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This issue in brief

A Two-stage Model for the prediction of corporate failure in South Africa

An accurate evaluation of business failure should be of concern to management and investment analysts. Were it possible to predict failure with a certain degree of confidence, steps could be taken to rectify the negative consequences thereof.

The objective of this research is to undertake an investigation of micro- and macroeconomic variables that are freely available to researchers and which may be used in a failure prediction model. The intention is to obtain a comprehensive, yet simple model which can be used as an overall predictor of PENDING failure.

Determinante van die Kapitaalstruktuur van Genoteerde Suid-Afrikaanse Nywerheidsmaatskappye: 1970-1990

This paper examines the relationships between capital structure and a number of independent variables representative of so-called determinants of capital structure. The determinants are derived from empirical studies that have been conducted internationally.

The aim is to investigate the influence of industry classification, size, operating leverage, growth and profitability of a company on the use of debt. In order to enhance the explanatory power of the exercise, different measures of debt are established, e.g. total debt, long-term debt, current liabilities and interest bearing debt. Multiple regression analysis is used to determine the nature of the relationships.

An Analysis of the Price/Earnings Ratio of the Industrial Sector of the JSE

This paper attemps to identify the significant hypothesised determinants of the aggregate Price/Earnings multiple of the industrial index of the JSE. Four variables, the payout ratio, return on equity, the debt/equity ratio and the average growth in dividends are identified as having a statistically significant association with the aggregate Price/Earnings ratio. A regression model is derived from the analysis. The model is useful both as a tool for forecasting future earnings in the industrial sector and for its interpretive power.

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The P/E Ratio and the Cost of Equity Capital
The cost of equity capital is an elusive measure that is not well understood. The paper aims to clarify a common misconception: namely that this cost is given by the reciprocal of the price/earnings ratio (earnings yield) of the firm. The relationship between the P/E ratio and the firm's cost of equity capital is presented. The factors underlying the P/E ratio at which the firm sells, and hence the determinants of the share price, are discussed.

Cash flow ratios – Investment Basics XXVIII
The incorporation of cash flow ratios into the analysis process has been rather slow and is very much overdue. Current literature has not provided an abundance of current ratios to be used. Companies should be encouraged to include cash flow ratios in their five or ten-year statistical summaries. Ratios in isolation are of little value. By studying cash flow ratios over a longer period, the reader should be able to form an idea as to different norms for different companies and/or industries.

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Thirty-eighth issue – Summer 1993/94

Die Beleggings-ontleders Tydskrif

Agt-en-dertigste uitgawe – Somer 1993/94

There was always danger in setting a date for a general election before agreement had first been reached on a new and final constitution. The danger was that disagreement would fill the time between the setting of the election date and the election date itself making it necessary to postpone the planned voting or to go ahead with it in a context of heightened recrimination and violence. That is what we are witnessing at present. Our last editorial referred to the possibility of a Transitional Executive Council (TEC) being instituted by the end of June 1993. Now we will be lucky if such a body is in place by the end of October. The life of the contemplated TEC, squeezed between continued political bickering and 27 April 1994, is shrinking by the day.

The negotiations situation, however, is not as confused as it might appear to be. Although superficially storm in the form of dispute and conflict are the 'order' of the political day, and voilence is escalating, beneath the surface calmer waters prevail. The impression of dispute and conflict is created especially by Inkatha but it is being helped in this by the other members of the Cosag alliance, a strange conglomeration of parties whose cohesion derives solely from their mutual dislike of the ANC and mistrust of the government. 'The enemy of my enemy is my friend' has never been a philosophy for the formulation of any durable policy or strategy.

Its lack of political cohesion, however, is not the only problem with Cosag. Within its separate parties contradictions and inconsistencies also abound which must justify both suspicion and mistrust. Take Inkatha as an example. If the surveys of popular opinion that have been published are any guide, it remains largely a Zulu-based organisation which is losing ground even within its main constituency. It has no *mass* following outside that provided by Zulus but even amongst them it is contracting because of demographic shifts. Its support is largely derived from an older generation not surprisingly more committed to tribal values. Amongst the youth, its support is shrinking, and the youth today constitute the great majority of all African communities. What Inkatha is gaining in a white switching from the National Party, most importantly in Natal, is being more than offset by losses amongst young people to the ANC. There is a possibility that Inkatha would even lose an election in Natal were one to be held today. A referendum on the new constitution (an issue) rather than a general election (a matter of party political support) would obviously suit its position best in the political tug-o-war that is developing.

The right-wing parties of the Afrikaner Volksfront are no less bedevilled by inconsistencies and anomalies. There is little shared philosophically speaking by the Afrikaans Volksunie and the HNP, or by the CP and the AWB, other than the sentiments of extended family and general agreement that a territorial underpinning of Afrikaner national life is essential to any claims to sovereignty. More importantly, there is no agreement as to where the volkstaat should be, each group (those in Northern Natal and those in the Northern Transvaal, those in the OFS and those in the Western Transvaal) wanting it to incorporate the region immediately surrounding their own farms. What is overlooked, even by General Constand Viljoen, is that the Afrikaner has changed socio-economically. In these terms, Afrikaners have long ceased to be predominantly farmers or poor whites. Forty-five years of NP rule have seen them

Daar was altyd gevaar daarin om 'n verkiesingsdatum vas te stel voordat 'n ooreenkoms eers bereik is aangaande 'n nuwe en finale grondwet. Die gevaar was dat die tyd tussen die bepaling van 'n verkiesingsdatum en die verkiesing self gevul sou wees met wedersydse verskille wat dit nodig mag maak om die beplande stemming uit te stel of om daarmee voort te gaan te midde van toenemende wedersydse verwyte en geweld. Dit is wat ons tans waarneem. Ons vorige redaksionele kommentaar het verwys na die moontlikheid om 'n Uitvoerende Oorgangsraad in te stel teen die einde van Junie 1993. Nou sal ons gelukkig wees as so 'n liggaam teen die einde van Oktober in plek is. Die leeftyd van hierdie beplande oorgangsgesag, ingeperk tussen voortgesette politieke rusies en 27 April 1994, krimp by die dag.

Die onderhandelingsituasie is egter nie so chaoties as wat dit blyk te wees nie. Alhoewel dit op die oppervlakte lyk asof storms in die vorm van dispute en konflik aan die orde van die politieke dag is, en geweld steeds toeneem, bestaan daar kalmer water onder die oppervlakte. Die indruk van dispuut en konflik word veral deur Inkatha geskep, wat hierin gehelp word deur die ander lede van die Cosag alliansie, 'n vreemde konglomerasie van partye wat kohesie vind uitsluitlik op grond van hul onderlinge afkeer van die ANC en wantroue in die regering. "Die vyand van my vyand is my vriend" was nog nooit 'n filosofie op grond waarvan 'n duursame beleid of strategie geformuleer kon word nie.

Gebrek aan politieke kohesie is egter nie die enigste probleem binne Cosag nie. Tussen die verskillende partye is daar ook teensprake en inkonsekwenthede teenwoordig wat tot suspisie en wantroue moet lei. Neem Inkatha as 'n voorbeeld. As opnames van populêre opinies wat gepubliseer is enigsins as 'n gids kan dien, bly Inkatha hoofsaaklik 'n Zoeloe-gebaseerde organisasie wat besig is om grond te verloor selfs onder sy eie ondersteuners. Inkatha het geen breë gevolg nie buiten dit wat deur Zoeloes verskaf word, maar selfs onder hulle is dit besig om te krimp as gevolg van demografiese verskuiwings. Sy steun is hoofsaaklik afkomstig van 'n ouer generasie wat nie verbasend nie 'n verbintenis het met tradisionele stamwaardes. Onder die jeug is Inkatha se ondersteuning besig om te krimp en vandag maak die jeug die oorgrote meerderheid van alle Swart gemeenskappe uit. Wat Inkatha besig is om te wen in terme van blankes wat oorskakel vanaf die Nasionale Party, veral in Natal, word meer as prysgegee deur verliese na die ANC onder jong mense. Daar bestaan die waarskynlikheid dat Inkatha selfs 'n verkiesing in Natal sal verloor as een vandag gehou sou word. 'n Referendum aangaande 'n nuwe konstitusie ('n kwessie), liewer as 'n algemene verkiesing ('n saak van party-politieke steun) sal duidelik Inkatha se posisie die beste pas in die politieke toutrekkery wat besig is om te ontwikkel.

Die regse partye van die Afrikaner Volksfront word nie minder beduiwel deur inkonsekwenthede en anomalieë nie. Filosofies gesproke is daar baie min in gemeen tussen die Afrikaanse Volksunie en die HNP, of tussen die KP en die AWB, ander dan die sentimente van 'n uitgebreide familie en algemene ineenstemming dat 'n gebiedsbasis nodig is om Afrikaner nasionale lewe se aanspraak op soewereiniteit op te baseer. Meer belangrik nog, daar bestaan geen ooreenstemming waar die volkstaat behoort te wees nie, elke groep (daardie in Noord-

graduate into business and the professions, into teaching and the civil service, as well as into the police and the SADF. Their readiness to abandon their farms or their firms, or to resign their jobs and to sacrifice their pensions in order to move to some remote place where Afrikaners would be a majority, must be seriously questioned. Sadly, Afrikaner nationalism sought sovereignty through the capture of the State without putting in place the kind of institutions that can only be secured in a country where a majority has existed or has been contrived and where democracy has been able to function. Its was a top-down rather than a bottom-up approach to the national sovereignty matter, and it failed. Now the NP having seen, or having been made to see the light, has transformed itself into a non-racial party with a very substantial backing amongst coloureds and Asians as well as amongst whites, and even amongst some blacks. It may not stand much chance of winning the next election, but it does retain the mass support that should still make it a credible partner for the ANC in any transitional powersharing administration and a serious contender for future power.

This brings us back to what is happening beneath the political surface rather than superficially. Between them, the ANC and the NP command the support of the great majority of all South Africans. They are now largely agreed as to what is required in the way of constitutional as well as of economic immediate change. Only the extremes of feelings at the lowest levels of their respective constituencies prevent a more public acknowledgement of the identity of views amongst their respective leaders. Good sense dictates that they do not, however, push ahead in total disregard of the sentiments of smaller parties. They must take along as many of these as they can into the new South Africa. It is for this reason that the smaller parties are being given so much opportunity to create the impression of superficial political dissension at Kempton Park and elsewhere.

But time is running out for the smaller parties. For the two big ones, getting on with the job of constitutional change is becoming an urgent imperative and not least because of the importance of such change to the economy. Sanctions must be lifted. The country's relationship with the IMF and the World Bank must be normalised. The present period of stagnation must be ended. A return to higher levels of growth, both in real GDP and employment terms, must be achieved. The only problem is that some important political problems still remain unresolved. It has not helped the cause of getting agreement now about the future constitution (not just the interim one that will apply immediately after April next year but the final constitution that will come into effect once the Constitutional Assembly has completed its work) that Inkatha has come to assume the leadership of caution and good sense on a particular issue. It would be tragedy if, in brushing Inkatha aside because of its obstructionism with respect to other things, the bigger parties were to end up agreeing too hastily to interim arrangements which resulted in the end in the wrong kind of final constitution being adopted by the country.

THE EDITOR

Natal en daardie in Noord-Transvaal, daardie in die OVS en daardie in Wes-Transvaal) wil dit inkorporeer in die gebied onmiddellik rondom hul eie plase. Wat oor die hoof gesien word, selfs deur Generaal Constand Viljoen, is dat die Afrikaner op sosio-ekonomiese vlak verander het. Op hierdie gebied het Afrikaners lankal opgehou om oorwegend boere of armblankes te wees. Vyf en veertig jaar van NP regering het hul gesien gradueer na die sakelewe en die professies, na opleiding en die staatsdiens, asook na die polisie en die SAW. Hulle gewilligheid om hulle plase en firmas agter te laat, of om hulle werk te bedank en hulle pensioen op te offer om na 'n afgeleë plek te beweeg waar Afrikaners in 'n meerderheid sou wees, moet ernstig bevraagteken word. Jammerlik, het Afrikaner nasionalisme gesoek om soewereiniteit te verkry deur die kaping van die staat sonder om daardie soort institusies te vestig wat slegs beveilig kan word in 'n land waar 'n meerderheid bestaan het of waar 'n demokrasie gefunksioneer het. Dit was 'n poging om nasionale soewereniteit van bo-af na onder, eerder as van onder na bo af te dwing, en dit het misluk. Noudat die NP die lig gesien het, of gedwing is om die lig te sien, het dit getransformeer na 'n nie-rassige party met 'n substansiële gevolg onder Kleurlinge en Asiërs, asook onder blankes, en selfs onder Swartes. Die NP mag nie 'n kans staan om die volgende verkiesing te wen nie, maar dit behou nog die soort ondersteuning wat dit 'n geloofwaardige vennoot vir die ANC in enige oorgansmagsdelingsadministrasie maak en dit bly 'n ernstige aanspraakmaker op toekomstige mag.

Dit bring ons terug by wat onder die politieke oppervlakte, eerder dan op die oppervlakte self, gebeur. Tussen hulle beheer die ANC en die NP die steun van die oorgrote meerderheid van alle Suid-Afrikaners. Hulle stem nou hoofsaaklik ooreen oor wat nodig is op die pad van konstitusionele, sowel as ekonomiese verandering. Slegs die ekstreme gevoelens onder die laagste vlakke van hulle onderskeie ondersteuners verhoed 'n meer openlike openbare erkenning van die ooreenkoms van sienings tussen die onderskeie leiers. Goeie oordeel dikteer egter dat hulle nie sal vorentoe beur en die sentimente van die kleiner partye totaal sal verontagsaam nie. Hulle moet sovéél moontlik saamneem na die nuwe Suid-Afrika. Dit is om hierdie rede dat daar aan die kleiner partye soveel geleenthede gebied word om die indruk van oppervlakkige politieke verskille by Kempton Park en ander plekke te skep.

Maar die tyd is besig om uit te loop vir die kleiner partye. Vir die twee groot partye het dit dringend nodig geword om aan te gaan met die taak van konstitusionele verandering, veral vanweë die belangrikheid hiervan vir veranderings in die ekonomie. Sanksies moet opgehef word. Die land se verhoudinge met die IMF en die Wêreldbank moet genormaliseer word. Die huidige periode van stagnasie moet beëindig word. Hoër vlakke van ekonomiese groei, beide in terme van BBP en indiensname, moet bereik word. Die enigste probleem is dat sekere belangrike politieke probleme nog nie opgelos is nie. Dit het nie die saak van die bereiking van 'n ooreenkoms omtrent die toekomstige grondwet gehelp (nie slegs die interim een wat van toepassing sal wees onmiddellik na April volgende jaar nie, maar die finale grondwet wat in effek sal kom nadat die Oorgangsraad sy taak afgehandel het) dat Inkatha die leierskap van versigtigheid en gesonde verstand aangaande 'n bepaalde kwessie oorgeneem het nie. Dit sal 'n tragedie wees as, deur Inkatha opsy te skuif as gevolg van sy weerstand met betrekking tot ander dinge, die groter partye te haastig sal wees om die interim reëlings aan te gaan met die gevolg dat die verkeerde tipe finale grondwet uiteindelik deur die land aanvaar sou word.

DIE REDAKTEUR