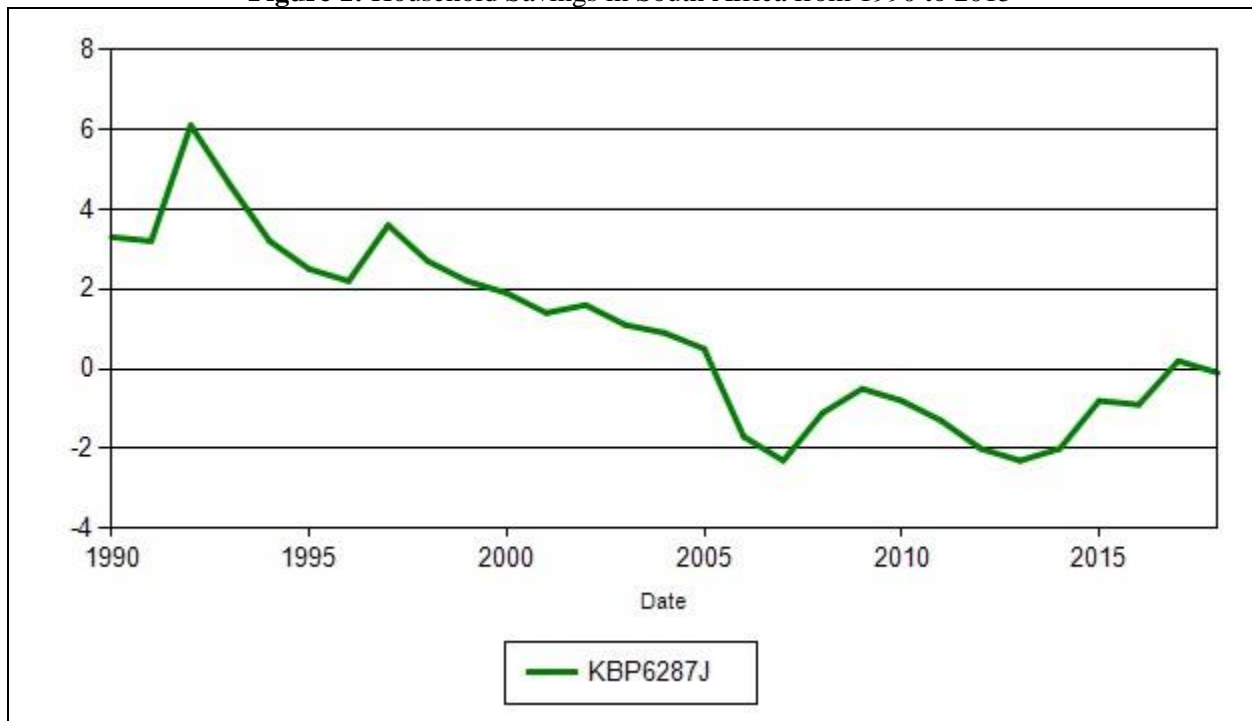
Source: South African Reserve Bank (2019)
Note: the vertical axis shows the average trend of household savings, and the horizontal axis shows the date in years.

Household savings are an important element when it comes to determining welfare in developing economies (Mahlo, 2011; Kapingura, Ikhede & Tsegaye, 2015; Gross *et al.*, 2020; Jin *et al.*, 2021; Lydon & McIndoe-Calder, 2021). Without savings, if their income changes during recession, households would be left with no alternative source of income and support for sustainability. South Africa's economy is among other emerging economies characterized by lower income levels (Chipote & Tsegaye, 2014; South African Reserve Bank, 2019). According to Larbi (2013) low-income countries have a vicious cycle of low income that lead to lower savings, low investment and back to low income. Prinsloo (2000) mentioned that South Africa has recorded lower household savings since the beginning of 1997. According to Mahlo (2011: 8), "corporate savings in South Africa act as a cushion for overall savings since household savings cease to exist". In addition, most households depend heavily on credit consumption rather than their current income and savings from the past (Chipote & Tsegaye, 2014; Chitema & Chitongo, 2020; Jin *et al.*, 2021; Lydon & McIndoe-Calder, 2021). This implies that South African households do not save enough or do not save at all to compensate for their future consumption. Therefore, this brings about a question of what are the factors that could encourage household savings; hence it was imperative to find out the determinants of household savings in South Africa. The paper aims to investigate the determinants of household savings in South Africa as participants in the overall economy and to contribute towards the available literature about household savings. To this extent, this paper sets two objectives thus: (1) to identify factors that determine household savings in South Africa; and (2), to find a short run and long run relationship between household savings and its determinants.

Whereas existing literature discuss household savings in South Africa, there is negligible studies of the factors determining savings among poor households, especially during the democratic era. It is this knowledge gap that this paper seeks to plug through detailed analysis of specific factors. Also, the paper adds to existing literature the notion that the negligible household savings in South Africa are a direct result of the weak societal perceptions among the poor population and, perhaps, the society as a whole, of the significance of household savings to the national economy. The paper acknowledges the significance of the informal savings schemes that poor households have relied upon; and, it shows that attempts to formalize them have always used alien mechanisms that excluded the poor who are supposed to be the primary participants. One of this paper's central contribution to the field is that household savings among poor South Africans do exist in informal schemes and that relevant policy interventions need to consider their incremental and appropriate formalization, rather than mere increase of the amounts.

LITERATURE REVIEW:
THEORY AND PRACTICE OF SAVINGS

This section discusses the relevant theoretical and empirical literature on savings; and, whereas the former focuses on theories of household savings behavior, the latter addresses determinants of savings in South Africa.

Theories of Household Savings Behaviour

To help understand the household savings behavior, theories relating to savings are examined in this section.

The Permanent Income Hypothesis

Friedman (1957) proposes the permanent income hypothesis (PIH) which claims that consumers are rational in their consumption decisions. This means that households choose to smooth their consumption ultimately and set it equal to the value of their overall assets; expected future income. PIH assumes that short term changes in income should not have huge Impact on consumption decisions as spending is not based on current income but rather on permanent "future" income (Mahlo, 2011; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). This theory emphasizes the idea that households save because they expect a decline in their future income. According to Hannif & Masih (2016), there are two viewpoints behind the link between household's confidence and economic decisions. The authors state that income has two parts- expected (permanent) income and transitory income. Expected income asserts that households have an expectation of what their long term expected average income would be and would spend consistent with that expectation. Transitory income refers transitory changes in income due to one-time events, such as bonuses, and these have little effect on household's consumption. A negative transitory change would lead to household to go into debt or use up past savings; contrariwise, a positive change would lead to households to pay off their debt or add to their savings (Gedela, 2012; Kapingura, Ikhide & Tsegaye, 2015; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). This basically means that a transitory change in income would either lead to an increase or a decrease in savings, depending on the effect of the change.

If household consumption and saving decisions depend on future expected income, then interest rates will play a role in household marginal propensity to consume (Mahlo, 2011; Byrne et al., 2020; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). In reality, the PIH income does not hold in full due to distortions in the real economy, such as credit crisis (Hannif & Masih, 2016; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). Mahlo (2011), Byrne et al. (2020), Gross *et al.* (2020), Jin *et al.* (2021) and Lydon & McIndoe-Calder (2021) argue that, the level of savings would be sustained if consumers were constrained, which would mean consumption would change with respect to a temporary change in income. This basically means that financial liberalization plays a role in the economic decisions of households and therefore affects their consumption and savings consequently. It can be concluded that according to this theory, a change in household's income will affect household savings.

Keynesians' Savings Theory

The connection among income, consumption and savings is normally referred to as the consumption function. According to Keynesians, to derive the savings function, we need consumption, where consumers save a portion of their income not used for their consumption (Mongale *et al.*, 2013; Chitema & Chitongo, 2020). This theory predicts that income and higher interest rates will affect household consumption decisions (Raut & Virmani, 1990). Current consumption is mainly dependent of the amount of current income. Income and consumption are determined in terms of wage units. The Keynes refer to the consumption and income nexus as the elemental psychological rule of any reasonably society (Chaudhry, Riaz, Farooq & Zulfiqar, 2014). According to Mahlo (2011), Byrne et al. (2020), Gross *et al.* (2020), Jin *et al.* (2021) and Lydon & McIndoe-Calder (2021), when income rises then consumption will also increase but the level of the increase in consumption will not be the same. So, the Keynesians theory predicts that an increase in income is fractionally saved and consumed. Therefore, they assume that income has a positive influence on savings.

Neoclassical Economic Theory of Saving

This theory entails that household savings are the main financial instrument for investment. Accordingly, capital accumulation will be maximized by policies aimed at increasing household savings rates and capital imports. These models also predict that capital should flow from rich to poor countries, attracted by higher rates of return. However, facts do not support the predictions of these models. Following the Asian financial crisis of 1997-1998, many developing countries have registered strong improvements in their external balances and their aggregate current account has swung into surplus.

Determinants of Household Savings in South Africa

This subsection discusses the determinants of household savings in South Africa as drawn from the empirical literature.

Determinants of Household Savings

In South Africa, income is considered as one of the essential factors in household savings (Mahlo, 2011). A change current income and expected future income will influence the consumption and savings decisions of households as a whole. Households save from their disposable income; that is, after all the necessary and compulsory deductions have been made, if household disposable income increases as their current income, households can decide to either consume all their disposable income, their current consumption expenditure will increase and savings will not change (Abel, Bernanke & Croushore, 2014; Byrne et al., 2020; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). Also, Larbi (2013) suggests that, they can decide to save all of the extra income and their current consumption will not change. The extra income that is saved will earn interest and therefore in future their consumption will increase. However, according to the life cycle hypothesis, households want to smooth their consumption over their lifetime (Chowa, Masa & Ansong, 2012; Gross *et al.,* 2020; Lydon & McIndoe-Calder, 2021). This means that households will not follow any of the extreme cases. Some of the income will be consumed and some of it will be saved, increasing current consumption and savings enabling them to increase consumption in future as well from the interest earned (Chamon, Liu & Prasad, 2013; Gross *et al.,* 2020; Lydon & McIndoe-Calder, 2021).

Abel *et al.* (2014), Gross *et al.* (2020), Jin *et al.* (2021) and Lydon & McIndoe-Calder (2021) suggest that, according to the precautionary savings motive, households also save for unforeseen circumstances. That means that households consider changes about future changes and possibilities in their decisions. Expected future income also affects consumption and savings decisions of households and as well as expected interest rates. If household consumption decisions are guided by the motive to smooth their consumption, they're going to increase their current consumption despite the actual fact that their current income is unchanged, by reducing their current savings. The amount by which they increase their consumption will be equivalent to the reduction in their current savings. An increase in expected real interest rates will affect households in two opposing ways; the substitution effect and the income effect. The income effect reduces savings and the substitution effect increase savings (Chaudhry, Riaz, Farooq & Zulfiqar, 2014; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021).

Relationship between Household Savings and its Determinants

Households save from their disposable income; that is, after all the necessary and compulsory deductions have been made. In analyzing household disposable income as a determinant of household savings in individual countries there are different results. Ayalew (2013), using ARDL bounds test approach and error correction model to capture both short-run and long run relationships, finds a negative relationship between household disposable income and savings in Ethiopia. Chipote & Tsegaye (2014) also find a negative relationship in South Africa. The results of both studies were inconsistent with the priori expectations in their studies. Moreover, they argue that such an impact can be attributed to lack of self-control such that if income increases in some periods of their lives, households might increase their consumption and fail to increase their savings. A different relationship was evident in the studies by Larbi (2013), Zwane, Greyling & Maleka (2016), Onwuasoeze & Kirori (2016), Byrne et al. (2020), Gross *et al.* (2020), Jin *et al.* (2021) and Lydon & McIndoe-Calder (2021). Larbi (2013) finds that disposable income had a positive relationship with household savings in Ghana. In Kenya, Onwuasoeze & Kirori's (2016) study shows a positive and significant relationship. Zwane, Greyling & Maleka (2016) use a panel data approach for South Africa over the period between 2008 and 2012 to investigate the determinants of household savings. The results show that household savings are positively related to income at a larger scale.

Consumption expenditure depends on current income; that is, households consume out of their disposable income and previous savings income. The life cycle hypothesis states that there is a negative relationship between household consumption expenditure and household savings. Zhuk (2015) uses the multiple linear regression method to investigate the most significant macroeconomic determinants of household savings in Ukraine. The study finds that household consumption expenditures reduced the gross domestic savings by an average of 0.1592bln. That means there is a negative relationship between household consumption expenditure and household savings. Mahlo (2011), Gross *et al.* (2020), Jin *et al.* (2021) and Lydon & McIndoe-Calder (2021) also find that household consumption is negative and significantly related to household savings. According to the author's impression, there is not many studies that have included household consumption as a determinant of household savings, hence investigating the relationship that exists between household consumption and household savings even more reasonable.

Generally, people are motivated to save, real Interest rates are the real rate of return to household savings, and therefore this signifies the inclusion of real interest rates as one of the major determinants of household savings. Studies conducted in India (Samantaraya & Patra, 2014), Kenya (Onwuasoeze & Kirori, 2016), Ghana (Larbi, 2013) and China (Jin *et al.,* 2021) reveal common results that real interest rates are negatively related to household savings. However in Kenya real interest rates were statistically insignificant (Onwuasoeze & Kirori, 2016), in contrast with India and Ghana. Larbi (2013) argues that higher real interest rates on savings raise the income stream of future incomes and wealth and therefore increases current consumption and causes dissaving by households. Some literature reports contrasting relationship between household savings and real interest rates in South Africa (Mahlo, 2011; Simleit, Keeton & Botha, 2011, Mongale *et al.*, 2013; Chipote & Tsegaye, 2014; Byrne et al., 2020; Gross *et al.,* 2020; Jin *et al.,* 2021; Lydon & McIndoe-Calder, 2021). Mahlo (2011) uses the Ordinarily Least Squares (OLS) technique and found a positive relationship. Chipote & Tsegaye (2014) explore a different econometric approach (vector error correction model) and their results reveal a positive relationship also. Simleit, Keeton & Botha (2011) support the findings by Mongale *et al.* (2013) that the variables are negatively and insignificantly related. This relationship suggests that income and substitution effects offset each other in South Africa (Mongale *et al.*, 2013).

RESEARCH METHODOLOGY

This section discusses the research methodology adopted in the study reported in this paper, especially the collection of data, the model for analyses and the estimation techniques. To provide context, as it has already been done in the previous section of this paper, literature review was conducted. The data used is secondary annual time series data and all the variables were obtained from the South African Reserve Bank, except for real interest rates which were obtained from the World Bank, for the period 1990 to 2018.

Model Specification

In order to achieve the set aim, the paper adopts determinants of household savings from authors reviewed in literature (Nduku & Simo-Kegne, 2012). The paper categorizes the determinants of household savings based on the factors that have influence on the capability of saving and those that relate to the nature of saving. The model is based on the Keynesians savings function and the life cycle hypothesis. Based on the adopted theories, it is assumed that household savings depend on the income of the household and interest rates, in peruse of revealing the main determinants of household savings in South Africa. Household disposable income, household consumption, and real interest rates are the controlled variables, whose effect is investigated towards the dependent variable, household savings.

The following equation will be estimated:
In functional form, the equation is:

$$HS = f(HI, HC, RIR) \tag{3.1}$$

The general form of savings model is:

$$HSR_t = \beta_0 + \beta_1 HDI_t + \beta_2 HC_t + \beta_3 RIR_t + \varepsilon_t \tag{3.2}$$

Where:
HSR: *household savings ratio*
HI: *household disposable income*
HC: *Household Consumption Expenditure*
RIR: *Interest rates*
ε_t: Error correction term to accommodate all the other variables that may influence the dependent variable and are not adopted by the study.

Estimation Techniques

This subsection details the estimation techniques followed in this paper to achieve the aim. The first step involved testing for unit root in the time series employed by the use of the Augmented-Dickey Fuller and Phillips-Peron tests. Then the paper proceeded and used the ARDL bounds test to check for or cointegration; the ARDL test to check the short run and long run relationship between the concerned variables; and the estimated the diagnostic and stability tests as explained above.

Stationarity/Unit Root Test

According to Bekoe & Adom (2013), stationary is the main assumption of time series. Pre-testing for unit roots is often the first stage for testing existing relation between variables. To avoid model crash in the process of integrated stochastic trend of I(2), unit root tests should be carried out to know the number of unit roots of the series under consideration (Nkoro & Uko, 2016).

ARDL Bounds Tests for Cointegration

According to Nkoro & Uko (2016, 2019), cointergration has become an important requirement for any economic model using non-stationary data. If variables do not cointergrate, the spurious problems of regression arise and the inferences drawn from the results are almost meaningless. Ayalew (2014) and Jagadeesh (2015) state that cointergration analysis is performed to whether there is a long-run relationship between the concerned variables.

Autoregressive Distribution Lag

In order to find determinants of household savings and the relationship between household savings with its determinants, this study employs Autoregressive Distributed Lag (ARDL) approach. This approach is preferable when dealing with variables that are integrated of different order, I(0), I(1) or a combination of both and for a small data sample as endorsed by Pesaran & Shin (1995). The advantage of using this approach is that it captures the cointergration between a set of variables, the long run and short run simultaneously (Awan, Anjum & Rahim, 2015). An error correction model (ECM) can also be drawn from this model (Nkoro & Uko, 2016, 2019), that is the speed of adjustment in which the variables take to adjust back from disequilibria. The above advantages of ARDL justify the application of this approach to investigate the determinants of household savings in South Africa.

EMPERICAL RESULTS AND DISCUSSIONS

This section provides a summary of all tests undertaken to estimate the model in this paper. The results are interpreted in detail and recommendations based on the findings are made in the last section of the paper.

Unit Root Test Results

Estimating time series variables without testing for unit root might lead to spurious results. Hence, to avoid such, the Augmented Dickey-Fuller (ADF) unit root test and the Philips-Peron (PP) tests were conducted to test for unit root/stationarity.

TABLE 1: ADF AND PP TESTS RESULTS

Variable	Augmented Dickey-Fuller Test		Phillips Peron Test			
	Trend	Trend and Intercept	Interce	Trend and	Level of	Conclusion
HSR	0.574	0.5547	0.6474	0.5100	5%	Non-
D (HSR)	0.000	0.0022	0.0002	0.0009	5%	Stationary
HDI	0.000	0.9560	0.0000	0.9560	5%	Stationary
HC	0.000	0.9960	0.0000	0.9978	5%	Stationary
RIR	0.223	0.1332	0.2239	0.3576	5%	Non-
D(RIR)	0.000	0.0002	0.0000	0.0002	5%	Stationary

Source: Author's computations

Table 1 shows the results of Augmented Dickey Fuller (ADF) and Philips Peron (PP) tests. The paper reports these results on the statistical significance of the variables. The null hypothesis for

both tests is that the series contains a unit root, and the alternative hypothesis is that the series is stationary. The ADF results indicate that household savings and real interest rates are stationary after first differencing, I(1).

Therefore, we reject the null hypothesis at 5% level of significance. The results also show that household disposable income and household consumption are stationary at level, I(0) and the null hypothesis is also rejected at 5% level of significance. The PP test in this case is used to confirm the ADF results. The rejection of the null hypothesis implies that the series is stationary (Kasongo & Ocran, 2016).

Cointegration Test Results

The results of the ARDL bounds tests of cointegration are presented in table 2 below. In this table, combination of variables was tested by using the automatic variable lag length selection criteria using the Akaike Information Criterion (AIC) as the selection criterion.

Table 2: ARDL Bounds Test

Test statistic	Value	Significance level	Critical Value Bounds	
			Lower bound I(0)	Upper bound I(1)
F statistic	4.474026	10%	2.37	3.2
		5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Author's computation.

As presented in the table 2, the computed F-statistic (4.474026) is greater than both the lower bound (2.79) and upper bound (3.67) critical values at 5% level of significance. Therefore, the null hypothesis of no cointegration is rejected at 5% level of significance. The conclusion is that there is cointegration among the variables. The rejection of the null hypothesis means that there is a long-run relationship between the variables (Samantaraya & Patra, 2014).

Short-run and ECM estimates

Table 3 depicts the short-run relationship between household savings ratio and all other explanatory variables and the speed of adjustment.

Table 3: Summary of Short Run Estimates

Variable	Coefficient	Standard error	T-statistic	Probability
D(household disposable income)	222.539731	1.626929	136.785110	0.0000**
D(Household consumption)	- 224.895976	1.682946	-133.632319	0.0000**
Real interest Rates	0.001355	0.002406	0.563452	0.5791

CointEq(-1)	-0.657706	0.150948	-4.357164	0.0003**

Source: Author's computations; Note: ** denotes 5% level of significance

The results indicate that and household consumption are both statistically significant in explaining the short-run changes in household savings. The test shows the highest coefficient value and positive influence on household savings. This shows the importance of the level of income influence on household savings. This means that household savings are proportional to income, when income rises household savings will also rise. This is in line with the empirical studies by Mongale *et al.* (2013) and Onwuasoeze & Kirori (2016). Zwane, Greyling & Maleka (2016) also found a positive and significant relationship whereby a 1% increase in household income lead to a 1.33% increase in savings, ceteris paribus.

The short-run estimates in table 4 show that consumption is negatively related to household savings in the short-run. This implies that households cannot consume more and save more at the same time. Real interest rates, on the other hand, do not affect the household savings in the short-run. The coefficient of the error correction term shows a theoretically correct sign (negative) and significant value (-0.657706), that is, 65%. It is expected to be negative for equilibrium to be restored (Mongale *et al.,* 2013). The frequency is very fast (at 65%) as it is more than 50% implying that the model will not take long to reach the equilibrium.

ARDL Long-run Estimates

Presented in table 4 are the long-run as estimated by the ARDL approach.

Table 4: Summary of Long-run Estimates

Variable	Coefficient	Standard error	t-statistic	Probability value
household disposable income	225.421678	3.085200	73.065491	0.0000**
Household Consumption Expenditure	-225.506671	2.983637	-75.581130	0.0000**
Interest rates	0.005745	0.004528	1.268803	0.2184
household savings ratio	0.603483	0.808162	0.746736	0.4635

Source: Author's computation

Note: ** denotes 5% level of significance

The results presented in table 4 show the long-run estimates of the model. The results reveal that household disposable income and household consumption are both strongly statistically significant determinants of household savings in South Africa. The positive influence of household disposable income on household savings is in agreement with both the theoretical expectation and the empirical literature. According to the permanent income hypothesis, there is a positive relationship with income and household savings (Onwuasoeze & Kirori, 2016). This means that as household disposable income increases their savings should also increase**.** On the contrary, Chipote & Tsegaye

(2014) argue that households in South Africa rely mostly on debt to finance their spending such that income does not influence their savings. The life cycle hypothesis predicts that most of a temporary increase in current income will be consumed; therefore, consumption increases as current income increases. This signifies the negative coefficient of household consumption influence on household savings. This influence can be related to lack of self-control, that means, household are most likely to increase their consumption as a result of an increase in either their current income or expected future income (Chipote & Tsegaye, 2014).

However, real interest rates are positive and insignificantly related to household savings. According to the Keynesians theory, an increase in interest rates will result in more savings as people postpone consumption in the current period to the future (Kapingura, Ikhide & Tsegaye, 2015). The insignificant coefficient of the real interest rates, consistent with the priori expectations gives rise to the idea that real interest rates have no significant influence on household savings in South Africa, (Mahlo, 2011; Mongale *et al.*, 2013; Chipote & Tsegaye, 2014).

Diagnostic Test Results

Diagnostic testing is necessary to comply with the assumptions of a classical linear regression model. These tests involve testing for, firstly, the error terms for heteroscedasticity that is testing if the variance of the error term is constant (Brooks, 2014). Secondly, testing for normality which is the most common test for normality is the Bera-Jarque and Kurtosis that uses the property of a normally distributed random variable; and lastly, autocorrelation that tests if the covariance of the error terms is constant.

Table 5: Diagnostic Tests

TYPE	TEST	Probability
Heteroskedasticity	Breusch-Pegan-Godfrey	0.3606
	Harvey	0.6282
	Glesjer	0.3027
	Arch	0.4475
	White	0.9234
Normality-	Histogram(Kurtosis)	3.218763
Serial Correlation	LM	0.6832

Source: Author's computations.

Starting with heteroscedasticity, the "chi-square probabilities of all the tests employed are more than the critical value of 5% and hence the null hypothesis is rejected, then the paper concludes that the variance of the error term is constant; that is, the model is deemed to be homoscedastic". Secondly, "the normality test, the null hypothesis is that the residuals are normally distributed", results indicate that kurtosis is around and above 3, which is acceptable. Testing for serial correlation is also an important diagnostic test. The LM test indicates no autocorrelation, and therefore the null hypothesis that there is autocorrelation is rejected.

Stability Test Results

Two of the most frequently used tests of the parameter constancy in the context of linear regression are the CUSUM and CUSUM-of-squares tests as proposed by (Brown, Durbin & Evans, 1975). The test procedure uses straight lines as critical boundaries if CUSUM crosses or goes beyond such lines at least once then it is said that the regression equation is unstable (Bos & Fetherston, 1995). Their frequent use to a large extent is because they are designed to test the null hypothesis of parameter stability against a variety of alternatives. These tests have been employed in the study to test the stability of the model.

Figure 1: CUSUM   **Figure 2:** CUSUm of Squares
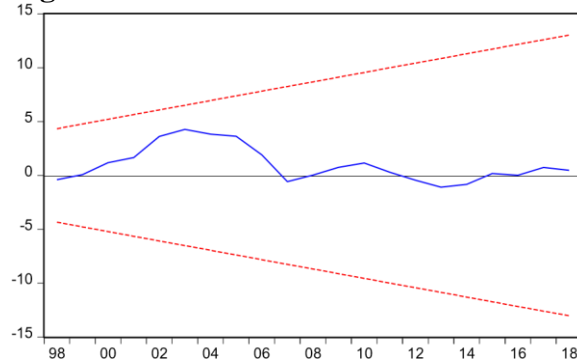
———— CUSUM - 5% Significance   CUSUM of Squares ---- 5% Significance
Source: Author's computations.

The CUSUM test is used for systematic change of parameters. While, the CUSUM-of squares on the other hand shows a sudden change in the in the regression coefficients (Awan, Anjum & Rahim, 2015)**.** According to figures 1 and 2, there is stability in the model as shown by the residual lines lying between the two critical lines at 5% level of significance.
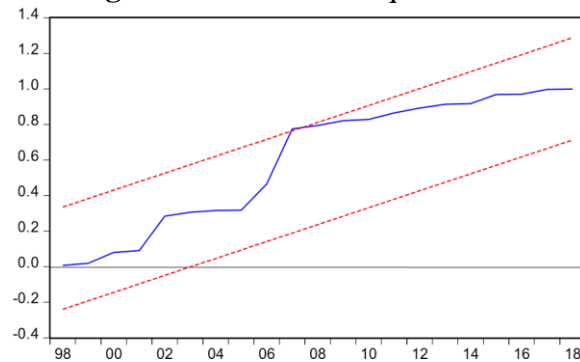
CONCLUSION AND RECOMMENDATIONS

The paper has outlined and discussed factors that have determined household savings among South Africans, post the democratic dispensation. Based on the Keynesian saving function, the paper has tested the annual time series data for unit roots using the ADF and PP tests. Using the ARDL and the ECM tests, the paper estimated the long-run and short-run relationship of household savings and economic performance. The findings show that household savings in South Africa, especially among the poor, have been negligible in the formal economy. But the paper notes that a large proportion of household savings of the poor are accounted for in the informal schemes. The conclusion that household savings in a democratic South Africa have been unimpressive is equally based on the erroneous disregard of the informal schemes that have continued unabated. In this regard, the paper highlights the significance of the divide between the formal and informal economies in South Africa. It is, therefore, necessary to examine the value of disposable incomes as well as the culture of household spending and savings among poor South Africans.

From a policy stance, this paper recommends that the state needs to improve poor households' disposable income by, among other things, significantly lowering income taxes and supplementing these reductions by increasing consumption taxes of luxury goods and services. The

state, in collaboration with the banks and financial service providers, need to create an enabling environment for household savings among the poor, including through the implementation of the National Credit Act No.35 0f 2005. Also, government needs to creatively initiate appropriate public campaigns that would redress the household savings culture which is predominantly negative against formal savings institutions. But consideration needs to also be given to the reality that the informal savings schemes relied upon by the majority of the poor South Africans are friendly to them in a variety of ways, including the form of communication as well as the mechanisms, norms and values used in their governance. For this reason, it is recommended that nuance ideas of transforming the poor households' informal savings schemes into formal institutions in order to ensure that the prevalent negative perceptions are redressed.

REFERENCES

Abel, A., Bernanke, B. & Croushore, D., (2014). *Macroeconomics* (9th edn.). Harlow: Pearson Education Limited.

Awan, R., Anjum, A. & Rahim, S., (2015). An econometric analysis of determinants of external debt in Pakistan. *British Journal of Economics, Management & Trade*, 5(4): 382–391.

Ayalew, A., (2013). Determinants of domestic saving in Ethiopia: An autoregressive distributed lag (ARDL) bounds testing approach. *Journal of Economics and International Finance*, 5(6): 248–257.

Bekoe, W. & Adom, P.K., (2013). Macroeconomic uncertainty and private investment in Ghana: An empirical investigation. *International Journal of Economics and Financial Issues*, 3(2): 276–293.

Bos, T. & Fetherston, T.A., (1995). Non-stationary of the market model, outliers, and the choice of market rate of return. *Advances in Pacific-basin Financial Markets*, 15(1): 4–7.

Brooks, C., (2014). *Introductory Econometrics for Finance*. New York: Cambridge University Press.

Brown, R.L., Durbin, J. & Evans, J.M., (1975). Techniques for testing the constancy of regression relationships over time. *Journal of the Royal Statistical Society: Series B (Methodological)*, 37(2): 149–163.

Browning, M. & Crossley, T.F., (2001). The life-cycle model of consumption and saving. *Journal of Economic Perspectives*, 15(3): 3–22.

Byrne, S., Hopkins, A., McIndoe-Calder, T. & Sherman, M., (2020). The impact of Covid-19 on consumer spending. *Economic Letter*, 3: 1-5.

Chamon, M., Liu, K. & Prasad, E., (2013). Income uncertainty and household savings in China. *Journal of Development Economics*, 105: 164-177.

Chaudhry, I.S, Riaz, U., Farooq, F. & Zulfiqar, S., (2014). The monetary and fiscal determinants of national savings in Pakistan: An empirical evidence from ARDL approach to cointergration. *Pakistan Journal of Commerce and Social Sciences*, 8(2): 521– 539.

Chipote, P. & Tsegaye, A., (2014). Determinants of household savings in South Africa: An econometric approach (1990-2011). *Mediterranean Journal of Social Sciences*, 5(15): 183–190.

Chitema, P.T. & Chitongo, L. (2020). Group savings and lending schemes for rural women livelihood development in Ward 15 Chishakwe Village, Mutare, Zimbabwe. *Journal of Public Administration and Development Alternatives*, 5(1): 133-144.

Chowa, G.A., Masa, R.D. & Ansong, D., (2012). Determinants of saving among low-income individuals in rural Uganda: Evidence from assets Africa. *Advances in Applied Sociology*, 2(4): 268-280.

Friedman, M., (1957). *The Permanent Income Hypothesis*, *Theory of the Consumption Function*. Princeton: Princeton University Press.

Gedela, S.P.R., (2012). Determinants of saving behaviour in rural and tribal households. *International Journal of Research in Social Sciences*, 2(3): 108–128.

Gross, T., Notowidigdo, M. & Wang, J., (2020). The marginal propensity to consume over the business cycle. *American Economic Journal: Macroeconomics*, 12(2): 351-384.

Hannif, N. & Masih, M., (2016). Does consumer sentiment predict consumer spending in Malaysia? An autoregressive distributed lag (ARDL) approach. *Economic Policy*, pp. 1–33. doi: 10.1227/01.NEU.0000349921.14519.2A.

Jagadeesh, D., (2015). The impact of savings in economic growth. Comparative study between Japan and China. *International Journal of Research in Business Studies and Management*, 2(9): 10–21.

Jin, X., Zhao, Y., Song, W. & Zhao, T., (2021). Save for safe: Effect of Covid-19 pandemic on consumers' saving and spending behavior in China. *Frontiers of Psychology*, https://doi.org/10.3389/fpsyg.2021.636859

Kapingura, F.M., Ikhide, S. & Tsegaye, A., (2015). Determinants of savings in the SADC region: The role of foreign capital and financial development. *Journal of Applied Business Research*, 31(6): 2107–2121.

Kasongo, A. & Ocran, M.K., (2016). Determinants of household saving in South Africa. *Economic Record*, 78(241): 207–223.

Kivanç, H., (2015). Determinants of savings in the APEC countries. *Theoretical and Applied Economics*, 22(603): 113–122.

Larbi, D., (2013). The long run determinants of private domestic savings in Ghana: A cointegration approach. *Journal of Economics and Sustainable Development*, 4(4): 125–137.

Lydon, R. & McIndoe-Calder, T., (2021). Saving during the pandemic: Waiting out the storm? *Economic Letter*, 4: 1-14.

Mahdzan, N.S. & Tabiani, S., (2013). The impact of financial literacy on individual saving: An exploratory study in the Malaysian context. *Transformations in Business and Economics*, 12(1): 41–55.

Mahlo, N., (2011). Determinants of household savings in South Africa. Doctoral Thesis, University of Johannesburg.

Mongale, I.P., Mukuddem-Petersen, J., Petersen, M.A. & Meniago, C., (2013). Household savings in South Africa: An econometric analysis. *Mediterranean Journal of Social Sciences*, 4(13): 519–530.

Mosikari, T.J. & Eita, J.H., (2017). Empirical test of the Ricardian Equivalence in the Kingdom of Lesotho. *Cogent Economics and Finance*, 5(1): 1–11.

Nduku, A.P.M. & Simo-kengne, B.D., (2012). Population age structure and savings behaviour in South Africa: The relevance of the life cycle hypothesis. Doctoral Thesis, University of Johannesburg.

Nkoro, E. & Uko, A.K., (2016). Autoregressive Distributed Lag (ARDL) cointegration technique: Application and interpretation. *Journal of Statistical and Econometric Methods*, 5(4): 63–91.

Nkoro, E. & Uko, A.K., (2019). The sources of economic growth in Nigeria: A growth accounting approach. *European Journal of Economics and Business Studies*, 5(1): 89-99.

Onwuasoeze, I. & Kirori, G., (2016). Analyzing the determinants of private savings in Kenya over the period 1993-2013. *European Journal of Business, Economics and Accountancy*, 4(2): 67–80.

Pesaran, M.H. & Shin, Y., (1995). An autoregressive distributed-Lag modelling approach to cointegration analysis. *Econometric Society Monographs*, 31(1): 371-413.

Prinsloo, J.W., (2000). *The Saving Behaviour of the South African Economy.* Pretoria: South African Reserve Bank.

Raut, L. & Virmani, A., (1990). Determinants of consumption and savings in developing countries. *The World Bank Review*, 3(3): 379–393.

Samantaraya, A. & Patra, S.K., (2014). Determinants of household savings in India: An empirical analysis using ARDL approach. *Economics Research International*, pp.1–8. doi: 10.1155/2014/454675.

Simleit, C., Keeton, G. & Botha, F., (2011). The determinants of household savings in South Africa. *Journal for Studies in Economics and Econometrics*, 35(3): 1–20.

South African Reserve Bank (SARB), (2019). *Quarterly Bulletin*, *September 2019*. www.resbank.co.za (Accessed: February 11, 2020).

Wan, J., (2013). Household saving and housing prices in China. *The World Economy*, 38(1): 172-192.

Zhuk, M., (2015). Macroeconomic determinants of household savings in Ukraine. *Economics and Sociology*, 8(3): 41–54.

Zwane, T., Greyling, L. & Maleka, M., (2016). The determinants of household savings in South Africa: A panel data approach. *International Business & Economics Research Journal (IBER)*, 15(4): 209–218.

PUBLIC FINANCE INVESTMENT, MUTUAL FUNDS IN GOVERNMENT STOCKS AND INVESTMENT ACTIVITY IN THE BRICS COUNTRIES

D.M. Kgomo

ABSTRACT

The paper investigates public finance investment and the influence of mutual funds in government stocks on investment activity, using the BRICS countries data. Investment has been recognized as one of the most volatile expenditure components over the business cycle. Investment activity should therefore be convenient, practical and efficient as investment activity can enhance economic growth. The paper uses panel unit root test, panel autoregressive distributed lag model (PARDL), panel cointegration tests, Engle-Granger causality test, impulse response functions and variance decomposition tests. The panel unit root tests confirms different orders of cointegration; and, panel cointegration tests, where one lag was used, indicated the presence of a long-run relationship among investment activity and mutual funds. The findings corroborate the idea that investment activity is positively impacted by mutual funds in the long run as suggested by the PARDL model. The Engle-Granger casualty test shows a unidirectional causality from investment activity to government stock on corporations as well as from government stock on bonds to liquid assets. The impulse response function test indicates that the impulse percentage of fluctuation and the variables did contribute to each other, from various periods in the short and the long run. The results show a long run relationship between the variables as they move together in the long run and mutual funds having a positive effect on investment activity. The paper recommends that mutual fund policy makers need to develop policies that will lead to financial stability and increase the performance of financial institutions. These policies should be able to help financial institutions in making investment decisions that will further benefit them and the country's economy not only in the short term but also in the long term. Furthermore, critical evaluation is needed to avoid investment shocks, instability of investment activity, instability of financial markets and that of the economy as a whole.

Keywords*:* Investment; Mutual Funds; Panel Autoregressive Distributed Lag; Engle-Granger Causality Test; BRICS

INTRODUCTION AND BACKGROUND

The relationship between investment and economic growth continues to be debated in literature. There is a general agreement that economic expansion occurs as a result of investment activity, and that investment is crucial to correct ills such as unemployment and poverty (Arestis & de Paula, 2008; Alexiou, Tsaliki & Tsoulfidis, 2016; Pradhan, Arvin, Nair & Bennett, 2020a). Of course, there remains intellectual contestations about the nature and form of investments that could lead to economic expansion. But, generally, investment activities can promote economic growth even as it involves the process of

---

Dintuku Maggie Kgomo *is a Lecturer and emerging researcher in the Department of Economics at the University of Limpopo in South Africa. She holds a Master's degree in Economics and is currently a Doctoral candidate. Her research interest is in Public Finance Investment and Mutual Funds in Government Stocks.*

investing money in return for profit (Sibirskaya, Stroeva, Khokhlova & Oveshnikova, 2014; Pradhan *et al.,* 2020a). Furthermore, investment can also initiate the development of innovation activity (Sibirskaya *et al.,* 2014; Pradhan *et al.,* 2020a). Investment has been recognized as one of the most volatile expenditure components over the business cycle. Investment activity should be convenient, practical and efficient as investment activity can be a pre-requisite for qualitative dynamics of different companies (Arljukova, 2008; Pradhan, Arvin, Nair & Bennett, 2020b). Small and non-expert investors tend to be more attracted to mutual funds, as the investor invests in a limited amount with low transaction costs (Alexiou *et al.,* 2016; Pradhan *et al.,* 2020b). Investors can be indifferent about investing in mutual funds or buying individual assets directly. Traditionally mutual funds aggregate the individual investor's capital contributions and reinvest their contributed capital in publicly traded companies (Cumming & Macintosh, 2007; Pradhan *et al.,* 2020a, 2020b). Individual investors on the capital market prefer investment through the mutual fund to an individual investment. Efficient operation of financial markets will lead to high investments and improvement inappropriate allocation of investments, such will also result in growth within the economy of the country.

Productive investments have been unequal especially in developing countries like South Africa, resulting in worsened inequalities within societies. India and South Africa's investment is mainly capital intensive leading to a dual economy, meaning inequitable growth occurs. Inequitable growth occurs when the economy does not provide or increase the living standards for the entire society. Low levels of investment in human capital formation have a negative effect as it limits life expectancy, education levels, reducing the well-being of poor service users, hampering economic development and growth sustainability (Eklund, 2009; Nkoro & Uko, 2019; Pradhan *et al.,* 2020a, 2020b).

Investment is a determinant of economic growth as an increase in investment activity contributes positively to the economy at large (Sibirskaya *et al.,* 2014; Pradhan *et al.,* 2020a, 2020b). Therefore, it is imperative to determine the impact that risky financial assets such as mutual funds have on investment activity. Mutual funds are financial instruments found from securities usually administered by banks (Ferreira, Keswani, Miguel & Ramos, 2011; Pradhan, Arvin, Nair, Bennett & Bahmani, 2019). The study used Brazil, Russia, India, China and South Africa (BRICS) panel data to determine how mutual funds on government stock can influence investment activities. In the world economy, BRICS countries in the past decade have played an important role in terms of total production, capital destination, investment and as potential consumer markets. China has the fastest-growing economies with the highest investment and saving rates followed by India. Among all the BRICS countries combined, China has a major economy. The high savings and investment rates in these two countries assisted to ease the share of net exports to gross domestic product (GDP). The economy of China has developed at a yearly rate of 9.9 percent between 1978 and 2009, and was above the world average during that period. Investment can be restrained by national savings rates that are at lower levels (Sridharan, Vijayakumar & Rao, 2009; Pradhan et al., 2019; Pradhan *et al.,* 2020a, 2020b). For BRICS countries to avoid low growth which leads to vulnerability of the domestic economy and instability, the countries need to improve their domestic market. Financial products should be developed by the BRICS countries that target certain segments of the population group. Financial products that include derivative products for farmers to make available agricultural insurance and innovative mutual funds for small-scale investment to be able to advance small and medium enterprises (SMEs) (John, 2012; Pradhan et al., 2019). Using data from BRICS countries, this paper investigates the influence of mutual funds in government stock on investment activity.

There exists no previous study that had analysed the influence of mutual funds in government stock on investment activity among the BRICS countries. The contribution of this paper to the field is that it applies a combination of six statistical modelling techniques and tests, which are the panel unit root test, panel autoregressive distributed lag model (PARDL), panel cointegration tests, Engle-Granger causality test, impulse response functions and variance decomposition tests, to analyse the 2001-2016 panel data

among the BRICS countries. No other known existing study has applied the same combination of tests on the BRICS countries 2001-2016 panel data. Given that the panel data analysed is drawn from the 2001-2016 annual statistics, the paper does not suggest in any way that the findings are applicable to the period before 2001 or post 2016. Instead, the paper is reporting the relationship between mutual funds in government stock on investment activity underlying this specific panel data.

THEORETICAL AND EMPIRICAL LITERATURE REVIEW

The literature review is divided into two sections, namely the theoretical framework and empirical literature which provides findings from various studies. As investment theories differ, the Keynes Theory of investment and the Neoclassical theory of investment behaviour are adopted in this study.

Theoretical Framework

Two theoretical traditions on investment are crucial to this paper; and, they are: the Keynes theory of investment; and, the Neoclassical theory of investment behaviour.

Keynes Theory of Investment

The Keynes theory was developed founded on the demand and supply price of capital in 1936. Keynes argued that until the expected future revenues present value is equal to capital opportunity cost investments will be made at the margin. This implies that when the net present value is equal to zero, investments will be made (Eklund, 2013; Senyo & Osabutey, 2020). Compared to the amount of money invested, the demand and supply price of capital are not similar. These would be due to pressure placed on facilities producing capital goods and changes in prospective yields. It was believed by Keynes that investment fluctuations were caused by cyclical fluctuations. An increase in investment also results in income expansion, therefore leading to an increase in consumption increasing until savings rises to a point of equality with new levels of investment (Wray & Tymoigne, 2008; Pradhan et al., 2019). Hence, expansionary effects tend to take place when planned investments reach higher levels, due to greater share profits at every income level (Wray & Tymoigne, 2008; Pradhan, Arvin, Nair, Hall & Bennett, 2021). Harcourt (2006) emphasised that for a higher share of gross profit to occur there would be higher investment rates present. Expected profits can influence investment decisions. Kregel (2008) furthermore states that a decrease in investments and profit can occur as anything might cause lower expected future profitability. However, in economic theory, the nature of investment decisions remains largely unresolved.

Neoclassical Theory of Investment Behaviour

The development of the Neoclassical theory of investment behaviour is centered on the optimal accumulation of capital or optimal capital stock. Optimal capital stock can be generated maximizing profits each period (Eklund, 2013; Pradhan *et al.,* 2019; Pradhan *et al.,* 2020a, 2020b). According to Eklund (2013), Chatterjee (2020) and Pradhan *et al.* (2020a, 2020b), the Neoclassical theory assumes optimization behaviour on behalf of the investor, explicitly assuming profit and value maximization. It highlights the significance of interest rates and prices to determine the investment saving decisions (Alexiou *et al.*, 2016; Chatterjee, 2020; Pradhan *et al.,* 2020a, 2020b). The theory states that interest rates do control the demand for investment goods. Expected profits motivate most investment decisions, as investment expenditure is aggregate demand key component that conditions through economic activity, employment, and the introduction and diffusion of new technology. The theory further stipulates that capital earns a return that is equal to its marginal productivity, however, it was argued that in a capitalist

economy monetary returns were important by Keynes and Minsky (Wray & Tymoigne, 2008; Pradhan *et al.,* 2020a).

Empirical Analysis

This subsection discusses studies of mutual funds in government stock and investment activity. There has been an increase in the number of academic and professional research due to the growth of mutual funds which has led to a search for clear, accurate presentation and analysis of results. Mutual funds play a greater role in financial markets (Ferreira *et al*., 2011; Nkoro & Uko, 2019; Pradhan *et al.,* 2020a). For various reasons, fund managers that manage equity mutual funds that are actively managed, do buy and sell stocks. A fund manager is motivated to buy stock with the certainty that stocks are undervalued when there are heavy investor's outflows. Alexander, Cici & Gibson (2007) reveal that managers that make purchases that are valuation motivated exhausted the market, however, when bound to invest excess cash from investor inflows is not possible. BRIC countries behaviour of stock and bonds was analysed by Bianconi, Yoshino & de Sousa (2013) using daily data, it was found that the BRIC bond and stock deviated among each other in the long run. At the same time, it was revealed that for Brazil and Russia, stock returns and bond correlations were considered great and negative.

According to BRICS promising economic prospective and demographic power, the countries are well-known for having the fastest developing markets in the universe (Bianconi *et al*., 2013). The BRICS countries aim to form a just and equitable international order. Economic growth in the BRICS countries and policies of social inclusion has led to stability in the global economy, alleviation of poverty, creation of jobs and reduction in inequality just to name a few. After the financial crisis, the global economy showed extreme recovery. Brazil and Russia's economy has improved significantly after the 1990s financial crisis. Russia's overseas investments have generally focused on industries in which it has a comparative advantage, industries such as gas, oil, mining and metallurgy.

The performance of funds was assessed in recent years to determine how investors can be better off by receiving marginally better returns for investments (Chiwawa, Fox & Wissink, 2020). Due to markets that are competitive in conventional finance, fund managers have been seeking different investment options (Chiwawa *et al.,* 2020). It has been long recognized that investors also tend to react to the performance of the mutual fund (Ivkovich & Weisbenner, 2008; Chatterjee, 2020; Pradhan *et al.,* 2020a, 2020b). However, emerging markets have been the best choice with new ethical investment options, like Malaysia's overall performance of its mutual funds' industry (Mansor & Bhatti, 2014; Nkoro & Uko, 2019). The Islamic mutual funds return performance was explored comparative to the respective market benchmark. It was shown that there is a superior fund selectivity skill by Mansor & Bhatti (2014), but a substandard market timing expertise amongst the Islamic fund managers and the market benchmark performance. Some empirical studies have suggested negative market timing ability with regards to the market timing strategy.

RESEARCH METHODOLOGY

This section outlines the methodology used and provides insight into the process of data collection, model specification and model estimation. It should suffice to mention that literature review was conducted to provide existing knowledge contexts to the argument and findings of this paper. Also, the paper uses a panel secondary annual data spanning from the periods 2001 to 2016. Data for government stock on mutual funds (GSMutualF), control variables such as the government stock on bonds (GSB), government stock on corporations (GSCorp), government stock on liquid assets (GSLA) and investment activity variable which is measured in terms of gross fixed capital formation (GFCF), was obtained from the World Bank. Vandemoortele *et al.* (2013) state that the BRICS countries commonly

referred to as the five key emerging market economies have countries that have promising economic growth and flexibility in financial markets.

Model Specification

In the model, investment activity is a function of government stock on mutual funds, government stock on bonds, government stock on corporations and government stock on liquid assets. There are a large number of academic and professional results devoted to the performance persistence in mutual funds. Haskell (1990) and Amenc & Le Sourd (2003) explained that the performance persistence in mutual funds cannot be viewed as the manager's superior stock-picking skills. The linear model estimated is written as follows:

$$GFCF_{it} = \beta_0 + \beta_1 GSB_{it} + \beta_2 GSMutualF_{it} + \beta_3 GSCorp_{it} + \beta_4 GSLA_{it} + \varepsilon_{it} \qquad (1)$$

In equation 1, β_0 is the constant and ε_{it} is the error term. Where GFCF is used as a proxy for investment activity in the BRICS countries.

Estimation Techniques

Econometric methods namely the panel unit root test, panel autoregressive distributed lag model, panel cointegration test, Engle-Granger causality test, the impulse response function (IRF) and lastly the variance decomposition test were conducted. The econometric techniques were employed to test the hypothesis that mutual funds in government stock have an impact on investment activity.

Panel Unit Root Test

The test has been used in many studies as the panel unit root test is poised to have a power that is higher as compared to the unit root tests of an individual time series (Costantini & Martini, 2009; Cahtterjee, 2020). Panel data techniques make it possible for models that are yet to be estimated to be selected with a high degree of flexibility and to be preferred due to their restrictions (Maddala & Wu, 1999; Costantini & Martini, 2009; Chatterjee, 2020). The Levin, Lin and Chu test (LLC); Im, Pesaran and Shin test (IPS) and the ADF Fisher type test, including the PP Fisher panel unit root tests can also be termed as the multiple series unit root tests (Alexiou *et al.*, 2016; Chatterjee, 2020). The following tests, namely the LLC, IPS, ADF and PP Fisher Chi-square panel unit root tests, were conducted.

Panel Cointegration Test

There has been a rise in the usage of cointegration techniques to estimate whether a relationship exists in the long run among variables in the empirical literature. Johansen & Juselius (1990) and Chatterjee (2020) hypothesize that the panel cointegration test examines the no cointegration null hypothesis among the variables against the alternative that there exists cointegration.

Panel Autoregressive Distributed Lag (PARDL) Model

Nkoro & Uko (2016, 2019) noted that the PARDL model has several advantages when there is a single long-run relation and it is very free from residual correlation when all variables are assumed endogenous, the model can differentiate the dependent and independent variables and it makes it easy for researchers to be able to analyse the reference model. Furthermore, Pesaran, Shin & Smith (2001) and Chatterjee (2020) the PARDL model can identify cointegrating vectors when there are multiple cointegration vectors.

Engle-Granger Causality Test

When there is a problem associated with testing or using small samples, causality between variables can be determined making use of panel data (Costantini & Martini, 2009; Chatterjee, 2020). The Engle-Granger causality test is employed to check if there is a bidirectional or a unidirectional relationship between the variables (Ahmad, 2015; Chatterjee, 2020).

Impulse Response Function (IRF) and Variance Decomposition

The IRF measures the time profile of each variable, how variables within the model respond to own shocks and in other variables over a while (Gujarati, 2004; Brooks, 2008; Ahmad, 2015; Chatterjee, 2020). The IRF can be used to also examine how the dependent variable responds to a shock in the error term directed to one or several equations included in the vector autoregression (VAR) system (Gujarati, 2004; Brooks, 2008; Chatterjee, 2020).

The variance decomposition test provides valid information regarding the relative significance of each random innovation affecting the VAR variables, as it examines the VAR system dynamics (Brooks, 2008; Chatterjee, 2020). The test also provides a proportion of the movements of the dependent variable as a result of their shock and shocks by other variables in the model (Gujarati, 2004; Chatterjee, 2020).

EMPIRICAL RESULTS AND DISCUSSION

The section presents outcomes of the tests and analyses conducted as well as the discussions obtained from the estimated model.

Panel Unit Root Test Results

The LLC, IPS, ADF and PP Fisher Chi-square panel unit root tests were performed. Lutkepohl (1993), pointed out that the level of integration explains whether data is stationary or nonstationary. Table 1 (see Appendix at the end of this paper) shows that the series is all of $I(1)$ and the panel variables where differenced once to induce stationarity. Gross fixed capital formation, government stock on corporations and government stock on liquid assets variables are stationary at $I(1)$ for all tests. Government stock on bonds is stationary at $I(0)$ for the Fisher-PP and LLC test, and $I(1)$ for the IPS and Fisher-ADF test. For government stock on mutual funds, there is stationarity at $I(0)$ for Fisher-PP and $I(1)$ for the other tests. Some variables are integrated of different orders $I(0)$ or $I(1)$ or a combination of both. When variables are integrated into different orders, the PARDL cointegration technique is usually preferred (Nkoro & Uko, 2016; Lutkepohl, 1993).

Panel Cointegration Test

The Johansen Fisher panel cointegration test (table 2) indicates if there is any cointegration or not and whether a relationship exists in the long-run among the variables. The panel cointegration test is usually used as a pre-requisite, determining whether a standard vector error correction model (VECM) or VAR should be conducted to analyse the presence of a relationship amongst the variables (Gujarati & Porter, 2009).

Table 2: Johansen Fisher Panel Cointegration Test Results

Hypothesized No. of CE(s)	Fisher stat. (from trace test)	Probability	Fisher stat. (from the maximum-Eigen test)	Probability
None	23.97	0.0077*	23.97	0.0077*
At most 1	75.07	0.0000*	75.07	0.0000*
At most 2	85.00	0.0000*	69.66	0.0000*
At most 3	31.73	0.0004*	24.78	0.0058*
At most 4	22.09	0.0147*	22.09	0.0147*

*denotes rejection of the null hypothesis at 0.05 significance level

Source: Authors own computations

One lag length was used to determine cointegration between the variables. The Johansen Fisher panel cointegration test results (table 2) indicate that the trace statistic has five cointegrating equations. The Fisher maximum-Eigen test also shows five cointegrating equations at a 5 percent significance level. When all the p-values are less than 0.05, we reject the null hypothesis of no cointegration and accept the alternative. There is a long-run relationship in the model and cointegration among the variables.

The individual cross-section results are presented in table 3 in which on the hypothesis of none and at most 1 are interpreted, showing results from the BRICS countries. From the results in table 3, it is shown that at the none hypothesis the countries of Brazil, Russia, China and South Africa we cannot reject the null hypothesis as there is no cointegration where the p-values are greater than 0.05.

Table 3: Individual Cross-section Results

Cross Section	Trace Test Statistics		Probability**	Max-Eigen Test Statistics	Probability**
		The hypothesis of no cointegration			
BRAZIL	NA		0.5000	NA	0.5000
RUSSIA	NA		0.5000	NA	0.5000
INDIA	1009.3756		0.0001	494.9071	0.0001
CHINA	NA		0.5000	NA	0.5000
SOUTH AFRICA	NA		0.5000	NA	0.5000
		The hypothesis of at most 1 cointegration relationship			
BRAZIL	516.8459		0.0001	480.7447	0.0001
RUSSIA	524.7243		0.0001	485.2030	0.0001
INDIA	514.4685		0.0001	479.5265	0.0001
CHINA	NA		0.5000	NA	0.5000
SOUTH AFRICA	538.9155		0.0001	476.4025	0.0001

Source: Authors own computations

For the country of India, there is cointegration under the trace test and maximum-Eigen test, at none and most 1. Unlike China which still reflects no cointegration at most 1 hypothesis, the countries of Brazil, Russia and South Africa under the trace test and maximum-Eigen test indicate cointegration.

Panel Autoregressive Distributed Lag (PARDL) Model

The PARDL long run indicates how the independent variables influence the dependent variable. The PARDL short run, however, indicates the speed of adjustment on whether the model or investment activity of the BRICS countries will ever return to equilibrium. The speed of adjustment which is also referred to as the ECT shows whether the economic models will be able to return to equilibrium or not and at what speed (Brooks, 2008).

From the PARDL long run results in table 4, it is evident that gross fixed capital formation is affected negatively by government stock on bonds. The outcome of the results confirms that a 1 percent increase in government stock on bonds will lead to a decrease of 3.3838 percent in gross fixed capital formation. For each 1 percent increase in government stock on mutual funds, the gross fixed capital formation will increase by 2.9584 percent in the long run. When the financial system is stable, there is also stability in the investment activity of a country. Also, the economic growth of a country can increase as a result of a well-functioning and stable financial system (Pradhan, Arvin, Hall & Bahmani, 2014).

Table 4: PARDL Long Run Results

LONG RUN		
	Coefficient	Probability
GSB	-0.033838	0.0000
GSMUTUALF	0.029584	0.0000
GSCORP	-0.464305	0.0001
GSLA	0.276565	0.0000
SHORT RUN (SPEED OF ADJUSTMENT): -0.543092		

Source: Authors own computations

This paper shows that in BRICS countries during the period under consideration, gross fixed capital formation is also negatively related to government stock on corporations. A 1 percent increase in government stock on corporations leads to a 46.4305 percent decrease in gross fixed capital formation. Proper investment decisions lead to growth and stability in a corporation or financial market, which will in turn lead to a positive impact on the economic growth of a country. As it was found in the study of Wray & Tymoigne (2008), a decline in investments and profits may take place, as anything that might cause expected future profitability to be lower can also cause today's demand price of capital to result as being lower than the supply price.

Gross fixed capital formation is positively related to government stock on liquid assets. Which implies that a 1 percent increase in government stock on liquid assets will lead to a 27.6565 percent increase in gross fixed capital formation in the long run. Performance of the economy will also depend on investment decisions made by corporations.

Table 5: PARDL Short Run Results

SHORT RUN		
	Coefficient	Probability
D(GSB)	0.015469	0.2242
D(GSMUTUALF)	-0.024016	0.3269
D(GSCORP)	-3.658543	0.5719
D(GSLA)	-0.064621	0.6975
(SPEED OF ADJUSTMENT): -0.543092		

Source: Authors own computations

The estimated speed of adjustment has a negative sign, which is at -0.543092 and is highly significant (table 5). The speed of adjustment that is highly significant also confirms the existence of cointegration among the variables and a stable long-run relationship. Therefore, there is a long-run causality moving from the independent variables towards the dependent variable and that approximately 54 percent of disequilibrium is corrected each year. It will take 54 percent each year for investment activity to return to equilibrium, which is not a slow movement back to equilibrium.

Engle-Granger Causality Test

The Engle-Granger causality test (table 6) is employed to examine the presence of causality and the direction of causality between the variables. Government stock on mutual funds does not Granger cause gross fixed capital formation or verse vice, as the p-values are greater than 5 percent. Government stock on mutual funds and government stock on bonds do not influence each other as the null hypothesis cannot be rejected and is insignificant. Government stock on liquid assets and government stock on mutual funds do not influence each other, including government stock on liquid assets and government stock on corporations. As the p-values are greater than 5 percent, therefore insignificant. The results revealed that there is a unidirectional relationship between investment activity and government stock on corporations and between government stock on bonds and government stock on liquid assets. The unidirectional relationship implies that investments are not useful in forecasting government stock on corporations.

Table 6: Engle-Granger Causality Results

NULL HYPOTHESIS	PROBABILITY
GSB does not Granger Cause GFCF	0.6082
GFCF does not Granger Cause GSB	0.6391
GSMUTUALF does not Granger Cause GFCF	0.9871
GFCF does not Granger Cause GSMUTUALF	0.1612
GSCORP does not Granger Cause GFCF	0.7885
GFCF does not Granger Cause GSCORP	0.0033
GSLA does not Granger Cause GFCF	0.729
GFCF does not Granger Cause GSLA	0.7543
GSMUTUALF does not Granger Cause GSB	0.7124
GSB does not Granger Cause GSMUTUALF	0.6227
GSCORP does not Granger Cause GSB	0.7049
GSB does not Granger Cause GSCORP	0.7819
GSLA does not Granger Cause GSB	0.691
GSB does not Granger Cause GSLA	0.0445
GSCORP does not Granger Cause GSMUTUALF	0.2103
GSMUTUALF does not Granger Cause GSCORP	0.7941
GSLA does not Granger Cause GSMUTUALF	0.3779
GSMUTUALF does not Granger Cause GSLA	0.4904
GSLA does not Granger Cause GSCORP	0.5405
GSCORP does not Granger Cause GSLA	0.4547

Source: Authors own computations

Impulse Response Function (IRF) and Variance Decomposition

This paper determines, in this subsection, the impulse response function results and the variance decomposition results.

Impulse Response Function Results

To be able to get appropriate results, a time horizon of 10 years was observed when checking the persistence during the long run of gross fixed capital formation. The impulse response plots (figure 1) are usually given with a zero line, when the responses are statistically insignificant it means that the responses are below the zero line Ahmad (2015).

In figure 1 the blue line represents investment activity as shown on the IRF graphs. The response of gross fixed capital formation to gross fixed capital formation graph shows own shock, and significance as investment activity line is above the zero line and positive. The response of gross fixed capital formation to government stock on bonds graph indicates that shocks in government stock on bonds have a negative impact on investment activity. At the beginning, the magnitude of response of gross fixed capital formation is positive at zero until year 2 and becomes negative and in turn, reaches the lowest level between years 3 to 5. This suggests that shocks in government stock on bonds have a negative influence on the investment activity level. The response of gross fixed capital formation to government stock on mutual funds graph shows similar results as the response of gross fixed capital formation to government stock on bonds, which shows that shocks in government stock on mutual funds have a negative impact on gross fixed capital formation.

The response of gross fixed capital formation to government stock on corporations graph suggested that at the start gross fixed capital formation responded positively to maintain the investment activities by investing more. This trend suggests that at the beginning, the BRICS countries invested more and continued to do so as corporations performance improved. The results from the response of gross fixed capital formation to government stock on liquid assets graph suggest that investment activity responds positively to the shocks of government stock on liquid assets. This means that investment activity level increases because the BRICS are investing more.

Variance Decomposition Results

The variance decomposition (table 7) indicates that in all the periods, from period 1 until 10 gross fixed capital formation is shocked by its innovations (own shock) even throughout the other periods. The gross fixed capital formation percentages are greater than the percentages of other variables. Period 3 shows the short run, where the innovation to gross fixed capital formation accounts for 99.16725 percent variation of the fluctuation in gross fixed capital formation (own shock) which is significant.

Table 7: Variance Decomposition Results

Variance Decomposition of GFCF:					
Period	S.E.	GFCF	GSB	GSMUTUALF	GSCORP	GSLA
1	1.320795	100.0000	0.000000	0.000000	0.000000	0.000000
3	3.063456	99.16725	0.000959	0.193124	0.608439	0.030229
10	5.849068	94.07620	0.234883	1.694534	3.693841	0.300540

Source: Authors own computations

Figure 1: Impulse Response Function (Response of Cholesky One S.D Innovation)

Response to Cholesky One S.D. (d.f. adjusted) Innovations ± 2 S.E.
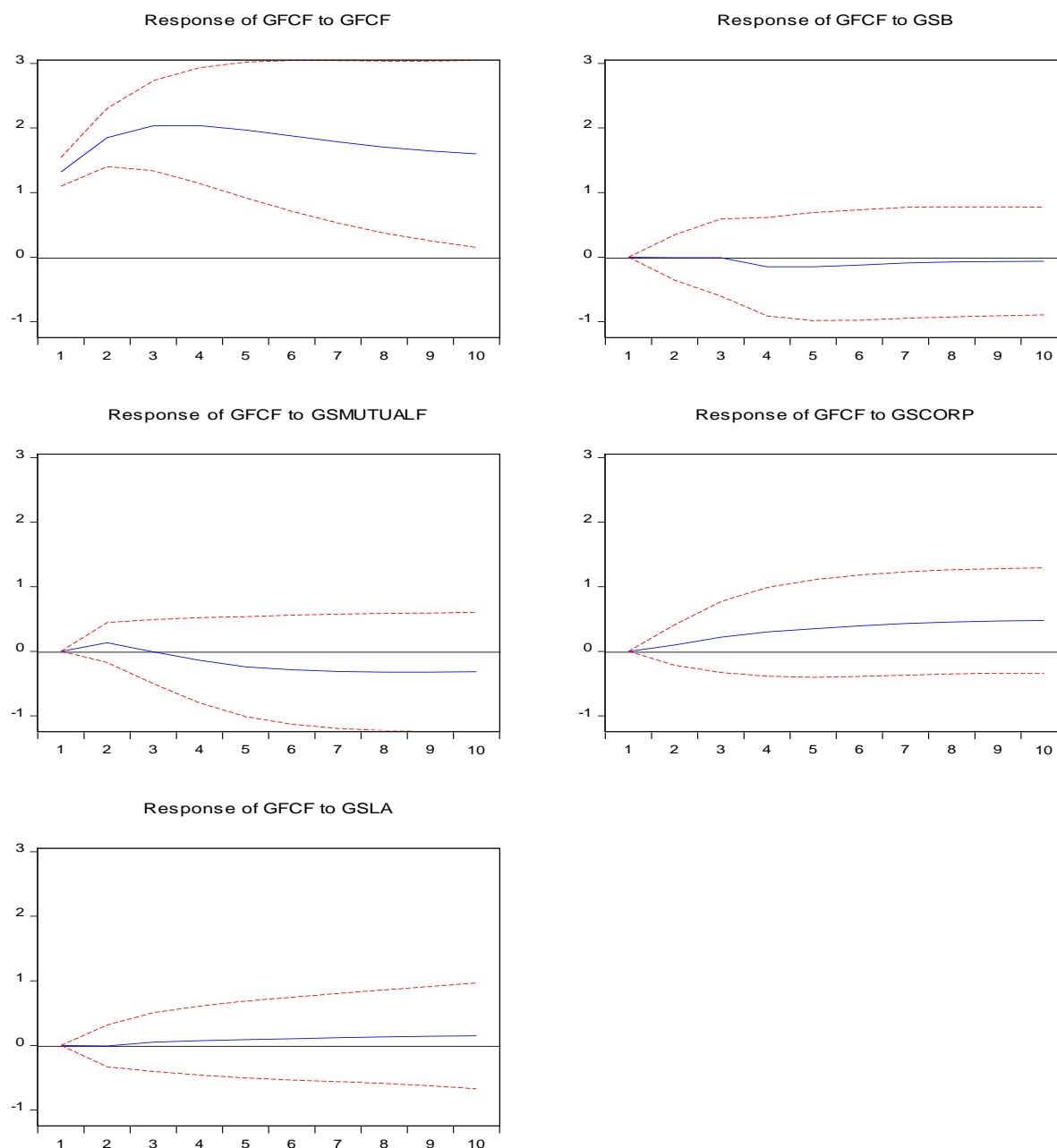
Source: Authors own computations

Shock to government stock on bonds can cause 0.000959 percent fluctuation in gross fixed capital formation, while a shock to government stock on mutual funds can cause 0.193124 percent fluctuation in gross fixed capital formation. Shock to government stock on corporations can cause 0.608439 percent fluctuation in gross fixed capital formation and shock to government stock on liquid assets can cause 0.030229 percent fluctuation in gross fixed capital formation. However, total fluctuation becomes 100 percent, in the short run in year 3.

Period 10 which indicate the long run results show that the shock to gross fixed capital formation can contribute 94.07620 percent variation of the fluctuation in gross fixed capital formation (own shock). Shock to government stock on bonds can contribute 0.234883 percent fluctuation in the variance of gross fixed capital formation and shock to government stock on mutual funds can contribute 1.694534 percent fluctuation in gross fixed capital formation. The shock to government stock on corporations can contribute 3.693841 percent fluctuation in gross fixed capital formation and shock to government stock on liquid assets can contribute 0.300540 percent fluctuation in gross fixed capital formation. From the results, it is evident that mutual funds do not have a lot of influence on investment activity.

CONCLUSION AND RECOMMENDATIONS

This paper has given an account of how mutual funds in government stock influence investment activity. Yearly data from 2001 to 2016 was used and the panel autoregressive distributive lag model of BRICS countries was employed as the econometric methodology, making use of data collected from the World Bank. Cointegration methods were used to determine long-run effects. Furthermore, Granger causality was employed for directional analysis and variance decomposition and impulse response function indicated the presence of shocks to the series. The results showed a long-run relationship among the variables as they move together in the long run. Estimates of mutual funds indicated a positive and significant impact on investment activity.

The paper recommends that mutual fund policymakers need to develop policies that will lead to financial stability and promote the performance of financial institutions. These policies should be able to help financial institutions in making investment decisions that will further benefit them and the country's economy not only in the short but also in the long term, considering the risks afflicting financial institutions daily. Well-performing financial institutions have the potential to grow the economy. The growth of the economy has prospects of augmenting employment rate while providing more opportunities that could help alleviate poverty. A critical evaluation is needed to avoid investment shocks, instability of investment activity, instability of financial markets and the economy as a whole. Additionally, the paper recommends that an institution of policies that promote financial stability in all financial sectors needs to be established in order to ensure that proper investment decisions are made with an assessment of associated risks. From a managerial perspective, the paper recommends that specific expertise in financial and economic performance need to be sourced in order to ensure that the mutual fund policies are evidence-based. In cases where the institution is unable to host such expertise internally, then such necessary expertise needs to be sourced as and when the institution seeks to develop and implement mutual fund policies.

REFERENCES

Ahmad, F., (2015). Determinants of savings behavior in Pakistan: Long run-short run association and causality. *Timisoara Journal of Economics and Business,* 8(1): 103-136.

Alexander, J.G., Cici, G. & Gibson, S., (2007). Does motivation matter when assessing trade performance? An analysis of mutual funds. *The Review of Financial Studies,* 20(1): 125-150.

Alexiou, C., Tsaliki, P. & Tsoulfidis, L., (2016). Classical theory of investment: Panel cointegration evidence from 13 EU countries. *Contributions to Political Economy,* 35(1): 39-56.

Amenc, N. & Le Sourd, V., (2003). *Portfolio Theory and Performance Analysis*, (1st edn.). New York: John Wiley & Sons.

Arestis, P. & de Paula, F.L., (2008). *Financial Liberalization and Economic Performance in Emerging Countries.* New York: Palgrave MacMillan.

Arljukova, I., (2008). Problems preventing air companies from efficient investment activities. *Baltic Journal on Sustainabilty,* 14(3): 247-259.

Bianconi, M., Yoshino, J.A. & De Sousa, M.O.M., (2013). BRIC and the US financial crisis: An empirical investigation of stock and bond markets. *Emerging Markets Review*, 14: 76-109.

Brooks, C., (2008). *Introductory Econometrics For Finance (*2nd edn.). New York: Cambridge University Press.

Chatterjee, A., (2020). Financial inclusion, information and communication technology diffusion and economic growth: A panel data analysis. *Information Technology Development*, (in press).

Costantini, V. & Martini, C., (2009). The causality between energy consumption and economic growth: A multi-sectional analysis using non-stationary cointegrated panel data. *Dipartimento Di Economia,* 102: 1-40.

Cumming, J.D. & Macintosh, G.J., (2007). Mutal funds that invest in private equity? An analysis of labour sponsored investment funds. *Cambridge Journal of Economics,* 31(3): 445-487.

Eklund, E.J., (2009). Theories of investment: A theoritical review with empirical applications. *Swedish Entrepreneurship Forum,* 22: 1-16.

Eklund, J.E., (2013). Theories of investment: A theoritical review with empirical applications.. *Swedish Entrepreneurship Forum,* 22: 1-30.

Ferreira, M.A., Keswani, A., Miguel, A.F. & Ramos, S.B., (2011). The determinants of mutual fund performance: A cross-country study. *Swiss finance institute research paper,* 31: 1-30.

Gujarati, D.N., (2004). *Basic Econometrics.* New York: The McGraw-Hill Companies.

Gujarati, D.N. & Porter, D., (2009). *Basic Econometrics.* New York: McGraw-Hill.

Harcourt, G.C., (2006). *The Structure of Post-Keynesian Economics: The Core Contributions of Pioneers.* New York: Cambridge University Press.

Haskell, P.G., (1990). The prudent person rule for trustee investment and modern portfolio theory. *UNC Law Review*, 69(1): 87-111.

Ivkovich, Z. & Weisbenner, S., (2008). Individual investor mutual-fund flows. *NBER working paper,* 14583: 1-30.

Johansen, S. & Juselius, K., (1990). Maximum likelihood estimation and inference on cointegration with applications to the demand for money. *Oxford Bulletin of Economics and Statistics,* 52(2): 169-210.

John, L., (2012). Engaging BRICS: Challenging and opportunities for civil socitey. *Oxfam India Working Paper Series,* 12: 1-24.

Chiwawa, N., Fox, W. & Wissink, H., (2020). Strategic management practices in Zimbabwe's public sector. *Journal of Public Administration and Development Alternatives,* 5(3): 93-108.

Kregel, J.A., (2008). Minsky's cushions of safety: Systemic risk and the crisis in the U.S subprime mortgage market. *Public Policy Brief,* 93: 51-59.

Lutkepohl, H., (1993). *Introduction to Multiple Regression Analysis.* Berlin: Springer.

Maddala, G. & Wu, S., (1999). A comparative study of unit root tests with panel data and a new simple test. *Oxford Bulliten of Economics and Statistics,* 61(Special Issue): 631-652.

Mansor, F. & Bhatti, I.M., (2014). Timing and investment performance of Islamic mutual funds: A panel data analysis. *Science International,* 126(5): 2385-2393.

Nkoro, E. & Uko, A.K., (2016). Autoregressive Distributed Lag (ARDL) cointegration technique: Application and interpretation. *Journal of Statistical and Econometric Methods,* 5(4): 63-91.

Nkoro, E. & Uko, A.K., (2019). The sources of economic growth in Nigeria: A growth accounting approach. European Journal of Economics and Business Studies, 5(1): 89-99.

Pesarani, M.H., Shin, Y. & Smith, R.J., (2001). Bounds testing approach to the analysis of level relationships. *Journal of Applied Econometrics,* 6: 289-326.

Pradhan, R.P., Arvin, M.B., Hall, J.H. & Bahmani, S., (2014). Causal nexus between economic growth, banking sector development, stock market development, and other macroeconomic variables: The case of ASEAN countries. *Review of Financial Economics*, 23(4): 155-173.

Pradhan, R.P., Arvin, M.B., Nair, M., Bennett, S.E. & Bahmani, S., (2019). Short-term and long-term dynamics of venture capital and economic growth in a digital economy: A study of European countries. *Technology in Society*, 57: 125-134.

Pradhan, R.P., Arvin, M.B., Nair, M. & Bennett, S.E., (2020a). Some determinants and mechanics of economic growth in middle income countries: The role of ICT infrastructure development, taxation and other macroeconomic variables. *Singapore Economic Review* (in press).

Pradhan, R.P., Arvin, M.B., Nair, M. & Bennett, S.E., (2020b). The dynamics among entrepreneurship, innovation and economic growth in the Eurozone countries. *Journal of Policy Modelling,* 42: 1106-1122.

Pradhan, R.P., Arvin, M.B., Nair, M., Hall, J.H. & Bennett, S.E., (2021). Sustainable economic development in India: The dynamics between financial inclusion, ICT development and economic growth. *Technological Forecasting and Social Change*, 169: 1-19.

Senyo, P.K. & Osabutey, E.I.C., (2020). Unearthing antecedents to financial inclusion through FinTech innovations. *Technovation*, 98: 1-14.

Sibirskaya, E.V., Stroeva, O.A., Khokhlova, O.A. & Oveshnikova, L.V., (2014). An analysis of investment innovation activity in Russia. *Life Science Journal,* 11(7): 155-158.

Sridharan, P., Vijayakumar, N. & Rao, C.S.K., (2009). Causal relationship between foreign direct investment and growth: Evidence from BRICS countries. *International Business Research,* 2(4): 198-203.

Wray, L.R. & Tymoigne, E., (2008). Macroeconomics meets Hyman P Minsky: The financial theory of investment. *The Levy of Economics Institute,* 543: 1-28.

EXTERNAL ECONOMIC ARRANGEMENTS AND SOUTH AFRICAN CITIES AS AGENTS OF LOCAL DEVELOPMENT: ILLUSTRATIONS FROM THE CITY OF CAPE TOWN

M.R. Maziwisa

ABSTRACT

The paper examines the role of South African metropolitan cities (metros) in advancing local economic development (LED) through engagements with external actors. Globalization is increasingly changing the roles and players in international affairs. Cities are increasingly affected by global issues such as COVID-19, the global financial crisis of 2008, and climate change, and they have had to step up and engage with external actors, especially in recent years. In order to shield local economies from devastating declines, local governments have become more actively involved in pursuing LED initiatives. Furthermore, due to the increasing interconnectedness arising from globalization, cities have become more integrated into global markets, and have increased their efforts to become more competitive in order to attract foreign investment, and to establish themselves as ideal places for head offices and outsource services. In light of the economic decline caused by the COVID-19 lockdown measures, it is now, more than ever, pertinent for South African local governments to become active participants in the global arena as agents of economic cooperation and development. This paper argues that there is immense value in metros' engagements with external actors for economic cooperation because such arrangements have the potential to promote local economic development. The paper concludes that South Africa's legislative framework is, in its current form, not fully supportive or enabling for cities to exploit this development avenue. Instead, the legislative framework is riddled with contradictions and impediments that disable cities from exploring external economic engagements for economic cooperation and local development.

INTRODUCTION AND BACKGROUND

In an increasingly unequal world with soaring unemployment, high crime rates, increasing homelessness and rural-urban migration, metropolitan cities (cities/metros) are faced with fast population growth and stressed infrastructure, which is often unable to match the burgeoning city population. Although cities could wait for the national and provincial spheres of government to address the challenges

***Michelle Rufaro Maziwisa** is a Postdoctoral Research Fellow at the Dullah Omar Institute under the South African Research Chair in Multilevel Government, Law and Development. Dr Maziwisa holds a Doctoral degree in Public Law (University of the Western Cape). As an admitted attorney, her research interests advocate for multi-disciplinary approaches to economic development, taking into account the gendered dimensions of economic governance and prioritizing the constitutional mandate of local government as "developmental." She has been awarded research fellowships at the University of Hamburg, Germany, and at the Bucerius Law School. She is a Marie Skłodowska-Curie fellow.*

that fall within their constitutional functions (Chiweza & Msiska, 2020; Khaile, 2020) such as unemployment and fighting crime, this would only leave cities in a quagmire, as they experience the realities of inequality, unemployment, crime and urban migration, inter alia, more directly than the provincial and national level. For example, high unemployment tends to increase crime rates in cities, which reduces feelings of safety and can make the city an undesirable place to live. Increased rural-urban migration stretches municipal resources, especially in terms of the infrastructure needed to meet the requirements of a larger population. For example, the Auditor General's MFMA Report for the period 2018-19 notes that Buffalo City (Eastern Cape) failed to deliver on basic services due to rapid urbanisation and population growth (Auditor General of South Africa, 2020: 29). Nonetheless, cities have generally become more proactive in seeking to address these challenges and their root causes, through local economic development (LED) measures.

Cities have an important role to play in promoting economic development within their communities for various reasons. The most immediate reason is that local government is the sphere of government closest to the people. Its service delivery mandate is usually the most visible public service, whereas other services provided by the national and provincial spheres are not immediately associated with these spheres due to deconcentration (Chiweza & Msiska, 2020). Moreover, most lay persons cannot distinguish the exact functions that each sphere of government is responsible for. Consequently, local government tends to be the sphere that is most likely to face the backlash of dissatisfied local communities manifested through protest action and vandalism of municipal property. The reasons for such protest action could range from matters within municipal functions such as service delivery to matters exceeding municipal functions such as unemployment.

Although local governments are not responsible for creating jobs, local economies are dependent on the existence of vibrant economic activity for their revenue. This is especially important in light of the 51 percent contraction of South Africa's gross domestic product (GDP) in the second quarter under COVID-19 lockdown which severely restricted business activity (*eNCA*, September 08, 2020). The COVID-19 pandemic has highlighted the intricate link between unemployment and municipal revenue. During the lockdown period and thereafter, there have been increased job losses and reduced economic activity, and we saw municipalities across the country having significantly lower revenue in the form of property taxes and user fees. The reason is that when people are employed they have more access to money which can in turn be used to pay their municipal bills and property rates, which gives municipalities much needed revenue for the performance of municipal functions. In eThekwini (KwaZulu Natal) for example, in April, the first full month of lockdown, the revenue collection rate had fallen to 56 percent. Moreover, the metro had initially planned to provide relief to local consumers by delaying the payment period for water services, but upon realizing it was sitting on R13 billion in arrears owed to the city, it was forced to revoke the relief in order to prevent financial trouble (Pillay, 2020).

It is therefore an especially critical time to consider what local governments are doing to advance economic development. However, because LED is quite broad, this paper will focus on LED measures involving local government engagements with external actors, such as foreign governments, corporations and donors. This enquiry is pertinent in light of the much needed post-COVID-19 economic recovery (Bloomberg, 2020). Drawing from Amartya Sen's capabilities approach, development is to increase people's capability to live the life they choose. Blakeley and Leigh define LED as follows:

> "*Local economic development is achieved when a community's standard of living can be preserved and increased through a process of human and physical development that is based on principles of equity and sustainability*" (Blakely & Leigh, 2013: 72-73).

This definition incorporates the need for the creation of jobs that will pay a living wage, at the very minimum, sustainability and poverty alleviation. This paper examines the role that South African

metropolitan city (metros) could play in advancing LED through their engagements with external actors. This requires an analysis along the following lines: (1) What types of engagements with external actors are enabled by law and policy? (2) How are these engagements implemented in practice, if at all? and (3), What are the opportunities and challenges that these engagements present for LED in South African cities?

Existing studies discuss the relationship between unemployment and municipal revenue; however, this paper contributes to the field under the specific circumstances of unemployment that is associated with a pandemic. South Africa's gross domestic product (GDP) contracted by 51% in the second quarter of 2020 largely due to Covid-19 and the resultant hard lockdown regulations (*eNCA*, September 08, 2020). Government interventions that are made during the pandemic imply that this paper makes contributions to the field in a complex relationship that is also dependent upon unconventional variables such as the citizens' outlook of the uncertainties of the future. The economic downturn and rising unemployment associated with the pandemic may not necessarily be structural with the result that its effects on property rates and user fees may not be explicable through the established principles about the relationship between unemployment and municipal revenues. Government makes a variety of interventions, including financial relief, during the pandemic which tend to complicate the linkages between unemployment and municipal revenue. Additionally, government interventions are made at a specific time in the course of the pandemic, rather than at the onset; hence, this paper's contribution to the field is different from those of existing studies. This time-lag in the intervention is also matched by that in municipal revenue collection and, perhaps, services provision. Added to these dynamics, are the bureaucratic mechanisms that renders the relationship between unemployment and municipal revenue even more complex. These issues, as explained above, define the unique contribution of this paper to the field. Furthermore, the paper is forward-looking in that it seeks to establish the mechanisms through which municipal revenue could be managed in the post-pandemic economic recovery.

This paper is presented in six sections, including this introduction and background. The second section establishes the context, by framing cities as agents of economic development, whilst the third examines South Africa's legislative and policy framework regulating the engagements of cities with external actors, section four discusses the practice of cities in their engagements with external actors, and section five analyses the opportunities and challenges that these engagements pose for LED, and section six provides concluding remarks and recommendation. The next section demonstrate that cities matter as agents of economic development.

CONTEXTUAL ISSUES: CITIES AS AGENTS OF ECONOMIC DEVELOPMENT

Globalization has shifted the dynamics of cities and nation-States through economic cooperation and para-diplomacy. International organs are increasingly emphasizing the role of cities in sustainable economic development through normative instruments such as the United Nations Sustainable Development Goals (SDGs). Goal 11 of the SDGs for example, seeks to make cities and human settlements inclusive, safe, resilient and sustainable. Further, Aspiration 1 of the African Union Agenda 2063, envisages cities as "hubs of cultural and economic activities with modernised infrastructure," and having "access to basic necessities of life such as water, sanitation, energy, public transport and ICT" (African Union Commission, 2015: 10). These policy objectives highlight the increasing importance of cities beyond their traditional service delivery responsibility and more as hubs for economic activity.

Cities create skilled labour, host world ranked universities, and promote high-end economic activities (African Union Commission, 2015). Their diverse economic profiles require both skilled and unskilled labour, which is supported by inter-city and cross-border flows of people, goods and services because of the "good job opportunities, high quality of life, a broad array of available consumer goods and services, safety, tolerance, diversity, vibrancy, and extensive expat networks" concomitant with cities

(African Union Commission, 2015: 10). Cities are also an important point of enquiry because they are facing unprecedented urban migration which requires increased service delivery in ever-expanding high density informal townships, and this in turn requires infrastructure and job creation. Furthermore, with global economic crises and health disasters, cities are facing huge economic pressures, and so are their residents. This dilemma is especially important in the case of South Africa where about 60 to 90 percent of municipal finance comprises of own revenue (RSA, 1996, Section 227).

Although the jobs creation and housing are not local government competencies, they affect municipalities, and in practice, municipalities have to deal with resident's inability to pay user fees for municipal services and rates, and homelessness. These realities illustrate that cities are not only able, but in some instances, they are best placed to take on additional responsibilities that promote LED. Moreover, cities are finding room in global markets for international procurement and access to credit as the world is becoming more and more integrated. This has made it critical to view cities as global actors capable of engagements with external actors (being actors outside the country in which the local government is based). Occurrences such as the global financial crisis of 2008, which triggered systemic risks in the financial sector evidenced that global events can have serious impacts on local economies due to the interconnectedness of the world (Western Cape Government, 2017). Cities occupy less than 3% of the total land but generate 70% of the global economy GDP (City of Cape Town, 2017) and are increasingly involved in solving challenges and sharing best practices (Beukman, 2017). Thus it has become important to view cities as actors in the global sphere as opposed to purely localised governments (Western Cape Government, 2017; Armando, 2018). With cities around the world competing for recognition as "global cities", which is associated with being the location of headquarters of specialised service firms, sites for direct capital investment, nodes of global financial flows, ports of global trade, centres of knowledge-production and preferred residential location of highly skilled individuals (Pieterse, 2020) it is not surprising that the City of Cape Town is promoted as a "competitive global hub for economic, social and cultural activity" (City of Cape Town, year, paragraph 2.1).

Local governments can advance economic development by various means. The most important being the creation of an enabling environment for businesses, providing business support, especially for SMEs, women-owned and informal businesses, and building capabilities through training the local workforce, and establishing links with employers. With a 23.3 percent unemployment rate (4.3 million people), cities can play an enormous role in connecting employers and job seekers, and equipping job seekers with relevant skills for work placements. Moreover, cities are empowered to outsource services and purchase goods from private actors to enable municipalities to perform their functions. This power should be exercised within the ambit of the domestic legislative framework. Now, a look at the legislative framework.

SOUTH AFRICA'S LEGISLATIVE AND POLICY FRAMEWORK FOR LED

South Africa has a quasi-federal system of government in terms of which powers are devolved between three spheres of government, being national, provincial and local (RSA, 1996, Section 40). Local governments are two-tiered, classified in 155 of the Constitution as metros, district municipalities and local municipalities. Metros enjoy exclusive legislative and executive power in their areas, whereas districts have legislative and executive powers over their areas as well as shared legislative and executive powers over local municipalities falling within their areas (RSA, 1996, Section 155). The three spheres of government are described as "distinctive, interdependent and interrelated" (RSA, 1996, Section 40), which envisions a system of cooperative government while recognising the autonomy of each sphere to regulate and administer matters within its own functions. The division of powers is established in sections 44 (national), 104 (provincial) and 156 (local) of the Constitution and a list of functions is set out in Schedules 4 and 5 to the Constitution, with residual powers falling within the purview of national government.

As this paper focuses on local governments, the analysis is limited to the provisions relating to local government. In this regard, section 156 of the Constitution stipulates that local governments have legislative, executive and administrative powers over matters in Schedules 4B and 5B of the Constitution. These powers are subject to framework law enacted by national and provincial government for Schedule 4B matters, and by provincial government exclusively for Schedule 5B matters (RSA, 1996). Economic functions are mostly concurrent functions shared by the national and provincial spheres (such as trade, agriculture), and others such as employment creation are residual powers of the national government. More important for purposes of this discussion is section 152(1)(c) of the Constitution which mandates local government to "promote social and economic development," and section 153(a) which identifies municipalities as "developmental" and obliges municipalities to "structure and manage [their] administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community." These provisions make it sufficiently clear that local economic development is well within the powers of local government, but it does not stipulate how this power is to be exercised, and neither does it define "social and economic development" in section 152 and 153 of the Constitution. One therefore has to read in principles such as equality (section 9 of the Constitution), human dignity (section 10 of the Constitution), and the advancement of socio-economic rights, such as the rights to health, food security, access to potable water and healthy and safe environment. It is important to keep these in mind as all spheres of government have a constitutional duty to respect the Bill of Rights (section 8 of the Constitution).

This constitutional framework is supported by provisions in the Municipal Finance Management Act (MFMA) (RSA, 2003), Municipal Systems Act (Systems Act) (RSA, 2000), Municipal Structures Act (Structures Act) (RSA, 1998a) and the Municipal Supply Chain Regulations (MSCR) as well as the Preferential Procurement Policy Framework Act (RSA, 2000). Starting from the provision in section 8 of the Systems Act, "[a] municipality has the right to do anything reasonably necessary for, or incidental to, the effective performance of its functions and the exercise of its powers" (RSA, 2000, Section 8) This can be interpreted to mean that municipalities can enter into binding and non-binding agreements (what I call "hard" and "soft" agreements respectively) that enable them to perform their constitutional and legislative functions. Further, section 23 of the Systems Act requires municipalities to "developmentally oriented." Although this is not defined per se, some important steps to achieve this are included, such as section 25 of the Systems Act on the adoption of integrated development plans, through participatory processes (participatory development).

At a policy-level, the *White Paper on Local Government* (RSA, 1998b) envisions developmental local government characterised by maximising social development and economic growth, integrating and coordinating development, promoting inclusiveness and democratic development. The *White Paper on Local Government* identifies municipality's primary duty as one of providing basic household infrastructure, which it defines as including "essential municipal services such as water, sanitation, electricity, roads, storm water drainage and street lighting needed to sustain a healthy and safe standard of living" (RSA, 1998b: 24) It further notes that municipalities have an additional duty to develop existing preferential procurement as a means to connect municipal contracts to social responsibility, and to develop policies with the aim of alleviating poverty, and providing support services (such as training) to capacitate SMEs, and community development organisations.

Maximizing social development means that municipalities should exercise their functions in such a way that they maximise the impact on social development and poverty alleviation, in other words, a pro-poor developmental approach (RSA, 1998b: 24). This is possible because municipalities can use their existing roles of regulation and service delivery to direct LED. Municipalities are in this strategic position because they are not only large employers, but also have the responsibility to determine the prices and quality of public goods such as water, electricity and municipal roads. They also control land use and land

development, essentially meaning they also have the capacity to influence decisions to invest in the municipality. The World Bank ease of doing business (subnational) Report (World Bank, 2018) lists access to water, electricity, and land and building registrations as part of its assessment of the ease of doing business, which illustrates factors that can persuade investors to invest in one city or another. In this report, Cape Town ranks highest in ease of obtaining construction permits, getting electricity, while Mangaung ranks highest in ease of registering property and enforcing contracts. The lowest ranking for construction permits was Tshwane, for electricity was Nelson Mandela Bay, for registering property was Msunduzi, and for enforcing contracts was Buffalo City. Although these ratings are not a silver bullet, they are indicators that help to persuade or dissuade potential investors from choosing a particular city as the location for their investment. Municipalities therefore have an important role to play in promoting investment and trade. Even though these are national and provincial functions, cities can create an enabling environment, and establish their LED vision.

The *White Paper on Local Government* indicates that the LED vision should ideally be arrived at through participatory processes (RSA, 1998b: 25) that enable local communities to take part in the debates and planning of LED. One of the main tools in this regard is the use of the Integrated Development Planning. Section 25. However, IDP processes have been laden with challenges such as lack of transparency of services to be provided to communities, participation has been reduced in some instances to merely ceremonial presence, without the informed engagement necessary for participation, and a top down process (Madzivhandila & Maloka, 2014; Khaile, 2020). It is therefore an interesting point of enquiry to determine whether engagements with external actors create opportunities for further public participation to shape the LED vision.

The four main developmental outcomes identified in the *White Paper on Local Government* are the provision of household infrastructure, creation of liveable, integrated cities and rural areas, LED and community empowerment and redistribution (RSA, 1998b: 26). Household infrastructure includes the infrastructure for basic services such as water and electricity. The White Paper correctly notes that the provision of these services can support family life, and the establishment of businesses, and that the provision of these basic services has a disproportionate effect on women who tend to carry the burden of reproductive work (RSA, 1998b: 27). In South Africa, women are the primary water carriers and providers of majority of unpaid care work, therefore, providing adequate water supply infrastructure can release free time for women to engage in economic activities during the time they would have used to fetch water, and protect their physical health by preventing musculoskeletal diseases associated with carrying water. One of the key points here is that development efforts through economic growth should be linked to social development in local communities through redistribution, in line with the Reconstruction and Development Programme (RDP) and Growth, Employment and Redistribution (GEAR) policies. Finally, municipalities must be open to partnerships with other actors, such as the private sector in order to meet their LED objectives (RSA, 1998b: 26). Spatial planning also plays a big role by reducing the distance between workers and businesses through road infrastructure, land use planning and land development. Additionally, sustainability plays a vital role in protecting the environment so that it can be enjoyed by present and future generations, therefore sustainability should be synonymous with LED.

Cities can focus on improving basic services, reviewing existing policies and procedures, and providing special economic services to boost LED (RSA, 1998b: 28). Some practical measures proposed in the *White Paper on Local Government* are to review procurement policies and procedures in order to enable local suppliers to access procurement opportunities and capacity building to successfully perform the contract, and reducing technical and restrictive conditions such as large securities. Another measure is to use labour intensity and affirmative action as conditions for procurement. Municipalities can also simplify procedures and reduce red tape for permits, including building permits, and using one-stop shops for permits and payments. It is clear from the above that in addition to economic development efforts at the national level, municipalities have an important role to provide special economic services such as

marketing and investment support, small business support, research and development, and skills development, employability training and linking trained personnel with job placements suitable to local needs (RSA, 1998b: 29).

NATURE OF AGREEMENTS BETWEEN LOCAL GOVERNMENTS AND EXTERNAL ACTORS

Local government engagements with external actors can be said to constitute either "hard" or "soft" agreements. I define "hard" agreements as those agreements that create legally binding obligations, and "soft" agreements as those agreements that are not necessarily legally binding and are based on aspirations for cooperation. Consequently, agreements relating to procurement, public-private partnerships (PPPs), Official Development Assistance (ODA), and municipal borrowing would fall under the category of "hard agreements," whereas, agreements such as sister city/twinning agreements, partnership agreements, cooperation protocols, letters of intent, friendly exchanges, and memorandums of understanding would fall under the category of "soft" agreements, as will be illustrated below.

"Hard" Binding Agreements

This paper discusses four forms of external engagements between local governments and external factors that are considered "hard and "binding," which include: International Procurement; Public-Private-Partnerships; Borrowing Internationally; and, Official Development Assistance.

International Procurement

Procurement is one of the areas that can be designed strategically to maximise development impacts on local communities. Cities can use preferential tenders to achieve local policy objectives such as affirmative action, gender equality and small business development. However, cities cannot simply ignore foreign companies in favour of local ones, as this can have serious international legal implications. International Procurement is defined as the "process of allowing firms around the world to bid on contracts for goods and services" (Mutangili, Awuorand & Cheluget, 2020: 1). Section 83 of the Municipal Systems Act (Systems Act) (RSA, 2000) provides that when concluding service delivery agreements using external mechanisms, municipalities must ensure compliance with section 111 MFMA, and provide equal and simultaneous access to information for all bidders, which can be interpreted as including both local and foreign businesses. International procurement is not a new phenomenon as South African municipalities are not prohibited from awarding tenders to foreign companies. Instead, in line with national government's trade policy, trade is liberalised to allow foreign companies to access the South African market, including local government procurement. The logic behind trade liberalisation is that it facilitates competition, and competition leads to increased efficiency of production and pricing. In other words, according to classical economist thinking, free markets enable producers and service providers who have a comparative advantage to trade the goods and services in which they have a comparative advantage, and therefore creates efficiency.

One of the challenges of international procurement by local governments is that trade liberalisation especially in the context of procurement carries the risk of undermining national and local development objectives, such as the advancement of previously disadvantaged persons through affirmative action in terms of the BEE Act and section 9 of the Constitution. As a member of the World Trade Organisation (WTO), South Africa has an obligation to respect the "national treatment" principle, which means giving treatment to individuals and corporations from WTO member states that is equal to the treatment given to South African individuals and businesses. What creates the incongruence between

trade liberalisation and affirmative action is that trade liberation seeks to create a level playing field for all, in which government regulation is minimised in order to allow the market forces to determine things such as prices of goods. It means that any company from outside South Africa should be able to trade freely in South Africa, and in this case, should be able to bid for South African local government tenders on an equal basis with South African companies, whether they are large, formal, informal, or SMEs.

The obvious challenge this creates is that if trade liberalisation is followed blindly, without any redistributive efforts, disadvantaged persons and local businesses may be pushed out of the market by larger foreign companies, especially where the foreign companies enjoy economies of scale such as transnational corporations. South Africa has therefore, relied on an exception to allow trade liberalisation, while simultaneously pursuing its domestic policy objective of affirmative action through preferential procurement, and local governments are finding creative ways to incorporate small and/or businesses into large tenders by requiring large corporations to feed in small and/or local businesses in their value chains as subcontractors and considering local content. For example, the City of Cape Town's Supply Chain Management Policy applies preference point system for Exempted Micro Enterprises (EME), Qualifying Small Enterprises (QSE) and B-BBEE contributors in terms of the Preferential Procurement Regulations of 2017 (City of Cape Town, 2018). It also states minimum local content thresholds in bid documentation as guided by the National Department of Trade and Industry. It unbundles large projects to smaller ones to widen opportunities for large and small businesses, encourages labour intensive technologies to boost employment, and targets labour and businesses from within selected areas in Cape Town. These measures can help to incorporate SMEs that would have not had a chance to tender successfully otherwise, and are intentional about developing the locality by targeting areas for labour and businesses to be uplifted.

The developmental impact of procurement can also be enhanced by enabling public participation in shaping the local priorities through the integrated development planning (IDP) processes (section 44(2)(c) Structures Act and section 25 Systems Act), and ensuring that IDP priorities are reflected in procurement planning and tenders. Since procurement is often used for the provision of goods and services to enable local government to perform its service delivery responsibility, ensuring transparency in procurement processes can help local communities to keep contractors accountable and thereby support LED efforts. According to the Preferential Procurement Policy Framework Act:

> "*a municipality may determine a preference for categories of service providers in order to advance the interest of persons disadvantaged by unfair discrimination, as long as the manner in which such preference is exercised does not compromise or limit the quality, coverage, cost and developmental impact of the service*" (RSA, 2000: 29)
.

The envisaged selection process must be "fair, equitable, transparent, cost-effective and competitive". In addition, municipalities ought to consider the costs and benefits of the project for human health and safety, and impacts on development, job creation and employment patterns inter alia as set out in section 78. Section 122 MFMA sets out some of the important provisions which should be incorporated in the municipal supply chain policy are the range of supply chain management processes, including tenders, quotations, auctions and other types of competitive bidding, contract management and dispute settling procedures.

One of the main tools for ensuring fair and competitive bidding is the requirement in section 111 MFMA (RSA, 2003), to establish and implement a supply chain management (SCM) policy in each municipality. This SCM guides procurement for the provision of goods and services, disposal of goods, and selecting contractors. However, evidence has shown that merely having an SCM policy has not been sufficiently effective to rid local governments of corruption, primarily because of non-compliance with the SCM policies. In the Auditor General's 2018-2019 Report, 93 percent of irregular expenditure was attributed to procurement without following a competitive bidding or quotation process (R5.47 billion),

non-compliance with procurement process requirements (R12.34 billion) and inadequate contract management (R2,16 billion) (Auditor General of South Africa, 2020: 158).

Public Private Partnerships

Public private partnerships (PPPs) are a great opportunity for local governments to partner with the private sector through foreign investment because it helps to bridge the capital gap. However, targeted efforts should be made to ensure that PPPs actually benefit local communities. Section 120 of the MFMA provides clear guidance to municipalities seeking to engage in PPPs in terms of the factors they should take into account when making such a decision. Essentially, municipalities may enter into PPPs provided they can demonstrate that the agreement will "provide value for money, be affordable for the municipality, and transfer appropriate technical, operational, and financial risk to the private party" (section 120 MFMA). Another crucial provision is the requirement for the municipality to conduct a feasibility study prior to the conclusion of PPP agreements. The feasibility study seeks to determine the benefits of the PPP for the municipality, clarify contractual terms and determine possibility of performance how the agreement will provide value for money, be affordable, and transfer risk and how it will impact municipal revenue flows, inter alia. One immediate concern is that this provision assumes that municipalities have the skills to make these determinations, which may not be a valid assumption.

The developmental impact of PPPs involving foreign actors can be maximised by promoting subcontracting with local businesses, especially women owned businesses and SMEs into the value chain (RSA, 2000). However, this will not happen on its own, it requires not only contractual conditions in PPP procurement, but also an attitude of cooperation between local governments and the private sector. Furthermore, PPPs should become broader to allow for meaningful engagement with local communities, and to create opportunities to partner with local community members and community organisations.

Borrowing Internationally

The economic decline experienced during COVID-19 lockdown, added to existing infrastructure needs has exacerbated the need for access to credit by municipalities. The MFMA enables local governments to obtain credit in domestic and foreign markets. Section 45(1) MFMA allows short-term municipal debt to bridge cash flow problems, but this debt has to be repaid within the same financial year, or finance capital needs payable from allocations or long-term debt commitments. Municipalities may also undertake long-term debts for capital expenditure for much needed infrastructure development in terms of section 46 of the MFMA. However, when read with section 163(1), 17 and 47 of the MFMA, it becomes clear that although municipalities can incur debt, including foreign debt, they are prohibited from incurring liabilities or risks payable in foreign currency, except where the rand value is pre-determined, or fixed, the debt is secured, and the debt is for the procurement of goods or services where the rand value is pre-determined or fixed.

These provisions are problematic because they limit access to international financial markets as most international financial institutions extend credit in foreign currency, and while cities can make use of these provisions, smaller and economically weaker municipalities, such as rural municipalities, tend to be excluded because of their lack of capacity to secure foreign debt, despite having major infrastructure needs. Moreover, in free markets, while cities can fairly easily access foreign credit due to their financial standing, many municipalities would not be able to access credit due to not being creditworthy. Another obstacle, is that section 51 of the MFMA precludes provincial and national governments from guaranteeing the debts of municipalities and municipal entities which means that local governments would have to guarantee their own debts, and this can make them a less desirable client on foreign markets. However, although national and provincial government are precluded from issuing guarantees for local government debt, it is likely that national government would bail out metros in distress.

Official Development Assistance

Municipalities can benefit from Official Development Assistance (ODA) to address financing gaps for local infrastructure and other developmental projects. In the past, one of the challenges noted by the Department of Local Government in 1998 was that local government ODA tends to be done in a fragmented and ad hoc approach which makes it difficult to coordinate the ODA approach across the municipalities, and to align them with the national development priorities (Morule, 2020). Although there is some improvement in the coordination of ODA, there are still some gaps. One would expect to find the regulation of ODA in the MFMA, however, the MFMA is silent on this. Whereas section 13(e) and 22(c) of the Public Finance Management Act (PFMA) clearly envisages that national and provincial government will receive funds from donor agencies and instructs that these funds be deposited into the Reconstruction and Development Programme Fund (RDPF), no similar provision is found in the MFMA, which indicates that at the time of drafting the MFMA, the legislature probably did not anticipate that local governments would attract ODA in their own right. Moreover, section 13 PFMA speaks only to funds from donor agencies, and not from other governments or government departments. However, due the asymmetry of local governments and in particular the unequal capacity and skills to attract ODA, some local governments would be unable to obtain ODA and may lag in development.

Currently, in terms of legislative frameworks, local government ODA is regulated through the RDPF Act (RSA, 1994; RSA, 1998c). Section 2(b) RDPF (as amended) established the RDPF, and stipulates that this fund may be credited with domestic and foreign grants. In other words although the law allows local governments to obtain official development assistance (ODA), they are required to place all grants to the RDPF. In recent years, the Treasury's MTEF guidelines have encouraged municipalities to include ODA in their budgets, and to account for both money and in kind ODA such as technical assistance. Additionally, it has been reported that municipalities do not always fully record the ODA they receive in money and in kind in their budgets and reports. Since guidelines are optional, this leaves an enormous gap in regulation of ODA because it is an area where significant amounts of money can flow and advance local development. Recently, the German Government extended ODA to the City of Cape Town to the value of R100 million towards COVID-19 relief (Mthethwa, 2020). These funds are targeted to support soup kitchens and early childhood centres in Cape Town, which goes a long way to advancing social development which is one of the elements of economic development according to the White Paper on Local Government. It is especially important to note that this ODA opportunity arose as a continuation of an existing cooperation agreement with the city. Additionally, Cape Town joined 100 Resilient Cities in 2016, showcased its first resilience project at the Conference, and received a grant from the Rockefeller Philanthropy (City of Cape Town, 2019). Grant agreements are formal contracts that create legally binding obligations, and must be approved by the National Treasury.

"Soft" Non-Binding Agreements

This section considers the nature and implementation of some of the soft agreements concluded by South African cities. Cities are not limited to these "hard" binding agreements, but they also engage in many "soft" non-binding agreements which tend to facilitate the conclusion of the hard agreements, which subsumes under the generic term of international relations paradiplomacy. Cities may enter into a range of soft agreements, such as Sister City/Twinning, Cooperation, Partnership Agreement, and Memorandums of Understanding. In practice, most of these agreements are idealistic in that they speak to the hopes and aspirations of cities to have camaraderie and support, and to broadly cooperate in various issues.

Sister City Agreements

The City of Cape Town has "sister city" and "sisterhood" agreements with Dubai Municipality (United Arab Emirates), and Monterrey City (Mexico) respectively. The agreements vary in length, and language, and typically have cancellation provisions subject to 90 days' notice. The overall aims are established cooperation in trade and investment, mobility (such as exchanges, visits, conferences and seminars) and cultural exchange.

Partnership Agreements

Some agreements are developmental in nature, for example, the Aachen-Cape Town LA21 Partnership which sought to promote the now defunct Millennium Development Goals. Interestingly, this is the only agreement which acknowledges stakeholders as partners, and expressly creates financial obligations between the parties. Parties agree to provide "financial support to ensure continuity and effectiveness…" of the agreement. It also has tangible outcomes such exchanges, annual activity calendar, reports press releases, seminars, training and exchanges.

Cooperation Agreements

Cape Town has three cooperation agreements with Shenzhen (China), Izmir (Turkey) and Miami-Dade County (US), which focus on business enhancement (trade, science and technology, financial services) and social development (culture, tourism, education, sports) inter alia. The agreement with Miami-Dade is interesting because it is concise (one page), and has actionable outcomes such as opening a South African trade office in Miami, and encouraging cruises along each other's ports, which can facilitate access to foreign markets for South African local businesses and vice versa. Further, municipalities might be committing themselves beyond their competencies by including in their cooperation agreements, matters that exceed local government competencies, such as agriculture, trade and investment, and health.

Cooperation Protocols

Cape Town has cooperation protocols with the City of Houston (US), Bujumbura (Burundi), Varna (Bulgaria), Rio de Janeiro (Brazil) and Accra (Ghana). The agreements appear almost identical in terms of their structure and content. They have a preamble that highlights the unique priorities of the parties, followed by an article that states the intention to establish a relationship. The following article expresses the customised needs, for example, the Houston agreement prioritises cooperation in energy, gas and oil, and green industries, and Bujumbura, human settlements, social development, and integrated development planning. Varna and Ghana agreements prioritise cooperation in industry and trade, while the Rio Agreement prioritises cooperation on public spaces and event management, including, learning from Cape Town's 2010 World Cup experiences. The agreements require written notice for termination, and dispute resolution in good faith. The agreements also provide for warranties (assurances for Accra agreement), to make every effort to obtain the necessary permissions and resources (including financial) to implement the agreement, and ensure legal compliance in their countries. The format, language and style of the Protocols resembles an international treaty or contract with clearly demarcated articles. Furthermore, the Protocols provide for the establishment of a Commission to monitor their implementation. However, whether such commissions are in place is yet to be determined.

Letters of Intent

Cape Town has a "Letter of Intent" agreement with the City of Atlanta (US), dealing with urban development, food resiliency and sustainability, inter alia. This Letter creates specific obligations such as requiring the Cape Town Academy to host the African Institute for the Study and Public Understanding of the United States, which shows that this agreement will require some financial or human resources

inputs. It seems that this Letter anticipates consequences for non-fulfilment of obligations, without expressly stating this.

Friendly Exchange Cooperation Agreement

Cape Town has a Friendly Exchange Cooperation Agreement with Wuhan and Huangshan (China) for cooperation in business enhancement and social development. This is the only agreement which expressly limits cooperation to trade within the city's mandate. High profile visits, trade missions, communication and information sharing are central to the agreement.

Memorandum of Understanding/Agreement

The Memorandum of Understanding (MOU) with Hangzhou (China) includes business enhancement, governance and social development. It encourages information-sharing, employee exchange, two-way investment, pairing sister-schools, training, and tourism. This MOU is silent on issues of dispute resolution and termination of the agreement. The MOU with Malmo (Sweden) has similar focus to the Hangzhou agreement, but it has more emphasis on environmental management and sustainability. Similar to Cooperation Protocols, it creates no financial commitments, and encourages dispute resolution through dialogue in good faith, and termination by written notice, without compromising ongoing projects.

Similarly, the Buenos Aires MOU allows termination on written notice, without affecting ongoing activities. It has elements of business advancement, governance and social development. It is operationalized through technical consultations, joint programs, visits, and knowledge transfer, inter alia. Dispute resolution is through direct negotiation. Moreover, the Preamble tacitly acknowledges cities are in fact engaging in diplomatic acts. On the other hand, the Memorandum of Agreement (MOA) with Munich (Germany) focuses on climate change mitigation by developing and implementing a joint program of action, and requires participation in the 50 Climate Cities Network. This agreement has the closest resemblance to a binding contract, as it has a *domicilium citandi* clause.

Global Partnerships

Cape Town is a member of various bilateral country-level, and multilateral local government agreements including the C40 Cities Climate Leadership Group, Dublin Declaration of Age-Friendly Cities, Commonwealth Local Government Forum, and Mexico City Pact- Global Cities Covenant on Climate, Green Cities Declaration, and the Urban Environmental Accords. Cape Town also has grant agreements with the Netherlands, *Agence Française de Development* (France), and United States Trade and Development Agency. The challenge with this is that most of the "soft agreements" do not really create any tangible objectives for the most part. They tend to be ceremonial, that after an international visit is concluded, an agreement is signed, but this agreement is never pursued, or implemented. This is coupled with cities making ceremonial visits in large delegations at the expense of the state coffers, such that new rules had to be put in place to reduce wasteful expenditure.

Trade and Investment Facilitation

Trade and investment can be understood from two main angles, one which is regulatory, in other words wherein municipalities regulate in a manner that encourages trade and investment, and another in which municipalities themselves engage in trade and investment. This section focuses on the former. Although trade is a shared national and provincial function, and investment is a national function, local governments play a crucial role in facilitating, that creating an enabling environment for trade and investment. In their regulatory capacity, cities have immense power to boost their global competitiveness by facilitating the ease of doing business and removing non-tariff barriers to trade through the ordinary

performance of their constitutional functions. As noted above, through municipal regulations that create a conducive environment for investors and business, local governments can boost competitiveness and advance economic development. Cities can require investors to reach a minimum threshold of employment of local individuals and local content in their production, and this has proved useful across the country.

Cities can also establish links and create an enabling environment for pairing local individuals, and companies with foreign investors and contractors. An example of this is demonstrated by the Invest Cape Town Business Process Outsourcing (BPO) Agency. The BPO Agency has successfully put Cape Town on the map as a leading BPO offshore destination. Because of its strong information and technology infrastructure, ease of construction, and large numbers of qualified graduates, Cape Town has positioned itself as a BPO destination linking foreign businesses (such as some Forbes 2000 companies) to local qualified individuals and local businesses.

However, global cities are criticised for prioritising global competitiveness, and promoting big business while the welfare needs of local residents, fighting informal, low-end economic activities and side-lining urban governance objectives relating to urban inclusiveness and resilience (Pieterse, 2020). Also, cities should not only focus on trade facilitation in the formal sector, but in the informal sector (Pieterse, 2020). Proper regulation of markets and trading locally affect the regional flow of goods across the region. Considering that a majority of African nationals work in the informal sector, buying goods from and selling in both formal and informal sectors. Pieterse (2020) argues that goods and services sold in the informal sector provide affordable options for locals, and wares and curios for tourists and thus contribute to the local economy, yet street traders are often seen as enemies, and a problem to be gotten rid of. Regulations pertaining to street trading, trading, and markets thus have a direct impact on informal international "cross-border" trade. For example, the actions taken in response to Covid-19 Disaster Management Regulations, which allowed international trade to continue, not only prevented locals from accessing markets during the lock down period, but also seriously hampered market access for informal cross border traders.

CONCLUSION AND RECOMMENDATION

This paper has shown that there is a strong potential for cities, as local governments, to enter into external economic arrangements ranging from hard binding to soft non-binding relationships, as mechanisms for the promotion of local economic development. The paper concludes that cities engage with external international actors in exercise of their ordinary functions, which can enhance their capacity to address the capital and finance resource gaps. But the general outcomes of such "soft" agreements and cooperation have been largely idealistic ceremonial documents that are well-meant without pragmatism. Metropolitan cities have the capacity to enter into complex legal arrangements with international actors for the purposes of promoting economic growth and social development during normal times through investment and trade agreements as well as public-private partnerships, among other conventions. More importantly, the paper highlights the significance of such arrangements with international actors during a pandemic in that such conventions may serve to bolster the resilience and post-pandemic economic recoveries of metropolitan cities. Given the managerial skills and expertise of metropolitan cities, this paper establishes that they can also leverage their vertical and lateral synergies to the benefit of third party municipalities, which are smaller and rural, with narrow revenue bases and limited collection capabilities. In this way, metropolitan cities have the potential to boost LED in smaller rural municipalities through collaborative access to international actors' resources as well as managerial skills and expertise. It is evident that smaller rural municipalities do not possess the necessary capabilities to enter into the complex legal frameworks and conventions with international actors, besides their unattractive

environments and limiting revenue bases. Besides, even metropolitan cities in developing economies may not have the necessary resilience required during the pandemic and post-pandemic economic recovery.

Based on the conclusion and reasoning above, the paper recommends that all municipalities, inclusive those for the small rural local governments, needs to be encouraged and materially supported in order that they may establish partnerships with external international actors in order to create resilience that is not entirely sourced domestically. That is, during a pandemic such as Covid-19 municipalities in developing countries, especially those with narrow revenue base, become heavily and exclusively dependent on national government grants that are equally stretched. Also, government's financial interventions for the unemployed are also nominal and far less than the incomes that are necessary to cover the competing needs of the citizens. It is, therefore, necessary to establish external international relations that could serve as an added source of resilience for municipalities during pandemics. Given that smaller rural municipalities may still be unattractive to potential international partners, national government needs to establish institutional frameworks that incentivize metropolitan cities that incorporate smaller rural municipalities in their international partnerships. Such collaborative relations between smaller rural municipalities and metropolitan cities will also be useful in ensuring that the former have access to international managerial skills and expertise in dealing with revenue collection, notwithstanding the narrow pool, and handling the pandemic as well as in post-pandemic economic recovery. Metropolitan cities can be expected to leverage their vertical and lateral synergies with local and foreign businesses, donors and governments to the benefit of smaller rural municipalities in terms of, among other things, appropriate regulatory frameworks, investment and trade arrangements and public-private partnerships. Overall, the paper recommends that national policy framework needs to be devised to enforce incentivized collaborative arrangements between metropolitan cities and smaller rural municipalities wherein the former use their capabilities to avail opportunities for the latter's access to international actors' resources as well as managerial skills and expertise in revenue collection and resilience-building, especially during pandemics.

ACKNOWLEDGEMENTS

REFERENCES

African Union Commission, (2015). *Agenda 2063: The Africa We Want*. Addis Ababa: AU.

Armando, G.Y.F., (2018). *Multilevel Governance and Rescaling of the State: Paradiplomacy Converging towards the National Foreign Policy*. http://paperroom.ipsa.org/papers/paper_11656.pdf (Accessed: December 03, 2018).

Auditor General of South Africa, (2020). MFMA: Consolidated General Report on the Local Government Audit Outcomes. Pretoria: Office of the Auditor General.

Beukman, E.F., (2017). Return of the city-state: An assessment of city international relations. *Southern California International Review,* 7(2): 90-97.

Blakely, E.J. & Leigh, N.G., (2013). *Planning Local Economic Development*. Los Angeles, London, New Delhi, Singapore and Washington: Sage.

Bloomberg (2020). *SA Recession Deepens with GDP in Steep 51 % Drop as Lockdown Restrictions Sting*. https://www.iol.co.za/business-report/economy/sa-recession-deepens-with-gdp-in-steep-51-drop-as-lockdown-restrictions-sting-46e4408e-2175-47be-ac51-ff1415dd6683 (Accessed: April 18, 2020).

Chiweza, A.L. & Msiska, Y., (2020). Practices and perceptions of the politics-administration dichotomy in Malawian local government. *Journal of Public Administration and Development Alternatives,* 5(3): 27-48.

City of Cape Town (Isixeko saseKapa; Stad Kaapstad), (2017). *Five-Year Integrated Development Plan*, *July 2017 to June 2022*. Cape Town: City of Cape Town.

City of Cape Town, (2019). *Trip Feedback Report*. http://resource.capetown.gov.za/documentcentre/Documents/City%20research%20reports%20and%20review /Netherlands_July_2019_Feedback_Report.pdf (Accessed: April 28, 2020).

City of Cape Town, (2018). *Supply Chain Management Policy*. Cape Town: City of Cape Town.

eNCA, (2020). Money Desk with Devon Murugan, September 08, 2020. <https://www.enca.com/business/south-africas-economy-contracts-51-q2> (Accessed: October 01, 2020).

Khaile, T., (2020). Limitations of the principal-agent theory to explain the problem of non-compliance in South African municipalities. *Journal of Public Administration and Development Alternatives,* 5(2): 114-132.

Madzivhandila, T.S. & Maloka, C., (2014). Community participation in local government planning processes: A paramount step towards a successful service delivery. *Mediterranean Journal of Social Sciences,* 5(16): 652-657.

Morule, L., (2020). *European Development Days: Panel Discussion on Local Government and ODA' Department of Provincial and Local Government*. <edc2020.eu/fileadmin/Textdateien/EDC2020_Contribution_by_Lerumo_Morule_South_Africa.pd f> (Accessed: October 01, 2020).

Mthethwa, C., (2020). Germany injects additional R100 million Covid-19 relief funding into Cape Town. *News24,* 29 September 29, 2020.

Mutangili, S.K., Awuorand, E. & Cheluget, J., (2020). Relationship between international procurement practices and supply chain performance of energy development agencies in Kenya. *Journal of Procurement & Supply Chain,* 4(1): 1-17.

Pieterse, M., (2020). Local government law, development and cross-border trade in the global cities of SADC. *Law and Development Review, De Gruyter,* 13(1): 127-157.

Pillay, K., (2020). *eThekwini Municipality on Brink of Collapse, Revokes Covid-19 Lockdown Relief Scheme*. https://www.iol.co.za/mercury/news/ethekwini-municipality-on-brink-of-collapse-revokes-covid-19-lockdown-relief-scheme-48564568 (Accessed: October 01, 2020).

Republic of South Africa (RSA), (1994). *Reconstruction and Development Programme Fund Act, Act 7 of 1994, as amended by the Finance Act 6 of 1997*. Pretoria: Government Printers.

Republic of South Africa (RSA), (1996*). Constitution of the Republic of South Africa*. Pretoria: Government Printers.

Republic of South Africa (RSA), (1998a*). Municipal Structures Act, Act 117 of 1998*. Pretoria: Government Printers.

Republic of South Africa (RSA), (1998b). *White Paper on Local Government*. Pretoria: Government Printers.

Republic of South Africa (RSA), (1998c). *Reconstruction and Development Programme Fund Act, Act 79 of 1998*. Pretoria: Government Printers.

Republic of South Africa (RSA), (2000). *Municipal Systems Act, Act 32 of 2000*. Pretoria: Government Printers.

Republic of South Africa (RSA), (2003). *Municipal Finance Management Act, Act 56 of 2003*. Pretoria: Government Printers.

Western Cape Government, (2017). *Western Cape International Relations Strategy (WCIR) 2017/2018*. Cape Town: Western Cape Government.

World Bank, (2018). *Doing Business in South Africa: Subnational Report*. Washington, D.C.: World Bank.

TAX COMPLIANCE COSTS FOR SMALL GUESTHOUSE BUSINESSES AND RETURNS FOR LOCAL ECONOMIES IN MAHIKENG, SOUTH AFRICA

S. Sekgota and L.J. Mamaile

ABSTRACT

The paper examines the legislative requirements for small business tax compliance as a key factor in the impairment of the capacity of these businesses to contribute optimally towards local economies, with specific reference to guesthouses in Mahikeng Town, South Africa. Globally, small businesses are generally faced with a variety of regulations for compliance, including tax compliance regulations. While complying with the tax regulations, small businesses have to incur compliance costs. Additionally, small businesses are often affected by red tape in their pursued for compliance with tax regulations as compared to large and established companies because small businesses are less proficient in dealing with the complexities of such regulations and are unable to spread the costs of compliance across large-scale operations. The study reported in this paper included literature review as well as questionnaire surveys and interviews among guesthouse owners and managers. The paper reveals, among other things, that while South African Revenue Services (SARS) continues to issue guidelines to assist small business owners to complete and file tax returns on their own, these guidelines appear to be complicated for the sampled guesthouses, which have continued to employ professional tax practitioners who charge them for their services, therefore increasing their compliance costs. It is found that the cost of securing tax practitioners for small business tax compliance is hefty and that it undermines the capacity of guesthouses' contribution to the local economies. The paper finds that whereas SARS has provided guidelines, they have not been user-friendly for guesthouse managers and owners in Mahikeng, with the result that they have continued to hire tax practitioners at a hefty cost to their revenues. To this extent, this paper concludes that the legislative requirement for tax compliance is for Mahikeng guesthouses a costly disincentive that detracts from their capacity to contribute to the local economies. It is, therefore, recommended that SARS needs to revise and simplify small businesses tax compliance guidelines in order to reduce the costs. Such revisions and simplification needs to take into account the characteristic features of small business owners and managers, which include educational deficiencies, language challenges, limiting skills set and digital connectivity and expertise defects. For this reason, SARS guidelines for small businesses tax compliance need to include provision of qualified tax practitioners by this institution itself at no fee to small businesses.

Shibe Sekgota CA (SA) *is a Senior Lecturer in the School of Accounting at the North West University in South Africa. She holds a Master's degree in Taxation for which she received a Golden Key Award for outstanding performance from the University of Johannesburg. Her research interest is in small businesses and taxation; and, she is keen to pursue her Doctoral studies in the foreseeable future.*

Lukishi Mamaile *holds a Doctoral degree in Accountancy and is a Senior Lecturer in the School of Accountancy at the North West University in South Africa. He has produced government reports and presented academic papers in both national and international conferences. His research interest is in public sector auditing and governance. It is deeply saddening that he did not live to see the successful conclusion of this scholarship project of a Special Edition of the JGBAT – May His Soul Rest in Peace.*

INTRODUCTION

Small businesses are generally faced with innumerable regulations across the world including South Africa. One of the regulations that small businesses have to comply with is tax regulations (Mabhoza, 2014; Matarirano, Chiloane-Tsoka & Makina, 2019; Khalefah, Hanefah & Ibrahim, 2020; Le, Tuyet, Hanh & Do, 2020; Nguyen, Pham, Le, Truong & Tran, 2020). Small and medium enterprises (SMEs) in South Africa are still accountable for eleven various taxes, namely, income tax, capital gains tax, provisional tax, dividends tax, value added tax, employees tax, employment related levies, customs and excise duties, transfer duty, donations tax and stamp duty) in terms of the Tax Administration act 28 0f 2011 (Matarirano *et al*., 2019; Naicker & Rajaram, 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). In order to comply, small businesses are required to obtain and complete the prescribed forms and ensure that submissions are made on time. Compliance requires a vast amount of administration and non-compliance may result in fines, penalties and interest (Abrie & Doussy, 2006; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). Small businesses have to incur costs to comply with these regulations (Gherghina, Botezatu, Hosszu & Simionescu, 2020). Evans, Ritchie, Tran-Nam & Walpole (1998: 97) defines "pure" compliance costs as costs that are "directly incurred by taxpayers in meeting the requirements of the tax law." These include "taxpayers' own labour, unpaid helper and internal staff costs, costs of external advisers, and incidental or overhead costs such as specific travel, stationery, postage and computer use incurred by taxpayers" (Evans, Ritchie, Tran-Nam & Walpole, 1998: 97).

Tax compliance issues are believed to be some of the most time consuming and troublesome regulations for small medium enterprises (SMEs) including small businesses in South Africa and the largest portion of regulatory compliance costs and resources are directly attributable at ensuring tax compliance (SBP, 2004; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). In complying with the regulations compliance costs are often incurred. Compliance costs can be defined as those costs associated with the number of hours spent in preparing tax returns, administrative expenses, and any money spent on the procurement of the services of tax professionals (Naicker & Rajaram, 2019; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). It is still not clear whether the small businesses are able to comply with all these regulations on their own without incurring costs by engaging the services of tax professionals. This is the main research question for this paper which raises the question: how do the small businesses in South Africa comply with the compliance costs? The purpose of this paper is to determine the compliance costs that small businesses need to cover when complying with the regulations and whether the guidelines issued by SARS on regular basis are of any help to these businesses or not. The next section discusses the tax regulations, history of Tax Administration Act 28 of 2011, small businesses in South Africa and compliance costs as part of literature for this paper. There are no known studies that focus on the South African contexts within which to determine the compliance costs to small businesses under the 2011 Tax Administration Act. In terms of its approach to the study of guesthouse tax compliance in Mahikeng Town, this paper is unique in that it deals with small businesses reliance on tax practitioners and the specific costs owing to such services. Also, there is no existing study on this subject about guesthouses in the specific town of Mahikeng in South Africa.

SOUTH AFRICA'S TAX REGULATION REGIMES, SMALL BUSINESSES AND COMPLIANCE COSTS

This section discusses South Africa's tax regulation regimes from a historical perspective, small businesses and the compliance costs.

Tax Regulations

UNICE (1995: 8) states that improving and simplifying the business environment is considered to be of the highest priority, as the level of regulation imposed by governments is claimed to be one of the major obstacles to business success. Whilst no society can exist without the state providing some kind of order, reducing the burden of regulation on business is entirely consistent with the objective of increasing the international competitiveness of any economy.

Chittenden, Kauser & Poutziouris (2011), Matarirano *et al*. (2019), Khalefah *et al.* (2020), Le *et al.* (2020) and Nguyen *et al.* (2020) posit that small businesses are more severely affected by red tape than large companies because small businesses are less proficient in dealing with the complexities of regulation and are unable to spread the costs of compliance across large-scale operations. This is evident when looking at the small businesses which enter into business and collapse within a year or two (Chikadza, 2020; Gherghina *et al.,* 2020; Muswaka-Zinatsa & Chilunjika, 2020). Naicker & Rajaram (2019), Matarirano *et al*. (2019), Khalefah *et al.* (2020) Le *et al.* (2020) and Nguyen *et al.* (2020) claim that one of the key issues that influence the overall regulatory environment for small and medium enterprises is tax compliance. Tax compliance issues are believed to be some of the most time consuming and troublesome regulations for SMEs in the country and the largest portion of regulatory compliance costs and resources are directly attributable at ensuring tax compliance (SBP, 2004; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). Tax compliance is perceived as a large regulatory expense and burden that disparages small-scale entrepreneurs (Junpath *et al.*, 2016; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020), and smaller businesses are reluctant to enter into the formal economy by registering for tax, among other things (Chikadza, 2020; Gherghina *et al.,* 2020; Muswaka-Zinatsa & Chilunjika, 2020).

Despite the many advantages such as access to finance, improved access to business opportunities and improved legal standing of the business, registering for tax implies falling into the tax system (Govender, 2008; Junpath *et al.*, 2016; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). Taxes are an important factor that defines the business climate. Tax also serves and operates as a political accountability mechanism (Ponorica & Al-Saedi, 2015; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). Taxes are the main stream of revenue generation for developing countries and these revenues are necessary for improving infrastructure, dealing with climate changes and most importantly to finance poverty reduction (Keen, 2012; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). The small business sector consists of approximately one hundred and sixty-five thousand (165 000) registered businesses and contributes about thirty-six percent (36%) of all corporate taxes collected in South Africa (The Davis Tax Committee, 2016).

SMEs in the country could be accountable for eleven various taxes (income tax, capital gains tax, provisional tax, dividends tax, value added tax, employees tax, employment related levies, customs and excise duties, transfer duty, donations tax and stamp duty) in terms of the Tax Administration act 28 of 2011 (Naicker & Rajaram, 2019). In order to comply, small businesses are required to obtain and complete the prescribed forms and ensure that submissions are made on time. Compliance requires a vast amount of administration and non-compliance may result in fines, penalties and interest. The complexity and compliance of these tax systems are considered to be an obstacle for small enterprises (Abrie & Doussy, 2006; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020), and it is assumed that small businesses are generally uncertain about getting in the formal economy (Chikadza,

2020; Gherghina *et al.,* 2020; Muswaka-Zinatsa & Chilunjika, 2020) as they consider tax as a high legislative expense and this discourages smaller entrepreneurs from embarking on business ventures (SBP, 2004, 2005).

History of the Tax Administration Act 28 of 2011 and Tax Changes

The study by Chamberlain & Smith (2006) is the first ever to provide an estimate for total regulatory compliance costs in South Africa and therefore makes a very valuable contribution to this realm of available information. It estimates total regulatory compliance costs for formal firms in South Africa to have been approximately R79 billion in 2004, 6.5 per cent of GDP, and total tax compliance costs to have been roughly R20 billion in the same year. In evaluating these estimates it is important to keep in mind that the paper, due to "top-down" approach of questions posed in the questionnaire, is prone to overestimation. Furthermore, it was not solely focused on *tax* compliance costs and thus did not delve as deep as possible into this issue. However, the provision of information on the distribution of tax compliance cost across firms by turnover size provides a necessary benchmark which can be used to assess South African tax compliance costs relative to those of other countries, even if only indicatively. Due to the nature of the report, it makes no tax-specific recommendations and only focuses on broad regulatory compliance recommendations (Chamberlain & Smith, 2006; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020).

An increased focus by government on SMMEs in 2004 led to the SARS being requested by the Minister of Finance, then Trevor Manuel, to "assess the degree to which the existing tax administration model affects tax compliance in the small business sector" (SARS, 2005: 4). In response, SARS convened the National SARS SMME Task Team, a body consisting of independent academics, representatives of organised business, SARS representatives and representatives from other government departments (SARS, 2005). The team's mandate was to "review and identify" tax administrative burdens, tax compliance costs burdens and "general administrative concerns among small businesses such as understanding requirements and time spent dealing with SARS" (SARS, 2005: 4). In fulfilling this mandate, the team reviewed a number of available documents on the South African SMME context, the existence and nature of the dual economies in South Africa, as well as the two studies reviewed above (the only available South African studies that quantify regulatory compliance costs). In addition, the team also consulted with many stakeholders, "including tax specialists, accounting bodies such as the SAICA, CFA, ACCA and others," as well as meeting directly with small businesses, the representatives of SMME apex bodies and female entrepreneurs (SARS, 2005: 4).

While not necessarily adding any new quantitative information to the compliance cost debate, the resultant report contributes a number of valuable qualitative insights and serves as a starting point for changes that need to be made to the South African tax system to ease the compliance burden of SMMEs. It is important to note that the findings and recommendations are made in a context where the main focus is not income maximising income for government, but rather stimulating employment and incentivising informal businesses to formalise (Chamberlain & Smith, 2006; Gherghina *et al.,* 2020; Khalefah *et al.,* 2020).

In his 2005 Budget Speech, Finance Minister (Manuel, 2005) pointed out that regulatory costs relating specifically to small businesses and taxation had been raised, and he commented as follows: we have directed attention this year at the costs and complexity for small businesses of the tax code, because there is compelling evidence that simplified arrangements can assist significantly in creating an environment conducive to enterprise development. Manuel (2005) further suggested that any approach to assisting small business requires both policy and administration model adjustments if it is to be effective. The 2005 year, therefore, saw the start of a process of structural change in SARS that was intended to assist small business in its start-up phase, to reduce compliance costs and red-tape, and to provide tax education and assistance (Smulders & Stiglingh, 2008; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le

et al., 2020; Nguyen *et al.,* 2020). Therefore, the Tax Administration Act 28 of 2011 is the act that governs all other acts for both individuals and legal entities. For example, Income Tax Act no 58 of 1962 governs income tax, capital gains, employees tax and provisional tax. These acts are sections within the Income Tax Act no 58 of 1962. So any changes to these taxes will be in terms of income tax act. The VAT act 89 of 1991 governs VAT, for e.g. if the tax payer wants to know tax registration requirements, thresholds, when and how many times to submit VAT returns one would consult VAT act 89 of 1991.

Small Businesses in South Africa

It is acknowledged internationally that there is no universally accepted definition of small and medium size businesses. Most studies on tax compliance in South Africa therefore use the definition found in the National Small Enterprise Act, 1996 (Act No. 102 of 1996) as amended.
Small enterprise is defined by the National Small Enterprise Act of 1996 as a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy and classified as a micro-, a very small, a small or a medium enterprise (RSA, 1996). This definition is relevant for the purposes of this paper because the population that will be investigated are considered to be small enterprises operating within the "catering, accommodation and other trade" sector. In all the sectors or sub sectors of the economy which are mentioned in the National Small Enterprise Act, the key criteria for determining whether the enterprise can be classified as medium, small, or micro is based on the number of employees (full-time paid employees or equivalent of full time paid employees) and the total annual turnover (de Wet, 2019; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020).

Compliance Costs

According to Hanefah, Ariff & Kasipillai (2002), Matarirano *et al.* (2019), Khalefah *et al.* (2020), Le *et al.* (2020) and Nguyen *et al.* (2020), the prior studies have defined compliance costs as those costs relating to the costs of conforming to the mandatory requirements of a tax regime involving the preparation and submission of timely tax returns in accordance with the relevant tax laws in force in a country. Compliance costs, therefore, are costs associated with the number of hours spent in preparing tax returns, administrative expenses, and any money spent on the procurement of the services of tax professionals. These costs can be categorised *into internal and external costs.* Internal costs relate to the time spent by company staff on maintaining and preparing information for professional advisers, completing tax forms and dealing with revenue authorities on matters pertaining to inquiries, objections and appeals. While the external costs arise from payments made to acquire the services of lawyers, accountants and investment advisers from outside a company (Hanefah *et al.*, 2002; Matarirano *et al*., 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020).

Pure compliance costs are costs directly incurred by taxpayers in meeting the requirements of the tax law (Matarirano *et al*., 2019; Gherghina *et al.,* 2020; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020). These include taxpayers' own labour, unpaid helper and internal staff costs, costs of external advisers, and incidental or overhead costs such as specific travel. Stationery, postage and computer use incurred by taxpayers. Social welfare costs as well as administrative costs borne by taxation authorities are however, excluded (Evans, Ritche, Tran-Nam & Walpole, 1998; Khalefah *et al.,* 2020). Govender (2008), Matarirano *et al.* (2019), Khalefah *et al.* (2020), Le *et al.* (2020) and Nguyen *et al.* (2020) define these tax compliance costs as all the costs incurred in ensuring proper compliance with relevant tax regulations. These costs include the following costs: expenses related to record retention, filing and sorting records, invoices and receipts; costs incurred in the preparation and submission of all relevant tax returns; opportunity cost in respect of time utilised by SMEs in ensuring tax compliance; costs of external advisers that are required for tax compliance and/ or to address disputes with the tax authorities; any costs

to ensure compliance as well as any incidental costs and travel expenses (Naicker & Rajaram, 2019; Matarirano *et al.*, 2019; Khalefah *et al.,* 2020; Le *et al.,* 2020; Nguyen *et al.,* 2020).

RESEARCH METHODOLOGY

The research methodology used for the study reported in this paper involved literature review as well as questionnaire survey and interviews. Whereas the literature review is self-explanatory in the preceding section, it is necessary to explain the research design that was used for questionnaire survey and interviews. The study conveniently opted for using guesthouses small businesses in Mahikeng Town as the target population for the study. Selection of Mahikeng Town is located in the North West Province of South Africa was convenient because it is the home town of the authors, and it made financial sense. Mahikeng is a medium-size town, which was the capital of the former Bantustan of Bophuthatswana. By implication, it is a relatively less developed town with a total of 53 guesthouses, whose business depends largely on tourism. Using random sampling design, a total of 35 guesthouses were selected for survey, which consists of 66% of the target population.

On approaching this sampled guesthouses and requesting for questionnaire administration and interviews, it became apparent that the issues of tax are extremely sensitive matters because of the potential exposure to criminal investigations by SARS. Of the 35 sampled guesthouses, 57.1% did not want to participate in the study because of the sensitivities involved in tax compliance matters. Even as the guesthouses were promised anonymity and confidentiality of information, using university ethics approval evidence, they objected strongly to participation. Given that the study was never designed in the hope of applying probability theory to generalize the results, another attempt was made to increase the sample size through convenience sampling procedures, on the bases of which an additional six (6) guesthouses were approached and they all declined to participate. That is, whereas 20 of the original sample of 35 guesthouses could not be persuaded for participation in the study, a further six (6) declined, thereby corroborating the idea that tax compliance for these guesthouses is a highly sensitive matter. As a result, caution was exercised to ensure that ethical research guidelines are upheld as the majority of the sampled guesthouses recorded serious fear of tax compliance exposure. It was then determined that an attempt to further expand the sample size by approaching the remaining 12 guesthouses would be fruitless given the cost implications on the part of the researchers. Instead, it should suffice to make a statement of the significantly high probability of 0.6 that a randomly selected guesthouse may not be keen to participate in such a study about tax compliance, as a limitation; and, this probability is computed only for the 20 guesthouses that were selected as part of the original sample of 35. Given that an additional 6 guesthouses approached in the attempt to increase the sample size also declined, and noting that the study sought to generate qualitative, rather than quantitative, information, it was determined that the 15 guesthouses sample would suffice. Also, the limitation as stated above would mean that the results of the questionnaire survey and interviews will not be generalized to the rest of the target population; and, this paper has observed this limitation.

At each of the 15 guesthouses, the owner or the manager was consulted for the administration of questionnaire and/or interview. These participants are regarded as the key personnel who have authority to manage their small businesses and are expected to possess relevant knowledge about the day to day running of their businesses or the businesses they are managing. Of the 15 participants, 6 were guesthouse owners and 9 were guesthouse managers (table 1).

Table 1: Paper Participants and Respondents

Rank occupied by the participant	Number of participants who completed the surveys/ interviewed
Guesthouse owners	9 (completed survey)
Guesthouse managers	9 (completed survey)
Guesthouse owners	6 (interviewed)

Source: Authors' own summary

To ensure validity and reliability of the results, several established mechanisms were used. One of the techniques for assessing validity frequently used in qualitative research is whether or not the questionnaire and interview questions actually measure what they are supposed to measure (Maree, 2016). In this study, the questions for the questionnaire and interviews were formulated from the reading of relevant literature; and, questions were designed to ensure triangulation and validation of information (Kumar, 2011; Mamaile, 2019). The draft data collection instruments were first piloted with some university stakeholders in order to calibrate them. Thereafter, the calibrated questionnaire and interview schedule were further piloted with two guesthouse owners; and, there was evidence of the stability and consistency (Rose, 2014) of these data collection instruments. It is also important to note that the questionnaire and interview schedule were awarded the necessary ethical clearance by the University of Johannesburg's Ethics Committee. From the questionnaire survey and interview results of this sample of 15 guesthouses, it was possible to extract valid and reliable underlying patterns and meaning that facilitated the formulation of findings, conclusion and recommendations (Yin, 2011; Babbie, 2013; Saldaña, 2009). As already stated, the findings, conclusion and recommendations made in this paper are applicable to this sample; and, future studies may seek to test their applicability in other contexts and circumstances.

RESULTS AND DISCUSSION

This section discusses the results of the analysis in order to draw meaning in regard to the tax compliance requirements for small businesses as it relates to their capacity to contribute towards local economies. The discussion will cover among other topics, the following: types of tax registered; preparations and submission of tax returns; reasons for reliance on professional tax practitioners; and, small businesses tax compliance facilities.

Type of Tax Registered by Small Businesses

There exists a range of taxes for small businesses in South Africa; and, the results of the survey show that some of the guesthouses had registered for a multiplicity of these types of taxes. The taxes include VAT, Income/Provisional Tax, Employees/PAYE Tax and Turnover Tax. All the 15 guesthouses had registered for a combination of the four types of taxes; and, the primary reasons for such conduct appears to be a combination of confusion and/or an intent to find relief. With multiplicities of registered tax types among the 15 respondents, VAT accounted for 73% of the 15 guesthouses, Income/Provisional Tax for 60%, Employees/PAYE Tax for 60% and Turnover Tax for 33%. Evidently, the most preferred duplication of tax registration among the 15 guesthouses was among the tax types of VAT, Income/Provisional Tax, Employees/PAYE Tax; and, the wisdom of this practice was hard to establish from the interviews conducted. It has appeared, though, that some of these guesthouses were comfortable shifting from one tax type to the other on annual bases.

Preparation and Submission of Tax Returns

A majority (13 or 86.7%) of the 15 guesthouses that were surveyed relied on professional tax practitioners for preparation and submission of their tax returns. Only three (3) of the 15 guesthouses have used the services of professional tax practitioners together with those of their owners, managers, family member, family friend, in-house tax practitioner or bookkeeper or accountant. It is evident that these guesthouses had limited options and there was a heavy reliance on professional tax practitioners, which provided services at a cost. Indeed, all the guesthouses used professional tax practitioners except for three (3), which is only 13.3%, had periodically sourced services other than those of professional tax practitioners. This heavy reliance on professional tax practitioners is inconsistent with SARS' aims of empowering small businesses and assisting them in reducing their compliance costs by providing the so-called user-friendly guidelines. The aim of these SARS Guidelines is to assist owners to prepare and submit their small businesses' tax returns on their own. It is evident these guesthouses owners and managers had no reliable in-house expertise for completing and submitting tax returns.

Reasons Small Business Owners do not Prepare and Submit Tax Returns

The following reasons were provided by the guesthouse owners and managers, on why they are not preparing and submitting their tax returns on their own (table 2).

Table 2: Participants' Reasons for not Preparing and Submitting Tax Returns

- "The finance manager does the books"
- "Due to inadequate training"
- "Fear of non-compliance with SARS".
- "Lack of time"
- "Necessary knowledge by accountants"
- "It's easier, don't remember tax"

Source: Authors' own analysis

Based on the results presented above, it is evident that a significant proportion of these guesthouses owners are not preparing and submitting the tax returns on their own and that they tend to rely on other professionals such as external bookkeepers for tax compliance services. The reasons provided by the owners ranged from reliance on their staff members such as managers to do this, lack of time, inadequate training and so on (table 2). It is, therefore, clear that while SARS introduced a number of user-friendly guidelines to support small business to be able to complete, prepare and submit tax returns on their own so as to reduce costs, more training is still required by these guesthouses' owners. Therefore, SARS needs to continue providing more training opportunities to small businesses.

Tax Practitioners

The responses captured from interviews also revealed the period during which the small businesses tended to be dependent upon tax practitioners for their tax returns. Six respondents show that they have been using tax practitioners for a period of more than five (5) years as of the time of the survey (table 3). While SARS wanted to reduce the tax related costs for the small businesses by ensuring that the tax returns are simplified, it is clear that this aim has not been realised as these guesthouses are still using and paying tax practitioners' services for tax compliance.

Table 3: Period during which Tax Practitioners were used

Respondent	Data gathered
Respondent 1	Currently PWC are our accountants, started with them 2 and half years ago, before then we used part time bookkeeper. Basically since the beginning of business in 2013.
Respondent 2	I have been dealing with them for over 10 years.
Respondent 3	Since 2008 when the business started.
Respondent 4	Since business started more than 5 years ago.
Respondent 5	Since 2007 when I opened the guesthouse. But I have been with my accountant since 1997 when I had another business before this one.
Respondent 6	Since business started more than 5 years ago. We have an accountant who does our books. He uses pastel. We bought it for him and also does our taxes.

Source: Authors' own analysis

Small Business Website

Respondents were also requested to indicate if they knew about the small business SARS website which is dedicated to them as a means of reducing their tax compliance costs. This website is maintained by SARS to provide and guide the small businesses on all tax related issues. SARS has small business helpdesk and Mobile units where small businesses can be helped to complete registration forms and tax returns for free. For every form that a business needs to complete, there is a guideline and if they still do not understand they can approach small business helpdesk. They provide softwares like e@syfile that small business can download to help with employers complete Pay as You Earn (PAYE) information every month. They have workshops on topics like VAT, employees tax, Provisional tax, efiling for organisations at each province. They only advertise on the website so far. They provide excel worksheet for turnover tax that the business can download to calculate turnover tax. Recently the have introduced an application software called MobiApp. However, expertise for using these platforms remains scarce, if not non-existent, among the 15 guesthouse owners and managers (table 4).

Table 4: Any Knowledge of Small Business Website

Respondent	Data gathered
Respondent 1	I'm aware of the website but I haven't gone into it, only know about the small tax rates.
Respondent 2	No, for SARS? I will check it out.
Respondent 4	No. I have never heard of that or any initiative you mention here. But I will check it and see what is it all about.
Respondent 5	No, what is that?
Respondent 6	No. I have never heard about this. Has this always been there for small businesses? I've never seen or heard about this website because I've put all my faith in my tax practitioner. SARS must advertise these things on different platforms, so that we can come together as small businesses and discuss the pros and cons of our businesses and tax practitioners.

Source: Authors' own analysis

Based on table 4 above, it is evident that all the 15 guesthouse owners interviewed did not know about the SARS small business website; yet, this is the website created by SARS with the aim of providing small businesses with all the information they will need when dealing with tax related issues. SARS has a lot of work in educating these small guesthouse businesses to start using the guidelines and website provided to realise the objective of reducing compliance costs. One limitation here is that SARS was not contacted to establish how it has sought to ensure that the target small businesses such as these guesthouses managers are aware and able to use the website dedicated to them.

Small Businesses as Drivers of Local Economies

Whereas no generalization is intended, it is evident that while SARS came up with a very good idea and had good intentions of ensuring that small businesses can be assisted in reducing their compliance costs so as to reduce costs of carrying out their business, this objective is yet to be realized. Also, small businesses including their owners and managers still lack knowledge on tax related issues and they continue to rely heavily on tax practitioners. These tax practitioners are helping these small business at a fee, which defeat SARS's main aim when introducing the guidelines and websites with the aim of educating the small businesses. Overall, small businesses' meagre revenue is consumed by, among other costs, the tax compliance regulations. As a result, the lesson from these 15 guesthouses is that small businesses are unable to generate adequate profit in order to create additional income that would circulate in their local economies. Whereas useful in terms of ensuring the owners, the few employees and their families income for their survival, the small business are not geared as mechanisms for driving local economies. Hence, these small guesthouse businesses have remained survivalist. There may be other underlying factors that explain the constrained capacity of these small guesthouse businesses to be the driving force behind local economies, this paper has merely sought to highlight the role played by tax compliance regulations in undermining the capacity and role as drivers of local economies. Again, this statement is not designed to generalize the results and findings of the survey of the 15 guesthouses to a large population of small businesses; however, this paper highlight a subject of future research interest on a larger scope.

CONCLUSION AND RECOMMENDATION

This paper discussed the tax compliance costs for small guesthouse businesses due to heavy reliance on professional tax practitioners. It was found that these costs could be high if not properly controlled. In South Africa, SARS as the revenue collection service has introduced a number of measures that could be used by small businesses in reducing these costs. Despite all these measures being introduced, guesthouse owners and managers continue to rely on their external tax practitioners to assist them in filing their tax returns. This still requires these small guesthouse businesses to make payments for using the services of the professional tax practitioners. The paper finds that whereas SARS has provided guidelines, they have not been user-friendly for small guesthouse businesses managers and owners under investigation, with the result that they have continued to rely on professional tax practitioners at a hefty cost to their revenues. To this extent, this paper concludes that the legislative requirement for tax compliance is for these small guesthouse businesses a costly disincentive that detracts from their capacity to contribute to the local economies.

It is therefore, recommended that SARS considers the following: conduct large-scale surveys on regular basis to understand how small businesses could manage to file their returns on their own without the help of external practitioners; create an awareness to all small businesses via available media of the guidelines available and websites available in ensuring that they become aware of the assistance available; and, conduct regular workshops targeting small business owners at regional or municipality level to educate them on how tax returns can be submitted.

It is also important that SARS intervenes on behalf of small guesthouse businesses to contain the escalating costs levied by professional tax compliance practitioners. It is further recommended that SARS needs to revise and simplify small businesses tax compliance guidelines in order to reduce the costs of compliance. Such revisions and simplification needs to take into account the characteristic features of small business owners and managers, which include educational deficiencies, language challenges, limiting skills set and digital connectivity and expertise defects. For this reason, SARS guidelines for

small businesses tax compliance need to include provision of qualified tax practitioners by this institution itself at no fee to small businesses. These guesthouses would benefit from such policy and managerial interventions by SARS. There is a need for further studies that would comprehensively demonstrate the education and skills capacity of the small business owners and managers, the nature of SARS campaigns to popularize their electronic facilities for small businesses and the exact amounts that small businesses are required to pay to professional tax practitioners as a proportion of their revenues, profits and unrecorded expenditures. Without such a comprehensive study, findings and conclusions in this paper would remain anecdotal.

ACKNOWLEDGEMENTS

REFERENCES

Abrie, W. & Doussy, E., (2006). Tax compliance obstacles encoutered by small and medium enterprises in South Africa. *Meditari Accountancy,* 14: 1-13.

Babbie, E., (2013). *The Practice of Social Research* (13th edn.). CA, Wodsworth: Cengage Learning.

Chamberlain, D. & Smith, A., (2006). *Recent Findings on Tax Related Regualtory Burdens on SMME's in South Africa.* Cape Town: Genetic Analysis.

Chikadza, K.F., (2020). Neoliberalism, corporate power and the politics of exclusion in Malawi's tobacco sector. *Journal of Public Administration and Development Alternatives*, 5(1): 32-47.

Chittenden, F., Kauser, S. & Poutziouris, P., (2002). *Regulatory Burdens of Small Businesses: A Literature Review.* https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.630.1697&rep=rep1&type=pdf (Accessed: September 10, 2019).

Creswell, J., (2013). *Qualitative Inquiry and Research Design* (3rd edn.). London: Sage.

de Wet, P., (2019). *The Definitions of Micro, Small and Medium Businesses have Just been Radically Overhauled - Here's How.* www.businessinsider.co.za/micro-small-and-medium-business-definition -update-by-sector-2019-3 (Accessed: October 17, 2019).

Evans, C., Ritchie, K., Tran-Man, B. & Walpole, M., (1998). Tax compliance costs: Some recent empirical and international comparisons. *Australian Tax Forum,* 14: 95-121.

Gherghina, S.C., Botezatu, M.A., Hosszu, A. & Simionescu, L.N., (2020). Small and medium-sized enterprises (SMEs): The engine of economic growth through investments and innovation. *Sustainability*, 12(1): https://doi.org/10.3390/su12010347

Govender, R., (2008). *Formal SMME Tax Compliance Survey Report.* Washington, D.C.: United States Agency for International Development (USAID).

Hanefah, M., Ariff, M. & Kasipillai, J., (2002). Compliance costs of small & medium enterprises. *Journal of Australian Taxation,* 4: 73-97.

Junpath, S., Kharwa, M. & Stainbank, J., (2016). Taxpayers attitude towards tax amnesty and compliance in South africa: An exploratory study. *South African Journal of Accounting Research,* 30: 97-117.

Keen, M., (2012). *Taxation and Development: Again.* https://www.imf.org/external/pubs/ft/wp/2012/wp12220.pdf (Accessed: June 11, 2019).

Khalefah, E., Hanefah, M.B.M. & Ibrahim, M.A.B., (2020). Tax compliance costs and taxpayers behaviour: A review study. *Proceedings of the 7th International Conference on Management and Muamalah 2020.* e-ISSN: 2756-8938, pp.8-18.

Kumar, R., (2011). *Reaseach Methodology: A Step by Step Guide for Beginners* (4th edn.). Los Angeles: SAGE.

Le, H.T.H., Tuyet, V.T., Hanh, C.T.B. & Do, Q.H., (2020). Factors affecting tax compliance among small- and medium-sized enterprises: Evidence from Vietnam. *The Journal of Asian Finance, Economics and Business,* 7(7): 209-217.

Mabhoza, Z., (2014). *The Real Cost of Tax Compliance for Small Businesses.* https://smesouthafrica.co.za/The%C2%A0real+cost+of+tax+compliance+for+small+businesses (Accessed: July 20, 2019).

Mamaile, L., (2019). The perception of senior municipal officials in Sout Africa regarding the internal audit functions. The 4th Annual Iconference on *Public Administartion and Development Alternatives*, July 03-05, 2019, Southern Sun Hotel, OR Tambo International Airport, Johannesburg, South Africa.

Manuel, T., (2005). *Budget Speech by the Minister of Finance*. https://www.gov.za/budget-speech-2005-minister-finance-trevor-manuel (Accessed: July 11, 2019).

Matarirano, O., Chiloane-Tsoka, G.E. & Makina, D., (2019). Tax compliance costs and small business performance: Evidence from the South African construction industry. *South African Journal of Business Management,* 50(1): doi:10.4102/sajbm.v50i1.336

Naicker, Y. & Rajaram, R., (2019). The effectiveness of Tax Relief Initiatives on SMEs in South Africa. *CECONOMICA,* 15(4): 125-137.

Mguyen, T.T.D., Pham, T.M.L., Le, T.T., Truong, T.H.L. & Tran, M.D., (2020). Determinants influencing tax compliance: The case of Vietnam. *Journal of Asian Finance, Economics and Business,* 7(2): 65-73.

Muswaka-Zinatsa, P. & Chilunjika, A., (2020). Corporate governance and sustainable economic development in Namibia's public sector. *Journal of Public Administration and Development Alternatives,* 5(1): 122-132.

Ponorica, A. & Al-Saedi, A., (2015). The importance of taxation systems for SME tax compliance. Proceedings of the Internationa Management Conference, Volume 9, pp.129-136. Faculty of Management, Academy of Economic Studies, Bucharest, Romania.

Republic of South Africa (RSA), (1996). *National Small Enterprise Act, 1996 (Act No. 102 of 1996).* Pretoria: Government Printers.

Saldana, J., (2009). *The Coding Manual for Qualitative Researchers.* London: Sage.

Small Business Research Specialists (SBP), (2004). *Counting the Costs of Red Tape of Business in South Africa,* Johannesburg: SBP.

Small Business Research Specialists (SBP), (2005). *Counting the Costs of Red Tape for Businesses in South Africa,* Johannesburg: SBP.

South African Revenue Services (SARS), (2005). *Small Businesses Guide*. https://www.westerncape.gov.za/text/2006/6/income_tax_guide_for_small_businesses_2005_2006.pdf (Accessed: July 10, 2019).

Smulders, S. & Stiglingh, M., (2008). Annual Tax Compliance Costs for Small Business: A Survey Tax Practitioners in South Africa. *SA JEMPS,* 11: 354-367.

The Davis Tax Committee, (2016). *Second and Final Report on Small Business Enterprises for the minister of Finance*. https://www.taxcom.org.za/library.html (Accessed: August 10, 2019).

Union of industrial and Employers Confederation of Europe (UNICE), (1995). *The Union of Industrial and Employers confederations of Europe Regulatory Report: Releasing Europe's Potential Targeted Regulatory Reform.* https://www.oecd.org/sti/inno/2102514.pdf (Accessed: August 11, 2019).

Yin, R., (2011). *Qualitative Research from Start to Finish.* New York: The Guilford Press.

FUNCTIONALITY AND ECONOMICS OF COOPERATIVES IN THE DEVELOPMENT OF POOR COMMUNITIES WITHIN THE CHRIS HANI DISTRICT MUNICIPALITY, SOUTH AFRICA

Z.G. Gotyi, K.I. Theletsane and W.D. Erasmus

ABSTRACT

This paper seeks to test the notion of functionality of cooperatives in the socio-economic development with respect to poor communities, using the case of Chris Hani District Municipality in South Africa. Globally, cooperatives are generally believed to be functionally effective as instruments for the promotion of socio-economic development in poor communities. South Africa expends substantial amounts of resources in promoting the use of cooperatives to enhance socio-economic development; and, they have consistently been part of the country's development frameworks to reduce poverty, unemployment and inequality. For this paper, a purposive sample of 254 respondents were surveyed in Chris Hani District Municipality (CHDM) in the Eastern Cape Province. From this sample, 14 key informants were interviewed and 12 focus groups were established for the purposes of discussion. The survey was conducted in ways that ensured adequacy of triangulation and inclusiveness of differences. Using thematic content analysis, a variety of underlying patterns and meanings were uncovered. The findings in this paper corroborates the idea that cooperatives play an important role in enhancing the socio-economic development. The paper shows that communities in the CHDM use cooperatives in their pursuit of socio-economic development. However, the paper also points to the environment that is less enabling for cooperatives in that it diminishes their functionality in the promotion of socio-economic development. Having established that the functionality of cooperatives in socio-economic development is dependent upon the environmental contexts, this paper proposes strategies that could be used to create an appropriate enabling environment.

INTRODUCTION

***Zamikhaya Gladwell Gotyi** is a Lecturer and emerging researcher in Public Management at the Lovedale TVET College in South Africa. He holds a Doctoral degree in Public and Development Management from Stellenbosch University. Dr Gotyi's research interests include the functionality and economics of cooperatives, local economic development, land reform, local government and traditional leadership.*

***Kula Ishmael Theletsane** holds a Doctoral degree in Public Affairs and is an associate professor of Military Management in the Faculty of Military Science at the Stellenbosch University in South Africa. Professor Theletsane has published several papers on management and leadership in the security sector; and, his research interests include the economics of cooperatives.*

***Willem Erasmus** holds a Doctoral degree and is a Senior Lecturer in the Faculty of Military Science at the Stellenbosch University in South Africa. Dr Erasmus' research interests include the economic functionality of cooperatives in poverty alleviation.*

Co-operatives are used throughout the world as mechanisms for addressing the socio-economic development challenges (Philip, 2003; Beesley & Ballard, 2013; Mbugua & Waweru, 2020; Mchopa, Machimu, Kazungu & Mosongo, 2020; Tang, Sipilainen & Fu, 2020; Risal, 2021;Tumenta, Amungwa & Nformi, 2021). Both in developed and developing countries, cooperatives are found in different sectors of the economy creating job opportunities and generating income to improve the socio-economic conditions in poor communities (Wanyama, Develtere & Pollet, 2009; Huang, Wu, Xu & Liang, 2016; Chibanda & Mashingaidze, 2020; Moon & Lee, 2020; Srinivasan & Sundaram, 2020; Risal, 2021; Tumenta et al., 2021). Similarly, the South African government is using cooperatives as tools to improve the socio-economic conditions in poor communities. Hence, cooperatives are part of government development frameworks. Given the spirit of communitarianism and cooperation prevalent in South Africa's rural communities, government believes that cooperatives are the appropriate model to give the poor, women, youth and the marginalized some form of financial independence and the opportunity to contribute to local economy by generating job opportunities and income (Zeuli, 2002; Kanyane, 2009; Mbugua & Waweru, 2020; Mchopa et al., 2020; Tang et al., 2020). They believe that cooperatives are the tool to increase the number of active black enterprises in the mainstream economy and to bridge the gap between the poor and rich (Ndebele, 2005; Chibanda & Mashingaidze, 2020; Moon & Lee, 2020; Rwekaza, Kayunze & Kimaryo, 2020; Tang et al., 2020; Risal, 2021; Tumenta et al., 2021). This paper examines the applicability of the notion of cooperatives' functionality and contribution to socio-economic development of poor communities. Whereas this paper corroborates this generally accepted principle about the developmental functionality of cooperatives, it also signals the significance of the environmental contexts. There is no known prior study that has proposed and articulated a framework for the performance and effectiveness of cooperatives in socio-economic development; and, the significance of this study and its difference from existing studies lies in this point.

THE FUNCTIONALITY AND ECONOMICS OF COOPERATIVES

Cooperatives are an old practice, and early societies learned to cooperate and to work together to meet their individual and group socio-economic needs (Groves, 1985; Zeuli & Cropp, 2005; Anania, Angolo & Sife, 2020; Chibanda & Mashingaidze, 2020; Rwekaza et al., 2020). For centuries, people have worked together in pursuit of common goals, relying on one another to meet their needs. Such that, without cooperation, human life would have been difficult and socio-economic development would possibly never have occurred (Ghebremichael, 2013; Anania et al., 2020; Mbugua & Waweru, 2020; Mchopa et al., 2020; Rwekaza et al., 2020; Tang et al., 2020; Risal, 2021). Although they were in existence for some time, cooperatives were only recognised as a business model during the 19th century Industrial Revolution (Majee & Hoyt, 2011; Anania et al., 2020; Mbugua & Waweru, 2020; Rwekaza et al., 2020; Tang et al., 2020). The establishment of the Rochdale Cooperative in England in 1844 remains the most notable in cooperative development (Zeuli & Cropp, 2005). The enterprise became the epitome of the cooperative business model as its principles were adopted worldwide as the tenets by which cooperatives were governed. For its contribution, cooperatives are now perceived as business enterprises voluntarily formed, owned and funded by their members, who share the risks and benefits in equal proportion (Roy, 1981; Van Dooren, 1982; Moon & Lee, 2020; Sharma, 2020; Srinivasan & Sundaram, 2020; Risal, 2021). In effect, cooperatives bring together different people to attain a common need through the operation of a democratically controlled enterprise (Majee & Hoyt, 2011; Rwekaza *et al.,* 2020). Cooperatives can be divided into consumer, worker, producer and service cooperatives. A consumer co-operative is formed by individuals who want to supply their needs directly by the practice of mutual aid (Warbase, 1946; Mbugua & Waweru, 2020).

Worker cooperatives are industrial business enterprises owned and controlled by the workers to provide employment to its members through the production of goods for sale (Bottomley, 1987; Chibanda & Mashingaidze, 2020; Rwekaza *et al.,* 2020; Tang *et al.,* 2020). Producer cooperatives are primarily agricultural cooperatives that produce, process, and market agricultural products and services to its members (Hansmann, 1999; Mchopa *et al.,* 2020; Rwekaza *et al.,* 2020). Service cooperatives are those enterprises that provide financial or social services to its members. Also, cooperatives can be classified as primary, secondary and tertiary cooperatives. A primary cooperative is formed and operated by a minimum of five natural persons to facilitate community development by providing employment or services to its members and the community; while a secondary cooperative is formed by grouping together of two or more primary cooperatives to provide sectoral services to its members; and, a tertiary cooperative, an apex cooperative, is comprised of secondary cooperatives and is aimed at lobbying government, the private sector, and other stakeholders in the interest of the members (Warbase, 1946; Chibanda & Mashingaidze, 2020; Rwekaza *et al.,* 2020; Tang *et al.,* 2020).

Cooperatives are supposed to be governed by the International Cooperative Alliance (ICA) principles of voluntary and open membership; democratic member control; member economic participation; autonomy and independence; provision of education, training, and information; cooperation among cooperatives; and, concern for the community (ICA, 2013). Also, cooperatives are based on values of self-help, self-responsibility, democracy, solidarity, honesty, openness, social responsibility, and care for others (ICA, 2013). Everyone in the community is eligible to join, provided they meet the requirements. No one should be denied membership or excluded from joining, unless members felt that such membership would not add value to the cooperative. Importantly, cooperatives should remain neutral in matters of politics, religion, race and nationality (Roy, 1981; Rwekaza et al., 2020; Risal, 2021). They should be platforms on which all people of different affiliations can unite and work together without discrimination (Wilkinson & Quarter, 1996; Chibanda & Mashingaidze, 2020; Mbugua & Waweru, 2020; Rwekaza et al., 2020; Risal, 2021).

Every member has one vote, irrespective of age, the capital invested, the clan or family to which the member belongs. The benefits generated by the cooperative are equitably distributed to the members in proportion of their participation not on the basis of the investment or share ownership (Zeuli & Radel, 2005; Ortmann & King, 2007; Rwekaza et al., 2020; Sharma, 2020; Tang et al., 2020; Risal, 2021). Ideally, cooperatives are not profit-making enterprises but the tools to promote the economic wellbeing of their members and to maintain their good standard of living (Puusa, Mönkkönen & Varis, 2013; Anania et al., 2020; Mbugua & Waweru, 2020; Mchopa et al., 2020; Rwekaza et al., 2020; Tang et al., 2020). They empower the community to improve the quality of life, whilst enhancing the economic opportunities (Ortmann & King, 2007; Anania et al., 2020; Mbugua & Waweru, 2020; Mchopa et al., 2020; Rwekaza et al., 2020; Tang et al., 2020; Moon & Lee, 2020; Risal, 2021; Tumenta et al., 2021). Cooperatives are aimed at satisfying the needs and interests of the members than making profit (Warbase, 1946; Rwekaza et al., 2020; Tang et al., 2020). Effectively, cooperatives are a unique combination of a social unit and a business enterprise (Zeuli & Deller, 2007; Chibanda & Mashingaidze, 2020; Tang et al., 2020). They blend financial and social capital with human capital to mobilise the local resources into a critical mass to promote the preservation of the profit generated in the community (Zeuli, Freshwater, Markley & Barkley, 2004; Mbugua & Waweru, 2020; Mchopa et al., 2020; Rwekaza et al., 2020; Tang et al., 2020; Moon & Lee, 2020; Risal, 2021; Tumenta et al., 2021).

The economics and functionality of cooperatives can be tested in their capacity to generate job opportunities and income, among other things. Also, the economics and functionality of cooperatives would not be exhaustive if it excludes the societal experiences of the social material well-being, which is generally determined through the concept of socio-economic development. Socio-economic development is a multi-dimensional restructuring of the community to promote economic growth and the creation of a better life for all in response to the gross inequalities and absolute poverty created by the world economy

(Ferrinho, 1980; Kotze, 1997; Ijeoma & Nwaodu, 2013; Mbugua & Waweru, 2020; Mchopa et al., 2020; Moon & Lee, 2020; Rwekaza et al., 2020; Sharma, 2020; Srinivasan & Sundaram, 2020, Tang et al., 2020). It is a process by which a society progresses from a condition of life that is unsatisfactory towards that is materially and spiritually better so that people realise their potential, build self-confidence, and lead lives of dignity and fulfilment with increased living standards, improved health, and wellbeing for all (Todaro & Smith, 2011; Anania *et al.,* 2020; Mbugua & Waweru, 2020; Mchopa *et al.,* 2020; Rwekaza *et al.,* 2020; Tang *et al.,* 2020).

Fundamentally, socio-economic development entails reduced levels of poverty, better education, higher standards of health and nutrition, better life expectancy, a cleaner environment, greater individual freedom, and a richer cultural life for the rest of the community (Szirmai, 2015; Chibanda & Mashingaidze, 2020; Rwekaza *et al.,* 2020; Tang *et al.,* 2020). Therefore, socio-economic development is a comprehensive process that responds to the social, cultural, political, and economic needs of the citizens by reducing unemployment, poverty, inequality and other social ills, to bring about sustained elevation of the entire community towards a better quality of life. In this paper, the role of cooperatives in society is analysed in relation to the positive change they create in the community, which results in a life that the citizens perceive as good.

RESEARCH METHOD

This paper uses an interpretivist approach to examine the functionality of cooperatives in enhancing the socio-economic development of poor communities. Interpretivism maintains that a social phenomenon is understood and explained by unravelling the meanings people ascribe to their own experiences and interactions (Du Plooy-Cilliers *et al*., 2014; Ritchie, Lewis, Nicholls & Ormston, 2014). Purposively selected and diverse sample of 254 subjects, which comprised of respondents from 14 state institutions, 89 cooperatives, and 151 community members, was selected and surveyed from the CHDM. Purposive sampling was used because it allowed the selection of knowledgeable subjects that provided the most accurate information on the subject under investigation (Bickman & Rog, 2009; Schurink, 2009; Bernard, 2013; Leedy & Ormrod, 2013).

This paper reports data that was analysed through thematic content analysis to identify the main themes (Braun & Clarke, 2006). Firstly, the data was transcribed into three data sets by collating the audio recordings with the field notes. Thereafter, the data was coded by breaking it down into various segments containing common features (Bless, Higson-Smith & Sithole, 2013). Data was analysed to identify emerging concepts, existing patterns and associations as well as the ideas that explain their existence (Bernard, 2013). Effectively, data analysis was largely focussed on the underlying connections (Babbie, 2007; Creswell, 2014), as well as interpreting and making sense of the content to reveal meanings and patterns of relationships (Maree, 2007). The distinctiveness and diversity of data provided new information (Bless *et al*., 2013). All the three data sets were compared and merged to identify similarities and variations to corroborate or disconfirm the general principle held in the relevant literature. The convergence and integration of data from different sources increased the richness of the research findings (Holborn, 2004; Babbie, 2013; Creswell, 2014). The alignment of the findings with the literature validated the existing knowledge and assisted in generating new knowledge, which increased the transferability of the findings (Maree, 2007; Neuman, 2014).

RESEARCH FINDINGS

In presenting the findings, the paper uses verbatim quotations in order to express and contextualise the research findings (Kumar, 2014: 317). Overall, the research findings suggest that

cooperatives do contribute to socio-economic development. Throughout the CHDM, communities have used cooperatives in job creation, income generation, food security, poverty reduction, crime prevention, and community empowerment. Despite this finding, the paper also establishes that cooperatives are debilitated by a few environmental factors, which lessened their influence in socio-economic development. Almost all the cooperatives in the district are affected by one or more of the factors, which are discussed hereunder.

Poor Implementation of Legislation

The paper establishes that the legislation meant to support cooperative development was poorly implemented. There was reluctance and limited commitment from state institutions to implement cooperative legislation. None of the cooperative of legislation was properly implemented and the failure has led to poor development of cooperatives, which relegated them to destitution, particularly for those that relied on government support for sustenance. Cooperatives are still faced with the same hardships these laws were meant to eradicate.

Involuntary Participation

The majority of cooperatives in the district were started by government, as one key respondent notes:

"Largely, people formed cooperatives because government said so. Officials and politicians told communities to form cooperatives as funding will be provided. People have simply joined or formed cooperatives because of the advice from government officials and politicians, who promised them government funding. Therefore, there is a lack of voluntarism in the way cooperatives are formed but coercion. Since people have not voluntarily formed the cooperative, there is no sense of commitment and ownership but a dependency syndrome" (Interview 3).

The initiation of cooperatives by the state proved to be the most prominent cause for their poor performance. Cooperatives are more productive and profitable when there is less state influence and interference (Forgacs, 2008). State interference often results in the formation of cooperatives by people who had no passion or commitment for a business enterprise. The involvement of state in the initiation of cooperatives took away their autonomy and obliterated their sense of ownership, innovation and commitment. State-initiated cooperatives rarely induce real solidarity among their members and are often predisposed to unproductivity (Ruben & Heras, 2012). Whilst the involvement of state was meant to assist poor cooperatives get off the ground, it was instead exploited by the communities for selfish interests. Inadvertently, state support generated the dependency syndrome in the sector as every established cooperative expects to be provided with perennial state support. Members are unjustifiably hesitant to invest in their own cooperatives even when some of them were financially able to do so. Cooperatives are not operated as business enterprises but as vehicles to access state funding.

Lack of Knowledge

When government initiated the cooperatives, communities were never educated on the type of business they were introduced to. Government simply advised them to form cooperatives and thereafter, provided them with funding. No training on cooperative business model was offered. Also, when the concept was introduced, government officials were less proficient about the model and could not provide effective guidance. One of the key informants notes thus:

"People formed cooperatives without understanding the concept. Government officials were not clear about the cooperatives they introduced to the communities. People were not properly educated on what entailed a cooperative. Therefore, cooperatives were not properly formed. People with no knowledge or interest in cooperatives have formed them just for the purposes of accessing government funding" (Interview 1).

Lack of knowledge resulted in ignorant membership that did not understand the very business they operated. Members are oblivious that cooperatives are their own business enterprises and are to be supported by their own capital.

Conflicts

Cooperatives are generally characterised by conflicts because every member has an equal claim on ownership. This often leads to intense contestations for the control of cooperative resources. The practice is rife in government-initiated cooperatives where members are less passionate about the cooperative endeavour but interested in state funds. Key informants generally concurred that:

"Conflicts amongst the members are frequent. Immediately funds are made available to the cooperative, usually infighting starts. The fights are generally around the control of the financial resources. Similarly, when the cooperative experiences success, contestations for the control of the business begin. Often, the person who initiated the enterprise would want to usurp it and control it to for her/his own benefit" (Interview 1).

Since conflicts are destructive, a number of cooperatives have been incapacitated, and even those that initially looked viable were eventually overwhelmed.

Poor Dissemination of Information

Certain cooperatives fail because they do not know about government support programmes; and, respondents agreed with the sentiment that:

"Lack of information on the government support system is one of the factors affecting the performance of cooperatives. Communities do not know how to access state support" (Interview 4).

Poor distribution of government information deprives cooperatives the services that could have improved their performance. This ineptitude has equally affected both urban and rural areas and has resulted in stunted cooperatives that hardly play an effective role in socio-economic development.

Lack of Education

The lack of education on cooperative members also contributes to poor performance. The majority of the cooperative members are old and illiterate, and this has led to the dearth of critical skills needed to drive and sustain these enterprises. Their lack of skills has led to poor business planning which culminated in certain cooperatives established without a proper business plan. Overall, the lack of education has deprived the cooperatives the necessary skills to operate as profitable and sustainable business enterprises, thus limiting their role in socio-economic development.

Ineffective Capacity Building Programmes

Ineffective training programmes are one of the factors that compromised the functionality of the cooperatives. The lack of capacity prevents cooperatives from maximising their production potential, hampers their profitability, and inhibits their contribution to socio-economic development (Mbanza & Thamaga-Chitja, 2014; Anania *et al.,* 2020; Mbugua & Waweru, 2020; Mchopa *et al.,* 2020; Rwekaza *et al.,* 2020; Tang *et al.,* 2020). Hence capacity building is the most critical component of cooperatives' success (Zeuli & Radel, 2005; Mbugua & Waweru, 2020; Rwekaza *et al.,* 2020; Tang *et al.,* 2020). Respondents agreed that:

> *"Generally, cooperatives need training in business management and government is not investing in human capital. There is no effort to grow the skill base in cooperatives. When training is provided, cooperatives would be given a two- to three-day workshop and thereafter, no follow-up monitoring and evaluation is provided to ensure that training is properly implemented. The once-off training with no follow-up monitoring is not helping the cooperatives. Government institutions that offer training must do a follow-up monitoring to see to it that the training provided is implemented"* (Interview 1).

Training offered to cooperative members is apparently ineffective in improving their performance as it is inconsiderate of their old age and low levels of education. Also, some training programmes usually require the members to have some form of basic education to comprehend the content.

Youth Apathy

Youth are less interested in cooperatives and only a few of them participate in their activities; and there was general acceptance that:

> *"Cooperatives are mostly owned by old-aged people, particularly women. Very few cooperatives have youth as members. The introduction of youth to cooperatives is critical"* (Interview 6).

Youth apathy contributes to the lack of capacity and innovation in the sector. Their participation could reduce the shortage of skilled personnel in the sector and bring in the required skills. They could invigorate dynamism and innovation in the sector. Hence cooperatives must be made attractive, receptive, and accommodative to young people (ICA, 2013). Apart from invigorating the new knowledge required to revolutionise cooperatives, their involvement could contribute in reducing the escalating unemployment.

State Grant System

The state grant system has not entirely achieved its intended objectives, but instead has created problems. Inadvertently, it inculcated a dependency syndrome and made cooperatives totally reliant on government. Cooperatives are now unwilling to do anything on their own without assistance from government. The tendency is so rife to the extent that members seem not to consider cooperatives as their own but state enterprises. The grant system has virtually taken away the sense of ownership and commitment from the membership because, as respondents conceded:

> *"Generally, members do not want or [are] unprepared to do anything for the cooperatives. There is a serious hand-out mentality or dependency syndrome in cooperatives. They expect to get everything from government. They are not prepared to spend even a cent on the cooperative. They behave as if cooperatives belonged to*

government as they request everything from government. They are not even prepared to repair broken machinery/equipment or buy seedlings for their cooperatives. In every planting season, they would request government to provide them with seedlings or repair their broken machinery" (Interview 6).

Besides generating the dependency syndrome, the state grant is abused. Some governments departments give funding directly to cooperatives without first establishing effective monitoring systems (Gxabuza and Nzewi, 2021), and this omission created a leeway for the misappropriation of the funds. After misappropriating the funds, the cooperative usually dissolves and re-emerges under a different name, perhaps with one or two new members to disguise itself. In the disguised form, it would again successfully apply for funding from another government department without being noticed that it was a repeat recipient. The repeat funding of the same enterprises deprives other deserving cooperatives the necessary resources, stagnating them in the state of underperformance.

Lack of Monitoring and Evaluation

The lack of effective monitoring and evaluation of government programmes contributes to the underdevelopment and the incapacitation of cooperatives (Gxabuza and Nzewi, 2021). Funds disbursed to cooperatives are not properly monitored and training programmes offered are not subsequently evaluated to ensure effective implementation; and, it was apparent in the discussions that:

"Proper monitoring of cooperatives through regular visits is needed. Often, government officials are doing monitoring mainly for compliance purposes not for the capacitation of the members. Sometimes officials would do monitoring through telephone without visiting the cooperatives. Perhaps, this was because cooperatives were owned by illiterate and rural people. Apparently, government officials were undermining the cooperatives. Government is too distant from cooperatives" (Interview 1).

Seemingly, cooperatives are left on their own without any form of guidance from government. Monitoring is mainly provided to comply with budgetary obligations. This hinders the systematic nurturing of the cooperatives and contributes to the misuse of government resources. Proper monitoring would ensure meticulous guidance and supervision of cooperatives to attain their functionality. Without monitoring and evaluation, cooperatives are condemned to the state of underperformance and denied the opportunity to progress into sustainable business enterprises.

Government Procurement Processes

Similarly, the lack of supportive procurement processes in state institutions contributes to the failure of cooperatives. No preferential treatment of cooperatives when government tenders are awarded. Despite their limited capacity, cooperatives are forced to compete with established business enterprises. Also, the delay in the release of funds by financing institutions on the approval of cooperatives' applications for funding worsens their predicament. It usually takes months for the institutions to release funds, prolonging the cooperatives' destitution; and, respondents agreed that:

"Government procurement policies that favour cooperatives must be implemented. Government procurement systems often do not assist cooperatives. Government orders are sometimes too short-noticed for cooperatives given their incapacity and poor financial muscle. Usually, government give them an order to provide certain goods within a very short notice period. This leads to cooperatives being unable to deliver given their lack of capacity and finance. In most instances, this results in the order redirected

to established enterprises. If no financial support is provided, cooperatives must be given enough time to deliver"(Interview 1).

Moreover, financing institutions have a tendency to control cooperatives' procurement processes. This creates problems for the cooperatives because at times the equipment procured by the funders are of poor quality or incorrect specification. At times, incompetent service providers are procured. This manipulation adversely affects the performance of cooperatives because it is often difficult to replace incorrect equipment or repair poor workmanship from inept service providers. The practice often leaves cooperatives stuck with a useless equipment or infrastructure, whilst these were initially procured to improve their functionality. At the end, cooperatives are left worst-off with a debt to service and a useless equipment.

Lack of Collaboration

There is no collaboration between state institutions providing support to cooperatives. Although servicing the same clientele, state institutions independently work in isolation without cooperation, resulting in a fragmented and ineffective service provision. Respondents note thus:

"There is no collaboration between government institutions supporting cooperatives. They work in silos and there is an element of territoriality amongst them" (Interview 1).

"Cooperation between the state institutions must be promoted. Working in isolation is not helpful. Collaboration will allow the state institutions to collectively push the cooperatives forward and will eliminate the repeat provision of the services by different institutions to the same cooperatives" (Interview 4).

The dispersion of support into various service points creates an inconvenience in accessibility because cooperatives have to move from one institution into another. Services that are supposed to be easily accessible are difficult to access, depriving the cooperatives the assistance that could improve their functionality.

Lack of Cooperation

Lack of collaboration between the cooperatives is also debilitating. There is no integration amongst the cooperatives and no cooperative movement has been established in CHDM. Both at district and local level, cooperatives are not organised into unions or associations but operate as individual entities. Their non-affiliation denies them the opportunity to learn from each other and to share experiences, knowledge, resources and skills. It also deprives them the opportunity to benefit from the economies of scale in buying supplies, machinery and equipment, and in the transportation of produce to the markets.

Lack of Partnerships

The lack of partnerships between cooperatives, the private sector and the non-governmental organisations weakens the cooperatives in the district. Such that, the respondents agreed that:

"Partnerships with experienced stakeholders, public and private, are important for the productivity of cooperatives and must be established" (Interview 5).

The lack of cooperation and integration amongst cooperatives led to their failure to establish partnerships with other organisations. The inability deprives them the opportunity to learn and benefit

from experienced private businesses that offer similar products. They miss out on opportunities for information sharing, skills transfer, training, coaching and mentoring, which could contribute in developing a vibrant cooperative sector. Partnerships with other organisations could assist in building capacity in the sector.

Lack of Markets

Lack of markets generally distresses cooperatives. Cooperatives are meant to provide their members with marketing opportunities by forming linkages with local, regional, national, and even international markets (Ferguson & Kepe, 2011; Sharma, 2020; Srinivasan & Sundaram, 2020; Risal, 2021). However, securing regular markets for their members has not only been difficult but erratic for cooperatives in CHDM. The majority of cooperatives are using ineffective marketing strategies and are confined to local markets as seen by the respondents:

> *"Cooperatives are characterised by lack of marketing acumen, which has made their marketing strategies ineffective. They need to explore other marketing strategies such as using social media such as Facebook, Twitter, etc. Moreover, they also lack business negotiating skills to secure a market for their products"* (Interview 11).

> *"Lack of markets is one of the main challenges for cooperatives. Usually cooperatives start with production without having identified the market for the products"* (Interview 10).

Starting production without an identified market is a business incompetence, which often results in wasteful expenditure as the produce perishes before it is sold. There is a need for innovative marketing strategies to explore and penetrate markets beyond the region.

Political Interference

The interference of politicians in the administration of cooperatives also contributes to their poor performance. Municipal councillors often interfere in the management of cooperatives for political expediency and conflate cooperatives with service delivery initiatives. There is a shared insistence that:

> *"Politicians tend to hijack the cooperatives for political expediency. They tend to interfere in the running of cooperatives since they are funded by government. Politicians must desist from involving themselves in the running of cooperatives."* (Interview 1).

The abuse of cooperatives by politicians negatively affect their performance and creates tensions between the cooperative members and the community, whereas, cooperatives have to remain apolitical given their diverse membership (Wilkinson & Quarter, 1996; Chibanda & Mashingaidze, 2020; Mbugua & Waweru, 2020; Rwekaza et al., 2020; Risal, 2021). Besides, the political manipulation of cooperatives compromises their credibility tainting their reputation as poverty-alleviating strategies, gaining them notoriety of being the tools to access state largesse (Tukuta, 2011; Tang *et al.,* 2020). In this way, political interference defeats the very objectives of growing a self-sustainable and integrated cooperative sector that promotes economic growth, poverty alleviation, and employment creation in poor communities (RSA, 2004). The involvement of politicians often divide cooperatives along political affiliations. This does not only exterminate their energies, but misdirects them to unprofitable ends (Tukuta, 2011; Tang *et al.,* 2020). Subsequently, cooperatives lose their identity and purpose, and become irrelevant to socio-economic development.

PROPOSED FRAMEWORK

Based on these findings, an effective support system is needed to enhance the role of cooperatives in socio-economic development. Although government provides a number of support services to cooperatives, their impact is largely ineffective because of disintegration and poor coordination between the state institutions. It is for this reason that a comprehensive and integrated support framework is proposed as a mechanism by which state support is provided to cooperatives to enhance their functionality.
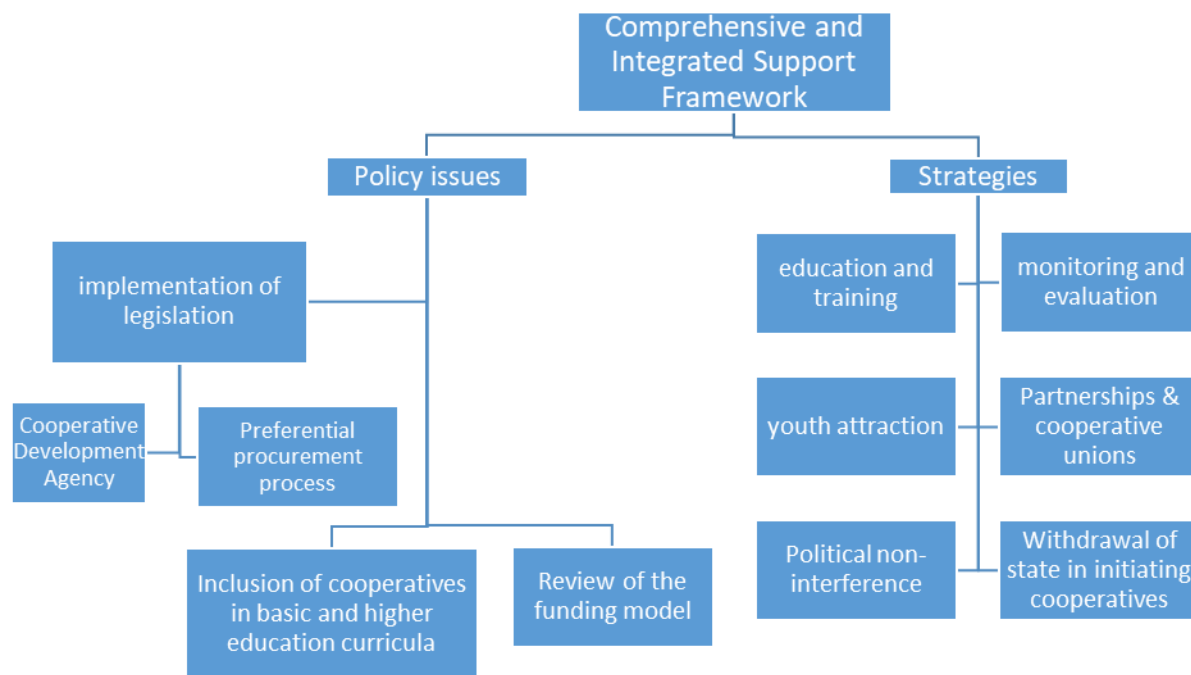

FIGURE 1. COMPREHENSIVE AND INTEGRATED SUPPORT FRAMEWORK

The framework advocates a two-pronged approach in the provision of cooperative support. While policy changes are explored, practical actions must be implemented by government.

Policy Issues

Three policy changes are proposed to enhance the functionality of cooperatives, namely: the implementation of cooperative legislation; review of the cooperative funding model; and inclusion of cooperatives in basic and higher education curricula.

Implementation of Cooperative Legislation

State support should be spearheaded by the implementation of cooperative legislation, particularly the Cooperative Amendment Act (No. 6 of 2013) and Preferential Procurement Policy Framework Act (PPPF Act) (No. 5 of 2000). As these acts provide almost everything that cooperatives need to develop into productive business enterprises, their proper implementation could eliminate most of the challenges besieging the sector. Most importantly, the implementation of the Cooperative Amendment Act will push for the establishment of Cooperative Development Agency (CDA), while the PPPF Act will promote the marketing of cooperative products.

Establishment of CDA in the District

There is an urgent need for the establishment of CDA to coordinate and integrate various state support programmes offered to cooperatives. The research findings indicate that there is no coordination and integration in state support. There is no collaboration between government institutions. They work in isolation from one another. Cooperative support is dispersed to a number of government institutions, resulting in an ineffective, uneconomical and unsustainable service. There is a duplication of services and wastage of resources, which created the inept cooperatives found in the district. The concentration of fragmented government services and the pooling of resources under one roof will not only be economical, but will accelerate service delivery, improve the dissemination of information, eliminate the duplication of services, and prevent the wastage of resources.

The CDA will ensure that the services rendered to cooperatives are responsive and convenient to their needs. Better-serviced cooperatives culminate in better performance. Experiences from China, Ethiopia, and Kenya proved that the integration and coordination of cooperative support services at local government level is instrumental in cooperative success. Presumably, the establishment of CDA will extricate cooperatives from the state of ineffectiveness and eliminate some of the challenges incapacitating the sector. Therefore, the CDA can be the solution to many tribulations facing the cooperatives. The Chris Hani Cooperative Development Centre (CHCDC), which already exists in CHDM and provides some of the services the CDA is meant to provide could be strengthened and used as a foundation for the establishment of the CDA.

Implement Preferential Procurement Processes

The implementation of preferential procurement processes in favour of cooperatives by state institutions will alleviate market-access challenges and provide them with the platform to grow. Cooperatives can do well if they can be provided with the opportunity to prove their worth. Therefore, market access for the cooperatives could contribute to their growth.

Review the Funding Model

State financial support is indispensable to cooperatives given that they are largely formed by poor people, who effectively need financial assistance to get off the ground. However, the research findings have pointed out that the state grant system has been problematic. It failed to achieve its intended objectives, but instead, it inadvertently bred dependency syndrome within the sector. It formed state-dependent cooperatives that totally rely on government and unwilling to do anything on their own. Effectively, the state grant system has been abused as a cash cow. Certain cooperatives have serially accessed the state grants whilst others have not benefited at all. The abuse has been aided by government institutions who directly gave funding to cooperatives without first establishing effective monitoring systems. To lessen these challenges, it is recommended that the funding model is reviewed and low cost or zero-rated loan system is introduced instead of grants. In the meantime, while the system is not yet overhauled, vigilant screening of grant applicants must be done to ensure that only viable enterprises with proper business plans are granted financial assistance. Physical site visits and other means of verification must be conducted by funding institutions to establish the viability of the enterprises.

Incorporate Cooperatives in Basic and Higher Education Curricula

The research findings indicate that the lack of knowledge on the purpose, basic principles, and values of cooperatives is rife. The majority of cooperative members in the district do not understand the cooperative form of business, and this has resulted in the failure of their cooperatives. To eliminate this challenge and promote the understanding of the cooperative business model by the majority of the population, it is recommended that the model is taught as a subject at schools and tertiary institutions. Therefore, cooperatives must be incorporated into the country's education curricula for basic and higher education. Their inclusion in the curriculum will not only assist in the understanding of the cooperative concept by the majority of the population, but will eliminate the misconceptions about the model and stimulate interest among the youth.

Strategic Policy Recommendations

Whilst the policy issues are explored, the following interventions should be implemented to improve productivity in cooperatives.

Discontinue the Initiation of Cooperatives by the State

Most importantly, the involvement of the government in the initiation of cooperatives must be discouraged. The government should refrain from initiating cooperatives for the communities as this creates dependency syndrome. Communities must be given the space to initiate their own enterprises in their own ways. The government should rather focus on educating and training communities on how to initiate and operate their own businesses and give them the necessary support. The government must ensure that communities know and are assisted to access the various government support programmes. The state institutions such as Chris Hani Cooperative Development Centre (CHCDC), Small Enterprises Finance Agency (SEFA), Small Enterprises Development Agency (SEDA), Eastern Cape Development Corporation (ECDC), Eastern Cape Rural Development Agency (ECRDA), Department of Economic Development and Environment Affairs (DEDEA) and others must go out to communities and educate them about the services they provide. As long as their services are unknown to the communities they serve, their existence is of no value to the socio-economic development of poor communities.

Improve Capacity-building Programmes

Given that the majority of members do not understand the model and lack the necessary business management skills to profitably operate their enterprises, there is an urgent need for effective education and training. Members must be primarily educated and trained on cooperative principles and business management, particularly, bookkeeping, record management, and marketing as the profitability of cooperatives largely hinges on these skills. Capacity building must be central in the support programmes the state provides so that cooperatives are developed into functional business enterprises. The government institutions, such as SEDA, SEFA, ECRDA, ECDC, CHCDC, and DEDEA, must prioritise the capacitation of the cooperatives.

Equally important, these organisations must move away from the habit of working in isolation from one another as it has resulted in ineffective capacity-building. Collaboration between them is critical and would yield greater impact as it will promote the pooling, integration and the frugal utilisation of resources. Therefore, it is important that collaboration between state entities and integration of services are urgently addressed through the establishment of a CDA. The current approach to capacity-building has allowed some cooperatives to be repetitively provided with training by different state entities a number of times, while others are neglected. The integration of training programmes under one roof will

eliminate these duplications and ensure that cooperatives receive the same treatment. The theory-laden training programmes that are traditionally provided to cooperatives have not made much difference to the skills shortage. Even though members have been attending these programmes for some time, the lack of skills is still prevalent. The off-site and away-from-home one or two-week training programmes should be used sparingly, given the members' age and education levels. Preferably, on-site and practical-based training should be provided to afford members adequate time to grasp the content and to ensure the transfer of skills. Largely, coaching and mentoring should constitute part of the capacity-building programmes.

Improve the Monitoring and Evaluation of Support Programmes

The government must improve the monitoring and evaluation of the support programmes provided to cooperatives. The biggest challenge with the monitoring and evaluation of cooperative support is the tendency of state institutions to work alone. Collaboration between them could improve monitoring and evaluation as the resources would be pooled together for better utilisation. The establishment of a functional and well-funded CDA at district level could enhance effective monitoring and evaluation of support programmes.

Attract Youths to Cooperatives

It is important that youths are actively attracted to cooperatives to rejuvenate and modernise these enterprises. The government must explore strategies to entice their participation. The incorporation of cooperatives in the curriculum for basic education could assist in stimulating their interest. Moreover, tertiary institutions, particularly the TVET colleges, should also consider introducing courses or programmes on the cooperative business model. Besides attracting the youth, the introduction of cooperatives in the school curriculum will also enhance community awareness about the model and promote wider understanding of the concept by communities.

Promote Cooperation between Cooperatives

The cooperatives must be encouraged and given the necessary support to form cooperative unions and associations both at local and district level. Government institutions that support cooperative development in the district such as SEDA, SEFA, ECRDA, ECDC, CHCDC, and DEDEA must assist in driving this initiative. The formation of linkages among cooperatives will promote economies of scale, enhance the sharing of knowledge and resources within the sector. Most importantly, cooperation among cooperatives will also assist in skills transfer and enhance their functionality.

Establish Partnerships with Stakeholders

The state must also facilitate the formation of partnerships between cooperatives, the private sector, and the non-governmental organisations. Given the lack of capacity and skills within the sector, partnerships with other organisations could be beneficial as they could assist in market linkages and skills transfer. The government must facilitate the exploration and the initiation of partnerships with other stakeholders.

Discourage the Interference of Politicians in Cooperatives

The involvement of politicians in the operations of cooperatives must be discouraged. However, as long as the state is involved in the initiation of cooperatives, it will be difficult to discourage their involvement and politicians will continue to obfuscate cooperatives with service delivery imperatives.

Therefore, to discourage their interference, the state must first desist their involvement in the initiation of cooperatives. Once that has happened, it will not be easy for politicians to intrude in the affairs of autonomous and community-initiated cooperatives.

CONCLUSION

This paper has found that cooperatives contribute positively towards poor communities' socio-economic development. The findings indicate that communities generally use cooperatives for job creation, income generation, food security, poverty reduction, crime prevention, and community empowerment, and all these activities improve the socio-economic conditions of many households in CHDM. Also, the paper establishes that a number of environmental factors diminish the influence of cooperatives in socio-economic development. The majority of cooperatives are stalled by factors such as lack of knowledge, relentless conflicts and lack of education to mention the few.

The findings on the realities of cooperatives in CHDM could be applicable to other areas in South Africa. Insights gained from this research could shed light on the challenges faced by cooperatives in other areas. Equally, the findings could contribute to more effective cooperatives in the rest of the country, which could enhance the socio-economic development in poor communities. More importantly, the framework proposed by this paper could contribute in advancing the existing body of knowledge on cooperative development. Based on the proposed framework, the paper makes a wide range of recommendations which are discussed in the section preceding this conclusion.

REFERENCES

Anania, P., Angolo, S.M. & Sife, A.S., (2020). Positioning co-operatives as partners in global health agenda: How to go about it in Africa. *The African Journal of Co-operative Development and Technology,* 5(1): 10-27.

Babbie, E.R., (2013). *The Practice of Social Research* (13th edn.). Belmont: Wadsworth Cengage Learning.

Beesley, A. & Ballard, R., (2013). Cookie cutter cooperatives in the KwaZulu-Natal school nutrition programme. *Development Southern Africa,* 30(2): 250-261.

Bernard, H.R., (2013). *Social Research Methods: Qualitative and Quantitative Approaches* (2nd edn.). Los Angeles: Sage Publications.

Bickman, L. & Rog, D.J., (2009). *Applied Social Research Methods.* Thousand Oaks: Sage Publications.

Bless, C., Higson-Smith, C. & Sithole, S.L., (2013). *Fundamentals of Social Research Methods. An African Perspective* (5th edn.). Claremont: Juta.

Bottomley, T., (1987). *An Introduction to Cooperatives: A Programmed Learning Text.* London: Intermediate Technology Publications Ltd.

Braun, V. & Clarke, V., (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology,* 3(2): 77-101.

Chibanda, T.W. & Mashingaidze, T., (2020). Third Chimurenga and its implications on the commercial farmers union in Zimbabwe. *Journal of Public Administration and Development Alternatives,* 5(2): 36-48.

Creswell, J.W., (2014). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (4th edn.). Los Angeles: Sage Publications.

Du Plooy-Cilliers, F., Davis, C. & Bezuidenhout, R., 2014. *Research Matters.* Claremont: Juta.

Ferguson, H. & Kepe, T., (2011). Agricultural cooperatives and social empowerment of women: A Ugandan case study. *Development Practice,* 21(3): 412-429.

Ferrinho, H., (1980). *Towards a Theory of Community Development.* Cape Town: Juta.

Forgacs, C., (2008). Leadership and importance of social capital in cooperatives during transition: A case of two cooperatives. *Journal of Rural Cooperation*, 36(1): 57-72.

Ghebremichael, B., (2013). The role of cooperatives in empowering women. *Journal of Business Management and Social Sciences Research,* 2(5): 5-54.

Groves, F., (1985). *What Is Cooperation? The Philosophy of Cooperation and Its Relationship to Cooperative Structure and Operations*. Occasional Paper No. 6. Madison: University Centre for Cooperatives, University of Wisconsin-Madison.

Gxabuza, F. & Nzewi, O. (2021). Findings on the role of cooperatives in local economic development in Buffalo City Metropolitan Municipality: A participatory monitoring and evaluation approach. *Africa's Public Service Delivery and Performance Review*, 9(1): 1- 11.

Hansmann, H., (1999). Cooperative firms in theory and practice. *The Finnish Journal of Business Economics,* 4(99): 387-403.

Holborn, M., (2004). *Developments in Sociology*. Ormskirk: Causeway Press.

Huang, Z., Wu, B., Xu, X. & Liang, Q., (2016). Situation features and governance structure of farmer cooperatives in China: Does initial situation matter? *The Social Science Journal,* 53: 100-110.

Ijeoma, E.O.C. & Nwaodu, N., (2013). *Third World Development Strategies: Decades of Fascination and Frustrations: A Reader on African Vistas*. Pretoria: Verity Publishers.

International Cooperative Alliance (ICA), (2013). *Blueprint for a Cooperative Decade*. Brussels: ICA.

Kanyane, M.H., (2009). Cooperatives as part of social security mainstream for poverty alleviation in selected municipalities. *Journal of Public Administration,* 44(4): 1124-1137.

Kotze, D.A., (1997). *Development Administration and Management: A Holistic Approach*. Hatfield: Van Schaik Publishers.

Kumar, R., (2014). *Research Methodology: A Step-By-Step Guide for Beginners* (4th edn.). Los Angeles: Sage Publications.

Leedy, P.D. & Ormrod, J.E., (2013). *Practical Research: Planning and Design*. Boston: Pearson Education.

Majee, W. & Hoyt, A., (2011). Cooperatives and community development: A perspective on the use of cooperatives in development. *Journal of Community Practice,* 19(1): 48-61.

Maree, K., (2007). *First Steps in Research*. Hatfield: Van Schaik Publishers.

Mbanza, S. & Thamaga-Chitja, J., (2014). The role of rural subsistence farming cooperatives in contributing to rural household food and social connectivity: The case of Mwendo Sector, Ruhango District in Rwanda. *African Journal of Indigenous Knowledge Systems,* 13(2): 251-270.

Mbugua, M.N. & Wawera, K.M., (2020). Demutualization, member transactions and financial performance of cooperatives in Kenya. *The African Journal of Co-operative Development and Technology,* 5(1): 52-61.

Mchopa, A.D., Machimu, G.M., Kazungu, I.E. & Mosongo, E.O., (2020). Contribution of co-operatives towards improving food security in rural Tanzania: Implications of horizontal integration practices. *The African Journal of Co-operative Development and Technology,* 5(1): 28-36.

Moon, S. & Lee, S. (2020). A Strategy for Sustainable Development of Cooperatives in Developing Countries: The Success and Failure of Agricultural Cooperatives in Musambira Sector, Rwanda. *Sustainability*, 12. 1-24.

Ndebele, Z., (2005). *Cooperatives to Boost Economy*. Enterprise: BEE Update.

Neuman, W.L., (2014). *Social Research Methods: Qualitative and Quantitative Approaches* (8th edn.). London: Pearson Education.

Ortmann, G.F. & King, R.P., (2007). Agricultural cooperatives I: History, theory and problems. *Agrekon,* 46(1): 18-46.

Philip, K., (2003). *Cooperatives in South Africa: Their Role in Job Creation and Poverty Reduction*. Johannesburg: The South African Foundation.

Puusa, A., Mönkkönen, K. & Varis, A., (2013). Mission lost? Dilemmatic dual nature of cooperatives. *Journal of Co-Operative Organisation and Management,* 1: 6-14.

Rwekaza, G.C., Kayunze, K.H. & Kimaryo, L.P., (2020). Democratic decision making and member participation in primary agricultural marketing co-operatives in Tanzania: Evidence from selected primary co-operatives of Bukoba and Moshi Districts. *The African Journal of Co-operative Development and Technology,* 5(1): 37-51.

Republic of South Africa (RSA), (2004). *Cooperative Development Policy of South Africa*. Pretoria: Government Printer.

Ritchie, J., Lewis, J., Nicholls, C.M. & Ormston, R., (2014). *Qualitative Research Practice: A Guide for Social Science Students and Researchers*. London: Sage Publications.

Risal, N. (2021). Role of Cooperatives for Sustainable Livelihood in Bagmati Province, Nepal. *International Research Journal of Management Science*. 5(1): 75 – 92.

Roy, E.P., (1981). *Cooperatives: Development, Principles and Management* (4th edn.). Chicago: Interstate Printers and Publishers.

Ruben, R. & Heras, J., (2012). Social capital, governance and performance of Ethiopian coffee cooperatives. *Annals of Public and Cooperative Economics,* 83(4): 463-484.

Schurink, E., (2009). Qualitative research design as tool for trustworthy research. *Journal of Public Administration,* 44(4.2): 802-823.

Sharma, M. (2020). Role of Cooperatives in Poverty Alleviation of Rural Farmers in Nepal: Empirical Evidences. *International Journal of Graduate Research and Review*. 6 (1): 5 – 10.

Srinivasan, S. (2020). The Performance of Agricultural Cooperatives to Endorse Socio-Economic Development in Ethiopia. *International Research Journal of Science and Technology*. 1(3): 199-205.

Szirmai, A., (2015). *Socio-Economic Development* (2nd edn.). Cambridge: University of Cambridge.

Tang, J., Sipilainen, T. & Fu, G., (2020). How could cooperatives successfully develop their social responsibility: The perspective of life cycle. *Sustainability*, 12: doi:10.3390/su12219282

Todaro, M.P. & Smith, S.C., (2011). *Economic Development* (11th edn.). London: Pearson Education.

Tukuta, M., (2011). An Evaluation of Impact of Co-operative Societies on Poverty Alleviation among the Urban Poor in Harare, Zimbabwe during the Period 2008-2010. Doctoral Thesis: University of Fort Hare, South Africa.

Tumenta, B.F., Amungwa, F.A. & Nformi, M.I. (2021). Role of agricultural cooperatives in rural development in the era of liberalization in the North West and South West regions of Cameroon. *Journal of Agricultural Extension and Rural Development*. 13(1): 69-81.

Van Dooren, P.J., (1982). *Cooperatives for Developing Countries: Objectives, Policies and Practices.* Amsterdam: The Plunkett Foundation for Cooperative Studies.

Wanyama, F.O., Develtere, P. & Pollet, I., (2009). Reinventing the wheel? African cooperatives in a liberalised economic environment. *Annals of Public and Cooperative Economics,* 80(3): 361-392.

Warbase, J.P., (1946). *The Cooperative Way: A Method of World Reconstruction*. Washington, D.C.: Barnes and Noble.

Wilkinson, P. & Quarter, J., (1996). *Building a Community-Controlled Economy: The Evangeline Co-operative Experience*. Toronto: University of Toronto Press.

Zeuli, K., (2002). *The Role of Cooperatives in Community Development*. Madison: Centre for Cooperatives, University of Wisconsin.

Zeuli, K. & Cropp, R., (2005). *Cooperatives: Principles and Practices in the 21st Century.* Wisconsin: University of Wisconsin-Extension.

Zeuli, K. & Deller, S., (2007). Measuring the local economic impact of cooperatives. *Journal of Rural Cooperation,* 35(1): 1-17.

Zeuli, K., Freshwater, D., Markley, D. & Barkley, D., (2004). Cooperatives in rural community development: A new framework for analysis. *Journal of the Community Development Society,* 35(2): 17-35.

Zeuli, K. & Radel, J., (2005). Cooperatives as a community development strategy: Linking theory and practice. *Journal of Regional Analysis and Policy,* 35(1): 43-54.

ENTERPRISE RESOURCE PLANNING (ERP) UPGRADES IN SOUTH AFRICAN HIGHER EDUCATION INSTITUTIONS: PROS, CONS AND FINANCIAL EFFICACY

L. Nzama

ABSTRACT

The aim of this paper is to analyze the pros and cons that accompany the introduction of the Enterprise Resource Planning (ERP) systems in higher education institutions (HEIs) with respect to financial reporting and auditing, in order to determine the potential effects thereof. The ERP, specifically the Oracle system, which is used in HEIs to prepare financial reports and for auditing has to be sound and valid; and, its regular upgrades needs to be smooth in order that it may not disrupt the processes of financial reporting and auditing. Where upgrades are introduced in a shoddy manner, they have tended to be disruptive to the core business and performance of HEIs. Based on survey data, drawn from key informants that are internal to HEIs as well as external auditors, this paper points to complexities attendant to the upgrades to the ERP systems in HEIs in South Africa in ways that question the appropriateness of such upgrades as well as the operational readiness of institutions. Also, the paper provides survey results that support the principle underlying the regularity of upgrades to the ERP systems. The paper finds that notwithstanding the numerous threats associated with ERP upgrades, the nature of their effects is largely dependent upon a series of factors such as the state of management support, communication, staff training and development. It also highlights specific mitigation measures that are appropriate for reducing the risks associated with ERP system upgrades, whilst enhancing the attainment of desirable effects. Furthermore, it is recommended that an institutional policy framework has to be developed and implemented wherein the executive management of the institution is required to inculcate a culture of continuous adjustments to the ERP systems upgrades in order that resourcing, preparations and implementation of the ERP systems upgrades should not be discretionary. Also, the ERP systems and upgrades training has to be incorporated into the institutional human resources staff development policies. As a matter of institutional policy, the executive management needs to be required to provide resources for backup as well as external expertise and skills for the mitigation of potential ERP systems upgrade risks as contingency measures that enhance staff confidence in the security of transitions.

Keywords: Enterprise Resource Planning; Information Technology; Higher Education Institution; Financial Efficacy; South Africa

Lethiwe Nzama *is a Senior Lecturer and an emerging researcher in the Department of Commercial Accounting at the University of Johannesburg in South Africa. Nzama holds a Master's degree in Computer Auditing and she is a Certified Internal Auditor (CIA). Also, she is a Doctoral candidate with research interest in local government, public administration and the Enterprise Resource Planning (ERP) systems.*

INTRODUCTION

Information technology (IT) is a highly complex, rapidly evolving industry; simultaneously, computers have become smaller, faster, and more efficient, and can very quickly process large quantities of data (Nzama, 2015; Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh, Almalki, Almohammadi & Alharbi, 2021). Such innovations, along with improvements in digital communications, have contributed to electronic handling of many transactions. Significant improvements in company processes have been communicated to end-user and centralized applications via the data management departments (Marx, van der Watt, Bourne & Hamel, 2006; Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021). Most organizations have adopted the use of IT systems to run their business for competitive advantage in business, and those changes have an impact on them. Financial Enterprise Resource Planning (ERP) is one such system. The Oracle system in particular, plays an essential role in preparing, reporting and auditing financial of institutions. An ERP system, just like computers, is rapidly evolving and its versions need regular upgrades, which introduce complex risks to the financial efficacy of institutions (Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021). Whereas necessary for both the user and vendor institutions (Kramer, 2017) to ensure sustained currency (Barth & Koch, 2019; Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021), ERP system upgrades may produce unintended consequences, especially owing to the state of a variety of institutional conditions. This paper examines the pros, cons as well as effects of ERP system upgrades on financial efficacy of institutions of higher learning. An ERP upgrade is essential and necessary to stay within the ERP vendor's window of preferred release.

Recent studies on the subject deal with institutional controls, internal procedures and reporting on social and financial problems, but they do not cover the South African contexts wherein the Oracle systems have been introduced and upgraded over time, with effects on financial reporting and audit in HEIs. On their part, Epizitone & Olugbara (2019, 2020) focused on the determination of factors that are considered critical in the successful implementation of ERP systems, with specific reference to the salary business unit of one HEI (Bamufleh *et al.,* 2021). This paper focuses on one of South Africa's most influential public HEI in South Africa that adopted and upgraded the Oracle system; and, the said HEI is not named in this paper for ethical reasons. The HEI in question updated version R11 of its Oracle system to version R12, which is considered to be an authoritative improvement. This paper examines the financial efficacies associated with this upgrade from R11 to R12, as well as to determine the controls that are necessary for managing the associated risk.

THEORETICAL FRAMEWORK: TECHNOLOGY ACCEPTANCE MODEL

The technology acceptance model was introduced in 1986 (Lee, Kozar & Lasern, 2003; Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021) and it is commonly used in the information system research to describe individuals' acceptance of the information systems. It assesses and analyses the end user's acceptance of the latest technology (Lee *et al.*, 2003); and, it has been considered as a compelling and dominant theory (Lucas & Spitler, 1999; Venkatesh & Davis, 2000; Lim, Saldanha, Malladi & Melville, 2013; Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021). The model is also used in different types of technology studies with varying factors of control (Lee *et al*., 2003; Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021).

From 1983, studies were conducted to analyse the effect of end-users' beliefs and attitude on the information system acceptance decisions and the factors that affect user's resistance. Thus, leading to the introduction of the technology acceptance model; and, other studies later validated the model (Adams, Nelson & Todd, 1992; Davis & Venkatesh, 1996; Kiran & Reddy, 2019; Epizitone & Olugbara, 2020;

Bamufleh *et al.,* 2021). After the validation in those studies, there were studies which extended the objective of the technology acceptance model (Straub, 1994; Davis & Venkatesh, 1996; Gefen, Karahanna & Straub, 2003; Venkatesh, Morris, Davis & Davis, 2003; Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021). The technology acceptance model has four variables, and they have perceived usefulness of the system, perceived ease of use of the system, behaviour intention and behaviour. All of these variables are applied when the user's acceptance of the newly developed information system is analyzed (Lee *et al*., 2003; Kiran & Reddy, 2019; Bamufleh *et al.,* 2021). The technology acceptance model fits well in the study reported in this paper in terms of the criteria established by Lim *et al*. (2013). To this extent, this paper examines the financial efficacies of the Oracle systems upgrades from the perspective of the critical end-users and the HIE auditors. The perceptions of the end-users in terms of the usefulness and ease of use of the upgraded information system need to be analyzed.

The Enterprise Resource Planning (ERP) System

An ERP system is defined as "a suite of integrated enterprise-wide software application that drives manufacturing, finance, distribution, human resources and other business functions in a real-time environment" (Alshawi, Themistodeous & Almadani, 2004: 454). ERP aims to provide businesses with a single point solution, thus incorporating all core business back-office operations such as procurement, logistics, finance, and human resources into the one programme (Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021). Business information systems may be designed as custom software, or they may be purchased as the traditional off-the-shelf solution. Design software is typically costly to build (Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021). It has several uncertainties, such as the selection of suitable development methods, the length of the development process and the difficulties in determining development costs (Holland & Light, 1999). According to Kramer (2017), the ERP software market grew from $24.4 billion in 2012 to $ 25.4 billion in 2013, which is an increase of 3.8%, and the ERP software market is expected to grow to $41.69 billion by 2020 (Kramer, 2017). These statistics and predictions point to the importance and value of ERP systems. Thus, it is essential for organizations that use ERP systems to be aware of the financial efficacies attendant to the regular upgrades as well as the associated pros and cons. In this way, such institutions would be able to understand the nature of the controls that are required to enhance the effects of the ERP on financial reporting and auditing.

Effects of ERP Systems Upgrade

Literature on the effects of an ERP update on the audit of HEI financial statements is limited, and previous studies are primarily limited to the internal audit function and internal control. Sahara, Koch & Tucker (2008) analysed the internal audit impact of an ERP system and found that implementation reduced financial and operational risks but increased technological risk (risk of customizing the system to the organization's business process). Jain & Sorel (2011) also looked at the effect on auditing and internal monitoring of an ERP program. They discussed the auditing context and how the auditors of a company that had recently implemented ERP had to conduct their duties. The results obtained by Jain & Sorel (2011) endorse those of Sahara *et al*. (2008) insofar as they have defined the possible risks faced by the company as a result of adopting and updating the ERP programme. Their work focused more on internal audit evaluation and internal controls, and less on the full audit process perspective; that is, the authors did not refer to IT, both internal and external auditors. ERP programs play a significant role in financial reporting. Brazel & Dang (2008) investigated the impact of the implementation of the ERP program on earnings management and release dates for earnings. Brazel & Dang's (2008) research was confined to the company's profits, and not the whole company's financial results. Although the introduction of the financial ERP system has become commonplace for competitive advantage purposes in companies, little

prior research has been done on its impact on the financial reporting and audit as a whole. The latest study conducted to analyse the effects of the ERP system upgrades was limited to the salary business unit and not the financial reporting, as a whole, for the expenditure department of the HEI (Epizitone & Olugbara, 2019, 2020). The literature examined does not discuss the overall effects of the ERP system on financial and audit reporting; and, this paper contributes to this apparent knowledge gap. In recent years, though, Kiran & Reddy (2019) examined the success factors of ERP implementation in SMEs, whereas Epizitone & Olugbara (2020) focused on the application of Principal Component Analysis to determine the variability of success factors of the ERP whilst Bamufleh *et al.* (2021) dealt with ERP acceptance in higher education institutions. Transformation of higher education institutions is itself complex and challenging (Adonis & Silinda, 2020).

ERP Implementation and Upgrade Risks

According to Vasile-Daniel (2010), Kiran & Reddy (2019), Epizitone & Olugbara (2020) and Bamufleh *et al.* (2021), when an organization incorporates and improves the ERP program to a competitive advantage, the company may be exposed to new risks caused by IT. Following Scheer & Habermann (2000), Kiran & Reddy (2019), Epizitone & Olugbara (2020) and Bamufleh *et al.* (2021) note that the creation of an ERP program has advantages. Due to the near integration of data, the need for network and the overhead training of system modules, there are also disadvantages. A primary reason for frustration with ERP systems is the scale of re-engineering and customisation activities in the implementation process. In line with Alshawi *et al.* (2004), Kiran & Reddy (2019), Epizitone & Olugbara (2020) and Bamufleh *et al.* (2021) suggest a number of issues with ERP systems, which include the idea that the concept of "enterprise" in ERP refers only to the back office, rather than the whole enterprise entity. By introducing ERP systems, institutions are forced to make drastic changes to their business structures and the inherent risks surrounding organizational re-engineering.

ERP upgrade often involve modification and re-engineering of business processes which could lead to vulnerabilities in management, leading to errors in financial statements and incorrect internal details. According to Barth & Koch (2019), Kiran & Reddy (2019), Epizitone & Olugbara (2020) and Bamufleh *et al.* (2021), when upgrading to a new system, organisations need to customise their system at a minimum or not at all and instead adjust their business process into the new system. The limit of customisation of the new system also limits the complications and disadvantages that come with an upgrade. Along the same line of argument with McVittie (2001), Kiran & Reddy (2019), Epizitone & Olugbara (2020) and Bamufleh *et al.* (2021) note that most people are resistant to change. Adapting to modern business processes may be difficult for the critical role users of the existing system. As already stated, this paper examines the users' acceptance of the newly updated ERP system in line with the technology acceptance model. Data integrity from the old system to the new system could be a concern, as many hazards could follow the transfer of the data. It may be a problem for the company, impacting its financial statements and business operation adversely. Less than 50% of partakers struggled to meet their business targets despite introducing ERP projects for at least twelve (12) months due to the need to adjust to the new procedures. The qualitative characteristics of financial statements may also be negatively affected when upgrading an ERP system. Thus, an organization needs to ensure that the data that has been transferred correctly from the old version to the new version when an upgrade takes place. Otherwise, the financial statement may be misleading and lead to weak and incorrect financial decisions (Kramer, 2017).

Helo, Anussornnitisarn & Phusavat (2008), Kiran & Reddy (2019), Epizitone & Olugbara (2020) and Bamufleh *et al.* (2021) acknowledge, in broad terms, two common problems in their study: (i) challenges in failing to meet budgets and exceeding limits; and (ii), delays in the implementation schedules. Furthermore, Chakraborty & Sharma (2007) and Kiran & Reddy (2019) indicate that, due to poor project management, ninety per cent of all ERP projects could be considered a failure. However, Helo *et al.* (2008), Kiran & Reddy (2019), Epizitone & Olugbara (2020) and Bamufleh *et al.* (2021) note

that the majority of ERP implementation challenges are not technical concerns, such as application of technology, comparability or standardisation, but rather human-related for example organisation culture, resistance to change, incomplete business process, project management and top management commitment. Thus, there is a need to use the factors of the information technology model to assess the user's acceptance of the newly updated system.

Solutions and Success Indicators Related to ERP Implementation and Update

Majority of studies about the ERP system implementation and/or upgrade focused on the critical success factors of ERP system development (Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021). The following six elements are included in list of critical success factors in the ERP implementation process, namely: top management support, project champion, user training and education and project management and steering committees. Finney & Corbett (2007), Kiran & Reddy (2019) and Epizitone & Olugbara (2020) analyse the critical success factors on the ERP systems projects with the perspective of key stakeholders, and their results suggested twenty-six (26) critical success factors that need to be in place for the system development to be successful. Ngai, Law & Wat (2008) suggest eighteen (18) critical success factors for the system development. Rabbai (2009) identifies twelve (12) critical success factors, while Dezdar & Sulaiman (2009) highlight seventeen (17) critical success factors. Other authors recommended twenty-two (22) critical success factors, while Ahmed, Haleen & Sayed (2012) suggest thirty-seven (37). Also, Shaul & Tauber (2013) identify fifteen (15) critical success factors, whereas Leyh (2014) suggests thirty-one (31), Ram & Corkindale (2014) twenty-six (26) and Kalema, Olugbana & Kekwaletswe (2014) thirty-seven (37) such factors. Additionally, Tarhini, Ammar, Tarhini & Masa'deh (2015) suggest fifty-one (51) critical success factors, whereas Svard (2018) identifies ten (10) and Thompson, Olugbana & Signh (2018) twenty (20) such success factors. The latest study conducted with the purpose to determine the factors that are considered crucial for the successful implementation of ERP system development with the financial system of an organization include, among others, Kiran & Reddy (2019), Epizitone & Olugbara (2020) and Bamufleh *et al.* (2021). However, the study was limited to the salary business unit and not the financial reporting of the finance expenditure as a whole (Epizitone & Olugbara, 2019, 2020). In their study, Epizitone & Olugbara (2019, 2020) suggest twenty (20) critical success factors that would need to be considered by an organisation when implementing an ERP system. Evidently, there is not much convergence on the total number of success factors considered critical for the ERP system; and this paper takes into account the wide range of success factors in the analysis of the Oracle upgrades. Overall, this paper considered success factors that have to do with: (a) Ability to identify the risks associated with upgrading the ERP system when conducting an audit; (b) Ability to detect potential misrepresentations of financial statements due to errors caused by the updated ERP features; and (c), Determination whether the method of performing an audit needs to be changed due to new risks and business processes resulting from the upgraded ERP system.

RESEARCH METHODOLOGY

This paper uses the qualitative research design to assess the effects of the ERP system upgrades from the perspectives of the end-users and external auditors (Kiran & Reddy, 2019; Epizitone & Olugbara, 2020; Bamufleh *et al.,* 2021). The value of qualitative research in such a study is well supported in existing studies such as Bickman & Rog (2009), Schurink (2009), Schurink & Auriacombe (2010), Bernard (2013) and Leedy & Ormrod (2013). Among others, literature review provides for the fundamental factors affecting ERP systems upgrade whereas the empirical survey identifies perceived business effects as well as the pros and cons of the regular ERP system upgrades on the financial efficacies in reporting and auditing of HEIs (Ngai, Law & Wat, 2008; Bamufleh *et al.,* 2021). As one of the research methodologies, literature review presents methodological contexts for this paper; and, qualitative studies include, among others, Rabbai (2009), Dezdar & Sulaiman (2009), Ahmed, Haleen &

Sayed (2012), Shaul & Tauber (2013), Leyh (2014), Kalema, Olugbana & Kekwaletswe (2014), Ram & Corkindale (2014), Tarhini, Ammar, Tarhini & Masa'deh (2015), Thompson, Olugbana & Signh (2018), Svard (2018), Epizitone & Olugbara (2019, 2020) and Bamufleh *et al.* (2021). That is, from a methodological perspective, this paper evolves from a solid knowledge base and qualitative literature review. For data collection and analysis, this paper took intellectual guidance from a variety of studies, specifically Braun & Clarke (2006), Babbie (2007), Bernard (2013), Creswell (2014) and Neuman (2014).

In operationalizing the research design, the purposive data collection procedure resulted in the population consisting of key informants in the various departments spending on finance, which included payable accounts, warehouses, inventory, and fixed assets. These key informants were managers, senior staff members, directors and accountants. The total number of employees in the finance expenditure department directly employed through the ERP system was, for the HEI in question, twenty-five. In total, eighteen individuals from different divisions participated in the survey. Questionnaires were distributed to independent external audit partners of the HEI as well as to key informants within the HEI. The questionnaires were sent electronically, and telephone calls were made to encourage participants to return them timeously.

RESULTS AND DISCUSSION

This paper reports the results of a survey wherein the response rate was 100%. That is, all the eighteen questionnaires that were sent out were duly completed and returned. However, one of the two questionnaires sent to auditors was returned with gaps and questions that were not addressed; and, it is not clear why the one auditor found it unacceptable to address some questions. The survey results cover a wide range of factors, which are discussed hereunder.

Changes to Financial and Auditing Reports after ERP System Upgrade

A large proportion of the respondents agree that the ERP system upgrades were financially effective for the institution in that they have brought significant changes to financial and auditing reports. A total of 67% of respondents felt that the changes were positive and significant whilst 33% felt that the changes were not significant at all. No respondent believed that the changes were negative. In terms of these survey results, it means that the Oracle system upgrade produced positive financial efficacies for the HEI, thereby enhancing its business by maintaining its competitive advantage.

Overall Effects of the ERP Upgrade on Financial Statement Reporting and Audit

Table 1 indicates that the financial reporting of HEI's finance department has had an overall positive effect. This suggests that the upgrade to the ERP has improved the reports used by finance staff at the HEI. That is an indicator that most users have a constructive attitude to their work success. However, 22 per cent of respondents indicated that the upgrade was harmful to the performance of their duties as the newly upgraded system reports were not customised and time-consuming to print. Table 1 also shows that the Oracle version 12 upgrade had a positive impact on auditing. This result corresponds with the responses of the HEI finance expenditure employees.

Table 1: Overall Impact of ERP Upgrade on the Financial Reporting and Audit of the HEI

What is the overall effect of the ERP upgrade on financial reporting and audit?					
As per finance expenditure end users			*As per independent external auditors*		
Positive	Negative	Not at all	Positive	Negative	Not at all
61%	11%	28%	100%	0%	0%

Source: Nzama (2015)

ERP Upgrades Threats Applicable to the HEI

It is evident from the literature that challenges to the implementation and upgrade of ERP will dramatically affect the institution. Table 2 shows that the majority of respondents to HEI finance expenditure were not in agreement, and they claimed that exposure to risks associated with ERP upgrades was limited. According to the respondents, the top-ranking risks were bad project management and poor motivation and project coordination, both rating below average (44 per cent). The finance expenditure staff ranked data losses as the threat that affected them the least. This would imply that all the data from the previous version were successfully migrated to the new upgraded version and were accurate, valid and complete (83 per cent without threats). The lack of support from top management and vague priorities and objectives, both of which scored 78 per cent, are seen as the second least likely to pose a threat.

Table 2: ERP Upgrades Threats Applicable to the HEI

Are you of the opinion that the following ERP upgrades threats about the recent Oracle version 12 upgrade apply to your higher education institution?				
	As per finance expenditure end users		*As per independent external auditors*	
	Yes	No	Yes	No
Lack of top management commitment and support	22%	78%	0%	100%
Unclear goals and objectives	22%	78%	0%	100%
Insufficient training of end-users	39%	61%	0%	100%
Failure to redesign business processes	33%	67%	0%	100%
Poor changes and risks management	33%	67%	0%	100%
Ineffective communication	39%	61%	0%	100%
Poor project management	44%	56%	0%	100%
Lack of competence in ERP's consultants	28%	72%	0%	100%
Poor motivation and project teamwork	44%	56%	0%	100%
Lack of vendor support and partnership	39%	61%	0%	100%
Ineffective project cost and time management	39%	61%	0%	100%
Data losses	17%	83%	0%	100%
Insufficient testing phase	39%	61%	0%	100%

Source: Nzama (2015)

Table 2 also suggests that the independent external auditors disagreed with the analysis of the literature, as none of the risks mentioned in the literature was considered to relate to HEI. It is consistent with the views of the HEI finance expenditure staff, as defined in the previous section. It is an indication that the HEI took precautionary steps to ensure that the organization mitigated risks resulting from the Oracle upgrade.

HEI's Awareness of ERP Upgrade Threats

Table 3 reveals that the HEI was utterly aware of risks to ERP updates (100 per cent), according to the auditors. It is an indication that considering that the HEI was mindful of possible threats, it had already placed in place appropriate safeguards to minimise such threats. Table 3 also shows that the HEI was fully aware of the organisation's effects on possible ERP implementation risks. This is an indication that the institution of education would have taken the precautions necessary to address these threats. This was verified by the financial expenditure workers who claimed that when updating the Oracle program, most of the risks were handled by the HEI.

Table 3: HEI's Awareness of Potential ERP Upgrade Threats and its Effects

Would you believe your audit clients are conscious of the possible risks of upgrade ERP?	To a larger extent	To a lesser extent	Not at all
	100%	0%	0%
Do you think your audit clients understand the effect of the possibility of an ERP upgrade on their organisation?	100%	0%	0%

Source: Nzama (2015)

ERP Upgrades Solutions Applicable to the HEI

Table 4 shows that the HEI will apply most of the solutions, as suggested to the respondents. User training and education and effective communication were the most prominent, both scoring (100 per cent). In project planning and management, the second most prominent was successful (94 per cent). Table 4 also indicates that all solutions could be applied by the HEI, and were suggested by the respondents for use. The vital control was to ensure the smooth operation of the ERP upgrade with enhancements that would yield a competitive advantage.

Table 4: ERP Upgrades Solutions Applicable to the HEI as per the Finance Expenditure End-users and Auditors

In your opinion, which of the following solutions for ERP upgrades threats, about Oracle version 12 upgrade, will you advise your client to make use of?				
	As per finance expenditure end users		*As per independent external auditors*	
	Yes	No	Yes	No
Top management support	89%	11%	100%	0%
Business process re-engineering	72%	28%	100%	0%
Change management and risk management	56%	44%	100%	0%
User training and education	100%	0%	100%	0%
Effective communication	100%	0%	100%	0%
Use of project management to manage upgrades	94%	6%	100%	0%
Effective project planning and control	94%	6%	100%	0%
Avoidance customisation	61%	39%	100%	0%
Testing phase	89%	11%	100%	0%
Budget management and variance analysis	78%	22%	100%	0%

Source: Nzama (2015)

End-users' Satisfaction Levels with the Newly Upgraded System

The survey results show that the Oracle version 12 program satisfied 83% of them. This is an indication that the educational institution took precautions to address the threats to the ERP upgrade, as it was known that end-users had to be satisfied with the upgraded HEI system to maintain its competitive advantage. Only 17% of the respondents were not satisfied at all with the Oracle system upgrade. It is evident that upgrades are overwhelmingly accepted and that the majority of end-users are satisfied with them. Therefore, the financial efficacies perceived are also a function of the acceptance of the upgrades.

The survey results show that the Oracle version 12 program satisfied 83% of them. This is an indication that the educational institution took precautions to address the threats to the ERP upgrade, as it was known that end-users had to be satisfied with the upgraded HEI system to maintain its competitive advantage. Only 17% of the respondents were not satisfied at all with the Oracle system upgrade. It is evident that upgrades are overwhelmingly accepted and that the majority of end-users are satisfied with them. Therefore, the financial efficacies perceived are also a function of the acceptance of the upgrades.

The survey results show that the Oracle version 12 program satisfied 83% of them. This is an indication that the educational institution took precautions to address the threats to the ERP upgrade, as it was known that end-users had to be satisfied with the upgraded HEI system to maintain its competitive advantage. Only 17% of the respondents were not satisfied at all with the Oracle system upgrade. It is evident that upgrades are overwhelmingly accepted and that the majority of end-users are satisfied with them. Therefore, the financial efficacies perceived are also a function of the acceptance of the upgrades

CONCLUSION AND RECOMMENDATIONS

This paper has assessed the financial efficacies of the Oracle system upgrades as perceived by the end-users of the HEI and their auditors. It concludes that the HEI had succeeded in carrying out adequate controls and had taken appropriate measures to counter potential risks to the organization's financial reporting and auditing. Similarly, the independent external auditors reported that when updating the Oracle program, the HEI took the appropriate precautions. Evidently, there is overwhelming acceptance of the Oracle system upgrade at the HEI. Also, independent external auditors confirmed that the update to Oracle version 12 had positive effects on financial reporting and auditing of the HEI. The paper recommends that upgrades to the ERP system have to be accompanied by institutional campaign for buy-in as well as appropriate infrastructural facilities and capacity. Therefore, it is recommended that an institutional policy framework has to be developed and implemented wherein the executive management of the institution is required to inculcate a culture of continuous adjustments to the ERP systems upgrades. That is, the resourcing, preparations and implementation of the ERP systems upgrades should not be discretionary. ERP systems and upgrades training has to be incorporated into the institutional human resources staff development policies. Also, the institution has to be required to induct all new recruits on the ERP systems and upgrades. As a matter of institutional policy, the executive management needs to be required to provide resources for backup as well as external expertise and skills for the mitigation of potential ERP systems upgrade risks as contingency measures that enhance staff confidence in the security of transitions.

Possible directions for future study may include evaluation of the impact of the transition to ERP on the entire finance department of the HEI as well as the examination of the role of external auditors in the process. A large majority of existing studies are confined to institutional controls, internal procedures as well as reporting on social and financial problems. Except for Epizitone & Olugbara (2019), there are no existing studies in the South African context that have examined the introduction and enhancement of Oracle systems as well as the influences on financial reporting and audit of universities. However, Epizitone & Olugbara (2019) too focus on the determination of critical factors for the successful implementation of the ERP system, with specific reference to the salary business unit of an HEI.

REFERENCES

Adams, D.A., Nelson, R.R. & Todd, P.A., (1992). Perceived usefulness, ease of use, and usage of information technology: A replication. *MIS Quarterly*, 16: 227-247.

Adonis, C. & Silinda, F., (2020). Institutional culture and transformation in higher education in post-1994 South Africa: A critical race theory analysis. *Critical African Studies*, (2020, forthcoming).

Ahmad, N., Haleem, A. & Syed, A.A., (2012). Compilation of critical success factors in the implementation of enterprise systems: A study on Indian organizations. *Global Journal of Flexible Systems Management*, 13(4): 217-232.

Alshawi, S., Themistocleous, M. & Almadani, R., (2004). Integrating diverse ERP systems: A case study. *Journal of Enterprise Information Management*, 17(6): 454-462.

Babbie, E.R. (2013). *The Practice of Social Research* (13th edn.). Belmont: Wadsworth Cengage Learning.

Bamufleh, D., Almalki, A.M., Almohammadi, R. & Alharbi, E., (2021). User acceptance of Enterprise Resource Planning (ERP) systems in higher education institutions: A conceptual model. *International Journal of Enterprise Information Systems*, 17(1): 144-163.

Barth, C. & Koch, S., (2019). Critical success factors in ERP upgrade projects. *Industrial Management & Data Systems,* 119(3): 656-675.

Bernard, H.R. (2013). *Social Research Methods: Qualitative and Quantitative Approaches* (2nd edn.). Los Angeles: Sage Publications.

Bickman, L. & Rog, D.J. (2009). *Applied Social Research Methods.* Thousand Oaks: Sage Publications.

Braun, V. & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology,* 3(2): 77-101.

Brazel, J.F. & Dang, L., (2008). The effect of ERP system implementations on the management of earnings and earnings release dates. *Journal of Information Systems*, 22(2): 1-21.

Chakraborty, S. & Sharma, S.K., (2007). Enterprise resource planning: An integrated strategic framework. *International Journal of Management and Enterprise Development*, 4(5): 533-551.

Creswell, J.W. (2014). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (4th edn.). Los Angeles: Sage Publications.

Davis, F.D. & Venkatesh, V., (1996). A critical assessment of potential measurement biases in the technology acceptance model: Three experiments. *International Journal of Human-Computer Studies,* 45(1): 19-45.

Dezdar, S. & Sulaiman, A., (2009). Successful enterprise resource planning implementation: Taxonomy of critical factors. *Industrial Management & Data Systems*, 109(8): 1037-1052.

Epizitone, A. & Olugbara, O.O., (2019). Critical success factors for ERP system implementation to support financial functions. *Academy of Accounting and Financial Studies Journal*, 23(6): 1-11.

Epizitone, A. & Olugbara, O.O., (2020). Principal Component Analysis on morphological variability of critical success factors for Enterprise Resource Planning. *International Journal of Advanced Computer Science and Applications*, 11(5): 206-217.

Finney, S. & Corbett, M., (2007). ERP implementation: A compilation and analysis of critical success factors. *Business Process Management Journal,* 13(3): 329-347.

Gefen, D., Karahanna, E. & Straub, D.W., (2003). Trust and TAM in online shopping: An integrated model. *MIS Quarterly* 27(1): 51-90.

Grabski, S.V., Leech, S.A. & Lu, B., (2001). Risks and controls in the implementation of ERP systems. *The International Journal of Digital Accounting Research*, 1(1): 47-68.

Helo, P., Anussornnitisarn, P. & Phusavat, K., (2008). Expectation and reality in ERP implementation: Consultant and solution provider perspective. *Industrial Management & Data Systems*, 108(8): 1045-1059.

Holland, C.R. & Light, B., (1999). A critical success factors model for ERP implementation. *IEEE Software,* 16(3): 30-36.

Jain, M. & Sorel, G., (2011). Impact of ERP systems on auditing and internal control. *The International Research Journal of Social Science and Management,* 1(1): 16-23.

Kalema, B.M., Olugbara, O.O. & Kekwaletswe, R.M., (2014). Identifying critical success factors: The case of ERP systems in higher education. *The African Journal of Information Systems*, 6(3): 65-84.

Kiran, T.S. & Reddy, A.V., (2019) Critical success factors of ERP implementation in SMEs. *Journal of Project Management,* 4: 267-280.

Kramer, M., (2017). Best practices for validation for an upgrade or new ERP system. *Review of Business and Finance Studies*, 8(1): 79-82.

Lee, Y., Kozar, K.A. & Larsen, K.R., (2003). The technology acceptance model: Past, present, and future. *Communications of the Association for Information Systems*, 12(1): 752-780.

Leedy, P.D. & Ormrod, J.E. (2013). *Practical Research: Planning and Design*. Boston: Pearson Education.

Leyh, C., (2014). Critical success factors for ERP projects in small and medium-sized enterprises-The perspective of selected German SMEs. Federated Conference on *Computer Science and Information Systems,* September 2014, IEEE, pp.1181-1190, Warsaw, Poland.

Lim, S., Saldanha, T.J., Malladi, S. & Melville, N.P., (2013). Theories used in information systems research: Insights from complex network analysis. JITTA: *Journal of Information Technology Theory and Application*, 14(2): 5.

Lucas Jr., H.C. & Spitler, V.K., (1999). Technology use and performance: A field study of broker workstations. *Decision Sciences*, 30(2): 291-311.

Marx, B., van Der Watt, A., Bourne, P. & Hamel, A., (2006). *Dynamic Auditing*. Durban: LexisNexis Butterworths.

McVittie, L., (2001). *Buckle Up: Implementing ERP Takes Time and Patience*. www.networkcomputing.com (Accessed: July 20, 2020).

Ngai, E.W., Law, C.C. & Wat, F.K., (2008). Examining the critical success factors in the adoption of enterprise resource planning. *Computers in Industry*, 59(6): 548-564.

Neuman, W.L. (2014). *Social Research Methods: Qualitative and Quantitative Approaches* (8th edn.). London: Pearson Education.

Nzama, L.L., (2015). The effect of enterprise resource planning systems on the financial statement audit of a higher education institution. Masters Dissertation, University of Johannesburg.

Rabaai, A.A., (2009). Identifying critical success factors of ERP systems at the higher education sector. Third International Symposium on *Innovation in Information and Communication Technology*, 15-17 December 2009, Philadelphia University, Amman, Jordan.

Ram, J. & Corkindale, D., (2014). How "critical" are the critical success factors (CSFs)? *Business Process Management Journal*, 20(1): 151-174.

Sahara, A., Kock, B. & Tucker, R., (2008). ERP systems and internal audit. *Issues in Information Systems*, IX (2): 578-586.

Scheer, A.W. & Habermann, F., (2000). Enterprise resource planning: making ERP a success. *Communications of the ACM*, 43(4): 57-61.

Schurink, E. (2009). Qualitative research design as tool for trustworthy research. *Journal of Public Administration,* 44(4.2): 802-823.

Schurink, E. & Auriacombe, C.J. (2010). Theory development: Enhancing the quality of the case study as research strategy in qualitative research. *Journal of Public Administration,* 45(3): 435-455.

Shaul, L. & Tauber, D., (2013). Critical success factors in enterprise resource planning systems: Review of the last decade. *ACM Computing Surveys (CSUR)*, 45(4): 1-39.

Straub, D.W., (1994). The Effect of Culture on IT Diffusion: E-Mail and FAX in Japan and the US. *Information Systems Research*, 5(1): 23-47.

Svärd, C., (2018). Successful ERP system upgrade: Critical success factors and how different project members perceive them. Master Dissertation, Linnaeus University.

Tarhini, A., Ammar, H., Tarhini, T. & Masa'deh, R.E., (2015). Analysis of the critical success factors for enterprise resource planning implementation from stakeholders' perspective: A systematic review. *International Business Research*, 8(4): 25-40.

Thompson, R.C., Olugbara, O.O. & Singh, A., (2018). Deriving critical success factors for implementation of enterprise resource planning systems in higher education institution. *African Journal of Information Systems*, 10(1): 21-44.

Vasile-Daniel, C., (2010). How financial auditors use CAATS and perceive ERP systems. *Annals of the University of Oradea, Economic Science Series*, 19(1): 490-495.

Venkatesh, V. & Davis, F.D., (2000). A theoretical extension of the technology acceptance model: Four longitudinal field studies. *Management Science*, 46(2): 186-204.

Venkatesh, V., Morris, M.G., Davis, G.B. & Davis, F.D., (2003). User acceptance of information technology: Toward a unified view. *MIS Quarterly,* 27(3): 425-478.

Wright, S. & Wright, A.M., (2002). Information system assurance for enterprise resource planning systems: Unique risk considerations. *Journal of Information Systems*, 16(s-1): 99-113.

JGBAT MANUSCRIPT GUIDELINES

TOPICS

Finance
- Financial management
- Investment management

International Trade
- The knowledge economy and the wisdom era

Management
- General and strategic management
- Entrepreneurship
- Intrapreneurship
- SMMEs and family businesses
- Human resource management
- Supply chain management and logistics
- Sustainability
- Tourism management

Marketing
- Services marketing
- Relationship marketing
- Societal marketing
- Marketing communication management
- Consumer behavior

Information Technology

Technology and Innovation Management

PURPOSE OF THE JOURNAL

As an interdisciplinary refereed journal, the purpose of the Journal of Global Business and Technology (JGBAT) is to contribute to the advancement of knowledge related to the theory and practice of international business and technology management. Its primary goal is to present scholarly and managerially relevant articles on a wide variety of topics in international business and technology management to a broad audience in academia (educators, administrators, students), industry (business executives, consultants), as well as those involved in formulating and implementing public policy. The unique contribution of the journal is managerial policy and region-specific research. Articles should be timely and relevant. Authors are required to provide guidelines, techniques, and suggestions for problem solving in international business and technology management. Case studies relating to specific organizations, products/services, and industries are also welcome. It is a prime objective of JGBAT to bridge the gap between theory and practice. To this end, articles should offer strong managerial insights to help in the development of action-oriented business programs and strategies.

SUBMISSION GUIDELINES

1. Submissions must be made electronically to:

   Dr. N. Delener
   Editor-in-Chief
   Email: info@gbata.org, delener@gbata.org

   Submission of a manuscript implies that it contains original unpublished work and is not being submitted for publication elsewhere. Upon acceptance of a manuscript, authors will be asked to

transfer copyright of the manuscript to the publisher. This transfer will ensure the widest possible dissemination of information.

2. A cover letter must accompany each submission indicating the name, address, telephone number, fax number and e-mail of the corresponding author. The cover letter must indicate that the manuscript is not currently being considered at another publication.

STYLE GUIDELINES

1. Manuscripts must be double-spaced with normal margins (Top: 1 inch, Bottom 1 inch, Left: 1 inch, Right: 1 inch) and Letter size (8.5 inches x 11 inches). All pages should be numbered sequentially.

2. Manuscripts should have a cover page with the following information of each author: name, affiliation, and area of concentration (e.g., accounting, marketing, etc.). No other pages should contain information about the authors. The cover letter must indicate that the manuscript is not currently being considered at another publication.

3. An abstract of at least 200 words, including 5 key words, must appear on the 2nd page of the manuscript. The abstract must state an adequate summary of article`s content (i.e., objective(s), rationale, methodological rigor, and major contributions & implications).

4. The paper itself should begin on the 3rd page. Manuscripts should not exceed 25 double-spaced pages including tables, figures, and references. Manuscripts that exceed these limits are routinely returned to the authors for shortening before consideration.

5. Tabular material and figure legends should be in box form and incorporated in the proper part of the text. They should also be contained in the Microsoft Word and cannot be hand drawn. Tables should be numbered in Arabic numbers (i.e., Table 1). Columns should be set using tab stops, not spaces, so they align. Figures are numbered similarly to tables (i.e., Figure 1).

6. References should be made by the in-text form of citation. The Reference List should include information for all sources cited in the manuscript. The author should make sure that there is a strict one-to-one correspondence between the references in the text and those on the list. It should be double spaced and listed in alphabetical order according to APA style by author's last name, but including first name initial, on a separate sheet at the end of the manuscript.

The following are examples of proper form:

Journal Article

Hurmelinna-Laukkanen, P., Ritala, P., & Sainio, L. (2013). Protection of Radical Innovations-Differences in Domestic and International Markets. *Journal of Global Business and Technology*, 9 (1): 1-16.

Authored Book

Delener, N. (1999). *Strategic Planning and Multinational Trading Blocs.* Connecticut, USA: Quorum Books.

Edited Book

Delener, N. (Ed.) (2012). *Service Science Research, Strategy, and Innovation: Dynamic Knowledge Management Methods*, U.S.A. IGI Global.

Chapters in Edited Book

Delener, N. & Lees, F. (2001). Global Planning of Business Activity. In Milner, M. & Lees, F. (Eds.), *Management of the Modern Company*, Moscow, Russia: 366 – 378.

Paper Presented at ...

Sturma, P. (2009). Global Challeneges and International Law. Paper presented at Global Business and Technology Association's Eleventh Annual Conference, Prague, Czech Republic, July.

Published Proceedings

Florinda, M., Rodrigues, S., Lopes, A., & Matos, N. (2011). Intellectual Capital Tool. In Delener, N., Fuxman, L., Lu, V. & Rivera-Solis, L.E. (Eds). Fulfilling the Worldwide Sustainability Challenge: Strategies, Innovaitons, and Perspectives for Forward Momentum in Turbulent Times (pp. 615-621). USA: GBATA Press.

Instance of Publication in press

Afriyie, K., Torres-Baumgarten, G. & Yucetepe, V. (in press). Internationalization and Value-Creation Perfromance of Latin American Multinationals: The Case of Outbound Foreign Direct Investment. *Journal of Global Business and Technology.*

Article in an Internet-Only Journal

Fredrickson, B. L. (2000, March 7). Cultivating positive emotions to optimize health and well-being. *Prevention & Treatment, 3*, Article 0001a. Retrieved November 20, 2000, from http://journals.apa.org/prevention/volume3/pre0030001a.html

7. Include and cite references from the previously published JGBAT issues if relevant.

8. Strongly observe the language, grammar, and punctuation. All spelling, grammar, and punctuation are the responsibility of the author(s). No corrections will be made by the JGBAT Editors. **Therefore, all articles must be edited professionally prior to submission.**

9. Acknowledge the anonymous reviewers. Acknowledgements and information on grants received must be stated before the References.

10. Sections of the paper such as the INTRODUCTION should be justified with one extra line space between section heading and text. Headings should be centered in all capital letters. Subheadings should be aligned left in upper and lower-case letters, with one extra line spacing above and no extra line spacing below the subheading. For subheadings below the first level subheading, indent one tab for next subheading.

11. The text should appeal to a wide audience by avoiding the use of methodological/technical jargon wherever possible. It may be more appropriate to include technical details in an appendix rather than in the body of the article.

12. Every effort should be made to avoid the use of specific national names of organizations and/or individuals which might be unfamiliar to the international audience of JGBAT. Authors may need to provide brief explanations in a footnote or an appendix.

13. Explanatory footnotes should be kept to a minimum and be numbered sequentially throughout the text with superscript Arabic numerals. They should be double-spaced and not include displayed formulas or tables.

REFEERING PROCEDURE

Each manuscript is blind reviewed by at least 2 subject specialists selected for their expert knowledge as well as the Editor-in-Chief. The authors of each manuscript are provided with each reviewer's completed Review Form which includes qualitative comments and suggestions.

Revised manuscripts are reviewed by the original referees. Revised manuscripts include a detailed set of notes to each reviewer.

The refereeing process takes up to 3 months from date of receipt of the article to communication of initial decision to the author.

The Editor-in-Chief reserves the right to refuse any manuscripts, whether an invitation or otherwise, and to make suggestions and/or modifications before publication.

The Editor-in-Chief is always happy to discuss contributions before submission.

Journal of Global Business and Technology

Corporate, Institution, & Library Subscription Information

Name_____

Institution_____

Address_____

_____

City, State, Zip

_____

Country_____

Annual Fee $300.00 USD

Please indicate when you want subscription to begin:

❏ Fall 2021   ❏ Spring 2022

Please complete the subscription form and payment particulars. Then, e-mail to the Editor-in-Chief at info@gbata.org

* For subscriptions, please do not remove this page. A **photo copy** would be appreciated.

Journal of Global Business and Technology

Individual Subscription Information

Name_____

Institution_____

Address_____

_____

City, State, Zip

_____

Country_____

Annual Fee $200.00 USD

Please indicate when you want subscription to begin:

❐ Fall 2021 ❐ Spring 2022

Please complete the subscription form and payment particulars. Then, e-mail to the Editor-in-Chief at info@gbata.org

* For subscriptions, please do not remove this page. A **photo copy** would be appreciated.