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# THE IMPACT OF THE NATIONAL CREDIT ACT (NCA) ON THE PERFORMANCE OF RETAILERS IN SASOLBURG (FREESTATE PROVINCE)

## CHAPTER 1 INTRODUCTION AND PROBLEM STATEMENT

### 1.1 INTRODUCTION

The advent of democracy in South Africa has brought freedom and many more expectations to the masses. The promotion of the SME sector has long been advocated as a way of accelerating job creation and poverty alleviation. The availability of finance determines the capacity of an enterprise in a number of ways, especially in the choice of technology, access to markets and access to essential resources which in turn greatly influence the viability and success of a business (Wole, 2009). However the financial market that has been developed was clearly inappropriate for the present and future political, economic and social context of South Africa. More so it was also a market that was characterized by discrimination, a lack of transparency, limited competition and high cost of credit and consumer protection (Kelly-Louw, 2008). These factors coupled with an increased use of credit by low income consumers created an urgent need for a closer examination of the present credit legislation and the credit market in general.

Given this trend, the government responded by introducing the National Credit Act with an aim of promoting and advancing the social and economic welfare of the South African consumers (Pamhidza *et al.*, 2009:35). This Act was however found to be complicated and as being understood only by researchers. It is for these reasons that the Act was subjected to extensive criticism and was found to be in great need of a review. Many credit providers such as banks and retailers objected to a number of the provisions on the grounds that they imposed costly and burdensome obligations on them. These included the duties to conduct investigations to prevent reckless lending and to send monthly statements to borrowers. Retailers also complained that the five-day cooling off period afforded to those who bought goods on credit was prejudicial to them. The most emotive topic, however, related to the role of credit bureau in providing information to credit providers and the (sometimes unwarranted) blacklisting of borrowers (Kitching *et al.*, 2009).

## **1.2 PROBLEM STATEMENT**

The introduction of the National Credit Act was meant to protect and to improve the social and economic welfare of South Africans. This Act came with a number of unintended consequences for the credit providers, especially the retailers whose majority clients buy on credit. A number of restrictions have been put in place in order to prevent deceitful marketing practices by retailers. All these changes have affected their performance in terms of sales, marketing and credit granting. The implementation of the act has slowed down the process of granting credit since there is a strict process to select clients. As a result of these, the performance of the affected retailers has been affected in terms of how they market their products, the sales rate and ultimately their business in general.

## **1.3 RESEARCH OBJECTIVES**

### **1.3.1 PRIMARY OBJECTIVE**

The primary objective of this research is to investigate the impact of the National Credit Act on the retailers' performance in Sasolburg.

### **1.3.2 SECONDARY OBJECTIVES**

The secondary objectives of this study are to:

- Review the National Credit Act (NCA);
- Determine how the application of the act has changed the way the retailers should market their products or services in Sasolburg; and
- Identify ways to improve retailers' performances while complying with the National Credit Act.

## 1.4 Preliminary Literature review

The world economy blossomed in the last two decades. This was mainly because credit was easy to grant and access. Stoop (2009) states that the boom came at a price; there were large numbers of individuals and businesses that were over-indebted.

In 2006 the South African government identified the benefits of a working credit industry that assists consumers to accumulate assets, exploit opportunities.

In South Africa, a wave of credit reforms that begins in 2001 culminated into the Department of Trade and Industry (DTI) to review the credit legislation in order to investigate the problems that were being experienced in the credit market. In March 2002, the Department set up a Technical Committee to undertake a review of consumer-credit policy and legislation, to supervise all the relevant research, and to obtain the necessary expert opinions. The review was co-coordinated by the Micro Finance Regulatory Council (2006). During the review, extensive research was conducted, focusing on different aspects of the consumer credit market. This included:

- Consumer perceptions about credit products, credit providers and consumer protection, assessed through focus group discussions;
- The views of industry representatives, consumer representatives and other stakeholders on the previous regulatory and legislative framework; and
- A statistical and an economic analysis of the consumer-credit, in terms of value and costs of different products and the factors that determine those outcomes.

Kelly-Louw (2008) stated that weaknesses in the credit market were identified and these included: Inadequate rules on the disclosure of the cost of credit, with the result that that cost was regularly inflated above the disclosed interest rates through the inclusion of a variety of fees and charges, including excessive credit life insurance; this undermined the consumers' ability to make informed choices, whether between cash and credit purchases or between different credit providers, and resulted in reduced consumer pressure on credit providers to reduce interest rates and costs; and an unrealistically low Usury Act cap that caused low income and high-risk clients to be marginalized.

The overarching purpose of the National Credit Act of 2007 according to National Credit Regulator (2008) was to create a single system of credit regulation and a National Credit Regulator to administer the credit industry. It seeks to promote and advance the social and economic welfare of South Africans, and to promote a fair, transparent, competitive, efficient and accessible credit market for all, particularly those who have historically been unable to access credit under sustainable market conditions. It also aims to prohibit unfair credit and credit-marketing practices and to protect the consumers of credit.

Kelly-Louw (2008).states that although the Act applies mainly in situations where the consumer in a credit agreement is an individual (a natural person), certain parts of the Act also apply to credit agreements where the consumer is a company, a close corporation, and a partnership. In the case of a trust where there are three or more individual trustees or any other association, irrespective of whether or not it is registered in terms of any Act, it is still subject to the National Credit Act.

The National Credit Act is a relatively new legislation which came into being as a replacement of quite a number of statutes. According to Kruuse (2012), one of the statutes that were replaced by the National Credit Act is the Usury Act 73 of 1968 and the Credit Agreement Act 75 of 1980. Factors cited as reasons for replacement was fragmented and outdated legislation, reckless behavior by credit providers, high cost of credit, ineffective consumer protection as far as credit grants are concerned as well as exploitation by micro-lenders and debt collection were some of the reasons indicated.

The purpose of the National Credit Act according to the Government Gazette (2006)is to promote and advance social welfare. The introduction of the Act is meant to eliminate excessive indebtedness of the consumers. The Act does protect the South African consumers against reckless credit. It is stated that the Act sets out requirements for advertisement, so that consumers are not misled, advertisements are not fraudulent or does not carry deceptive information. The Act is also made in a way that does not allow the credit providers to give credit without checking the consumers' ability to take on further loans as it can cause consumers to be over indebted. Under this Act, consumers must be made to fully understand the credit agreement before signing it.

According to the NCR (National Credit Regulator (2008); the impact on credit providers has two aspects. The first one is the financial impact of compliance to the act being significant in direct and indirect cost terms. The process that needs to be followed from granting the credit until the stage of recovery have become complex to the credit providers. The introduction of the National Credit Act has constrained the provision of credit and it has also led to the capping of interest rates.

## **1.5. RESEARCH DESIGN AND METHODOLOGY**

### **1.5.1 Research design**

Research design is a preliminary plan for conducting research (Cant *et al.*, 2005:46). According to Cooper and Schindler (2006,192), a research design is the plan and structure of investigation which is put in place so that it can be followed to obtain answers to research questions. Cant *et al.* (2005) point out that a research design provides the “glue” that holds a research project together.

In this study, a qualitative method was used through interviews with the respondents to establish the impact of the New Credit Act on the performance of retailers in Sasolburg.

### **1.5.2 Research Methodology**

#### **1.5.2.1 Target Population**

Hair *et al.* (2010:328) state that a population is an identified group of elements about which inferences can be made. The population for this study consists of all retailers in Sasolburg.



### **1.5.2.2. Sampling frame**

Bradly (2009:188) pointed out that the sampling frame includes different types of the same sources. The sample was randomly drawn from the FezileDabi Chamber of Commerce's directory as a sampling frame. There are forty (40) retailers operating within the boundaries of Sasolburg. A sample size of twenty five (25) of retailers was used as it represents 63 percent of the total population, which is representative of the total population. According to Macorr (2006), the larger the sample, the more sure the researcher can be that the answers from the respondents truly reflect the opinion of the population. It is further argued that when determining a sample size, it is safe to use a worst-case percentage (50%). It is therefore safe to go beyond 50%.

According to Webster (2002), sampling is the act, process or technique of selecting a suitable sample or a representative part of a population for the purpose of determining parameters or characteristics of the whole population. Denscombe (1998:118) and White (2005: 119) concur that non-probability sampling allows the researcher to use subjects who happen to be accessible or who may represent certain types of characteristics. Purposive sampling, also known as judgmental, selective or subjective sampling, is a type of non-probability sampling technique. Non-probability sampling focuses on sampling techniques where units that are investigated are based on the judgment of the researcher (Leedy&Ormrod, 2001:219). This type of sampling method offers the research element in the sample frame and equal opportunity to be selected by the researcher for the purpose of the study.

### **1.6 Limitations of the study**

The limitations of the study include those aspects that may have a constraining impact on the study. In the case of this study, the limitations encountered were that most of the participants were not be willing to divulge some information, especially information relating to marketing, sales and profitability. A further challenge was that the access to some information was difficult to obtain as it can only be sourced from their head offices, especially chain stores.

## 1.7 Demarcation of the study

The study was conducted in Sasolburg in the Free State Province of South Africa. Only retailers operating in this area formed part of this study.

## 1.8 Ethical considerations

It is always important to be ethical when dealing with information that affects the respondents. This will ensure that the respondents can feel free to give the information which a researcher needs. In this study, the information was treated as confidential, and it will not be used for any other purpose other than that of the research.

## 1.9 Conclusion

It is evident from the above information that the introduction of the National Credit Act brings a positive contribution on the side of consumers. This is because of the fact that, should it be implemented diligently, the consumers will no longer be indebted, and as a result, there will be fewer bad debts on the side of the retailers. It is also important to note that as much as there are enough positive aspects being brought by the implementation of NCA, there are some unintended consequences on the side of retailers. These consequences need to be thoroughly investigated in order for retailers to come up with strategies to overcome them.

## 1.10 CHAPTER OUTLINE

The study is organised into five chapters

- **Chapter 1** is an introduction to the study including the problem statement and objectives of the study.
- **Chapter 2** presents a review of literature related to the study.
- **Chapter 3** presents the research methods, techniques and approaches applied in the empirical study.
- **Chapter 4** presents the analyses and interpretation of data.

- **Chapter 5** presents the conclusion and recommendations. Suggestions for possible areas of further research in this field are also made in this final chapter.

## CHAPTER 2 LITERATURE REVIEW

### 2.1. Introduction

The preceding chapter (Chapter 1) provided the introduction to the study. The chapter has highlighted the problem statement, research objectives, scope of the study and the research methodology employed in the study.

Chapter 2 starts by placing the retail industry into perspective in South Africa and by discussing the definition of retail, amongst others. The other main aspects discussed in this chapter include an overview of the South African retail industry, the situation before the introduction of the National Credit Act, the purpose of the National Credit Act as well as stipulations of the New Credit Act which credit providers or retailers are expected to consider as they extend credit facilities to their customers, as well as the positive and negative impacts of the Act. The discussion will mainly focus on the retailers as the point between wholesalers and consumers.

In the distribution channel which consists of the producers, wholesalers, retailers and consumers, retailers are some of those affected by the implementation of the National Credit Act of 2007. The retail trade as an industry can simply be defined by making use of the classification from the Standard Industrial Classification (SIC) from Statistics South Africa (Stats SA, 2010). It falls under division 62 of the SIC. This is said to include the reselling (sale without transformation) of new and used goods to the general public for personal or household consumption or use by shops, departmental stores, stalls, mail-order houses, hawkers and peddlers, consumer co-operatives, etc. Establishment that are categorized under this division would include amongst others, those that sell to the public, from retail products, such as type writers, stationery, paint or lumber (Wole, 2010).

The retail industry is also recognized for its contribution as part of the distribution channel and for its role in the overall economy of the country. There exists consensus that retailers are one of the important role players in the distribution channel in as far as the flow of goods from producers to the consumers is concerned (Wason, 2010). An economic environment that is stable is conducive for consumers spending more money, which then raise the value of retail sales. According to Jansen (2010), the industry has made a big

contribution to the economy as well as to the public. The industry also offers employment opportunities, especially to the young people of this country (Knutson, 2012). It is therefore important to note that although the industry has various challenges, opportunities do exist for retailers' prosperity, and as a result, the industry has distinguished itself as one of the most important industries in the South African economy.

The industry has not been without its challenges as mentioned before. Some of the challenges experienced by most retailers include increased operational costs and skills shortages (Durham, 2012). It is however argued that the developed infrastructure and institutions in the country make multinational companies view the country as a hub where they can establish and expand business to the rest of the sub-Saharan African region (Henry, 2012). This has always given retail industry hope and as such more positive results were experienced by the industry.

## **2.2. An Overview of the South African Retail Industry**

Mametse (2007) argues that South Africa has seen the retail industry grown from strength to strength over recent years. The industry is mainly comprised of individuals that are involved in the selling of finished products to the final users or consumers. An increasingly large number of businesses have entered the industry; both formal and informal retail traders have experienced growth over the years (Mametse, 2007). As mentioned before, the industry is mainly made up of individuals and companies that are engaged in the selling of finished products to end user consumers.

The retail industry grew in prominence as a result of what has been happening in the economy of the country. Given the fact that the South African economy is evolving to one that is consumer driven, as mining and manufacturing decline, industry expansion falls in the hands of retailers (Morris, 2009). The decline in manufacturing also makes the country to be globally uncompetitive as it is more dependent on imports. The country continues to experience growth in terms of malls and shopping centers. According to was on (2010), this increasingly rapid development (of malls) has in recent years seen not only cities expanding the retail areas, but also some townships have had malls and shopping centers being developed. Improved and modern infrastructure in the country has allowed for more rigorous economic activities. Data taken from Urban Studies (2010) quantifies the size of

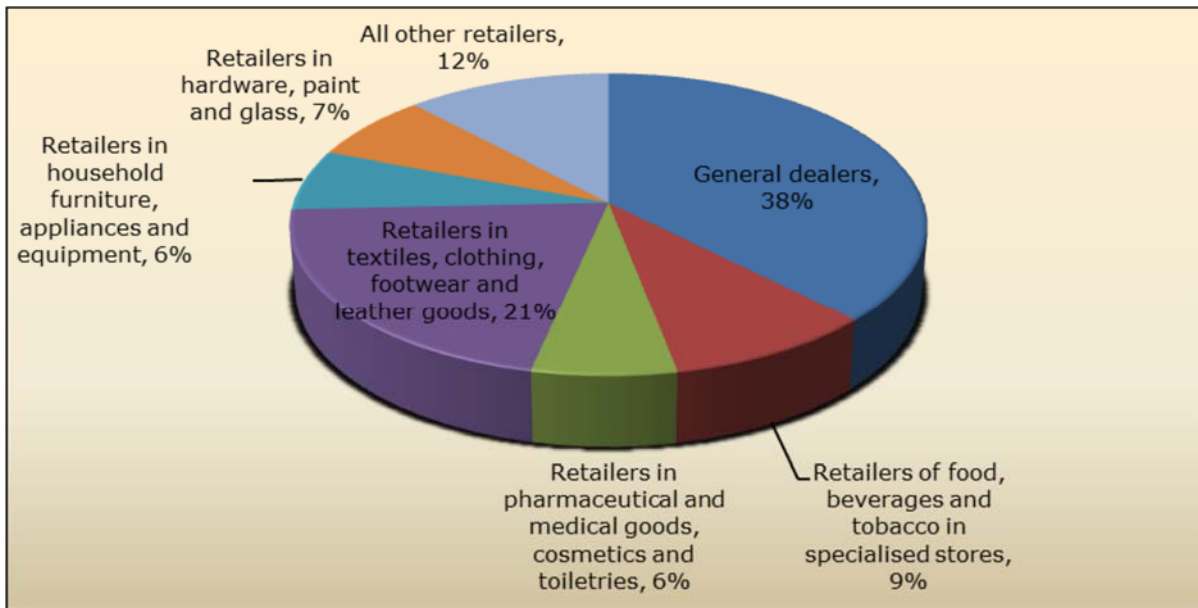
the retail and the number of centers for the country. It is stated that in the year 2002, about 5 722.846 square meters of the land in the country was occupied by the retail trade industry. The area occupied included 239 shopping centers. It is further stated that the industry grew to occupy 184 818 073 square meters of land by 2010. This is as a result of an increase in the number of shopping centers (1443). To date, the size of shopping centers in South Africa ranges from 1 000 square meters to almost 150 000 square meters. The retail industry in South Africa compares fairly well with the rest of the world. Various platforms are used to measure and monitor the state of retail around the world such as Global Entrepreneur Monitor.

According to the Global Retail Development Index (Global Retail Index: 2011), South Africa was ranked 26<sup>th</sup> out of 30 developing countries with a score of 42.2. This is seen as deterioration from the 24<sup>th</sup> position of 2010 (41.7). It is further stated that though the country's ranking has dropped, the (GRDI) score has improved. The GRDI annual publication ranks the top developing countries for retail expansion internationally where countries are ranked on a 100 point scale. A higher ranking translates to a greater urgency for retailers to enter specific country. The GRDI scores are based on country and business risk, market attractiveness, market saturation and time pressure variables. South Africa scored 46.9 percent on market attractiveness, 89.3 on country and business risks, 15.2 on market saturation and 17.2 on time pressure. At the top of the rankings was Brazil with a GRDI score of 71.5.

### **2.2.1. Major Retailers**

South Africa retail companies compare well with other retailers globally. Major industry players in the country include Edcon Pty, Pick 'n Pay Holdings Ltd, Shoprite Holdings Ltd, Spar Group Ltd, Woolworths Holdings Ltd and Massmart Holdings Ltd. 2011 According to Global Retail Index (2011), the country's top five retailers were ranked in the global top 250 retailers. Shoprite was ranked 92<sup>nd</sup> in the retail industry (Pieterse, 2009).

**Figure 2.1: Retailers' contribution per sector.**



**Source: National Credit Regulator (2012)**

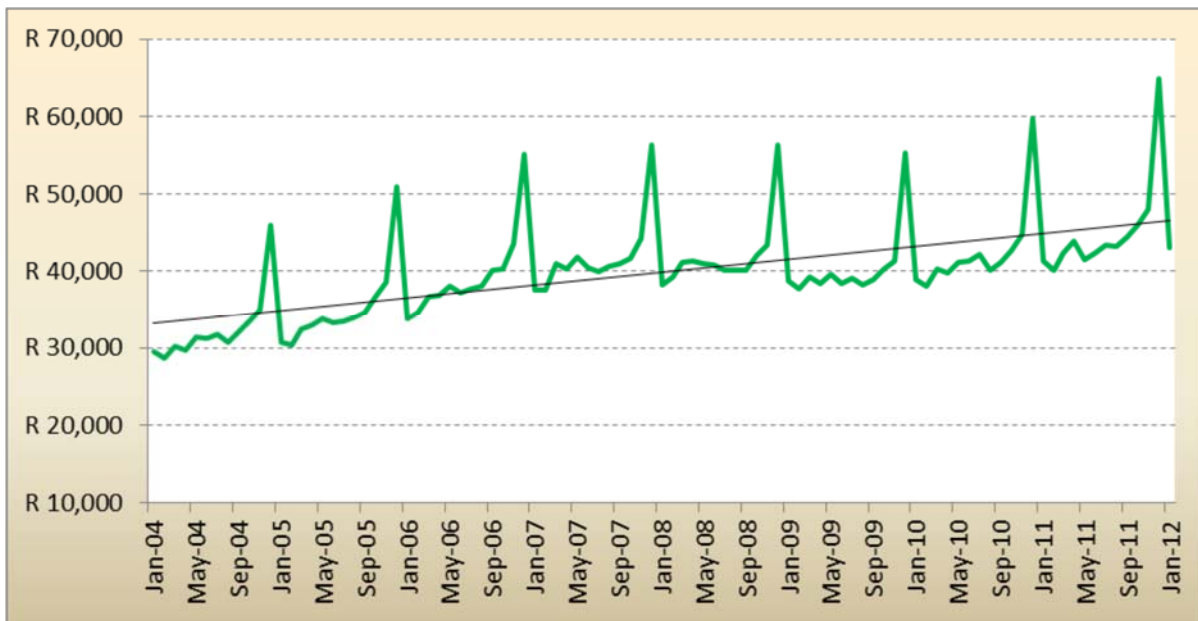
Figure 2.1 indicates the distribution of retailers according to sectors. According to the figure, retail in household furniture, appliances and equipment contribute 6 percent of the total retailers' sales. Retailers in hardware, paint and glass are accountable for 7 percent of the total industry, retailers in pharmaceutical and medical goods, cosmetics and toiletries. Figure 2.1 further indicates that the retailers in food beverages and tobacco in specialized stores are accountable for 9 percent of the total industry while retailers in textile, clothing, footwear and leather goods are accountable for 21 percent. General dealers are accountable for 38 percent and all other retailers are responsible for 12 percent. A closer look at the above statistics will indicate the distribution of retailing services throughout different industries.

The retail sector has benefited through efficient distribution of goods to urban centers, townships and rural areas (Gregorie, 2014). The shopping centre development has shifted from being concentrated in inner- cities to suburbs and rural areas.

### 2.2.2. Retail Performance

Figure 2.2 illustrates the retail trade sales figures and the annual growth rate for the years 2004 to 2011.

**Figure 2.2 Retail sales figures**



**Source: Retail Sales Contribution (2013)**

Retail trade sales were increasing between 2004 and 2008 from R389.8 billion to R504 billion. The growth rate reached its peak in 2006 at 11.9 percent before diminishing to negative 3,7percent in the year 2009. The peak in the 2006 growth rate was in the second half of the year. The major contributor to the 2006 increase in retail trade sales were general dealers, other retail trade sales were general dealers, other retailers in textile clothing, footwear and leather goods.

According to Erwee (2009), after 2006, retail sales growth decelerated due to the hike in the interest rates, which made overall economic conditions tougher. The implementation of the National Credit Act, no 34 of 2005 (NCA) in 2007, reduced the ability of the households to access credit, thereby providing the further impetus behind the slowdown of retail sales in 2008. The 2009 growth rate shopping malls where retailers are accommodated suggests that the retail industry contracted because of the adverse



economic conditions which were brought on by the global financial crisis, which led to an increase in interest rates.

According to the Financial Review (2014), South Africans are characterized by high household debt, meaning that the majority of the people finance most of their purchases through credit. It is further stated that whenever the prime interest rate is high, retail sales are lower. This suggests that consumers shop less when interest rates are high, causing the retail sales to decrease. Most of the consumers do buy goods and services from retailers.

Retailers are some of the prominent users of credit facilities, meaning that they do grant credit to many of their customers. The growth of the retail as an industry or a number of retailers has seen a rise in the number of institutions that grant credit to the consumers (Scholtz *et al*, 2008).

In any trade, there is always a possibility of two types of transactions. There are consumers who will buy their goods or services with cash and there are those who will buy on credit. South African retailers do sell their goods and services on credit as well as on cash basis, so the growth of the retail industry includes a number of those retailers selling their goods and services on credit. The credit system has been identified as a catalyst of the industry growth, which also leads to the movement in the economic growth (Morris, 2009).

Stoop (2007) indicates that when a credit system first came into place, it was easy for consumers to access credit, and as a result, the global economy boomed before the National Credit Act came into effect. It is however stated that the economic boom came at a price as there was an unprecedented number of individuals and businesses that became over-indebted.

As many people started to enjoy buying on credit, many consumers started to rely on credit for their purchases. According to Burton (2008), consumers' reliance on credit has become an accepted part of everyday life and directly linked with the desire for goods in a competitive society. It is further argued that individuals had to choose between accepting the immediate benefits of consumer credit and limiting choices when credit is not

available. It would seem that the majority of consumers would choose the former options, since the market for credit has rapidly expanded in most advanced societies.

Hazel (2002) argues that credit transactions are necessary where a person seeks to obtain a product or service for which the person cannot, or chooses not to pay in cash. Buying things on credit enables people to have use of a product or service, at a cost presented. Consumers would generally not be able to purchase items such as houses or cars if it were not possible to obtain finance. Credit thus unlocks a diverse range of opportunities, some of which are economic, others educational and others simply improvement of standard of living. According to Klein (2009), retailers came to realize that credit was a powerful selling tool. A number of departmental stores started to experience high level of sales success (Jeacle & Walsh, 2002). The sales generated by these retailers included both cash and credit. The credit sales started to grow as reported by the South African Reserve Bank.

According to Funeka (2012), the South African Reserve Bank indicates that the household debt in South Africa amounts to R1.1 trillion and it continues to grow. The report continues to indicate that on average South Africans use 78 cents out of every R1 to service their debt.

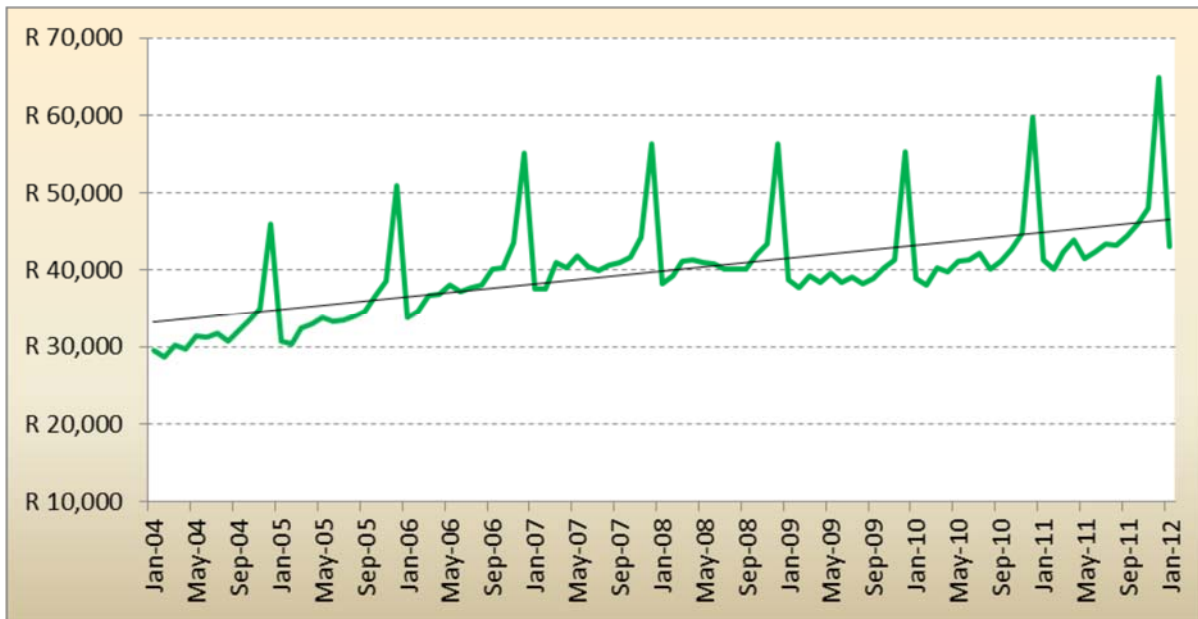
The report analyzing the quarterly data of the South African consumer credit market in terms of the National Credit Act which came into effect in 2007, indicates that the total outstanding gross debtors' book for the quarter ended September 2012 was R1.39 trillion, representing growth of 20 percent for a quarter. The number of accounts increased by 0.28 percent for the quarter ended September 2012. The rejection rate of applications was 53.60 percent for the quarter ended September 2012 when compared to 50.84 percent for the previous quarter (National Credit Regulator: 2012). The report continues to indicate other significant trends:

- The value of mortgages granted increased by 6.7 percent quarter-on-quarters from R26.94 billion to R28.76 billion;
- Secured credit which is dominated by vehicle financing, showed an increase from R33.03 billion for June 2012 to R35.16 billion for September 2012 (a quarter-on-quarter increase of 6.45 percent);

- Unsecured credit agreements increased from R25.80 billion for June to R25.97 billion for September 2012 (a quarter-on-quarter increase of 0.67 percent);
- Credit facilities which consists mainly of credit cards, store cards and bank overdrafts increased by 7.01 percent quarter-on-quarter from R17.7 billion to R18.48 billion, and
- Short-term credit showed a quarter-on-quarter decrease of 12.13 percent from R1.53 billion to R1.34 billion.

A review of recent statistics provides a clear picture of the changing landscape of consumption and indebtedness in South Africa. The South African Reserve Bank (SARB:2009) reports that total household consumption expenditure measured at current prices, increased by a staggering 375 percent between 1994 and 2008; even when measured at constant prices, household consumption expenditure has grown by as much as 78 percent between 1994 and 2008. Levels of indebtedness, measured by the South African Reserve Bank as the level of household debt relative to household's disposable income have shown similar trends. Using the measure, levels of indebtedness, measured by the South African Reserve bank as the levels of Household debt relative to household disposable income, have shown similar trends. Using this measure, levels of indebtedness are shown to have increased by 44 percent between 1994 and 2008.

**Figure: 2.3: Level of indebtedness over the years**



**Source: National Credit Regulator (2013)**

Hurwitz and Luiz (2007, 108) also note a significant increase in levels of indebtedness between 1994 and 2008. They report that the debt owed to retailers on professional service and on cheque accounts as well as credit cards, has increased by 350 percent, 125 percent and 100 percent respectively during this period.

Prinsloo (2002:63) observes that the increased level of domestic spending can provide a very positive stimulus for economic growth, but not when it occurs at the cost of household savings, which is usually the case when there is a concurrent increase in both consumption and credit usage. This implies that it would be preferable that consumers consider saving than spending excessively.

### **2.2.3. South Africans' attitude towards debt**

Early in 2009, the National Credit Regulator reported that as many as 17 million people, which are 40 percent of the total population, were deeply indebted. Factors that have contributed to the indebtedness are:

- The introduction of store cards by retailer outlets during the mid-1990's which led to a slow and steady increase in indebtedness between 1994 and 1996, reaching an all-time high of 61%;

- More stringent monetary policies, which resulted in prime lending rate rising from 19.5 in 1996 to a high of 25.5 percent in 1998, kept indebtedness in check during this period;
- Rapid growth in levels of in disposable income during 1992 to 2007 tempered demand for credit during these years; and
- Escalating house prices which grows around 20 percent to 30 percent per annum between 2004 and 2005 led to significant increase in mortgage credit.

In light of the above, the legislation that protects debtors was directly or indirectly aimed at preventing the challenges of overspending had to be developed and has now become an international phenomenon, though differing from country to country, depending on local needs (Jeacle& Walsh, 2002). In regulating consumer credit (Kelly-Louw, 2011) the South African government came up with legislation as mentioned before, the National Credit Act were introduced to replace the Usury Act. The consumer credit legislation consisted mainly of the Usury Act and the Exemption Notices of 1992 and 1999, as well as the Credit Agreements Act 74 of 1980. It is further explained that the Usury Act covered money lending of up to R500 000 and only capped the interest rates for these loans. At the time of its repeal, the cap was at 26 percent per annum. On the other hand, the Usury Act provided that basic disclosures had to be made to the consumers (the borrowers). However, it was only selective disclosure and it happened that not all costs were disclosed. The Act was rather complicated and often misunderstood.

According to the National Credit Regulator (2008), the policy proposals were informed by the consumer protection standards and regulatory approaches in countries that are amongst the leaders in this area of regulation. Prior to the finalization of the envisaged consumer credit legislation and its presentation to parliament, government gathered an international reference group to comment on its merit and weaknesses (Kgarabjang, 2011).

According to Merc (2008), the Credit Law Committee assessed the then consumer credit legislation, namely the Usury Act, the Credit Agreements Act, certain provisions of the Magistrates Court Act, as well as the Common law. The committee also researched other consumer reforms in Europe as well as in other countries. It was recommended by the

same committee that the Usury Act (including the 1999 Exemption Notice) and the Credit Agreement Act should be replaced.

Given the above proposed changes to the existing legislations governing the credit agreements, the National Credit Act was conceived. It is therefore necessary that attention is given to the national Credit Act for more understanding.

#### **2.2.4 THE NATIONAL CREDIT ACT**

According to Smallbone (2009), the National Credit Act came into operation in three different faces with a large part introduced on 1 June 2006. The main sections of this part of the Act included those that dealt with the application of the Act, the establishment of the National Credit Regulator, the registration requirements for credit providers, debt counselors and credit bureau and the registration procedures. Other parts were introduced in September 2007, while the last parts of the National Credit Act to be introduced were introduced in 2007.

The National Credit Act was introduced to replace the existing acts which had their specific purposes, but the purpose of the National Credit Act had to be explained fully to those who are affected by it, and this would be all the retailers who sell their goods and services on credit. This would include consumers who buy their goods and services on credit. Understanding the Act would help those affected by it when it comes to compliance as well as knowing their rights and duties.

The National Credit Regulator (2006) states that the purposes of the National Credit Act are to promote and advance the social and economic welfare of South Africans; encourage a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry; protect consumers by addressing and preventing over-indebtedness; and provide direct and indirect mechanisms for preventing and resolving over-indebtedness. A similar objective of the act is to assist in consumer education. In order to align new consumer credit measures with this purpose of consumer protection, the Act introduced measures that aim, directly and indirectly, at resolving the over-indebtedness of South African consumers.

In order to achieve the above mentioned objectives as stated by the National Credit Act, there are stipulations that every service provider should adhere to, and the following discussion will pay attention to those stipulations.

Retailers who sell their goods on credit need to understand to whom they are granting credit. Therefore, prior to entry into any new credit relationship, a credit provider must become familiar with an individual or organization of sound repute and creditworthiness. In particular, strict policies must be in place in order to avoid granting credit to consumers who will not be able to pay back the loans (Roger, 2010).

It is further emphasized that in approving borrowers or counterparties for the first time, consideration should be given to the integrity and reputation of the borrower, as well as their legal capacity to assume the liability (Smith, 2007). Once credit granting criteria have been established, it is essential for a bank to ensure that the information it receives is sufficient to make proper credit granting decisions. This information will also serve as the basis for rating the credit under the bank's internal rating system.

According to the National Credit Act 34(2005), a service provider is not allowed to enter into a credit agreement without firstly, taking reasonable steps to assess the consumer's understanding of the risks and costs of proposed credit, and the latter's rights and obligations under a proposed credit agreement. It is during the interview between the service provider and the consumer where a consumer is expected to give the information that is truthful and respond truthfully.

The National Credit Act (34, 2005) emphasizes a thorough assessment of consumers and one of the first steps to achieve that would be to verify the information that is supplied by the consumer. According to the act, information on credit applications must be verified in order to ensure that it is correct, current and complete. A good place to begin is the place of employment to verify that the applicant is employed, and that income and time on the job have been reported. According to the National Credit Regulator (2008), bank references should also be verified. It is said that while the laws restrict the amount of information that banks can disclose, checking on this information can protect the retailers against consumers who are fresh from previous fraud and may give retailers some indication of the applicant's ability to pay. Most banks will confirm the existence of an

account and disclose a broad idea of the average balance. The bank may also indicate whether or not the account has been satisfactory.

The National Credit Act (2005) states that if it is found that a credit provider did not conduct an assessment or the customer has not been made to understand or the service provider cannot confirm that he or she did everything in his or her power to assist the consumer to understand the terms and agreement, or did not conduct an assessment at all, the agreement will be deemed reckless and the court may set that particular agreement aside.

Given the above provisions by the National Credit Act, it is possible that there could be consumers who may want to abuse the provisions of the act. In order to prevent consumers from abusing the reckless lending provisions set out in the National Credit Act, the National Credit Regulator (2012) has stipulated that the retailer is not guilty of reckless lending if the credit provider or retailer establishes that the consumer failed to fully and truthfully answer any request for information made by the retailer as part of the assessment required by this section. A court or tribunal determines that the consumer's failure to do so materially affected the ability of the retailer to make a proper assessment. Any retailer who enters into a credit agreement with a consumer will have to be careful of how the affordability assessments are conducted so that they are not found to be falling short of the required standards. This will also assist retailers in terms of not finding themselves into legal battles with consumers as well as the National Credit regulators as it can be costly.

It is therefore concluded that the consumer cannot benefit from the reckless lending provisions by not disclosing all financial obligations. If the consumer failed to disclose all the relevant information to the retailer when he or she applied for the credit, that credit agreement will not be deemed reckless lending.

The implication of the prolonged time that needs to be spent on consumers in conducting assessment as well as interview time could delay the transaction.

One of the most important aspects to consider when granting credit as a retailer is an affordability assessment. According to the National Credit Regulator (2009), it is



prescribed that a service provider has to conduct an affordability assessment. It is necessary that the consumer has the ability to meet the obligation on time.

In view of the above, it is therefore clear that the affordability assessment costs a retailer time as opposed to how it used to be done before the introduction of the National Credit Act. It is therefore understandable when Chipeta (2012) states that there is more time delays when processing a new credit application under the National Credit Act than previously.

Chipeta (2012) maintains that credit approval turnaround times were slowing down significantly leading to complaints from consumers, but also from some institutions such as the bond originators and other retailers with real interests in quick turnaround in particular transactions. The delay in the conclusion of a credit agreement as stated above can be due to time that is spent on the amount of paperwork as required by the new National Credit Act, including the time it takes for a potential consumer to comprehend the terms of agreements.

Prior to the National Credit Act, retailers would do business with large numbers of consumers as compared to what they are experiencing now. The assessments and other sifting criteria have reduced the number of consumers who qualify to do transactions. In the case of retailers dealing with mortgages, Sovoiu (2009) states that lending has notably dropped since the implementation of the National Credit Act. As a result of this, those products that can only be sold on credit have now become less attractive to the retailers.

In addition to the above, retailers were forced to consider the issue of risk reduction. According to Popelarz (2007), investors and financial services providers perceive the low-income personal finance-market to be high risk with high levels of uncertainty. These perceptions are reinforced by a number of factors including the fact that the contract enforcement is costly and time consuming, with high level of uncertainty about the likelihood of success.

Another factor as pointed out by Korneygay (2008) is that weaknesses in consumer protection, in compliance monitoring and in regulatory enforcement exacerbate perceptions of risk and uncertainty. These weaknesses create the perception of an

undesirable market characterized by predatory practices in the lower income market and concerns about arbitrary and ad-hoc government intervention. Although the process that results in risk elimination on the side of a credit granting retailer is essential in terms of minimizing losses, it has its share in prolonging the duration of the credit agreement processing. Kelly-Louw (2011) states that stricter credit assessment criteria resulting in a lesser amount of consumers not being able to repay their debts, ultimately resulting in bad debts' write off costs for the credit provider. It is good for the net profit of the business as the less the provision for bad debts the more the net profit for the business. It is also good in that it reduces the debt collection costs on the side of a retailer. Another aspect to consider when giving credit to a consumer is the extensive credit bureau information, which gives the credit providers more insight into the consumers' total debt information. The amount of information that is available from credit aid bureau assists business to obtain genuine information about the service provider as the information is reliable and helps a credit provider in making a decision based on the credible information.

The importance of the above information in as far as granting credit by retailers cannot be over emphasized more, but it is also important to note that it has its share in delaying a transaction that could have moved a little faster than when all of the above did not have to be taken into account.

### **2.2.5. Marketing under the National Credit Act**

The National Credit Act has also affected the manner in which goods and services that are sold on credit are marketed, advertised and sold. This needs to be looked at carefully as it affects the manner in which the business, goods and services are made known to the consumers out there.

According to the National Credit Regulator (2010), consumers are also protected against certain advertising practices. The advertisements of the availability of goods and services on credit must be done within the confines or ambit of the law. There is prescribed information which such an advertisement must contain. In general, the National Credit Act (34,2005) prescribes that the advertisement must not be misleading, fraudulent or deceptive and must not contain any prohibited statement. Moreover, any advertisement

concerning the granting of credit, the interest rates as well as other cost of credit must be stated in the specific forms as prescribed by the National Credit Act.

The results of the above assists consumers to understand what is being advertised as well as the total costs involved, and it promotes genuine information on the information that information which is used to convince a consumer to purchase the goods and services. The advertising of goods and services that is sold on credit is restricted as a result of the regulations.

#### **2.2.6. The effects of restricted marketing on retailers**

According to Nieuwenhuizen (2008), the importance and relevance of marketing cannot be overemphasized. It is further stated that marketing is very important for any business, and must be managed properly for the business to be successful. Marketing is also seen as the function that generates income for the business in order to meet its obligations and to provide funds for growth and expansion. Given the above changes that have been brought about by the National Credit Act, it is clear that any retailer whose marketing strategies have been limited by the Act may have to find new strategies that may not contradict with the act, yet remains effective and successful.

Evans (2012) states that if any retailer happens to find him or she trading in an environment where there are restrictions in selling, advertising as well as marketing in general, it is even harder to experience growth and success. This is further confirmed by Sovoiu (2009) who argues that restricted marketing can promptly remove a product or service out of the market with an adequate trend, if it is not properly attended to.

The banking sector has also experienced its own share of the impact of the National Credit Act in its retail department. The National Credit Regulator (2012) has found that mortgage lending has notably dropped ever since the implementation of the National Credit Act no.34 of 2005. It is further stated that mortgage lending has become less attractive to credit providers. The reason for the credit market being less attractive is the consequences of complying with the National Credit Act.

When it comes to a retail bank that sells loans, there are restrictions in place which are meant to protect consumers also. According to the Ombudsman for Banking Services

(2015), certain practices of agents canvassing for loans are now unlawful or restricted, for example, door-to-door selling, canvassing at work places and homes without an invitation. It is further stated that credit facilities may not be automatically increased. It is for that reason that a credit facility should be proposed to a consumer, a quote which is valid for five (5) days, with all the details about the loan should be given to the consumer. This is done so that consumers can shop around and compare prices.

Given the above measures, those retailers in the banking services of the financial service sector may have to contend with an additional regulator. A retailer with a diversified product offering will have three regulators, namely the South African Reserve Bank, the Financial Services Board as well as the National Credit Regulator. Although it is important that regulators co-operate in order to stream line and agree on the requirements in order to prevent unreasonable supervisory reporting, it is not certain that such level of agreement will be put into place. As the situation stands, it leaves the banking sector being highly regulated and this means that the retailers in this particular industry have to always be careful in everything they do, so that they can remain compliant (Pieterse:2009).

### **2.2.7. Requirements of service providers**

According to the National Credit Regulator (2012), all registered credit providers must comply with the reporting requirements as set out in the National Credit Act. In terms of Sections 62-68, the following documents should be submitted:

- Compliance report: this report must be completed and submitted within six months from the credit provider's financial year-end;
- Statistical return: this report should be completed by submitting the prescribed Form 39 on a quarterly basis or annual basis;
- Annual and financial operational return: the prescribed Form 40 should be completed and submitted annually within six months to the financial year-end of the credit-provider;
- Assurance engagement: this is supposed to be completed annually and submitted within six (6) months of the financial year end in accordance with the published guidelines; and

- Annual financial statements: the annual financial statements must include the auditor's financial officer's report and should be completed annually and submitted within six (6) months of the credit provider's financial year-end.

Given the above number of reports that need to be compiled by the experts, the National Credit Act seems to have brought with it costs that comes with compiling the above mentioned reports. This may require the retailers to hire knowledgeable and experienced people who will be able to compile the required documents in order to produce the reports as required by the National Credit Act. Some of these reports may need retailers to put systems together which are meant to collect information as transactions take place during the year in order to enable those who will compile the report to do it with ease.

It is a common practice that each time a credit facility is offered to a consumer, there will always be interest rates and in most cases, fees and charges that goes with a transaction. The National Credit Act (2005) prescribes that there must be a maximum interest rate which a retailer providing credit can charge, depending on the type of credit and when the credit was granted. The rate in most cases is based on a formula which is dependent on the South African Reserve Bank repurchase rate (Repo) at the time that the credit was granted. Given what is prescribed above, it means that there are limits in terms of the revenue which the retailer can derive from a particular transaction with a consumer. This is further caused by the limit placed on fees charged when offering credit. The limitation of fees charged as well as an interest rate ceiling limit the profit margins for the retailers, and thus affects the revenue negatively.

The National Credit Regulator (2005) prescribes that a consumer has a right to receive any documentation in an official language that a consumer understands. The fact that a consumer will need to have documentation in the language of his/her choice may mean that if the documents that are available are not in the language of that a particular consumer understands, an interpreted version may have to be organized for the purpose of compliance, and this may cost more money than it would.

Similarly, the manner in which advertisements are done have also been regulated. Most consumers are wary about advertisements since they come into contact with them every day. They also regard it as intrusive and are skeptical of marketing messages. It is further

recommended that retailers who do advertise should make sure that they do not use false or outrageous claims. These makes a good headline and grab attention, but when it is discovered as fraudulent, the resulting negative word of mouth will have the potential to destroy the brand of the retailer (Mametse, 2007).

The content of the advertisement is determined by the objective for which the advertisement is designed. Brits (2012) states that, no matter the nature of the business, having a solid marketing plan behind the advertisement is essential. If a retailer fails to advertise products and services effectively, consumers will not be effectively attracted.

According to the Government Gazette (2005), the National Credit Act prescribes that if an advertisement refers only to the availability of credit, and no reference is made to costs, interest rates or monthly instalments, no further disclosure of cost of credit, interest rate percentage or monthly repayment is needed. It is further stated that if an advertisement discloses only the interest percentage of the maximum and minimum rates where a range is applicable, and no reference is made to the costs of credit, no further information is needed, but must indicate that an initiation fee and service fee will be charged.

If an advertisement other than the type mentioned above discloses a monthly installment, or any other cost of credit, the advertisement must also disclose the following information (The Department of Trade and Industry, 2005):

- Installment amount;
- Number of installments;
- Total amount of all installments, including interest, fees and compulsory insurance;
- Interest rate percentage; and
- Residual or financial amount payable.

The above specifications on the advertisements indicate that retailers can no longer put the information on the advertisement as they used to do. Some of the information required by the National Credit Act may not necessarily be what the advertising retailer would have preferred to put. The restrictions as well as the words not to be used may limit the power of that particular advertisement, and thereby limiting the impact of an advertisement. As the advertisement loses its appeal, it may also attract lesser customers. The Department of Trade and Industry (2005) indicates that the following types of phrases should not be

used as they mislead consumers into believing that they are eligible for credit without a credit check, when the credit providers plans to do a further assessment once a consumer has accepted the offer:

- No credit checks required;
- Blacklisted consumers welcome;
- Free credit;
- Cheap credit;
- Affordable credit; and
- Low cost credit.

It is the researcher's view that the above mentioned words were common in most advertisements where goods and services to be sold on credit were advertised. If those were the words used to catch the attention of the clients and ultimately leading to consumers buying, the consequences of banning them may result into decreased sales.

### **2.2.8 The Expected Risk of the Legislation for Retailers**

Retailers will inevitably change the credit products or services and lending approach towards clients that are seen to be likely to accumulate high debt servicing burdens. Risk-averse lenders may decide to avoid any market segment in which there is thought to be a risk of clients taking on high-debt burdens. This implies that the "high risk clients" would automatically be excluded from products offered by such retailers (National Credit Regulator, 2012).

The implication is that any borrower group where high risk lending is common would be excluded from conventional and low interest rate products. However, if the National Credit Register functions as it should, lenders will be able to rely on that information to decide about client's level of indebtedness and exclude the whole group.

### **2.2.9 Debt Counseling**

Introduction of appropriate mechanisms to prevent and penalize reckless lending should reduce further credit being offered to consumers who are already over-indebted. However,

there is still a need to make provision for some form of relief other than more extreme measures such as debt administration, for those who are unable to service their debts.

According to Steward (2010), if a consumer is in default of a credit agreement, the retailer must advise the consumer in writing and propose that the consumer refer the credit agreement to a debt counselor. No legal proceeding may be instituted against a consumer before the proper counseling procedures have been observed. It is further stated that the counselor will assess whether the consumer is over-indebted or not, and if so, will propose a debt re-arrangement. The debt counselor is not permitted to write the debt off as the consumer still has to pay the debt off. Until the debt is paid off, the consumer may not take on more debts.

The implications stipulated above would lead to a delay in terms of debt collection as the debt counseling part of the process is likely to add more days to the period it takes with the existing debt collection process.

The National Credit Regulator (2006) stipulates that in case where a retailer approaches the court to enforce a credit agreement, the court will consider whether due process has been observed and whether the credit agreement was reckless before making an order.

The National Credit Act like any other act will be amended as time moves. According to Debt Busters (2013), credit applications and enquiries are expected to rise, as consumers fail to meet affordability requirements and as a result, move from one retailer to the next. Knutsen (2012) further predicts that the amount of credit deals that are facilitated by retailers will decline.

Generally, a firm will have to intensify its collection efforts so as to collect the outstanding bills, especially in the case of customers who are financially less sound. These come with additional expenses of credit granting as the creation and maintenance of staff, accounting records, stationery, postage and other related activities are facilitated (Durhamlin, 2012).

In addition to the above, many retailers began to tighten their requirements in terms of granting new accounts, especially in the financial quarter of 2012 (Durham, 2012). This has led to performance indicators predicting the likelihood of deteriorating credit quality.



### **2.2.10. Repossession of Goods from a Consumer by a Retailer**

Repossession of goods by the retailer from a consumer who is unable to fulfill his or her payment obligations can only take place after all the steps and processes have been followed. The introduction and application of the National Credit Act seem to have affected the rate at which the goods are repossessed from those consumers who are failing to pay from them.

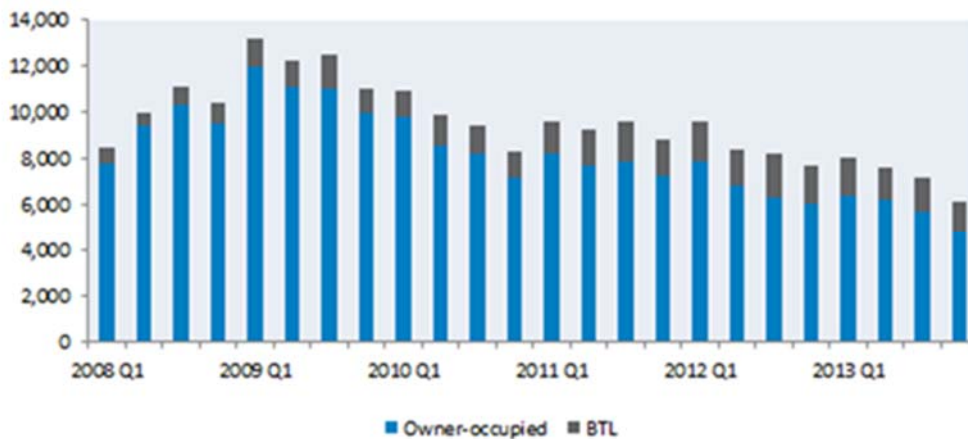
A number of repossessed properties seem to be in the decline. According to Brown (2014), the number and proportion of mortgages ending in repossession was lower in 2013 than in any year according to the latest data from the Council of Mortgage Lenders. At 28 900, the number of repossessed properties was 26 percent of outstanding mortgages. This compares with 33 900 repossessions and a rate of 30 percent in 2012. Repossession has been decreasing in their most recent peak in 2009 of 48900 (0.43%). The situation has been aided by the beneficial effect of effective arrears management as well as the application the National Credit Act.

More evidence from various sources indicate continuous decline in the rate of property repossession, and this could be an indication of the positives which the effective management of arrears by retailers as well as improved debt handling by the consumers.

As discussed earlier on, debt counseling has given both the consumer and the retailer an opportunity to correct a situation which could have ended with a consumer being blacklisted or losing the property that he or she bought. The same could have resulted into retailers losing the money which they could have recovered from the consumers had they followed the debt counseling and re-arrangements route.

As alluded to earlier on, the rate of repossession has been on the decline since 2006. Below is a graphic illustration, indicating the trend thereof.

**Figure 2.3. Mortgage in arrears**



Source: National Credit Regulator (2013)

It is further confirmed by Figure 2.3 above that mortgage arrears have also declined. As at the end of 2013, 1.29 percent of all mortgages were in arrears to 2.5 percent of the loan balance. As at the end of 2013, 28 700 mortgages (0.26 of all mortgages) were 10 percent or more in arrears, down from 29 200 at the end of the previous quarter and 28 900 at the end of 2012.

### 2.3 Conclusion

The National Credit Act was drafted and introduced to the credit market of South Africa in 2007. The primary aim of the Act was to create a fair environment which would ultimately protect both the consumers and retailers from situations wherein they could find themselves being disadvantaged by the transactions they enter into. In order for this Act to be of service to both parties as envisaged by its authors, more education was needed. This needed to be done so that they can fully understand the content of the Act in full, which would then enable them to implement and abide by it much easier.

The Act introduced new measures which would ultimately affect how credit transactions are entered into as well as the manner in which a retailer should handle consumers who are having difficulties in terms of paying their debts.

The manner in which the advertising and marketing of the products that will be sold on credit are executed has been revised, restricting retailers from advertising their products in

a manner that deceives the consumer, and in the end, consumers do not make decisions based on false information

The Act continues to prescribe that consumers' affordability be assessed and consumers to disclose the information truthfully and honestly, so that only those who can afford to pay are allowed to enter into the transactions. The above mentioned measures, which are aimed at reducing the levels of indebtedness among the South African consumers, were discussed in this chapter. However, for the retailers, the newly introduced measures have affected the manner in which they conduct their business. They find, among others, that the process of granting credit takes much longer than it used to and that the restrictions in terms of marketing as well as selling are unfavorable as they render them unable to operate as freely as they used to do in the past. All these measures have a possibility of reducing the retailers' sales as their advertising is restricted, and their personal selling affected. On the positive side, due to the introduction of the processes of debt counseling as well as the affordability assessments, not forgetting the disclosure of total costs, the bad debt book has been decreasing and the repossession rate has been on the decline. This is credited to the manner in which retailers are able to manage their debts as well as abiding by the Credit Act.

## **CHAPTER 3 RESEARCH DESIGN AND METHODS**

### **3.1 INTRODUCTION**

The preceding chapter has provided a literature review of the retail industry and much needed insights regarding the National Credit Act. Various aspects were covered in an attempt to provide an industry overview. A number of aspects that were introduced by the National Credit Act were also discussed along with the effects they have on the retailers. The effects of the said Act on the retailers' operations, sales as well as marketing were also covered.

Most importantly, the outlook for the performance of the retail industry in a number of aspects was analyzed and ways to improve the performance, while adhering to the National Credit Act were also explored.

This chapter presents the research design and methodology used in addressing the objectives set out for this study. According to Maholtra (2004; 73), the research design is a plan to be followed when executing a research project.

The chapter also outlines the steps and actions that were taken in order to ensure good validity and reliability of the research results. Similarly, the procedure that was used to collect, capture, and process and analyze the data was also discussed. Given the above, the following sections will be focusing on discussing the above mentioned aspects in full.

### **3.2. Research approach**

The research approach can be classified into two categories, namely, qualitative and quantitative research paradigms (Amaratunga *et al.*, 2002). Harrison and Reilly (2011) assert that whereas quantitative research provides answers to questions of where, who, how many, how much and the relationship between variables, qualitative research provides answers of why and how questions.

In order for a proper and informed decision concerning the choice of a suitable research approach, it is essential for any researcher to understand the two approaches, their

differences as well as their similarities. Their advantages and their disadvantages need to be well understood as well. It is also important to understand the type of data that can be catered for by each of these two approaches. Tavakoland Zeinaloo (2013) states that a qualitative research inquiry is a phenomenological paradigm that explores the behavior of respondents by examining their perceptions, understandings and beliefs about a given subject.

Qualitative research is a process of building a holistic picture of the phenomena of interest or conduct in a natural setting. It is used to seek a deeper truth and attempts to make sense of a natural setting. It also interprets phenomena in terms of the meanings that people attach to them (Abawi, 2008). It is also confirmed that this method involves the examination and interpretation of observations for the purpose of discovering underlying meaning and of relationships. It provides an opportunity to collect enough information which often provides insights into subtle nuances (Abawi, 2008).

According to Creswell(2005), a quantitative research is a type of educational research in which the researcher decides what to study, asks specific narrow questions, collects quantifiable data from participants (a large number of participants); analyses these numbers using statistics; and conducts the enquiry in an unbiased, objective manner. As contrasted to qualitative research, quantitative research deals with numbers, employs statistical methods to analyze data and is associated with a positivist research perspective (Sedmak&Longhurst, 2010). Johnson and Onwuegbuzie (2004) added that quantitative research studies tests and confirms hypotheses, explains and predicts the effects of those factors on other variables. Expressing similar sentiments, Tavakol and Zeinaloo (2004) describe quantitative research as a paradigm that uses questionnaires to collect data and controls bias by using randomized sampling methods. According to Amaratunga et al. (2002), the key features of the quantitative method include an inquiry from outside, generalisability of results, objectivity, formulation and testing of hypotheses, use of large samples, a focus on facts, emphasis on precision and independence of the researcher.

Using both methods is called a mixed methodology design. According to Pearson (2008), when both quantitative and qualitative data, together provide a better understanding of a research problem than either type by it, it gives more reasons why the mixed methods

may be used. This is also done in order to incorporate a qualitative component into an otherwise quantitative study.

### **3.3. Questionnaire design**

Anderson (2004) states that surveys using questionnaires are possibly the most commonly used data-gathering technique in research and can be used to measure issues that are critical to the survey. Prior to the selection of a questionnaire over the other data collection methods, the key advantages and disadvantages of a questionnaire were considered. Some of the advantages have already been covered, but of importance will be to look at the disadvantages. Anderson (2004) further confirms that a questionnaire has a chance of yielding a low response rate or incomplete and or poorly constructed answers. Questionnaires are also blamed for limiting and shaping the nature of responses. It is further confirmed that before a respondent gives a response, chances are that his/her response can be influenced by looking at other questions as the client has enough time to look at other questions before answering. Having chosen a questionnaire as a tool for data collection, a specific type of a questionnaire has to be chosen.

A self-administered questionnaire has been used in collecting the information of the study. The advantages of self-administered questionnaires are that they are cost effective and easy to administer. According to O'Leary (2004) questionnaires are relatively quick and easy to create. Questionnaires are easy to code and interpret (especially if closed questions are used). In addition, the respondents, not the researcher, does the time consuming part of completing the questionnaires.

Although a questionnaire has its own advantages, the following disadvantages have been noted, namely the format of the questionnaire design may make it difficult for the researcher to examine complex issues and opinions (Widd&Diggines, 2009).

In order for the questionnaire to be of good standard, there are steps that need to be followed. The steps to be followed when compiling a questionnaire have been well explained by Widd&Diggines (2009), namely specify the information needed, determining the type of questionnaire and method of administration, determining the content of individual questions and deciding on the individual questions. The steps continue to

include deciding on the sequence of questions, re-examining steps 1 to 7 and revising if necessary, pre-testing the questionnaire and making changes where necessary. The steps for the questionnaire design as used in this study are discussed individually below:

Step 1. The specific data was clarified; it means that the questions were constructed based on what the research objectives are.

Step 2. The type of field work-administration and questionnaire were determined. As a result, the questionnaire was a self-administered questionnaire.

Step 3. The content of the questions was established. Throughout the questionnaire, both closed and open ended questions were used, meaning that the respondents were given an opportunity to respond to both limited and unlimited forms of response. The questionnaire also included a type of questions called simple-dichotomy questions-response. This is where respondents were only given two choices of responses. All the questions were designed in a way that they would avoid complexity, ambiguity, leading, burdensomeness and assumption. In designing the questionnaire, timing was one of the external factors that were taken into account.

Step 4. Questions' format and form of response were determined. The questions in the questionnaire were structured to acquire a structured response. The advantage is that these questions are easy to apply; they are economical and less time-consuming. The disadvantage of the questions that are made to generate a structured response is that the respondents are not able to give other opinions, because response is limited. In order to overcome this challenge, few open ended questions were provided to allow respondents to express their view in full.

Step 5. Phrasing of the questions: The questions were phrased in such a way that they were not-fold, ambiguous, leading and they were kept in their simplest form. This was for the better understanding by the respondents.

Step 6. The question sequence. Here it was ensured that the sensitive questions were positioned last on the questionnaire. The funnel technique was employed. This means that general questions were first to be asked in order to avoid biased responses.

Step 7. Physical characteristics and layout of the questionnaire: The spacing of the questions as well as the sections of the questionnaire was determined. Questions were divided into different sections. Questions were clearly numbered, and at the end of the questions, the respondents were thanked.

Step 8. Re-examine step 1-7: The above-mentioned steps were re-examined to ensure that the questionnaire was at a satisfactory level.

Step 9. Pre-testing the questionnaire: The purpose of pre-testing the questionnaire was to ensure that the instructions are clear and that the flow was natural. In this case, pre-testing was not necessary as the researcher provided guidance.

The reason why more efforts need to be directed to the construction of a questionnaire, and trying to ensure that the questionnaire is as simple to deal with as possible, is that the respondents need to be made feel as free as possible to give all the information that is required. This helps the data to be as accurate as possible contributing to the reliability of the data.

### **3.4. Sample design**

Having outlined the research approach and design as well as the data collection method, this section of the study will discuss the sampling design.

#### **3.4.1 Target Population**

According to Bryman and Bell (2007), the population is the totality of units from which the sample is to be drawn. Schultz *et al.* (2008) posits that the population encompasses a set of cases of analysis which are selected. The population refers to the objects, subjects, phenomena, cases, events or activities specified for the purpose of sampling (Brynard & Hanekom, 2005). In the case of this study, the total population will be all the businesses or retailers that offer credit and credit facilities to the customers of a specified geographic place.

#### **3.4.2 The sampling frame**

A sample frame includes various types of sample sources. It also includes the basis on which the respondents are chosen (Marshall, 2006). While Welman, Kruger and Mitchell (2005) describe a sampling frame as a complete list where each unit of analysis is included only once, Bryman and Bell (2007) view it as the listing of all units in the population from which the sample is selected. The list of retailers trading in Sasolburg was obtained from the Sasolburg Chamber of Commerce.



### **3.4.3 Sampling Method**

O'Leary (2004) states that sampling is a process that is always strategic and sometimes mathematical, which involves using the most practical procedures possible for gathering a sample that best represents a large population.

Kurmer (2005) argues that purposive sampling is extremely useful when constructing a historical reality, describing a phenomenon or developing something about which little is known. Hence, due to the nature of the study, the decision was taken to use the non-probability, purposive sampling technique.

According to Kurmer (2005), non-probability sampling represents a valuable group of sampling techniques that can be used in research that follows qualitative, mixed methods, and even quantitative research designs.

Despite this, for researchers following a quantitative research design, non-probability sampling techniques can often be viewed as an inferior alternative to probability sampling techniques. The non-probability sampling technique can be viewed as such because units are not selected for inclusion in a sample on random selection, unlike probability sampling techniques. As a result, researchers following the quantitative research design often feel that they are forced to use non-probability sampling techniques because of inability to use probability sampling (Kurmer, 2005).

However, this is not the case for research following a qualitative research design. When following a qualitative research design, non-probability sampling techniques, such as purposive sampling, can provide researchers with strong theoretical reasons for their choice of units (or cases) to be included in their sample. Rather than using probabilistic methods to generate a sample for a research (Mansourian & Madden, 2007).

**Table 3.1. Comparison between Qualitative and Quantitative Research**

<b>Qualitative Research</b>	<b>Quantitative Research</b>
Phenomenological	Positive
Inductive	Particularistic
Holistic	Particularistic
Subjective/insider-centered	Objective/Outsider-centered
Process-oriented	Outcome-oriented
Anthropological world view	Natural science Worldview
Relative lack of control	Attempt to control variables
Goal: understand actor's view	Goal: find facts and causes
Dynamic reality assumed, "slice of life"	Static reality assumed; relative constancy in life
Discovery-oriented	Verification-oriented
Explanatory	Confirmatory

**Source: Mansourian and Madden (2007: 95)**

It is further stated that non-probability sampling requires research to use their subjective judgment. Table 3.1 attempts to summarize the elements of these two approaches, namely qualitative and quantitative approach. Table 3.1 above also indicates the differences between the two research approaches, e.g. the fact that the qualitative approach is more explanatory while the quantitative approach is more confirmatory. The qualitative approach is found to be discovery oriented while the quantitative approach is about confirming the facts, being correct or incorrect.

### **3.4.4 Sample size**

As already pointed out, the larger the sample size, the more sure the researcher can be that the answers or responses from the respondents truly reflect the opinion of the sample population. As alluded to earlier on, it is much safer to use a worst-case percentage, which is 50 percent when determining a sample size. In the case of this study, there are 40 retailers operating within the boundaries of Sasolburg trading on credit.

A sample size of twenty five (25) retailers has been used as the number represents sixty three (63) percent of the population, which is representative of the total population. According to Webster (2002), when determining the sample size needed for a given level of accuracy, one must use the worst case percentage. Kurmer (2005) states that a worst case scenario percentage is the one which is used when there is a potential for missing or incomplete data. Incomplete data could occur for many reasons, such as participants failing to respond to questions or withdrawing from the study before completion. The worst case percentage is 50 percent of the total population. 50 percent is also useful if the researcher wants to determine a general level of accuracy for a sample. It is for the same reason that 63 percent of the population was used as it more than a percentage which is deemed safe for a worst case scenario.

## **3.5 ETHICAL CONSIDERATIONS**

Leedy and Ormrod (2005) state that whether human beings are the focus of the research or not, one must look at the implications of what one is proposing to do and the most ethical issues in research fall into one of the following categories.

### **3.5.1 Protection from harm**

The researcher interviewed the respondents at their offices in a generally safe environment and at no stage were their lives at any greater risk than their normal day-to-day risk.

### **3.5.2 Informed Concert**

Prior to obtaining agreement to interview the respondents for the study, the purpose of the study was fully explained to the respondents; the results or information obtained during the course of the study will not be used for any other purpose other than that of the study. It is further recommended that should the participants wish to have the results and recommendations it will be made available to them.

### **3.5.3 Privacy**

All respondents who were chosen to participate in this research study have been assured that their identities will never be revealed to any other party who is not involved in this study. The researcher has and will ensure that all the information given will be treated with the greatest level of confidentiality. The information will only be used for the purposes of the research and the findings would be made public only at their agreement.

### **3.5.4 Honesty**

The research reported the findings in a complete and honest fashion, without misrepresenting the findings or intentionally misleading others about the findings. The research strived to maintain objectivity and honesty throughout the research.

### **3.3.5.6 Informed consent by the respondents**

According to Acock (2005) an informed consent is a voluntary agreement to participate in a research study which is given by the participant. The participant gives the consent with a full knowledge of the risks involved, probable consequence and alternatives. It is important for researchers to understand how to conduct their research in a manner that honors this trust the respondents have on the research.

The intentions of the research is what will get the respondents to agree to participate, and it is necessary to honor that trust, both for the sake of the research participants and for the sake of their studies' validity. Even the most well-intentioned and well-trained researchers can make mistakes, so it is essential to think carefully about how to ensure that

participants have given informed consent to participate in a research study. As described in the Belmont report (2010), informed consent allows for free flowing information from the respondents. Subsequently the respondents were given the opportunity to withdraw from the research at any time and for any reason. This process was of informing the potential respondents about the research as well as obtaining their consent a basic legal and ethical standard by which all research must abide.

### **3.5.7 Confidentiality and anonymity**

Ethical guidelines for researchers are clear when it comes to the fact that confidentiality is an important element of research and that research participants should be made aware of who will have access to the information they have given as well as being provided with details about the process of anonymity (Oliver, 2003). It is further confirmed that In general, researchers note that the people viewing the data will be those who are actively involved with the research project and perhaps additionally, the person who transacts the interview.

### **3.6 Limitations of the study**

Limitations of the study are those characteristics of research design or methodology that impacted or influenced the interpretation of the findings from one's research representing the constraints on the general representation of the study.

### **3.7 Conclusion**

The methodology used in executing the research has been well articulated. The articulation included important aspects such as the sampling process, sampling size that will be used for the purpose of the study. The chapter continued to give information on the data collection tool that was utilized in this study.

It was important to outline the steps that were involved in the drafting of the questionnaire used in this study. Giving more insight on the steps for designing a questionnaire was

useful for the reader to comprehend what the researcher had to put in order to arrive at the level of the quality of the questionnaire.

The researcher has to obtain permission to conduct an interview (from a respondent). The issue of the respondent's permission also received enough attention in the chapter. It was discussed that it is necessary that participants are made to understand the risks, consequences as well as benefits, if any, of the study. This formed part of the discussion around ethical considerations.

This chapter also discussed the limitations of the study. This is an important aspect of the research. It may be necessary to indicate that the researcher understands that there had been some negative aspects of the research which those interested in this study may need to know and understand. This would assist a reader to take into account when making use of the research findings.

The chapter also looked at the confidentiality and privacy which the researcher committed to comply with. It was necessary for the researcher to assure the participants for their privacy, and also to conform to the promise of keeping the identity confidential.

## **Chapter 4 Discussion of Findings**

### **4.1. Introduction**

The previous chapter has analyzed the methodology and research design of the study. It also took into account the methods that were used to collect data as well as the sample design of the study. The chapter also discussed limitations of the study as well as ethical issues.

This chapter presents the data that has been collected through the use of the questionnaire. The data will further be analyzed in order to arrive at recommendations.

The focus of the study is on South African based retailers in the Sasolburg region who are implementing the National Credit Act (2006). This is fundamentally to establish how the retailers are affected by implementation of the regulation.

The data which is analyzed in this chapter was collected through the use of a structured questionnaire. Some of the questions covered in the chapter include the main line of business for the retailers participating in the study, their annual turnover as well as how long their businesses have been in operation. The questionnaire covered the questions on the credit granting process. These questions were arranged in a way that the respondents had to rate the statements in terms of how much they agreed or disagreed with the statements.

Furthermore, marketing and advertising of credit facilities or products and services that are sold on credit and, compliance reports, profit and loss on sales of goods and services interpreted by the retailers as well as consumer debt management were covered in the questionnaire.

### **4.2. Background information about the retailers**

The retailers who participated in the study were profiled according to their line of business. The table below summarizes different retailers in their different line of business expressed in percentage.

**Table 4.1: Retailers' lines of business**

<b>Line of Business</b>	<b>No. of retailers</b>	<b>Percentage</b>
Household furniture	3	12%
Services	5	20%
Agriculture	3	12%
Motor vehicle	1	08%
Groceries	2	04%
Clothing	9	36%
Banking	2	08%

Out of the 25 retailers who participated in this research, three retailers (equating to twelve percent of the total sample) have been found to be specializing in household furniture while ten percent (10) of the retailers provide services for which consumers can pay on credit (services such as those that are provided by gymnasium, etc). It is found that twelve (12) percent of the participant retailers are in the agriculture industry. According to the response received the retailers who are in the motor industry make up eight (8) percent of the total sample size. Grocery stores represent four (4) percent of the total sample. Retailers who are running clothing stores are thirty six (36) percent of the total sample size, and the banking industry is eight (8) percent of the sample.

As can be seen in Table 4.1, the majority of the respondents offering credit facilities to their clients are in the clothing industry, and in many cases situated in malls and CBDs of small and big towns. As confirmed in the literature review, this may be as a result of the growing number of malls. Different categories of income levels were created for the purposes of the study. The categories of turnover ranged from R1 up to an annual turnover of above R 5000 000 per year.

Every retailer's turnover was used to determine the size of a retailer. The information flowing from the question relating to the retailer's level of turnover would assist in identifying the size of a retailer that is mostly affected by the implementation of the National Credit Act. Different levels of annual turnover per year were categorized for the purposes of the study. The categories ranged from R1 up to annual turnover above R5 000 000 per year.



The following table contains the different levels of retailers as classified according to their annual turnover.

**Table 4.2: Retailers' annual turnover**

<b>Size of Retailers</b>	<b>No. %</b>
R1-R100 000	04%
R100 000 –1-R500 000	32%
R500 001-R1000 000	20%
R1000 001-R5 000 000	32%
Above R5 000 000	12%

According to Table 4.2, retailers whose turnover is between R1 and R1 00 000 were found to be only four (4) percent which expressed in numbers becomes only one of the 25 retailers included in the sample. The next level was that of the retailers whose turnover ranges from R1 00 001 to R5 00 000. Retailers operating at this level were twenty (20) percent of the total sample.

Retailers operating between R1000 001-R5000 000 were eight (8) and represent thirty two (32) percent of the total sample size. Those whose turnover is above R5 000 000 were found to be twelve (12) percent. The turnover is measured on an annual basis (per annum).

Notably the majority of the retailers who give their clients credit facilities have an annual turnover of between R1 000 000 and R5 000 000, while those with an annual turnover ranging between R1 and R100 000 are minimal.

Retailers with an annual turnover above R5 000 000 are only twelve (12) percent of the total 25 retailers.

### 4.3. Retailers' longevity in business

The difference in sizes of business or retail store as expressed in terms of turnover (annually) includes retail stores of which have different longevity in the business. Some retail stores have been 1-6 months in existence. It is further revealed that some retailers have been operating for a period of 7 months to 2 years. Furthermore, some retailers are found to have been in operation for over 5 years.

**Table 4.3: Retailers' longevity in business**

1-6 months	08
7 months-2 years	28
3-5 years	16
More than 5 years	48

According to Table 4.3, the majority of the retailers have been in operation for more than 5 years with those who have been in operation for a period of between 1-6 months constitutes only eight (8) percent of the sample size.

Retailers are expected to compile reports or documentation (compliance reports) which needs to be submitted to the National Credit Regulator on a year-to-year basis (National Credit Regulator: 2006). Some of these documents may be too complicated to compile and some may need the retailers to acquire the services of experienced service providers given their lack of experience in the business.

The overall finding on the matter of longevity is that 2 of the 25 retailers have been in operation for a period of between 1-6 months, which makes it eight (8) percent of the total sample size. Those who have been in operation for a period of between 7 months to 2 years are 7 retailer representing 28 percent of the total sample. Those who have been in operation for about 3-5 years are only 4 retailers, which equates to 16 percent of the total sample. The majority of the retailers have been found to have been in operation for more than 5 years. This is confirmed by the finding which reveals that 12 of the retailers have been operating for more than 5 years as confirmed in Table 4.3 above.

#### **4.4. Retailers' recognition of the National Credit Act**

It is worth noting that according to the retailers who participated in the research, all the members of the sample do recognize and implement the National Credit Act. This confirms the fact that retailers are aware of the Act and are trying to implement it.

#### **4.5. Retailers' level of understanding of the National Credit Act**

In complying with the regulation, the most important question has been about the extent to which the retailers comprehend the National Credit Act which would then explain their attempts to implement the said Act, as well as their ability to successfully operate in the presence of difficulties that are believed to have been brought about by the implementation of the Act. The responses have revealed the following:

**Table 4.4: Retailers' level of understanding of the National Credit Act**

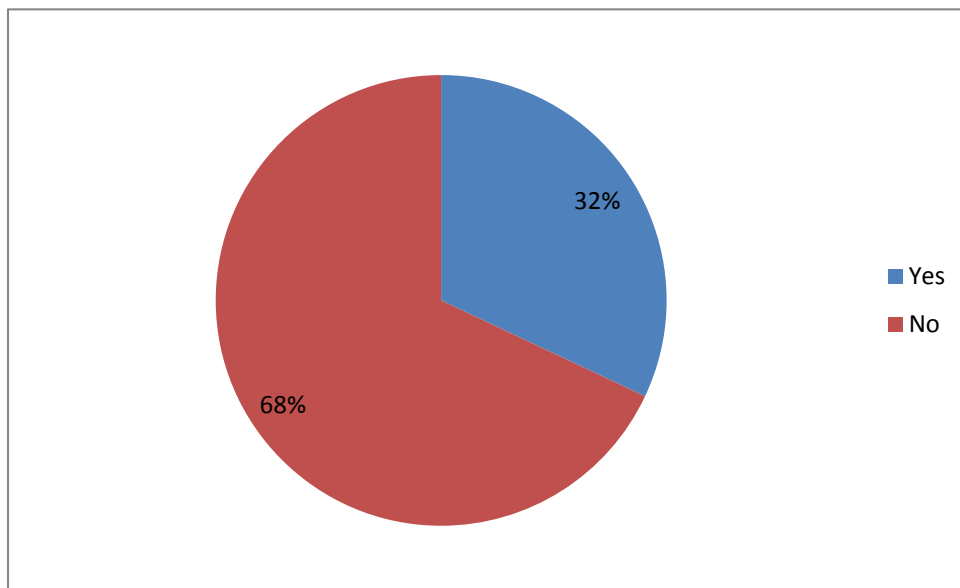
In-Full	16%
In-Part	80%
None	04%

According to Table 4.4 16 percent of the retailers indicated that they agree they have a full understanding of the Act while those retailers who indicated that they strongly agree that they have a full understanding of the National Credit Act are 80% of the total sample size. Only 4 percent of the retailers indicated that they have no understanding of the Act at all.

#### **4.6. Retailers' exposure to NCA training**

When the National Credit Act was introduced in 2006, many institutions such as banks sent their employees for National Credit Act training. This was done in order to make sure that all the employees are well trained about the workings of the Act.

**Figure 4.1: Retailers' exposure to NCA training**



One of the ways to acquire knowledge is through training. It is for that reason that the researcher attempted to establish if the employees of the institutions who are responsible for facilitating the credit transactions have received relevant training. The research reveals that only 8 of the 25 retailers have been trained on the National Credit Act, which makes up to thirty-two (32) percent of the total samples. This means that 17 of the retailers (68 percent) have never been trained on the National Credit Act. This in turn would mean that the level of understanding of this Act by these retailers is very low.

The data given in Figure 4.1 represents the responses that were given by the respondents where they had to rate statements from 1 to 4. This is where the respondents had to respond by way of rating the answer from 1-4, 1 being in agreement with the statement, and 2 being in strong agreement, 3-disagreement and 4-strongly disagree.

#### **4.7. Affordability assessment on consumers**

The National Credit Act (2006) prescribes that before any application for a credit facility is granted to a consumer, an affordability assessment must be conducted on that particular consumer. For the purposes of this study, a question on whether this particular assessment prolongs the turnaround time spent on facilitating the transaction was asked. The finding is that thirty two (32) percent of the participating retailers indicated that they agree that the pre-approval assessment process does indeed prolong the time spent in

facilitating a credit transaction. Eleven of the 25 retailers (44%) strongly agree that delays were caused by the pre-approval assessment process.

According to Table 4.5 below, twelve (12) percent of the respondents strongly feel that they do not agree that the affordability assessment conducted on clients delays the conclusion of the credit transaction. It is further revealed that retailers feel that the time spent on confirming employment of the potential customer (as required by the National Credit Act) is delaying the credit granting process. The retailers also are of the opinion that the process does increase costs of facilitating a credit transaction as the employment confirmation involves the use of telephone and fax facilities. This is confirmed by the finding that nine (9) retailers agree that confirmation of employment, as required by National Credit Act does indeed increase the transaction costs (accounting for thirty six (36) percent); while 40 percent also strongly agree that confirmation of employment does raise the costs of the transaction. Only eight (8) percent of the retailers disagree that confirmation of employment by credit providers (before approving a credit transaction) do increase costs and four retailers also disagree that costs increase in the process of facilitating a credit transaction.

<sup>1</sup> Eight of the 25 retailers

<sup>1</sup> Eleven out of the 25 retailers

<sup>1</sup> Three out of the 25 retailer

**Table4.5: Credit Granting Process**

	<b>Agree</b>	<b>Strongly Agree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
The client assessment prior to credit granting prolongs the turnaround	(8 <sup>1</sup> )32%	(11 <sup>2</sup> )44%	(3 <sup>3</sup> )12%	(3 <sup>3</sup> )12%
Employment confirmation increases the costs of credit granting	(9 <sup>4</sup> )36%	(10 <sup>5</sup> )40%	(2 <sup>6</sup> )08%	(4 <sup>7</sup> )16%
Personal financial assessments delays the credit granting process	(14 <sup>8</sup> )56%	(8 <sup>1</sup> )32%	(1 <sup>9</sup> )04%	(2 <sup>6</sup> )08%
The affordability sifting criteria increased the number of rejected applications for credit facilities	(10 <sup>5</sup> )40%	(12 <sup>10</sup> )48%	(2 <sup>6</sup> )08%	(1 <sup>9</sup> )04%
The implementation of the NCA has resulted in reduced credit sales	(14 <sup>8</sup> )56%	(10 <sup>5</sup> )40%	(1 <sup>2</sup> )04%	0%
Accessing a client's credit information has added more time and costs of credit transaction	(10 <sup>2</sup> )40%	(15 <sup>11</sup> )60%	0%	0%
The credit granting process has become much simpler since the introduction of the NCA	(6 <sup>12</sup> )24%	(3 <sup>3</sup> )12%	(3 <sup>3</sup> )12%	(13 <sup>13</sup> )52%

The table above summarizes the perceptions of the consumers regarding different aspects of credit approval process.

When a credit application is submitted, personal financial management of the applicant is assessed. This is one of the aspects that get to be assessed during a credit application process. The question which has been raised in the study is whether the personal financial management assessment contributes in delaying the conclusion of the credit application process. Fourteen (14) of the twenty five (25) retailers (56 percent) of the respondents

<sup>1</sup> Eight of the 25 retailers

<sup>2</sup> Eleven out of the 25 retailers

<sup>3</sup> Three out of the 25 retailers

<sup>4</sup> Nine of the 25 retailers

<sup>5</sup> Ten of the 25 retailers

<sup>6</sup> Two of the 25 retailers

<sup>7</sup> Four of the 25 retailers

<sup>8</sup> Fourteen of the 25 retailers

<sup>9</sup> One of the 25 retailers

<sup>10</sup> Twelve of the 25 retailers

<sup>11</sup> Fifteen of the 25 retailers

<sup>12</sup> Six of the 25 retailers

<sup>13</sup> Thirteen of the 25 retailers

agreed that a personal financial management assessment on consumers causes delays on the conclusion of the credit transaction. Thirty two (32) percent also strongly agree with the fact that personal financial management assessment does cause delays to the credit granting process. Only four (4) percent (1 of 25) of the retailers disagree that checking personal finance does cause delays on the transaction process and eight percent strongly disagree that checking personal financial management of the consumers does delay the process.

For a consumer to qualify for credit or credit facility, there are criteria which he/she must satisfy in order to qualify for credit as set by the National Credit Act (2006). The question is whether making use of those criteria has increased a number of the rejected applications. The finding in this regard is that 14 of the 25 retailers (56 percent) do agree that it has indeed increased the number of rejected applications. Eight of the retailers also strongly agree that the criteria which are used to determine if consumers do qualify for credit transactions have increased the number of rejected applications (32 percent). One retailer does not agree that the criteria set by the National Credit Act which needs to be met by those consumers who need credit or credit facilities do contribute in increasing the number of rejected applications. Two retailers (8 %) strongly disagree that the criteria for qualifying for credit contribute to the increased number of the rejected applications.

On whether the implementation of the National Credit Act has led to the number of sales transactions decreasing, 14 retailers responded in the affirmation to the statement (56 percent). Ten retailers agreed with the statement, namely 32 percent of the total sample. One retailer did not agree with the statement that the criteria as set by the National Credit Act are reducing the number of credit sales transaction. Two retailers (8 percent) strongly disagree that the criteria reduces the number of rejected applications.

A credit check is done on an applicant each time a credit application is done. For a service provider to have access to a consumer's personal credit records, a service provider needs to have subscribed to a particular credit aid bureau. Similarly, a retailer who may want to make use of credit aid bureau needs to have subscribed to it. Forty percent of retailers participating on the study agree that checking a consumer's credit information comes with added costs; it is also time consuming. Fifteen (60%) retailers strongly agree that it adds more costs and time to the already long and expensive process of facilitating a credit

transaction. There is no retailer who disagrees with the statement that doing credit checks on consumers adds more time and costs to the process of facilitating a credit transaction.

On whether the credit granting process has become any easier and simpler since the introduction of the National Credit Act, only 6 retailers, which equates to 24 percent do agree that it has become much simpler while 12 of the retailers strongly agree that it has become easier to facilitate a credit transaction. On the contrary, 3 percent of the retailers disagree with the statement that it has become simpler to facilitate a credit transaction while 13 retailers, namely 52 percent of the retailers strongly disagree with the statement.

#### **4.8. Advertising and marketing under National Credit Act**

The National Credit Act (2006) prescribes that certain information should be included when an advertisement advertising goods and services that will be bought on credit is being put in place. A question was asked to the retailers as to whether the inclusion of the information has made advertising and marketing of products and services has are sold on credit to be less creative, congested or complicated. Five retailers feel that marketing and advertisements have become much easier to design.

**Table 4.6 Advertising and marketing under the NCA**

More complicated	(11) 44%
Easy to design	(5) 20%
Too strict	(8) 25%
Just fine	(1) 4%

As can be seen from Table 4.6, eleven retailers (44 percent) indicated that advertising and marketing under the National Credit Act has become more complicated. Five retailers (20 percent) indicated that advertising and marketing under the National Credit Act (2006) has become easy to design while 25 percent of the retailers have indicated that marketing and advertising have become too strict and only one retailer, representing four percent of the total sample has indicated that advertising and marketing under the National Credit Regulator gives them no problems.



#### 4.9. Reports to be submitted to the National Credit Regulator

All the retailers registered with the National Credit Regulator (NCR) as credit providers are required to submit reports on an annual basis. The reports which retailers need to submit to the National Credit Regulator on an annual basis are compliance reports, statistical returns, annual and financial operations, assurance engagement reports well as annual financial statements.

**Table 4.7: Reports submitted to the NCR**

Compliance report	16%
Statistical return	32%
Annual and financial operations	44%
Assurance engagement	28%
Annual financial statement	8%

Table 4.7 above indicates that 4 retailers were found to have been able to compile and submit the compliance reports required by the National Credit Act. Eight retailers were found to be able to compile and submit statistical return reports as required by the National Credit Act. Eleven retailers submitted annual and financial operations reports to the National Credit Regulator while only 7 retailers (28%) were able to submit assurance engagement reports. Only 2 retailers (8%) were able to submit annual financial statements.

The retailers indicated that they have difficulties in compiling the required reports such as statistical returns and assurance engagement reports as required by the National Credit Act. This is evident that 16 of the 25 retailers (64%) confirm that they have difficulties and only 9 of the 25 retailers indicated that they have no problems compiling the reports.

#### 4.10. Retailers' decline in profits as a result of implementing the National Credit Act

Some retailers seem to have experienced a decrease in profit as a result of implementing the National Credit Act. This could be attributed to a number of factors such as prescribed interest rate ceilings, increased costs as a result of more paper work, increased space

needed when advertising due to more required information. In responding to the question on whether the retailers experienced a loss in profits, 5 retailers (20%) indicated that they have lost between 11-20 percent of their profits due to increased costs as a result of implementing some aspects of the National Credit Act such as not charging interest beyond that which is required by the National Credit Act. One retailer indicated to have lost between 1-10 percent of profits. The results further indicate that 9 retailers have lost between 21-30 percent of their profits. The results further indicate that 4 retailers have lost between 31-40 percent of their profits while 2 retailers have lost between 51-60 percent of their profits and 3 retailers (12%) have lost 12 percent of their profits.

Table 4.8 below indicates that those retailers who have lost between 21-30 percent are in the majority as they are representing 36 percent of the total sample. The retailers who indicated that they have lost between 11-20 percent of their profits amount to 20%. Retailers who have experienced losing profits of between 1-10 percent amount to 8 percent of the total sample size. It is noteworthy that those who have lost between fifty-one percent to sixty percent of their profits constitute zero percent.

**Table 4.8: Retailers' loss in profits**

1-10%	08%
11-20%	20%
21-30%	36%
31-40%	16%
51-60%	08%
61-70%	12%

The National Credit Act (2006) requires that a customer must receive documentation in a language of his/her choice. This implies that retailers may have to tailor-make some documents to suit the needs of particular consumers. Respondents had to answer as to whether they have had to translate documents to suit the language requirements as stipulated by the National Credit Act. In responding to the question, 6 retailers (24 percent) have indicated that they have had to translate some documents such as contract agreements in order to suit the preferences of the consumer. Nineteen (76 percent) retailers responded that they have never had to translate the documents.

Given the introduction of the National Credit Act, many rules were introduced in order to govern the manner in which debt collection should be handled. The retailers have had to indicate if the debt collection process has become expensive, complicated or the process has become much longer than before the introduction of the National Credit Act.

In response, 2 retailers (8 percent) indicated that the debt collection process has become more expensive while 20 (80 percent) indicated that the debt collection has become more expensive, while 3 retailers (12 percent) indicated that debt collection has now become a long process.

As already indicated, the National Credit Act has introduced a process that makes it difficult for clients who do not qualify to get credit or credit facilities from the retailers. The credit assessments that have been introduced by the National Credit Act are meant to prevent the clients to be granted credit when they cannot afford to repay f it. In terms of whether the introduction of the National Credit Act has assisted the retailers in reducing their bad debts levels, retailers gave their views. In answering this question, 13 retailers (52 percent) indicated that the strict credit assessment has reduced bad debt levels and 12 retailers (48 percent) have indicated that the implementation of the credit assessment has reduced bad debt levels.

#### **4.10. Conclusion**

This chapter has captured and analyzed the information that has been collected through the use of a questionnaire. The issues covered in this chapter included the profile of the retailers who participated in the study. In profiling the retailers, the lines of their businesses were taken into account, amongst other. The majority of the retailers that have been affected by the National Credit Act are in the clothing, service, household furniture as well as banking industries. The information collected has revealed that retailers of all sizes are affected by the National Credit Act, irrespective of how small or big they are. The chapter continued to capture the data on the number of those retailers who have been trained on the National Credit Act. The indication from the analysis is that there is no full understanding of the National Credit Act among the retailers, which is likely to affect the correct implementation of the act. This is understandable when one looks at the fact that

the majority of the users of the National Credit Act have never been trained on the act. A lot still needs to be done in order to enhance the retailers' understanding of the act.

When a consumer is granted a credit facility, an affordability assessment has to be conducted. Information on whether the affordability assessment does delay the approval of a credit transaction was also collected. It is generally agreed by the retailers that the assessments prior to granting of credit are delaying the whole process of credit approval.

Advertising and marketing have also been affected by the National Credit Act, and this has affected the way retailers advertise and market their products and services as there are clauses that have to be included on the advertisements. Inclusion of the prescribed information by the National Credit Act has made advertising more complicated for many retailers.

With the introduction of more content in advertising of the goods on services that are sold on credit, coupled with the ceiling of interest rates, retailers have experienced a decline in their profits. More needs to be done in order to assist the retailers in understanding the National Credit Act. This can be done through training and many other strategies.

The lack of a full understanding of the Act, coupled with the retailers' lack of exposure to the training on the National Credit Act does not help improve retailers with proper implementation of the Act. The added time that is spent on the transaction approval process implies that fewer transactions will be processed. Given the fact that retailers' profitability depend on sales, the decrease in sales will therefore affect their profits negatively. The interest rates ceiling has also reduced the profit levels of the retailers, so it goes without saying that retailers' profitability has declined. Ways to improve the status quo may have to be found in order to improve the sustainability of the retailers even when they implement the National Credit Act.

## **Chapter 5 Recommendations and conclusion**

## **5.1. Introduction**

The previous chapter presented the analysis of the data that was collected from the participants of the study. The information was collected through the use of a questionnaire.

This chapter gives conclusions and recommendations of the study. The conclusions presented in this chapter are based on the analysis presented in the previous chapter, which gave rise to the recommendations that will be provided in the latter part of the chapter.

The main purpose of the study was to investigate the effects or the impact of the National Credit Act among the retailers. The chapter begins by providing a summary of the main findings of the study. This is followed by an overview of the recommendations of the study.

## **5.2. Summary of the main findings of the study**

The main findings of the study are the following:

5.2.1 Retailers are aware of the presence of the National Credit Act. The findings reveal that the majority of retailers are aware of the fact that there are rules and regulations set by the National Credit Regulator which must be implemented (especially by those retailers who provide goods and services on credit). The analysis in chapter 4 (4.5) indicates that there is full awareness of the Act among retailers.

5.2.2. It is further revealed that although retailers are aware of the existence of the Act, their understanding of it is still not at satisfactory levels. The majority of retailers do not fully understand the Act. The implication of this lack of understanding is that mistakes and incorrect applications of the Act are likely to happen.

5.2.3 The retailers lack full understanding of the Act. It is further revealed by the finding in chapter 4 that there are only few retailers who have been trained on the National Credit Act. Training the retailers on the Act may be one of the strategies that can help in enhancing its understanding among those who have never received training. On the one hand those who have already received training may also benefit from the training that is meant to refresh their understanding.

5.2.4 The analysis reveals that the process which is followed when processing an application for credit or a credit facility as prescribed by the National Credit Act has different implications. Some of the activities required by the National Credit Act are that a retailer must conduct credit checks, affordability assessments and employment confirmation.

5.2.5 The assessments in terms of the National Credit Act such as affordability and personal financial management of a consumer do delay the processing of the application.

According to the requirements of the National Credit Act, retailers must conduct confirmation of employment which needs to be done as required by the National Credit Act. Retailers feel that confirming employment as required by the National Credit Act does delay the credit approval process. The analysis also revealed that employment confirmation costs the retailers money when making calls to different employers. The costs are also incurred when faxing the required documents to the employers of the potential customer.

The affordability assessment conducted on consumers is meant to ensure that only those consumers who can afford to repay their debts are granted credit facilities. This has seen the numbers of those who are granted credit facilities declining, as discussed in chapter 4. Furthermore, the finding on chapter 4 relating to retailers' sale has indicated that the sales of goods and services that are sold on credit have also declined. The reduced sales may affect the retailers' turnover levels and ultimately affecting their profit levels.

The retailers' profitability is also affected by the implementation of the National Credit Act. This is caused by the fact that the transaction cost increases without the prices for the goods and services increasing. The increase in transaction costs is further worsened as a result of retailers paying subscription fees to different credit aid bureau.

5.2.6 There is enough evidence from the analysis that retailers feel that the credit granting process has become much more complicated under the National Credit Act than before. According to the retailers, the assessments as well as many other disclosures that must be done when conducting those particular assessments have made the credit granting process more complicated. It is also revealed by the analysis that advertising and marketing under the National Credit Act has become more complicated. Some retailers

find advertising and marketing to be more restricted and no longer easy to implement. The restrictions have limited retailers in terms of how they express their messages on the advertisements and as a result; they feel that their creativity is being restricted.

5.2.7 The compliance reports that need to be sent to the National Credit Regulator on an annual basis have proved to be a challenge for most of the retailers. As a result, the majority of the retailers are not able to submit the compliance reports to the National Credit Regulator as required by the National Credit Act. The level of compliance (in terms of report submissions) is very low and this can be attributed to many reasons such as lack of expertise in the compilation of compliance report, lack of money to finance the compilation of the said reports as well as a lack of willingness to comply on the side of retailers.

It can therefore be concluded that retailers are affected by the implementation of the National Credit Act. The effects of the implementation of the Act on the part of retailers can be seen in terms of increased costs, amongst other.

A further important implication of the implementation of the National Credit Act for the retailers is that the numbers of assessments involved in the process do cause a delay on the finalization of credit approvals.

### **5.3. Recommendations**

The above findings call for solutions to be found. Such solutions should enable retailers to find ways and means to survive or overcome the challenges posed by the National Credit Act. Listed below are the recommendations which retailers can consider in the quest to find solutions to the impact of the National Credit Act on their businesses.

5.3.1 In order to enhance retailers' understanding of the National Credit Act it would be necessary that continuous training sessions are conducted. The officials who are entrusted with the implementation of the Act in different department of various retailers must be encouraged to attend such trainings.

5.3.2 Retailers can select officials who will be trained and developed in terms of the National Credit Act (they can be called champions). These are the people who are expected to be highly knowledgeable about the National Credit Act and anyone in the organization who need guidance and advice regarding the Act can go to them for better

clarity and understanding. These trained officials should ensure full compliance with the National Credit Act.

5.3.3 According to the National Credit Act there are assessments such as personal management and affordability tests that must be conducted before credit can be extended to consumers. These assessments seem to be prolonging the process of transaction approval and therefore need to be reviewed. The tests need to be reviewed with an intension of shortening them. A shorter version of an assessment may take a lesser amount of time than it currently does. Another strategy which retailers can use to shorten the amount of time spent on assessments would be to keep the questions short, simple and straight forward. The simplification of tests and assessments can be achieved by avoiding using complicated terminology. The decision to shorten and simplifying the tests and assessments will make it easier for retailers to administer tests and assessments. It will also take retailers less time to administer such assessments. The assessment should still be able to provide reliable and valid information about the consumer even though it shall have been simplified.

5.3.4As mentioned before, retailers have to confirm the employment of their potential customers. Employment confirmation comes at a cost. The costs involved in employment confirmation include those of faxing as well as telephone calls. In order to reduce the telephone costs, short and direct questions should be used. This will reduce the amount of time spent on the telephone. A further method to cut costs involved in employment confirmation as suggested by Herrell (2009) is to create a virtual work force. It is further confirmed by the findings that remote agents are able to operate for long hours as compared to the retailers. It is recommendable to make use of this independent work force (remote agents).These agents save on infrastructure costs because they work from the secured comfort of their homes. Remote agents also serve as emergency support when the main location becomes inoperable due to emergency conditions.

5.3.5 The retailers should be able to identify the key profit drivers among the goods and services sold. Once the retailers have identified and measured their key profit drivers, they should develop strategies to grow them without increasing costs. Improving the profitability of the business would include finding ways to increase sales revenue as well as decreasing the costs. This will ensure that they are able to implement the National Credit Act but still retain their profit levels where the Act tends to cause reduction.



5.3.6 Products and services with the highest gross profit margins are the most important in any business as they generate more money. Once a retailer has identified the most profitable products; they should concentrate on achieving higher sales targets.

#### **5.4. Conclusion**

The National Credit Act has been introduced for implementation by those who sell goods and services on credit to their clients. While the Act was designed to protect the welfare of consumers it does also have benefits for the retailers as they also get protection from consumers who may be unable to pay for the goods and services extended to them on credit.

The need for retailers to implement the National Credit Act presents them with a number of challenges among which being. Challenges such as lack of full understanding of the Act can be overcome by retailers investing time on training their personnel on the Act. There are many other challenges which the National Credit Act has brought to the retailers. As many of the retailers have not been operating for many years, it can be assumed that the more they use and implement the Act, the more they will get used to it and understand it much better.

Retailers are likely to discover more challenges as they continue to implement the Act. This will prompt them to continue finding solutions. Retailers should always find ways and means to continue to operate successfully while they continue to abide by the restrictive Act. Retailers should also view the Act as being protective to both them and their clients from loss of revenue as a result of increased bad debts.

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## ANNEXURE A: THE INTERVIEW SCHEDULE

### TOPIC:

Thanks for your attention to this academic questionnaire. The purpose of this questionnaire is to gather information about the **effects of the National Credit Act to the retailers**. Your assistance is therefore humbly requested in completing the questionnaire. This research is purely for academic purpose and the information will be kept confidential. It will take approximately 15 minutes of your time to complete the questionnaire.

### SECTION 1: CREDIT GRANTING

**This section of the questionnaire has questions about credit granting. Please indicate your answer by ticking on the appropriate box.**

#### General Information on NCA

##### 1. What is the main line of your business?

- House hold furniture  Groceries
- Services  Clothing
- Agricultural  Banking
- Motor Vehicles
- Others (Specify).....

##### 2. What is the annual turnover for the business?

- R1- R 100 000  R 100 000- R 500 000
- R 500 001-R 1000 000  R 1000 001- R 5000 000
- Above R5000 000

**3. For how long has the business been in operation?**

- 1-6 months       7- 2 years
- 3-5 years       more than 5 years

**4. Do you recognise and implement the NCA?**

- 1. Yes
- 2. No

**5. How deep is your understanding of the NCA?**

- Full
- In- part
- None

**6. Have you ever been trained for the NCA?**

- Yes
- No

**7. What aspects of the NCA are still challenges to you? (Please explain)**

.....  
 .....  
 .....

**8 The following question consists of statement for which there is a rating from 1-4 Pleasetick the number that represents your opinion on each statement;**

**1 for –Agree, 2-strongly agree, 3-do not agree and 4-for strongly disagree.**

<b>Credit Granting Process</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
9. The client assessment prior to credit granting prolongs the turnaround time				

10. Employment confirmation increases the costs for credit granting				
11. Personal financial assessments delays the credit granting process				
12. The affordability sifting criteria has increased the number of rejected applications for credit facilities				
13. The implementation of the NCA has resulted in reduced credit sales				
14. Accessing a client's credit information has added more time and costs of credit transactions				
15. The credit granting process has become much simpler since the introduction of NCA.				

**16. Marketing of products and services that are sold on credit.**

**Under the NCA, I find advertising:**

- More complicated  Too strict
- Easy to design  Just fine

**17. Prescribed information on the advertisements makes the advertisement to be:**

- Less creative
- Congested (information-wise)
- Complicated

**18. According to the NCR (2011), all registered credit providers must comply with the reporting requirements. Year to date, have you been able to submit the following documents on time? Please tick on "Yes" or "No" on the applicable document:**

- Compliance report
- Statistical return
- Annual and financial operations report
- Assurance engagements
- Annual financial statements

**19. Would you say that you have difficulties in compiling any of the reports?**

- Yes
- No

**20. The limitation of fees charged as well as an interest ceiling tends to limit the profit margins for the retailers, and this affects the revenue negatively. By what percentage has this reduced the profits?**

- |       |                          |        |                          |       |                          |
|-------|--------------------------|--------|--------------------------|-------|--------------------------|
| 0     | <input type="checkbox"/> | 1-10   | <input type="checkbox"/> | 11-20 | <input type="checkbox"/> |
| 21-30 | <input type="checkbox"/> | 31-40  | <input type="checkbox"/> | 41-50 | <input type="checkbox"/> |
| 51-60 | <input type="checkbox"/> | 61-70  | <input type="checkbox"/> | 71-80 | <input type="checkbox"/> |
| 81-90 | <input type="checkbox"/> | 91-100 | <input type="checkbox"/> |       | <input type="checkbox"/> |

**12. Have you ever had to translate any of the documents due to a consumer requesting to have it written by his or her own language as allowed by the NCA?**

- Yes
- No

**22. Consumer debt under the NCA has become more:**

- Expensive
- Complicated
- Long process

**23. Stricter credit assessment criteria has resulted in less bad debts**

- Yes
- No

