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The impact of Broad Based Black Economic Empowerment compliance on profitability of companies listed in the Johannesburg Stock Exchange: a cross industry analysis

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The impact of Broad Based Black Economic Empowerment compliance on profitability of companies listed in the Johannesburg Stock Exchange: a cross industry analysis

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A research report submitted to the Faculty of Commerce, Law and Management, in partial fulfilment of the requirements of the Degree of Master of Management in Finance and Investments.

ABSTRACT

The aim of this study is to determine if companies listed on the Johannesburg Stock Exchange that comply with Broad Based Black Economic Empowerment ("BBBEE") policy exhibit abnormal operating financial performance. Whereas previous studies focused on the impact of BBBEE on shareholder wealth by measuring abnormal returns on share prices, this study focuses on the impact of BBBEE on operating financial performance of BBBEE companies. Further, previous studies have focused on just the ownership element of the scorecard; this study BEE considers all the elements of the scorecard by using BEE scores to measure compliance.

BBBEE scores, which are used to determine compliance, are obtained from Empowerdex website as well as publications of the Financial Mail Top Empowered Companies ("TEC") for the years 2004 to 2013. This study uses operating cash flows return as a proxy for operating financial performance. Industry adjusted cash flow returns are used to detect abnormal operating performance. The study uses a sample of 203 companies. The findings show that BBBEE compliant companies achieve a positive abnormal cash flow return of 2.31% over a 10 year period. Further, the findings show that the industry in which a company operates also influences whether or not a company benefits from BBBEE compliance. The study also reveals that BBBEE compliance mostly benefits companies during favourable economic periods as BBBEE companies achieve positive excess returns of 4.15% in the period prior to the economic crisis. Finally, the study reveals that the highest compliant firms are not necessarily the highest performers.

DECLARATION

I **Kanyisa Mzilikazi** declare that this research is my work except as indicated in the references and acknowledgements. It is submitted in partial fulfillment of the requirements of the degree of Master of Management in Finance and Investments at the University of the Witwatersrand in Johannesburg. It has not been submitted previously for any degree or examination at this or any other university.

Signed at……..

On the ……..day of…… 2015

DEDICATION

This report is dedicated to three prominent role players in my life. My mother, Nosisa Mzilikazi whose selfless sacrifices make me jump out of my bed every time I think about. My late grandmother, Ruth Mzilikazi whose boldness and love for education changed the fate of generations. Finally my father, Wilberforce Mzilikazi, this journey started with trips to pre-school in your car, look at me now. *Ndiswele imilomo eliwaka yokubulela kuni.*

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Finally my research supervisor, who continued to supervise with all the patience any supervisor can ever have.

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1. INTRODUCTION

1.1. Introduction

This chapter introduces the thesis and the research problem that rationalizes this research. The chapter is organized as follows: Section 1.2 provides the context of the study. Section 1.3 describes the research problem and articulates the research objectives. Section 1.4 presents the research questions and section 1.5 motivates the significance of the study. Section 1.6 describes the structure of the thesis and the chapter summary completes the chapter.

1.2. Context of the study

South Africa has a history whereby a majority of its the population was callously and systematically denied right to meaningful economic participation. This was achieved through the apartheid system introduced by the Afrikaans government in 1948 which aimed to economically disempower black people. The laws of apartheid prevented black people from entering the business market, resulting in almost all South African firms owned by white investors and managed by white managers.

Key legislative measures were implemented that denied back people equal access to job opportunities, land ownership rights, education and political freedom and these include but are not limited to; 1) The Mines and Work Act originally passed in 1911 was enacted to establish the duties and responsibilities of workers in mines and works in South Africa and included various regulations which gave white workers a monopoly of skilled operations. 2) The Natives Land Act of 1913 was aimed at regulating the acquisition of land by black people. The Act decreed that only certain areas of the country could be owned by natives. 3) The Group Areas Act of 1950 whose main objective was to exclude non-whites from living in the most developed areas, which were restricted to whites, causing many non-whites to have to commute large distances from their homes in order to be able to work. 4) The Bantu Education Act of 1953 whose main provision was to enforce racially separated educational facilities. This legislation was intended to separate black South Africans from the main, comparatively very well-resourced education system for whites. Numerous other laws were passed which

reinforced the ill socio-economic condition of black people in South Africa. Morris (1976) and Keegan (1989) point out that apartheid was resoundingly successful in distempering black people to a point where the majority lived in economic conditions virtually equivalent to those of serfs.

The first democratic elections in 1994 heralded the end of apartheid rule in South Africa but the social and economic gaps that resulted between the empowered (minority whites) and disempowered (majority non-whites) became evident. The Reconstructive and Development Program ("RDP") was one of the initial initiatives adopted by the African National Congress ("ANC") led democratic government to address the both social and economic challenges facing South Africa. The RDP recognized the fact that at the helm of the country's economic problem lies the issue of economic inequalities and the exclusion of the majority of the population from the economy and aimed to address these imbalances.

Other initiatives followed which aim to address the social economic ills of black people inherited from the apartheid government. These initiatives include various legislations which aim to broaden economic participation in South Africa. These legislative provisions include The National Small Businesses Act of 1996, The Competition Act of 1998, The National Empowerment Fund Act of 1998, The Skills Development of 1998, and The Preferential Procurement Policy Framework Act of 2000.

The Broad-Based Black Economic Empowerment ("BBBEE", referred to as "BEE" hereafter) Act of 2003 is a legislative framework which forms part of the government's initiatives to redress past imbalances. The fundamental objective of the Act is to advance economic transformation and enhance the economic participation of black people in the South African economy, following the apartheid regime which deprived black people of their own economic assets and meaningful participation in the economy. The Act was followed by the Codes of good practice published by the Department of Trade and Industry ("DTI") in 2007, which dealt with practical implementation of the Act through setting of targets. The BEE Act sets out a framework, whereas the codes of good practice set out implementation measures for compliance.

The BEE score is calculated using a generic BEE scorecard with the seven weighted elements as shown in table 1 below.

Table 1: The Generic BEE scorecard

Elements	% Weighting	Code series reference
Ownership	20	100
Management Control	10	200
Employment Equity	15	300
Skills Development	15	400
Preferential Procurement	20	500
Enterprise Development	15	600
Socio-Economic Development Initiatives	5	700

The DTI (2007)

The Codes of Good Practice used to calculate the BEE score were amended by the DTI in October 2013. This is because the DTI noted that many companies were achieving high BEE ratings without engaging in any meaningful transformation of their organizations and the country at large. The DTI noted that unemployment levels, particularly amongst Africans, are still unacceptably high, and that this demonstrates that the codes have not been producing the desired results, KPMG (2014). The revised codes aim to achieve and accelerate “true” transformation by setting out threshold requirements for key elements which include Ownership, Skills Development and Enterprise and Supplier Development. Non-compliance with the threshold requirements in these elements will result in an entity’s BEE status level being discounted, resulting in a lower BEE score. The DTI indicated that the Revised Codes will tighten compliance and promote the objectives of BEE as intended by the Act. This study is based on 2007 codes as the revised codes will come into full effect from April 2015.

While the government encourages BEE compliance by companies operating in South Africa, BEE compliance remains non-compulsory. Companies are at liberty to choose whether or not to comply and there are no punitive penalties for non-compliance.

However, a company's BEE score is an important consideration by government entities when decisions to award contracts and tenders are made. The BEE scorecard forms the basis of assessing a firm's BEE status when a company requires licenses, concessions or authorizations, bids to provide goods and services to the government or acquiring state owned properties as well as well as entering public private partnerships (Andrews, 2008). A company's BEE score therefore puts a company in good standing for consideration for government business. Further, companies complying through concluding BEE ownerships deals gain increased access to new markets and opportunities as BEE consortiums often comprise influential business persons, politicians and activists who may further expose the business to public sector opportunities and networks. Andrew (2008) describes this BEE network access as a form of relational currency. BEE firms also enjoy increased favourable media attention as top empowered companies get published annually in the Financial Mail's TEC list in recognition of high compliance levels. Appearance in the TEC not only increases positive publicity for the published companies but also provides foreign investors with a validated list potential BEE partners, thus improving capital access prospects for these BEE firms.

BEE deals are also viewed as a form of CSI initiative that sends out a signal that the firm embraces the moral imperative to include the previously disadvantaged majority in the economic growth of the country (Jackson, et al, 2005) thus, further improving the corporate image of these empowered entities. All the above factors could have a positive impact on a business's profitability and cash flows.

On the other hand, companies that elect not to comply with BEE may become increasingly marginalized and may lose out on lucrative government contracts as well as business from suppliers who conduct business with government. Further, these non-compliant companies may have to incur extra costs of product differentiation to eliminate the bias towards BEE compliant rivalries.

While there may be economic benefits for companies who comply with BEE policy, there are costs associated with such compliance. BEE partners often conclude highly geared acquisition transactions as they often do not have sufficient equity to participate in big ticket BEE transactions. The high gearing of BEE entities may put pressure on the target company to declare regular dividends to assist BEE partners in paying back the debt. The declaration of dividends to assist BEE partners may result in these companies having to forgo opportunities of reinvesting the funds in potentially profitable projects which impedes the growth of these companies. Further, to attain maximum points on the management element of the scorecard, BEE firms must have 50% black management, a condition which requires investment in the training of black staff and grooming them for management as the country still lacks sufficient supply of qualified and experienced black managers as a result of the apartheid past which deprived black people right to quality education and allowed a limited scope for ownership and management of businesses. Also, the preferential procurement element of the scorecard requires complying firms to source inputs from BEE compliant suppliers which include Small Medium and Micro Enterprises ("SMMEs"). An inherent nature of SMMEs is that they lack economies of scale and as a result may not be able to offer the most competitive prices. Thus, the competiveness of the BEE firm may be eroded if constrained to source inputs from small scale suppliers who lack of scale and have limited abilities to absorb cost shocks.

BEE compliance can therefore, either enhance or erode a firm's operating performance. It is expected that the benefits associated with BEE compliance will outweigh the costs since the costs incurred (e.g. Management training, Skills Development, Enterprise Development) ultimately benefit the complying entity in the long run. These elements ensure that the company invests skills development of its human resources as well as empowers its suppliers, thus strengthening its own value chain. The study seeks to find if there is empirical evidence that BEE improves the operating financial performance of JSE listed companies.

1.3. Research problem

The necessity of social and economic transformation in the South African economy is widely acknowledged. It is also generally acknowledged that BEE is one of the policies and tools that can be used to achieve that transformation. However, there are still questions raised as to whether BEE compliance presents any economic value for complying firms in terms of economic profits and cash flows. Existing literature focuses on the impact of BEE on shareholder wealth as measured by the share performance after BEE announcements. These studies (Acemoglu et al 2007, Jackson et al 2005, Sartorius and Wolmarans 2009, Ward and Muller 2010) have found that the market reacts positively to BEE announcements. While share price appreciation may indicate positive benefits for BEE firms, the problem is that, stock market movement is not only driven by adjustments through rational assessment of underlying business fundamentals but is also driven by sentiment and therefore stock price performance may not be a good indicator of the operating performance of BEE companies. Further, these studies have focused on a single element of the BEE which is ownership transfer, ignoring the potential impact of the other six elements which make up the BEE scorecard. This study uses BEE scores which also consider the other six elements which make up the scorecard and not just the ownership element.

This study also uses accounting returns to investigate the operating performance of BEE compliant firms ones in order to establish whether complying with BEE improves the operating financial performance of these companies.

1.4. Research Objectives

The objectives of the study are as follows:

- To establish whether BEE compliance improves the operating performance of JSE listed companies.
- To establish whether BEE compliance benefits companies indiscriminately during economic booms and economic recessions
- To establish whether BEE compliance benefits companies indiscriminately across industries.

1.5. Research questions

The research questions for this research are stated as follows:

- Does BEE compliance improve the operating financial performance of JSE listed companies?
- Does BEE compliance benefit companies indiscriminately across economic periods?
- Does BEE compliance benefit all companies indiscriminately across industries?

1.6. Significance of the study

Previous studies on BEE (Acemoglu et al 2007, Jackson et al 2005, Sartorius and Wolmarans 2009, Ward and Muller 2010) investigated mainly the impact of BEE on share price performance, but no published South African studies were noted that considered the impact of BEE on the operating financial performance. Since operating performance of a firm forms the basis of valuing that particular firm, the dearth of published research on the operating performance of BEE companies leaves a gap in literature. The research aims to fill this gap in literature.

Furthermore, accounting returns are generally best able to capture the firm's unique characteristics and internal efficiencies as opposed to the general performance measure of market returns which encompasses investors' perceptions about the future of those companies (Demetriades, 2011). While previous studies have found positive correlation between BEE transaction announcements and increased stock prices, which encompass investors' expectations about future performance, do the subsequent operating results of these companies live up to these expectations?

Healy and Palepu (1992) also raised another issue with stock price evidence studies in that they fail to distinguish between real economic gains and market inefficiency explanations. Thus, increased stock prices following BEE transactions may not necessarily reflect real economic gains by BEE companies but may just be a reflection of stock market inefficiencies.

1.7. Structure of the thesis

The thesis is structured as follows. Chapter 2 presents the literature review and related extent literature. Chapter 3 presents the methodology adopted and provides information about the data used. Chapter 4 presents the results of the study and chapter 5 discusses the results and provides a conclusion as well as recommendations for future research.

2. LITERATURE REVIEW

2.1. Introduction

This chapter presents related literature on the topic of BEE. Section 2.2 presents an overview of the history of BEE with focus on the distinct phases through which BEE has evolved as well as progress made in the transition from the 2007 Codes of Good Practice to the 2012 Revised Codes of Good Practice. Section 2.3 presents findings of previous studies on market reaction to BEE transaction announcements. Section 2.4 presents perspectives on the broader impact BEE compliance. Section 2.5 relates BEE to CSR and discusses the impact of CSR on firm performance. Section 2.6 discusses other determinants of firm performance and chapter summary concludes the chapter.

2.2. The history of BEE

The history of BEE is characterized by two generations. The first generation was that of narrow based BEE, marked by a ground breaking deal in 1993 by Sanlam, which saw Sanlam sell 10% of its stake in Metropolitan Life to a black owned consortium (Acemoglu et al 2007). After 1994, a number of these deals began to grow rapidly, reaching 231 deals by 1998, (Acemoglu et al (2007). These first generation BEE deals were concluded on a voluntary basis; with white owned companies selling their stakes often at significant discounts, Acemoglu et al (2007) state that Businessmap analysts cite discounts in the 15%-40% region to market. Ramanthe (2009) points out that these deals were motivated by political awareness and of where the country was going, social conscience and economic motive. The deals were implemented through the introduction of Special Purpose Vehicles (SPV's) which were often highly geared, a condition which rendered them vulnerable to market downturns. The vulnerability of these highly geared SPV's was exposed by the 2008 Asia stock market crash, which saw the collapse of many BEE transactions which relied heavily on the appreciation of the stock prices of the target companies in order to repay the debt at SPV level, which was often substantial. The Asian stock markets crash followed by the global economic meltdown

in late 2008 resulted in defaults by the cash flow constrained and overly geared BEE SPV's, which led in the financing companies exercising their step-in rights at SPV level, a process which defeated the transformation purpose.

The second generation BEE which focuses on Broad Based Economic Empowerment ("BBBEE") came into existence in 2000, giving birth to industry Charters; the Petroleum and Liquid Fuels Charter in 2000 as well the Mining Charter in 2002. These Charters were soon followed by the BBBEE no. 53 Act of 2003 and associated codes and procurement legislation in 2007 (Ponte et al, 2007). Under the codes of good practice, BEE deals have to demonstrate the ability to be sustainable in order to score ownership points, a significant improvement from the first generation deals. Further, BEE compliance moved away from mere ownership deals. The 2007 codes of good practice set out seven elements which can be used to score and measure overall compliance of a firm. Firms can thus maximize their points on the scorecard through other significantly weighted elements such as management, skills development, preferential procurement and enterprise development which represent a weight of 60% collectively in the scorecard. The Financial Services Charter ("FSC") came into effect in 2004. Similar to the Mining Charter, the FSC sets out specific targets and guidelines aimed at achieving transformation in terms of racial equality. Targets include 25% black ownership by 2010, at least 25% black representation at all levels of management by 2005 and 50% procurement spending on BEE companies by 2008 (Chabane et al, 2006)

While various criticisms have been directed towards the current BEE policy, Zuma stated in his address at the Broad-Based Black Economic Empowerment Summit in 2013 that the policy has achieved much progress in transforming the economic landscape of black people in South Africa. Zuma (2013) further stated that the black middle class has grown from 1.7 million in 2004 to 4.2 million in 2012, while the appointment of black people and women in senior management positions in the private sector had increased from less than 10% in the 1990s to over 40% currently. Further, the National Treasury recorded that BEE transactions had reached a value of over R600-billion since 1995.

While much progress has been made in rolling out the BEE legislation first implemented ten years ago, many areas of growth had not materialized and the new amendments are expected to close those gaps. In 2011 the DTI introduced a revised Broad-Based Black Economic Empowerment document on the B-BBEE codes of good practice. The proposed changes called for new revised strategies to be implemented by industry. The revised codes were published in October 2013, effective from 11 October 2014 with a transition period allowed until April 2015.

The revised Codes aim to enhance the implementation of BEE in a meaningful and sustainable manner, and contain principles and guidelines that will facilitate and accelerate the implementation of BEE. The amended bill includes much more comprehensive definitions of fronting, (a practice where white firms presented black people as managers and directors in order to gain points in the managerial and employment equity elements) which has been one of the policy's weakest links. A commissioner will be established to investigate fronting practices and if companies are found guilty of fronting they will be charged with fraud and face substantial penalties.

The revised codes reduce number of the elements to five with Preferential Procurement being measured under a new Enterprise and Supplier development element rather than on its own. The revised codes also sets out that only procurement from suppliers classed as value-adding suppliers will qualify for inclusion towards BEE-supplier expenditure targets. Enterprise and Supplier Development element is the most heavily weighted of all the elements and will be responsible for 40 points out of a possible105 points. Employment equity as a stand-alone element is proposed to fall away.

One of the major changes in the revised codes is the proposed introduction of threshold requirements. At present, there are no sub-minimum requirements on the scorecard elements and no consequences if a business scores low on certain elements but compensates on others. For example, a business could score zero for ownership but nevertheless achieve a relatively high total score if it scores well on the other six elements. The revised codes introduce requirements that businesses will have to achieve a certain minimum score for certain sub-elements of ownership, skills development, and enterprise and supplier development. In particular, the codes set out

that those businesses must achieve at least 40% of the targets for net value. Businesses that do not meet these threshold requirements will have their total BEE scores reduced (Dyer, 2012)

2.3. Market reaction to BEE transaction announcements

Despite its infancy, a fair amount of studies exists which focused on whether there are any economic benefits enjoyed by companies and their shareholders from concluding BEE deals. Jackson et al (2005) investigated the market performance of BEE transactions of JSE listed companies. In their research, they also investigated if certain factors like stake, union, discount and value influenced the market performance of these transactions. Stake represented the percentage of equity acquired in the target firm. Union represented a dummy equal to one if BEE group was affiliated with the acquired firm and zero otherwise. Discount represented the discount received on market price of acquired firm share value and Value was the rand amount paid by BEE group for equity in acquired firm. Their research found that on average, the announcement of BEE transaction is correlated with positive valuation of the firm by investors. Their research also found that the stake variable was the only variable which was significantly correlated with positive abnormal returns. Their research however, had significant limitations as it used a sample of only 20 stocks.

Wolmarans and Sartorius (2009) also looked at the relationship between the announcement of BEE transactions by JSE listed companies and the impact on shareholder wealth. The study examined the share performance of 125 BEE transactions involving 95 companies during the period January 2002 to July 2006. The results indicated a positive relation between BEE transaction announcements and shareholder wealth creation, with no significance attributable to the type of BEE transaction.

Ward and Muller (2010) looked at the long term relationship between market reactions on BEE deal announcements .Their research used a sample of 140 stocks and observed market reaction over 220 days. The results of their research concurred with

the results of its predecessors (Wolamarans & Sartorius , 2009, Jackson et al., 2005) with regards to wealth effects of BEE transactions, but pointed out some caveats including that; the positive relationship between stock prices and BEE deals held only for small companies versus large ones when measured by market capitalization. The market seemed to penalize large companies as these experienced marginally negative CARs. Ward and Muller (2010) ascribed this phenomenon to the possibility that smaller firms benefitted more from BEE compliance as they are able to increase their turnover and margins on account of BEE ratings and access to state contracts while large companies benefitted marginally as they may be already well entrenched.

Wolmarans (2012) investigated the share performance of 63 BEE companies listed on the JSE with specific focus on its creation of wealth before during and after the global financial crisis of 2008. The study spanned a three year period from January 2007 to September 2009. The study which viewed BEE compliance as a form social corporate responsibility ("CSI"), sought to determine if investors rewarded or penalized firms engaging in CSI in differing economic times. The study revealed that before the financial crisis, market performance of BEE firms was significantly less (-7.1%) than that of the market (32.1%), however, during this time, the average decrease in value was less (-27.3%) than that of the market (-46.3%). After the financial crisis the average performance of BEE firms (33.5%) was not significantly different from the market (39.8%).

A study that found conflicting results with the above earlier studies was conducted by Chipeta and Vokwana (2011). Their research investigated the short term impact of BEE announcements on stock prices of JSE listed companies. The research observed the announcement of 57 BEE transactions over a 10 year period (1999-2009) and market reaction over a 50 day period. In their research, Chipeta and Vokwana (2011) found that BEE announcements were negatively correlated to stock market prices. CARs for the entire period observed remained negative, indicating negative shareholder wealth effects. Further, they found that investors tend to react more negatively to BEE transaction announcements during bull market conditions , with daily average abnormal returns of -3.4%. Firm specific events like the listing age of a firm, the firm's growth

prospects and overall market conditions were found to be major determinants of short term profitability.

2.4. A broader perspective on BEE compliance

Others studies investigated the impact of BEE from a different perspective. These studies move beyond the narrow form BEE compliance and its impact on shareholder wealth but look at the impact of BEE on a broader scale.

2.4.1. Impact of BEE on firm strategy

Boshoff (2012) investigated the impact of BEE compliance on firm strategy. His research studied the relationship between a firm's boundary choices (i.e. extent of activities within its value chain) and the BEE pressures it faces from its clients. Hinging from Bolton (2008) who stated that black ownership and management is not considered sufficient, or even necessary to earn high BEE scores, suppliers also earn BEE points based on their own procurement and skills development decisions, which according to Boshoff (2012) implies that firms have to alter their value chain activities and choices to accommodate the BEE requirements of their suppliers. Boshoff (2012) then argued that firms do not respond passively to BEE-induced changes but aim to meet BEE objectives within their broader strategic environment. Results from the research revealed the following; 1) BEE policy alters the value chain preferences of a firm's clients. These changes in client preferences motivate the firm to alter its boundaries. 2) Heterogeneity in the BEE-based value-chain preferences of its clients leads the firm to choose heterogeneous boundaries. 3) Flexible boundaries create firm competitive advantage by allowing the firm to accommodate BEE preferences of clients while retaining architectural knowledge, which can be used to manage the overall value chain. BEE policy thus has far-reaching implications through its ability to transform industry value chains.

2.4.2. Impact of BEE on corporate sustainability

The South African Institute of Chartered Accountants SAICA (2014) published a report discussing ways in which firms can enhance their sustainability by engaging in

authentic BEE initiatives. Drawing from insights of the International Integrated Reporting Framework (2013) published by the International Integrated Reporting Council, the SAICA report points out that to create value, firms depend on six different forms of capital for their success. These capitals are categorized as financial, manufactured, human, intellectual, natural and social relationships. SAICA (2014) states that authentic BEE initiatives, as opposed to tick-box compliance can help organizations enhance their human and social relationship capitals. The human capital aspect is addressed through the training and skills development element of the scorecard, ensuring that BEE compliant entities have well trained and skilled staff. Each of the elements of the BEE scorecard has a profound effect on an organisation's social capital. Key stakeholders such as shareholders, employees, communities and government have a significant interest in BEE issues and stakeholder theory asserts that organisations that fail to take into account stakeholder interests can hurt organisational performance and even cause it to fail. BEE compliant companies thus earn a social licence to operate and enjoy continued support from these stakeholders.

2.4.3. Impact of BEE on firm competitiveness

BEE has moved beyond being just a social phenomenon aimed at redressing past imbalances but is a key competitive tool for any business in South Africa. A business's scorecard is a threshold requirement in tendering for government business. Further, Jackson et al (2005) stated that BEE acts as a strategy to integrate South Africa into the global arena as it stimulates human resource development and promotes the firm's social and economic contacts. Andrews (2008) also pointed out that BEE status is not only a competitive tool but a new form of relational currency in the corporate sector as BEE deals are often concluded with prominent and influential consortia of unions and politicians who help widen the business's networks. Although the involvement of these public figures in virtually all BEE deals has caused much controversy around BEE deals, from a business perspective this may be useful for the acquired company as it enables the company to penetrate new markets and opportunities especially in the public sector, where managers, particularly the white managers who would not normally have access to. BEE compliance can thus be is viewed as business strategic tool that is necessary for firms in South Africa to source and remain in business.

2.4.4. Impact of BEE on economic growth

Acemoglu et al (2007) conducted a study that investigated the impact of BEE on economic growth in South Africa. Acemoglu et al (2007) stated that for an economy to grow, firms must make profits, invest and increase their productivity. Further they argued that several of the components of BEE could have positive and/or negative effects on productivity and investment and hence on economic growth. Using firm investment, labour productivity and profitability as drivers of economic performance, they investigated the relationship between these factors and firm BEE scores. The study found that BEE did not seem to have significant impact on firm investment, labour productivity and profitability as these factors were weakly correlated to BEE scores. They also pointed however that, the correlation though weak was found to be negative, indicating that that BEE compliance could possibly have negative impact on firm profitability, investment and labour productivity and therefore economic growth.

Another study that investigated the impact of BEE on economic growth was that conducted by Andrew (2008) who studied whether and how BEE could be a South African growth catalyst. The research found that BEE is currently not catalysing economic growth due to static structural variables which drive economic growth. Andrew (2008) argues that organizational and economic structures are key variables that drive growth in a country's economy. Andrew (2008) further states that organizational and ultimately economic structures, emanate from inter and intra firm relational structures (i.e. who knows whom) which in turn influence who participates in and benefits from an economy, the level of innovation, what products are produced. The apartheid regime in SA created an economic structure which comprised the minority population and promoted the exclusion of the majority population thus limiting new market entrants, innovation and ultimately economic growth. Andrew (2008) then concludes that in order to catalyse growth in SA's economy and transcend tick-bock compliance, BEE policy and its implementation must have muscle to permeate the current rigid organizational and economic structures.

2.5. Corporate Social Responsibility ("CSR") and firm performance

While economist Milton Friedman believed that the corporation should pursue only its shareholders' economic interests, it was Edward Freeman's stakeholder theory which shifted this perspective and persuaded that the business organization is a nexus of relations involving a variety of stakeholders (employees, suppliers, customers, and the community where the company operates) without which sustainable shareholder value creation is impossible. It is from this stakeholder perspective (versus shareholder perspective) that much research on CSR has followed to ascertain if there is indeed economic value for a firm to pursue CSR activities. McWilliams et al (2000) define CSR as occurring where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law. BEE is not compulsory and companies can choose whether or not to comply and there are no punitive measures for non-compliance by companies. Further, BEE has been employed to assist previously disadvantaged groups of investors to obtain a larger share of the equity of South African listed companies and is usually financed by the company itself or by loans obtained from financial institutions on beneficial terms. Thus BEE compliance in South Africa can be viewed as a form of CSR.

Literature provides mixed conclusions with regards to the relationship between CSR and firm performance. Studies that investigated this relationship mostly found a positive relationship. Demetriades (2011) pointed out firms that invest in social responsible activities have a special class of investor, the socially responsible or ethical investor who rewards the firm by patronage in terms of buying the firm's stock or purchasing the firm's goods. Sometimes this can extend to other stakeholders, such as bankers viewing the firm on more favourable terms, resulting in improved access and lowered cost of capital which in turn improves the valuation of the firm.

McGuire et al (1988) approached the business case for CSR from a risk perspective. They pointed out that lack of social responsibility may expose a firm to significant additional risk from lawsuits and fines and may limit its strategic options. Rather than looking for increased profitability from socially responsible actions, managers and those

interested in the financial impact of social responsibility might look toward reduced risk. Callan and Thomas (2009) found that firms with both unusually high and low corporate social performances CSP have higher financial performance than other firms. Unusually poor social performers perform best in the short run and unusually good social performers perform best over longer time horizons. This suggests that it takes time for being socially responsive to translate into higher financial returns and that it is the consistent application of a strategy of social sensitivity that ultimately pays off in financial terms. Orlitzky et al. (2003) conducted a meta-analysis of 52 previous studies on the relationship between CSR and corporate financial performance (CFP) and found a positive relationship

A relevant study in an emerging market context was conducted by Mustaruddin et al (2008) who investigated the impact of CSR on the financial performance of an emerging economy. Their results found that CSR has a significant positive impact on financial performance for companies listed in Bursa Malaysia.

Archie et al (2010) summed up all the views on the business case for CSR by grouping them in different categories based on approach, topics addressed, and underlying assumptions about how value is created and defined. They point out that CSR is a viable business choice as it is a tool to: 1) Implement cost and risk reductions: Organisations that engage proactively with key stakeholders reduce risks such as lawsuits, boycotting, staff turnover etc., which present significant costs to the business, especially if frequently. 2) Gain competitive advantage; Organisations can also use their CSR capabilities to create a brand for themselves which sets them apart from competitors, a concept which Archie et al (2010) refer to as strategic philanthropy. 3) Develop corporate reputation and legitimacy; Archie B (et al, 2010) stated that a business is perceived as legitimate when its activities are congruent with the goals and values of the society in which the business operates. In other words, a business is perceived as legitimate when it fulfils its social responsibilities. Therefore, CSR activities can enhance the ability of a firm to be seen as legitimate in the eyes of its key stakeholders. 4) Seek win-win outcomes through synergistic value creation Synergistic value creation arguments focus on exploiting opportunities that reconcile differing

stakeholder demands while allowing the firm to pursue financial success. By engaging its stakeholders and satisfying their demands, the firm finds opportunities for profit with the consent and support of its stakeholder environment.

Results from studies above indicate the existence of positive correlation between CSR and firm profitability. Thus, if BEE is viewed from a CSR perspective, it follows from the conclusions of the above studies that there are possible economic benefits for companies that undertake BEE compliance.

While CSR can contribute positively to a firm's performance, it is by far not the only determinant of firm performance. There are other more direct drivers of firm performance. Section 2.6 below discusses other factors that contribute to positive firm performance over and above CSR programs.

2.6. Other determinants of firm performance

Hansen and Wernerfelt (1989) argued that firm performance is predominantly determined by two roughly independent factors namely; economic and organizational factors. Hansen and Wernerfelt (1989) developed representative models for each of these factors which they stated explained inter-firm variances in profit rates. These factors are discussed briefly below:

2.6.1. Impact of economic factors on firm performance

Hansen and Wernerfelt (1989) stated that the typical economic model for firm performance explains from 15 to 40% of variance in profitability across firms. In developing their economic model, they argued that literature cites mainly three classes of economic variables that influence firm performance. These variables include: 1) industry variables, which pertain to the characteristics of the industry in which a firm operates. 2) variables relating to the firm to its competitors, i.e. the firm's position relative to its competitors, and; 3) firm variables which pertain to the quality or quantity of a firm's resources. Hansen and Wernerfelt (1989) found that the economic model as a whole was successful in explaining variances in firm profit performance, though not to

a large extent. Further, they discovered that relative market share is an insignificant variable in explaining variances in inter-firm profitably. This discovery supported that of prior studies by Jacobson and Aaker (1985) and Rumelt and Wensely (1981) which found that a high absolute or relative market share may not necessarily affect firm profits. Thus, even low market share firms may just be as profitable as given certain favourable other industry and firm specific conditions (Woo 1981; Anderson et al, 1978).

2.6.2. Impact of organizational factors ("organizational climate") on firm performance

While the economic factors explain up to 40% of the variance in firm profit rates, Hansen and Wernerfelt (1989) assert that organizational factors largely explain the variance in profit performance across firms. Hansen and Wernerfelt (1989) point out however that it is not just organizational factors (e.g. structure, systems, size, history) alone that influence firm performance but rather the dynamic interaction of these organizational factors with people and environmental factors, ultimately making up an organization climate which impacts on the performance of an organization.

The organisational factors were found to account for twice as much variance as the economic mode. Hansen and Wernerfelt (1989) also highlighted that the Human Resources Emphasis ("HRM Emphasis") variable (which measures the employee's perception of how concerned the organization is with his welfare, work conditions, etc.) of the organizational model was highly significant in explaining firm profitability, thus, re-enforcing the long history of importance in the management literature of motivating employees and goal theory (Locke, 1978). Further Hansen and Wernerfelt (1989) discovered the integrated model (which combines the economic and organisational models) of firm performance is highly significant and approximately independent, suggesting that firms in "bad industries, "dog" businesses or weak competitive positions should still be able to achieve good climates and capture the profit benefits of those efforts. Generally, Hansen and Wernerfelts's research suggests that the critical issue in firm success and development is not primarily the selection of growth industries or product niches but the building of effective, directed human organization in the selected industries.

Syverson (2011) argues that drivers of firm performance are those that impact on firm productivity. Similar to Hansen and Wenerfelt (1989), Syverson (2011) classifies these drivers of firm performance (productivity) into two broad categories namely; “levers” (Managerial practices/talent, higher quality labour and capital, investment in IT and R&D, learning-by-doing, product innovation firm structure decisions) which is are elements within business control and “external factors” (Productivity spill overs, competition, regulatory environment, input market flexibility) which are aspects of the operating environment.

2.6.3. Other factors impacting firm performance

Other studies have investigated factors that determine firm performance. While these factors may still be fall within Hansen and Wernerfelt’s (1989) broad classification of economic and organizational factors, they offer broader insights into each of these elements could drive performance. Some studies have also looked at industry specific firm performance determinants.

A defined competitive strategy is vastly cited in literature as being amongst the key factors that impact firm performance. According to Porter (1980), firms with a clear strategy outpace firms without a strategy. Thompsons and Strickland (1996) classify strategies into three broad categories; namely corporate, business and functional. The strategy level being addressed in this section is business level strategy which is concerned with questions of how to compete within a particular business. Porter (1980, 1985) suggested that in order to achieve competitive advantage, firms must follow one of three generic strategies; cost leadership, differentiation and focus. These generic strategies Porter (1980, 1985) stated are in most cases mutually limited or at least non-complementary as each of them involves a different set of resources and organizational configurations.

The effect of Potter’s competitive strategies on firm performance is analysed in numerous studies. Beard and Dess (1981) examine the relationship between corporate strategy, business level strategy and firm profit performance. Their research finds that find both corporate-level strategy and business-level strategies are significant in explaining variation in firm profitability. Karnani (1984) derives a superior cost or

differentiation position leads to a larger market share, which in turns leads to higher profitability. Tehrani (2003) found that firms that adopted a type of Porter's strategy experienced higher financial performance, but pointed out that positive impact on profits of the strategy adopted depends on the geography in which the firms operates. Pertusa-Ortega (et al, 2009) conducted a comparative analysis of 162 Spanish firms that adopt pure (low cost or differentiation), hybrid (which combine low cost and differentiation elements) of and "stuck in the middle" (engaging in each strategy but unable to achieve any of them) strategies. The results of their research provide evidence that it not only the adoption of a single generic strategy that leads to higher firm performance, as previously suggested by Porter (1980, 1984) but hybrid forms of these pure strategies can also be formed which lead to higher financial performance. Yasar (2010) states that competitive strategies affect firm performance only to the extent that they impact on a firm's value chain activities. Yasar (2010) points out that the logistics activity positively affects firm performance when considered with cost leadership and focus strategies whereas human resource management affects firm performance when considered with only the focus strategy.

Other studies look at industry specific determinants of firm performance. Harker and Zenios (2000) investigated determinants of performance of financial institutions in the United States a region with the world's most highly developed financial services. Harker and Zenios (2000) describe three factors that affect the performance of financial institutions in the United States as being 1) an explicitly articulated firm strategy, 2) how well the firm the executes the articulated strategy as well as 3) environment (technological, market, regulatory etc.) in which a firm operates. Yasar (2010) in a study conducted in the carpet manufacturing sector in Gaziantep found that value chain activities such as firm infrastructure and marketing activities positively affect performance and were more direct drivers of firm performance than the adoption of generic strategies alone.

The results of the studies above highlight that, besides CSR programs (such as BEE in the South African context) that firms undertake, other factors, as discussed above are more direct drivers of firm performance.

2.7. Chapter summary

The first section of the literature review covers the history of BEE with a description of the two distinct phases (from narrow form to broad based) which BEE has evolved. The subsequent sections discussed the economic merits of BEE. Past studies on economic benefits of BEE have mostly focused on its impact on shareholder wealth and these studies have mostly found BEE to have a positive impact on shareholder wealth.

The broader impact of BEE on other factors such as firm strategy, corporate sustainability, firm competitiveness and economic growth was also discussed. It was revealed that literature supports that BEE has, or could have a positive impact on these factors if implemented as originally intended. The impact of CSR on firm profitability was also discussed. The review concludes that literature supports that firms engaging in CSR activities stand to gain economically and therefore BEE, as a form of CSR could a have positive impact on a firm's economic status. Finally other determinants of financial performance were discussed to emphasize that it is not only through CSR initiatives that firms prosper, but through other underlying fundamentals that must hold for any organization. The next chapter presents the research methodology for this study.

3. RESEARCH METHODOLOGY

3.1. Introduction

This chapter explains the methodology that is used to answer the research questions stated in chapter 1. Section 3.2 details the data required in this research and the data sources. Section 3.3 outlines the period of the study, section 3.4 defines BEE compliance as used in the study, and section 3.5 presents the research design, section 3.6 presents the hypotheses and chapter summary concludes the chapter.

3.2. Data and data sources

The study used BEE scores published annually on the Financial Mail Top Empowered Companies (TEC) list as well as on the Empowerdex website. Empoweredex in collaboration with the Financial Mail have published the TEC list annually since 2004. Empowerdex became involved in the in BEE research with the release of SA's first empowerment based survey in 2004. The overall aim of the Empowerdex most empowered company's research is to measure objectively the contribution made to BBBEE empowerment by target companies listed on the JSE. Empowerdex invites participants to submit a BEE rating certificate or a completed submission form supplying relevant data, which enables Empowerdex to calculate the scores for the companies. Scores submitted by companies are considered accurate by the Empowerdex research team if completed by a South African Accreditation System- accredited broad based BEE verification agency or by an approved member of the Association of BEE Verification Agencies. All companies are scored according to the methodology prescribed in the BEE codes of good practice, except where they were scored against a gazetted sector that carries the same legal standard as the generic codes (Empowerdex, 2013).

The financial data (cash flow and total assets data) used was obtained from *Bloomberg.* Annual cash flow returns were then calculated as the ratio of the operating cash flow divided by the total assets. These returns however, do not adjust for the impact of contemporaneous events that are unrelated to the BEE compliance initiatives of the BEE companies, and would thus make results difficult to interpret. To alleviate this

problem, the industry benchmark was used to evaluate the operating performance of the BEE companies. Using the JSE ICB classification, the super sectors were used as the performance benchmarks for the BEE firms. The median cash flow return on total assets was for each super sector was used as a proxy for industry performance. Data for the industries was also obtained from *Bloomberg* and all companies included in the industry sector code were used to derive the industry portfolio. Abnormal or Industry Adjusted Cash flow Return on Total Assets (IACRTA) was determined by deducting the cash flow return of BEE firms at each period from the same period's median cash flow return on assets of the relevant BEE company's industry.

3.3. Research period

The research period is December 2004 to December 2013. This period was chosen because the first Empowerdex survey was released in 2004 based on publicly available information from each company's annual financial statements. The latest available published Empowerdex report on BEE companies is that of 2013. Further, the period under review signifies three distinct global economic cycles. The period before 2008 is before the global financial crisis, 2008 to late 2009 was during the financial crisis and post 2009 is period of recovery from the financial crisis. The analysis of results during these periods addresses the third research question of whether BEE compliance benefits companies in periods of both recessions and booms.

3.4. BEE compliance

The study regards BEE compliant companies as those companies listed on the Financial Mail Top Empowered List with total BEE scores greater than 30%. BEE guidelines classify all companies with a score of 30% as compliant (RSA Government Gazette 2007).

3.5. Measuring operating performance

The study adopts operating cash flows deflated by total assets as a proxy for operating performance (see Healy et al, 1992). Healy et al, (1992) investigated the impact of mergers and acquisitions on operating performance of firms. Their analysis was based on the fifty largest acquisitions in the United States during the period 1979-1983. As a proxy for operating performance they used pre-tax cash flow returns of merging firms before and after the acquisition. Firm pre-tax cash flow return was derived by deflating the operating cash flow with the firm's market value of assets. To detect abnormal operating performance the median cash flow return for each industry was used. Firms that had cash flow returns above the industry benchmark were said to exhibit abnormal operating performance and thus benefited from the acquisition transaction whilst those that had cash flow returns below the relevant industry benchmark were said to exhibit negative operating performance and not benefited from the acquisition transaction. Linn and Switzer (2000) adopted the same methodology as that of Healy et al, (1992) in measuring the firm operating performance. Their study investigated whether cash versus stock acquisitions was associated with better operating performance. Smit and Ward (2007) investigated the impact of large acquisitions on the share price and operating financial performance of JSE listed companies. Similar to Healy et al (1992) Smit and Ward (2007) used operating cash flow return on tangible assets as a proxy for operating financial performance. Smit and Ward (2007) however, use book assets instead of market value assets as used by Healy et al (1992).

This study uses operating cash flow deflated by total assets to measure the long term operating performance of the BEE companies. Operating cash flow and total assets line items were sourced from *Bloomberg*. *Bloomberg* defines operating cash flow as Net Income plus Depreciation plus Amortization plus Other Noncash Adjustments plus Changes in Non-cash Working Capital. *Bloomberg* defines total assets as the total of all short and long-term assets as reported on the balance sheet. The definition of operating performance used in this study is unaffected by depreciation, goodwill or capital structure of sample firms thus changes in cash flow examined should be an accurate

indicator of productivity/efficiency of BEE firms. This should also enhance comparability across firms.

Operating cash flow returns were computed as the ratio of operating cash flows to the value of total assets at the end of each year.

The equation below shows how the firm cash flow return is measured:

$$CF_{I,t} = CF_{i,t}/ASSETS_{i,t}$$

Where:

$CF_{I,t}$ = the cash flow return on assets of the BEE firm I at the end of year t

$CF_{i,t}$ = the operating cash flows of BEE firm i at end of year t

$ASSET_{i,t}$ = total assets value of BEE firm i at end of year t.

Industry cash flow returns which were used as benchmarks for firm performance and to detect abnormal performance were calculated as shown in equation below:

$$CF_{Y,t} = CF_{y,t}/ASSETS_{y,t}$$

Where:

$CF_{Y,t}$ = The median cash flow return on assets of respective BEE firm industry Y, at the end of year t

$CF_{y,t}$ = The operating cash flow of respective BEE firm industry y at the end of year t

$ASSETS_{y,t}$ = The assets of the respective BEE firm industry y, at the end of year t

Since it was expected that the number of comparable firms for each industry will vary across sample cases and to avoid the influence of outliers, the median cash flow return on total assets was used a proxy for industry performance.

Industry Adjusted Cashflow Return on Total Assets (IACRTA) or excess returns were then measured as the difference between the cash flow return on assets of the BEE firm and the median cash flow return on assets of the BEE firm's relative industry as shown by the equation below:

Industry Adjusted Cash Flow Return

$$IACF_{I,t} = CF_{I,t} - CF_{Y,t}$$

Where:

$IACF_{I,t}$ = the industry adjusted cash flow return on assets of BEE firm I, at the end of year t.

$CF_{I,t}$ = the cash flow return on assets of BEE firm I, at the end of year t

$CF_{Y,t}$ = the median industry cash flow of return on assets of respective BEE firm industry Y, at the end of year t

3.6. Hypotheses

Although there are very few studies linking BEE compliance to company performance, the general assumption is that as long as companies are rewarded for their improved BEE status, the financial performance in terms of profitability and firm value will be maintained or improved over time (Wu, 2009). It is also expected in this study that that BEE compliance will improve the operating performance of complying firms across

industries and economic periods. The hypothesis are thus set out as directional (assuming positive direction) instead of merely determining if significant differences exist between complying and non-complying firm samples. The t-test was used to test the hypotheses.

3.6.1. Hypothesis 1

The first research a question seeks to find if BEE compliance improves the operating performance of JSE listed companies. The sample of JSE listed BEE compliant firms was tested against the population of listed companies. The null and alternative could thus be stated as follows**:**

$$Ho: \mu_{BEE\ firm} \leq \mu_{listed\ companies}$$

$$Ha: \mu_{BEE\ firm} > \mu_{listed\ companies}$$

The null states that the mean of the sample of the BEE companies is less than or equal to the expected mean (mean of the population, i.e. JSE listed companies). The alternative states that the mean of BEE firms greater than the expected mean.

3.6.2. Hypothesis 2

The second research question seeks to find if BEE compliance benefits complying companies indiscriminately across economic periods. The sample of JSE listed compliant companies in each economic period was tested against the population of JSE listed companies.

$$Ho: \mu_{BEE(economic\ period,i)} \leq \mu_{economic\ period,i}$$

$$Ha: \mu_{Bee(economic\ period,i)} > \mu_{economic\ period,i}$$

The null states that, given economic period (i), the mean of the BEE companies is less than or equal to the expected mean (mean of the listed companies in economic period i). The alternative states that, given economic period (i) the mean of the BEE, companies is greater than the expected mean.

3.6.3. Hypothesis 3

The third research question seeks to find if BEE compliance benefits complying companies across industries. The sample of JSE listed compliant companies in each industry was tested against the industry population.

$$Ho: \mu_{BEE(industry,i)} \leq \mu_{industry,i}$$

$$Ha: \mu_{BEE(industry,i)} > \mu_{industry,i}$$

The null states that, given industry (i), the mean of the BEE company is less than or equal to the expected mean (mean of the industry). The alternative states that given industry (i), the mean of the BEE company is greater than the expected mean.

3.7. Chapter summary

This chapter laid out the methodology adopted in measuring operating performance of BEE firm. Healy (et al, 1992)'s methodology has been widely used in studies investigating operating performance, and this study has followed the same methodology. Data inputs for BEE scores and operating cash flow and total assets data was obtained from obtained from the *Bloomberg* and Empowerdex respectively. Section 3 presented the hypotheses of this study. Chapter 4 presents and analysis of data and results. Chapter 5 presents the conclusion reached from the data analysed and chapter 6 gives recommendations for future research.

4. PRESENTATION OF RESULTS

4.1. Introduction

This chapter describes the results of the study in investigating the three null hypotheses. Section 4.2 shows the profile of the data used in the study. Section 4.3, 4.4.and 4.5 provide the results of hypotheses one, two and three respectively. Section 4.6 concludes the chapter.

4.2. Demographic profiling of samples

The sample used for the research consisted of all companies listed on the JSE Main Board for the period 2004 to 2013.

Table 2: Sample selection criteria

Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
All qualifying companies	203	203	203	203	203	203	203	203	203	203	**2030**
Exclusions	7	6	7	6	7	4	8	9	9	10	**79**
Total sample companies	196	197	196	197	196	199	195	194	194	187	**1951**
FM TEC companies	101	106	125	128	128	132	74	73	77	78	**1022**
TEC Compliant	21	41	54	63	74	76	74	73	77	78	**631**
TEC non-compliant	80	65	71	65	54	56	0	0	0	0	**391**
Other non-compliant	95	91	71	69	68	67	121	121	117	109	**929**
Total non-compliant	175	156	142	134	122	123	121	121	117	109	**1320**

Definition of categories: FM TEC companies- all sample companies in FM TEC list; TEC Compliant- Sample companies in TEC list with total BEE score ≥30%; TEC Non-Compliant- Sample company in TEC list with BEE score <30%; Other Non-Compliant- sample companies not in TEC list

Qualifying companies are those companies that were listed on the JSE for all the years under the study period from 2004 to 2013. The qualifying companies' category eliminated all those companies that listed subsequent to 2004 and those that became

delisted before 2013. Exclusions are those companies that met the qualifying criteria but whose financial information was not found on *Bloomberg* for a given year. These companies were excluded from the sample in the year in which the data was not available. This was done to get a more accurate record of operating performance of the companies during the ten year period. The study is limited to information of companies whose financial statements are publicly available and is reliable as financials statements of listed companies are audited.

Another category of the results presentation is based on BEE scores from the FM TEC list. BEE guidelines classify all companies with a score of 30% as compliant (RSA Government Gazette 2007). Out of the 203 companies in the sample used of the research, the maximum number of compliant companies (as per TEC list and BEE guidelines) was 78 in years 2012 and 2013[1]. Companies that were previously compliant and fell off (total BEE scores less than 30%) were excluded for that particular year and companies that became compliant for the first time in that year were included in the compliant companies list. The non-compliant category consists of companies on the TEC lists with BEE scores less than 30%.Companies not appearing on the TEC list for the given year were also considered non-compliant. The reason for regarding non TEC list companies as non-compliant is because there are no other credible, independent third party agencies that make publicly available the BEE scores of listed companies. The Empowerdex TEC list is currently the only publicly available database of BEE companies with BEE credentials vetted by an independent third party. Thus, even if these non-TEC companies publish their BEE scores on their company websites, there is no way of validating the accuracy of their BEE claims. For the purposes of this study, it was decided that a prudent approach would be to consider only independently vetted BEE scores in determining compliance.

The study considers that the 203 companies considered are from diverse industry sectors and it would thus be inaccurate to look at the performance of these companies in isolation without comparing it to their relevant industry performance. Industry

[1] The number of BEE compliant companies changed each year as some companies fell out of the 30% compliance benchmark in some years as well as new additions when some companies improved their BEE scores.

portfolios were thus constructed to compare the performance of the BEE firms and to detect abnormal performance.

A proportional representation of these sectors is presented in table 3 below

Table 3: No of companies in each industry in study per study sample as well as industry control sample

JSE Sector	# Companies-sample	% of Sample	# Companies-Industry portfolio	% of Industry portfolios
Basic Materials	37	18%	62	18%
Consumer Goods	19	9%	30	9%
Consumer Services	32	16%	42	12%
Financials	52	26%	90	26%
Healthcare	4	2%	10	3%
Industrials	42	21%	77	23%
Oil & Gas	2	1%	3	1%
Technology	13	6%	21	6%
TELECOMS	2	1%	6	2%
Total	**203**		**341**	

Table 3 above indicates the number of companies in each industry as per study sample of 203 companies as well as number of companies in each industry as per control portfolio sample of 341 companies. Unlike the study sample, the control sample includes all companies that were listed after 2004 as well as companies that got delisted before 2013. Where information was not available for a control portfolio company for all the years from 2004 to 2013, that company was excluded from the list. This method ensures that all companies that were listed each year are included in the benchmark return for that year, thus yielding a more accurate result.

4.3. Descriptive statistics

The descriptive statistics of the variables of interest is presented table below

Table 4: Sample descriptive statistics

Variables	#Observations	Mean	Median	Std.Dev	Lower bound	Upper bound	Kurtosis	Skewness
Sample companies								
Cash Flows (Rm)	1951	2939	199	12901	2366	5312	121.01	10.01
Total Assets (Rm	1951	53771	3207	202870	44762	62781	49.01	6.08
Cash flow returns	1951	8.48%	7.5%	36.10%	6.87%	10.08%	159.19	3.11
Industry median returns	1951	7.12%	6.82%	4.39%	6.93%	7.31%	1.83	0.83
Excess Returns	1951	1.29%	0.45%	35.48%	-0.28%	2.87%	165.42	3.01
Compliant companies								
Cash Flows (Rm)	631	4152	737	11901	3221	5083	86.00	8.03
Total Assets (Rm)	631	107000	9362	303848	83228	130772	22.00	4.03
Cash flow returns	631	9.89%	8.43%	15.81%	8.57%	11.05%	280.90	13.67
Industry median returns	631	7.37%	6.82%	4.85%	6.99%	7.74%	3.92	1.375
Excess Returns	631	2.31%	0.77%	14.99%	1.22%	3.56%	316.85	14.9

From Table 4 above it is seen that the returns and the excess returns on both the total sample and compliant company have mean and medians that are almost the same (an indication of possible normal distribution), with highest deviation being 1.54% on compliant company excess returns. However, the high kurtosis and skewness in the variables indicate lack of data normality. The high skewness could be attributed to the sample selection as most companies would be coming off from a low base with regards to BEE compliance. The normality of the distributions should be restored over time once companies across all sectors become BEE compliant.

In spite of the lack of normality of the distributions, it was decided to proceed with parametric analyses of these variables as the Central Limit Theorem states that the

sampling distributions of statistics may be considered to be normally distributed as long as the sample size is large, i.e. greater than 30 (Zikmund, 2003).

4.4. Performance of BEE compliant firms

The average and median return values of the BEE companies were calculated for each of the years 2004-2013. These values were also calculated for the each of the different economic periods (2004-2007, 2008-2010 and 2010-2013) under the period of the study as well as for the entire 10 year period to determine if performance of BEE companies was influenced by different periods. T tests were performed on the industry adjusted cash flow returns to determine if these measures were significantly different from zero. The results are presented below

Table 5: Firm and industry adjusted mean cash flow returns for each of the years from 2004 to 2013

Year	#Observations	Firm Mean return	Mean IACRTA	Std dev	t-stat for Mean IACRTA	P-value for Mean IACRTA		Median IACRTA	t-stat for Median IACRTA	p-value for Median	
2004	21	11,97%	1,12%	7,98%	0,64	26,59%		0,16%	4,89	0,00%	*
2005	41	20,40%	11,47%	50,38%	1,13	13,22%		0,76%	0,88	19,31%	
2006	54	10,46%	2,09%	7,99%	1,29	10,10%		0,28%	5,49	0,00%	*
2007	63	9,29%	2,18%	7,23%	3,67	0,03%	*	0,83%	0,91	18,24%	
2008	74	10,21%	2,62%	8,33%	3,14	0,12%	*	0,12%	0,13	44,92%	
2009	76	9,24%	1,42%	7,39%	2,90	0,25%	*	0,29%	0,34	36,72%	
2010	74	9,96%	1,77%	6,24%	1,20	11,62%		1,29%	1,78	3,95%	*
2011	73	8,68%	2,49%	7,78%	1,82	3,64%	*	2,07%	2,27	1,30%	*
2012	77	6,15%	-0,11%	10,71%	0,23	40,90%		0,02%	0,01	49,51%	
2013	78	8,34%	2,02%	6,28%	2,35	1,07%	*	1,14%	1,60	5,72%	
2004-2013	631	9,89%	2,31%	14,99%	1,84	0,03%	*	0,77%	0,54	0,29%	

**Significant at a 5% level*

Table 5 shows that there was significant positive abnormal return of 2.31% achieved by BEE compliant companies over the ten year period from 2004 to 2013. Taking the

standard deviation into account as well sample size, the associated t-value is 1.84. For a one-sided test of whether this measure is significantly positive, a p-value on the mean IACRTA of 0.03% is observed. Because this p-value is less than 0.05, the mean is significant. The null hypothesis can be rejected and the alternative accepted. Therefore it is concluded that that the sample of BEE companies outperformed the JSE population.

These results answer the first research question of whether BEE compliance has improves the operating financial performance of JSE listed companies.

Furthermore, Table 5 shows the returns as well as abnormal returns achieved by the BEE companies in each of the ten years under review. Results from table 5 above indicate that BEE firms achieved significant abnormal returns of 2.18%, 2.62%, 1.42% 2.49% and 2.02% in years 2007, 2008, 2009, 2011 and 2013 respectively. Further the results also show that abnormal returns are clustered mostly around the financial crisis period (years 2007 to 2009). While the study has regarded 2007 as pre crisis, it could very well be that signs of the pending crisis had already started in to show prior to 2008 and hence 2007 exhibited similar qualities as 2008. This raises an interesting question of whether BEE compliance shielded BEE firms during tough economic times as these companies were still able to secure business from government clients with deep pockets backed by national fiscus while non-BEE companies were left defenceless when demand from private sector clients declined as a result of difficult trading environment. Section 4.5 addresses this question.

While abnormal returns were achieved in years 2004, 2005, 2006, as well as in the year 2010, these were not statistically significant. Overall however, BEE companies have achieved positive excess returns. Only in the year 2012 did BEE companies underperform with an excess return of -0.11%.

4.5. Performance of BEE compliant firms in different economic periods

To understand the overall impact of BEE on firm performance, in the different economic environments, the excess returns of each of the three economic periods was measured.

Table 6: Firm and industry adjusted cash flow returns of BEE firms before, during and after the global economic crisis

ECONOMIC PERIOD	#Observations	Mean firm return	Mean IACRTA	Std dev	t-stat for Mean IACRTA	P-value for Mean IACRTA		Median IACRTA	t-stat for Median IACRTA	p-value for Median
2004-2007	179	12,50%	4,15%	25,12%	1,93	2,73%	*	0,69%	17,28%	43,15%
2008-2010	224	9,80%	1,93%	7,35%	0,22	41,27%		0,53%	14,99%	44,05%
2011-2013	228	7,71%	1,45%	8,50%	0,21	41,63%		1,00%	69,62%	24,35%

**Significant at a 5% level*

Results from table 6 above indicate that only during the pre-crisis period did BEE firms achieve significant positive abnormal return of 4.15%. This is contrary to the results in table 5 which has looked at each year's performance in isolation and indicates that significant abnormal performance was achieved by BEE firms around the economic crisis period. The overall results in table 6 above indicate that BEE firms did not perform particularly better during and post the economic crisis periods. Thus results, when viewed from economic environment perspective indicate that BEE compliance only provided benefits under favourable trading conditions but did not particularly help boost operating performance in unfavourable or difficult trading conditions during the crisis. Further, results in table 5 showed that abnormal returns achieved by BEE firms are clustered mostly around the financial crisis period (years 2007 to 2009). Results in table 6 above however, show that only during the pre-crisis period were excess returns of BEE firms significant. This answers the question posed in section 4.4 of whether BEE compliance shielded complying firms during the economic crisis.

Results in table 6 above answer the second research question of whether BEE benefits firms indiscriminately across economic periods. As can be seen in table 6, BEE compliance benefitted complying firms only during favourable economic conditions

4.6. Performance of BEE compliant firms across industries

The third research question asked if BEE compliance benefitted complying companies across industries. Put differently, does a company's industry have an influence whether or not a company benefits from BEE compliance? To answer this question, an analysis was carried out to which compared the performance of BEE firms across JSE sectors. It was expected that BEE credentials would be more important in certain industries than others. Mining and hospitality companies for example, are expected to derive material benefits from high compliance as this places them in favourable positions when applying for operating licenses as well as securing government business, thus impacting positively their cash flows. Certain industries on the other hand like manufacturing (Consumer Goods sector) which do not rely greatly on government business may not necessarily benefit from BEE compliance as this may not have material impact on viability of their businesses. Table 7 below shows the abnormal cash flow retunes of BEE firms by industry.

Table 7: Firm and Industry cash flow returns of BEE firms according to industry portfolios over ten year period 2004-2013.

PERIOD 2004-2013	#Observations	Mean firm return	Mean IACRTA	Std dev	t-stat for Mean IACRTA	P-value for Mean IACRTA		Median IACRTA	t-stat for Median IACRTA	p-value for Median	
BASIC MATERIALS	81	2,82%	2,82%	8,41%	5,82	5,62E-08	*	2,44%	0,74	0,22	
CONSUMER GOODS	65	9,14%	1,43%	10,63%	1,00	1,60E-01		2,38%	1,22	0,11	
CONSUMER SERVICES	101	18,18%	5,37%	32,67%	1,82	3,52E-02	*	1,27%	0,09	0,46	
FINANCIALS	144	4,27%	2,20%	6,80%	5,26	2,48E-07	*	1,27%	2,12	0,01	*
HEALTHCARE	23	8,26%	0,74%	3,14%	9,08	3,37E-09	*	0,30%	0,45	0,32	
INDUSTRIALS	140	9,70%	1,82%	7,09%	0,04	4,81E-01		9,12%	0,49	0,310	
OIL & GAS	8	18,33%	12,16%	7,96%	4,18	2,07E-03	*	11,74%	3,96	0,00	*
TECHNOLOGY	49	5,69%	-0,69%	10,38%	0,19	4,22E-01		-0,05%	1,67	0,49	
TELECOMS	20	22,71%	-0,40%	4,74%	0,00	5,00E-01		-1,03%	0,00	0,50	

**Significant at a 5% level*

Table 7 shows that only certain industries benefited from BEE compliance over the ten year period of this study period. It is interesting to note that Basic Materials (mainly comprising mining companies) Financials and Oil & Gas are amongst the industries that benefited from the study with significant industry adjusted excess returns of 2.82%, 2.2% and 12.86% respectively. These industries were first movers in BEE compliance by voluntarily adopting industry specific charters in light of the pending BEE legislature in 2003 (Ponte et al, 2003). The Petroleum and Liquid Fuels Charter came into existence in 2000, followed by the Mining Charter in 2002. The Financial Services Charter (FSC) came into effect in 2004, shortly after the enactment of Broad Based Black Economic Empowerment Act of 2003. Similar to the Mining Charter, the FSC sets out specific targets and guidelines aimed at achieving transformation in terms of racial inequality. These results in table 7 above indicate that these first movers benefited from their BEE compliance initiatives in terms of improved operating performance of the 10 year period.

Other industries which benefited from BEE compliance are Consumer Services and Healthcare Industries with significant industry adjusted returns of 5.37%, 0.74% respectively. While Consumer Goods and Industrials show positive excess returns, these are not statistically significant. Technology and Telecoms BEE compliant companies underperformed their non-industry peers, indicating that they did not benefit from BEE compliance.

Further analysis set out to establish whether high BEE compliance improves the operating performance of BEE firms, that is, is it sufficient for companies to just meet the compliance threshold (30%) or is there benefits in terms of operating performance to increase compliance levels? To see whether there is evidence that increased operating performance is associated with higher BEE scores, excess returns in Table 8 were categorized into quartiles, with the first quartile (Q1) being the quartile of lowest operating performance and the fourth quartile (Q4) being that of highest operating performance. The average BEE score of companies whose excess returns fall into each of these quartiles were calculated and assigned to the respective quartile. The results are shown in table 8 below.

Table 8: Sample firm average BEE scores in each of quartile of excess returns (IACRTA)

Quartiles	# Observations	IACRTA	Mean BEE score
Panel 1 Sample firms			
Q1	162	-2.13%	60.24%
Q2	147	0.66%	63.56%
Q3	161	5.78%	63.59%
Q4	161	319.58%	59.70%
Panel 2 Basic Materials			
Q1	21	-1.11%	61.08%
Q2	20	2.44%	67.81%
Q3	20	7.51%	68.77%
Q4	20	30.35%	59.35%
Panel 3 Consumer goods			
Q1	17	-1.36%	63.35%
Q2	16	2.38%	63.51%
Q3	16	6.92%	66.40%
Q4	16	21.24%	67.16%
Panel 4 Consumer Services			
Q1	26	-3.94%	58.94%
Q2	25	1.27%	54.51%
Q3	25	8.51%	62.26%
Q4	25	319.58%	56.96%
Panel 4 Financials			
Q1	36	-1.18%	61.23%
Q2	36	0.34%	68.19%
Q3	36	3.46%	66.54%

Q4	36	38.39%	64.23%
Panel 4 Healthcare			
Q1	6	-0.82%	68.20%
Q2	6	0.30%	63.98%
Q3	5	3.31%	65.37%
Q4	6	6.63%	66.28%
Panel 5 Industrials			
Q1	35	-2.40%	61.58%
Q2	35	0.73%	64.26%
Q3	35	5.81%	65.45%
Q4	35	24.74%	66.79%
Panel 6 Oil & Gas			
Q1	2	9.85%	68.77%
Q2	2	11.74%	55.47%
Q3	2	14.19%	87.78%
Q4	2	27.97%	44.63%
Panel 7 Technology			
Q1	13	-5.80%	69.48%
Q2	12	-0.05%	65.92%
Q3	12	5.04%	65.44%
Q4	12	21.75%	63.95%
Panel 8 Telecoms			
Q1	5	-3.35%	57.20%
Q2	5	-1.03%	55.04%
Q3	5	2.75%	55.93%
Q4	5	10.11%	66.34%

Table 8 shows that the average BEE score in the quartile of lowest performance (Q1) is 60.24% while the average BEE score in the quartile of highest performance is 59.70% (the lowest BEE score). The low average BEE score in the highest operating performance quartile indicates that the highest performers are not necessarily the ones with the highest BEE scores (highest compliers). In fact, firms with highest compliance scores (63.56% and 63.59% respectively) are clustered in the second and third performance quartiles, suggesting that improved BEE compliance benefits firms but only up to a certain extent. The results in table 8 suggest that there seems to be peak point for BEE compliance benefits, after which, additional compliance costs exceed the additional benefits. This result is expected as it supports that CSR (which in this context is BEE compliance) alone does not explain financial performance of a business. Hansen and Wenerfelt (1989) stated that there exists a broad set of other economic and organisational factors that explain firm performance which include (1) industry variables, which pertain to the characteristics of the industry in which a firm operates; (2) The firm's position relative to its competitors; (3) the quality or quantity of a firm's resources. It stand to reason therefore that even if having lower BEE scores, firms can still exhibit higher performance if strong in some of the above factors mentioned by Hansen and Wernerfelt (1989).

In three of the nine industries; namely: Basic Materials, Financials and Oil & gas the highest compliance levels are found in second and third quartiles of operating performance. This trend supports the trend observed I the total sample in table 5 which suggests that improved BEE compliance matters up to a certain extent but is not necessarily the ingredient for high performance.

Industries where the highest compliance was associated with the lowest operating performance include Healthcare and Technology. This suggests that companies in these industries did not benefit from striving for highest level of compliance. Thus the additional costs associated with higher compliance in these industries do not yield higher operating financial performance. It would be interesting to see in further research which of the seven elements of the BEE scorecard the companies in these industries

companies mostly invested in to improve their BEE levels, which the results in this study suggest did not really benefit them. This further research could help inform Industry Charters by streamlining the elements of the BEE scorecard (which are measures of compliance) in ways that result in improved economic benefits for the respective industry.

Finally, the general trend in table 8 is that the highest compliant firms are not necessarily the highest performers. Only three industries (Consumer Goods, Industrials and Telecoms) have the highest BEE score associated with highest performance (i.e. the fourth quartile). In three industries, namely, Basic Materials, Oil & Gas and Technology, the lowest compliance scores are found in the quartile of highest operating performance. This suggests that these companies may have focused on specific scorecard elements that are just enough to become compliant but deliver the highest economic benefits, while ignoring compliance to non-value adding elements which only increase compliance scores but do not deliver incremental economic value. Again, further research that looks into the specific elements of the scorecard that these companies focus on could provide further insight

4.7. Chapter summary

Results from the study show that BEE compliance improves the operating financial performance of JSE listed companies. Further, the results showed that BEE compliance is beneficial in certain industries and not others. Industries like Basic Material, Consumer Goods Oil & Gas were found to benefit from BEE compliance. The results also revealed that BEE compliance benefited companies mostly during the pre-economic crisis with positive but insignificant IACRTA's during and post the 2008 economic crisis. Finally, the results established that the highest level of BEE compliance was not associated the highest performance, indicating that BEE compliance only part explains firm performance. The next chapter discusses the findings and provides conclusions and recommendations.

5. DICUSSION, CONCLUSION AND FURTHER WORK

5.1. Introduction

This chapter provides the overall discussion of the results as well as highlights the implications thereof. Lastly the chapter gives recommendations for further research into the study as there were areas in the results where it was identified that further research would be needed in order to explain some of the findings**.**

5.2. Discussion

BEE compliance is an important factor to consider when doing business in South Africa. This is because that the South African government, in efforts to address the inequalities created by the apartheid government implemented the BEE Act of 2003**.** The government in awarding contracts, license bids and concession contracts considers a firm's BEE score, and the higher a firm's score, the more favourable its position as this is seen as the company's willingness to embrace the transformation goals of BEE. Since BEE compliance offers a competitive edge in securing lucrative government contracts and it was expected therefore that BEE firms' operating financial performance would be improved.

Previous studies (Acemoglu et al 2007, Jackson et al 2005, Sartorius and Wolmarans 2009, Ward and Muller 2010) focused on the impact of BEE on firm profitability as measured by the share performance after BEE announcements. These studies mostly found that there is a positive correlation between BEE compliance (primarily through ownership element) and firm financial performance. This study investigated the whether BEE compliance improves the operating financial performance of JSE listed companies. The results of this study corroborates the results of these previous studies results in that the study found that BEE compliance generally improves the operating financial performance of BEE firms thus providing an explanation for the increased valuations of post BEE announcement which previous studies have found. The fact that operating financial performance of BEE firms improves, provides justification for the positive expectations expressed by investors through positive valuations of BEE firms. The

study has thus provided some explanation of why the share prices increase post BEE announcements (a form of BEE compliance).

While this study found that the abnormal operating cash flow returns of BEE firms were significant during the pre-crisis period, Wolmarans (2012) however found that the market performance (as measured by the share price) of BEE firms was poor relative to the JSE All Share Index ("ALSI") during the pre-crisis period. The results of this study suggest that it may be that investors undervalued BEE firms during this period as this study shows that the operating financial performance of the BEE firms was at its highest during the pre-crisis period. Another reason for the contradicting results is that Wolmarans's study considered very short time period form 02 January 2007 to May 2008 as the pre-crisis period. This study considered the three year period 2004 to 2007 as the pre-crisis period and thus gives longer period over which performance of BEE firms was observed.

5.3. Conclusions

The study found that there is a positive relationship between BEE compliance and operating financial performance of JSE listed companies. BEE firms achieved an excess return of 2.31% over the 10 year period of the study.

The results also indicate however, that BEE compliance is not beneficial in all industries. BEE compliance was found to be mostly beneficial in Industries like Oil& Gas, Consumer Services and Basic Materials and Financials. The Telecoms and Technology did not benefit from BEE compliance. Further results show that BEE compliance is beneficial in economy booms (pre-crisis period). While the terms during the 2008-2009 financial crisis were positive, they were not significant. Finally, it was also investigated whether BEE higher compliance is can be associated with higher operating financial performance. The results indicate that BEE higher compliance is beneficial to an extent but is not the requirement for the highest level of financial performance. The highest BEE scores were not found in the highest region (fourth quartile) of excess returns but were found rather in the second and third quartile of excess returns.

5.4. Further Research

While this study provided some illumination on whether BEE compliance improves operating financial performance, it remains an unknown which of the seven elements that make up the scorecard directly contribute to the improved operating financial performance. Future research into this aspect could help streamline the BEE scorecard to include only those elements that contribute to improved financial performance. This would also incentivize more companies to become compliant as there will be empirical evidence of increased economic benefits associated with each of the scorecard elements.

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ANNEXURE 1: Sample companies

Acucap Properties Ltd	Adaptit Holdings Limited	Adcorp Holdings Limited
Adrenna Property Grp Ltd	ADvTECH Ltd	AECI Limited
Afgri Limited	African & Over Ent Ltd	African Bank Inv Ltd
African Media Ent Ltd	African Oxygen Limited	African Rainbow Min Ltd
AFROCENTRIC INVE	Allied Electronics Corp	Anglo American Plat Ltd
Anglo American plc	Anglogold Ashanti Ltd	Aquarius Platinum Ltd
ArcelorMittal SA Limited	Ardor SA Ltd	Argent Industrial Ltd
Aspen Pharmacare Hldgs Ltd	Assore Ltd	Astral Foods Ltd
Astrapak Limited	Aveng Group Limited	AVI Ltd
Awethu Breweries Ltd	Barclays Africa Grp Ltd	Barloworld Ltd
Basil Read Holdings Ltd	Bauba Platinum Limited	Bell Equipment Ltd
BHP Billiton plc	Bidvest Ltd	Bonatla Property Hldgs
Bowler Metcalf Ltd	Brait SE	Brimstone Inv Corp Ltd
Buildmax Ltd	Business Connexion Grp Ltd	Cadiz Hldgs Ltd
Capital Property Fund	Capitec Bank Hldgs Ltd	Cargo Carriers Ltd
Cashbuild Ltd	Caxton CTP Publish Print	City Lodge Hotels Ltd
Clicks Group Ltd	Comair Limited	Combined Motor Hldgs Ltd
Command Holdings Limited	Compagnie Fin Richemont	Compu Clearing Outs Ltd
Conduit Capital Ltd	Control Instruments Grp	Convergenet Holdings Ltd
Coronation Fund Mngrs Ld	Crookes Brothers Ltd	Cullinan Holdings Ltd
Datacentrix Holdings Ltd	Datatec Ltd	Delta EMD Ltd
DRDGOLD LTD	Digicore Holdings Limited	Discovery Ltd
Distell Group Ltd	Distr and Warehousing	Don Group Ltd
Dorbyl Ltd	ELB Group Ltd	Emira Property Fund
EOH Holdings Ltd	Evraz Highveld Steel & Van	Exxaro Resources Ltd
Fairvest Property Hldgs	Famous Brands Ltd	Faritec Holdings Ltd
Firstrand Ltd	Foord Compass Ltd Deb	Fountainhead Prop Trust
Gijima Group Limited	Gold Fields Ltd	Gold One Int Ltd
GOLIATH GOLD MIN	Grindrod Ltd	Group Five Ltd

Growthpoint Prop Ltd	Harmony GM Co Ltd	Hosken Cons Inv Ltd
Howden Africa Hldgs Ltd	Hudaco Industries Ltd	Hwange Colliery Ltd
Hyprop Inv Ltd	Iliad Africa Ltd	Illovo Sugar Ltd
Impala Platinum Hlgs Ltd	Imperial Holdings Ltd	Ingenuity Property Inv
Intu Properties plc	Investec Ltd	Investec plc
Invicta Holdings Ltd	Italtile Ltd	Jasco Electron Hldgs Ltd
JD Group Ltd	KAP Industrial Hldgs Ltd	Lewis Group Ltd
Liberty Holdings Ltd	London Fin Inv Group plc	Lonmin plc
Masonite Africa Ltd	Massmart Holdings Ltd	Mediclinic Internat Ltd
Merafe Resources Ltd	Metair Investments Ltd	Metrofile Holdings Ltd
Micromega Holdings Ltd	MMI Holdings Limited	Morvest Business Grp Ltd
Mr Price Group Ltd	MTN Group Ltd	Murray & Roberts Hldgs
Mustek Ltd	Nampak Ltd	Naspers Ltd -N-
Nedbank Group Ltd	Netcare Limited	Nictus Ltd
Northam Platinum Ltd	Nu-World Hldgs Ltd	Oceana Group Ltd
Octodec Invest Ltd	Old Mutual plc	Omnia Holdings Ltd
Onelogix Group Ltd	Orion Real Estate Ltd	Palabora Mining Co Ltd
Peregrine Holdings Limited	Petmin Ltd	Phumelela Game Leisure
Pik n Pay Holdings Ltd	Pik n Pay Stores Ltd	Pinnacle Tech Hldgs Ltd
PPC Limited	Premium Properties Ltd	Primeserv Group Ltd
PSG Group Ltd	Purple Capital Ltd	Putprop Ltd
Randgold & Expl Co Ltd	RCL Foods Limited	Redefine Properties Ltd
Remgro Ltd	Resilient Prop Inc Fund	Reunert Ltd
Rex Trueform Cloth Co Ld	RMB Holdings Ltd	SABMiller
SA Corp Real Estate Fund	Sabvest Ltd	Sacoil Holdings Ltd
Sanlam Limited	Santam Limited	Santova Logistics Ltd
Sappi Ltd	Sasfin Holdings Ltd	Sasol Limited
Seardel Inv Corp Ltd	Securedata Holdings Ltd	Sekunjalo Inv Ltd
Sentula Mining Ltd	Shoprite Holdings Ltd	SOUTH AFRICAN CO
Sovereign Food Inv Ltd	Spanjaard Limited	Spur Corporation Ltd
Square One Solutions Grp	Standard Bank Group Ltd	Steinhoff Int Hldgs Ltd

Sun International Ltd	Super Group Ltd	Sycom Property Fund
Telkom SA SOC Ltd	The Foschini Group Limited	The Spar Group Ltd
Tiger Brands Ltd	Tongaat Hulett Ltd	Tradehold Ltd
Trans Hex Group Ltd	Transpaco Ltd	Trematon Capital Inv Ltd
Trencor Ltd	Truworths Int Ltd	Tsogo Sun Holdings Ltd
Value Group Ltd	Vukile Property Fund Ltd	Wilson Bayly Hlm-Ovc Ltd
Winhold Ltd	Woolworths Holdings Ltd	York Timber Holdings Ltd
ZCI Limited	Zurich Insurance Co SA	

ANNEXURE 1: Industry sample companies

BASIC MATERIALS

AECI Limited	African Oxygen Limited	African Rainbow Min Ltd
Anglo American Plat Ltd	Anglo American plc	Anglogold Ashanti Ltd
ArcelorMittal SA Limited	Ardor SA Ltd	Assore Ltd
Bauba Platinum Limited	BHP Billiton plc	BSI Steeel
Buildmax Ltd	Central Randgold	Chrometcco
Delta EMD Ltd	DRDGOLD LTD	Evraz Highveld Steel & Van
Exxaro Resources Ltd	Gold Fields Ltd	GOLIATH GOLD MIN
Harmony GM Co Ltd	Hwange Colliery Ltd	HULAMIN LTD
Impala Platinum Hlgs Ltd	INFRASORS HOLDIN	INSIMBI REFRACTO
JCI	KEATON	KUMBA IRON ORE L
Lonmin plc	Merafe Resources Ltd	Metmar
Metair Investments Ltd	MIRANDA MINERAL	MONDI LTD
NORTHAM PLATINUM	OAKBAY RESOURCES	Omnia Holdings Ltd
OPTIMUM COAL HOL	PAMODZI GOLD LTD	Palabora Mining Co Ltd
Petmin Ltd	PLATFIELDS LTD	Randgold & Expl Co Ltd
ROLFES HOLDINGS	ROYAL BAFOKENG P	SABLE METALS AND
Sappi Ltd	Sentula Mining Ltd	SIMMER & JACK
SIBANYE GOLD LTD	SOUTH AFRICAN CO	Spanjaard Limited
THABEX LTD	THARISA PLC	Trans Hex Group Ltd
VILLAGE MAIN REE	WESCOAL HOLDINGS	WESIZWE PLATINUM
York Timber Holdings Ltd	ZCI Limited	

CONSUMER GOODS

AH-Vest Limited	Astral Foods Ltd	AVI Ltd
Awethu Breweries Ltd	Beige Holdings Limited	BIOSCIENCE BRAND
CAPEVIN HOLDINGS	CARTRACK HOLDING	CLOVER INDUSTRIE
Compagnie Fin Richemont	Control Instruments Grp	Crookes Brothers Ltd
Distell Group Ltd	Dorbyl Ltd	Illovo Sugar Ltd

IMBALIE BEAUTY L	Metair Investments Ltd	Nu-World Hldgs Ltd
Oceana Group Ltd	PIONEER FOODS LT	RBA HOLDING LTD
RCL Foods Limited	RHODES FOOD GROU	Seardel Inv Corp Ltd
SABmiller	Sovereign Food Inv Ltd	Steinhoff Int Hldgs Ltd
Tiger Brands Ltd	Tongaat Hulett Ltd	UBUBELE HOLDINGS

CONSUMER SERVICES

1TIME HOLDINGS L	ADvTECH Ltd	Afgri Limited
African & Over Ent Ltd	African Media Ent Ltd	ALERT STEEL HOLD
Cashbuild Ltd	Caxton CTP Publish Print	City Lodge Hotels Ltd
Clicks Group Ltd	Comair Limited	Combined Motor Hldgs Ltd
Cullinan Holdings Ltd	Don Group Ltd	CURRO HOLDINGS L
Famous Brands Ltd	GOODERSON LEISUR	HOLDSPORT LTD
HOMECHOICE INTER	Italtile Ltd	JD Group Ltd
Lewis Group Ltd	Massmart Holdings Ltd	Money Web Holdings Ltd
Mr Price Group Ltd	Naspers Ltd -N-	Nictus Ltd
Phumelela Game Leisure	Pik n Pay Holdings Ltd	Pik n Pay Stores Ltd
Rex Trueform Cloth Co Ld	Shoprite Holdings Ltd	The Spar Group Ltd
Spur Corporation Ltd	Sun International Ltd	TASTE HOLDINGS
The Foschini Group Limited	TIMES MEDIA GROU	Truworths Int Ltd
Tsogo Sun Holdings Ltd	VERIMARK HOLDING	Woolworths Holdings Ltd

FINANCIALS

Acucap Properties Ltd	Adrenna Property Grp Ltd	African Bank Inv Ltd
African Dawn Capital Ltd	ALEXANDER FORBES	ANCHOR GROUP LTD
ANDULELA INVESTM	ARROWHEAD-A	ASCENSION PROPER
ATTACQ LTD	Barclays Africa Grp Ltd	BLUE FINANCIAL
Bonatla Property Hldgs	Brait SE	Brimstone Inv Corp Ltd
Cadiz Hldgs Ltd	Capital Property Fund	Capitec Bank Hldgs Ltd
CLIENTELE LTD	Conduit Capital Ltd	Coronation Fund Mngrs Ld

DELTA PROPERTY F	DIPULA INCOME-A	Discovery Ltd
Ecsponent (prev John Daniel)	EFFICIENT GROUP	Emira Property Fund
Fairvest Property Hldgs	FINBOND GROUP LT	Firstrand Ltd
Foord Compass Ltd Deb	FORTRESS-INC-A	Fountainhead Prop Trust
GRAND PARADE INV	Growthpoint Prop Ltd	Hosken Cons Inv Ltd
HOSPITALITY PR-A	Hyprop Inv Ltd	Indequity Group Ltd
Ingenuity Property Inv	Intu Properties plc	Investec Ltd
Investec plc	INVESTEC PROPERT	JSE LTD
Liberty Holdings Ltd	London Fin Inv Group plc	MMI Holdings Limited
Nedbank Group Ltd	NIVEUS INVESTMEN	Octodec Invest Ltd
Old Mutual plc	Orion Real Estate Ltd	Peregrine Holdings Limited
Premium Properties Ltd	PINNACLE POINT G	PRESCIENT LTD
PSG Group Ltd	PSG KONSULT LTD	Purple Capital Ltd
Putprop Ltd	Quantum Prop Group Ltd	REBOSIS PROPERTY
RECM & CALIBRE L Pref	Redefine Properties Ltd	Resilient Prop Inc Fund
RMB Holdings Ltd	RMI HOLDINGS	SA Corp Real Estate Fund
Sabvest Ltd	SAFARI INVESTMEN	Sanlam Limited
Santam Limited	Sasfin Holdings Ltd	Sekunjalo Inv Ltd
Standard Bank Group Ltd	Stratcorp Ltd	Sycom Property Fund
SYNERGY INCOME-A	TEXTON PROPERTY	TOWER PROPERTY
Tradehold Ltd	TRANSACTION CAPT	Trematon Capital Inv Ltd
TRUSTCO GROUP HO	VISUAL INTERNATI	Vukile Property Fund Ltd
VUNANI LTD	ZEDER INVESTMENT	Zurich Insurance Co SA

FINANCIALS

ADCOCK INGRAM HO	ADVANCED HEALTH	AFROCENTRIC INVE
ASCENDIS HEALTH	Aspen Pharmacare Hldgs Ltd	LIFE HEALTHCARE
LITHA HEALTHCARE	Mediclinic Internat Ltd	Netcare Limited
NUTRITIONAL HOLD		

INDUSTRIALS

ACCENTUATE LTD	Adcorp Holdings Limited	AFRIMAT LTD
AFRIMAT LTD	AMALGAMATED ELEC	ANSYS LTD
ARB HOLDINGS LTD	Argent Industrial Ltd	Astrapak Limited
Aveng Group Limited	Barloworld Ltd	Basil Read Holdings Ltd
Bidvest Ltd	Bowler Metcalf Ltd	BRIKOR LTD
CALGRO M3 HOLDIN	Cargo Carriers Ltd	CHEMICAL SPECIAL
Command Holdings Limited	CONSOLIDATED INF	CSG HOLDINGS LTD
DENEB INVESTMENT	Digicore Holdings Limited	Distr and Warehousing
ELB Group Ltd	ELLIES HOLDINGS	ENX (Austro)GROUP LTD
EQSTRA HOLDINGS	ERBACON INVESTME	ESOR LTD
Grindrod Ltd	Group Five Ltd	Howden Africa Hldgs Ltd
Hudaco Industries Ltd	Iliad Africa Ltd	Imperial Holdings Ltd
INTERWASTE HOLDI	Invicta Holdings Ltd	Jasco Electron Hldgs Ltd
KAP Industrial Hldgs Ltd	KAYDAV GROUP LTD	Labat Africa Ltd
Masonite Africa Ltd	MASTER DRILLING	MAZOR GROUP LTD
Metrofile Holdings Ltd	Micromega Holdings Ltd	MINE RESTORATION
MIX TELEMATICS	Morvest Business Grp Ltd	MPACT LTD
Murray & Roberts Hldgs	Nampak Ltd	Onelogix Group Ltd
PPC Limited	Primeserv Group Ltd	PROTECH KHUTHELE
PSV HOLDINGS	RARE HOLDINGS LT	RAUBEX GROUP LTD
REMGRO LTD	Reunert Ltd	Santova Logistics Ltd
SANYATI HOLDINGS	SEA KAY HOLDING	SEPHAKU HOLDI
SOUTH OCEAN HOLD	STEFANUTTI STOCK	Super Group Ltd
TORRE INDUSTRIES	Transpaco Ltd	Value Group Ltd
Wilson Bayly Hlm-Ovc Ltd	Winhold Ltd	WEARNE
WILLIAM TELL HOL	WORKFORCE HOLDIN	

OIL & GAS

MONTAUK ENERGY	Sacoil Holdings Ltd	Sasol Limited

TECHNOLOGY

Adaptit Holdings Limited	AFRICA CELLULAR	ALLIANCE MINING
Business Connexion Grp Ltd	Compu Clearing Outs Ltd	Convergenet Holdings Ltd
Datacentrix Holdings Ltd	Datatec Ltd	EOH Holdings Ltd
Faritec Holdings Ltd	Gijima Group Limited	HUGE GROUP LTD
ISA Holdings Limited	Mustek Ltd	Pinnacle Tech Hldgs Ltd
POYNTING HOLDING	Securedata Holdings Ltd	Silverbridge Holdings
Square One Solutions Grp	Stella Vista Tech Ltd	TOTAL CLIENT

TELECOMS

BLUE LABEL TELEC	Fonework	MTN Group Ltd
TELEMASTERS HOLD	Telkom SA SOC Ltd	VODACOM GROUP