

# Value-Added Tax Change Implementation Aftermath: A Case of MTN

Phindile R. Nene 

Department of Business Management, School of Management Sciences, College of Economic and Management Sciences, University of South Africa, Pretoria, South Africa  
Email: Maphira81@gmail.com

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## Abstract

The main objective of this article is to explore and describe the impact of the Value-added tax (VAT) increase on Mobile Telephone Networks (MTN) performance by exploring the end-to-end telecommunication (telco) business process. For the nature of this research, there is limited research in both South African and international scholarship that seeks to explore an understanding of the full end-to-end telco industry where study would look at the complexity of telco strategies right from the product catalogue down to rate cards, price configuration, system capacity, network depletion rules, billing engines, and customer invoices. Failure to apply the correct VAT change to any of these elements will result in either over- or underbilling of customers. This is a serious problem because an undercharge influences the operator's revenue, causing a loss, not just because of the 1% VAT increase. Damages can reach far beyond this: an overcharge may increase customer complaints and result in reputational risk that is not limited to customer churn. This article provides insight into how fiscal policy affects industries. The insights and practical experience gathered in the research field can be used for operational improvement, training, risk identification and control development in the telco industry. A mixed-method design was used with a case study approach. This article reports on the qualitative findings. Five main themes were identified after analysing the qualitative data, namely: the effect of the VAT increase on MTN's performance, change management, change in business processes, the impact of an incorrect VAT rate on MTN's system, and system or process configuration. The case studied and the primary data analysed to explore the impact of a VAT increase aftermath are limited to the South African telco industry. The change management risk exposure detected, root cause analysis and insights of this article highlight the pitfalls that the project managers, change management professionals, marketing, information system and technology teams need to avoid when performing net-

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work configurations and system updates in the telco industry. Over a decade there has not been any new VAT content in South Africa since in September 1991, the original general sales tax (GST) rate of 10% was replaced by the consumption form of VAT subsequently, was adjusted to 14% in 1993. This article provides new content with a close look at the telco industry to contribute and expand the existing literature since VAT and GST are important economic aspects and contributors to the government's income.

## Keywords

VAT Change, Configurations, Customer, MTN, Performance, Revenue, System

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## 1. Introduction

VAT plays an important role in the country's Gross Domestic Product (GDP) and economic growth (Bird & Gendron, 2006; Sancak, Velloso, & Xing, 2010; Department of the National Treasury, 2018). VAT is not only a South African statutory requirement, but all countries across the globe administer direct or indirect tax. In South Africa, VAT replaced the GST in September 1991 (Kearney & Van Heerden, 2004; Nene, 2019). However, in other countries such as India, the GST replaced VAT and other comprehensive indirect taxes such as service tax, excise duty, import duties, and sales tax (Leemput & Wiencek, 2017). When the VAT law (VAT Act 89 of 1991) was promulgated on 12 June 1991, in South Africa, there was a protest resulting in the provision of zero-rated goods (Morden, 2011). However, there was no protest in 2018 when the VAT rate was increased instead, there were civilised public debates (Maboshe & Francis, 2018).

The existing conceptual and empirical research conducted by Dijkstra (2013), Cashin and Unayama (2016), Fan, Liu, Qian and Wen (2018), Stephens (2018) regarding VAT change focus on different industries outside South Africa but not the telco industry. Furthermore, their studies specifically explore how VAT change impacts customer invoices and customer prices and are still not in the South African context. There was no study found that explored and described the impact of the VAT increase on South African mobile operators since VAT was initially introduced in 1991 in South Africa, while the case studied was founded in 1994 when democracy was realised in South Africa. In addition, both Vodacom and MTN were founded in 1994 (MTN, 2018; Dyble, 2021). Therefore, exploring and describing the impact of the VAT increase on MTN performance by investigating how VAT changes were made to the end-to-end telco business process will add value to the body of knowledge since the 2018 VAT change is the first one after the South African mobile operators were established.

MTN was used to provide insight into the complexity of the VAT change in the telco industry compared to any other enterprise. The telco industry was se-

lected due to its complexity when compared to other industries such as retail and wholesale. In other industries, VAT changes only affect customer prices and invoices (Dijkstra, 2013; Cashin & Unayama, 2016; Fan et al., 2018; Stephens, 2018). However, the impact of a 14% to 15% VAT change at MTN affects customer invoices, consumer prices, network configurations and billing systems. This article provides insights into how a 1% VAT increase affected the MTN's performance, and the challenges experienced by the mobile operator during the change implementation and closes the identified gap in the South African scholarship after a synthesis of the current literature available.

## 2. VAT Insights

To determine the impact of the Value-added tax (VAT) increase on performance and financial sustainability at one of South Africa's leading telco organisations, this section will explore and describe three subsections; namely:

- 1) GST overview.
- 2) Stakeholders' response to the VAT change.
- 3) Domestic view.

### 2.1. GST Overview

The VAT is an indirect tax and statutory requirement that affects all legal industries and households in South Africa. In most countries, income tax was introduced under the colonial system (Dick, 2014; Anojan, 2015). In Australia, between 1788 and 1914, the government was not only using tax to collect revenue but also to control and modify the private behaviour of Australians in order to reflect its own economic policy of protectionism (Dick, 2014). In the Western world during the 20th century, VAT was prescribed to modify the sales tax that was already in place (Adams, 1921). In South Africa, VAT is an improved version of GST however, in India; GST replaced VAT and is collected at all levels, steps, phases, and or all stages of the supply chain (Subedi, 2016; Leemput & Wiencek, 2017). Regardless of how and when tax was introduced, even today the taxpayers still directly reap the benefits of state revenue and other advantages of government expenditure such as free education, free health, national security, and other infrastructure facilities (Lymer & Oats, 2009). It is important to note that in South Africa the GST is known as the general sales tax that was under the Sales Tax Act, of 1978 and subsequently replaced by VAT in September 1991 (Kearney & Van Heerden, 2004; SARS, 2018; Nene, 2019). The model of GST and the view of it being a general sales tax is consistent throughout the countries that administered the GST such as Australia, Botswana, Lesotho, Nigeria and South Africa (Owolabi & Okwu, 2011; Kearney & Van Heerden, 2004; Datt, Nienaber, & Tran-Nam, 2017).

In 1991, South Africa and Australia adopted a similar GST model as they share a similar colonialism regime and common law heritage (Datt et al., 2017). However, Negi, Arumugam, Nomani and Geeta (2022) regard GST as the Goods

and Service Tax even though they agreed that GST is an indirect tax that is levied on the supply of both national and international goods and services. Leemput and Wiencek (2017) agreed with Negi et al. (2022) on the concept of Goods and Service Tax. Therefore, the Indian government registers GST differently from other countries. It is sensible that in many countries that administer VAT, VAT is one of the government's efficient revenue generation strategies (Subedi, 2016; Fan et al., 2018).

## 2.2. Stakeholders' Response to the VAT Change

Stakeholders contemplate the relationship of various individuals or a group of entities with a certain organisation or organisations (Buch & Damle, 2019). There are various stakeholders involved in VAT payment and including communities such as pensioners, the working class, as well as poor and rich individuals (Go, Kearney, Robinson, & Thierfelder, 2005). Stakeholders focus on common interests regardless of being internal or external and they are directly affected by the decisions of the vested interest entity (Buch & Damle, 2019). All South African VAT stakeholders are required to comply with the Value-Added Tax Act 89 of 1991 (Maboshe & Francis, 2018). This article suggests that there are two main differences among these diverse stakeholders: one is in their reaction to a VAT increase and the second one is in the stage at which each stakeholder pays VAT. For example, enterprises pay VAT during all stages of the supply chain, while customers pay VAT at the point of sale (Yrjanson, 2015). These stakeholders include the following:

- Manufacturing companies.
- Every business entity regardless of their structure or size, whether entrepreneur, telco, farmer, supplier, wholesaler, or retailer.
- Every household is required to pay VAT regardless of their economic status.

VAT affects everyone living or doing business within the borders of South Africa and everyone who earns money in a formal and legal sector. Various stakeholders are affected by VAT regardless of their economic status (Nene, 2019). In a firm such as MTN, the stakeholders consist of constituencies and individuals "that [contribute], either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries or risk bearers" (Post, Preston, & Sachs, 2002: p. 7). Various stakeholders such as investors have a vested interest to the financial performance of the organisation and VAT directly affect the balance sheet since it is a liability transaction (Nene, 2019; Chen, Sensini, & Vazquez, 2021). In addition, VAT stakeholders will include registered vendors, creditors, suppliers, insurance brokers, and property owners. Therefore, all VAT stakeholders are involuntary stakeholders since VAT is imposed by the government on all the country's residents.

Over two decades in South Africa, the VAT rate remained at 14% until February 2018 yet, no study was found in South Africa that explored the impact of a VAT change on the performance of the business (Department of the National

Treasury, 2018; Statistics South Africa, 2018). Dijkstra (2013), Fan et al. (2018), and Stephens (2018) investigated customer invoices while Cashin and Unayama (2016) examined the impact of VAT change on consumer prices. This article focused on the VAT change implementation aftermath, challenges and key considerations in the telco industry and one of the South African mobile operators was used as a case study in order to understand the magnitude of the impact. After the 1% VAT increase was announced in February 2018 during the National Annual Budget speech, many concerns were raised about its impact on poor and low-income households, as the VAT increase placed a greater burden on them (Maboshe & Francis, 2018). Some stakeholders blamed the government for financial mismanagement and corruption that placed the country under great financial pressure resulting in the VAT rate increase (Mahlati, 2018). Subsequently, the Davis Tax Committee was appointed to independently review the list of zero-rated goods, and eight expenditure items were identified by the panel for further consideration and to be added to the existing list of 19 zero-rated goods (Maboshe & Francis, 2018). Jansen and Calitz (2017) remarked that, in South Africa, it is not cost-effective to increase the list of zero-rated goods as the cost of it is higher than the benefit realised by the poor when compared to other existing social transfer programmes that subsidise the poor. While the government is increasing the income, it receives by collecting VAT on all taxable sales, expenses are also increasing on the side of businesses and consumers (Statistics South Africa, 2018).

Louw and Venter (2013) describe inside-out and outside-in perspectives that are linked to strategy and that directly affect an organisation's performance and financial sustainability. VAT is one of those elements that encompass the entire political, economic, social, technological, environmental, and legal (PESTEL) model even though some of the stakeholders do not fully understand the technicalities of the fiscal policies and other drivers that contribute to the VAT rate increase, but everyone is expected to comply (Mabugu, Fofana, & Chitiga-Mabugu, 2015). The VAT rate is directly influenced by political and economic aspects while the VAT increase affects both the consumer price and the business environment as VAT administration is required each time the VAT rate changes (Van Vliet, 2010; Faccio & Zingales, 2017; Ebrahim, Gcabo, Khumalo, & Pirttilä, 2019).

Before VAT is implemented, it is crucial for the country to carefully consider whether they have the capacity, resources, and system to collect the VAT, for as much as the VAT is used to generate government revenue from those countries that administer VAT, the compliance and administration cost is also high (Bird & Gendron, 2006). As indicated previously, only some countries administer VAT. Hence, some do not and that makes it clear to the researcher that each country responds differently to VAT as VAT laws and fiscal policies differ from one country to the next. Some countries that do not administer VAT want to adhere to and comply with international VAT laws. However, they seriously

consider the capacity and cost involved in collecting VAT (Bird & Gendron, 2006; Holcombe, 2010). To minimise the country's deficit, prevent the maladministration of state funds, and strengthen the country's economy, the government chooses the sustainable tax method to generate revenue. For example, the United States (US) government believes that the regressiveness of VAT if measured relative to the current income increases the burden on lower-income earners and raises the welfare imbalance between rich and poor societies (Caspersen & Metcalf, 1993; Han & Lesica, 2021).

To promote savings and prevent and cut the compliance cost that goes with VAT administration, the US government rejected VAT and continued to charge Retail Sales Tax (RST), as it is simpler to maintain and administer (Holcombe, 1990; US Congressional Budget Office, 1992; US Congressional Budget Office, 1993; Han & Lesica, 2021). Holcombe (2010) did some further investigation and in his findings, he argues that introducing VAT in the US slows the GDP growth, as VAT is the same as RST. However, VAT administration costs are higher than RST due to the complexity of VAT calculations during the supply chain process. Therefore, to stabilise their economy, it is cheaper for the US government to administer the RST as opposed to VAT. The Romanian government, in 2015, introduced the lowest VAT rate for non-alcoholic and food products from 24% to 9% in order to sustain economic growth and balance social responsibility (Gordon & Dan, 2016). Most businesses are concerned about adjusting their invoices. As a result, Fan et al. (2018) highlight the importance of computing invoices. They make it easier for an enterprise to adjust the VAT rate and prevent revenue loss after the government has increased the rate. Other businesses run a system configuration change, invoice adjustment, and price increase concurrently (Dijkstra, 2013; Fan et al., 2018). Consumers bear the VAT increase on commodities purchased after businesses have increased consumer prices, and tax invoices of businesses must reflect such a cost increase (Dijkstra, 2013; Fan et al., 2018; Stephens, 2018). Socially, no one is exempt from the VAT increase, as the increase has driven an increase in the price of social items. For example, the increase in the petrol price has resulted in an increase in transport fees, and an increase in consumer prices results in an increase in the price of cleaning materials that are used by all South Africans (Shazi, 2018).

### 2.3. Domestic View

During the 2018 annual budget speech by the Minister of Finance of South Africa, Malusi Gigaba, he indicated that the VAT rate has been static since 1993. Therefore, increasing VAT from 14% to 15% was less harmful to South African economic growth compared to raising other taxes (Department of the National Treasury, 2018). He, furthermore, stated that the government has made provisions for other tax systems and to sustain low-income households after the 1% VAT increase. The social grants were also increased above the inflation rate. The Minister of Finance admitted that the VAT increase placed poor people at a

greater economic disadvantage than the affluent and hindered growth, as low-income earners and the middle class tended to spend a larger proportion of their income just to meet their basic needs than high-income earners (African News Agency, 2018; Ahmed, 2015).

However, due to an R48.2 billion shortfall in revenue collected during 2017/18, the government had to make some adjustments including increasing the VAT rate in order to manage the country's deficit and accelerate the South African economic growth (Department of the National Treasury, 2018). **Table 1** represents the budgeted income versus actual revenue collected by SARS from 2016 to 2018 of which MTN's VAT and tax contribution for the stated period is also among the presented statistics.

**Table 1.** South Africa's budgeted and actual revenue.

R million	Budget estimates and revenue outcomes						
	2016/17			2017/18			Percentage change
	Budget	Outcome	Deviation	Budget	Revised	Deviation	
<b>Taxes on income and profits</b>	<b>660,586</b>	<b>664,526</b>	<b>3941</b>	<b>739,153</b>	<b>712,853</b>	<b>-26,299</b>	<b>7.3%</b>
Personal income tax	425,810	424,545	-1265	482,086	460,968	-21,118	8.6%
Corporate income tax	205,090	204,432	-658	218,692	218,109	-583	6.7%
Dividend withholding tax	25,710	31,130	5420	34,237	29,037	-5200	-6.7%
Other taxes on income and profits	3976	4420	444	4138	4739	601	7.2%
<b>Skills development levy</b>	<b>15,462</b>	<b>15,315</b>	<b>-147</b>	<b>16,641</b>	<b>15,771</b>	<b>-871</b>	<b>3.0%</b>
<b>Taxes on property</b>	<b>16,043</b>	<b>15,661</b>	<b>-381</b>	<b>16,509</b>	<b>16,047</b>	<b>-462</b>	<b>2.5%</b>
<b>Domestic taxes on goods</b>	<b>403,909</b>	<b>402,464</b>	<b>-1445</b>	<b>439,539</b>	<b>423,616</b>	<b>-15,923</b>	<b>5.3%</b>
Value-added tax	290,000	289,167	-833	312,750	299,058	-13,692	3.4%
Specific excise duties	35,700	35,774	74	39,871	37,275	-2596	4.2%
Ad valorem excise duties	3385	3396	11	3640	3796	156	11.8%
Fuel levy	62,970	62,779	-191	70,902	71,340	438	13.6%
Other domestic taxes on goods and services	11,854	11,348	-506	12,376	12,146	-230	7.0%
<b>Taxes on international trade and transactions</b>	<b>48,384</b>	<b>46,102</b>	<b>-2282</b>	<b>53,647</b>	<b>50,193</b>	<b>-3454</b>	<b>8.9%</b>
Customs duties	47,500	45,579	-1921	52,608	49,011	-3597	7.5%
Diamond export levy	142	117	-25	147	95	-52	-18.9%
Miscellaneous customs and excise receipts	741	406	-335	893	1087	194	167.9%
<b>Gross tax revenue</b>	<b>1,144,382</b>	<b>1,144,081</b>	<b>-301</b>	<b>1,265,488</b>	<b>1,217,307</b>	<b>-48,181</b>	<b>6.4%</b>

Source: Department of the National Treasury (2018: p. 39).

These results in **Table 1** depict the revenue collected for 2016/17 and 2017/18 against what was expected. One may argue about the capabilities of SARS to administer VAT and other tax accounts (Department of the National Treasury, 2018). There could be administrative challenges experienced by SARS and the government administration in general. However, Bird and Gendron (2005) inform that even though VAT is administered in fiscal terms in many countries, the VAT design differs from one country to the next, simply because each country governs its own fiscal policies. Muyanga (2014) argues that there are two drivers of fiscal policies, namely, taxes being the government's revenue and government spending. While Steven (2003) suggests that fiscal policy collaborates with monetary policies and other policies that directly influence the economy in order to stimulate the country's economic goals, such as job creation.

#### 2.4. Summary of VAT Insight

This section provides a summary of the GST overview, stakeholders' response to the VAT change and domestic view. The literature reviewed when determining the impact of the VAT increase on performance and financial sustainability at one of South Africa's leading telco organisations provided a clear understanding that the performance of the business can be described in various ways. Aizenman and Jinjark (2005) and Ng'ang'a (2017) evaluate the performance based on efficiency, while Magnusson, Matthing and Kristensson (2003) and Ghalem, Chroqui, Okar and Semma (2016) consider innovation, involvement, contribution, competitiveness, profitability, and value-add. After a synthesis of the current literature available, no study was found in South Africa that explored the impact of a VAT change on the performance of the business, since there has been no VAT change in South Africa for over two decades (Department of the National Treasury, 2018; Statistics South Africa, 2018). Therefore, exploring the impact of the VAT increase on the performance of the business was not only focusing on financial strategies. However, also examined MTN's operational efficiency and attempted to understand the level of contribution of those who were involved in the VAT change. Cashin and Unayama (2016) focused on how a VAT change affected consumers in Japan. Legeida and Sologoub (2003) examined the performance of VAT revenue in Ukraine's economy and explore the challenges associated with VAT administration where fraud, non-compliance and VAT refund debt were identified as major problems. While Business Monitor International Ltd. (BMI, 2018) researched and presented market trends in the South African telco industry but did not focus on VAT change and its implications. Therefore, the new VAT content with a close look at the telco industry will contribute and expand the existing literature since VAT and GST are important economic aspects and contributors to the government's income. Depending on the country's fiscal policies, the VAT rate is often reviewed and all stakeholders are expected to comply with the changes. Therefore, each country's government must ensure the accuracy, efficiency and completeness checks of



VAT and tax administration (Koirala, 2011; Joseph & Samuel, 2014).

### 3. Research Design and Methodology

To produce strong and comprehensive research a mixed-method design was used with a case study approach. The mixed-method research methodology was preferred because it pursues an understanding of the identified consciousness in relation to the context in which the investigated topic occurs through procedures such as explanations, surveys, structured instruments, and rationalisation (Barnister, Burman, Parker, Taylor, & Tindall, 2006; Fetters & Freshwater, 2015). Creswell and Plano Clark (2011) suggest that, after qualitative and quantitative research methodology, the contribution of mixed-method research has dominated the methodological movement making it a third research methodology. Furthermore, the mixed-method research assisted in exploring the case of MTN, with minimal cost as the researcher personally conducted the interviews independently and provided flexibility during the data collection (Langos, 2014). The University of South Africa (UNISA) Department of Business Management Research Ethics Review Committee granted the ethical certificate on 10 June 2019 with reference number 2019\_CEMS\_BM\_81 after obtaining signed approvals from the gatekeepers. The gatekeepers consist of MTN's Chief Financial Officer, Chief Human Resource Officer, and various General Managers from the departments that were involved in the VAT change project. The interview request clearly stipulated that the participation was completely voluntary, and participants' responses would only be used for the purposes of research was sent to twenty targeted populations and ten responded positively. Before each interview session commenced, informed consent was obtained from all participants after the researcher explained that the participants would not be reimbursed or receive any incentives for their participation in the study. This article reports on the qualitative findings. The next subsections will discuss sampling, data collection, and data analysis.

#### 3.1. Sampling and Data Collection

To assist the researcher in decision-making and in achieving the research objectives in the qualitative case study, this article applied both purposeful and convenience sampling (Saunders, Lewis, & Thornhill, 2019). Due to the availability and accessibility of the targeted population, which led to convenience in data collection administration, ten participants were interviewed of whom 40% were senior management and 60% were junior employees to middle management. The selected participants were deemed suitable to inform this study based on their expertise. The ten sample covered both males and females between the age of 21 and 65 as all MTN employees are over 21 years of age. The selection of 40% and 60% of senior and junior employees participated in the VAT change project based on their experience in the industry. Respectively flexible methods when applying thematic analysis and further when trending participants' responses to

identify patterns among employees with different ranks (Maguire & Delahunt, 2017). It was easy to access data and conduct the research interviews at MTN, since during the period of this research; the researcher had been working for the case studied for 15 years. The qualifications and positions of the participants will be provided in **Table 2**.

The researcher collected the data herself from MTN's head office at 216 14th Avenue, Fairlands, Randburg, 2170. The interviews were scheduled and conducted from 16 June 2019 to 3 July 2019. All meetings were scheduled and conducted in a secure boardroom with no distractions. The interview guide was used while all ten conversations were tape-recorded, and field notes were also taken during the course of the interviews. To ensure that in-depth and intensive information was obtained while controlling the efficiency of sampling, the study used a combination of financial statements and focused and non-directive interviews (Kothari, 2004; Saunders et al., 2019; Levitt et al., 2018). Both focused and non-directive interviews complemented the research interviews when exploring the participants' views of the impact of the VAT increase on MTN's performance and financial sustainability (Maguire & Delahunt, 2017). Tseng, Verhoef, De Jong, Kouwenhoven, and Van der Hoor (2007) and Greamer (2018) indicate that the research interviews also provide in-depth and good insights into a qualitative case study.

### 3.2. Data Analysis

Thematic analysis assisted in exploring data beyond participants' responses (Braun & Clarke, 2006). For the transcribed interviews, thematic analysis was used to identify themes, summarise the data, and make sense of the data (Clarke & Braun, 2013; Fingeld-Connett, 2014). After analysing the transcribed interviews, the emerging categories, themes and subthemes were identified from the

**Table 2.** The participants' qualifications and positions.

Sample	Qualifications	Job description
Participant 1	PhD	Director
Participant 2	Diploma	Administrator
Participant 3	LLB, Diploma	Manager
Participant 4	BComHonours	Planner
Participant 5	BSc	Senior manager
Participant 6	BSc, Diploma	Senior manager
Participant 7	BSc, 2 Diplomas	IT specialist
Participant 8	CA, BCom, HD BAcc	General manager
Participant 9	Diploma	Call centre agent
Participant 10	BCom Accounting	Senior manager

coding process. From all ten conducted interviews, the identified themes and subthemes will be presented in each category in the section. Each theme was carefully selected and used in order to address both the research questions and research objectives of this study.

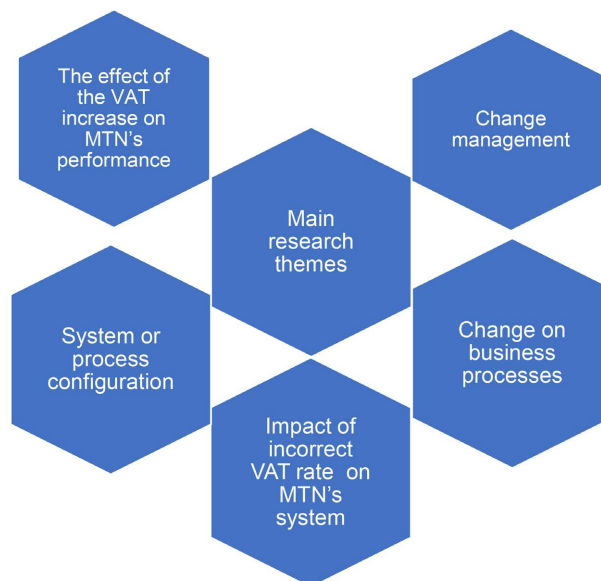
## 4. Results

Due to the complexity of the telco industry, most positions are specialised resulting in some positions being held by only one person in the entire organisation, and these individuals are called subject matter experts. Therefore, stating a specific job description can jeopardise the anonymity of the participants. For this reason, a generic job description is presented in **Table 2**.

Apart from formal qualifications, some participants had specialised professional certifications that the researcher will not present in this article in order to protect the anonymity of the participants, as it will be obvious who participated in this research.

### 4.1. The Identified Themes

To eliminate discrepancies and maintain consistency when analysing data gathered from the participants, thematic coding of the responses from all the questionnaires was manually done to methodically group responses from all ten participants (Etikan, Musa, & Alkassim, 2016). The researcher refines the analysis to encapsulate participants' experience and identified emerging analytical themes starting with the first interview and continuing to the next until all ten were completed. The researcher immersed herself in the data and personally coded the data manually. The coding process finalised revealed five key categories labelled in **Figure 1**.



**Figure 1.** The main themes. Source: Own compilation.

To highlight the main themes, subthemes, and key factors from the participants' responses to the interview questions, direct quotations will be presented verbatim in the next section.

#### 4.1.1. The Effect of the VAT Increase on MTN's Performance

The main objective of this study was to determine the impact of the VAT increase on MTN's performance. The performance of the organisation cannot be evaluated outside the PESTEL model, as external factors directly affect the internal performance of the organization (Louw & Venter, 2013; Pearce & Robinson, 2007). The performance of the business can be described in various ways. Aizenman and Jinjarak (2005) and Ng'ang'a (2017) evaluate performance based on efficiency. According to Drucker (1977) and Lovell (1993), efficiency is often associated with performance, focusing on "doing things right", and the overall efficiency can be measured through effectiveness, such as profit maximisation, while Magnusson et al. (2003) and Ghalem et al. (2016) consider innovation, involvement, contribution, competitiveness, profitability and value-add. There were three common sub-themes that emerged from analysis in terms of the effect of the VAT increase on MTN's performance; namely, **complexity**, **huge negative impact on revenue and customers**, and, lastly, **systems performance**.

##### 1) Complexity

In the telco industry, complexity reduces efficiency and increases the cost of communication (Dong, Diao, Gao, & Luta, 2017). Seven out of ten participants (70%) indicated that the impact of the VAT increase on MTN's performance was "huge, even worse than petrol to an extent". The nature of the telco business and the complexity of the operation is not simply about adding a nominal 1% VAT rate increase to a customer's invoice to comply with statutory requirements. However, the 1% VAT rate increase directly affects the bundling of packages offered to cell phone users, including data bundles, pricing, and usage rules on the network. Therefore, six out of ten participants (60%) mentioned the complexity of the VAT change in the telco.

Complex communication systems are not cost-effective due to low effective throughput and high maintenance (Kalbat, Al-Dweik, Iraqi, Mukhtar, Sharif, & Karagiannidis, 2019). The findings of this research discovered that there were financial decisions to be made by the executive team and the CFO regarding the packages that were changed and where a VAT increase of 1% had to be absorbed. Therefore, it was apart from the collaboration among different departments, such as IT, Finance, and the regulatory board, to ensure compliance. The next theme will report on the negative impact on revenue and customers.

##### 2) Negative impact on revenue and customers

The VAT burden is carried by the end user but, during the data collection period, the researcher discovered that the MTN executive team decided to absorb VAT on some products. This means that the customers were not required to pay 1% extra after the VAT change, as MTN carried the 1% cost from each sale made

on the affected products that were decided to be excluded from the 1% subscription increase. Therefore, this decision directly affected MTN's revenue, since the VAT liability due to SARS is required to be fully paid as 15% of all sales made by MTN monthly.

Customers were not interviewed, but seven out of ten participants (70%) believed that the VAT increase negatively affected MTN's revenue due to the VAT rate increase of 1% on customers' subscriptions where the customers would say: "I used to gain so much and pay less" (Participant 2; Participant 9). Furthermore, the researcher discovered that the decisions made by the executive team did not only affect MTN's financial performance but also affected the bundle categories on various sales channels.

### 3) Systems performance

The findings of this research discovered that the VAT increase did not negatively affect MTN's operational efficiency. However, 70% of participants believed that the VAT rate increase of 1% had to align with all respective and operational systems. Operational efficiency refers to all performance activities that the business runs on a day-to-day basis to ensure the effectiveness of the whole organisation (Drucker, 1977; Lovell, 1993). At the same time, 60% vigorously stated that the commercial and billing applications that involve rating and billing, product catalogue, and invoice generation systems had to be updated in order to comply with the VAT increase from 14% to 15%.

The efficiencies of MTN systems might have not been affected, however, as both Participants 1 and 4 indicated that it was imperative for MTN to apply the VAT rate change of 1% to all the applicable systems. Failure to apply the correct VAT change to any of the VAT-affected systems would have resulted in either over- or underbilling of customers. The damages of that can reach far beyond revenue leakage for MTN. However, the overcharging of subscribers may increase customer complaints and, consequently, result in reputational risk that is not limited to customer churn. The next theme will explore change management, how MTN managed the PESTEL factors that directly affect the performance of the organisation, and the VAT increase is a perfect case study.

#### 4.1.2. Change Management

According to Burnes (2004), De Wit and Meyer (2005) and Nickols (2016), the drive for change is often unpredictable, can be ad hoc, discontinuous, and reactive, as it is often prompted by a situation of organisational crisis or PESTEL challenges. The VAT change was triggered by PESTEL dynamics, and it was unpredictable, as Participant 8 indicated that "the change in VAT was a big surprise for everybody". This resulted in MTN applying an ad hoc decision on both an operational and a strategic level in order to ensure compliance with the government's requirements and VAT law. Change is part of the organisational life cycle where decisions need to be made at both strategic and operational levels (Burnes, 2004). Eight out of ten participants (80%) indicated that MTN com-

plied with and implemented the VAT change of 1% following the internal governance that is defined for change management. In response to how efficient MTN internal governance is when dealing with change management, below are the views of Participant 8.

According to my experience in the risk and assurance field, the VAT change and non-compliance with the 1% VAT rate increase did not only entail financial risk but there was also a high probability of compliance risk and reputational risk if the businesses do not comply. There are 70% of participants perceived the VAT change as a high risk to all the affected VAT stakeholders, especially the business sector. According to [Buch and Damle \(2019\)](#), the stakeholders contemplate the relationship of various individuals or a group of entities with a certain organisation or organisations. As previously indicated that stakeholders focus on the common interest regardless of being internal or external, but they are directly affected by the decisions of the vested interest entity.

Based on the evidence gathered during the research phase and articulated in this thematic category, it is clear that the research was necessary to explain the impact of the VAT increase on the performance of MTN. The PESTEL model was a perfect structure to use in order to explore and fully understand the impact of a VAT change on MTN's profitability and financial sustainability ([Pearce & Robinson, 2007](#); [Louw & Venter, 2013](#)). The next theme will explore change in business processes and elaborate on what business process means to MTN.

#### **4.1.3. Change in Business Processes**

[Uhl and Gollenia \(2016\)](#) suggest that business processes play a crucial role as a qualifying factor for the success of the business transformation. Six out of ten participants (60%) indicated that it was critical for the product catalogue to be updated according to the VAT change and to ensure that the price rates adhere to the VAT rate increase of 1%. It was expected that all participants to highlight the importance of updating the product catalogue since it drives the accuracy of billing. However, I understand that some participants do not have a 360-degree or end-to-end view of the telco operation and I accept the 60% response on this question.

The poor application of MTN's business processes would not only have affected their revenue structure and increased customer complaints. However, the incorrect invoices generated would also have negatively affected business or corporate customers as their accounts and the SMEs' submission with SARS are audited. Such a negative impact would have contributed to the challenges found in the study conducted by [Mach \(2018\)](#), which stated that an increase in the VAT rate negatively affected SMEs because the compliance cost for SMEs was slightly higher than for large enterprises. The next theme will highlight the impact of non-compliance, and the consequences of non-compliance will follow.

#### **4.1.4. The Impact of Non-Compliance**

Eight out of ten participants (80%) indicate that the impact of non-compliance

with the VAT change would have not only affected MTN's financial performance but would have also exposed MTN to reputational risk and increased the probability of poor or negative customer experience. As it would have increased customer complaints and customer churn. There are 50% believed that the incorrect VAT rate would have increased credit notes, and 40% believed it would have increased liability for the company.

Both Participants 5 and 6 highlight the importance of compliance for non-compliance with the VAT Act is not an option. Should the operator be found guilty of contravening the rules contained in the legislation, this could lead to a harsh sanction or fine (Stephens, 2018). Sanctions imposed for non-compliance with legislation are not limited to the suspension of the operating licence of the non-conforming mobile operator. In 2014, the Director of Public Prosecutions in the Western Cape took Step-in-Time Supermarket CC (CC) to task for failing to pay VAT, and the criminal case resulted in the sole representative of CC being sentenced to a maximum of five years' imprisonment on a charge that included misrepresentation of VAT compliance (Department of Justice, 2014). Therefore, stakeholders must adhere to all requirements of legislation that the government passes in the country, for no one is exempt from the law. The next theme will present the results after evaluating MTN process and system configuration.

#### 4.1.5. System or Process Configuration

In the analysis it came out strongly that the majority of participants (90%) alluded to the fact that all VAT systems were affected by the 1% VAT increase. In relation to the system processes, 90% stated that the accounts receivable, rating and billing, invoicing and accounts payable systems were affected by the VAT change. A 1% configuration had to take place.

To conclude the qualitative analysis, these common themes that emerged from the data analysis indicate the significant and high impact of the VAT change on MTN's efficiency, systems, and operational performance. Based on the qualitative analysis, it can be deduced that there was no significant impact on MTN's efficiency during the implementation of 1% VAT rate increase. Efficiency is one of the factors in assessing and measuring the performance of the business (Mouzas, 2006). Efficiency can be measured by various techniques, such as cost function estimation, stochastic frontier estimation, effectiveness, and production function (Günay & Haliloğlu, 2018). In this study, efficiency refers to the input and output of the VAT change project at MTN, such as time spent, cost, system performance, and operational readiness for the 1% VAT rate increase. However, this is taken into account only on systems and operational performance. Therefore, to extrapolate the quantitative challenges that are associated with the implementation of VAT changes at MTN, two words can describe it: 1) **huge** and 2) **complex**.

The analysis attained from the system or process configuration category confirm that the nature of the telco business and complexity of the operation is not

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simply about adding a nominal 1% to a customer's invoice to comply with statutory requirements. However, it is about aligning the system, business processes, and network architecture.

## 5. Discussion

Sullivan (2011) asserts that system performance is characterised by multiple system complexity with several heterogeneous agents, where agents are required to make decisions on how to behave, understand the system used, and interact as a team. This study system performance referred to the downstream and effectiveness of day-to-day activities in order to meet operational goals. The findings of this research discovered that the VAT increase did not negatively affect MTN's operational efficiency. However, Participants 1 and 6 concurred that the very old system and legacy environments gave a bit of a challenge during the VAT rate configuration on the system. The lesson learned from this case study can be adopted and implemented by other mobile operators in the telco industry to ensure that hardcoding on legacy systems is removed and replaced with configuration in order to minimise project costs and improve change management efficiency. Therefore, the project managers, change management professionals, marketing, information system and technology teams can apply these recommendations when performing network configurations and system updates in the telco industry to increase cost-effectiveness and save time spend during the change management process. For legacy systems are not cost-effective as the maintenance cost is very high due to inefficient throughput (Kalbat et al., 2019).

The analysis attained from the system or process configuration category echoes the researcher's views alluded to the background of this study, where the researcher stated that the nature of the telco business and complexity of the operation is not simply about adding a nominal 1% to a customer's invoice to comply with statutory requirements. However, it is about aligning the system, business processes, and network architecture. The decisions made by the executive team directly affected MTN's financial performance as absorbing the VAT increase meant that MTN had to bear the 1% cost due to SARS. The comprehensive research recommendations will be provided in the independent article where strategies will be tabled on how to ensure VAT compliance without exploiting consumers by overcharging them or exposing organisations in the telco industry to reputational risk.

## 6. Summary of the Results and Findings

After analysing the primary and secondary data, all four research objectives were met. From the main themes that were identified, it was clear that VAT has a direct impact on the performance of the business. The key interpretation of the identified themes from the impact of the VAT change at MTN was customer experience, financial risk, compliance risk, complexity in billing, and system management. From the results attained from the primary data, a clear view is



provided that the impact of the VAT increase on the profitability and financial sustainability of MTN was huge. The extrapolated challenges associated with the implementation of the 1% VAT rate increase changes at MTN were complex.

## 7. Conclusion

The implication of the incorrect configuration of VAT rate would have not just affected MTN due to revenue leakage, but also customers should be there any overbilling, and this would have exposed MTN to compliance and reputational risks. Most participants agreed that both customer and supplier invoices were affected during the VAT change process. This article provides the results of qualitative analysis while another article covers the quantitative analysis. A mixed-method research methodology assisted in providing flexibility during the data collection process and answered all four research questions (Banister et al., 2006; Langos, 2014; Fetters & Freshwater, 2015). Even though Swaziland also increased the VAT rate by 1%, this study did not fully examine the impact of the VAT change on the performance of MTN Swaziland as in nature it was limited to MTNSA's performance. Therefore, the follow-up study is highly recommended to examine the impact of the VAT change on the performance of MTN Swaziland. Future conceptual and empirical investigations are recommended to evaluate the impact of fiscal policies on over-the-top (OTT) platforms such as WhatsApp and Ayoba, and how the OTT influences the telco's competitive strategies and overall financial sustainability.

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## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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