Research Topic

Impact of non-compliance on financial performance. A case study of the National Social Security Authority (NSSA), 2009-2013

BY

LIVINGSTONE T. RWABA

(R0825846C)

SUBMITTED TO THE MIDLANDS STATE UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE BACHELOR OF COMMERCE DEGREE IN ACCOUNTING.

GWERU, ZIMBABWE

YEAR 2014
MIDLANDS STATE UNIVERSITY

RELEASE FORM

NAME OF AUTHOR: LIVINGSTONE T. RWAYA

TITLE OF PROJECT: Impact of non-compliance on financial performance: Case study of the National Social Security Authority 2009-2013

PROGRAMME FOR WHICH PROJECT WAS PRESENTED: B’COMM ACCOUNTING (HACC)

YEAR GRANTED: 2014

Permission is hereby granted to the Midlands State University Library to produce single copies of this project and to lend or sell such copies for private, scholarly or scientific research purposes only. The author reserves other publication rights and neither the project nor extensive extracts from it may be printed or otherwise reproduced without the author’s written permission.

SIGNED....................

PERMANENT ADDRESS: 5537 Nkwi Gardens
Westlea
Harare

DATE September 2014
The undersigned certify that they have read and recommended to the Midlands State University for acceptance a dissertation entitled “Impact of non-compliance on financial performance. A case study of the National Social Security Authority (2009-2013)” submitted by Livingstone T. Rwafa in partial fulfilment of the requirements for the Bachelor of Commerce Accounting Honors degree.

SUPERVISOR/S

PROGRAMME CHAIR PERSON

EXTERNAL EXAMINER

DATE
DEDICATION

This research is dedicated to my wife Molleen and daughter Ellah.
ABSTRACT

This study sought to determine the impact of non-compliance on statutory obligations by employers to the financial performance of NSSA.

In this study 20 employers, 10 inspectors and 3 Principal compliance inspectors and the Compliance Manager were used as research subjects. The researcher used questionnaires and interviews as research instruments.

The study showed that the main causes of non-compliance by employers to their statutory obligations taking social security contributions to the National Social Security Authority as a case study are; financial constraints that were caused by the harsh economic environment, Low pension benefits that are paid by NSSA, high contribution rates and to some extent complexity of calculations. Non-compliance was found to be impacting negatively to the financial performance of NSSA as indicated by the deteriorating operating revenues and profits as well as delays in payment of NSSA pensions.

This study recommends that to reduce non-compliance by employers NSSA need to improve on debt recovery strategies like payment plans negotiation and prosecution, carrying out educational campaigns, increase the number of inspectors, increasing pension benefits so that employers are motivated to comply and simplifying calculation of monthly dues so that employers do not have to wait for inspectors for them to make payments. Related to this is also considering convenient payment methods such as Eco-cash.

Finally it is also recommended that further research be undertaken in order to assess the impact of non-compliance on financial performance of NSSA and other statutory obligations when the economic environment normalises as this research was done when Zimbabwe was facing difficult macro-economic conditions. The same study may also be extended to other regions as this research focused on Harare only.
I want to thank the God Almighty for giving me the strength, knowledge and opportunity to write this project.

I would like to acknowledge the departmental Chairperson, Mr Mvura, my project supervisor Ms Mhaka and all my peers at MSU, without their support I would not have reached this level.

Special mention also goes to the National Social Security Authority for granting me the authority to carry out this study, the respondents for sparing their time to respond to questionnaires and interviews, MSU Library staff and NSSA library staff.

Lastly I wish to thank my wife Molleen and daughter Ellah for their encouragement and support.
TABLE OF CONTENTS

Cover page..................................................................................................................................i
Release form..................................................................................................................................ii
Approval form..................................................................................................................................iii
Dedication.....................................................................................................................................iv
Abstract.......................................................................................................................................v
Acknowledgement.....................................................................................................................vi
Table of contents.......................................................................................................................vii
List of tables..................................................................................................................................xii
List of figures.............................................................................................................................xiii
List of appendices......................................................................................................................xiv

CHAPTER ONE – INTRODUCTION

1.1 Background of study..............................................................................................................1
1.2 Statement of the problem.......................................................................................................3
1.3 Main research question.........................................................................................................4
1.4 Objectives of the study.........................................................................................................4
1.5 Sub-Research questions.........................................................................................................4
1.6 Justification of the study.......................................................................................................5
1.7 Assumptions guiding the study............................................................................................6
1.8 Definition of terms...............................................................................................................6
1.9 Delimitation of the study.......................................................................................................7
CHAPTER TWO – REVIEW OF RELATED LITERATURE

2.0 Introduction ...................................................................................................................................... 10

2.1 Causes of non-compliance ................................................................................................................ 10

2.1.1 Liquidity Challenges .......................................................................................................................... 11

2.1.2 Complexity of payment procedures and laws ..................................................................................... 12

2.1.3 Myopic behaviour, ethics and attitude .............................................................................................. 14

2.1.4 Probability of non-detection .............................................................................................................. 15

2.1.5 Low penalties for evasion .................................................................................................................. 16

2.1.6 High contribution rates ..................................................................................................................... 17

2.1.7 Low benefits paid by the social security scheme ............................................................................... 18

2.2 Impact of non-compliance on financial performance .......................................................................... 19

2.2.1 Financial performance measures ..................................................................................................... 19

2.2.2 Traditional financial performance ratios .......................................................................................... 20

2.2.3 Impact of non-compliance on financial performance of NSSA ...................................................... 20

2.3 Effect of employers’ workforce size on non-compliance .................................................................... 21

2.4 Influence of size of the compliance inspectorate team ........................................................................ 22

2.5 Impact of regulatory laws on financial performance of NSSA .............................................................. 23
CHAPTER THREE- RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction ............................................................................................................. 26

3.1 Research methods .................................................................................................... 26

3.1.2 Quantitative research methods ........................................................................... 26

3.2 Research design ....................................................................................................... 27

3.2.1 Descriptive Research Design ............................................................................. 28

3.3 Sources of data ........................................................................................................ 29

3.3.1 Primary Data .................................................................................................... 29

3.3.2 Secondary Data ................................................................................................. 30

3.4 Research instruments ............................................................................................. 30

3.4.1 Questionnaires .................................................................................................. 31

3.4.2 Interviews .......................................................................................................... 32

3.5 Population ................................................................................................................ 33

3.6 Research sample ..................................................................................................... 33

3.7 Non probabilistic sampling .................................................................................... 34

3.8 Sample size ............................................................................................................. 34

3.9 Reliability ................................................................................................................. 35

3.10 Validity ................................................................................................................... 30

3.11 Data presentation and techniques ......................................................................... 36

3.12 Chapter Summary .................................................................................................. 36

CHAPTER FOUR DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction .............................................................................................................. 37
4.1 Questionnaire Response..............................................................37
4.2 Non-Compliance ........................................................................38
4.3 Causes of Non-Compliance ............................................................42
4.4 Impact of Non-compliance on financial performance of NSSA .................49
4.5 Effect of workforce size on non-compliance ...........................................50
4.6 Effect of NSSA compliance inspectors on reducing non-compliance ..........52
4.7 Impact of Regulatory Laws on the Financial Performance of NSSA ..........54
4.8 Measures to Reduce Non-Compliance by Employers ..........................55
4.9 Interviews ..................................................................................60
4.10 Chapter summary .......................................................................65

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction ..............................................................................66
5.1 Summary ..................................................................................66
5.2.0. Findings ..............................................................................67
5.2.1 Reasons for Non-compliance With the Payment of NSSA Contributions ..............68
5.2.2 Non-compliance and Effect on Financial Performance of NSSA ...............68
5.2.3 Workforce Size and Influence on Compliance Behaviour........................................68

5.2.4 Compliance Inspectors and Influence on the Compliance by Employers..................69

5.2.5 Regulatory Laws and Impact on the Financial Performance of NSSA.........................69

5.3 Conclusions ..........................................................................................................................70

5.4 Recommendations..............................................................................................................70

5.4.1 Increase the benefits that are paid by NSSA .................................................................71

5.4.2 Reducing contribution rates .............................................................................................71

5.4.3 Employing strategies that reduce non-compliance.........................................................71

5.4.4 Compliance policies should be applied to employers equally....................................71

5.4.5 Increase Number of NSSA Compliance Inspector ..........................................................71

5.4.6 Liaising with the minister of public service for input on new regulations....................72

5.4.7 Be Accommodative on Collecting Contributions...........................................................72

5.4.8 Increase Educational Campaigns.....................................................................................72

5.5 Suggestions for Future Research.......................................................................................73

5.6 Chapter summary..................................................................................................................73

REFERENCES..........................................................................................................................75

APPENDICES............................................................................................................................82
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>NSSA consolidated Employer Compliance and profit (surplus)</td>
<td>2</td>
</tr>
<tr>
<td>3.1</td>
<td>Sample size</td>
<td>35</td>
</tr>
<tr>
<td>4.1</td>
<td>Questionnaires Response</td>
<td>38</td>
</tr>
<tr>
<td>4.2</td>
<td>Reasons for Non-Compliance by Employers</td>
<td>42</td>
</tr>
<tr>
<td>4.3</td>
<td>Impact of non-compliance on financial performance of NSSA</td>
<td>49</td>
</tr>
<tr>
<td>4.4</td>
<td>Impact of regulatory laws on the Financial Performance of NSSA</td>
<td>54</td>
</tr>
<tr>
<td>4.5</td>
<td>Measures to reduce non-compliance</td>
<td>55</td>
</tr>
<tr>
<td>4.6</td>
<td>Interview success rate</td>
<td>60</td>
</tr>
<tr>
<td>4.7</td>
<td>Average compliance rate</td>
<td>60</td>
</tr>
<tr>
<td>4.8</td>
<td>Causes of non-compliance</td>
<td>61</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Page</th>
<th>Figure Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>39</td>
<td>4.1: Employers’ NSSA contributions monthly compliance rate</td>
</tr>
<tr>
<td>40</td>
<td>4.2: Employers’ NSSA contributions payment patterns</td>
</tr>
<tr>
<td>51</td>
<td>4.3: Effect of workforce size on non-compliance</td>
</tr>
<tr>
<td>53</td>
<td>4.4: Effect of NSSA compliance inspectors on reducing non-compliance</td>
</tr>
<tr>
<td>63</td>
<td>4.5: Number of inspectors’ role on reducing non-compliance (interviews)</td>
</tr>
</tbody>
</table>
LIST OF APPENDICES

Appendix A – Letter of request..................................................................................................82

Appendix B – Questionnaire for NSSA compliance Inspectors...............................................83

Appendix C – Questionnaire for.................................................................................................86

Appendix D — Interview schedule for NSSA Management..........................................................89