EDITORIAL

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As editor of this journal, I would like to dedicate this issue to the memory of the **Prof Colin Firer** who died earlier this year. Within the academic fraternity Prof Firer will be remembered as a scholar and researcher of the highest standard. The last article appearing in this issue, was also co-authored by him.

The relevance of the dividend decision has been a contentious issue in corporate finance research, partly due to contradictory views reported in existing literature. When faced with the dividend decision, management should understand its impact on shareholder value maximisation. **Pierre Erasmus** investigates the influence of the dividend decision on share returns for a sample of firms listed on the JSE from 1990 to 2010. Firms are allocated to portfolios based on dividend yield and dividend stability, and risk-adjusted abnormal returns for these portfolios are estimated. Results indicate that share returns were influenced not only by dividend payments levels, but also by the stability of these payments over time. The nature of a firm's dividend decision could therefore have an effect on its share return.

Small businesses have the potential to grow the economy, generate jobs and reduce poverty, but they face many constraints including high tax compliance costs and burdens. **Sharon Smulders** and **Gelishan Naidoo** compared the findings and recommendations made in small business tax compliance cost studies conducted in South Africa with initiatives introduced by the South African Revenue Service (SARS), substantiated by consultations with a SARS and a South African Institute of Chartered Accountants official, reveals that SARS has, in most cases, attempted to address the tax compliance burdens identified in these studies. However, SARS has only partially addressed the complexity of the tax law, the lack of software to assist small businesses with their record-keeping and the compliance burden associated with provisional tax. SARS has failed to address the need for a threshold below which no small business tax return is required to be submitted, the inclusion of tax in the school syllabus, the requirement for first-time offenders to attend courses instead of raising penalties and the need for a reduction in the rates of interest and penalties raised by SARS.

South Africa is classified as one of the wealthiest countries in Africa, yet half of its population lives below the poverty line and over a quarter of its labour force is unemployed. Foreign aid was one of the major sources of capital for the country. It poured in from many developed countries and it was very successful in promoting a stable society, especially during the first few years after apartheid ended in 1994. **Temitope Leshoro** therefore sees South Africa as a good case study for determining the relationship between and the effect of foreign aid on growth. As data on aid flow as a percentage of gross domestic product (GDP) in South Africa was only available from 1980, a co-integration analysis of the autoregressive distributed lag (ARDL) was adopted, using the method of the conditional unrestricted error correction model (UECM), which

accommodates small samples. The result shows that the relationship between aid and growth is negative both in the short and the long run.

In their study **Ferdi Botha** and **Carl de Beer** explore whether South African national sporting performance can influence investors in such a way that it has the ability to impact on market returns. Using standard event study methodology, this study determines the constant mean return using the daily All-Share price index on the JSE for the period of 1 January 1990 to 31 December 2010. By focussing on three of South Africa's most popular sports, they examine if these sports have the ability to influence market returns. Although there is some evidence of a relationship between stock returns and sporting performance in the descriptive analysis, the regression results indicate that sporting performance in South Africa does not significantly explain abnormal market returns on the JSE.

Yolanda Stander, **Daniël Marais** and **Ilse Botha** propose a new approach to identify trading opportunities in the equity market by using the information contained in the bivariate dependence structure of two equities. The relationships between the equity pairs are modelled with bivariate copulas and the fitted copula structures are utilised to identify the trading opportunities. Two trading strategies are considered that take advantage of the relative mispricing between a pair of correlated stocks and involve taking a position on the stocks when they diverge from their historical relationship. The position is then reversed when the two stocks revert to their historical relationship. Only stock-pairs with relatively high correlations are considered. The dependence structures of the chosen stock-pairs very often exhibited both upper- and lower-tail dependence, which implies that copulas with the correct characteristics should be more effective than the more traditional approaches typically applied. To identify trading opportunities, the conditional copula functions are used to derive confidence intervals for the two stocks. It is shown that the number of trading opportunities is highly dependent on the confidence level and it is argued that the chosen confidence level should take the strength of the dependence between the two stocks into account.

The South African forestry industry contributes to the economic growth of the country by the planting of trees and the processing of these trees for the export market. The purpose of this study, by **Lenny Naidoo** and **Mihalis Chasomeris**, is to examine the trends in wood chip exports from the Port of Durban and to examine the stability and growth of private pulpwood production in Southern KwaZulu-Natal. The methodology used in this study includes questionnaires distributed to timber farmers and semi-structured interviews with respondents in forestry. The findings show that wood chip exports from Durban have increased between 2006 and 2011. Dominant challenges faced by the farmers were land reform, transportation costs and municipal rates. Land claims, road infrastructure, cash flow and variation in the demand for timber were the most challenging factors affecting private timber production.

Lukas van Wyk, **Melville Saayman** and **Riaan Rossouw** focus on an economic assessment of the target obtained in South Africa regarding the Klein Karoo National Arts Festival (KKNK) applying both SAM and CGE models. Since both models have advantages and disadvantages, tourism economists are confronted with the predicament of determining which model is most suitable for application to any specific event. The findings reveal that when different models are applied to the same dataset from an event, the reported economic impact results differ significantly. Results indicate that considerations such as the data collection or compilation, expected output, research objectives and costs involved will determine the choice of a specific modelling framework. Data from a visitor survey conducted at the KKNK during 2010 were used in the analyses. This finding serves as a warning to assessors that economic impact results can be

misleading and, therefore, the application thereof should be handled with the utmost care as the results can readily be misinterpreted by stakeholders.

Duncan Palmer and **Niel Krige** provide two articles to this issue. In their first, the study summarises the development of a model to determine an individual's adjusted life expectancy based on his Real Age. The model incorporates aspects such as gender, residing province, income, HIV status, ethnic background, weight, exercise, family illness history, stress, substance abuse and diet. Predicting life expectancy is vital in retirement planning for two reasons namely given the diverse nature of South Africa, the national average life expectancy cannot be applied to everyone and retirement duration forms a vital part in the retirement planning process. Three representative examples of South African Real Age-adjusted life expectancies were simulated, predicting life expectancies of 67, 72 and 87 years, notably different from the 50 year average South African life expectancy.

In their second, the study addresses the question of how long a given amount of capital will be able to fund a living annuitant if five parameters are known: expected retirement duration (i.e. years between date of retirement and date of death), return on investment, inflation, annual withdrawal amount and initial capital amount available. A model (the Pension Model), that graphically depicts the relationship between these parameters, was developed. This model facilitates retirement planning by showing how retirement duration and withdrawal rates change the financial "Survival Probability" (SP), which is the probability of having enough capital to maintain a desired withdrawal rate for the expected retirement duration. The underlying model is based on long-term historical investment yields of equities, bonds and cash in South Africa using Monte Carlo simulation with Cholesky factorisation.

The study of subjective well-being is no longer on the periphery of study in the field of economics. A significant body of literature exists on the determinants of subjective well-being in the developed world. In their paper, **Derick Blaauw** and **Anmar Pretorius** use the first wave of the National Income Dynamics Survey (NIDS) dataset to investigate the determinants of subjective well-being in South Africa, involving a broad range of economic, socio-economic and attitudinal variables identified from literature. Ordinary Least Squares and ordered probit estimations reveal that age, race, level of income, years of education, gender, marital status and the number of children explain varying levels of well-being. Unlike studies in the developed world, respondents' height, health and residence in urban areas do not explain well-being. Two of the surprising findings point towards the significant influence of religion and provincial location in determining well-being in South Africa.

Mornay Roberts-Lombard, **Lauren Strachan** and **Leon du Plessis** state as the primary objective of their article to compare the influence of trust, commitment, and conflict-handling on customer loyalty through the intervening role of Customer Relationship Management (CRM) in the life and non-life insurance sector of South Africa. Primary data was gathered using a questionnaire. The sample consisted of 254 life insurance and 400 non-life insurance customers in South Africa. Multiple regression analysis was used to test the hypotheses. For the life insurance component of the study, trust, commitment and conflict-handling exerted a statistically significant positive influence on CRM. CRM also positively influenced customer loyalty. For the non-life insurance component of the study, no significant relationship exists between trust and CRM. A significant positive relationship does exist between conflict-handling and CRM, while a significant negative relationship exists between commitment and CRM.

Suzette Viviers and **Colin Firer** address a gap in the literature on responsible investing (RI) in South Africa by studying the risk-adjusted performance of RI unit trusts available to retail

investors. The Sharpe, Sortino and Upside-potential ratios for 16 RI unit trusts, their benchmarks and a matched sample of conventional unit trusts were calculated for the period 1 June 1992 – 31 August 2011. Most of the RI unit trusts in South Africa use exclusionary screens based on Shari'ah (Islamic) law with the remaining funds focusing on social issues, such as labour relations and social development. The total expense ratios of RI unit trusts are slightly higher than those of conventional funds, but no different from that of their benchmarks or a matched sample of conventional unit trusts. It is suggested that local assets managers expand the range of retail RI unit trusts available in the country.