



Cape Peninsula
University of Technology

**EVALUATING COMPLIANCE RISK AND ETHICAL BEHAVIOURS WITHIN
SELECTED DEPARTMENT STORES IN THE CAPE TOWN METROPOLE**

by

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ABSTRACT

It is common knowledge that consumers in South Africa are generally over-indebted. Retailers operating department stores need to exercise vigilance to maintain ethical standards and compliance risk awareness in accordance with statutory and governance requirements in respect of credit. Research has revealed a reckless credit environment, with inadequate training, instruction and sensitisation informing the process of making borrowers aware of the complexities of obtaining credit.

This study sought to evaluate compliance risk and ethical behaviours within selected departmental stores in the Cape Town Metropole, South Africa, where credit facilities are extended to customers. Since these stores do not adequately assess the compliance risks and ethical behaviours in their credit granting process, they lose potential profits, which can affect the long term viability and sustainability of their business activities. The research assesses the processes encompassing the credit environment vis-à-vis the processes associated with credit granting to customers within departmental stores.

A number of retail department stores in Cape Town were selected using the convenience sampling method. Structured questionnaires were used to collect data, which was analysed using quantitative research methods. The study's findings indicate that although departmental stores have written procedures in place, and incorporate some level of training for staff on credit policies, their credit granting environments are not uniformly distinguished by the practical application of the appropriate ethical behaviour. The study adds value and contextual perspective to knowledge about the domain of credit sales and their risk attributes, and also proposes possible future research.

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DEDICATION

I dedicate this study to all members of Ezeonwuka and Obieli families. I count myself lucky to have such amazing families, and they are the luckiest families in the world for having me as their own

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GLOSSARY

Terms/Acronyms/Abbreviations	Definition/Explanation
CPA	Consumer Protection Act
CPUT	Cape Peninsula University of Technology
GDP	Gross Domestic Product
HDC	Higher Degrees Committee
ISO	The International Organisation for Standardisation
NCA	National Credit Act
NCR	National Credit Regulator
SPSS	Statistical Package for the Social Sciences
TFSA	The Financial Supervision Authority

CHAPTER ONE

PROBLEM IDENTIFICATION AND CLARIFICATION

1.1 Introduction

This chapter provides an introduction to the study, which is about evaluating compliance risks and ethical behaviours within selected department stores in the Cape Town Metropole. The chapter is divided into six sections. The first and second sections present the background to the research and research problem, respectively. The third section covers the research questions and objectives. The fourth section refers to the literature review and research methodology, while the fifth section discusses ethical considerations and the limitations and contribution of the research. Finally, the sixth section offers a summary of the chapter and outlines the structure of the thesis.

1.2 Background and purpose of the study

The retail industry is one of the major industries in the world and one of the largest sectors in many national economies (Luce, 2013), including South Africa's. With sales generation in 2014 of nearly \$22 trillion, retail was responsible for roughly 28.4% of the world's gross domestic product (GDP) (Ross, 2015). The South African retail sector is the largest on the African continent and classified 24th on A.T. Kearney's 2010 Global Retail Development Catalog (GRDI) (Thomas White International, 2011). Retail, albeit combined with wholesale, the motor trade, catering and accommodation, accounts for 15% of the South African GDP (South Africa.info, 2016). *Trading Economics* (2016) claims that this proportion has been static since 1994.

This makes retail a major potential contributor to economic growth through employment creation for both semi-skilled and skilled labourers in the country. However, this has not been the case in recent times, with a decrease in employment in the retail trade in the first quarter of 2016 compared to December 2015 (Stats SA, 2016). Despite this recent and probably temporary dip, in South Africa this industry has been growing from strength to strength over the years. Due to the many business opportunities in the industry, entrepreneurs and governments have invested substantial resources in the construction of shopping centres for various retail stores in South Africa and elsewhere in the world (Economic Analysis Unit of SRM, 2012). In South Africa, the biggest department store is Edcon (Edgars), with 31% of the market share of the clothing,

footwear and textiles retailing group (Economic Analysis Unit of SRM, 2012). Other heavyweights in the industry are the first Foschini Group, Massmart Holding Ltd, Woolworths Holding Ltd and Truworths. For the purpose of this research, attention will be paid to those department stores that are known to offer credit facilities to their customers.

There is intense competition in the industry in South Africa to win over consumers. Apart from retail sales, these department stores make additional income through the credit they grant to their customers by way of interest charged.

The main type of credit offered by the department stores takes the form of instalment agreements. This is defined as purchasing via funding from the store. The debtor takes the goods home in exchange for an agreement to pay later. Clothing, furniture, and major appliances are the main examples of goods purchased in this way. The customer is usually provided with a contract, has to make a down payment, and then agrees to pay the balance in a specified number of equal payments called instalments. The finance charges are included in the payments. The item purchased may be used as security for the loan. Another type of credit is that of a credit card, often issued by individual retail stores. Using a credit card can be the equivalent of an interest-free loan, if you pay for the use of it in full at the end of each month.

The use of credit and poor management skills often leads people into a situation of over-indebtedness where they are unable to meet their obligations in terms of the credit agreement. These credit facilities enable consumers to use money they do not have, to use more money than they earn, to use credit for normal buying, to use credit even when they are in possession of cash, and even to use debt to pay off debt.

1.3 Problem statement

It has been found that most organisations do not evaluate the compliance risks nor exhibit ethical behaviours in terms of credit granting (Moorad, 2013). These organisations find it difficult to evaluate the compliance risks and ethical behaviours due to a lack of awareness of these behaviours, a lack of understanding of them, and insufficient knowledge in terms of compliance risks within the business. Failure to understand the importance of compliance risks and ethical behaviours within the stores may result in loss of customers, loss of profits and low asset performance within the organisation (Dubihlela & Ezeonwuka, 2018; FECMA, 2015)

In the light of this situation, the research problem is defined as follows:

Department stores in the Cape Town Metropole do not sufficiently evaluate the compliance risks and ethics of their behaviour in the process of granting credit, and as a result lose potential profits which possibly impact on the long term viability and sustainability of their businesses.

1.4 Aim

The aim of this study is to explore the evaluation of compliance risks and ethical behaviours within the selected department stores in the Cape Town Metropole in terms of their credit granting activities.

1.5 Objectives

The main objective of the study stems from the aim:

- To determine the extent to which compliance risks and ethical behaviours affect the selected departmental stores in terms of granting credit, and the extent to which they are exposed to these risks

To achieve the main objective, sub-objectives were set as follows:

- To identify the extent to which the department stores are exposed to risks emanating from the granting of credit
- To identify the ethical behaviours being practised in the process of credit granting
- To identify the policies, rules and regulations in place within the selected stores with regard to credit granting
- To determine the extent of compliance with existing ethical standards, policies, rules and regulations within the department stores
- To propose alternative solutions to problems related to compliance risks in terms of credit granting within the selected stores.

1.6 Research questions

Main research question 1: What compliance risks are the department stores in the Cape Town metropole exposed to in terms of their credit granting activities?

Main research question 2: How do compliance risks and ethical behaviours affect the long-term viability and sustainability of credit-granting department stores in the Cape Town metropole?

1.6.1 Sub-questions

1. To what extent are the department stores exposed to risks emanating from the granting of credit?
2. What ethical behaviours are being upheld/practised within departmental stores that grant credit?
3. What policies, rules and regulations are in place within the selected stores with regard to credit granting?
4. What is the extent of compliance with ethical standards, policies, rules and regulations within the department stores?
5. Are there any alternative risk-mitigating solutions in place within the department stores with regard to the compliance risks associated with credit granting?

1.7 Overview of research design and methodology

This section discusses the research approach, design, and methodology used in this study, including the methods of data collection and analysis. The study is located within a quantitative research paradigm. Bryman and Bell (2011:26) define quantitative research as a “research paradigm that emphasises quantification in the collection and analysis of data and views the relationship between theory and research as deductive”. It typically involves the use of a large sample which is representative of the population, broadening the range of possible data and ultimately forming a fuller picture for analysis (Cooper & Emory, 1995). It is suitable for testing hypotheses, measuring social reality and quantifying collected data.

1.7.1 Research approach

According to Bhattacharjee (2012), a research approach can be either inductive or deductive.

- **The inductive approach** is based on qualitative data. It generates a theory from data analysis (Creswell, 2009). It moves from a specific point of view to a more general one.
- **The deductive approach** is based on quantitative data. It generates a theory from hypotheses and employs empirical research to test the hypotheses (Fouché & Delpont, 2011). It moves from a general point of view to a more specific one.

This study followed **the deductive approach**. Quantitative research involves approaching the research questions by collecting numeric data concerning them and analysing it statistically. This was done by disseminating questionnaires.

1.7.2 Research methodology and design

As indicated above, this research study adopted a quantitative methodology. Quantitative methodologies help generate a theory from hypotheses through the employment of empirical research to test the hypotheses.

Table 1.1: Research methodology and design

Research design	Research methodology
It involves planning and the types of results that must be obtained.	It focuses on the process of conducting research and the type of tools and procedures which are to be used.
It starts with the research problem or question.	It starts with the specific task at hand.
It is concerned with the logic of the research: what type of evidence is required to answer the research question?	It focuses on the individual steps in the research process and the “most objective” procedures which are to be used.

Source: Babbie and Mouton (2011).

1.7.2.1 Research design

The research made use of standard social science research techniques for sampling and methods of collecting data, through the administration of a questionnaire, direct observation, the transcribing of quantitative data and document analysis. The overall research design took the form of a survey because it allowed the researcher to work with a lot of data, processing a large sample in a relatively quick and easy way.

1.7.2.2 Population

The target population, also known as the 'universe' of the research, can be defined as all the individuals, items or units relevant to the study; it comprises individuals, groups, organisations, documents, campaigns, and so on (Quinlan 2011:206). The target population for this study comprises all department stores in the Cape Town Metropole that offer credit facilities to their consumers. As there is no comprehensive database of department stores in South Africa (Maas & Diederichs, 2007:3), convenience sampling was employed to select the research sample. This technique helped to identify those stores which were able to take part in the research study, providing the data that was subsequently analysed. The population includes both male and females working in individual stores, owners of stores and managers of branches of firms such as Woolworths, Foschini, Edgars and Truworths.

1.7.2.3 Sample frame

A sample frame is a representation of the elements of the target population (Malhotra 2010:373). Coldwell and Herbst (2004:73) define it as a list that consists of the directions for identifying the target population. A comprehensive list from which a population sample is obtained is viewed as a sampling frame (Saunders, Lewis & Thornhill, 2008). Lists of all employees that work within the various credit environments of department stores formed the basis of the framework. The store managers helped to identify those stores which were able to take part in the research study, providing the basic contact lists.

1.7.2.4 Sampling process

In a census data is collected and analysed based on the whole population (Saunders et al., 2008). The impact of one extreme sole occasion on consequent analysis is distinct in populations below 50 (Henry, 1990). The population size for this research was therefore above 50, which necessitating the use of a sampling technique. A non-probability sampling process was followed in this study, involving the distribution of questionnaires to respondents who were available in the various branches of organisations such as Woolworths, Foschini, Edgars and Truworths. The process of distributing the questionnaires and collecting the data from the respondents took over four months.

1.7.2.5 Sampling method

According to Burns and Burns (2008:181), a research sample refers to a portion of a target population which is representative of the population as a whole, with respect to the characteristics which are of interest to a particular researcher. This study employed convenience sampling, which is a non-probability sampling method. The researcher used his own personal judgement to select participants who best displayed the characteristics of most interest to the study. The questionnaires were distributed to the highest ranking members of staff at department stores within the Cape Town metropole that offer credit facilities to their customers.

1.7.2.6 Sample size

Although the number of employees in department stores may be increasing according to management, the actual figures of these employees is often fluctuating. Questions of time, budget, and degree of precision were pertinent in identifying the sample size. After taking these considerations into account, a sample size of 127 stores was determined upon for conducting the quantitative study.

1.7.2.7 Data collection instrument

Questionnaires were used for data collection in this study. Widespread use of the questionnaire as a data collection instrument in quantitative research is due to its standardised, highly structured design that is well suited to the quantitative method. The advantages of the questionnaire is that the costs are low and swiftness of data distribution and gathering is achievable. Some of the questionnaires were distributed online and others were submitted as hard copies to the respondents. The questions asked were open- and close-ended questions. The close-ended ones included questions requiring answers such as YES or NO, while the open-ended ones gave respondents the opportunity to express themselves, provide their opinion and share their experience in respect of the phenomenon being investigated.

1.7.3 Data collection

The questionnaires were distributed personally by the researcher to the respondents. A uniform and matching questionnaire was used for each respondent. The questionnaire was preceded by a brief letter explaining the nature and objectives of the research. It introduced the research topic

and outlined the importance of the investigation to department stores operating in the Cape Town metropole.

The instructions in the questionnaire were written in simple, concise and understandable English. The introductory letter was followed by closed-ended questions which were easy to answer. These questions included questions requiring only a 'yes' or 'no' answer, filter questions and follow-up questions. Five-point Likert scale questions were asked in order to determine the degree to which the respondents agreed with specific statements made in the questionnaire.

A structured questionnaire was chosen for the quantitative study, owing to the simplicity of the process of administering it and the way that it makes it possible to obtain relevant data from a large number of respondents within a short space of time. Of the total of 150 questionnaires distributed to respondents, 127 were returned, a response rate of 85%.

1.7.4 Data analysis

The analysis of data is the process of considering the research questions in relation to findings emerging from the data, to confirm or disconfirm the assumptions on which the research questions were based and to develop explanations for the findings (Babbie & Mouton, 2011:13). Descriptive statistics was used to explain the composition of the sample. The Statistical Package for Social Sciences (SPSS) was used in analysing the data. In addition, t-test, correlations, regression analysis and analysis of variance (ANOVA) were used to examine differences and relationships among the variables in the study (Cooper & Emory 1995). The results were based on 127 sets of responses, and presented in the form of frequency tables.

1.7.5 Reliability and validity

In order to generate findings which are both credible and reliable, the instruments used in a research study should be tested against the criteria of validity and reliability. Reliability is the assurance that the items posited to measure the construct are sufficiently related to be reliable (Coldwell & Herbst, 2004:17). Cronbach alpha reliability was used. The acceptable requirement for Cronbach's coefficient should greater than 0.70 (Hair et al., 1998:134). Validity refers to the extent to which a test measures what it is meant to measure (Cooper & Emory 1995:149). Discriminant validity and convergent validity were established through a pre-test, a pilot test, correlations and regression analysis.

1.8 Delimitations of the study

Participants who received the questionnaires were the business leaders (owners and/or managers) of any credit-granting department store in Cape Town. These leaders were actively involved in the operations of their business, and were selected on the basis of their knowledge and experience of credit granting. The businesses had to conform to a definition of 'department store', have between 51 and 200 total full-time equivalent employees, and have been in operation (including credit facilities) for at least 1 year.

1.9 Ethical considerations

"Appropriateness of the researcher's behaviour in relation to the rights of those who are affected or become the subject of the researcher's work" is referred to as research ethics (Saunders et al., 2008:183). Ethics relates to all aspects of the research which should be executed responsibly and morally (Saunders et al., 2008). Hence the research design must be morally feasible and methodologically solid (Saunders et al., 2008).

There are two prevalent philosophical viewpoints regarding ethics in management and business research: (1) deontology and (2) teleology (Saunders et al., 2008; Cooper & Schindler, 2011). In the deontological perspective there is no justification for unethical research, irrespective of the importance of the results. On the other hand, the teleological view would claim that the outcome required by the researcher (if sufficiently important) rationalises the way in which the research is executed, even if it is unethical (Saunders et al., 2008). This study assumed a deontological stance: the author worked ethically throughout the research and countenanced no deception, even though deception might have seemed essential to guarantee the validity and reliability of the data.

The researcher complied with the ethical standards for research in the social sciences involving human participants. The nature of the study and its possible benefit to them and their community were explained, in order to obtain their informed consent: that is, the participants were required to sign a form to indicate that they understood the nature of the research and that they had voluntarily agreed to participate in the study. They were assured that they were free to withdraw from the research process at any time. They were informed that the information they had provided in response to the questions would be used for academic purposes only and would be treated as strictly confidential. In addition, a confidentiality agreement was signed between the researcher and the organisations where the research surveys were carried out, over and above the ethical

clearance obtained from the university. In order to comply with the requirements of the university, a letter was obtained from the Higher Degrees Committee (HDC) of the Cape Peninsula University of Technology (CPUT) as proof of the legitimacy of the research and the research topic (see Appendix A).

1.10 Structure of the study

This study is divided into five chapters:

Chapter One starts with an introduction to the research, providing an overview and background to the study. The design of the research is briefly discussed. The chapter goes on to formulate the research problem, research questions, and the aims and objectives of the research.

Chapter Two provides a literature review of relevant material on compliance risks and ethical behaviours in retail stores.

Chapter Three covers the nature of and reasons for the research approach and methodology used to investigate compliance risks and ethical behaviour within the credit environment.

Chapter Four presents the results obtained from the quantitative data collection, and features analysis of these results. This involves numbers, tables and graphs.

Chapter Five presents a discussion on the findings regarding department stores' non-compliance and ethical behaviours. It concludes the study, describes the contribution of the study, and makes suggestions for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of relevant literature canvassed for the purposes of the study. The focus areas include the global retail industry and South African retail industry, in sections 2.2 and 2.3, respectively. This is followed in 2.4 by a definition of credit and an account of the retail credit environment. Section 2.5 offers a definition of compliance, followed by a discussion of compliance risks in the retail credit environment in section 2.6. Section 2.7 introduces the question of ethical behaviour in the retail credit environment. In 2.8 the key components of the National Credit Act are described, followed by those of the Consumer Protection Act in 2.9. Credit evaluation and approval is discussed in section 2.10, followed by the question of compliance with policies, rules and regulations pertaining to the granting of credit in 2.11. The chapter ends by looking at the implications for long-term business viability and sustainability, as well as for business performance (sections 2.12 and 2.13). The final section offers a summary of the chapter.

2.2 Retail defined

Jones and Baron (1991) define a retail store as a business unit that buys goods in large quantities from manufacturers or wholesalers and sells them to the public in relatively small quantities for use or consumption, rather than for resale. According to Varley (2014), retail is the distribution process in which retailers are organised to sell products in small quantities to the public. Retail is regarded as a major industry within most countries' economies, even though countries differ in how they define retail (Colton, Roth & Bearden, 2010). We shall look at the retail industry in both the global and South African contexts, focusing on its growth as well as its contribution to the global and local economies.

2.3 Global retail industry

The retail industry is one of the major industries in the world, and one of the largest sectors in many national economies around the globe (Luce, 2013). The retail sector contributes immensely to national economies and to global revenue. It is responsible for roughly 28.4% of the world's

gross domestic product (GDP) (Ross, 2015), as highlighted by its 2014 sales generation of nearly \$22 trillion (Ross, 2015). Some countries have experienced economic growth specifically through retail (Handa & Grover, 2012). For example, while the retail and wholesale trade is the third largest contributor to the economy in a country like Germany (McMillan & Rodrik, 2011), in India it is the largest contributing industry to the GDP (Handa & Grover, 2012).

The retail industry is one of the most obviously diverse industries across the globe (Luce, 2013). Although big companies tend to dominate, relatively small ones are developing massively. The big companies are multi-nationalised, operating in almost every country, while smaller ones are struggling with questions of how to expand and develop (Luce, 2013).

The retail industry is one of the largest providers of employment. The industry accounts on average for 10 to 15 percent of a country's total employment across the world, with a figure of around 11 per cent of the workforce in the US and the UK (Mukherjee & Goyal, 2012; Mead & Leidholm, 1998). In terms of Gross Domestic Products for 2009-2010, about 142 million people were employed in the retail sector in 82 countries, including China and India (Karnani, 2007).

2.4 The South African retail sector

The retail industry in South Africa is no exception to the global success and growth story. South African retail companies compare well with other retailers globally (*Trading Economics*, 2016). The South African retail sector is a major contributor to both the South African and African economy (*Trading Economics*, 2016). Since 1994, there has been a steady annual contribution from the retail industry to the South African GDP (*Trading Economics*, 2016) of about 15% (South Africa.info, 2016; Corporation, 2014). It is important to note that this statistic combines retail with wholesale, the motor trade, catering and accommodation (South Africa.info, 2016; Corporation, 2014).

The South African retail sector is the largest on the African continent (Aye et al., 2015) and was ranked 24th on A.T. Kearney's 2010 Global Retail Development Index (GRDI, 2010) (Thomas White International, 2011). The industry also presents profitable investment opportunities for new players in sub-Saharan Africa (Fafchamps, 2001). The SA sector is positioned as the 20th largest retail market in the world (Crush & Frayne, 2011), with a trade turnover increasing every year (D'Haese & Van Huylbroeck, 2005). With an average annual increase of 29 percent in online retail sales, total retail trade sales are expected to further escalate (Goldstuck, 2012). It has been

seen that this growth influences the economy in South Africa (*Trading Economics*, 2016), so it is no surprise that it is supported by increases in both the supply of retail space and the number of shopping centres in the country (Ligthelm, 2008). From the consumer's perspective, it is worth noting that growth in the retail industry is mostly influenced by the economic conditions in which consumers find themselves (Carree & Thurik, 2010).

Edcon, Truworths, Woolworths Holdings and Massmart Holdings are the major industry players in the country, while the main food retailers are Pick n Pay, Shoprite, Woolworths (food) and Spar. They trade under several store names and also operate discount outlets (Economic Analysis Unit of SRM, 2012).

The importance of the retail industry in South Africa cannot be overemphasised. Being classified as tertiary sector, the retail industry falls within the wholesale and retail subsector (also known as the trade subsector), with retail driving the performance of the subsector (Industrial Development Corporation, 2014). In terms of employment, the industry is a major creator of employment for both semi-skilled and skilled workers in the country. Albeit that in recent times there has been a decrease in retail employment (e.g. in the first quarter of 2016 compared to December 2015) (Stats SA, 2016), the industry's share of employment has been fluctuating at around seven percent of the national total. The highest contribution made by the retail industry to employment was in 2006, when it reached 7.9 percent (Aye et al., 2015). In terms of sales, the retail industry has achieved tremendous growth over the years, the most recent example being a rise in sales of 4.8 percent year-on-year in March, 2018 (*Trading Economics*, 2016). This is evident in the emergence of new shopping malls housing many department stores (Economic Analysis Unit of SRM, 2012).

On the other hand, retailing in South Africa faces great challenges due to uncertainty and competitiveness that make for a tough and volatile business environment (Yao, 2006:2). South Africa has a diverse retailing landscape characterised by a population comprising consumers of various races (Rogerson, 1995; De Bruyn & Freathy, 2011). Consumers have become more demanding and value-conscious, requiring retailers continuously to seek ways to maximise the value that they provide to their customers (Parikh, 2006). They can achieve this through keeping themselves informed of the ways in which customers are served (Yao, 2006:2). Yao (2006:3) found that customer service plays an important role in the performance of the business, and is associated directly with questions of cost, price, profitability, output and employment. Being able to secure a competitive advantage has become important in the long-term success of a retailer

(Dupuis, 1996). Amidst such challenges, Dotson & Patton (1992:15-28) found that retailers do not always deliver the desired services to their customers.

These growths and challenges indicate the important role of the retail industry in South Africa and explain the need for retailers to offer credit facilities in order to maintain a competitive advantage over their peers.

2.5 Retailers as credit providers

Before proceeding any further, it is necessary to define credit, an essential term in this study. Most of the following definitions come from the National Credit Act, No. 34 of 2005 ("Act") (South Africa. NCA, 2006), which defines credit as "a deferral or delay of payment of a sum of money to another person, or a promise to pay money". The Financial Supervision Authority (TFSA) (TFSA, 2005) defines credit as a legal relationship that results in or may result in a claim on a second party, while an agreement is a contract binding two or more persons. According to Van Heerden and Coetzee (2011), a grant of credit has a positive impact on organisations and people by enabling them to have the use of a product or service at a cost represented by an interest rate. This is prior to their having paid for that product or service or, if an item cannot be afforded from a single month's salary, when payments are spread over a number of months.

For retail stores to succeed they need to understand the concept of credit and how they can use it to their advantage (Arthur Andersen, 1997). In most cases, the growth of financial service provision within the retail sector has provided retailers with the opportunity to have a closer relationship with their customers (Peppard, 2000). That is, the provision of credit has been used within both the modern retail system and certain pre-modern systems to create relationships between retailer and customer through a mutual interdependence (Alexander & Colgate, 2000). Retailers provide a wide range of financial services including store charge cards; current accounts; credit cards; savings accounts; insurance; life assurance; mortgages; personal loans; personal equity plans; share dealing, and foreign currency exchange (Alexander & Colgate, 2000). Some of those products are associated with core products sold by the retail shops. Retailers selling high value items are able to sell insurance or provide a supporting service through the ordering of personal loans (Alexander & Colgate, 2000). Other financial services may be provided because of the customer base (Alexander & Colgate, 2000).

As described by Rogerson (2004), the August 2004 policy framework of the Department of Trade and Industry specifies that the role of credit for department stores is as follows:

- It enables department stores customers to make use of a product or service, at a cost represented by an interest rate, prior to their having paid for that product or service or, where an item cannot be afforded from a single month's salary, when payments are spread over a number of months.
- However, as described by the NCA, it is a double-edged sword. This is because of the "considerable imbalance of power between consumers and credit providers," owing to low levels of education among consumers, coupled with a poor knowledge of consumer rights and an inability to enforce such rights through negotiation or legal actions. There is a greater need to balance access to credit with protection for consumers, especially the vulnerable.

2.5.1 Types of credit line/loan

There are various types of credit granted in the business environment, particularly within the retail industry. These, according to the National Credit Act (NCA), include a credit facility, credit transactions, instalment agreements, unsecured money loans, pawn transactions, mortgage agreements, secured loans, leases of movable goods, credit guarantees and incidental credit agreements (National Credit Act, 2006). In this research, the author will be concentrating on instalment agreements as found in the retail businesses environment. Instalment agreements are concluded when movable goods such as furniture, clothing or a car is sold. The goods are delivered to the consumer then paid for in an agreed number of instalments. The consumer becomes the owner of the goods only when all the instalments have been paid (National Credit Act, 2006).

2.5.2 General credit granting process as described by the Financial Services Conduct Authority

The Financial Services Conduct Authority (FSCA) is the market conduct regulator of organisations that provide financial products and financial services, financial institutions that are licensed in terms of a financial sector law, including banks, insurers, retirement funds and administrators, and market infrastructures. It is responsible for ensuring that the regulated entities comply with the relevant legislation as well as requirements to promote the financial soundness of these

entities, thereby protecting the investing community and the customers. The credit granting process as generally accepted should include the following:

- Business owners should have procedures in place for processing credit applications and decisions and for amending and renewing existing credits.
- Credit decisions must be made in accordance with written instructions approved by the business owner. There should be in place a clear audit trail documenting the whole process, from credit application to credit decision. Also, credit decisions should give a detailed account of the contents of the decision, the grounds of granting and so on. The whole credit granting process must be verified after the exercise.
- The processes of credit application and credit decision must be segregated so that the person preparing the decision cannot make a credit decision on his own.
- Credit must not be disbursed to the customer until the supervised entity has received all the necessary documents. This credit document must be retained by the business owner. The Act on the Prevention and Detection of Money Laundering contains provisions on the retention of customer identification data. The retention periods for accounting books and records are laid down in the Accounting Act.
- There is a need to provide the terms and conditions before the granting of all the new credit and the changes of terms and conditions of credit previously granted.
- Overall, credit granting requires adequate disclosure and transparency of information.

2.6 Defining compliance

Compliance can be defined as conforming to rules such as a specification, policy, behaviours or law (International Standardisation Organisation [ISO] 19600:2014). Compliance can also be defined as an enterprise-wide commitment to acting within pre-determined norms that enable business owners to act legally and ethically (Murphy & Yates, 2009). Murphy and Yates (2009) characterise compliance as an organisation acting upon certain laws that are relevant to the industry's behaviours and policies, for example, a code of conduct. According Murphy and Yates (2009), such laws, policies and behaviours have a great impact on the business, the staff and the treatment of consumers. Compliance is achieved through defined management processes that identify the applicable requirements, such as laws, regulations, code of conduct and policies (ISO, 19600:2014). Compliance management is very important for every business as it provides a benchmark for maintaining behaviours and business objectives. The ISO also emphasises that

compliance motivates employees and helps organisations to grow their economy through protection of their assets (ISO, 19600:2014).

In terms of an organisation's performance and competitiveness, the major objective of compliance is to make sure that business owners fulfil all their responsibilities and effectively manage the risk of non-conformance (ISO, 19600:2014). Such risk could be posed by themselves or by their customers (Joyner & Payne, 2002; Falck & Hebllich, 2007). Ssebagala (2016) recommends that business owners establish, develop, implement, evaluate, maintain and continually improve compliance. This includes the processes and conduct required to meet international standards, taking into consideration governance principles such as direct access to the compliance function for the governing body, independence of the compliance function, and appropriate authority and adequate resources being allocated to the compliance function (Joyner & Payne, 2002).

2.7 Compliance risks in retail credit environments

Compliance risks are threats and/or opportunities associated with the non-adherence and/or adherence to relevant laws, regulations, policies and procedures; (Brockett & Rezaee, 2012; Moeller, 2011). These risks are synonymous with events that lead to legal sanctions, financial loss or reputational loss as a result of failure to comply with laws and regulations, codes of conduct, and standards of best/good practice (Murphy & Yates, 2009). Examples of compliance risks include violation of local tax laws, violation of employment-related laws, and non-adherence to health and safety rules.

Credit risk is defined by Morris and Shin (2009:2) as an uncertain event whereby the borrower fails to discharge his/her obligations as stated in the credit agreement, resulting in a loss on the part of the credit grantor. Credit risk can also be defined as the probability of loss due to the borrower's failure to make payments on any type of debt (Furfine, 2003). Risk is endemic to credit itself, seen as "a deferral of payment of money owed to a person, or a promise to defer such a payment" (Fisher, 2006). It is the advancement or payment of money to another person, or at the direction of another person, as a form of promise to them (South Africa. NCA, 2006).

For the purposes of this research, compliance risks are the ones encountered in the credit granting environment. Although it has a wider meaning, the phrase "compliance risk" will be used interchangeably with "credit risk" in the remainder of the study.

Authors and researchers have given various accounts of the compliance risks that businesses are exposed in terms of credit granting. Consumers are shifting expenditure from a future period of their lives to the present (Ssebagala, 2016:1). Although this situation cannot overstate the positive welfare effects of this innovation, there is always an immense risk involved (ibid.). Consumers normally make every effort to repay their debts, but the possibility of default will remain inevitable, even in a tightly regulated credit market, due to factors beyond the control of either consumer or lender (Niemi-Kiesilainen & Henrikson, 2005). If consumers go wrong and default, lenders have no choice but to seek repayment through a process of litigation, or seizure of collateral, or some heavy-handed debt collection approach. Others will simply write off the loss as bad debt. These options all add unwelcome costs to the credit system. Modern credit societies have recognised this and have devised legal means for these debts to be processed for easy repayment, known as the credit granting process (ibid.). The section that follows describes the compliance/cost risks that businesses are exposed to in terms of credit granting.

2.6.1 Irrecoverable bad debts

Bad debt is an act of diversion and misuse of borrowed funds by a borrowing customer (Oladapo, 2015). In this context, a customer's debt to the store owner is bad when it becomes obvious that the customer will not be able to make further payment on his/her outstanding credit. Almost all businesses encounter bad debts, including department stores in Cape Town. No matter how the lending is secured at the beginning, the risk of bad debt is inescapable (Munene & Guyo, 2013). But if bad debts cannot be eliminated, they can be managed – though this is difficult, especially when the process is not monitored well from the beginning, that is, during the granting of credit (Drezner, 2009).

2.6.2 Material loss

In some situations, such as when the customer signs out with his/her credit account with the store, the store owner might possibly lose his/her material/product if the customer cannot complete repaying his/her debt and has already taken the product purchased (Smith & Smith, 1999). This is the case when the customer cannot be found again or has passed away.

2.6.3 Deviation from initially agreed terms

Customers cannot necessarily be trusted and their circumstances can change at any time of their life. Promises can be fulfilled or unfulfilled. When a customer buys a product on credit and promises to pay the remaining debt via a signed agreement, the store owner must believe that

he/she will complete payment of the debt owed. But if the customer breaches the terms of the agreement, the store owner stands to lose (Rajan & Dhal, 2003).

2.6.4 Inability to purchase due to low cash flow

Even though granting credit to customers can be a successful means of increasing sales at department stores, being too generous with credit can lead to further problems with cash flow being tied up. Store owners run the risk of not being able to purchase more products, or even to pay overheads, salaries and other costs promptly (Ericsson, Renault & Calcagno, 2005).

2.6.5 Loss of interest income

Department stores in Cape Town run the risk of losing the interest on the capital lent to their customers in the form of credit. Usually the selling price of goods sold on credit is relatively higher, making up the interest that is accumulated over time (Warren, 1958). This is a great incentive for those stores to make credit sales (Emery, 1984). However if non-payment or partial payment happens, they will be forced to forfeit that income as well (Ingene & Levy, 1982).

2.6.6 Low profitability

Department stores in Cape Town run the risk of making less profit from their business as a result of non-payment or delayed payment from their customers (Kithinji, 2010). This is profit that could have been made on products had they been sold for cash (Boahene, Dasah & Agyei, 2012).

2.6.7 Legal penalties

As a result of the strict requirements of the National Credit Act 34 of 2005, department stores in Cape Town may be running the risk of having to incur legal charges or penalties levied by the National Credit Regulator (South Africa. NCA, 2006; Economic Analysis Unit of SRM, 2012).

2.7 Ethical behaviour in retail credit environments

Given the risks that “bad ethics” can invite, it has been affirmed that “good ethics is also good business” (Prottas, 2013). Di Florio (2011) argues that customers receiving credit should be treated fairly and honestly. This helps to build the business’s reputation and brand name (Di Florio, 2011). It also helps to attract the best employees and business partners. Niemi-Kiesilainen and Henrikson (2005) recommend that business owners have a culture that reinforces ethical

behaviour as a key component of effectively managing risk across the enterprise. In order to establish behaviours of internal control in credit granting, there is a need to implement strategies and objectives according to preferences, value judgments, and management styles (Niemi-Kiesilainen & Henrikson, 2005). Viimsalu (2010) argues that the integrity, transparency and commitment of the business owner is paramount in credit granting. Department stores need to have adequate resources and authority to enable them to implement and monitor credit granting (Elgari, 2003). They should also carry out an internal audit when due, as this provides independent verification and assurance in controlling the consumers' credit and helps the business operate effectively (SOX, 2002; Ashbaugh-Skaife et al., 2009).

In South Africa, a consumer credit regulatory regime has been introduced that emphasises the prevention of consumer over-indebtedness. There are tools that allow individuals or debtors to get relief from their over-indebtedness through a formal re-negotiation of the credit terms, thereby compelling creditors to compromise on repayment demands (Dickerson, 2008; Van Apeldoorn, 2008; Niemi-Kiesilainen & Henrikson, 2005). The aim of such regulatory intervention is to protect debtors and their families from devastation, with the hope of achieving financial rehabilitation so as to be again productive in their individual homes and in the economy as a whole (Van Apeldoorn, 2008). According to Viimsalu (2010) and Tabb (2005), political pressure to restrain growing power imbalances between creditors and consumers has increased in countries like South Africa over the years, which has led to recognition of the accumulation of debt and the inability to repay it. There are now calls for a liberal consumer debt relief system.

Again, the South African National Credit Act 34 of 2005 introduced a legal mechanism to relieve debt problems. This provides solutions to alleviate debt already incurred, settlement of the credit agreements, early payments and the surrender of goods in the event of an inability to pay (South Africa. NCA, 2006). As it is important to discuss the key components of the National Credit Act (NCA) and the Consumer Protection Act (CPA), the next section will highlight these components as they relate to the department stores and their customers.

2.8 Key components of the National Credit Act

The National Credit Act (35 of 2005) is part of an all-inclusive statute designed to protect borrowers in the credit market and make credit and financial services more accessible. The purpose of the NCA is to promote and advance the social and economic welfare of South Africans; promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and

accessible credit market and industry; and to protect consumers while balancing the rights of suppliers. The aim of the NCA is to achieve consumer over-indebtedness prevention by promoting responsibility in the credit market, and addressing the imbalances between consumers and credit providers (Kelly-Louw, 2008). The NCA requires credit providers to perform a full credit assessment before entering into a credit agreement with the customer. Such an assessment includes taking reasonable steps to ensure that the customer understands the rights, obligations, risks and costs associated with the credit agreement; and it must assess the consumer's financial position. Thus, the NCA enforces adequate disclosure of credit information to aid consumers' decision making and awareness of credit and consumer rights (Gathergood, 2012). On this basis, the next section analyses the key components of the Act that relate to consumer protection through the prevention of over-indebtedness.

2.8.1 The NCR and the registration requirements

Section 12 of the NCA recognises the NCR. According to Section 14 of the NCA, the regulatory functions of the NCR are extensive and include the registration of credit providers, credit bureaux and debt counsellors, and the maintenance of registries of any persons registered in terms of the Act (South Africa. NCA, 2006). Other functions of the NCR include growing the competitive and accessible credit market, enforcement of the NCA and conducting public research concerning credit issues. Matters of credit are to be reported according to the policy established regarding the credit industry (Bond, 2015).

As far as debt counsellors are concerned, education, experience and competence have to be taken into consideration. In order to avoid conflict of interest, fraud and industrial collusion, it is very important for a debt counsellor to register (Kelly-Louw, 2008). Registration plays an important role because it has a consumer protection implication for consumer redress in the case of wrongdoing. Also, registration allows for information on operations and trends within the credit market to be tracked. Such information is important for public knowledge and policy updates (Bond, 2015).

2.8.2 The disclosure requirements and information sharing

Semenova and Hassel (2008) note that consumers who have a clean record will have more opportunities in the market, since their ratings are in the domain of the entire market and not restricted to a single lender. The disclosure of credit information by lenders to borrowers is a vital step, in that it can reduce bad judgement on the part of borrowers. It improves rational decision

making, allowing consumers to compare and evaluate offers before taking a decision (Gathergood, 2012).

The NCA regulates credit marketing and sales as well as any product information considered to be misleading to consumers. For instance, the NCA requires that both cash and monthly payment terms must be mentioned, with the cash price receiving equal prominence. This requires a full disclosure of the facts in all credit marketing (South Africa. NCA, 2006).

The NCA introduces the national credit register and regulates credit bureau operations. The objective of the NCA is to create viable infrastructure to enable information sharing between lenders. The idea is to evaluate the cost and risk profile of possible customers (Roestof et al., 2009).

Disclosure and information sharing are crucial in the processes of reversing the increasing problem of consumer over-indebtedness and reducing the incidences of default. Lenders need enough information to assist them to make a good lending choice that can benefit both sides of the market (Van Heerden & Coetzee, 2011).

2.8.3 Reckless lending and over-indebtedness

Over-indebtedness results from defective market behaviours. It leads to unanticipated negative life actions. Concerning market behaviour, consumers need to be protected from lenders' opportunism and deception as well as from their own irrationality (Kelly-Louw, 2008).

Additionally, the NCA requires a consumer to disclose material information during the assessment. This is a defence against reckless credit and a great improvement in regulating lending behaviour (South Africa. NCA, 2006). It has had an important impact on market behaviour (Gathergood, 2012).

2.9 Key components of the Consumer Protection Act

After the National Credit Act came the Consumer Protection Act, which introduced substantial protection measures for the benefit of South African consumers. This legislation imposes heavy compliance and other burdens on department stores and all who supply products and services to consumers (Act, 68AD). The Consumer Protection Act promotes a fair, accessible and sustainable marketplace for consumer products and services. For instance, it establishes national

norms and behaviours to ensure consumer protection (Naudé, 2009). It prohibits certain unfair marketing and business practices by promoting responsible consumer behaviours. The CPA is meant to be applied to every transaction occurring in South Africa, including the promotion or supply of any goods and services (Woker, 2010).

In this context, the question that arises is: to what extent are department stores in South Africa compliant with the stipulations of this Act in their processes of credit granting?

2.9.1 Understanding a consumer

A consumer is a person to whom goods or services are marketed; one who has entered into a transaction with suppliers; a user of particular goods, or a beneficiary of services (Woker, 2010). All South African consumers should be aware of their legal rights, such as the right to equality in the consumer market and protection against discrimination in marketing practices, the right to privacy, the right to choose, the right to disclosure of information, the right to fair and responsible marketing, the right to fair and honest dealing, the right to fair and reasonable terms and conditions, the right to fair value, good quality and safety, and the right to accountability on the part of the suppliers (Woker, 2010).

Some if not all of these rights have some kind of impact on department stores. They are as follows (Act, 68AD):

2.9.1.1 Consumer's right to free and unlimited access to goods and services

- Suppliers are not allowed to limit access to goods and services
- Suppliers are not allowed to prioritise any consumer groups over others in terms of marketing, selling, or distribution of goods and services.

2.9.1.2 Consumer's right to fair pricing of goods and services

- Suppliers are not allowed to charge unfair prices for their goods and services
- Consumers must be treated equally, irrespective of gender, race, socio-economic status or geographic location.

2.9.1.3 Consumer's right to return unwanted goods and not pay for unsolicited goods or services

- A consumer has the right to return unwanted goods and services, at the risk and expense of the supplier
- A consumer is entitled to keep unsolicited goods and services after 20 business days.

2.10 Credit evaluation and approval

Credit evaluation and approval describes the process a business or an individual must go through in order to become eligible for a loan or to pay for goods and services over an extended period (Dykstra & Wade, 2000). Credit evaluation refers to the process a business or a lender commences when evaluating a request for credit. This evaluation depends on the willingness of the creditor to lend money, and their assessment of the ability and willingness of the borrower to return the money (Cole, Moshirian & Wu, 2008). Often, creditors require borrowers to return the money plus interest. In most cases, small businesses seek credit approval to obtain funds from lenders, investors, and vendors, and also to grant credit to their customers (Cole et al., 2008).

According to Prince (2004), individuals and small businesses tend to rely on loans or other forms of credit to finance their purchases. For any credit approval process, customers need a sound credit record (Mlandu, 2007). They need to be able to show that they can repay the loan at the established interest rate (ibid.). According to Frye et al. (2000), in applying for credit, borrowers must realise that they need to be evaluated on their ability and willingness to pay the amount to be owed. This includes, among other things, examination of the character of the borrower and the means of repayments (Du Plessis, 2007; Mlandu, 2007). The process is regulated by the National Credit Regulator (NCR) to ensure fairness and guarantee non-discrimination and disclosure of all aspects of the process (South Africa. NCR, 2007).

The next paragraph introduces some of the factors that lenders consider when an individual or business customer seeks credit:

Credit worthiness: The granting of credit depends on the confidence the lender has in the borrower's credit worthiness (Petersen & Rajan, 1997). This in turn depends upon an evaluation of the borrower's history of trustworthiness, moral character, and expectations of continued activity that demonstrate that he or she has the ability to pay (Guérin et al., 2013). The creditworthiness of all new customers is assessed by following up on references provided or

confirming their credit records with the credit bureau (Avery et al., 2000). Factors such as credit limit, payment history and outstanding balance are considered before any additional credit is granted to existing customers (Anderson, 2007).

Size of debt burden: Creditors give more positive terms to those with high credit ratings via lower point structures and interest cost. Creditors seek borrowers whose earning power exceeds the demands of the payment schedule (Schooley & Worden, 2010).

Loan size: Creditors prefer large loans due to the fact that the administrative costs decrease in proportion to the size of the loan (Petersen & Rajan, 1994). Nevertheless, legal and practical limitations induce recognition of the need to spread the risk either by making a larger number of loans, or by having other lenders participate (Petersen & Rajan, 1994). In this situation participating lenders need adequate resources to grant large loan applications.

Length of commitment: Lenders accept increasing risks as the length of time increases. In order to cover some of the risks, lenders charge higher interest rates for long-term loans (Petersen & Rajan, 1994).

Frequency of borrowing: Clients who are frequent borrowers establish a good reputation which has an impact on their ability to secure debt at advantageous terms (Sampagnaro, Melies & Verdoliva, 2015).

Social and community considerations: Lenders may accept certain risks because of the social good that results from the use of the loan (Peredo & McLean, 2006).

2.11 Role of policies, rules and regulations

Established policies and procedures help businesses to comply with applicable national consumer protection laws and regulations (Torp, 2004). These measures provide standards by which business owners can measure and review their business operations (Torp, 2004; Ssebagala, 2016). According to Torp (2004), compliance with the policies of any business or organisation should be documented, reviewed and updated. Policies established in any business are meant to include relevant goals, objectives and procedures to be followed in credit granting (Ssebagala, 2016). The information provided may include applicable regulations, definitions and sample forms with instructions, business policy, and directions for reviewing, retaining and destroying

transaction documents (Ssebagala, 2016). For instance, application forms and procedures should be made available so that business owners can treat all their customers equitably and fairly.

Business owners should have established procedures in place for processing credit applications and decisions and for amending and renewing existing credits (South Africa. NCA, 2006). The Financial Supervision Authority (TFSA) (2005) points out that credit decisions must be made in accordance with written instructions approved by the business owner. There should be a clear audit trail documenting the whole process, from credit application to credit decision. Also, credit decisions should give a detailed account of the contents of the decision, the grounds for granting, and so on. The whole credit granting process must be verified after the exercise (Thomas, 2000). On this basis, the processes of credit application and credit decision must be separated, so that the person handling the paperwork cannot make a credit decision unilaterally. It is thus necessary to provide before granting any new credit any changes in the terms and conditions of credit previously granted. This requires adequate disclosure and transparency of information (Roestof et al., 2009).

In terms of policies and regulations, those applicable to department stores in the Cape Town Metropole include the following (Javorcik & Li, 2013; Naudé, 2009; South Africa. NCA, 2006): there should be an existent detailed formal credit policy, with the provisions of the National Credit Act being recognised in the policy; the customer's creditworthiness must be checked; credit applications forms should be filled in by customers; customers' trade references should be checked; securities should be taken on products; personal guarantees should be obtained for doubtful customers; credit limits and payment terms should be set; customers' debt re-payment histories should be checked; and credit scoring and compliance with the National Credit Act should be applied accordingly. In terms of developing credit policies, Prince (2004) notes that businesses must consider the cost involved in granting credit and the impact of authorising credit purchases.

2.11.1 Challenges to effective credit granting process

While businesses, and more particularly retail establishments, have experienced troubles throughout the years for a large number of reasons, the main reason for sustainability issues continues to be directly identified with remiss credit behaviours (Duffie & Singleton, 2012). These troubles are mainly the result of the challenges being faced by these stores in their credit-granting processes. The list below highlights some of the challenges within the credit environment that are

applicable to department stores, including those in the Cape Town Metropole (Bond, 2015; Sewnunan, 2015; Cameron, 2012; Naudé, 2009; Roestof et al., 2009; South Africa. NCA, 2004):

- Quantifying risks is difficult
- There is a lack of necessary knowledge and skills within the organisation
- Business priorities are often conflicting
- It is difficult to calculate parameters
- There is a shortage of technical knowledge and trained personnel
- There is a high cost attaching to credit policy implementation
- There is a high cost associated with the technology used in the credit process
- Data retention
- Fragmented and outdated consumer credit legislation
- Consumer protection is not effective, particularly for consumers with a low income
- The cost of credit is high and there is a lack of access to credit in some areas
- Increasing the number of over-indebted consumers
- Reckless credit granting: “A credit agreement is reckless if, at the time that the agreement was made, or when the amount approved in terms of the agreement is increased, the credit provider failed to conduct an assessment as required by the Act” (NCA, 2005:Section 80)
- Reckless behaviour by credit providers and exploitation of consumers by micro-lenders, intermediaries, debt collectors and debt administrators
- Inefficient data management: an inability to access the right data when it is needed causes problematic delays
- No group-wide risk modelling framework. Without this, businesses cannot generate complex, meaningful risk measures and get the big picture of group-wide risk.
- Constant rework: analysts cannot change model parameters easily, which results in duplication of effort and negatively affects the business’s efficiency ratio
- Insufficient risk tools. Without a robust risk solution, businesses are unable to identify portfolio concentrations, or re-grade portfolios often enough to effectively manage risk
- Cumbersome reporting. Manual, spreadsheet-based reporting processes overburden analysts and IT.

2.11.2 Ways of mitigating these compliance risks

- Sales staff are familiar with company’s credit policy

- There is an enterprise risk data infrastructure in place
- Credit policy is supported at the board and executive level
- Qualified and competent staff are hired
- There is adequate staff training
- Documents are properly recorded and filed
- There is strong adaptation to the national and global credit environment
- Technology is implemented in the credit environment of the business.

2.12 Impact of compliance risk on long-term sustainability

A simple definition of sustainability as the word is used in this study is given by Merriam-Webster (2016): the ability of a business entity to last or continue for a long time, or the capacity of a business to continue to operate successfully (Pollard & Stephen, 2008). Canara Robeco (2016) provides a more elaborate definition by describing sustainability as the creation of long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

Sustainability is the primary concern of microfinance institutions, and to improve their financial viability, they are progressively offering a wide variety of products and services similar to those of banking institutions (Daily & Huang, 2001). Yet success is not automatic and a number of other factors must also be considered. Studies suggest that corporate sustainability is a multifaceted concept that requires organisational change and adaptation on different levels (Daily & Huang, 2001; Wilkinson, Hill, & Gollan, 2001). Considerable concern has been expressed regarding the sustainability of various business entities, especially in South Africa (Cant & Wiid, 2013; Bruwer, 2010). Of particular reference are the recent scandals involving notable South African businesses including Steinhoff (Naudé et al., 2018), KPMG (Farooq & Shehata, 2018; Ruggunan & Spiller, 2018), Bell Pottinger (Cave, 2017), as well as state-owned enterprises and the Guptas, a family with close ties to the former president, Jacob Zuma (Van der Merwe, 2016; Plaut, 2018). These scandals point to major issues of unethical corporate behaviour (ibid.). The business discontinuance rate was estimated at 4.9% in 2013, 3.9% in 2014, 4.8% in 2015, but 10% in 2016 (Herrington & Kew, 2017). The question that arises now is whether this discontinuance is caused by risks associated with unethical behaviour, and if so, to what extent? Sifumba et al. (2017) claim that risk management is an issue pivotal to the success of any business. If management of the risks (which of course includes maintaining a high standard of ethical behaviour) is vital to a business's success, then it is safe to say that the risks in themselves have a huge impact on the

business. This is supported by Yilmaz & Flouris (2010), who stresses that certain compliance risks pose threats and bring opportunities that affect enterprise sustainability.

2.13 Impact of compliance risk on business performance

Owing to the apparently huge impact of the retail industry on the nation's GDP, the performance and growth of retail is a matter of primary concern (Industrial Development Corporation, 2014; Stats SA, 2016; *Trading Economics*, 2016). Various techniques have been employed by researchers to assess risks associated with credit and relate them to business performance, both statistical and non-statistical, financial and non-financial (Becchetti & Sierra, 2003). Psillaki, Tsolas and Margaritis (2010) identify three essential elements in a business that affect its performance. According to Psillaki et al., efficiency, profitability and liquidity have a strong direct impact on business performance. Their study claims that more efficient firms, more profitable firms and more liquid firms are less likely to fail. This means that how efficiently retail businesses manage their whole credit environment, in the sense of managing and reducing compliance risks as well maintaining high standards of behaviour, affects their overall performance. Department stores operate in a highly competitive environment that renders success unlikely. It is unlikely that they will generate enough cash flow to repay their own debt. It is also expected that such retailers will not remain solvent as a result of having fewer incentives than their more efficient competitors. Solvency will not provide them with enough protection against threats to their liquidity. The second factor, being profitable, reflects the earning power of an organisation's assets, in this case, "receivables" (Altman, 1968). This profitability, which, as noted earlier in this study, can be reduced by credit write-offs, does have a strong relationship with the credit environment. This is supported by Zavgren's (1985) study, which claimed that profitability is an important indicator of a firm's health. The third factor of liquidity, which could be hindered by an adverse credit environment, is also relevant to credit-granting retailers. Credit affects an organisation's receivables, which form a substantial part of its current assets, and these assets are the firm's working capital after the deduction of current liabilities. This working capital is used in the measurement of an organisation's liquidity. According to Altman (1968), any organisation going through persistent operating losses will have its assets shrunk, which will lead to low liquidity. For retailers, ineffectual credit granting processes and risks associated with these will form a huge part of their operating losses. There is thus an inevitable expectation that such organisations with fewer net liquid assets will be less likely to perform well (Psillaki et al., 2010).

2.14 Chapter summary

This literature review has explained how big and influential retail department stores operate and how they contribute to the world economy. Their great importance renders them a vital part of any nation's economy, with South Africa being no exception. The literature characterises compliance as an enterprise-wide commitment to acting within pre-determined norms that enjoin business owners to behave legally and ethically. It can be referred to as an organisation's acting in accordance with certain laws that are relevant to the industry's behaviours and policies. Compliance is achieved through defined management processes that identify the applicable requirements such as laws, regulations, codes of conduct and policies. Business owners should establish, develop, implement, evaluate, maintain and continually improve a compliance management system, including the processes needed and their interactions, in accordance with international standards. In determining the scope of the compliance management system, business owners and department stores in the Cape Town metropole should determine the boundaries and applicability of the system.

Credit is defined as a deferral or delay of payment of a sum of money to another person, or a promise to pay money, while an agreement is a contract binding two or more persons. Credit enables department stores in Cape Town to grant their customers the use of a product or service, at a cost represented by an interest rate, prior to their having paid for that product or service or, where an item cannot be afforded from a single month's salary, a mechanism to spread payments over a number of months.

The literature review has also shown that there are different types of credit granted by organisations, including a credit facility, credit transaction, instalment agreements, unsecured money loans, pawn transactions, mortgage agreements, secured loans, leases of movable goods, credit guarantees and incidental credit agreements. This research focused on the instalment agreements found in the retail business environment.

The literature consulted described compliance risks as threats and/or opportunities associated with the non-adherence and/or adherence to relevant laws, regulations, policies and procedures. Credit risk is an uncertain event, whereby the borrower fails to discharge his/her obligations formalised in the credit agreement, resulting in a loss sustained by the credit grantor. While consumers normally make every effort to repay their debts, the possibility of default will remain inevitable, even in a tightly regulated credit market, due to factors beyond the control of both the

consumer and the lender. The literature outlined some compliance risks that businesses are exposed to in their credit granting environment and which affect Cape Town department stores.

Additionally, the literature review has revealed that good ethics is also good business. Business owners should have a culture that reinforces ethical behaviour as a key component of effectively managing risk across the enterprise. To establish internal controls on the process of credit granting, there is a need to formulate strategies and objectives that will be implemented based on preferences, value judgments, and management styles. Every business owner should develop a credit strategy or plan that establishes the objectives guiding their credit granting activities, and also adopt the policies and procedures necessary for conducting credit risk management.

Finally, the literature review has explained that compliance with policies and procedures provides the means to ensure consistent operating conditions that support businesses in complying with applicable national consumer protection laws and regulations. Compliance with the policies will provide standards in terms of which business owners can review their business operations. In terms of challenges to an effective credit granting process in the Cape Town metropole, there is typically a lack of necessary knowledge and skills within the organisation. Quantifying risks is difficult and business priorities are often conflicting. Therefore qualified and competent staff should be hired and trained in order to gain the knowledge and skills they need.

The next chapter describes the research design and methodology utilised in this study in pursuit of its objectives. The chapter includes discussion of the data collection methods as well as the statistics used to analyse the data.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter presented a review of literature relating to compliance risks that businesses are exposed to in terms of credit granting in the Cape Town metropole, types of credit granting by business owners in the Cape Town metropole, ethical behaviours practised by business owners when granting credit, and compliance policies, rules and regulations in place with regard to credit granting. This chapter discusses the research methodology as follows: descriptive research (3.2), the research approach (3.3), research strategy (3.4), research design (3.5), techniques and procedures (3.6), and ethical considerations (3.7). Section 3.8 offers a conclusion.

3.2 Descriptive research

Descriptive research describes a phenomenon as it exists by identifying and obtaining information about the characteristics of a particular problem. This type of research is thus essentially about describing a specific situation (Collis & Hussey, 2013). This study describes the extent to which department stores comply with the required behaviours when it comes to granting credit to their customers. The study also describes the possible compliance risks they are exposed to due to inefficiency. The aim was to provide a concise and valid picture of the various relevant factors. Because it is more structured, the descriptive mode was preferred for this study over the exploratory one.

3.3 Research approach

A research methodology is a collection of methods and techniques used to carry out an investigation (Neuman, 2011), including data collection and analysis. According to Bhattacharjee (2012), a research approach can be either inductive or deductive.

- **The inductive approach** is based on qualitative data. It generates a theory from the data analysis (Creswell, 2009), moving from a specific point of view to a more general one.
- **The deductive approach** is based on quantitative data. It generates a theory from hypotheses and employs empirical research to test the hypotheses (Fouché & Delpont, 2011). It moves from a general point of view to a more specific one.

This study followed the deductive approach through data gathered via questionnaires.

3.4 Research Design

Quantitative research involves approaching the research questions and research design by collecting numeric data and analysing it statistically. The data collected and analysed is thus likely to be described in terms of numbers and formulas (Collis & Hussey, 2013). This study, which sought to obtain information about a particular problem within selected stores, adopted a quantitative method, in part because of its flexibility for analysing data from a large population.

3.4.1 Target population

A population is defined as a collection of individual people, items or other units, such as families, corporations, textbooks or videos, from which data can be collected. A target population comprises all the individual people or units that possess a characteristic or set of characteristics in which the researcher is interested (Dorsten & Hotchkiss, 2005). The target population for this study includes all the department stores within the Cape Town metropole which offer credit facilities to their consumers. As there is no comprehensive database of department stores in South Africa (Maas & Diederichs, 2007:3), convenience sampling was employed to select the research sample. This technique helped to identify those stores that were able to take part in the research study and could provide relevant data for subsequent analysis. The population includes both male and female senior employees, owners of stores and managers of branches of companies such as Woolworths, Foschini, Edgars, and Truworths.

3.4.2 Sample size

A sample is drawn from a targeted population and reflects the characteristics of the group from which it has been drawn. Researchers need to make decisions about the size of their research samples on the basis of factors such as available time, budget and degree of precision required (Fowler, 2013). After taking all these factors into account, a sample size of 150 department stores was determined for conducting the quantitative study.

A sample may be selected through either probability or non-probability sampling techniques (Tansey, 2007). Probability sampling is about selecting a portion of the research population in such a manner that each element or member of the population has an equal possibility of being selected (Polonsky & Waller, 2011). In contrast, when non-probability sampling is employed, researchers use their personal judgement to select participants who best represent the

characteristics in which they are interested for the purposes of a specific research study (Polonsky & Waller, 2011).

3.4.3 Sampling procedure

Sampling refers to any process that involves the selection of part of a population in order to determine the characteristics of the population. Convenience sampling refers to selecting people or units on the basis of their availability (Zikmund et al., 2013). This study employed convenience sampling, which is a form of non-probability sampling because the researcher used his own personal judgement to select participants who seemed best to represent the characteristics in which he was interested for the purposes of the study. Questionnaires were distributed to the most senior members of the selected department stores within the Cape Town metropole which offer credit facilities to their consumers.

3.4.4 Data collection instrument

The data collection instrument was a questionnaire. According to Fox & Bayat (2008), a questionnaire is a list of questions compiled by a researcher in order to conduct a particular investigation. The questions are either written or asked orally. In this study the questionnaires were distributed to the respondents in order to collect the requisite data. The respondents were permitted to choose a suitable time to complete the questionnaire, as it is not always necessary for the researcher to be present during the process. Using questionnaires to collect data allows large numbers of participants to take part in research studies and also provides the participants with ample time to understand what is required of them (Bryman, 2016). Furthermore, a questionnaire is noted for its ability to gather objective and unbiased information (Fox & Bayat, 2008)

3.5 Data collection

Quantitative data was collected via questionnaires distributed personally by the researcher. The same questionnaire was used for all respondents. The questionnaire was preceded by a brief letter explaining the nature of the research and its objectives. It introduced the research topic and explained the importance of the investigation to credit-granting department stores, particularly those operating in Cape Town metropole.

The instructions in the questionnaire were written in simple, concise and understandable English. The introductory letter was followed by closed-ended questions that were easy to answer. These questions included questions which required only a 'yes' or 'no' answer, and follow-up questions. Five-point Likert-scale questions were asked in order to determine the degree to which the respondents agreed with specific statements. Open-ended questions were also included so as to obtain more detailed responses from the respondents.

Questionnaires from various studies conducted both within and outside of the field of credit were consulted to help design the final version of the questionnaire used in the study. Of the total of 150 questionnaires distributed to respondents, 127 were returned, which meant a response rate of 85%.

3.6 Data preparation

The analysis of quantitative data starts with editing and coding. The editing process includes checking the questionnaire forms for omissions, legibility and consistency in classification, discarding completed responses from which data is missing, identifying potential errors in the collecting of the data and discussing their implications (Zikmund et al., 2013). The coding of data includes the development of codes, assigning the codes and accommodating "don't know" responses. After these processes have been completed, the data is entered into a spreadsheet before being analysed through the use of SPSS statistical software.

3.7 The coding of open-ended questions

Codes were assigned to the various categories of response to questions. Codes were developed for application to the data obtained from the open-ended questions. The codes were generated from ongoing analysis of the data and refined through a process of reiteration.

3.8 The content of the questionnaire

According to Baker (2003), an effective questionnaire depends upon the design and phrasing of the questions. Thus during the designing of the questionnaire, the researcher took into account considerations such as complexity, length, layout and wording. The questionnaire was 5 pages long and combined open-ended, closed-ended and Likert-scale questions (see Appendix C). The first section of the questionnaire contained questions requiring socio-demographic and general information from the respondents. The second section sought information about the business of

the respondent and its methods and activities associated with credit, the risks involved and its management of them.

3.9 The administration of the questionnaires

The respondents were presented with questionnaires at locations that were most convenient for completing them, or at their business premises in Cape Town. The researcher made appointments to meet with the participants. In those cases in which the respondents were unwilling to complete the questionnaires themselves, the researcher would complete them according to their oral responses to the questions. As the research study was conducted in English, the researcher asked each respondent to re-read the questionnaire before answering the questions. Once the quantitative data was collected, the capturing process started, prior to analysis of the data.

3.10 Data analysis procedure

Quantitative data was collected from the participants. The Statistical Package for Social Sciences (SPSS) software, version 25, was used to capture and analyse the data. There are several reasons why the researcher chose to use SPSS for the analysis. The most important reason was that the software immediately identifies errors in the data capturing phase. Another reason is that it offers easier and faster access to certain functions like descriptive and frequency functions. Yet another advantage of the software is that it makes available a wide range of graphs and charts to assist with the analysis. The results, based on the 127 responses received, were presented in the form of frequency tables.

3.10.1 Descriptive statistics

Descriptive statistics provide straightforward synopses of the data. The measures that are normally used to portray the data incorporate measures of centrality, for example, the math mean, mode, and median, as well as measures of dispersion, for example, standard deviation and variance. In this study, the researcher used percentages, charts, and graphs to summarise and describe the data. A math mean was utilised to abridge and rank the responses to the Likert-scale questions. For these questions, a standard deviation was processed to decide the level of agreement among responses to a specific question, with short of one showing agreement and in excess of one demonstrating disagreement.

3.10.2 Reliability and validity

As no estimation strategy can be thought to be flawless in each conceivable regard, researchers need to make frequent assessments of the research instruments they wish to use to gather data for their studies, for validity and reliability (Bless, Higson-Smith & Kagee, 2006:150).

3.10.2.1 Reliability of the research instrument

The reliability of a research instrument, according to Bless et al. (2006:150), refers to its ability to produce similar results in more than one trial. This point is expanded upon by Brink (1993:35), who notes that reliability is the capacity of a research technique to consistently result in comparable results over continuous testing sessions. For this study, reliability was tested to ensure the reproduction of similar outcomes if the questionnaire somehow managed to be directed to a similar population utilizing a similar methodology at a different time. To accomplish this, a test of the reliability of the questionnaire was conducted during the experimental stage. During this testing stage, the questionnaire was handed to four academics with immense experience in questionnaire design. After a series of reviews, these academics found the questionnaires to be simple, clear and understandable, and highly likely to yield similar outcomes if administered to similar respondents at different times.

Apart from the experimental test, a test was performed on SPSS using Cronbach's Alpha Coefficient in order to test the internal reliability of the questionnaire (Saunders, Lewis & Thornhill, 2009). The computed average Cronbach's Alpha Coefficient for the items in the questionnaire was 0.849 (see Appendix D). On this account, the questionnaires were deemed reliable and consistent: according to Bruwer (2010:40), a questionnaire is deemed reliable and internally consistent provided that the Cronbach's Alpha Coefficient exceeds 0.70.

3.10.2.2 Validity of the research instrument

Validity of a research instrument may be internal or external. Validity is an indication of the extent to which a research instrument measures what it is expected to measure (internal), and the extent to which it leads to a valid conclusion (external) (Leedy & Ormrod, 2005).

3.10.2.3 Internal validity

There are different types of internal validity. For the purposes of this study, only construct and content validity were deemed necessary, and these are discussed below.

3.10.2.4 Construct validity

Construct validity alludes to the degree to which the research instrument really measures what it intends to measure (Brynard & Hanekom, 2006:48). Essentially, construct validity fulfils two purposes: to ensure that the research instrument is measuring what it ought to be measuring, and to confirm that the questions included in the questionnaire are relevant to the objective of the questionnaire (Lawrence, 2006:242). A useful method of ensuring construct validity is through the use of a pilot test (Rowley, 2002). For this study, as previously mentioned, the questionnaire was handed to four academics with immense experience in questionnaire design. Through this process, the academics were required to expand on their comprehension of each question and point out conceivable shortcomings that undermined the construct validity of the questionnaire. The questionnaire was modified according to the proposed modifications to improve its construct validity.

Another vital method for ensuring construct validity in a questionnaire is by seeking to decrease the subjectivity of the questions by connecting each one to the research questions or objectives as formally conceptualised (Rowley, 2002). The researcher duly derived the questions in the questionnaire directly from the research objectives.

3.10.2.5 Content validity

Content validity refers to the degree to which all aspects of a given construct are covered by a research instrument (Brynard & Hanekom, 2006:48). In this context, content validity is measured by the extent to which the questionnaire incorporates a sufficient and representative set of items to cover the concept concerned (Leedy & Ormrod, 2005:31). To enhance the content validity of the study, the opinions of four academics with vast experience in questionnaire design were obtained regarding the adequacy and coverage of the questions included in the questionnaire. The questionnaire was consequently amplified to incorporate questions that were considered to enhance coverage, while redundant ones were eliminated.

3.10.2.6 External validity

External validity refers to the degree to which research findings based on a sample can be generalised to the population from which the sample is taken or to other comparable populations in terms of contexts, people, times, and settings (Leedy & Ormrod, 2005:105). To achieve external validity, a random sampling technique is usually recommended to ensure that the sample is representative of the population (Brynard & Hanekom, 2006:48). In the absence of a complete list

of credit-granting department stores in the Cape Town Metropole, this study could not use this technique. Nevertheless, a large target sample size of 150 stores was set so as to increase the representativeness of the sample. Consequently, external validity was deemed to have been achieved to some extent.

3.11 Ethical considerations

The ethical issues the researcher considered in this research include:

Confidentiality and Anonymity:

The researcher kept the respondents' answers confidential and/or anonymous. The researcher consistently preserved participants' anonymity and right to privacy and gave a full explanation of how their data would be used. The researcher got external parties to distribute the questionnaires to respondents on his behalf in order to preserve anonymity and objectivity. The participants' identities were not revealed in any way in the resulting report.

Voluntary Participation:

Participation in the research was voluntary: no force or coercion or deception was applied to potential respondents. They were invited to participate on the clear understanding that they were under no obligation to do so, and that there were no negative consequences for them if they did not.

Plagiarism:

The researcher did not misrepresent someone else's work as his own. The Harvard system of referencing was used to cite this material appropriately. The researcher understood that in the academic institution hosting the study, plagiarism is a breach of the student code of conduct and could result in the study's failure or even in the author's expulsion from the institution. Therefore, the researcher employed deep care in the use of materials from others to ensure that they were adequately referenced.

Informed consent:

This is a vital step in any research project. It is the process through which a participant is given adequate information to enable them to make a decision about whether or not to take part in a study (Ritchie et al., 2013). The researcher duly received authorisation from the participants for their participation in the research study, where possible in writing.

Deceit:

In some cases, telling respondents your true intent might modify their response or behaviour. In this research, deceit was avoided by the researcher at all times.

3.12 Summary

This chapter provided a detailed overview of the approach adopted to conduct the research study and the research methods employed. Questionnaires were used in order to collect the data. The questionnaires included various categories of questions, including open-ended, closed-ended and Likert-scale questions. The data collected through questionnaires was subjected to pilot testing in order to ensure that relevant reliable data would be obtained when they was administered in the quantitative study proper. The chapter concluded with a detailed account of the ethical obligations of professional research in the social sciences, all of which were complied with during the conducting of this study. The following chapter, Chapter 4, presents the data analysis and reports on the results with pertinent discussion.

CHAPTER FOUR

DATA ANALYSIS

4.1 Introduction

The previous chapter provided an overview of the research methodology employed in the study. The purpose of this chapter is to present an analysis and discussion of the results of the survey questionnaire administered to investigate the compliance risks and ethical behaviours associated with the granting of credit in selected department stores in the Cape Town metropole.

The chapter includes a review of the research objectives (4.2), followed by discussion of the response rate (4.3). Section 4.4 discusses the demographics of the respondents. The results themselves are presented and discussed in Section 4.5. Section 4.6 presents a summary of the chapter.

4.2 The main research objectives

The aim of this study is to explore the compliance risks and ethical behaviours within selected department stores in the Cape Town Metropole in terms of credit granting.

Consequently, the objectives of the study are the following:

- To determine the extent to which compliance risks and ethical behaviours affect the selected departmental stores in terms of granting credit and the extent to which they are exposed to risk
- To identify the ethical behaviours being practised in the process of credit granting
- To identify the policies, rules and regulations in place within the selected stores with regard to credit granting
- To determine the extent of compliance with existing ethical behaviours, policies, rules and regulations within the department stores
- To propose alternative solutions to problems relating to compliance risks in terms of credit granting within the selected stores.

4.3 Response rate

The researcher hand-delivered 150 questionnaires to store managers and owners. Among the questionnaires distributed, eight were not completed as the respondents were not present, while 15 were misplaced by store staff due to shift changeovers. As a result, 127 usable questionnaires were returned, yielding a response rate of 85% (see Table 4.1). The response rate of this study far exceeds the minimum recommended by Fowler (2013), who suggests that the response rate must be at least 20% to provide credible results about a population.

Table 4.1: Response Rate

	Number of respondents	Percentage (%)
Target respondents	150	100%
Target respondents not present	-8	-5%
Misplaced questionnaires	-15	-10%
Responses received	127	85%

4.4 Respondents' demographic information and store profile

In section A of the questionnaire, respondents were asked to provide information concerning their personal profile and place of work. The personal profile included their position in the store and level of education. The store profile information included the size of the business.

4.4.1 Position in the store

As shown in Table 4.2, 78% of the respondents were managers, 14% credit managers and 5% were finance/account managers. Only 3% of respondents indicated "other". According to the results, all the participants in the survey met the criteria for targeted respondents, who were required to be members of senior management. Also from the data illustrated in Table 4.2, it can be concluded that the managerial staff in department stores in Cape Town are mainly the store managers. This consequence is logical since operating a retail store is a challenging endeavour which requires experienced individuals who can make well-grounded marketing decisions (Parker & Castleman, 2009), especially strategic marketing decisions.

Table 4.2: Position in the store

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manager	99	78.0	78.0	78.0
	Credit manager	18	14.2	14.2	92.1
	Finance/Accounts manager	6	4.7	4.7	96.9
	Other	4	3.1	3.1	100.0
	Total	127	100.0	100.0	

4.4.2 Gender of respondents

Concerning the gender of the respondents, 79.5% were male and 20.5% were female, as indicated in Table 4.3, below. This finding suggests that males dominate managerial positions in department stores.

Table 4.3: Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	101	79.5	79.5	79.5
	Female	26	20.5	20.5	100.0
	Total	127	100.0	100.0	

4.4.3 Age category of respondents

According to the results as indicated in Table 4.4, just less than a quarter (22.8; $n=29$) of the respondents were under the age of 30. Half (50.4%; $n=64$) of the respondents were aged between 30 and 39 years. Only 18.1 percent ($n=23$) reported their age as between 40 and 49, while a paltry 8.7 percent ($n=11$) of the respondents were 50 and above. From the table, it can be concluded that management within department stores in Cape Town are mainly the store managers within the age brackets of 30-39 years.

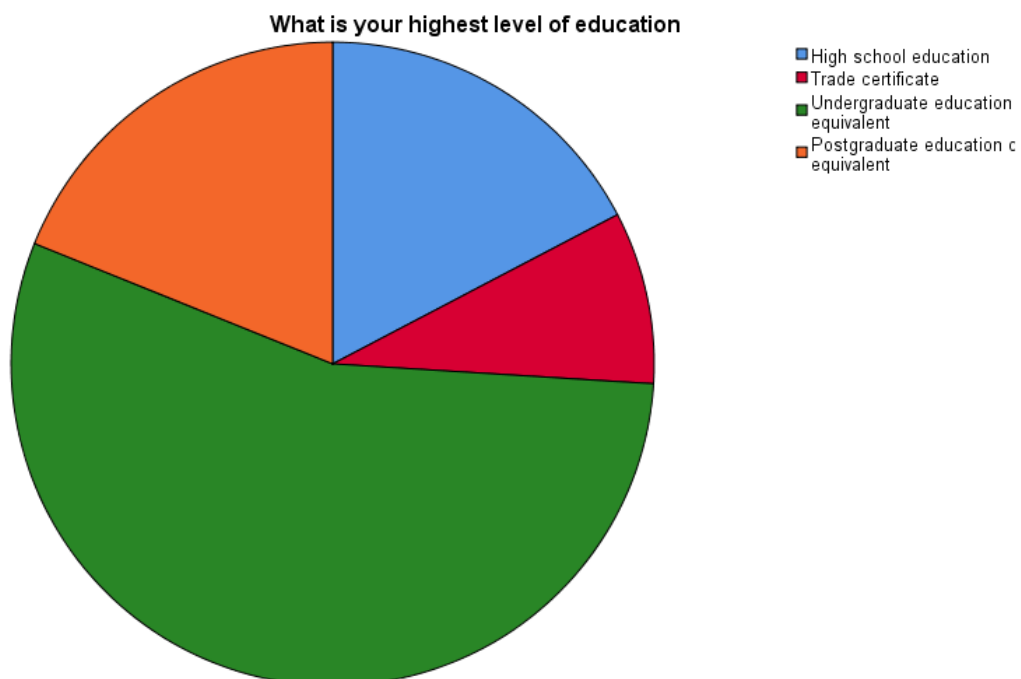
Table 4.4: Age of Respondents

Please indicate your age category					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Under 30	29	22.8	22.8	22.8
	30 - 39	64	50.4	50.4	73.2
	40 - 49	23	18.1	18.1	91.3
	50 and above	11	8.7	8.7	100.0
	Total	127	100.0	100.0	

4.4.4 Highest level of education

As for the respondents' highest level of education, the results as indicated in Figure 4.1 showed that 55% of the respondents had an undergraduate or equivalent degree, 17% had a high school education, while 9% had trade certificates. As many as 19% had a postgraduate or equivalent qualification. None of the respondents had no formal education. Based on these results, 83% of the respondents had a formal qualification and thus should have been able to comprehend the questions asked in the questionnaire.

Figure 4.1: Highest level of education



4.5 Respondents' knowledge, awareness and exposure on risks and ethics

This second and last section of the questionnaire contains the core of the study. In section B of the questionnaire, respondents were asked to provide information concerning compliance risks and behaviours particular to their organisations. The section starts by asking whether the business grants credit to its customers or not, which returned a 100% "Yes" answer.

4.5.1 Number of years that the business has been granting credit to customers

Represented in Table 4.5, below, is the number of years the business concerned had been granting credit to its customers. The results indicated that 10% of the businesses had been granting credit for more than 30 years, 25% had been granting credit for between 20 and 29 years, 28% for between 15 and 19 years, 13% for 10 to 14 years, 10% for 5 to 9 years, and 13% for less than 5 years. Given that three-quarters of the businesses had been granting credit for 10 or more years, they had had sufficient exposure to and experience of the process, and thus were ideal for this study.

Table 4.5: Number of years that the business has been granting credit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 5	17	13.4	13.4	13.4
	5 - 9	13	10.2	10.2	23.6
	10 - 14	16	12.6	12.6	36.2
	15 - 19	36	28.3	28.3	64.6
	20 - 29	32	25.2	25.2	89.8
	30 and above	13	10.2	10.2	100.0
	Total		127	100.0	100.0

4.6 Compliance risks that businesses are exposed to in terms of credit granting

In order to determine which compliance risks businesses are exposed to in terms of credit granting, respondents were asked to identify the risks they faced. To achieve this, a five-point Likert scale was used (1 = no risk, 2 = low risk, 3 = medium risk, 4 = high risk, 5 extremely high risk). A summary of the results is presented in the Tables below. The mean values of almost all

the risk-management initiatives listed are close to 4, or more, implying that respondents face almost all the listed risks. Furthermore, the mean values are significantly above the point of neutrality (mean of 2.5), thereby suggesting that there was moderate to strong agreement among respondents concerning the prominent presence of the risks identified. On the basis of the percentages recorded, the risks mostly experienced by these department stores were those of bad debt and loss of interest income (97% high), deviation from initially agreed terms (95% high), material (product) loss (90% high), followed by low profit (88% high), inability to purchase due to cash flow problems (80% high), and legal penalties at 67% high.

	No risk		Low risk		Medium risk		High risk		Extremely high risk	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
Bad debts (non-payment)	0	0.0%	0	0.0%	6	4.7%	31	24.4%	90	70.9%
Material (product) loss	0	0.0%	2	1.6%	12	9.4%	39	30.7%	74	58.3%
Deviation from initially agreed terms	0	0.0%	1	0.8%	7	5.5%	36	28.3%	83	65.4%
Inability to purchase due to cash flow problems	0	0.0%	6	4.7%	20	15.7%	40	31.5%	61	48.0%
Loss of interest	0	0.0%	0	0.0%	4	3.1%	32	25.2%	91	71.7%
Low profit	0	0.0%	2	1.6%	13	10.2%	38	29.9%	74	58.3%
Legal penalties	0	0.0%	15	11.8%	27	21.3%	34	26.8%	51	40.2%

Table 4.6a: Compliance risks that businesses are exposed in terms of credit granting

Scale: 1 = No risk; 5 = extremely high risk (Source: Field work)

From the above results (Table 4.6a), it can be seen that 60% of businesses are at extreme risk from the compliance risks to which they are exposed. This is in agreement with Munene and Guyo's (2013) study, which revealed that bad debt is a perennial risk to businesses, including department stores. The finding also concurs with Morris and Shin (2009) that clients are not able to comply with the terms of credit agreed to. There is also a measure of agreement with Ericsson et al.'s (2005) finding regarding stores' inability to purchase due to problems with cash flow. Non-compliance with the credit agreements is resulting in a loss on the part of the credit grantors. The borrowers' failure to make up/regain on any type of debt issued is high, which also results in low

profit, consistent with Kithinji's (2010) findings. It can thus be concluded from the findings that the majority of the risks tested in the survey registered a rating of high risk exposure to the businesses concerned.

Table 4.6b: Compliance risks that businesses are exposed in terms of credit granting

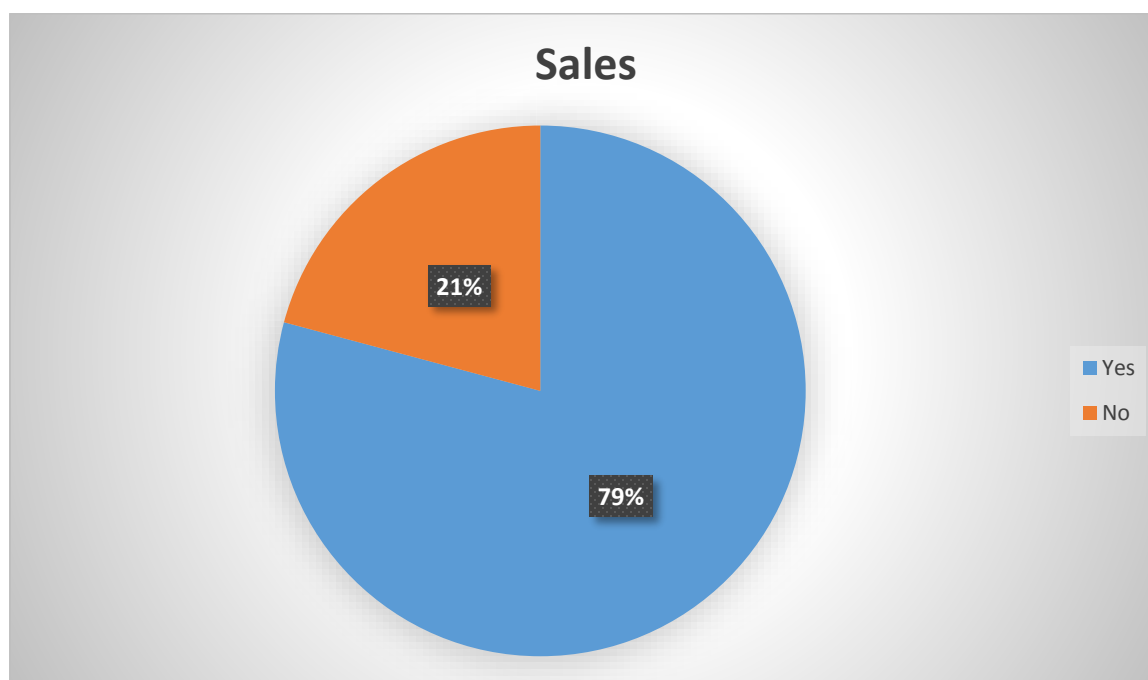
Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Bad debts (non-payment)	127	3	5	4.66	.567
Material (product) loss	127	2	5	4.46	.732
Deviation from initially agreed terms	127	2	5	4.58	.635
Inability to purchase due to cash flow problems	127	2	5	4.23	.884
Loss of interest	127	3	5	4.69	.530
Low profit	127	2	5	4.45	.742
Legal penalties	127	2	5	3.95	1.045
Valid N (listwise)	127				

4.5.2 Availability of ethical behaviours in the process of credit granting

From the illustration below (Figure 4.2), it can be seen that most respondents (79%) believed that there are suitable standards of behaviour in place within the credit granting process, as opposed to the 21% who answered "No". The feasibility of this claim will be tested by the subsequent parts of the questionnaire.

This is essentially in line with the findings of Niemi-Kiesilainen & Henrikson (2005), that businesses have a culture that reinforces ethical standards of behaviour as a key component of effectively managing risk across the enterprise.

Figure 4.2: Availability of ethical behaviours in the process of credit granting



(Source: Own data)

4.5.4 Behaviours/policies, rules and regulations businesses set with regard to credit granting

The respondents were presented with examples of desirable behaviours that businesses apply in their credit environment and were asked to indicate how often these were applicable to their own business.

As indicated in the table below, all the respondents reported that the business has a formal credit policy, and almost all agreed that the creditworthiness of the customers was always checked. There is a slight decrease, however, in terms of credit application forms being filled in by the customers. Nevertheless, these three practices received a strong positive response. Following closely was an indication that the provisions of the NCA are recognised in the process (85%), while 67% indicated that trade references are always checked, 20% often and 13% sometimes.

There is, however, a shift in the frequency of securities taken on products. The majority (70%) indicated that this was not applicable, while another 15% indicated that it sometimes happened. The responses to the “Personal guarantees are obtained from doubtful customers” statement were similar to this. Furthermore, about half the respondents indicated that credit limits and payment terms are not always set.

Finally, a considerable number of respondents responded positively to the statements regarding customers' debt re-payment histories being checked, credit scoring being used, as well as compliance with the Consumer Protection Act being maintained. However, only slightly above an average number indicated that these were "Always" applicable. The findings agree with those of Prince (2014) and Ssebagala (2016) that businesses do have formal credit policies, and do in fact consider the cost involved in granting credit. Most of the other good policy scores are consistent with South Africa. NCA (2006), Naudé (2009) and Javorcik & Li (2013). However, it is interesting to note from this study that obtaining security interests or personal guarantees, and setting credit limits and terms, are among the good practices that appear not to be observed by the sampled population.

Table 4.7.1: Credit-granting policies, rules and regulations

	Always		Often		Sometimes		Seldom		Never	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
There is a detailed formal credit policy	127	100.0 %	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Provisions of the National Credit Act are recognised in the policy	108	85.0%	19	15.0%	0	0.0%	0	0.0%	0	0.0%
Customer's creditworthiness is checked	122	96.1%	5	3.9%	0	0.0%	0	0.0%	0	0.0%
Credit application forms are filled by customers	115	90.6%	12	9.4%	0	0.0%	0	0.0%	0	0.0%
Customer's trade references are checked	85	66.9%	26	20.5%	16	12.6%	0	0.0%	0	0.0%
Security interests are taken on products	6	4.7%	12	9.4%	20	15.7%	32	25.2%	57	44.9%
Personal guarantees are obtained from doubtful customers	7	5.5%	11	8.7%	24	18.9%	34	26.8%	51	40.2%

Scale: 1 = Always; 5 = Never (Source: Field work)

Credit limits and payment terms are set	23	18.1%	14	11.0%	19	15.0%	44	34.6%	27	21.3%
Customers' debt repayment histories are checked	76	59.8%	36	28.3%	15	11.8%	0	0.0%	0	0.0%
Credit scoring is used	77	60.6%	33	26.0%	17	13.4%	0	0.0%	0	0.0%
There is a good compliance with the National Credit Act	85	66.9%	38	29.9%	4	3.1%	0	0.0%	0	0.0%

4.5.6 Effects on business sustainability

The respondents were asked to what extent they recognised the impact of compliance risks and ethical conduct on the long-term viability and sustainability of their businesses.

From the result, it is evident that the majority of the respondents (91.3%) believed there was a relationship among compliance risks, behaviours and a business's sustainability; 6.3 percent disagreed with the notion, while 2.4 percent were not sure whether such a relationship existed or not.

This result is in agreement with the findings of Yilmaz (2010) and Sifumba et al. (2017), that compliance risks present threats and opportunities which affect an enterprise's sustainability.

Table 4.8: Effects on business sustainability

Agree that compliance risks and ethical behaviours affect the long term sustainability of your business					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	88	69.3	69.3	69.3
	Agree	28	22.0	22.0	91.3
	Unsure	3	2.4	2.4	93.7
	Disagree	6	4.7	4.7	98.4
	Strongly Disagree	2	1.6	1.6	100.0
	Total	127	100.0	100.0	

4.5.7 Factors that challenge the effective credit granting process

As good as those credit-granting practices may be in ensuring effective credit granting, the respondents were also presented with some of the challenges that might hinder the process. The table below presents the extent of agreement among them as to how certain factors might affect the process of credit granting. From the table, it is evident that a huge majority (80%) agree that quantifying risks is difficult and that business priorities are often conflicting. Of particular note is the whopping 70% that agree that the implementation of credit policy comes at a high cost. Frye et al. (2000) mention several rigorous processes that businesses have to go through, which of course do not come easy or cost-free. About 65% of the respondents also agreed that there was a lack of the necessary knowledge and skills within their organisation, as well as a lack of technical knowledge and trained personnel within the credit department. This echoes Dotson & Patton's (1992:15-28) finding that retailers do not deliver the desired services to their customers due to little or no technical knowhow on the side of their employees. The interesting findings to note from this set of questions are that the high cost of technology and difficulty in the calculation of parameters are the two biggest factors affecting the credit granting process in these stores. The latter can be linked to the next two factors, the shortage of knowledge, skills and properly trained staff in the credit area.

Table 4.9: Factors that influence credit granting processes

Levels:	Strongly Agree	Agree	Disagree	Strongly Disagree	Total Agreement
Quantifying risks is difficult	66%	19%	11%	4%	85%
There is lack of necessary knowledge and skills within the organisation	42%	22%	29%	7%	64%
Business priorities are often conflicting	71%	15%	10%	4%	86%
Difficulty in the calculation of parameters	25%	12%	35%	28%	37%
There is lack of technical knowledge and trained personnel	39%	26%	24%	11%	65%

High cost of credit policy implementation	42%	28%	19%	11%	70%
High cost of technology used in the credit process	29%	21%	23%	27%	50%

Scale: 1 = strongly agree; 4 = strongly disagree (Source: Field work)

4.5.8 Correlations between compliance risk and ethical behaviour

In order to show the degree of linear relationship between the tested risks and the appropriate ethical behaviour that mitigates them, SPSS was used to establish the correlation coefficients between the two variables.

In Table 4.10, below, note that the researcher has deliberately left out the availability of a credit policy, having recorded a 100% positive response. If the Sig. (2-tailed) (p) is less or equal to .01 (shown by highlighting in the Table), there is a significant relationship between the risks and the ethical behaviours the stores adopt. If, however, p is more than .01 (not highlighted in the table), there is no significant relationship between the two variables. As evidenced from the table, it can be seen that most of the variables compared have significant relationship between them. This comes as no surprise, since it has been assumed that implementation of one affects the other. But of particular interest, in contrast to this, are the relationships between almost all the significant risk variables and “personal guarantees are obtained from doubtful customers,” as well as “credit limits and payment terms are set.” There are also a number of risk variables with significant relationship to “security interests are taken on products.” Another noteworthy similar finding to the above is that of the relationship between “customer’s creditworthiness is checked” with the risks of bad debts, deviation from agreed terms, and loss of interest income.

If the correlation coefficient (r) is positive, there is a positive relationship between the risks and the good practices the stores adopt. If r is negative, there is a negative relationship between the two variables. From the table, apart from the variables mentioned above, it can be seen that most of the variables are negatively related. Again, this relationship is expected, as an increase in the adoption and implementation of ethical behaviours reduces the incidence of risk among these department stores. This is in line with Crook, Edelman & Thomas’s (2007) and Marron’s (2007) findings that ethical behaviours and established protocols are important methods of eliminating loss from risk in retail and consumer finance.

Table 4.10: Correlations between compliance risks and ethical behaviours

Compliance Risks		Ethical Behaviour									
		Provisions of the National Credit Act are recognised in the policy	Customer's creditworthiness is checked	Credit applications are filled by customers	Customer's trade references are checked	Security interests are taken on products	Personal guarantees are obtained from doubtful customers	Credit limits and payment terms are set	Customer's debt repayment histories are checked	Credit scoring is used	There is a good compliance with the National Credit Act
Bad debts (non-payment)	Correlation Coefficient	-0,143	-0,150	-.255**	-.509**	.219*	0,137	-0,037	-.460**	-.533**	-.393**
	Sig. (2-tailed)	0,110	0,093	0,004	0,000	0,013	0,124	0,679	0,000	0,000	0,000
	N	127	127	127	127	127	127	127	127	127	127
Material (product) loss	Correlation Coefficient	-.475**	-.254**	-.404**	-.652**	.177*	0,154	0,022	-.568**	-.523**	-.438**
	Sig. (2-tailed)	0,000	0,004	0,000	0,000	0,046	0,084	0,806	0,000	0,000	0,000
	N	127	127	127	127	127	127	127	127	127	127
Deviation from initially agreed terms	Correlation Coefficient	-.481**	-.288**	-.408**	-.529**	0,169	0,160	0,039	-.455**	-.461**	-.329**
	Sig. (2-tailed)	0,000	0,001	0,000	0,000	0,058	0,072	0,660	0,000	0,000	0,000
	N	127	127	127	127	127	127	127	127	127	127
Inability to purchase due to cash flow problems	Correlation Coefficient	-.461**	-.279**	-.348**	-.503**	0,064	0,098	-0,059	-.427**	-.417**	-.359**
	Sig. (2-tailed)	0,000	0,001	0,000	0,000	0,474	0,273	0,507	0,000	0,000	0,000
	N	127	127	127	127	127	127	127	127	127	127
Loss of interest	Correlation Coefficient	-.204*	-.245**	-.383**	-.552**	.246**	.211*	0,017	-.507**	-.543**	-.412**
	Sig. (2-tailed)	0,022	0,006	0,000	0,000	0,005	0,017	0,850	0,000	0,000	0,000
	N	127	127	127	127	127	127	127	127	127	127
Low profit	Correlation Coefficient	-.509**	-.198*	-.363**	-.552**	0,110	0,108	-0,018	-.493**	-.502**	-.337**
	Sig. (2-tailed)	0,000	0,026	0,000	0,000	0,219	0,226	0,841	0,000	0,000	0,000
	N	127	127	127	127	127	127	127	127	127	127
Legal penalties	Correlation Coefficient	-.436**	-0,132	-.294**	-.473**	0,024	0,030	-0,089	-.434**	-.441**	-.315**
	Sig. (2-tailed)	0,000	0,140	0,001	0,000	0,788	0,739	0,320	0,000	0,000	0,000
	N	127	127	127	127	127	127	127	127	127	127

4.5.9 Regression Analysis

The Tables at 4.11, below, report the regression analysis between compliance risks and ethical behaviours. The predictor that was held constant was ethical behaviour (independent variable), and the dependent variable that was entered into the prediction model was compliance risks. On examination of the relationship between the two variables, the adjusted $R^2 = 0.133$, indicating that ethical behaviour explained 13.3% of variance on risks.

The beta coefficient of statistical indicator ($\beta = -0.374$) shown in Table 4.11.2 suggests that there is a negative relationship between the compliance risks and ethical behaviours. This means that organisations that apply the ethical practices are less likely to experience compliance risks in terms of their credit activities.

The overall regression model was significant, $F(1, 125) = 20.34$, $p < .001$.

Table 4.11a: Regression between compliance risks and ethical behaviours

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.500	1	6.500	20.341	.000 ^b
	Residual	39.948	125	.320		
	Total	46.448	126			
a. Dependent Variable: Composite Risk						
b. Predictors: (Constant), Composite Ethics						

Table 4.11b: Regression between compliance risks and ethical behaviours

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.539	.251		22.080	.000
	Composite Ethics	-.573	.127	-.374	-4.510	.000
a. Dependent Variable: Composite Risk						

4.5.10 Non-Parametric Tests

Having not assumed anything about the underlying distribution of the data set collected, the researcher conducted the following t-tests to see if there were any significant differences within the data set for some given variables.

4.5.10.1 Mann-Whitney test and gender difference

The Mann-Whitney U test was conducted to compare the means and test the difference between two independent groups on continuous measures. Specifically, the researcher was testing to ascertain whether males and females differed in terms of their perception of the risks affecting the organisation. Table 4.12 reports the results concerning gender differences using the Mann-Whitney test.

Table 4.12.1: Mann-Whitney test statistics

Test Statistics ^a	
	CompVarRisks
Mann-Whitney U	1088.000
Wilcoxon W	6239.000
Z	-1.389
Asymp. Sig. (2-tailed)	.165

Table 4.12.1 shows that there was no statistical significance difference between males and females with regard to their level of perception of the risks affecting the organisation. The results indicated that the p-value of 0.165 was greater than the 0.05 threshold. In terms of risks, n=127, U=1088, z=-1.389, p=0.165. Therefore, no practical significance was found.

Table 4.12.2: Mann-Whitney test statistics

Ranks				
	Please indicate your gender	N	Mean Rank	Sum of Ranks
CompVarRisks	Male	101	61.77	6239.00
	Female	26	72.65	1889.00
	Total	127		

Table 4.12.2 illustrates the results of the Wilcoxon-Mann-Whitney test mean ranks for gender differences. For the risks, n=101 respondents were male with a mean rank of 61.77, while n=26 were female with a mean rank of 72.65.

4.5.10.2 Mann-Whitney test and ethical availability differences

The researcher also tested whether the respondents' agreement on the availability of ethical behaviours differed from the ethical behaviours they actually practised. Table 4.15 reports the results of this, using the Mann-Whitney test.

Table 4.13.1: Mann-Whitney test statistics

Test Statistics ^a	
	CompVarEthics
Mann-Whitney U	1098.500
Wilcoxon W	1476.500
Z	-1.492
Asymp. Sig. (2-tailed)	.136

Table 4.13.1 shows that there was no statistically significant difference between respondents' agreement on the availability of ethical behaviours and the ethical behaviours they observed. The results indicated that the p-value of 0.136 was greater than the 0.05 threshold. In terms of the ethical behaviours, n=127, U=1098.5, z=-1.492, p=0.136. Therefore, no practical significance was found in terms of effect size.

Table 4.13.2: Mann-Whitney test statistics

Ranks				
	Available ethical behaviours	N	Mean Rank	Sum of Ranks
CompVarEthics	Yes	100	66.52	6651.50
	No	27	54.69	1476.50
	Total	127		

Table 4.13.2 illustrated the results of the Wilcoxon-Mann-Whitney test mean ranks for the availability of ethics. For the ethical behaviours, n=100 respondents agreed that there are available ethical behaviours with a mean rank of 66.52, while n=27 respondents said no, with a mean rank of 54.69.

4.6 Summary

This chapter has featured evaluation of relationships among specific variables applicable to a range of compliance risks and the assurance of ethical credit behaviour in the field of credit instalment sales. The aim of the study was to explore compliance risks and ethical behaviours within selected department stores in the Cape Town metropole in terms of credit granting.

The results revealed that 90% of respondents agree that there is a relationship among compliance risks, behaviours and the sustainability of their business. A small proportion (6.6%) disagreed with this notion, while 3.3% were not sure whether such a relationship existed or not. This result is in agreement with the literature review, which revealed that compliance poses a threat and an opportunity that may affect enterprise sustainability (Yilmaz, 2010; Sifumba et al., 2017).

With regard to the availability of ethical behaviours in the process of credit granting, the results revealed that 79% of respondents believed there were available behaviours in place within the credit granting process. The other 21% did not believe this was the case.

Concerning factors that challenge the effectiveness of the credit granting process, the results revealed that 85% of respondents felt that quantifying risk was difficult. Additionally, the results revealed a widespread perception that there is a lack of necessary knowledge and skills within the organisation (64%). The results also revealed that business priorities are often conflicting (86%), and, finally, that there is shortage of technical knowledge and trained personnel (65%).

The most significant findings relate to the non-compliance of the department stores in respect of the practice of setting credit limits and payment terms for individual customers and transactions, requiring personal guarantees, as well as security interests or collateral from customers on products purchased on credit. The findings therefore reveal that there is a substantial amount of compliance risk still prevalent, most notably as a consequence of a lack of proper diligence in applying the behaviours or standards put in place by the organisations.

The next chapter will provide a summary of and conclusion to the study. The chapter will also discuss the contribution, significance and limitations of the study, and make some suggestions for further research.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.1 Introduction

The main purpose of this study was to explore compliance risks and ethical behaviours within selected department stores in the Cape Town metropole, in terms of credit granting. To achieve this purpose, a questionnaire-based survey was conducted.

This chapter summarises the findings, including factors that challenge the effectiveness of the credit granting process in the Cape Town metropole. The next section (5.2) recapitulates the research problem and research objectives introduced in Chapter One. This is followed by Section 5.3, a comprehensive summary of the literature review presented in Chapter Two. Section 5.4 summarises the research design and methodology employed in this study as described in Chapter Three. In section 5.5 there is a summary of the analysis and discussion of results presented in the previous chapter. Section 5.6 discusses the contribution, significance and limitations of this study. Finally, Section 5.7 provides suggestions for further research.

5.2 Problem statement

Department stores in the Cape Town Metropole do not sufficiently evaluate compliance risks and ethical behaviour in the process of granting credit, and as a result lose potential profit. This can have an impact on the long-term viability and sustainability of their businesses.

5.2.1 Aim of the Study

The aim of this study was to explore the evaluation of compliance risks and ethical behaviours within selected department stores in the Cape Town metropole in terms of credit granting.

5.2.2 Objectives of the Study

The objectives of this study were as follows:

- To determine the extent to which compliance risks and ethical behaviours affect the selected departmental stores in terms of granting credit, and the extent to which they are exposed to such risks

- To identify the ethical behaviours being practised in the process of credit granting
- To identify the policies, rules and regulations in place within the selected stores with regard to credit granting
- To determine the extent of compliance with existing ethical behaviours, policies, rules and regulations within the department stores
- To propose alternative solutions to problems relating to compliance risks in terms of credit granting within the selected stores.

5.2.3 Research Questions

Main research question 1: What compliance risks are the department stores in the Cape Town metropole exposed to in terms of credit granting?

Main research question 2: How do compliance risks and ethical behaviours affect the long-term viability and sustainability of credit-granting department stores in the Cape Town metropole?

Sub-Questions

1. To what extent are the department stores exposed to risks emanating from the granting of credit?
2. What ethical behaviours are being upheld/ practised within departmental stores that grant credit?
3. What policies, rules and regulations are in place within the selected stores with regard to credit granting?
4. What is the extent of compliance with ethical behaviours, policies, rules and regulations within the department stores?
5. Are there any alternative risk-mitigating solutions in place within the department stores with regard to compliance risks in terms of credit granting?

5.3 Summary of Chapter Two: The review of prior studies

The phrase “credit evaluation and approval” denotes the process a business or an individual must go through in order to become eligible for a loan or to pay for goods and services over an extended period (Dykstra & Wade, 2000). It also refers to the process a business or lender starts when

evaluating a request for credit. It depends in the first instance on the willingness of the creditor to lend money. Some lenders assess the ability and willingness of the borrower to return the money (Cole et al., 2008). Often, lenders require borrowers to return the money plus interest. In most cases, small businesses seek credit approval to obtain funds from lenders, investors, and vendors, and also grant credit approval to their customers (Cole et al., 2008)

The granting of credit depends on the confidence of the lender in the borrower's credit worthiness. Credit worthiness embraces the borrower's ability and willingness to pay. Creditors and lenders use various financial tools to evaluate the credit worthiness of a possible borrower. This evaluation relies on analysing the borrower's balance sheet, cash flow statements, inventory turnover rates, debt structure, management performance, and market conditions.

In retail credit, compliance risks are threats and/or opportunities associated with the non-adherence and/or adherence to relevant laws, regulations, policies and procedures (Moeller, 2011; Brockett & Rezaee, 2012; Sales, 2014). These risks are synonymous with events that lead to legal sanctions, financial loss, or reputational loss as a result of failure to comply with laws and regulations, codes of conduct, and behaviours of best/good practice (Economic Cooperation Organisation Trade and Development Bank, 2007). Examples of compliance risks include violation of local tax laws, violation of employment-related laws, and nonadherence to health and safety rules (Johnson & Johnson, 2013).

5.4 Summary of Chapter Three: Research design and methodology

This chapter started with a discussion of the research paradigm adopted and a justification for the questionnaire survey method applied. The chapter went on to discuss the research population and sampling techniques employed, and the design of the questionnaire. Also discussed were the data collection process, the descriptive statistics employed to analyse the data and the measures taken to ensure the reliability and validity of the research instrument. Finally, the data analysis procedures and ethical considerations were discussed. It was concluded that the research methodology employed in the study was appropriate to its research objectives.

5.5 Summary of Chapter Four: Analysis and discussion of results

This chapter presented and discussed the findings concerning the evaluation of compliance risks and ethical behaviours within the selected stores.

The results revealed that 91.3% of respondents believe that there is a relationship between compliance risks, behaviours and the sustainability of a business. A percentage of 6.3% disagreed with the proposition, while 2.4% were not sure whether the relationship existed or not. This result is consonant with the literature review, from which it was concluded that compliance risks form a threat and opportunity that may affect enterprise sustainability (Yilmaz, 2010; Sifumba et al., 2017).

The results revealed that 79% of respondents believe that there are ethical standards being observed within the credit granting process, compared with 21% who disagreed.

The most significant findings relate to the non-compliance of the department stores in the matters of setting credit limits and payment terms for individual customers and transactions, requiring personal guarantees, as well as security interests or collateral from the customers on products purchased on credit.

5.6 Findings in relation to each objective

The main objective of the study was to explore the compliance risks and ethical behaviours within selected department stores in the Cape Town metropole in terms of credit granting. To achieve this primary objective, five subsidiary objectives which relate to the research questions were formulated:

5.6.1 Sub-Objective 1

To determine the extent to which compliance risks and ethical behaviours affect the selected departmental stores in terms of granting credit, and the extent to which they are exposed to such risks

During the investigation the researcher discovered that compliance risks and ethical behaviours do in fact have huge effects on these stores in their credit granting business.

- Their exposure to such risks is substantial, as reported in 4.6
- Compliance risks affect every facet of the credit granting process in retail stores
- The two factors play a large role in determining the stores' sustainability and viability (as reported in 4.5.6) and supported by Yilmaz (2010) and Sifumba et al. (2017)

- Bad debts and loss of interest income constitute the major risks that Cape Town department stores face in the credit granting environment, as reported in 4.6b.

5.6.2 Sub-Objective 2

To identify the ethical behaviours being practised in the process of credit granting

- Ethical behaviours are key components in effectively managing risk in credit-granting retail enterprises (an assertion supported by the findings of Niemi-Kiesilainen & Henrikson, 2005)
- There is no doubt regarding the existence and availability of these standards within retail stores in the Cape Town metropole. This was confirmed in almost all the credit granting environments, as reported in Section 4.5.2
- The application of these behaviours within the stores is, however, questionable. The incidence of non-compliance with the set code of ethics is reported in Section 4.7.1.

5.6.3 Sub-Objective 3

To identify the policies, rules and regulations that are in place within the selected stores with regard to credit granting

- Policies, rules and regulations include good ethical behaviours required of organisations involved in granting credit
- There is an overwhelmingly prevalent good practice of checking the creditworthiness of potential customers
- The provisions of the National Credit Act are recognised in the process
- Credit limits and payment terms are not set for individual customers and transactions
- Personal guarantees, security interests or collateral are not taken from customers on products purchased on credit.

5.6.4 Sub-Objective 4

To determine the extent of compliance with existing ethical behaviours, policies, rules and regulations within the department stores

- There is no emphasis on security interests or collateral for products purchased on credit as reported in Section 4.5.4
- There is an insufficiency of necessary knowledge and skills within the organisation, as also reported in 4.5.4.

5.6.5 Sub-Objective 5

To propose alternative solutions to problems associated with compliance risks in terms of credit granting within the selected stores

There should be more recognition and enforcement by government authorities of the Consumer Protection Act, as this will indirectly assist the businesses while directly assisting the customers.

5.7 Contribution and significance of the study

This research has added to the body of knowledge on compliance risk and ethics, while providing insight into the level of Cape Town department stores' compliance with risk management and ethical behaviours in the provision of credit facilities to their customers. The research has also provided insight into the level of awareness and response to risks by retail stores, as well as how those risks can negatively affect their sustainability. The researcher has provided an indication of the level of effectiveness and adequacy of retail management's attitude to possible credit risks.

The study also complements existing studies in the field of risk management, prioritising potential growth for retailers by raising awareness of the value added by adequate risk management initiatives for retail stores. Furthermore, this research has helped to improve the knowledge of department stores' management about their level of exposure to credit risks, thus enhancing their chances of sustainability.

Unlike earlier South African research, this study made use of a researcher-administered questionnaire-based survey to improve on the response rate and decrease non-response bias,

enhancing the validity of the study's findings. The findings of the study provide new insight into the risks and ethical behaviour of retail department stores in the Cape Town metropole.

This study should be of considerable value to the retail industry by assisting managers to enhance the sustainability of their business. The study provides useful information about credit granting in retail business, demonstrating the risks involved in the credit granting process, the negative effects that could arise from them and the strategies that need to be adopted in order to avoid or mitigate these risks.

The researcher found that South African retailers are exposed to high risks emanating from the granting of credit, which can result in their not being able to meet their profit objectives. The following recommendations regarding strategies for South African retailers are therefore made, with reference to the National Credit Act and the Consumer Protection Act:

- ✓ There should be less managerial focus on the number of sales, which can compromise the effectiveness of payback potential
- ✓ Existing customers' credit profiles should be reviewed for changes in customers' lifestyles and buying behaviour
- ✓ Credit limits and payment terms should be tailored for individual customers and transactions
- ✓ Personal guarantees should be taken from credit customers prior to credit approval
- ✓ The behaviours pertaining to the credit granting process for the stores should be less liberal, so that rejection of an application is treated not as an exception but rather as the rule
- ✓ Security interests or collateral should be required for products purchased on credit by customers
- ✓ South African credit retailers should expand the utilisation of qualified human capital to manage high compliance risk exposure. They should focus on staff recruitment and selection, and provide credit staff with proper training, rewards and motivation
- ✓ The South African government should focus on steps to be followed by retail stores when granting credit. They should not stop at merely stipulating the proper behaviours in the relevant Acts, but actually police businesses and bring defaulters to book
- ✓ The South African government should physically monitor the stores on a surprise basis, in order to make sure that consumers' rights are protected.

This research's findings are significant for other researchers, who may recreate the study in different industries, countries and even among relatively smaller organisations, and in this way test the legitimacy and validity of its findings. Researchers could even adapt this study's methodology and the questionnaire employed to any similar study elsewhere.

Furthermore, the research, as at the time of this publication, has so produced a peer-reviewed paper already published in an accredited Acta journal, as well as presentations at two international conferences. More are expected in the future.

5.8 (De)limitations of the study

A quantitative method was used in this study. Participants who received the questionnaires were business leaders (senior managers or managers) in department stores in Cape Town. These leaders were actively involved in their business operations and were selected for participation on the basis of their presumed knowledge and experience in credit granting in retail stores in Cape Town. The enterprises had to conform to the definition of 'department store' and the enterprise had to have between 51 and 200 total full-time equivalent paid employees, and have been in operation (including credit facilities) for at least one year. Some of these parameters are implicit limitations, as the suggestions for further research (below) indicate.

5.8 Suggestions for further research

The (de)limitations outlined above reveal the need for further research, including the following:

- Only managers and/or senior management were regarded as decision-makers in this study. There may well be others who should have been included. Further research should take account of other individuals who play a part in the decision-making processes in department stores
- This study was conducted using businesses in the retail industry operating in the Cape Town metropole. Further study could be conducted on other industries or on relatively smaller firms in the same industry
- This study used a quantitative methodology. A qualitative study involving an in-depth case study could also be carried out, using more investigative, open-ended questions as opposed to the closed-ended questions used in this study.

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Appendices:

Appendix A: CPUT Ethical Clearance



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Office of the Chairperson Research Ethics Committee	Faculty: BUSINESS AND MANAGEMENT SCIENCES
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At a meeting of the Faculty's Research Ethics Committee on 02 November 2017, Ethics Approval was granted to Anthony Ezeonwuka (212012878) for research activities related to the Master of Internal Auditing at the University of the Cape Peninsula University of Technology

Title of dissertation/thesis/project:	EVALUATING COMPLIANCE RISKS AND ETHICAL STANDARDS WITHIN SELECTED DEPARTMENT STORES IN THE CAPE METROPOLE Lead Researcher/Supervisor: Prof. J Dubhlela
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Comments:

Decision: **APPROVED**

 <hr/> Signed: Chairperson: Research Ethics Committee	<hr/> 30 January 2018 <hr/> Date
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Clearance Certificate No | 2017FBREC498

Appendix B: Consent Letter



Cape Peninsula University of Technology
Faculty of Business and Management Sciences
Consent to partake in an academic study

Research conducted by:
Anthony Ezeonwuka (Mr)
Student number: 212012878

Dear Sir/Madam,

Invitation to participate in an academic research study

You are kindly invited to participate in a research study titled “Evaluating Compliance Risk and Ethical behaviours within Selected Department Stores in the Cape Metropole”. This study is being conducted by Mr Anthony Ezeonwuka, a Masters student in the School of Accounting at the Cape Peninsula University of Technology (CPUT). The purpose of this study is to determine the behaviours around the credit environment of department stores, especially in the granting of credit facilities, as well as the possible compliance risks these stores could be exposed to if these are not managed properly.

Because you are a decision maker of a South African department store, your opinions are very valuable to this study. Your participation in this study is voluntary and you are free to withdraw from it at any time without obligation. There are no risks associated with participating in this study. The study will not collect any information that can identify you as all responses will be recorded anonymously. All the information obtained will be used for research thesis and research publication purposes only. While you will not receive any compensation for participating, the information collected in this study will positively contribute to the sustainability of your organisation and South African department stores in general.

Your consent to participate in this study will be highly appreciated.

For further inquiries, you may contact me on 071 055 9088 or via email

ezeonwukaa@cput.ac.za

If you consent to participate in this study, please sign (**please include stamp**) this form to indicate that:

- You have read and understood the information provided above;
- You hereby consent to participate in this study voluntarily.

Name of the Enterprise: _____

Respondent's signature: _____ Date: _____

Appendix C: Cronbach Alpha Coefficient Tests

Reliability

Scale: RISKS

Case Processing Summary

		N	%
Cases	Valid	127	100.0
	Excluded ^a	0	.0
	Total	127	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.925	7

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Bad debts (non-payment)	26.43	15.710	.663	.925
Material (product) loss	26.66	13.706	.854	.905
Deviation from initially agreed terms	26.52	14.538	.829	.910
Inability to purchase due to cash flow problems	26.87	12.951	.785	.913
Loss of interest	26.43	15.609	.689	.923
Low profit	26.67	13.300	.909	.899
Legal penalties	27.17	11.989	.793	.919

Reliability

Scale: BEHAVIOURS AND POLICIES

Case Processing Summary

		N	%
Cases	Valid	127	100.0
	Excluded ^a	0	.0
	Total	127	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.715	11

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
There is a detailed formal credit policy	20.20	19.808	.000	.722
Provisions of the National Credit Act are recognised in the policy	20.05	18.939	.237	.712
Customer's creditworthiness is checked	20.18	19.524	.188	.718

Credit application forms are filled by customers	20.12	18.843	.369	.707
Customer's trade references are checked	19.73	16.533	.470	.680
Security interests are taken on products	17.25	14.609	.405	.695
Personal guarantees are obtained from doubtful customers	17.34	14.092	.467	.680
Credit limits and payment terms are set	17.93	13.088	.473	.688
Customers' debt re-payment histories are checked	19.68	16.571	.484	.679
Credit scoring is used	19.68	16.252	.522	.673
There is a good compliance with the National Credit Act	19.83	16.947	.566	.676

Reliability

Scale: FACTORS

Case Processing Summary

		N	%
Cases	Valid	127	100.0
	Excluded ^a	0	.0
	Total	127	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.835	7

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Quantifying risks is difficult	12.68	23.378	.156	.867
There is lack of necessary knowledge and skills within the organisation	12.21	17.965	.765	.784
Business priorities are often conflicting	12.74	20.832	.501	.825
Difficulty in the calculation of parameters	11.55	19.191	.490	.831
There is lack of technical knowledge and trained personnel	12.15	17.372	.804	.776
High cost of credit policy implementation	12.23	17.403	.810	.775
High cost of technology used in the credit process	11.74	17.975	.606	.811

Reliability

Scale: MEASURES

Case Processing Summary

		N	%
Cases	Valid	127	100.0
	Excluded ^a	0	.0
	Total	127	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.919	8

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Sales staff are familiar with company's credit policy	15.77	38.601	.506	.925
There is an enterprise risk data infrastructure in place	15.68	34.235	.833	.900
Credit policy is supported at the Board and executive level	15.96	33.771	.842	.899

Qualified and competent staff are hired	15.60	32.158	.885	.894
There is an adequate training of staff	15.60	32.561	.851	.898
Documents are properly documented	16.32	35.949	.709	.910
Strong adaptation to the national and global credit environment	16.68	38.773	.570	.920
Technology is implemented in the credit environment	16.55	37.174	.635	.916

Appendix D: Language editors letter

Epsilon Editing

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17 College Road
Rondebosch
7700

dgncornwell@gmail.com

084-9897977

13 February 2019

TO WHOM IT MAY CONCERN

This serves to confirm that the CPUT Master's thesis written by Anthony Ezeonwuka, "Evaluating compliance risks and ethical behaviours within selected department stores in the Cape Town metropole," has been edited to my satisfaction for language and presentation.