Value relevance of the E&Y Excellence in Integrated Reporting Awards (EYIRA) in South Africa: An empirical investigation

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Declaration

I declare that this research report is my own original work and that all sources have been accurately reported and acknowledged. It is submitted for the degree of Master of Commerce to the University of Witwatersrand, Johannesburg. This research has not been submitted for any degree or examination at this or any other university.

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Prianka Pillay Date

Abstract

This research report examines whether or not the information provided in an integrated reporting ranking is value relevant to market participants. For the purposes of this paper, reference will be made to the Ernst & Young Excellence in Integrated Reporting Awards (EYIRA). The EYIRA is a detailed report released annually, which ranks companies into different categories based on the quality of the integrated reports they publish. In order to determine the value relevance of the information provided in the EYIRA, an event study was performed. Information that is value relevant to market participants will be indicated by the achievement of abnormal returns either on or after the event date. Furthermore an investigation was performed in order to determine whether or not market participants take note of the improvements of companies over the years under study. The results indicate that overall market participants have little to no reaction to the event itself. A minor positive reaction is observed for the companies that have improved over the years however it was not significant enough to conclude that the information provided by the EYIRA adds value to the investor's decision making process.

Chapter I – Introduction

This chapter introduces the research question and the background of the research report. The following sections explain the key factors that form part of investors' decision making processes. The problem discussed is the current doubt and uncertainty around whether or not a company benefits from producing a quality integrated report. The research problem is addressed by the purpose of the study and clarified in the research question. Lastly, this chapter also addresses the assumptions made in carrying out the research documented by the report.

1.1 Investors' decision making

Capital markets allocate and re-allocate the ownership of stocks based on investors' reactions to publicly available information (Fama, 1970). In an efficient market, it is assumed that the prices of stocks fully reflect all publicly available information (Fama, 1970). Historically, this information consisted of a majority of financial information that is directly comparable across various periods, companies and industries. However, it has been observed in previous studies (Labuschagne, 2013; Wolmarans & Sartorius, 2009) that within a South African context, market participants react to certain non-financial information in the short term.

Financial and non-financial information relating to business operations can predominantly be found in the integrated report. The Integrated Reporting Committee of South Africa (IRCSA) has taken steps to support businesses in the preparation of integrated reports, as this has become an essential part of the reporting process (IRCSA, 2014). The International Integrated Reporting Council (IIRC) intends for all companies to provide quality information that can be used by providers of financial capital, resulting in improved decision making (IIRC, 2014). If it can be substantiated that investors do take into account information other than financial information in their decision-making, it can then be said that it is in a company's best interest to report on such matters (Ernst & Young, 2014b). A survey carried out by Ernst & Young (2014b) showed that sustainability reporting improved the firm's reputation as well as the firm's competitive advantage.

Reporting on non-financial information may be beneficial to a company, however it is not mandatory. Other than the Johannesburg Stock Exchange (JSE) listing requirements, South Africa specifically, has no legislation that mandates a company's responsibility to report on the effects of their operations on the environment and society in general. For the companies listed on the Johannesburg Stock Exchange (JSE), one of the requirements to remain listed is that the company applies certain principles of the King III Code and Report of Governance (King III) or explain its deviation from these principles (IRCSA, 2014). King III advocates that companies should include a sustainability report as part of their annual integrated report (The Institute of Directors in Southern Africa, 2009). In doing so, the public is granted access to additional non-financial information of particular companies.

The introduction of integrated reports, while being a great source of non-financial information do not provide directly comparable information (Radley Yeldar, 2012) between various companies' reports. It has then been asserted by investors, who regard such non-financial information, that it would preferable for there to be certain benchmarks against which non-financial information (as contained in integrated reports) may be compared (Radley Yeldar, 2012). In order to benchmark the performance of integrated reports, various organisations have attempted to rank companies' reports based on what each organisation deems to be "best practice" (Ernst & Young, 2011).

Countries all over the world have their own forms of indices or rankings in which they rate the quality of sustainability and integrated reports (Esterhuysen & Ward, 2011). Some indices include the FTSE4Good, Dow Jones sustainability index, the JSE's Socially Responsible Investment Index (SRI), which measure the social responsibility of the company based on various factors including an assessment of the integrated report. Within the South African context there is an alternative ranking that is published in addition to the SRI Index, being the Ernst & Young Integrated Reporting Awards (EYIRA). The purpose of the aforementioned indices and other rankings is to determine the social responsibility and sustainability of the company in relation to other companies on the market and apply certain benchmarking guidelines in order to ensure comparability and to put into context what a company should be reporting on in their sustainability and integrated reports. The EYIRA focuses specifically on the ranking of integrated reports, whereas the other indices focus on social responsibility overall. It can be found that transparency in an integrated report may be linked to social responsibility in that a responsible company will disclose both the positive and negative impacts of its operations.

With the introduction of a ranking such as the EYIRA, the question posed is whether or not the ranking of these integrated reports actually add value to stakeholders and whether or not the release of these rankings can influence the decisions made by market participants. Specifically, does the inclusion of a company in the ranking and its relative position on the EYIRA induce a reaction by investors? In order to determine whether a not a reaction is observed, one assumes that in an efficient market, market participants react to all freely available information they receive (Fama, 1970). If markets react efficiently to this additional information, an abnormal return may or may not be observed depending on whether or not the information supplied in the EYIRA provides value and is relevant to market participants.

The purpose of this study is to determine whether additional information contained in the EYIRA and the ranking of companies with regards to sustainability reporting add value to investors subsequent to the release of the Annual Financial Statements and integrated report. As this information is available on the Ernst & Young (E&Y) website as well as the fact that the EYIRA is well advertised, it is assumed that any rational investor will have access to the information if the investor chooses to use this information in their decision making process. This is further elaborated in section 1.3.

1.2 Research problem and limitations of previous research

Although investors and stakeholders in general are focusing more on triple bottom line reporting in order to make decisions, there is still doubt surrounding whether or not sustainability reporting aids in creating value for the company (Willis, 2003). Within the South African context, it has been found that investors react to non-financial information such as the release of black economic empowerment transactions (Wolmarans & Sartorius, 2009). However, can it be said that investors take note of sustainability reporting related information such as a company's position on a specific ranking when making decisions?

Various studies have measured the potential reaction of investors to SRI Index ranking information. A prior event study, performed within the South African context, has focused on the reactions of investors to the announcement of the SRI Index rankings (Labuschagne, 2013). This study concluded that there was no significant short-term reaction to the release of the above-mentioned information. Another event study focused on the market's reaction to the SRI Index proved that there were no significant abnormal returns relating to the release of SRI Index rankings (Gladysek & Chipeta, 2012).

Esterhuysen and Ward (2011) studied investors' reactions to Financial Mail's (FM) 'Top Companies' rankings, which rates companies' performance based on how socially 'investable' a company is. The authors attempted to assess whether the release of new information after the release of the initial corporate governance disclosure is still relevant to market participants. The researchers' conclusion was that there was a significant positive return reflected for those companies (Esterhuysen & Ward, 2011).

This study adds to the body of literature as it aims to measure the value relevance of a different ranking (the EYIRA) within the South African context. The EYIRA aims to achieve credibility through its detailed ranking process and extensive mark plan (Ernst & Young, 2014a). Mark Weinberger, EY's global CEO, commented that the EYIRA adds value to firms in that they receive an in depth analysis of their reports (Ernst & Young, 2014a). Some of this feedback is included in the EYIRA report and therefore may be useful to stakeholders and market participants. It is important to determine whether or not the additional analysis provided and the supplementary information disclosed in the EYIRA is used by investors to aid them in their decision-making process. This study follows the measurement proposed by Benninga (2008); and measures value relevance using an event study surrounding the release dates of the EYIRA rankings across four years to perform an analysis of any abnormal stock returns for companies included in the EYIRA as a result of the release of this information.

1.3 The purpose and significance of the study

The purpose of this study, as mentioned above, was to measure the market reaction to the release of the EYIRA rankings in an attempt to determine whether or not investors attached value to the announcement evidenced by an abnormal movement in the share price of a particular company. The event that was investigated in this study was the release date of the EYIRA rankings. An event study was conducted in order to observe the market's reaction to this information to determine whether the integrated reporting ranking is value relevant to investors (Benninga, 2008).

Preparers of integrated reporting rankings may benefit from this study in that it will prove the value relevance of these rankings. This study served to investigate whether or not additional information provided to investors about the quality of an integrated report after the initial integrated report is released by the company can be useful in investment decision making and in turn can influence demand for a company's shares.

1.4 Research question

Given the recent developments in integrated reporting rankings, and the role of companies' integrated reports in communicating relevant information to a wide range of stakeholders, the research question posed is: To what extent does the market (JSE) react to the release of the EYIRA rankings?

1.5 Assumptions

The JSE is assumed to be at least a semi-strong efficient market, implying that investors react without bias to new information that is made available to the public (Fama, 1970), however this does not mean that these reactions would reflect immediately. It is also assumed that all investors have equal access to the information provided in the EYIRA as this information is readily available on the E&Y website and well publicised (Clarke, Jandik, & Mandelker, 2013). Furthermore, an assumption considered was that no confounding events occur during the event window

(Esterhuysen & Ward, 2011). This is addressed within the methodology which will be discussed in Chapter 3.

It was assumed that investors consider all available information prior to making decisions that will influence their actions on the market (FCA, 2014). All market participants are considered to be rational investors. This being said, a rational investor will possess the ability to make sound judgements based on good sense and have some knowledge regarding the investment of stock (FCA, 2014).

Assuming that the efficient market hypothesis can be applied within the South African context to the JSE, it is then further assumed that investors will react to publicly available information. Therefore in determining the value relevance of the EYIRA, it was observed whether or not the market reacted to the release of the information contained in the EYIRA.

Chapter II – Background

2.1 Literature review

When examining how markets react to information provided, it is important to establish the efficiency of that market. In a market in which there are no transaction costs, all information is publicly available to market participants and all market participants agree on the implications of the information on the share prices; the stock prices will fully reflect the information provided to market participants (Fama, 1970). This is termed a “frictionless and efficient market” (Fama, 1970). However, these conditions are not necessary for an efficient market to exist. As long as all participants take all publicly available information into account in their decision making process, then the current stock prices will fully reflect that information (Fama, 1970).

Empirical tests were performed by Fama (1970) in order to prove the efficient market hypothesis. Firstly, weak form tests indicated that the current stock prices reflect historical and generic information. Secondly, semi-strong form tests, which focused on the speed of market reactions to information received by market participants. Lastly, strong form tests focused on whether smaller investor groups had monopolistic access to information that is likely to influence stock prices.

In a study performed by Clarke et al (2013) the three forms of efficiency in markets as predicted by Fama (1970) were observed. The first being a weak form efficiency: in this type of market, the market price reflects only historical data which indicates that market participants do not react immediately to information provided to them (Clarke et al., 2013). The second being a semi-strong form efficiency market where the price of stock reflects all publicly available information (Clarke et al., 2013). This is based on the assertion that investors cannot benefit from being competitive on the market as all information is known and reflected in the share prices (Clarke et al., 2013). The last form of efficient markets is the strong form efficient market, which implies that all information existing is fully incorporated in stock prices (Clarke et al., 2013). In following this explanation, it can be said that the JSE is a semi-strong form market and therefore all publicly available information will be reflected in the share price (Ward & Thompson, 1995).

The research question posed by this paper focuses specifically on non-financial information provided to market participants. Typically the first type of non-financial information released to market participants is in the form of the integrated report released by the company. CSR has become an integral part of business operations and especially as part of the annual integrated report of companies and thus forms part of the information disclosed to the market about a company (Servaes & Tamayo, 2013). Research has proved that consumers do in fact take notice of CSR activities and are willing to pay more, on average, for a product if they have knowledge of the company's CSR involvement (Servaes & Tamayo, 2013). It was also found that simply advertising a company's commitment to CSR can increase the demand for its products. As such, the public are inclined to believe that purely profit orientated firms are likely to produce poorer quality goods, however, companies that are socially responsible will produce higher quality products (Servaes & Tamayo, 2013).

Over 80% of investors surveyed in a study performed by the firm Radley Yeldar indicated that non-financial information regarding the environment and social issues is useful in performing an analysis of a company (Radley Yeldar, 2012). Following said assumption, one can expect that information surrounding the quality of the integrated report will be taken into account by investors and analysts.

2.1.1 The need for the integrated report

The global financial crisis not only steered corporations to think about their current practices, but also to consider whether they were able to operate on a sustainable basis (Ernst & Young, 2013). In the past corporations have traditionally been concerned with reaching their intrinsic goals and targets, with no regard to how their actions affect stakeholders and society in general. Shareholders in turn, seemed content with the company performing well as they were provided with good returns on their investments, regardless of the impact on society. However, there are a growing number of socially responsible investors that may soon outnumber the mainstream investors (Radley Yeldar, 2012).

Mainstream investors base their decisions surrounding which companies to invest in purely on the financial performance whereas socially responsible investors tend to evaluate both financial and non-financial performance measures (Radley Yeldar, 2012). However, Radley Yeldar (2012) found that both mainstream and socially responsible investors indicate that corporate governance is indeed of relevance when making decisions about investing in a company, followed by information regarding the company's impact on natural resources. Two thirds of the participants in the latter mentioned study found that corporate governance information is hard to compare and that it could be useful to develop some sort of benchmark. This has led to the evolution of sustainability and integrated reporting rankings, discussed in section 2.1.2 that follows.

2.1.2 The evolution of sustainability and integrated reporting rankings

The disclosure that can be seen in many companies' integrated reports today has been developed and changed over recent years and will continue to evolve in future to the benefit of users' needs. South Africa was first introduced to integrated reporting in 2009 with the creation of King III. The JSE adopted these principles and all listed companies with the year ending 1 March 2010 or later were expected to apply the principles of King III or explain their deviation.

There are various frameworks that can be used in order to draw up an integrated report that contains the types of disclosure required by King III. With there being no set guidelines that companies are obliged to follow in preparing an integrated report, many different forms of integrated reports have been created across respective industries and companies. However, the most commonly used framework is the Global Reporting Initiative's (GRI) framework (Ernst & Young, 2014b). A study has determined that 70% of companies worldwide prepare sustainability reports or similar reports using the Global Reporting Initiative's framework (Radley Yeldar, 2012). This framework details the topics that should be covered in the sustainability report and the type of detail that should be included. The framework is drawn up from a multi-stakeholder point of view which dictates that all possible interested parties should be taken into account when attempting to operate sustainably (GRI, 2011). Larger companies are more likely to follow the GRI guidelines while smaller companies are more likely to use simpler frameworks with reference to the GRI framework (Ernst & Young, 2014b).

Given the various reports that could have been created as a result of the discussion above, sustainability and integrated reporting rankings were created in order to aid stakeholders in determining top performers with regards to transparency and disclosure.

The *Socially Responsible Investment (SRI)* Index reviews the integrated reports of all companies listed on the JSE while taking into account a holistic set of environmental, social and governance related concerns and ranks them accordingly. The SRI Index was introduced in May 2004 and has grown to include seventy-eight constituents by 2013 (JSE, 2014). The SRI Index aims to provide a benchmark comparison between socially responsible and non-socially responsible companies (Gladysek & Chipeta, 2012). The SRI Index rankings are based on the following four measurement factors; Environment, Society, Governance & Related Sustainability Concerns and Climate Change (JSE, 2014b). Under these four broad headings, specific factors are taken into consideration for which they are classified as either high impact, medium impact or low impact which can be found in a marking matrix available on the JSE website (JSE, 2014b). The higher the impact that the company has on the marking grid, the more socially responsible the investment would be ranked on the Index (JSE, 2014b).

In addition to the index discussed above, Ernst and Young developed their own ranking criteria and awarded positions to listed companies on a ranking known as the *Ernst and Young Excellence in*

Integrated Reporting Awards (EYIRA). These rankings commenced in 2011 and a committee ranked the top one hundred companies listed on the JSE (as per market capitalisation) according to a rigorous set of criteria (Ernst & Young, 2013). The marking guidelines are based on the guiding principles provided by the IIRC.

2.1.3 Investors' reaction to rankings

Abdo and Fisher (2007) investigated whether there was a correlation between a company's share price and the level of corporate governance disclosed by several JSE listed companies. The level of corporate governance disclosure was denoted by a G-Score. This study found that there was a positive correlation between a higher G-score and the company's share price. The study also found that market participants are interested in the level of corporate governance disclosed by a company in a relation to its competitors. In order to compare reports across companies and industries a socially responsible investor may be further interested in the ranking of a company's integrated report on a specific index; creating a benchmark to aid in making an investment choice between several socially responsible companies (Radley Yeldar, 2012). The studies discussed below have measured the impact of rankings on investment decisions.

Previous literature suggests that market participants take notice of the performance of companies on these types of rankings or indices. Companies listed on the *Dow Jones Sustainability Group Index* on average outperform those listed on the *Dow Jones Global Index* according to a study conducted by Knoepfel (2001). Subsequently, Dilling (2008) observed that significant positive returns were attributed to those companies who were added to the index and negative returns observed for those companies removed from the index. It must be noted however that not all previous studies indicated a positive correlation between socially responsible companies listed on these indices. Schröder (2007) found that out of 29 indices under study, none of them outperformed or underperformed their respective benchmarks.

A positive return was observed for those companies added to the *FTSE4Good Index* and conversely a negative return observed for companies no longer appearing on the Index according to a study performed by Curran and Moran (2007). However, despite investors having taken notice in terms of the market participants reacting to the constituents of the index, this did not materialise into financial gains for any of the companies involved. That being said SRI indices are still a way of screening socially responsible companies' and could provide beneficial information to investors (Gladysek & Chipeta, 2012).

2.1.4 The Ernst & Young Integrated Reporting Awards (EYIRA)

The EYIRA is an annual report compiled by Ernst & Young that ranks the top 100 companies listed on the JSE (selected on the basis of their market capitalisation) into 5 categories based on the respective content and layout of their integrated reports. In years 2011 and 2012, only three categories were disclosed, being “Top 10”, Excellent” and “Good”. In the years 2013 and 2014, the full 5 categories were disclosed, the additional two categories being, “Average” and “Progress to be made”. The reports were started in 2011 as Ernst & Young found that it was important to encourage companies to not only compile integrated reports, but to excel in reporting quality information that could be used by all stakeholders (Ernst & Young, 2011). The report has evolved from a survey regarding the companies’ corporate reporting abilities to an in depth analysis of the prepared integrated reports. Jeremy Grist, Climate change and Sustainability Partner at E&Y, offered that companies were eager to learn from each other in terms of integrated reporting as this was a relatively new concept in South Africa as well as globally.

The contents of each company’s integrated report is adjudicated by following the draft guidelines for integrated reporting as prescribed by the IIRC’s Discussion Paper. These guiding principles include strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness as well as consistency and comparability (IIRC, 2014). There are thirty-five aspects of discussion and these are rated on a ten-point scale. Once the initial marking process has been completed, the adjudicators collectively decide upon the ranking of the companies.

According to Ernst & Young’s report on integrated reporting excellence, the first 20 pages of an integrated report should contain the key information of the company (Ernst & Young, 2013). This enables the reader to understand what sustainability means to the company in relation to the context of the business’s operations (Ernst & Young, 2013). This information would consist of both financial and non-financial information, key performance indicators, and key business risks. These material factors can be explained further by cross referencing topics to other parts of the integrated report (Ernst & Young, 2013). An integrated report should aim to be well structured and uncluttered in order for stakeholders to grasp all the important information while clearly seeing the value of the report being enhanced by the additional information (Ernst & Young, 2013). A common mistake that is made by companies is to only include positive factors in the introduction or highlights section of the integrated report instead of having a balanced approach to the performance of the company (Ernst & Young, 2013).

2.2 Definition of terms

Sustainability report – A report published by a company about the economic, environmental and social impacts caused by its everyday activities (GRI, 2014).

Integrated report – An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term (IIRC, 2014).

Event Study – An empirical study performed on a security that has experienced a significant catalyst occurrence and has subsequently changed dramatically in value as a result of that catalyst. The event can have either a positive or negative event on that security (Fama, 1970).

Value relevance - Value relevance can be described as the ability of information disclosed about a company to reflect in the firm value of that company (Kargin, 2013).

Chapter III – Methodology

The following chapter will discuss in detail the methodology used in the paper, being an event study methodology as prescribed by Benninga (2008). The chapter will go into detail in describing the event, the estimation window used to calculate a trend, the event window observed and lastly the calculation of abnormal returns which are used to indicate the market's reaction to the event.

3.1 Overview of method

An event study methodology was used to determine the reaction of the market to the release of the annual EY Excellence in Integrated Reporting Awards. The companies under study were those companies listed on the JSE and included in the EYIRA for the 4 years under study. The short-term effect of the EYIRA being released was determined by observing whether or not the companies generate an abnormal share price return in response to the report being issued. An abnormal share price return would indicate an unusual investor reaction in comparison to the projected trend of the stock (based on historic data) over the event period and therefore this is used to measure the investor reaction. The abnormal return is calculated as the difference between the actual return yielded and the expected return for a particular share (Benninga, 2008). These differences were also summed to determine the cumulative abnormal return (CAR), this was performed with the intention to portray the total overall effect of the event over the event period (Benninga, 2008).

In order to ensure that there are no confounding effects affecting the share prices, company announcements around the release date of the EYIRA were analysed and companies whose share prices might have been affected by these other events not related to the release of the rankings were removed from the analysis. For a company that demonstrated significant abnormal returns around the event date; the company website was accessed in order to determine which media releases were published by the company around the time that significant returns were observed, SENS announcements of the company were additionally investigated to ensure no confounding events altered the results of the research. Subsequently an internet search was also performed to confirm that no other significant announcements or articles were published about the company around the time of the event. The following investigations therefore allowed for both company specific and industry specific control depending on the nature of the news discovered.

3.2 Event study methodology

3.2.1 Event

The event under investigation is the release date of the EY Excellence in Integrated Reporting Awards. The sample comprised of the JSE listed companies that were included in the EYIRA of integrated reporting excellence since its inception in 2011. The sample size varies each year due to the number of categories being disclosed. In the 2011 year, 61 companies formed part of the sample. In 2012, 55 companies formed part of the sample and in both the 2013 and 2014 years, 100 companies formed part of the sample. The period of study spans from the 10^{th} of February 2011 to the 4^{th} of September 2014. The following table lists the dates that were used in the study.

Year	**Release date of Report**
2011	16 September 2011
2012	5 September 2012
2013	24 July 2013
2014	6 August 2014

3.2.3 Estimation window

The estimation window is the period of time prior to the event window which is used to calculate an unbiased estimate of the expected return without any event being investigated (Benninga, 2008). It is important to observe this period as it will aid in establishing how the share returns of each of the companies included behave without the market participants having considered their ranking on the list. The estimation window used in this study consists of 126 trading days prior to the event window for the four years under study (Benninga, 2008).

A regression analysis was performed for each company to estimate that company's returns in the event window (Benninga, 2008):

$$r_{it} = (\alpha_i + \beta_i r_{Mt})$$

Where: r_{it} is the stock return on day t, and r_{Mt} is the market return on day t.

α_i and β_i are the coefficients calculated by the regression analysis.

This was used to calculate the expected returns over the event window. These expected returns were compared to the actual returns yielded in order to calculate the abnormal returns. The estimation window for each year is presented in the table below:

Year	Estimation Window
2011	10 February 2011 – 17 August 2011
2012	3 February 2012 – 6 August 2012
2013	20 December 2012 – 25 June 2013
2014	3 January 2014 – 8 July 2014

3.2.4 Event window

The event window can be defined as the number of trading days before and after the event takes place (Benninga, 2008). The event window used in this study is 41 days in each of the years under study. These 41 consecutive days are centered around the release date of the EYIRA, i.e. 20 days preceding the event, the day of the event and 20 days succeeding the event (Mackinlay, 1997).

The event window for each year is presented in the table below:

Year	**Event Window**
2011	17 August 2011 – 14 October 2011
2012	6 August 2012 – 5 October 2012
2013	25 June 2013 – 23 August 2013
2014	8 July 2014 – 4 September 2014

3.2.5 Calculation of abnormal returns

Having calculated the expected returns over the event window; the abnormal returns were calculated using the following formula as prescribed by Benninga (2008):

$$AR_{it} = r_{it} - (\alpha_i + \beta_i r_{Mt})$$

Where: r_{it} is the actual stock return in event window day *t*, and $(\alpha_i + \beta_i r_{Mt})$ is the expected stock return.

The abnormal return calculated per company indicates the impact of the event, being the release of the EYIRA, on the company's stock return. An abnormal return calculated as above will indicate any unusual movement within the event window compared to the expected behaviour of the stock. Following this, the cumulative abnormal return (CAR) was calculated in order to determine the overall impact of the event on a particular company. The CAR was calculated as follows:

$$CAR_t = \sum_{j=1}^{t} AR_{T1+j}$$

A further analysis was carried out to determine whether investors react to changes in the position of companies within the ranking from one year to the next. A company can improve its position, remain unchanged or receive a downgrade. To determine whether a change in the ranking of a company leads to abnormal returns the average abnormal returns and the cumulative average abnormal returns were calculated for each of the three possible outcomes as follows:

$$AAR_t = \frac{1}{n}\sum_{i=1}^{n} AR_{it}$$

$$CAAR_t = \sum_{j=1}^{t} AAR_{T1+j}$$

3.3 Collection of data; procedure and time frame

The EYIRA company rankings for each year were be obtained from the Ernst & Young Africa website and closing share prices were requested from the JSE for the estimation and event windows specified above.

In order to determine external factors that might influence share prices of individual companies during the event windows the company and SENS announcements made within the event window were analysed. These announcements were collected by using the relevant companies' websites. Companies whose share prices were deemed to have been affected by significant announcements during the event window were not included in the data analysis for that particular year. Judgement was used based on the nature of the announcement and the timing of significant abnormal returns in order to determine whether the announcements were significant or not.

3.4 Data management

The calculations needed to perform the event study were carried out using the financial functions in Excel. This included computing the expected returns, the abnormal returns and the cumulative abnormal returns for each company in each of the four years that encompass the study.

3.5 Validity and reliability

The validity of the data is comprised of both internal and external validity. Ensuring that the study measures what the researcher intends to measure will satisfy internal validity. In this study, the researcher measured the movement of the share prices across the sample of companies chosen, enhancing knowledge about whether or not investors are reacting to the information contained in the EYIRA rankings. T-tests were also carried out to establish whether the movements in share prices were statistically significant at the 5% level. Internal validity was satisfied by obtaining share price movements from a reliable source and making sure that any confounding events were removed prior to the analysis being carried out. External validity refers to the extent to which the results of the study can be generalised (Kalof, Dan, & Norton, 2007). The research focusses on the JSE and uses a well-established research methodology. The results of the study can therefore be generalised in a South African context.

Reliability is concerned with the consistency of the findings in the research. The findings will be reliable if, when repeated, similar results are achieved. The reliability of the study has been addressed by applying a well establish research methodology.

Chapter IV –Results

4.1 General discussion

This chapter consists of an analysis and interpretation of the research results obtained. The results will be presented and discussed in the following manner per year. It is important to note how each test or analysis relates to the overall outcome of the paper.

Firstly, the significance of the returns observed will be discussed per year. In order to observe the impact of the event on the constituents of the EYIRA, a t-test was calculated for each company to assess whether or not the returns were significant. A significant return would indicate that market participants place value on the information they receive about the companies listed on the JSE.

Following this general analysis of the market participant's reaction to the event, the cumulative average abnormal returns (CAAR) of each category were calculated and analysed per year. The analysis included the preparation of graphs that represents the cumulative average abnormal annual returns per category for an 11 day period within the event window, being 5 days prior the event and 5 days post the event. The purpose of this analysis was to observe whether or not a certain category of companies is significantly affected by the event over a short period of time when compared to the cumulative average abnormal returns observed prior to the event.

Lastly the companies that have improved their position on the ranking were noted and their cumulative average abnormal returns per year were calculated. An improvement consisted of a change in position in the "Top 10" category or an improvement between categories, i.e. from "Good" to "Excellent". The analysis was done to enable the researcher to determine whether market participants reacted to an improvement of a company in the rankings over the years.

4.2 2011 results

4.2.1 Significant returns in 2011

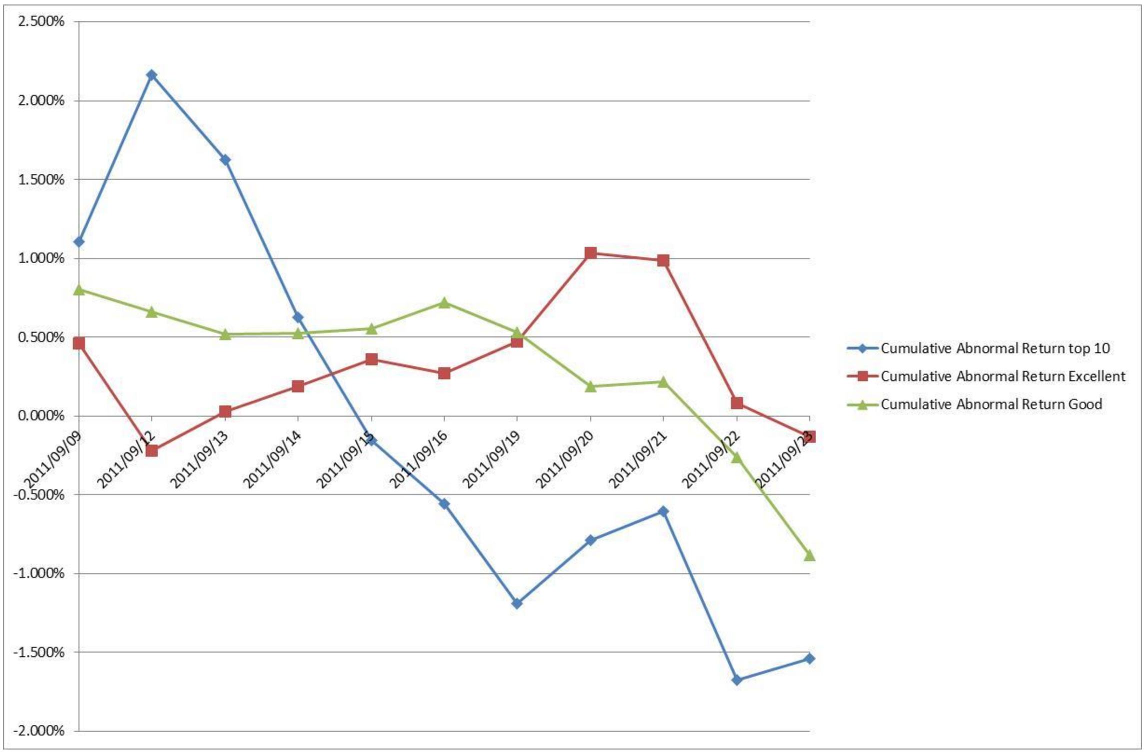
In 2011 the total number of constituents consisted of 61 companies. Each year the top 100 companies are analysed based on market capitalisation. For the 2011 and 2012 years only three categories are disclosed ("Top 10", "Excellent" and "Good"), therefore only 61 companies make up the sample for the 2011 year. The remainder of the companies were undisclosed as they were placed in the "Average" and "Perfunctory" categories, indicating that they did not perform as well as those companies contained in the sample. Of these disclosed companies, 21 displayed significant abnormal returns either on the day of the event or within a 5 day period after the event. It appears that the majority of the constituents contained in the EYIRA for the 2011 year did not achieve significant abnormal returns as a result of the event. Five of these companies experienced significant abnormal returns on the release date of the EYIRA, which was the 16th of September 2011. The remaining 16 companies displayed significant returns within 5 days post the event.

In the 2011 sample, seven companies were observed to have had announcements (unrelated to the EYIRA) published on their websites around the time of the event. Grindrod Limited, one of the companies that issued an announcement, was removed from the sample as the significant abnormal return observed on the 20th of September 2011 was very likely to be directly related to an announcement made regarding the approval of a R2 billion capital project on the same date. All other company announcements were not made around the dates that significant abnormal returns were observed.

Overall in 2011, 33% of the constituents of the EYIRA experienced significant abnormal returns as a result of the release of the EYIRA (refer to Appendix B1). In the year observed it appears that the information presented in the EYIRA is not value relevant to participants in the market, however this will be discussed further in the section that addresses the significant returns of each category separately. It could be expected that investors would react positively to this set of companies as they have performed well on a ranking surrounding the quality of their integrated reports.

4.2.2 Cumulative average abnormal returns for 2011

Figure 1 - CAARs per category (2011)



The event date in 2011 was the 16^{th} of September. As mentioned above, the cumulative average abnormal returns for each category are calculated. It could be expected that in aggregate the companies who perform better on the ranking can be said to experience more positive significant returns over the event window.

In the “Top 10” category, positive abnormal returns can be observed prior to the event date. However on the event date and post the event-date, significant negative abnormal returns were observed. This may upon first impression indicate that market participants were reacting negatively to the listing of these companies on the Top 10 of the EYIRA. However, it is unlikely that the significant negative abnormal returns observed by this particular group of companies are due to these companies performing well on the EYIRA and more likely due to another event occurring during the event window. Upon further analysis of the individual companies, it appears that certain companies experience large positive and negative abnormal returns which may in turn cause the overall CAAR to be portrayed negatively. Outliers such as Exxaro Resources Ltd, Goldfields Ltd and African Rainbow Ltd were then removed from the analysis. Exxaro and African Rainbow experienced significant negative returns whereas Goldfield experienced high positive spikes over the event period.

In the absence of these companies, the CAARs of this category still indicated a significant negative CAAR over the event window. It appears as if the market does not take notice of the release of the EYIRA and instead reacts to other information provided about the companies in the Top 10 category over the event window.

The “Excellent” group of companies demonstrated significant cumulative positive returns prior to the event and increasingly positive cumulative abnormal returns post the event date in 2011. It appears that market participants react positively to the companies that have been listed in the excellent category. However these positive returns do not appear to continue throughout the full 5 day period after the event. It also appears from the individual analysis that certain companies display significant positive returns around the event date. It seems that the companies that react strongly to the event are responsible for the significant positive CAAR over a short period during the event window.

Furthermore, the “Good” category of companies appears to have consistent positive abnormal returns over the period and show no specific reaction to the event. This particular group of companies generally appears to outperform the market over this period. It can be said that market participants do not react as a result of these companies appearing in the EYIRA. . There are 3 outliers among these participants that experience large positive and negative fluctuations over the event window. These companies are Woolworths Ltd, Imperial Ltd and Harmony Gold Mining Ltd. They were then removed as it was noted that the fluctuations demonstrated, may have influenced the overall CAARs of this category and therefore influencing the results observed in this category.

After removing the outlying companies, it appeared that negative CAARs were observed over the period following the event date. It is unlikely that market participants would react negatively to this information provided by the EYIRA. Therefore it can be said that the market is more likely to be reacting to other information provided by this set of companies.

4.3 2012 results

4.3.1 Significant returns in 2012

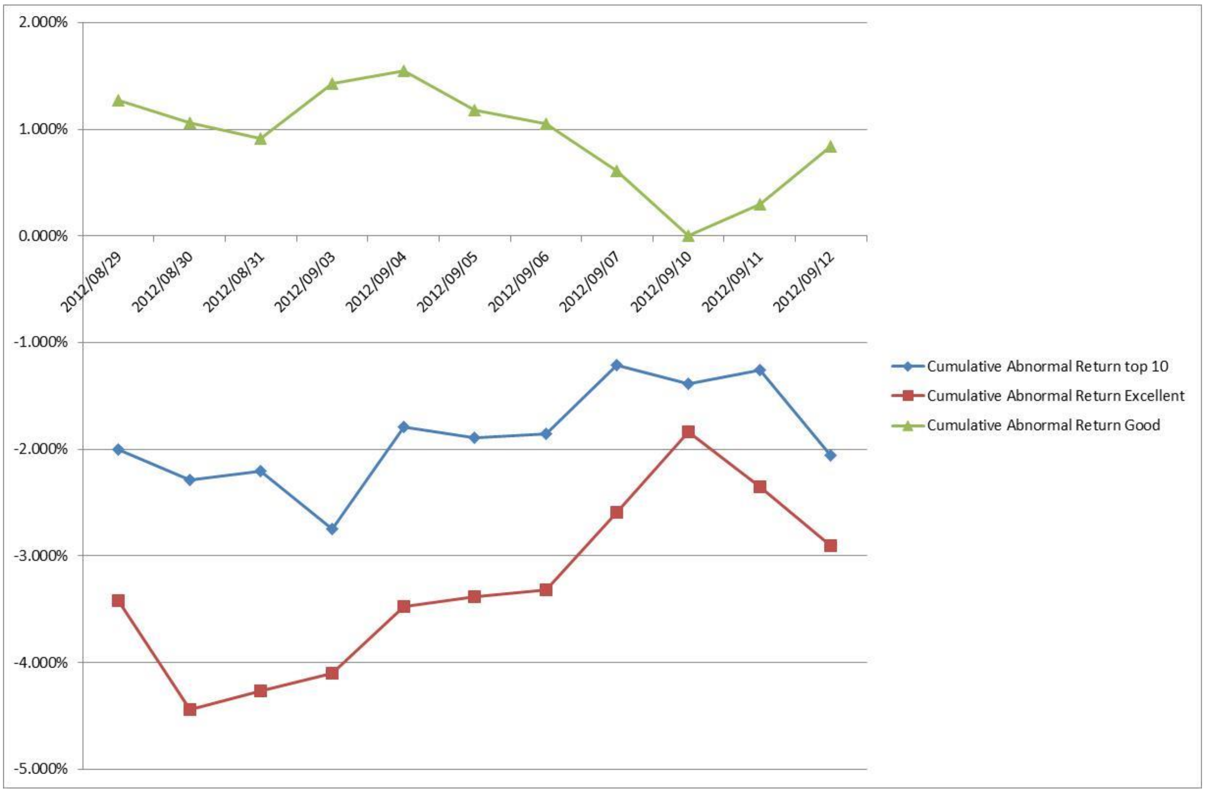
In 2012 the total number of constituents consisted of 55 companies. As mentioned previously, the top 100 companies are analysed each year by the adjudicators of the EYIRA, however in 2012 only three categories were fully disclosed to the public in the EYIRA brochure. Therefore the sample for 2012 consists only of 55 companies. Of the total constituents disclosed, 30 companies displayed significant abnormal returns, either positive or negative, within a 5 day period post the event date. Seven of these companies experienced significant abnormal returns on the date of the release of the EYIRA, which is the 5th of September 2012. The presence of abnormal returns on the event date seem to indicate that market participants react efficiently to information being released about the companies that are contained in the EYIRA.

Upon further investigation, 8 companies had published corresponding company announcements on their websites around the event date. Of particular importance is the announcement published by Lonmin Plc on the 6th of September 2012 regarding a peace accord signed with certain trade unions. This announcement seems to be directly responsible for the significant abnormal returns observed by Lonmin Plc. Therefore Lonmin Plc was removed from the 2012 analysis. The declaration of the peace accord could also have had some impact on the companies in the mining industry that also experienced significant abnormal returns during the event window; however, these companies have not been removed from the sample. Two other companies have been removed from the analysis, being African Rainbow Minerals Ltd and Allied Electronics Corporation, due to the nature of the company announcements published on their respective websites, which are likely to be directly responsible for the significant abnormal returns observed.

With the respective companies excluded from the sample of constituents studied in 2012, 49% of constituents were affected by the release of EYIRA and displayed significant abnormal returns post the event date (refer to Appendix B2). 33% of those companies that experienced significant abnormal returns, belong to the mining industry. Therefore it can be said that the information provided to market participants by the EYIRA is not value relevant to them.

4.3.2 Cumulative average abnormal returns in 2012

Figure 2 - CAAR per category (2012)



The event date in 2012 was the 5th of September.

The "Top 10" category experienced negative cumulative average abnormal returns prior to the event date and appears to react positively 2 days post the event. The timing of this rise in the gradient is not enough to conclude that in the 2012, a Top 10 performance resulted in positive market reaction. African Rainbow Minerals Ltd appears to experience significantly high positive returns followed by negative returns, which could possibly result in the CAARs of this category not accurately reflecting the reaction of the market to the release of the EYIRA.

When African Rainbow Minerals was removed from the sample, it appeared that overall market participants do not react to release of the information provided by the EYIRA over the event window as previously discussed. It was also noted that post the event the market reacted negatively to this particular group of companies. It is unlikely that market participants would react negatively to a company performing well on any type of ranking; therefore it is more likely that market is reacting to other information provided about this group of companies over the event window.

The “Excellent” category also experienced negative cumulative average abnormal returns over the period. The CAARs reflect a positive return on the event date. This may indicate that market participants react to a company’s performance if listed in the “Excellent” category. However the rise in cumulative abnormal returns does not last over the full 5 day period post the event. Two of the companies in this category experience significant fluctuation over this window and this could affect the overall CAARs of this category. These companies were subsequently removed from the sub sample of the “Excellent” category.

It then followed that the market had a positive reaction to this category which continued for a short period after the event date. However, the significant abnormal returns increased positively from the 4th of September. This is the day before the event date and it seems likely that the market is reacting to alternative information supplied about this particular group of companies rather than the imminent release of the EYIRA. The prolonged effect of the positive returns over the event window may indicate that the market has a small positive reaction to the companies contained in the “Excellent” category of the EYIRA.

The companies listed in the “Good” category, on average, have experienced positive abnormal returns over the period. On the date of the event and post the event, the cumulative average abnormal returns decreased slightly. This decrease is not significant enough to determine that the market has had a negative reaction to the information provided by the EYIRA. Overall the reactions by market participants lasted 4 days in total in the event window for 2012. There has been a reaction in each category to the event date which is observed through the cumulative abnormal returns graphs presented. After further analysis, it was found that 3 of the companies in this category demonstrated significant fluctuations over the period and should be removed from the category in this analysis.

The removal of these 3 companies significantly changed the overall CAARs of this category. Similar to the “Excellent” category, large abnormal returns have been recorded on the 4th of September. This may indicate that the market has a small negative reaction to the companies in this category due to the prolonged negative returns. However it is more likely that the market participants are reacting to other information provided to them rather than the release of the EYIRA.

4.4 2013 results

4.4.1 Significant returns in 2013

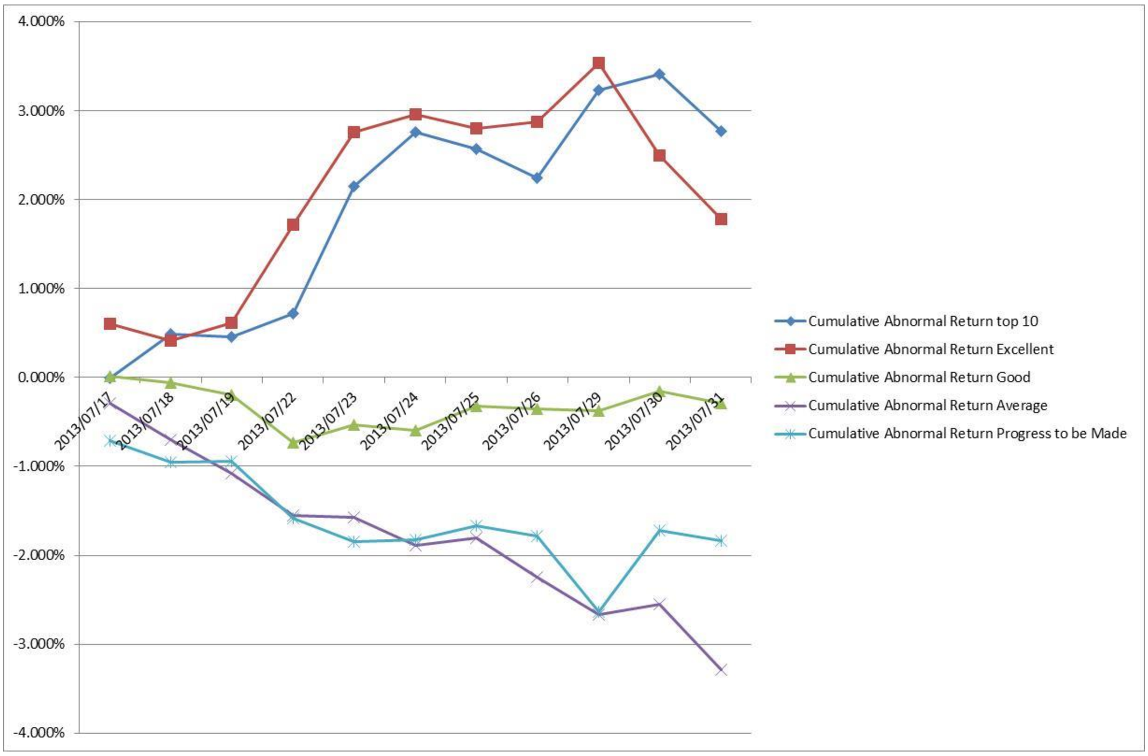
By 2013 the market participants are expected to be well aware of the EYIRA and therefore it may be likely that more significant returns would be observed in this year. In 2013 the EYIRA contained 100 constituents. This year the categories were split further into the following; “Top 10”, “Excellent”, “Good”, “Average” and “Progress to be made”. During the 2013 event window period, 13 companies were observed as having significant abnormal returns, either positive or negative, post the event. 2 companies experienced significant abnormal returns on the date of the event, while the rest experienced significant abnormal returns within a 5 day period. It is reasonable to expect that there may be a lag in the market’s reaction as expressed in the Fama article (1970), however these lags will only be experienced over a short period.

After searching the websites of these 13 companies it was found that 7 of the 13 companies published company announcements around the same time as the release date of the EYIRA. 2 of these companies have been removed from the sample as a result of the nature and timing of their published media releases. Kumba Iron Ore Ltd and SABMiller Plc were removed due to their interim results being published around the date of the event and significant abnormal returns being observed on the date of the media release. It is likely that market participants will place value on the information released about the performance of the company, and therefore influence their decision making process more than the release of the EYIRA. After evaluating the nature and timing of the other company announcements published and the timing of abnormal returns observed, it was determined that it is unlikely that these corresponding media releases published were directly responsible for the significant abnormal returns.

Overall in 2013, 11% of the total constituents were observed as having significant abnormal returns post the event date (refer to Appendix B3). This low percentage seems to indicate that very few market participants see the value relevance in the information provided by the EYIRA and that the release of the EYIRA does not influence their decision making processes.

4.4.2 Cumulative average abnormal returns 2013

Figure 3 - CAAR per category (2013)



In 2013 the event date was the 24th of July. This year the disclosure of the categories was extended to include two more types of rankings; Average and Progress to be made. The following results were observed per category.

In the "Top 10" category, positive cumulative abnormal returns were observed over the entire 10 day period. Prior to the event the cumulative average abnormal returns are climbing steadily. There does not appear to be any significant effect on these companies' returns as a result of the event. However, after an analysis of the individual companies in this sample, it was found that significant fluctuations in abnormal returns occur in Truworths Ltd and Goldfields limited over this event period.

If the effects of these abnormal returns are removed from the CAARs of this category, the market appears to react similarly in the absence of the outliers. A significant positive CAAR is observed for this category 2 days prior to the event. This appears to indicate that market participants are not reactive to the release of the EYIRA but rather to another source of information provided to the market participants prior to the event date.

The “Excellent” category reacts in a similar way to the “Top 10” category but experiences higher cumulative abnormal returns. There are no noticeable spikes of positive or negative reactions to the event or post the event date. There are 2 outliers in this group that experience swings in abnormal returns which are AngloGold Ashanti Ltd and Harmony Gold Mining Ltd. These companies are removed from the sub sample in order to analyse a more true reflection of how market participants react to the event.

Without these companies included in the overall CAARs of this category, market participants do not appear to react to the release of the EYIRA. A somewhat positive reaction to the information provided by the EYIRA was noticed over the event window. The reaction only occurred the day after the release of the ranking and the effect did not last for the entire 5 day period post the event which may indicate that market participants do not place a high value on the information content of the EYIRA even when they react to it.

Market participants did not appear to react in any marked way to those companies listed in the “Good” category. The cumulative abnormal returns remain at a relatively steady value throughout the 10 day period represented in Figure 3. After an analysis of the fluctuations of each company, it was noted that there were no particular outliers that have the potential to influence the CAARs of this category. Therefore no adjustments were made to the sub sample of constituents in this category.

The cumulative average abnormal returns for the “Average” category steadily decrease over the 10 day period represented in Figure 3. This category does not appear to be affected by the occurrence of the event. Therefore it may be displayed that market participants do not react to the information that a company has been ranked as “Average”. Upon further analysis of the singular constituents within this category, there appeared to be no outlying companies. Therefore it appears that market participants do not react to the fact that certain companies perform averagely as per the EYIRA.

Those companies ranked with “Progress to be made” have experienced negative cumulative average abnormal returns over the entire 10 day period. There are no significant fluctuations close to the event date. Therefore market participants do not react to the knowledge that a company has performed poorly on the preparation of its integrated report. It would be expected that compared to the companies that performed well in the ranking, the companies in the “Progress to be made” category would receive a negative reaction post the event. However, there still appears to be no significant reaction noted. Afrox Ltd experiences large negative abnormal returns over the event period. This company is removed from the constituents to observe CAARs of the category without the presence of the outlier.

In the absence of an outlier a minor positive reaction occurs on the event date, being the 24th July 2013. However this positive reaction only lasts for a very short period. It is unlikely that market participants would be reacting positively to the information that the company does not perform well on the EYIRA. Therefore it is likely that market participants are reacting to other information available to them.

4.5 2014 results

4.5.1 Significant returns in 2014

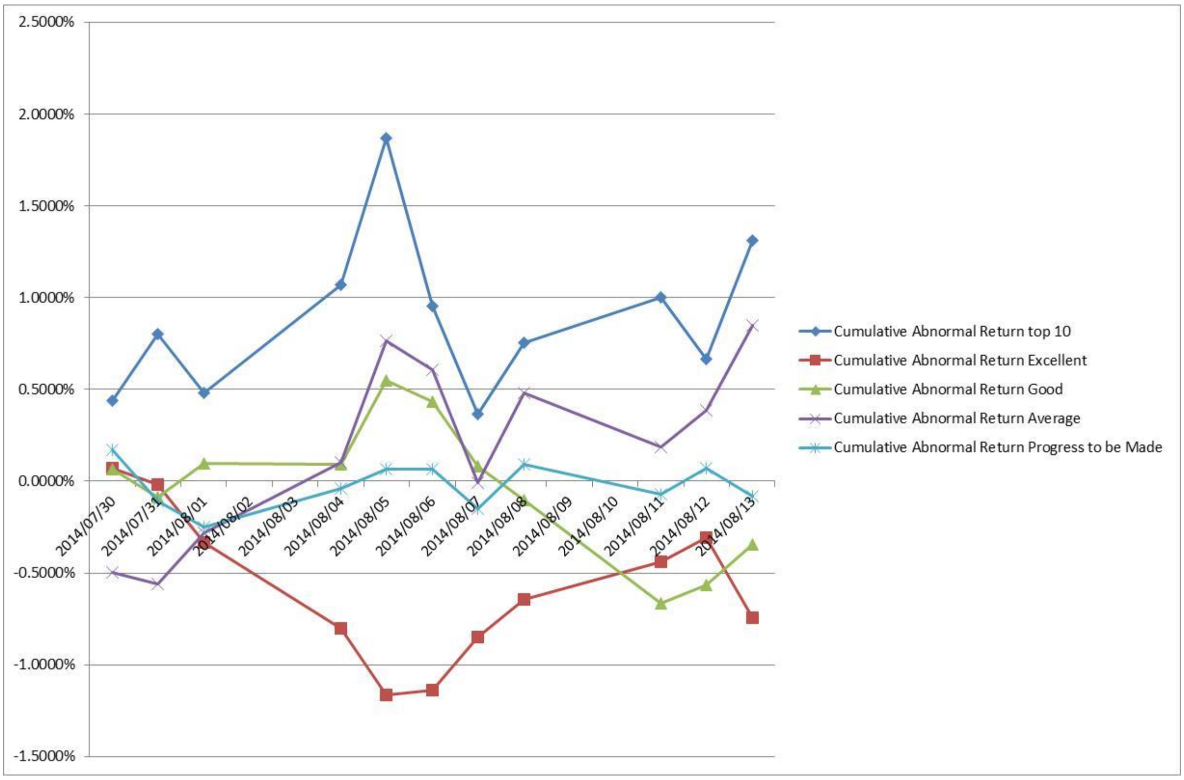
The 2014 constituents totalled to 100 companies being ranked. The ranking categories were the same as the 2013 year. During the 2014 event window, 14 of these companies experienced significant abnormal returns within 5 days of the event date. Upon further analysis, it was found that 5 of these companies were observed to have significant abnormal returns on the date of the event. This may be indicative of the market participants reacting to the information provided by the EYIRA, however the total percentage of significant abnormal returns on the event date is marginal.

After investigating the websites of the companies that experienced significant returns in the event window; 9 of the 14 companies published announcements on their respective websites surrounding the event date. As a result of the nature and timing of the announcements, 4 of the companies have been removed from the analysis due to these announcements being directly attributable to the media releases being published. Liberty Holdings Ltd and ArcelorMittal SA Ltd published company announcements about solid operational performance throughout the year. African Bank Investments Ltd was placed under curatorship on the 10th of August 2014. It is likely that market participants are reacting to this information rather than that provided by the EYIRA. The Spar Group Ltd released news of an agreement entered into with various other food companies. Significant abnormal returns coincided with these publishing dates and therefore this company was removed from the sample.

Therefore 10% of the total constituents under study displayed significant abnormal returns post the event date (refer to Appendix B4). This indicates that the information provided by the EYIRA does not appear to be value relevant to market participants.

4.5.2 Cumulative average abnormal returns in 2014

Figure 4 - CAAR per category (2014)



The event date in 2014 is the 6th of August. The above graph depicts the CAARs of each category in 2014.

As displayed above, the "Top 10" performing companies display significantly positive cumulative average abnormal returns over the 10 day period. The returns observed prior to the event appear to be increasing and experience a share decline on the date of the event. Kumba Iron Ore Ltd demonstrated large negative returns over the event period and was subsequently removed from the category in order to observe whether or not the remaining companies return a CAAR representative of actual market participants' reactions.

The analysis of the CAARs within this category demonstrated that without the effect of the outlier, they continued to represent a sharp decline over the event window. This indicates that it is unlikely that market participants react to the information provided by the EYIRA regarding the top 10 performing companies.

The CAARs observed for companies listed in the "Excellent" category demonstrate negative returns over the 10 day period expressed by the graph. No increase or decrease in the cumulative returns was observed on the day of the event. This indicates that market participants do not react to the information content of the EYIRA. The only outlier identified in this group is Lonmin Plc. Without the effect of Lonmin Plc, market participants appeared to react positively to the information content of the EYIRA even if this reaction does not last for the 5 day period post the event.

The “Good” category was examined next and showed the following results. Prior to the event date, the companies contained in the Good category experienced positive cumulative average abnormal returns. On the date of the event the return decreased slightly and the following day decreased further to reflect a negative value. This may indicate that the market reacted negatively to companies who were displayed as being in the Good category. However, this is not consistent with what is expected of a reasonable investor as it is more likely that the market participants are reacting negatively to alternative information provided rather than the fact the a company performs well in the EYIRA. The effects of Capitec Bank Ltd and Grindrod Ltd were removed from the CAAR testing subsequently as these companies demonstrated significant negative returns over the period unrelated to the event date. It was noted further, that even without the effects of the 2 companies that experience large negative value returns, there appears to be no market reaction that can be directly linked to the release of the EYIRA.

When the “Average” category was analysed, it was found that this group of companies experienced steadily improving cumulative average abnormal returns prior to the event date. On the date of the event, the cumulative returns appeared to decrease which may have indicated that the market participants reacted negatively to the information provided about companies who perform averagely on the EYIRA. After the event date it was observed that the cumulative returns decrease further and then subsequently increases which may indicate that market participants do not react to the release of the EYIRA due to the fluctuation in CAARs over a short period. One company that experiences highly irregular fluctuations, in relation to the majority of the companies in this category, over this period is Assore Ltd.

In this case the companies within this category experience a decline on the event date followed by a similar upward fluctuation the following day. The decline on the event date alone is not enough to determine that market participants react negatively to the information provided that a company performs averagely on the EYIRA.

The “Progress to be made” category experienced steady returns prior to the event date. There is no reaction observed on the date of the event. RMB, New Europe Property and Reinet Investments Ltd demonstrated noticeable fluctuations over the event window which may in turn have influenced the CAARs of the category as a whole.

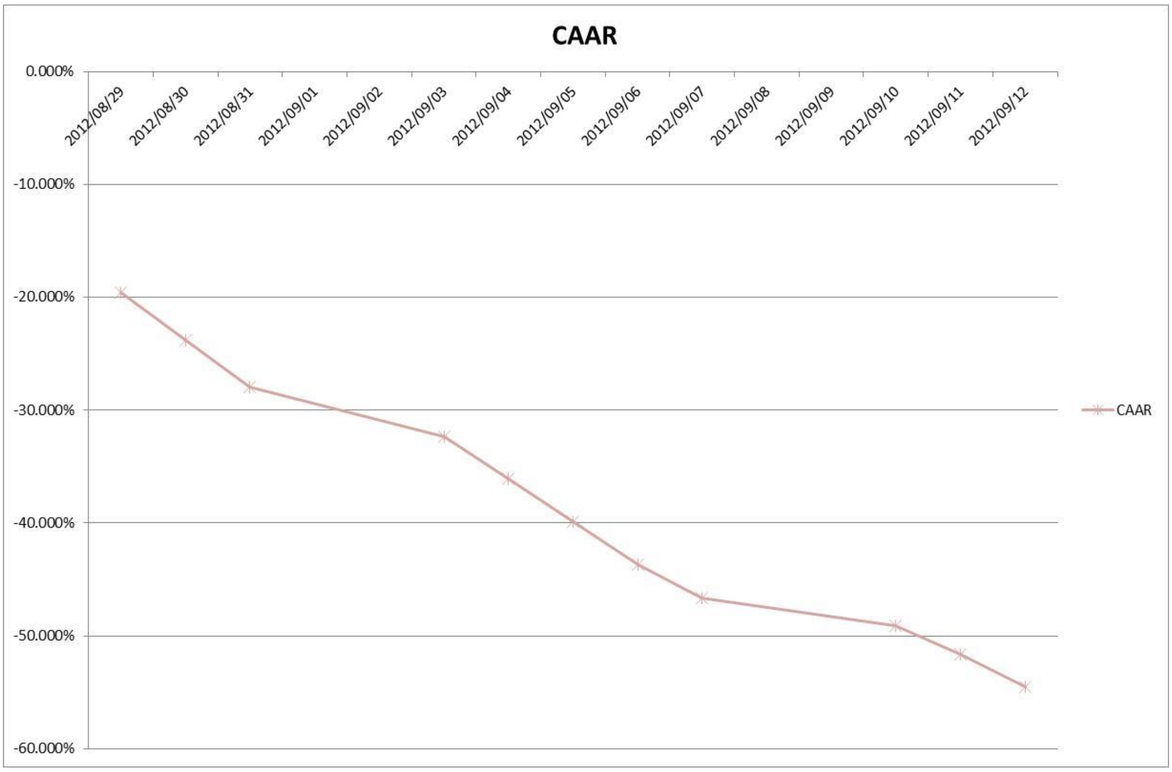
From the above graph (Figure 4), it can be seen that market participants demonstrate a positive reaction the day following the event date. It is unlikely that the market reacts positively to the lowest performing category on the ranking, this is substantiated by the fact the returns decline immediately the subsequent day. It appears as if the market does not react to the information provided about low performing companies on the EYIRA.

4.6 CAAR of improvements

The companies that were found to have improved their position from 2011 to 2012, 2012 to 2013 and 2013 to 2014 were accumulated in order to observe whether or not the market participants react to the information that a company has improved their position over the years.

4.6.1 2011-2012

Figure 5.1 Improved companies (2011-2012)

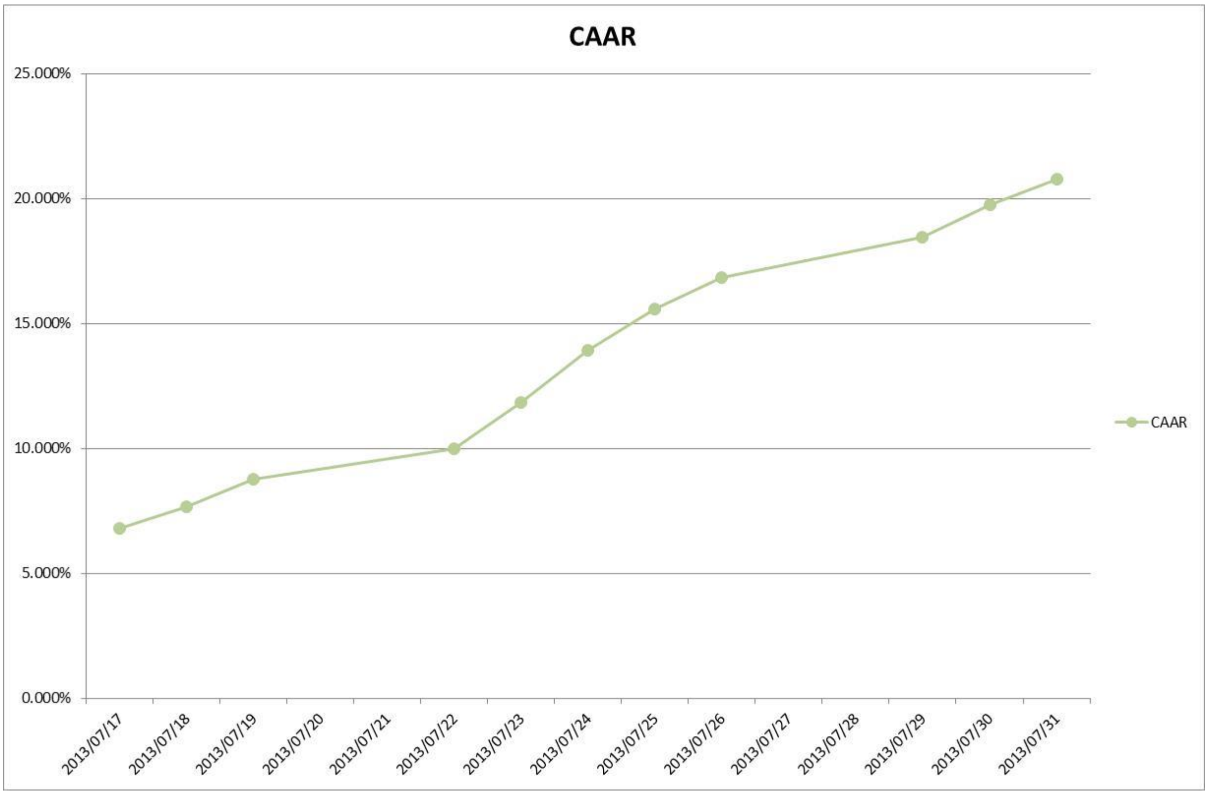


There was a steady decline in the cumulative average abnormal returns of the 12 companies who improved their position on the EYIRA. This indicates that overall there was a negative reaction by the market to these companies having improved their position. This decline however, does not appear to be attributable to the event occurring as the decline began prior to the event and continued at a steady rate post the event. It can be assumed that a rational investor would react positively to an improvement in the position of the company, as evidenced by the study performed by Curran and Moran (2007) on the constituents of the FTSE4Good Index. This study indicated that there was a positive reaction to companies who were added to the Index. Therefore it appears that the market does not react to the information provided by the EYIRA that a company has improved their position but rather other information provided about this set of companies.

As this ranking was still relatively new for the years under review, and it was discussed previously that no noticeable reaction was observed in the 2012 year of assessment, it appears reasonable that market participants are unsure of the information provided in the EYIRA and therefore unlikely to react significantly to it.

4.6.2 2012-2013

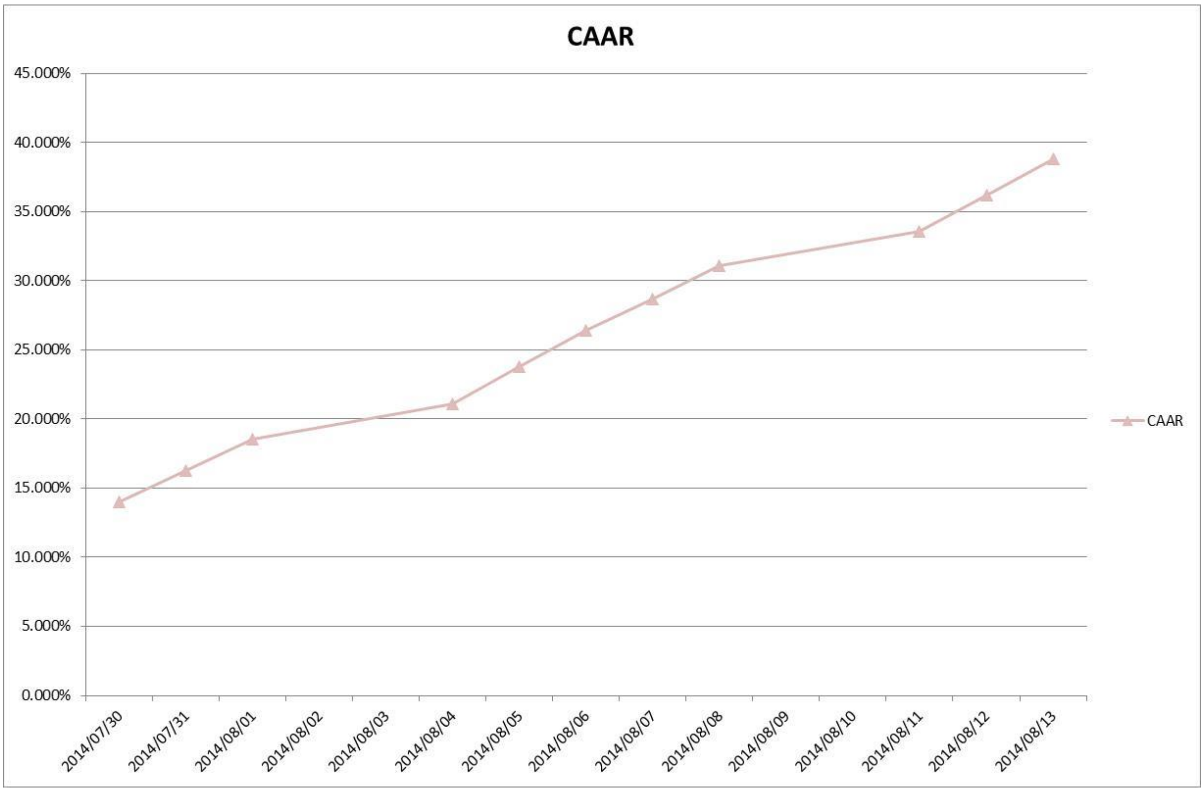
Figure 5.2 Improved companies (2012-2013)



In this year the 7 companies who improved their positions on the EYIRA experience positive cumulative average abnormal returns throughout the period expressed by the graph. The returns appear to have been increasing steadily prior to the event date. In order to justify that market participants react positively to the event, a change in the gradient of the graph would have to be observed on the event date. There is no evidence of a steep spike in the positive returns on the date of the event or post the event. It appeared that the market has a minor positive reaction to the improvement of these companies on the EYIRA, however as the positive trend began prior to the event; the market could be reacting to other information provided about this particular group of companies.

4.6.3 2013-2014

Figure 5.3 Improved companies (2013-2014)



The cumulative average abnormal returns for these 24 companies demonstrate steady positive returns over the 10 day period presented by the graph. The positive returns continue post the event date. The market participants could be said to have a positive reaction to those companies whose positions on the EYIRA have improved. Prior to the event date, the positive returns appeared to have been steadily increasing prior to the event date. There is no significant change in the gradient of the returns on the event date or after the event date, which may have indicated a positive reaction to the event itself. The continual steady positive returns could indicate that market participants have a minor positive reaction to the improvement of a company's position on the EYIRA while the remainder of the positive reaction could be attributable to other information provided to the market.

Chapter V – Conclusions and recommendations

5.1 Conclusions of the research

After the analysis of the significant abnormal returns observed by each constituent of the EYIRA each year from 2011 to 2014, overall it is suggested that market participants do not react significantly to a company being ranked on the EYIRA.

It could be suggested that market participants are not well aware of the event. The EYIRA is listed on the EY website and an inaugural event is held each year in order to recognise those companies that have excelled on the ranking. Although this is a public event and appears to be highly publicised, it does not seem as if market participants place value on this event. As stated in the EYIRA 2013 brochure the purpose of the ranking is to encourage excellence in integrated reporting (Ernst & Young, 2013). This ranking could be more beneficial to the constituents themselves rather than adding value to stakeholders. The detailed analysis of each company's integrated report is available to them to encourage improvement over the years (Ernst & Young, 2013).The market's reaction to the improvement of companies over the years will be discussed further.

The conclusions reached after the detailed analysis of the cumulative average abnormal returns of each category are as follows. Throughout the 4 years under study, no significant or prolonged reactions were observed to the information provided by the EYIRA about the constituents of the "Top 10" category. It can therefore be determined, after the results of the tests performed in this paper, that the release of a Top 10 ranking on the EYIRA does not appear provide value to market participants and is not relevant to their decision making process. It could be expected that those companies that clearly pointed out as performing well would experience significantly positive abnormal returns post the event date, however this was found not to be the case. The fact that there was no noticeable market reaction could be explained by investors having factored the information content of the individual companies' integrated reports when they were released, being prior to the event date.

After investigating the singular categories per year; there is no clear indication that companies placed in the "Excellent" category achieve significant abnormal returns. . It can be noted that market participants do take notice of the constituents that make up this category. Excellent performers in integrated reporting, as ranked by the EYIRA, do not appear to receive any reaction from market participants.

The market appears to react erratically to the constituents of the "Good" category. Either negative or no significant movements are observed for this category on or post the event date. It can still be concluded that over the 4 years of study, the information provided about companies who perform in this category on the EYIRA are not taken into account in users' decision making process. Therefore it appears that market participants do not place value on the information provided that a company performs well in the EYIRA, whether placed in the Top 10, Excellent or Good category.

It would be expected that the market should show a negative reaction to participants who do not perform well on an integrated reporting ranking such as the EYIRA, however the following results were observed. Market participants did not appear to react negatively or at all to companies contained in the "Average" category. The negative reaction observed in certain years appears to be minor and therefore it cannot be concluded that market participants react negatively to companies that are not ranked highly on the EYIRA.

Lastly, there is no effect of the event on the "Progress to be made" category. Market participants did not find the information provided by this category value relevant as there are not major reactions observed over the 2 years that this category was included.

The final test that was performed was to analyse the cumulative average abnormal returns of those companies who improved over the years in order to determine whether or not market participants take note of companies that have improved over the years factor this into their decision making process. It was observed that those companies that improve their position on the ranking over the years demonstrate significant positive cumulative average abnormal returns over the event window. This may indicate that market participants have a minor positive reaction to the placement of a company on the EYIRA ranking.

5.2 Recommendations for future research

This study was conducted within a South African context with specific reference to the release of the EYIRA rankings. Future studies could assess the value relevance of the EYIRA or similar rankings in different countries to establish whether investors across the globe react differently to the release of these rankings. It can be suggested that while some analysts may take note of integrated reporting rankings and how transparent a company is with regards to integrated reporting disclosure, it is still evident that investors in South Africa at large still make decisions based on performance related information and therefore it would be worthwhile to investigate how global investors react to this type of information. This study assessed value relevance by only considering the reaction of investors to the release of the EYIRA rankings. The study could be expanded to include qualitative data, by interviewing stakeholders or having them complete a survey or questionnaire to ascertain the value relevance they attach to these rankings. It is important to note that non-financial information will soon be increasingly relevant in the valuation of companies and thus will affect investors' decision making processes in future.

In an interview with Jeremy Grist, it was additionally suggested that it this research may be extended to focus on the industry sectors contained within the EYIRA. Would significant returns be noticed in various sectors such as the mining industry where investors might be more likely to consider non-financial information in their decision making process due to the nature of the operations in this industry? This may provide insight into analysts' decision making processes with regards to what type of information could be value relevant in the analysis of the various industries.

This study has been conducted over a relatively short period of time due to the recent introduction of integrated reporting and the EYIRA. The study could be expanded further to incorporate additional years in future in order to observe the long term effect of this ranking on market participant's decision making process.

5.3 Final report conclusion

It was observed that over the four years of study, market participants displayed a marginal reaction to the release of the EYIRA. The most prevalent reaction was in the 2012 year, however, given the Lonmin incident that occurred during the event window and the fact that a large number of the constituents were part of the mining industry, it still appeared that investors did not show a notable reaction to the release of the EYIRA.

No noticeable reaction, either positive or negative, was observed with regards to the cumulative average abnormal returns of any of the categories disclosed in the EYIRA. There appears to be a marginal reaction to the companies ranked in the "Excellent" category, however, the reaction over the four years were not prevalent enough to conclude that market participants react positively to companies that excel in the EYIRA. .

It was observed through this study that market participants do not react in any way to companies that have improved their position on the EYIRA. Investors do not find value in the fact that a company has improved the quality of their integrated reporting.

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Appendices

Appendix A - Constituents per year

2011	2012	2013	2014
Top 10	**Top 10**	**Top 10**	**Top 10**
Nedbank	ABSA	Gold Fields	Royal Bafokeng Platinum
Gold Fields	African Rainbow Materials	Truworths International	Standard Bank
Anglo American	Exxaro Resources	Standard Bank	Sasol
Massmart	Gold Fields	Royal Bafokeng Platinum	Truworths International
Standard Bank	Liberty	Sasol	Gold Fields
Exxaro Resources	Nedbank	Vodacom	Aspen Pharmacare Holding
Truworths	Sasol	Illovo Sugar	Kumba Iron Ore
African Rainbow Minerals	Standard Bank	Nedbank	Liberty
Sasol	Truworths International	Exxaro Resources	Clicks
Kumba Iron Ore	Vodacom	Liberty	Exxaro Resources
Excellent	**Excellent**	**Excellent**	**Excellent**
ABSA	Adcock Ingram	Absa	Altron (Allied Electronics)
Anglo American Platinum	African Bank Investments	Adcock Ingram	Anglo American Platinum
AngloGold Ashanti	Allied Electronics Corporation	African Bank Investments	Anglo American
Barloworld	Anglo American Platinum	African Rainbow Minerals	AngloGold Ashanti
BHP Billiton	Anglo American	Anglo American	ArcelorMittal SA
British American Tobacco	Aspen Pharmacare	AngloGold Ashanti	Barclays Africa
Clicks	Aveng	Aspen Pharmacare	Barloworld
Evraz Highveld Steel and Vanadium Company	Barloworld	Clicks Sappi	British American Tobacco
Grindrod	Clicks	Company	Growthpoint Properties
Growthpoint Properties	Growthpoint Properties	Growthpoint Properties	Harmony Gold Mining Company
Impala Platinum	Harmony Gold Mining Company	Harmony Gold Mining Company	Illovo Sugar
Investec	Kumba Iron Ore	Intu Properties	Intu Properties
Liberty	Lonmin	Kumba Iron Ore	Lonmin
Lonmin	Pretoria Portland Cement Company	Lonmin	MTN
Netcare	Royal Bafokeng Platinum	Omnia	Murray & Roberts
Pretoria Portland Cement Company	Sappi	Pretoria Portland Cement	Nedbank
Sappi	Sun International	SABMiller	Oceana
Sun International		Woolworths	Omnia
The Foschini Group			PPC
			Redefine Properties
			SABMiller
			Sappi
			Tsogo Sun
			Vodacom
			Woolworths
Good	**Good**	**Good**	**Good**
AECI	AECI	Anglo American Platinum	Adcock Ingram
Adcock Ingram	AngloGold Ashanti	Aveng	AECI
African Bank Investments	Aquarius Platinum	Barloworld	African Bank Investments
Allied Electronics Corporation	Arcelormittal South Africa	BHP Billiton	African Rainbow Minerals
Arcelormittal South Africa	BHP Billiton	British American Tobacco	Aveng
Aspen Pharmacare	British American Tobacco	Capitec Bank	BHP Billiton
Aveng	Capital Shopping Centres	Discovery	Capital & Counties Properties
Capitec Bank	Discovery	Impala Platinum	Capitec Bank
Discovery	Grindrod	Imperial	Coronation Fund Managers
Firstrand	Impala Platinum	Investec	Datatec
Harmony Gold Mining Company	Imperial	JD	Discovery
Illovo Sugar	Investec	Life Healthcare	FirstRand
Imperial	Lewis	Massmart	Foschini
JD	Life Healthcare	Mediclinic International	Glencore
Lewis	Massmart	MMI	Xstrata
Life Healthcare	Mediclinic International	Mondi	Grindrod
Medi-Clinic Corporation	MMI	Mr Price	Impala Platinum
Mondi	Mr Price	MTN	Investec
MTN	Murray & Roberts	Netcare	Life Healthcare
Murray & Roberts	Netcare	Oceana	Mondi
Nampak	Old Mutual	Old Mutual	Nampak
Northam Platinum	Optimum Coal	Pioneer Foods	Netcare
Old Mutual	Redefine Properties	Reunert	Northam Platinum
Redefine Properties	Reunert	Sanlam	Old Mutual
Royal Bafokeng Platinum	SABMiller	Steinhoff International	Remgro
SABMiller	Sanlam	Sun International	Reunert
Sanlam	The Foschini Group	The Foschini	Sanlam
Santam	Wilson Bayly Holmes-Ovcon	Tongaat Hulett	Sun International
Telkom SA	Woolworths	Tsogo Sun	Vukile
The Bidvest		Wilson Bayly Holmes-Ovcon	
Vodacom			
Woolworths			
Total Constituents: 61	**Total Constituents: 56**		

Average	**Average**
Acucap Properties	Assore
AECI	AVI
Arcelormittal South Africa	Bidvest
Assore	Brait SE
Brait SE	Distell
Capital & Counties Properties	Fountainhead Property Trust
Coronation Fund Managers	Hyprop Investments
Datatec	Imperial
Distell	Massmart
FirstRand	Mediclinic International
Fountainhead Property Trust	MMI
Grindrod Tiger Brands	Mr Price
Hyprop Investments	Naspers
KAP Industrial	Pick ‘n Pay Stores
Murray & Roberts	Pioneer Foods
Nampak	Steinhoff International
Naspers	Telkom SA SOC
Pick ‘n Pay Stores	Tiger Brands
Redefine Properties	Tongaat Hulett
Remgro	Wilson Bayly Holmes-Ovcon
Resilient Property Income Fund	
SA Corporate Real Estate Fund	
Santam	
Telkom SA	
The Bidvest	
Progress to be made	**Progress to be made**
Afrox	Capital Property Fund
AVI	Caxton and CTP Publishers and Printers
Capital Property Fund	EOH
Caxton and CTP Publishers and Printers	Famous Brands
Compagnie Financiere Richemont SA	Hosken Consolidated
Hosken Consolidated Investments	Invicta
New Europe Property Investments	New Europe Property Investments
Northam Platinum	PSG
PSG	Rand Merchant Insurance
Rand Merchant Insurance	Reinet Investments S.C.A.
Reinet Investments	Resilient Property Income
RMB	Richemont SA
Shoprite	RMB
SPAR	Shoprite
Trencor	The Spar
Uranium One	Trencor
Total Constituents: 100	**Total Constituents: 100**

Appendix B1 – Returns 2011

Year : 2011 **Event date: 16/09/2011**

Company	Significant return	Significant return on event date
Nedbank	✓	
Goldfields	✓	
Anglo American plc		
Massmart		
Standard Bank	✓	✓
Exxaro	✓	
Truworths		
African Rainbow Minerals	✓	
Sasol		
Kumba Iron Ore		
ABSA	✓	
Anglo American plat		
Anglo Gold Ashanti	✓	
Barloworld		
BHP Billiton		
British American Tobacco	✓	
Clicks		
Evraz		
Grindrod	✓	
Growthpoint	✓	
Impala Platinum		
Investec		
Liberty		
Lonmin		
Netcare	✓	
PPC		
Sappi	✓	
Sun International		
The Foschini Group		
AECI		
Adcock Ingram		
African Bank Investments		
Allied Electronics		
Arcelormittal		
Aspen	✓	
Aveng	✓	✓
Capitec Bank		
Discovery		
Firstrand	✓	✓
Harmony Gold		
Illovo Sugar	✓	
Imperial	✓	
JD		
Lewis		
Life Healthcare	✓	✓
Medi-Clinic Corporation		
Mondi		
MTN		
Murray & Roberts		
Nampak	✓	
Northam Platinum		
Old Mutual		
Redefine Properties		
Royal Bafokeng	✓	✓
SAB Miller		
Sanlam		
Santam		
Telkom SA		
Bidvest		
Vodacom		
Woolworths	✓	

Appendix B2 – Returns 2012

Year: 2012 **Event date: 5/09/2012**

Company	Significant return	Significant return on the event date
ABSA Group Ltd		
African Rainbow Min Ltd	✓	
Exxaro Resources Ltd	✓	
Gold Fields Ltd		
Liberty Holdings Ltd		
Nedbank Group Ltd	✓	
Sasol Limited	✓	✓
Standard Bank Group Ltd	✓	
Truworths Int Ltd	✓	
Vodacom Group Ltd		
Adcock Ingram Hldgs Ltd	✓	
African Bank Inv Ltd	✓	
Allied Electronics Corp		
Anglo American Plat Ltd	✓	
Anglo American plc	✓	
Aspen Pharmacare Hldgs Ltd	✓	
Aveng Group Limited		
Barloworld Ltd	✓	
Clicks Group Ltd	✓	
Growthpoint Prop Ltd		
Harmony GM Co Ltd		
Kumba Iron Ore Ltd	✓	✓
Lonmin plc	✓	✓
Pretoria Port Cement Ltd		
Royal Bafokeng Platinum Ltd		
Sappi Ltd	✓	✓
Sun International Ltd		
AECI Limited		
Anglogold Ashanti Ltd		
Aquarius Platinum Ltd		
ArcelorMittal SA Limited		
BHP Billiton plc	✓	
British American Tob plc	✓	
Capital Shop Cent Grp plc		
Discovery Holdings Ltd	✓	✓
Grindrod Ltd	✓	
Impala Platinum Hlgs Ltd	✓	
Imperial Holdings Ltd	✓	
Investec Ltd		
Lewis Group Ltd		
Life Healthc Grp Hldgs Ltd	✓	
Massmart Holdings Ltd		
Mediclinic Internat Ltd		
MMI Holdings Limited		
Mr Price Group Ltd	✓	
Murray And Roberts H Ord	✓	
Netcare Limited		
Old Mutual Plc		
Optimum Coal Hldgs Ltd		
Redefine Properties Ltd	✓	✓
Reunert Ltd		
SABMiller plc	✓	
Sanlam Limited		
The Foschini Group Limited	✓	
Wilson Bayly Hlm-Ovc Ltd		
Woolworths Holdings Ltd	✓	✓

Appendix B3 – Returns 2013

Year: 2013 **Event date: 24/07/2013**

Company	Significant return	Significant return on the event date
Gold Fields Ltd		
Truworths Int Ltd	✓	✓
Standard Bank Group Ltd		
Royal Bafokeng Platinum Ltd		
Sasol Limited		
Vodacom Group Ltd		
Illovo Sugar Ltd		
Nedbank Group Ltd		
Exxaro Resources Ltd	✓	
Liberty Holdings Ltd		
ABSA Group Ltd		
Adcock Ingram Hldgs Ltd		
African Bank Inv Ltd		
African Rainbow Min Ltd	✓	
Anglo American plc		
Anglogold Ashanti Ltd		
Aspen Pharmacare Hldgs Ltd	✓	
Clicks Group Ltd		
Sappi Ltd		
Growthpoint Prop Ltd		
Harmony GM Co Ltd		
Intu Properties plc		
Kumba Iron Ore Ltd	✓	✓
Lonmin plc		
Omnia Holdings Ltd		
Pretoria Port Cement Ltd		
SABMiller plc	✓	
Woolworths Holdings Ltd		
Anglo American Plat Ltd	✓	
Aveng Group Limited		
Barloworld Ltd	✓	
BHP Billiton plc		
British American Tob plc		
Capitec Bank Hldgs Ltd		
Discovery Holdings Ltd		
Impala Platinum Hlgs Ltd		
Imperial Holdings Ltd		
Investec Ltd	✓	
JD Group Ltd		
Life Healthc Grp Hldgs Ltd		
Massmart Holdings Ltd		
Mediclinic Internat Ltd		
MMI Holdings Limited	✓	
Mondi Ltd		
Mr Price Group Ltd		
MTN Group Ltd		
Netcare Limited	✓	
Oceana Group Ltd		
Old Mutual Plc		
Pioneer Foods Group Ltd		
Reunert Ltd		

Sanlam Limited		
Steinhoff Int Hldgs Ltd		
Sun International Ltd		
The Foschini Group Limited		
Tongaat Hulett Ltd		
Tsogo Sun Holdings Ltd		
Wilson Bayly Hlm-Ovc Ltd		
Acucap Properties Ltd		
AECI Limited		
ArcelorMittal SA Limited		
Assore Ltd		
Brait SE		
Capital&Counties Prop plc		
Coronation Fund Mngrs Ld		
Datatec Ltd		
Distell Group Ltd		
Firstrand Ltd		
Fountainhead Prop Trust		
Grindrod Ltd		
Tiger Brands Ltd		
Hyprop Inv Ltd		
KAP Industrial Hldgs Ltd		
Murray & Roberts Hldgs		
Nampak Ltd		
Naspers Ltd -N-		
Pik n Pay Holdings Ltd		
Redefine Properties Ltd		
Remgro Ltd		
Resilient Prop Inc Fund	✓	
SA Corp Real Estate Fund		
Santam Limited		
Telkom SA SOC Ltd	✓	
Bidvest Ltd		
African Oxygen Limited		
AVI Ltd		
Capital Property Fund		
Caxton CTP Publish Print		
Compagnie Fin Richemont		
Hosken Cons Inv Ltd		
New Europe Prop Inv plc		
Northam Platinum Ltd		
PSG Financial Serv Pref		
Rand Merchant Ins Hldgs Ltd		
Reinet Investments S.C.A		
RMB Holdings Ltd		
Shoprite Holdings Ltd		
The Spar Group Ltd		
Trencor Ltd		
Uranium One Inc		

Appendix B4 – Returns 2014

Year: 2014 **Event date: 6/08/2014**

Company	Significant return	Significant return on the event date
Royal Bafokeng Platinum Ltd		
Standard Bank Group Ltd		
Sasol Limited		
Truworths Int Ltd		
Gold Fields Ltd		
Aspen Pharmacare Hldgs Ltd		
Kumba Iron Ore Ltd	✓	
Liberty Holdings Ltd	✓	
Clicks Group Ltd		
Exxaro Resources Ltd	✓	
Altron (Allied Electronics)		
Anglo American Plat Ltd		
Anglo American plc		
Anglogold Ashanti Ltd		
ArcelorMittal SA Limited	✓	✓
Barclays Africa Grp Ltd		
Barloworld Ltd		
British American Tob plc		
Growthpoint Prop Ltd		
Harmony GM Co Ltd		
Illovo Sugar Ltd		
Intu Properties plc		
Lonmin plc		
MTN Group Ltd	✓	
Murray & Roberts Hldgs		
Nedbank Ltd Pref		
Oceana Group Ltd		
Omnia Holdings Ltd		
PPC Limited		
Redefine Properties Ltd		
SABMiller plc	✓	
Sappi Ltd		
Tsogo Sun Holdings Ltd		
Vodacom Group Ltd		
Woolworths Holdings Ltd		
Adcock Ingram Hldgs Ltd		
AECI Limited		
African Bank Inv Ltd	✓	✓
African Rainbow Min Ltd		
Aveng Group Limited		
BHP Billiton plc		
Capital&Counties Prop plc		
Capitec Bank Hldgs Ltd	✓	
Coronation Fund Mngrs Ld		
Datatec Ltd	✓	
Discovery Ltd		
Firstrand Ltd		
The Foschini Group Limited		
Glencore Xstrata plc		
Grindrod Ltd		
Imperial Holdings Ltd		
Investec Ltd	✓	✓
Life Healthc Grp Hldgs Ltd		
Mondi Ltd		
Nampak Ltd	✓	
Netcare Limited		
Northam Platinum Ltd		
Old Mutual plc		
Remgro Ltd		
Reunert Ltd		
Sanlam Limited		

Sun International Ltd		
Vukile Property Fund Ltd		
Assore Ltd	✓	✓
AVI Ltd		
Bidvest Ltd		
Brait SE		
Distell Group Ltd		
Fountainhead Prop Trust		
Hyprop Inv Ltd		
Imperial Holdings Ltd		
Massmart Holdings Ltd		
Mediclinic Internat Ltd		
MMI Holdings Limited		
Mr Price Group Ltd		
Naspers Ltd -N-		
Pik n Pay Stores Ltd		
Pioneer Foods Group Ltd		
Steinhoff Int Hldgs Ltd		
Telkom SA SOC Ltd		
Tiger Brands Ltd		
Tongaat Hulett Ltd		
Wilson Bayly Hlm-Ovc Ltd		
Capital Property Fund		
Caxton CTP Publish Print		
EOH Holdings Ltd		
Famous Brands Ltd		
Hosken Cons Inv Ltd		
Invicta Holdings Ltd		
New Europe Prop Inv plc		
PSG Financial Serv Pref		
Rand Merchant Ins Hldgs Ltd		
Reinet Investments S.C.A		
Resilient Prop Inc Fund		
Compagnie Fin Richemont		
RMB Holdings Ltd		
Shoprite Holdings Ltd		
The Spar Group Ltd	✓	
Trencor Ltd	✓	✓