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- CitEc
Customs Valuation Challenges in Multinational Enterprises’ Controlled Transactions: An African Perspective 459-468
Marina Bornman, Simba Chirevo

Takaful Operators and Socio-economic Objectives during the Pandemic of Covid-19: Issues and Challenges 469-480
Noor Aimi Mohamad Puad, Nurualiani Jamlus Rafdi, Norlita Zainuddin

Level of Awareness and Understanding towards Money Mule Among Malaysian Citizens 481-488
Ilya Yasnorizar Ilyas, Abdul Rauf Ridzuan, Rosilawati Sultan Mohideen, Mohd Hilmi Bakar

Moderating Effect of Firm Size on Financial Uncertainty Indicators and Financial Performance of Manufacturing Firms in Kenya 489-500
Jane Pila, Willy Muturi, Tobias Olweny

Impression Management during the Covid-19 Pandemic: A Comparative Analysis of the Chairperson’s Statement by JSE-Listed Profitable and Least Profitable Companies 501-514
Nokuthula Dhludhlu, Masibulele Phesa, Mabutho Sibanda
Customs Valuation Challenges in Multinational Enterprises’ Controlled Transactions: An African Perspective

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ABSTRACT

Purpose: The paper aims, from an African perspective, to investigate the practice of inconsistent custom duty valuations experienced by related MNEs and to explore the impact this may have on MNEs.

Design/Methodology/Approach: Perceptions from industry experts from various African countries were sought by means of a questionnaire and supplemental literature was reviewed with a view to address the stated objectives.

Findings: The main findings point to custom officials’ lack of knowledge of transfer pricing principles, possible corruption by custom officials and custom authorities keeping reference prices. The impact on MNEs appear to mainly relate to additional costs in the form of storage, consignment seizure, and lengthy court battles.

Implications/Originality/Value: Strategies to address challenges arising in custom valuations suggest training of customs officials, coordination and exchange of information between relevant departments within the revenue authority and making use of advanced pricing agreements.

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Introduction

Developing countries are becoming more and more important in the global economy, not only because of their large numbers, but also because trading across borders is becoming a vital tool for these countries to grow and develop their economies (World Trade Organisation (WTO), 2023). When goods move though country borders, customs duty becomes payable in the importing country, which serves as a revenue stream for government (Cooper, Fox, Loeprick & Mohindra, 2016). The role of customs in Africa is critical to revenue collection as trade taxes account for, on average, 30% to 50% of total state revenue in African countries (Cantens & Raballand, 2017).

Multinational enterprises (MNEs) establishing new operations in foreign markets, cause an increase of goods flowing across borders between companies of the same group. By 2015, it was reported that 60%
of global trade value were between related companies (The International Chamber of Commerce (ICC), 2015). However, global trade between related MNEs has been shown to contribute to the erosion of the tax base through the use of transfer pricing methods which consequently results in the diversion of profits, especially in developing countries (Organisation for Economic Co-operation and Development (OECD), 2016).

According to OECD (2017, p. 612), the OECD transfer pricing guidelines provide guidelines for the application of the Arm’s Length Principal “ALP”, which is the international consensus on transfer pricing, i.e., on the valuation for tax purposes of cross-border transactions between associated enterprises.

These transfer prices are then naturally considered in valuation of transactions for custom duty purposes as agreed on in the General Agreement on Tariffs and Trade 1994 (hereafter referred to as the GATT 1994) (GATT, 1994). Pike and Schuette (2020) remark that the relationship between transfer pricing and custom valuation becomes more complex and evolves every day and may significantly impact companies who are importing tangible goods from related parties.

A recent study by Wier (2020) provides evidence of miscalculated transfer prices in South Africa, a developing country. In his study, Wier (2020, p. 14) used transaction-level customs data, testing for deviations between transfer prices and arm’s-length prices and concludes that there is proof of “tax-motivated transfer mispricing of goods”. His study, however, focused on the transfer mispricing conducted by multinational firms, while the present paper investigates customs duty valuation practices of tax authorities in some African countries. Gedge (2021) notes that tax authorities and customs authorities in the country of import may simultaneously seek to challenge the prices of imported goods and suspicion on prices being too high (thereby decreasing taxable profit) or too low (thereby decreasing the customs duties to be paid in the importing country). Atki (2020) similarly investigates the reconciliation of the overlap between customs valuation and transfer pricing by considering the interests of the different stakeholders, while Chitimira and Maselwa (2021) examines retrospective transfer pricing adjustments and the associated customs valuation procedures with a view to unpack the regulatory challenges in these procedures. Chitimira and Maselwa discussed these challenges and custom valuation processes from a South African perspective, however, their study did not include empirical research, which thus leaves a gap that the present study fills. In the Deloitte 2018 Country Guide, “The Link Between Transfer Pricing and Customs Valuation” results from a survey among 58 countries indicates, inter alia, that 36 of the countries surveyed note customs valuation of related party transactions as an increasingly high-focus enforcement area. A large number of the countries also expect increased scrutiny by customs officials (Deloitte, 2018). The present study addresses a gap in the literature by approaching this customs valuation challenge from the perspective of the taxpayer and aims to empirically investigate the reasons behind customs mispricing in controlled transactions as well as the impact this may have on MNEs.

The ICC (2015) states that it appears that customs officials distrust custom values (transfer prices) declared by MNEs that sell goods between their related entities and that they may suspect that such values were set as a result of the connection between the MNEs. Further, the ICC (2015) acknowledges that divergent customs and tax regulations lead to MNEs facing difficulties in determining the value of goods in cross-border trade. Customs authorities aims to establish “whether or not a price has been influenced by the relationship between the parties” while tax authorities aims “to seek an ‘arm’s length price’. Each is ensuring that the price is set as if the parties were not related and had been negotiated under normal business conditions” (WCO, 2018: p. 57).

In comparison to OECD countries, African countries traditionally have high customs duty to total tax revenue ratios, indicative of their dependence on custom duties as a large percentage of the total tax base (Chalendard, Duhaut, Fernandes, Mattoo, Raballand & Rikers, 2020; De Wulf, 1980; The World
Bank (WB), 2020). Developing countries, including most African countries, feel increased pressure on their fisc as a result of weaker global economic growth. Aggressive customs duty collection practices focusing on related MNEs with Africa bound goods could arguably be a result of this pressure on tax authorities to maximise revenue collection. For the purposes of this paper, “aggressive customs duty collection practices” are viewed as the use of higher values than the invoice value for goods when calculating customs duty (Chirevo, 2021, p. 3). The tax uncertainty resulting from such aggressive customs duty practices in Africa targeting related MNEs, and the impact this may have on these MNEs, are the focus areas of the present paper.

“For Customs valuation purposes, import transactions between two distinct and legally separate entities of the same MNE group are treated as ‘related party transactions’” (World Customs Organisation (WCO), 2018, p. 4). When goods are sold between related MNEs, the custom values are driven by transfer prices. It is important to any business to have certainty on the valuation of imported goods and the resulting taxes. The ICC (2015) and UN (2017) have reported on the hesitancy by customs officials to accept declared values for customs purposes in the case of goods sold across borders between MNEs in the same group. However, no study has explored this phenomenon empirically from an African perspective. The present paper therefore aims to investigate the challenges related MNEs face because of unpredictable customs duty valuation processes which appears to target especially their shipments bound for the African continent. In addition, this paper aims to identify, from the perspective of industry specialists, the adverse impact these customs valuation challenges of controlled transactions may have on MNEs.

**Research Methodology**

Primary data was collected by means of a questionnaire and comprised of perceptions and experiences of customs and transfer pricing experts. Using purposive sampling, tax professionals specialising transfer pricing and/or customs in Africa in four of the top audit firms, as well as customs specialists within various MNEs were selected for inclusion in the sample. The final respondents who agreed to participate in the study included:

- Five specialists from the four biggest audit firms based in South Africa, Nigeria, Ghana, Kenya and Morocco;
- Five specialists from various MNEs operating in South Africa, Nigeria, Ghana and Morocco.

The reasons for selecting participants from these countries are twofold: Firstly, these five countries are all on the list of the top ten largest economies in Africa. Nigeria is the largest economy in terms of its GDP, followed by South Africa (IMF, 2021). Secondly, the geographic spread of the countries means that Northern, Eastern, Western and Southern Africa are represented with the sample. All participants provided their consent for the use of their responses for the purpose of this research. Confidentiality was ensured as all responses were anonymised in reporting the findings of this study.

It is acknowledged that obtaining the views from custom officials too, would have resulted in a more balanced interpretation of results. This is a limitation of the present research but also provides an opportunity for further research to expand or challenge findings presented in this study.

Secondary data were used to support and supplement this study’s findings and included reports and other publications from global bodies like ICC, WTO, WCO, the OECD and the World Bank. Reputable academic databases were searched using combinations of keywords including, but not limited to, “transfer pricing and customs” and “custom valuation practices” to find relevant publications.

A thematic analysis was performed on the responses received to the open-ended questions while data obtained from close-ended questions were reported on by quantifying the results.

To ensure validity when performing research of a qualitative nature, it is important to use appropriate
tools and processes for collecting data and to obtaining data appropriate to the research problem (Leung, 2015). In the present study, the researchers ensured validity by collecting data from credible sources which includes sampling respondents who are knowledgeable about the research problem and using secondary data from credible global bodies and academic sources.

Understanding the Link between Customs Valuation Process and Transfer Pricing

This section presents a brief synopsis of how transfer pricing drives customs value determination of goods imported in controlled transactions. The WTO prescribes a customs valuation system based on the transactional value of the imported goods, but when related MNEs sell goods between themselves, their transfer pricing policy determines this value.

An internationally accepted and mandatory system of customs valuation for all WTO members (WTO, 2017), is contained in Article VII of GATT 1994. According to the WTO (2017), “customs valuation shall be based on the actual price of goods to be valued as shown on the invoice (transactional value method) except in exceptional stated circumstances.” Therefore, the strict application of the GATT 1994 regulations means that the price as it appears on the invoice plus elements contained in Article 8 of Article VII of GATT 1994, if any, will equal the transaction value. For the customs value to be declared as the transaction value, the following conditions need to be met: 1) there must be proof that a sale took place to an importing country; 2) the goods may not be subject to any constraint on their use or disposal; and 3) the goods may not be subject to any supplementary conditions. Paragraph 1 of Article 1 of the Agreement on implementation of Article VII of the GATT 1994 provides that:

The customs value of imported goods shall be the transaction value, that is the price actually paid or payable for the goods when sold for export to the country of importation adjusted in accordance with the provisions of Article 8

Certain provisions to Article 1 then follow and Article 2 through to 7 of the Agreement on implementation of Article VII of the GATT 1994 provides for more methods to establish value, such as the transaction value of identical goods sold (Article 2), or similar goods sold (Article 3). Also see Article 5, 6 and 7 for more methods, for example, computed value and deductive value.

Transaction value may be impacted by the relationship between the two transacting parties. Market forces normally determine the conditions and price of a sale of goods between a buyer and seller that have no relation or connection between them (also referred to as uncontrolled transactions) (OECD, 2017). However, when the buyer and seller are entities within same MNE group, it is possible to negotiate a price for a transaction taking place between them that is not influenced by market forces (referred to as controlled transactions). Such pricing may be set to achieve group strategic objectives and may be regarded as “abusive transfer pricing” (Cooper et al., 2016). Treidler (2019) states that it is no surprise that tax authorities would check closely if conditions applied to controlled transactions would have been obtained in comparable uncontrolled transactions too.

The ALP is regarded an internationally accepted standard for the determination, for income tax purposes, of the prices of goods and services exchanged between related entities (OECD, 2017). The OECD Model Tax Convention (OECD MTC), in Article 9, describes “the taxation of the profits of associated enterprises and the application of the arms’ length principle” (OECD, 2017, p. 13). This standard has been adopted by many countries since the original version of the OECD Transfer Pricing Guidelines were first approved by the OECD Council in 1995. The African countries represented in the present study, of which none is a member of the OECD, have all adopted the ALP as prescribed by the OECD, in dealing with transfer pricing matters. As at December 2020, 140 countries, of which 25 is African countries, are included in the OECD’s Inclusive Framework on Base Erosion and Profit Shifting (BEPS) (OECD, 2021; African Union, 2020).

Treidler (2019) argues that when an MNE can provide evidence to the fact that its transactions with a
related entity are priced at a value as if imported by independent enterprises, it can be assumed that ALP has been applied and that no artificial shifting of profit occurred. Thus, for a transaction where goods have been imported from a related entity where the ALP was applied, “the importing country customs authorities should accept the transaction value used for customs valuation as comparable to a value declared by an importer in an uncontrolled relationship” (Chirevo, 2021, p. 39).

It is known fact that the ALP and transfer pricing “is not an exact science” (OECD, 2017, p. 38). Customs authorities should accept that finding an exact independent comparable might be an impossible task. Many reasons exist for the difficulty of finding a comparable. Firstly, a significant amount of data may be needed; secondly, accessible data may be incomplete or difficult to interpret or difficult to obtain; thirdly, confidentiality concerns may hinder accessibility of data; and fourthly, it is possible that appropriate may simply not exist (OECD, 2022). It is acknowledged that transfer pricing requires the exercise of judgement from both tax authority and taxpayer and when “customs authorities challenge customs values declared by MNEs based on arbitrary values sourced from internet sources” (Chirevo, 2021, p.39) it is regarded as a practice against the spirit of the ALP.

The above paragraphs demonstrated that a clear link exists between transfer pricing, the ALP and the practice and processes of customs valuation. It is submitted that if the ALP is applied correctly, then the customs declaration based on the transfer price should be accepted for customs valuation purposes.

Results and Discussion

The first objective of this paper was to identify the reasons, as perceived by the participants to the study, for the challenges experienced in customs valuation practices driven by MNEs’ transfer pricing policies. Secondly, the aim was to identify what impact these customs valuation challenges of controlled transactions may have on MNE operations in Africa.

To address these objectives, the results obtained from the questionnaire administered to ten industry specialists from across Africa are presented in this section.

Confirmation of Participants’ Experience of Transfer Pricing and Customs Valuation

Eight of the ten participants had five or more years’ experience in the domain of transfer pricing. When asking participants whether they agreed to a claim that customs duty valuation challenges generally target Africa-bound imports in controlled MNE transactions more than in uncontrolled transactions, five participants agreed to the claim. Two more participants were undecided about the claim, however, they declared that they either dealt with or witnessed such challenge. Only two participants disagreed with the claim and stated that they are not aware of a case where a customs authority challenged a custom value declaration in a controlled transaction.

Identifying the Perceived Rules Applied when Imported Goods’ Customs Valuation are Challenged

Participants were asked to comment on their perception of what rules customs officials are applying when challenging the value of goods in a controlled transaction. The common theme arising from the analysis pertains to ‘use of arbitrary values. Responses highlighted that it appears that customs officials do not adhere to specific rules but are simply using arbitrary values derived from prices of goods deemed comparable. Although only five participants responded to this question, three of the responses related to this theme.

Identifying Reasons for the Customs Valuation Challenges

Participants were specifically asked their opinion on why customs valuation challenges occur. A number of options were provided in the survey and participants could select any number of options and also expand on the reason for their choice. There was also the option to formulate any other reasons not provided for in the questionnaire.
Seven of the participants selected the option: “Pressure to meet targets by Customs Officials”. However, no participant provided a reason for selecting this option, nor provided further details. Although the statement may hold truth, it is accepted that this is only an opinion held by the participants.

Some participants selected the option “Lack of Transfer Pricing knowledge by custom officials”. This was further investigated with a follow-up question in which participants were asked to rate customs officials’ awareness and understanding of the association between transfer pricing guidelines and regulations on customs duty valuation. All the participants responded to this question irrespective of their selection of “lack of knowledge” in the previous question. The majority of the participants selected the option “limited knowledge” from the three options given (the options were: high; intermediate; and limited).

Another option provided in the close-ended section on participants’ opinions on the reasons why customs valuation challenges occur was: “Suspicious over transfer pricing used for customs value declaration”. This option did not get much support, with only one participant selecting this option and not providing any further detail.

Additional comments provided by participants on reasons for customs valuation challenges were analysed and two themes emerged: 1) reference prices; and 2) corruption.

**Reference Prices**

According to five of the participants, “reference prices deemed to be market values” are kept by customs authorities. The five participants described situations where customs values declared in a controlled transaction were reported to be at values lower than prices kept by customs authorities as reference prices. This declaration was then challenged by customs authorities by questioning the determination of the transfer prices which were used as the bases for the declared customs values. According to four participants, a resulting upliftment of the customs value occurred despite arguments submitted to prove that the ALP was met.

**Corruption**

Three participants mentioned “Corruption” as another reason for experiencing customs valuation challenges. Some respondents added that corruption occurs because of a lack of transparency by authorities. However, no detailed descriptions of situations involving corruption were provided by any participant.

**Impacts of Challenges Experienced in Custom Duty Valuations on MNEs**

Participants were asked if they are aware of adverse impacts that the described custom valuation challenge may have on MNEs. Five participants, referred to as A, B, etc. below, shared their perceptions as follows:

- A: “detentions and additional costs for storage and loss of revenue”
- B: “consignment seizure by customs officials”
- C: “costly controversy processes, local country profitability impacted resulting in income tax challenges”
- D: “lengthy and costly legal court battles, consignment seizure by customs officials”
- E: “…as customs had their own pre-set prices (reference prices) for goods, they were not objective leading to taxpayer finding alternative ways which were not necessarily in line with their transfer pricing policy”

The main theme inferred from the responses shown above was that of “increased cost”. The perceptions by respondents point to additional costs being incurred due to consignment seizures and storage as well
as costs incurred because of tax disputes with the customs authorities. It was also mentioned by a respondent that the dispute process was a lengthy process which involved the submission of numerous documentations.

**Suggested Solutions Identified by Participants**

Participants were asked to suggest measures that would assist in addressing the identified challenges. Table 1 below provides a summary of the suggestions put forward:

<table>
<thead>
<tr>
<th>Suggested measure</th>
<th>Frequency of suggestion</th>
<th>Participants’ description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing GATT 1994</td>
<td>1</td>
<td>Custom officials should place more reliance on, and apply, the GATT 1994.</td>
</tr>
<tr>
<td>Advanced Pricing Agreements (APA)</td>
<td>1</td>
<td>Multinationals must be encouraged to explain their transfer pricing model. This may result in their purchase prices being accepted. However, this should be kept confidential by the Customs office.</td>
</tr>
</tbody>
</table>
| Training | 2 | • Training of Custom officials to understand and apply the TPG.  
• Training to be provided to African jurisdictions, for example by the OECD or WTO. |
| Coordination between customs and transfer pricing | 2 | • Tax authorities create a single authority for tax and customs and not operate it as separate authorities.  
• Rotation of staff in customs offices and transfer pricing sections are proposed. |

Source: Authors’ compilation

One of the main themes evident from the responses in Table 1 is “training”. It appears that participants believe that custom officials may not be sufficiently competent in understanding the rules of transfer pricing and its link with customs valuation. They also suggest that global bodies who draft guidelines on transfer pricing and customs valuation, such as the OECD and WTO, could play a role in training of custom officials in developing countries. Even the suggestions on consistent application of GATT and the rotation of officials between customs and transfer pricing sections point to an element of a need for training.

Another important finding from the responses points to better coordination or merging of customs and transfer pricing departments. This may aid in eliminating conflicting targets between the two departments.

**Other Findings from a Review of the Literature**

Secondary data were further scrutinised in finding explanations for the perceived challenges experienced by MNEs’ based in developing countries when they applied transfer pricing policies in determining customs values. According to the ICC (2015) and WCO (2018), some of the reasons for this customs valuation challenge that MNEs face are as follows:

- Methodologies by Customs authorities and direct tax authorities for determining transaction value are “often different and incompatible due to different motivations, theoretical frameworks, documentation requirements and other factors” (WCO, 2018, p. 57);
- Many developing countries are still experiencing “practical challenges in conducting comparability analysis”, especially because of limited availability of information (WCO, 2018, p. 25).

Some developing countries struggle with administrative and technical capacity in transfer pricing and customs departments.
Recommendations from the Literature
A review of appropriate literature was performed in search for strategies to address custom valuation challenges as experienced by importer MNEs in Africa. The WCO provides guidance on the use of transfer pricing documentation in the customs valuation process (ICC, 2015). A number of recommendations gained from the Technical Committee on Customs Valuation of the WCO (Commentary 23.1) are provided below:

- Custom officials to be better trained in transfer pricing guidelines.
- Customs processes could be automated. This could also include a better coordination between customs and transfer pricing departments and improved accessibility of data between these departments.
- MNEs and revenue authorities to agree on customs values in advance using advance pricing agreements.

Conclusion
African countries need MNEs’ presence within their borders for economic growth. However, for MNEs who conduct trade between related companies, operational and legal certainty in tax and customs processes are vital. This paper confirmed that the certainty that MNEs require in respect of customs valuations is being hampered by the fact that African inbound imports in controlled transactions are experiencing challenges in terms of the valuation of goods when transfer pricing practices were applied.

The findings from the present study highlights that the reasons for customs valuations difficulties in controlled transactions, as perceived by industry experts and as gained from the literature, are:

1) A lack of knowledge of transfer pricing principles by custom officials, including lack of capacity to deal with controlled transactions in these departments;
2) Claims that customs authorities keep “reference prices” in their risk systems as opposed to finding value of comparable items. Therefore, there appears to be inconsistent application of and reliance on GATT 1994 by customs officials.
3) Possible corruption by custom officials.

It was further evidenced by the participants that the main impact on MNEs emanating from these custom valuation challenges are the additional costs it may bring. These costs can relate to additional storage costs, consignment seizure and resulting revenue loss, and costs incurred due to lengthy court battles.

Recommendations to assist in addressing the challenges in customs valuations in controlled transactions as gained from suggestions from the participants in the study as well as the literature can be grouped into three main themes as follows:

1) Training (specifically of customs officials in transfer pricing guidelines and the GATT);
2) Harmonisation of departments specialising in transfer pricing and customs departments within the revenue authority (with a view to facilitate exchange of information);
3) Advanced pricing agreements (between MNEs and local customs offices).

It is suggested that further research may focus on more extensive and conclusive solutions to assist in eradicating inconsistent valuation of goods for custom duties purposes as experienced by MNEs in Africa. A further suggestion is for empirical research to be conducted from the perspective of custom duty officials so as to provide a more balanced view on the challenges of custom valuations in controlled transactions.

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Takaful Operators and Socio-economic Objectives during the Pandemic of Covid-19: Issues and Challenges

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**ABSTRACT**

**Objective:** Takaful operations in Malaysia have proven their credibility through the remarkable achievement in market structure and net contribution income. This research paper discusses on the issues and challenges faced by Malaysian Takaful Operators in contributing for the socio-economic objectives during the pandemic of Covid-19.

**Methodology:** In complementing this study, ten respondents from takaful industry will be interviewed in gathering their insight over the subject matter. This study is in line with the VBIT framework which have been introduced to achieve inclusive protection for the underserved or unserved segments of the society and to address relevant socio-economic issues.

**Findings:** Based on the findings, Malaysian Takaful Operators are optimistic about their performance always seek for the best opportunity in contributing to the society. Takaful Operators also believe that all the challenges that they are currently faced would not become the barriers for them to consistently contribute to the socio-economic objectives even it is not in the pandemic era anymore.

**Implications:** The proposed solution for the identified problems is part of the contribution in this study and can be very useful for the industry player. Some of the listed strategies are different from prior studies, and in fact, there is no study previously which have been discussing the challenges in detail.

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Introduction

With the development of Islamic finance, notably takaful, it has been used not just in Muslim populated nations, as well as those where non-Muslims represent the majority of the population. Its introduction in some of non-Muslim nations such as Africa and India through an effort to combat poverty and promote financial inclusion alleviating tool and has expanded in these fields with some extent of effectiveness (Dikko & Abd. Ghani, 2015). The study by Hassan and Salman (2020) also demonstrated that the conventional systems of Singapore, India, Canada, the United States, and Australia have better levels of acceptability and potential for Takaful. Current Islamic banks in non-Muslim countries serving as launching pads for prospective Takaful goods explained this vast expansion potential.

Looking back at the objectives of Takaful itself, it is intended for everyone regardless of their religious (Htay and Salman, 2017). Due to this, it may be able to enter certain markets for insurance in Muslim and non-Muslim nations. Takaful has become one of the important tools in risk management and it is getting attention from time to time. Though, it can be pictured as an agreement made by a group of individuals, to collectively indemnify one another against potential loss or damage onto them (Abdul Rahman et al., 2008) Each participant works together to support the harmed member.

Takaful also considered as the most popular social institution in the Islamic community which aim is to counter poverty and deprivation (Nafti, 2022). This role of Takaful as the social institution is very much related to the socio-economic. Limited studies have been conducted on the underlying principles of Takaful and how it is related to the socio-economic objectives. Thus, the main research objective is to discuss on the issues and challenges Malaysian Takaful Operators encountered when trying to contribute to the socioeconomic goals during the Covid-19 outbreak.

This paper is organized in six parts. The second part explains on Takaful and its basic principles, Takaful and maqasid shariah and contributions of Takaful Operators during the pandemic of Covid-19. The third part elaborates on the research methodology. The fourth part explains the findings and analysis. Finally, it is the conclusion part.

Literature Review

Takaful and its Basic Principles

The Qur'anic definition of takaful (5:2): "And collaborate you one another in righteousness and piety" refers to shared accountability, reciprocal assurance, joint assurance, and mutual assistance, also known as ta'awun in Arabic. Takaful can be easily understood as a group of participants agreeing to mutually guarantee among themselves against a specific loss, according to the general description provided by Bank Negara Malaysia. The Shariah Advisory Council of BNM asserts that the tabarru' (donation) concept as well as the ta'awun concept are the fundamental tenets of takaful among participants. Tabarru' is the participant's agreement to surrender, as a donation, a contribution amount that they have previously agreed to contribute into a takaful fund. Both Takaful participants and Takaful operators adhere to other Takaful standards. Permissible interest is one of its key principles. It is essential to guaranteeing a takaful contract's legality. It also protects participants from moral hazard (Zulkifli et al., 2012). This rule applies if there is a connection between participants and the subject, which typically results from a number of circumstances such property ownership, potential legal obligation, and contractual rights.

To engage in a takaful contract, individuals and institutions must fulfil certain criteria set forth by a takaful operator acting as a fund manager. These criteria are based on the concept of utmost good faith, which leads us to the second Takaful principle. According to Zulkifli et al. (2012), exercising the utmost good faith entails an obligation to voluntarily disclose, accurately, and completely all information relevant to the risks being addressed, whether or not it is requested. It indicates that the takaful participant has an obligation to notify the takaful operator of significant facts or topics at the start of the contract and once the claim has been settled. There could be times when the participant doesn't engage
in the best possible faith. This will result in misrepresentation and non-disclosure, which could result in the termination of the takaful certificate and the denial of claims (Razali & Mohd Ali, 2021).

In addition, a contract based on the indemnity principle is a takaful contract. According to Cheikh (2013), the Aqila system, where tribes collectively agree to compensate others, is where the Islamic insurance mechanism initially appeared in Mecca and Medina. If a man murders another man belonging to the same tribe, the accusers' family is responsible for compensating the alleged victim's heirs with blood money. Prophet Muhammad later adopted and implemented the technique (Peace be upon him). The Takaful system provides financial compensation in order to put the affected person in the same financial situation that he or she enjoyed immediately prior to the loss, and this is similar to the doctrine of 'Aqila (Zulkifli et. al, 2012). Additionally, this approach only applies to contracts involving property and liability takaful; it does not apply to family takaful, such as contracts involving health or personal accidents, because no monetary compensation can ever fully compensate for a person's loss of life.

The International Shariah Research Academy (ISRA) claims that the notion of subrogation in takaful is the corollary of the idea of indemnity. When a takaful operator has insured its participants under an indemnity agreement from a third party, subrogation refers to a set of procedures that makes it possible for the operator to be reimbursed. When a participant gets compensated by a takaful operator after a third-party harm him, the takaful operator is upholding the indemnity principle by prohibiting the participant from recovering compensation for the same loss twice and making money off the loss. The principle of contribution, which is another extension of the principle of indemnity, asserts that an insurer has the ability to request contributions from other participants who are similarly but not necessarily equally liable to a given participant. In other words, any claim must be divided among all operators if another indemnification contract (s) covering the same subject matter against the same risk exist. This rule is applied in general takaful to stop participants from making money off of several claims from various takaful operators for the same loss.

On the same ground, another takaful concept is proximate cause, or "sed causa proxima non-remota spectature," according to Zulkifli et al. (2012) (the proximate cause, not the distant cause). In other words, only risks that are specifically covered can receive compensation, therefore the reason of a loss must be determined. Participants in a claim must demonstrate that the loss was directly caused by the risk covered in order for it to be successful.

Takaful and Maqasid Shariah

If accepted by Shariah, the Takaful philosophy according to Billah (2019) might have a place in Islamic finance. According to Imam Al-Ghazali (1414 A.H.), the Maqasid, or goals, of Shariah are to advance the welfare of the people, which includes preserving their wealth (mal), faith (din), life (nafs), intelligence ('aql), and posterity (nasl). Therefore, anything that ensures the preservation of these five serves the greater good and is desirable. Additionally, Maqasid Shariah provides a solid framework for fostering Maslahah (benefits) and discouraging Mafsadah (damage) from people (Abdullah, 2012). Maslahah is divided into three categories by Imam Al-Shatibi: daruriyyat (the fundamentals), hajiyyat (the complimentary), and tahsiniyyat (embellishment). These three levels provide as a summary of maqasid Shariah and a rating of priority. The five maqasid Shariah principles that Imam Al-Ghazali previously described are included in the first category of Maslahah, which is known as daruriyyat (important). According to Dusuki (2008), the Maslahah and maqasid Shariah are related to "a set of norms, values, and rules that make up the Islamic way of life" and are crucial for controlling Muslim community members' activities.

Insurance can provide protection, however Islam does not approve of it since it contains components of riba (interest), gharar (ambiguity), and maysir (gambling or speculation). In order to do the same objective using a different contract and a Shariah-compliant risk mitigation method, Takaful, or Islamic Insurance, is used. Takaful also allows for more thorough Maqasid Shariah fulfilment. Adhering to
Shariah principles is the main concern in risk management for takaful since it must achieve the objectives of Shariah, notably the protection of life, protection of money, and protection of dignity (Abdullah, 2012). According to Abdul Aziz et al. (2013), Takaful aspires to safeguard lives and promote the free flow of income by fostering a feeling of social responsibility, promoting cross-social cooperation, and fostering ethical business practices.

Aziz et al. (2013) added that Takaful supports the protection of life since it shields individuals from any unanticipated unpleasant events that might affect themselves and their families. In the event of one's death or total and permanent incapacity, the benefits of Takaful compensation would benefit one's family because of the spirit of mutual assistance and risk sharing in this insurance. It so conforms with the maqasid Shariah's need for continuance of life. Even while it is everyone's right and duty to help others, the concept of fard kifayah, or social obligation, holds those who are capable or better off accountable for assisting those who are not capable or worse off (Abdullah, 2012). She also stated that it is an obligation, which denotes a requirement or fard, which indicates it is not an option. According to the Qur'an (11:61), "Human beings are expected to collaborate among themselves in order to properly execute the duty and mission of khilafah," which is the basis of Takaful, "Human beings are expected to cooperate among themselves."

The preservation of money and its circulation is one of the second most important protections under maqasid Shariah in relation to takaful terms, as mentioned by Aziz et al. (2013) and Abdullah (2012). Abdullah (2012) emphasised further the need for wealth to be shared throughout the community, as hoarding of riches is forbidden by Allah and requires His approval in order to achieve justice and benefit the community. If this is not done, social unrest and economic instability will occur. Humans are put to the test in a variety of ways, and riches and property are no exception. Losses of this worldly grace can occur at any time. This property may be tangible, like real estate or a car, or it may be intangible, like the loss of income or even security during trying times like a death or illness. This point of view claims that Takaful can also provide protection in this area due to the indemnity principle, which enables losses to be compensated and restores the policyholder's financial situation to what it was before the unfortunate event.

Another strategy for achieving the maqasid Shariah is the use of risk protection based on the tabarru' method in takaful, which promotes unity, brotherhood, and mutual cooperation by having each member pay with the intention of aiding fellow contributors in times of need. 2012 (Abdullah). Takaful, seen from a different perspective, includes maqasid shariah within the broader bounds of protecting human dignity in addition to the protection of life and property. Any violation of a duty owed to another human being, such as rape, incest, maltreatment of minors, or molestation, shall be covered by takaful, according to Abdullah (2012). Higher compensation is required for the victims who have been denied their rights as a result of such immoral and inhumane behaviour. In essence, maintaining participants' rights and duties in line with the goals and objectives of the maqasid Shariah involves protection of dignity on such a basis.

**Contributions of Takaful during the Pandemic of Covid-19**

According to a number of studies, COVID-19, which started out as a health disaster, swiftly turned into a worldwide economic crisis of unparalleled scope and speed. Conefrey and Walsh (2020) assert that COVID-19 has had a significant impact on the banking and insurance industries globally, shocking the economy and upsetting markets. When a traveller from China (through Singapore) tested positive for the virus on January 25, 2020, the first case of the COVID-19 epidemic in Malaysia had reached Malaysian soil. Since then, a new historic chapter has developed, upending the nation's public health system and finally putting the country's tenacity to the test (Hashim et al., 2021). Due to a surge in more than 700 ongoing cases, the Malaysian Prime Minister's Office released the first Movement Control Order (MCO) on March 18, 2020. In addition to the limits on international travel, the MCO ordered rapid closures for enterprises and services that it judged unnecessary to be shut down. Regional travel, open athletic
events, religious gatherings, and access to campuses, schools, and houses of worship were all prohibited.

Armed forces helped enforce this more and more by keeping an eye on and limiting the movement of those who were regarded to not be providing critical services. (Tang, 2020)

According to Hasin et al. (2021), the application of MCO has undoubtedly resulted in various uncertainties that have affected everyone from individuals to enterprises and endangered the viability of the latter. Prudential industries, such as those in the energy and electricity, telecommunications, water, shipping, oil and gas, and fuel, finance and banking, health, apparel, food, transportation, and logistics, were, however, left out of the MCO. The demands of communities during the outbreak are met by these sectors, which must continue to function as normal while allowing for economic migration (Hashim et al, 2021). According to World Health Organization (WHO) figures from 2008, rising healthcare expenditures drove more than 100 million people annually below the poverty line even before the outbreak. The idea of takaful risk management was developed as a strategy to manage risk for everyone in the community, not only the impoverished (Abdullah, 2021)

The Malaysian government, in cooperation with the Ministry of Health (MoH), numerous nongovernmental organisations (NGOs), businesses, and foreign governments, developed a number of financial aid and relief programmes in reaction to the COVID-19 pandemic's economic effects in Malaysia (Abu Seman, Sabri, Mohamad Nazarie, & Othman, 2022). Delaying family insurance and takaful premiums for afflicted people for three months is a component of the government-initiated economic stimulus package for the public during the MCO and COVID-19 outbreak (Abu Seman et al, 2022). The Life Insurance Association of Malaysia (LIAM) and Malaysian Takaful Association have determined the flexibility provided by life insurers and family takaful operators through a no-lapse guarantee, an extension of the grace period, or any other method that keeps the policy or certificate in good working order throughout the deferment period (MTA). The time frame in which this option was accessible, which was 1 April 2020 through 31 December 2020.

Participants had to approach the operators to ask for the postponement because it wasn't an automatic contribution deferment scheme in order to acquire the deferment pass (MTA, 2022). If their application for this Program is authorised by their Companies and they have COVID-19 infection, are under required home quarantine, or have lost income as a result of the COVID-19 scenario, certificate owners may postpone their contribution payment for 3 consecutive months (MTA, 2022). One takaful operators who has extended the duration of this relief scheme till June 30, 2022 is MTA.

In addition, policyholders affected by COVID-19 can maintain life insurance and family takaful protection even while experiencing short-term financial challenges thanks to an extension of their flexibility to reinstate or maintain those protections, according to a press release from LIAM in 2020. The short-term solution was extended to December 2020. The measure has benefits such as the ability to reinstate a lapsed policy, changes to the sum assured or covered, adjustments to the premium/contribution structure, conversion into a paid-up policy, waiver of fees for policy changes, and waiver of any penalties for late premium/contribution payments, particularly where takaful participants affected by COVID-19 are unable to access electronic payment channels during the MCO.

Takaful operators are focusing on micro-takaful protection to assist the Malaysian government's attempts to alleviate the socioeconomic effects of COVID-19. According to BNM (2016), microtakaful would be available to low- and moderate-income households in the lowest 40% (B40) of the population. These households are also eligible for the Bantuan Sara Hidup (BSH) or Bantuan Prihatin Rakyat (BPR). Due to their limited access to clean water, sewage, and healthcare, they are more likely to become ill and insurance coverage issues arise (Zainal, 2013). Zainal (2013) added that simple and economical Microtakaful programmes are necessary to reduce risk. By doing this, the government is able to fulfil its goal of providing low-income households with access to Takaful products to suit their financial protection needs. In order to achieve the Sustainable Development Goals, many takaful
providers are persistently working to become the value-based intermediary (VBI) that is modelled after the government (Nurdianawati, 2021). As a result, they offer microtakaful to those in need. In its Value-Based Intermediation for Takaful (VBIT) Roadmap 2022, MTA sought to advance the sector in order to meet future demands, particularly those related to the Covid-19 epidemic alleviation presently underway.

The Perlindungan Tenang project is one of the main initiatives in line with the VBIT Underpinning Thrusts, according to LIAM. While the industry works to narrow the protection gap and ensure that the B40 community is able to defend itself from unanticipated occurrences and retain their lifestyle, Perlindungan Tenang is designed for B40 consumers looking for appropriate products and services. Bank Negara Malaysia started a current initiative named Perlindungan Tenang in 2017. This project brings together the insurance and takaful industries in order to provide insurance and takaful solutions that address the requirements of disadvantaged groups, particularly lower-income consumers. According to Elmie Aman Najas, Chairman of the Malaysian Takaful Association, the qualified Bantuan Prihatin Rakyat beneficiaries can now protect themselves and their family against significant life risks with premiums and payments starting at just a few Ringgit each month (MTA). The Perlindungan Tenang programme satisfies the criteria for being easily available to the target population, providing good protection value, being straightforward to grasp as well as straightforward to purchase and submit claims. Takaful business owners consequently developed these reasonably priced microtakaful items.

Methodology

Face-to-face interviews were used to gather information in-depth. Interviews were selected as the main method of data collection because they offer a convenient way to get in-depth information on the current difficulties faced by practitioners. In order to perform this qualitative study, ten (10) Takaful Operators were used. Table 3.0 below exhibits the list of Takaful Operators involved in this study.

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of Takaful Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AIA PUBLIC Takaful Bhd</td>
</tr>
<tr>
<td>2</td>
<td>AmMetLife Takaful Berhad</td>
</tr>
<tr>
<td>3</td>
<td>Etiqa Family Takaful Berhad</td>
</tr>
<tr>
<td>4</td>
<td>Etiqa General Takaful Berhad</td>
</tr>
<tr>
<td>5</td>
<td>FWD Takaful Berhad</td>
</tr>
<tr>
<td>6</td>
<td>Great Eastern Takaful Berhad</td>
</tr>
<tr>
<td>7</td>
<td>Takaful Ikhlas Family Berhad</td>
</tr>
<tr>
<td>8</td>
<td>Takaful Ikhlas General Berhad</td>
</tr>
<tr>
<td>9</td>
<td>Zurich General Takaful Malaysia Berhad</td>
</tr>
<tr>
<td>10</td>
<td>Zurich Takaful Malaysia Berhad</td>
</tr>
</tbody>
</table>

Sources: Author (2022)

Ten (10) interviews with semi-structured interview questions were conducted. Purposive sampling was the approach used. Product development officers and shariah officers who are directly and indirectly involved in the operations of Takaful products make up as our respondents. The details of respondents are shown in Table 3.1 below.

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Gender</th>
<th>Highest Qualification</th>
<th>Role</th>
<th>Years of experience in industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent A</td>
<td>Male</td>
<td>Bachelor degree</td>
<td>Shariah Officer</td>
<td>16-20 years</td>
</tr>
<tr>
<td>Respondent B</td>
<td>Male</td>
<td>Bachelor degree</td>
<td>Shariah Officer</td>
<td>16-20 years</td>
</tr>
<tr>
<td>Respondent C</td>
<td>Male</td>
<td>Bachelor degree</td>
<td>Shariah Officer</td>
<td>6-10 years</td>
</tr>
<tr>
<td>Respondent D</td>
<td>Male</td>
<td>Bachelor degree</td>
<td>Head Shariah Officer</td>
<td>16-20 years</td>
</tr>
<tr>
<td>Respondent E</td>
<td>Female</td>
<td>Master degree</td>
<td>Product Development Officer</td>
<td>11-15 years</td>
</tr>
<tr>
<td>Respondent F</td>
<td>Male</td>
<td>Bachelor degree</td>
<td>Product Development Officer</td>
<td>11-15 years</td>
</tr>
</tbody>
</table>
Interviews took place on an online platform. Before the start of each semi-structured interview, participants completed a brief questionnaire to provide anonymous demographic information. All interviews were taped and then verbatim transcribed. All of the participants in the semi-structured interview that was used for this study appeared at comfortable and had a solid awareness of the organisations' historical structures and operational procedures. The following three strategies have been applied in the interviews since semi-structured interviews offer greater variety and more useful data generation: relationship-building, provocative comments, and critical event analysis (Pathak & Intratat, 2012).

In order to establish the key points learned from the discussion, field notes were also taken throughout the focus group and interview sessions. Field notes and semi-structured interviews were used to triangulate the analysis. All participants received a copy of the transcript of their interview for the purpose of data validation. Under Patton's direction, the second research team member cross-checked the transcribed data from the interviews after the data had initially been categorised using key themes pertinent to the primary study objectives (2002). Researchers examined at subjects during the analysis phase that offered potential explanations for what was happening in the data beyond summaries of specific transcripts. Verbatim quotes from participants that best illustrate each theme have been used to support it.

**Result and Findings**

After conducting a data analysis, the findings showed the themes indicated below, which were then verified. Based on the validity test, the author is certain that the themes accurately reflect the facts. Below is the list of five themes which comprises all the challenges faced by by Malaysian Takaful Operators in contributing for the socio-economic objectives during the pandemic of Covid-19 which will be further elaborated in the next subheading:

- Misunderstanding among the society
- Human constraints
- Prioritizing the relevant project
- Searching for the best collaborations

**Misunderstanding among the Society**

The first challenge faced by the Takaful Operators is misunderstanding among the society. It includes the misunderstanding on the concept of Takaful and the role of Takaful Operators itself. There was part of the society which still have the lame thought that the Takaful Operator is only focusing on profit maximization without understanding the main objective of the establishment of Takaful Operator. Some of them also does not have any idea on the differences between Takaful Operators and insurance company. Another issues which relate to the misunderstanding is the mindset of the society. Sometimes they just expect continuous help from the government or non-government organizations without any effort. For example, cash assistance, free food, extra allowances and so on.

These circumstances happened due to the lack of knowledge and awareness among the society. These issues on the knowledge and awareness among the society have been discussed a lot in the previous study (Salleh et al., 2017; Mokhtar et al., 2017; Salman et al., 2017; Hassan et al., 2018; Salleh &Laksana, 2018; Wahab & Tajuddin, 2020; Abu Seman, 2021; Wan Jusoh & Noreffendi, 2022; Hassan et al., 2022). Below are among the statements made the respondents on the issues of misunderstanding among the society:

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Gender</th>
<th>Highest Education</th>
<th>Position</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>G</td>
<td>Female</td>
<td>Bachelor degree</td>
<td>Product Development Officer</td>
<td>11-15 years</td>
</tr>
<tr>
<td>H</td>
<td>Female</td>
<td>Bachelor degree</td>
<td>Product Development Officer</td>
<td>11-15 years</td>
</tr>
<tr>
<td>I</td>
<td>Male</td>
<td>Bachelor degree</td>
<td>VP of shariah department</td>
<td>11-15 years</td>
</tr>
<tr>
<td>J</td>
<td>Female</td>
<td>Bachelor degree</td>
<td>Product Development Officer</td>
<td>11-15 years</td>
</tr>
</tbody>
</table>

**Sources:** Researcher (2022)
“When we plan for financial literacy program for the school or the rural area, people have a thought that we just want to sell the insurance and to get the client…” (RA)

“…the challenges are to create awareness…. but the mindset of the society still the same…no efforts at all. we have actually opened the way.for example we conduct a free training for asnaf to become takaful agent.but end up only one of them are able to generate their own income.” (RB)

As a solution, it can be suggested for takaful operators to educate Malaysian young about the advantages of takaful products. The level of education of potential participants may have a significant impact on their decision to engage or not, in addition to their general knowledge and understanding of Takaful.

**Human Constraints**

On top of that, Takaful Operator also highlighted on the challenges of human constraints. This is due to the small size of the organization and limited resources. Below are among the reply of the respondents on this issue:

“….it is different kind of challenge. I mean being a small company, we have a very green team, we don’t have enough staff to do CSR. It is more of human constraints…that can be the challenge.” (RC)

“..second challenge during the implementation..is of course lack of manpower…” (RB)

Based on description above, human constraint is one the issue which have been faced by Takaful Operators for quite sometimes. This is due to the size of Takaful Operators compared to other financial institutions. As a solution, it can be suggested for Takaful Operators to plan and manage accordingly the efficiency number of staff to address the issue of constraints. Other than that, the takaful sector needs to have a clear strategic direction in order to succeed and maintain the industry, particularly with regard to improving human capital and working together with other operators to further improve the industry's resilience (Jaffer, 2015; Fauzi et al., 2016).

**Prioritizing the Relevant Projects**

The next challenge is prioritizing the relevant projects. This happened due to limited resources. Normally, the management of Takaful Operator will set aside the budget annually for the CSR programme or VBI program. The projected project would be based on the allocation budget. This is among the reply from the respondents:

“…budget is a challenge..to me, that is something that is within our control..” (RD)

“..A lot of request from community…sometimes we have to prioritize the projects which give more impact to the society…” (RE)

“..among the challenges is to specify the target groups. Due to limited resources..” (RG)

However, during the pandemic of covid-19, study by Baatwah et al. (2022) indicate a favourable and significant correlation between COVID-19 budgeting and CSR spending. Businesses spent a lot of money when there was a rapid increase in confirmed cases, but they spent a lot more money when there was a rapid increase in both the death rate and the number of confirmed cases.

**Searching for the best Collaborations**

Finally, the challenges come in term of findings the best collaborations since most of the time Takaful Operators have to engage with any Non-Government Organizations (NGO) when implementing the CSR. They really have to choose the best collaborators to ensure the success of the program. Below are some of their responds:
“..when we conduct our programme, normally through collaborations..sometimes their charge are quite high..so this is one of the challenges..” (RB)
“..The challenge would be to validate how NGO spend the money..that is why it is very important to find the best partners..”(RC)
“..one of the challenges..to find the partner to work or to execute the programme..” (RG)

Based on the respond from the Takaful Operators, it is very important for them to find the best collaborations in successfully implementing the project. The good relationship between businesses and NGOs are seen as a way to carry out the corporate social responsibility (CSR) agenda and help NGOs keep their commitments to the community (Eid & Sabella, 2014).

Based on the opinion and description by the respondents, robust planning and monitoring, good support by the management and enforcement by the regulators are very necessary for Takaful Operators in order for them to contribute for socio-economic objectives. Table summarizes on the challenges faces by the participants as described above together with the causes, consequences, and the preventive strategies.

**Table 4.0: Challenges faced by the auditors**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Causes</th>
<th>Avoidance/Preventive Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misinterpretations among the society</td>
<td>Lack of knowledge and awareness of among the society</td>
<td>Finance literacy at the early age</td>
</tr>
<tr>
<td>Human constraints</td>
<td>Lack of resources</td>
<td>Strong management support</td>
</tr>
<tr>
<td>Prioritizing the relevant project</td>
<td>Role of agent</td>
<td>Increase R&amp;D</td>
</tr>
<tr>
<td>Searching for the best collaborations</td>
<td></td>
<td>Effective monitoring system</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Enforcement by the regulators</td>
</tr>
</tbody>
</table>

Sources : Authors (2022)

The industry can identify the appropriate solutions and take the required steps to reduce the effects of such issues by being aware of the challenges and their effects. Part of the contribution made by this study is the suggested remedy for the difficulties found, which can be very helpful to the participant in the sector. There are several of the stated strategies that differ from those found in earlier research, and there haven't been any studies that have specifically covered the issues before.

**Conclusion**

The main purpose of this study is to discuss the issues and challenges that Malaysian Takaful Operators encountered when trying to contribute to the socioeconomic goals during the Covid-19 pandemic and to lay out recommendations for how to navigate around those challenges and move towards achieving the clear objectives of the development of Takaful Operators. According to the findings, Malaysian Takaful Operators are convinced of their capabilities and constantly look for ways to improve society. Takaful operators also assume that despite the absence of pandemics, they will still be able to regularly contribute to socioeconomic goals despite the difficulties they currently confront. This study contributes by expanding the socioeconomic knowledge and offering preventive measures to deal with all the issues. However, when taking the analysis into account, there may be two major considerations that limit how the results should be interpreted. First off, only the Takaful industry is being considered in this analysis. The second point relates to the approach used to gather and examine the qualitative data. Future research has possibilities because of these limitations. Perhaps additional research with a wider scope and a different technique can be done in the future. Despite the aforementioned flaws, the study's conclusions are very strategic relevant to the current efforts being made by Takaful operators to implement maqasid shariah.

**References**


Level of Awareness and Understanding towards Money Mule Among Malaysian Citizens

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ABSTRACT

Objective: Money mule is a bank account used by another person unknowingly or voluntarily by the owner of the account to obtain a reward or by fraudulent means for illegal or illegal financial transactions. Syndicates usually get these mule accounts (also known as surrogate accounts) by deceiving those who need extra income and have a low level of financial literacy. This study will determine the level of awareness towards money mule and understanding towards the dangerous of money mule. In this research, both quantitative and qualitative approaches will be employed with surveys and interviews.

Methodology: A Systematic Review was conducted in this study considering potential articles published from January 2020 to October 2021. Electronic data collection through Goggle Scholar (50 journals) was identified to studies related to the level of awareness on money mule or money laundering.

Findings: This study concludes that, although the law enforcement agencies have the power to investigate money laundering and terrorism financing under the act, Malaysia is lacking in having a good investigative support system to assist the law enforcement agencies during the investigation process.

Implications: Special attention should be given to any complex and unusual business transactions, especially if there seems to be an unlawful purpose. Programs to educate public on money laundering should be found in order to raise awareness towards money laundering and financing of terrorism.

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Introduction

A recent Financial Times article reports that criminal organizations are increasingly using young individuals as money mules to launder profits from illegal activities by creating fake job postings on job websites and social media platforms. Referred to as "Generation Covid," victims are typically between the ages of 21 and 30 and are searching for work during the pandemic. Criminals use social media to advertise the "opportunities" and lure unsuspecting individuals by displaying pictures of large sums of money or lavish lifestyles. Users are then directed to become "money transfer agents" or "local processors" and make quick money. To protect against such scams, banking website Maybank2u in Malaysia has issued a security alert warning customers to be cautious of con artists who target victims for money mule operations through emails, chat rooms, websites, and social media. The warning cautions that fraudsters often use "lucrative schemes and monetary prizes" to persuade victims to use their bank accounts and even ATM cards for unauthorized money transfers. Semak Mule, a website created by the Royal Malaysian Police (PDRM), allows individuals to check if any bank accounts or phone numbers have been used in fraudulent activities by reviewing the number of police reports filed against them before engaging in any banking transactions. [2]

The majority of crimes are committed with a financial motive, such as drug trafficking, human and animal trafficking, smuggling, fraud, and cybercrimes like email spoofing, identity theft, ransomware, and phishing. The money trail provides evidence of the crime, and the act of money laundering enables the illegal funds to be separated from their source while shielding the criminals who benefit from the proceeds. Modern trends have influenced various cybercrime patterns, including the Macau scam, which is prevalent in Malaysia and involves criminals posing as authorities to accuse victims of crimes they did not commit. According to Cybersecurity Malaysia, fraud and infiltration are the most frequently reported incidents, with fraud cases doubling from 500 to 1000 between 2017 and 2019. In 2019, fraud was the most frequently reported type of incident. [3]

Money mules are strategically inserted into criminal networks to obscure illicit activities and complicate the money trail for law enforcement agencies. [4] Typically, these individuals are inexperienced and unaware of the criminal nature of their work, often young people who are unemployed, students, or facing financial hardship. The age group between 15 to 44 years old, with a particular emphasis on the 24 to 34-year-old range, is most commonly targeted for this criminal activity. [4] The role of a money mule involves receiving illegal funds into their personal accounts and then transferring the money to designated recipients or accounts, as directed by the criminal organization. Money mules may also assist in setting up shell companies or bank accounts in their names to launder money for criminal organizations. Although they may not be directly involved in criminal activities, money mules are still complicit in the crime by facilitating the laundering of illicit funds. Criminal organizations recruit money mules through face-to-face meetings, online job search engines, social networks, and dating websites, using fraudulent job postings with attractive employment conditions, compensation, and flexibility to lure in unsuspecting victims. [5]
The model presented in this concept illustrates how scammers use interpersonal deception to manipulate victims into becoming money mules. It depicts the personalities involved, their connections, and the sequence of events that lead victims to participate in illegal activities. Factors that influence criminals to accept job offers include financial pressure, social media influence, and enticing compensation and flexibility. [6] To prevent crime and victimization, raising awareness is considered a key prevention strategy that exposes the crime and prepares consumers to fight against it. This study aims to link these elements into a model and demonstrate how awareness affects job acceptance. [7] The purpose of the money laundering cycle is to conceal the source of criminal proceeds and make them appear legitimate. Money mules are recruited by criminal networks to use their bank accounts and conduct multiple transfers to obscure the trail of illicit proceeds and maintain anonymity. [8] Criminals pose as recruiters, offering attractive job opportunities and financial incentives to entice potential employees into accepting the job easily. Victims suffer the consequences, while law enforcement aims to identify the real offenders and prevent significant financial losses. To address the gap in knowledge of job criteria, this study seeks to examine the development of a model that includes relevant variables to determine the association between knowledge of work criteria and the ability to identify covert criminal aspects. [9]

**Methodology**

In this systematic review, conducted between January 2020 and October 2021, electronic data collection was utilized to identify relevant articles from 50 journals on Google Scholar that examined knowledge about money laundering or money mules. [10] The screening process, based on title and abstract, yielded a total of 30 studies, with consideration given to the extent of knowledge and understanding of money mules. Data were collected independently from each study, including publication date, author, study type, country, evaluation methods employed, and the proportion of participants with positive screenings, as well as previous research findings. All 15 of the identified studies were cross-sectional in nature and focused on money mules. Two studies were conducted in Nigeria and Indonesia, one in Pakistan, Kenya, Australia, and Malaysia, and seven in India, and all utilized quantitative survey research methodologies. [11]
### TABLE 1. Selected articles that meet the criteria

<table>
<thead>
<tr>
<th>Author / Year</th>
<th>Title</th>
<th>Method</th>
<th>Country</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>[12]</td>
<td>The level of awareness, trust, discomfort, and acceptance among customers regarding anti-money laundering practices in banks located in Malaysia.</td>
<td>Survey</td>
<td>Malaysia</td>
<td>The study discovered a notable link between respondents' comprehension of money laundering and terrorism financing, their trust in banking secrecy measures, and their acceptance of the bank's anti-money laundering and counter-terrorism financing practices.</td>
</tr>
<tr>
<td>[13]</td>
<td>Anti-money laundering regulations and its effectiveness</td>
<td>Survey</td>
<td>Pakistan</td>
<td>This study aims to assess the effectiveness of Pakistan's anti-money laundering laws by analyzing key factors that may impact their efficacy.</td>
</tr>
<tr>
<td>[14]</td>
<td>Reducing risks of money laundering by unwittingly recruited money mules.</td>
<td>Survey</td>
<td>European</td>
<td>The study suggests that financial institutions can prevent money laundering by focusing monitoring resources on vulnerable clients such as newcomers, unemployed individuals affected by events such as COVID-19, students, and those experiencing financial difficulties. It is recommended to closely monitor large cash deposits followed by wire transfers. This strategy may help to identify and prevent inadvertent Money Mules from facilitating the laundering of criminal proceeds.</td>
</tr>
<tr>
<td>[15]</td>
<td>How the reporting of suspicious transactions regime impacts the banking industry in Malaysia</td>
<td>Survey</td>
<td>Malaysia</td>
<td>It is clear that the Malaysian banking industry has been significantly impacted by the reporting suspicious transactions rule. Although the regime is founded on strong foundations, it is yet unclear how effective it is. Therefore, it is impossible to predict at this point whether the banks will be able to manage the enhanced AML requirements. It goes without saying that strong coordination between lawmakers, regulators, and the banking sector is essential at this point in order to reduce the difficulties the bank experience and, consequently, to guarantee the regime's successful implementation.</td>
</tr>
<tr>
<td>[16]</td>
<td>Money laundering and civil forfeiture in Malaysia.</td>
<td>Survey</td>
<td>Malaysia</td>
<td>Despite the implementation of the Malaysian Anti-Money Laundering and Anti-Terrorism Financing Act (AMLATFA), little research has been conducted on the effectiveness of the civil forfeiture mechanism. Recent studies on the confiscation of illicit proceeds suggest that forfeiture provisions are a more effective tool for law enforcement to combat crime, compared to traditional methods that focused primarily on punishing individual criminals and failed to deter criminal enterprises as a whole.</td>
</tr>
<tr>
<td>Author / Year</td>
<td>Title</td>
<td>Method</td>
<td>Country</td>
<td>Findings</td>
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<tr>
<td>--------------</td>
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</tr>
<tr>
<td>[17]</td>
<td>Combating money laundering in Malaysia</td>
<td>Survey</td>
<td>Malaysia</td>
<td>This is accomplished by first examining Malaysia's existing money laundering trends, then providing a thorough overview of the steps the Malaysian government has taken to stop such crimes. These proactive measures include the passage and implementation of the Anti-Money Laundering (AML) Act 2001, the founding of the Southeast Asia Regional Centre for Counter-Terrorism and the Financial Intelligence Unit of the Central Bank of Malaysia, both of which collaborate with international law enforcement agencies, as well as the mandate for professional accountants and attorneys to report suspicious transactions.</td>
</tr>
<tr>
<td>[18]</td>
<td>Evaluating implementation is crucial in fighting money laundering.</td>
<td>Survey</td>
<td>Malaysia</td>
<td>The study's findings suggest that investigating officers are struggling to gather sufficient evidence to support their allegations and are also facing difficulties in completing investigations within the time frames set by the AMLATFPUAA law of 2001, which aims to prevent money laundering and financing of terrorism in Malaysia. Furthermore, the study indicates that Malaysia's law enforcement agencies lack adequate investigative support to enforce the law effectively.</td>
</tr>
<tr>
<td>[19]</td>
<td>Money laundering in modern crime.</td>
<td>Survey</td>
<td>Russia</td>
<td>The study's findings led to several conclusions, including the fact that money laundering has become a prominent feature of modern crime. This is particularly true given the efficient measures in place to monitor income generated from specific types of criminal activity such as corruption, organized crime, and economic crime.</td>
</tr>
<tr>
<td>[20]</td>
<td>Reducing money laundering risks from unwitting money mules.</td>
<td>Survey</td>
<td>UK</td>
<td>The conclusion of this article is that financial institutions can prevent money laundering by monitoring individuals who may be emotionally vulnerable such as newcomers, unemployed people, students, and those facing financial difficulties. Additionally, they should carefully examine the origin of the funds...</td>
</tr>
<tr>
<td>[21]</td>
<td>“Cyber-laundering” in the digital age</td>
<td>Survey</td>
<td>Russia</td>
<td>The current study focuses on numerous businesses in various economic sectors that reduce cyber-laundering and the anti-money laundering techniques that can be used. As a result, this essay offers a thorough overview and analysis of how money launderers evade detection. Criminal and preventive viewpoints are both taken into account.</td>
</tr>
<tr>
<td>Author / Year</td>
<td>Title</td>
<td>Method</td>
<td>Country</td>
<td>Findings</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------------------------------------</td>
<td>-----------------</td>
<td>---------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>[22]</td>
<td>The intersection of money laundering, technology, FATF, and Spain's criminal justice reform.</td>
<td>Survey</td>
<td>Spain</td>
<td>The report suggests that new payment technologies have made it easier for money launderers to commit crimes. However, technology, including the internet, also has benefits, such as identity verification and surveillance to prevent money laundering. The study also examines the recent changes in Spain's Criminal Code regarding money laundering.</td>
</tr>
<tr>
<td>[23]</td>
<td>Red teaming financial crime risks in the banking sector</td>
<td>Survey</td>
<td>Australia</td>
<td>Red teaming techniques, according to this research, can help banks be proactive in identifying and reducing the risks of financial crime. Red teaming shouldn't just be used for cybersecurity applications; banks should also think about using it for their financial crime compliance role.</td>
</tr>
<tr>
<td>[24]</td>
<td>Money mule recruitment model in Malaysia: an awareness perspective.</td>
<td>Survey and interview</td>
<td>Malaysia</td>
<td>This study aims to construct a model with associated variables to examine the relationship between the awareness of job requirements, victims' ability to identify covert illegal aspects and exposure to law enforcement, and how these factors influence victims' decisions to accept job offers related to money mule recruitment.</td>
</tr>
<tr>
<td>[25]</td>
<td>The central bank of Malaysia is responsible for enforcing money laundering investigations and charges under AMLATFA.</td>
<td>Multiple sources of secondary data from BNM's official website</td>
<td>Malaysia</td>
<td>This research sought to assess and better understand the scope of money laundering instances, particularly those that BNM was looking into.</td>
</tr>
<tr>
<td>[26]</td>
<td>Customer perception of anti-money laundering practices in Malaysian banks, including awareness, trust, discomfort, and acceptance.</td>
<td>Survey</td>
<td>Malaysia</td>
<td>Trust in banking secrecy, support for anti-money laundering practices, and understanding of money laundering and terrorism financing are interrelated, as per the study.</td>
</tr>
</tbody>
</table>

**Results**

The findings of the studies on money mules indicate that the Malaysia have low awareness of money mules practices. Customer understandings comfort and acceptance of anti-money laundering procedures in Malaysia’s banks are link to their knowledge of money laundering and terrorism funding, trust in banking secrecy and support for AML policies. The reporting suspicious transactions regime has significantly impacted the Malaysian banking industry but its effectiveness remains uncertain. Effective coordination between legislators, regulators, and banks is crucial. Money laundering and civil forfeiture are prevalent in Malaysia. The government is taken steps to combat these practices but ongoing vigilance is required. The banking and financial sector must invest in transaction monitoring technology and AML training to address the issues,
Malaysia has taken several steps to effectively combat illegal activities, in line with the change theory. As part of this process, the country has established an Anti Money Laundering (AML) regime to provide guidance in the fight against money laundering. All relevant parties are responsible for ensuring compliance with the regime, which has undergone several changes during implementation. The success of Malaysia's anti-money laundering efforts is determined by the high number of money laundering prosecutions and confiscations by law enforcement agencies, according to studies such as FATF (2013) [27]. To further mitigate money laundering and terrorism financing activities, future studies could focus on key preventive measures that can be implemented. Financial institutions and companies must comply with AML requirements set out in regulations and standards, including keeping proper records of all transactions and paying special attention to any complex or unusual business dealings that may have an unlawful purpose. It is recommended that public education programs be developed to raise awareness of money laundering and terrorism financing.

A study titled "Implementation evaluation: a future direction in money laundering investigation" suggests that investigating officers in Malaysia are struggling to gather sufficient evidence to support their accusations and complete investigations within the time limits set by the Anti-Money Laundering, Anti-Terrorism Financing, and Proceeds of Unlawful Activities Act (AMLATFPUAA) of 2001. The study disseminated surveys to law enforcement organizations, but only 39 out of 61 returned surveys could be analyzed due to incomplete responses. The findings suggest that Malaysia lacks a robust investigative support system for money laundering and terrorism financing investigations. The study also analyzed public announcements from the Central Bank's enforcement division between 2007 to 2011 to assess their substance regarding law enforcement agencies investigating money laundering and terrorism financing, based on the predicate offence, perpetrators, and state of the cases.

Conclusion
To prevent illicit activities in Malaysia, various steps have been taken as part of the country's transformation. The Anti Money Laundering (AML) regime was developed to combat money laundering, and its effective implementation is crucial. The efficiency of the country's anti-money laundering efforts is measured by the number of prosecutions and confiscations, with a focus on law enforcement authorities. Research on preventive measures to reduce money laundering and terrorism financing can be conducted in the future. Businesses and financial institutions must comply with regulations and standards on anti-money laundering. Complex and unusual transactions should be scrutinized, especially if they indicate illicit intentions. To increase public awareness of money laundering and terrorism financing, education programs should be developed.

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Muhammadn Mohamed, Z. and Ahmad, K. (2012), "Investigation and prosecution of money laundering cases in Malaysia", Journal of Money Laundering Control, Vol. 15 No. 4, pp. 421-429


Moderating Effect of Manufacturing Firm Size on Indicators of Financial Uncertainty and Performance of Kenya Manufacturing Firms

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Willy Muturi, Lecture, JKUAT, Nairobi, Kenya
Tobias Olweny, Lecture, JKUAT, Nairobi, Kenya

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ABSTRACT

Purpose: The extent to which firm size could financial performance and indicators of financial uncertainty relationship for manufacturing firms. The study was necessitated by performance of manufacturing companies which was below expectation in the previous 12 years as indicated by Kenya Manufacturers Association (KAM).

Design/Methodology/Approach: Descriptive design methodology was adapted for the Study which was target population of 856 Kenya manufacturing firms registered under KAM for a duration of twelve years between 2020 to 2009. Random sample of 90 firms was selected after using stratified sampling to get the number to include from each stratum of 14 sectors of manufacturing firms. Return on Equity (ROE), Uncertainty of trade credit, operational cost, Liquidity, Leverage, and Logarithm of total assets were used as variables under the study.

Findings: Indications of financial uncertainty and performance of the firms manufacturing goods and services in Kenya was moderated by firm size. Results showed firm size negatively affects performance, moderation was insignificant, though this relationship was strengthened when size of firm was introduced.

Implication/Value: There is need for management to monitor closely firm size since it significantly has reverse effect on performance of manufacturing companies in Kenya. Growth of firm through acquiring assets need monitoring when financing. Such financing should be done through equity with minimal debts. Leverage significantly and negatively affect firm performance.

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Keywords
Firm Size, Financial Uncertainty Indicators, Financial performance

Jel Classification
P34, O16

Introduction

Every firm has size as one of determinants of its profitability as a result of its Economies of Scale, it’s hypothesized by different scholars that firms can stand financial uncertainties pressure which leads to
reduced failure rate. Researchers have found a relationship that is positive when carrying out research between the size of the firm and their profitability (manufacturing firms) due to the advantage of economies of scale, better strategies to handle financial challenges, efficient production (Low operation, cost,) and easy access to credit/funds (Aloy and Velnampy, 2014).

Expansion of firms separates ownership from control as firm size reaches a threshold, and the relationship between size and performance becomes negative (World Bank report, 2018). This is due to the high rate of fraud, production inefficiency, losses and leakages leading to high operational costs (Fraud report to nation, 2016). Large firms are slow in making decisions when uncertainty is perceived and don’t act timely to looming uncertainties. Further, Kung’u (2015) hypothesized that large firms are more difficult to control leading to decreased management efficiency. Small firms are mostly managed by owners as such conflict of interest is minimal and operational cost is not high.

The size of a firm worldwide and in Kenya can be measured using Sales (Net or total) of the firm for a given specific period, assets (Total), income (net), Equity-Market Value or number of employees (Kitila & Alemu, 2014; Alloy & Velnampy, 2014). This current study adapted total asset natural logarithm while measuring size of the firm. The same measure had been adapted by researchers like Ripon et al., 2018; Waswa et al., 2018, and Oyakhilome, 2018.

**Firm Financial Performance**

Performance of any company or a firm is said to be its ability of that firm to make/innovate or produce predetermined results or outcome against a specific targets or targets. This can be expressed in terms of profit and losses for a given period (Ozcan et al, 2017). Performance helps firms to review how well they are using assets to generate revenue and it measures the financial soundness of the firms for a given period. Firms can compare their financial performance from one period to another or they can compare performance with other firms (Olukemi, 2017). A firm that is financial performing well, makes efficient and effective use of resources, grows, survives for a long period and achieves its goals and objectives (Warsame, 2016).

Financial performance for manufacturing firms can be measured using several indicators and Measures either in a span of one or more years. Some of these measures are firm profitability (Kayoyire & Shukla, 2016), ratio of return on assets, (Kung’u, 2015), contribution to growth in GDP, (KAM, 2017), total sales and return on sales (Memba & Nyanuba, 2013) and employment rate (Osore & Ogeto, 2014). The overall performance of manufacturing companies is very important to investors since they have entrusted their money and other resources to the management of firms with expectation to increase its value (Njeru, 2015). Agency theory explains that managers need to be monitored constantly for them to act in interests of firm shareholders. Monitoring comes with added costs of monitoring firms’ activities and performance having appropriate structures of incentives and discipline in place. Most firms link incentives to performance (Uzel, 2015).

Worldwide today, manufacturing firms have been under adaptive pressure to enable them to survive under the intensely competitive environment in which they exist. Rapid development in Technology has led to changes in the life cycle of the product, models of new business and improved techniques of production. There has been increased uncertainty about the demand for products and prices of manufactured goods. Some of the macroeconomic forces for example commodity prices, rate of foreign exchange and other microeconomic forces when unstable they always impact performance of manufacturers globally.

Manufacturing firms in Kenya have been a major contributor to the development of the economy in terms of employment and GDP contribution. GDP had been increasing steadily until when it stagnated at an average of 10% for the last 10 Years (KAM, 2017). This was against expected growth of 20% (Economic survey report, 2014). The large population of Kenya is employed by manufacturing firms both in formal and informal sectors (Kenya Economic Survey, 2017). The manufacturing industry in
Kenya employs not less than 2.3 million people on average annually. From the Kenya Manufacturing enterprise report (2016) manufacturing firms employ 13% of total Kenya Wages. This number is expected to grow at 1.9% annually (IMF, 2019)

From the world bank report (2016), it was shown that Manufacturers especially those operating in Kenya and sub-Saharan countries have declining trend in terms of profits dating back to 10 years. Factors cited are operational costs that are gradually increasing, Cash-flow issues, high premiums on loans, and unstable prices. A good number of manufacturing firms have reduced operations in Kenya, some have shut down and moved to other countries. Major issues being cost of production inputs that are high and unpredictable demand, Lack of local market for products, goods and services produced. This has caused manufacturing firms to be under intense pressure to be adaptive in order to overcome a good number of such challenges.

Manufacturing firms are on the watch out in the global market for different policies both financial political and environmental in relation to demand and since such leads to uncertainties that have affect stability of common prices for products, foreign exchange rates and taxes on importation (African Development Bank, 2018). These uncertainties have also led to changes in the life cycle of products, models of new businesses and improved techniques of production. There has been increased uncertainty about the demand for products and prices of manufactured goods. These affect financial performance. Many ratios of profitability like ROI, Profit margin, ROE, ROS, ROA, growth in sales among others, have been used to measure performance. This study used ROE as proxy for performance which measures owners return because of capital investments done and fits well the study objective.

The Study Statement of the Problem
Kenya’s manufacturers are expected to contribute to its Global Development Produce by 30%, they need to contribute 15% to total market share, attract 10 and more of the large investors in the country’s processing and manufacturing industry, and experience increase in sales (Kungu, Waititu, Wanjau & Gekara, 2014; Gathiaga & Gitau, 2017). They are to create employment by up to 20% (KAM 2019). However, these expectations have fell short, there is decline in profits for the past 12 years (Word Bank, 2019). The stagnation in contribution to GDP is 10% and some firms are scaling down operations and deploying their workers.

Several challenges have been cited to be the major contributors to the decline in this firms’ financial performance. High operation costs, lack of Local markets for locally produced goods and lack of overseas market. Osore and Ogeto, (2014), have reported high default rates by customers and high-interest rates on debts. Kungu et al., (2014) cited unstable commodity prices and high competition from cheap imports. Several studies done on how firm size affects firm performance have not been conclusive specifically the moderation effect of firm size on firm performance and indicators of financial uncertainty. This current study aims at finding out if financial performance and financial uncertainty indicators relationship is moderated by firm size.

The Objective of the Study
This current study had its one main objective of investigating variables in order to find out if firm size moderates relationship that exist between financial performance for manufacturing firms and financial uncertainty indicators.

Hypothesis Testing
Ho: Size of a firm moderates’ relationship between indicators of financial uncertainty and performance for Kenyan manufacturing companies.

H1: Size of firm does not moderate relationship between indicators of financial uncertainty and manufacturing firms’ performance.
Literature Review

Onsongo (2019) studied if firm size moderates’ performance and operational risk in relation to companies enlisted at NSE. Data was collected for 14 manufacturing firms for 5 years between 2013 and 2017. Panel regression was used to analyze data collected using a data collection instrument. Financial performance was measured using ROA, operational risk was proxied by cost-to-income ratio while size was measured using total assets of the firm. From the first step of analysis, operational risk did not affect financial performance, when firm size was introduced, operational risk positively and significantly impacted performance. Meaning size moderates’ financial performance significantly.

Dorothy, (2017) investigated moderation of firm size on financial performance for specific micro factors and firm performance for manufacturing companies. 180 firms were sampled from all firms operating in Nairobi. Collection of data was done from audited statements of finance for period of ten years starting from 2006 and ending 2015. Descriptive statistics were employed during analysis for collected secondary data. Variables under the study were micro factors informed by operational practices, production capacity and management practices. Financial performance was proxy by ROE of manufacturing firms. Results from above study showed that size had significantly moderated relationship between micro factors of firms and their performance.

Munga and Muriithi (2017) studied firm size moderations on financial distress of firms and their capital structure for non-financial registered companies at NSE using secondary collected from 40 companies for a duration of ten years with reference to period between 2015 to 2006 all years inclusive. Proxies of moderator was total assets representing firm size, capital structure was represented by total debt while Altman’s Z-score used for the degree of financial distress. A fixed effect model was chosen using Feasible Generalized Least square and Panel data regression for analyzing collected data. Debts (long-term) positively and significantly impacted financial distress for firms operating in Kenya, while short-term debts had a reverse impact. It was noted that firm size moderates significantly the relationship of capital structure and firm financial distress.

Generally, the relationship that is expected to exist between manufacturing company size and performance is positive (Sudrajat & Setiyawati, 2021; Harisa et al., 2019; Ozcan et al., 2017; Vinasithamby, 2015; Alkarim et al., 2013; Maja & Jasipa, 2012). Other studies have shown that size is likely to have a non-linear relationship with profitability (Lee 2009) while others like Said et al., (2008) show no relationship between firm size and profitability. These mixed findings motivated the current study to investigate if size of a firm moderates relationship between variables under the study which were indicators of financial uncertainty and manufacturing company’s performance (Financial).

Methodology

This current research adopted a design that was descriptive in nature that sought to builds problem profile for the study. Data was collected for various variables under the study and analyzed as stated by Cooper & Schindler (2013), to find relation between variables. The study used descriptive design that was the most suitable for this study and other researchers for example Okechukwu et al. (2018) and Baum et al. (2018) have used it. This study employed secondary data which that was panel in nature from a target population of 856 firms registered with KAM with reference to 2020 register.

### Table 1 The Target Population

<table>
<thead>
<tr>
<th>Membership Sector</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultancy and other Service</td>
<td>104</td>
<td>12%</td>
</tr>
<tr>
<td>Constructions, Building and Mining products</td>
<td>29</td>
<td>3%</td>
</tr>
<tr>
<td>Allied Sector and Chemical</td>
<td>79</td>
<td>9%</td>
</tr>
<tr>
<td>Electricals, Electronics, Energy</td>
<td>45</td>
<td>5%</td>
</tr>
<tr>
<td>Manufacturing Foods and Beverages</td>
<td>187</td>
<td>22%</td>
</tr>
</tbody>
</table>

492
Leather products and other Footwear 9 1%
Metal products and Allied Sectors 83 10%
Motor Vehicle productions & other Accessories 51 6%
Paper products and Boards 74 9%
Pharmaceuticals and other Medical Equipment 24 3%
Rubber products and Plastics 77 9%
Fresh Producers and products 11 1%
Textile industry and its Apparels 64 8%
Furniture Timber products and other Wood products 19 2%

Total 856 100%

Source: KAM 2020

The study sampled 90 firm randomly after using stratified random sampling as shown in table 2 below using Nasuirma (2000) formula:

Sample size = \(\frac{(N \times CV^2)}{(CV^2 + (N-1) \epsilon^2)}\)

Targeted population \((N)\); \(CV^2\) represents coefficient of variation 0.5 percent; \(\epsilon\) is 95% which was representing level of confidence.

Sample size = \(\frac{(856 \times 0.52)}{0.52 + (856-1) \times 0.052}\)
= 214 divided by 2.3875
= 90

<table>
<thead>
<tr>
<th>Sector Members</th>
<th>Sample</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultancy and other Service</td>
<td>10</td>
<td>12%</td>
</tr>
<tr>
<td>Constructions, Building and Mining products</td>
<td>3</td>
<td>3%</td>
</tr>
<tr>
<td>Allied Sector and Chemical</td>
<td>8</td>
<td>9%</td>
</tr>
<tr>
<td>Electricals, Electronics, Energy</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>Manufacturing Foods and Beverages</td>
<td>20</td>
<td>22%</td>
</tr>
<tr>
<td>Leather products and other Footwear</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>Metal products and Allied Sectors</td>
<td>9</td>
<td>10%</td>
</tr>
<tr>
<td>Motor Vehicle productions &amp; other Accessories</td>
<td>7</td>
<td>6%</td>
</tr>
<tr>
<td>Paper products and Boards</td>
<td>8</td>
<td>9%</td>
</tr>
<tr>
<td>Pharmaceuticals and other Medical Equipment</td>
<td>3</td>
<td>3%</td>
</tr>
<tr>
<td>Rubber products and Plastics</td>
<td>8</td>
<td>9%</td>
</tr>
<tr>
<td>Fresh Producers and products</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>Textile industry and its Apparels</td>
<td>7</td>
<td>8%</td>
</tr>
<tr>
<td>Furniture, Timber products and other Wood products</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Audited financial statements were used to gather secondary data for twelve years from 2009 to 2020 all years inclusive. Eviews 11.7 was used during analysis of Panel data that was collected by use of data collection instrument. Data was presented using central tendency measures. The strength of the existing relationship was analyzed by use of Panel regression (Multiple) analysis. This multiple regression model when used helps in showing the direction in addition to magnitude of the relationship as indicated by significant level, coefficients of correlation and determination. Regression model used is as shown:

\[
ROE = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon
\]
Regression model when firm size was introduced:

\[ \text{ROE}_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 Z_{it} + Z (\beta_6 X_{1it} + \beta_7 X_{2it} + \beta_8 X_{3it} + \beta_9 X_{4it} + e_{it}) \]

[Hayes, 2017]

\( \text{ROE} \) represents Return on Equity of a specific firm at a given time

\( X_1 \) = Uncertainty of trade credit

\( X_2 \) = Uncertainty of Firm liquidity

\( X_3 \) = Uncertainty of Firm Leverage

\( X_4 \) = Operation cost (uncertainty)

\( \beta_0 \) = A constant value

\( \beta_{1-4} \) = Variables Coefficients

n represents size of Sample, \( ai \) represents specific firm, \( e_{it} \) represents the firm error terms.

**Findings and Discussions**

**Descriptive Statistics**

Dispersion and central tendency were used during this study as indicators of descriptive statistics throughout this analysis. Minimum, maximum, Standard deviation skewness, and kurtosis were used for the former while the latter used mean and median. The normality of the collected data was determined using the Jarque-Bera test. Descriptive statistics in Table 3 indicated that the average return on equity was 12.12%, maximum of 67.65 with Minimum at 53.44, the standard deviation was 15.71 with a kurtosis of 5.27 and skewness of 0.03. Jarque Berra's showed that ROE was not distributed normally since its p-value was < 0.05. The findings conflicted with Wanjau, Ngumi and Muturi (2018) who documented normality for financial performance of companies listed in East-Africa. However, this was in line with the finding by Githaiga, Muturi and Olweny (2021) who documented financial performance of commercial banks not being normally distributed. Moreover, Wairimu, Muturi and Oluoch (2019) alluded that the financial data of listed firms may not be normally distributed since they have heterogenous characteristics and industry-specific features that may not be harmonized across sectors.

Regarding trade credit uncertainty, the average trade credit uncertainty was 23%, maximum value was 91.75 while minimum value for this variable was 0.02. The standard deviation was 21.35 with skewness of 1.09 and kurtosis of 3.65 respectively. Trade credit uncertainty was not normally distributed since Jarque-Bera had probability < 0.05. Furthermore, none of the skewness and Kurtosis had coefficients equal to 1, they were all greater than 3.

The mean of firm liquidity uncertainty was 1.83 with a maximum 11.55 with a minimum of 0.03. The standard deviation was 1.53 with skewness of 2.64 and kurtosis of 11.47. Jarque-Bera for firm liquidity uncertainty had a probability < 0.05 thus it was concluded that data for firm liquidity uncertainty was not normally distributed. From the study findings, comparing current ratio to current liability, it was therefore concluded that manufacturing companies (Kenya) complied with liquidity ratio of 2:1. Hence, they were not holding excessive current assets in comparison with current liabilities. This was contrary to Baum et al., (2018) finding that during uncertain firms hold liquid assets.

The mean firm liquidity leverage uncertainty using DFL as an indicator was 1.29. The maximum was 1.53 while the minimum was -54.47. The standard deviation was 2.84 with skewness of -10.26 and Kurtosis of 227.77. Firm leverage uncertainty data collected did not demonstrate normally distribution since data had a Jarque Berra coefficient probability was less than 0.05. The maximum value was far much below average rate of debts in Kenya while minimum being negative is indicator firms marking great loses if care is not taken.
The average operational costs uncertainty was 15.85% with a maximum of 265.16 a minimum of 0.04. The standard deviation was 16.14 while skewness was 5.12 with a kurtosis of 64.64. Uncertainty of operational cost did not meet normally distributed criteria since its Jarque Berra's results for p-value was <0.05. The firm size (average) was 15.46, maximum was 21.22 and its Minimum of 7.83. Its skewness averaged at -0.61 with a Kurtosis marked at 3.28. It’s distribution was not normally as the coefficient of Jarque Berra’s p-value was 0.05.

Table 3. Overall Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Financial performance</th>
<th>Trade uncertainty</th>
<th>Firm liquidity uncertainty</th>
<th>Firm leverage uncertainty</th>
<th>Operational cost uncertainty</th>
<th>Firm size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>12.12</td>
<td>23.00</td>
<td>1.83</td>
<td>1.29</td>
<td>15.85</td>
<td>15.46</td>
</tr>
<tr>
<td>Maximum</td>
<td>67.65</td>
<td>91.75</td>
<td>11.55</td>
<td>25.07</td>
<td>265.16</td>
<td>21.22</td>
</tr>
<tr>
<td>Minimum</td>
<td>-53.44</td>
<td>0.02</td>
<td>0.03</td>
<td>-54.47</td>
<td>0.04</td>
<td>7.83</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>15.71</td>
<td>21.35</td>
<td>1.53</td>
<td>2.84</td>
<td>16.14</td>
<td>2.65</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.03</td>
<td>1.09</td>
<td>2.64</td>
<td>-10.26</td>
<td>5.12</td>
<td>-0.61</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>5.27</td>
<td>3.65</td>
<td>11.47</td>
<td>227.77</td>
<td>64.64</td>
<td>3.28</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>233</td>
<td>232</td>
<td>4480</td>
<td>2292475</td>
<td>175703</td>
<td>71</td>
</tr>
<tr>
<td>Probability</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Sum</td>
<td>13086</td>
<td>24844</td>
<td>1979</td>
<td>1388</td>
<td>17116</td>
<td>1670</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>266405</td>
<td>491694</td>
<td>2532</td>
<td>8728</td>
<td>281059</td>
<td>7583</td>
</tr>
<tr>
<td>Observations</td>
<td>1080</td>
<td>1080</td>
<td>1080</td>
<td>1080</td>
<td>1080</td>
<td>1080</td>
</tr>
</tbody>
</table>

Source; Collected data

Diagnostic Tests for Panel Data collected

Table 4. Unit Root Test for Panel Data

<table>
<thead>
<tr>
<th>Variables</th>
<th>Methods used</th>
<th>Statistics</th>
<th>Probability, **</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>ADF</td>
<td>244.280</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>PP</td>
<td>380.620</td>
<td>0.010</td>
</tr>
<tr>
<td>Default rate</td>
<td>ADF</td>
<td>262.417</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>PP</td>
<td>407.725</td>
<td>0.000</td>
</tr>
<tr>
<td>Current ratio</td>
<td>ADF</td>
<td>224.225</td>
<td>0.014</td>
</tr>
<tr>
<td></td>
<td>PP</td>
<td>324.324</td>
<td>0.000</td>
</tr>
<tr>
<td>DFL</td>
<td>ADF</td>
<td>318.071</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>PP</td>
<td>563.416</td>
<td>0.000</td>
</tr>
<tr>
<td>R&amp;D cost ratio</td>
<td>ADF</td>
<td>270.410</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>PP</td>
<td>302.117</td>
<td>0.000</td>
</tr>
<tr>
<td>Firm size</td>
<td>ADF</td>
<td>243.21</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>PP</td>
<td>624.51</td>
<td>0.000</td>
</tr>
</tbody>
</table>

From the above panel roots were not present since P value for the test was <0.05

Table 5. Other Study Diagnostic Tests

<table>
<thead>
<tr>
<th>Diagnostic Tests</th>
<th>Tests done</th>
<th>Without-Moderation</th>
<th>With-Moderation</th>
</tr>
</thead>
</table>
Table 6. Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>ROE</th>
<th>DR</th>
<th>CUR</th>
<th>DFL</th>
<th>RD</th>
<th>Firm size</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR</td>
<td>0.167</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CUR</td>
<td>0.049</td>
<td>0.012</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.104</td>
<td>0.693</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DFL</td>
<td>0.013</td>
<td>0.003</td>
<td>-0.037</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.667</td>
<td>0.909</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RD</td>
<td>-0.031</td>
<td>0.025</td>
<td>0.068</td>
<td>0.010</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.302</td>
<td>0.417</td>
<td>0.025</td>
<td>0.750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.019</td>
<td>-0.077</td>
<td>-0.096</td>
<td>-0.004</td>
<td>0.038</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>0.532</td>
<td>0.011</td>
<td>0.002</td>
<td>0.887</td>
<td>0.207</td>
<td></td>
</tr>
</tbody>
</table>

Random Effect of Financial Uncertainty Indicators on Financial Performance

Table 7, below shows application of random effects model (REM) to examine how indicators of financial uncertainty relates with ROE. Results showed an R squared of 66.6% meaning that 66.6% of total change in ROE can be accounted for by default rate, current ratio, degree of financial leverage and research and development cost. The other portion (33.4%) was associated with other aspects that were not included in this model. The study results showed positively significant relationship for ROE and DR, CUR and DFL. This finding agreed with that of Okechukwu et al., (2018) but did not disagree with findings by Baum et al., (2018). Study resultant equation was:

\[ \text{ROE} = 8.309 + 0.071\times \text{DR} + 0.951\times \text{CUR} + 0.044\times \text{DFL} + 0.024\times \text{RD} \]

Table 7. Random Effect of Financial Uncertainty Indicators on Performance

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Std. Errors</th>
<th>T Statistic</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>8.309</td>
<td>0.672</td>
<td>12.358</td>
<td>0.000</td>
</tr>
<tr>
<td>DR</td>
<td>0.071</td>
<td>0.014</td>
<td>5.156</td>
<td>0.000</td>
</tr>
<tr>
<td>CUR</td>
<td>0.951</td>
<td>0.286</td>
<td>3.324</td>
<td>0.001</td>
</tr>
<tr>
<td>DFL</td>
<td>0.044</td>
<td>0.069</td>
<td>0.636</td>
<td>0.525</td>
</tr>
<tr>
<td>RD</td>
<td>0.024</td>
<td>0.021</td>
<td>1.162</td>
<td>0.245</td>
</tr>
<tr>
<td>R Squared</td>
<td>0.666</td>
<td>Durbin-Watson stat</td>
<td>1.318</td>
<td></td>
</tr>
<tr>
<td>Regression S.E</td>
<td>11.618</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F statistic results</td>
<td>21.104</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob (F statistic) results</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Random Effects of Firm-Size Moderating Effect on indicators of Financial Uncertainty and Financial-Performance

From the results shown in Table 8 below, it was revealed that 74.7% of ROE changes was accounted for
by uncertainty of trade credit, leverage, firm liquidity, and operating costs. It was also concluded that firm size moderated indicators of financial uncertainty. Further, the study results found that size of firms nonsignificant inverse effect on ROE as shown by P values and Co-efficient of study results (β = -0.356, P-value > 0.05). Moreover, it was concluded that size moderates’ effect of all indicators of financial uncertainty under the study.

Firm size moderation effect confirmation during the study was done by comparing marginal regression coefficients of ROE changes. From the results shown below in the differentiating model, the coefficients of the marginalized results and the nonmoderated outcomes were different.

Differentiating model (ROE = 13.384 -0.030*DR + 0.596*CUR +0.097*DFL + 0.052*RD − 0.356*FS + 0.007*DR*FS + 0.025*CUR*FS -0.003*DFL*FS -0.001*RD*FS).

Partial differentiation using average moderating value (firm size):

\[ \delta \text{ROE}_i = \beta_1 + \beta_6 \text{FS} = -0.03 + 0.007 \times 15.46 = 0.07822 \]
\[ \delta \text{CUR}_i, t \]

\[ \delta \text{ROE}_i = \beta_2 + \beta_7 \text{FS} = 0.596 + 0.025 \times 15.46 = 0.9825 \]
\[ \delta \text{CUR}_i, t \]

\[ \delta \text{ROE}_i = \beta_3 + \beta_8 \text{FS} = 0.097 -0.003 \times 15.46 = 0.05062 \]
\[ \delta \text{DFL}_i, t \]

\[ \delta \text{ROE}_i = \beta_4 + \beta_9 \text{FS} = 0.052 -0.001 \times 15.46 = 0.03654 \]
\[ \delta \text{RD}_i, t \]

As stated above comparing coefficients above with those of the study model (ROE = 8.309 + 0.071*DR + 0.951*CUR + 0.044*DFL + 0.024*RD), they were difference. This signified that the relationship that exist between variables that is, the indicators of financial uncertainty and financial performance was moderated by size of manufacturing companies operating in Kenya.

ROE = 13.384 -0.030*DR + 0.596*CUR +0.097*DFL + 0.052*RD − 0.356*FS + 0.007*DR*FS + 0.025*CUR*FS -0.003*DFL*FS -0.001*RD*FS

Table 8. Random Effects on Firm Size Moderating Effect on Financial Uncertainty Indicators and Performance

<table>
<thead>
<tr>
<th>Variables used</th>
<th>Coefficient results</th>
<th>Std. Error of study</th>
<th>t-Statistics</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>13.384</td>
<td>5.080</td>
<td>2.635</td>
<td>0.009</td>
</tr>
<tr>
<td>DR</td>
<td>-0.030</td>
<td>0.065</td>
<td>-0.467</td>
<td>0.641</td>
</tr>
<tr>
<td>CUR</td>
<td>0.596</td>
<td>1.131</td>
<td>0.527</td>
<td>0.598</td>
</tr>
<tr>
<td>DFL</td>
<td>0.097</td>
<td>2.100</td>
<td>0.046</td>
<td>0.963</td>
</tr>
<tr>
<td>RD</td>
<td>0.052</td>
<td>0.194</td>
<td>0.267</td>
<td>0.790</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.356</td>
<td>0.317</td>
<td>-1.124</td>
<td>0.262</td>
</tr>
<tr>
<td>DR*FS</td>
<td>0.007</td>
<td>0.004</td>
<td>1.554</td>
<td>0.121</td>
</tr>
<tr>
<td>CUR*FS</td>
<td>0.025</td>
<td>0.077</td>
<td>0.327</td>
<td>0.744</td>
</tr>
<tr>
<td>DFL*FS</td>
<td>-0.003</td>
<td>0.135</td>
<td>-0.021</td>
<td>0.983</td>
</tr>
<tr>
<td>RD*FS</td>
<td>-0.001</td>
<td>0.011</td>
<td>-0.057</td>
<td>0.955</td>
</tr>
<tr>
<td>R squared</td>
<td>0.747</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

497
R squared Adjusted 0.712
S.E. of regression 11.649
F statistic 18.351
Prob (F statistic) 0.000

Findings
This study had one major objective which was to examine moderation of the size of firm on indicators of financial uncertainty and financial performance relationship for manufacturing companies in Kenya. Size of firm was found to have reverse effect that was not significant. However, it was found that firm size had an overall moderating effect on performance of firm and individually moderated default rate, current ratio and research and development. The study noted nonsignificant reverse moderating effect of firm size on debt ratio though the rest had positive co-efficient. Moreover, there was nonsignificant positive moderating effect of size on default rate, current ratio, degree of financial leverage, research, and development cost on the manufacturing companies ROE.

Conclusion and Recommendations
Although, firm size moderates influence of indicators of financial uncertainty and performance of manufacturing companies, the moderation was non-significant when all indicators are taken together. It was noted that firm size strengthened the effect of default rate, current ratio and research and development costs. Further, firm size weakened uncertainty of financial leverage effect on the performance for manufacturing companies operating in Kenya. It was concluded that firms need to tighten monitoring of their working capital management policies and adopting the most optimal approach since most of its items contributed to financial uncertainty and they are meant to be cleared within a single accounting cycle.

References


Impression Management during the Covid-19 pandemic: A Comparative Analysis of the Chairperson’s Statement by JSE-Listed Profitable and Least Profitable Companies

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*Masibulele Phesa, Senior Lecturer at the School of Accounting at the University of Kwazulu-Natal, Westville, Durban, South Africa
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ABSTRACT

Purpose: The study examined whether profitable and least-profitable Top 100 Johannesburg Stock Exchange (JSE) listed companies used impression management in the chairperson’s statement during the Covid-19 pandemic. The chairperson’s statement is one of the most frequently read and highly rated narrative disclosure statements in the integrated report.

Design: Quantitative content analysis was used. The profitable and least-profitable companies were evaluated using six textual characteristics, namely the length of the chairperson's statement, the use of passive voice, the use of personal references, the use of quantitative references, the use of future references, and the readability score.

Findings: The study found that profitable and least-profitable top 100 JSE-listed companies used impression management during the pandemic. Moreover, both groups used the passive voice as well as future, personal, and quantitative references in the chairperson's statement, even during the Covid-19 pandemic. There was no significant difference in readability, quantitative references, passive voice, personal references, length, and future references. The results are contrary to previous research that indicates that impression management is used less during a crisis.

Implications: The study adds to the debate on the use of impression management in corporate reporting during the crisis and adds to the debate on attribution theory.

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Introduction

The performance of many companies was affected by the Covid-19 pandemic (Andarini, 2021), and management faced the challenge of dealing with a pandemic such as Covid-19 and its uncertainties (Rahmanto & Yuliarti, 2022). This Covid-19 pandemic has also made it clear that companies and the economy need an immediate boost to mitigate the effects of economic stagnation, which has created uncertainty among stakeholders, especially investors, and forced management to monitor corporate performance reporting. Companies are disclosing more non-financial information as part of integrated reporting. As these narrative disclosures are not regulated, they can be very long and allow companies to change their image through impression management (Stratulat, 2019). Management employed impression management to reassure stakeholders during crises like the COVID-19 pandemic (Rahmanto & Yuliarti, 2022). Management can take action to restore corporate image during a crisis by using impression management to persuade stakeholders to use integrated reports to make decisions (Brennan & Merkl-Davies, 2013). Unbiased narrative disclosures help in decision-making. Management reports with impression management are problematic. It can influence investors' decisions. This glaring dilemma raises the concern of whether and to what extent impression management was used in the statements of the chairpersons of profitable and less profitable JSE Main Board companies during the Covid-19 pandemic. This study is a replication of Moola (2016), which examined impression management in the statements of profitable companies compared to the least profitable companies on the JSE Main Board but focused on the Covid-19 pandemic period and is limited to the Top 100 profitable and least profitable JSE-listed companies.

Literature Review

Bhana (2009) explains that the purpose of attribution theory in accounting research is to determine whether a company's management routinely attributes positive news to the firm's internal efforts and bad news to external circumstances. At its core, attribution is about people's self-interested behaviour. It corresponds to the basic psychological need of all people to portray themselves in such a way as to elicit positive reactions from others. Aerts (2005) defines attribution theory in the corporate environment as the tendency of management to attribute positive outcomes to corporate actions and poor outcomes to external factors such as politics, economics, business and strikes.

In the context of this study, where the integrated report can be considered an indicator of management performance, it is possible to attribute positive outcomes to the actions of the company and negative outcomes to external factors (Moola, 2016). Baginski* et al. (2000) have demonstrated that managers' self-serving biases also influence their explanations for their companies' future performance. They found that companies that receive good earnings forecasts are likely to attribute this news to dispositional or internal factors such as a high-quality product, exceptional management, and so on. On the other hand, if the company receives a negative profit forecast, it is likely to blame situational or external factors such as supplier problems, a poor economy, etc. However, Brennan and Merkl-Davies (2013) point out that during the financial crisis, management may be motivated to manipulate user and shareholder perceptions in order to divert attention from the crisis. For this reason, Aerts (2005) concludes that integrated report narratives with self-serving tendencies are typically viewed as targeted impression management behaviour.

According to impression management theory, people's appearance, behaviour and level of involvement reveal aspects of their intentions and goals, whether they intend to or not (Willecke, 2020). In light of this, García-Sánchez et al. (2020) noted during the pandemic COVID-19 that the integrated report was a useful tool to communicate information such as risk management, corporate stability, safety, corporate performance, etc. to the public, emphasising the severity of the impact of the pandemic crisis in order to avoid information that could damage the company's image. Furthermore, García-Sánchez et al. (2020) point out that the fact that the pandemic outbreak generated a significant climate of concern significantly increased the demand from stakeholders, and especially investors, for information about corporate governance and the impact of the outbreak on company operations. The impact of the pandemic on
companies cannot be fully understood from financial information alone (Matta & Mohapatra, 2021); therefore, companies are expected to disclose information about Covid-19 and the impact of the pandemic in their integrated reports. Management prioritizes keeping key partners satisfied during crises. Hospitality companies were also quick to employ a variety of alternative crisis management methods to address the developing Covid-19 pandemic (Im et al., 2021).

These methods include restructuring, layoffs, cost-cutting and cash conservation Hao (2020) and significant changes to processes, such as changes to service distribution systems Moreno and Jones (2021) the introduction of new technologies (Baum et al., 2020), and compliance with new safety and hygiene requirements (Alonso et al., 2020; Kim & Lee, 2020; Sigala, 2020). As symbolic figures of their respective companies, chairpersons play an important role in improving the reputation and perception of their companies (Im, Kim, & Miao, 2021). A variant of corporate reports is the so-called Chairperson's Statement, which aims to convince the audience of a company's credibility, quality, and sustainability, thus increasing users' trust in the company (Jonäll & Rimmel, 2010). The fact that it is rated higher than the financial statements shows that it is more important for investors to get a feeling for the company as a whole and its success than for the details of the company's finances (Alshorman & Shanahan, 2022). According to Bruehl and Kury (2019), in the United States and Europe, statements by bank CEOs seem to have an impact on stakeholders' perceptions of the bank's responsibility after the financial market crash. Andarini (2021) studied and analysed the strategies of corporate narratives during the Covid-19 pandemic and found that the chairperson's statement provides detailed information to investors. The results also showed, first, that the market reacted unfavourably to the content of these statements. Moreover, the more extensive the disclosure of company information, the lower the volatilities, and it is evident that investors obtain extra details via the chairperson’s statements. Secondly, investors in companies with poor unanticipated profitability tend to distrust the positive tone of statements.

Thirdly, some types of business jargon in the statements impact the decisions of investors. In addition, a higher proportion of business material is believed to be negatively associated with the prospective performance of companies. Im et al. (2021) analyzed 57 chairperson's statements from U.S. hospitality companies during the Covid-19 pandemic to evaluate their narrative approaches and how they used them in conjunction with impression management. The study found that narrative tactics, such as assertive, supplicatory, and defensive strategies, reduce negative public reactions. They were keen to investigate which narrative approach was adopted by Indonesian corporations during the Covid-19 pandemic through the statements written by their chairperson. Tung et al. (2021) examined travel and tourism impression management. The "double-blinded" method was used to examine how negative reporting about locals affects prospective visitors' perceptions of that area during the Covid-19 pandemic. The study found that marketing organizations influence tourists and that vacationers can use compensatory efforts to offset negative comments about locals by rating other aspects of the place more positively. When tourism recovers from the Covid-19 pandemic, this will help promote destinations.

During the financial crisis, impression management consisted of regular positive provenances, good standards, and improved practices (Moreno & Jones, 2021). The crisis did not stop impression management, but it changed how it was done. The research found that impression was lower during the global financial crisis and that narratives of financial and real estate enterprises were the most reactive, possibly due to their importance in the meltdown. Similarly, a study by Pasko et al. (2020) is supported by the study by Moreno and Jones (2021) above. The objective of the Pasko et al. study was to evaluate the impact that the company's financial performance had on the textual aspects of the chairperson's statement. To be more specific, considering the benefits for badly performing businesses to participate in impression management, the researcher explored whether the disclosure method of companies is dependent on their performance financially. In their investigation into the specifics of impression management in the chairperson's statement, they made use of a wide variety of textual features, the majority of which are obtained from earlier studies in the relevant field. They discovered proof suggesting businesses with poor performance are more concentrated on the future in comparison
to businesses with strong performance. In the end, the conclusion was drawn by going through findings and pointing out that the texts from the chairperson's statement are of equal length and readability in both well-performing and poorly performing companies, as there were no differences. Passive phrases, significant financial data, quantitative information, and personal references also occurred almost equally frequently in the two statements (Pasko et al., 2020). There are six pre-set textual characteristics as mentioned in Moola’s (2016) study that this study is replicated from, and these are: The length or the extent of the chairperson's statement is evaluated based on the total amount of words as well as the page counts that are included in the characteristics of impression management (Moola, 2016a; Yasseen et al., 2017). Passive voice is the deliberate use of passive phrases instead of active ones, which creates uncertainty. Y Yasseen et al. (2017) expand by stating that this vagueness seems deliberate to manipulate the readers. Profitable and least profitable companies are related to this trait. Utilisation of personal references from the available research indicates that chairperson’s statements use personal references. Personal references include the words like 'I', 'me', 'my' (singular) and 'our', 'us', and 'we' (collective). In addition, there is no distinction between companies that are profitable and those that are not profitable (Clatworthy & Jones, 2006). On the other hand, Yasseen et al. (2017) discovered that extremely profitable businesses employ much fewer personal recommendations than least profitable businesses do.

The annual integrated report includes financial and non-financial quantitative and qualitative disclosures. The financial statements (the "back half") of an annual report contain quantitative data, while the managerial remark (the "front half") contains qualitative data, except for IFRS note disclosures (Moola, 2016). Beattie and Jones (2000) found that profitable companies are more likely than unprofitable companies to include quantifiable data in the "front half" of integrated reports. Beattie and Jones (2000) found that financial performance affects quantitative management cues in charts. According to Clatworthy and Jones (2006), loss-making businesses focus more on the future than the present, so their financial statements contain more future references. They argue that the management of non-profitable companies uses the future to deflect attention from their poor performance. However, Kohut and Segars (1992) found no evidence that companies with positive performance are more likely to talk about the future. Readability scores are used in reading ease manipulation experiments to investigate whether managers purposefully create an accounting narrative to be difficult to comprehend with the intention of concealing negative information (Merkl-Davies & Brennan, 2007). The chairperson's statements serve as a resource for the user in relation to integrated reports. The literature reviewed provided conflicting results on the impression management of listed companies. There is no study that has been done on the examination of impression management during Covid 19, using these six textual characteristics. This study closes that obvious gap. To examine the use of impression management the following hypothesis are derived:

The main null hypothesis is adopted from a replicated study conducted by Moola (2016) and it is as follows:

**H1: There is no systematic difference in the textual characteristics of information in the chairperson’s statement of Top 100 profitable and least profitable companies on the JSE main board during the COVID-19 pandemic.**

This hypothesis was examined using six textual characteristics, namely the “length of the quantitative references”, and “use of future references” as well as “readability”. For every textual characteristic, there is a sub-hypothesis tested:

- **H1a:** The chairperson’s statements of profitable and least profitable companies will be similar in length.

- **H1b:** The chairperson’s statements of profitable and least profitable companies will contain a similar number of passive sentences.
• H1c: The chairperson’s statements of profitable and least profitable companies will contain a similar number of personal references.

• H1d: The chairperson’s statements of profitable and least profitable companies will contain a similar number of key financial indicators and quantitative references.

• H1e: The chairperson’s statements of profitable and least profitable companies will focus equally on the future.

• H1f: The chairperson’s statements of profitable and least profitable companies will have similar readability scores.

This study aimed to determine the extent to which companies used impression management during the COVID-19 pandemic in the statements of the chairperson of profitable and least profitable companies listed on the Main Board of the JSE. The study investigated whether profitable and least-profitable companies reported differently using the six textual characteristics of the chairperson’s statement: length of the chairperson’s statement, use of passive voice, use of personal references, use of quantitative references, future references, and readability.

Methodology

For this study, quantitative content analysis was used in analysing textual characteristics in the statements written by the chairperson to determine whether impression management methods have been applied. Moreover, the secondary data, i.e., chairperson’s statements, were used. These were extracted from the companies’ official websites covering the period between 01 January 2021 to 31 December 2021 and, to differentiate profitable companies and least profitable companies, the change between the profit after tax between year 2020 and year 2021 was calculated, and this is consistent with the research done by Yasseen et al. (2017). The data were examined for the purpose of classifying it with the statement written by the company’s chairperson and discovering possible correlations between it and the company's financial performance. Therefore, the research approach was quantitative, as the data from the statements of the chairperson were statically evaluated (Bryman & Bell, 2011; Leedy & Ormrod, 2005). The context of this study is guided by attribution theory, and, at its core, the impression management practices are examined from the chairperson’s statements of the JSE Top 100 listed profitable and least profitable companies. Therefore, the six textual characteristics that were used by Moola (2016), are replicated in this study.

Length of the Chairperson’s Statement
The hypothesis was tested by examining the length of the chairperson's statements of the profitable and least profitable companies. This was accomplished by examining the quantity of words and quantity of pages in the statements, which were determined using the word count in Ms Word.

Passive Voice
Through the Ms Word, the percentage of passive expressions was determined by the total number of phrases in the chairperson’s statements.

Personal References
Words such as ‘I,’ ‘me,’ ‘my,’ ‘our,’ ‘us’, and ‘we’ are the personal references to be examined in those statements and determine how frequent those words used are.

Quantitative References
All numerical references relating to the financial performance of the business for the reporting time were reviewed in the chairperson's statement. The quantitative analysis was performed for profit before tax, turnover, dividends, and earnings per share between 2020 and 2021.
References to the Future
Testing the hypothesis was achieved through the manual exercise of checking and scrutinising the chairperson’s statement because the context of the reference needed to be studied to determine whether the narrative refers to the future, i.e., the futuristic projects or expected growth to deflect the attention on the current performance of the company.

Readability Scores
The last textual characteristic to be examined was readability scores in the chairperson’s statement. Through Ms Word, the reading ease of the chairperson’s statements were determined.

This study included 349 JSE Main Board-listed companies from January 2021 to December 2022, the peak of the COVID-19 pandemic. Delisted, suspended, and companies that did not publish the chairperson's statement in their integrated report were excluded from the population before the sample was selected. Four of the Top 100 profitable and less profitable companies did not have integrated reports, two did not have chairperson's statements, and two related companies issued similar integrated reports, so one was eliminated, leaving 96 companies for analysis. Profitability was determined by analyzing 96 companies' chairperson statements. The Top 100 JSE Main Board companies were selected for the financial years 01 January 2021 to 31 December 2021. At the peak of the COVID-19 pandemic, most companies had experienced at least twelve months of the pandemic. The percentage change in pre-tax profits from their most recent financial statements in the integrated reports classified these JSE-listed companies (Bhana, 2009). Following Bhana's study, the percentage change between profit before tax for 2020 and 2021 was used to identify the 46 most profitable and 46 least profitable companies (2009). To determine textual differences, integrated reports containing the chairperson's statements were extracted from the sampled companies' websites. The Mann-Whitney U test was used to compare two unrelated groups with a continuous or ordinal regression model (Moola, 2016), but it is rarely used.

Results and discussion
Length of Chairperson’s Statement
With respect to the 96 companies studied, the median length of the chairperson's statement was 2 pages, and its average word count was 1556 as shown in Table 4.1 below. Profitable companies’ statements averaged 1607 words and were, on average, 2 pages long. Least profitable companies had an average length of 1504 words and 2.5 pages. Essentially, profitable companies had an average of 6.85% more words than least profitable companies, meaning the chairperson's statement for least profitable companies had an average of 103 fewer words than statements of profitable companies. In addition, least profitable companies had on average 25% more pages than profitable companies. As a result, the hypothesis that the length between the chairperson’s statements of profitable and that of least profitable companies is similar is accepted, this on the basis of the 6.85% difference in words.

Table 4.1: Length of chairperson's statements in words and pages for profitable and least profitable companies

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>CV</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Length of the chairperson's statement in words</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>1607</td>
<td>756</td>
<td>0.470194</td>
<td>469</td>
<td>4878</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>1504</td>
<td>1050</td>
<td>0.697942</td>
<td>703</td>
<td>7074</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>96</td>
<td>1556</td>
<td>912</td>
<td>0.586401</td>
<td>469</td>
<td>7074</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Length of the chairperson's</strong></th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>CV</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>2</td>
<td>1</td>
<td>0.706793</td>
<td>1</td>
<td>9</td>
</tr>
</tbody>
</table>
Using the statistical analysis called Mann-Whitney U test, the results as presented in Table 4.2 below demonstrate that profitable companies have a mean rank of 48.32, which is slightly lower than the mean rank of least profitable companies, which is 48.68. Furthermore, 0.75% is the disparity between the two groups of companies when in terms of the length of the statement in words. The total rank of companies that are profitable, i.e., 2320, is lower than the total rank of companies that are least profitable, which is 2337. There is no significant difference between these two groups of companies, as shown by the statistics U= 1143.5, Z= -0.062, and P= 0.95, with P > 0.05. Consequently, the hypothesis is acceptable.

<table>
<thead>
<tr>
<th>Length of the chairperson's statement in words</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>48.32</td>
<td>2320</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>48.68</td>
<td>2337</td>
</tr>
<tr>
<td>Mann-Whitney U Wilcoxon W Z Asymp Sib. (2-tailed)</td>
<td>1143.5</td>
<td>-0.062</td>
<td>0.95</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Length of the chairperson's statement in pages</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>46.06</td>
<td>2211</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>50.94</td>
<td>2445</td>
</tr>
<tr>
<td>Mann-Whitney U Wilcoxon W Z Asymp Sib. (2-tailed)</td>
<td>1035</td>
<td>-0.905</td>
<td>0.365</td>
</tr>
</tbody>
</table>

When analysing the length of chairperson’s statements in pages that profitable companies have a mean rank of 46.02, which is lower than the mean rank of least profitable companies, which is 50.94. There is no significant difference between these two groups of companies, as shown by the statistics U= 1035, Z= -0.905, and P= 0.365, with P > 0.05. It is evident that even during the COVID-19 pandemic, these results are consistent with the findings of Moreno and Jones (2021), who also found that there are insignificant differences in the length of chairperson’s statements during a crisis which might be interpreted as the lack of impression management.

Use of Passive Voice

<table>
<thead>
<tr>
<th>Use of the passive voice</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>CV</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>13.7%</td>
<td>6.7%</td>
<td>48.9%</td>
<td>0.0%</td>
<td>34.8%</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>16.2%</td>
<td>6.9%</td>
<td>42.9%</td>
<td>1.8%</td>
<td>31.7%</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>14.3%</td>
<td>6.9%</td>
<td>48.0%</td>
<td>0%</td>
<td>34.8%</td>
</tr>
</tbody>
</table>

According to the data in Table 4.3 above, the proportion of passive phrases in relation to the number of sentences in the chairperson's statement varied from 0% to 34.8% for the 96 companies analysed. Moreover, on average, the chairperson's statements consisted of 14.3% passive sentences. It was found
that on average profitable companies used 13.7% passive phrases in their chairperson's statement, whilst least profitable companies used 16.2% passives on average. This clearly shows that least profitable companies tend to employ more passive voice. For the reason that the use of passive words differs insignificantly between profitable and least profitable companies, the hypothesis is accepted.

Table 4.4: Mann-Whitney U Test of use of passive voice

<table>
<thead>
<tr>
<th>Use of the passive voice</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>44.35</td>
<td>2129</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>52.65</td>
<td>2527</td>
</tr>
<tr>
<td>Mann-Whitney U Wilcoxon W</td>
<td>953</td>
<td>-1.458</td>
<td>0.145</td>
</tr>
</tbody>
</table>

Source: Own compilation

The Mann-Whitney U non-parametric test at 5% found no statistically significant difference in passive voice use between profitable and least profitable companies. The Mann-Whitney U-test found that profitable companies had a mean rank of 44.35, 18.7% lower than the least profitable companies' 52.65 (Table 4.4). The least profitable companies also rank higher (2527) than the profitable ones (2129). Mann-Whitney test U= 953, Z= -1.458, P= 0.145 (p > 0.05) shows no statistically significant difference. Thus, the chairperson's statements about profitable and least profitable companies contain a passive voice.

During the COVID-19 pandemic, Clatworthy and Jones (2006) found that less profitable companies use the passive voice, which distances the author from the message, while profitable companies use active statements. Their research also found that the least profitable companies use passive voice more than profitable ones, but the difference is not statistically significant (1%). However, the findings of Moola (2016) and Yasseen et al. (2017), who claimed that there was a significant difference, are not consistent with the results presented here, i.e., that during the COVID-19 pandemic, passive voice use was insignificantly different between profitable and least profitable companies.

Use of Personal Reference
The following hypothesis was put to the test through an analysis of textual characteristics:

Table 4.5: Use of personal references by profitable and least profitable companies

<table>
<thead>
<tr>
<th>Use of Personal References</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>CV</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>72</td>
<td>36</td>
<td>0.49453</td>
<td>6</td>
<td>149</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>64</td>
<td>39</td>
<td>0.62129</td>
<td>11</td>
<td>240</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>65</td>
<td>37</td>
<td>0.575056</td>
<td>6</td>
<td>240</td>
</tr>
</tbody>
</table>

Source: Own compilation

Table 4.5 shows that 96 companies averaged 65 words for personal references. The chairperson used personal pronouns like "I", "me", "my", "our", "us", and "we". The chairperson's statement uses "our" and "we" more than the others' 32 and 22 averages. Profitable companies used 12.5% more personal references (72 words) than least profitable companies (64 words). According to hypothesis 1b, profitable companies use more personal references than unprofitable ones.

The Mann-Whitney U test showed no significant difference between profitable and least profitable companies at 5% (z = -0.18, P 0.858). Profitable companies have a mean rank of 49.01 and sum of ranks of 2353, while least profitable companies have a mean rank of 47.99 and sum of ranks of 2304 (Table 4.6). Since the difference is negligible, the chairperson's statements contain personal references. The
COVID-19 pandemic results contradict Moola (2016) and Yasseen et al. (2017), who found significant differences between the two groups of companies. Even during the COVID-19 pandemic, Clatworthy and Jones (2006) and Phesa (2021) found no significant difference.

Table 4.6: Use of personal references Mann-Whitney U Test

<table>
<thead>
<tr>
<th>Use of Personal References</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>49.01</td>
<td>2353</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>47.99</td>
<td>2304</td>
</tr>
<tr>
<td>Mann-Whitney U</td>
<td>1127.5</td>
<td>2303.5</td>
<td>-0.18</td>
</tr>
</tbody>
</table>

Source: Own compilation

Use of Quantitative References
An average of 3 quantitative references were found in the chairperson's statements of the 96 companies studied, as shown in Table 4.7 below. In the chairperson's statement, the quantitative references that were brought up most frequently were dividends, earnings, and revenues. In the chairperson’s statements for both profitable and least profitable companies, an average of 3 quantitative references were employed and dividends and earnings were the two most commonly disclosed quantitative references in these two groups of companies. However, the standard deviation, which is 5 for both the profitable and the least profitable companies, shows significant differences in the overall number of quantitative references in the statements of the chairperson of these groups of companies.

Table 4.7: Use of quantitative reference by profitable and least profitable companies

<table>
<thead>
<tr>
<th>Use of Quantitative References</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>CV</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>3</td>
<td>5</td>
<td>1.58692</td>
<td>0</td>
<td>24</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>3</td>
<td>5</td>
<td>1.76868</td>
<td>0</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>3</td>
<td>5</td>
<td>1.67977</td>
<td>0</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Own compilation

There were no significant differences that were found by the Mann-Whitney U test between the quantitative references disclosed by profitable and least profitable companies. The mean rank of profitable companies was 46.04, which is lower than that of least profitable companies, which was 50.96, and the sum of ranks is 2210 and 2446 respectively (see Table 4.8 below). Moreover, at the level of 5% significant difference, the groups of companies have z of -0.872, P=0.383 (p > 0.05). For this reason, then, the hypothesis that the chairperson’s statements for both profitable and least profitable companies contain quantitative references is accepted.

Table 4.8: Mann-Whitney U test of use of quantitative references

<table>
<thead>
<tr>
<th>Use of Quantitative References</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>46.04</td>
<td>2210</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>50.96</td>
<td>2446</td>
</tr>
<tr>
<td>Mann-Whitney U</td>
<td>1034</td>
<td>-0.872</td>
<td>0.383</td>
</tr>
</tbody>
</table>

Source: Own compilation

Data from the COVID-19 pandemic period do not support the hypothesis that profitable companies are more probable to disclose quantitative references than companies that are least profitable. Instead, the
findings contradict this hypothesis. This also contradicts studies by Moola (2016) and Clatworthy and Jones (2006), who found that there was a significant difference in the use of quantitative references between profitable and least profitable companies, while during the COVID-19 pandemic the utilisation of quantitative references was insignificant. However, this is consistent impression management that companies that perform poorly would neither decrease positive quantitative references nor increase negative quantitative references.

**Use of Future References**

Table 4.9: Profitable and least profitable companies use of future references

<table>
<thead>
<tr>
<th>Use of Future References</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>CV</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>13</td>
<td>10</td>
<td>0.734226</td>
<td>4</td>
<td>46</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>14</td>
<td>13</td>
<td>0.925232</td>
<td>6</td>
<td>66</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>96</strong></td>
<td><strong>13</strong></td>
<td><strong>11</strong></td>
<td><strong>0.882037</strong></td>
<td><strong>4</strong></td>
<td><strong>66</strong></td>
</tr>
</tbody>
</table>

Source Own compilation

Clatworthy and Jones (2006) found that narratives of least profitable companies emphasize the future more than profitable companies because they try to shift attention away from past results. Table 4.9 supports these predictions because the least profitable companies used 13 words on average, compared to 10 words for profitable companies. The chairperson statements of 96 companies averaged 13 words, including "will," "believe," "continue," "should," and others. The hypothesis is accepted because the company groups differed little. Moola (2016) found that profitable and least profitable companies use similar future references during the COVID-19 pandemic. The findings contradict Yasseen, Mohamed, and Moola-Yasseen (2019), who found that profitable companies use more future words than unprofitable ones. The least profitable companies used more future references during the COVID-19 pandemic, proving impression management.

Table 4.10: Mann-Whitney U test of the usage of future references

<table>
<thead>
<tr>
<th>Use of Future References</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>43.22</td>
<td>2075</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>53.78</td>
<td>2582</td>
</tr>
<tr>
<td>Mann-Whitney U</td>
<td>Wilcoxon W</td>
<td>Z</td>
<td>Asymp Sib. (2-tailed)</td>
</tr>
<tr>
<td>898.5</td>
<td>2074.5</td>
<td>-1.861</td>
<td>0.063</td>
</tr>
</tbody>
</table>

Source: Own compilation

The Mann-Whitney U-test was conducted and it was found that the mean rank for profitable companies is 53.78 and the sum rank was 2075, whilst the least profitable companies had a mean rank of 53.78 and a sum rank of 2582 (see Table 4.10 above). The difference in highlighting the future is insignificant at the Z = -1.861, P=0.063 level (p > 0.05), leading to acceptance of the hypothesis. This outcome is contradictory with the study of Clatworthy and Jones (2006), who also recognised the significance of the emphasised variation in the use of future references and rejected the hypothesis.

**Readability**

The results for the readability scores of the statements of the chairperson are presented in Table 4.11 below, where the overall companies had an average score of 32. It was also discovered that both profitable and least profitable companies had almost comparable readability scores of 31.1 and 32.5, respectively. The readability rating is a score out of a total of 100, with a higher number suggesting writing that is easier to read than text with a lower score. This means a score of 32 indicates that the chairperson’s statements were, on average, difficult to read although chairperson’s statements of least profitable companies were easier to read than those of the profitable companies. The differences
between profitable and least profitable companies were insignificant; therefore, the hypothesis is accepted.

Table 4.11: Readability score of profitable and least profitable companies

<table>
<thead>
<tr>
<th>Readability scores</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>CV</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>31.1</td>
<td>7</td>
<td>0.214808</td>
<td>13.9</td>
<td>44.7</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>32.5</td>
<td>6</td>
<td>0.195386</td>
<td>22.8</td>
<td>45.7</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>32</td>
<td>7</td>
<td>0.206369</td>
<td>13.9</td>
<td>45.7</td>
</tr>
</tbody>
</table>

Source: Own compilation

This is consistent with the study by Moola (2016), which concluded that the differences were insignificant. The co-efficient of variation concurred with this. These outcomes are consistent with the findings of the study by Moreno and Jones (2021), which shows that readability is not significantly affected during a crisis, as was the case during the COVID-19 pandemic.

Table 4.12: Mann-Whitney U test of the readability score

<table>
<thead>
<tr>
<th>Readability scores</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable companies</td>
<td>48</td>
<td>43.98</td>
<td>2111</td>
</tr>
<tr>
<td>Least profitable companies</td>
<td>48</td>
<td>53.02</td>
<td>2545</td>
</tr>
<tr>
<td>Mann-Whitney U Wilcoxon W</td>
<td>Z</td>
<td>Asymp Sib. (2-tailed)</td>
<td>1.59</td>
</tr>
</tbody>
</table>

Source: Own compilation

Using the Mann-Whitney U-test, it was found that there was an insignificant difference at the 5% significance level (z = -1.59, P=0.112) among the two groups of companies in terms of the readability of the statements of the respective chairperson (see Table 4.12 above). Moreover, the chairperson’s statements of the profitable companies had a mean rank of 43.98, which made them less readable than the statements of the least profitable companies, which had a mean rank of 53.02. In contrast, the results of this study contradict the expectation that least profitable companies would score low on readability. For the reason of insignificant differences, the hypothesis is accepted. This is inconsistent with the study by Moola (2016), which rejected the hypothesis owing to the significant differences between the two groups of companies.

Discussion

These results prove that JSE’s top 100 companies used impression management during Covid 19 pandemic. Consistent with the replicated study of Moola (2016b) there was no significant difference in the use of impression management through the length of the chairman’s statement. In the same line of thought (Phesa et al., 2021; Yasseen et al., 2019; Yasseen et al. (2017) found no significant difference. The study, however, confirmed that the least profitable companies have the tendency of bigger narrations in the chairman’s statement than profitable companies. This was also confirmed in previous studies. (Yasseen et al., 2017) specifically argued that these long narrations are a form of justification for negative results. This showed contrary to the study (Clatworthy & Jones, 2006) that found that profitable companies had longer averages than least profitable companies. Contrary to the previous studies of Yasseen et al. (2017) and Moola (2016b) this study found no significant difference in the use of passive voices by both least profitable and profitable companies. This study is however in line with the recent results of Phesa and Sibanda (2022) that found no significant difference between these two companies in the use of passive voices.
This study confirms the use of creative ways in a way in which sentences are crafted in the chairman’s statement. Further JSE's top 100 companies use impression management through the use of personal references, this confirms with studies by Clatworthy and Jones (2006) , Phesa (2021) and Phesa and Sibanda (2022). This shows self-attribution was mostly used by JSE's top 100 companies during Covid 19 pandemic. Whether this was due to Covid 19 or, future research may determine as these results are contrary to that of Moola (2016) and Yasseen et al. (2017), which were done under normal circumstances. Surprisingly, least profitable companies showed more qualitative reference than profitable companies and showed a significant difference between these two companies though this is contrary to both Moola (2016) and Clatworthy and Jones (2006), understandably the companies would refer much to their qualitative reference during Covid 19, this may be due to the lower profits, frustrations that came with hard lockdown all over the world. Nonetheless, companies were still optimistic during Covid 19, as both least profitable and profitable referred to the future. This positive gesture meant hope under conditions of crisis from South African companies. During Covid 19 JSE’s top 100 companies used complicated English in a way in which they presented their reports. This is shown by the lower readability average for both companies as there was no significant difference. The difficulty in ease of readability was unique and different from recent studies by Moola (2016b). An argument may be that the difficulty in readability ease was due to different jargon that was used such Covid 19, the pandemic, and others. Future studies may shed light on whether the contrary in these studies was indeed caused by this reason.

Conclusion
This study aimed to determine the extent to which companies used impression management during the COVID-19 pandemic in the statements of the chairperson of profitable and least profitable JSE-listed companies using six textual characteristics. The study discovered that the length of the chairperson’s statements in profitable and least profitable companies is similar. Since the Mann-Whitney test revealed no significant differences, the null hypothesis that the length of chairperson statements of profitable and least profitable companies is comparable therefore it is accepted. The Mann-Whitney test revealed insignificant changes in the use of the passive voice, personal reference, quantitative reference, and reference to the future, which means that the hypotheses are accepted. In the chairperson’s statements, both profitable and least profitable companies use the passive voice as well as future, personal, and quantitative references even during the COVID-19 pandemic. Companies did not reduce readability, quantitative references, passive voice, personal references, length, or future references during the COVID-19 pandemic crisis. Evidence that impression management is employed in the Top 100 companies listed on the JSE shows that the chairperson's statements are used by management as a form of attribution, which is self-serving bias, and which could lead to the misallocation of capital by investors. It is recommended that the future studies focus on observation of impression management using other impression management tactics, such as use of tone, use of photographs, use of graphs etc.

References


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