AN ANALYSIS OF THE IMPACT OF CHANGES IN GOVERNMENT TAXATION ON CORPORATE PERFORMANCE FOR AFRICAN DISTILLERS LIMITED (AFDIS) (2006 TO 2011)

A Dissertation submitted in partial fulfillment of the requirements for the degree of Master of Business Administration Degree
2012

BY

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SUPERVISOR

Professor A.M. Hawkins
DECLARATION

I, Tambudzai Makunde do hereby declare that this dissertation is the result of my own research except to the extent indicated in the acknowledgements, references and by comments included in the body of this report, and that it has not been submitted in part or in full for any other degree to any other university.

Student Signature __________________ Date ________________

Supervisor Signature __________________ Date ________________
DEDICATION

This research study is dedicated to my two daughters, Hannah and Kylah whom I have shown the way and given a challenge. I hope this work will be a source of inspiration for both of you.
ACKNOWLEDGEMENTS

First of all, I would like to thank the Almighty God for giving me the spiritual strength through my intellectual journey.

I am also greatly indebted to my supervisor, Professor Hawkins who offered me his valuable time and vast knowledge. I benefited a lot from his wisdom.

This research would not have been completed without the support of Columbus Guyo who provided financial support and afforded me to carry out this research at such a critical time for the business.

Finally, my profound gratitude also goes to Tendai Chapinduka, my husband who offered moral support.
ABSTRACT

This study analyses the impact of changes in government taxation on corporate performance in an organisation with particular reference to Afdis (2006 to 2011). This study seeks to ascertain the different forms of taxes that influence the organisation performance and recommend strategies that can be used by Afdis to reduce the impact of tax on corporate performance.

The study used questionnaires and interviews as research instruments. The questionnaires were administered to forty two employees at Afdis. These consisted of the supervisors, middle and senior management. The questionnaires were supplemented by thirteen interviews. The response rates for the questionnaires and interviews were 83% and 76% respectively. The questionnaires mainly had closed questions and the interviews used semi-structured open ended questions.

The major findings were that the ad valorem structure and changes in excise duty experienced in the period under review adversely affected the organisation’s performance and competitiveness. Middle management and supervisory employees agreed that the strategy to import products from Distell was as a result of the increase in excise duty from 20% to 40%. Respondents added that some brands especially cane spirits were cheaper to import because of the ad valorem tax structure. The study concludes that changes in government taxation policies had a negative impact on the performance of Afdis. Some products were discontinued and the company lost market share on those products.

Long term strategies to achieve competitive advantage include transfer of products from bonded warehouse on fast moving products. This facilitates monthly payment of duties only on products that move quickly than tying up money in slow movers if all products were transferred to the bonded warehouse. The Company’s relationship with its principals should result in continued expansion and establishment of a full range of regionally and internationally branded product to complement local product. Recommendations include diversification into non alcoholic products which do not pay excise duty, focusing on high margin products and ensuring that product is always available.
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
<td></td>
</tr>
<tr>
<td>ADCA</td>
<td>Alcohol and other Drugs Council of Australia</td>
<td></td>
</tr>
<tr>
<td>AIDS</td>
<td>Acquired Immune Deficiency Syndrome</td>
<td></td>
</tr>
<tr>
<td>Afdis</td>
<td>African Distillers Limited</td>
<td></td>
</tr>
<tr>
<td>AG</td>
<td>Attorney General</td>
<td></td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
<td></td>
</tr>
<tr>
<td>CZI</td>
<td>Confederation of Zimbabwe Industries</td>
<td></td>
</tr>
<tr>
<td>Delta</td>
<td>Delta Corporation Ltd</td>
<td></td>
</tr>
<tr>
<td>EMA</td>
<td>Environmental Management Agency</td>
<td></td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technologies</td>
<td></td>
</tr>
<tr>
<td>GNU</td>
<td>Government of National Unity</td>
<td></td>
</tr>
<tr>
<td>GPA</td>
<td>Global Political Agreement</td>
<td></td>
</tr>
<tr>
<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
<td></td>
</tr>
<tr>
<td>LAA</td>
<td>Litre of Actual Alcohol</td>
<td></td>
</tr>
<tr>
<td>MDC-M</td>
<td>Movement of Democratic Change –Mutambara</td>
<td></td>
</tr>
<tr>
<td>MDC-T</td>
<td>Movement of Democratic Change –Tsvangirai</td>
<td></td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay As You Earn</td>
<td></td>
</tr>
<tr>
<td>PEST</td>
<td>Political, Economical, Social and Technological</td>
<td></td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities and Threats</td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
<td></td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>--------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
<td></td>
</tr>
<tr>
<td>WET</td>
<td>Wine Equalisation Tax</td>
<td></td>
</tr>
<tr>
<td>ZANU PF</td>
<td>Zimbabwe African National Union (Patriotic Front)</td>
<td></td>
</tr>
<tr>
<td>ZIMRA</td>
<td>Zimbabwe Revenue Authority</td>
<td></td>
</tr>
<tr>
<td>ZWD</td>
<td>Zimbabwe Dollar</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER ONE  INTRODUCTION AND BACKGROUND

1.0 INTRODUCTION
This dissertation is an analysis of the impact of changes in government taxes on corporate performance for African Distillers Limited (2006 to 2011). The Zimbabwean Government uses different forms of taxes to raise its revenue. Zimbabwe is also ranked highly in terms of taxation levying all over the world. As a result of that any upward review will impact on the tax payers heavily.

This chapter is organised as follows: First it looks into the background which covers the background of the study, background of macro economic environment background of the industry and background of the organisation. It then provides the problem statement, research objectives, research questions, research proposition, research justification, research scope, assumptions, research limitations and dissertation outline.

1.1 BACKGROUND TO THE STUDY
The economic decline experienced in Zimbabwe during the period 2001 and 2008 coupled with the shortage of foreign currency saw a reduced product output. Afdis was operating at about 15% of its installed capacity (Afdis Annual Report, 2010). Operating expenses saw the company having to adopt a repositioning strategy in 2008 and to undertake a redundancy excise by changing from production-oriented company to a market-oriented company. Since 2009 the strategy has been to import product which the company could not produce. Locally manufactured products suffered from the inequities of the excise duty regime which levied duty on imported products at their cost price whilst local products paid at selling price (Afdis Annual Report, 2010). The report further posits that this translated to 70% duty disadvantage for local production. Growth in sales volumes is likely to continue to be subdued largely due to high production costs emanating from low capacity utilization. Other most likely contributing factors are the influx of cheap imported wines and spirits and inconsistencies in policy formulation.
1.1.1 Macro environmental/ PEST Analysis

This section provides an analysis of the external environment which is usually beyond the company’s control and at times ends up impacting negatively on company performance. The PEST analysis framework was used and this reviews factors in the macro-economic environment in which the business is operating and which impact on business performance. The PEST strategic management framework analysis is an acronym for political, economic, social and technology (Grant, 2010). Manufacturing industry which includes the beverage industry was hard hit by the unsettled social-political environment and a contracting economy from 2001 to 2008.

Political Factors

Political factors include government regulations and legal issues and define the rules under which firms must operate. Rowe (2008) classified rules and regulations such as tax policies, employment laws, safety regulations, environmental regulations, trade restrictions and tariffs and political stability as some of the political factors which can force significant changes in industry practices and strategic directions. Fraudulent packaging or labeling, consumer protection laws and occupational health and safety laws are some of the rules and regulations that impacted negatively in the beverage industry.

According to the CZI Annual Survey (2010) the beverage manufacturing industry has been greatly affected by regulations in the form of excise duty levied on beverages which have been on the increase. Amongst the pressures of inconsistent policies is poor enforcement of law. Environmental issues are becoming topical and the world is going towards green business. The demand to measure carbon footprints will be mandatory in the near future. At the moment boards such as Environmental Management Agency (EMA) has a policing approach. Their focus is on big companies to ensure compliance in discharging waste into the environment, collection of used glass bottles and recycling of both glass and PET bottles. However, small companies are currently not affected by the policing approach from these boards (Afdis Environmental Report, 2010).
The signing of the Global Political Agreement (GPA) among the three main political parties (ZANU PF, MDC – T and MDC – M) on 15 September 2008, the subsequent adoption of the multi-currency system in Zimbabwe and the formation of a government of national unity in February 2009 brought in a paradigm shift in economic policy. According to the (Afdis Annual Report, 2008) the signing of the Government of National Unity was a cause of hope that the operating environment was going to improve. The prime areas of focus for Afdis were on supply chain management and survival strategies.

**Pending Government Proposals**

The proposal contained in the National Alcohol Policy seeking to stop the sale of alcohol after 7pm on week days and midday on Sunday and the sale of alcoholic products in supermarkets. The justification is that excessive consumption of alcohol has contributed to carnage on the country’s roads and morale decadence. Although the proposals are still at draft stage they are highly unlikely to adversely affect the beverages industry. Consumers are likely to buy and keep their beverages at home then drink after the stipulated times.

**Economic Factors**

Gross domestic product, interest rates, exchange rates and the inflation rate are some of the examples of economic factors (Rowe, 2008). Some of the factors that are directly linked to the beverage industry include: availability and cost of energy, the cost and the availability of service infrastructure. These factors affect the purchasing power of potential customers.

The beverage industry was not spared by the Zimbabwean economic down turn between the year 2000 and 2008. The economy was shrinking and was characterized by hyperinflation, subdued interest rates and chronic shortage of foreign currency (Afdis Annual Report, 2009). This led to company closures or downsizing. Inflation as shown in Table 1.1 was on the increase throughout the period and it turned into hyperinflation in 2007 when prices of commodities were changing on a daily basis.
Table 1.1: Inflation (2007 – 2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6723.7</td>
</tr>
<tr>
<td>2008</td>
<td>231,000,000</td>
</tr>
<tr>
<td>2009</td>
<td>7,900,000</td>
</tr>
<tr>
<td>2010</td>
<td>3.1</td>
</tr>
<tr>
<td>2011</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: (ZIMSTATS, 2012)

Social Factors

Social factors include attitude, values and beliefs, culture as it pertains to attitude towards work, savings and investment, demography which relates to the size and structure of the work force, population shifts and aging and the social structure which deals with market segmentation (Rowe, 2008). Consumerism and fashion fads, product safety expectations and income distribution are amongst the factors that have a direct bearing on the beverage industry.

There is an increased demand on the manufacturing sector to play a more meaningful role in social projects. This includes provision of educational assistance to the disadvantaged children and addressing wellness issues in new products. For example in the beverage industry the trend for health conscious segment is now going towards uncarbonated alcohol with low alcohol content and less sugar content (Afdis Marketing Report, 2011). By the end of 2008 social indicators such as public service delivery particularly health, education and food security deteriorated significantly. The collapse of the health system for the period under review affected the industry due to high absenteeism as a result of HIV and AIDS related illness. The prevalence of the HIV/AIDS pandemic has had an equally far reaching impact on the industry over the five year period under study. Nevertheless, there is now an improvement which has been brought by the corporate world in the form of education and campaigns against the pandemic (CZI Annual Survey, 2010).
Technological Factors

Thompson and Strickland (2003) reckon that technological changes can dramatically alter an industry’s landscape giving birth to the production of new or better products at lower cost. They further assert that technological developments can also bring in changes in capital requirements, the minimum efficient plant sizes, vertical integration, benefits and experience curve effects. This could in turn improve productivity and add value to the customer. The availability of information systems has also been a major environmental driver impacting upon the beverages industry. The quest has been driven by the need to streamline business processes to ensure flexibility and responsiveness in their service delivery systems. New, fast and efficient manufacturing processes have been developed in the industry such as the use of ICT in production methods, customer relationship management and inventory management (Sauer and Willcocks, 2003).

1.1.2 Zimbabwe’s Tax System

In Zimbabwe, the statutory acts for the main revenue collection from tax are the Income Tax Act (Chapter 23:06), the Capital Gains Act (Chapter 23:01), the Finance Act (Chapter 23:04), the Value Added Tax Act (Chapter 23:12), the Estate Duties Act (Chapter 23:03) and the Customs and Excise Act (Chapter 23:02). The Income Tax Act covers the income taxes of individuals, companies, trusts as well as withholding taxes. The other tax acts cover specific issues, for example the Value Added Tax Act covers VAT issues. For anything not covered in the specific Act reference has to be made to the Income Tax Act. The Finance Act specifies periodic changes to the tax acts and covers changes in tax rates. The Customs and Excise Act covers customs and excise duties and is read with the Statutory Instruments on the rates of the duties. The Mines and Minerals Act gives rise to royalties.

These tax acts are based on the objectives of the fiscal policy of the Ministry of Finance (MoF). The policy framework for the drafting of the various Acts is formulated by the MoF. The policy framework is given to the Zimbabwe Revenue Authority team to craft into legal form. Once crafted the legal form is handed over to the Attorney General (AG)’s office for final drafting. The AG’s office will send the final version for review and approval by ZIMRA before passing
onto Parliament for consideration. The budget statements made by the Minister of Finance feed into the Finance Act and Statutory Instruments.

The Mid-Year Fiscal Policy Review presented by the Ministry of Finance (July, 2011) provides clarity on various aspects of Zimbabwe Tax System and the key aspects are discussed below. The Finance Ministry recommended tax policy measures that focus on support to improve industrial capacity utilisation with some of the measures targeted towards plugging loopholes existing in the tax system.

According to the Statement on the 2009 budget presented to the Parliament of Zimbabwe by the Ministry of Finance, the biggest source of revenue in Zimbabwe historically has been Pay As You Earn (PAYE) contributing nearly 40% of the tax revenue. Sales tax and VAT (which replaced Sales Tax) was in the second position contributing an average 24% to the total tax revenue between 1996 and 2004 (Ministry of Finance, 2009). In Zimbabwe Value Added Tax (VAT) was adopted in January 2004 and replaced such taxes as sales tax, betting tax, gaining tax and import tax. VAT is levied on transactions rather than persons, therefore the liability to charge the tax arises every time a transaction is carried out by registered operators, and will not depend on the profitability of the business. It is an indirect tax that is levied on the supply and importation of goods and services (ZIMRA Third Quarter Bulletin, 2011).

The Zimbabwean government shares this popular view in the establishment of the excise duty especially on alcoholic drinks which are Afdis main line of business. Moreover, tax revenue raised through excise is often earmarked for redress of specific social costs commonly associated with the product or service being taxed. Tobacco and alcohol tax revenues, for example, might be spent on government anti-smoking and drinking campaigns.

Excise duty is levied on certain locally manufactured, imported under Trade Agreements and other specified goods in terms of the Customs and Excise Act [Chapter 23:02] in Zimbabwe. Applicable rates of Customs and Excise Duties are set-out in the Customs Tariff, which is published in the form of a statutory instrument. The applicable rates of excise duty depend on the category of goods.
Customs Duty is levied on imported or exported goods in terms of the Customs and Excise Act [Chapter 23:02]. According to the Zimbabwe Revenue Authority (2011) the calculation of customs duty depends on the determination of the assessable value in case of items for which the duty is levied ad valorem. This assessed value is often the transaction value unless the Customs officers determine assessable value in accordance with the Customs & Excise Act of Zimbabwe. However, for certain items like petroleum and alcohol, customs duty is realized at a specific rate applied to the volume of the import or export consignments.

The main sources of tax revenue in Zimbabwe are as in Table 1.2 below are categorically reviewed in the following section:

**Table 1.2 Revenue Contributions in 2009 and 2010**

<table>
<thead>
<tr>
<th>Tax</th>
<th>% Contribution in 2009</th>
<th>% Contribution 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>PAYE</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Customs Duty</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td>Corporate Tax</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: 2011 Budget Statement*

**1.1.3 BACKGROUND TO BEVERAGES INDUSTRY**

An analysis of the beverages manufacturing industry in which Afdis operates is presented in this section. According to the Food and Food Standards (Alcoholic Beverages) Regulations, an alcoholic beverage includes any beverage or fruit extract drink which contains not less than nought comma two per centum of alcohol (Food and Food Standards (Alcoholic Beverages) Regulations, 2001). Hence a beverage can be non alcoholic or alcoholic. There are only three listed companies in the beverages manufacturing industry namely, Delta Corporation Ltd, Dairibord Holdings Ltd and African Distillers Ltd (Zimbabwe Stock Exchange Handbook, 2011)
1.1.4 Market Capitalization for the Beverages Industry

The market capitalization for companies in the beverages industry is illustrated in Figure 1.1 as at 30\textsuperscript{th} December 2011. Delta Corporation Ltd is the market leader in terms of market capitalization with US$ 829,436,100.50 which translates to 91.5%. Delta Corporation Ltd is followed by Dairibord Holdings with a market capitalization of US$ 67,118,199.50 which translates to 7.4% and Afdis has the lowest market capitalization of US$9,996,404.25 which translates to 1.1% as depicted by Figure 1.1 below.

![Market Capitalization 30 December 2011](image)

Figure 1.1: Market Capitalization for the beverages industry as at 30/12/11 ZSE (2011)

1.1.5 BACKGROUND OF AFRICAN DISTILLERS LIMITED (AFDIS)

African Distillers Limited was registered in 1944 and became a public quoted company in 1951. The Company’s portfolio includes international and regional brands from its major shareholders which are produced locally under license. Its activities include local production and distribution of imported spirits and wines. The major shareholders are Delta Corporation and Distell Limited whose combined holdings represent 60% of total equity. Distell Limited is a South African Company. Its business is vast and spread across three segments which are wines, spirits and ready to drink products (Distell Annual Report, 2011). The remaining 40% is held by general public (Afdis Annual Report, 2010).

1.1.6 Tax Contribution

The study used company tax; value added tax, excise duty and import duty to analyse the contribution of Afdis towards tax. Post dollarisation figures for 2010 and 2011 were used in the
analysis. The company year starts from July to June of the next year. Thus, the contributions for the year 2009 were distorted because the company was using Zimbabwean dollars for 7 months of the year 2009.

Table 1.3: Analysis of contribution of tax (2010 and 2011)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Tax</td>
<td>$927,242.00</td>
<td>$39,971.00</td>
<td>The company did not make profit hence the significant drop in company tax in 2010 and 2011.</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>$2,232,156.75</td>
<td>$2,930,742.03</td>
<td>The slight increase in 2011 was due to increase in sales against total purchase.</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>$2,267,613.35</td>
<td>$4,110,745.26</td>
<td>The significant increase in excise duty was due to the increased volumes pushed in 2011 against 2010.</td>
</tr>
<tr>
<td>Import Duty</td>
<td>$479,727.65</td>
<td>$342,896.74</td>
<td>Fewer volumes were pushed in 2011 hence the decrease in import duty.</td>
</tr>
<tr>
<td>Total Duties</td>
<td>$2,747,341.00</td>
<td>$4,453,642.00</td>
<td>Source: Afdis Annual Reports (2010 and 2011)</td>
</tr>
</tbody>
</table>

Table 1.3 above shows an analysis of tax contributions and was based on projections. It is important to note that, company tax is paid based on profitability of the organisation. According to the Afdis Annual Report (2011), the company did not make any profits in the years 2010 and 2011. The slight increase in value added tax in 2011 from $2,232,156.75 to $2,930,742.03 was due to the increase in sales against total purchases. The turnover for 2010 and 2011 was $12,050,383 and $15,030,130 respectively. Total duty is the summation of excise duty and import duty. The fluctuations in excise and import duties are a function of sales or volumes that would have been pushed for that period. As can be noted from Table 1.3, the company is paying more on excise duty because local production constitutes a greater proportion of 60% than imports which are 40% (Marketing Reports, 2011).
1.1.7 Analysis of Sales Volumes Data

The researcher used sales history, spirit sales, wine sales and cider sales to analyze the performance of sales volumes for the five year period (2006 -2011) under study. The researcher also compared Afdis sales volumes against Delta volumes from 2001 to 2011.

As can be noticed from Figure 1.2, Afdis sold about 7.5 million litres in 2006 and 2007. This was followed by a steep decline in volumes to total sales of 2million litres in 2009. In 2008 inflation was on its peak and productivity was heavily affected by low staff morale and high absenteeism. Wastages were high and commitment at work place was very low. From 2009 to 2011 volumes grew slightly. The company could not increase in volumes sufficiently to allow it to break even due to old delivery fleet which contributed heavily on overheads. Figure 1.3 shows a comparison of the sales volumes of African Distillers Limited and Delta Lagers.

Figure 1.2: Sales history for Afdis (Marketing Reports, 2011)

Figure 1.3: Sales Comparisons: Afdis vs. Delta (Marketing Reports, 2011)
Industry benchmarking was used by looking at the comparative performance of other organisations in the same industry. As can be noted from Figure 1.3, the trend in sales volumes for Afdis and Delta followed a similar trend from 2001 to 2009. The performance for the whole industry was commendable. However, Johnson, Scholes and Whittington (2006) note that it may make sense to compare like with like, an overriding norm of industry comparisons is that the whole industry may be performing badly and losing out competitively to other industries. He further asserts that these industries maybe satisfying customer needs in different ways. After dollarization Afdis had limited growth in sales volumes as compared to Delta. Afdis had so much money tied in debtors and this affected its liquidity but because Delta had appropriate strategies in place it had significant growth in sales volumes.

Figure 1.4 shows spirit sales of African Distillers Limited for the period 2006 to 2011.

![Figure 1.4 Spirit sales for Afdis (Marketing Reports, 2011)](image)

Afdis total spirit sales are comprised of brown and white spirits. Total spirit sales fell from 6.5 million litres in 2006 to 1.5 million litres in 2009 (Afdis Marketing Report, 2009). The declining trend in spirit sales was due to inflation which was on the increase until the end of 2008 (Afdis Annual Report, 2009). It was difficult to budget because of lack of certainty on numbers. As a result planning was complicated in terms of raw material requirements and cash flow.
Afdis did not promote its wine volumes significantly. Supply of wine through the period under review was affected by the land reform programme since most of the vineyards were converted into maize fields. In 2009 the company was left with one still wine and fortified wine to offer to the market while the rest was imported. The proliferation of cheap imported wines from other players resulted in consumer preferences shifting to these imports leaving the local wines uncompetitive. Supply was affected in 2010 by the requirement to put compliant health warning statement on all imported products. Afdis was importing most of its wines from South Africa. The organisation came up with contingency measures of putting stickers with the compliant health warning statement. This meant double handling slowing the speed at which the products were taken to the market.

Figure 1.6 below illustrates the cider sales for the period 2006 to 2011.

The strategy in respect of imported ciders such as Savanna and Hunters came into effect in 2009. As shown in the graph, the import volumes were growing but at a limited rate. Informal traders were the main importers as they managed to evade tax and supply wholesalers at a lower price than Afdis.
1.1.8 Analysis of Financial Data

The researcher used profitability, efficiency, and liquidity ratios to analyze financial performance of Afdis for the five year period (2006-2011). In analyzing African Distillers Limited profitability, the researcher used return on equity.

Table 1.4: Analysis of profitability for Afdis (2006 – 2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit Margin</th>
<th>Return on Equity</th>
<th>Return on Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-15.51%</td>
<td>-36.4%</td>
<td>0.01</td>
</tr>
<tr>
<td>2007</td>
<td>6.75%</td>
<td>25.09%</td>
<td>0.47</td>
</tr>
<tr>
<td>2008</td>
<td>-10.10%</td>
<td>-76.16%</td>
<td>0.93</td>
</tr>
<tr>
<td>2009</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
<tr>
<td>2010</td>
<td>-10.39%</td>
<td>-32.17%</td>
<td>-0.17</td>
</tr>
<tr>
<td>2011</td>
<td>-4.79</td>
<td>-24.25%</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Afdis Annual Reports (2006 to 2011)

Note on 2009

The first seven trading months of the year were accounted for in the now defunct Zimbabwe dollar (ZWD). The latter five months of trading in United States dollars (USD) were distorted. Several expenses which were incurred in the previous periods, such as leave provisions and routine monthly accruals, had to be included or re-accrued at the year end in USD. This was despite the fact that the related income was reflected in prior periods as ZWD. The rationalisation of the ledger therefore became subjective. Consequently, conversion of the ZWD period into USD or the production of a partial USD income statement was so misleading. The income statement was therefore omitted and all comparative figures were also omitted.

The year 2006 had a negative return on equity of 36.4% which was followed by a positive return on equity of 25.09% in 2007. The supply of raw materials was erratic during 2006. Suppliers had more bargaining power. Astra Chemicals which is the local supplier of African Distillers’ major raw material was starving the local market and exported its rectified spirit in preference to get hard currency. The year 2008 had a negative return on equity of 76.16% which was the worst
return over the five year period under review. During this period the biggest factor that affected profitability was price controls. It was illegal to sell products without price approval from the National Income and Prices Commission (NIPC). Every manufacturer had to approach the NIPC and this resulted in backlogs. The year 2010 had a negative return on equity of 32.17%. In 2010, the high excise duty rate of 40% which had to be paid before moving the product from the warehouse greatly affected profitability. This reduced margins and the company was forced to charge prices that were not affordable given the limited levels of disposable income (Afdis Annual Report, 2010). The year 2011 also had a negative return on equity of 24.25%. The negative return on equity was as a result of stiff competition from cheap imports of spirits from neighboring countries. Accounts payables to sales ratios were used in analyzing African Distillers Limited efficiency.

Table 1.5: Analysis of efficiency ratios for Afdis (2006 – 2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of times</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>14</td>
</tr>
<tr>
<td>2007</td>
<td>20</td>
</tr>
<tr>
<td>2008</td>
<td>4</td>
</tr>
<tr>
<td>2009</td>
<td>47</td>
</tr>
<tr>
<td>2010</td>
<td>45</td>
</tr>
<tr>
<td>2011</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Afdis Annual Reports (2006 to 2011)

As shown on Table 1.5, the number of times stock was turned over was increasing over the five year period with the exception of year 2008 which had a significant drop to 4 times. In 2008 inflation was on its peak and the economy was operating on a cash basis. The debtors’ terms for African Distillers were not in line with inflationary trends. Afdis continued to sell on credit ranging between 7 to 60 days. By the time the debtors paid for their stocks the amount obtained was not enough to meet a percentage of the manufacturing costs. All credit sales were as good as donations. In 2009, the country adopted the multi-currency system which stabilized the economy. African Distillers Limited managed to utilize suppliers (creditors) as a source of cheap funding.
The researcher used the current ratio to analyze the liquidity of African Distillers Limited.

Table 1.6: Analysis of current ratios for Afdis (2006 – 2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1.73:1</td>
</tr>
<tr>
<td>2007</td>
<td>1.578:1</td>
</tr>
<tr>
<td>2008</td>
<td>1.651:1</td>
</tr>
<tr>
<td>2009</td>
<td>3.687:1</td>
</tr>
<tr>
<td>2010</td>
<td>1.09:1</td>
</tr>
<tr>
<td>2011</td>
<td>0.968:1</td>
</tr>
</tbody>
</table>

Source: Afdis Annual Reports (2006 to 2011)

For the year 2006, the company had $1.73 of current assets to meet $1.00 of current liabilities, for year 2007, the company had $1.58 of current assets to meet $1.00 of current liabilities and for year 2008 the company had $1.65 of current assets to meet $1.00 of current liabilities. Current ratios were good for the years 2006, 2007 and 2008 as they covered current liabilities however, overstocking affected liquidity. This tied up capital and affected the company’s liquidity. This implied that the company would have paid duty for stock sitting in the warehouse. For the year 2009, the company had $3.69 of current assets to meet $1.00 of current liabilities. While the current assets covered current liabilities by more than threefold, this shows that there were some current assets lying idle. These could have been invested elsewhere to generate income.

For year 2010, the company had $1.09 of current assets to meet $1.00 of current liabilities and for the year 2011, the company had $0.97 of current assets to meet $1.00 of current liabilities. The ratio for the year 2011 shows that current assets could not cover current liabilities. This was attributed to the huge Distell debt which was incurred by the company just after dollarization for the purposes of buying imported product for resale (Afdis Financial Report, 2011). The company failed to service the debt in time and was set on prepayment terms for any additional products. On the other hand the company needed to pay for the debt. Since this debt was with a South African Company and rand based, whenever the rand depreciated against the dollar the company incurred exchange losses. As a result every month the debt was revalued.
1.1.9 SWOT ANALYSIS FOR AFDIS

A scan of the internal and external environment is an important part of the strategic planning process. This view is supported by Thompson, Strickland and Gamble (2010) who point to SWOT analysis, an acronym for strengths, weaknesses, opportunities and threats as a way of appraising a company’s resource strengths and weaknesses and its external opportunities and threats provide a basis for crafting a company’s strategy.

Strengths

Grant (2010) asserts that resource strength is an attribute that enhances a company’s competitiveness in the market. This includes good leadership and loyal customers. Currently, the company has very strong brands like Viceroy, Chateau and Smirnoff. Its best leverage is on very high quality products with a certified food safety system in place.

Afdis has skilled and experienced manpower which the company has managed to retain during the period of hyperinflation when the industry experienced brain drain to other countries. The staff turnover for that period was 16.2% as shown in Table 1.6. The high staff turnover of 19.3% in 2010 was due to retrenchment. Staff turnover is the number of employees leaving employment at a given period. The staff turnover percentage was calculated as total number of employees leaving the organisation divided by the total number of employees in service for the same period. The result was then multiplied by 100%.

Table 1.7: Reasons for staff turnover

<table>
<thead>
<tr>
<th>Period ending</th>
<th>Staff turnover</th>
<th>Reasons for turnover percentage.</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2006</td>
<td>4.4%</td>
<td>Deaths, poor economy and harsh political environment.</td>
</tr>
<tr>
<td>December 2007</td>
<td>5.2%</td>
<td>Deaths, poor economy and harsh political environment.</td>
</tr>
<tr>
<td>December 2008</td>
<td>16.2%</td>
<td>Brain drain, deaths and economic upheaval</td>
</tr>
<tr>
<td>December 2009</td>
<td>4.2%</td>
<td>Unstable economy and deaths</td>
</tr>
<tr>
<td>December 2010</td>
<td>19.3%</td>
<td>Retrenchment due to company re-organization</td>
</tr>
<tr>
<td>December 2011</td>
<td>3.4%</td>
<td>Staff reorganization</td>
</tr>
</tbody>
</table>

Source: Afdis Human Resources Reports (2006 to 2011)
Weaknesses
A resource weakness is what a company lacks or does poorly compared to rivals. It relates to inferior intellectual capital in competitively important areas of business or deficiencies in important physical or intangible assets (Grant, 2010). Weaknesses put a company at a disadvantage and examples of these include the lack of a clear strategic direction, a weak balance sheet that is burdened with debts, higher overall unit costs in comparison to competitors, a weak brand image, underutilization of plant capacity and falling behind in technological knowhow (Thompson, Strickland & Gamble, 2010). Obsolete technology and a high cost structure are some of the weaknesses for Afdis.

Opportunities
Grant (2010) defines opportunities as openings to win market share from rivals. These may include unfilled customer need, loosening of regulations, acquisition of rival firms and backward and forward integration. The introduction of 25% surtax on imported spirits and wines was a great opportunity for Afdis to expand its local production.

Threats
Changes in the external environment present threats to the firm. Examples of such threats include shifts in consumer taste, emergence of substitute products and adverse changes in foreign exchange rates and interest rates among others (Thompson et al., 2010).

During the period under the review, there were adverse changes in both interest and exchange rates and this led to disruptions in production at Afdis. It was difficult to source certain imported raw materials. The changes in the monetary policy made it difficult for Afdis to plan as these changes were done on an adhoc basis. The introduction of the multicurrency system in 2009, the canceling of price controls and the decontrol of foreign exchange stabilized the economic environment.

Critique of SWOT Analysis
The SWOT analysis framework as argued by Grant (2010) is handicapped by difficulties in distinguishing strengths from weaknesses and opportunities from threats. He suggests that the
careful identification of external and internal factors should be followed by an appraisal of their implications. The use of strategic fit is a concept for firm-strategy-industry and for it to be successful must be consistent with the firm’s goals and values, resources and capabilities and external environment (Grant, 2010).

BACKGROUND TO THE PROBLEM
The increase in excise duty from 20% to 40% which was announced in the midterm budget effective 1 January 2010 was too heavy for the industry it doubled the prices of spirits (Midterm Monetary Policy Statement, 2009). The excise duty was charged based on selling price. However, small players in the industry took advantage of the amendment which was unclear. They deliberately misconstrued the interpretation of the statute and were paying duty on litres of actual alcohol (LAA) as opposed to bulk litres. The small players were now paying less duty than Afdis and the informal traders in the industry evaded tax. The inequality of the excise duty system was addressed in the mini-budget in July 2011, resulting in an even playing field for all players in the industry.

PROBLEM STATEMENT
Every organisation operates under government influence. Government can influence an organisation in different ways which maybe taxes, laws and regulations. Taxes as the main focus of this study come in several forms that are: company tax, value added tax, excise duty and import duty taxes. Frequent changes in tax policy created uncertainty in operations and performance at Afdis. The increase in taxes by government has resulted in a multitude of problems at Afdis given the highly competitive environment in the beverage industry both from local products and imports. This has negatively affected the performance of Afdis. The question asked is: Is it changes in taxation that has negatively affected Afdis? It is against this background that this research focuses on the impact of government taxation on performance of Afdis between 2006 and 2011.
RESEARCH OBJECTIVES

Main objective
The main objective of this research is to establish the impact of Government’s taxation policies on corporate performance of African Distillers Limited.

Sub objectives
1. To ascertain the different forms of taxes that influences the organisation performance.
2. To determine how the change in the taxes are impacting on the organisation’s operations.
3. To establish the effects of tax changes on performance of the organisation.
4. To recommend taxation strategies that should be used by the government to reduce impact of tax on corporate performance.

RESEARCH QUESTIONS
Some pertinent questions in this study include:
1) What was the impact of Government taxation policies on the performance of African Distillers Limited?
2) What are the different forms of taxes that influence the organisation’s performance?
3) How did the changes in the taxes impact on the organisation’s operations?
4) What were the effects of tax changes on the performance of the organisation?
5) What taxation strategies should be used by the government to reduce the impact of tax on corporate performance?

RESEARCH PROPOSITION
The impact of frequent government tax changes on African Distillers Limited between 2006 and 2011 has been unfavorable.

RESEARCH JUSTIFICATION
This research is expected to relate theory to the practical world. The recommendations, which will be made, based on the research findings are expected to assist Afdis in coming up with long term strategies to achieve competitive advantage. The research will fulfill the requirements of the
degree of Master in Business Administration programme. The research will also aid in application of learnt concepts to the practical world and may be used as a reference point in future studies. This research is also important to the researcher as it falls in the researcher’s scope of professional work and it will enhance and fortify the researcher’s business understanding and appreciation of the business operations. It will also give the researcher a sense of self-worth and self-contentment as a scholar.

**RESEARCH SCOPE**
Research scope has been defined as the domain of scientific enquiry (Richards, 2006). He propounded that it often involves the substantive area of investigation, rather than the limits of the research topic, area of research and the sample. The `research used a case study approach on African Distillers Limited and covered up the period 2006 to 2011.

**ASSUMPTIONS**
This research assumes that the company’s financial statements are free from material misstatements. It is assumed that the financial statements and accompanying reports are free from fraudulent misrepresentation.

**RESEARCH LIMITATIONS**
A single case study approach as opposed to a multiple case study has been used. African Distillers Limited has been used as the primary research target because of the limited time of the research and resources required to complete the research.

**DISSERTATION OUTLINE**
The following will be the remaining chapters of the dissertation:

**Chapter 2: Literature Review**
This reviews the available literature relevant to the research under study.
Chapter 3: Research Methodology
It covers the methodology applied during the study with the justification of the methods and instruments used.

Chapter 4: Results and Discussions
This chapter details the results and findings of the research and their analysis.

Chapter 5: Conclusions and Recommendations
Conclusions and recommendations arising from the analysis of the study findings will be done in this chapter with areas of further research also included.

CHAPTER SUMMARY
This chapter outlined the introduction of the subject of macro environmental analysis. This aspect is critical because company performance is not only based on firm’s capacity but on full knowledge in appreciating macro environmental factors among other things. The problem statement and objectives of the research were highlighted and the chapter went on to identify the pertinent questions that the research must address. Propositions were made regarding the impact of changes in taxation policies for the period under review. In addition a justification of why the study is relevant to business was made as well as the scope, limitations and assumptions underlying the research.
2.0 INTRODUCTION

Cooper (1988) observed that a literature review reports on primary or original scholarship and does not report new primary scholarship itself. This chapter reviews literature on the impact of taxation on corporate performance. In particular, the review addresses the conceptualization of terms that are critical to this study, *inter alia*: government taxation policy and corporate performance. To best understand the relationship between government taxation policies and corporate performance, this chapter will start by defining tax policy and review literature on types of government taxes, reasons for imposing taxes and ways of imposing taxes by Government. This will help in explaining and understanding the theoretical context of Zimbabwe’s approach to fiscal policy between 2006 and 2011. In terms of scope, the literature reviewed was deemed broad enough to cover issues relevant to the topic (Burns and Grove, 2007).

2.1 DEFINITION OF TERMS

2.1.1 Reflecting On Definition of Taxation

Mumford (2010) defines tax policy as consideration of choices about revenue collection and spending by government. A much earlier definition is provided by Monsingh and Kerr (2001) who view government tax policy as a statement on the principles governing tax instruments and how tax revenues are collected. This policy statement provides a set of rules, modus operandi and guidance to which all stakeholders in the tax system will subscribe. From a legal perspective tax is defined as the enforced proportional contributions from persons and property, levied by the State by virtue of its sovereignty for the support of Government and for all public needs (Bannock, 2003). Johnson (2010) argues that tax system is not only about the level of taxation and the policy choices that determine its incidence. It is also about the quality of the tax law and the way in which tax policy is made. It is about how you propose, consult, legislate, implement and evaluate the tax system. Key elements to consider also in this regard are the importance of predictability, stability and simplicity in the tax system.
The ‘social structure of accumulation’ theory views tax as an element hindering capital accumulation. According to Weisskopf (1994), “tax ratio…can be seen as in part a function of the power of the domestic citizenry to induce the country to levy taxes in order to support public spending on programs benefiting non-capitalists, which will be pitted against the power of capitalists to resist taxes whose ultimate impact is on profits and whose benefits do not accrue to themselves; thus (the tax ratio) becomes a negative function of the power of capital vis-à-vis the general public” (p.149).

Weisskopf (1994) conceptualises tax as a tool for diverting profits away from capitalists for to the benefit of non-capitalists. He overlooks at the possibility that taxation may serve to empower capitalists to influence government’s policymaking making process in their favour even if it is not in the public interest. While Lewis (1982) has defined taxation as the principal means by which governments can attempt to redistribute wealth and bring about social change through various policies.

There is no consensus among scholars as to what constitutes taxation with views on taxation being split between legal (Bannock, 2003) and economic perspectives (Weisskopf, 1994).

2.1.2 Types of Government Taxes

Webber and Wildavsky (1986) have pointed out that for many generations government collected only a few types of taxes. One of the most important instruments of the financial policy of the governments is taxes, the application of which makes a great influence on the decisions in business, referring to the way of business, the business forms, capital investments and others.

“Taxation is whereby the government charges a certain percentage on sales, incomes or any other activity in order to raise revenue” (Chidakwa and Kadenge, 2003: p.164).

When taxation is used to finance government spending so as to increase economic activity, funds that could be used for investment or consumption should not be taxed. However, this is not practical. If only idle funds are taxed, government taxation and spending leads to an increase in total effective demand. The three major groups of taxes are:
Quantity Tax

Varian (2010) note that a quantity tax is to be designed such that the consumer pay a certain amount to the government for each unit of a particular good that he purchases. Under this type of tax, consumers pay a certain amount of money for every unit bought. It is expressed in absolute terms such as $0.25 per litre of alcohol bought.

To illustrate the concept of quantity tax on pricing, Varian (2010) came up with the following formulation:

\[ P_1X_1 + P_2X_2 = M \]

- Where \( P_1 \) and \( P_2 \) are the prices and \( M \) is income available.
- Tax affects the price of \( X_1 \). Thus, the new price that includes tax is \( P_1 + t \).
- The effect of this on the budget line equation becomes:

\[ (P_1 + t)X_1 + P_2X_2 = M \]

Value Tax or Ad valorem Tax

Varian (2010) defines an ad valorem tax as a tax based on the value of real estate or personal property. An ad valorem tax is imposed at the time of a transaction for example value-added tax (VAT) in Zimbabwe. However, it may be imposed on annual basis examples of such are real or personal property tax. Furthermore, it can be imposed in connection with another significant event such as inheritance tax and surrendering citizenship. Under an ad valorem tax system, the tax equals a percentage of the price. It is not in absolute terms but relative to the price of a commodity (\textit{ibid}). The new price with the tax is \( P_1 (1+ t) \), and the new budget constraint is \( P_1 (1+ t) X_1 + P_2X_2 = M \) (Varian, 2010)

Bellak and Leibrecht (2005) note that taxes on stock or input transfers can encourage firms to internalize costs and grow. The absence of such transactions may result in a larger number of individually smaller firms. The theory of the firm's model suggests that this would be less economically efficient as it results in a decline in specialization.
**Lumpsum Tax**

A lumpsum tax is an indirect tax that is a fixed amount, no matter the change in circumstance of the taxed entity (Varian, 2010). He further asserts that it is a regressive tax, such that the lower the income is, the higher the percentage of income applicable to the tax. This type of tax is directed on income wealth of the consumer. Its effect is to change the income of the consumer and a good example is Income Tax. Varian (2010) further presented a mathematical argument to demonstrate the effect of the lumpsum tax represented by the following assumption and formulae:

Suppose lumpsum tax is \( T \), the new budget constraint will be

\[
P_1 X_1 + P_2 X_2 = M - T
\]

The effect of it on the budget line is to shift it inwards.

Graaf (2008) argues that a lumpsum tax may have the advantage of not contributing to an excess burden of taxation, a loss in economic efficiency that result from taxes reducing incentives for production. He observed that in practice; lump-um taxes are often encountered, in spite of their conflict with other criteria, such as equity or ability to pay. He also reviewed empirical evidence which showed that lump-sum taxes remain a standard for measuring the performance of other imperfect kinds of taxes.

**Flat Tax**

Forbes (2005) defines a flat tax as a tax system with a constant marginal rate, usually applied to individual or corporate income and is a proportional tax that allows certain deductions. He notes that they are various tax systems that are labeled "flat tax" even though they are significantly different. He further presents the following variances of flat tax proposals that exist across countries with differences only in how they define income subject to tax:

1. **"True" flat rate income tax**- a system of taxation where one tax rate is applied to all income with no deductions or exemptions
2. **Marginal flat tax**- When deductions are allowed a 'flat tax' is a progressive tax with the special characteristic that above the maximum deduction, the rate on all further income is constant i.e. being marginally flat above that point. The conceptual difference between a true flat tax and a
marginally flat tax, can be unified by recognizing that the latter simply excludes certain kinds of funds from being defined as income. Then they are both flat on "taxable" income.

3. **Hall–Rabushka flat tax** - It was designed by economists and it accomplishes a consumption tax effect by taxing income excluding investment (Rabushka, 1995).

4. **Negative income tax** - Friedman (1952) established this form of flat tax with personal deductions, except that when deductions exceed income, the taxable income is allowed to become negative rather than being set to zero. He further asserts that the flat tax rate is then applied to the resulting negative income and this will lead to a "negative income tax." The government owes the household, unlike the usual "positive" income tax, which the household owes the government.

### 2.1.1 Company tax

Corporate taxes are defined as taxes against profits earned by businesses during a given taxable period usually an accounting year (KPMG, 2009). Corporate taxes are generally applied to companies' operating earnings, after expenses and depreciation have been deducted from revenues. The general corporate tax rate, which was 35% before the dollarization of the economy was set at 30%, for 2009 and was reduced to 25% in 2010 (KPMG, 2010). The Income Tax Act allows deduction from income of expenses incurred in the earning of income and in the carrying on of trade.

### Value Added Tax

AFRODAD (2011) note that VAT is based on the contribution of an activity to economic growth. VAT is considered the fairest tax, since everyone gets taxed based on the contribution they make to the economy.

Thuronyi (1996) established Value-Added Tax, a relatively new tax which was first introduced as a comprehensive national tax 40 years ago in France. Since then, it has been adopted as the main form of indirect taxation by many countries in different parts of the world and at different stages of economic development. He considered VAT in particular, to be a key common form of taxation for the 15 member European major economies, with only the United States and
Australia having no VAT at the federal level (partly because of problems in introducing the tax in federal states), although both have considered in detail how it might be implemented.

The value added tax is distinctly different from the sales tax levied on exchanges. It is a form of indirect tax that is imposed at different stages of production on goods and services (AFRODAD, 2011). Sales tax, as compared to VAT, is the percentage of revenue imposed on the retail sale of goods. Unlike VAT, sales tax is levied on the total value of goods and services purchased. The value added tax system, unlike the conventional sales tax system, efficiently addresses the problems of cascading and input tax credit that causes an automatic hike in the consumer price level. The incidence of cascading is avoided in VAT as the tax is imposed on the value addition at every stage of production. The final consumers are the ultimate bearers of the burden. The transparent and neutral nature of taxation has prompted VAT to emerge as one of the robust revenue raisers (AFRODAD, 2011).

Mhini (2010) argues that VAT is not a redistributive tax as it is payable by everybody. It has, however, been argued that when the same tax rate is charged the person with the higher income, in this respect who makes more purchases, makes a higher contribution to the tax revenue.

2.1.2 Excise duty tax

An excise is an inland tax on the sale, or production for sale, of specific goods or a tax on a good produced for sale, or sold, within a country or licenses for specific activities. Excises are inland taxes, whereas customs duties are border taxes (The Kansas Department of Revenue, 2012).

An excise is an indirect tax, meaning that the producer or seller who pays the tax to the government is expected to try to recover or shift the tax by raising the price paid by the buyer. Excises are typically imposed in addition to another indirect tax such as a sales tax or value added tax (VAT).

The Kansas Department of Revenue (2012) establishes that an excise is distinguished from VAT in three ways:
(i) an excise typically applies to a narrower range of products;
(ii) an excise is typically heavier, accounting for a higher fraction of the retail price of the targeted products; and
(iii) an excise is typically a per unit tax, costing a specific amount for a volume or unit of the item purchased, whereas a sales tax or VAT is an ad valorem tax and proportional to the price of the good.

Typical examples of excise duties are taxes on petroleum fuels, tobacco and alcohol (sometimes referred to as sin tax).

In defense of excises on Alcoholic drinks, Smith (1776) wrote:

"It has for some time past been the policy of Great Britain to discourage the consumption of spirituous liquors, on account of their supposed tendency to ruin the health and to corrupt the morals of the common people."

Johnson (1755) argued in his dictionary: "EXCI’SE. n.s. ... A hateful tax levied upon commodities, and adjudged not by the common judges of property, but wretches hired by those to whom excise is paid."

2.1.3 Customs duty tax

Customs Duty is levied on imported or exported goods in terms of the Customs and Excise Act [Chapter 23:02]. It is an indirect tax realizable on goods of international trade. Duties levied by the government in relation to imported items are referred to as import duty. In the same vein, duties realized on export consignments are called export duty (Sheffrin, 2003)

2.2 WAYS OF TAXING BY GOVERNMENT

2.2.1 Proportionate taxing

Simon (1998) note that a proportional tax system has a tax rate that is fixed. He further suggests that the amount of the tax is in proportion to the amount subject to taxation. The proportionality describes a distribution effect on income or expenditure, which refers to the way the rate, remains consistent such that the marginal tax rate is equal to the average tax rate (Simon, 1998).
His study points out that since proportional taxes maintain equal tax incidence regardless of the ability-to-pay and do not shift the incidence disproportionately to those with a higher or lower economic well-being, they are considered to be regressive.

2.2.2 Progressive taxing

Rausch, Metcalf and Reilly (2011) view a progressive tax as being structured in a way that the tax rate increases as the taxable base amount increase translating into a progressive distributional effect on income or expenditure. He also establishes the fact that progressive taxes attempt to reduce the tax incidence of people with a lower ability-to-pay by shifting the incidence increasingly to those with a higher ability-to-pay.

In most countries Pay As You Earn (PAYE), is where people with more income pay a higher percentage of that income in tax than do those with less income by the use of differential tax band rates (Simon, 1998). He further explains that the application of adjustments to the tax base by using tax exemptions, tax credits, or selective taxation creates further progressive distribution effects in tax system.

2.2.3 Regressive taxing

Summerfield, Madeo and Anderson (2006) explain that a regressive tax is imposed in such a manner that the tax rate decreases as the amount subject to taxation increases. The “Regressive” here describes a distribution effect on income or expenditure, referring to the way the rate progresses from high to low, where the average tax rate exceeds the marginal tax rate. In terms of individual income and wealth, a regressive tax imposes a greater burden (relative to resources) on the poor than on the rich. This ensures there is an inverse relationship between the tax rate and the taxpayer's ability to pay as measured by assets, consumption, or income.

Hyman and David (2007) agree with Summerfield et.al. (2006) that regressive taxes tend to reduce the tax incidence of people with higher ability to pay, as they shift the incidence disproportionately to those with lower ability to pay. He further established that the progressivity of a particular tax depends on the propensity of the taxpayers to engage in the taxed
activity relative to their income. In other words, if the activity being taxed is more likely to be carried out by the poor and less likely to be carried out by the rich, the tax may be considered regressive.

2.3 REASONS FOR IMPOSING TAXES

Fiscal policy is a deliberate use of government revenue and spending activities to influence the behaviour of the major macroeconomic variables such as Gross Domestic Product (GDP), unemployment, investment, trade exchange rates, interest rates and inflation. Crandall (2010) suggests that government can use fiscal policy to influence the private sector behaviour and indicate the direction in which the economy must go. Fiscal policy means adjusting the government budget year by year to steer the economy toward a desirable level of output. If aggregate demand is too low, it can be raised by either an increase in government expenditure or by a reduction in taxes (Chidakwa and Kadenge, 2004). An increase in government expenditure has the multiplier effect, which leads to an increase in aggregate demand while tax reduction leads to an increase in disposable income thus increasing aggregate demand. This is called expansionary fiscal policy. In support with these studies Crawford, Smith and Tanner (1999) note that if aggregate demand is too high, which usually means a high rate of inflation; it can be lowered by either a decrease in government expenditure or an increase in taxes. The effect on the economy is the opposite of expansionary fiscal policy. He further explains that it is called contractionary fiscal policy. The main burden of fiscal policy falls on net taxes. There is some agreement that government purchases should not be varied to offset short-term fluctuations in the national output. This is partly because it is difficult to vary public construction programmes quickly and also that the proper level of government output depends on long-term priorities Crawford, Smith and Tanner (1999).

Whether a tax cut increases consumer spending and by how much depends on how the cut is interpreted by consumers and particularly on how far it is viewed as a permanent increase in incomes (ADCA, 2008). This suggests that a temporary change in tax whether upward or downward has a smaller effect on spending than a permanent change. If spending increases, Gross National Product (GNP) will increase and demand for money increases also. Without a complementary policy, interest rates rise and this tends to reduce business investment and sale of
consumer durables. This crowding effect partly offsets the stimulating effect of fiscal policy (Crandall, 2010).

Giesbrecht (2000) suggests that a reduction in business taxes is investment oriented while a reduction in personal taxes is consumption oriented. He further asserts that fiscal policy measures such as minimum wages and higher social securities result in increases in business costs that are likely to be passed through fully to consumers thus adding to the inflation rate. More use of income tax revenues and less use of payroll taxes to finance the social security system could reduce business costs and thus reduce inflation.

2.3.2 Tax Administration

Jakstonyte and Giriunas (2010) observe that taxpayer culture performs a big role in performance administration. This determines the state of shadow economy, tax avoidance and concealment and fraud scheme existentialism. The observation also point that these factors express the inefficiency of the tax system, incapability to preclude the factors having a negative influence on the tax collection system.

Crandall (2010) observes that best practice in tax administration suggests that assessment of individual performance need to be cast in the context of organisational performance. The idea is for individual performance agreements to be logically linked with organisational performance. This approach helps achieve line of sight between the organisation’s outcomes and individual performance measures and supports measurement of the individual’s contribution to organisational outputs.

United Nations (2002) advises that countries must reform their tax systems by broadening their tax base; reducing tax-induced distortions; and adopting tax expenditure approaches which minimize the prospects for future fiscal deficits and are consistent with administrative capacities. In terms of tax policy, ideally, countries should aim at setting up an efficient and fair tax system which should raise essential revenue without excessive government borrowing, and should do so
without discouraging economic activities or deviating radically from tax systems in other countries.

The UN (2002) views supported by Chidakwa and Kadenge (2004); observe that an ideal tax system should have the following attributes: it should be efficient, meaning that it should not discourage economic activities; the system of government finance should raise revenues with only minimal loss in efficiency in the private sector; it should be equitable, meaning that the distribution of the burden of the government finance should coincide with commonly held notions of fairness and the ability to pay; it should be characterized by high revenue productivity, and it should be easy to administer in a consistent manner, without excessive costs to collect, enforce, and comply with taxes and tax laws. The best-designed system is only as good as the administration that implements it (Chidakwa and Kadenge, 2004).

In essence, governments that decide to undertake fiscal reforms should also take into account the concomitant tax administration reform (Kavale, 2011). He further asserts that the organizational structure of tax administration should be such as to enable the tax administration to achieve the highest possible degree of voluntary taxpayer compliance, and to administer the tax laws efficiently, effectively and fairly, with the highest degree of integrity. Kavale (2011) notes that from a corporate strategic planning point of view, the issue of government administering the taxation role fairly can be hardly achieved when the views of the industry are not taken into consideration in the evolution of the fiscal policy in question. A sense of fairness is usually achieved when the affected parties, in this case, the alcohol industry participates in fiscal policy formulation by giving their own views on what works for a win-win situation between the exchequer and the industry (United Nations Report of the Secretary-General, 2002).

2.4 SETTING AN OPTIMAL ALCOHOL TAXATION POLICY

Fogarty (2012) observes that the variation in the optimal tax rate across beverage types flows from differences in the externality costs associated with consumption of each beverage type and differences in the proportion of moderate consumption and abusive consumption associated with each beverage type. In addition it is noteworthy that the optimal tax rates are influenced by the
range of costs that are considered to be externality costs, and the relative price responsiveness of abusers and moderate consumers.

Rinaldi (2007) provides that alcohol policy setting is complex and is shaped by a multitude of influences, including: community attitudes and social norms; the imperative to enhance and maintain the public health of the general populace; taxation and pricing structures to influence demand and users’ consumption profiles; age groupings, life stages, disposable income, behavioural patterns, and responsiveness to price changes; and vast product availability and a proliferation of independent and franchise wholesale and retail liquor outlets.

However, Marsden (2000) asserts that the economic strategy in corporate strategic planning disregards social concerns. The author calls this strategy the denial stage in that it reflects the “Friedman condition”. It is where a company denies responsibility for or the need to engage with any of the societal issues upon which its operations impact, beyond complying with the law and paying its taxes. It is a strategy of non-involvement, because business conduct is guided by a philosophy that says “the business of business is business”. While no one would argue with the proposition that “the business of business is business”, what is contentious, however, is what constitutes “business” and especially “good business”. Good business, if one may argue, is one characterized by corporate social responsibility which is based on the recognition of the fact that without society there wouldn’t be demand for a company’s products. Put simply, it means no demand no business and this logic means society must be viewed in corporate strategic planning as part of the organisation formulating the strategy.

Nevertheless, the heterogeneous nature of the demand for alcohol and its supply, and its cultural and social roles, make the formulation and application of an optimal alcohol taxation regime ‘no easy task.’ Webb (2009) for instance, highlights the inconsistencies in the current alcohol taxation regime when viewed against the principles of efficiency, equity and enforceability of taxation policy. Usually, the amount of wine equalisation tax (WET) is unrelated to alcohol content. He further asserts that these differences seem unrelated to policy objectives Webb (2009).
2.5 CORPORATE TAX STRATEGY AND TAX ENVIRONMENT CHANGES

The interaction between corporate tax strategy and tax environment changes follows theoretical research that demonstrates that firms’ tax-aggressiveness level is jointly determined by managerial discretion, the corporate governance structure, and the tax environment (Chen and Chu, 2005). Shareholders, through corporate governance mechanisms, implement incentives and controls that induce managers to achieve the firm’s optimal level of tax-aggressiveness given the prevailing tax regime (Crocker and Slemrod, 2005).

Moore (2007) suggest that failure of shareholders to implement effective controls and incentives over the tax function in a way that align managers’ preferred levels of tax-aggressiveness with their own, results in a deviation from the firm’s profit-maximizing level of tax-aggressiveness. He further asserts that these scenarios highlight the importance of including corporate governance in the analysis of tax-aggressiveness and justify conditioning the effects of tax environment changes on firms’ corporate governance strength.

Desai and Dharmapala (2006) posit that tax environment changes have the overall effect of increasing investors’ valuation of tax-aggressiveness. The authors attribute this to the fact that induced adjustments to firms’ tax planning increase the certainty of managers taking tax positions within the firms’ optimal level of tax-aggressiveness. In addition, the induced adjustments to tax planning will potentially resolve pre-existing unaddressed conflicts of interests related to such tax planning.

2.6 ALCOHOL TAX

Leicestor (2011) says taxes on alcohol are typically justified as externality-correcting taxes. Alcohol consumption leads to costs which are not imposed on the individual consuming the product. This means the social impact of alcohol consumption is higher than the cost facing individuals when making their private decision of whether and how much alcohol to consume. This leads to an inefficiently high level of consumption from a social perspective. Well designed alcohol duties ensure these external costs are factored into the price facing private consumers (Leicestor, 2011).
Due to the contentious nature of alcohol, taxes on the commodity are high. Sinha (2006) observes that they are used as a “double-edged weapon” to garner a significant source of country revenues and simultaneously to discourage consumption. Further, the author stresses the importance of a balance of incentives so that the two goals can be accomplished without encouraging either tax evasion or the illicit industry.

Euromonitor (2007) posit that this may be technically difficult since the tax regimes are often confusing, consisting of a large number of components, including excise duty, licence fee, sales tax, brand/label registration fee, import/export fee, vend fee, and turnover tax. The complexity of the system is increased by the fact that individual governments determine and regulate industry’s tax levels, which differ from country to country.

In short, each country has an excise duty on the production of alcohol, an import duty on alcoholic products from another country, and an export duty on alcoholic products manufactured within the country for consumption in a different one (Euromonitor, 2007). International imports are regulated by a different regime, comprised of basic and additional customs duties. According to a 2006 report on the Zimbabwean beer industry the basic import duty was 150 percent for spirits and 100 percent for beer and wine on the cost-insurance-freight price (Gruenwald, Ponicki and Holder, 2006).

According to the World Health Organisation (2004), high taxation may lead to increased consumption of potentially dangerous kinds of non-commercial and illicit beverage alcohol with higher safety and health risks. Some research however suggests that price changes may have a greater effect on sales of commercially available branded alcohol in low and middle income countries where access to home production and other non-commercial beverage alcohol is higher.

According to Gruenewald et al. (2006) increased alcohol taxes may result in decreases in commercial beverage alcohol purchases and increased consumption of non-commercial alcohol.
2.7 FISCAL TAX CONTROL AND CROSS BORDER PURCHASES

The efficacy of fiscal control (on alcohol) may in some circumstances be eroded where borders are long or open (Dawes, 2008); Mueller, Remaud and Chabin (2011). Babor, Caetano and Caswell (2003); Stafstroem (2006), Andréasson, Holder, Norström, Osterberg and Rossow (2006), provide examples of how the existence of neighboring jurisdictions, between which there is cross border trade and smuggling, can seriously complicate the implementation of alcohol policies (some of their examples are drawn from the borders between Finland and Estonia, Sweden and Denmark/Germany and Chicago - USA and Canada). The relative absence of neighbours, considering an isolated community increases the freedom of policy makers considering an isolated community (Bjoernsson, 2006).

An important issue overlooked by many scholars is the impact of punitive import duties on alcohol maybe to protect the local alcohol industry. When you take away competition, you have eliminated quality considerations. A good corporate strategic plan should emphasize quality as a competitive advantage locally and internationally and not to bank on protectionism through discouragement of imports for performance strategies. In essence, brand competition should be the mainstay of the corporate strategic plan.

2.8 ORGANISATIONAL PERFORMANCE

Organizational performance management and control is increasingly seen by managers as a key activity. Laitinen (2002) has defined performance ‘as the ability of an object to produce results in a dimension determined, a priori, in relation to a target’. This is consistent with the suggestion by Ittner and Larcker (2003) that performance measurement is used to allocate resources and map progress towards the achievement of strategic goals. This suggests that performance must be linked to actions emanating from strategic planning.

Laitinen (2002) note that most studies tend to focus on financial related performance measures such as profitability. However, the trend is moving from reliance on financial orientatated measures towards a stronger emphasis on a more comprehensive performance. Measurement system needs to comprise both financial and non-financial measures, intermittent and outcome
measures McAdam and Bailie (2002). Laitinen (2002) encapsulates the increasing emphasis on broader performance measurement concepts by stating that ‘when financial and non-financial measures are incorporated in the same model, managers can survey performance in several areas simultaneously in order to enable efficient strategic decision making’. Short (2002) contends that ‘to date, researchers have not reached consensus about many of the factors that may influence performance.

Notwithstanding this, financial measures are well used as the main measure of performance (Robinson (1983). Basing on the work of Halebian and Finkelstein (1993), a categorical approach based on ‘gross profit per FTE can be used to assess the association between strategic planning and performance. Pett and Wolff (2003) suggest that this provides a multiple assessment of a firm’s performance.

2.8.2 Profitability ratios

Profitability ratios show how successful a company is in terms of generating profits from investments made by the company (Ehrhardt, 2011). Three ratios that can be used to show profitability are net profit margin, return on assets and return on equity. Net profit margin measures the percentage of profits earned per dollar of sales. Return on assets determines the company’s ability to efficiently and effectively utilize the assets employed in order to earn a good return. It also measures the percentage of profits earned per dollar of asset. Return on equity measures the ability of a company to generate reasonable returns for capital invested by company owners and is obtained by dividing net profit by owners’ equity (Marsh, 2009).

2.8.3 Efficiency ratios

Efficiency ratios measure the efficiency of a company in turning inventory, assets, sales, accounts payables or receivables (Marsh, 2009). The three ratios which can be used to analyze efficiency of Afdis are the Days Sales Outstanding, Inventory Turnover and Accounts Payable to Sales ratios. The Days Sales Outstanding ratio shows the effectiveness by which a company converts its receivables into cash and is obtained by dividing the total accounts receivables by total credit sales multiplied by the number of days. The inventory turnover ratio indicates the
rapidity by which a company is able to move its merchandise and is obtained by dividing net sales by inventory. The accounts payable to sales ratio indicates as to how much a company is using suppliers’ money in funding its sales. It is obtained by dividing accounts payables by net sales. If the ratio is high it means that the company is using its suppliers as a source of cheap funding.

2.8.4 Liquidity Ratios

Liquidity ratios show an entity’s short term ability to pay its debts as they fall due (Marsh, 2009). Three ratios that can be used to show a company’s liquidity are current ratios, quick ratios and debt to equity ratios.

The current ratio expresses the working capital relationship of current assets available to cover current obligations and is obtained by dividing total current assets by total current liabilities. The current ratio is usually expressed as a single figure. A ratio above 1 is satisfactory and indicates the ability to pay debts. When this ratio is too high it may indicate an inefficient investment of funds while too low a ratio might indicate poor working capital management.

The quick ratio is regarded as an acid test of liquidity for a company. It is obtained by first deducting inventory from current assets and dividing the resultant figure by total current liabilities. Debt equity ratio measure the company’s gearing of its debt against the capital employed by its owners.

2.9 Taxes and Business Performance

Desai, Mihir and Hines (2001) in their study concluded that Governments have at their disposal several different tax instruments that can be used singly or in concert to finance their activities. These tax alternatives include personal and corporate income taxes, sales taxes, value added taxes, property taxes, excise taxes, and numerous others. It is not uncommon for a single government to elect to use many or all of these alternatives simultaneously. The likely impact on a country’s ability to attract investment and stimulate economic activity typically ranks highly among the criteria used in making choices over these tax instruments.
Hartman and David (1984) reviews that there is by now extensive evidence that high tax rates discourage foreign direct investment (FDI), thereby offering support for the working hypothesis of many governments that maintain low corporate tax rates in order to encourage investment. Empirical studies of the effect of taxation on FDI typically consider the impact of differences in corporate income tax rates. Similarly, Desai and Hines (2001) suggest that high rates of property taxation may reduce the demand for FDI by as much as high rates of income taxes. The role of non-income taxes may be particularly important for FDI as governments of many countries permit multinational firms to claim foreign tax credits for corporate income taxes paid to foreign governments, but do not extend this privilege to taxes other than income taxes. As a result, taxes for which firms are ineligible to claim credits may have the strongest impact on firm decision-making, including decisions of where and how much to invest.

In a study jointly undertaken by the OECD Economics Department and the OECD Centre for Tax Policy and Administration CTPA (OECD, 2004), empirical evidence showed that what matters for investment decisions is not only the level of taxes but also the way in which different tax instruments are designed and combined to generate revenues. The effects of tax levels and tax structures on agents’ economic behaviour are likely to be reflected in overall living standards.

Recognizing this, over the past decades many OECD countries have undertaken structural reforms in their tax systems. Most of the personal income tax reforms have tried to create a fiscal environment that encourages saving, investment, entrepreneurship and provides increased work incentives. Likewise, most corporate tax reforms have been driven by the desire to promote competition and avoid tax-induced distortions. Almost all of these tax reforms can be characterized as involving rate cuts and base broadening in order to improve efficiency, while at the same time maintain tax revenues.

In another study by Johansson and Arnold (2004) in the OECD countries revealed the following taxation strategies being fundamental in promoting investment and productivity and as such corporate performance:
1. Investment
   a) Reducing corporate tax rates and removing special tax relief can enhance investment.

   b) Especially, if the primary aim is to reduce distortions that hold back the level of domestic investment and to attract foreign direct investment, reducing the corporate tax rate may be preferable to reducing personal income taxes on dividends and capital gains.

   c) Lowering the corporate tax rate and removing differential tax treatment may also improve the quality of investment by reducing possible tax-induced distortions in the choice of assets.

   d) Providing greater certainty and predictability in the application of corporate income taxes may lead to higher investment, which in turn, could enhance growth performance.

2. Productivity
   There are several ways in which tax policy can influence productivity:

   a) Reducing the top marginal statutory rate on personal income since it has an impact on productivity via entrepreneurship by affecting risk taking by individuals. While empirical research by Johansson and Arnold (2004) has pointed to conflicting ways in which entrepreneurship could be affected, in their study a reduction in the top marginal tax rate is found to raise productivity in industries with potentially high rates of enterprise creation. Thus reducing top marginal tax rates may help to enhance economy-wide productivity in OECD countries with a large share of such industries, though the trade off with equity objectives needs to be kept in mind. It is also possible that cutting top marginal tax rates could increase economy-wide productivity through composition effects, by increasing the share of industries with high rates of enterprise creation.

   b) Reforming corporate taxes, as they influence productivity. Johansson and Arnold (2004) suggests that lowering statutory corporate tax rates can lead to particularly large productivity gains in firms that are dynamic and profitable, \textit{i.e.} those that can make the largest contribution to GDP growth. It also appears that corporate taxes adversely influence productivity in all firms except in young and small firms since these firms are often not very profitable. One possible implication is that tax exemptions or reduced
statutory corporate tax rates for small firms might be much less effective in raising productivity than a generalized reduction in the overall statutory corporate tax rate. This reduction could be financed by scaling down exemptions granted on firm size as they may only waste resources without any substantial positive growth effects.

Slemrod (1995) suggests that the widely-used policy avenue to improve productivity in corporations is to stimulate private-sector innovative activity by giving tax incentives to research and development expenditure. He established that the effect of these tax incentives on productivity appears to be relatively modest, although it is larger for industries that are structurally more research and development intensive. Nonetheless, tax incentives have been found to have a stronger effect on research and development expenditure than direct funding.

Findings from the same study consolidate the view that lower corporate and labor taxes encourage inbound foreign direct investment, which has been found to increase productivity of resident firms. In addition, multinational enterprises are attracted by tax systems that are stable and predictable, and which are administered in an efficient and transparent manner (Slemrod, 1995). From this studies perspective, this is paramount to revitalization of local Zimbabwean industries including AFDIS.

In the final analysis, it needs to be emphasized that, the Zimbabwean government, as policymakers will need to examine very carefully the trade-off between these growth-enhancing proposals and other objectives of tax systems – particularly equity.

2.9.2 Taxes and Production

The tendency for an excise tax to increase the average quality of a consumed good is often referred to as the Alchian-Allen effect (Alchian and Allen, 1964). James and Alston (2002) explained this effect in terms of product attributes; an Ad valorum tax is based on all product attributes, while an excise tax affects only certain product attributes. Razzonlini, Shughart and Tollison (2003) have refined and expanded these initial analyses. The studies found that an increase in any marginal tax rate unequivocally decreases quantity produced. Consistent with the Alchian-Allen effect, an increase in a volumetric sales tax rate increases quality at the time of sale. However, because quality increases over time, an increase in the Ad valorum sales tax rate
can either increase or decrease quality at the time of sale, depending on the level of all tax rates and other parameters. Further, the Alchian-Allen dichotomy between Ad valorem and volumetric taxes does not hold for storage taxes. An increase in either storage tax rate unequivocally decreases quality at the time of sale.

Any two-tax system that includes a volumetric sales tax and any one of the three other taxes spans the quality/revenue feasible set. The supply side distortions of any tax system that results in a lower quality relative to the no-tax equilibrium can be mitigated by an alternative tax system that increases tax revenues, eliminates the quality distortion, and does not increase the quantity distortion.

**2.9.3 Taxes and pricing**

Auerbach and Alan (2002) argues that marginal taxes on the producers of a good will shift the supply curve to the left until the vertical distance between the two supply curves is equal to the per unit tax; when other things remain equal. This having the effect of increasing the price paid by the consumers (which is equal to the new market price), and decrease the price received by the producers. They analyzed the effect of a marginal tax rate on pricing using a standard supply and demand diagram as described in Figure 2.1 below.

**Figure 2.1: Impact of Taxation on Pricing of Good**

![Figure 2.1: Impact of Taxation on Pricing of Good](Image)

Source: Auerbach and Alan (2002)
Without a tax, the equilibrium price will be at $P_e$ and the equilibrium quantity will be at $Q_e$. After a tax is imposed, the price consumers pay will shift to $P_c$ and the price producers receive will shift to $P_p$. The consumers’ price will be equal to the producers’ price plus the cost of the tax. Since consumers will buy less at the higher consumer price ($P_c$) and producers will sell less at a lower producer price ($P_p$), the quantity sold will fall from $Q_e$ to $Q_t$. Thayer (2011) in his study on the impact of an excise tax or subsidy on price proposes that depending on the price elasticity’s of demand and supply, the counterparty which bears more of the tax or who receives more of the subsidy may differ. Where the supply curve is more inelastic than the demand curve, the tax incidence falls more on the producers and receive more of the subsidy than consumers as the difference between the price producers receive and the initial market price is greater than the difference borne by consumers. Where the demand curve is more inelastic than the supply curve, the tax incidence is more on the consumers and receive more of the subsidy as the difference between the price consumers pay and the initial market price is greater than the difference borne by producers.

The impact of taxes described above is related to increasing the price of Afdis product prices and thus affecting the volumes of sales that the corporation could push at the increased prices. Lower volumes would translate into lower sales given the constant fixed costs of production.

### 2.9.4 Taxes and organisation performance

Schwellnus and Arnold (2008) also studied a stratified sample of firms across OECD economies over the period 1996-2004 to analyse the effects of corporate taxes on productivity and investment. Applying a differences-in-differences estimation strategy which exploits differential effects of corporate taxes on firms with different profitability, they found that corporate taxes have a negative effect on productivity at the firm level. The effect was negative across firms of different size and age classes except for the small and young, which may be attributable to the relatively low profitability of small and young firms. The negative effect of corporate taxes was particularly pronounced for firms that are catching up with the technological frontier. In their investment analysis, their results suggested that corporate taxes reduce investment through an increase in the user cost of capital. This may partly explain the negative productivity effects of corporate taxes on most Zimbabwean Alcoholic Beverage producers in trying to absorb new capital goods embodying technological change.
2.9.5 Taxes and competition

Policy discussions of tax provisions bearing on domestic investment and investment abroad has long focused on the competitiveness question. Recently, reductions in taxes on business investments have been advocated on the grounds that they will increase competitiveness. Excessive tax burdens are frequently blamed for the poor international performance of industries globally. Business taxation relief play as major elements in strategies directed at improving the trade position of the countries. Summers (1998) in his study on Tax Policy and International Competitiveness concluded also that while economists have long recognized that increased international competitiveness is not necessarily a good thing, because it is the mirror image of a decline in a nation’s terms of trade, it is nonetheless an important policy goal. An analysis of the interrelationships between tax policy and competitiveness therefore seems worthwhile. It provides the crucial role of capital mobility in determining the impact of tax reforms on an economy’s traded-goods sector. He also concludes that tax measures which stimulate investment but do not affect savings will inevitably lead to declines in international competitiveness as long as capital is freely mobile internationally.

CHAPTER SUMMARY

The big picture emerging from the literature review above is that corporate strategic planning is the lifeline of any organisation and a barometer of its competitive edge. Nevertheless, crafting a strategy that can always address the challenges faced by organisations as a result of dynamic taxation is unthinkable. More importantly, the literature review points to the existence of a gap on theorization of impact of government taxation on corporate strategic planning. Most of the studies confine themselves to impact of taxation on public welfare and production and consumption of goods. Therefore this study seeks to assess the extent to which government taxation affect corporate strategic planning. An investigation into the impact of tax policies on corporate strategic planning is critically important to demonstrate the need for evolution of policies that are informed by the interests of both the state and the alcohol industry. This ensures a win-win situation which guarantees sustainable development of the industry and growth of the economy.
CHAPTER THREE  RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter outlines the study methodology covering the research design, research instruments, data collection procedures and data presentation and analysis. A research methodology can be defined as the philosophy which will guide the research (Dawson, 2002). The research methodology helped the researcher to collect data and analyze it objectively in line with the research topic.

3.1 RESEARCH DESIGN

A research design is a framework for the collection and analysis of data. Bryman and Bell, (2007) argues that a choice of research design reflects decisions about the priority being given to a range of dimensions of the research process. They further assert that it includes the importance attached to: expressing causal connections generalizing to larger groups of individuals than those actually forming part of the investigation, understanding behavior and the meaning of that behavior in its specific social context and having a temporal appreciation of social phenomena and their interconnections. On the other hand, Saunders, Lewis and Thornhill (2009) argues that it is a plan which contains clear objectives, derived from research questions, and specify the source from which the data is collected.

According to (Bryman and Bell, 2007) there are two main approaches of conducting research, namely phenomenology and positivism.

3.2 RESEARCH PHILOSOPHY

Research philosophies are based on the assumptions about how the world is perceived. This can be further divided into epistemology and methodology where epistemology involves the philosophy of how we come to know and methodology involves the practice of knowing. The researcher took into consideration the following philosophies:
3.2.1 Phenomenology

Phenomenology research explores attitudes, behavior and experiences through such methods as interviews and focus groups. It attempts to get comprehensive opinion from participants.

Hussey and Hussey (1997 p. 53) has defined phenomenology as being, “concerned with understanding human behaviour from the participant’s own frame of reference…” It has been established that phenomenological approach includes considerations of multiple realities, different actors’ perspectives, and the contextual interpretation of data (ibid). Phenomenology analyses phenomena (that which appears), as they are perceived from a first person perspective in the natural attitude. This has been supported by Saunders et al (2000 p. 86), who noted that phenomenology facilitates understanding of how and why and enables the researcher to be alive to changes that occur during the research.

3.2.2 Interpretivism

This is a phenomenological approach that is a result of the complexity and uniqueness of business situations (Saunders et al, 2000 p 102). This is a view that reality is socially construed. Each situation is viewed as essentially unique, but having subjectively-interpreted elements in common with other situations (Bhattacharjee and Paul, 2002).

3.2.3 Positivism

Positivism research generates statistics through the use of large scale survey research using methods such as questionnaires or structured interviews. The cause and effect underpins the positivist method it works with an observable social reality. Polit and Hungler as cited in Shepard et al, (1993) define positivism as the process whereby evidence rooted in objective reality and gathered directly or indirectly through the human senses is used as a basis for generating knowledge.

3.2.4 Post-Positivism

Hesse-Biber & Leavy (2006 p 36-40) suggest that post-positivists build evidence to support pre-existing theory relying on deductive logic and hypothesis testing. In other words post positivism attempts to create evidence that will confirm or refute a theory, though no in absolute terms
The researcher used both the positivism and phenomenology approaches. The study sought to establish some fundamental truth about a situation as viewed by those concerned in the organisation under investigation.

Exponents of the design often favor phenomenology methods such as unstructured interviewing because these methods are often viewed as particularly helpful in generation of an intensive detailed examination of a case (ibid). This case study is on government taxation focusing on the impact on corporate performance for African Distillers Limited between the period 2006 and 2011 and the researcher aims to provide an in-depth elucidation of it.

3.3 RESEARCH APPROACH
The research approach is important in that it enables the researcher to take a more informed decision about the research design, it helps the researcher to think about those research approaches that work and those that will not work and the knowledge of the different research approaches enables the researcher to adapt the research design to cater for constraints (Hussey and Hussey, 1997). The researcher used the inductive approach. The inductive approach associated with Interpretivism is when the researcher collects data and develops theory as a result of data analysis. The induction approach emphasises on the collection of qualitative data, a realisation that the researcher is part of the research process and less concern with the need to generalise.

3.3.1 Quantitative Research
According to Easterby-Smith et al (1996) this approach involves the collection of quantitative data and quantitative analysis in a formal structured manner. Eastreby-Smith further explains that with quantitative work, the process of data collection becomes distinct from analysis. One of the advantages of the quantitative research approach is that it places emphasis on numerical analyses and objectivity, reliability and replication of findings. However one of the disadvantages is that the approach may not always suit social science and validity of findings is reduced since social phenomena cannot be reliably measured.
3.3.2 Qualitative Research

According to (Marchington and Wilkinson; 2005) the approach involves the subjective assessment of opinions, behaviour and attitudes. Emphasis is on individual interpretation of behaviour and their environment built on the understanding of what is going on in an organisation in participants’ own terms rather than those of the researcher.

3.4 RESEARCH STRATEGY

The eight main types of research methodologies are cross sectional, experimental, longitudinal surveys, action research, case studies, grounded theory and participative inquiry. Saunders et al. (2009) note that the choice of a research strategy would be determined by the research questions and objectives extent of existing knowledge, amount of time and other resources available. This research used case study strategy.

3.4.1 Case Study Research Strategy

According to Bryman and Bell (2007) a case study is a research design, which entails the detailed exploration of a specific case, which could be a community, organization or person. Stake (1995) observes that a case study is concerned with the complexity and particular nature in question. Mitchell (1983 p 191) describes the case study as ‘a detailed examination of an event which the analyst believes exhibit the operation of some identified general theoretical principle”. Morris and Wood (1991) argues that this strategy will be of interest if the researcher wishes to gain a rich understanding of the context of the research and the processes being enacted. The researcher used the case study approach by analyzing financial statements and sales volumes data for Afdis for the period 2006 to 2011.

The major criticism of the case study approach stems from the fact that exploring a single phenomenon does not place any reliability on the produced results. Another critique is that the case study approach distorts the research findings since the researcher is intensely involved in the research (Stake, 1995).
Why the case study method was used

The research sought to understand the circumstance surrounding the impact of government taxation on corporate performance in the beverage industry. The case study method was deemed appropriate to answer the qualitative part of the research problem. African Distillers is the leading local producer of spirits and wines and the findings could be generalized to the industry. Hence the researcher opted for the case study approach. Stake (1995) suggests that the selection of cases should be based on the anticipation of the opportunity to learn. He further asserts that researchers should therefore choose cases where they expect learning will be greatest. Hence the case study strategy on African Distillers enabled the researcher to generate answers to the question “why?” as well as the “how?” questions. As a result the researcher gained a sharpened understanding of the impact of government taxation on Afdis performance and what might become important to look at more extensively in future research.

Consequently as a result of adopting the case study approach, the researcher had to use multiple sources of data. Triangulation is the use of different data collection techniques within one study (Saunders et al., 2009). Gil and Johnson (1997) believe that there is no one best method but many methods contingent on the issue being studied. The argument is based on the fact that each method has its advantages and disadvantages in the kind of data it generates and its vulnerability to particular kinds of error. Like Saunders et al, (2000) they claim that one way of overcoming each method’s weaknesses and limitations is to deliberately combine different methods within the same investigation. In this research the researcher collected data from participants using structured interviews, questionnaires and examination of records. The quantitative approach to research was helpful in analysing and summarising different results obtained from respondents. The qualitative approach helped in assessing answers to open ended questions as well as the results from face to face interviews.

3.5 RESEARCH POPULATION AND SAMPLING TECHNIQUES

3.5.1 Population

Bryman and Bell (2007) defines a population as the universe of units from which the sample is to be selected. The term units is employed because it is not necessarily people who are being sampled, the researcher may also want to sample from a universe of nations, cities, regions or
firms. It is upon the population that the results of a research will then be generalised. The population is important because it is where the sample for a study is taken. For the purpose of this study the population is comprised of employees at African Distillers Limited. The sampling frame is a list of the elements that is contained in the target population. The sampling frame entailed employees who are privy to strategy formulation and implementation at African Distillers Limited. This includes all supervisory grade employees and managers giving a total sampling frame of forty-two employees.

3.5.2 Sampling

Sampling is generally described as the process by which one selects the subset of the population and it is an important aspect of data collection. It encourages accuracy when collecting data than to try and collect it from the whole population. McPhail (2001) describes sampling as a process of selecting a few from the bigger group. An ideal sample is one that is representative of the population that it depicts and should be free from bias and standard error of the sample, that is, it should be valid in terms of precision.

The three main advantages of sampling therefore are the cost is lower, data collection is faster and since the dataset is smaller it is possible to ensure homogeneity and to improve the accuracy and quality of data (Cooper et al., 2003).

A sample can be found using mainly two methods, which are probability and non probability sampling. In using probability sampling, all elements of the population stand an equal chance of being chosen. On the contrary, no-probability sampling results in an unknown element from the total population. It is very difficult to have an application of statistical inferences on the characteristics of the population under this sampling method hence the high chances of data which is unreliable.

3.5.2.1 Probability Sampling

Simple random sampling is based on the assumption that all the variables in the population have an equal chance of being selected and possible combinations can be drawn (Coolican, 2009). This method is used when the population is relatively homogeneous with respect to the random
variable being studied. This technique however, is expensive to undertake and is not practical as it requires a sampling frame that is usually not available.

a) Stratified Random Sampling
In stratified sampling a sample is selected so that specified sub groups will appear in numbers proportion to their size in the target population, within each sub group cases are randomly selected (Coolican, 2009). He further suggests that at the time of constructing the strata one should ensure that there is perfect homogeneity in the different units of strata. Afterwards a random sampling is applied to the segments to pick sample elements.

b) Systematic Sampling
It is where the elements in a population are selected at uniform interval that is measured in time, order or space. According to Cooper et al. (2003), this method has a tendency of causing a monotonous trend in the population while producing some skewed results.

c) Cluster Sampling
The population is divided into clusters and each cluster is similar in profile to every cluster. The clusters are the ones that are randomly selected for sampling. Then units within the clusters are randomly selected to provide a representative sample from the population Bryman and Bell (2007). This method is used when there is a large population that is spread out over a large geographical area. The advantage of this sampling method is that it can be adopted where there is no sample frame from which the final sample can be selected. Its major disadvantage is that of bias since the items in the area will tend to resemble each other and the tendency of the less obvious items missed.

Having discussed the strengths and weaknesses of the different types of probability sampling methods, the researcher used stratified sampling. This was done by stratifying the population using four employee categories at African Distillers namely; shop floor employees, supervisory grade employees, middle and senior management employees. The main purpose of the research was to obtain informed opinion from the employees with relevant knowledge on strategy
formulation and implementation. Thus the researcher focused on three strata namely supervisory
grade employees, middle and top management employees.

3.6 SAMPLE SIZE

A sample size of forty two employees was selected using stratified random sampling from the
study population with a representation of three major categories of the workforce. The main
focus of the sample design was therefore not to obtain or draw a sample from the population
instead the aim was to use the listing of all units in the sampling frame. A number of
considerations were factored in. The researcher required a larger sample size for greater
precision. The researcher was not constrained by time and cost considerations by virtue of being
an employee of African Distillers. The population was divided into three main categories which
are supervisory grade employees, middle and senior management employees. The managers gave
the strategy formulation dimension and supervisors gave the operation and implementation
perspective.

3.7 DATA COLLECTION

Coolican (2009), states that the word data is defined for statistical purposes only as, items of
numerical information.

3.7.1 Types of Data

There are two types of data, primary and secondary data.

a) Primary Data

Primary data is collected specifically for a project to solve the problem at hand Bryman and Bell
(2007). However, it is expensive to collect.

b) Secondary Data

It is the data that would have been collected for some other project other than the one at hand
(ibid). Data is gathered from sources like textbooks, journals, company documents. The major
advantage with this data is that it can be gathered quickly and at a lower cost as compared to
primary data. However the major drawback of using this type of data is that the data may not be useful for the sole purpose and objectives of the researcher. The data may also have passed through its useful date and not tallying with the researcher’s current needs.

The researcher used both primary and secondary data. Primary data was obtained from the responses on questionnaires and structured interviews. However to introduce a comparative element into the study the researcher compared this data from the results of financial statements and sales performance for the period 2006 to 2011.

3.8 RESEARCH INSTRUMENTS

There are different types of research instruments that include questionnaires, interviews, personal interviews, telephone surveys, mail surveys, computer direct interviews and electronic mail surveys. Research instruments must be valid, reliable and objective in order for them to be effective. Validity is the ability of the instrument to measure what is supposed to be measured. According to Bryman and Bell (2007) validity is concerned with the integrity of the conclusions that are generated from a piece of a research. The researcher conducted a pilot study before administering questionnaires to ensure reliability and validity of the instrument.

The principal method of data collection used was questionnaires. However, structured interviews were also used in conjunction with questionnaires to gain understanding of the perspectives of different groups of participants. The aim was to overcome the limitations and partiality of any group of respondents.

3.8.1 Questionnaires

A questionnaire is a research instrument that a researcher uses to gather data and it consist of a list of questions that are preset (Brace, 2004). Its major advantage is that it is relatively cheap, convenient and can be easily administered to a large group of participants at the same time. However, there are chances of poor response rate and there is an element of interviewer bias. The researcher used a questionnaire in order to collect the needed data. The researcher used this instrument mainly because it was within the means of the researcher and convenient as the questionnaires were hand delivered to the respondents. In total forty two questionnaires were
administered as follows: twenty five to supervisory or junior management staff, fourteen to middle management and three to senior management or directors. These employees are deemed to be privy to strategy formulation and implementation within the company.

a) Pretesting of Questionnaire

According to Bell (2005) a pilot test should be done in order to refine the questionnaire. Thus before the questionnaire is used a pilot study helps the researcher to obtain some assessment of the questions’ validity and the likely reliability of the data.

To ensure validity of data, the questionnaires were pretested on different groups of respondents. In conducting the pilot test the researcher administered the questionnaire to five different respondents which were not in the selected sample. The pilot test revealed that some questions were too long and were leading questions. The issues raised in the pretesting were refined and the final draft of the questionnaire was produced and administered.

b) Administration of the Questionnaire

Questionnaires can be either self administered or interview administered. The researcher used self administered questionnaires for the study. A cover letter from Graduate School of Management (University of Zimbabwe) was used to formally introduce the research. All the questionnaires were hand delivered and collected personally from respondents.

3.8.2 Personal Interviews

It is when the interviewer asks the questions face to face with the interviewee (Brace, 2004). According to Bryman and Bell (2007) the aim of a structured interview is for all interviews to be given exactly the same context of questioning. He further asserts that the goal of this style of interviewing is to ensure that interviewees’ replies can be aggregated.

The researcher used this method by asking structured questions to middle management and senior management to collect the needed data. Top managers cannot plan everything. Many strategic leaders recognize that the meaning and significance of strategies decided at the top are bound to be interpreted differently to a greater or lesser extent and within the organisation and
that these interpretations will influence action (Johnson, Scholes & Whittington, 2006). They therefore adopt approaches to managing strategy and may work through key subordinates whom they believe they may closely align with them on what they are trying to achieve.

The structured interview method of data collection was applied to fourteen middle managers and three senior managers at African Distillers. The first set of questions which was directed to middle management mainly focused on operational issues and the second set of questions which was directed to senior management focused on strategic issues. Respondents were encouraged to provide deeper responses to the open ended questions. Queries about the meaning of the questions were dealt with.

3.9 DATA PROCESSING, ANALYSIS AND PRESENTATION

The processing of data is done after the data collection process has ended. Quantitative analysis techniques such as graphs, charts and statistics help to explore, present, describe and relationships and trends within data Saunders et al. (2009). The researcher used Excel spreadsheets and Statistical Packages for Social Scientists (SPSS) in the compilation, validation and analysis of results. In the data presentation, graphs, tables and charts were used to give a clear picture of the results. Only close ended and Likert scale rating questions were analysed using SPSS.

3.9.1 Data types

Categorical and numerical data are the two distinct groups of quantitative data. According to Berman-Brown and Saunders (2008) categorical data is data whose values cannot be measured numerically but can be classified into sets. These sets describe the variable and can be ranked. Numerical data are these whose values are measured as quantities (ibid). These are more precise and each data value can be assigned a position on a numerical scale.

3.9.2 Coding

Unique codes were assigned to the questionnaires before handing them out. The use of SPSS involved first codifying questions and expected responses into numerical representations. The responses from the questionnaires were then captured for each question according to the codes
assigned to each question and response. All objective-related questions were coded according to Likert scale ratings used in the research instrument (1=strongly disagree: 2=disagree: 3=not sure: 4=agree: 5=strongly agree). Tables and diagrams were used in the analysis and the choice was influenced by the scale of measurement.

3.9.3 Control of validity and reliability

Wegner, (2010) suggest that data are valid if they provide a true picture of what is being studied. A researcher instrument is said to be valid if it measures what it is supposed to measure. In this study primary and secondary data was employed in order to ensure that one form of data checks on the other’s validity especially where conclusions are similar.

According to (Wegner 2010), reliability is the extent to which a test or procedure produces similar results under constant conditions on all occasions. Data can be reliable without being valid. Thus in this study pilot studying was one way to ascertain feasibility, validity and reliability of self-administered questionnaires.

3.9.4 Ethical Issues

Ethical considerations integrated into this research to protect the rights of research participants are as follows:

1. The principle of voluntary participation was followed: This requires that in this research people are not coerced into participating. No “captive audiences” were used in this research. The covering letter accompanied each questionnaire clarifying all ethical issues.
2. Informed consent concept: The research participants were fully informed about the procedures, objectives, stakeholders and risks involved in the research.
3. Risk of harm: Care was taken not to expose the participants to harm which may be physical or psychological as a result of their participation.
4. Principle of privacy: This was observed in two dimensions;
   - Confidentiality: respondents were assured that identified information was not going to be made available to anyone not directly involved in the research.
   - Anonymity: All participants were assured of anonymity throughout the study.
3.9.5 Research Limitations

The research limitations of this study are as follows:

- The research is confined to Harare. The sample built in this study is expected to be representative of the population; however the sample could have covered supervisors and managers in the six depots countrywide.

- External views on the impact of government taxation on performance of Afdis were not sought from the non executive Directors or the board at large.

- The results obtained can only be generalised with certain limitation as the research was carried out with a focus on a single company whose environment can be different from other companies.

CHAPTER SUMMARY

This chapter looked at the research philosophies that are used in the field of research by either the phenomenologist or the positivist. It also explored the researcher instruments, methods of data collection, data entry, data processing and analysis. The researcher also discussed the research design used in the study and the reasons for choosing it.
CHAPTER FOUR RESEARCH FINDINGS, ANALYSIS AND DISCUSSIONS

4.1 INTRODUCTION
This chapter presents research findings from questionnaires and personal interviews conducted by the researcher. These will be the basis of inferences, conclusions and recommendations. The results were explained followed by a discussion and the link to literature.

4.2 RESPONSE RATE
A total of forty two questionnaires were successfully administered and sent to supervisors, middle and senior management serving Afdis. Out of those forty two questionnaires sent, thirty five questionnaires were successfully retrieved to give a response rate of 83%, which is high enough to enable the researcher to generalise the results to the whole organisation. The sample size is in agreement with the recommendations of Bartlett, Kotrlik, & Higgins (2001) who recommended a sample size of at least 46 (for continuous data) and 74 (for categorical data) for a population of 100. According to Bartlett’s et al. (2007) a recommended response rate of at least 50% renders a research to be considered valid.

Table 4.1, shows the breakdown of the responses received according to position within the company, which was the basis of the stratified sampling used.

Table 4.1 Responses from the questionnaires

<table>
<thead>
<tr>
<th></th>
<th>Senior Management /Directors</th>
<th>Middle Managers</th>
<th>Supervisors</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires administered</td>
<td>3</td>
<td>14</td>
<td>25</td>
<td>42</td>
</tr>
<tr>
<td>Responses Received</td>
<td>2</td>
<td>12</td>
<td>21</td>
<td>35</td>
</tr>
<tr>
<td>Response Rate</td>
<td>67%</td>
<td>86%</td>
<td>84%</td>
<td>83%</td>
</tr>
</tbody>
</table>
Two executive directors and eleven middle managers were interviewed to reinforce the information collected through the questionnaires. The overall response rate was good. This could be attributed to the fact that the researcher worked for Afdis then and was able to meet the directors and managers on work related issues. The summary of responses from the structured interviews are presented in Table 4.2

**Table 4.2 Responses from the structured interviews**

<table>
<thead>
<tr>
<th>Category</th>
<th>Targeted Responses</th>
<th>Actual Responses</th>
<th>Percentage response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afdis Executives</td>
<td>3</td>
<td>2</td>
<td>66%</td>
</tr>
<tr>
<td>Afdis Middle Managers</td>
<td>14</td>
<td>11</td>
<td>78%</td>
</tr>
<tr>
<td>Overall</td>
<td>17</td>
<td>13</td>
<td>76%</td>
</tr>
</tbody>
</table>

**4.3 DEMOGRAPHICS**

**4.3.1 Period in the organisation**

Figure 4.1 below shows the analysis of the period that the participants have with Afdis.

![Figure 4.1 Period in the organisation.](image)

Research findings on Figure 4.1 above show that the majority of the participants who constitutes 57% have been with the organization for more than eleven years. Findings therefore reveal that 71% of the survey participants have been with the organisation for more than 5 years and this means that the respondents have valuable experience and understand the business well to give valid responses.
4.3.2 Level of education

Analysis on Figure 4.2 below depicts qualifications of the participants.

Figure 4.2 Level of education

Analysis on Figure 4.2 above depict that 23% of the participants hold certificate, 28% hold diploma, 37% hold degree, 9% were post graduates and the remaining 3% had other qualification. Respondents in possession of a diploma or a higher qualification may better understand the impact of government taxation on corporate performance. The findings therefore reveal that the majority of the survey participants were educated and therefore their knowledge and experience contributed to the validity of the responses they gave and the research findings as a whole.

4.3.3 The positions assumed by the participants

Figure 4.3 below reveal the analysis on positions attained by participants in the organisation.
Findings on Figure 4.3 reveals that the majority of the participants 67% were supervisory/junior management, 21% middle management and the remaining 12% were directors/senior management. The junior and middle management were relevant to the study as they gave information on operational issues of the organisation and on the other hand the directors/senior management gave an insight into the strategic issues of the firm. The positions also represented various departments of the company such as finance, marketing, production and logistics. This was relevant as vital information was collected basing on the positions, experience and a mix of different professions of the respondents.

4.4.1 Different forms of taxes that influence organisation performance

Table 4.3 Different forms of taxes that influence organisation performance

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Not sure</th>
<th>Do not agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Tax</td>
<td>71%</td>
<td>12%</td>
<td>17%</td>
<td>100%</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>83%</td>
<td>10%</td>
<td>7%</td>
<td>100%</td>
</tr>
<tr>
<td>Excise Duty Tax</td>
<td>95%</td>
<td>2%</td>
<td>2%</td>
<td>100%</td>
</tr>
<tr>
<td>Customs Tax</td>
<td>93%</td>
<td>5%</td>
<td>2%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4.3 shows that most respondents from both supervisory and senior management were aware of the different forms of taxes that influence the organisation performance. The percentages of those that agreed that company tax, value added tax, customs tax influence the organisation’s performance ranged from 71% to 95%. Performance is defined as the ability of an object to produce results in a dimension determined (Laitinen, 2002). He further assert that performance can be measured by financial and non-financial measures.

According to Gruenewald et al. (2006) increased alcohol taxes may result in decreases in commercial beverage alcohol purchases and increased consumption of non-commercial alcohol. This will have a negative impact on the performance of the organisation through loss of market share. An example from Zimbabwe demonstrates this relationship: following an increase in taxes on lager beer, a large number of consumers turned to untaxed locally produced opaque beer. In turn, the government subsequently reduced the tax in order to secure a source of vital tax revenue.
Impact of changes in excise duties

Figure 4.4 shows the views of the respondents on whether the changes in excise duties during the period under review had a negative impact on local production.

![Figure 4.4 Impact of changes in excise duties.](image)

Analysis of Figure 4.4 above indicates that 86% of the respondents were of the view that changes in excise duties during the period under review had a negative impact on local production. Interview responses revealed that middle management and supervisory employees agreed that the importation of products from Distell was as a result of the increase in excise duty from 20% to 40% (Monetary Policy Statement, 2009). Respondents added that some brands especially cane spirits were cheaper to import because of the ad valorem tax structure. Other respondents added that the excise duty discouraged local production and it was not economical to run the factory. The doubling of the ad valorem exercise duty was primarily responsible for the change from a small profit at half year to a trading loss for a full year (Afdis Annual Report, 2010). Sales were dominated by products in the low priced category, a direct result of the disadvantages inherent in ad valorem tax in an environment characterized by general shortage of disposable income (Afdis Annual Report, 2010).

Findings from a case study research conducted by Euromonitor (2007) revealed that generally tax regimes have a negative impact on local production. The complexity of the system is increased by the fact that individual governments determine and regulate industry’s tax levels,
which differ from country to country. In short, each country has an excise duty on the production of alcohol, an import duty on alcoholic products from another country, and an export duty on alcoholic products manufactured within the country for consumption in a different one.

4.4.2 Impact of excise duty regime on pricing of major products

Table 4.4 provides secondary data on the impact of pricing on selected major products for African Distillers.

Table 4.4: African Distillers Price List, 2009 and 2011

<table>
<thead>
<tr>
<th>Price list date</th>
<th>Unit price-US$</th>
<th>Excise duty-US$</th>
<th>Unit price including VAT &amp; Excise-US$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Viceroy 750ml</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 2009</td>
<td>4.32</td>
<td>2.88</td>
<td>8.28</td>
</tr>
<tr>
<td>Excise Duty at 40%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 2011</td>
<td>8.11</td>
<td>1.50</td>
<td>9.33</td>
</tr>
<tr>
<td>Excise Duty at $2.00/bulk litre</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chateau 750ml</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 July 2009</td>
<td>2.40</td>
<td>1.60</td>
<td>4.60</td>
</tr>
<tr>
<td>Excise Duty at 40%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 2011</td>
<td>4.50</td>
<td>1.50</td>
<td>5.18</td>
</tr>
<tr>
<td>Excise Duty at $2.00/bulk litre</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gold Blend 750ml</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 2009</td>
<td>2.10</td>
<td>1.40</td>
<td>4.03</td>
</tr>
<tr>
<td>Excise Duty at 40%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 2011</td>
<td>4.40</td>
<td>1.50</td>
<td>5.06</td>
</tr>
<tr>
<td>Excise Duty at $2.00/bulk litre</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: African Distillers Price List, 2009 and 2011

Table 4.4 shows the high impact of the 40% excise duty on premium and mainstream brands such as Viceroy and Chateau respectively. In 2009, it was very expensive to produce premium products such as Viceroy as compared to value brands such as Gold Blend. Duty was charged on the manufacturing cost of the product. Products such as Viceroy Brandy which are blended with five year matured rebates would pay more duty due to the expensive raw materials they use.

The disparity in the excise duty system was addressed in the mini-budget in July 2011, with excise duty pegged at $4.80 per litre of actual alcohol or $2.00 per bulk litre. As shown from the table above, the excise duty of Viceroy was US$2.88 in the month of July 2009; however a year
later after the announcement of the mini-budget in July 2011 the excise duty was US$1.50 on 750ml.

A further analysis was carried out through structured interviews to find out the impact of the 40% excise duty regime on pricing of products. All the respondents indicated that tax is a cost and ordinarily a business would extend that cost to the selling price and given the low income levels number of consumers will turn to untaxed locally produced illicit brews.

4.5 Effect of taxes on organisational performance

4.5.1 Effect of excise duty regimes on organisational performance

The analysis of Figure 4.5 shows the rankings of the respondents on the extent to which excise duty regimes affected organisational performance.

![Figure 4.5](image)

**Figure 4.5 Effect of excise duty regimes on organisational performance**

Figure 4.5 shows that the majority of participants 57% indicated the impact of excise duty was very high, 29% highlighted the impact was high, 11% noted the impact was medium and the minority said there were not sure about how excise duty impacted on Afdis performance for the period 2006 to 2011. The responses from the questionnaires indicated that excise duty regimes affected the organisation performance.
Consistent to the findings from the questionnaires structured interviews of directors revealed that changes in excise duty affected the organization’s performance in several ways. Respondents said it affected selling price, decision making, purchasing power since disposable income was low therefore consumers were spending on basics. The high excise duty resulted in increased prices and reduced profit levels for the organisation. In 2009, duty was high on premium brands and this increased the selling price of the product. Consumers were price sensitive and demanded less of the product. Respondents argued that current excise policy is in favor of Afdis and prior to that it is discouraged local production to the extent that the factory almost came to a halt. Currently excise duty has been equated to SADC rates of US$4.80 per litre of actual alcohol or US$2.00 per bulk litre.

According to the Afdis Annual Report (2010) the doubling of the advalorem excise duty from 20% to 40% had a major effect on the performance of the company in the half year results and was responsible for the change from a small profit at half year to a trading loss for the full year. The report further highlight that production capacity utilisation was in the region of 15% (Afdis Annual Report, 2010).

The tendency for an excise duty to increase the average quality of a consumed good is often referred to as the Alchian-Allen effect (Alchian and Allen, 1964). The Alchian-Allen Effect as described by Armen Alchian and Allen (1964), states that when the prices of two substitute’s goods such as high and low grade of the same product are both increased by a fixed per unit amount, such as transportation costs or a lumpsome tax, consumption will shift toward the higher grade product. This is true because the added per unit amount decreases the relative price of the higher grade product.

This happens when the demand for the consumed good increases so will the duty increase correspondingly so that the tax authorities gain more revenue through the increase in demand for the good and the increased duty. The demand of Afdis products can have relevance on the taxes levied through this effect. Barzel (1976) explained this effect in terms of product attributes; an Ad valorem tax is based on all product attributes, while an excise duty affects only certain product attributes this makes it the least factor in affecting the performance of the organisation.
4.5.2 Impact of import duty on Afdis performance

Analysis of Figure 4.6 shows how import duty tax affected Afdis performance.

![Figure 4.6 Impact of import duty tax on Afdis performance](image)

Research findings of Figure 4.6 above depict that 34% of the participants indicated that import duty tax had a very high impact on Afdis performance, 49% highlighted high impact, and 9% indicated medium impact and 8% argued that import duty had low impact on organisational performance.

Overall, the mean responses indicate a high impact which implies that Afdis performance for the period 2006 to 2011 was affected by import duty tax. The findings are supported by Euromonitor (2007) who argued in line with research findings that import duty on alcoholic products from another country, and an export duty on alcoholic affect products manufactured within the country. International imports are regulated by a different regime and comprise of basic and additional customs duties.
4.5.3 Impact of company tax on Afdis performance

Figure 4.7 reveal the impact of company tax on Afdis performance.

![Impact of company tax on Afdis performance](image)

Figure 4.7 Impact of company tax on Afdis performance

Figure 4.7 shows that 6% of the participants noted that the impact of company tax was very high, 20% indicated the impact was high, 34% said the impact was medium, 14% indicated low, 6% said the impact of company tax was very low and the remaining 20% were not sure.

The company tax had a moderate effect on Afdis performance. Company tax is paid based on profitability of the organisation. According to the Afdis Annual Report (2011), the company did not make any profits in the years 2006, 2008, 2010 and 2011 hence the low impact.

KPMG (2009) defines corporate taxes as taxes against profits earned by businesses during a given taxable period usually an accounting year in Zimbabwe.
Impact of value added tax on Afdis performance

Analysis on Figure 4.8 reveals the impact of value added tax to the tax rates on Afdis performance for the period 2006 to 2011.

![Figure 4.8 Impact of value added tax on Afdis performance](image)

Research findings on Figure 4.8 above depict that 9% of the participants said the impact of value added to the tax rates on Afdis performance was very high, 31% highlighted that the impact was high, 34% said the impact was medium, 20% said the impact was low and 6% were not sure how value added impacted on Afdis performance for the period 2006 to 2011.

There was a steep decline in volumes from 2006 to 2008 and volumes grew slightly from 2009 to 2011 as discussed in Chapter 1. Value added tax affected Afdis performance moderately due to inconsistent trends in sales volumes. According to the Afdis Annual Reports (2006 to 2011) in 2006 sales volumes decreased by 22%, rose marginally in 2007, 2008 the sales volumes were down by 36% on previous year, 2009 130% ahead of the previous year, 2010 70% ahead of the previous year and in 2011 the sales volumes increased by 36%. Value added tax is calculated based on input cost incurred in purchasing of raw materials. ZIMRA Third Quarter Bulletin (2011) posit that VAT is levied on transactions and the liability to charge the tax arises every time a transaction is carried out by registered operators, and will not depend on the profitability of the business.
4.5.4 Effect of complex tax regulations on organisational performance

Analysis on Figure 4.9 below shows how complex tax regulations affected the organisation’s performance.

![Bar chart showing the effect of complex tax regulations on organisational performance](chart)

**Figure 4.9 Effect of complex tax regulations on organisational performance**

Figure 4.9 shows that 4% of the participants ranked one the effect of complex tax regulations, 6% ranked two, 23% ranked three, 21% ranked four, 28% ranked five and 18% ranked six the effect of complex tax regulations on organisational performance. Complex tax regulations affected moderately the organisation performance. This was supported by Gruenwald et al. (2006) who highlighted that tax regulations are often confusing, consisting of a large number of components, including excise duty, license fee, sales tax, brand/label registration fee, import/export fee, vend fee, and turnover tax. The complexity of the system is increased by the fact that individual governments determine and regulate industry’s tax levels, which differ from country to country.

The complex tax system can lead to uneven pricing in the market such that there is price competition with the international markets. Respondents further argued that complex tax
regulations result in competition for market share, difficult to cost products and stick to budgets, foreign exchange losses and high production cost. It was explained that the costs of tax will be channeled to the final consumer as a result the tax burden will be accrued to the consumer. The competition intensity increases as different prices will be charged for the final product owing to the complex tax system and foreign exchange irregularities.

4.5.5 Effect of tax instability on organisational performance

Research findings on Figure 4.10 shows the analysis that policy instability affected the organisation performance.

![Figure 4.10 Effect of tax instability on organisational performance](image)

Figure 4.10 above depicts that 6% respondents ranked tax instability as one, 14% ranked two, 11% ranked three, 26% ranked four, 31% ranked five and 12% ranked six. This implies that the effect of policy instability slightly affected the organisation’s performance for the period 2006 to 2011.

This was in the same line with the Chidakwa and Kadenge (2004) argument. They argued that in terms of tax stability, ideally, countries should aim at setting up an efficient and fair tax stability which should raise essential revenue without excessive government borrowing, and should do so without discouraging economic activities or deviating radically from tax systems.
4.5.6 Internal factors that affected organisational performance

Table 4.5 shows analysis of internal factors that affected the organisational performance on the period of 2006 to 2011.

Table 4.5 Internal factors.

<table>
<thead>
<tr>
<th></th>
<th>Rank one</th>
<th>Rank two</th>
<th>Rank three</th>
<th>Rank four</th>
<th>Rank five</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overheads</td>
<td>25%</td>
<td>9%</td>
<td>23%</td>
<td>29%</td>
<td>14%</td>
<td>100%</td>
</tr>
<tr>
<td>Erratic supply of raw materials</td>
<td>20%</td>
<td>29%</td>
<td>31%</td>
<td>17%</td>
<td>3%</td>
<td>100%</td>
</tr>
<tr>
<td>Erratic power supply</td>
<td>9%</td>
<td>29%</td>
<td>12%</td>
<td>14%</td>
<td>36%</td>
<td>100%</td>
</tr>
<tr>
<td>Low staff morale</td>
<td>35%</td>
<td>21%</td>
<td>9%</td>
<td>14%</td>
<td>21%</td>
<td>100%</td>
</tr>
<tr>
<td>Cash flow and exchange losses</td>
<td>31%</td>
<td>29%</td>
<td>13%</td>
<td>21%</td>
<td>6%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Research findings in Table 4.5 reveals that 25% respondent’s ranked overheads one as an internal factor affecting organisational performance, 9% ranked two, 23% ranked three, 29% ranked four and 14% ranked five. This shows that overheads affected the organisational performance of Afdis. Some of the overheads include obsolete technology, a high cost structure, bloated management structure and old delivery fleet.

Furthermore on internal factors, erratic supply of raw materials had 20% respondents who ranked it one, 29% ranked it two, 31% ranked it three, 17% ranked four and 3% ranked five. This reveals that erratic supply of raw materials affected the organisational performance of Afdis. According to the Afdis Annual Report (2007) the supply of rawmaterials to demand was noted to be progressively more difficult with constraints on bottle supply and raw spirit. In 2008 the company had a reduced value of inventories at the year end reflecting the perilous state of the supply chain (Afdis Annual Report, 2008).
Erratic power supply is also another internal factor. Nine percent of the participants ranked one, 29% ranked two, 12% ranked three, 14% ranked four and 36% ranked five. This implies that erratic power supply least affected the organisation’s performance. Although the company had contingency measures in place such as use of generators the Afdis Annual Report (2006) highlighted that erratic power, coal and fuel supplies had a negative effect on the business. According to the Afdis Annual Report (2008) electric supply continued to deteriorate and coal supply was poor and difficult to obtain.

Low staff morale is another internal factor that had 35% of the participants who argued that low staff morale greatly affected the organisation performance. Twenty one percent ranked it two, 9% ranked it three, 14% ranked it four and 21% ranked four as the effect to organisational performance. Wastages were high and productivity was low due to high absenteeism.

Qualitatively through structured interviews the research found out that the directors of Afdis agreed that the importation of finished products from Distell was as a result of overheads through the costs of running outdated machinery. Participants argued the effect was as a result of increased cost of production, shortage of cash flow and inconsistent production.

Desai and Dharmapala (2006) argued on the same line on internal factors, they posit that overheads have effect on the tax environment changes have the overall effect of increasing investors’ valuation of tax-aggressiveness. The authors attribute this to the fact that induced adjustments to firms’ tax planning increase the certainty of managers taking tax positions within the firms’ optimal level of tax-aggressiveness. In addition, the induced adjustments to tax planning will potentially resolve pre-existing unaddressed conflicts of interests related to such tax planning.
4.5.7 The impact of surtax increase on the supply of imported products

Figure 4.11 shows the views of the research participants on the impact of surtax increase on the supply of imported products.

The study reveals that 31% of the participants highlighted that surtax increase has a very high impact on supply of imported products for the period 2006 to 2011, 23% stated high impact, 20% argued that the impact was medium, 14% stated that the impact was low, 6% argued that surtax increase had very low impact and the remaining 6% were not sure. The supply of African Distillers products for the period 2006 and 2011 was affected by surtax increase on imported spirits and wines.

This was supported by the views of Gruenwald et al. (2006). They argued that surtax increase on imported spirits and wines affect supply of imported products. International imports are regulated by a different regime, comprised of basic and additional customs duties (ibid).

Moreover in interviews directors indicated that the other examples of how the organisation is being prejudiced were given as the reversal of the 25% surtax which saw some projects being shelved or running out of steam. The firm was therefore going to accelerate local production of ciders and had to shelve plans for local production of Hunters and Savanna. The introduction of
the 25% surtax on imported wines and ciders was going to protect the local industry. Imported products were going to be more expensive given the additional 25% surtax.

Upon further questioning of the respondents it was revealed that when the Minister gave his budget speech in November 2011, wrapped up in all domestic issues he casually stated “…and there will be a 25% surcharge on soaps, toiletries, rice, flour and beverages”. Primarily it was not clear in the statement on what a “beverage” is but they published a gazette which defined a beverage as basically anything liquid that goes down the throat. Thus all wines, spirits, ciders, beers were going to be affected. The tax was to come into effect on the 1st of January 2012. Respondents further explained that all beverages were going to be affected equally but it was going to give a 25% advantage to local production. As an example Hunters, as imported from Distell, was going to be 25% more expensive. Thus the company was going to leverage on this and locally produce the Hunters and shun competition from small players or runners. It was also explained that the introduction of the 25% surcharge was not going to affect the bottom end of the market much as people tend only to import premium brands.

4.5.8 Other impacts of changes in taxes to Afdis

4.5.9 Smuggling of products by informal traders or runners corrupted the tax system

The findings on whether smuggling of products by informal traders, corrupted the tax system is presented below.

![Figure 4.12 Smuggling of imported products.](image-url)
Research findings on Figure 4.12 reveals that 63% of the participants observed that smuggling of imported products by informal traders did not corrupt the tax system.

The findings are confirmed by Rinaldi (2007) who argues that alcohol policy setting is complex and is shaped by a multitude of influences. United Nations (2002) advises that countries must reform their tax systems by broadening their tax base and adopting tax expenditure approaches which minimize the prospects for future fiscal deficits and are consistent with administrative capacities.

4.6 The extent to which government shows favouritism in coming up with taxation policies

The study investigated the extent to which government shows favoritism in coming up with taxation policies. The views of the respondents on the subject matter are presented below.

![Figure 4.13](image)

**Figure 4.13 The extent to which government shows favouritism in coming up with taxation policies**

Analysis on Figure 4.13 show that 12% of the participants said the government to a greater extent showed favouritism in coming up with taxation policies through levying lower taxes to other sectors of the economy, 11% indicated to a certain extent, 20% said low extent, 23%
argued very low extent and 34% were not sure. This leads to the implication that the government does not show favoritism in coming up with taxation policies that affect the company.

Cowell (1992) considers that tax payers are concerned about the fairness of tax burdens. This has been supported by (Spicer and Lundstedt, 1976) who noted that if a specific group perceives its tax burden as heavier than that of another group then tax non compliance is likely to increase within this group. The UN (2002) views are lent support by Chidakwa and Kadenge (2004) who observe that an ideal tax system should among other attributes be equitable, meaning that the distribution of the burden of the government finance should coincide with commonly held notions of fairness and the ability to pay. However Kavale (2011) argues that the issue of government administering the taxation role fairly can be hardly achieved when the views of the industry are not taken into consideration in the evolution of the fiscal policy in question. A sense of fairness is usually achieved when the affected parties participates in fiscal policy formulation by giving their own views on what works for a win-win situation between the exchequer and the industry.

4.7 Effectiveness of government in enforcing law and order with respect to informal traders who evade taxes and duties

The analysis on Figure 4.14 shows the views of the respondents on the effectiveness of government in enforcing law and order with respect to informal traders who evade taxes and duties.

![Figure 4.14 Effectiveness of government in enforcing law and order with respect to informal traders who evade taxes and duties](image)

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Research findings on Figure 4.14 show that 3% of the respondents stated that the government is effective in enforcing law and order with respect to informal traders who evade taxes and duties, 34% argued that it was ineffective, 57% said it was very ineffective and 6% said there were not sure of the effectiveness of the government. This implies that the government was ineffective in enforcing law and order with respect to informal traders who evade taxes and duties for the period 2006 to 2011.

Andrienko and Nemtsov (2005) argue that poor quality and cheaper drinks contain higher levels of alcohol which may compensate for loss in alcohol volume from quality drinks. The challenge of government-induced price adjustments from a corporate strategic planning point in the alcohol sector then is to find a point of equilibrium between demand and supply.

4.8 Long term strategies to achieve competitive advantage under the current taxation

The study sought to find out the long term strategies to achieve competitive advantage under the current taxation. As a result structured interviews were undertaken on the subject matter. Middle management stated that there was need to continue lobbying the ministry of finance. Other respondents indicated the need to transfer products from bonded warehouse that need to be sold immediately and it would facilitate monthly payment of duties. Moreover respondents added that reducing alcohol content in spirits products or venturing into non alcoholic drinks could be undertaken as a strategy to achieve competitive advantage under the current taxation system. The Company’s relationship with its principals is also expected to result in continued expansion and establishment of a full range of regionally and internationally branded product to complement local product.

CHAPTER CONCLUSION

This chapter presented the research findings and the associated discussion of the findings. The chapter provides the basis on which conclusions and recommendations of the study are made. The next chapter provides conclusions, recommendations of the study and area of future study.
CHAPTER FIVE CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter presents the major conclusions and recommendations of the study. These are taken from the research findings. Furthermore, the study presents the area of further research.

The study concludes that the changes in government taxation policies had an adverse impact on the performance of African Distillers Limited.

1) The changes in excise duty experienced in the period under review impacted on the organisation’s performance and competitiveness negatively in the following ways:
   - The company ended up not producing some products and as a result it lost market share for those products.
   - The importation of products from Distell was as a result of high excise duty since the organisation did not have the capacity to produce some products locally.
   - It was found out that some brands especially cane spirits were cheaper to import because of the ad valorem tax structure. The excise duty discouraged local production and it was not economic to produce.

2) The study also concludes that excise duty and import duty had a large impact on the performance of Afdis. However, it was also found out and concluded that company tax and value added tax had a low impact on the firm’s performance.

3) The research concludes that Afdis is being prejudiced by taxation policies. The reversal of the 25% surtax was cited as an example and this led to the shelving of local production of Hunters and Savanna.

4) The impact of compliant health warning statements on the supply of imported products was concluded in this research as being low.
5) The study concludes that the long term strategies to achieve competitive advantage under the current taxation at Afdis are:

- Transfer of products from bonded warehouse that need to be sold immediately to facilitate monthly payment of duties

- Reducing alcohol content on spirit products as a strategy since duty is now charged on litre of actual alcohol (LAA). This will reduce the amount of duty on the final product.

- Venturing into non alcoholic products which do not pay excise duty.

5.2 RESEARCH PROPOSITION VALIDATION

The research proposition ‘The impact of frequent government policy changes on African Distillers Limited between 2006 and 2011 has been unfavorable’ has been justified. The research concludes that the changes in excise duty experienced in the period under review and the hyperinflation period experienced in 2008 impacted on the Afdis’s performance and competitiveness negatively.

5.3 RECOMMENDATIONS OF THE STUDY

Research recommends that Afdis should improve on the level of participation in fiscal formulation. The structure of participation has to be improved by having more interfaces with the fiscal authorities. The research also recommends that Afdis should diversify to low alcohol beverages or non alcoholic products and take advantage of market trends. Wellness issues are becoming topical in this era. Research further recommends that Afdis should concentrate on high margin products as tabulated below

Table 5.1: Margin of products

<table>
<thead>
<tr>
<th>Product</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>VICEROY BRANDY 750 ml</td>
<td>0.51</td>
</tr>
<tr>
<td>NIKOLAI VODKA 750ml PET</td>
<td>0.43</td>
</tr>
<tr>
<td>SMIRNOFF VODKA 750ml</td>
<td>0.58</td>
</tr>
<tr>
<td><strong>Low Margin Products</strong></td>
<td></td>
</tr>
<tr>
<td>SKIPPERS PET 750 ml</td>
<td>0.26</td>
</tr>
<tr>
<td>NIKOLAI VODKA 200ml</td>
<td>0.26</td>
</tr>
</tbody>
</table>

Source: Marketing Reports (2011)
With the current duty structure it is very competitive to concentrate on high margin products and these constitute Afdis premium brands. This can be done through pushing volumes and ensuring that product is always available.

5.4 RESEARCH LIMITATIONS

In conducting this study the researcher used a single case study. A multiple case study involving Delta and other players could have given a better picture.

5.5 SUGGESTED AREAS FOR FURTHER STUDY

From the research findings and conclusions, some areas of further research have been identified. The research proposes that a further investigation be undertaken on what could be done to make government policy changes favorable to the business of African Distillers Limited.
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APPENDICES

Appendix 1-QUESTIONNAIRE INTRODUCTORY LETTER

22 May 2012
University of Zimbabwe
Graduate School of Management
6 Langham Rd
Mt Pleasant
Harare
Tel.745316/307377

Re: MBA RESEARCH QUESTIONNAIRE

Dear Respondent

The researcher Tambudzai Makunde, is undertaking a study on how Zimbabwe’s policies have influenced the supply and demand of spirits and wines .This is in partial fulfillment of the requirements for a Masters Degree in Business Administration from the University of Zimbabwe .The study topic is “An analysis of the impact of changes in Government Taxation Corporate Performance for African Distillers Limited (2006 to 2011)” Your responses will greatly assist in this analysis.

Please assist the researcher by answering this questionnaire as sincerely as possible for this research program to achieve its objectives .For further information you are free to contact University of Zimbabwe Graduate School of Management on telephone numbers +263 -4- 745316.Your responses will be treated with the utmost confidentiality and will not be used for purpose other than this research. The researcher will greatly appreciate it if could assist by completing the attached questionnaire and return it on or before the 23rd June 2012 .Thank you in advance for your assistance.

Yours Sincerely

Tambudzai Makunde
Instructions
1. If a question is difficult for you to answer, please give it your best guess.
2. The questionnaire takes about 20 minutes to complete
3. The evaluation covers the period (2006-2011)

Section A: General (please tick the appropriate box)
1. How long have you been employed with African Distillers Limited?
   a) 1-5 years  
   b) 6-10 years  
   c) 11 years and above  
2. What is your highest level of qualification?
   a) Certificate  
   b) Diploma  
   c) Degree  
   d) Post Graduate  
   e) Other  
3. What is your position in the organization
   a) Director /Senior Management  
   b) Middle Management  
   c) Supervisory /Junior Management  
**Section B:**

1) The following tax rates had a negative impact on Afdis performance for the period 2006 to 2011. Please tick in the appropriate box.

<table>
<thead>
<tr>
<th>Import Duty Tax</th>
<th>Yes</th>
<th>No</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Added Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excise Duty Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2) How do you rate the financial performance of Afdis over the period under review?

<table>
<thead>
<tr>
<th>Financial Measures</th>
<th>Very Good</th>
<th>Good</th>
<th>Bad</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficiency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For the statements given below tick in the response that best suits your opinion.

<table>
<thead>
<tr>
<th>Impact of Taxation on performance of African Distillers Limited</th>
<th>STRONGLY DISAGREE</th>
<th>DISAGREE</th>
<th>NEITHER AGREE</th>
<th>AGREE</th>
<th>STRONGLY AGREE</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1 Changes in Excise duties during the period under review had a negative impact on local production?</td>
<td>1</td>
<td></td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>B2 The changes in excise duty affected the pricing of major products at Afdis during the period under review.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B3 The changes in excise duty regimes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Section C**

3) Rank the external factors tabulated below from 1 to 3 in order, starting with the one that you think affected the organization’s performance most for the period 2006 to 2011:

<table>
<thead>
<tr>
<th>External Factors</th>
<th>Rank (1 to 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise Duty Regime</td>
<td></td>
</tr>
<tr>
<td>Complexity of Tax Regulations</td>
<td></td>
</tr>
<tr>
<td>Policy Instability</td>
<td></td>
</tr>
</tbody>
</table>

4) Explain briefly how the top factor above affected the organization’s performance.

I. .................................................................

5) Rank the internal factors in the table below, from 1 to 5 in order starting with the one that you think affected the organization’s performance most for the period 2006 to 2011:

<table>
<thead>
<tr>
<th>Internal Factors</th>
<th>Rank (1 to 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overheads</td>
<td></td>
</tr>
<tr>
<td>Erratic Supply of Raw materials</td>
<td></td>
</tr>
<tr>
<td>Erratic Power Supply</td>
<td></td>
</tr>
<tr>
<td>Low Staff Morale</td>
<td></td>
</tr>
<tr>
<td>Cashflow and Exchange Losses</td>
<td></td>
</tr>
</tbody>
</table>

6) Highlight how the top two factors above affected the organization’s performance.

I. .................................................................

II. .................................................................
7) Score by ticking in the appropriate box, the impact of factors tabulated below on supply of African Distillers’ products for the period 2006 to 2011.

<table>
<thead>
<tr>
<th></th>
<th>Very High</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
<th>Very low</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evasion of tax by informal traders or runners.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Packaging in prescribed quantities (for example 330ml )</td>
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<tr>
<td>Compliant health warning statements on imported products</td>
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<tr>
<td>Surtax increase on imported spirits and wines</td>
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</table>

8) The National Alcohol Policy proposes to stop the sale of alcohol after 7pm on week days and midday on Sunday. If pursued how you do think it will affect the performance of your business?

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9) To what an extent does government show favoritism in coming up with taxation policies that affect your company. Please tick in the appropriate box.

<table>
<thead>
<tr>
<th>Greater extent</th>
<th>To a certain extent</th>
<th>Low extent</th>
<th>Very low extent</th>
<th>Not Sure</th>
</tr>
</thead>
</table>

10) How effective is government in enforcing law and order with respect to informal traders or runners who evade taxes and duties. Please tick in the appropriate box.

| Very effective | Effective | Ineffective | Very ineffective | Not Sure |

Thank you very much for you time
Appendix 2-STRUCTURED INTERVIEW QUESTIONS (AFRICAN DISTILLERS LIMITED MIDDLE MANAGEMENT)

The area of study was: “An analysis of the impact of Government Taxation Corporate Performance for African Distillers Limited (2006 to 2011)”

The following questions were asked to each respondent and a summary of responses obtained was captured.

1. What are the different forms of taxes that influence the organisation`s performance?

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Agree</th>
<th>Not sure</th>
<th>Do not agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Tax</td>
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<tr>
<td>Value Added Tax</td>
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<tr>
<td>Excise Duty Tax</td>
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<tr>
<td>Customs Tax</td>
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</tbody>
</table>

2. What were the effects of tax changes on the performance of the organisation?

3. How did the change in the taxes impact on the organisation`s operations?

4. Do you agree that price increase resulting from higher taxes can lead to quality substitution with heavy drinkers switching to illicit brews? Explain your answer.

5. Should the alcohol industry adopt a volumes or price approach in ensuring viability of business? Please elaborate.

6. Do you believe that the company uncompetitive? If yes please elaborate.

7. Under the current taxation what are the long term strategies to achieve competitive advantage.

8. What taxation strategies should be used by the government to reduce the impact of tax on corporate performance?
Appendix 3-STRUCTURED INTERVIEW QUESTIONS (AFRICAN DISTILLERS LIMITED DIRECTORS OR SENIOR MANAGEMENT)

The area of study was: “An analysis of the impact of changes in Government Taxation Corporate Performance for African Distillers Limited (2006 to 2011)”

The following questions were asked to each respondent and a summary of responses obtained was captured.

1) What are the different forms of taxes that influence the organisation’s performance?

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<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Not sure</th>
<th>Do not agree</th>
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</thead>
<tbody>
<tr>
<td>Company Tax</td>
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<tr>
<td>Value Added Tax</td>
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<tr>
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<tr>
<td>Customs Tax</td>
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</tbody>
</table>

2) What was the impact of Government taxation policies on the performance of African Distillers Limited?

3) Give examples of how Afdis is being prejudiced by taxation policies.

4) Do you think setting of minimum market prices of alcohol may negatively affect the level of demand of your product? If yes to what an extent does it affect corporate performance?

5) What is your view on the notion that say if there is an increase in tax a large number of consumers turn to untaxed locally produced illicit brews.

6) Do you think the importation of finished products from Distell was a result of the following factors? Elaborate.
   a. Tax policies
   b. Competition
   c. Expensive raw materials
   d. Cost of running outdated machinery
e. Preference to South African Brands

7) What taxation strategies should be used by the government to reduce the impact of tax on corporate performance?

8) What is your level of participation in fiscal formulation on a scale of 1 to 3? How do you think it can be improved?