INVESTING DECISIONS AND FINANCIAL PERFORMANCE OF A COMMERCIAL GOVERNMENT AGENCY OF SOUTH AFRICA

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Abstract:
The financial management of commercial government agencies in South Africa has been beset by challenges in achieving financial performance despite efforts to conserve financial position. Investment decisions present a potential strategy for improving financial performance. Guided by contingency theory, this study seeks to explore the perceptions of finance staff regarding the impact of investment decisions on the financial performance of a selected commercial government agency in South Africa. The study employs a cross-sectional, quantitative research design, utilizing a questionnaire to gather data from 51 respondents. Based on regression coefficients, the analysis reveals a strong positive causal relationship between investment decisions and financial performance. In particular, the beta coefficient indicates that investment decisions significantly predict financial performance ($\beta = 0.827$, $p < .001$). These findings suggest that firms should prioritize investment decisions to improve financial performance and promote growth. Accordingly, we recommend that commercial government agencies prioritize investment decisions to improve financial performance and achieve organizational goals.
Keywords: Investing Decisions, Financial Performance, Commercial Government Agency

INTRODUCTION

Despite increasing research studies using secondary data for statistical analysis, commercial government agencies (CGAs) in South Africa still need help making effective investment decisions. It poses a financial threat that can destabilize sustainability and lead to government financial interventions when CGAs are in precarious financial positions (Marimuthu, 2020). The Companies Act of 2008 provides an independent interpretation of CGAs, defining them as enterprises registered under the Companies Act, listed as public enterprises according to Schedule 2 of the Public Finance Management Act (PFMA), or owned by municipalities as predictable in the Municipal Systems Act of 2000. However, the South African statute has no comprehensive legislative definition of a national or provincial CGA. The Companies Act further states that in cases where the definitions of CGAs conflict, the PFMA supersedes the Companies Act to provide a clear definition. For this study, the definition of CGA is based on the South African PFMA, which lists and categorizes all CGAs at the provincial and national levels. According to the PFMA, CGAs are profit-making entities owned by the national government, such as boards, commissions, companies, corporations, funds, or other entities.

CGAs operate autonomously from the government, with their ordinary shares publicly traded on capital markets, and are entrusted with financial and operational authorization to carry out business activities. The state partially or fully financed them (Bronstein & Olivier, 2015). Research indicates that South Africa's credit rating was on an upward trend before the global economic crisis 2009. However, the economy has been declining since then, resulting in demands for additional

capital injections for South African CGAs. It has weakened the economy and deteriorated the fiscal position, posing risks to investment decisions (National Treasury, 2017).

Moreover, the reported corruption within government CGAs is a severe factor that cannot be overlooked. The 2022 Auditor General's report highlighted that irregular expenditure had increased by 58% Burger (2022), and excessive remuneration packages for executives, particularly concerning large termination payments, pose a serious threat to South Africa's CGAs (Marimuthu, 2020). To address these challenges, South Africa has committed to implementing the National Development Plan 2030, which includes the need for financially sound investment decisions to reduce the financial pressure on the government to bail out CGAs. Investment decisions are an essential aspect of an organization's future success. However, establishing exogenous and endogenous theories for investing decisions is challenging, with no clearly defined theories specifically applicable to South African CGAs.

Nevertheless, studies have been conducted on investment decisions in various sectors, including government organizations. According to Waweru and Kariuki (2022), investing decisions are critical for an organization's future. Montgomery (2018) defines investing decisions as committing resources to long-term projects that generate returns. Capital budgeting, as described by Koroti (2014), refers to long-term projects that require commitment with the intention of reaping future economic benefits. Chai (2011) notes that investing decisions require significant financial commitments and robust performance measurements. Most studies have revealed a close relationship between investing decisions and a company's financial performance. Therefore, CGAS must make well-informed investment decisions, considering accurate financial forecasting, risk assessment, and effective project management (Pratolo et al., 2022). By doing so, CGAs can help achieve the National Development Plan 2030 goals and reduce the need for government bailouts. Waweru and Kariuki (2022) found that investment decisions are critical in allocating funds to projects that provide the highest possible returns, based on their study of major manufacturing companies in the Nairobi Metropolitan Region of Kenya. Meanwhile, Siziba and Hall's (2021) research across four major countries showed that there are six robust investment techniques, namely the accounting rate of return (ARR), net present value (NPV), payback period (PBP), internal rate of return (IRR), return on investment (ROI), and real option value (ROV). Nyongesa (2017) discovered that investment decisions have a positive and statistically significant impact on the financial performance of insurance companies in Kenya, while Koroti's (2014) study on the effect of investing decisions on the financial performance of sugar factories in Kenya found a positive association between investing decisions and financial performance.

Research Gap. Based on the researcher's knowledge, there needs to be more comprehensive literature on investment decisions that includes employee perceptions of investment decisions' effect on financial performance. Therefore, no established theories address employees' perceptions regarding investment decisions made by a CGA (Certified General Accountant) in South Africa. The purpose of this study is to investigate the perceptions of finance staff on the effectiveness of investment decisions in improving the financial performance of a CGA in South Africa.

Aim and Objective. The study aims to use multiple regression analysis to explore employees' perceptions of the effectiveness of investment decisions in improving financial performance.

Hypotheses;

H01: Investing decision is a significant predictor of financial performance.

H02: There is a significant association between investing decisions and respondents' socio-demographic data.

Literature Review and Theoretical Basis. Based on the theoretical framework of contingency theory, this paper suggests that the investing decisions of the CGAs may be influenced by various contextual factors, such as their environment, strategy, decision style, firm structure, technology, and system adaptability. According to Macy and Arunachalam (1995), contingency theory assumes that each organization's internal and external factors are unique. Therefore, the efficient appropriation of resources involves not only adopting high-level investment methods but also considering the background of the firm and investment appraisal systems, as noted (Yator, 2018). One crucial aspect of the corporate context that may impact the firms' appraisal system is the organization's leadership structure. In the context of CGA, the national executive body responsible for hiring and firing the CGAs' chief executive officers and their motivations may be a critical aspect of the leadership (Christy et al., 2023). Another aspect of the corporate context that may impact investment decisions is using unsuitable and inflexible investment models due to the unpredictable state of operations.

Businesses face a rapidly changing external environment, which requires financial managers to constantly revise and improve their financial management practices to enhance overall performance. The primary objective of financial managers is to maximize the firm's value. It is achieved by assessing the future streams of a firm's cash flow, which is a crucial measure of its value (Brigham & Daves, 2014). Based on this assessment, financial managers decide how to achieve the firm's objective of value maximization. To achieve the firm's objective of maximizing value for shareholders, financial managers need to implement effective financial management practices to manage risks and improve financial management.

The scarcity of financial resources often dictates financial management in CGAs. However, financial performance can be enhanced by efficiently allocating and raising financial resources and exploring better investment opportunities that align with the organization's goals. Financial management involves standard activities the organization performs to ensure efficient use of funds in a narrow sense.
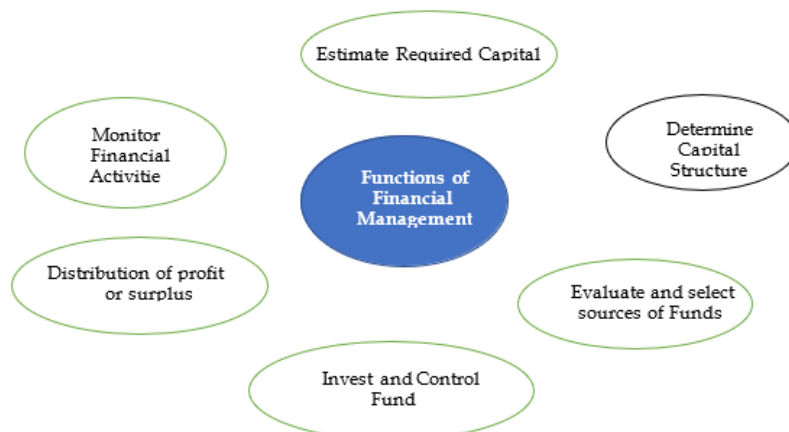
Source: Enow (2015)
Figure 1. Functions of Financial Management

According to Brijlal et al. (2015), financial management involves raising finances to finance the enterprise's assets and operations, allocating funds between competing uses, and ensuring that the allocated funds are used effectively and efficiently to achieve the organization's goals and objectives. Similarly, Titman and Keown (2015) identify five principles of financial management: financial

planning and control, financial accounting, financial analysis, management accounting, and capital budgeting. Brigham et al. (2016) expand on these principles and include working capital as the sixth principle. This study will examine financial management in terms of three practices: Working Capital Management (WCM), investing decisions, and financing decisions. Nthenge and Ringera (2017) note that how financial management practices impact a firm's financial performance varies in different ways.

Financial performance is defined as the ability of a firm to effectively manage its operations, maintain profitability, grow, and react favorably to environmental opportunities and threats (Mutya & Josephine, 2018). Almagtome and Abbas (2020) also agree that financial performance is measured by how efficiently the organization uses its resources to achieve its objectives. Financial performance measures how far a firm's financial objectives are met when performing any financial activity (O'Neill et al., 2016). According to Koroti (2014), financial performance is a function of choosing a business model and the effectiveness with which a firm uses its model. It is essential to have an articulated model as it serves as a continuous feasibility analysis. Financial performance is a factor potential investors use to determine equity investments (Almagtome & Abbas, 2020). Hence, continuous improvement of financial performance is a commitment. Ranjbar et al. (2017) define financial performance as the efficiency of utilizing a unit's resources and producing outputs appropriate to achieve its goals and objectives. Profitability analysis, working capital analysis, financial structure analysis, and activity analysis are four essential focal areas to pay attention to when assessing the financial performance of any firm. This study will apply this theory to see how financial management principles are linked to financial performance to improve the organization's performance.

Based on the study conducted by Waweru and Kariuki (2022), investment decisions are considered one of the three crucial corporate decisions: financing and operational. The primary objective of their study was to investigate the impact of investment decision quality on the financial performance of major manufacturing companies in the Nairobi Metropolitan Region of Kenya. The study was carried out on 126 significant industrial companies in the area using a research questionnaire as the data collection instrument. The study revealed that investment decisions significantly allocate funds to various investment opportunities to generate the best possible returns. Furthermore, Montgomery (2018) asserts that investment decisions are also referred to as capital budgeting, which involves deciding how to invest money and the potential benefits that can be obtained from the investment for more than a year. However, if the return on investment is expected within a year, it is not recognized as capital budgeting but as an income receivable, which falls under working capital management (WCM). Capital budgeting encompasses both the procurement of long-term funds and their utilization. Additionally, Goel (2015) adds that capital budgeting involves long-term planning for creating and financing proposed capital expenditures.

In a longitudinal study conducted by Siziba and Hall (2021), 83 research projects were surveyed to examine the application of capital budgeting techniques across firms in the United States of America (USA), United Kingdom (UK), South Africa (RSA), and India between the years 1966 to 2016. The study revealed that the six most popular capital budgeting techniques were accounting rate of return (ARR), net present value (NPV), payback period (PBP), internal rate of return (IRR), return on investment (ROI), and real option value (ROV), listed in random order. The least used technique was ROV due to its complexity and lack of familiarity, followed by ROI, although its application is growing in the UK, USA, RSA, and India. In line with Siziba and Hall (2019), Ehrhardt and Brigham (2011) identified two methods for evaluating investment projects, namely the static method (simple), which includes ROI and the payback period, among others, and

the dynamic method, which includes NPV and IRR, among others. The most commonly used capital budgeting techniques were NPV, IRR, and PBP (Siziba & Hall, 2019).

Koroti (2014) notes that investing involves utilizing money to enhance an investor's wealth and can be categorized into actual investments, which involve tangible assets, and financial investments, which involve non-tangible assets. According to Al-Mutairi et al. (2018), capital budgeting is a tool organizations use to plan how resources should be allocated among investment projects, playing an essential role in feasibility studies. Maiyo's (2013) study on the effects of investment decisions on the profitability of companies quoted at the NSE revealed a positive relationship between investing decisions and financial performance, indicating that improved investing decisions lead to better financial performance. The study recommended evaluating various investing decisions to ensure the choice of the one that maximizes value. Risk relates to the likelihood of an investment not yielding expected returns. This study aims to investigate whether a company has cash for long-term investments, invests in non-current assets, and fully utilizes non-current assets, as well as whether the business invests without assessing the investment, invests in shares on the stock exchange or real estate, and reviews investment projects after a certain period.

Net Present Value (NPV) is a popular term used to define all anticipated present and future positive cash flows, and it is also referred to as the discount rate (Chai, 2011). The NPV method considers both present and future inflows and outflows of cash and then calculates the difference between the two cash flows. A positive NPV implies that the return on investment is greater than the discounted rate, indicating that the investment project should be considered further. It is because projects that give returns over the opportunity cost create more value for the firm and ultimately grow shareholder wealth (Nyongesa, 2017). The main benefit of using this capital budgeting technique is that it is simple to calculate and consider the time value of money, which means that it considers the fact that the value of money invested diminishes over time due to inflation. Despite its widespread use, more literature still needs to be on employees' perceptions of the impact of NPV as an element of investing decisions on financial performance, specifically within South African CGAs. Therefore, this study will investigate whether the company uses Net Present Value (NPV) to assess investments.

It is worth noting that PBP is a famous capital budgeting technique among small businesses due to its simplicity and ease of use (Yator, 2018). However, it has some limitations, including ignoring the time value of money and not considering cash flows beyond the payback period. Therefore, it should be used with other capital budgeting techniques to make informed investment decisions. The study will contribute to the existing literature by examining employees' perceptions of the impact of the PBP element on financial performance in South African CGAs.

ARR is the "Accounting Rate of Return," calculated as the average profit after tax divided by the initial cash outlay (Nyongesa, 2017). Yator (2018) describes ARR as the average return where the accounting profit (after tax) is divided by the initial investment capital outlay over an investment project duration to derive a ratio that can be expected. It receives the same critique as PBP as it also ignores the significant element of the time value of money (Yator, 2018). Conversely, IRR is defined as the variation of NPV because it aims to attain the discount rate that gives a zero NPV (Nyongesa, 2017). Positive NPV implies a higher return on investment, while negative NPV suggests a lower actual return. Continuous manipulation of IRR can give a rate where NPV is zero. When calculating the NPV, the rate used is already determined, but when the rate of return is calculated, it uses the new rate that provides a zero NPV. It implies that it is impossible to determine IRR without calculating NPV (Yator, 2018). To the best knowledge of the researcher, there is still a gap in the literature to address employees' perceptions on the effect of ARR, PBP, NPV, and IRR elements as

elements of investing decisions on financial performance, with specific reference to the South African CGAs. Therefore, the study will also seek to reveal whether the company uses IRR, NPV, ARR, and PBP to assess the investments.

Brigham and Houston (2017) postulated that financial planning predicts a business's overall financial performance and alerts management of the funds required, when they will be required, and how much will be needed. The primary financial planning activities are income forecasting, cash flow forecasting, determining financial resource requirements, and profit and dividend planning.
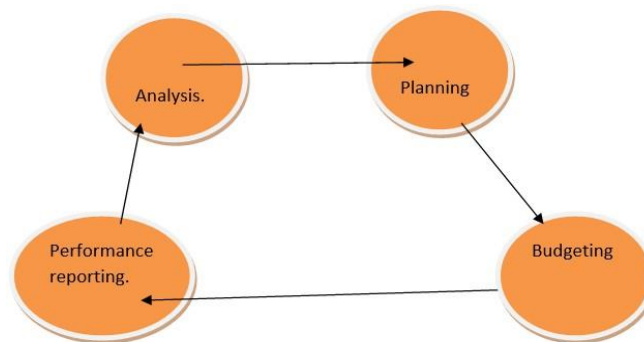
Source: Geeta & Nagasivanand (2021)
Figure 2. Financial Performance and Control

Geeta and Nagasivanand (2021) define financial planning as the result of financial statement analysis. They suggest it involves planning, budgeting, performance reporting, and analysis based on the reports. Several financial statements are required to perform this analysis, including the statement of profit or loss and other comprehensive income, statement of financial position, cash flow statement, statement of changes in equity, and notes to financial statements. Financial ratios are an appropriate tool for performing these comparisons. The purpose of studying the figures in the financial statements is to compare them with other firms' financial statements.

Nguyen (2011) defines financial analysis as evaluating a business's and other projects' performance using ratios analysis, payback period, net present value, and internal rate of return. Investment in projects requires risk analysis and sensitivity analysis. In their study aimed at investigating the significance and influence of financial analysis tools as a measure of financial performance of small, micro, and medium enterprises in Indonesia, Prawirodipoero et al. (2019) found that financial analysis ratios, namely liquidity, efficiency, profitability, and solvency ratios, had a significant impact on the firm's financial performance.

METHODS

Research design comprises collecting and analyzing data proceedings for the research study to achieve its goals and objectives by answering all the research questions. The research design employed in this study is quantitative and cross-sectional as the study investigates the perceptions of staff on the effects of investment decisions to improve financial performance. The quantitative research design was used, where data collection was interpreted in numerical form using questionnaires, and data analysis procedures included using graphs and forming statistical variables to generate numerical data, which was then analyzed and interpreted (Saunder & Bezzina, 2015). The questionnaire was the primary tool utilized in the study to collect data. The target population was 55,946 staff members working at a selected South African CGA. Of this population,

only 69 employees were employed in the finance division. Due to the small finance population, all 69 staff members were sampled for this study. Non-probability convenience sampling was used as the staff members selected by the researcher were willingly available and keen to partake in the research study. The questionnaires were self-administered by the researcher, with less than 20% that were sent via email due to the unavailability of some of the respondents. Their email addresses were obtained from the company's official website. Out of 69 respondents, only 51 completed and returned the questionnaires. The questionnaires were coded and analyzed using the Statistical Package for Social Sciences (SPSS). Before discussing the findings of this study, this section deliberately focuses on the reliability of the research instrument. The internal reliability of the component variables constituting investment decisions, as tested using Cronbach's Coefficient Alpha and Cronbach's alpha coefficient for investment decisions (α=0.934), indicates that the instrument is sufficiently reliable. The statistical models used to analyze data include the Kaiser-Meyer-Olkin (KMO) Test, Bartlett's Test, Mean, p-values, t-tests, ANOVA, factor analysis, Confirmatory factor analysis (CFA), and multiple regression analysis. The study results are discussed in the next section.

RESULT AND DISCUSSION

This section analyzes the employees' responses regarding the firm's investing decisions. Based on the results presented in Table 1, the mean values measured for the 1st, 2nd, 3rd, 4th, 5th, 6th, and 10th statements were all above 3, indicating significant agreement levels with these statements. The statement with the highest level of agreement was the 5th statement, which suggests that the company uses the Payback Period (PBP) to evaluate its investments (M=4.41; SD=0.779; $t(50)=40.437$, $p<0.001$). On the other hand, the mean values measured for the 7th, 8th, and 9th statements were all below 3, indicating significant disagreement with these statements. The statement with the most vigorous disagreement was the 7th statement, which suggests that the company invests without assessing the investment (M=2.55; SD=1.376; $t(50)=13.232$, $p<0.001$).

Table 1. Investing Decisions of the Firm

Statement		Mean (SD)	t	Df	p-value
The company has cash for long-term investments	1	4.18 (.518)	57.589	50	.000
The business invests in non-current assets	2	3.82 (.932)	29.304	50	.000
The enterprise utilizes non-current assets fully	3	3.08 (1.146)	19.181	50	.000
The company uses NPV to assess the investments	4	4.37 (.774)	40.366	50	.000
The company uses PBP to assess the investments	5	4.41 (.779)	40.437	50	.000
The company uses IRR to assess investments	6	4.35 (.770)	40.370	50	.000
The business invests without assessing the investment	7	2.55 (1.376)	13.232	50	.000
The business invests in shares on the stock exchange	8	2.98 (1.175)	18.121	50	.000
The business invests in real estate	9	2.84 (1.189)	17.069	50	.000

	10	4.29 (.460)	66.640	50	.000
The business reviews investment projects after a certain period					

Table 2. Association Between Investing Decisions and Respondents' Socio-Demographic Variables

Socio-demographic	Investing decision M±SD
Qualification	
Matric	4.00±0.00
Diploma	4.19±0.25
Degree	3.55±0.50
Professional qualification	4.08±0.15
Sig.	0.005***
Work experience	
0 – 1 years	4.00±0.00
>1 – 2 years	4.18±0.22
>2 – 4 years	3.94±0.74
>4 – 5 years	3.67±0.29
> 5 years	3.50±0.49
Sig.	0.037**
Department	
CFO & TGC Office	3.73±0.56
Capital Development &Treasury	4.00±0.46
Enterprise-wide Business Support	3.60±0.33
Fixed Assets & Corporate Support	3.90±0.45
Revenue and Credit Management	3.66±0.35
Budgeting and Finance Services	3.46±0.89
Rail Network and Statutory Reporting	3.80±0.35
Operational and Support Costs	3.58±0.44
Sig	0.766

Table 2 below shows the accepted and rejected variables of the second hypothesis of the study:
H02: There is a significant association between investing decisions and respondents' qualifications and work experience.

The results of the ANOVA analysis revealed statistically significant relationships between employees' levels of education (qualification) and their decision-making regarding investing at a significance level of 0.005***. Expressly, employees with a Diploma agreed more with the statements measuring investing decisions (M=4.19±0.25) than those with other education levels. Regarding the relationship between work experience and investing decisions, the ANOVA analysis suggested that the variables have a significant relationship at a significance level of 0.037**. It was found that employees with >1 and 2 years of work experience agreed more with the statements measuring investing decisions (M=4.18±0.22) compared to those with other years of work experience. It suggests that regardless of the department, their views were more or less the same. However, the departments where the employees belong have no significant association with the investing decisions, indicating that the perception of investing decisions was similar across departments.

Table 3. KMO and Bartlett's Test for Investing Decisions Constructs

	Bartlett's Test of Sphericity

Caption	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Approx. Chi-Square	df	Sig.
Investing Decisions	0.688	375.717	45	0.000

Factor analysis was performed to validate the investing decisions using exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). Shrestha (2021) explains that the condition for EFA is that the Kaiser-Meyer value should exceed 0.5, and Bartlett's Test of Sphericity must be statistically significant. The data in Table 3 show that the Kaiser-Meyer value for the investing decisions constructs exceeded the recommended values, while Bartlett's Test of Sphericity was statistically significant. Therefore, this supports the suitability of the correlation matrix.

Table 4. Factor Coefficient for Investing Decision Construct

	Component		
	1	2	3
The business invests in shares on the stock exchange	.945		
The business invests in real estate	.886		
The enterprise utilizes non-current assets fully	.879		
The business invests without assessing the investment	.806		
The business invests in non-current assets.	.662		
The company uses PBP to assess the investments.		.958	
The company uses NPV to assess the investments.		.939	
The company uses the IRR to assess the investments.		.917	
The company has cash for long-term investments.			.717
The business reviews investment projects after a certain period			.622

Based on the results of the PCA for the extracted items for working capital management, it can be concluded that three factors explain 76% of the total variance in the respondents' views on investing decisions. Factor 1 includes 5 items related to investment decisions: investing in shares, real estate, non-current assets, fully utilizing non-current assets, and investing without assessing the investment. Factor 2 includes 3 items related to the assessment of investments, such as using PBP, NPV, or IRR to assess investments. Factor 3 contains only 2 items, which cannot be considered a factor. Therefore, it was not included in the analysis. The findings suggest that the South African CGAs should consider two essential factors: investment decisions and assessments.

Table 5. Showing the Reliability, Discriminant, and Convergent Validity of Investing Decisions

	Cronbach's alpha	CR	AVE	MSV	MaxR(H)	Assessment to Investment	Investment decision
Assessment to Investment	**0.952**	**0.953**	**0.873**	**0.472**	**0.981**	**0.934**	
Investment decision	0.896	0.903	0.657	0.032	0.971	0.178	0.810

Table 5 presents the confirmatory factor analysis (CFA) results to validate the two factors identified in the exploratory factor analysis (EFA) for investing decisions and assessments. The reliability of these two factors was assessed using Cronbach's alpha and composite reliability, and the results indicate that each of the dimensions has acceptable reliability. In order to evaluate convergent validity, we utilized the average variance extracted (AVE). The AVE for both factors is above the recommended value, which suggests adequate convergent validity. Discriminant validity was assessed using maximum shared square variance (MSV), and the AVE values for both factors were more significant than the measured MSV values, indicating discriminant validity. These results support the validity of the two factors uncovered in the EFA for investing decisions and assessments.

Table 6 below shows the acceptance of the study's first hypothesis: H01: Investing decision is a significant predictor of financial performance.

Table 6. Perceived Effect of Investment Decisions on Financial Performance

IV	R	R²	F	df1; df2	p-value	B (regression coefficient)	t	p-value	DV
Investment decisions						0.827	9.718	.000	Finance performance
Assessment to Investment	0.814	0.663	47.265	2; 48	.000	0.122	1.429	0.159	

A multiple regression analysis was conducted to investigate finance staff perceptions on the effectiveness of investing decisions in improving financial performance. The two factors that emerged from the factor analysis, namely investment decisions and assessment of investment, were taken as independent variables, while financial performance was the dependent variable. The regression coefficient showed a strong and statistically significant causal relationship (r=0.814; p<0.001), with investment decisions and assessment accounting for 66.3% (R2 = 0.663) of the variance in financial performance (F2, 48) = 47.265, p<.000). The beta coefficient indicated that investment decisions were a significant positive predictor of financial performance (β = 0.827, p<.001). In contrast, the assessment of investments was not a significant predictor (β = 0.122, p=0.159).

CONCLUSION

The study's main objective was to investigate the employees' perceptions of the effectiveness of investment decisions towards improving financial performance in a CGA in South Africa. The study found that the CGA practices investment decisions such as investing in non-current assets and using PBP, NPV, and IRR to assess investments. These practices were found to be positively related to financial performance, indicating that the rightful utilization of these practices can improve

financial performance. However, the study also revealed that the CGA needs to invest in stock exchange and real estate shares, which could limit the potential for financial performance improvement. Based on the findings, the study recommends that the CGA consider expanding its investment portfolio to include shares and real estate, given that employees agree that the firm has cash for long-term investments. To ensure the success of this recommendation, the CGA should focus on enhancing its effective investment decision-making practices, as these practices were found to be strongly related to financial performance. By doing so, the financial performance of the CGA can improve, ultimately benefiting the government as the shareholder.

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