



**COST IMPLICATIONS OF FRINGE BENEFITS ON THE PROFITABILITY OF SMEs
IN THE CAPE METROPOLE**

by

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**In the Faculty of Business and Management Sciences
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ABSTRACT

Small and Medium Enterprises have increasingly been faced with challenges when it comes to compensating their employees, which stem from inadequate capital funding. Therefore, the profitability of Small and Medium Enterprises in the Cape Metropole is adversely influenced due to the unequal distribution of fringe benefits amongst employees. The purpose of this study was to ascertain the impact of fringe benefits on Small and Medium Enterprises operating in the Cape Metropole. Data was collected from a sample of 100 participants, from 10 Small and Medium Enterprises operating within the Cape Metropole. A self-administered questionnaire was used as the data collection instrument to gather data from respondents. The primary data collected were analysed using descriptive statistics. Results of the study revealed that fringe benefits do affect the profitability of the business, as those perks reduce company profits due to higher incentives and remuneration. As a result, employee benefits are viewed as an equal burden for the employer. However, when there is a lack of fringe benefits within the organisation, the organisation's performance may be affected. The study therefore recommends that Small and Medium Enterprises implement fringe benefits appropriately in order to foster a better working environments towards achieving the overall company objectives.

Keywords: COVID-19, gender, fringe benefits, profitability, Small and Medium Enterprises

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DEDICATION

I dedicate this research to my grandmother Nomfundiso Philpina Hlakula.

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ACRONYMS AND ABBREVIATIONS

Acronym/Abbreviation	Definition/Explanation
CCMA	Commission for Conciliation, Mediation and Arbitration
EEA	Employment Equity Act
EEAA	Employment Equity Act Amendment
GDP	Gross Domestic Product
LRA	Labour Relations Act
ROA	Return on Assets
ROE	Return on Equity
SA	South Africa
SARS	South African Revenue Service
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Science Statistics
Std Dev	Standard Deviation
TC	Total Costs
TFC	Total Fixed Costs
TR	Total Revenue
TVC	Total Variable Costs
U.S.	United States

CLARIFICATION OF KEY TERMS AND CONCEPTS

Fringe benefits	Fringe benefits are rewards other than income that play a significant role in the compensation package for the majority of employees. The benefits are extra financial payments given on top of wages and salaries to enhance employees' quality of life at work and foster greater collaboration and productivity (Mabaso, 2017:12).
Profitability,	Margaretha and Supartika (2016:133) reaffirm that the ratio used to gauge a company's performance is profitability, it is a crucial component of financial reporting for a business, and as a result, a company's profitability demonstrates its capacity to produce profits for a specific period at a rate of sales, assets, and specific capital stock.
SMEs	In South Africa (SA), a small to medium-sized enterprise (SME) is defined as any company with fewer than 200 workers, capital assets of less than R2 million, a yearly revenue of less than R5 million and a proprietor who is actively engaged in the operation of the company (Dhanah, 2016:6).
COVID-19	COVID-19 is defined as a respiratory illness that is caused by the SARS-CoV-2 virus. It originated in China and has now spread to many other nations (U.S. Department of Labor, Occupational Safety and Health Administration, 2020:13).
Gender	Respati (2010:4) defines gender as a collection of norms and values that are shaped by culture and society and are predicated on ideas and perceptions of what it means to be a man or a woman. The personal lives of men and women are defined and distinguished by their gender in light of social interactions and cultural influences (Respati, 2010:5).

CHAPTER ONE: INTRODUCTION

1.1 This study aimed to ascertain the impact of fringe benefits on the profitability of Small and Medium Enterprises (SMEs) operating in the Cape Metropole. This chapter provides a general background to the study, including the research problem, the purpose of the research, the objectives and the research design, as well as the methodology adopted in this study. The chapter further provides information on data collection and the ethical considerations observed.

1.2 BACKGROUND TO THE STUDY

Recently, it has become clear that organisations around the world face challenges and obstacles when it comes to making their employees more productive and competitive. This led Zondo (2018:3) to suggest that organisations must rely on both performance-enhancing rewards and processes suited to their needs. Only a complete policy linking rewards and other costs to performance will make this achievable (Zondo, 2018:3). To lessen the negative consequences of a fast-paced, cutthroat business environment, Ndichu (2017:23) argues that organisations must plan for a skilled workforce. Mabaso (2017:24) adds that in such a dynamic and changing business climate, incentives are the only way that successful organisations can keep a competent, qualified workforce and maintain a highly motivated workforce. Moreover, a company's compensation programme determines the level of employee attitude and engagement (Zirra et al., 2019:12). A robust reward system takes the form of perks given to employees to give them a sense of belonging, boost their morale and encourage them to achieve high levels of productivity at the right time (Zirra et al., 2019:12).

Rewards are types of payments made to workers as compensation for their association with the company (Zirra et al., 2019:12). According to Kamau (2013:17), fringe benefits are compensation added to the base or performance bonus given to employees as part of the overall compensation package. In essence, these benefits primarily serve to improve the standard of living for employees and their families and to improve their quality of life. Benefits include retirement benefits and pensions, paid time off, medical assistance or health insurance, use of company vehicles, and training allowances for employees (Zirra et al., 2019:13). Further supporting the aforementioned claims, Kamau (2013:17) argues that firms that give supplementary attractive packages remain frequently on the verge of acquiring and retaining qualified and skilled workers when compared to their rivals that pay equivalent base income.

However, offering these benefits can be expensive for certain companies, which leads to low employee morale and high staff turnover (Kamau, 2013:27). Moreover, employers are not allowed to treat people differently because of their gender when it comes to compensation or perks (Australian Human Rights Commission, 1984:17). Hence, sexual orientation cannot be used as an excuse to deny people the chance for training, overtime, or higher positions (Australian Human Rights Commission, 1984:17). According to Galanaki (2013:13), numerous researchers have been interested in the impact of gender on the applicability and attractiveness of benefit systems. As a result, family caregivers—women in particular—seem to use and benefit from certain types of benefits more frequently, such as childcare provisions and parenthood leave (Galanaki, 2013:15). In South Africa (SA), the gender pay gap, or the difference in compensation between men and women for doing the same or similar labour remains a major stumbling block to achieving gender equality (Bosch & Barit, 2020:5). Tan et al. (2016:3) note that most SMEs, especially small businesses, cannot afford to give benefits to their employees due to the high cost of providing them. This argument cannot be separated from the fact that SMEs are small with limited resources, even though they are adaptable to shifting market conditions (Obokoh & Goldman, 2016:a339)

SMEs are widely acknowledged for growing the economy by creating job opportunities and functioning as production engines and are recognised globally for their distinctive influence on economic development (Dhanah, 2016:14). Vuba (2019:1) asserts that SMEs have the potential to boost the SA Gross Domestic Product (GDP) and generate jobs. SMEs represent 90% of businesses and account for between 50 and 60% of employment in developing countries, making them the engine of many economies in the developing world. SMEs also play a significant role in supporting economies globally (Painter & Dobie, 2014:17).

In developing nations, SMEs foster economic growth and tackle severe poverty issues; as a result, they account for more than 60% of GDP (Dhanah, 2016:11). According to Rungani and Potgieter (2018:7), SMEs in SA comprise 91% of formal business entities and contribute between 52 to 57% to the country's GDP, as well as 61% of job opportunities. Maduekwe and Kamala (2016:67) report that, SMEs contribute to economic growth and the creation of new job opportunities but they frequently fail before their time because key performance indicators are used improperly. However, these businesses' poor performance goes hand in hand with their inability to provide

benefits and motivate their employees and the cost impact of these benefits affects the overall profitability of small businesses (Maduekwe & Kamala, 2016:51). Widespread COVID-19 in SA has brought about misfortune concerning employment losses, decreases in company profitability and business terminations (Small Business Development, 2021:34). Hence, similar to the rest of the globe, the nation has encountered an unparalleled circumstance as a result of the pandemic, which has altered people's lifestyles and had an effect on all facets of daily life (Small Business Development, 2021:35).

Given the significance of SMEs in creating employment opportunities and because these are some of the sectors still seeing significant growth rates, it is essential to evaluate and investigate the cost implications of fringe benefits on the profitability of SMEs.

1.3 STATEMENT OF RESEARCH PROBLEM

The majority of SMEs globally spend significant amounts of money on reward programmes designed to inspire, retain and recruit new staff (Ndichu, 2017:11). The profitability of SMEs is severely negatively impacted by the rising expense of fringe benefits. To support these assertions, Anele et al. (2017:98) note that although organisations have a variety of reward systems in place that take into account both intrinsic and extrinsic factors and are meant to promote and advance employee welfare, yet, SMEs encounter difficulties when it comes to paying staff fairly and developing an incentive system. The main issue that is becoming increasingly prevalent in many SMEs is the management's incapacity to fairly reward all personnel due to inadequate funding standards and capital (Anele et al., 2017:99). Moreover, in many SMEs, underpaying workers also causes unhappiness, which further reduces output and raises staff turnover. This is evidenced by the excessive staff turnover rate being experienced by many SMEs in SA. As a result, this leads to a struggle for enterprises to become sustainable, which eventually has a negative effect on their total profitability.

The research problem can be briefly stated as follows: "The profitability of SMEs in the Cape Metropole is adversely influenced due to the unequal distribution of fringe benefits amongst employees."

1.4 AIM OF THE STUDY

The aim of this study is to ascertain the impact of fringe benefits on SMEs operating in the Cape Metropole.

1.5 RESEARCH QUESTIONS AND SUB-QUESTIONS

1.5.1 Research questions

The primary research question is:

What is the impact of fringe benefits on SMEs in the Cape Metropole?

The sub-questions in support of the main research question are:

- a) What are the implications of fringe benefits on SMEs?
- b) What are the types of fringe benefits offered by SMEs in the Cape Metropole?
- c) Does gender influence the provision of fringe benefits?
- d) What is the impact of COVID-19 on SME fringe benefits?
- e) What is the relationship between fringe benefits and SME performance?

1.6 RESEARCH OBJECTIVES

The **primary objective is:** To ascertain the impact of fringe benefits on SMEs operating in the Cape Metropole.

The **secondary objectives** are:

- a) Understanding the implications of fringe benefits on SMEs.
- b) Exploring the types of fringe benefits offered by SMEs in the Cape Metropole.
- c) Determining the influence of gender on the provision of fringe benefits.
- d) Assessing the impact of COVID-19 on SME fringe benefits.
- e) Investigating the relationship between fringe benefits and SMEs' performance.

1.7 RESEARCH DESIGN AND METHODOLOGY

The research design and research methodology employed in this research study are introduced in this section.

1.7.1 Research design

Research methodology focuses primarily on the procedures and tools that must be used throughout the study, whereas research design refers to the blueprint and plan that serve as the foundation on which researchers seek to conduct research, as a

result, this study used a quantitative methodology to gather crucial data (Talebnia 2017:87).

1.7.2 Research methodology

Methodology is the “strategy, plan of action, process, or design” that guides one’s selection of research methods, as it helps the researcher decide which types of data are needed for a study and which data collection methods are best suited for the study’s objectives (Rehman & Alharthi, 2016:51). Talebnia (2017:87) suggests that research methodology focuses on the procedures and tools used during the exercise. An in-depth closed-ended questionnaire (see Appendix B) was used to collect data from SME employees. This research falls within the positivistic research paradigm as it is quantitative, as explained in the following section. A positivistic research approach is known as the quantitative research paradigm. The positivist research paradigm is a more objective approach to study than the interpretative paradigm (Solani, 2020:7).

1.8 RESEARCH PARADIGM

A research paradigm is defined as interconnected theoretical concepts, factors, and issues linked to suitable methodological approaches and resources. It is a comprehensive system of integrated practice and analysis that defines the nature of the study in three dimensions: ontology, epistemology, and methodology (Sönmez, 2013:77). Thus, the term paradigm refers to a research culture with a set of assumptions about nature and how research is done by a community of researchers (Kivunja & Kuyini, 2017:26).

This study adopts the positivist research paradigm because it is typically quantitative and uses a descriptive survey design. However, positivism is treated as a combination of substantive concepts, variables and problems related to appropriate methodological approaches and tools (Kivunja & Kuyini, 2017:26). As a result, descriptive research seeks to quantify the frequency with which a relationship between variables manifests (Kamau, 2013:35).

This study was deemed appropriate for the positivist paradigm. The study aims to ascertain how fringe benefits affect SMEs, why these benefits should be awarded, and what obstacles these businesses face while providing these benefits. There is a truth to this, which might only be discovered via investigation, and consequently, a questionnaire was used in the study to gather data.

1.9 Population and Sampling

Study populations refer to groups of individuals who are accessible to the researcher and possess the necessary knowledge and experience related to the subject of study (Holloway & Galvin, 2016:143). Therefore, the target population of this study comprised workers in selected SMEs located in the Cape Metropole. Collins and Hussey, as cited by Talebnia (2017:87), point out that samples are drawn from groups of people within a population, which is relevant to the target population associated with the research study. Thus, this study used a purposive and snowballing sampling technique as this research focuses on small samples.

However, the purposive sampling method is a type of non-probability sampling that works best when conducted with knowledgeable experts in a particular cultural field (Tongco, 2007:149). Hence, Ten SMEs were investigated, out of which ten participants were drawn from each SME entity giving a total of 100 participants.

1.9.1 Data collection instrument

In this study, a structured questionnaire is employed as a research tool. This survey tool is appropriate for this study because it is less expensive, more convenient for respondents and researchers, and is simpler when collecting data from a large number of participants (Kibangou, 2019:10). Structured surveys have pre-populated responses, requiring respondents to select the one that best suits their situation. Most questionnaires have an “any other response, specify” section but there is limited room for additions except in extremely unusual circumstances as answers are predetermined (McGrath, 2022:21). The survey is organised and planned using five distinct objectives, five sub-questions, and one main survey question. The closed-ended questionnaire format was chosen for its rapid completion.

1.9.2 Data collection

A self-administered survey and information gathered from primary sources was used to support this study. However, door-to-door surveys were conducted in SMEs in the Cape Metropole to gather information from managers and lower-level employees. Within 14 days, participants who were reachable and eager to respond had their questionnaires completed and collected.

1.9.3 Data analysis

In this study, primary data was collected quantitatively and analysed with descriptive statistics using the Statistical Package for Social Science Statistics (SPSS) software.

1.10 DELINEATION OF RESEARCH

This study was carried out in the Cape Metropole, Small and medium-sized businesses were the companies that were specifically chosen for the study. The respondents were lower-level employees and managers of a selected SME in the Cape Metropole. These areas were chosen for their accessibility and convenience for the researcher.

1.11 ETHICAL CONSIDERATIONS

Since there were human participants, the Research Ethics Committee of the Cape Peninsula University of Technology's guidelines were followed. Before the field study started, ethical clearance was obtained. Again, before gathering data, the researcher obtained informed consent from the respondents. The respondents were made aware that taking part in this study was completely voluntary and that they could withdraw at any time if they wanted to. The survey identifies people who appear in any of the study's information sources, research reports, or publications. No one received any benefits for participating in the survey because all identified respondent's information remained confidential but the data will help the SME sector in SA by giving workers access to a framework for fringe benefits. The option of receiving a copy of the proposed study's results after completion was made available to participants, who were grateful for the opportunity.

1.12 RESEARCH PLAN

It is to create well-designed research, create effective strategies, empower participants through scripted communication, assess performance outcomes, and incorporate improvement into research.

Table 1.1: Research plan

Task	Period
Literature review	8 weeks
Questionnaire	1 month

Data collection	4 weeks
Data analysis	1 month
Recommendations and conclusions	5 weeks

1.13 CONTRIBUTION OF THE STUDY

The study benefits SMEs, the South African body of knowledge and society at large. Additionally, it might support organisational objectives, which could guarantee employee satisfaction, staff retention, employee productivity, and improved organisational performance. By using an inductive technique to uncover variations within a stressful context, the aim was to contribute to the literature on job satisfaction and work stress (Fila et al., 2014:640).

1.14 OUTLINE OF THE DISSERTATION

Chapter 1: Introduction and background

Chapter 1 states the research problem, aims, and definitions of words employed in relation to the study's hypotheses and rational direction. It offers a succinct overview of the research investigation.

Chapter 2: Literature review

This chapter provides concepts and a theoretical background relevant to the premise of the study. Literature focuses on fringe benefits intrinsic and extrinsic systems, and constructs of benefits characteristics impacting SMEs.

Chapter 3: Research design and methodology

The research methodology and design include a discussion on selected strategies, sample size plan, data collection schedule and measuring instrument.

Chapter 4: Results, analysis and discussion

This presents and discusses research results obtained from data collected during the study. The analysis of descriptive statistics in the SPSS version 24 and variables under consideration is also provided in table and pie charts, along with inferential analysis.

Chapter 5: Conclusion and recommendations

This chapter makes recommendations arising from the analysis and concludes with directions for future research.

1.15 LIMITATION OF THE STUDY

The scope of this study was narrowed to focus on how the cost of fringe benefits affects the overall profitability of SMEs in the Cape Metropole. Chakabva (2015:44) and Eltahir (2018:19) assert that common constraints are predisposed to potential issues. As a result, the study comprises a sample of 100 participants from 10 SMEs operating in the Cape Metropole. This translates to 10 participants for each chosen SME entity. Hence, real variances in benefit plans may reduce the value of benefits to other employees.

1.16 CHAPTER SUMMARY

The study's background, problem statement, aim, objectives, and research questions were all addressed in this chapter. An overview of the research approach and study design was also stated. The significance of the study, delineation, limitations, ethical considerations, and contribution of the study were discussed, and an outline of the dissertation's structure was given.

The following chapter provides an in-depth literature review that was undertaken to provide a theoretical grasp of the field of research.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

The previous chapter gave an overview of the research, outlining the problem statement, research objectives and questions, research design and methodology, contribution, and dissertation structure. This chapter provides a thorough literature review that was undertaken to provide a theoretical grasp of the field of research. The chapter focuses on the inability of management to provide fringe benefits equally to employees. It also explores the current support offered to SMEs in the Cape Metropole.

2.2 CONCEPTUAL REVIEW

2.2.1 SMALL AND MEDIUM ENTERPRISES

SMEs are well-defined in a variety of senses and are recognised in numerous ways by various people and organisations but a company that is considered a small business in one country may be classified differently in another country. Total assets, the size of the workforce employed, and yearly turnover are some of the variables that are commonly used in various definitions (Bouazza et al., 2015:111). However, Madzimore et al., (2020:2) states that SMEs are discrete companies run by one or more owners, including subsidiaries, they fit size requirements and can be found in all economic sectors. Consequently, these are small firms that yet contribute significantly to the economy.

Even though it is crucial to create a definition for SMEs, Eltahir (2018:16) notes that there has not typically been a globally acknowledged definition because different countries have different rules for calculating and defining the rate and quantity of the entity. Mwanza (2017:11) indicates that the number of employees and balance sheet value are the determinants for defining SMEs. Eltahir (2018:19) buttresses this narration by reporting that in the European Union, an enterprise with less than 500 employees is regarded as an SME but in the U.S. they are clarified as independent companies with less than 500 employees, In Japan, SMEs are businesses that employ between 4 and 299 employees, however, in Sudan, they are defined by the number of the enterprise's employees. Moreover, a small firm in South Africa is defined as one that employs fifty or fewer people, generates up to R19 million in revenue, and has R3

million in total assets (Madzimore et al., 2020:2). However, a medium-sized company has between 50 and 200 employees, an R39 million annual revenue, and an R6 million total asset worth (Madzimore et al., 2020:2). Thus, they often generate less sales than large enterprises and can employ a few people or several hundreds.

According to the National Business Act of 1996, South African SMEs are any firms with 200 workers, less than R5 million in annual revenues, less than R2 million in capital assets, and an owner who actively participates in the operation of the company. These enterprises include sole proprietorships, partnerships, close corporations, and non-governmental organisations managed by one owner or more (Dhanah, 2016:22).

According to Mwanza (2017:12), the National Small Business Act 102 of 1996, as revised in 2003 and 2004, defines SA SMEs under the framework for definitions gazetted in the Act. The Act categorises SMEs as follows:

- Medium enterprises – 120 to 200 employees, depending on the sector
- Small enterprises – 50 employees
- Micro enterprises – 5 or fewer employees

Table 2.1: Classification SMEs given in the National Small Business Act

Size	Total employees fewer than	Total turnover for 12 months in SA Rand	Gross asset value less than
Medium	100 to 200, depending on the sector	R20 million	R4 million
Small	50	R10 million	R2 million
Micro	5	R .15 million	R .10 million

Source: Chakabva (2015:33).

2.2.2 Importance of SMEs to the economy

In SA, SMEs are recognised as a key factor in promoting inclusive growth and development and as such, the government emphasises the significance of these entities in job creation, innovation and competitiveness, with a target of 90% of new jobs created (Bhorat et al., 2018:3) However, SMEs in SA are essential to the development of a robust and varied economy. Thus, the entry and expansion of these businesses might result in a durable mechanism through which the wages of those at

the bottom of the wage distribution can be raised and the level of inequality can be decreased (Bhorat et al., 2018:4).

In addition to the above, Belás et al. (2017:47) opine that SMEs, which make up a sizeable fraction of national economies all over the world, have grown to be an increasingly significant factor in economic development and SMEs can be considered a primary engine of economic growth. Rungani and Potgieter (2018:11) add that according to Statistics South Africa, the small business sector currently accounts for around 42% of SA's GDP. However, Madzimure et al., (2020:2) opines that SMEs are vital to the South African economy, accounting for up to 60% of all jobs and roughly 50% of GDP. Therefore, SMEs employ 60% of the population and are an important incubator and breeding ground for entrepreneurship and innovation (Belás et al., 2017:50). Furthermore, SMEs in SA are promoting better goods and services which lowers unemployment and improves communities.

Rabie et al. (2016:1020) point out that SMEs are vital to the economies of all countries of the world and play an important role in the generation of cash, the production of goods and services, and the growth of employment. They have long been recognised as essential contributors to the economic health of nations on a global scale, with about 68% of SA's workforce employed by SME firms (Rabie et al., 2016:1021).

2.3 UNDERSTANDING THE IMPLICATIONS OF FRINGE BENEFITS ON SMES

2.3.1 Fringe benefits

Fringe benefits have been recognised as rewards that encourage workers to improve their job productivity, thereby increasing the efficiency of the employees. Fringe benefits are non-wage compensation forms that are given to workers, in addition to their regular salaries or bonuses (Usung, 2020:6). Thus, fringe benefits are forms of indirect compensation provided as part of corporate membership to an employee or group of employees (Mugaa et al., 2018:15). According to Sahana & Paul, (2021:2) fringe benefits are extra perks provided to an employee above and beyond their stated pay in exchange for performing a particular function. However, they are referred to as that portion of an employee's total compensation package that is provided in addition to base or performance pay (Mugaa et al., 2018:17). Because any such benefits are required by statute, including pensions, social security, and unemployment insurance, many of these benefits given to workers are provided at the business owner's discretion (Mugaa et al., 2018:17).

According to Klonoski (2016:52), in the U.S., fringe benefits such as contributions to social security and workplace health insurance may be legally mandated, while voluntary benefits provided by organisations, such as contributions to pension funds and vacations, may also be mandated by law (Klonoski, 2016:52). They benefit employees because they increase job satisfaction, encourage employee engagement, and lead to improved financial results (Klonoski, 2016:52). Highly motivated employees perform better at work, producing outcomes that are successful, effective, and healthy. The key to success is motivation because successful people put in more effort, which leads to success and satisfaction and fosters a great work attitude (Nguyen, 2017:11). To support the above, motivated skilled workers perform better in difficult tasks, making informed decisions and finishing work more quickly. Because of their advanced abilities, they can develop and enhance processes which helps the businesses succeed and stay competitive.

The benefits given to workers apart from the salaries are known as fringe benefits. These kinds of incentives and services offered to workers primarily aim at enhancing productivity and work satisfaction, decreasing employee turnover and retaining productive employees (Kose et al., 2015:28). Additionally, Usung, (2020:6) states that the goal of employee benefits is to boost employee's financial stability and, as a result, increase employee retention throughout the company. Chukwudumebi (2018:79) defines fringe benefits as types of indirect compensation provided as part of an organisational membership to an employee or a group of employees. These benefits are the entire kit of compensation given to workers in expansion to the base or performance pay and fringe benefits focus on preserving (or improving) the quality of life for employees (Chukwudumebi, 2018:80). These benefits provide staff and their families with a degree of safety and financial security like basic pay policies (Chukwudumebi, 2018:81). The key purpose of most corporate fringe compensation schemes is to recruit, retain and inspire skilled, capable workers, common examples being retirement or pension benefits, medical and dental care, compensation for schooling, time off, paid holidays, and company car use (Chukwudumebi, 2018:82)

Bayraktar and Şencan (2018:31) opine that some fringe benefits for workers are mandatory, such as annual leave with pay and maternity leave, while others are optional. As a result, perks such as paid holidays, private pension schemes and flexible jobs are other fringe benefits that employers choose to voluntarily have. Voluntary fringe benefit programmes are developed according to a company's needs, strategies,

culture, and features (Bayraktar & Şencan, 2018:34). However, the categorisation of fringe benefits as voluntary, mandatory and or optional depends on legal mandates, company guidelines, and the aspiration to provide adaptable options that meet the diverse needs of employees.

2.3.2 Fringe benefits discussion

Fringe benefits are additional services and expenses that employees receive in addition to their normal salary (Osime, 2023:61). Therefore, these benefits are part of the employee's compensation package and are considered indirect compensation, as they are extended as a condition of employment and not directly related to the employee's performance (Osime, 2023:61). Fringe benefits complement other forms of cash payments, such as wages and salaries, and are intended to improve the quality of an employee's work life and increase collaboration and productivity (Mabaso, 2017:33). Zirra et al. (2019:13) also state that fringe benefits enhance workers' quality of life and give them and their families financial security and protection. Hence, the primary purpose of benefits programmes for small businesses is to offer attractive rewards programmes that motivate and retain skilled and qualified workers. Businesses today function in a dynamic environment full of obstacles, therefore having motivated staff members is more important than ever if you want to stay in the race (Owusu et al., 2023:106). The true quantification of employee rewards, according to Igbara et al. (2016:97), is done financially with comparative estimates of percentage values and salary grades. In addition, benefits are calculated on a pro-rata basis and added to your monthly salary. Fringe benefits provide workers with additional insurance coverage during employment in addition to their salary (Igbara et al., 2016:97). These costs are typically determined using fixed benefit percentages that differ, depending on the employee's classification, and frequently change from year to year. As a result, monetising fringe benefits entails using cash flows to convert non-cash benefits into cash (Igbara et al., 2016:99). Fringe benefits are not just benefits, they are necessary costs of running a successful business. Igbara et al. (2016:101) report that these benefits do not show up in government overhead costs and as a result, efforts to increase motivation at work will fail without these benefits. Even during profit sharing, the definition of fringe benefits is mentioned to decrease turnover, raise expected returns for a particular skill set, and ultimately boost profitability and productivity (Chakraborty et al., 2013:150).

2.3.3 Reasons why fringe benefits should be offered

Sharma and Jaiswal (2018:176) assert that people are driven by more than just money and very few people claim that money has no motivational power at all. By providing fringe benefits, companies show their commitment to their employees, creating a more upbeat, and stable and productive work atmosphere. However, there is a perfect opportunity for workers to produce the best business results if incentives are given to workers (Sharma & Jaiswal, 2018:176). Below are the six main justifications for structuring compensation packages rather than eliminating fringe benefits:

- **It is the law:** Legislation requires fringe benefits such as social protection, medicare, and family and medical leave and in the U.S. these benefits are federally mandated (Sharma & Jaiswal, 2018:177). In addition, other states provide compensation cover for employees as well as unemployment benefits (Sharma & Jaiswal, 2018:177). Sharma and Jaiswal (2018:178) add that few states have mandatory health benefits coverage and temporary disability insurance provisions that are non-occupational. However, in SA, the social security system includes social assistance, compulsory social insurance, and voluntary insurance (Andrews & Adams, 2020:67). Social assistance systems include old age and foster care; UIF and road accident funds are compulsory social insurance, and there are also voluntary insurances such as pensions and provident funds (Andrews & Adams, 2020:73).
- **Duty to bargain with unions:** Almost all employee benefits are suitable for compulsory U.S. negotiations because, during collective bargaining, businesses are unable to disregard union demands and refuse benefits separately (Sharma & Jaiswal, 2018:177). There are two interpretations of the legislation in SA on collective bargaining: the Labour Relations Act (LRA) refers to the need to negotiate collectively, while the Constitution refers to the right to do so (South African Revenue Service [SARS], 2021:16).
- **Competition:** Most small businesses now give their employees some incentive programs, if only paid time-off and employees pay off coverage (Sharma & Jaiswal, 2018:179). If a company opts for a "pure cash" compensation package it will certainly be competitively disadvantaged in the job marketplace (Sharma & Jaiswal, 2018:179).
- **Benefits are tax advantageous:** Unlike federal and state taxable compensation, most benefits are either tax-free or non-taxable, allowing

employers to deduct expenses for the year without actually increasing the employee's taxable income (Sharma & Jaiswal, 2018:176). According to SARS (2021:17), any benefit that an employee receives from an affiliated institution connected to an employer in exchange for services is considered a taxable benefit that the employer has given to the employee. The value of the taxable benefit that the affiliated institution grants to the employee must be calculated by the employer in cash as if the employee had received the relevant benefit (SARS, 2021:17). Hence, an IRP5/IT3(a) certificate must be given to the employee by every employer. The IRP5/IT3(a) certificate has to specify the type of taxable benefit and the cash equivalent of its value (SARS, 2021:18).

- **Employees want benefits:** Employees know that it is more favourable for their employers to receive benefits due to tax incentives and economies of scale, and agree to receive benefits as part of their total compensation (Sharma & Jaiswal, 2018:176).
- **Benefits support employer strategies:** Employers find that certain benefits are even more competitive than compensation in helping to achieve employee recruiting, retention, productivity goals, cost management and social responsibility (Sharma & Jaiswal, 2018:178). As a result, each company has its own culture, needs and priorities, so successful benefits can pull workers into line (Sharma & Jaiswal, 2018:179). Employers must acknowledge that employees' requirements are varied and ever-changing but they must also go much beyond compensation. Consequently, according to Werner and Balkin (2021:9), benefits' excessive prices might also affect a company's bottom line. As a result, there is a growing consensus that benefits have to be seen strategically, with an emphasis on how benefits may directly assist firms in achieving their strategic objectives and creating a long-lasting competitive advantage (Werner & Balkin, 2021:9).

2.4 FRINGE BENEFITS AND ORGANISATIONAL PERFORMANCE

According to Oguejiofor and Umeano (2018:3), fringe benefits are essential for organisational improved performance and provision. However, when people are hired, chosen, educated and assigned responsibilities, leadership must concentrate on building an environment that promotes high-level success over a long period. It also enables individuals to fulfil some of their most critical needs by offering benefits that are not explicitly specified in their letters of appointment (Oguejiofor & Umeano,

2018:3). This is typically done by providing employees with fringe benefits that could potentially contribute to improving individual and organisational results (Oguejiofor & Umeano, 2018:3).

Organisations function to provide unique goods or services to the community and to achieve their objectives, members must work together, while management and staff must put in the best possible effort (Ayeniyo, 2015:32). However, an organization with a clear vision influences individuals, enhancing their skills and competencies (Nkouangas, 2022:16). Therefore, employees value intrinsic and extrinsic rewards, which not only boost motivation but also lowers costs within the organisation, as a result, in a competitive environment, reward systems are crucial for motivating employees, maximizing effectiveness and competitiveness (Nkouangas, 2022:16). .

Hence, organisations should foster efficient employee contributions by addressing their needs beyond wages and salaries, and by offering fringe benefits to create a rewarding and inspiring work environment (Ayeniyo, 2015:33). According to Osakwe et al. (2016:36), a highly motivated workforce is essential for organisational efficiency and financial profitability. Figure 2.1 below shows some types of important fringe benefits that should be given to employees within an organisation.

2.4.1 Types of fringe benefits

Figure 2.1 below illustrates the types of fringe benefits offered by SMEs in the Cape Metropole.

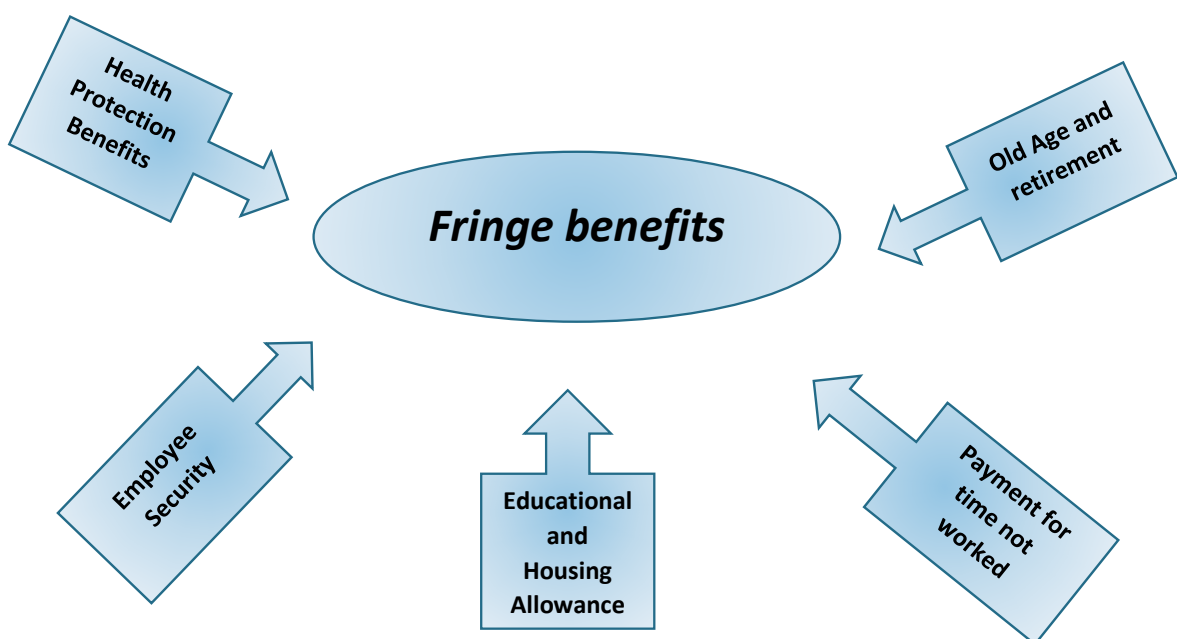


Figure 2.1: Types of fringe benefits offered by SMEs in the Cape Metropole

2.4.1.1 Health protection benefits

This is a form of benefits earned by workers for accidents and injuries associated with employment (Oguejiofor & Umeano, 2018:7). In addition, Sharma and Jaiswal (2018:176) assert that sickness benefits are approximately 50% of the average monthly salary and are payable for two consecutive insurance periods of 91 days. As a result, maternity benefits are payable to and cover women subject to contributory conditions like incarceration, miscarriage, surgical termination of pregnancy or any pregnancy-related disease. A temporary disability benefit is payable to an employee suffering from work injuries or work-related conditions and who is certified to be temporarily unable to work (Sharma & Jaiswal, 2018:177). The Compensation for Occupational Injuries and Diseases Act 1993 established medical coverage and compensation for occupational diseases or injuries in all SA workplaces (Steve Biko Academic Hospital, 2018:18). According to the Commission for Conciliation, Mediation and Arbitration [CCMA] (2022:111), maternity leave in SA for expectant mothers is permitted to be taken for four months, beginning four weeks prior to the due date or sooner if needed. Six weeks after giving birth, workers are not allowed to return to work unless they get certification (CCMA, 2022:112). Additionally, women who miscarry or give birth to a stillborn child are entitled to six weeks maternity leave (CCMA, 2022:115).

2.4.1.2 Old age and retirement

Benefits under old age and retirement include pension, gratuity, provident fund, therapy for old age, old age support, retired employees' medical benefits, retired employees' travel concessions, work for the deceased employee's sons/daughters and the like (Poonam, 2016:20). Oguejiofor and Umeano (2018:11) define retirement benefits as a beneficial way of collecting retirement income and retirement programmes can increase efficiency. As a result, pension greatly affects the actions of employers, offering a persuasive incentive for younger workers to stay employed by their employers and inspiring older employees to retire on time (Oguejiofor & Umeano, 2018:5).

2.4.1.3 Employee security

Employees should also be provided with physical and occupational protection to ensure the employee and his family members are covered. A minimum and constant wage or salary gives employees a sense of protection (Sharma & Jaiswal, 2018:178). In SA, employers are required under the Occupational Health and Safety Act 85 of 1993 to establish a safe workplace free from materials that pose a risk of harm and microbes that might infect people (South Africa, Department of Health, 2006:18). As a result, employees must be informed about potential dangers and precautionary steps by employers if this is not practical (South Africa, Department of Health, 2006:18).

2.4.1.4 Educational and housing allowance

Educational and tuition assistance incentives are widely sought-after by staff. These systems were found to help the retention of employees and hiring. The service covers any or all expenditures, including formal education courses and degree programmes (Oguejiofor & Umeano, 2018:6). In SA, a permanent, fixed-term, or full-time employee that fulfils the criteria for a housing allowance may be eligible to receive one (South African Heritage Resources Agency [SAHRA], 2006:3). However, if an employee is married, the housing allowance will only be provided for one spouse's single residence if both partners work for the government sectors, which guarantees that there is no duplicate subsidisation (SAHRA, 2006:4).

2.4.1.5 Payment for time not worked

According to Sharma and Jaiswal (2018:180), the Factory Act, Act No. 63 of 1948, prohibits adult employees from working more than 48 hours a week in factories. Certain organisations may have legal criteria for working hours, however, adult workers must have a weekly paid holiday, usually Sunday, in compliance with the Act. If a worker is deprived of a paid holiday in the same month, they will be credited for the same amount. Some organisations offer two weekly paid holidays, and workers on odd hours must be paid more than the usual rate (Sharma & Jaiswal, 2018:180). South Africa, Department of Labour (2002:8) reveals that employers are required to provide a minimum of one continuous hour of lunch breaks to workers who put in more than five hours of labour every day. However, only tasks that cannot be left unattended or completed by another employee may be expected of the employee during a lunch break (South Africa, Department of Labour, 2002:8). If an employee does not reside on the premises of their employment, they must be compensated for meal breaks that

are longer than 75 minutes and as a result, labour is considered continuous unless there is a pause of at least 60 minutes (South Africa, Department of Labour, 2002:9).

2.5 THE IMPORTANCE OF OFFERING FRINGE BENEFITS

According to Nguyen (2017:15), staff who are highly motivated perform better, and are more productive and effective. Yet, motivation is central to success because motivated people put in more effort to accomplish a task than the expected good result. As a result, employee satisfaction and joy create a positive attitude in the workplace and goals are achieved (Nguyen, 2017:15). Moreover, motivated workers are driven to accomplish their objectives and make a positive impact on the company's success. Thus, their efforts are appreciated and acknowledged, which makes them feel more motivated and committed. Therefore, strong relationships between motivated workers and their managers and co-workers are also more likely to form, which enhances the work environment. As a result, all of these elements motivate individuals to stick with the business and offer their all in the long run.

Kose et al. (2015:29) add that satisfaction contributes to inspiring employees, growing their performance and commitment, thereby helping them balance work and life, as well as decreasing labour turnover. Fringe benefits are benefits offered to employees and these types of benefits primarily aim to improve drive and job satisfaction (Kose et al., 2015:30).

Fringe benefits are any costs paid to assist employees beyond their regular wages, and direct monetary incentives tied to productivity (Zirra et al., 2019:14). These benefits include company cars, housing allowances, medical benefits, paid vacations, pension plans and subsidised meals (Zirra et al., 2019:14). However, some of the fringe benefits are deemed to be part of the taxable income (Zirra et al., 2019:14). Moreover, companies require motivated workers to increase performance and survive in today's cutthroat business environment (Vashistha & Khan, 2020). However, fair compensation fosters employee engagement, which in turn increases employee happiness and adds to overall performance, therefore, this is why fair compensation is essential for business success and profitability (Vashistha & Khan, 2020:106).

To maximise employee productivity, every firm should take into account the most important factors in operating a successful business and keeping employees satisfied with fringe benefits. Therefore, to put it briefly, fringe benefits increase the attraction of

jobs and aid employers in maintaining a strong workforce. The following are reasons why a company should offer fringe benefits to their employees (Poonam, 2016:21).

2.5.1 Minimise employee turnover rate

Offering fringe benefits encourages employees to stay with the company while investing in a strong team of professionals is crucial for a company's progress and job performance.

2.5.2 Improved employee morale

Organisations must understand and cater to employee needs to ensure benefits that boost morale, job dedication, and productivity because motivated employees contribute to the organisation's profitability and overall success.

2.5.3 Recruit the best talent

Many of the best employees believe that a firm should offer significant advantages, and if not, they will not be interested in the position.

2.5.4 Retain top talent

Proper employee rewards boost productivity and commitment. Offering fringe benefits like medical insurance, disability insurance, and retirement savings plans ensures financial stability in case of illness or injury, thereby ensuring the retention of talented professionals.

2.5.5 Improved job performance of employees

By providing fringe benefits, employees would be more committed and dedicated to their organisation. They will work harder, which can lead to improved productivity, greater quality and more profitability.

2.5.6 Employee satisfaction

Offering fringe benefits can enhance employee satisfaction and job performance, as they provide coverage for both employees and their families. Although initial costs may be high, the long-term benefits can outweigh these costs, contributing to overall business success.

2.5.7 Promote loyalty

When employees are highly motivated, they are unlikely to look for another job. Since, they find satisfaction and purpose in their work. Hence, staff loyalty may improve an

organisation's performance by decreasing staff turnover, boosting profitability and reputation, and enhancing general quality (Wiklund & Jansson, 2019:33). According to Tarafdar et al. (2021:1), employee loyalty is the dedication to a firm and the conviction that staying with the existing employer is the best course of action as opposed to looking for alternative job options. However, in order to meet operational demands and retain a productive workforce, firms must prioritise retention (Sibenya, 2023:14). Therefore, it entails encouraging workers to remain as long as feasible, necessitating proactive workplace preparation (Sibenya, 2023:14). Moreover, the loss of sensitive data, the departure of talented workers, and reduced productivity can all result from a failure to retain talent, which can affect the bottom line of the company and production expenses (Sibenya, 2023:14).

2.5.8 Increase productivity

It is always important for an organisation to offer fringe benefits that will differentiate it from and make it more attractive than its competitors (Poonam, 2016:23). If a company wants to recruit talented, skilled, experienced and dedicated employees and help them create a strong foundation for the business, then benefits should be offered (Poonam, 2016:23). By offering these kinds of benefits it indicates that you believe in your organisation enough to invest in your workers (Poonam, 2016:24). Chukwudumebi (2018:80) adds that productivity is a relation between inputs and outputs. Productivity refers to how much output can be produced with a given set of inputs, however, it increases when more output is produced with the same amount of inputs or when the same amount of output is produced with less input (Chukwudumebi, 2018:81). In monetary terms, this is often seen as an improvement in efficiency if the price earned for output increases without an increase in the cost of inputs (Chukwudumebi, 2018:81).

2.6 DETERMINING THE INFLUENCE OF GENDER ON THE PROVISION OF FRINGE BENEFITS

2.6.1 The provision of gender in the workplace

Paying men and women disproportionate salaries for equal labour is against the law but the law against sex discrimination in the form of uneven employee fringe benefits is less clear (William & Mary Law Review, 1976:5). In South Africa, men continue to

dominate higher-paying professions and male students on average continue to score higher than female students (Mabuza, 2020:23). However, discriminatory fringe benefit distribution has lately been raised by Congress, the courts, and a variety of administrative bodies, hence, fringe benefits have grown significantly in recent years, averaging 25% of total payroll expenditures for businesses (William & Mary Law Review, 1976:5). In terms of pay and benefits, SA has a history of discriminating against employees based on their gender, colour, and other characteristics (CCMA, 2018:117). As a result, by guaranteeing that any variation in terms and circumstances of employment between employees performing similar or nearly identical job is deemed unfair discrimination, the Employment Equity Act (EEA) and Employment Equity Regulations seek to safeguard workers (CCMA, 2018:116). Moreover, employees desire fair compensation for their contributions to their organizations, regardless of gender, race, or experience level, and they want to know they are being paid well compared to others (Mabuza, 2020:1).

According to Gberevbie (2014:111), male workers and female workers face different challenges. For example, when female employees need to take maternity leave, they face a variety of challenges in the private sector. If maternity leave is required, female workers are encouraged to stay unpaid as much as possible, which creates barriers to their employment potential. As a result, the study proposed that there be reasonable policymaking that provides maternity leave to female workers and boosts their social rights.

CQ Press (2011:210) reports that discrimination in fringe benefits between men and women is prohibited as a form of discrimination in the workplace. When a business bases benefits for employees on gender, whether the worker is the “head of the household” or the primary breadwinner of his family, the benefits are typically exclusively offered to male employees and/or their families (CQ Press, 2011:211). As a result, contractors are not allowed to pay differently or provide different fringe benefits based on gender and they cannot, for example, refuse overtime labour, training, or higher-paying salaries or jobs because of gender (Australian Human Rights Commission, 1984:11). However, in SA, there is no explicit regulation regarding equal pay but the prevailing consensus is that compensation disparities are acceptable as long as they are not the result of generalisations about certain target populations (Hlongwane, 2004:12).

Cornwall et al. (2018:43) contend that males may be more concerned with reward size, or pursuing options with the biggest possible payoffs. Females, on the other hand, prefer options that offer smaller but more constant rewards. This finding is in line with prior research that shows males prefer to maximise future rewards while females prefer to maximise immediate gains.

According to Steyn and Jackson (2015:200), in the South African environment, discrimination can be fair, as stated in the EEA, when affirmative action measures are used to "distinguish, exclude, or favour a person based on the inherent requirements of a job or a scenario". Discrimination is considered fair if affirmative action and specific employment criteria are legally viable grounds for discrimination. The gender wage gap has thus never been simple to close for women in SA. The situation for women in the nation has improved over time but there are still certain issues that need to be resolved. It is crucial to realise, though, how historically unequal treatment of women has persisted. This provides us with a better understanding of what women had to endure apart from earning less than their male co-workers (Basson, 2019:43).

2.6.2 Equal pay for equal work

In the areas of compensation, employment benefits, working conditions, and job classification and grading, unfair discrimination is prohibited. It is on this premise that litigants who have complained about unequal pay practices have sought redress in the Labour Court (Laubscher, 2016:815). According to Dube (2017:17), the notion of equal compensation for equal effort was born out of wage disparities between men and women. Women's discrimination and the gender pay gap began with their entry into the workforce following World War II, where they performed the same duties but women were paid less than their male counterparts.

Hlongwane (2004:14) reports that to promote workplace equity, the government of SA has passed the Labour Relations Act (LRA) and the EEA, meaning that benefits such as maternity benefits that workers receive as part of their package should be subject to substantive equality.

2.6.3 Labour Relations Act (LRA)

An unfair labour practice is defined under the LRA, Act 28 of 1956 as any act or omission that has or may have adversely harmed any employee or class of employees (Maharaj, 2019:15). Using this wide definition, the claimants argued that an unfair labour practice would be occurring if employees performing identical work were not

paid in the absence of a valid justification for the difference (Maharaj, 2019:16). As a result, the Supreme Court has ruled that the LRA definition of unfair labour practice should be changed to include unfair discrimination and therefore, the current LRA, which came into effect on November 11, 1996, made it easier to adjudicate claims for unequal pay for work of equal value (Maharaj, 2019:17).

2.6.4 Employment Equity Act (EEA)

The Employment Equity Act, No. 55 of 1998, was adopted by the South African parliament on October 12, 1998, with its main goal to "promote workplace equality through fostering equal opportunity and fair treatment in the workplace by eliminating unjust discrimination", thereby giving effect to the Constitution's Section 9 provisions (Mabathoana, 2019:22). According to Abrahams, (2021:27), the Act promotes equity and equal opportunity in the workplace with the goal of ending unfair discrimination in South Africa. Therefore, it guarantees fair representation in all occupational categories and levels and incorporates affirmative action measures to alleviate employment disadvantages (Abrahams, 2021:27). As the result, the Act directly impacts South African organizations by prohibiting discrimination based on race, gender, disability, and sexual orientation (Abrahams, 2021:27). Moreover, the EEA has been criticised for its lack of explicit provisions on equal pay for equal labour and hence this Act was revised by the government in response to criticism of it (Mabathoana, 2019:22).

2.6.5 Employment Equity Amendment Act (EEAA)

According to Cliffe Dekker Hofmeyr (2015:10), on August 1, 2014, the Employment Equity Amendment Act, No. 47 of 2013 (EEAA) and new regulations published by Government Gazette Notice 37873, came into force. To better achieve the EEA's goal of establishing workplace equity through the pursuit of equal opportunity and fair treatment, the EEA was modified by the EEAA regulations (Cliffe Dekker Hofmeyr, 2015:17).

2.7 ASSESSING THE IMPACT OF COVID-19 ON SME FRINGE BENEFITS

2.7.1 COVID-19 pandemic

COVID-19 is a global emergency with death, and economic and business destruction, affecting the health system, environment, business, social movements, workers and job opportunities. Governments globally have put restrictions in place to stop the spread of COVID-19 (Warsame, 2020:22). Hence, measures such as stay-at-home

measures, quarantine, social distancing and social movement restrictions have been put in place but all of these measures have reduced supply and demand, leading to a significant drop in small business sales (Warsame, 2020:22). However, on 15 March 2020, SA proclaimed the COVID-19 pandemic a national catastrophe under the National Disaster Management Act, 2002 (Dladla, 2021:62). A national lockdown that started on 26 March 2020, was one of the swift actions implemented to control the virus' spread and shield the populace from its effects on the economy and society (Dladla, 2021:63).

2.7.2 Effect of the COVID-19 on SMEs

According to Zeidy (2020:10), SMEs are crucial in the growth of the economy of African countries. They are a vital driver of the African economy, creating jobs and enhancing growth, especially among young people. They supply vital goods and services to companies and households but the growth of SMEs in Africa is limited by poor support, lack of financial support, corruption, lack of training and experience, inadequate income and poor infrastructure and as a result, they are very vulnerable to the harmful effects of COVID-19 (Zeidy, 2020:10). The recent COVID-19 pandemic affected the whole business sector, including the food industry, on a worldwide scale, as a result, SMEs, in particular, appeared to experience significant difficulties in managing their operations, sales, and finances (Islam et al., 2020:589). In SA, most SME employees were left without a safety net or a source of income when the country-wide lockdown began in March 2020, which left them either suffering or unable to pay their essential living expenditures (Small Business Development, 2021:37). Hence, business closures, a drop-in profitability, and employment losses have all been brought on by the COVID-19 pandemic (Small Business Development, 2021:38).

2.8 PRINCIPAL MEASURE OF FISCAL, BUSINESS AND COMPANY PERFORMANCE

According to Mijić et al. (2018:100), profitability is the principal measure of fiscal, business and company performance, and is a key performance metric as a measure of a business's ability to make a profit in relation to investments. However, the profitability of companies is commonly seen as a significant precondition for the long-term sustainability and performance of a company (Mijić et al., 2018:101). Firm profitability is critical in its impact on economic development, jobs, innovation and technological change, to achieve better competition, improve productivity and respond

to price pressure, hence companies face greater difficulty in achieving the necessary profitability (Mijić et al., 2018:102).

Profitability is the notion that every entity needs to thrive but at the same time, many have been persuaded in the past that while it is vital to the business, it should not be the primary driver of equity or cash investment (Malackaničová, 2016:22). The concept of profitability is seen as a return on investment capital and has been around for over a century (Malackaničová, 2016:31). Anyhow, over the past few years the emphasis has changed from return on investment to cash flow, suggesting that the notion of stable profit tends to be meaningless as long as a company has the potential to produce ample cash flow, regardless of the means to do that, some companies ignored the notion and ultimately made irrational decisions (Malackaničová, 2016:31). In Summary, the profitability metrics assist stakeholders in assessing a company's overall performance, operational effectiveness, and financial stability. High profitability ratios usually point to a stable, well-managed business with great development potential.

2.8.1 Investigating the relationship between fringe benefits and SME performance

2.8.1.1 Profitability for SMEs

A small business's success or failure depends on its financial stability (Nketsiah, 2018). However, one of the most common issues that these firms face is their inability to maintain sufficient cash flow and working capital to be successful. The more effectively a business manages its finances the more it can improve its profitability (Nketsiah, 2018:9). Popa and Ciobanu (2014:17) argue that it is well established that there are increasingly more funding constraints facing small and medium-sized companies, which impacts their profitability and thus presents a major challenge for SMEs to attract investments and or access loans that slows growth. In addition to the above, Prijadi and Desiana (2017:37) affirm that optimal working capital boosts profitability and profits for SMEs in foreign trade, while loans to banks boost sales but can impede growth due to collateral. Thus, financial management's primary purpose is to increase the owner's revenue (Benard & Ainomugisha, 2019:609). However, profitability is one of the most important goals and is very important in assessing a company's success or failure (Benard & Ainomugisha, 2019:610). As a result, a business may not be profitable at the establishment stage because of the outflow and expenditures to set up the

company, when the company matures, gains must be made (Benard & Ainomugisha, 2019:611). Thus, the nominal turnover of SMEs in SA increased by just 0.4% year over year in the first quarter of 2019, which is indicative of their low profitability (Msomi & Olarewaju, 2021:110). Due to the low turnover rate, SMEs have been able to closely control their expenditure by reducing all operational costs except for labour and capital and as a result, SME earnings continued to be the same (Msomi & Olarewaju, 2021:111).

2.8.1.2 Profitability indicator for SMEs

Performance indicators may include standard indices of accounting like market share, profitability and revenue growth (Nketsiah, 2018:10). Additionally, non-financial goals and owners overall satisfaction are very important too, especially when evaluating SME performance (Nketsiah, 2018:11). Consequently, organisational performance can be analysed using both financial and non-financial metrics (Nketsiah, 2018:12). However, sales volumes are examined as one of the elements used to evaluate a company's performance, as SMEs often do not maintain records of their assets and liabilities to employ other success measures, including ROA and/or Return on Equity (ROE) (Nketsiah, 2018:14).

Osakwe et al. (2016:39) affirm that profitability is a performance metric to indicate whether a firm is doing well or not. Profitability is a measure of market success and an economic performance metric as it affects the ability of businesses to invest and achieve sustainable growth (Gaio & Henriques, 2018:27). Companies' success (or even survival) depends primarily on their profitability and most organisations' primary aim is to optimise profitability (Gaio & Henriques, 2018:30). There are several variables that may affect profitability, stressing the size of the company as one of them (Gaio & Henriques, 2018:34).

Toma (2013:5) argues that measuring a business' profits in terms of bank balances does not say much about profitability. Profitability indicators like break-even analysis and margin are used to measure business profitability and return on investment (ROI). There are three ways to analyse business performance but the first necessary method is to prepare a statement of comprehensive income (see Table 2.2 below).

Table 2.2: Statement of comprehensive income

Particulars	Amount
Total revenues	XXXXXXXXXX
- Cost of goods sold	(XX)
= Gross Profit	XXXXXX
- Operating expenses	(X)
= Profit before interest expense	XXXXX
- Interest expense	(X)
= Profit before tax	XXXX
- Taxation	(X)
= Net profit after Tax	XXX

2.8.1.3 Profitability ratios to be used in SMEs

- **Gross profit margin (revenues – cost of sales) ÷ revenues**

A healthy gross profit margin assists a company to withstand shocks from the sales or costs of selling products without losing the opportunity to pay for recurring ongoing costs, a percentage of revenue, which is the profit margin of the business (Farfan et al., 2017:18).

- **Operating profit margin (revenues – the cost of sales – operating expenses) ÷ revenues**

Operating costs contain neither interest nor taxes, which defines the ability of your business to generate profit irrespective of how you fund operations (debt or equity) the bigger the better (Alamry, 2020:20).

- **Net profit margin (revenues – cost of sales – operating expenses – all other expenditures) ÷ revenues**

It is what remains in the form of dividends for reinvestment into the company and distribution to shareholders, this figure indicates how much the corporation raises to make dividends or reinvestment decisions, as a proportion of the profits that turn into the company's Net Profit Margin (Farfan et al., 2017:18).

2.8.2 Break-even analysis

Businesses frequently start with the expectation of future profits but by understanding the level of output at which total costs and total revenue are equal, the firm can plan their production more effectively, or use break-even analysis to understand the level of production at break-even (Bansal, 2016:4). A break-even analysis is also referred to as a cost volume and profit contribution analysis and is a crucial technique for profit planning that identifies the sales level at which in the short-term total profits only cover TC, additionally, in break-even analysis, the relationship between production volume and costs is evaluated (Bansal, 2016:5). As a result, profits from sales and benefit income are analysed, break-even analysis is the method demonstrating the amount of production and volume sales at which the company breaks even, which profits are adequate to pay all of its expenses (Bansal, 2016:5).

However, a break-even analysis, also referred to as a cost volume and profit contribution analysis, is a crucial technique for profit planning that identifies the sales level at which, in the short term, total profits only cover total costs. In break-even analysis, the relationship between production volume and costs is evaluated (Bansal, 2016:7).

2.8.3 Break-even point

According to Toma (2013:6), the break-even point is when income equals expenses. When a business reaches breakeven, it will be in the red because supplies, labour, rent, and other expenses exceed revenue. Once you pass the break-even point, your revenues exceed your costs at that point, so your revenues exceed your costs, still, break-even analysis is a basic but useful tool to help assess the relationship between product cost, sales volume, and revenue. (Toma, 2013:6).

The break-even point is the point of the company's production level where the TR of the company is equal to the TC, therefore, at the break-even point when $TR = TC$, the business is neither profit-making nor loss-making, having a zero-economic profit situation (Bansal, 2016:8). Costs in break-even analysis can be classified as either fixed or variable. A fixed cost is unrelated to the level of the price but rather to the passage of time; examples include benefits, leasing and wages (Bansal, 2016:8). However, variable cost is one directly related to the price volume, such as the cost of manufactured products and commissions, thus; $(TC) = (TFC) + (TVC)$, $(TR) = \text{Total Production } (Q) * \text{Price per product unit } (P) = QP$ Economic Benefit or Loss = Total

Revenue (TR) — Total Costs (TC) Break-even Point = TR = TC or TR — TC = nil (Bansal, 2016:5). As a result, if it operates below this point, the company would suffer losses and reap income if it operates above this point. However, it should be noted that a company only covers its production costs by selling at the break-even point stage, in the cost of production includes regular benefits, so a business gets just the usual profit or zero economic benefit at the break-even point (Bansal, 2016:11).

2.8.4 Return on Assets (ROA)

According to Rosikah et al. (2018:8), ROA is one measure of profitability and is most commonly shown in financial statement analysis, after which it can indicate how well a company is doing in generating revenue. Historically, ROA measures and predicts a company's ability to generate profits in the future, however, eligible assets are general corporate resources acquired by the companies themselves or foreign capital converted into corporate assets used for sustainability (Rosikah et al., 2018:8).

2.8.5 Return on Investment (ROI)

According to Hassanzadeh and Bigdeli (2020:13), ROI is defined and used as the ratio of return on investment. It is typically used as a metric to measure performance and determine the value of an investment in a project or initiative, or to compare the value of numerous investments. However, it indicates to what degree the amount spent on a specific activity yields a benefit or loss. In other words, ROI enables the calculation of the outcome in relation to the means used to achieve it (Zamfir et al., 2016:80). This enables the efficient evaluation of an amount spent. ROI is measured as the ratio between the operating benefit received after the investment operation and the total cost of investment (Zamfir et al., 2016:80).

According to Malackaničová (2016:29), even though ROI is deemed to be very useful in assessing the degree of profitability of different companies, it is not as important for firms with expert systems. For example, in a business that provides data consulting services, return on investment cannot provide enough details about how well the company performs, primarily because the company's properties may include administrative facilities, furniture, electronic equipment such as business telephones or computers, and even business vehicles (Malackaničová, 2016:33). In such situations, where the business mainly provides services, profitability cannot necessarily be measured by ROI and there is a need to use other data, such as the profit-to-revenue ratio (Malackaničová, 2016:32). However, ROI is very useful for those

organisations that rely on investments in long-term assets or supply for their operations (Malackaničová, 2016:32).

2.8.6 Importance of profitability ratios

Profitability metrics are essential for managers as well as owners of businesses. One may argue that profitability is a modulation of two terms—profit and capacity. It references the earning power of operational efficiency of the investment definition concerned of profitability which can be characterised as the ability of the investment to gain a return on its use (Adjirackor et al., 2017:5). Measuring profitability is the aggregate measure of established performance earnings, since the bottom lines are essential for financial institutions. Examining and analysis of different forms of profitability ratios will improve portability efficiency for creditors (Adjirackor et al., 2017:6). Profitability refers to the ability of an organisation to generate income as a return on the funds invested. In addition to operating efficiency, profitability reflects a company's competitive position, while ratios reflect a company's success or failure (Aziz & Rahman, 2017:87).

The net business income is the sole significant metric for profitability in SA SMEs. One can compute and compare the yearly rate of ROE and total assets to loan interest rates or return rates from other investments (Solani, 2020:32). Hence, a company's capacity to generate a fair and acceptable profit and ROI is shown by its profitability ratios (Solani, 2020:32). Nevertheless, the ratios show the organisation's level of financial stability and asset management effectiveness.

2.9 CHAPTER SUMMARY

This chapter's purpose was to review the existing body of knowledge on fringe benefits. A definition of fringe benefits was given after highlighting the significance of SMEs. The relevance of fringe benefits in SA SMEs was also addressed in this chapter. The chapter discussed the many types of fringe benefits that are common in small businesses. Literature on the profitability of SMEs in the Cape Metropole was reviewed. The chapter reviewed previous research on gender in the workplace for SMEs. The challenges experienced by SMEs post COVID-19 pandemic were discussed.

The following chapter presents the research methodology and data collection instruments employed in this research study.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

The previous chapter reviewed literature relevant to this field of research, focussing on the inability of management to provide fringe benefits equally to employees. It also explored the current support offered to SMEs in the Cape Metropole.

This chapter presents the research methodology and design used in this study to accomplish the research objectives of the study as listed below.

- a) Understanding the implications of fringe benefits on SMEs
- b) Exploring the types of fringe benefits offered by SMEs in the Cape Metropole
- c) Determining the influence of gender on the provision of fringe benefits
- d) Assessing the impact of COVID-19 on SME fringe benefits
- e) Investigating the relationship between fringe benefits and SME performance

A questionnaire survey was conducted to gather quantitative data, which was then analysed with descriptive statistics to accomplish the aforementioned objectives.

3.2 RESEARCH PARADIGM

A research paradigm is defined as a combination of theoretical concepts, factors, and issues linked to suitable methodological approaches and resources. It is a comprehensive system of integrated practices and analysis that defines the nature of the study in three dimensions: ontology, epistemology, and methodology (Sönmez, 2013:99). Two main paradigms influence the research process—positivism and interpretivism—as explained below.

3.2.1 Positivist research paradigm

The positivist paradigm is a science and mathematics-based philosophy that holds that anything that exists can be proven through logical argument, experimentation, and observation, making the supposition that reality can be quantified objectively utilising metrics that are self-supporting to the researcher or the research tool being used (Ntshonga & Kamala, 2019:3). The interpretivism paradigm is an anti-fundamentalist philosophy that denies the concept of a single, verifiable reality that exists independently of our senses, instead believing in multiple realities (Rehman & Alharthi,

2016:52). Reality is mediated through our senses, and external reality is subjective, so we cannot know reality as it is. As a result, perception is viewed as a dynamic useful production method in which people cooperate with other people and societies and assign meanings and names to various public phenomena (Rehman & Alharthi, 2016:54). However, interpretivists typically collect qualitative data from respondents over time, such as through ethnography and case studies (Rehman & Alharthi, 2016:55). As a result, since this research is typically quantitative and is conducted in the manner of descriptive research, it fits within the positivistic research paradigm.

This study was determined to be appropriate for the positivist paradigm. The study aims to ascertain how fringe benefits affect SMEs, why these benefits should be awarded, and what obstacles these businesses face when providing these benefits. The truth to this might only be discovered via investigation, consequently, a questionnaire was used in the study to gather data.

3.2.2 Research method

The "strategy, plan of action, process, or design" that guides one's selection of research methods is known as methodology, as it helps the researcher decide which type of data is needed for a study and which data collection methods are best suited for the study's objectives (Rehman & Alharthi, 2016:58). According to Talebnia (2017:87), research methodology should concentrate on the techniques and resources employed in the exercise. Kibangou (2019:22) opines that the precise procedures and techniques utilised to gather and process data are known as methods. To align with the previously described paradigm, this study used a quantitative rather than a qualitative research method, for the reasons explained below.

3.2.3 Quantitative research method

Quantitative research may be calculated mathematically and is by nature numerical, however, it is measured using different scales, such as the nominal scale, ordinal scale, interval scale, and ratio scale (Kabir, 2016:209). Additionally, Kabir (2016:210) states that those scales use techniques like surveys and questionnaires and apply a methodical uniform approach, which benefits quantitative data are their ease of comparison and less expensive implementation. There are several reasons why this approach was deemed suitable for this investigation. Firstly, it helps the researcher to summarise, organise, and present observations methodically. These methods and procedures are collectively referred to as descriptive statistics (Ali, 2021:77). Secondly,

a systematic sample is drawn from a much larger group so that the results may be applied to the entire population (Ali, 2021:77). Thirdly, it helps to improve a study's reliability by separating the researcher's bias from the actual truth (Ntshonga & Kamala, 2019:5). When gathering and analysing data, quantitative research emphasises numbers and figures, whereas qualitative research does not use statistics, making it difficult or impossible to summarise findings and observations (Kibangou, 2019:37). Fourthly, to support the use of quantitative data, the positivist paradigm is an appropriate objective approach and thus stronger than interpretivist data, which prefers the use of subjective qualitative data (Ntshonga & Kamala, 2019:3). Hence, the primary objective of this study was to ascertain the impact of fringe benefits on SMEs operating in the Cape Metropole, which required quantitative data to determine the percentage of SMEs that offer fringe benefits. Lastly and more specifically, this procedure prepares the researcher to use inductive reasoning to reach conclusions (Ali, 2021:80).

3.3 RESEARCH DESIGN

According to Talebnia (2017:87), research methodology focuses primarily on the instruments that must be employed throughout the study, whereas research design refers to a blueprint and strategy that serves as the foundation for the researcher to perform the research. Research design is the conceptual structure in which research is conducted and as a result, it optimises the validity of data for a given research problem (Mohajan, 2017:19). However, it is the overall structure of a piece of research that delivers authentic results from the collected data because research design "deals with a logical problem and not a logistical problem." (Mohajan, 2017:19).

This study follows a quantitative research approach to gather essential data. Quantitative research primarily uses questionnaires to collect, analyse, and interpret data (Chakabva, 2015:37). As a result, a questionnaire tool was used as the data collection instrument in this research study.

3.4 RESEARCH POPULATION AND SAMPLING

The target population is discussed in this section, along with the sampling techniques applied in the study. It discusses the various sampling methods, their benefits, and the rationale behind the selection of a particular sampling technique.

3.4.1 Target population

Study populations refer to groups of individuals who are accessible to the researcher and possess the necessary knowledge and experience related to the subject of study (Holloway & Galvin, 2016:143). According to Kibangou, (2019:44), a population is a collection of people from whom a researcher collects data. Therefore, the target population of this study comprised workers in selected SMEs located in the Cape Metropole. With COVID-19 shutting down many facilities and most businesses still operating using work-from-home systems, it was difficult to test the entire population.

3.4.2 Sampling method

Collins and Hussey, as cited by Talebnia (2017:87), point out that samples are drawn from groups of people within a population, which is relevant to the target population associated with the research study. As a result, this study used the purposive and snowballing sampling method as this research focused on small samples. Ten SMEs were investigated out of which ten participants were drawn from each SME entity giving a total of 100 participants. However, due to COVID-19, companies were closed and people were working from home so only a few SMEs were open and even those who were open were using a staff rotation schedule. Consequently, the questionnaires were hand delivered and companies asked the researcher to leave the questionnaires and collect them once they were completed. As a result, only 46 questionnaires were returned, 20 were not returned because some companies were closed on the collection date, while 21 were misplaced due to staff rotation schedules. Another 13 questionnaires were declined by the respondents even though they had agreed to participate.

3.4.3 Data collection instrument

The term "research instrument" refers to a method or research technique used to gather data during a study. In addition, research instruments are tools or techniques the researcher employs to gather data, methods which include structured questionnaires and structured interviews (Brynard & Hanekom, 2006:382). A structured questionnaire was used as the research instrument in this study. This survey tool was appropriate because it was inexpensive and more convenient for collecting information from a large group of respondents (Kibangou, 2019:55).

The survey was structured and planned around five distinct objectives, one primary research question and five sub-questions. The closed-ended questionnaire format was

chosen for the questions because they can be completed quickly. Closed-ended questions are often effective and precise, hence, they are easy to record, code and analyse. For surveys using closed-ended questions, the response rate is far higher than for those using open-ended questions (Kalane, 2015:32).

3.4.4 Data collection procedure

An informed consent form with 13 closed-ended questions was included in the three sections of the five-page questionnaire. The letter emphasised the purpose of the survey, informed the participants that the information they provided would be used only for the purposes of the survey, that it would be kept confidential, that they would remain anonymous, and that there was no risk to themselves in taking part in the survey. Data collected through questionnaires is similar to that collected through interviews, although the questions appear to be less detailed (Han, 2012:121). According to Kabir (2016:260), questionnaires are an advantage over some other data collection instruments in that they are less expensive, require less effort from the respondent than oral or telephone surveys, and often have structured responses that simplify data collection. To encourage respondents to participate in the survey, the survey design was simplified and easy to use, with responses on a 5-point Likert scale, yes/no responses, and/or multiple-choice answers required. It took about 15-25 minutes to complete the questionnaire.

The questionnaire was divided into three sections:

Section A: Demographic data of respondent and business profile

This section contains individual information that needs the participant to choose the best response from the list by marking their answer with a tick (✓).

Section A was also intended to obtain information about the participants' personal and company profiles. This included questions about respondents' company title, experience, years with the company, highest education level, number of employees in the company, and organisational category.

Section B: General factors of fringe benefits to employees and the organisation

This section is in the shape of a Likert scale. Participants were requested to rate statements as strongly agree, agree, unknown, strongly disagree, and agree.

Section C: Implications of fringe benefits on the organisation

This section contained three questions that required true or false answers to determine whether the fringe benefits affected the profits of the business. Various alternatives required the participant to choose their option by either a tick or circling. The final question on total annual fringe benefits and expenditures had to be answered on a 5-point Likert scale.

3.4.5 Data collection process

It is the process of gathering and analysing information about variables of interest to respond to research questions, test hypotheses, and assess outcomes (Kabir, 2016:221). It is common to all research disciplines and essential to maintaining the integrity of research. The goal is to take high-quality evidence and subject it to comprehensive data analysis so that compelling and authoritative answers to questions can be obtained (Kabir, 2016:221).

Before data collection, the researcher received informed consent from the selected participating SMEs. Participants were approached and invited by the researcher in person to participate in the study after having explained the study's purpose. Those who agreed to participate received a copy of the questionnaire and completed it at a convenient time after being asked to sign an informed consent form. The respondents had 7-14 days to complete the questionnaire, whereafter it was physically collected by the researcher on the scheduled date.

In some instances, the questionnaire was given to the participants and the researcher waited while they completed it. The hand-delivery approach was thought to be appropriate as the researcher was able to discuss the study's purpose, the research methodology used, and ethical considerations such as guaranteed confidentiality and anonymity. The hand delivery method increased the response rate.

3.4.6 Data analysis

Data analysis is a process of gathering, transforming and modelling data to highlight valuable knowledge, formulating hypotheses, and assisting in decision-making. Data analysis has many facets and techniques in various business, scientific, and social domains, including different techniques under a variety of names (Oleskeviciene & Sliogeriene, 2020:40). In this study, primary data was collected quantitatively and analysed with descriptive statistics using SPSS. According to Kanguru (2016:17), SPSS is a software program that is convenient for handling complicated data processing and analysis. It is fairly quick and simple to use and it enables a quick pull-

down menu to use percentages, graphs, charts, means and several other helpful interpretations. Oleskeviciene and Sliogeriene (2020:42) add that SPSS is a software program based on Windows that can handle large-scale data and may use coded data in the form of tables and graphs to provide analysed data. The SPSS version 24 program has functions to help detect errors, analyse statistical data, and make it easier to construct frequency tables, graphs and maps (Mwanza, 2017:38).

3.4.7 Descriptive statistics

In descriptive statistics, to summarise or display data in an understandable, quantitative format, this sort of quantitative data analysis is employed. Researchers can summarise and illustrate an observation with the use of this analytical procedure (Ali, 2021:81). According to Kamau (2013:22), descriptive research, on the other hand, describes the frequency with which something occurs concerning the relationship between variables. Some commonly used measures of central tendency, like the arithmetic mean, mode, and median, and measures of dispersion, like the standard deviation (Std Dev) and variance, are frequently employed to characterise a sample (Ntshonga & Kamala, 2019:5). In this study, charts and percentages were utilised to rank the answers to the 5-point Likert scale questions as well as to summarise and characterise the data responses.

3.5 RELIABILITY AND VALIDITY OF THE STUDY

When evaluating any measurement instrument for a research project, reliability and validity are the two most crucial and fundamental characteristics (Kibangou, 2019: 42)

3.5.1 Reliability of the study

Reliable data is trustworthy, genuine, reputable and dependable. Reliability is the strength and degree of error-free countermeasures, hence, it should consistently provide the same results over repeated test periods (Mohajan, 2017:16). The data are measured and collected consistently; definitions and methodologies are the same over time, and it could be utilised to lessen errors made when analysing survey responses (Mohajan, 2017:16). Reliability was examined in this study to make sure that identical results would be obtained even if the questionnaire was sent to a different population at a different time and with a similar technique. To ensure this, a reliability test of the questionnaire was carried out in the pilot test phase.

To assess reliability even further, the internal reliability of the questionnaire was tested using Cronbach's alpha coefficient (Ntshonga & Kamala, 2019:10). Cronbach's alpha coefficient is a commonly used metric that shows a connection between questionnaire responses and is used to evaluate the internal consistency reliability of a set of items (Talebnia, 2017:87). There is a strong connection between related surveys when Cronbach's alpha values are high (Talebnia, 2017:87).

3.5.2 Validity of the study

Validity in research is the precision and truthfulness of scientific results and refers to the appropriateness of the instruments used, however, accurate data is valid data when it measures what it is designed to measure (Mohajan, 2017:12). It shows how well the data collection and data analysis captures the reality of the study (Mohajan, 2017:12). According to Han (2012:17), the validity of the instrument is the degree to which the instrument tests what it is supposed to test, hence, the validity of the material refers to the extent to which the variables under analysis are reflected by the instrument. Below is a detailed explanation of the two types of validity.

3.5.2.1 Internal validity

Although there are many forms of internal validity, only construct and content validity were considered pertinent for this study and are therefore included in the discussion that follows.

3.5.2.2 Construct validity

It often measures an instrument's internal structure as well as the ideas it is meant to assess, it also has to do with how the idea being assessed is understood theoretically. It demonstrates the diversity of human concepts (Ali, 2021:83). However, using a pilot test is the most effective method of verifying construct validity (Kibangou, 2019:41). In this study, four academic professionals with extensive expertise in designing questionnaires evaluated the questionnaire. The academic experts' opinions were solicited during this procedure by asking them to identify any potential flaws in the questionnaire that may compromise its construct validity. To improve construct validity, the questionnaire was modified by following the recommended changes.

The construct validity of a questionnaire can be improved by ensuring the objectivity of the questions in a questionnaire by linking the questions to the original research questions (Ntshonga & Kamala, 2019:10). The questionnaire's questions were

developed directly from and connected to the first, second, third, and fourth research sub-questions, as suggested by Ntshonga and Kamala (2019:10). This technique was thought to have improved construct validity.

3.5.2.3 Content validity

This refers to how accurately the instrument's questions and the results they yield reflect every query that a student may have on the subject matter or competency (Bagozzi et al., 1991:430). According to Ali (2021:87), an important aspect of measuring validity is content validity. It verifies that the latent content and the manifest variable are normal, however, the theory also plays a role in determining content validity. The four highly qualified academics were asked to provide their opinion on whether the research instrument addressed every aspect of the study's research objectives to guarantee content validity. The questionnaire was adjusted in line with their recommendations to include questions that increased coverage and remove questions which did not contribute to enhancing its content validity.

3.5.2.4 External validity

External validity is the extent to which study results based on a sample may be extrapolated to the population from which the sample was drawn or to other comparable populations in terms of situations, people, eras, and locations (Kanguru, 2016:33). According to Kibangou (2019:26), a random sampling procedure to ensure that the sample is representative of the population shall normally be used to guarantee external validity. This study could not use this method due to the absence of an adequate list of SMEs offering fringe benefits within the Cape Metropole. Despite that, the target sample size of 100 SMEs was established to improve the sample's representativeness, since external validity was seen to have improved, although only slightly.

3.6 DELINEATION OF THE STUDY

This study was carried out in the Cape Metropole, Small and medium-sized businesses were the companies that were specifically chosen for the study. The respondents were lower-level employees and managers of a selected SME in the Cape Metropole. These areas were chosen for their accessibility and convenience for the researcher.

3.7 ETHICAL CONSIDERATIONS

According to Talebnia (2017:87), ethics is mainly concerned with the establishment of moral obligations, the best practice process, and the definition of what is good, right, equitable, and just. In addition, ethics is the appropriate behaviour of researchers to give participants rights. While researchers have the right to research and investigate the facts, they do not delve into the privacy and rights of the respondents involved (Talebnia, 2017:87). Because this study involved human participants, the ethical guidelines of the Cape Peninsula University of Technology Research Ethics Committee were followed. Before starting the research, ethical clearance was obtained (see Appendix A). The following ethical issues were considered.

3.7.1 Informed consent and voluntary participation

Before data collection, the researcher obtained informed consent from the respondents. They were made aware that taking part in this study was completely voluntary and that they could withdraw at any time if they wished.

3.7.2 Confidentiality and anonymity

All information from participants was kept strictly confidential and participants were guaranteed anonymity at all times. No respondent benefitted directly from participating in the survey but the information gathered will aid SA's small business sector by benefiting employees and preserving revenue. All identifiable information about the respondents was kept private. However, the opportunity to obtain a copy of the research results was provided. All respondents were thanked in writing for their assistance and participation.

3.8 LIMITATIONS OF THE STUDY

The limitations of this study were that it focussed only on the cost implications of fringe benefits on the overall profitability of SMEs operating in the Cape Metropole. According to Chakabva (2015:44) and Eltahir (2018:17), common limitations are biased to the potential issue. Hence, a sample of 100 participants from 10 SMEs that operate in the Cape Metropole was included in the study, equating to 10 participants from each chosen SME. Due to the COVID-19 pandemic, companies were closed and people were working from home so only a few SMEs were open, working with a skeleton staff on a rotating schedule.

Although the questionnaires were hand delivered and collected by the researcher when done, only 46 were returned, 20 questionnaires were not returned because some companies were closed upon collection, while 21 were misplaced due to the staff rotating schedule. A further 13 questionnaires were declined by the respondents even though they had agreed to participate.

3.9 CHAPTER SUMMARY

This chapter discussed the methodology applied in this study. In-depth information about the research process was covered, addressing the research population, sample techniques, data collection instrument, reasons for adopting a questionnaire survey, data collection method, data analysis method, descriptive statistics employed to analyse the data, and steps taken to ensure the validity and reliability of the study. Data analysis was briefly explained.

The following chapter, Chapter 4, presents the results of the study.

CHAPTER FOUR: RESULTS, DATA ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

The previous chapter discussed the research study's methods, approach, design, methodology, population, sample techniques, data collection instrument, questionnaire survey reasons, data analysis method, descriptive statistics, and steps for study validity and reliability.

This chapter presents an analysis and discussion of the survey's results regarding the cost implications of fringe benefits on the profitability of SMEs in the Cape Metropole. It also considers the specific research objectives of the study.

In this chapter, the personal profiles of the respondents and their company profiles are presented and the results of the apportionment of various fringe benefits to different employees are discussed. An analysis of and insight into the different types of benefits offered by small businesses and the impact of the COVID-19 pandemic on SMEs is investigated, as well as organisational performance results.

4.2 AIM OF THE STUDY

The aim is to measure the cost implications associated with fringe benefits on the profitability of SMEs operating in the Cape Metropole.

The primary objective of the research is to ascertain the impact of fringe benefits on SMEs in the Cape Metropole.

The secondary objectives are:

- a) Understanding the implications of fringe benefits on SMEs
- b) Exploring the types of fringe benefits offered by SMEs in the Cape Metropole
- c) Determining the influence of gender on the provision of fringe benefits
- d) Assessing the impact of COVID-19 on SME fringe benefits
- e) Investigating the relationship between fringe benefits and SME performance

Due to the COVID-19 pandemic, companies were closed and people were working from home so only a few SMEs were open, using skeleton staff on a rotating schedule. The questionnaires were hand delivered and companies asked the researcher to leave the questionnaires and collect them once they were completed. Unfortunately, only 46

questionnaires were returned, 20 were not returned because some companies were closed down upon collection, while 21 were misplaced due to staff rotating schedules. A further 13 questionnaires were declined by respondents even though they had initially agreed to participate.

4.2.1 The Analysis of questionnaire administered

Table 4.1: Analysis of questionnaires administered

Total number of administered Questionnaire	Copies of Questionnaire not returned	Returned copies of Questionnaire	Returned questionnaire discarded because of improper filling	Usable number of copies of the questionnaire	Misplaced questionnaire due to staff rotation schedule	Declined questionnaire even though responders initially agreed
100	20	46	0	46	21	13
100%	20%	46%	0%	46%	21%	13%

In Section A of the questionnaire, respondents were requested to provide information on their personal profiles as well as the profiles of their respective enterprises. Their age, gender, position in the company, occupation in the current position, and highest level of education were among the personal profile details sought. The length of time of the company's existence, the number of employees, and the size of the organisation were all asked as part of the business profile information.

**4.3 SECTION A OF QUESTIONNAIRE:
DEMOGRAPHICS OF RESPONDENTS AND BUSINESS PROFILES**

4.3.1 Gender

Table 4.2: Gender

		Frequency	%	Valid %	Cumulative %
Valid	Male	20	43.5	43.5	43.5
	Female	26	56.5	56.5	100.0
	Total	46	100.0	100.0	

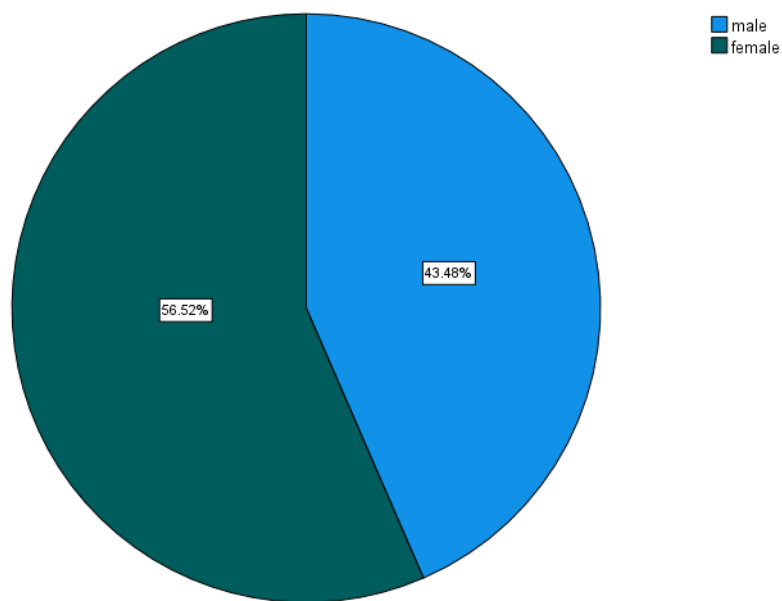


Figure 4.1: Gender

The survey revealed that the majority of people working in SMEs and who participated in the survey are women, as illustrated in Table 4.2 and Figure 4.1 above. These individuals account for 56.5% of the total population questioned, while their male counterparts account for 43.5%. This is not surprising. As supported by Tibane (2021:10), Statistics South Africa projects a mid-year population of 60.6 million people for 2022, about 50.1% (30.98 million) of the population are women, while 48.9% (approximately 29.62 million) are men. Women have some traits that make them more employable, e.g. women are better at multitasking and maintaining multiple points of focus at once, are enthusiastic and naturally driven.

4.3.2 Age categories

Table 4.3: Age categories

		Frequency	%	Valid %	Cumulative %
Valid	< 25 years old	4	8.7	8.7	8.7
	25-35 years old	23	50.0	50.0	58.7
	36-45 years old	11	23.9	23.9	82.6
	46-55 years old	6	13.0	13.0	95.7
	> 55years old	2	4.3	4.3	100.0
	Total	46	100.0	100.0	

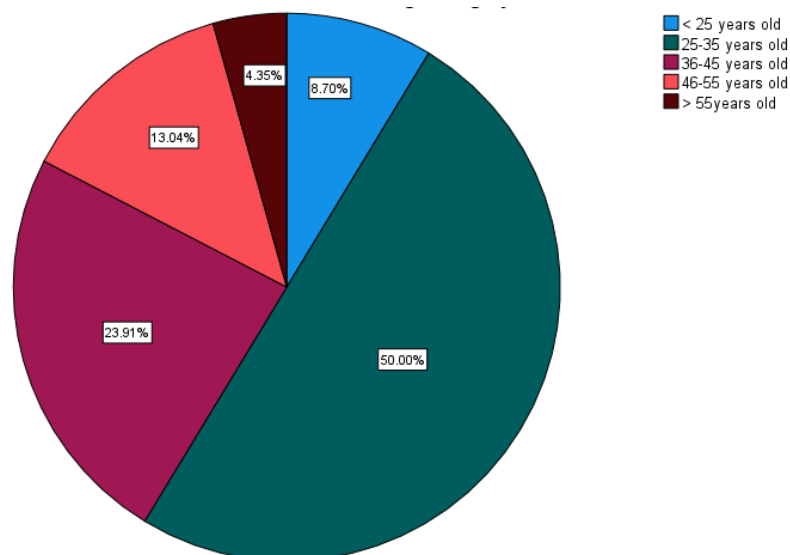


Figure 4.2: Age category

As seen in Table 4.3 and Figure 4.2 above, 50.9% of those surveyed are between the ages of 25 and 36 years, 23.9% between the ages of 36 and 45, 13% between the ages of 46 and 55, 8.7% are under the age of 25, while 4.4% are over the age of 55 years. According to the survey, the majority of employees working for SMEs are between the ages of 25 and 45, accounting for 74.8%. However, it was claimed that young people bring skill, enthusiasm, and innovative ideas to the workplace, helping businesses stay up to date. According to Hasluck (2012:3), when it comes to recruiting young people, some businesses have highly unfavourable opinions, doubting their readiness for the workforce, their fundamental abilities, and their attitudes. However, not all employers share these opinions and not all young people are the same, therefore, employing young individuals frequently shifts employers' unfavourable perceptions to be more favourable.

4.3.3 Position in the business

Table 4.4: Position in the business

		Frequency	%	Valid %	Cumulative %
Valid	Owner	4	8.7	8.7	8.7
	Junior manager	5	10.9	10.9	19.6
	Senior manager	7	15.2	15.2	34.8
	Employee	30	65.2	65.2	100.0
	Total	46	100.0	100.0	

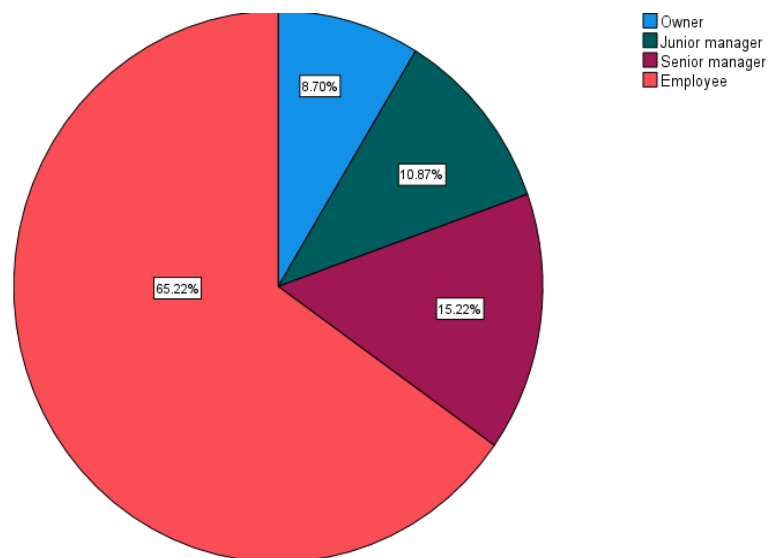


Figure 4.3: Position in the business

As shown in Table 4.4 and Figure 4.3, 65.2% of respondents were employees, 15.2% were senior managers, 10.9% were junior managers, and 8.7% were business owners. This suggests that a large number of lower-level employees, in addition to SME decision-makers, took part in the survey. Most managers were too busy to participate as they were attending back-to-back meetings for their companies and only a few managed to participate in the survey.

4.3.4 Education level

Table 4.5: Education Level

		Frequency	%	Valid %	Cumulative %
Valid	Primary school or less	1	2.2	2.2	2.2
	High school	11	23.9	23.9	26.1
	College Certificate	8	17.4	17.4	43.5
	University Degree	22	47.8	47.8	91.3
	Other (indicate)	4	8.7	8.7	100.0
	Total	46	100.0	100.0	

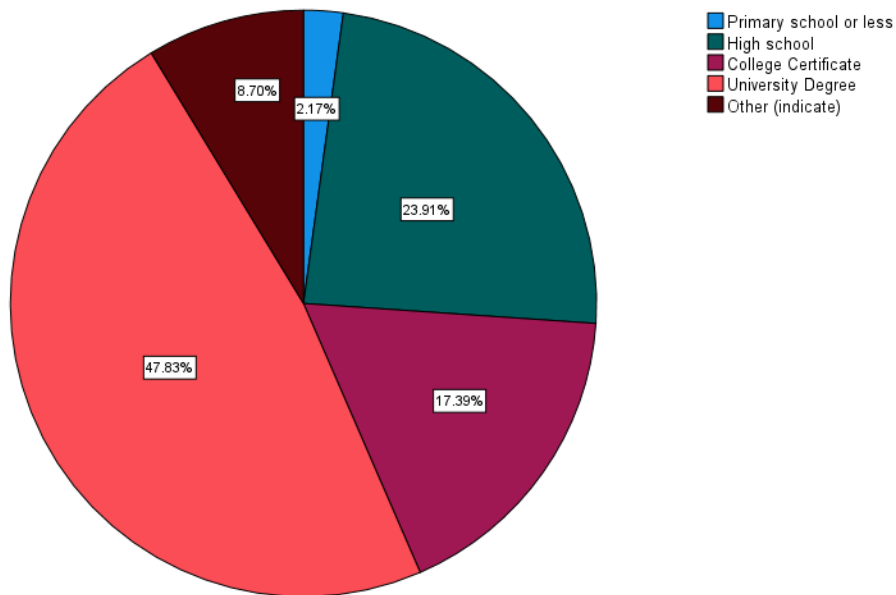


Figure 4.4: Education level

As seen in Table 4.5 and Figure 4.4 above, 47.8% of respondents had a university degree as their highest level of education, while 23.9% had a Matric certificate. Of the respondents, 17.4% held college diplomas, while 8.8% had taken short courses. Only 2.2% of the population had completed primary school. According to these results, the majority of respondents (65.2%) had at least a tertiary education. However, companies have confidence in candidates with a tertiary qualification as they are more job-ready than those who are less educated. As a result, as opposed to businesses that choose to hire less educated staff, employers who make an investment in hiring educated staff and offering opportunities for ongoing education for their employees are likely to see a higher ROI and greater profitability. Kampelmann et al. (2018:33) posit that wage disparities reflect productivity gaps, and education helps people acquire the skills that increase production, As a result, workers with a higher education would be paid more simply because they are more productive than those with lower education.

4.3.5 How would you categorise your organisation?

Table 4.6: Category of your organisation

		Frequency	%	Valid %	Cumulative %
Valid	Micro	2	4.3	4.3	4.3
	Small	20	43.5	43.5	47.8
	Medium	24	52.2	52.2	100.0
	Total	46	100.0	100.0	

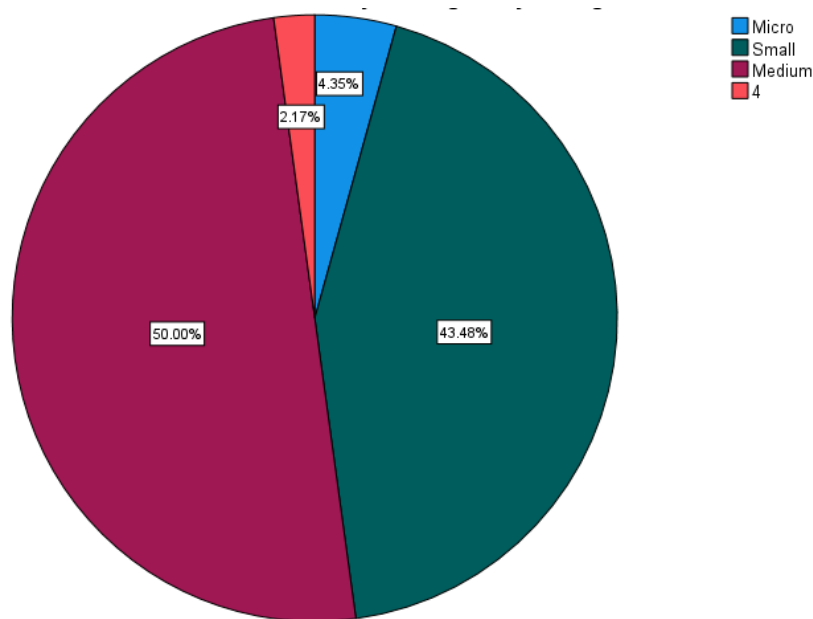


Figure 4.5: Category of your organisation

The respondents had to indicate which category their businesses fall in terms of the SME size. For example, is the business categorised as a medium-sized enterprise, small enterprise or a micro-enterprise? According to Blose (2018:55), a micro-enterprise is a company with less than 10 workers, a small enterprise has up to 50 employees and a business with more than 50 employees is a medium enterprise. This is depicted in Table 4.6 and Figure 4.5, in terms of the number of the size of the businesses. The data revealed that 52.2% of the enterprises are medium-sized enterprises, 43.5% are small enterprises and 4.3% are micro-enterprises.

4.3.6 How long has your business been in operation?

Table 4.7: How long has your business been in operation?

		Frequency	%	Valid %	Cumulative %
Valid	1-5	3	6.5	6.5	6.5
	5 -10	4	8.7	8.7	15.2
	10 – 15	5	10.9	10.9	26.1
	15 +	34	73.9	73.9	100.0
	Total	46	100.0	100.0	

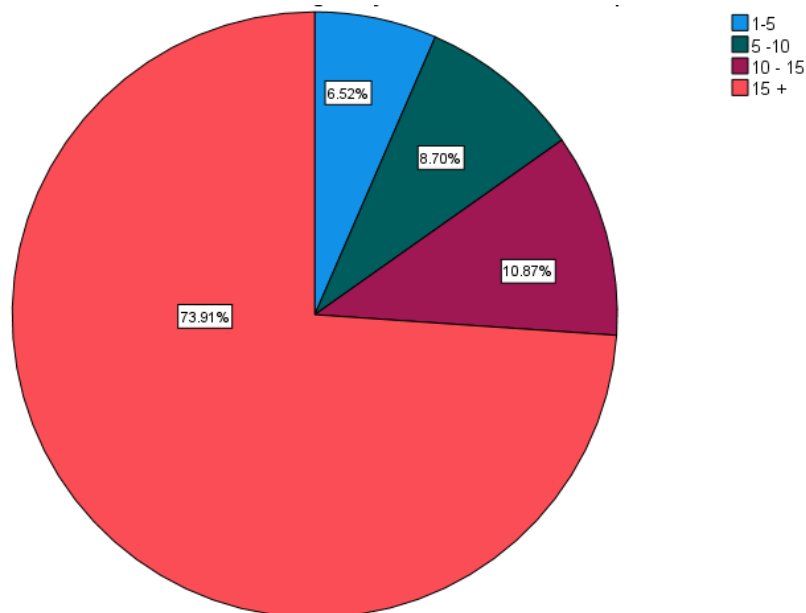


Figure 4.6: How long has your business been in operation?

As seen in Table 4.7 and Figure 4.6, 73.9% of the respondents' businesses have been in operation for more than 15 years, 10.9% have been in operation for 10 to 14 years, and 8.7% have been in operation for 5 to 9 years. Only 9% have been in business for less than five years. According to the above results, 93.5% of companies have been operating for five years or more and, hence have had sufficient time to provide additional fringe benefits to their employees. According to Sifumba et al. (2017:389), SMEs are believed to not survive beyond their first five years of operation. SMEs in SA are considered to have a high failure rate, with many failing to survive the second year

after inception. The main causes of the present SME failure rate include but are not limited to, inadequate capital and a lack of suitable managerial skills.

4.3.7 Number of employees in the business

Table 4.8: Number of employees in the business

		Frequency	%	Valid %	Cumulative %
Valid	Less than 50	22	47.8	47.8	47.8
	51-100	11	23.9	23.9	71.7
	More than 100	13	28.3	28.3	100.0
	Total	46	100.0	100.0	

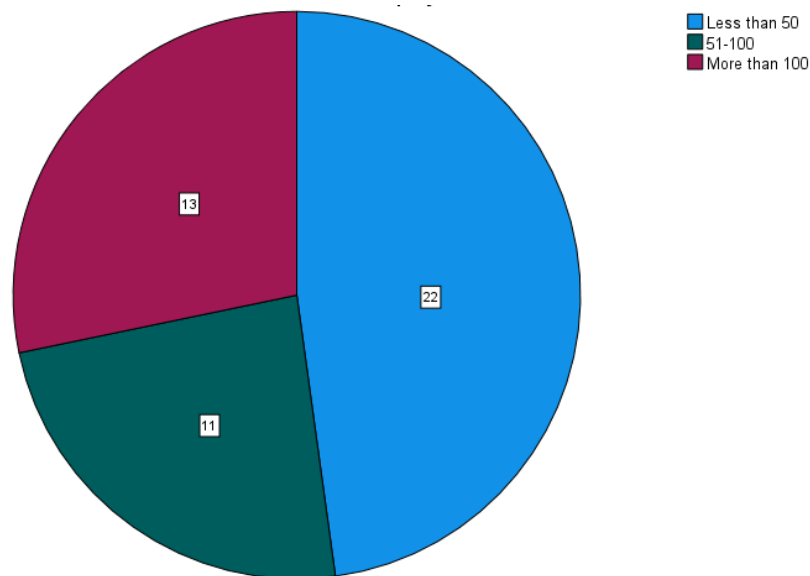


Figure 4.7: Number of employees in the business

Only SMEs with 5 to 250 employees, depending on the sector, were allowed to participate in this study. Ayandibu and Houghton (2017:137) state that those businesses that employ fewer than 250 people are referred to as small and medium-sized businesses. A small business is defined as one that employs less than 50 people, to distinguish between small and medium-sized businesses. As per the results, businesses with fewer than 50 employees account for 47.8%, businesses with more than 100 employees account for 28.3%, and businesses with 50 to 100 employees account for 23.5%.

4.3.8 What is the basis of apportioning different benefits between different employees?

Table 4.9: Basis of apportioning different benefits between different employees

		Frequency	%	Valid %	Cumulative %
Valid	On basis of grades	10	21.7	21.7	21.7
	On basis of salary	14	30.4	30.4	52.2
	At the option of the employer.	22	47.8	47.8	100.0
	Total	46	100.0	100.0	

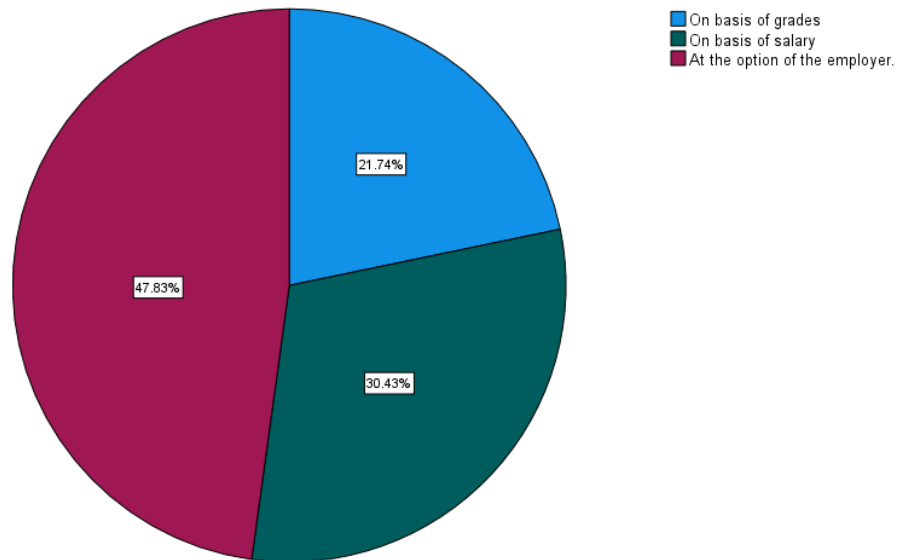


Figure 4.8: Basis of apportioning different benefits between different employees

According to the results in Table 4.9 and Figure 4.8, the most successful approach of allocating fringe benefits between employees was at the option of the employer with a 47.8% rating, followed by 30.4% on the basis of salary and 21.7% on the basis of grades. However, employers contribute to fringe benefits on behalf of an employee. Thus, the company is responsible for paying the fringe benefits tax, not the employee.

**4.4 SECTION B OF QUESTIONNAIRE:
GENERAL FACTORS OF FRINGE BENEFITS TO EMPLOYEES AND THE
ORGANISATION**

Table 4.9 below contains the descriptive statistics relevant to questions 4.4.1 to 4.4.8 in Section B of the questionnaire.

Table 4.10: Descriptive statistics of questions 4.4.1 to 4.4.8

Statement	N Valid	Missing	Mean	Std. Dev	Sum
4.4.1 We offer/receive either of the following: (medical benefits; leave; retirement benefits; housing allowance; educational funding).	46	0	3.80	1.310	175
4.4.2 Employees receive enough annual leave days every year.	46	0	4.24	.970	195
4.4.3 Organisations find it difficult to offer benefits due to COVID-19 pandemic.	46	0	3.35	1.418	154
4.4.4 Productivity increases when there are rewards or cost offered.	46	0	3.70	1.314	170
4.4.5 Health protection benefits are more imperative than any other benefits.	46	0	3.83	1.081	176
4.4.6 Employees are fulfilled with their occupations when they are given with benefits other than typical compensation.	46	0	3.87	.980	178
4.4.7 Organisations can witness a positive impact on employee job satisfaction when employees work adaptable hours.	46	0	3.89	1.059	179
4.4.8 The lack of fringe benefits affects organisation's performance.	46	0	3.72	1.344	171

4.4.1 We offer/receive any of the following: medical benefits; leave; retirement benefits; housing allowance; and educational funding

Table 4.11: Medical benefits offered/received

		Frequency	%	Valid %	Cumulative %
Valid	Strongly Disagree	5	10.9	10.9	10.9
	Disagree	4	8.7	8.7	19.6
	Unknown	2	4.3	4.3	23.9
	Agree	19	41.3	41.3	65.2
	Strongly Agree	16	34.8	34.8	100.0
	Total	46	100.0	100.0	

According to the results in Table 4.11, most companies provide medical benefits, leave, retirement benefits, housing allowances, and educational funding. As a result, the sum of 76.1% strongly agree and agree that the majority of employees received these types of benefits. 19.6% of the respondents do not agree that they are receiving these benefits while 4.4% is unknown. In Table 4.10, the mean value of 3.80 with a Std Dev of 1.310 confirms these results.

To support these results, the importance of employee benefits cannot be overstated since they may be used as a tactic for attracting and keeping skilled, driven, and productive employees (Ahmad et al., 2013:3). As a result, employee benefits are that portion of the entire compensation package that is supplied by the employer in whole or in part to the employees, hence, benefits are intended to give employees security, and are in addition to money for time spent (Ahmad et al., 2013:3).

4.4.2 Employees receive enough annual leave days every year

Table 4.12: Employees receive enough annual leave days every year

		Frequency	%	Valid %	Cumulative %
Valid	Strongly Disagree	2	4.3	4.3	4.3
	Disagree	1	2.2	2.2	6.5
	Unknown	2	4.3	4.3	10.9
	Agree	20	43.5	43.5	54.3
	Strongly Agree	21	45.7	45.7	100.0
	Total	46	100.0	100.0	

Table 4.12 indicates that 45.7% of respondents strongly agreed and 43.5% agreed. A further 4.3% strongly disagreed, 2.2% disagreed and 4.3% were unknown. From the responses provided, nearly 90% of the respondents agree that they receive adequate annual leave days each year. Table 4.10 shows 4.24 is the mean value with 970 Std Dev as shown in Table 4.9. Du Toit (2016:3) states that a 12-month cycle of yearly leave is granted to workers who put in more than 24 hours each month for the same business. This ensures that workers have the chance to take three weeks off to rest. To clarify, this does not imply that the employee would be paid for 21 days of annual vacation; rather, the person will be compensated for the days that they would have typically worked during a regular three-week work month.

4.4.3 Organisations find it difficult to offer benefits due to COVID-19 pandemic

Table 4.13: Difficult to offer benefits due to COVID-19 pandemic

		Frequency	%	Valid %	Cumulative %
Valid	Strongly Disagree	7	15.2	15.2	15.2
	Disagree	6	13.0	13.0	28.3
	Unknown	10	21.7	21.7	50.0
	Agree	10	21.7	21.7	71.7
	Strongly Agree	13	28.3	28.3	100.0
	Total	46	100.0	100.0	

Table 4.13 demonstrates that 28.3% of respondents strongly agreed and 21.7 % agreed. Unknown is 21.7%, 15.2% strongly disagreed, and 13% disagreed. The majority of respondents strongly agreed that the COVID-19 pandemic made it difficult for businesses to provide benefits. These results confirm the proposition that the COVID-19 pandemic has had a significant impact on the survival of SMEs. The mean value of 3.35 with a Std Dev of 1.418, as seen in Table 4.10, confirms these results. According to Islam et al. (2020:592), the global business community has been rocked by the COVID-19 outbreak. However, small and medium-sized businesses in particular had many difficulties managing their operations, earnings, and budgets. The COVID-19 pandemic has had a severe impact on small enterprises because of their limited financial resources and size, even though firms made a concerted effort to manage their operations and weather the crisis to prevent liquidation.

4.4.4 Productivity increases when there are rewards or cost offered

Table 4.14: Productivity increased productivity when rewards or costs are offered

		Frequency	%	Valid %	Cumulative %
Valid	Strongly Disagree	3	6.5	6.5	6.5
	Disagree	7	15.2	15.2	21.7
	Unknown	9	19.6	19.6	41.3
	Agree	9	19.6	19.6	60.9
	Strongly Agree	18	39.1	39.1	100.0
	Total	46	100.0	100.0	

As shown in Table 4.14, 58.7% of respondents fully agree that productivity increases when there are rewards or costs offered, 21.7% disagree, while 19.6% are unknown. The mean value as illustrated in Table 4.10 is 3.70 with a Std Dev of 1.314. Gbande (2016:207) supports the above results by stating that for any public or private organisation, employees want to feel valued and appreciated to work more productively. However, reward systems are initiatives put in place by an organisation to recognise employees' achievements and spur them on to greater productivity. To boost productivity, employees look to management for a cooperative relationship as well as things like fair pay, safe working conditions, and creating an environment where they are not in danger.

4.4.5 Health protection benefits are more imperative than any other benefits

Table 4.15: Health protection benefits are more imperative than any other benefits

		Frequency	%	Valid %	Cumulative %
Valid	Disagree	7	15.2	15.2	15.2
	Unknown	10	21.7	21.7	37.0
	Agree	13	28.3	28.3	65.2
	Strongly Agree	16	34.8	34.8	100.0
	Total	46	100.0	100.0	

As shown in Table 4.15, 63% agree that health benefits are more important than any other benefits, while 21.7% are unknown, meaning that they were not sure if health care protection benefits are more important to them, while 15.2% disagree with the statement. There is clear evidence that workforce health is closely linked to workforce productivity and national economic health, however, it also indicates that employers are increasingly aware of this relevance and are interested in improving worker health by expanding worker health protection and wellness programmes (Kamau, 2013:35).

4.4.6 Employees are fulfilled with their occupations when they are given benefits other than typical compensation

Table 4.16: Occupational fulfilment when employees are given benefits other than typical compensation

		Frequency	%	Valid %	Cumulative %
Valid	Disagree	6	13.0	13.0	13.0
	Unknown	7	15.2	15.2	28.3
	Agree	20	43.5	43.5	71.7
	Strongly Agree	13	28.3	28.3	100.0
	Total	46	100.0	100.0	

As seen in Table 4.16 above, most of the respondents agree (71.8%) that they are fulfilled with their occupations when they are given benefits other than typical compensation, 15.2% of the respondents did not know if they are fulfilled with their

occupations, while 13% disagreed with the question. The mean value is 3.87 with a Std Dev of 980 as seen in Table 4.10. According to Pandey and Chauhan (2021:42), job performance comes from job satisfaction. However, it is important to understand how you can retain your workforce by meeting their professional needs so they can perform to exemplary standards. Since occupational competitiveness depends on the fulfilment of workers' jobs in the workplace, it also contributes significantly to workers' career development and as a result, it improves work efficiency and empowers employees.

4.4.7 Organisations can witness a positive impact on employee job satisfaction when employees work adaptable hours

Table 4.17: Positive impact on employee job satisfaction in organisations when employees work adaptable hours

		Frequency	%	Valid %	Cumulative %
Valid	Strongly Disagree	3	6.5	6.5	6.5
	Disagree	1	2.2	2.2	8.7
	Unknown	7	15.2	15.2	23.9
	Agree	22	47.8	47.8	71.7
	Strongly Agree	13	28.3	28.3	100.0
	Total	46	100.0	100.0	

According to Table 4.17 and as confirmed in Table 4.10, the mean value is 3.89 with a Std Dev of 1.059. As reflected in Table 4.16, 76.1% of respondents stated that an organisation can witness a positive impact on employee job satisfaction when employees work adaptive hours, while 15.2% of respondents were unsure about the statement, and a further 8.7% do not agree. However, productivity is significantly impacted by absenteeism and ineffective time management. Maintaining a healthy balance between work and personal duties increases workplace productivity and efficiency. Because of this, workers and employers from many organisations have realised the necessity of workplace flexibility (Govender, 2018:270).

4.4.8 A lack of fringe benefits affects an organisation's performance

Table 4.18: Lack of fringe benefits affects an organisation's performance

		Frequency	%	Valid %	Cumulative %
Valid	Strongly Disagree	5	10.9	10.9	10.9
	Disagree	5	10.9	10.9	21.7
	Unknown	4	8.7	8.7	30.4
	Agree	16	34.8	34.8	65.2
	Strongly Agree	16	34.8	34.8	100.0
	Total	46	100.0	100.0	

As shown in Table 4.18, 69.6% of the respondents agree that when there is a lack of fringe benefits within an organisation is it highly possible that the organisation's performance will be affected, 21.8% disagree that the lack of fringe benefits will affect the performance of the organisation, while 8.7% of respondents did not know. As demonstrated in Table 4.10, the mean value is 3.72 with a Std Dev of 1.344. To support the statement above, fringe benefits are now understood to be incentives that inspire workers to go above and beyond what is expected of them, improving employee performance but on the other hand, a mismanaged reward system can result in ineffective performance, high rate of worker turnover, and even low morale (Mugaa et al., 2018:11).

**4.5 SECTION C OF QUESTIONNAIRE:
IMPLICATIONS OF FRINGE BENEFITS ON THE ORGANISATION**

4.5.1 Do fringe benefits affect the profits of the business?

Table 4.19: Do fringe benefits affect the profits of the business?

		Frequency	%	Valid %	Cumulative %
Valid	True	24	52.2	52.2	52.2
	False	17	37.0	37.0	89.1
	3	5	10.9	10.9	100.0
	Total	46	100.0	100.0	

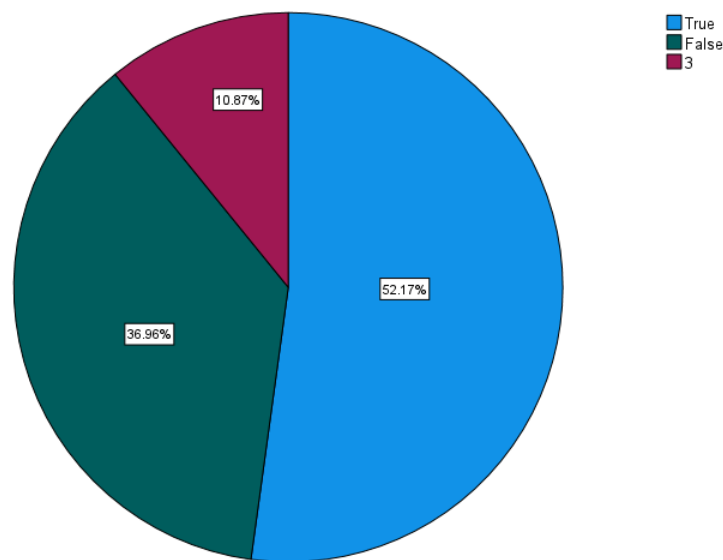


Figure 4.9: Do fringe benefits affect the profits of the business?

As seen in Table 4.19 and Figure 4.9, 52.2% of the respondents agree that fringe benefits do affect the profits of the business because they believe that perks reduce company profits due to higher incentives and remuneration. A further 37% of respondents disagree that benefits affect profitability. Tan et al. (2016:4) point out that the issue of increasing costs is the first difficulty in offering employee perks. The size of SMEs is typically their main developmental barrier, which is particularly evident when it comes to innovation and financing,

However, for SMEs, the cost of labour comes second to the cost of raw materials and other inputs. As a result, employee benefits are viewed as an equal burden to the employer, and while benefit packages typically make up between 1/3 and ¼ of total personnel remuneration, their prices have increased at a rate of 6.2% per year, considerably exceeding inflation (Tan et al., 2016:4).

4.5.2 Who bears the risk of paying fringe benefits tax within the organisation?

Table 4.20: Who bears the risk of paying fringe benefits tax within the organisation?

		Frequency	%	Valid %	Cumulative %
Valid	The employer	12	26.1	26.1	26.1
	The employee	7	15.2	15.2	41.3
	Both employee and employer	27	58.7	58.7	100.0
	Total	46	100.0	100.0	

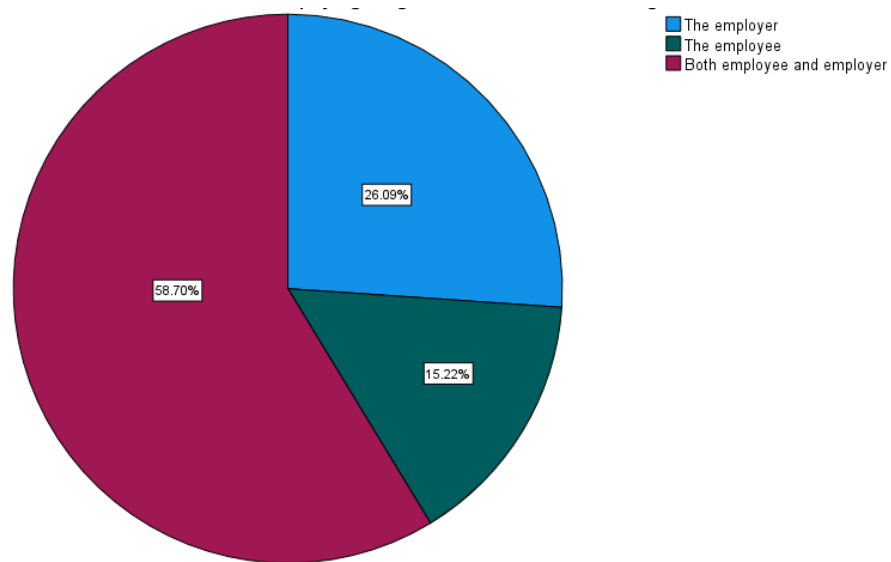


Figure 4.10: Who bears the risk of paying fringe benefits tax in the organisation?

Throughout many enterprises, both the employer and the employee bear the risk of paying the fringe benefits tax within the organisation. As seen in Table 4.20 and Figure 4.10, 58.7% of participants believe that both employees and employers bear the risk, whereas 26.1% opine only the employer and 15.2% believe only the employee bears the risk. According to SARS (2021), any benefit given to an employee by an institution connected to an employer in exchange for services is considered to be a taxable benefit given by the employer to the employee. Hence, the employer is required to calculate the cash equivalent of the value of the taxable benefit provided to the employee by the connected institution as if the employer had provided the benefit in question. As a result, an IRP5/IT3(a) certificate must be given to employees by every employer. Employers are subject to penalties of 10% of the cash equivalent or 10% of the understated amount if they fail to accurately reflect the nature and cash equivalent of taxable benefits on their IRP5/IT3(a) certificate (SARS, 2021). Moreover, Unless the law expressly exempts it, each fringe benefit you give is taxable and must be included in the recipient's compensation (South Africa, Internal Revenue Service [IRS], 2016:14).

4.5.3 Total annual fringe benefits and expenditure when rated using a 5-point Likert scale

Table 4.21: Total annual fringe benefits and expenditure when rated using a 5-point Likert scale

		Frequency	%	Valid %	Cumulative %
Valid	1 > R5,000	12	26.1	26.1	26.1
	2 is between R5,001-R10,000	11	23.9	23.9	50.0
	3 is between R10,001-R15,000	6	13.0	13.0	63.0
	4 is between R15,001-R20,000	5	10.9	10.9	73.9
	5 is between R20,001-R25 000	12	26.1	26.1	100.0
	Total	46	100.0	100.0	

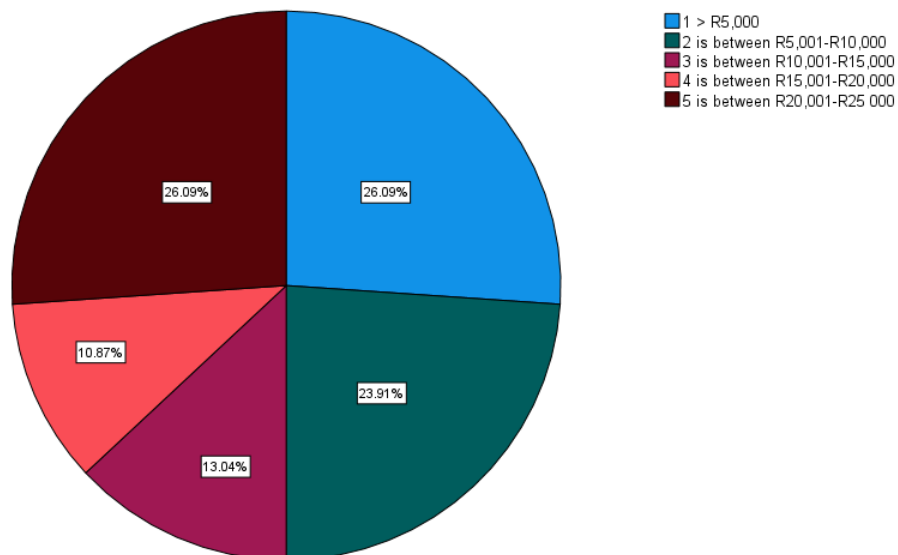


Figure 4.11: Total annual fringe benefits and expenditure when rated using a 5-point Likert scale

Table 4.21 and Figure 4.11 above show that up to 26.1% of respondents receive less than R5 000 and between R20 001 and R25 000 in fringe benefits per year, while 23,9% receive between R5 000 and R10 000 per year, and 13% receive between R10 001 and R15 000 per year, with those in the R15 001-R20 000 bracket accounting for 10.9% of annual fringe benefits. Fringe benefits rates depend on how much a company pays the employee and how much an employee receives in benefits. Moreover, Modisane (2019:57) buttresses that fringe benefits rates depend on how much a company pays the employee and how much an employee receives in benefits. However, according to the South African Income Tax Act (1962:10), fringe benefits are considered a part of gross income but some of them also have allowable deductions that could lower the amount of tax that employees owe. For this reason, employees must comprehend the impact that fringe benefits have on their taxes so they can make the most of them when tax planning, contrary to popular belief. Fringe benefits are also referred to as “taxable benefits” under the terms of paragraph 1 of the Schedule, and the value of the fringe benefit that is subject to tax is known as the cash equivalent. Employees in Australia are responsible for paying a tax on the value of any fringe benefits received in connection with their work (Modisane, 2019:58).

4.6 CHAPTER SUMMARY

The study results from the questionnaire given to the respondents were examined in this chapter. Based on an analysis of the respondents’ ages, most fall within the 25 to 36 years age range. Additionally, it is evident from the responses that most of the

respondents were female and that most of them held a degree. The majority of the companies have been in business for over 15 years. The majority of the respondents were lower-level employees and also the majority were from companies with not more than 50 employees.

In terms of provided fringe benefits, the data showed that. The majority of respondents, (76.1%) agreed that they do receive fringe benefits. 47.8% of respondents believed that the approach of allocating fringe benefits between employees was at the option of the employer and a significant 89.2% agreed that they get enough leave days. Due to the COVID-19 pandemic, half of the organisations find it difficult to offer benefits (50%). On the other hand, the majority of the respondents (58.7%) agreed that productivity increases when there are rewards or costs offered. Also, 63% agreed that health benefits were more important than any other benefits.

With regard to business performance, 69.6% of respondents maintained that a lack of fringe benefits affects the organisation's performance. Most of the respondents (52.2%) believe that fringe benefits reduce company profits due to higher incentives and remuneration. The provision of fringe benefits is seen as critical to the business's existence since it reduces staff turnover. Employee retention is critical to business sustainability. Lastly, on total annual fringe benefits and expenditures, 26.1% were respondents who received less than R5 000, or R20 001 to R25 000.

The research techniques utilised in this study were explained in this chapter, along with a description of the data collection procedure. The chapter also detailed how the sampling was carried out, as well as the results of the empirical investigation.

The next and final chapter summarises the study, offers suggestions for further studies, and makes recommendations.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The previous chapter provided an explanation of the research techniques used, data collection procedure, sample selection, and empirical investigation results. This study's main goal was to ascertain the impact of fringe benefits on the financial performance of SMEs in the Cape Metropole. This study was inspired by the dearth of research on the effects of fringe benefits on the profitability of SMEs in the Cape Metropole in SA.

The impact of fringe benefits on the profitability of SMEs operating within the Cape Metropole is discussed in this chapter, along with summaries of the results and conclusions drawn from them.

5.2 SUMMARY OF THE STUDY

The primary objective of the study was to ascertain the impact of fringe benefits on SMEs in the Cape Metropole.

5.2.1 RESEARCH PROBLEM, RESEARCH AIM, MAIN QUESTION, SUB-QUESTIONS AND OBJECTIVES

5.2.1.1 Problem statement

The research problem can be briefly stated as "The profitability of SMEs in the Cape Metropole is adversely influenced due to the unequal distribution of fringe benefits amongst employees."

5.2.1.2 Aim of the study

The aim was to ascertain the impact of fringe benefits on SMEs operating in the Cape Metropole.

5.2.1.3 Main research question

How to ascertain the impact of fringe benefits on SMEs operating in the Cape Metropole?

5.2.1.4 Research sub-questions

The sub-questions in support of the main research question are as follows;

- a) What are the implications of fringe benefits on SMEs?

- b) What are the types of fringe benefits offered by SMEs in the Cape Metropole?
- c) Does gender influence the provision of fringe benefits?
- d) What is the impact of COVID-19 on SME fringe benefits?
- e) What is the relationship between fringe benefits and SME performance?

5.2.1.5 Primary research objective

To ascertain the impact of fringe benefits on SMEs in the Cape Metropole.

5.2.1.6 Secondary research objectives

- a) Understanding the implications of fringe benefits on SMEs
- b) Exploring the types of fringe benefits offered by SMEs in the Cape Metropole
- c) Determining the influence of gender on the provision of fringe benefits
- d) Assessing the impact of COVID-19 on SME fringe benefits
- e) Investigating the relationship between fringe benefits and SME performance

5.2.2 LITERATURE REVIEW ON FRINGE BENEFITS IN SMES

Chapter 2 reviewed existing literature on fringe benefits, the many types of fringe benefits common in small businesses, and the profitability of SMEs in the Cape Metropole. In addition, literature on gender in the workplace and the challenges experienced by SMEs in the wake of the COVID-19 pandemic was reviewed.

5.2.2.1 Small and medium enterprises

SMEs are uniquely defined in different ways by different individuals and organisations. There is no universal definition that applies to all industries and on which all countries can agree. The National Small Business Act 1996, amended in 2003 and 2004, defines SA's SMEs as a framework. The law provides several definitions of SMEs, according to the criteria applicable to each sector.

5.2.2.2 Fringe benefits

Fringe benefits are non-wage compensation forms that are given to workers, in addition to their regular salaries or bonuses. They aim at enhancing productivity and work satisfaction, decreasing employee turnover and retaining productive employees. In the U.S., fringe benefits may be required by statute or regulation, as well as being voluntary. Employees are driven by more than just money but a few people say money is no motivator at all for them. There is a perfect opportunity for workers to produce the

best business results if incentives are given to workers. Some fringe benefits for workers are mandatory, while others are optional.

Staff who are highly motivated are more productive and thought to have better work performance and effective company performance. Fringe benefits include company cars, housing allowances, medical benefits, paid vacations, pension plans, and meals which are subsidised. Some of the fringe benefits are deemed to be part of taxable income.

5.2.2.3 Impact of gender on the provision of fringe benefits

The law against sex discrimination in the form of unequal employee fringe benefits is less clear. Discriminatory fringe benefit distribution has been raised by Congress in the U.S., the courts, and a variety of administrative bodies. The study proposed that there should be reasonable policymaking that provides maternity leave to female workers and boosts their social rights. The notion of equal compensation for equal effort was born out of wage disparities between men and women. Women's discrimination and the gender pay gap began with their entry into the workforce following World War II. The current LRA, which came into effect on November 11, 1996, made it easier to adjudicate claims for unequal pay for work of equal value.

5.2.2.4 Effect of COVID-19 on SMEs

COVID-19 is a global emergency with causing death and economic and business destruction. Restrictions imposed by global governments to stop the spread of COVID-19 have led to a decrease in supply and demand for SMEs. SMEs play a crucial part in the economic growth of African countries. SMEs are particularly vulnerable to the COVID-19 pandemic because of a lack of funding, corruption, poor management, poor infrastructure, a lack of training and expertise, and insufficient income.

5.2.2.5 Profitability of SMEs

Profitability is the principal measure of fiscal, business and company performance. It is a key performance metric as a measure of a business' ability to make a profit in relation to investments. The concept of profitability is seen as ROI capital, which has been around for over a century.

SMEs' success and/or failure depend on their financial stability. One of the most common challenges these businesses face is their ability to maintain adequate cash flow and working capital. SMEs must use other methods to guarantee their profitability.

5.2.3 RESEARCH DESIGN AND METHODOLOGY

Chapter 3 discussed the methodology applied in this study, including the research design and data collection instrument. The statistical procedures and data analysis methodology were also described.

The sample size, data collecting schedule, and measuring instrument are all discussed in the research methodology and design. The approach used to collect the required data was done to meet the objectives of this study.

A research design is a framework and strategy which serves as the foundation for the study that the researcher wants to perform. Research methodology places a lot of emphasis on the techniques and tools that must be used during the study. To acquire vital information, this study used a quantitative approach. As this study has a quantitative focus and uses a descriptive survey design, it fits into the positivistic research paradigm. The questionnaire in this research was used to gather in-depth information from employees in SMEs.

Purposive and snowballing sampling were utilised in this study. This approach was the most suitable for this study since the respondents were knowledgeable about the research process and the research concentrated on small samples.

A structured questionnaire was employed as the research instrument since it was more affordable and practical for both the researcher and the participants while collecting data. The questionnaire was created and organised around five distinct objectives, five sub-questions, and one research question. Closed-ended questions ensured it was not complicated for participants to comprehend and participate in the survey.

The 5-page questionnaire was divided into three sections and contained an in-depth description of the purpose of the survey. The sections were clearly organised so that the questions would produce relevant information. The questionnaire comprised 20 questions and was designed to take 15 to 25 minutes to complete. Eight of the questions had sub-questions that allowed respondents to rate their agreement or disagreement with the submitted argument, using a Likert scale.

5.2.4 RESULTS, ANALYSIS AND DISCUSSION

Chapter 4 presented and discussed the results obtained from the data collected. The analysis of descriptive statistics in SPSS and variables under consideration is provided in tables and pie charts, along with inferential analysis.

Research results derived from study-related data are presented and discussed. Along with the inferential analysis, the analysis of descriptive statistics in SPSS and the variables under examination is presented in tables and pie charts.

The study employed a quantitative collection method. SPSS v24 was used to record and analyse the data.

5.3 RECOMMENDATIONS

The research recommends that SMEs should continue to provide healthcare benefits to their employees since it would help them develop a feeling of loyalty and increase their productivity. Moreover, SMEs to improve employee recognition systems for good work, since this will encourage them and increase their productivity. In conclusion, the study suggests that SMEs should continue to provide security benefits to their employees, as this will boost staff productivity and overall organisational performance.

Management should examine their fringe benefit packages regularly to inspire people to be more devoted to their jobs. In addition, management should make sure that employee benefits are tailored to their requirements, and that incentive programmes are clearly and transparently connected to performance.

5.4 CONTRIBUTION AND SIGNIFICANCE OF THE STUDY

5.4.1 Contribution of the study

This study benefits SMEs, the South African body of knowledge and society at large. Additionally, it can help organisational objectives, which might guarantee employee satisfaction, staff retention, employee productivity, and improved organisational performance. The goal was to advance the literature on job satisfaction and work stress by using an inductive approach to identify variations in stressful work environments (Fila et al., 2014:641).

5.4.2 Significance of the study

The study would aid managers in understanding the impact of fringe benefits on job success in selected SMEs, hence, fringe benefits are one of the key elements in evaluating a company's performance. The research would also encourage them to develop policies and legislation to govern fringe benefit administration (Oguejiofor & Umeano, 2018:13).

5.5 LIMITATIONS OF THE STUDY

The scope of this study was to analyse how the costs of fringe benefits affected the total profitability of SMEs operating in the Cape Metropole. According to Chakabva (2015:44) and Eltahir (2018:22), frequent limitation is slanted to the possible issue. As a result, the value of benefits to other employees may be diminished by actual variations in benefit schemes, however, common limitation is biased to the potential issue. A sample of 100 participants from 10 SMEs that operate in the Cape Metropole was included in the study. This equates to 10 participants for each chosen SME entity. However, due to the COVID-19 pandemic, companies were closed and people were working from home. Only a few SMEs were open and those who were open were operating on a staff rotating schedule. Consequently, the questionnaires were delivered by hand and companies asked the researcher to leave the questionnaires and collect them once they were completed. As a result only 46 questionnaires were returned, 20 were not returned because some companies were closed when the researcher went to collect them, and 21 were misplaced due to the staff rotating schedule. A further 13 questionnaires were declined by the respondents even though they agreed to participate initially.

5.6 SUGGESTIONS FOR FUTURE RESEARCH

Further research on fringe benefits might be undertaken in the Western Cape as a whole, given that this study was limited to SMEs operating only in the Cape Metropole. The results of this study were based on a sample of 100 respondents, future research may employ a bigger sample size. This study was quantitative but qualitative research may be performed through interviews to gain a better knowledge of how fringe benefits impact a company's profitability.

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APPENDICES

APPENDIX A: ETHICAL CLEARANCE CERTIFICATE



P.O. Box 1906 | Bellville 7535 Symphony Road Bellville 7535 South Africa

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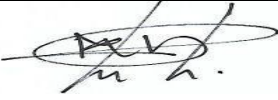
Email: fbmsethics@cput.ac.za

Office of the Chairperson Research Ethics Committee	FACULTY: BUSINESS AND MANAGEMENT SCIENCES
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The Faculty's Research Ethics Committee (FREC) on **02 March 2021**, ethics **APPROVAL** was granted to **Nasiphi Wendy Mphoswa (212275992)** for a research activity for **M Tech: Management Accounting** at Cape Peninsula University of Technology.

Title of dissertation / thesis / project:	Cost implications of fringe benefits on the profitability of Small and Medium Enterprises in Cape Metropole Lead Supervisor (s): Dr J. Makoni and Dr I. Johnson
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DECISION: APPROVED

 <hr/> Signed: Chairperson: Research Ethics Committee	14 MARCH 2021 <hr/> Date
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The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the CPUT Policy on Research Ethics.
2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study requires that the researcher stops the study and immediately informs the chairperson of the relevant Faculty Ethics Committee.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.
4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing accompanied by a progress report.
5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, notably compliance with the Bill of Rights as provided for in the Constitution of the Republic of South Africa, 1996 (the Constitution) and where applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003 and/or other legislations that is relevant.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data requires additional ethics clearance.
7. No field work activities may continue after two (2) years for Masters and Doctorate research project from the date of issue of the Ethics Certificate. Submission of a completed research ethics progress report (REC 6) will constitute an application for renewal of Ethics Research Committee approval.

Clearance Certificate No |

2021_FBMSREC_012

APPENDIX B: QUESTIONNAIRE

Keisersgracht and Tennant
Street
P.O. Box 652
Zonnebloem, Cape Town
Tel: (+27) 21 460 3911

Dear Participant

Research Questionnaire:

What are the cost implications associated with fringe benefits on profitability of SMEs operating in the Cape Metropole?

I am currently pursuing a research study under the supervision of Prof Lawrence Obokoh from the Cape Peninsula University of Technology leading to a Master's Degree in Cost and Management Accounting. The research study I am conducting is aimed at identifying the cost implications of fringe benefits on the overall profitability of selected SMEs in the Cape Metropole.

Small Medium-sized Enterprises play a noteworthy part in an economy, they are perceived around the world for their impact to financial improvement, as well as known for making jobs openings and once more act as generation drivers of financial development. It is to this impact that SMEs ought to remain beneficial and offer fringe benefits to hold the qualified and gifted employees.

The objective of this research survey is to gather information from representatives in Small, Medium Enterprises.

This survey is partitioned into sections as follows:

Section A

This section is made up of individual information that requires the participant to choose the foremost appropriate reply from a list provided by indicating the appropriate answer with a tick (✓) and / or answer questions.

Section B

This section is in the form of a Likert scale, the participant here is requested to rate the statements on the basis of Strongly disagree, Disagree, Unknown, Agree, and Strongly agree.

Section C

This section is in shape of an assortment of alternatives that requires the participant to choose the option of their own by either a tick or circling. Please note that for accuracy and truthfulness of this research, respondents are inquired not to focus on whether the answer is 'right' or 'wrong' but, rather focus on personal perceptions OR experiences on the given questions and / or statements.

I would like to take this opportunity to thank you for your participation and contribution to this research project.

Sincerely,

Nasiphi Wendy Mphoswa

Researcher

QUESTIONS

With regards to cost implications of fringe benefits on the profitability of selected SMMEs

Please make a tick where applicable “√” on your choice in the shaded block.

SECTION A: DEMOGRAPHIC DATA: RESPONDENT AND BUSINESS PROFILE

1.1 Gender

1	Male	
2	Female	

1.2 State age category

1	< 25 years old	
2	25-35 years old	
3	36-45 years old	
4	46-55 years old	
5	> 55years old	

1.3 Position in the business

1	Owner	
2	Junior manager	
3	Senior	
4	Employee	

If Specify
employee role.....

1.4 How long have you been in the above position.....years?

1.5 Education level

1	Primary school or	
2	High school	
3	College Certificate	
4	University Degree	
6	Others (Please	

1.6 How would you categorise your Organisation

1	Micro	
2	Small	
3	Medium	

1.7 Business status (tick here)

1.8	How long has your business been in operation?	1-5 years.
		5 -10 years
		10 - 15 years
		15 + years

1.8 Number of employees in the business

1	Less than 50	
2	51-100	
3	More than 100	

SECTION B: GENERAL FACTORS OF FRINGE BENEFITS TO EMPLOYEES AND THE ORGANISATION

Please rate the following statement below:

(Strongly disagree, Disagree, Unknown, Agree, and Strongly agree).

No.	Statements	Decision-making				
		Strongly Disagree	Disagree	Unknown	Agree	Strongly Agree
1	We offer /receive either of the following: (medical benefits; leave; retirement benefits; housing allowance; low interest loan etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	Employees receive enough annual leave days every year.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	Fringe benefits or cost are associated with loyalty to the organization.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	Productivity increases when there are rewards or cost offered.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	Health protection benefits are more imperative than any other benefits.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	Employees are fulfilled with their occupations when they are given with benefits other than typical compensation.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7	Organizations can witness a positive impact on employee job satisfaction when employees work adaptable hours.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8	The lack of fringe benefits affect employees' job satisfaction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

9 What is the basis of apportioning different benefits between different employees?

(Tick or Circle your choice below)		
1	On basis of grades	<input type="checkbox"/>
2	On basis of salary	<input type="checkbox"/>
3	At the option of the employer.	<input type="checkbox"/>

SECTION C: IMPLICATIONS OF FRINGE BENEFITS ON THE ORGANIZATION

1 Do fringe benefits affect the profits of the business?

True False (Indicate with a tick mark on your choice)

2 Who bears the risk of paying fringe benefits tax within the organization?

Tick were appropriate

The employer	<input type="checkbox"/>
The employee	<input type="checkbox"/>
Both employee and employer	<input type="checkbox"/>

3.	The total annual fringe benefits and expenditures when rated using a 5-point Likert scale.	1 > R5,000
		2 is between R5,001-R10,000
		3 is between R10,001-R15,000
		4 is between R15,001-R20,000
		5 is between R20,001-R25 000

Thank you.

APPENDIX C: GRAMMARIAN LETTER

22 Krag Street
Napier
7270
Overberg
Western Cape

12 March 2024

Cape Peninsula University of Technology
Cape Town

LANGUAGE & TECHNICAL EDITING

Cheryl M. Thomson

COST IMPLICATIONS OF FRINGE BENEFITS ON THE PROFITABILITY OF SMEs IN THE CAPE METROPOLE

Supervisor: Mr Oji Oke

Co-supervisor: Dr Jimmy Makoni

This is to confirm that I, Cheryl Thomson, executed the language and technical editing of the above-titled dissertation of **NASIPHI WENDY MPHOSWA, student no. 212275992**, at the **CAPE PENINSULA UNIVERSITY OF TECHNOLOGY**, in preparation for submission of this dissertation for assessment.

Yours faithfully



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