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Assessment of professional perceptions in business evaluation in South Africa

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ABSTRACT

This paper seeks to evaluate proficient perceptions within business assessments in South Africa, where such perceptions play a significant role in the evaluation process, encompassing the selection of standards and the establishment of evaluation frameworks. The evolving economy of South Africa is marked by fluctuating economic circumstances and potential growth, compounded by inadequate benchmarks and a scarcity of relevant market information. Forecasting growth rates are further complicated by macroeconomic uncertainties, leading to a reliance on proficient perceptions when industry-specific guidelines and easily comprehensible alternatives to the Capital Asset Pricing Model (CAPM) are lacking. A mixed-methods strategy is employed in this study, combining quantitative and qualitative data, along with surveys set benchmarks for business assessments. The outcomes reveal that modifications based on judgment are necessary for variables like organizational size due to the absence of CAPM alternatives. This study stresses the importance of translating scholarly discoveries into practical applications, emphasizing the challenges and uncertainties that call for proficient perceptions in business evaluations. It advances the comprehension of these obstacles and proposes that further exploring macroeconomic variables and industry-specific guidelines could offer valuable insights. The study suggests that biases in evaluations, influenced by client interests, present a promising area for future inquiry.

Introduction

Evaluations of businesses are fundamental to the field of finance, as prudent choices regarding investments and finances are substantially influenced by the worth of an organisation (Barac, 2009b). Financial managers employ business evaluation predictions for capital budgeting, deal-making endeavours, whereas investment analysts depend on them to inform investment decisions (Coetzee-Van Rooy, 2011). In the past decade, there has been a notable surge in worldwide consolidation and capital market activity, characterised by the completion of a substantial quantity of transactions annually (Nkado and Meyer, 2001). On a worldwide scale there were an estimated 40,000 combinations of companies in 2009, with a combined value of $2 trillion. Regardless of the unparalleled levels of financial volatility that characterised the year 2020, an estimated 46,000 international mergers and acquisitions were finalised, collectively worth $3 trillion (Fatoki and Smit, 2011).

Although South Africa represents a relatively small proportion of the worldwide deal volume, it remains the leading destination for foreign investment (Coetzee and Buys, 2017). Although evaluations are a fundamental component of all postgraduate required texts, they continue to be predominantly determined by human discretion (Ncube et al., 2020). In spite of the existence of theoretical evaluation models, they remain an imprecise science. As a result, they have been classified as a craft. Numerous inputs necessary for conducting an evaluation or ascertaining fair value necessitates a degree of expert opinion, thus augmenting the improbability of the ultimate evaluation result (Kellerman et al., 2021). While the degree of scrutiny exhibited towards specific assumptions in the method of valuation might be negligible, the consequences for the result can be substantial.

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Mooketsi and Chigona (2014) demonstrated, for instance, that a 10% increase in value corresponded to a 1% increase in anticipated EBITDA margins, while a 41% increase in value was associated with a 0.3 decrease in beta. Evaluation is not a subjective process where one can rely only on inventive intuition and visionaries may disregard established criteria considered by Davey et al. (2011). The middle ground is where the optimal evaluation lies (Barac, 2009a). This study investigates the "soft middle ground" that exists among the "art" and "science" of evaluations. The aim of this study is to assess proficient perceptions in business evaluation in South Africa. Furthermore, it seeks to analyse the rationale behind the requirement for such judgement. The study was conducted within the specific context of South Africa, which consequently restricts the applicability of the results.

In addition to the economic realm of mergers and acquisitions, credit agencies and lawmakers utilise evaluations (Mooya, 2015). In accordance with International Financial Reporting Standards (IFRS) 3, it is mandatory to assess the fair value of all assets resulting from a business consolidation for the reason of financial reporting. In accordance with International Accounting Standard (IAS) 36, in order to prevent their overstatement, all current and noncurrent assets must be assessed for deterioration (Evans, 2007). Although evaluation concepts find wide-ranging programmes, the main emphasis of the research is on business evaluations conducted in South Africa for the reason of facilitating mergers and acquisition operations. Hence, this paper limits the investigation to listed companies as a start (Botha and Botha, 2022). These corporations are obligated to generate verified accounting records, as well as their financial information is publicly available and accessible to the public. However, it is still necessary for corporations' proficient perceptions to employ substantial expertise when determining a dependable value for the intended use of business combinations (Damoah et al., 2021).

Prior research has examined analogous topics in global markets. Literature and corporate surveys have occupied the void in academic research from a South African standpoint. Literature and corporate questionnaires primarily examine the elements in business evaluations that demand proficient perceptions. However, there is a scarcity of research that delves into the difficulties and ambiguities that require proficient perceptions in business evaluations (Roberts et al., 2022). An awareness of these obstacles and difficulties can contribute practically through the establishment of best practices. This study addresses the request made by Ebekozien et al. (2024) and Lansdell et al. (2020) for research that establishes a connection between investment theory and proficient perceptions in the field of business finance. Ebekozien et al. (2024) found that in practical applications, financial management theories do not invariably hold significance.

The prevailing rationale for this is the unavailability of data needed to fill financial models. The majority of these financial models necessitate comprehensive future information that cannot be exclusively derived from historical information. This further complicates matters for proficient perception and increases the demand for the application of qualified opinion. Gaining insight into the factors that contribute to the difficulties encountered when implementing models for evaluation can serve as a theoretical advance. The predominant strategy for financial research, particularly in South Africa, is quantitative in nature. This study presents a methodological contribution by employing a mixed-methods approach to gather data, which included surveys and interviews with proficient perceptions.

Literature review

The theoretical basis of this paper is rooted in a highly influential literature concerning the Effective Economic theory (Barac, 2009a). The effective economic theory posits that assets are priced effectively, presuming that investors possess adequate knowledge and intelligence. Nevertheless, the groundbreaking research demonstrated that economic models fail to entirely mirror the knowledge at hand due to informational asymmetry (Lansdell et al., 2020). Thus, marketplaces depend on specialised instruction and training to evaluate proficient perceptions to minimise the disparity in information when establishing the worth of a business for the intent of an acquisition or merger (Magagula et al., 2020). Theoretically, instructions on how to value a business using financial principles have been offered. Although important directions exist concerning the various techniques to be applied when considering a business, in routine, a significant portion of the inputs required to carry out an assessment or ascertain the correct value, demand a component that involves expert decision-making. The next part of this section comprises a discourse on major issues that have been recognised in previous studies as having the potential to impact the evaluation of businesses.

Prediction of cash flows

Information pertaining to predictions is not readily obtainable from accounting books due to the retrospective nature of the activities they document. The precision and dependability of the predictions are significantly influenced by the organization's past development and methods, despite the fact that they are derived from prospective growth opportunities (Hirudayaraj et al., 2021). The necessary predictions for models of evaluation are constructed predominantly from market and business information. Nevertheless, marketplaces are unpredictable, and the future of the economy at large and the business that is being appraised cannot be predicted. Delays in determining anticipated growth rates are further compounded by price volatility. The expansion of the South African economy is notably impacted by the volatile nature of electricity provision. Similarly, the performance of resource companies listed on the Johannesburg Stock Exchange (JSE) is substantially impacted by the worldwide commodities cycle (Lansdell et al., 2020).

Moreover, the returns on the JSE All-Share Index (ALSI) are susceptible to the rand's fluctuation (Magagula et al., 2020). The aforementioned variables present professionals with potential obstacles. As a result, proficient perceptions must formulate theories regarding the variable inputs utilised in the models of evaluation (Mooya, 2015). It can be difficult to substantiate these assumptions, and variations in perception and thought may possess a substantial effect on the ultimate value. The theories of finance for companies do not account for intuitive reasoning. Certain elements are determined by proficient perceptions based on their perceptions and discretion, as opposed to depending entirely on business theories.

Proficient perceptions integrate their personal perspectives and expectations concerning future circumstances, which are shaped by client interactions and meetings with administration, into predictions in his dual role as a business counsellor and instructor, and has conducted an extensive examination of over a thousand assessments (Ncube et al., 2020). During his examination, he identified several recurring inconsistencies in these assessments. Although certain inconsistencies in cash flow projections are attributable exclusively to mistakes committed by proficient perceptions, others, such as overly sanguine assessments of anticipated cash flows, stem from the proficient perception necessary to generate such predictions. Assumptions utilized in cash flow predictions were consequently investigated as a domain of proficient perceptions in this study.

Recalibration of discount rates

Scholarly research has established that the capital asset pricing model (CAPM) is the prevailing method for estimating the cost of capital. However, the usage of the cost of equity calculation lacks a definitive consensus, and numerous academics have criticised the CAPM for its inherent flaws. Furthermore, as stated by Mooketsi and Chigona (2014), the estimation of these inputs into the CAPM is extremely arbitrary. During interviews conducted by Lansdell et al. (2020), fund directors demonstrated a commendable understanding of CAPM; however, they also voiced apprehensions about approximation and applicability of the model's inputs. The fund managers were concerned, among other things, about the fluctuations in risk premiums, the unpredictability of volatility forecasts, and the influence of time on beta computations (Fatoki and Smit, 2011). Government bonds are frequently substituted over the risk-free rate by proficient perceptions, despite the fact they may not entirely eliminate risk, particularly in the context of developing countries. Furthermore, the duration of the government bond utilised is a matter of opinion.

The maturity of the financial flows and the expiration date of the bond should correspond scientifically. In practice, this presents a difficulty due to the fact that not all currency flows associated with company activities possess an identical maturity. Therefore, it is widely accepted that a long-term government bond serves as an approximate representation of the risk-free rate. According to the findings of the Coetzee and Buys (2017) evaluation methodology survey 2022–2023, the ten-year bond issued by the government is the most widely used and regarded benchmark for determining the risk-free rate in South Africa for those who require an appropriate and accurate evaluation. However, numerous participants have mentioned utilising alternative government bonds that have maturities that are longer or shorter than ten years. A subset of participants chose to employ the ten-year bond rates retrieved from the distribution of yields (Ncube et al., 2020).

Diverse methodologies exist in theory for determining the equity risk premiums. Nevertheless, the equations in question are not well-defined, leading to an extensive variation in the estimated equity risk premium. In light of the absence of explicit instructions on the best way to compute a prospective beta, proficient perceptions were compelled to modify the previous beta to account over potential alterations in the upcoming activities of the firms (Roberts et al., 2022). Although the estimation of historic beta is straightforward, it necessitates the use of experienced discretion due to the assumptions involved. Beta evaluation can be significantly influenced by the time period, intervals, market index, and risk-free rate utilized in the calculation. An inherent limitation of the CAPM model is its exclusive focus on systematic risk, neglecting to account for project-specific risks (Davey et al., 2011).

Cost of equity adjustments for project-specific risk are generally accepted among proficient perceptions; however, which modifications are needed depend on the professionals' individual evaluation of the risk associated with a given project (Magagula et al., 2020). In theory, the incremental after-tax cost of debt is incorporated into the cost of capital estimate. The debt terms and the cost of debt incorporated into the cost of capital calculation are two prospective subjectivity areas in the cost of debt determination (Munyoro and Dube, 2021). Although it is logical to incorporate long-term debt into the weighted average cost of capital (WACC) computation given that the valuation relies on perpetual future cash flows, not all corporations operate in South Africa where banks provide long-term financing. As a result, it is necessary to calculate the long-term debt under the assumption that an increase in said debt is possible. Additionally, the local market for actively exchanged bonds for companies is limited. As a result, certain proficient perceptions incorporate short-term debt into their calculations of the cost of debt (Kellerman et al., 2021). As a result, this study investigated the selection of inputs necessary to estimate a discount rate, an aspect of evaluations that necessitates expert opinion.

Predicting a growth rate

Typically, the terminal's value comprises the largest part of a company's total value. Nevertheless, it is profoundly affected by the uncertainties surrounding the projected rate of expansion. If a business's development is equivalent to inflation, then it cannot achieve genuine growth. In the context of a maturing market, inflationary development signifies a reduction in the market share of a given company. Conversely, presuming sustained expansion in tandem with the expansion of the market signifies that the organisation will perpetually retain its portion of the market (Hlatshwayo and Majozi, 2024).

Although the long-term inflation rate is frequently employed as the growth rate when calculating the terminal value, alternative growth rates are also deemed suitable. As an illustration, Lansdell et al. (2020) suggests that the risk-free rate serves as the foundation for the terminal growth rate. While the differences between these rates may not be substantial, the terminal value is extremely sensitive to even minute fluctuations in the rate. The aforementioned was illustrated by Fatoki and Smit (2011). The terminal value of Jordan Telecom, assuming a 5% terminal value, was 429 million Japanese yen. The application of a 6% terminal growth rate led to a final worth increase of 15%. This research accounted for the subjectivity associated with growth rate estimate as a component of the proficient perceptions.

Modifications made to a relative evaluation

A form of evaluation known as related evaluations utilises multiples of similar businesses. A fundamental presumption underlying this method of evaluation is that the business being assessed is similar in nature to other publicly traded organisations (Mooketsi and Chigona, 2014). Nevertheless, due to the fact that no two businesses are identical, modifications are made to the multiples of similar businesses in order to produce a multiple that more accurately reflects the future prospects and risk of the subject business. The proficient perceptions are evident in the very character of these modifications.

Macroeconomic factors in South Africa

Irrespective of the selected method of evaluation, it is imperative that they proficiently integrate present and prospective economic circumstances into their assessments (Mooya, 2015). The prevailing political and economic conditions in South Africa have precipitated a degree of unpredictability that is among the most elevated in decades. These elevated levels of unpredictability worsen the challenges that are already encountered when selecting critical inputs for evaluation, including growth rates, debt costs, and equity market returns.

Methodology

An explanatory sequential design was implemented, utilising mixed-methods research techniques (Aliamutu and Mkhize, 2024b). To commence, a survey questionnaire was disseminated among experts proficient in business evaluation in order to ascertain the elements that necessitate assessment. The formulation of the survey questions was informed by previous research (Ncube et al., 2020). Also, conjunction with themes derived from the ensuing semi-structured interviews, the survey findings were utilised to investigate the rationales behind the application for expert opinion. This indicates from previous studies that proficient perceptions are obligated to exercise their expertise when conducting business evaluations for a variety of potential explanations. The recommended analysis of these themes, which have been incorporated into the survey questions, is described further in the methodology part.

Two participants were administered the survey in conjunction with the pilot study. A sequential, explanatory design utilising mixed methodologies for the study was implemented in accordance with the survey answers (Aliamutu and Mkhize, 2024a). The inquiries were suitably modified in accordance with the feedback obtained from the surveys. The only substantial modifications made to the survey pertained to the expansion of certain responses and the provision of an option for participants to provide justifications for potentially unclear answers. Interested individuals were extended a request to partake in the research subsequent to the survey's finalisation, which was informed by the results of the pilot research. All potential respondents consented to accepting the invitation. The researcher deliberately chose these respondents on the basis of their specialised knowledge in the field of business evaluations.

The respondents comprised South African proficient perceptions who possessed competent credentials and possessed a considerable degree of experience. In order to satisfy the selection criteria, proficient perceptions were expected to possess an official eligibility, including that of a Chartered Accountant South Africa (CA[SA]) or an equivalent credential. Furthermore, it was mandatory for individuals to possess a minimum of five years of experience subsequent to their qualification. Due to the implementation of these stringent selection criteria, the sample size was reduced to a mere 30 individuals. The data for this study was gathered electronically via Google Forms. Following this, every individual who responded to the survey received an invitation to partake in the semi-structured interviews. Six professionals consented to partake in the interview proceedings.

Senior professionals in evaluation from firms of consultants, accounting firms, and financial institutions, all with over ten years of experience, comprised the interviewees. By doing so, it was guaranteed that the interview outcomes would encompass the perspectives and expertise of members from prominent entities operating in the business evaluation sector. The recruitment of highly experienced proficient perceptions enhanced the data quality during the interview phase and bolstered the significance of the research's results. Although a more extensive dataset could be obtained from a larger sample size, it was determined that getting a comprehensive narrative from the six proficient perceptions was adequate to reveal the fundamental components of their proficient perceptions utilized in the business evaluations they conduct.

This assertion is supported by a study conducted by Munyoro and Dube (2021), which establishes that phenomenology investigations, including the present one, generally require a sample size ranging from one to ten individuals possessing the pertinent expertise. In addition, research conducted by Fatoki and Smit (2011) confirms the limited sampling range for phenomenological analyses, since quality, not quantity, is the most essential aspect of qualitative research. After conducting four interviews, the research team eventually identified all themes; no further themes surfaced. By conducting these six interviews, the researcher successfully addressed the research question and obtained a thorough comprehension of the factors that influence proficient perceptions in evaluations. The interviews were carried out in a virtual environment using Microsoft Teams.

The mean duration of interviews ranged from 35 to 50 minutes. To stimulate conversation, interviewees were questioned with unrestricted questions throughout these interviews. The purpose of the open-ended inquiries was to obtain a more comprehensive comprehension of the respondents' evaluation encounters and to further explore the themes that emerged during the surveys. In line with the recommendations of Ncube et al. (2020), the experts were prompted to elucidate on their own personal experiences by exercising judgement through the use of penetrating inquiries. The method of deductive reasoning was utilised by the researcher to discern recurring themes within the interview transcripts. This methodology indicated that the researcher (based the questionnaire's results) employed already existing structures. The researcher reduced the inherent subjective character of the method of classification by consulting with a colleague who possesses expertise in the discipline of evaluation to review and validate the identified themes.

Implications

The outcomes of stage 1: Surveys evaluation strategies

Participants were asked to indicate which evaluation approaches they take into account when determining the value. Participants were provided with the option to choose from multiple evaluation approaches, and it is apparent from their responses that the majority of the participants employ more than one approach on a regular basis. Respondents affirm, in their replies to questions, that secondary evaluations are conducted in conjunction with the primary evaluation. Through the utilisation of multiple evaluation approaches, the semi-structured interviews delved deeper into this topic. The results of the survey indicate that the discounted cash flow (DCF) evaluation technique is the most commonly utilised by proficient perceptions (96% of respondents). These findings are consistent with those reported in other scholarly works and the Aliamutu and Mkhize (2024c) methodology survey. Accounting data, a particularly prevalent basis for business evaluations, has been included in the findings.

The researcher identified initial proof regarding the justifications for employing proficient perceptions in business evaluations; historical accounting data must be modified employing proficient perceptions to compensate for future expansion. Furthermore, the researchers observed that proficiency favoured the Economic Value Added (EVA) method the least (less than 1% of answers), regardless of the method's prominence in business finance curricula in South Africa. Based on the participants, the sector, the level of information accessibility, and the level of development of the subject entity influenced the selection of the assessment approach. One noteworthy observation expressed in the replies to the questions is that "the evaluation becomes more subjective due to the necessity of adjusting market methods in emerging economies." This remark was examined in greater depth during the interviews.

Price reductions

A synopsis of the methodologies employed in the computation of the cost of equity is provided in Table 1. The literature indicates that the CAPM is well-liked in practice notwithstanding its theoretical deficiencies and restricted empirical dependability in the context of the South African market (Coetzee-Van Rooy, 2011). It is worth noting that a significant proportion of the participants fail to even contemplate a different approach for computing the cost of equity. Despite the enormous majority of responders favouring using the CAPM model to compute the cost of equity, 34% of responders expressed disagreement with the suitability of beta as a risk metric. One participant elaborated on their selection in the survey's free-text section: "There is no more widely recognised and utilised metric in the industry." In the South African environment, the absence of guidelines regarding the computation of the equity risk premium further seems to be concerning.

Respondent approaches to determining equity risk premiums were extremely diverse. While 23 of those who participated derived their estimates from historical market data, 12 of them also incorporated the current share prices of the businesses. This suggests that the proficient employ distinct methodologies contingent upon the subject matter of the evaluation. An additional seven participants estimated the equity risk premium utilising data from third parties. This suggests that proficient perceptions occasionally utilise data from financial research institutions in their absence to be specific to the setting instruction. Based on the feedback provided by the survey respondents, it is evident that the beta calculation involves a substantial degree of technical discretion. As indicated by the standard deviations in Table 3, the inconsistency in methods for determining beta is demonstrated by the discrepancies in replies to these queries. Despite the fact that a significant proportion of participants (55%) employed the ALSI as a surrogate for the market, 37% of the participants who relied on peers in the sector maintained this inclination. It is worth noting that 5% of the participants replied that their selection of beta would "rely on the situations." In the interview, these "situations" were further researched.

Table 1: Determination of the equity cost

Approach	**Number of replies**
Capital assert pricing model	27
Bond plus yield method	3
Dividend growth model	3
French-Fama three-factor method	2
Arbitrage Trading Theory (ATT)	1
Other	0

Table 2: Modifications to the capital asset pricing model cost of equity

Modification	Number of replies
Firm size	27
Nation risk	16
Business risk	27
Liquidity risk	8
Other	0

Table 3: The variance of modifications implemented in the capital asset pricing model cost of equity

Modification	Min	Max	SD
Firm size	-	21	5.20
National risk	0	17	4.58
Business risk	0	11	6.29

Min: Minimum, Max: Maximum, SD: Standard deviation

In the beginning, the survey answers regarding the CAPM suggested that proficient perceptions have a tendency to rely on traditionally utilised models, regardless of the existence of alternative frameworks. They rectify the widely recognised shortcomings of the model by applying modifications to the sources in accordance with their expertise. The following inquiry pertained to customary modifications that are implemented at the cost of equity as determined by the CAPM; the survey provided for several possible responses. The majority of the modifications were for firm size and particular business risk, as shown in Table 2. Considering the prevalent South African environment, it is worth noting that country risk did not affect any of the participants.

The latest academic study has established that the size variables in the Fama-French 3 and 5 factor approaches are substantial indicators of future profits (Barac, 2009a). As such, the adjustment for size is suitable. Nevertheless, the size adjustment appears perplexing when considering the comparatively low prevalence of the Fama-French 3 factor model, which is utilised to calculate the cost of equity (see Table 2). In this regard, the Fama-Frech 3 Factor model is preferable to the CAPM due to its inclusion of a dimension factor. The amount of modifications applied to the CAPM-derived cost of equity is also subject to discretion, as shown in Table 3. Given the substantial likelihood that the modifications will differ depending on business-specific situations, this may be deemed permissible. Nevertheless, the survey findings revealed significant variations in the modifications that were implemented for every risk variable mentioned in the preceding inquiry.

Table 4: Credit Term

Credit Term	Number of replies
From 5 to 10 years	18
From 1 to 5 years	8
More than 10 years	7
Less term (for a maximum of one year)	0

Table 5: The preferred growth estimations

Growth estimation	Number of replies
CPI	22
Real Growth	7
Other: Sector IYGR	1

IYGR: Increase Yearly Growth Rate; GDP: Gross Domestic Product; CPI: Consumer Price Index.

Table 6: An assessment of the rationality of an evaluation

Rationality Criteria	Number of replies
Macroeconomic context	28
Historical achievements of the business	24
Conformity with other parts of the business sector	21
Activities of rivals	16
Conformity of presumptions throughout the evaluation	9

As elucidated in the literature review, not all corporations are granted the advantage of obtaining long-term financing from financial institutions. This implies that an estimation of the long-term debt is necessary, presuming the possibility of an increase in said debt. Additionally, the local market for regularly trading firm bonds is limited. Consequently, numerous proficient perceptions substitute the cost of long-term debt for that of short-term debt. This is evident from Table 4 of the survey outcomes, which indicate that a mere 22% of those selected employ a debt term exceeding ten years.

Growth rate

Participants were queried relating their perception of a suitable surrogate for the enduring expansion of an organization's cash flows. As indicated in Table 5, while the customer price index is widely favoured, a considerable proportion of participants opted for real GDP growth. The variations in the replies concerning a factor of this magnitude (growth rate) were observed in order to investigate them further in the discussions.

Multiple modifications to account for comparable evaluations

A significant proportion of participants (77%) modified the selected multiples. Size (76% of replies) and growth rates (66% of replies) were frequently modified.

Rationality assessments

On what basis do participants assess the resilience and fragility of an organization's company strategy? The most popular standards were particular to an industry and placed a heavy emphasis on the activities of opponents, as shown in Table 6. Additional attention was placed on the operational environment of the subject businesses through the utilisation of economic data as a measure of rationality. The internal coherence of the evaluation was, especially, the least frequent reasonableness criterion. The rationality criteria are predominantly determined by standards that assess the rationality of the selected presumptions, as opposed to the manner in which those presumptions were implemented. The questionnaire drew attention to critical elements of evaluations that demanded expert opinion. Furthermore, crucial justifications for the application of reasoning started to surface.

Phase two outcomes: semi-structured interviews

The survey outcomes had initiated the emergence of justifications for the application of proficient perceptions. The interviews delved deeper into these themes, which were subsequently inductively classified corresponding to the categories presented in the subsequent sections. Although there is agreement that the CAPM has theoretical flaws, it continues to be the most common approach for determining the cost of equity in action, according to the survey results. Upon the researcher's recommendation of the Fama French 3 Factor and 5 Factor models as viable options, all respondents expressed that these models were difficult to implement and lacked market acceptance. Furthermore, the modifications applied to the cost of equity calculated using CAPM are subjective and vary substantially between interviewees.

According to the interviewees, although international finance research institutions can provide direction, depending on such sources has the disadvantage of not being constantly up-to-date and possible methodological variations. Collectively, all attendees agreed that business details constitute a significant factor requiring expert discernment in South African evaluations. Emerging economies, such as South Africa, are characterised by marketplace circumstances and prospective developments that are fraught with unpredictability. The scarcity of appropriate industry criteria presents a difficulty for proficient perceptions.

Participant 3 emphasised the significance of principles that are particular to this sector. "Researcher attempts to verify [client information] against market reports in order to gain a better understanding of the sector," they added. Traditionally, what have been the growth rates? More importantly, what are the most significant challenges and what is the outlook? (Audit firm senior proficient perceptions, Participant 3). CPI is frequently regarded as an indicator of the final growth rate. Nevertheless, in accordance with their individual experiences, all participants concurred that it is crucial to have a comprehensive comprehension of the anticipated growth trajectory of the business and sector. According to CPI, not all sectors are anticipated to expand. Proficient perceptions must exercise their discerning discernment in order to comprehend the factors that propel the business's sector and the subsequent ramifications for its sustained expansion.

Capital market

The absence of analogously traded businesses heightens the degree of proficient perception discretion exercised, particularly when conducting an equivalent evaluation. The small number of firms listed on the JSE, according to proficient perceptions, was challenging for a variety of reasons. To begin with, the limited number of local similar enterprises means that they are frequently not explicitly similar.

Respondent 4 elaborated that: "Beta has grown more difficult to use due to the proliferation of specific sectors that did not exist, say, fifty years ago." Beta is an effective risk indicator; however, I believe that identifying similar businesses becomes increasingly difficult as time passes. (Participant 4, Senior proficient perceptions, Accounting firm).

In addition, when international businesses are utilised as benchmarks, additional modifications are necessary, such as expanding the choice of similar businesses to include those in the international market, thereby providing a more extensive pool of such businesses. In order to mitigate both constraints, modifications are applied to the multiples to enhance their comparability and account for the relevant hazards particular to each nation. These modifications entail a degree of individuality, which is ultimately required due to the constraints imposed on the comparable firms at hand. Furthermore, in cases where analogous businesses are publicly traded, high geared levels introduce distortion into beta calculation, thereby emphasising the continued necessity for qualified judgement.

Macroeconomic unpredictability

Significantly proportionate to the ultimate value, the terminal value comprises a portion of the evaluation. This is subject to the impact of development projections, which are subsequently shaped by the economic outlook. Participant 1 elaborated, "[T]he terminal value comprises a significant portion of the evaluation, approximately 60%, but the circumstances in year five are unknown." This is frequently a challenge, particularly in the current turbulent environment. (contacting business senior proficient perceptions, Participant 1). Participant 6 concurred with this viewpoint, attributing the challenge of forecasting growth rates to an economy recuperating from the repercussions of coronavirus disease 2019 (COVID-19) lockdowns.

One possible approach to mitigate the influence of the growth rate on the estimation is to impose a restriction on the terminal value. However, every participant concurred that restricting the value is not an option when the terminal value appeared extravagant. They determined that it seemed safer to conduct an in-depth review of their final worth assessment in order to validate the reasonableness of the fundamental presumptions that support the growth rate.

Participant 6 elaborated on this matter, stating, "I believe it is more crucial to align that growth rate with the factors that impact that environment and will continue to do so in the future." (contacting firm senior proficient perceptions, Participant 6).

Conclusion

The aim of this study is to assess proficient perceptions in business evaluation in South Africa. It has been observed that proficient perceptions are pervasive in every stage of the process of evaluation, encompassing the selection of standards during the review phase and the determination of the evaluation model. Due in large part to business nuances, proficient perceptions are required when conducting evaluations in South Africa. In conjunction with the restricted company count on the JSE, this circumstance complicates the process of identifying identical entities that can be utilised for input estimate in the evaluation models. Emerging economies, such as South Africa, are characterised by economic circumstances and prospective development that are variable in nature. Inadequate benchmarks and a dearth of pertinent market data are additional obstacles confronting the South African economy.

Market intelligence and projections of possible growth are critical components of a model for valuing a company. Macroeconomic unpredictability further complicates pre-existing challenges associated with forecasting growth rates. The nature of the South African capital markets, the absence of industry-specific guidelines to address these unpredictability issues, and the lack of readily digestible substitutes to the CAPM all contribute to the necessity for reliance on judgement when conducting evaluations. Coleman (2014) argues that the growth of more experimentally grounded models is impeded by the diverse contexts in which choices regarding investments are rendered. Our findings provide support for this claim. Proficient perception surveys have played a significant role in establishing benchmarks for business evaluations (PwC, 2017). The current study centred on the factors that contribute to the exercise of perceptions. Hence, it makes a valuable contribution to understanding the obstacles and unpredictability that require the application of proficient perceptions in the context of business evaluations in South Africa. The recognition of these obstacles and unpredictability can aid proficient perceptions in concentrating their attempts on inputs that are highly unpredictable. As an illustration, the researcher determined that the absence of readily comprehensible alternatives to the CAPM requires the incorporation of judgment-based modifications to account for variables such as the scale of the organisation. This research underscores the importance of disseminating academic research into practice by identifying obstacles encountered by proficient perceptions when implementing popular pricing models. Practicians, for instance, employ the CAPM subsequent to making modifications for firm size, notwithstanding the encouraging empirical results observed with the Fama French 3 factor model (which incorporates a size factor) in the South African market. By integrating both quantitative and qualitative data, this research study enriches the findings. It is distinctive in that it encompasses not only academic research but also research conducted by financial research institutions.

As identified by the research, the absence of particulars to an industry guideline is a significant factor in the reliance on judgement. Further study into the effects of macroeconomic variables on an inter-industry and intra-industry scale could potentially provide a response to this demand for industry-specific recommendations. To this end, conducting interviews with internal finance and accounting proficient perceptions would serve as a valuable supplement to the existing body of research. Lansdell et al. (2020) examines the consequences of biases in business evaluations. During his investigation, he observed that proficient perceptions conduct client-centric evaluations as opposed to conducting completely impartial evaluations. In agreement with the conclusions drawn by Ebekozien et al. (2024), Participant 5 stated, "There is no objective form of valuation; it all relies on the intended recipient." Therefore, even if you consult an independent [evaluation] supplier, most of these individuals are influenced by the clients and fee payers. (senior proficient in evaluation employed by a consulting firm, participant 5). While consistent with the research, none of the other participants expressed these sentiments. Although an in-depth examination of conflicts of interest was outside the purview of this study, it is acknowledged that this may be addressed in future studies.

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