EDITORIAL

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It was again an honour to perform the final edit on this issue of the ***Journal of Economic and Financial Sciences*** with high quality articles from within the fields of income tax, accounting and economics.

In their article, **Merwe Oberholzer**, **Gert van der Westhuizen** and **Christiaan Smit** conducted a study to estimate the relative efficiency of different sizes of residential Sectional Title Development Schemes (STDSs) in order to minimise operating costs. Since area (m2) and the number of units in an STDS were found to be equally important drivers of operating costs, data envelopment analysis was used to estimate the efficiencies of a sample of 113 STDSs. From their results was evident that smaller STDSs tend to be more efficient in minimising operating costs than larger STDSs and economies of scale generally do not exist.

Peter Baur carries on with this theme of 'efficiency' and used Hirshleifer's Conflict Success Function to highlight the 'urgency' of replacing traditional fuel-based power stations with alternative renewable energy generators, using South Africa as a case study. With growing infrastructural pressure induced by urban densification combined with rural development and the increasing demands of industrialisation, South Africa is facing a future lack of sufficient energy to fulfil the needs of the expanding economy putting additional pressure on the country's strained water supplies.

Shaun Watson and **Jacobus Rossouw** used an event study methodology to empirically examine share price reaction to financial restatement announcements resulting from investigations or recommendations by the GAAP Monitoring Panel and tests, in semi-strong form, the efficiency of the Johannesburg Securities Exchange (JSE). The results indicated that companies making such financial restatement announcements experience significant negative standardised abnormal returns ten days before and five days subsequent to the announcement. As evidenced by the significant negative standardised abnormal returns, it would appear that the announcements convey new information to the market. Although the lack of consecutive negative standardised abnormal returns around the announcement date would suggest that the JSE is efficient in semi-strong form, the five-day time lag between the announcement date and the significant negative standardised abnormal return supports the rejection of semi-strong form efficiency of the JSE.

In their article, **Karin Barac** and **Ben Marx** investigated the corporate governance effectiveness and value added at South African Higher Education Institutions from a registrar's viewpoint. As higher education institutions are faced with many challenges in fulfilling their core mandate of teaching, research and community engagement, they need strong, sound and visionary institutional leadership which should be embedded in sound corporate governance practices. Their study found strong support for sound corporate governance practices at HEIs in South Africa, and also indicates that these institutions are complying with and adhering to this, although room for improvement exists in certain areas. Additional reporting responsibilities, in accordance with current corporate governance developments, were identified as areas not meeting expectations.

Mario du Preez, **Deborah Lee** and **Leann Cloete** examined the Nelson Mandela Bay public's willingness to pay (WTP) for the removal of a local undesirable land use, the manganese ore dumps and the oil tank farm situated within the boundaries of the Port Elizabeth harbour, Eastern Cape, South Africa, by means of the contingent valuation method. Both a non-parametric and parametric estimate of the WTP was derived. The results of this study showed that policy-makers should take heed of the importance communities attach to the location of pollution-creating activities in urban areas.

A number of articles in this issue deal with the issue of taxation. The reportable arrangements (RA) provisions are contained in sections 80M to 80T of the Income Tax Act. SARS issued a revised Draft Guide on 31 March 2010, which contains a model for the application of these provisions. However, due to numerous discrepancies and ambiguities contained in the Act and the guide, the interpretation of these provisions could be subjective and difficult to apply in practice and failure to disclose a RA may result in a penalty. **Lee-Ann Steenkamp** and **Peter Cramer** developed an alternative, workable model to serve as a usable guide for taxpayers. By way of a survey conducted among tax partners at 40 leading audit and legal firms it was found that the majority of respondents considered the alternative model to be more accurate, user-friendly and helpful than SARS's model.

In the second article on taxation, **Sophia Brink** and **Herman Viviers** investigated a very common phenomenon in the South African market namely client loyalty programmes. Since the 1980s, the South African Revenue Service (SARS) has issued no guidance on the income tax treatment of client loyalty programme transactions in the hands of the consumer and as such benefits received in the form of goods, services or discounts from a client loyalty programme are currently not subject to normal South African income tax. The main objective of the research was to investigate whether the existing provisions in the Income Tax Act and related case law provide the basis for taxing client loyalty programmes in the hands of the consumer as natural person. In order to meet this objective local and international literature was analysed to determine the correct income tax treatment and it was found that points or miles received by a consumer meet all the requirements of the "gross income" definition and as a result should be taxable.

The third article on taxation **Leonard Willemse** conducted a critical analysis of the barriers to entry for small business owners imposed by sections 12E(4)(A)(iii) and (D) and paragraph 3(B) of the Sixth Schedule of the Income Tax Act, No. 58 of 1962. According to National Treasury's Explanatory Memorandum on the Revenue Laws Amendment Bill, 2008, small businesses in South Africa are instrumental in the growth of the South African economy as they are a source of job creation and a counter to poverty. Research, however, indicates that small businesses face many obstacles, such as relatively high tax compliance costs. It was, therefore, proposed in the 2008 Budget Review that a turnover tax system be implemented for micro businesses with a turnover of up to R1 million per annum to simplify the tax compliance process. Similarly, section 12E was introduced earlier in the Income Tax Act No. 58 of 1962 to offer additional income tax relief to small business owners. Sections 12E(4)(a)(iii) and (d) and paragraph 3(b) of the Sixth Schedule, however, prevent certain small business owners from making use of these concessions. The article now investigates these barriers to entry and explores possible solutions to the problems presented by them.

The premature termination of lease agreements is a common occurrence in the South African and international business arena. When a lease is terminated prematurely, it is currently the practice that the person who terminates the lease agreement has to pay a termination penalty. **Leonard Willemse** and **David Badenhorst** investigate the income tax treatment possibilities of the penalty paid by a lessor. For purposes of this investigation the income tax treatment of lease termination penalties in Australia, Canada, the United States of America and South Africa were investigated. This was done in order to identify guidelines and principles that could possibly be used in a South African context, which may lead to the efficient and correct treatment of lease termination penalties for South African income tax purposes. The investigation concludes that the factors surrounding the lease termination transaction as well as the intention of the parties involved, will determine the appropriate income tax treatment of the penalty.

The support of small businesses in South Africa forms part of national strategies for creating jobs and wealth. To support small businesses, initiatives aimed at developing financial management skills (through training, support services and mentoring) are offered by various public and private sector organisations. Using a multi-case study design, **Corrinna Kirsten** and **Johannes Fourie** explore the nature and extent of the financial management skills development interventions offered by a selection of Western Cape small business development support organisations. The study found that the financial management skills development interventions on offer are generalised and limited in reach. Given the skills and expertise available in the South African accounting profession, the study also demonstrates how members of the South African accounting profession can contribute to transferring financial management skills in a manner that will address the profession's corporate social responsibility.

In keeping with the theme of chartered accountants, **Gretha Steenkamp** looked at student perceptions regarding the new training programme for Chartered Accountants (CAs). The South African Institute of Chartered Accountants (SAICA) recently introduced a competency-based accreditation process for chartered accountants (CAs). This changed the structure of the practical training period or 'articles' (which is now called the CA 2010 training programme). The new training programme has an increased focus on developing 'pervasive skills' (which include personal and professional skills, such as leadership, communication and ethics), and allows trainees to gain detailed experience in a specific focus area.

Gerhardus van Zyl determined the geographic and industry differences for employee-remuneration gap-enhanced labour productivity levels in a developing economy using the Winter-Ebmer and Zweimuller model to estimate the signs and magnitudes of the employee-remuneration gap-enhanced labour productivity levels for the different industries in the different geographical areas. The estimation results for all three industries indicated a significant difference between the higher gross geographical product (GGP) provinces and the lower GGP provinces in terms of the employee-remuneration gap-enhanced labour productivity indicator coefficients (ERGLP indicator coefficients). The negative sign of the ERGLP indicator coefficients for the industries of some of the lower GGP provinces relates to the non-existence of any possible positive labour productivity effects that might stem from employee-remuneration gaps. The introduction of business uncertainty resulted in smaller ERGLP indicator coefficients across all industries and geographical areas. The impact was much more severe in the case of the lower GGP provinces

Given the volatile nature of global financial markets, managing as well as predicting financial risk plays an increasingly important role in banking and finance. The Value at Risk (VaR) measure has emerged as the most prominent measure of downside market risk and it is measured as the alpha quantile of the profit and loss distribution. Recently a number of distributions have been proposed to model VaR: these include the extreme value theory distributions (EVT), Generalized Error Distribution (GED), Student's t, and normal distribution. Furthermore, asymmetric as well as symmetric volatility models are combined with these distributions for out-sample VaR forecasts. **John Muteba Mwamba** and **Kruger Pretorius** assessed the role of the distribution assumption and volatility specification in the accuracy of VaR estimates using daily closing prices of the Johannesburg Stock Exchange All Share Index (JSE ALSI). It is found that Student's t distribution combined with asymmetric volatility models produces VaR estimates in out-sample periods that outperform those from models stemming from normal, EVT/symmetric volatility specification.

The mutual structure of various financial institutions has changed internationally, especially during the late 1980s and early 1990s. Various explanations have been offered with some commentators arguing the mutual organisational form has become redundant and others considering structural changes in the financial services industry as the main reason for organisational changes. In her article, **Grietjie Verhoef** explored the specific circumstances in South Africa of the changes in the mutual organisational form of building societies and insurance companies. As the mutual form of organisation has a long history in South Africa, the article explored the reasons for the early choice of mutuality and the recent forces leading to the demutualisation of companies in order to list as public entities on stock exchanges, both in South Africa and abroad.

Ewert Kleynhans and **Carika Claassen** evaluated the performance of the Platinum Spatial Development Initiative (SDI) development corridor in South Africa, which was initiated during 1996. The study employed shift-share analysis to investigate the economic growth and job creation potential of the manufacturing industries in the SDI region. Analysis of the North West Province was also done to enable comparison with the Platinum SDI. The results revealed that development in the Platinum SDI since 1996 was slightly better than the rest of the province. Sectors with the highest potential were wood and paper products, food and beverages, electronics, furniture and metal products, which merit attention in future development initiatives. Economic growth in the Platinum SDI was, in most cases, better than the rest of the province, and the industrial mix and regional competitive share effects had strong effect on employment and growth in specific sectors.