# THE STRATEGIC IMPACT OF TAX REGULATION ON THE PERFORMANCE OF A TELECOMMUNICATION COMPANY

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OPEN ACCESS

**How to cite this paper:** Nene, P. R., & Moraka, N. V. (2023). The strategic impact of tax regulation on the performance of a telecommunication company [Special issue]. *Corporate & Business Strategy Review, 4*(4), 369–380.
https://doi.org/10.22495/cbsrv4i4siart17

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**ISSN Online:** 2708-4965
**ISSN Print:** 2708-9924

**Received:** 04.05.2023
**Accepted:** 12.12.2023

**JEL Classification:** G38, H22, H29, M21, P47
**DOI:** 10.22495/cbsrv4i4siart17

## Abstract

Abrupt regulatory and statutory requirements add to the complexity of sustainable businesses and may impact their strategies and their performance. This research aims to investigate such regulatory impacts, for example, the full end-to-end telecommunications (telco) industry is complex and requires focused strategies right from the product catalogue down to rate cards, price configuration, system capacity, network depletion rules, billing engines, and customer invoices. Failure to apply the correct value-added tax (VAT) change in these elements can result in over or underbilling of customers. An undercharge influences the operator's revenue, causing a loss, not just because of the 1 percent VAT increase. Consequential damage points to that an overcharge may increase customer complaints and result in reputational risk that is not limited to customer churn. A mixed-method design was applied where interviews provided qualitative results and financial statements of mobile telephone networks (MTN) were used for quantitative analysis. Results showed that the VAT change increased the liability transactions from the balance sheet of the year 2018 compared to 2017 (Nene, 2019). This research recommends efficiency in project management that involves the review of old legacy systems, conducting impact analysis and contentiously updating the enterprise architecture framework.

**Keywords:** Performance, Revenue, Strategy, Telecommunication, VAT Increase

**Authors' individual contribution:** Conceptualization — P.R.N.; Methodology — P.R.N.; Validation — N.V.M.; Formal Analysis — P.R.N.; Investigation — P.R.N.; Data Curation — P.R.N.; Writing — Original Draft — P.R.N.; Writing — Review & Editing — P.R.N. and N.V.M.; Visualization — P.R.N.; Supervision — N.V.M.; Project Administration — P.R.N.

**Declaration of conflicting interests:** The Authors declare that there is no conflict of interest.

## 1. INTRODUCTION

Early in 2018, through the National Treasury, South Africa announced an increase in value-added tax (VAT) from 14% to 15%, effective from 1 April 2018 (Gigaba, 2018). The VAT increase caused a public outcry and amplified the uncertainty of South African citizens on whether they would be able to afford to meet their basic living needs (Nene, 2019). VAT is an efficient government strategy that more effectively generates revenue compared to other tax methodologies in South Africa and other countries such as China (Fan et al., 2018). There are various stakeholders involved that pay and contribute to the government's VAT income through goods or services rendered. These stakeholders include registered vendors, creditors, suppliers, insurance brokers, and property owners. Other communities affected by VAT payments in the final stage of production are everyday consumers, such as pensioners, the working class, as well as poor and rich individuals (Go et al., 2005). A study conducted by Kearney and Van Heerden (2004) on VAT in South Africa, revealed that the general sales tax (GST) was replaced by the consumption form of VAT. The original constitutional rate of 10% was then adjusted to 14% in 1993. Subsequently, to assist the poor, selected food and items, such as brown bread, milk, and paraffin were declared zero-rated. A study conducted by Mach (2018) found that an increase in the VAT rate negatively affected small and medium-sized enterprises (SMEs) because the compliance cost for SMEs was slightly higher than the cost for large enterprises. Research conducted by Ahmed et al. (2015) also highlighted the negative impact of a VAT increase on the poor, as low earners and the middle class tended to spend a bigger portion of their income on vatable consumer goods to meet their basic needs compared to higher earners.

Business Monitor International Ltd. (BMI, 2018) presented market trends in the South African telecommunications (telco) industry, while Cashin and Unayama (2016) focused on how a VAT change affected consumers in Japan. Legeida and Sologoub (2003) examined the performance of VAT revenue in Ukraine's economy and explored the challenges associated with VAT administration where fraud, non-compliance, and VAT refund debt were identified as major problems. The recent tax studies conducted by Han and Lesica (2021) and Conlon and Rao (2023) focus on the beer market, not the telco market. The nature and complexity of the telco industry were found favorable to be used as a case study to assess the impact of the VAT increase. In telco, VAT changes are not simply about adding a nominal 1% to a customer's invoice to comply with statutory requirements. Pricing directly affects the bundling of packages offered to cell phone users, including data bundles and usage rules on the network. Failure to comply with legislation and a poor system configuration may result in incorrect bundle depletion or usage rules that directly influence mobile operators' income statements and balance sheets. These inaccuracies cannot be passed on to the customers and may lead to the cellular operator being responsible for costs of billions of rands, as the government through the South African Revenue Service (SARS) still expects it to pay 15% VAT on its revenue, regardless of the operator's revenue being understated (South African Revenue Service [SARS], 2018). In the case of a R10,00 airtime voucher sold, the mobile operator will make R8,77 in income at 14% VAT liability to SARS. A 1% VAT increase gives the operator two choices that lead to profit or loss. To sustain the same R8,77 income, the mobile operator must increase the R10,00 airtime to R10,09 as VAT is paid by the end user. Should it fail to comply or decide to absorb the 1% VAT increase then its income will drop from R8,77 to R8,70. Based on this example, non-compliance will result in revenue leakage, as a telco organisation cannot recoup these amounts from customers while expected to pay VAT to SARS. The government can also issue possible fines to the operators for non-compliance (SARS, 2018).

Non-compliance with the VAT Act is not an option and there is no organization that will find itself in contravention of the rules contained in the legislation as the sanctions can be very harsh leading to fines and suspension of the operating license of the non-conforming mobile operator (SARS, 2018). In 2014, the Director of Public Prosecutions in the Western Cape took Step-in-Time Supermarket Close Corporation (CC) to task for failing to pay VAT, and the criminal case resulted in the sole representative of CC being sentenced to a maximum of five years imprisonment on a charge that included misrepresentation of VAT compliance (*Director of Public Prosecutions, Western Cape v. Parker*, 2014). Consequently, all stakeholders must adhere to all requirements of legislation that a government passes in its country.

Concerning the dynamics of the country's legislation, research was necessary to assess the impact of the VAT increase and to formulate strategies that can be used to pursue voluntary VAT compliance without exploiting consumers by overcharging them or exposing mobile operators to reputational risk (Nene, 2019). This research aims to investigate the regulatory impact of a VAT change in a single industry. It sought to respond to a research question:

*RQ: What is the impact of regulatory change of VAT increase on the performance and sustainability of a company with a mobile telephone networks (MTN) as a case company?*

MTN is one of the South African mobile operators and dominates the South African telco market. The political, economic, social, technological, environmental, and legal (PESTEL) model was explored to understand the impact of a VAT change on MTN's performance and financial sustainability (Louw & Venter, 2013).

The remaining structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyses the methodology that has been used to conduct empirical research on the impact of the VAT increase on the performance of the business — a case of MTN. Section 4 provides the research findings while Section 5 provides further research discussion. Lastly, Section 6 concludes this article by providing managerial implications.

## 2. LITERATURE REVIEW

Macro-environmental factors have a direct impact on both the industry and the global business environment (Louw & Venter, 2013; Yam, 2016).

Limited research is available on how the change in regulation and statutory framework impacts the performance and the strategy of any business, and the available literature is sparsely located and relatively outdated. The PESTEL model was considered to be of paramount importance to fully determine the impact of the VAT change on MTN's performance and financial sustainability (Louw & Venter, 2013; Yam, 2016). Amaglobeli et al. (2022) inform that even though VAT is administered in fiscal terms in many countries, the VAT design differs from one country to the next, as each country governs its own fiscal policies differently. Muyanga (2014) argued that there are two drivers of fiscal policies, namely, taxes being the government's revenue and government spending. Sullivan and Sheffrin (2003) suggest that fiscal policy collaborates with monetary policies and other policies that directly influence the economy to stimulate the country's economic goals, such as job creation. The PESTEL state of each country plays a significant role in VAT design including structuring the suitable threshold since the VAT design can incorporate the zero-rating of either domestic products or exports, the immediate refund of input tax credits, and the inclusion or exclusion of wholesale and retail trade (Bird & Tsiopoulos, 1996; Ebrahim et al., 2019).

Various stakeholders are affected by VAT regardless of their economic status (Nene, 2019). In South Africa, every household is required to pay VAT, which goes to the manufacturers and other business entities regardless of their structure or size and most importantly comply with the Value-Added Tax Act 89 of 1991 (Maboshe & Francis, 2018). The telco industry is one of the VAT stakeholders and, over the years, has been evolving, moving from a monopoly to a globally competitive market (Faccio & Zingales, 2017). In 2013, the European Union (EU, 2013) published its Implementing Regulation No. 1042/2013 with the new rules applicable affecting the supply of telco services and other broadcasting services supplied by EU businesses to EU private customers not limited to electronically supplied (information and communication technology) services. Subsequently, in 2015, the VAT rate was increased by 2% (Plainchamp & Devillers, 2014). Table 1 below depicts the high-level impact of the VAT change on the performance of the EU telecommunication businesses when doing business with stakeholders within and outside of the EU after the EU Implementing Regulation No. 1042/2013 and the 2% VAT change in 2015.

**Table 1.** The high-level impact of VAT on the EU's telecommunication industry

| | |
|---|---|
| ***Non-EU businesses*** | |
| Business in the EU | No VAT charged. A customer must apply for reverse engineering to account for the tax. |
| Consumers in the EU | Must charge VAT in the EU country to which the customer belongs. |
| ***EU businesses*** | |
| Business in another EU country | No VAT charged. A customer must apply for reverse engineering to account for the tax. |
| Businesses or customers outside the EU | No EU VAT is charged. A Swedish company sells an antivirus program to be downloaded through its website to businesses or private individuals' mobile phones in South Africa. No VAT is charged, but if the service is effectively used and enjoyed in an EU country, the countries can then decide to levy VAT. |
| Consumers in another EU country | Must charge VAT in the EU country to which the customer belongs, not where the business resides. For example, if an Italian customer downloads an app on his or her mobile phone from a French supplier, the French company must charge the customer Italian VAT. |

*Source: Plainchamp and Devillers (2014) and Nene (2019).*

## 2.1. History of value-added tax

There are various debates regarding the origins of VAT, and its interpretation differs from country to country depending on the fiscal team of each country where VAT is collected (Kruger, 2017). Subedi (2016) advised that VAT was initially designed by Dr. Wilhelm V. Siemens in Germany in 1919 and further developed by Prof. Carl S. Shoup along with other tax missions in Japan in 1949. However, Ufier (2017) states that VAT was first introduced in France on 10 April 1954 and was initially intended for large businesses but was then extended to all other business sectors over time. Denmark introduced VAT in 1967, while Bolivia introduced VAT in 1986, and Canada introduced VAT in 1991 (Kearney, 2004).

According to Owolabi and Okwu (2011), VAT was invented by a French economist in 1954 as *taxe sur la valeur* and has since then become the greatest source of state finance in France, as it contributed over 45% of state revenue. In the context of VAT design, it was meant only to focus on industrial sectors in France and was further adopted by the European Union during the 1970s (Subedi, 2016). In reviewing the strategy of the French economists that drove the introduction of VAT in 1954, there appear to be different dynamics and shifts in the performance of businesses at large regardless of the industry in which one is operating (Alexander, 2017). With e-commerce driving the customer experience at the fingertips of consumers and more efficiencies (Nene, 2019). Those services that still require human touch transaction include hairdressing and beauty salons (Harju et al., 2014). Although MTN was founded during the French economists' time, they would not be exempt from VAT, since the organisation is one of the VAT role players from the industrial sector point of view. The researched company operated in 22 countries during the research period and has proven itself to be a global market player in African and Middle Eastern economic markets.

Aizenman and Jinjarak (2005) argue that the VAT rate and efficiency of collecting VAT is driven by each country's political economy. Steyn (2010) raised a debate regarding the fact that VAT laws in many countries were drafted long before the evolution of smart technology and e-commerce. How can it be ensured that VAT is now efficiently collected by the government and consumers are not double-charged? Steyn (2010) further asks a question about how VAT can be collected from online magazines and newspapers. The telco and e-commerce industries are not the only industries where VAT administration is complex. However, there are various other economic sectors that are also complex, such as the financial industry (Kearney, 2004). Mobile operators are not only rendering a network service, but they are also selling cell phones, some are imported from international suppliers, and occasionally these phones require a software upgrade.

The complexity of the telco industry can make it complicated to fully quantify the impact of the VAT increase. However, for the government to ensure the efficiency of VAT collection, increase VAT revenue, and enforce compliance on all VAT stakeholders, technological or electronic VAT invoices should be embraced. Lee (2016) revealed that, between 2011 and 2013, the Republic of Korea increased the efficiency of tax collection from 15% to 99.9% after introducing the electronic tax invoice in 2011. He further argues that the electronic tax invoice mitigates fraud risk that involves input VAT where sometimes the organisations claim refunds or zero rating on non-existent transactions and some fraudsters even open a bogus company and issue fictitious invoices to sell to businesses. This is viewed because of Korea's tax collection efficiency. It is evident that there is much to be achieved when optimising the evolution of technology.

## 2.2. The difference between VAT and tax

In 1789, in a letter to Jean-Baptiste Le Roy, Benjamin Franklin wrote: "In this world, nothing can be said to be certain, except death and taxes". This subsection will clearly elaborate on the difference between VAT and tax.

### *2.2.1. VAT*

VAT is an improved version of GST and is collected at all steps or stages of the supply chain (Subedi, 2016). Negi et al. (2022) regard GST as the "goods and service tax" even though they agreed that GST is an indirect tax that is levied on the supply of both national and international goods and services. In many countries that administer VAT, it has become one of the most efficient government strategies that, over the years, has significantly increased the government's revenue (Fan et al., 2018). South Africa is no different from other countries, such as China and Nepal, as VAT has proven to be more effective for the government to generate revenue compared to other tax methodologies. According to Gastaldi et al. (2017), all EU countries rely on VAT as one of the primary sources of government revenue, and in 2014, VAT contributed an average of 7% to the gross domestic product (GDP) at 17.5% of the total tax revenue. Furthermore, Gastaldi et al. (2017) revealed that VAT contributes 17.6% of Germany's total revenue, 19.9% in the UK, 13.7% in Italy, and 14.5% in France. These are very interesting analyses, as the UK generates higher revenue in VAT when compared to Germany and France although both Germany and the UK levied VAT at 20%. This leaves out of account the findings of Subedi (2016), who contends that VAT was first introduced in Germany in 1919, while Owolabi and Okwu (2011) concur that VAT was invented by a French economist in 1954.

The views of Go et al. (2005) support the statement that was mentioned in the previous section, that a VAT increase negatively affects low-income households. Tax is a progressive tax that is designed to reduce poverty and inequality. The more you earn, the higher the incremental rate you pay for the government to distribute the benefits among those to whom it provides services (Go et al., 2005). VAT has been adopted by over 150 countries, although the VAT rate differs from one country to the next. For example, the VAT in Sudan is 17%, while it is 25% in Denmark. Yet, both countries are using VAT along with all other countries that administer VAT. However, a common factor is that VAT is one of the government's most efficient sources of revenue (Deloitte, 2018). According to Subedi (2016), in Nepal, VAT stands as the largest contributor to the state coffers after outstripping custom duties effective 2002/03, while Okwori and Ochinyabo (2014) indicated that, in Nigeria, VAT is not only a source of public revenue, but the administration of VAT translates into the economic growth of the country of Nigeria. The history of VAT has already been alluded to in subsection 2.2.1, therefore, the tax will be explored in the next subsection.

### *2.2.2. Tax*

Anojan (2015) defines tax as a "compulsory levy or payment, imposed by the government or other tax raising body on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return" (p. 2). Tax is a statutory requirement governed by fiscal policies and driven by political and economic factors (Hungerford, 2018). Fiscal policy strategically helps the country to determine the direction of the economy in order to achieve the government's economic objectives (Sullivan & Sheffrin, 2003). Conflicting views seem to appear in the literature about the origins of tax as Gillitzer (2017) states that income tax was first introduced in Great Britain in 1798 by William Pitt the Younger, while Anojan (2015) argues that it was first introduced in England in 1799. Magadzire (2018) stated that tax collectors represent the authority of the government. Gillitzer (2017) presented conflicting views to Magadzire (2018) as the Bible in Matthew 22:17-22 also states that 2,000 years ago, during the days of Jesus Christ, taxes were also paid.

Anojan (2015) states that in most countries, income tax was introduced under the colonial system. Dick (2014) reveals that in Australia, between 1788 and 1914, the government was not only using tax to collect revenue but also to control and modify the private behaviour of Australians in order to reflect its own economic policy of protectionism. Regardless of how and when the tax was introduced, even today the taxpayers still directly reap the benefits of state revenue and other advantages of government expenditure such as free education, free health, national security, and other infrastructure facilities (Anojan, 2015). Tax is divided into two parts, namely direct and indirect tax. Below are clear descriptions and examples of each part in Table 2.

**Table 2.** The difference between direct and indirect tax

| No. | Direct tax | Indirect tax |
|---|---|---|
| 1. | Progressive taxation and based on one's income; the more you earn, the more tax you pay. | Regressive taxation and there is no correlation between earnings and tax payable amount. |
| 2. | Cannot be transferable and is paid by the taxpayer directly to the government. | Is a transferable tax where the liability to pay can be shifted to others. |
| 3. | Income and corporate tax. | VAT. |
| 4. | The burden is carried by the income earner or the business on the profit earned. | The burden is carried by the end user. |
| 5. | Other examples include fringe benefits tax, estate duty, and wealth tax. | Other examples include excise duties, import duties, and sales tax. |

*Source: Anojan (2015), Gillitzer (2017), Horton (2019), and Nene (2019).*

According to Besley and Persson (2014), many countries started to adopt income tax in the late 1800s, and VAT was adopted in the post-World War II years. Even though the tax revenue is influenced by the government's efficiency in collecting taxes, there is a clear correlation between the tax rate and GDP. When the tax rate is low, the country's deficit goes high while the economic growth declines (Lešnik et al., 2018). Steinmo (2018) argues that, just because a government is efficient in collecting tax, it does not mean that the citizens are happy to pay it and agree with the state's views of spending the taxpayers' money. However, the citizens pay because they desire to see their country prosper even if there are those who avoid paying taxes, resulting in others paying more. Bergman (2009) stated that "tax evasion has cultural roots in social norms and institutional arrangements" (p. 2).

Steinmo (2018) argued that paying taxes requires a high moral standing, for non-compliance with the tax laws affects the entire PESTEL model since the government uses tax revenue not for political gain but to fulfil the social responsibilities of the citizens and to balance the culture between the rich and the poor while ensuring the financial sustainability of the country. In Table 3 below, there are high-level observations of the contrast between VAT and tax.

**Table 3.** The difference between VAT and tax

| Impact | VAT | Tax |
|---|---|---|
| Price | The increase in the VAT rate affects consumer spending, as the prices of goods and services also increase. | Personal tax affects employees' salaries while corporate tax affects the business's profit. |
| Demand | Due to economic instability, the government is under pressure with regard to service delivery while running a high deficit. | Increase in government spending while there is a decrease in revenue resulting in slow economic growth for the country's sustainability assurance. |
| Supply | A 1% increase in the VAT rate in 2018, raising the VAT rate from 14% to 15% on all products and services imported to and produced in South Africa except zero-rated goods and services. | Increase the employment rate to have more people working so that they can pay tax, and the Independent Communications Authority of South Africa (ICASA) must allow a competitive environment for mobile operators to make more profit so that they can pay more income tax. |
| Exemption | Zero-rated goods to mitigate the progressivity of VAT and assist the poor. | Tax avoidance. |
| Fraud exposure | VAT evasion through misclassification of sales or charging the customers a VAT amount but never declaring those VAT transactions to SARS. | Tax evasion through misrepresentation of the actual tax amount to the tax authorities in order to reduce tax liability. |
| Compliance | Comprises high compliance costs, especially the SMEs and low-income earners. | The higher your income, the more tax you pay. |
| Beneficiaries | Only a business can claim a refund on VAT levied during the stock process. | All taxpayers. |
| Who bears the cost? | The end consumer. | Various consumers and employees. |

*Source: Nene (2019).*

The research revealed that both VAT and tax are driven by each country's fiscal policies and managed by each country's trusted government entity (Lešnik et al., 2018). The focus of the study was on the telco industry and assessing the impact of VAT change on the performance of the business using one of the South African mobile operators due to the complexities of the telco industry as the impact was not just adding a 1% increase. However, in the context of differences between VAT and tax, Go et al. (2005) concurred that VAT is an indirect tax and is regarded as a regressive tax since the way it is structured promotes inequality where the poor are impacted to a greater extent. In South Africa, all telco companies are larger organisations. The VAT increase will not negatively affect them as much as compared to SMEs since the compliance cost for SMEs is relatively higher than that for large enterprises (Mach, 2018). The definition of what precisely constitutes an SME differs from one country to another, as do tax laws and the exemptions for SMEs as they carry a large compliance cost (Evans et al., 2014). In countries, such as South Africa and Canada, the government recognises the burden that SMEs bear as they are taxed in multiple ways, and Evans (2008) indicated that they typically carry the burden three times. SMEs pay taxes on the profits they have made, the costs to the government as part of their operating cost, and efficiency costs, which involve tax-induced market distortions (Kamleitner et al., 2012). To assist and encourage SMEs in some countries the government incentivises SME owners to participate in job creation (Evans et al., 2014).

## 3. RESEARCH METHODOLOGY

A mixed method approach was followed through two phases that involved the collection and analysis of primary and secondary data. The data collected explored the impact of a VAT increase on MTN's 2018 overall performance compared to 2017 performance. This article reports on the research that was done immediately after the VAT change in 2018 and the results might change after a research period.

The semi-structured interviews were conducted with ten of the identified participants to allow flexibility until saturation was reached (Fusch & Ness, 2015). Saunders et al. (2015) suggest that semi-structured interviews grant the participants an opportunity to elaborate their responses with an in-depth explanation that allows the researcher to further probe the answers provided during the interview session. The interview guide was used while all conversations were tape-recorded, and field notes were also taken at the participants' workplace. To ensure measures of trustworthiness and anonymity of the participants in the voice recordings, the participants' names were not mentioned during the interview sessions, and the male participants were addressed as "Sir" while the female participants were addressed as "Ma'am". The researchers clearly explained to the participants and approvers of the research that they would receive no compensation for their participation.

*Phase 1* was administered whereby the qualitative method was used to gather data from interviews with 10 participants and thematic analysis was used to analyse their responses. Morse (1994) recommends at least 6 participants for phenomenological studies, while Creswell (1998) suggests between five and twenty-five interviews for a phenomenological study. The sample covered both males and females, of whom 40% were senior management and 60% were junior employees in middle management, as well as a few contractors from various system vendors contracted by MTN. In so doing, a clear understanding of various stakeholders' experience of the VAT change was explored, along with the level of their involvement in the VAT change and system configuration. The age category was between 21 and 65. The selection of 10 participants was strictly based on their experience and the qualifications of participants in each category cannot be stated except indicating that all MTN employees are over 21 years of age. Interviews were conducted with 10 identified participants from various departments. The Information Systems (IS) and Information Technology (IT) Departments govern all network systems and system configuration change management, while the Marketing and Commercial team controls the product and price design. Customer Experience handles customer complaints, while Credit Risk Management manages accounts and billing queries. Through informed consent, the participants were able to decide whether to participate in the study or not. The interviews were scheduled and conducted from 16 June 2019 to 3 July 2019 and each interview lasted 50 minutes on average.

A semi-structured data collection method was used to address the research question with the main themes sought to gather more insights about VAT, change management planning, system/process configuration, and post-implementation. To provide flexibility to the researchers, triangulation data was used including other secondary data sources such as published financial results from the company website and Johannesburg Stock Exchange (JSE). Therefore, the data used to analyse the financial statements for the researched company was not only what was collected from the research site. According to Levitt et al. (2018), semi-structured interviews allow the researcher to ask some of the questions that are outside the interview guide, as the participants' experience and view might be informative and lead to other important themes while they answer the key questions. Therefore, the research was not restricted to the guided interviews that were conducted; in addition, multiple data sources were examined. For instance, determining and identifying the impact of the VAT change on MTN's revenue can only be done by analysing MTN's financial statements and the chairperson's statement as published in adherence with the Companies Act 71 of 2008 (Government of South Africa, 2009). Public documents, such as newspapers, were also used in collecting data. Additionally, JSE results were evaluated for further analysis, which assisted in exploring the revenue impact on MTN after the VAT increase.

*Phase 2* involved a quantitative analysis of year-on-year performance, where 2017 and 2018 MTN income statements, JSE reports, and public journals were evaluated to assess revenue performance, determine the customer churn rate from the operational review, and tax liabilities, as VAT forms part of other current and tax liabilities on the balance sheet. Applying both quantitative and qualitative methods was valuable as it expanded the view of the VAT increase on MTN's performance and more insights were attained during the data collection process.

Data analysis explores inferential or statistical analysis, along with descriptive and causal analysis (Saunders et al., 2015). For the transcribed interviews, thematic analysis was used to identify themes, summarise the data, and make sense of the data (Finfgeld-Connett, 2014). The financial statements were analysed using Excel in order to determine the impact of VAT on both the income statement and balance sheet. The MTN financial statements for 2014–2018 was extracted and the analysis for this research focuses on 2017 and 2018 data. These periods were analysed because of the 1% VAT increase that took place in April 2018. The comparisons and trends were drawn to determine the impact of the VAT change on MTN's financial performance. This mixed-method approach was valuable as comparisons and trends aligned and supported valid and reliable interpretations.

## 4. RESULTS

### 4.1. Qualitative findings

Transcribed interview data were compared with the voice recordings and field notes to validate the accuracy of the transcribed data. Subsequently, the thematic analyses were completed, and Table 4 below reflects the themes of the primary data.

**Table 4.** The thematic analysis: VAT

| *Theme* | *Illustrative examples of the explanation or reason given* |
|---|---|
| 1. Effect of the VAT increase | 'big change' (n) = 5<br>'lot of packages were changed' (n) = 5<br>'very difficult and complex' (n) = 6<br>'huge, even worse than petrol to an extent' (n) = 7<br>'financial decision' (n) = 5<br>'financial position' (n) = 5<br>'huge negative impact on revenue' (n) = 7<br>'increase customer churn' (n) = 6<br>'system performance' (n) = 6 |
| 2. Understanding of VAT | 'believe that MTN is losing clients, is losing revenue. I believe clients are losing trust and the loyalty to say, I used to gain so much and pay less' (n) = 7<br>'operational efficiency affected' (n) = 1<br>'operational efficiency not affected' (n) = 1<br>'level of contribution' (massive) (n) = 2<br>'negative customer satisfaction' (n) = 5<br>'increase everything from supply chain to customer' (n) = 6<br>'align the systems' (n) = 7<br>'update the commercials and billing applications' (n) = 6 |
| 3. Strategy followed | 'high level' (n) = 3<br>'EXCO provided directive' (n) = 5<br>'it was a matter of looking at all the different functions within MTN' (n) = 7<br>'collaboration among different departments and regulatory board' (n) = 6<br>'driven by Finance, IT and Technology' (n) = 7<br>'MTN absorbed 1% on certain products' (n) = 2<br>'impact analysis' (n) = 3<br>'prompt decision' (n) = 4<br>'I'm not aware' (n) = 1<br>'external audit company that oversaw the process and, obviously, gave feedback and looked at testing results and, obviously, feeding that back to the CFO and the executive team' (n) = 3 |
| 4. Impact of the incorrect VAT rate on performance and on customer experience | 'it will definitely affect the business because of the more money that needs to be paid to SARS (n) = 8<br>'poor or negative customer experience' (n) = 8<br>'increase customer complaints' (n) = 8<br>'increase credit notes' (n) = 5<br>'increase liability to the company' (n) = 4<br>'It is not just customer experience, it's actually reputational damage. Because this is regulatory as mentioned. So, not being compliant can put you into more than just hot water. You're going to end up paying fines and will be in the media. You will have to explain yourself to your shareholders, etc. It is very important that you are compliant. And you have to explain to the customers when things will happen and how it will happen and when it will change, that they are also in line with what changes are happening. Because it often impacts their downstream processes and systems' (n) = 4 |

*Note: n = number of participants.*
*Source: Nene (2019).*

## 4.2. Quantitative findings

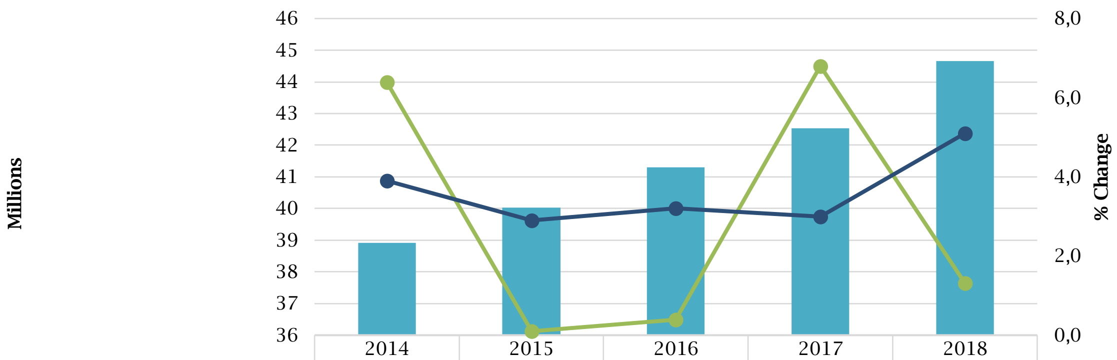
MTN operates in 19 countries, such as Zambia, Eswatini, Nigeria, Iran, Sudan, Cameroon, Congo, and Afghanistan, just to name a few, and the study focused on South African fiscal policies even though Eswatini also increased their VAT by a 1%. The impact of a VAT increase on MTN's 2018 overall performance compared to 2017 performance was seen in a 5.1% increase in MTN South Africa's revenue when comparing 2017 and 2018 leading to SARS VAT liability increase (Nene, 2019). From the financial statements, VAT forms part of current liabilities, and Mobile Telephone Networks South Africa (MTNSA) reported an 11% increase in their current liabilities during the research period, as R65 million was declared in 2017, and R73 million in 2018. The research discovered an upward trend between the profit and liability account of the business in the context of VAT or the more profit MTN makes, the higher the VAT liability paid to SARS. It was also discovered that MTNSA is one of MTN Group's two biggest operations among the other 21 operating companies. In 2018, it contributed 33%, while Nigeria contributed 28%.

Figure 1 below does not show any decline in revenue, as the 2019 interim financial results were excluded from the trended analysis. However, MTN reported growth in wholesale and consumer postpaid revenue that supported service revenue growth during the 2019 interim financial results (MTN, 2019). Figure 1 below presents MTN's total revenue performance for January 2014 to December 2018.

The full financial performance for 2019 was not available during the research period which was from May 2018 until December 2019, as it was only going to be available in March 2020. For this reason, the presented revenue is for only from 2014 to 2018. MTNSA's revenue increased from R39 million in 2014 to R45 million in 2018, with a constant rate of about 4% to 5%. The largest increase (5%) was observed when comparing 2017 with 2018 demonstrating a positive effect of VAT change at MTN in 2018 and subsequent increase to SARS VAT liability. The MTN Group's revenue also increased at a lower rate from 6.4% to 1.3%, with the exception of a 6.8% increase in 2017.

From the PESTEL model, the researchers discovered various factors that affected MTN's performance during the year 2018, such as currency exchange that forms a part of the political, economic, and legal aspects. MTN reported a 61.3% depreciation in the average rate of the Iranian rial against the rand, an 11.4% gain of the rand's average exchange rate against the Nigerian naira, and this led to the growth of 17.2% in MTN Nigeria's operation (MTN, 2019).

**Figure 1.** MTN's revenue

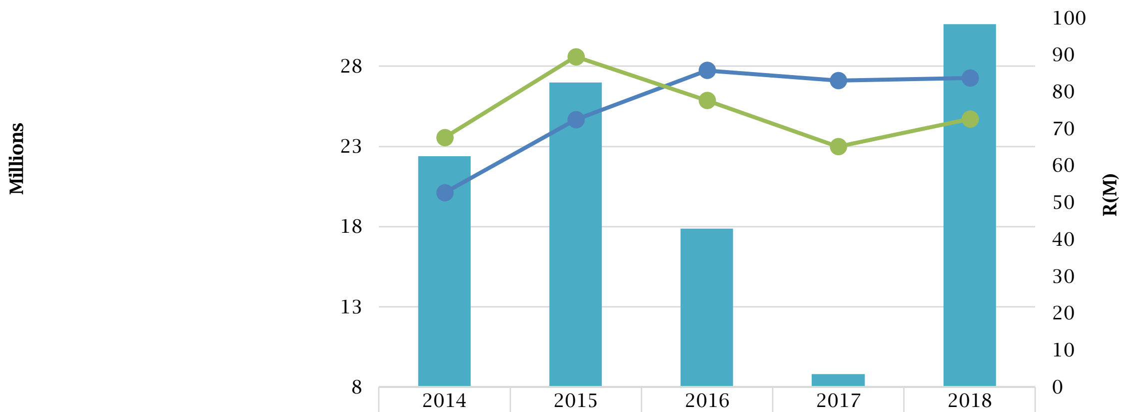



| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| MTN South Africa Revenue | 38 922 000 | 40 038 000 | 41 303 000 | 42 542 000 | 44 658 000 |
| MTN Group % | 6,4 | 0,1 | 0,4 | 6,8 | 1,3 |
| MTN South Africa % | 3,9 | 2,9 | 3,2 | 3,0 | 5,1 |

*Source: Nene (2019).*

There are many aspects that affect the performance of the business, as Ghalem et al. (2016) consider innovation, involvement, contribution, competitiveness, profitability, and value-added when defining the performance of the business. Figure 1 and Figure 2 focus on MTN's financial performance. The organisation's revenue, profit, or loss after tax and liability accounts were analysed to trend the impact of the VAT increase on MTN's financial performance. After examining the company financial statements and analysing the comments of the group president and CEO during the research period, Rob Shuter, the VAT increase was not treated as an isolated case. However, Rob highlighted macroeconomic challenges in the second half of the year, especially in the Middle East after Iran reintroduced US sanctions that resulted in increased inflationary pressures and a currency depreciation (MTN, 2019). Figure 2 below presents the analysis of MTN's liabilities, of which VAT forms part of the liabilities due to SARS.

**Figure 2.** MTNSA liabilities




| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| MTN South Africa Interest bearing | 22 382 000 | 26 981 000 | 17 886 500 | 8 792 000 | 30 616 000 |
| Non Current | 52 613 000 | 72 510 000 | 85 743 000 | 83 032 000 | 83 811 000 |
| Current | 67 630 000 | 89 519 000 | 77 726 000 | 65 116 000 | 72 570 000 |

*Source: Nene (2019).*

The interest for MTN South Africa was relatively low in 2017, with a value of R9 million, followed by a sharp increase to R31 million in 2018. In 2016, the non-current liabilities were R86 million higher, followed by a 3% decline in 2017, and a slight increase of 0.94% in 2018. The current liabilities were 11% higher in 2018 compared to 2017, and the VAT increase is one of the contributors to this increase of R73 million. There is a direct link between Figures 1 and 2, for the higher the profit MTN makes, the higher the VAT liability to be paid to SARS, and VAT forms part of current liabilities.

## 5. DISCUSSION

The research found that there were strategic financial decisions made by the executive team regarding the packages that were changed and where a VAT increase of 1% had to be absorbed. The MTN executives adopted this strategy in order to prevent poor customer impact after the VAT increase. The absorbance of 1% of the VAT increase on the packages that were changed was a form of risk acceptance to ensure that there was no customer impact that could have led to reputational damages. A risk acceptance strategy can be applied by the project management team and bore by the executives if the return supersedes the identified risk (Ardebili, 2020). Even though the qualitative results indicate a significant impact on the company's operational efficiencies and change management processes due to the legacy systems, the financial reporting perspective demonstrated no deficits due to the VAT increase. The quantitative analysis in Figure 2 showed that the VAT change increased the liability transactions from the balance sheet of the year 2018 compared to 2017 and there is an upward trend between the profit and liability account of the business in the context of VAT or the more profit MTN makes, the higher the VAT liability paid to SARS (Nene, 2019). These results might change in the next three to five years and a follow-up study could be beneficial to evaluate if similar results can be attained after five years, especially because MTN is a JSE-listed company. Investors have a vested interest in the financial performance of the organisation and VAT directly affects the balance sheet since it is a liability transaction (Chen et al., 2021). Financial reporting of the JSE-listed companies is critical to the investors and compliance is paramount as it demonstrates good corporate governance (Moloi & Iredele, 2020). Financial reporting is a corporate governance measure and principle to ensure that investors and stakeholders are informed of the audited financial position of the company to ensure a form of accountability (Alobari et al., 2019).

Most participants (70%) believed that the VAT rate increase of 1% had to align with all respective and operational systems. Lastly, another discovery made was that in most developing countries where government entities are clouded by corruption and mismanagement of resources, it results in a cost to the country's public funds (Omarjee, 2018). This article recommends that mobile operators should continuously review all old legacy systems and contentiously update the enterprise architecture framework in order to improve change management process inefficiencies. In conclusion, the article recommends that the telco project management team must conduct an impact analysis when managing unprecedented and regulatory-related changes before initiating the project. This will reduce project costs when dealing with unprecedented changes, reduce frustration to the project team, and improve project management efficiencies.

## 6. CONCLUSION

The comparison of MTN's financial statements was based on publications from 2014 to 2018. However, since the VAT increase took place in 2018, the researchers then compared the impact of the VAT increase using 2017, 2018, and the mid-year 2019 financial results in order to provide more insights. The research was done immediately after the VAT change. Therefore, the researchers suggest a follow-up study be conducted evaluating the same variables in order to determine the further impact on MTN's performance as the results might change in the next three to five years. Results attained from the primary data show that the impact of the VAT increase on the profitability and financial sustainability of MTN was significant. The extrapolated challenges associated with the implementation of the 1% VAT rate increase changes at MTN were complex (Nene, 2019). A recommendation to the project and programme management teams must be agile and consider prioritizing the review of old legacy systems, conduct impact analysis and contentiously update the enterprise architecture framework in order to improve change management inefficiencies and reduce project costs when dealing with unprecedented changes (Nene, 2019). Agility in programme management will improve cost efficiencies but also mitigate the risk around poor customer experience emanating from the complexity in billing and system management, compliance risk, and financial risk, and of which all these risk exposures can also be associated with both regulatory and reputational risks.

Even though Eswatini also increased VAT by 1% in 2018, however, the study was only limited to MTN South Africa although MTN also operates in Eswatini. Therefore, future study is highly recommended to evaluate the impact of VAT on MTN Eswatini's performance, especially after five years, to test if the results will be like the current study focusing on MTN SA. The South African telco industry market trends researched and presented by BMI (2018) did not analyse the impact of the VAT increase on the performance of the mobile operator. Even the study conducted by Cashin and Unayama (2016) only focused on how a VAT change affected consumers in Japan not in South Africa or in the performance of the telco industry. Fraud, non-compliance, and VAT refund debt were identified as major problems in Ukraine and threatened the country's economy due to inadequate VAT administration (Legeida & Sologoub, 2003). The literature gap focusing on the impact of VAT increase on the performance of the telco industry existed even after Legeida and Sologoub (2003) examined the performance of VAT revenue in Ukraine's economy and explored the challenges associated with VAT administration, as the telco industry was not part of their research exploration and findings. Therefore, this study has built the foundation for future research and closed the literature gap since no study was found during the research phase that explored the impact of VAT change on the performance of the telco industry, especially in the South African context.

Evidently, without innovative ideas, the business will not survive the contemporary complex issues of this age (Hong et al., 2018). MTN management must capitalise on the evolving technology that drives industry players to ensure creativity in order to remain competitive and relevant in the market in order to remain financially sustainable.

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