AN INVESTIGATION INTO THE CHALLENGES FACING THE FINANCIAL MANAGER IN SOUTH AFRICAN MANUFACTURING ORGANISATIONS AND THE WAYS OF SURMOUNTING THESE CHALLENGES

BY

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PROMOTOR: **Dr T.S. Hutton**

DATE: **JULY 2003**

DECLARATION

"I, Petrus Philip Diedericks, hereby declare that:

- The work in this paper is my own original work.
- All sources used or referred to have been documented and recognised.
- This paper has not been previously submitted in full or partial fulfilment of the requirements for an equivalent or higher qualification at any other recognised educational institution."

_____ _____

Petrus Philip Diedericks Date

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ABSTRACT

The research problem addressed in this study was to determine the challenges facing the financial manager in the manufacturing organisation and the possible ways of surmounting these challenges. To achieve this objective, relevant literature was reviewed and an empirical survey conducted.

The main challenges identified are discussed under the following headings:

- Regulatory requirements;
- Information age;
- Employees;
- Economic environment;

Each challenge was broken down into sub-challenges that were analysed using literature identified in the literature study. This information was used to develop a

questionnaire to test the degree to which financial managers working for manufacturing organisations are challenged.

The empirical results obtained indicate a strong concurrence with the literature study emphasising the importance of the identified challenges and the best possible ways of surmounting these challenges.

CONTENTS

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION, PROBLEM STATEMENT AND DEFINITION OF CONCEPTS

CHAPTER 2

CHALLENGES FACING THE FINANCIAL MANAGER IN THE ROLE AS FINANCIAL FUNCIONARY AND THE POSSIBLE WAYS OF OVERCOMING THESE CHALLENGES

CHAPTER 3

CHALLENGES FACING THE FINANCIAL MANAGER DISTINCTIVELY IN THE MANUFACTURING ORGANISATION AND THE POSSIBLE WAYS OF OVERCOMING THESE CHALLENGES

CHAPTER 4

THE EMPIRICAL STUDY, METHODS USED AND ANALYSIS OF DATA

CHAPTER 5

AN INTEGRATION OF THE FINDINGS OF THE EMPIRICAL SURVEY WITH THE THEORETICAL SURVEY DEVELOPED FOR THE STUDY

CHAPTER 6

RECOMMENDATIONS AND CONCLUSIONS

LIST OF FIGURES

LIST OF TABLES

LIST OF ANNEXURES

CHAPTER ONE

INTRODUCTION, PROBLEM STATEMENT AND DEFINITION OF CONCEPTS

1.1 INTRODUCTION

Today's business leaders are more accessible, exposed and vulnerable than ever before. Executives in South Africa are faced with added pressure due to major political, social and economic change. Grappling with the dramatic impact of increased external competition and affirmative action are tangible examples of the intense pressure in the business world.

Other examples of fresh challenges facing the financial manager in the manufacturing organisation include the need for foolproof business continuity plans, environmental accounting and the ability to cope with rapidly changing tax laws as well as significant changes in current reporting practices.

Gilchrist (1999: 31) maintains that vision: active marketing, staff involvement, niche marketing and technology are still the five ingredients to success. The main goals and objectives of financial managers have stayed the same but different challenges are facing the financial manager in order to meet these goals and objectives.

In the light of this the question formulated under the main problem is posed.

1.2 MAIN PROBLEM

The main problem to be researched in this thesis is as follows:

What challenges face the financial manager in South African manufacturing organisations and how can these challenges be surmounted?

1.3 SUB-PROBLEMS

In an attempt to resolve the main problem, the following sub-problems will be considered:

a) What does the literature study reveal are the challenges facing the financial manager in manufacturing organisations?

b) What does the literature study reveal are the possible ways of overcoming the challenges facing the financial manager in manufacturing organisations?

c) What do knowledgeable people feel are the challenges facing the financial manager in manufacturing organisations and how can these challenges be surmounted?

1.4 DELIMITATION OF RESEARCH

In order to ensure that the research is of a manageable size, it was necessary to demarcate the research to the areas listed below. By delimiting the research the implication is not that research on the challenges facing financial managers in other organisations is not needed.

1.4.1 DEMARCATION OF ORGANISATIONS TO BE RESEARCHED

In order to simplify the research the scope of the research is limited to manufacturers in South Africa with an annual turnover of between fifty and one hundred million Rand. Only organisations involved in manufacturing of goods will be researched.

1.4.2 GEOGRAPHIC DEMARCATION

The environment to be researched is limited to the Nelson Mandela and Buffalo City Metropolitan Areas and their surrounds, which fall in the Eastern Cape region of the Republic of South Africa.

1.4.3 LEVEL OF MANAGEMENT DEMARCATION

The level of management is limited to the financial manager thus excluding accountants on the lower levels and financial directors on the upper levels in the organisational structure.

1.5 DEFINITION OF KEY TERMS

1.5.1 CHALLENGES

Harber (1981: 171) describes challenges as a demand on one's abilities. The researcher will only concentrate on the main challenges facing the financial manager relating specifically to South African manufacturing organisations.

For the purposes of this study, challenges may be seen as any demands placed on the financial manager's abilities to perform his / her function in the manufacturing organisation.

1.5.2 FINANCIAL MANAGER

Hellriegel, Jackson and Slocum (1999: 7) describe a manager as a person who allocates human, material and information resources in pursuit of an organisation's goals. Hellriegel et al (1999: 7) further state that managers are evaluated by how well the people they direct do their jobs.

A financial manager is a specialised manager in the field of accounting (Brigham, 1984: 3). The responsibilities of a financial manager in the present South African manufacturing organisation include the following:

- Managing the finance department consisting of between five and twenty staff members;
- Financial reporting to various stakeholders in the company;
- Playing an active role in the day-to-day managing of the company;

- Ensuring the profitability of the company by way of monitoring and, where possible, managing all costs as well as playing an active role in the marketing drive of the company.

For the purposes of this study, a financial manager may be seen as a person who allocates and manages people, information and material in the specialised field of accounting.

1.5.3 MANUFACTURING ORGANISATION

Harber (1981: 657) defines manufacturing as the process of making or producing goods by hand or machinery.

The South African manufacturing organisation has changed drastically due to various local as well as global influences (Business International S.A., 2001: 3). This includes personnel practices, accounting practices and technology.

The manufacturing organisation may therefore be seen as an organisation involved in the manufacture of a marketable product.

1.5.4 MANAGEMENT COMPETENCIES

Hellriegel et al (1999: 16) define management competencies as sets of knowledge, skills, attitudes and behaviours managers need to be effective. These are categorised into six competencies: communication; planning and administration; teamwork; strategic action; global awareness; and self-management. Fisher and Fisher (2001: 10) support this with their seven

competencies: articulate a vision; get results; facilitate and develop teams; eliminate barriers; understand and communicate customer and business needs; coach teams; and set a personal example.

For the purposes of this study management competencies may be seen as the skills in communication, planning, teamwork, strategy, global awareness and self-management that are required for effective management.

1.6 ASSUMPTIONS MADE

1.6.1 CHALLENGES

The researcher assumes that all the financial managers are experiencing similar challenges in varying degrees.

1.6.2 FINANCIAL MANAGER

The researcher assumes the financial managers in this study are all qualified and have similar objectives.

1.6.3 MANUFACTURING ORGANISATION

The study focuses on the financial manager in the manufacturing organisation, but it is assumed that certain literature in other organisations are also relevant to the manufacturing organisation.

1.6.4 LANGUAGE TRANSLATIONS

The study uses literature in various languages and the researcher assumes direct translations to be accurate. The researcher has exercised caution when translating.

1.7 SIGNIFICANCE OF THE RESEARCH

According to Marcus (1998: 33) the accounting profession has vast resources of management and leadership skills and she sees accountants as the centre of networks.

Kennaugh (2000: 21) believes that a strong wind of corruption is blowing across Africa, causing devastation and suffering. This he illustrates by mentioning the following statistics for 1998:

- South African Banks lost R 4 billion;
- Police opened 59 915 commercial-crime dockets involving a potential loss of R 4,6 billion;
- There has been a 25 percent rise in the number of companies that have experienced fraud over the past three years.

Gering (2001: 7) states that consumers will go shopping without entering a store. He goes on to state that technology is a competence amplifier. According to Stainbank (2000: 23) business reporting is taking on a new face and has become the norm for companies around the world.

Taking above mentioned importance of the financial manager, occurrence of fraud and emerging e-commerce trend into account, as well as employment equity, GAAP changes, environmental accounting, need for business continuity plans and various other changes in the manufacturing organisation, there is a need for research on the main problem stated in Chapter 2 and Chapter 3.

1.8 RESEARCH DESIGN

In this section the methodology to be followed in the research project is described.

1.8.1 RESEARCH METHODOLOGY

In conducting the research project the following procedure will be adopted to solve the main problem and the sub-problems.

1.8.1.1 LITERATURE STUDY

A literature study will be conducted in order to identify the key challenges facing the financial manager in the manufacturing environment and the ways of surmounting these challenges. Literature will be gathered from libraries of the Port Elizabeth Technikon, the Rhodes University in Buffalo City, the Buffalo City Main Municipal Library and the Internet.

1.8.1.2 EMPIRICAL STUDY

The empirical study will consist of the following parts:

i) A survey will be carried out in the delimited area to determine the challenges facing the financial manager in the manufacturing environment;

ii) The measuring instrument to be used in the survey will be a comprehensive questionnaire developed by the researcher based on information gained from the literature study;

iii) The population will comprise of financial managers only.

1.9 PROPOSED PROGRAMME OF STUDY

The research has been planned to include the following chapters:

Chapter 1 The introduction, problem statement, demarcation of studies, definition of key terms, significance of the study and broad methodology. This chapter also includes an outline of the programme of study.

Chapter 2 The identification of challenges facing the Financial Manager in the role as financial functionary as well as the possible ways of surmounting these challenges by way of a literature survey.

Chapter 3 The identification of challenges facing the Financial Manager specifically in the manufacturing organisation as well as the possible ways of surmounting these challenges by way of a literature survey.

Chapter 4	The design of the empirical survey will be described. A discussion of the results will follow, together with the tables of the relevant data.
Chapter 5	The findings from the survey will be integrated with the literature study in order to identify the main challenges facing the financial manager in the manufacturing organisation and the best ways of surmounting these challenges.
Chapter 6	Summary, recommendations and conclusions

CHAPTER 2

CHALLENGES FACING THE FINANCIAL MANAGER IN THE ROLE AS FINANCIAL FUNCTIONARY AND THE POSSIBLE WAYS OF OVERCOMING THESE CHALLENGES

2.1 INTRODUCTION

In order to establish which challenges are facing the financial manager in the role as financial functionary, as set out in Chapter 1 in the main problem and sub-problems, it is necessary to analyse the functions and roles the financial manager fulfils.

Bosch (1990: 4) states that financial management is an all-embracing concept covering all aspects of the financial management function. Moyer, McGuigan and Ketlow (1992: 6) contend that the concepts financial management, corporate finance and business finance are in effect similar and can be used interchangeably.

Management is a dynamic process, which consists of related activities and tasks of planning, organising, leading, co-ordinating and controlling. These activities must be done against the background of a fast-changing business environment. Bosch (1990: 10) is of the opinion that the person responsible for the managerial finance function does basically the above, but specifically aimed at the financial activities of the enterprise. Aimed at the goal of the organisation, the tasks and duties of the person responsible for the execution of the financial management function can be summarised as the planning, organising, leading, co-ordinating and controlling of the

financial affairs of the organisation, with planning and controlling emphasised; and simply put, involves the application of basic management principles in the financial sphere.

Financial management is a specialised field of study, but it cannot and does not operate in a void. Financial management relies on the conceptual principles and information systems embodied in other disciplines. The task of the financial manager can be summarised very broadly by saying that it involves the allocation of the scarce resources of the firm.

2.2 REGULATORY REQUIREMENTS

2.2.1 BACKGROUND

Financial management cannot operate in a vacuum. If the value of a firm is to be maximised, the financial manager must understand the legal environment in which financial decisions are made.

Some of the regulatory requirements the financial manager must comply with include the following:

- Generally Accepted Accounting Practice (GAAP);
- All tax acts;
- Companies Act;
- All other acts including Environmental Protection Act;
- Quality systems required by various industries;
- Securities exchange rules;

- Rules and regulations set by the South African Institute of Chartered Accountants;
- Rules and regulations set by certain commissions (King Commission).

All the rules and regulations set out above are there to guide as well as protect the financial manager. These rules are taught at tertiary institutions but unfortunately significant changes take place regularly, of which the financial manager must have a detailed knowledge to be effective (Brigham, 1984: 14).

2.2.2 GENERALLY ACCEPTED ACCOUNTING PRACTICE

The accounting framework sets out the objectives and concepts, which underlie the preparation and presentation of financial statements, the purpose of which is to provide information that is useful in making economic decisions to a wide range of users (Wingard and Becker, 2001: 18).

The objective of ***financial statements*** is to provide information that is useful to a wide range of users in making economic decisions. Information provided with regard to an enterprise is:

- Financial position;
- Performance;
- Changes in financial position.

The aforementioned information requirements are, respectively, fulfilled by the preparation and presentation of:

- The Balance sheet;
- The Income statement;
- The Cash flow statement.

and appropriate supplementary notes thereto.

The principle elements of financial statements are:

- Assets;
- Liabilities;
- Equity;
- Income;
- Expenses.

Furthermore, financial statements are prepared on the accrual basis and on the assumption that the enterprise is a going concern and will continue as such for the foreseeable future. The qualitative characteristics of financial statements are the attributes that make the information provided in financial statements useful to the users thereof including:

- Understandability;
- Relevance;
- Reliability;
- Comparability.

An appropriate balance needs to be achieved among the qualitative characteristics. This is a matter of professional judgement based on all the

rules and regulations by the financial manager, who should also consider the constraints of time and cost.

The basis of GAAP: South African GAAP is based on the European standards set by the International Accounting standards committee (IASC). The only other standard setting body of significance is based in the United States of America (USA) and its standards are referred to as American GAAP. The big difference between the two bodies is that the IASC follows principles and the USA follows rules. South Africa has not always been part of IASC and this had the effect that some of its GAAP statements have to be changed to match those of IASC. This process is very complex and still ongoing. South Africa was also forced to adopt some of the USA standards due to the lack of guidance from IASC. An example of this is AC 102, which is the accounting standard on the treatment and recognition of tax and deferred tax. Thus you have South African GAAP with statements based on rules and principles. This leads to confusion due to contradictions between statements as well as due to complexity (Wingard and Becker, 2001: 22).

Evolution of Financial accounting and reporting: Financial accounting and reporting is an evolving discipline that needs to be responsive to ever-increasing user demands. This evolution may require a future paradigm shift away from the traditional accounting model, where the accountant is only responsible for accurate reporting of past results. Even with this traditional model, the present framework can be criticised for precluding the recognition of deferrals on the balance sheet and for side stepping

revaluation (of assets) issues within the historical cost framework (Wingard and Becker, 2001: 22). The financial manager is required to comply with a set of rules, which is ever changing and not always necessarily correct.

Hattingh (1999: 33) states the application of ***New-GAAP*** is resulting in meaningless performance reporting in many situations in practice. Statements of GAAP were designed to report the financial position of profit-making enterprises. GAAP focuses on the balance sheet and does not permit the smoothing of costs over the life of a project. Some entities are changing the way they operate resulting in reduced profits and / or increased costs because of the enforcement of statements of GAAP. Accounting standards should be developed to report fairly the performance and financial position of an enterprise. The financial manager will have to use discretion when applying the GAAP statements.

2.2.3 CHANGES IN TAXATION

Business value depends on the usable income available to investors, and this means the after tax income. There are legitimate actions organisations can take to minimise the tax expense and consequently raise the after tax income. Taxes are a large share of firms' incomes and when business incomes are passed on to investors in the form of interest, dividends and capital gains the government takes a further contribution. Because of this, knowledge of the tax system is essential to the making of sound financial decisions (Brigham, 1983: 17).

South Africa has changed the emphasis of its tax system from a source basis to a residence basis. Historically, South Africa taxed its citizens on their income accrued within the Republic, although the principle has been diluted progressively in order to counter avoidance. The fully-fledged residence basis will apply instead of the present hybrid system, placing additional emphasis on terms such as “national” and “resident” and causing South Africa to reappraise how these terms have to be interpreted in international law (Harrison, 2002: 8).

In line with the rest of the world South Africa has in recent years moved away from a tax system, which was based predominantly on direct taxation, to a system which is a mixture of direct and indirect taxation. Each year the Minister of Finance presents the annual fiscal budget in which the total government expenditure for the following year is announced, and the manner in which such expenditure will be funded is indicated. Expenditure is predominantly financed by means of taxation and the balance is met by using loan finance (Huxham and Haupt, 2002: 1). South African tax legislation includes the following:

- Income tax (Including Donations Tax and Secondary Tax on Companies);
- Value Added Tax;
- Estate Duty;
- Capital Gains Tax;
- Court decisions;
- Practice notes.

Each of these taxes has extensive rules, exceptions and updates. An example is the Capital Gains Tax that took effect in October 2001, which has undergone various changes subsequently.

Marx, Rademeyer and Reynders (1991: 444) state that the higher earners are taxed more heavily than the lower earners. This includes companies as well as individuals. This necessitates that higher earners require more tax planning to minimise their tax liability.

The past two years have seen far-reaching changes to South Africa's tax system. The implications have yet to be digested and understood by taxpayers accustomed to a simpler system.

Due to the direct relationship of these taxes to the function of the financial manager an extensive knowledge of all these taxes is essential. A financial manager can attend regular tax updates as well as make use of tax experts to ensure the organisation complies as well as minimises their tax liability.

2.2.4 SECURITIES EXCHANGE

Irrespective of the size or form of an organisation, any business must have assets if it is to operate, and, in order to acquire assets, the firm must raise capital. Capital comes in two basic forms, debt and equity. There are many different types of debt: inter alia long-term, short-term, interest bearing and non-interest bearing, secured and unsecured. Similarly there are different types of equity. The equity of a proprietorship is called proprietor's interest

and for a partnership the word partner is inserted in lieu of proprietor. For a corporation, equity is represented by preferred stock and common stockholders' equity. These are usually listed on an exchange where previously issued securities are traded (Brigham, 1983: 20).

Since the primary goal of financial management is to contribute to the maximization of the firm's stock price, knowledge of the market in which this price is established is clearly essential for anyone involved in managing the firm.

According to De Castro (1998: 23), South African companies have shown a less than expected improvement in the level of disclosure of their corporate governance practices, despite this being a JSE disclosure requirement. All South African listed companies have to comply with the King Report's recommendations in respect of corporate governance disclosure practices. He continues to state that corporate governance, and its meaningful disclosure, must be seen as an evolutionary process as opposed to an overnight transformation. The financial manager has a primary responsibility to comply with the JSE reporting requirement.

2.2.5 OTHER ACTS AND RULES

The financial manager not only has to comply with all the rules and regulations listed above but also has to comply with rules and regulations that he is indirectly involved with including the following:

- Labour Relations Act;
- Skills Development Act;
- Employment Equity Act;
- Basic Conditions of Employment Act;
- Closed Corporations Act;
- Occupational Health and Safety Act;
- Environmental Protection Act;
- Quality standards including ISO and VDA;
- Constitution of the country.

The Labour Relations Act, Skills Development Act, Employment Equity Act, Basic Conditions of Employment Act and the Occupational Health and Safety Act stipulate the rights and obligations of employees, employers and unions. These new Acts are a significant departure from past legislation but are consistent with the fundamental rights of the Constitution and International Labour Organisation conventions. Finnemore and Van der Merwe (1996: 145) also state that an understanding of the building blocks of the new acts is a prerequisite to understanding the purpose and application of the acts.

Due to the fact that employees are the major cost as well as profit driver of a company, financial managers are forced to have a clear understanding of all these acts and be up to date to be able to maximise shareholders' wealth.

The other acts on the aforementioned list relate to issues like environmental protection and quality management, which is applicable depending on the industry that the organisation is operating in. No financial manager can ignore the importance of meeting VDA quality requirements in the automotive industry, since it is a prerequisite for doing business. The stricter environmental laws have also forced companies to be more aware of the environment. Non-compliance to the Environmental Protection Act has led to the financial ruin of companies.

As can be seen from the above, all financial managers must have a clear understanding and knowledge of all the rules and regulations applicable to its organisation to ensure shareholder wealth maximisation. The best way to achieve this is to attend regular seminars and make use of legal experts in all the relevant fields of study.

2.2.6 REPORTING

In order to use valuation models, investors need information on companies' expected earning, dividends, growth rates, and on the risk of these items. Financial reporting needs of the users of the financial statements have far exceeded the income statement, balance sheet and cash flow statement (Gitman, 2000: 34).

Reporting requirements have further compulsory statements including:

- Statement of retained earnings;
- Statement of changes in financial position;

- Statement of changes in equity;
- Segment report.

Financial ratios are designed to show relationships among financial statement accounts. Ratios put numbers into perspective and form an integral part of financial reporting. Ratios indicate problem areas as well as trends. Ratios are categorised into the following groups:

- Liquidity ratios;
- Debt management ratios;
- Asset management ratios;
- Profitability ratios;
- Market value ratios.

Due to the time value of money the financial manager is expected to report clearly, accurately and effectively the results of the company using above mentioned tools within a short time after the financial period has expired. In order to achieve these goals, the financial manager must ensure proper internal controls and effective application of the information systems used.

Traditionally, the annual report has been made available to users in hard-copy format. A number of companies are also providing copies of their annual report on CD-ROM. According to Stainbank (2000: 23) the next step is undoubtedly the use of the Internet for communicating financial information. This is becoming common practice for leading overseas companies, and South African companies are not lagging too far behind their overseas counterparts in this respect. The rapid increase in the use of

the Internet as a medium for communicating financial information is not without its attendant problems. The reliance of the information is an issue since disclosure on the web is unregulated and information can be manipulated. Real-time reporting creates problems with the verification of the information provided. However, there are various benefits derived from reporting on the Internet including cost saving, speed of disclosures and the ability to navigate the information quickly.

The financial manager, being in charge of financial reporting, has to weigh up all of the above and implement an adaptable reporting strategy for the organisation.

2.3 INFORMATION AGE

2.3.1 BACKGROUND

The phenomenal advances in computer technology have forged indelible links between financial management and information technology. The development of the personal computer has changed the way financial management decisions are made forever. The decision-making ability of the financial manager has been enhanced by the personal computer's capacity to process data and to generate information rapidly. In addition, a variety of software packages designed to handle large databases to provide graphical representations and solutions are used commonly nowadays (Correia, Flynn, Uliana, and Wormald, 1989: 4).

O'Brien (1999:11) states that we are living in an emerging global information society, with a global economy that is increasingly dependant on the creation, management and distribution of information resources over interconnected global networks like the Internet. Information is thus a basic resource in today's society.

A new type of worker has taken over from the normal "factory worker": a knowledge worker who spends most of his time communicating and collaborating in teams and workgroups and creating, using and distributing information. Knowledge workers include executives, managers, supervisors, teachers, engineers, stockbrokers and financial managers.

"Information technology has become a strategic necessity. Believe it, act on it, or become a footnote in history" (O'Brien: 1999: 6).

2.3.2 INFORMATION SYSTEMS

An Information System (IS) is an organised combination of people, hardware, software, communications networks and data networks that collects, transforms and disseminates information in an organisation (O'Brien, 1999: 9).

O'Brien (1999: 54) states that information systems play three fundamental roles in the business success of an enterprise:

- Support of its business processes and operations;
- Support of decision making by its managers;

- Support of its strategies for competitive advantage.

These roles given to information systems have expanded significantly over the years.

Figure 2.1: Expanding roles of information systems over the years

Enterprise and global internetworking: 1990s – 2000s *Internetworked information systems* For end user, enterprise, and interorganisational computing, communications, and collaboration, including global operations and management on the internet, intranets, extranets, and other enterprise and global networks
Strategic and end user support: 1980s – 1990s *End user computing systems* Direct computing support for end user productivity *Executive information systems* Critical information for top management *Expert systems* Knowledge based expert advice for end users *Strategic information systems* Strategic products and services for competitive advantage
Decision Support: 1970s – 1980s *Decision support systems* Interactive ad hoc support of the managerial decision-making process

Management reporting: 1960s – 1970s *Management information systems* Management reports of prespecified information to support decision-making
Data Processing: 1950s – 1960s *Electronic data processing systems* Transaction processing, record keeping, and traditional accounting applications

Source: Adapted O'Brien (1999: 54)

An analysis of Figure 2.1 reveals that the role of information systems has passed through five definite stages. Through each stage the role of information systems in business and management expanded significantly as well as the participation of end users and managers in information systems.

Conceptually, information systems can be classified in several different ways but O'Brien (1999:55) classifies it as per Figure 2.2.

Figure 2.2: Operations and management classifications of information systems

Information systems					
Operations support systems			***Management support systems***		
Transaction processing system (Processing business transactions)	Process control systems (Control of industrial processes)	Enterprise collaboration systems (Team and workgroup collaboration)	Management information systems (Prespecified reporting for managers)	Decision support systems (Interactive decision support)	Executive information systems (Information tailored for executives)

Source: Adapted O'Brien (1999:56)

Information systems are categorised as per Figure 2.2 to spotlight the major roles each play in the operations and management of business.

The field of information systems encompasses many complex technologies, abstract behavioural concepts, and specialised applications in countless business and non-business areas. As a manager you do not have to absorb all of this knowledge but must have an understanding of the major areas of information system knowledge needed (O'Brien: 1999: 8).

Figure 2.3: Major areas of information system knowledge needed

Area of IS	Application
Management of IS	Resources and strategies
Development of IS	Solutions to business problems
Application of IS	Operations, management & strategic advantage
Technology of IS	Hardware, software, networks & data management
Foundation of IS	Fundamental behavioural and technical concepts

Source: Adapted from O'Brien (1999: 9)

Figure 2.3 illustrates a useful conceptual framework that outlines what managers need to know about information systems. It emphasises that managers should concentrate their efforts on five areas of knowledge.

2.3.3 ACCOUNTING INFORMATION SYSTEMS

Accounting information systems are the oldest and most widely used information systems in business. They record and report business transactions and other economic events. Accounting information systems are based on the double-entry bookkeeping concept and other; more recent accounting concepts such as responsibility accounting and activity based costing. Computer-based accounting systems record and report the flow of funds through an organisation on an historical basis and produce important financial statements such as balance sheets, income statements, and cash flow statements. Such systems produce forecasts of future

conditions such as projected financial statements and financial budgets. A firm's financial performance is measured against such forecasts by other analytical accounting reports (O'Brien, 1999:424).

Figure 2.4: Summary of six widely used accounting information systems.

Accounting Information System	Function
Order processing	Captures and processes customer orders and produces data for inventory control and accounts receivable.
Inventory control	Processes data reflecting changes in inventory and provides shipping and reorders information.
Accounts receivable	Records amounts owed by customers and produces customer invoices, monthly customer statements, and credit management reports.
Accounts payable	Records purchases from, amounts owed to, and payments to suppliers, and produces cash management reports.
Payroll	Records employee work and compensation data and produces pay cheques and other payroll documents and reports.
General Ledger	Consolidates data from other accounting systems and produces the periodic financial statements and reports of the business.

Source: Adapted O'Brien (1999: 424)

All of the accounting information systems illustrated in Figure 2.4 are interrelated. Many integrated accounting software packages are available for these applications.

All the accounting information systems illustrated in Figure 2.4 are being affected by the Internet and server technologies. Using the Internet, intranets, extranets and other networks changes how accounting information systems monitor and track business activity. The online, interactive nature of such networks calls for new forms of transaction documents, procedures and controls (O'Brien: 1999: 424).

Information system controls are methods and devices that attempt to ensure the accuracy, validity and propriety of information system activities.

Figure 2.5: Controls needed for information system security

Secure Information System		
Facility	***Procedural***	***Information system***
Physical protection	Standard procedures	Input controls
Computer failure controls	Documentation	Processing controls
Telecommunication controls	Authorization requirements	Output controls
Insurance	Auditing	Storage controls

Source: Adapted O'Brien (1999: 657)

The most important responsibilities of management are to assure the security and quality of its information services activities as can be seen in Figure 2.5. Due to the nature of the financial manager's tasks this responsibility lies very much with him / her.

2.3.4 FINANCIAL INFORMATION SYSTEMS

Computer-based financial information systems support financial managers in decisions concerning:

- The financing of the business and;
- The allocation and control of financial resources within a business.

Major financial information system categories include cash and investment management, capital budgeting, financial forecasting and financial planning (O'Brien, 1999: 427) as can be seen in a summarized format in Figure 2.6 below.

Figure 2.6: Financial information systems

Information Systems in Finance			
Cash Management	***Investment Management***	***Capital Budgeting***	***Financial Planning***
Forecast and manage cash position	Manage short term and other securities	Evaluate risk/return of capital expenditures	Forecast financial performance and financing needs

Source: Adapted O'Brien (1999: 427)

Cash management systems collect information on all cash receipts and disbursements within a company on a real-time basis. Such information allows businesses to deposit or invest excess funds more quickly, and thus increases the income generated by deposited or invested funds. These systems are also used to spot future cash deficits or surpluses. Mathematical models frequently can determine optimal cash collection programmes and determine alternative financing or investment strategies for dealing with forecasted cash deficits or surpluses.

Many businesses **invest** their excess cash in short-term low risk marketable securities or in higher return / high-risk alternatives, so that investment income may be earned until the funds are required. The portfolio of such securities can be managed with the help of portfolio management software packages. Investment information and securities trading are available from hundreds of online sources on the Internet and other networks. Online investment management services help a financial manager make buying, selling, or holding decisions for each type of security so that an optimum mix of securities is developed that minimises risk and maximises investment income for the business.

The **capital budgeting** process involves evaluating the profitability and financial impact of proposed capital expenditures. Long-term expenditure proposals for plant and equipment can be analysed using a variety of techniques. This application makes heavy use of spreadsheet models that incorporate present value analysis of expected cash flows and probability

analysis of risk to determine the optimum mix of capital projects for a business.

Financial managers typically use electronic spreadsheets and other **financial planning** software to evaluate the present and projected financial performance of the business. O'Brien (1999: 446) describes decision support systems as a major category of management support systems. They are computer-based information systems that provide interactive information support to managers during the decision-making process. The decision support systems support the making of semi-structured and unstructured decisions by individual managers. The following key computer assisted decision support systems are listed:

- **What-if analysis**: An end user can make changes to variables, or relationships among variables, and observe the resulting changes in the values of other variables.
- **Sensitivity analysis**: The value of only one variable is changed repeatedly, and the resulting changes on other variables are observed.
- **Goal seeking analysis**: Reversing the direction of the analysis done in what-if and sensitivity analysis. Instead of observing how changes in a variable affect other variables, goal-seeking analysis sets a target value for a variable and then repeatedly changes other variables until the target value is achieved.
- **Optimisation analysis**: A more complex extension of goal seeking analysis. The goal is to find the optimum value for more than one target variable, given certain constraints.

In addition, financial managers use financial forecasts concerning the economic situation, business operations, types of financing available, interest rates and stock and bond prices to develop an optimal financial plan for the business (O'Brien, 1999: 429).

2.3.5 STRATEGIC ADVANTAGE

O'Brien (1999: 508) states that effective use of information technology is not only a strategic advantage but also a strategic necessity. It is important to view information systems as more than a set of technologies that support workgroup and enterprise collaboration, efficient business operations, or effective managerial decision-making. Information technology (IT) can change the way businesses compete. So one should also view information systems strategically, that is, as vital competitive networks, as a means of organisational renewal, and as a necessary investment in technologies that helps an enterprise achieve its strategic objectives.

The strategic role of information systems involves using information technology to develop products, services and capabilities that give a company strategic advantage over the competitive forces it faces in the global marketplace. This creates strategic information systems, information systems that support or shape the competitive position and strategies of an enterprise. So a strategic information system can be any kind of information system including an accounting information system or financial

information system that helps an organisation gain a competitive advantage, reduce a competitive disadvantage, or meet other strategic enterprise objectives (O'Brien, 1999: 510).

A firm can survive and succeed in the long run if it successfully develops strategies to confront five competitive forces that shape the structure of competition in its industry. According to Kotler (2000: 218) these are:

- Rivalry of competitors within its industry;
- Threat of new entrants;
- Threat of substitutes;
- Bargaining power of customers.

Another way that business can counter the threats of competitive forces that confront them is to implement five basic competitive strategies as follows:

- Cost leadership strategy;
- Differentiation strategy;
- Innovation strategy;
- Growth strategy;
- Alliance strategy.

Managers, especially financial managers, can use investments in information technology to directly support a firm's competitive strategies. Figure 2.7 summarizes how information technology can be used to implement a variety of competitive strategies.

Figure 2.7: Information technology (IT) used to implement competitive strategies.

Lower costs • Use IT to substantially reduce the cost of business processes. • Use IT to lower the cost of customers or suppliers.
Differentiate • Develop new IT features to differentiate products and services. • Use IT features to reduce the differentiation advantages of competitors. • Use IT features to focus products and services at selected market niches.
Innovate • Create new products and services that include IT components. • Make radical changes to business processes with IT. • Develop unique new markets or market niches with the help of IT.
Promote growth • Use IT to manage regional and global business expansion. • Use IT to diversify and integrate into other products and services.
Develop alliances • Use IT to create virtual organisations of business partners. • Develop interorganisational information systems linked by the networks that support strategic business relationships with customers, suppliers, subcontractors, and others.

Improve Quality and Efficiency
• Use IT to dramatically improve the quality of products and services. • Use IT to make continuous improvements to the efficiency of business processes. • Use IT to substantially shorten the time needed to develop, produce and deliver products and services.
Build an IT platform
• Leverage investment in IS people, hardware, software, and networks from operational use into strategic applications. • Build a strategic information base of internal and external data collected and analysed by using IT.
Other Strategies
• Use interorganisational information systems to create switching costs that lock in customers and suppliers. • Use investment in IT to build barriers to entry against outsiders. • Use IT components to make substitution of competing products unattractive. • Use IT to help create, share and manage business knowledge.

Source: O'Brien (1999: 512)

As seen above the strategic use of information technology enables managers, especially financial managers to look at information systems in a new light. No longer is the information system's function merely an operations necessity, that is, a set of technologies for processing business transactions, supporting business processes, and keeping the books of a

firm. It is also more than a helpful supplier of information and tools for managerial decision making. Now the information system can help managers develop competitive weapons that use information technology to implement a variety of competitive strategies to meet the challenges of the competitive forces that confront any organisation and its managers (O'Brien: 1999: 546).

Retief (2001: 13) warns companies that in the drive to remain ahead of their competitors, many companies lose sight of their original vision and traditional business goals. These are the companies that allow technological developments to drive their business needs. These are also the companies that will lose money and eventually be forced to shut down if they continue to allow IT fads to determine their business direction. Fads are generally born of good ideas, but they often have no specific grounding and seldom offer real value to the majority of early adopters who are quick to jump onto the IT bandwagon. The number of ERP (Enterprise Resource Planning) implementations that never go live is an expensive example of IT fads that became hugely popular without delivering. The e-commerce boom should be approached in much the same way. If you are looking for an e-commerce solution, ask yourself what the benefits and value will be.

The financial manager is forced to be up to date with the latest strategies involving information technology but must be aware of those that do not add value to the organisation.

2.3.6 ETHICAL AND SOCIETAL DIMENSIONS

Business and information technology activities involve many ethical considerations. Managers, in forming ethical judgements, may use various ethical philosophies and models of ethical behaviour. These serve as a foundation for ethical principles and codes that can serve as guidelines for dealing with ethical business issues that may arise in the use of information technology.

The vital role of information technology in business and society raises serious ethical and societal issues in terms of the impact of information technology on:

- Employment – Automation leads to job obsolescence;
- Individuality – Computer-based systems dehumanise and depersonalise activities;
- Working conditions – Monotonous or unpleasant tasks have been eliminated;
- Computer monitoring – Violates worker privacy;
- Privacy – Internet, spamming and free information;
- Health – Many hours are spent in front of the computer;
- Computer crime – Theft of money, services and copyrights.

Managerial end users can help solve the problems of improper use of information technology by assuming their ethical responsibilities for the ergonomic design, beneficial use and enlightened management of information technology in our society (O'Brien, 1999: 693).

2.4 SUMMARY

From the literature studied it is evident that financial managers are faced with various challenges in their role as financial functionary within the organisation. The main challenges identified are the ever-changing regulatory requirements and the fast changing information technology.

Financial managers have to react rapidly and successfully to all the developments in their field of expertise. These include changes in legislation as well as global forces, including information technology.

Sub-problems a) and b) are to some extent resolved in this chapter, namely what the challenges facing the financial manager in the role as financial functionary are, and the possible ways of surmounting these challenges. In the next chapter the challenges facing the financial manager specifically in the manufacturing organisation will be discussed.

CHAPTER 3

CHALLENGES FACING THE FINANCIAL MANAGER DISTINCTIVELY IN THE MANUFACTURING ORGANISATION AND THE POSSIBLE WAYS OF OVERCOMING THESE CHALLENGES

3.1 INTRODUCTION

In order to establish which challenges are facing the financial manager specifically in the manufacturing organisation, as set out in Chapter 1 in the main problem and sub-problems, it is necessary to analyse the major forces influencing the financial manager.

Management is a dynamic process, which consists of related activities and tasks of planning, organising, leading, co-ordinating and controlling. These activities must be done against the background of a fast-changing business environment.

Financial management is a detached field of study, but it cannot and does not operate in a void. Financial management relies on the conceptual principles and information systems embodied in other disciplines. The task of the financial manager can be summarised very broadly by saying that it involves the allocation of the scarce resources of the firm.

This chapter looks at the impact on the manufacturing organisation of the following:

- Employees;
- Economic environment.

3.2 EMPLOYEES

3.2.1 BACKGROUND

As pressures related to international competition intensify, South African companies will be obliged to make rapid organisational and cultural changes, and these can only be effected through the agency of people. Unless these people are at the right places at the right time with the right skills and the right attitudes, the necessary changes will not come about. The key to the desired result is therefore effective human resources management (Carrell, Elbert, Hatfield, Grobler and Marx, 1997: 4).

Efficiency and economies of scale, two dominant twentieth-century themes, have been replaced by new values: teamwork over individualism, global markets over domestic ones and customer-driven focus over short-term profits. Only fluid, flexible, highly adaptive organisations will thrive in the fast paced global economy (Carrell et al, 1997:4).

There have been significant changes recently in the way employees need to be managed. The issue of workplace flexibility has emerged in response to the needs of today's companies and the diversity of its employees. Before the 1990s, standardisation, consistency and conformity were once hallmarks of management policy but today developing the capacity for flexibility is considered a vital component of the company's corporate human resources strategy.

A well-accepted definition of management is: “The art of getting things done through other people” (Renolds, 1994: 4). Managers, whether of finance or any other field, must achieve certain set objectives by setting up mechanisms that allow other people to perform the necessary tasks.

Whether managers are in charge of sales, production, information systems or finance, if they are responsible for people then they are effectively Human Resource (HR) Managers.

3.2.2 TRAINING REQUIREMENTS

The growth of an organisation is closely related to the development of its human resources. When employees fail to grow and develop in their work, a stagnant organisation will most probably result. A strong employee development programme does not guarantee organisational success, but such a programme is generally found in successful, expanding organisations (Carrell et al, 1997: 13).

The majority of South African workers need new or significantly expanded skills to keep up with the demands of their jobs. This includes new technology, management, customer service and basic skills training. South Africa spends less than one per cent of total employment costs on training, in contrast to five per cent spent by our major trading partners, such as the USA. Japan for example spends in excess of ten per cent (Carrell et al, 1999: 308).

For many organisations, the heart of the development process is composed of on-the-job and off-the-job activities that teach employees new skills and abilities. Because modern managers recognise the benefits derived from the training and development process, expenditures for employee education are at an all-time high. The rise in employee education has been accompanied by growing professionalism in the training field and a demand for competent, qualified trainers (Carrell et al, 1999: 13).

Training and development offer many rewards but also pose many questions for all training personnel:

- Who should be trained?
- In what areas should they be trained?
- Why should they be trained?
- What training techniques should be used?
- Who should do the training?
- When and how often should training take place?
- What outcomes should be expected?
- Is training cost-effective?

The financial manager, as an on-the-job trainer of the company's own people, is confronted by all of these questions.

Several terms are used to describe the various training approaches. Employee education is used to describe basic skills training programmes. Specific training refers to training in which employees gain information and skills that are tailored specifically to their own workplace.

Traditionally, the terms, employee training and management development, have referred to very different approaches. Today's flattening of organisational structures and the corresponding elimination of levels of middle management have blurred some of the traditional boundaries between management and non-management personnel. Historically, non-management personnel have used the term, training, to designate the acquisition of technically oriented skills. The term, management development, has normally been associated with the methods and activities designed to enhance the skills of managers or future managers (Carrell et al, 1999: 309).

The general aims of training and development programmes for employees are the following:

- Improve performance;
- Update employee skills;
- Avoid managerial obsolescence;
- Solve organisational problems;
- Orientate new employees;
- Prepare for promotion and managerial succession;
- Satisfy personal growth needs.

Training and development priorities change as new issues confront organisations but many observers believe that three issues are receiving the highest priority, namely quality improvement, technological changes and customer service. Quality improvement programmes have been instituted in response to increasingly higher demands from customers and

the need to be more competitive in a global economy. Technological change-related programmes will continue to challenge organisations into and beyond the next century. This has been a training priority since the Industrial Revolution. Customer service related programmes are now a top priority for organisations that consider themselves service oriented. Total quality management (TQM) programmes focus on the responsibility that each employee has to the customer or client (Carrell et al, 1999: 311).

Training and development is best thought of as a complex system that involves a number of distinct but highly interrelated phases including needs assessment, conducting the training and evaluation. Needs assessment can be broken up into organisational analysis, operations analysis and personality analysis. The conducting process includes the following: the identifying of the performance gap, on-the-job training, job rotation, enlarged job responsibilities, job instruction training, apprentice training, coaching, mentoring, simulation, discussions, case studies, role playing and even games. Evaluation includes cost benefit analysis, participant feedback, changes in participants' behaviour and the effect on the organisation's goals.

Modern facilities, expensive equipment, abundant staff administrators and an ample training budget will not guarantee success. To achieve success, a number of conditions must first be satisfied including:

- Objective, result-orientated appraisal techniques;
- Long range skill needs planning;
- Top management support;

- Climate ready to embrace change;
- Professional staff.

The financial manager, as a key member of the management team, plays an integral part in the necessary conditions.

Career management is the process of designing and implementing goals, plans and strategies that enable managers to satisfy needs and allow individuals to achieve their career objectives. The benefits to the organisation include: staffing inventories, staffing from within, solving staffing problems, satisfying employee needs, enhanced motivation and employment equity (Carrell et al, 1999: 347).

Succession planning forms part of career management. According to Kransdorff (1998: 20), a company's corporate experience literally walks out of the door when an employee leaves. Across industry workers in SA are switching their employment at least seven times in their working lifetimes, giving an average rate of enterprise tenure of less than six years. However experienced the new blood, new appointees still have to accommodate their new employers' tried and tested way of doing things, its specific market and environment. With anecdotal evidence suggesting that it can take up to 12 months, and often longer, for new placements to settle into their new jobs and become fully productive, this means that at least 15% of employees' working lives are now routinely less than fully productive. Due to the important role of the finance department and the small margin for error, a thorough succession plan from within is essential.

During the past thirty years companies in South Africa have expanded their workforce, creating many rapid promotional opportunities for a relatively small number of people who came exclusively from the white population group. However, with a slow-growth economy and the restructuring of many companies, this rapid promotion tendency is quickly coming to an end. When this happens an employee becomes a plateaued employee.

Professionals and employees who find themselves in jobs that offer limited mobility and few opportunities for the expansion of experience feel the same frustration and the stigma of failing. Symptoms include coming late, leaving early, absenteeism and changes in personality such as irritability. Of course these symptoms may reflect any number of problems, thus making it difficult for the superior to recognise. Possible ways to deal with this problem include more lateral assignments within the organisation, outplacement services, increasing job mobility and counselling (Carrell et al, 1999: 353).

3.2.3 PERFORMANCE MANAGEMENT

Performance management is the ongoing process of evaluating and managing both behaviour and outcomes in the workplace. Performance management, a broader term than performance appraisal, became popular in the 1990s as TQM programmes emphasised using all of the management tools, including performance appraisal, to ensure achievement of performance goals. Tools such as reward systems, job

design, leadership and training should join performance appraisal as part of a comprehensive approach to performance (Carrell et al, 1999: 258).

Despite the enthusiasm by various companies regarding performance management, a comprehensive survey of nine leading South African manufacturing organisations undertaken by the University of Stellenbosch Business School, recently revealed a rather bleak picture of the way employee performance is managed and rewarded in South Africa. Major problems that were identified during the survey included the existence of a negative working culture; changes in corporate strategy did not result in corresponding behaviour changes and insufficient line management support for performance management. Regarding periodic and formal performance reviews, the following became apparent:

- Lack of follow up to performance reviews;
- Over-emphasis on the appraisal aspect at the expense of development;
- Inadequate performance information;
- Maintaining objectivity.

Despite these problems, the existence of a good performance review system can be of great value to the manufacturing organisation, the department and the individual (Carrell et al, 1999:258).

With new legislation pertaining to labour relations, employment and occupational equity, affirmative action and the Constitution, the possibility of legal review of terminations, promotions, pay decisions and other HR issues is becoming a reality in South Africa. Thus when dismissing an

employee on grounds of poor work performance (one of the legal areas according to the Labour Relations Act) the input received from the performance appraisal exercise in the company will be vital. However this process will have to be “legally” sound to avoid any liability (Carrell et al, 1999: 264).

According to Sutherland (1999: 10), performance management has at its core, the challenge to all managers to differentiate the way employees are treated in response to their work performance. She continues to state that it is naïve to think that there is a one-size-fits-all approach to managing staff performance. The degree to which the performance management system is aligned to corporate strategy will determine the effect of the system on driving company performance.

Performance management is a day-to-day, ongoing, highly interpersonal activity. Employees do not work for companies; they work for their bosses. They expect and long for daily acknowledgement of their presence, contributions, success and failures. One of the core problems faced by managers is the lack of addressing their fear of giving criticism to their subordinates. Negative feedback done via offering positive alternative behaviours is the route to performance improvement (Sutherland, 1999: 11).

According to Viedge (1999: 12) the performance of knowledge workers, such as accountants revolves around three major factors:

- Commitment;

- Knowledge;
- Consequences of behaviour.

Employees will be committed to a manufacturing organisation if they believe that it has their best interest at heart, uses their talents and involves them in business decisions. Knowledge, by definition is a prerequisite for performance. The consequences of behaviour determine what employees do. With commitment and knowledge taken care of, effective performance will follow if the right incentives are in place. He continues to state that motivation is necessary but not sufficient for effective performance at work.

Due to the complexities and importance of all financial functions an effective performance management system is essential.

3.2.4 EMPLOYMENT EQUITY

Employment equity guidelines demand fair and equitable recruiting, selection and placement policies and the elimination of discriminatory practices concerning promotions and career mobility. Many affirmative action programmes contain formal provisions to enhance the career mobility of women and other formerly excluded groups, including the development of career paths and the design of formal training and development activities.

Manufacturing organisations often make use of unskilled to semi-skilled labour, which in South Africa is largely represented by the black labour

force. The current government has identified these individuals for further development and training. Meeting these development and training needs as well as staying profitable is a big challenge facing the financial manager in the manufacturing organisation.

To achieve employment equity a compromise staffing strategy needs to be followed. The compromise staffing strategy attempts to achieve the best allocation of available employees to fill vacancies while meeting individual and organisational needs. Compromise strategies place people in jobs in order to fill all jobs with individuals who meet at least the same minimum standards of performance (Carrell et al, 1997: 236).

Kreitner, Kinicki and Buelens (1999: 89) define culture as a pattern of basic assumptions invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.

They continue to state that culture comes in layers, like an onion. To understand it you have to unpeel it layer by layer. On the outer layer are the products of culture, like soaring skyscrapers, pillars of private power, with congested public streets between them. These are expressions of deeper values and norms in a society that are not directly visible (values such as upward mobility, “the more the better”, status, material success). The layers of values and norms are deeper within the onion and are more

difficult to identify. Culture is a subtle but pervasive force. Thus without a thorough understanding of all the employee cultures by all members of the team, the team will never be a success.

Kreitner et al (1999:96) identified the following methods in surmounting cultural challenges:

- Try to learn the basics of the languages of the team;
- Read up around the religious beliefs of all the team members;
- Honesty and reliability is appreciated by all cultures and must be emphasised;
- More “open” public space, more “closed” private space;
- Be to the point to avoid confusion;
- Remind all the team members of the rules and regulations of the company and make sure they understand all of them in order to avoid possible problems without inhibiting their performance.

The financial manager through employment equity is faced with a diversity of cultures that must be understood and managed in order to stay competitive and even capitalise on the diversity for new ideas.

Black economic empowerment deals are transactions where a company invites a previously disadvantaged group of people to share in a business venture. According to Marais (1999: 23), the primary problem in economic empowerment deals was related to the very limited risk, which the empowerment partner and so-called target company selling their share had to carry. He continues to state that economic empowerment is a sensitive

issue. Business in South Africa is faced with the conflicting ideals of having to address what is essentially a national issue in a world that is now globally competitive. We have to be careful however, not to add to our uncompetitiveness internationally by doing deals that are not economically sound. As the financial manager plays a key role in all financial deals, he has to take all of the above into careful consideration.

3.2.5 STRATEGIC HUMAN RESOURCES MANAGEMENT

In the fast-paced global economy, change is the norm. Environmental, social and technological change, the increased internationalisation of business and the increased scarcity and cost of human resources, can only mean that long-term planning is risky but absolutely essential.

Strategic management involves making those decisions that define the overall mission and objectives of the manufacturing organisation, determining the most effective utilisation of its resources, crafting and executing the strategy in ways that produce the desired results (Carrell et al, 1997: 10).

Strategic human resources management crosses all the functional areas and is fully integrated with all the significant parts of the manufacturing organisation: operations, marketing and especially finance.

Carrell et al (1997: 610) state that the process of change that South African companies have to undergo will have to be triggered by visionary

leadership. This involves the development of an inspiring vision, transforming all the people into cohesive teams, infusing them with enthusiasm and creating a climate in which all employees will want to identify spontaneously with the company and its ideals.

Claassen (1999: 13) defines teams as any group of people who need each other in order to accomplish a specific result. The team has always been the natural unit for small-scale human activity. The overall massification that occurred during the Industrial Age disturbed the human teaming, as almost nothing was ever done on a small scale. Teams offer manufacturing organisations the opportunity to demassify their structures. He continues to list the following advantages:

- Teams increase productivity;
- Teams improve communication;
- Teams make better use of resources;
- Teams are more creative and efficient in solving problems;
- Teams mean higher quality decisions;
- Teams mean better quality and services;
- Teams mean improved processes;
- Teams differentiate while they integrate.

Teams allow organisations to blend people with different kinds of knowledge and skills, without these differences rupturing the fabric of the organisation.

3.3 ECONOMIC ENVIRONMENT

3.3.1 BACKGROUND

According to Samuelson and Nordhaus (1985: 4), economics is the study of the following two aspects:

- The allocation of scarce resources (that may have alternate uses) for the production of various commodities;
- The distribution of these various commodities for consumption, presently or in the future, among various persons and groups in society.

The conceptual principles incorporated in economic theory, guide the financial manager in his or her present and future financial decision-making duties. Jones (1992: 6) states that financial management is, in effect, applied economics because it is concerned with the allocation of an enterprise's scarce financial resources among different, but competing choices.

Economics, and more particularly microeconomics, guides the financial manager in the carrying out of the day-to-day financial decisions in the workplace. Moyer, McGuigan and Kretlow (1992: 22) state that when the financial functionary makes long term investment decisions (capital budgeting) and short term investment decisions (management of cash, inventories and accounts receivable), he or she is simply utilising the basic concept from microeconomic theory of setting marginal cost equal to marginal revenue. It is therefore not wrong to describe financial

management as applied microeconomic theory. Roden and Christy (1986: 10) add the concepts of equilibrium price and opportunity cost, and the roles of substitution, competition and marginal return. The firm is highly sensitive to any changes in the environment surrounding it, so macroeconomic principles are indispensable if the firm is to be kept on the right path.

Correira et al (1989: 3) comment that the successful and accomplished financial manager is aware of the impact of the following economic indicators: the gold price, the balance of payments, the foreign currency exchange rates, the inflation rate and the current interest rates. This is particularly important in the light of the increase in the globalisation of business.

Morales (2002: 2) present a table (Annexure 4.3) of the main economic indicators for the past eight years as well as a forecast for the next two years. This table will be referred to in the sections that follow.

3.3.2 FOREIGN EXCHANGE RATES

Foreign trade involves payment in foreign currencies such as Pound Sterling (£), Euro (E), American Dollar ($) and Japanese Yen (¥). South African importers have to pay in these currencies for the goods they buy and are therefore obliged to exchange South African Rands for these currencies. Importers create a supply of South African Rands and the exporters a demand for South African Rands on the money markets.

The rate at which currencies are exchanged is known as the rate of exchange or exchange rate. Normal market forces of supply and demand determine the rate of exchange of a currency. Morales (2002: 16) states that other factors like political stability, monetary policies and various other "sentimental" factors also influence the rate of exchange. Currently the political instability of South Africa's neighbour Zimbabwe, as well as the labour unrest in the last quarter of 2001, has had a negative impact on the Rand. The economic stability of other third world countries is also listed as an influence on the stability of the Rand.

Morales (2002: 12) states that despite a relatively open economy, government actions occasionally suggest a residual lack of trust in the free market system. This tendency became apparent in the wake of the rapid depreciation of the Rand in December 2001, but the Myberg-Commission has recently concluded that, despite accusations to the contrary, market participants did not conspire to cause the Rand's decline.

From Annexure 4.3 the constant depreciation of the Rand to date as well as forecast can be seen. The Rand depreciated 137% from 1995 (R3.63) to 2001 (R8.61) averaging 20% per annum and is expected to depreciate further by 6% from 2002 (R10.50) to 2004 (R11.15).

Manufacturing organisations are heavily reliant on imports of raw material and know-how. If a manufacturer has a product with an import content of 50% it will have to increase its selling price by a staggering 10% to absorb the rapid depreciation of the Rand. This increase does not include the normal inflationary increase. The manufacturer must also be able to invoke price increases quickly since the Rand is very volatile and difficult to predict.

The possible solutions available to the financial manager of the manufacturing organisation include the following:

- Increase local content of the products by way of capital investment, and sourcing material locally;
- Increase foreign sales, which in turn earns the company foreign currency to pay for the import content of the goods. This is known as natural hedging;
- Making use of foreign currency bank accounts (CFC accounts) whereby deposits by customers are kept in the foreign denomination. Purchasing foreign currency using Rands can also top up these accounts. These accounts, provided a positive balance is maintained, also have a natural hedge effect as previously mentioned;
- Taking out forward exchange contracts. The company in effect then carries no exchange risk but pays for the interest cost over the period of the contract. The main drawback of this is the difficulty in predicting future foreign currency demands. This is thus only a short- to medium-term solution.

Due to the fluctuation of the Rand, and its impact on the manufacturing organisation, regular strategy updates is advisable.

3.3.3 INTEREST RATES

Mohr and Fourie (1999; 425) define interest rates as the premium paid by one party for having money immediately available but to be paid back in a later period or the premium earned for making money available to a party only to be paid back in a later period.

Interest rates are mainly determined by the repo rate set by the South African Reserve Bank (SARB). This is the rate at which the SARB lends money to the commercial banks. The SARB determines the repo rate based on the money supply and demand in the country. The SARB also uses the repo rate to influence the rate of inflation. There exists a direct relationship between interest rates and inflation. The repo rate in turn determines the prime-lending rate, which is the rate at which the commercial banks lend money out to the public.

Due to lower inflation figures and positive economic growth, the SARB has managed to bring the interest rate down by 30% from 1995 (18.5%) to 2001 (13%). Further interest rate cuts of 13% are expected by 2004 (11.5%).

Manufacturing organisations have high liquidity requirements due to the high and variable working capital requirements. Manufacturing organisations also have high capital expenditure requirements to ensure their competitive edge. The managing of these requirements is known as the treasury function. Although the interest rates have decreased over the past couple of years, a current prime-lending rate of 17% is still very high compared with the rates of other countries.

Manufacturing organisations put a lot of emphasis on their cash cycle to ensure a successful treasury function. A cash cycle is the time it takes from paying the supplier to the money collected from the customer. The possible solutions available to the financial manager of the manufacturing organisation include the following:

- Better credit terms with suppliers. Suppliers to be paid on sixty-day terms instead of thirty-day terms. By extending the credit terms of suppliers an organisation can shorten the previously mentioned cash cycle and thus incur lower interest costs.
- Better payment terms from customers also shorten the cash cycle ensuring lower interest costs. Customers to pay cash on delivery for example. Carefully calculated discounts can be offered to customers whereby the company and the customer save on interest costs.
- Inventory to be managed on a just in time (JIT) basis whereby stock is only taken from a supplier where there is an immediate need for it. Since stock can tie up a lot of cash resources of an organisation this measure can shorten the cash cycle significantly.

- Employee earnings to be paid less frequently. Many manufacturing organisations in South Africa pay their employees (especially wages employees) on a weekly basis. This is a major strain on cash reserves during the month. Through careful negotiations employees should be paid monthly, especially if payday can be scheduled after debtor collections have taken place.
- Minimising of debt as far as possible. Any expenditure must be paid out of cash reserves and not borrowed money. Many companies have overdrafts during a month but also have call deposits somewhere else. This is a high-risk situation.
- Making use of foreign currency bank accounts (CFC accounts) whereby receipts from customers are kept in the foreign denomination. Purchasing foreign currency using Rands can also top up these accounts. These accounts are kept by the commercial banks in foreign countries and thus the interest rate payable on these accounts is not the South African prime-lending rate. The overseas rates can be up to 70% lower than the South African rates.

Due to the high premium paid for borrowing money in South Africa, manufacturing organisations should update their hedging strategies regularly.

3.3.4 INFLATION

Mohr and Fourie (1999: 615) define inflation as a continuous and considerable rise in prices in general. Another definition of inflation is that it is a phenomenon, which means that you can buy less with your money now than you could previously.

Since the Second World War, and particularly since the early 1970's, the prices of most goods and services in South Africa have increased quite significantly every year. Price increases have become a feature of South African life (Mohr and Fourie, 1999: 615).

Since inflation is a continuous and considerable increase in the general price level, it follows that the measurement of inflation requires some yardstick for the general price level. The most commonly used indicators are the consumer price index and the production price index. Inggs and Botha (1999: 14) define the consumer price index (CPI) as an index of the prices of a representative basket of consumer goods and services. He continues to define the production price index (PPI) as an index of the prices at the level of the first significant commercial transaction. The PPI includes capital and intermediate goods, but excludes services (which account for 40% of the CPI basket). The PPI is therefore based on a completely different basket of items than the CPI.

The CPI and PPI are calculated and published monthly by the Central Statistical Services (CSS). Most of the price data for a particular month is determined by the ruling prices during the first seven days of the month.

The CPI is published for three income groups, twelve urban areas, and more than forty groups and subgroups of goods and services. The CPI is a fixed-weight index. The actual formula is an adjusted version of the Laspeyres index.

Annexure 4.3 clearly shows the downward trend in the CPI. From 1995 (8.58%) the CPI has reduced by 48% to 2001 (4.50%). The PPI has not shown the same reduction and only reduced from 1995 (9.56%) by 27% to 2001 (7.00%). The CPI has also proven to be much more stable year-on-year than the PPI, as can be seen in Table 2.1.

The PPI showed a 15.2% rise for the year to July 2002. Month-on-month, the increase was 1.3%, of which 0.9% was attributable to two categories: food and paper. Also the imported component of PPI rose by 16.8%, much faster than the average, mainly because of higher oil prices and a weaker Rand. External price pressures, rather than excessive domestic demand, are currently driving inflation (Morales, 2002: 15).

Based on the PPI of 2001, a company has to achieve a 37% return on sales to achieve a return in real terms (after inflation) of 30%. If a company made a profit of R100 in 1995, it needs to make a profit of R160 in 2001 to be in the same financial position as it was in 1995 (real terms). This is an effective growth rate of 60% over 7 years, which means an average of 7% per annum year-on-year.

This presents a great challenge for the financial manager when it comes to the managing of the selling prices of the organisation as well as its overheads. Overheads tend to increase at a quicker rate than the organisation is able to pass on to its customers. This phenomenon has forced financial managers to be more pro-active in the setting of selling prices by taking the current and predicted PPI and CPI into account.

From the above it is apparent that the financial manager must have an extensive general knowledge of the workings of inflation and is able to react quickly and effectively to its movements.

3.3.5 GLOBAL ECONOMY

South Africa has an open economy, which means that the economy has strong links with other economies. Examples of foreign countries effecting the South African economy is the ongoing political and economic disintegration in neighbouring Zimbabwe, the efforts of Libya's Colonel Gaddafi to impose himself as the 'saviour' of Africa and the lingering war between the USA and Iraq. To quantify these examples accurately is impossible but the direction of the influence can clearly be seen (Morales, 2002: 11).

Some industries are highly local (such as lawn care); others are global (such as oil, aircraft, engines, cameras, etc.). Companies in global industries need to compete on a global basis if they are to achieve economies of scale and keep up with the latest advances in technology. All

resources are affected by globalisation including capital, natural as well as human resources (Kotler, 2000: 680).

Financial managers will have to think “global” and act “local” if they are to overcome and utilise the globalisation trend.

3.4 SUMMARY

From the literature study it is evident that financial managers are faced with various challenges that influence the effectiveness of their role as financial managers within the manufacturing organisation. The main challenges identified are the ever-changing economic environment and employee management.

Financial managers have to react rapidly and successfully to all external forces influencing the organisation. These include macro economic trends and events, employee practices, changes in legislation as well as global forces including information technology. The ability to convert possible threats to the organisation into opportunities is essential for the success of the financial manager in his / her endeavours.

Sub-problems a) and b) are resolved in the previous two chapters, namely what are the challenges facing the financial manager in the manufacturing organisation, and the possible ways of surmounting these challenges. In the next chapter the research methodology used in this study will be discussed.

CHAPTER 4

THE EMPIRICAL STUDY, METHODS USED AND ANALYSIS OF DATA

4.1 INTRODUCTION

In Chapter 2 and Chapter 3 an outline was given of the main challenges facing the financial manager in the manufacturing organisation. Furthermore, possible ways of surmounting these challenges were also outlined.

The literature study was used to establish the answer to the three sub-problems namely:

- What does the literature study reveal are the challenges facing the financial manager in the present manufacturing organisation?

- What does the literature study reveal are the possible ways of overcoming the challenges facing the financial manager in the present manufacturing organisation?

- What do knowledgeable people feel are the challenges facing the financial manager in the present manufacturing organisation and how can these challenges be surmounted?

The empirical study will be used to confirm the findings of the literature study.

4.2 RESEARCH DESIGN

Allison, O'Sullivan, Owen, Rice, Rothwell and Saunders (1996: 4) define research as a systematic enquiry that is reported in a form that allows the research methods and outcomes to be accessible to others. They further state that research is concerned with seeking solutions to problems or answers to questions. With this in mind, the research design for this study was broken down into a main problem, with three sub-problems.

The procedure used to solve the main problem and the sub-problems was as follows:

- In Chapter 2 and Chapter 3 a literature study was conducted to identify the challenges facing the financial manager as well as the possible ways of surmounting these challenges.

- The findings from the survey will be integrated with the literature study in order to identify the main challenges facing the financial manager in the manufacturing organisation and the best ways of surmounting these challenges, along with conclusions and recommendations.

4.3 PLANNING THE EMPIRICAL STUDY

The empirical study was conducted by means of a mail survey, with the use of a questionnaire. The questionnaire was developed from the information gathered from the literature study. The results of the questionnaire were then statistically analysed. The process followed during the empirical study is set out below:

4.3.1 THE QUESTIONNAIRE

According to Leedy (1997: 191), the common instrument used for observing data beyond the physical reach of the observer, is the questionnaire. As stated above, the questionnaire (Annexure 4.1) was developed from the information gathered during the literature study conducted. The questions were selected to address each challenge facing the financial manager in the manufacturing organisation identified in the literature study. The questionnaire was developed as follows:

Types of questions used: Allison et al (1996: 82) state that there may be open and closed questions. A closed question is only possible where responses are predetermined, typically the kind that requires the respondent to tick boxes. This is the method predominantly used in the questionnaire developed for the empirical study.

The questionnaire was divided into two parts. Section A was made up of biographical questions that offered choices for the respondent to tick. Questions in this section surveyed the number of employees, geographical location, race and manufacturing sector of the respondent. Section B was made up of both open and closed questions. This option was selected as it was felt that certain questions would require more of a response, and not only to offer a limited choice to the respondents, but also elicit a reason as to why this choice was selected.

Wording of questions: Thomas (1996: 121) states that questions should not lead respondents who do not have clear views of their own on a particular issue. Grammar should be simple and the matters that the respondents need to keep in mind in order to understand the question should be limited. Specific terms should be used in preference to abstract ones, ensuring a clear understanding of the question by the respondent. Finally, the questions should be easy to answer.

Length of questionnaire: Thomas (1996: 121) feels that a questionnaire should not be long and complicated. More pages with a clear and user-friendly layout are better than a few pages with a cramped and forbidding layout.

The above principles were followed when drawing up the questionnaire.

4.3.2 MAIL SURVEY

For the purpose of the study, a mail survey was selected. This was done for a variety of reasons. They are:

- A mail survey is relatively economical;
- One person can handle the administration;
- There is more anonymity than with other forms of communication;
- A mailed questionnaire may be easily standardised.

4.3.3 ADMINISTERING THE QUESTIONNAIRE

The addresses of manufacturing organisations in the Buffalo City / King Williams Town Municipal area were obtained from the member list of the Border-Kei Chamber of Business. In the case of non-members of the Border-Kei Chamber of Business, a Buffalo City based auditing firm was approached for a list of their clients meeting the definition of manufacturing organisations. The questionnaire was posted with a covering letter (see Annexure 4.2) on the 9th December 2002. The aim of the covering letter was to provide the following information:

- The aim of the research;
- The fact that the questionnaire would take less than 20 minutes to complete;
- An offer to make a summary of the study available, if so desired.

A cut-off date of the 12th January 2002 was set for the return of the completed questionnaires. Thereafter the researcher telephonically contacted the companies who had not responded, in order to elicit a response.

4.3.4 THE POPULATION

A member list of manufacturing organisations belonging to the Border-Kei Chamber of Business and a local auditing company was used to gain the contact names and addresses of the population to be studied. As set out in the demarcation of the organisations (See 1.4.1), the empirical study only includes companies with an annual turnover of between 50 and 100 million Rand.

Table 4.1: Size of sample

Area	Size of population
Buffalo City	27
King William's Town	2
Nelson Mandela Metropolis	9
Uitenhage	0
Other	1
Total	39

Source: Member list of the Border-Kei Chamber of Commerce and Small to Medium sized Enterprises (SMME) clients of a leading financial institution.

4.3.5 THE RESEARCH RESPONSE

The survey was posted on the 9th December 2002 and a response rate of 8 percent was attained by the due date, which was 12 January 2003. A follow-up of all recipients was conducted with a request to complete the questionnaire by the 31st of January 2003. A further 9 questionnaires were received and this gave a total response of 31 percent. Table 4.2 shows the data collection procedure.

Table 4.2: Summary of data collection procedure

Date received	Number of questionnaires posted	Number of questioners returned	Percentage
9th January 2003	39	3	8%
31st January 2003	0	9	23%
Total	39	12	31%

Source: Results of data collection procedure

Emory and Cooper (1991: 333) state that 30 percent is an acceptable response for postal surveys whilst Welman and Kruger (1999: 152) state that responses to postal surveys frequently fall below 50 percent. The final response rate was 31 percent, which may be accepted as a satisfactory and representative response.

The results of Section A of the questionnaire follow in paragraph 4.5 below.

4.4 THE VALIDITY AND RELIABILITY OF THE QUESTIONNAIRE

Leedy (1997: 32) states that validity and reliability are terms used in connection with measuring instruments. The integrity of the research is based on the validity and reliability of that piece of work and, as such, it is important that the study should meet the demands of validity and reliability.

A brief discussion of the concepts will follow with an explanation of their relationship to the study conducted.

4.4.1 VALIDITY

Leedy (1997: 32) states that validity is concerned with the soundness and effectiveness of the measuring instrument. Does it measure what is intended or not, and how accurate is the measure? In the case of this study, does the questionnaire measure what it was intended to measure?

Leedy (1997: 33) further states that there are several types of validity. These are:

- **Face validity:** This refers to a subjective validity where the questions are scrutinised to establish their relation to the subject under discussion. Face validity refers to whether the questions seem appropriate;
- **Criterion validity:** This is where validity is determined by relating a performance measure to another measure that may be set as a standard against which to measure results;
- **Content validity:** This is related to face validity and is where the accuracy of the instrument in measuring the factors of concern to the study is gauged;
- **Construct validity:** This is the degree to which the content of the study is measured by the questionnaire. In this case "What challenges are facing the financial manager in the manufacturing organisation and what are the possible ways of surmounting these challenges?"

- **Internal validity:** This is the freedom from bias in formulating conclusions reached in the study that may be generalised;
- **External validity:** This is the degree to which the conclusion reached in the study may be generalised.

In this study, face validity, content validity and construct validity have been applied. In using the afore-mentioned validation methods, the opinions of knowledgeable people were considered and the guidance of a senior lecturer of the MBA Unit in the Faculty of Management, PE Technikon was also sought.

4.4.2 RELIABILITY

According to Leedy (1997: 35), reliability is seen as the consistency with which the measuring instrument performs. This means that apart from delivering accurate results, the measuring instrument must deliver similar results consistently. Singleton, Straits and Straits (1993: 121) state that reliability may be improved by conducting exploratory studies in the area of interest or by conducting pre-test on a small sample of persons similar in characteristics to the target group. In the study under consideration both were conducted by the researcher, in the form of a comprehensive literature study set out in Chapter 2 and Chapter 3 of the study, the input gathered from colleagues of similar profile to the recipients of the questionnaire and feedback from of a senior lecturer of the MBA Unit in the Faculty of Management, PE Technikon.

4.5 RESULTS OF BIOGRAPHICAL DATA IN SECTION A OF THE QUESTIONNAIRE

Section A of the questionnaire relates to the general information regarding the respondents and the industries in which they operate. The information is classified as being the independent variables or biographical details, which are used to facilitate comparisons with the dependant variables. The dependant variables are the questions in Section B of the questionnaire.

The results of Section A of the questionnaire are provided in Tables 4.3 to 4.9. A brief discussion of the data follows each Table.

Table 4.3: Respondents per size of organisation

Size of organisation	Response frequency	Percentage
0 to 100 employees	0	0%
101 to 200 employees	3	25%
201 to 300 employees	4	33%
301 to 400 employees	4	33%
401 to 500 employees	1	8%
501 and more	0	0%
Total	12	100%

Source: Results of analysis of organisation size.

Table 4.3 shows that most of the organisations that responded (33 percent) fall into the groups 201 to 300 employees and 301 to 400 employees respectively. The group with 101 to 200 employees represented 25 percent of the respondents, while the group with 401 to 500 employees represented 8 percent of the respondents.

Table 4.4: Respondents by magisterial district

Magisterial district	**Response frequency**	**Percentage**
Buffalo City	7	58%
King William's Town	2	17%
Nelson Mandela Metropolis	2	17%
Uitenhage	0	0%
Other	1	8%
Total	12	100%

Source: Results of analysis of response rate by magisterial district.

The magisterial districts studied were Buffalo City, King William's Town, Nelson Mandela Metropolis, Uitenhage and Dimbaza. Table 4.4 shows that 58 percent of the respondents represented the Buffalo City magisterial district, while King William's Town and Nelson Mandela Metropolis were represented by 17 percent each. Dimbaza represented 8 percent of respondents.

Table 4.5: Experience in current position

Period in current position	Response frequency	Percentage
01 to 12 months	0	0%
13 to 24 months	4	33%
25 to 36 months	3	25%
37 to 48 months	2	17%
49 to 60 months	1	8%
61 to 72 months	0	0%
73 to 84 months	0	0%
85 months and more	2	17%
Total	12	100%

Source: Results obtained from analysis of experience of respondent in current position.

Table 4.5 indicates that 33 percent of respondents have held their current position for 13 to 24 months, while 25 percent of respondents have held their current position for 25 to 36 months. An equal number of respondents (17 percent) have 37 to 48 months and 85 months and more experience in their current position, respectively. Respondents with 49 to 60 months experience in their current position accounted for 8 percent.

Table 4.6: Respondents by gender

Gender	Response frequency	Percentage
Male	11	92%
Female	1	8%
Total	12	100%

Source: Results obtained from analysis of response rate by gender.

Most of the respondents were male (92 percent), whereas 8 percent of respondents were female.

Table 4.7: Respondents by race

Race	Response frequency	Percentage
Asian	1	8%
Black	0	0%
Coloured	0	0%
White	11	92%
Total	12	100%

Source: Results obtained from analysis of response rate by race.

The majority of the respondents (92 percent) were white. 8 percent of the respondents were Asian.

Table 4.8: Respondents by manufacturing sector

Sector or Industry	Response frequency	Percentage
Electronics	2	17%
Food & beverages	0	0%
Building	0	0%
Cosmetics	1	8%
Steel	1	8%
Milling	0	0%
Automotive	6	50%
Stationery & printing	0	0%
Textiles	0	0%
Entertainment	1	8%
Consumer goods	0	0%
Other	1	8%
Total	12	100%

Source: Results obtained from analysis of response rate by manufacturing sector.

From Table 4.8 it can be seen that 50 percent of respondents work in the automotive industry, 17 percent work in the electronics industry and 8 percent of respondents work in industries not specifically listed, respectively.

Table 4.9: Respondents by age

Age	Response frequency	Percentage
20 to 24	0	0%
25 to 29	4	33%
30 to 34	1	8%
35 to 39	4	33%
40 to 44	1	8%
45 to 49	1	8%
50 to 54	1	8%
55 to 59	0	0%
60 to 64	0	0%
65 and over	0	0%
Total	12	100%

Source: Results obtained from analysis of respondents according to age.

The largest group of respondents (33 percent) fall in the age groups 25 to 29 and 35 to 39. The age groups 30 to 34, 40 to 44, 45 to 49 and 50 to 54 had an even distribution of 8 percent each.

The **results of the biographical data** in Section A of the questionnaire set out in Table 4.3 to Table 4.9 indicate that the majority of the respondents are middle aged (25-39), white males working in medium sized (100 - 400 employees) organisations mostly in the automotive industry, based in the Buffalo City Metropolis with one to four years of experience in their current position as financial managers.

4.6 QUANTITIVE ANALYSIS OF RESULTS OF SECTION B OF THE QUESTIONNAIRE

The questions in Section B were designed to measure the relevance of the challenges facing the financial manager in the manufacturing environment as discussed in detail in Chapter 2 and Chapter 3.

The study was designed to determine whether the respondents experienced the challenges and whether there were any challenges facing the respondents that had not been discussed.

Set out below is a discussion of each of the most important challenges facing the financial manager as applied to the results of the study.

4.6.1 GENERAL ACCEPTED ACCOUNTING PRACTICE

The accounting framework sets out the objectives and concepts, which underlie the preparation and presentation of financial statements, the purpose of which is to provide information that is useful in making economic decisions to a wide range of users (Wingard and Becker, 2001: 18).

Questions 2.1 to 2.3 of Section B of the questionnaire concern the conformity, requirements and changes to GAAP. The results of these questions are reflected in Tables 4.10 to 4.12.

Table 4.10: Descriptive statistics for: Compliance with GAAP

Statement	Response frequency	Percentage
1. Entirely	6	50%
2. Partially	6	50%
3. Not at all	0	0%
Total	12	100%

Source: Results of Section B, Question 2.1.

According to Wingard and Becker (2001:22), GAAP is a set of rules and principles that set standards for financial statements. However, financial reporting is an evolving discipline that is adapting to meet the ever-changing needs of each specific business. From Table 4.10 it can be seen that 50 percent of respondents have complied with General Accepted Accounting Practice entirely, while 50 percent are partially compliant. Those respondents who indicated 'Partially" (50%) stated that GAAP could not be implemented fully because it would have led to misleading financial statements. The majority of the companies that had partially implemented GAAP were international companies. In the light of this the fact that organisations are not complying with GAAP supports the view of a paradigm shift away from the present accounting model.

Table 4.11: Descriptive statistics for: Compatibility of GAAP to the requirements of the organisation

Statement	Response frequency	Percentage
1. Yes	6	50%
2. No	6	50%
Total	12	100%

Source: Results of Section B, Question 2.2.

The objective of financial statements is to provide information that is useful to a wide range of users in making economic decisions. The qualitative characteristics of financial statements are the attributes that make the information provided in financial statements useful to the users thereof including understandability, relevance, reliability and comparability. An appropriate balance needs to be achieved among the qualitative characteristics. Table 4.11 indicates that GAAP meets all the requirements of only 50 percent of respondent companies. Since only half of the respondents indicated the fact that GAAP meets their needs, there is a definite indication that there is a need for a paradigm shift away from the current accounting model.

Table 4.12: Descriptive statistics for: Awareness of all the proposed changes to GAAP

Statement	Response frequency	Percentage
1. Yes	0	0%
2. No	12	100%
Total	12	100%

Source: Results of Section B, Question 2.3.

South African GAAP developed over many years and is based on European, American as well as South African developed standards. The accounting profession of South Africa is on a drive to change and standardise GAAP to that of the International Accounting Standards Committee (IASC). The results described in Table 4.12 show that all the respondents (100 percent) were not aware of all the proposed changes to GAAP. Since half of the respondents comply with GAAP (Table 4.10) and half of the respondents feel GAAP does not meet the needs of their organisations (Table 4.11), it can be expected that there is very little interest in the latest GAAP developments.

Table 4.10 to Table 4.12 indicate that although compliance to GAAP is compulsory many companies / financial managers do not fully comply with GAAP mainly due to the fact that GAAP does not meet the needs of their organisation and / or they are unaware of the latest GAAP developments.

4.6.2 CHANGES IN TAXATION

Taxes are a large share of firms' incomes and when business incomes are passed on to investors in the form of interest, dividends and capital gains, the government takes a further contribution. Because of this, knowledge of the tax system is essential to the making of sound financial decisions.

Questions 2.4 and 2.5 of Section B of the questionnaire address the changes in taxation legislation and the use of outside expertise regarding tax. The results of these questions are reflected in Tables 4.13 and 4.14.

Table 4.13: Descriptive statistics for: The effect of tax legislation changes on the organisation

Statement	Response frequency	Percentage
1. Higher taxes	0	0%
2. Lower taxes	6	50%
3. More complex	0	0%
4. Less complex	6	50%
5. No effect	0	0%
Total	12	100%

Source: Results of Section B, Question 2.4.

In line with the rest of the world South Africa has in recent years moved away from a tax system, which was based predominantly on direct taxation, to a system which is a mixture of direct and indirect taxation. Each year the Minister of Finance presents the annual fiscal budget in which the

total government expenditure for the following year is announced and the manner in which such expenditure will be funded is indicated. Table 4.13 shows that 50 percent of respondents perceived the changes in tax legislation to have resulted in lower taxes for their organisation. 50 percent of the respondents regarded the changes in tax legislation to have resulted in a less complex tax process. The results indicate the Minister of Finance is partially succeeding in his goal for a simpler tax system with a larger contribution base and that financial mangers are struggling to keep up with the changes made each year.

Table 4.14: Descriptive statistics for: Use of external expertise on tax legislation

Statement	Response frequency	Percentage
1. Yes	12	100%
2. No	0	0%
Total	12	100%

Source: Results of Section B, Question 2.5.

The past two years have seen far-reaching changes to South Africa's tax system. The implications have yet to be digested and understood by taxpayers accustomed to a simpler system. Table 4.14 shows that all respondents (100 percent) make use of external expertise on tax legislation.

Table 4.13 and Table 4.14 indicate that although the tax system is being simplified companies / financial managers continue making use of tax experts to ensure an as low as possible tax assessment at the end of the year. The simplification process involves radical legislation changes on a regular basis, which is very difficult to keep up with, which in turn forces financial managers to make use of tax experts. Indications are that financial managers do realise the importance of being up to date with the latest tax legislation.

4.6.3 SECURITIES EXCHANGE

A securities exchange is where previously issued securities are traded. Since the primary goal of financial management is to contribute to the maximisation of shareholder's wealth, knowledge of the market in which this is established is essential. All South African listed companies have to comply with the King Report's recommendations in respect of corporate governance disclosure practices. The financial manager has a primary responsibility to comply with the JSE reporting requirement.

Question 2.6 and Question 2.9 of Section B of the questionnaire address the recent changes in the rules and regulations of the securities exchange and the effect on the organisation. The result of this question is reflected in Table 4.15 and Table 4.16.

Table 4.15: Descriptive statistics for: Changes in the JSE legislation

Statement	**Response frequency**	**Percentage**
1. Yes	5	42%
2. No	7	58%
Total	12	100%

Source: Results of Section B, Question 2.6.

The importance of corporate governance and its meaningful disclosure has come to the front due to various fraudulent transactions taking place worldwide. The disclosure requirements are onerous, but do not affect the way legitimate organisations are run. Table 4.15 shows that 58 percent of respondents indicated their organisations were not influenced by changes in regulations of the JSE. 42 percent indicated that the regulatory changes of the JSE had influenced their organisation. All the respondents that had a positive response indicated they felt the requirements were too onerous. The benefits to the shareholder of the new reporting requirements of the JSE far exceed the costs incurred to meet the requirements.

Table 4.16: Descriptive statistics for: Compliance with King Commission recommendations

Statement	**Response frequency**	**Percentage**
1. Yes	2	17%
2. No	10	83%
Total	12	100%

Source: Results of Section B, Question 2.9.

The King Commission was set up by the Minister of Finance in 1999 to investigate major fraudulent transactions that had come out in the open at the time in large listed companies and the possible ways of avoiding this from recurring. The report was made public in various stages over the years to date. Major shortcomings in corporate governance practices were identified and drastic recommendations were made to rectify this. Table 4.16 shows that 83 percent of respondents did not comply with the King Commission recommendations on reporting financial statements, while only 17 percent do comply with the King Commission recommendations. The respondents indicated they are in the process of implementing the recommendations but find it very difficult and expensive, but do agree to it.

Table 4.15 and Table 4.16 indicate the majority of financial managers are affected by the latest changes to the JSE reporting requirements and King Commission recommendations only to the extent that it is very onerous, but the majority of the financial managers do support it.

4.6.4 OTHER ACTS AND RULES

Financial managers must have a clear understanding and knowledge of all the rules and regulations applicable to their organisation over and above the ones discussed above.

Question 2.7 of Section B of the questionnaire investigates the influence other acts and rules have on the financial manager. The result of this question is reflected in Table 4.17.

Table 4.17: Descriptive statistics for: The effect of other Acts and rules on the organisation

Statement	**Response frequency**	**Percentage**
1. Yes	12	100%
2. No	0	0%
Total	12	100%

Source: Results of Section B, Question 2.9.

Finnemore and Van der Merwe (1996: 145) state that an understanding of the building blocks of new acts is a prerequisite to understanding the purpose and applications of these acts. All the respondents (100 percent), as shown in Table 4.17, indicated that other Acts and rules have an influence on their organisations. From this it is evident that the financial manager has to be up to date with all rules and regulations affecting the organisation.

4.6.5 REPORTING

In order to use valuation models, investors need information on companies' expected earning, dividends, growth rates and on the risk of these items. Financial reporting needs of the users of the financial statements have far exceeded the income statement, balance sheet and cash flow statement. The financial manager, being in charge of financial reporting has to weigh up all of the above and implement an adaptable reporting strategy for the organisation.

Question 2.8 of Section B of the questionnaire addresses reporting methods. The results of this questions are reflected in Table 4.18.

Table 4.18: Descriptive statistics for: The use of the Internet for reporting financial results

Statement	**Response frequency**	**Percentage**
1. Yes	3	25%
2. No	9	75%
Total	12	100%

Source: Results of Section B, Question 2.8.

Due to the time value of money, the financial manager is expected to report clearly, accurately and effectively on the results of the company within the shortest length of time possible. The speed, accessibility and ease of use of the Internet make it the best reporting tool available to the financial manager. Table 4.18 shows that 75 percent of respondents do not make

use of the Internet when reporting financial results. 25 percent of respondents indicated that they do make use of the Internet. The respondents that had a negative response indicated they are in the process of implementing Internet reporting and should be reporting on the Internet the following year. The main problem was the know-how needed to report on the Internet. This indicates a move by companies towards the latest reporting methods but the vast majority of companies still have to make the transition from traditional reporting methods.

4.6.6 INFORMATION AGE

The phenomenal advances in computer technology have forged indelible links between financial management and information technology. The development of the personal computer has changed the way financial management decisions are made forever. The decision-making ability of the financial manager has been enhanced by the personal computer's capacity to process data and to generate information rapidly. In addition, a variety of software packages designed to handle large databases, to provide graphical representations and solutions are used commonly nowadays.

Questions 3.1 to 3.4 of Section B of the questionnaire address the developments in information technology and how it influences the organisation. The results of these questions are reflected in Tables 4.19 to 4.23.

Table 4.19: Descriptive statistics for: Effect of IT developments on the organisation

Statement	**Response frequency**	**Percentage**
1. Yes	9	75%
2. No	3	25%
Total	12	100%

Source: Results of Section B, Question 3.1.

O'Brien (1999:11) states that man is living in an emerging global information society, with a global economy that is increasingly dependant on the creation, management and distribution of information resources over interconnected global networks like the Internet. Information is thus a basic resource in today's society. Table 4.19 indicates that 75 percent of respondents are influenced by developments in Information Technology (IT) in a large way, while 25 percent have not experienced a marked influence. Financial managers realise and act on the ever changing and evolving information age.

Table 4.20: Descriptive statistics for: Suitability of accounting information system

Statement	**Response frequency**	**Percentage**
1. Yes	3	25%
2. No	9	75%
Total	12	100%

Source: Results of Section B, Question 3.2.

Accounting information systems are the oldest and most widely used information systems in business. They record and report business transactions and other economic events. Accounting information systems are evolving to include more recent accounting concepts such as responsibility accounting and activity based costing. Using the Internet, intranets, extranets and other networks changes how accounting information systems monitor and track business activity. The financial manager is very much dependant on the software developers to bring accounting information systems up to date. Table 4.20 shows that 75 percent of respondents find their present accounting information systems do not meet the needs of their organisation, while 25 percent of respondents are satisfied with the suitability of their accounting information systems. The results of this table emphasise the problem of software developers and financial managers not being synchronised in the development work being done.

Table 4.21: Descriptive statistics for: Competitive advantage of information systems

Statement	**Response frequency**	**Percentage**
1. Yes	1	8%
2. No	11	92%
Total	12	100%

Source: Results of Section B, Question 3.3.

According to O'brien (1999:6), Information technology has become a strategic necessity and if companies and individuals do not act on it they will become footnotes in history. The majority of respondents (92 percent) indicated that their information systems do not give their organisation a strategic advantage, while Table 4.21 shows that 8 percent of respondents consider their current information system a strategic advantage. The bulk of the respondents, who had a negative response, indicated they realise the need to obtain a strategic advantage through their information systems and are in the process of addressing this problem.

Table 4.22: Descriptive statistics for: Ethical and societal issues

Statement	**Response frequency**	**Percentage**
1. Yes	8	67%
2. No	4	33%
Total	12	100%

Source: Results of Section B, Question 3.4.

Business and information technology activities involve many ethical considerations. Managers, in forming ethical judgements, may use various ethical philosophies and models of ethical behaviour. Table 4.22 indicates that 67 percent of respondents think that the vital role information technology plays in the organisation raises ethical and societal issues, while 33 percent of the respondents did not have this concern. The respondents, who had a positive response, indicated that the main reason for this was the diversity of South African cultures and the lack of understanding between cultures. Information technology tends to put petrol on the fire in many instances. Information system developers as well as the users (especially the financial manager) must work closely together since communication will go a far way to avoid potential ethical problems.

Table 4.20 to Table 4.22 indicate that the respondents realise they are affected in a large way by information technology, but the systems in place do not meet the needs of the organisation or give the organisation a strategic advantage. Serious ethical issues are raised and must be addressed as soon as possible.

4.6.7 EMPLOYEES

There have been significant changes recently in the way employees need to be managed. The issue of workplace flexibility has emerged in response to the needs of today's companies and the diversity of their employees. Before the 1990s, standardisation, consistency and conformity were once hallmarks of management policy but today developing the capacity for flexibility, training, succession planning and equity is considered the vital components of the company's corporate human resources strategy.

Questions 4.1 to 4.6 of Section B of the questionnaire investigate the way in which employees and regulations pertaining to employees influence the organisation. The results of these questions are reflected in Tables 4.23 to 4.28.

Table 4.23: Descriptive statistics for: Changes in training requirements

Statement	**Response frequency**	**Percentage**
1. Yes	12	100%
2. No	0	0%
Total	12	100%

Source: Results of Section B, Question 4.1.

According to Carrell et al (1997: 13), the growth of an organisation is closely linked to the development of its human resources. When employees fail to grow and develop in their work, a stagnant organisation will most probably result. A strong employee development programme

does not guarantee organisational success but such a program is generally found in successful, expanding organisations. Table 4.23 shows that all the respondents (100 percent) agreed that training requirements of finance staff have changed significantly over the past few years. The respondents recognise the changing training requirements, which also implies they understand the importance of employee training and development.

Table 4.24: Descriptive statistics for: Existence of succession plan

Statement	**Response frequency**	**Percentage**
1. Yes	7	58%
2. No	5	42%
Total	12	100%

Source: Results of Section B, Question 4.2.

A company's corporate experience literally walks out the door when an employee leaves, according to Kransdorff (1998: 20). Across industry, workers in SA are switching their employment at least seven times in their working lifetimes, giving an average rate of enterprise tenure of less than six years. Table 4.24 shows that 58 percent of respondents have a succession plan in place for the financial department, while 42 percent of respondents do not have a succession plan in place. The respondents with a negative response indicated they cannot keep up due to staff turnover and the long time it takes to train employees for succession planning. From this it is evident that companies / financial managers are faced with keeping employees happy and then consider succession planning.

Table 4.25: Descriptive statistics for: Performance management systems

Statement	**Response frequency**	**Percentage**
1. Yes	12	100%
2. No	0	0%
Total	12	100%

Source: Results of Section B, Question 4.3.

Performance management is the ongoing process of evaluating and managing both behaviour and outcomes in the workplace. Tools such as reward systems, job design and training join performance appraisals as part of a comprehensive approach to performance management (Carrell et al, 1999:258). Sutherland (1999:10) continues to state that performance management has at its core, the challenge to all managers to differentiate the way employees are treated in response to their work performance. All respondents (100 percent), as reflected in Table 4.25, have a performance management system in place. The effective use of a good, regularly updated, performance review system can be of great value to the manufacturing organisation. This fact is recognised by the financial managers that responded to the questionnaire.

Table 4.26: Descriptive statistics for: Employment equity

Statement	**Response frequency**	**Percentage**
1. Yes	9	75%
2. No	3	25%
Total	12	100%

Source: Results of Section B, Question 4.4.

Employment equity guidelines demand fair and equitable recruiting, selection and placement policies and the elimination of discriminatory practices concerning promotions and career mobility. Many affirmative action programmes contain formal provisions to enhance the career mobility of women and other formerly excluded groups, including the development of career paths and the design of formal training and development activities. Table 4.26 shows that 75 percent of respondents have an employment equity plan in place, while 25 percent of respondents do not comply with employment equity at this time. The respondents with a negative response indicated they are in the process of setting up an employment equity plan. The importance of employment equity to the financial manger is substantiated by the results of Table 4.26.

Table 4.27: Descriptive statistics for: Black empowerment dealings

Statement	**Response frequency**	**Percentage**
1. Yes	6	50%
2. No	6	50%
Total	12	100%

Source: Results of Section B, Question 4.5.

Black economic empowerment deals are transactions where a company invites a previously disadvantaged group of people to share in a business venture. Marais (1999: 23) states that the primary problem in economic empowerment deals are related to the very limited risk, which the empowerment partner and so-called target company selling their share had to carry. Table 4.27 indicates that 50 percent of respondents have entered into black empowerment transactions in the past. The financial managers, who had a negative response, indicated they are planning to enter into an economic empowerment deal in the near future in order to survive in South Africa. Financial managers are faced with the conflict of becoming internationally uncompetitive by doing deals that are not economically sound due to a national issue.

Table 4.28: Descriptive statistics for: Strategic planning

Statement	Response frequency	Percentage
1. Yes	10	83%
2. No	2	17%
Total	12	100%

Source: Results of Section B, Question 4.6.

In the fast-paced global economy, change is the norm. Environmental, social and technological change, the increased internationalisation of business and the increased scarcity and cost of human resources, can only mean long term planning is difficult but essential. 83 percent of respondents, as reflected in Table 4.28, have a strategic plan in place for the financial department, which is in line with that of their organisation against 17 percent of respondents that do not have a strategic plan that is in line with that of their organisation. The negative respondents indicated they are in the process of aligning the finance department with the corporate strategy. The respondents realise the importance of having a HR strategy and having it in line with that of the organisation.

Table 4.23 to Table 4.28 indicate that most organisations have experienced significant changes in the way employees needs to be managed, but that the organisations have plans in place or are in the process of putting them in place, including equity plans, performance management as well as strategic plans to overcome these challenges. Regular updating of these plans is essential.

4.6.8 ECONOMIC ENVIRONMENT

The conceptual principles incorporated in economic theory, guide the financial manager in his or her present and future financial decision-making duties. Financial management is, in effect, applied economics because it is concerned with the allocation of an enterprise's scarce financial resources among different, but competing choices.

Questions 5.1 to 5.4 of Section B of the questionnaire address the changeability of the economic environment and how this influences the financial manager and organisation. The results of these questions are reflected in Tables 4.29 to 4.32.

Table 4.29: Descriptive statistics for: Exchange rate fluctuations

Statement	Response frequency	Percentage
1. Yes	12	100%
2. No	0	0%
Total	12	100%

Source: Results of Section B, Question 5.1.

The rate at which currencies are exchanged is known as the rate of exchange or exchange rate. Market forces of supply and demand as well as sentiment including political stability, monetary policies and various others determine the rate of exchange of a currency. Table 4.29 indicates that all respondents (100 percent) perceive recent fluctuating exchange rates to have effected their organisation in a large way.

Table 4.30: Descriptive statistics for: Interest rate fluctuations

Statement	**Response frequency**	**Percentage**
1. Yes	12	100%
2. No	0	0%
Total	12	100%

Source: Results of Section B, Question 5.2.

Mohr and Fourie (1999: 425) define interest rates as the premium paid by one party for having money immediately available but to be paid back in a later period, or the premium earned for making money available to a party only to be paid back in a later period. Manufacturing organisations have high liquidity requirements due to high and variable working capital requirements. Manufacturing organisations also have high capital expenditure requirements to ensure their competitive edge. Table 4.30 shows that all respondents (100 percent) acknowledged recent fluctuating interest rates to have effected their organisation in a large way. The manufacturing organisation is exposed to interest fluctuations due to the nature of its business and for this reason the financial manager is challenged to keep the effect these fluctuations have to a minimum.

Table 4.31: Descriptive statistics for: Increase in inflation rate

Statement	**Response frequency**	**Percentage**
1. Yes	12	100%
2. No	0	0%
Total	12	100%

Source: Results of Section B, Question 5.3.

Mohr and Fourie (1999: 615) define inflation as a continuous and considerable rise in prices in general. Another definition of inflation is that it is a phenomenon, which means that you can buy less with your money now than you could previously. Since manufacturing organisations are exposed to a wide variety of resources, it makes it very vulnerable to inflation. All respondents (100 percent) agree with the statement that the recent increase in inflation has affected their organisation in a large way, as is reflected in Table 4.31. The financial manager is challenged with measuring the effect of inflation on the organisation and passing this on to its customers quickly and continuously.

Table 4.32: Descriptive statistics for: Global competition

Statement	Response frequency	Percentage
1. Consumer markets	11	92%
2. Natural resources	1	8%
3. No way affected	0	0%
4. Capital	0	0%
5. Human resources	0	0%
Total	12	100%

Source: Results of Section B, Question 5.4.

South Africa has an open economy, which means that the economy has strong links with other economies. Any movements in other economies have a direct effect on the South African economy. All countries and indirectly companies are competing for the same resources and markets. Table 4.32 shows that 92 percent of respondents regard their organisation to be faced with global competition in consumer markets, while 8 percent indicated that their global competition is for natural resources. Financial managers will have to think “global” and act “local” if they are to overcome and utilise the globalisation trend.

Table 4.29 to Table 4.32 indicate that all the manufacturing organisations have markedly experienced the changes in the economic environment including exchange rates, interest rates and inflation. Global competition from consumer markets has had a significant impact on manufacturing organisations. Financial managers cannot function in a cocoon any more.

4.6.9 OTHER CHALLENGES

Question 6.1 of Section B of the questionnaire investigates the possibility of other factors beyond those discussed in Chapter 2 and Chapter 3 that are perceived as challenges by the respondents. The result of this question is reflected in Table 4.33.

Table 4.33: Descriptive statistics for: Other challenges facing the financial manager

Statement	Response frequency	Percentage
1. Yes	12	100%
2. No	0	0%
Total	12	100%

Source: Results of Section B, Question 6.1.

Table 4.33 indicates that all respondents (100 percent) could identify challenges facing the financial manager other than those specifically mentioned in the questionnaire. The respondents indicated challenges regarding workplace ethics, little communication between managers at higher corporate levels and a lack of individualism, caused by the need for integration.

This brings to a close the analysis of the results of the empirical survey. The results emphasise the variety and importance of the challenges facing the financial manager in the manufacturing organisation.

4.7 SUMMARY

The aim of this chapter was to set out the planning, the execution and findings of the empirical component of the study. The research population was clearly defined and a questionnaire was prepared based on information gleaned from the literature study. An accompanying letter for the questionnaire was composed and the questionnaires posted to potential respondents. In this discussion, reference is made to the fact that a satisfactory response rate was gained through a follow-up with potential respondents after due date.

The results of the empirical study were analysed in order to deduce the main challenges facing the financial manager in the manufacturing organisation and the best possible ways of surmounting these challenges. The conclusion that can be reached from the empirical study is that the four challenges identified in the literature study are indeed the main challenges facing the financial manager in the manufacturing organisation.

In the next chapter, an integration of the findings of the empirical survey and literature survey will be discussed with relevant and appropriate conclusions and recommendations.

CHAPTER 5

AN INTEGRATION OF THE FINDINGS OF THE EMPIRICAL SURVEY WITH THE THEORETICAL SURVEY DEVELOPED FOR THE STUDY

5.1 INTRODUCTION

The aim of this chapter is to integrate the results obtained from the empirical survey, as discussed in Chapter 4, with the challenges raised by the knowledgeable people referred to and referenced in the literature study, as discussed in Chapter 2 and Chapter 3. To achieve this, the results of the quantitative analysis are reviewed to determine if there is a correlation between the two. Furthermore the analysis will indicate any further challenges or possible solutions.

Once the results obtained from the empirical survey have been compared, a summary of the study will follow and the relevant conclusions will be drawn. Finally recommendations as to other areas of research and potential problems encountered in this study will also be presented.

5.2 AN INTEGRATION OF THE FINDINGS OF THE EMPIRICAL SURVEY WITH THE THEORETICAL SURVEY DEVELOPED FOR THE STUDY

As previously stated in the literature study, Bosch (1990: 10) describes financial management as a detached field of study, which cannot and does not operate in a void. Financial management is a dynamic process, which consists of related activities and tasks of planning, organising, leading, co-

ordinating and controlling. These activities must be done against the background of a fast-changing business environment.

The viewpoints of knowledgeable people regarding the challenges facing the financial managers of manufacturing organisations were discussed in Chapter 2 and Chapter 3. A brief outline was given of the main areas that present challenges to the financial manager of the manufacturing organisation. Chapter 2 and Chapter 3 resolved sub-problem a) and b), namely, what the literature study reveals are the challenges facing the financial manager in the manufacturing organisation.

In order to solve sub-problem c), namely "What do knowledgeable people feel are the challenges facing the financial manager in manufacturing organisations and the possible ways of surmounting these challenges?" a questionnaire was developed. The opinion was sought from manufacturing organisations with an annual turnover of 50 to 100 million Rand per annum, falling in the geographical areas of Buffalo City and Nelson Mandela Metropolis and their surrounds.

In order to integrate the results obtained from the empirical survey with the literature study, for the purpose of the investigation, the statements that received adequate support were noted. Emphasis, however, was placed upon the statements that created concern. An analysis of the quantitative results indicated that the statements that were a cause for concern could be viewed as problematic areas. The next sub-sections deal with these areas.

5.2.1 REGULATORY REQUIREMENTS

The literature study revealed various rules and regulations a financial manager must comply with. The literature study also revealed that numerous amendments to accountancy practices, tax legislation, Companies Act, Securities Exchange and various other regulatory requirements have been introduced since the election of the new Democratic Government of South Africa in 1994. The primary aim of the amendments was to standardise the accounting profession, guide and protect the financial manager and assist in the prevention as well as detection of irregularities.

The results from the empirical survey were subjected to a quantitative analysis and the following problematic areas were identified:

- **Generally Accepted Accounting Practice (GAAP)**: The securities exchange (JSE) as well as the Companies Act, requires companies to comply with GAAP. Hattingh (1999: 33) states that GAAP is evolving and the only way for it to succeed is through the involvement of many organisations. The results of the survey indicated that only 50 percent of the respondents comply with GAAP. Furthermore only 42 percent of the respondents are aware of all the proposed changes to GAAP. Financial managers will have to embrace the challenge of complying with GAAP as compliance has become obligatory.

- **Tax legislation**: All companies are liable for tax under the Income Tax Act. The results of the survey indicated that 100 percent of the respondents make use of tax experts to optimise their tax planning. 50 percent of the respondents are of the opinion that tax liability has reduced annually over the past two years as well as become less complex. The financial manager is thus expected to have a thorough understanding of the tax legislation and the annual updates as it influences shareholder wealth to a large extent.

- **Reporting**: Specific reporting requirements for listed companies have been set out by the Securities Exchange (JSE) and the Companies Act based on the recommendations made by the King Commission. The results of the empirical survey revealed that only 17 percent of the respondents comply with the King Commission recommendations. Financial managers will have to adopt the King Commission recommendations as soon as possible, which will be made much easier by effective use of information technology.

- **Other regulatory requirements**: The literature study revealed various other regulatory requirements a financial manager must comply with including labour laws, quality standards, international rules and regulations, environmental acts, etc. The results of the empirical study strongly support this with 100 percent of the respondents indicating there are various other regulatory requirements to comply with. The financial manager will have to

embrace the challenge of keeping abreast of all the rules and regulations affecting the organisation.

5.2.2 INFORMATION AGE

The literature study revealed that phenomenal advances in computer technology have forged indelible links between financial management and information technology. Furthermore it was found that information technology has become a strategic necessity.

The results from the empirical survey were subjected to a quantitative analysis and the following problematic areas identified:

- **Information technology (IT) affecting the organisation:** Manufacturing processes have been fully automated with the use of information technology. The supporting information systems, including the accounting information system, have become a necessity and are no longer considered "luxury" resources. The results from the survey indicate 75 percent of the respondents have been affected by the recent developments in information technology. Only 8 percent of the respondents feel their information systems give them a strategic advantage. Financial managers will have to regularly strategise around the usefulness of their information technology to ensure cost effectiveness as well as competitiveness.

- **Accounting Information Systems:** Accounting Information Systems (AIS) are the backbone of the finance department. Effective AIS are essential to ensure effective decision making by all

parties. The results of the survey reveal that only 25 percent of the respondents feel their AIS meet the needs of the financial department. Financial mangers will have to take another look at their AIS and make the necessary updates or changes as a matter of urgency.

- **Ethical and societal issues presented by IT:** Computer monitoring, privacy laws and various other "new" issues have emerged with the advances in IT. 67 percent of the respondents felt IT did raise serious ethical and societal issues. Financial managers, in forming ethical judgements, may use various ethical philosophies and models of ethical behaviour. These serve as a foundation for ethical principles and codes that can act as guidelines for dealing with ethical business issues that may develop with the use of information technology.

5.2.3 EMPLOYEES

The literature study revealed that as pressures related to international competition intensify, South African companies would be obliged to make rapid organisational and cultural changes, which can only be effected through the agency of people. Unless these people are not at the right place at the right time with the right skills and right attitudes, the necessary changes will not come about.

The issue of workplace flexibility, teamwork and customer focus has emerged in response to the needs of today's companies and the diversity of its employees. The key to the desired result is effective human resources management - even by the financial manager.

The results from the empirical survey were subjected to a quantitative analysis and the following problematic areas were identified:

- **Training requirements and succession planning:** The growth of an organisation is closely related to the development of human resources. When employees fail to grow and develop in their work, a stagnant organisation will most probably result. 100 percent of the respondents feel the training requirements of the finance staff changed significantly over the past few years. 42 percent of respondents have no succession plan in place for the finance department. This clearly indicates the importance and urgency of continuous training programs as well as the need for succession planning through training.

- **Performance management:** Performance management is a crucial day-to-day, ongoing, highly interpersonal activity. 100 percent of respondents have a performance management system in place for the financial department. This indicates the importance financial managers attach to performance management.

- **Employment equity:** Employment equity demands fair and equitable recruiting, selection and placement policies and the

elimination of discriminatory practices concerning promotions and career mobility. 75 percent of respondents have employment equity plans in place for the financial department. The importance of employment equity is thus widely accepted. 50 percent of the respondents have entered into black empowerment deals. This indicates that financial managers must have a clear understanding of the workings as well as risks of such deals.

- **Strategic human resources management:** Strategic management involves making those decisions that define the overall mission and objectives of the organisation, determining the most effective utilisation of its resources, crafting and executing the strategy in ways that produce the desired results. Strategic human resources management crosses all the functional areas and is fully integrated with all the significant parts of the organisation: operations, marketing and especially finance. 83 percent of the respondents have a strategic human resource plan in place, which is in line with that of the organisation. Only through continuous review will these plans be successful.

5.2.4 ECONOMIC ENVIRONMENT

The literature study revealed that conceptual principles incorporated in economic theory, guide the financial manager in his or her present and future financial decision-making duties. It was also revealed that the successful and accomplished financial manager is aware of all the economic indicators influencing the organisation.

The results from the empirical survey were subjected to a quantitative analysis and the following problematic areas were identified:

- **Fluctuating exchange rates:** Normal market forces of supply and demand as well as other factors like political stability, monetary policies and various other "sentiments" determine and influence the rate of exchange of a currency. 100 percent of the respondents have been affected by the depreciation of the Rand. Financial managers must have secure foreign currency policies in place to be able to minimise or equalise the effect of the depreciating Rand.

- **Interest rates:** Interest rates are the premium paid by one party for having money immediately available but to be paid back at a later date. Manufacturing organisations have high and fluctuating working capital requirements as well as regular capital expenditure requirements. Making use of short-term loans that sensitise the company to interest rate increases usually finances these. 100 percent of the respondents have been affected by the interest rate fluctuations of the past few years. Financial managers must put measures in place to minimise the companies' exposure to interest rate fluctuations.

- **Inflation:** Inflation is the continuous and considerable rise in prices in general. Manufacturing organisations have great difficulty in passing on these input cost increases to their customers in short periods of time. 100 percent of the respondents have been affected

by inflation. Financial managers must ensure regular and flexible price negotiation policies with customers as well as suppliers.

- **Global economy:** South Africa has an open economy, which means it is open for competition from other countries. 92 percent of the respondents experience global competition on the consumer market front. The financial manager must ensure the company is globally competitive in price by way of regular benchmarking exercises and keeping abreast of international developments.

The completion of the empirical survey and the subsequent analysis of the data, as discussed above, have resolved the third sub problem, namely "What do knowledgeable people feel are the challenges facing the financial manager in manufacturing organisations and how can these challenges be surmounted?" The results indicate that the identified challenges of the literature survey are indeed challenges facing the financial manager in the manufacturing organisation.

CHAPTER 6

RECOMMENDATIONS AND CONCLUSIONS

6.1 RECOMMENDATIONS

The results of the study have identified certain areas that need particular attention. A discussion of these factors follows.

6.1.1 TYPE OF QUESTIONS USED

The majority of the questions in the study were close-ended questions requiring a response in terms of either a “Yes” or “No”. In some instances respondents were given a chance to substantiate their reasons. It is felt that, in hindsight, a larger variety of choice should have been given to respondents to establish the degree to which the respondents are experiencing the challenge in question.

6.1.2 POPULATION

The population in the study numbered 39. Although the study received a 31% response rate, the sample remained small. This limited the study and possibly a larger population could have been surveyed. Furthermore, 15 percent of the population were not able to complete the questionnaire due to time pressures. More time given to respondents to complete the questionnaire could possibly have yielded a better response rate. A response of only 17 percent was received from the Nelson Mandela Metropolis and it is felt that a larger sample from this municipal area could have improved the response rate.

6.2 CONCLUSION

The financial manager is an extremely important member of the management team of a company. He or she is part of a very complex and ever-changing field of study.

The financial manager is forced to comply with ever-changing rules and regulations including General Accepted Accounting Practice, tax laws, rules set by the Securities Exchange and various other rules and regulations including Labour Relation Acts, quality standards, and the Environmental Act.

The information age has changed the way financial mangers do their jobs forever. The implementation of general information systems, accounting information systems, financial information systems and the strategic advantage these systems can give a manufacturing organisation, have had far reaching effects on the financial manager. This process of automation will continue to challenge the financial manager in the future.

The ways employees are managed have changed due to all the other changes taking place, as mentioned earlier. Employees need to be trained, their performance measured and treated equally. The financial manager needs to be a human resources manager for the department to ensure efficiency.

The globalisation process taking place worldwide has had a far-reaching effect on all manufacturing organisations as they are competing globally for

customers as well as resources. Financial managers must be up to date with all the latest global markets, exchange rates, interest rates and inflation figures in order to make accurate financial decisions timeously.

Technological advances, fast-changing employee practices, ever-changing regulatory requirements and the fluctuating economic environment are the four broad categories of challenges facing the financial manager in the manufacturing organisation identified and confirmed in this study. There are various other challenges but these four were found to be the main categories of challenges.

From the above it is evident that the financial manager is faced with various important challenges, which have far reaching effects, not only on the financial manager in his or her profession, but also on the effective functioning of the manufacturing organisation. There are various ways of surmounting these challenges available to the financial manager and they must be exercised regularly to ensure success.

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ANNEXURE 4.1

QUESTIONNAIRE ON THE CHALLENGES FACING THE FINANCIAL MANAGER IN THE MANUFACTURING ORGANISATION AND THE POSSIBLE WAYS OF SURMOUNTING THESE CHALLENGES

SECTION A: DEMOGRAPHIC DATA

This section is purely for statistical purposes.

INSTRUCTIONS

Please place a cross (X) in the appropriate box.

1.1. How many employees does your organisation have in total?

- [ ] 0 to 100
- [ ] 101 to 200
- [ ] 201 to 300
- [ ] 301 to 400
- [ ] 401 to 500
- [ ] 500 and more

1.2. In which magisterial district do you operate?

- [ ] Buffalo City
- [ ] King Williams Town
- [ ] Nelson Mandela Metropolis
- [ ] Uitenhage
- [ ] Other

1.3. How long have you held your current position?

- [ ] 01 – 12 months
- [ ] 13 - 24 months
- [ ] 25 – 36 months
- [ ] 37 – 48 months
- [ ] 49 – 60 months
- [ ] 61 – 72 months
- [ ] 73 – 84 months
- [ ] 85 months and more

1.4. What is your gender?

- [ ] Male
- [ ] Female

1.5. What is your race?

- [ ] Asian
- [ ] Black
- [ ] Coloured
- [ ] White

1.6. In which manufacturing sector does your company operate?

- [ ] Electronics
- [ ] Food and beverages
- [ ] Building
- [ ] Cosmetic
- [ ] Steel
- [ ] Milling
- [ ] Automotive
- [ ] Stationery & printing
- [ ] Textile
- [ ] Entertainment
- [ ] Consumer goods
- [ ] Other

1.7. In which age category do you fall?

- [ ] 20 to 24
- [ ] 30 to 34
- [ ] 40 to 44
- [ ] 50 to 54
- [ ] 60 to 64
- [ ] 25 to 29
- [ ] 35 to 39
- [ ] 45 to 49
- [ ] 55 to 59
- [ ] 65 and over

SECTION B: INTRODUCTION

This study is based on the premise that there are various challenges facing the financial manager in the manufacturing organisation. This study is being conducted among manufacturing organisations in the Buffalo City/Nelson Mandela Metropolis area. The researcher concerned with this study is investigating the challenges facing the financial manager in the manufacturing organisation and the possible ways of surmounting these challenges.

The questionnaire is designed to test the degree to which financial managers are experiencing the challenge.

INSTRUCTIONS FOR COMPLETING SECTION B OF THE QUESTIONNAIRE

Please complete the questionnaire ticking the appropriate box provided.

In certain questions kindly substantiate your answer briefly, where required, in the space indicated with a specific reason(s).

REGULATORY REQUIREMENTS

2.1. How does your organisation comply with General Accepted Accounting Practice (GAAP)?

☐ Entirely ☐ Partially
☐ Not at all

Reason why "Not at all" selected.

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……

2.2. Does General Accepted Accounting Practice (GAAP) meet all the requirements of your organisation?

☐ Yes ☐ No

Reason why "No" selected.

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2.3. Are you aware of all the proposed changes to General Accepted Accounting Practice (GAAP)?

☐ Yes ☐ No

Reason why "No" selected.

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……

2.4. In which way has the tax legislation changes of the past two years affected your organisation?

- ☐ Higher taxes
- ☐ More complex
- ☐ No effect
- ☐ Lower taxes
- ☐ Less complex

Reason why "No effect" selected.

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2.5. Do you make use of a tax expert in your organisation?

- ☐ Yes
- ☐ No

Reason why "No" selected.

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2.6. Do the recent changes in the rules and regulations of the securities exchange (JSE) affect your organisation?

- ☐ Yes
- ☐ No

Reason why "Yes" selected.

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……

2.7. Do other acts and rules not questioned above affect your role as Financial Manager?

☐ Yes ☐ No

Reason why "Yes" selected.

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2.8. Does your organisation use the Internet when reporting financial results?

☐ Yes ☐ No

Reason why "No" selected.

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2.9. Does your organisation comply with the King Commission recommendations on reporting financial statements?

☐ Yes ☐ No

Reason why "No" selected.

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……

INFORMATION AGE

3.1. Do the recent developments in information technology affect your organisation in a large way?

☐ Yes ☐ No

Reason why "No" selected.

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3.2. Does your accounting information system meet all the needs of your financial department?

☐ Yes ☐ No

Reason why "No" selected.

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3.3. Do you think the information systems in place give your organisation a strategic advantage?

☐ Yes ☐ No

Reason why "No" selected.

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3.4. Do you think the vital role information technology plays in the organisation, raises serious ethical and societal issues?

☐ Yes ☐ No

Reason why "Yes" selected.

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EMPLOYEE ISSUES

4.1. Have the training requirements of the finance staff changed significantly over the past few years?

☐ Yes ☐ No

Reason why "Yes" selected.

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4.2. Do you have a succession plan in place for the financial department?

☐ Yes ☐ No

Reason why "No" selected.

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4.3. Do you have a performance management system in place for the financial department?

☐ Yes ☐ No

Reason why "No" selected.

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4.4. Do you have an employment equity plan in place for the financial department?

☐ Yes ☐ No

Reason why "No" selected.

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4.5. Has your organisation entered into black empowerment deals in the past?

☐ Yes ☐ No

Reason why "No" selected.

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4.6. Do you have a strategic plan in place for the financial department, which is in line with that of the organisation?

☐ Yes ☐ No

Reason why "No" selected.

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ECONOMIC ENVIRONMENT

5.1. Have the recent fluctuating exchange rates effected your organisation in a large way?

☐ Yes ☐ No

Reason why "Yes" selected.

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5.2. Have the recent fluctuating interest rates effected your organisation in a large way?

☐ Yes ☐ No

Reason why "Yes" selected.

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5.3. Has the recent increase in inflation effected your organisation in a large way?

☐ Yes ☐ No

Reason why "No" selected.

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……

5.4. In which way is your organisation faced with global competition?

- ☐ Consumer markets
- ☐ Natural resources
- ☐ No way affected
- ☐ Capital
- ☐ Human resources

Reason why “No way affected” selected.

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GENERAL

6.1. Are there any other challenges you feel are facing the financial manager in the manufacturing organisation not mentioned above?

☐ Yes ☐ No

Reason why "Yes" selected.

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……

Thank you for your time and assistance in completing this questionnaire.

ANNEXURE 4.2

9th December 2002

For Attention: The Financial Manager

Dear Sir / Madam

SURVEY ON THE CHALLENGES FACING THE FINANCIAL MANAGER IN THE MANUFACTURING ORGANISATION

Kindly find attached a questionnaire relating to the above. Your assistance in completing the questionnaire by 12th January 2003 would be greatly appreciated. Completion of the questionnaire should take no more than 20 minutes of your time.

All information gathered will be kept confidential and only a summary of findings will be done when all questionnaires have been received back. Should you wish to receive a copy of the findings, please indicate and it will be forwarded to you in due course.

When completed please fax to the undersigned. Your co-operation in completing the questionnaire is greatly appreciated.

Yours faithfully,

Peet Diedericks

MBA Student, Port Elizabeth Technikon

Fax - 043 707 1001 **Office – 043 707 1174** **Cell - 083 273 8825**

ANNEXURE 4.3

SOUTH AFRICA: MACROECONOMIC DATA AND FORECAST

Description	1995	1996	1997	1998	1999	2000	2001	2002	2003f	2004f
Nominal GDP (US$bn)	151.12	143.83	148.45	132.47	131.33	127.94	113.28	101.70	109.20	112.85
Real GDP growth (% y-o-y)	3.12	4.31	2.65	0.76	2.12	3.36	2.22	2.7	3.4	3.7
GDP per capita (US$)	3,838	3,580	3,605	3’140	3,039	2,882	2,537	2,255	2,400	2,459
Population (million)	39.5	40.3	41.2	42.1	43.0	43.8	44.7	45.1	45.5	45.9
CPI, core average	8.58	7.40	8.90	6.64	5.23	5.31	4.50	6.00	5.00	5.00
CPIX average	na	na	na	7.30	6.81	7.75	6.52	8.2	5.50	5.20
PPI, average	9.56	6.92	7.10	3.51	5.80	9.15	7.00	5.00	6.00	5.60
Lending Rate (%)	18.50	20.25	19.25	23.00	15.50	14.50	13.00	15.00	12.00	11.50
Exchange rate (ZAR/US$, annual average)	3.63	4.30	4.62	5.58	6.11	6.94	8.61	10.50	10.60	11.15

Exchange rate (ZAR/US$, end of period)	3.67	4.68	4.87	4.87	5.86	7.59	11.97	9.90	10.80	11.30
Manufacturing production (% y-o-y)	na	-3.21	3.73	-0.20	6.60	3.66	4.07	4.35	4.17	5.50
Fiscal deficit (% of GDP)	-4.87	-5.16	-5.00	-3.41	-2.91	-4.17	-2.09	-1.80	-2.00	-2.30
Exports (US$bn)	30.08	30.05	31.10	28.98	28.56	31.50	30.31	35.50	37.10	39.00
Imports (US$bn)	27.41	27.37	28.78	27.02	24.50	27.18	25.31	30.00	33.00	34.50
Trade Balance (US$bn)	2.67	2.68	2.32	1.96	4.06	4.33	5.00	5.50	4.10	4.50
Current account balance (US$bn)	-2.21	-1.86	-2.26	-2.22	-0.34	-0.24	-0.26	-1.00	-0.70	0.00
Current account balance (% of GDP)	-1.46	-1.29	-1.52	-1.68	-0.26	-0.19	-0.23	-0.98	-0.64	0.00
Reserves (US$bn)	4.28	2.20	5.84	5.46	7.33	8.90	9.31	11.75	12.50	13.50
Import cover (months)	1.54	0.80	2.02	2.01	2.91	3.26	3.67	4.70	4.55	4.70
External debt (US$bn)	35.36	34.52	39.04	37.09	38.87	36.98	31.49	37.00	38.00	38.00

Debt service ratio (%)	9.20	9.80	10.40	11.20	13.20	13.50	14.90	11.00	10.00	8.50
Tax revenue (ZAR mn)	Na	123,106	142,578	160,000	179,276	193,718	212,370	Na	Na	Na
Non Tax revenue (ZAR mn)	Na	2,830	3,546	3,219	4,816	4,927	3,668	Na	Na	Na
Total revenue (ZAR mn)	Na	127,109	145,999	163,921	183,166	197,380	216,038	Na	Na	Na
Expenditure (ZAR mn)	Na	156,110	177,500	189’685	204,028	216,405	233,745	Na	Na	Na
Balance (ZAR mn)	Na	-29,001	-31,501	-25,764	-20,861	-19,025	-17,707	Na	Na	Na
Gross value added by Manufacturing	Na	114,125	124,604	129,016	136,016	149,380	163,880	Na	Na	Na

Source: Adapted from Morales (2002: 2)