

**AN INVESTIGATION OF THE RELATIONSHIP BETWEEN CORPORATE
SOCIAL RESPONSIBILITY (CSR) AND FINANCIAL PERFORMANCE OF
COMPANIES LISTED ON THE JOHANNESBURG STOCK EXCHANGE (JSE) IN
SOUTH AFRICA**

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by

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PLAGIARISM DECLARATION

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ABSTRACT

The purpose of this study is to investigate whether there is an association between CSR and financial performance in South African companies which are listed on the FTSE/JSE SRI Index. Specifically, whether there is a difference in financial performance of companies that perform CSR activities, and those that do not. If so, which direction does this association have?

The selection process of companies used in this study will now be explained step-by-step. The JSE SRI Index results show that there were 80 successful constituents as of February 2015 (JSE, 2015). These 80 companies are listed alphabetically in Appendix A, while the top 100 companies as ranked by Turnover are linked in Appendix B. Of these 100 companies, 67 were constituents of the JSE SRI Index continuously in 2015 and are shown in Appendix C. This leaves 33 companies in the top 100 which are not listed on the JSE SRI Index.

Companies that were listed on the JSE SRI Index were assumed to be 'good' companies as the listing requirements included the performance of numerous CSR activities such as Employee development, environmental sustainability practices and stakeholder engagement. The financial performance of these 67 companies was compared to the financial performance of the 33 companies that were not listed on the JSE SRI Index which were included in the population sample of one hundred companies.

Financial performance was measured using the ratios: Return on Assets and Return on Equity. The data analysis process used in this study was as follows:

1. The ratios for each company were obtained from the iNET (BFA) database, and annual and integrated reports for the period 2011 – 2015 (Appendix D;E;F).
2. The ratios for Non-SRI and SRI companies were then compared for each of the three ratios using a T-Test. The purpose of the T-Test was to show whether there is a difference in the ratios between SRI and Non-SRI companies on a year to year basis. The direction of the difference was shown by whether the SRI ratio was higher than or lower than the Non-SRI ratio.

The results of this study do not seem to support any of the CSR theories, as the study concluded that there is no significant difference between the financial

performance of companies that perform CSR activities and those that do not. This means that investing in CSR activities does not have a significant effect on the financial performance of a company.

CHAPTER 1 – INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 INTRODUCTION

The relationship between financial performance and CSR has been closely examined for over forty years. By the end of 2003 127 studies have been conducted, trying to define this relationship (Margolis and Walsh, 2003). Although many of these studies have resulted in a positive relationship, other studies have demonstrated negative relationship and even no relationship at all (Garcia-Castro et al., 2007). These mixed results have made this relationship controversial, with scholars debating it since the 1970s with no universal agreement to be found (McWilliams and Siegel, 2001).

Companies worldwide tend to spend significant resources to promote corporate social responsibility (CSR). Yet, previous studies have found no conclusive evidence that such activities lead to any financial benefits for the companies, especially in developing regions.

Traditionally, the major concern for most companies is profits. However, increasing level of governmental regulations, media attention, pressure of non-governmental organizations and fast information spread require companies to look beyond pure profit maximization and “please” a variety of stakeholders in a sustainable and ethical manner. Examples of being a socially responsible company include saving natural resources, polluting less, investing in employee development or supporting other CSR related initiatives. Being involved in CSR activities is becoming a must for companies, especially if they are aiming for good public opinion and want to sustain a well-appreciated brand (Werther & Chandler, 2005). At the same time, engaging in CSR activities may have both, positive and negative effects on firms’ financial performance. On the one hand, a positive image may help to increase profits, as customers are willing to pay more for the firm’s products and services. Similarly, CSR activities may increase profits via efficiency improvements and a more sustainable use of resources.

On the other hand, CSR activities require substantial financing, so costs may exceed the abovementioned benefits and profits may be eroded.

In addition, most of the CSR – financial performance studies are rather abstract and of limited use to managers since they do not shed light on the particular CSR activities that contribute to the positive or negative CSR to financial performance relationship. Knowing which CSR activities do pay-off would be valuable information for company managers. The debate over the different CSR – financial performance theories is further magnified by academics that have no unifying opinion regarding research methodologies, leaving room for further research.

1.2 BACKGROUND

The requirement for recognized social responsibilities and ethical procedures in business has become a major priority in society today. This position is supported by the fact that numerous well-known global organizations have begun to incorporate CSR initiatives into their day-to-day operations. The increasing importance of CSR programs leads us to believe that business leaders have changed their perception of these programs from a needless addition to an important business function.

According to Friedman (1970), the most important objective of any organization is to maximize the value of the wealth of every shareholder. This objective is simple and complements the financial interest of shareholders. However, organizations are also influenced by other stakeholders who are often not motivated by financial interest but are motivated by other interests such as the impact of the organization on the environment and the community it operates in (Mittal et al., 2008). These conflicting interests of stakeholders make it difficult to clearly define the concept of CSR and the impact of CSR activities on financial performance.

Most scholars would agree that there is no particular definition for CSR (Shwartz and Saiis, 2012). Diverse interpretations of CSR exist in different parts of the world, with companies reacting differently in their approach and understanding of CSR issues (Dobers and Halme, 2009). This study will use the definition; “CSR is the continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of workforce and their families as well as the local community and society at large” (World Business Council for Sustainable Development (WBCSD), 2010).

In an attempt to offer a more complete approach to CSR in South Africa, the Johannesburg Stock Exchange (JSE) introduced the Socially Responsible Investment Index (SRII) in May 2004. The index was launched with 51 initial constituents. This number has grown over the years to 82 constituents in 2014, as more organisations have realised the value of reporting on CSR activities (JSE, 2015). Some of the major objectives of the SRI Index are to identify the organizations that report on CSR activities, and to provide a basis for comparing socially responsible organisations to those that are not. Organisations are required to meet certain criteria which are always being improved and updated in order to be listed on the Index. This means that investors can view the SRI Index as an indicator of companies which operate in a socially responsible manner.

1.3 PROBLEM STATEMENT

The importance of CSR for companies in South Africa is growing in terms of the pressure to embrace the concept of CSR, and disclose the companies' CSR activities. Worthington-Smith, Swart and Collins, (2012) argue that it is time South African companies learned what sustainability really means not only for the sake of the companies themselves, but for the future of the country as well.

In 1970, Milton Friedman wrote a paper in which he made statements regarding the responsibilities of organisations to society (Friedman, 1970). On the surface of these statements, it appears as if Friedman believes organisations should not incorporate CSR initiatives in their operations because they are not part of the main objective of the organisation which is to make profit, and therefore are an unnecessary expense.

However, many scholars believe that organisations have a further obligation to society other than to make profits, even if this is not part of the primary objective of the organisation, which is to generate profit for its shareholders (Schwartz & Saiaa, 2012).

Due to the debate regarding CSR and its potential value creating capabilities, interest has increased amongst researchers to investigate a potential linkage between CSR and financial performance (Pava & Krausz, 1996). An early example of such research is McGuire et al. (1988), who examined the relationship between companies CSR activities and financial performance. These scholars came to the conclusion that the organizations that had low social responsibility had weaker financial performance. However, these organizations were also exposed to greater risks than the organizations which had a higher social performance (McGuire et al. 1988). In subsequent years, several researchers have noted similar results regarding a positive relationship between CSR and financial performance (Saeidi et al., 2015). Even so, overall results in the research area are far from unequivocal as a large number of researchers have failed to identify a positive relationship between the variables (Stanwick & Stanwick, 1998).

Some researchers have denoted the inconsistency in results to be caused by differences in selecting methodologies, approaches and selection of variables (Girerd-Potin et al., 2013). Peng and Yang (2014) further argue that most studies in this research area have focused on the US Stock Exchange and that this limits the opportunity to generalize results as the degree of governance, environmental policies and business practices varies globally. Further, the authors argue that research in the area would benefit from input from other countries to enhance understanding with regards to the exact nature of the CSR and financial performance relationship (Peng & Yang, 2014).

Although a large amount of research has been dedicated to investigating the relationship between CSR and financial performance worldwide, studies devoted to the South African market is scarce. This is particularly troubling as the potential benefits of understanding this area of study could be very valuable.

It is therefore important to investigate the nature of the relationship between CSR and financial performance in South African companies. If the relationship is determined to be positive, companies could be encouraged to expand their investments and sustainability reporting beyond the required levels. Conversely, if a relationship can't be observed or is deemed negative, companies might benefit financially from keeping CSR investments and sustainability reporting only at the required level.

1.4 RESEARCH PURPOSE

The purpose of this study is to investigate whether there is an relationship between CSR and financial performance in South African companies which are listed on the FTSE/JSE SRI Index. Specifically, whether there is a difference in financial performance of companies that perform CSR activities, and those that do not. This purpose can be broken down into the following objectives:

1. Determine if there is a difference in ROA of companies listed on the FTSE/JSE SRI Index and those that are not for the five-year period 2011 - 2015.
2. Determine if there is a difference in ROE of companies listed on the FTSE/JSE SRI Index and those that are not for the five-year period 2011 - 2015.

1.5 SUMMARY

CSR is becoming increasingly prominent with a growing number of organizations seeking to generate CSR benefits for both the company and its stakeholders. As companies have been encouraged to increase investment in CSR initiatives, stakeholders have demanded more transparency in the reporting of CSR activities. This has led to a corresponding rise in annual and sustainability reporting on both financial performance and environmental and social issues.

CSR can be linked to a number of bottom line benefits although in many cases these benefits are not immediately apparent and can be difficult to identify.

The purpose of this study is to investigate whether there is a relationship between CSR and financial performance in South African companies which are listed on the JSE. A quantitative research approach will be used to allow for a logical empirical analysis of the relationship between CSR and Financial Performance. Although the study does have some challenges which will be discussed in chapter 6, it is hoped that the findings will be of value to individuals, managers, investors and unlisted companies.

CHAPTER 2 – LITERATURE REVIEW

2.1 INTRODUCTION

Studies have attempted to determine if there is indeed a relationship between CSR and financial performance and the literature for this subject area continues to increase. Most of the research undertaken in this regard has, “resulted in numerous studies that have sought to measure the empirical relationship between corporate social responsibility and financial performance” (Ramchander, Schwebach & Staking 2012). In essence this relationship between CSR and financial performance can be seen from two points of view. The first viewpoint can best be described as determining whether financial performance, in itself, affects CSR. The second view, presented by Perrini, Russo, Tencati & Vurro (2011), suggests that it may be good CSR practices that affect the financial performance of a company. This study will focus on the second viewpoint, and whether or not there is a difference in the financial performance of companies that perform CSR activities and those that do not.

This chapter will discuss CSR in the South African context, how to measure financial performance, as well as examining the relationship stated in the research problem.

2.2 CORPORATE SOCIAL RESPONSIBILITY

2.2.1 HISTORY OF CORPORATE SOCIAL RESPONSIBILITY

The concept of CSR has evolved over the last four decades, but it was already being discussed long before that. Several scholars (Carroll, 1999; Joyner & Payne, 2002; Chirieleison, 2004) tried to use previously published studies to investigate the historical development of the concept of CSR.

They did this by identifying the main definitions and theories related to the concept of CSR. According to Joyner and Payne (2002), the first scholar to discuss the idea of social responsibility in companies is Chester Barnard (1938). He discussed how important and influential the external environment was to managers, during the decision-making process. Specifically, Barnard said that the person who has the authority, essentially needs to consider how the accomplishment of an organization depends additionally on the ethical motivators he can convey to it (Barnard, 1938).

However, Carroll (1979) and Chirieleison (2004) agree that the first major contribution to the topic was made by Howard Bowen (1953), who gave a meaning of CSR identified with the "businessperson" instead of to the entire organization (here CSR was alluded to as social responsibility as opposed to corporate social responsibility).

Toward the start of the '80s the idea that CSR practices should be included in business operations was totally acknowledged; the contributions of earlier authors encouraged the formation of studies on some alternative concepts and themes, such as stakeholder theory, corporate social performance and business ethics (Carroll, 1999). This doesn't imply that the CSR was set aside, but it began to be discussed as alternative concepts, theories, models and themes (Carroll, 1999).

As society became increasingly aware of the relevance of social and environmental issues and financial complications of such initiatives (Jackson & Parsa, 2007), companies were required to become more accountable for such issues. This broader scope, which surpassed purely economic motives, evolved over time into a recognised corporate responsibility.

As a result, the demand for improved CSR reporting to society also increased. In response to such calls, a substantial amount of information on company CSR initiatives has been developed and communicated through annual reports or sustainability reports (Tsoutsoura, 2004).

2.2.2 DEFINING CORPORATE SOCIAL RESPONSIBILITY

Most scholars agree that there is no single definition of CSR (Schwartz & Saiaa, 2012). CSR is a broad topic that consists of multiple concepts and ideas. Definitions are dependent on the country of origin and vary from company to company and author to author (Freeman & Hasnaoui, 2010).

Historically, various attempts have been made to define CSR. The 1960s saw significant attempts to arrive at a clearer definition of CSR as companies needed to make decisions and act in ways that reached beyond their direct economic and legal obligations. During the 1970s definitions were very similar to those of the previous decade but added the need for companies to not only strive to increase shareholders' wealth, but also to consider their effect on other stakeholders. In the 1980s, concerns about CSR began to be transformed into concepts, theories, models or themes. Definitions came to include a focus on voluntary CSR as well as profit motives, adherence to legal obligations, ethical considerations and good corporate citizenship (Carroll, 1999).

Carroll, (1979) identified four different categories in the definition of CSR. These four categories revolve around the responsibility of companies to adhere to economic, legal, ethical and discretionary responsibilities. This definition has been successfully applied in CSR research for over twenty-five years (Carroll & Shabana, 2010).

Other researchers refer to five elements; extend beyond the production of goods or the delivery of a service at a profit, help to resolve social problems, demonstrate broader responsibility than to just shareholders alone, have an impact beyond simple marketplace transactions and serve a wider range human values (Schwartz & Saiaa, 2012). Dahlsrud, (2008) analysed thirty-seven definitions and isolates five dimensions. These include the stakeholder, social and economic concerns, voluntariness and environment.

Surroca et al.,(2010) and Munilla and Miles, (2005) state that CSI can be seen as a range of strategies and practices that aim to create relationships between the various stakeholders and the natural environment.

From this brief investigation of definitions and for the purposes of this study, CSR could be considered as an arrangement of approaches and projects that are coordinated into various parts of the organization (operations, the process of decision making and supply chain), and for the most part manage issues concerning business morals, community investment, natural, governance, human rights, the commercial center and in addition the work environment.

2.3 CSR IN SOUTH AFRICA

The implementation and support of CSR in South Africa has been shaped by the country's history and socioeconomic challenges. Historical influences include the racially skewed participation in the economy, unemployment, widespread poverty (Hamann et al., 2005) and low levels of education and training (Bond, 2008). These challenges are not unique to South Africa, but South Africa's history, and more pertinently that of apartheid, gave these challenges a specific severity (Hamann et al., 2005). To redress the racial imbalances resulting from apartheid, South Africa introduced a policy of Black Economic Empowerment (BEE) (Hamann et al., 2005), aimed at advancing black South African participation in, and ownership of, business in South Africa. Achieving the goals of BEE is not an undertaking that a government can take on by itself; the support of the private sector is also needed. Companies have thus taken on development and regulatory responsibilities because the state has not been able to fulfill this role on its own. This can be considered as a driver of CSR in South Africa (Bond, 2008).

Historically, CSR in South Africa has focused on philanthropic initiatives in education, health or welfare. Later, CSR came to include concepts such as 'corporate citizenship', which emphasizes the integration of social and environmental imperatives throughout all aspects of a company's activities (Hamann et al., 2005). Important market-based incentives for CSR have also developed in South Africa. Examples include the King Reports on Corporate Governance and the JSE Securities Exchange Socially Responsible Investment Index (Bond, 2008). Although CSR investment is substantial and growing in South Africa, it is not significant when compared to total government spending, especially in priority sectors such as education and health care.

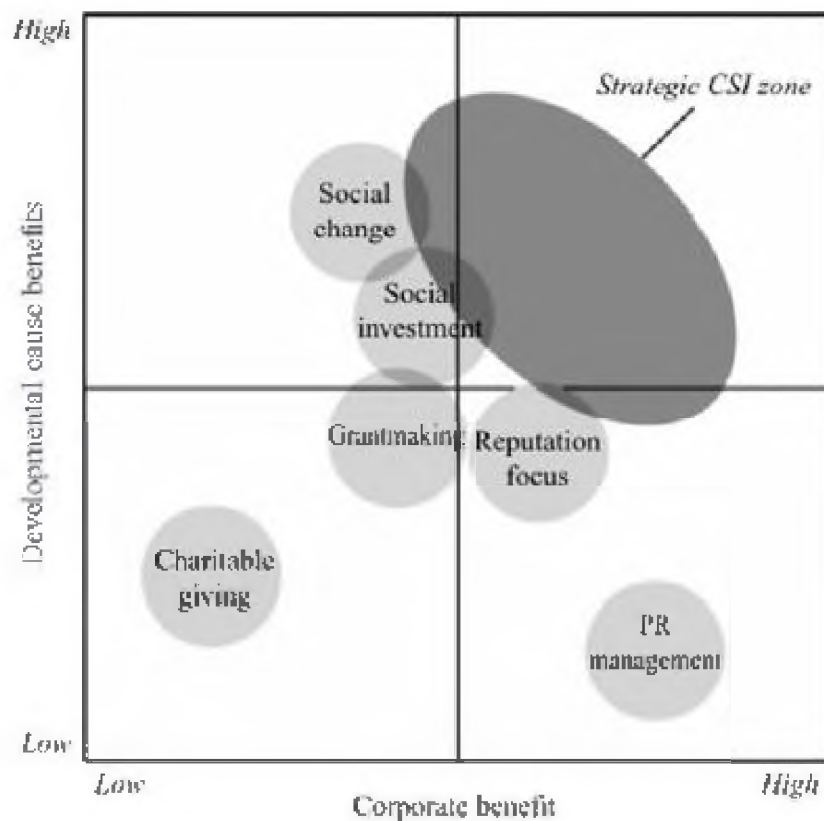
It is therefore of the utmost importance that government resources are strategically leveraged to achieve sustainability (Skinner & Mersham, 2008).

Sustainability indices are developing and environmental objectives are being included in the stock selection processes of mutual funds in emerging markets (Lagoarde-Segot, 2011). Many mutual funds now have specific mandates to only invest in companies that comply with specific sustainability criteria. This shows that the financial industry and the investors it represents are increasingly embracing CSR objectives (Lagoarde-Segot, 2011). This has the potential to result in improved relations between companies and capital suppliers, which may lead to lower cost of external finance and higher net present value (NPV) for selected projects (Lagoarde-Segot, 2011).

As CSR initiatives develop at a rapid rate globally, so does the need for the standardization of these initiatives in order to ensure that CSR truly becomes a global force. Standardisation will promote greater efficiency and level the playing field so that companies from developing countries can compete with competitors worldwide (Hamann et al., 2005). The international Organization for Standardization (ISO) is a guidance document for companies and organizations of all sizes to effectively address their social responsibilities in various cultures, societies and environments. It is written in plain English to increase its usefulness and extend its reach globally (Hamann et al., 2005).

Lagoarde-Segot, (2011) collected data on CSR from six emerging markets including South Africa. The evidence shows that emerging markets should also adopt CSR best practice and report on quantitative extra-financial information to shareholders and regulators. The evidence also suggests that the communication of this type of information can be a promising source of competitive advantage. Having a good CSR track record can enable managers to improve contacts with regulators and civil society. This mitigates the costs of opposing regulations and hedges against reputational risk (Lagoarde-Segot, 2011).

On the one hand, there are companies in South Africa that invest in CSR to derive a business benefit by earning publicity or reputation gain. On the other hand, there are companies which engage in CSR for motives of social investment or change. The strategic CSR point of balance is attained where benefits are maximized for both the company and the development cause. For CSR to be strategic, initiatives should be at an investment or social change level, as indicated by the shaded area in Figure 2.1 below (Skinner & Mersham, 2008).



Source: Skinner and Mersham (2008)

The terms used in Figure 2.1 warrant further explanation. 'Public relations management' refers to companies using CSR initiatives to gain publicity rather than attempting to address the social cause itself. Such initiatives are seen primarily as marketing. 'Regulating focus' involves initiatives that are seen as genuine efforts to do social good. 'Charitable giving' refers to companies making donations to society, in which case the impact and effectiveness of CSR is difficult to track. 'Grant-making' refers to companies awarding funds according to pre-defined criteria.

This involves keeping records of basic project inputs and outputs such as materials supplied. 'Social investment' refers to long-term commitments to a project where social spending impact will be measured and evaluated. 'Social change' involves improving social conditions to build long-term business benefits in the form of a better operating environment, although this approach does not prioritise benefits for the company (Skinner & Mersham, 2008).

Companies of different sizes in South Africa experience different constraints and opportunities with respect to CSR. Small, medium and micro enterprises (SMEs) are specifically exposed because they struggle to meet international CSR standards. At the same time, SMEs are often closer to their customers, suppliers and local communities due to face-to-face interaction which makes CSR an inherent element of many SMEs (Hamann et al., 2005).

One of the main obstacles of CSR in South Africa is the difficulty of measuring the impact of initiatives and determining their efficacy. South African companies are becoming increasingly committed to investment in effective CSR projects that will deliver measurable development returns. The SA Social Investment Exchange (SASIX) was created to match donor funding with high-performance CSR projects. SASIX promotes a culture of social investment where measurement is a core function of the development process (Skinner & Mersham, 2008).

SOCIAL RESPONSIBLE INVESTMENT INDICES

In recent years many stock exchanges introduced socially responsible investment indices or SRIs. Various environmental, social and governance (ESG) criteria are used to filter listed companies. These indices give better visibility to companies and provide investors with additional financial information. These indices can be divided into four categories:

1. Broad-based: All sectors are included provided that companies meet ESG standards (e.g. Dow Jones Sustainability Index)
2. Sector-Based: Same as above, but focusing on one particular sector (e.g. Real estate or finance)
3. Sustainable Issue-based: All sectors are included, but filtering focuses on a specific issue (e.g. Water, Scarcity, Diversity or Good Governance)

4. Sustainable Sector-based: Inclusion is based on top-down sectoral filtering (e.g. Green, Renewable or Clean Tech) (Lagoarde-Segot, 2011).

The FTSE/JSE SRI Index was launched in May 2004 in response to the rising prominence of sustainability across the world and particularly in South Africa. The FTSE/JSE SRI Index was structured to follow standard international guidelines. This index was the first of its kind in an emerging market and to be launched by an exchange. The SRI Index provides a framework for non-financial risk management for companies and investors and also serves as a tool facilitating responsible investment (Skinner & Mersham, 2008).

The King reports encourage companies to follow a triple bottom line approach, which requires organization to report not only on financial matters but also on their impact on the environment and people or society (JSE & EIRIS, 2013). This notion was first suggested by Elkington, (1997) who surmised that if companies were required to report on a specific element of its business, they would be motivated to manage that area more carefully. While many companies in South Africa already made use of triple bottom line or similar approaches, they needed guidance as to what specific activities to incorporate into their day-to-day business operations. Furthermore, investors were looking for ways to invest in companies that followed a triple bottom line approach, as this ostensibly communicated commitment to sustainable business practices and the fair treatment of stakeholders and the environment. In response, the JSE developed criteria to measure the triple bottom line performance of companies in the FTSE/JSE All Share Index, with the aim of compiling an index, the FTSE/JSE SRI Index, comprising those companies which comply with specific criteria. This was a way of recognizing the efforts of companies to put in place the triple bottom line approach (JSE & EIRIS, 2013).

In order to be included in the FTSE/JSE SRI Index, companies are assessed against criteria across the triple bottom line as well as governance criteria points. Within each area of measurement, policy management or performance and reporting are also evaluated (JSE & EIRIS, 2013). Companies listed on the FTSE/JSE All Share Index are invited annually to participate in the assessment.

The SRI Index selection criteria are set by the JSE, in consultation with the Advisory Committee, which consists of members from different organizations such as Prudent Portfolio Managers, Government Employees Pension Fund (GEPF) and Eskom South Africa (JSE & EIRIS 2013). Three steps are involved in applying for inclusion in the SRI Index. The company must first report on CSR issues, in line with Global Reporting Initiative (GRI) which develops and disseminates globally applicable "Sustainability Reporting Guidelines" for voluntary use by organizations. This report must then be reviewed by the Advisory Committee which will provide feedback to the company. Lastly, the company must provide additional data for clarification. The company will qualify for inclusion if it meets the environmental, social and governance requirements (Lagoarde-Segot, 2011).

2.4 MEASURING FINANCIAL PERFORMANCE

The financial performance of a company is a measure of how a firm is able to use assets from its core business to generate revenues (Dallocchio & Salvi, 2005). According to Orlitzky et al. (2003), financial performance is the extent to which a company achieves its economic goals. Corporate financial performance is the expression of companies' wealth; it is the translation into numbers of the first objective of companies: to make profit.

As the definition says, even the measure of firms' financial performance is not such a mystery and normally it is considered a simple task. It may seem a straightforward operation but, as the literature shows, there is little consensus even about this. The discussion here is about which is the right measure to choose. Between 1971 and 2001, one hundred twenty-two studies have been published; among these, seventy different measures of financial performance have been used (Margolis & Walsh, 2002). The problem is that of these 70 measures, some of them were used only once leading to the impossibility of checking their validity or reliability (Griffin & Mahon, 1997), as there is no other bases for comparison. Orlitzky et al. (2003) made a broad subdivision of all the financial measures used in the past into three major groups: market-based, accounting-based and other measures. Market and accounting financial measures are the most used; in particular among the 122 studies

It was mentioned before that, 47 used market-based measures; 43 used the accounting-based ones and 24 used both of them. The remaining eight used different measures of performance (Margolis & Walsh, 2002).

2.4.1 ACCOUNTING MEASURES OF FINANCIAL PERFORMANCE

Accounting measures consist of profitability measures, such as return on asset (ROA), return on equity (ROE), earning per share (EPS); asset utilization and asset turnover. Accounting measures captures only the past performance of the firm, meaning that using this kind of measures you can only see how historical record has been influenced by social performance (Margolis & Walsh, 2002; McGuire, Sundgren, & Schneeweis, 1988). Another aspect of the accounting measures is that they are a projection of managerial choices: since they are dependent on choices made by managers, they represent the internal decision-making capabilities and the managerial performance, rather than the external impact of the firm's actions (McGuire, Sundgren, & Schneeweis, 1988; Orlitzky, Schmidt, & Rynes, 2003). So, accounting-based measures are biased by differences in accounting procedures.

One common accounting measure that has been used in the past is an analysis based on the Return on Assets (ROA). Tang, Hull and Rothenberg (2012) chose to employ this financial ratio as the means of measurement for their study. This decision was based on the desire to be able to conduct a comparison between the researchers' findings with prior findings in the same field. Their findings indicated a positive relationship between CSR and financial performance through the use of ROA. Van der Laan, Van Ees and Van Witteloostuijn (2008) sought an efficiency ratio and as such chose to apply the ROA financial ratio as the basis of the results of their empirical study.

The use of ROA as an accounting measure has not been limited to foreign studies only. ROA has been adopted in studies that are based on South African data and this measure has proved to be very effective in determining the relationship between CSR and CFP. The study by Eccles, Pillay and De Jongh (2009) confirm the appropriateness of ROA as an accounting measure. In this particular study, no significant relationship between company accountability and CFP was established.

The literature also provides other accounting measures of performance that have been employed. These measures include (Wu 2006):

- Return on equity (ROE)
- Return on sales (ROS)
- Return on investment (ROI)
- Profit margin

These ratios were used to measure the profitability of different companies in the author's study of the relationship between CSR, financial performance and firm size. The results obtained showed a positive relationship between CSR and financial performance. It has been suggested that these measures help to provide a reflection of the internal efficiency of a company (Van Beurden & Gossling 2008).

In spite of the numerous studies that have been undertaken with the use of accounting measures as a means of determining the relationship between CSR and financial performance; there are other factors that accounting measures neglect to address. Eccles *et al.* (2009) suggest that market based measures could also be a useful measure of CSR and financial performance. This argument is premised on the fact that other stakeholders in the broader society also affect a company's operations. The effect of the influence exerted by the broader society is often best measured through the use of market based measures.

2.4.2 MARKET BASED MEASURES OF FINANCIAL PERFORMANCE

Market-based measures include stock performance, market return, Tobin's Q, price per share, market value to book value and others. These measures focus on market performances, and they are therefore forward looking, meaning that they evaluate the firm's ability to generate future cash flows (McGuire, Sundgren, & Schneeweis, 1988). These measures reflect the fact that shareholders are the primary stakeholder group and that from their satisfaction it depends the fate of the company (Orlitzky, Schmidt, & Rynes, 2003). This is one of the criticized aspects of this kind of measurement system: market measures catch shareholders expectations and evaluations, and this is not sufficient since firms are made up of different aspects.

One common market based measure that has been used to determine the relationship between CSR and financial performance is based on share performance. Becchetti and Ciciretti (2009) evaluate this relationship through the use of stock market performance. In their study, the authors evaluated the stock market performance of socially responsible firms by considering a combination of aggregate buy-and-hold portfolios and individual stocks. The overall findings indicate no significant advantage is obtained from CSR in relation to financial performance. Ramchander *et al.* (2012) also look at comparisons between movements in the share price of socially responsible firms and non-socially responsible firms. The researchers specifically focus on the share price movement based on the impact of announcements on CSR. The results of the study indicate that positive share price movements, in relation to CSR announcements, are associated with companies that employ effective and credible stakeholder management.

Black Economic Empowerment (BEE) deals with market related factors relating to company stakeholders such as employees, investors and the community and thus cannot be classified as an accounting based measurement. According to Wolmarans and Sartorius (2009), BEE can be considered as a form of CSR in a South African context. These researchers employed South African data in identifying the relationship between CSR and financial performance. The study focuses on whether BEE announcements affect a firm's shareholders value creation. The findings indicate a positive relationship between shareholder wealth creation and BEE announcements (Wolmarans and Sartorius, 2009).

Further research in the same vein has been undertaken since. Chipeta and Vokwana (2011) adopt a shorter time frame as they assess the effects of BEE announcements on the short term shareholder wealth of companies listed on the JSE. Their findings show cumulative abnormal returns are negative for the entire period of their assessment. The implication is that BEE announcements do not enhance shareholder wealth in the short term.

As discussed above, both accounting and market-based measures have been used through history since both of them have advantages and disadvantages. There are authors who support market measures, arguing for example that the use of this kind of measures makes easier to isolate CSR activities; market measurements for CSR relate more closely to shareholders' wealth (Davidson & Worrell, 1990). Other researchers prefer accounting measurements since they are a better predictor of social performance than market measures and the use of market measure capture a smaller relationship between CSR and financial performance (Wu, 2006).

It is evident that market and accounting based measures have been employed extensively in previous studies conducted. However there are many other studies that have employed measures that cannot be categorized as purely market based or accounting based. These other measures have been based on other factors that influence corporate social responsibility and financial performance.

2.4.3 OTHER MEASURES

Research undertaken by Van Beurden and Gosling (2008) is a good example of how research on CSR and financial performance has evolved to beyond using just market based and accounting measures. The study has a third element, in the fact that, it analyses the factors that could influence the relationship between financial performance and CSR. The study found a significantly positive relationship between CSR and financial performance. Nelling and Webb (2009) also adopt the strategy of employing both market and accounting based measures. However in their study, the researchers compute their own form of corporate social responsibility based on a number of factors that they considered relevant. These factors were then weighted to provide a weighted score for corporate social responsibility. Overall the researchers found no significant relationship between CSR and financial performance.

It could be suggested that perhaps the existing methods of measuring the relationship between CSR and financial performance are not as effective as previously thought. If this were the case, then new methods would have to be implemented. Turker (2009) employs a self administered questionnaire to determine the financial performance related to good CSR.

This method of analysis is a deviation from the conventional measures used to analyze CSR and financial performance. It can be argued that this method has limitation as no common standard was used as the basis for the measurement. However, this could also make this analysis more effective as every detail involved in the study is selected on merit, therefore guaranteeing that only the most relevant aspects of CSR and financial performance are considered. This method could prove to be more effective on a global scale as the attributes of good CSR practices vary globally. Different cultures, religions, income levels and environmental aspects all have an effect on what is deemed as good CSR.

It is often thought that inclusion in a CSR database is evidence enough of good CSR practices. Despite most research being based on this premise, the effects of voluntary disclosure provide another means of analysing the CSR and financial performance relationship. Dhaliwal, Li, Tsang and Yang (2011) chose to measure the effects of voluntary CSR disclosure compared with the cost of equity capital. This study provides another dimension in the comparison of CSR and financial performance. Most of the previous studies in this subject have used some sort of standard, such as the Kinder Lydenberg Domini (KLD) Socrates database, as a measure of which firms are considered socially responsible. The study goes a step further by analysing the companies that chose to go the extra mile with regards to CSR. This step results in a positive relationship between CSR and financial performance (Turker, 2009).

The KLD Socrates database is a CSR database that measures companies on various degrees of CSR. Once measured the companies are given ratings compiled by an independent rating service. The measurement criteria used in the KLD Socrates database includes Community participation, Diversity, Employee interests, Environmental considerations and Shareholder interests.

Each company in the database is then evaluated based on the strengths and weaknesses of the different measurement criteria. The database focuses on a wide range of companies over a broad spectrum (Nelling & Webb 2009). A number of past and present studies rely on the KLD Socrates database as a measure of good CSR (Wu 2006).

2.5 CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE

Ever since the 1970's when the concept of CSR became increasingly popular, the theories surrounding it and its link to financial performance have fascinated experts and scholars alike. Although there has been extensive research into this relationship between corporate social responsibility and financial performance, the scholarly world still lacks a universally common perspective. Scholars such as Freeman, (1984) contend that there is a positive relationship between CSR and financial performance. These scholars argue that CSR enhances the fulfillment of various stakeholders and subsequently the organization's reputation, which leads to improved financial performance (Allouche and Laroche, 2005). On the other side, scholars who support Friedman's (1970) traditional vision believe that managerial attention to interests other than those of investors is a breach of trust that inevitably reduces the welfare of shareowners (Preston & O'Bannon, 1994).

The scholars who have suggested a negative relationship between social responsibility and financial performance have argued that high CSR may result in increased expenses and lead to the organization not performing as well as other organizations financially (Bragdon and Marlin, et al., 1972). Other authors who have argued for a positive relationship have referred to enhanced worker and client goodwill as an imperative result of social responsibility (Davis, 1973). Scholars have continued to debate the different methodologies utilized by scientists as a part of measuring both CSR and financial performance, however, a consensus has still not been reached which has made it difficult to sum up the results (Martinez-Ferrero and Valeriano, 2015).

The increased spending to improve the social responsibilities of organizations in the previous decade suggests that management believes that there is a monetary advantage from CSR programs, particularly considering the main objective of an organization is to increase shareholder's wealth. However, the relationship between CSR and financial performance has been investigated for the past three decades and the results of these studies have been mixed.

This study will focus on positive, negative and non-significant relationship results separately. The study will also offer reasons for the reasons for the positive, negative and non-significant evaluation of these relationships.

2.5.1 POSITIVE RELATIONSHIP

The instrumental stakeholder theory is formed from two theories, and suggests there is a positive relationship between CSP and CFP (Jones, 1995). First, the instrumental theory is an economic theory that predicts what results will occur as a result of management decisions (Jones, 1995). The second theory, the stakeholder theory, is an ethical theory that proposes managers have a duty to put stakeholders' needs first in order to increase the value of the firm. This theory is broader than the shareholder theory, which argues managers only have a duty to maximize the value of shareholders, as Milton Friedman supports. The instrumental stakeholder theory, then, asserts that stakeholder satisfaction influences financial performance (Jones, 1995).

Furthermore, this theory asserts that corporate executives can increase the efficiency of their organizations by aligning the business to meet the desires of stakeholders. Past empirical evidence emphasizes that stakeholders as a whole find some value in CSR programs. Therefore, the instrumental stakeholder theory suggests CSR programs increase stakeholder satisfaction and ultimately, financial performance.

The majority of observational and hypothetical studies on CSR and financial performance demonstrate that they are positively related. Orlitzky et al. (2003) produced the most complete study with positive results. This particular analysis analyzed 52 studies with a 33,878 sample size over a 30-year period. Orlitzky came to the conclusion that there is a bidirectional relationship between the two variables as not only does CSR influence financial performance, but vice versa as well.

According to McPeak and Tooley, (2007) good corporate management tends to result in better financial and sustainability performance. A study of the UK banking industry found a positive relationship between CSR and company financial performance (Simpson & Kohers, 2002). The study conducted by May and Khare, (2008) demonstrates a positive relationship between CSR and company financial performance when using accounting-based measures of financial performance.

The review undertaken by Van Beurden and Gossling (2008) found that the relationship between CFP and CSR is primarily a positive relationship. The reviewers based their study on a number of factors that influence CSR and CFP both individually and holistically. The study relied on a combination of both accounting and market measures to identify the relationship between CSR and CFP.

Lougee and Wallace, (2008) conducted studies over 15 years and found that companies with more CSR strengths or fewer CSR weaknesses produced a higher return on assets. This suggests that investment in CSR goes hand in hand with profitability and long-term value maximisations. It also suggests that poorly performing companies either do not have the money to invest in CSR or they are missing out on an opportunity. It was also found that companies invest more to build on the CSR strengths than to cover their CSR weaknesses. This means that companies invest in CSR for long-term value maximisation rather than to just please their stakeholders.

Samy et al., (2010) studied 20 selected UK corporations and found a weak positive relationship between CSR and financial performance. They argue that due to increased consumer and investor awareness of CSR, companies can make an impact on their bottom line by investing in CSR. Furthermore, in order to ensure survival in an increasingly competitive market, CSR should not just be seen as an optional extra but as a necessity.

Earlier studies used questionnaires or corporate reputation indices to measure company CSR. More recent studies made use of the Kinder, Lydenberg, Domini (KLD) index to measure CSR and support the positive relationship theory (Garcia-Castro et al., 2007). Furthermore, McWilliams and Seigel, (2000) proved that customer relationships are correlated with company research and development and the introduction of new products. At the same time, it was shown that research and development had a positive relationship with CSR and company financial performance. The positive relationship may therefore be overstated due to the fact that research and development was not taken into account separately (Demacarty, 2009).

Studies such as the study conducted by Ramchander et al. (2012) show that there is a positive relationship between corporate social responsibility and financial performance. In their study the researchers found that "...firms that engage in effective and credible stakeholder management are rewarded with a positive share price reaction surrounding the CSR announcement." In their research the researchers found positive results for companies that were added to the KLD and/or DS400 indices, whilst companies that were removed from these indices showed negative returns. The DS400 index is an index that in essence, has a list of companies that are viewed as having better CSR performance when compared to their industry and sector peers. This study is an example of a positive relationship found when using market measures of performance.

The review undertaken by Van Beurden and Gossling (2008) found that the relationship between financial performance and CSR is primarily a positive relationship. The reviewers based their study on a number of factors that influence CSR and financial performance both individually and holistically. The study relied on a combination of both accounting and market measures to identify the relationship between CSR and financial performance.

A positive relationship between CSR and financial performance has also been identified in studies that do not use conventional measures when determining the possible relationship. An example of this is the positive results identified in the study conducted by Dhaliwal et al. (2011). The researchers in this study found that CSR has the positive effect of lowering a company's cost of equity capital. It is clear that positive returns have been identified regardless of the measures used to determine the link between financial performance and CSR.

2.5.1.1 FACTORS CONTRIBUTING TO A POSITIVE ASSOCIATION

The increase in expenditures in CSR projects in the past decade suggests managers find an economic benefit from CSR programs. Studies show that most of the studies find a positive relationship (van Beurden and Gossling, 2008; Wu, 2006; Allouche and Laroche, 2005; Orlitzky, 2003) Here are a few examples that may explain why socially responsible companies experience positive effects on the financial bottom line:

Enhanced Organization Reputation

Organizations with CSR programs increase both customer and investor loyalty. Taking a psychology perspective, Maslow's Hierarchy of Needs explains why CSR improves customer loyalty. Maslow's needs are frequently portrayed in the shape of a pyramid, with the most basic needs at the bottom. The first is physiological needs—needs necessary for survival like food and water. The second is safety needs like personal, health, and financial safety. The third is the need to belong. This need includes forming emotionally significant relationships with friends and family. The fourth need is esteem, which encompasses the need to be respected and valued by others. The last need, self-actualization, is becoming everything one is capable of becoming (Maslow, 1954).

CSR programs enable companies to meet their customers' need beyond belonging. Customers sacrifice a portion of their net worth to a company when they engage in a sales transaction. Their sense of belonging to that company thereby inevitably increases. However, CSR programs also improve the esteem of customers because they enable customers to feel more valued by society since they are helping improve the community with their consumer decisions.

CSR programs also boost customer's abilities to reach self-actualization because they provide convenient ways to contribute and customers receive personal benefits in return: the benefit of the service or product received and enhanced self-purpose for making a contribution to the society. Again, companies with CSR programs gain a competitive advantage because their customer base becomes more stable.

Lastly, CSR programs can strengthen brand value, an intangible asset on the financial statements. In 2009, Tiago Melo from the University of Salamanca found that "CSR impacts positively on brand value" (Melo, 2009). Brand value measurements were extracted from the "Most Valuable Brands" reports—created by the consultancy firm Interbrand—published annually by the *Financial Times*. The KLD Index database was used to measure CSR and the study controlled for risk, size, and research & development investment. Financial performance was measured by market value added (MVA). This study incorporated the view that CSR has a stronger impact on intangible assets than financial returns.

As opposed to other similar studies, this study compared CSR to both intangible and tangible financial performance indicators. It was concluded that brand value had a stronger positive relationship to CSR than MVA. The study, therefore, concluded that firms benefit economically from the implementation of CSR programs because they increase intangible assets on the balance sheet.

Increased Sales

Another potential explanation for a positive associate between CSR and financial performance is that CSR programs are revenue generators (Orlitzky, 2008)—especially in the long run—either through an increased customer base or an ability to increase prices. Evidence from the Corporate Social Responsibility Perceptions Survey in 2010 supports this claim. Conducted by the research-based consultancy Penn Schoen Berland with brand consulting firm Landor Associates and strategic communications firm Burson-Marsteller, the 2010 survey was based on 1,001 online interviews with U.S. consumers. The results indicated that "American consumers are willing to pay a premium for goods from socially responsible companies, with 70 percent saying they would pay more for a \$100 product from a company they regard as responsible" (Penn Schoen Berland, 2010).

More research must be done to determine how much more they are willing to pay, but these results illuminate that corporations may be able to benefit from increased revenues with CSR actions. However, a possible limitation is whether the increase in revenue covers the increase in cost of CSR implementation in the long-run.

Increased Ability to Attract Better Employees

Corporations with CSR programs have a competitive advantage because they attract better employees. There is empirical evidence behind this claim (Backhaus et.al., 2002). The study explored the relation between CSP and employer attractiveness. Using a quasi-experimental design, 297 undergraduate business student participants were first asked to rate companies based on what they already knew about the company. They were then asked to rate the same companies again after learning more about their CSR programs. Bias was controlled with a test-retest, and gender and student status were also controlled. Results indicated that that “job seekers consider CSR records important at all stages of the job search, but most important when determining whether to take a job offer” (Backhaus et.al., 2002).

Thus, companies with CSR programs attain competitive advantage by receiving the benefit of attracting a larger pool of employees to select from. Not only do employers benefit from a larger pool of employees, but CSR programs help improve employee relations once they sign on the new employees.

When employees see that their employer is committed to human rights and corporate governance issues, or committed to ensuring their employees work in fair conditions, employee morale increases. This leads to increased productivity in the long-run, and ultimately to improved financial performance.

Decreased Operating Costs

One argument against CSR programs is it is an increase in cost and thus clashes with the objective of a business. However, this is a short-term focus, and when implemented correctly, CSR programs can actually decrease operating costs in the long run. When combined with the other many bottom-line financial benefits of CSR programs, the effect seems to be greater than the increase in cost of CSR implementation. One example of a strong cost-reducing CSR program is a sustainability effort from Herman Miller in 1991.

The company built an \$11 million energy-saving and pollution reducing heating and cooling plant—acting in excess of the current environmental laws— and “saved \$750,000 per year in fuel and landfill costs” (Hartley, 2011). In the long-run, it would only take 15 years for the cost of the plant to be covered by the savings in energy costs, with the additional benefits of improved corporate reputation and environmental condition for building the plant.

Reduced Business Risk

“Reputation is the strongest determinant of any corporation’s sustainability. Stock price can always come back. Business strategies can always be changed. But when an organization’s reputation is gravely injured, its recovery is difficult, long-term, and uncertain. A risk to its reputation is a threat to the survival of the enterprise.” (Firestein, 2006)

Peter Firestein acknowledges that the stronger a company’s reputation, the lower the business risk, and this claim is supported by a meta-analytical study conducted by Orlitzky and Benjamin in 2001. Corporate culture culminates from the actions of top executives, and reputation is developed through the values of trust, credibility, reliability, quality, and consistency. If top executives allow unethical or negligent behavior, this will affect the company’s reputation in the long run.

When management creates a culture that emphasizes a strong commitment to transparency and ethical business practices, the risk of negligent practices are reduced, as well as risk of lawsuits (Kytte and Ruggie, 2006).

2.5.2 NEGATIVE RELATIONSHIP

Businesses who decide to engage in socially responsible actions risk losing the support of stakeholders who enable them to generate profits, and this cost greatly outweighs any benefit of social contributions. True social responsibility, Friedman argues, instead lies with the benefactors of the corporation's profits—customers, employees, and shareholders—to use their returns (in the form of dividends, bonuses, etc.) to invest in society. Friedman's definition of corporate social responsibility, therefore, is taking an action external to profit maximization to improve the community and environment. He claims that it is executive's sole social responsibility to maximize the firm's value, which indirectly enables stakeholders to uphold their social responsibilities by "spending [their] own money, not someone else's" to improve the environment and community.

Garcia-Castor et al., (2007) contend that there is almost no proof that a negative relationship exists between CSR and financial performance and organizations can improve their financial performance regardless of the possibility that they may hurt stakeholders and the environment. However, Lopez et al. (2007) examined the relationship between CSR and financial performance over the years 2002-2004 and found a negative relationship. Profit/Loss before tax was used to measure financial performance and to quantify CSR, the study utilized the Dow Jones Sustainability Index (DJSI). The theory behind this finding is organizations that take part in CSR projects are at a disadvantage because they continue to incur unnecessary and avoidable expenses.

The finding of a negative connection between CSR and financial performance was an uncommon finding and contrasted with other similar studies shows that more research should be done. Like the Lopez et al. (2007) study, Milton Friedman also argues that CSR and financial performance have a negative relationship. In his 1970 article in the New York Times, "The Social Responsibility of Business is to Increase its Profits," Friedman takes a capitalist position and disagrees with the popular point view that organizations have social obligations (Friedman, 1970). He stated that a "corporation is an artificial person" and in this manner can't have genuine obligations. Rather, the organization's officials are the individuals who have responsibilities to society.

They have a “direct social responsibility to their employers,” and should lead the business in a way that boosts benefits while regarding the law and moral standards. Corporate officials who engage in socially responsible activities with business resources are going against the free undertaking that capitalism is based upon, since they are basically “spending someone else’s money.”

Most of the research that shows a relationship between financial performance and social responsibility indicates that the relationship identified is of a positive nature. However a small number of studies have produced a negative relationship. The study conducted by Chipeta and Vokwana (2011) found that under certain circumstances, BEE transactions had a negative effect on shareholder wealth. The study found that under certain circumstances the added cost of BEE compliance was unnecessary when contrasted to the possible benefits.

2.5.3 NON-SIGNIFICANT RELATIONSHIP

Despite these findings, there is evidence that many previous studies undertaken have found no significant relationship between corporate social responsibility and financial performance. The studies in question found neither a positive nor a negative relationship and suggest CSR has no effect on the CFP of a company.

Analyses based on stock performance both individually and buy-and-hold portfolios have identified a lack of causality between CSR and CFP. Becchetti and Ciciretti (2009) initially found that there are some differences between the financial performances of CSR companies as opposed to those not deemed to have good CSR ratings. Taking into account these slight differences, the authors proceeded to further analyse the data and eventually came to the conclusion that there is no significant difference between the risk adjusted returns from socially responsible stocks as opposed to the stocks of companies not deemed as being socially responsible.

A neutral relationship has been found when both accounting and market based measures of performance have been employed. Nelling and Webb (2009) identified no direct relationship between CSR and financial performance.

This study went beyond just looking for a link between CSR and financial performance from a numeric view point. The authors also attempted to identify specific CSR factors that could affect financial performance. The results from the study indicate that there is no evidence of a relationship between aspects of CSR related to the community, diversity, or environment and share performance. The results achieved by the study are further corroborated by the conclusions reached in the study conducted by Eccles et al. (2009). The researchers conducted their study based on companies listed on the JSE and applied a mixture of both accounting and marketing measures. The results from this study proved that, "There is no evidence in the data of any significant relationship between company accountability and financial performance as measured by either the holding period return (market-based measure), or return on assets (accounting based measure)."

The observational and hypothetical studies to date propose different possibility: that there is essentially no relationship between corporate social responsibility and financial performance. One of the more dependable empirical studies that found that there was no relationship is the 1985 study directed by Aupperle et al. (1985). The CSR practices in this study were centered around the following four components: financial, legal, ethical, and philanthropic obligations. Past studies had some methodological issues, so in order to avoid these issues of measuring CSR Aupperle et al. (1985) created their own methodology to measure CSR, and through observational testing, they concluded that this methodology was reliable.

To measure financial performance, they used return on assets (ROA) and "employed both short-term (one year) and long-term ROA (five years)" (Aupperle et al., 1985). The study came to the conclusion that there is no measurable relationship between CSR and financial performance; "it did not matter whether short-term or long-term ROA were used, nor did it matter if that indicator were adjusted or unadjusted for risk." The study not only showed that there is another conceivable relationship between CSR and financial performance, but that the methodology used to measure CSR can impact the relationship. This means that using a methodology to measure CSR that is both valid and reliable is important for the study to be considered as reliable.

Due to the absence of comprehensive information and solid measures, Ullmann, (1985) states that no recognizable relationship exists between CSR and financial performance. Ullman demonstrated there are numerous estimation issues that still exist to gauge the immaterial effects of corporate social responsibility. Current estimations of CSR include certain measures of judgment since all segments of CSR are not as quantitative as dollars spent on CSR programs, so the legitimacy of such measures may distort CSR and financial performance results. The level of awareness of stakeholders to an organization's CSR projects may also contribute to the lack of relationship between the two variables. In the event that stakeholders don't know about the CSR programs because of insufficient promoting, the projects can't influence their choices and attitudes toward the organization, and in this manner won't affect financial performance.

CHAPTER 3 – RESEARCH METHODOLOGY

3.1 INTRODUCTION

In the second chapter the history, definitions, expenses and advantages of CSR were discussed, along with the possible nature of the relationship between CSR and financial performance. This chapter will elaborate on the methodology used to investigate the relationship between CSR and financial performance. In the previous chapters, the idea of corporate social responsibility was clarified, making a complete outline about its advancement, hypothetical ramifications and models. The relationship between CSR and Financial Performance was also discussed, this involved analysing the rich existing literature which has been written around this concept and the key issues that have been highlighted by scholars. The next step is to make a model to exactly test every one of the ideas that have been specified above, in an attempt to answer the research question.

3.2 RESEARCH STRATEGY

This study will be conducted in a positivistic paradigm. It will assume an ontology of naïve realism, as the research would suggest a certain truth or reality regarding the findings. The epistemology will be objectivist as the research can be easily conducted without bias or influence. The methodology associated with the positivistic paradigm will involve quantitative methods, including verification of hypotheses (Guba and Lincoln, 1994).

3.2.1 HYPOTHESES

In order to study the two research objectives proposed, a single hypothesis was tested, namely; Hypothesis 1 which investigated whether there was a significant difference between companies with good CSR (SRI Companies) and those that do not. The aim of the Hypothesis was to determine if there is a difference in ROA and ROE of companies listed on the FTSE/JSE SRI Index and those that are not for the five-year period 2011 – 2015. All companies included in the research are in the top 100 of companies listed on the JSE as ranked by turnover.

Prior studies suggest that firms reap a financial benefit (specifically, an increase in ROA and ROE) from engaging in CSR programs (Allouche and Laroche, 2005; Goll and Rasheed, 2004; Orlitzky, 2003). However, the stockholder theory holds that, there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rule of game,” (Friedman, 1970). Profit is the sole motivation for any business behaviour, including CSR initiatives. Engaging in CSR activities creates additional costs and, as a result, reduces profit. Companies may not be willing to invest their resources in CSR initiatives.

If results show that there is a positive relationship between financial performance and CSR activities it will support many scholars and would serve as motivation for business leaders to adopt CSR activities in their day-to-day activities.

If the results show a negative relationship it will support many scholars who believe that engaging in CSR activities is nothing but an unnecessary expense, and that these activities are not the responsibility of profit-making businesses.

However, if the results show no significant relationship, it will support scholars who believe that the costs incurred from implementing CSR activities and the revenue gained from increased brand loyalty and recognition cancel each other out. Therefore, business leaders should adopt CSR activities to improve the quality of life of their community as it does not affect their bottom line one way or the other.

3.2.2 RESEARCH DESIGN

The primary goal of this research paper is to empirically test the relationship between CSR and Financial Performance. A methodology can be classified into two primary classes of strategy: qualitative and quantitative technique. While there are critical differences between them, the two techniques should be viewed as complementary instead of mutually exclusive (Jones, 1995). Hoepfl (1997) stated that scholars use quantitative measures to test hypothetical generalizations. The quantitative studies are generally carried out to measure and investigate the causal associations between variables (Golafshani, 2003).

This study is intended to examine the relationship between CSR and financial performance, and therefore a quantitative methodology is seen as the best method to use in order to adequately answer the research question. Since “*theory cannot be generated without data, and data cannot be collected without a theoretical framework*” (Swartz, Money, Remenyi, & Williams, 1998), a strong theoretical background supports the empirical research in this thesis. In a good research study, equilibrium exists between the empirical research and the theory, as both are fundamental in order to get a good result (Swartz, Money, Remenyi, and Williams, 1998).

A quantitative methodology is viewed as appropriate as the reason for the study is to look at the relationship between CSR and financial performance from a measurable point of view with respect to publicly traded companies on the Johannesburg stock exchange. Further, a quantitative methodology is generally used when working with measurable figures (Bryman and Bell, 2011). A deductive methodology is viewed as most appropriate as the examination depends on existing hypothesis and the consequences of past exploration. The exact result is tried and contrasted with past exploration, thus it is can be viewed as a deductive methodology (Saunders et al., 2009).

3.2.3 RESEARCH INSTRUMENT

To test every one of the theories this study uses a two sample T-Test in the program Microsoft Excel in order to examine the relationship between CSR and the three dependent financial variables. The t-test investigates whether any two groups are statistically unique in relation to each other. This type of analysis is commonly used to compare the means of two groups. It can be used to figure out whether two groups are fundamentally different from each other.

To investigate the relationship between financial performance and CSR, numerous scholars have utilized a panel regression analysis as the main statistical method (McWilliams and Siegel, 2000; Waddock and Graves, 1997; Muhamad et al., 2005; Garcia-Castro, Arino and Canela, 2007; Mutezo, 2011; Tang et al., 2012). Panel regression is a statistical process which evaluates the connections among variables.

Although, numerous scholars have utilized this technique to investigate this relationship, they vary on how precisely to quantify CSR, which is one of the main reasons why the relationship between CSR and financial performance has still not been clarified. Past studies have utilized a wide assortment of techniques to quantify CSR: self-constructed surveys (Aupperle, 1991), The *Fortune reputation survey* (Brown and Perry, 1994), the Dow Jones Sustainability Index (Lopez *et al.*, 2007), CRO's *Best Corporate Citizens* (Wallace *et al.*, 2009), and the KLD Index developed by Kinder, Lydenberg, Domini and Co (Waddock and Graves, 1997; Hull and Rothensberg, 2008). CSR is exceptionally multidimensional on the grounds that it includes both interior (e.g. employees, and governance) and exterior (social and environmental impact) figures that must be considered when measuring CSR.

When investigating the relationship between these two phenomena, the first step is to determine what constitutes good CSR practices. Researchers have frequently utilized the inclusion of companies on a social responsibility database or Index, as proof of good CSR practices. Internationally the KLD Socrates database has frequently been utilized for this valuation (Chiu and Sharfman 2011).

From a South African point of view, the JSE SRII performs a similar function to the KLD Socrates database and therefore, a company that is included in the JSE SRII is deemed as having good CSR practices. Incorporation in the JSE SRII depends on an application and the satisfaction of specific criteria. This specific criterion was created by the JSE with the help of an advisory committee. The advisory committee includes independent experts from various fields of expertise, which includes investment managers, listed companies, sustainability experts, academics and civil society (JSE SRI Index 2015).

The organizations are then measured against criteria over the triple bottom line, to be specific environmental, social and financial and more recently governance. The JSE SRII is based on different areas of measurement as is shown in Figure 3.1:

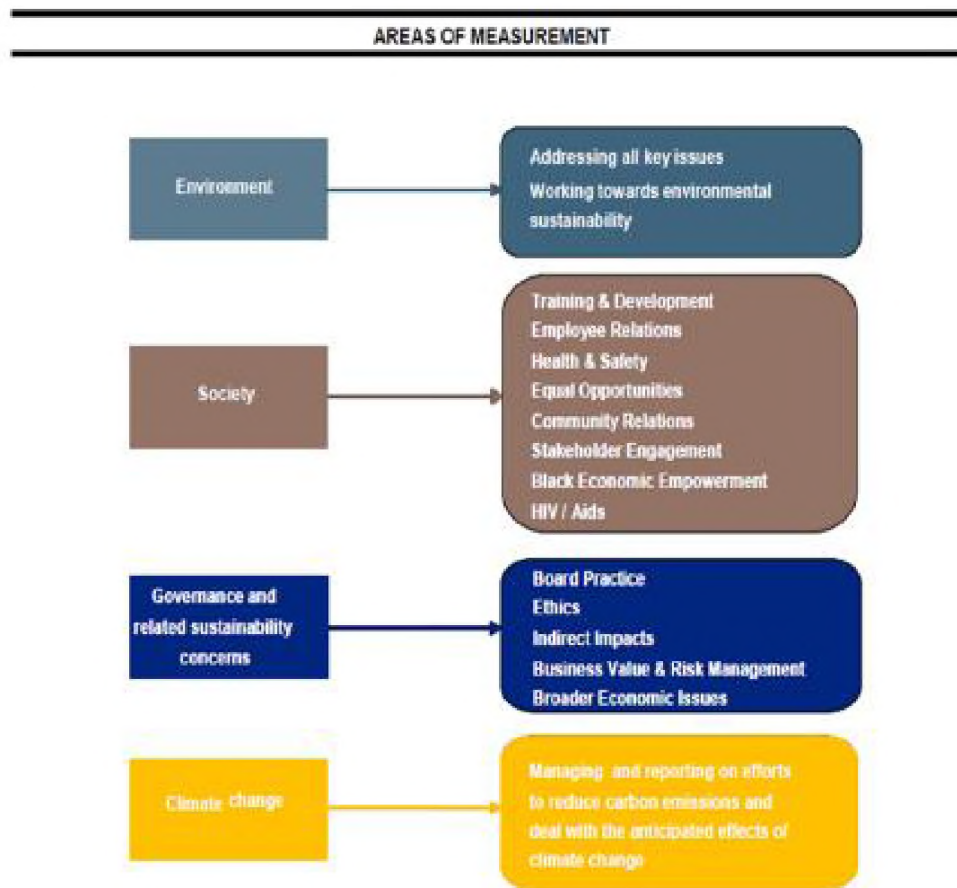


Figure 3.1- SRII Areas of Measurement (JSE SRI, 2015)

Once the organizations have been evaluated on the measurements shown above, incorporation in the Index is only allowed if the organization meets the minimum core and desirable indicators as set out in the criteria. The core indicators are the minimum elements that should be set up before the organization is included in the Index, such as a commitment to monitoring and audit, a commitment to public reporting and performance measured against targets (JSE, 2015). The desirable indicators are those that guarantee that organizations consider all the significant issues that could influence their CSR practices such as globally applicable corporate standards, internal reporting and management review and stakeholder dialogue (JSE, 2015).

3.2.4 SAMPLING STRATEGY

In this part of the chapter the sampling procedure for this study is presented. The sampling process is used to reduce a population in order to recognize an appropriate sample where the related information required is accessible and for it to be targeted to fulfill the research objective (Bryman and Bell, 2011).

Incorporation in the JSE SRI Index is the primary pre-requisite for selection. The organizations additionally need to be part of the JSE top 100 companies, as ranked by turnover for the year ended 2015. Annual reports and sustainability reports for the period of 2011 – 2015 will be sourced from each company's website.

The selection process of companies used in this study will now be explained step-by-step. The JSE SRI Index results show that there were 80 successful constituents as of February 2015 (JSE, 2015). These 80 companies are listed alphabetically in Appendix A, while the top 100 companies as ranked by Turnover are linked in Appendix B. Of these 100 companies, 67 were constituents of the JSE SRI Index continuously in 2015 and are shown in Appendix C. This leaves only 33 companies in the top 100 which are not listed on the JSE SRI Index. This means that the research may be slightly biased towards companies listed on the FTSE/JSE SRI Index, as they are significantly more of them included in the sample for analysis.

3.2.5 DATA COLLECTION METHOD

As indicated by Saunders et al. (2009) there are two types of data, primary and secondary, where scholars tend to ignore existing data, preferring to create their own database. This study only uses secondary data relating to financial performance. The pertinent financial ratios will be obtained from the INET Bureau of Financial Analysis (BFA) database, a subscription service supplying real-time and historical financial information on South African listed companies.

This internet-based fundamental research platform is designed for flexibility, convenience and depth of content and allows the user to export all the information they require for their particular research. Each of the 100 companies selected was included in the report formulated by INET (BFA). The individual companies Annual and Integrated reports will also be used to obtain the relevant financial ratios.

The report gives key financial information including an overview, ratios and statements. Using the 'ratio function', different ratios can be calculated and extracted, while under the 'general function', all the required ratios, namely ROE, ROA and EPS, were chosen for the relevant reporting period. (i.e. 2011 – 2015). Key financial information under the 'statements function' allows for the selection of companies required for the reporting periods of 2011 – 2015.

3.2.6 MEASURING FINANCIAL PERFORMANCE

This study will measure financial performance through ratio analysis. These ratios and figures will be compared over time to seek a relationship between CSR and company financial performance for the sample companies as a whole. The financial performance ratios used for this study include:

- Return on Assets (ROA)
- Return on Equity (ROE)

The ratios are selected on the frequency of use in similar studies and have been used as a measure of financial performance in numerous studies:

- ROA (Garcia-Castro et al., 2007; Nelling & Webb, 2008; Griffin & Mahon, 1997; Lougee & Wallace, 2008; Okwoma, 2010; Waddock & Graves, 1997; Tsoutsoura, 2004; Yang et al., 2010; Muhamad et al., 2005; Orlitzky et al., 2003; Mutezo, 2011; Tang et al., 2012).
- ROE (Griffin & Mahon, 1997; Okwoma, 2010; Waddock & Graves, 1997; Tsoutsoura, 2004; Yang et al., 2010; May & Khare, 2008; Orlitzky et al., 2003; Garcia-Castro et al., 2007; Mutezo, 2011).

The analysis of these ratios together will lead to a complete picture of the financial performance of an organization, and whether or not this has been influenced by the introduction of CSR programs.

The data analysis process used in this study will now be explained step-by-step.

1. The ratios for each company were obtained from the iNET (BFA) database, and annual and integrated reports. (Appendix D;E)

2. The ratios for Non-SRI companies and SRI companies were then compared for each of the two ratios on a year to year basis for the period 2011-2015, using a T-Test. The T-Test showed whether there was a difference in mean ratio between SRI companies and non-SRI companies for each of the years under consideration. The direction of the difference was shown by whether the SRI mean was higher than or lower than the Non-SRI mean.

3.3 VALIDITY AND RELIABILITY OF DATA

3.3.1 RELIABILITY

According Bryman and Bell (2011), reliability in a research study is concerned with whether the outcomes of the study would be steady if the study would remain unchanged if the study was to be conducted again using the same data and methodology. In this specific research, the financial performance ratios are taken from the INET (BFA) database which is more reliable, as this type of secondary data is usually very reliable (Saunders et al., 2009).

3.3.2 VALIDITY

Validity is another characteristic that scholars must consider in order to ensure that their research is trustworthy. The validity of a research study is concerned with whether the measurements and the research instrument actually measure what they are intended to quantify (Saunders et al., 2009). According to Houston (2004), the utilization of dependable secondary data inside the field of finance is regularly preferred to the utilization of self-generated data. The validity of this study is not in question as the financial ratios are selected on the frequency of use in similar studies and have been used as a measure of financial performance in numerous studies. The methodology is also valid as a t-test can be used to investigate whether any two groups are statistically unique in relation to each other.

3.3.3 FACE VALIDITY

Face validity is an endorsement from an individual with experience in the particular field of study (Bryman & Bell, 2011). Even though this research utilizes previously established measurements models and not presenting any new form of measurement, the constructed models were discussed and evaluated with help from teaching staff at Rhodes University.

3.3.4 INTERNAL VALIDITY

Internal validity is more concerned with the scholar's perception and if the dependent variables change as a result of the independent variable and not as a result of some other variable (Gay, 1992). In this research, the dependent variables ROA, and ROE were calculated and controlled before entered into a data spread sheet. Regarding significance in relationships between variables, researchers traditionally test relationships and consider those producing a P-value below 0.05 to be significant.

3.3.5 EXTERNAL VALIDITY

External Validity is concerned with the likelihood of reaching generalizable conclusions and it reflects how well the study's outcomes are pertinent to different organizations (Saunders et al., 2009). Scholars regularly endeavor to achieve an outcome that can be considered to speak to a bigger sample than what has been explored. Therefore, the concern surrounding quantitative research is particularly centered around selecting as representative a sample as could reasonably be expected to have the capacity to apply the outcome on a considerably larger scale (Bryman and Bell, 2011). The sample in this study includes publically traded companies on the Johannesburg Stock Exchange Socially Responsible Index in order to cover the broadest possible sample of sustainable companies in South Africa. The external validity of the study is therefore very low, as it only applies to companies listed on the JSE SRI Index. However, the study could be replicated in another country with a similar index.

3.4 ETHICAL CONSIDERATIONS

A quantitative study permits the researcher to arrange the majority of the research procedure ahead of time. This makes it less demanding to comprehend and recognize potential ethical difficulties. For this situation, since the greater part of the data required for the study is in the public domain and therefore easily accessible, and the examination can be recreated by any individual with the appropriate knowledge and skills, no ethical issues identifying with the data or the data are foreseen.

The ethical aspect of data collection is frequently a critical thought for researchers in depicting how and why information is gathered. A potential ethical issue that can arise when using secondary data is that it could wind up being utilized as a part of a way which it was not at first intended to or bring up issues with respect to the legal rights of using the data (Bryman and Bell, 2011). The ethical issues associated with the utilization of secondary data in this exploration are thought to be insignificant seeing as the data is obtained from the INET (BFA) database which is a reputable database that has been used by many other researchers

Furthermore, this research proposal was submitted for review to ensure that the objective and title of the minor dissertation are accepted and registered at the Faculty of Commerce at Rhodes University. The study complies with the Professional Code of Ethics, as specified by the Faculty of Commerce at Rhodes University.

3.5 SUMMARY

In this chapter the model used to reach the objective has been fully explained and each variable contained in the research model has been analyzed. Now it is finally time to find an empirical result. In the next chapter, the one entirely concerning the analysis, I will explain how I have used the data to achieve the research objective and to answer to the research question.

CHAPTER 4 – DATA ANALYSIS

4.1 INTRODUCTION

The previous chapter described the research methodology that will be used in this study, and in addition the procedure required in selecting the sample organizations. It also explained the types of companies selected for review, as well as the selection criteria. The chapter also described how the financial performance ratios will be calculated and provided the definition of CSR for the purposes of this study. Lastly, the chapter also clarified the process of data analysis used to obtain the results in this study. In Chapter 4, the T-Tests will be conducted on a year to year basis, for the period 2011 – 2015. The T-Tests will start with the ROA, followed by ROE, to determine if there is a difference between the financial performance of companies listed on the FTSE/JSE SRI Index, and those that are not among the top hundred companies listed on the JSE as ranked by turnover.

4.2 ANALYSIS RESULTS

As stated in chapter 3, the data analysis process used in this study was as follows:

1. The ratios for each company were obtained from the iNET (BFA) database, and annual and integrated reports (Appendix D;E).
2. The ratios for Non-SRI and SRI companies were then compared for each of the two ratios using a T-Test on a year to year basis for the period 2011-2015. The purpose of the T-Test was to show whether there is a difference in the ratios between SRI and Non-SRI companies. The direction of the difference was shown by whether the SRI mean was higher than or lower than the Non-SRI mean.

4.2.1 EFFECT OF CSR ACTIVITIES ON ROA

ROA		2011	2012	2013	2014	2015
Assumptions	-	-	-	-	-	-
Normality	Shapiro-Wilks Test	Normal Distribution	Normal Distribution	Normal Distribution	Normal Distribution	Normal Distribution
Homogeneity of Variances	F-Test	Unequal Variances	Unequal Variances	Unequal Variances	Unequal Variances	Unequal Variances
T- Test for Independent Groups assuming Unequal Variances				-	-	-
H0 – No significant difference between Non-SRI ROA Mean and SRI Mean						
H1 - Significant difference between Non-SRI ROA Mean and SRI Mean						
Decision Rule - Reject if P-Value < 0.05						
P-value		0,0968	0,447	0,1957	0,239	0,153
Conclusion		Fail to Reject Null	Fail to Reject Null	Fail to Reject Null	Fail to Reject Null	Fail to Reject Null

Final Conclusion: There is sufficient evidence to conclude that the ROA of companies listed on the JSE SRI Index are not significantly different from the ROA of companies that are not listed on the JSE SRI Index for all the years included in the period 2011 - 2015 at the 5% level of significance

4.2.2 EFFECTS OF CSR ACTIVITIES ON ROE

<i>ROE</i>		<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Assumptions	-	-	-	-	-	-
Normality	Shapiro-Wilks Test	Normal Distribution	Normal Distribution	Normal Distribution	Normal Distribution	Normal Distribution
Homogeneity of Variances	F-Test	Unequal Variances	Unequal Variances	Unequal Variances	Unequal Variances	Unequal Variances
<u>T- Test for Independent Groups assuming Unequal Variances</u>				-	-	-
H0 – No significant difference between Non-SRI ROE Mean and SRI Mean H1 - Significant difference between Non-SRI ROE Mean and SRI Mean Decision Rule - Reject if P-Value < 0.05						
P-value		0,1489	0,366	0,072	0,209	0,41
Conclusion		Fail to Reject Null	Fail to Reject Null	Fail to Reject Null	Fail to Reject Null	Fail to Reject Null

Final Conclusion: There is sufficient evidence to conclude that the ROE of companies listed on the JSE SRI Index are not significantly different from the ROE of companies that are not listed on the JSE SRI Index for all the years included in the period 2011 - 2015 at the 5% level of significance.

4.3 SUMMARY

The ratios for Non-SRI and SRI companies were compared for each of the two ratios using a T-Test on a year to year basis. The purpose of the T-Test was to assess whether there is a statistical difference between the mean ratio of SRI and the mean ratio Non-SRI Companies. The direction of the difference was shown by whether the SRI mean was higher than or lower than the Non-SRI mean.

The T-Test analysis showed that there is sufficient evidence to conclude that the ROA and the ROE of companies listed on the JSE SRI Index are not significantly different at the 5% level of significance, from the ROA and the ROE of companies that are not listed on the JSE SRI Index for the period 2011- 2015.

CHAPTER 5 – FINDINGS AND DISCUSSION

5.1 INTRODUCTION

In this quantitative study, the relationship between corporate social responsibility and financial performance of companies listed on the JSE was examined, using the data from 2011 to 2015. The aim of the study was to determine whether there is a difference in financial performance of companies that perform CSR activities and those that do not.

5.2 FINDINGS

The ratios for Non-SRI and SRI companies were compared for each of the two ratios using a T-Test on a year to year basis. The purpose of the T-Test was to assess whether there is a statistical difference between the mean ratio of SRI and the mean ratio of Non-SRI Companies. The direction of the difference was shown by whether the SRI mean was higher than or lower than the Non-SRI mean. The findings of this analysis were as follows:

5.2 1 THE RELATIONSHIP BETWEEN CSR ACTIVITIES AND ROA

The results of this study indicate there is sufficient evidence to conclude that the ROA of companies listed on the JSE SRI Index are not significantly different from the ROA of companies that are not listed on the JSE SRI Index for the period 2011 to 2015 at the 5% level of significance.

The results of the study also showed mixed results in terms of the direction of the relationship. These results are illustrated in table 5.1 below:

Table 5.1

ROA Mean			
	Non-SRI	SRI	Relationship
2011	7,32	9,18	Positive
2012	7,31	7,11	Negative
2013	5,55	6,91	Positive
2014	5,73	6,77	Positive
2015	5,39	3,73	Negative

Although the mean between the two groups is not significantly different for the majority of the period in question, the results still show that the mean ROA for SRI companies is still higher than the mean for Non-SRI companies for three of the five years indicating a positive but insignificant relationship between ROA and CSR activities during the years 2011, 2013 and 2014. The positive relationship between CSR activities and ROA accords with the findings of Mutezo, (2011), Peters and Mullen, (2007), Garcia-Castro et al., (2007), Nelling and Webb, (2008), Louge and Wallace, (2008), Okwoma, (2010), Tsoutsoura, (2004), Simpson and Kohers, (2002), Tang et al., (2012) and Yang et al., (2010).

The study also indicates a different conclusion as the results also show that mean ROA for SRI companies is still lower than the mean for Non-SRI companies for two of the five years indicating a negative but insignificant relationship between ROA and CSR activities during the years 2012 and 2015.

5.2.2 THE RELATIONSHIP BETWEEN CSR ACTIVITIES AND ROE

The results of this study indicate there is sufficient evidence to conclude that the ROA of companies listed on the JSE SRI Index are not significantly different from the ROA of companies that are not listed on the JSE SRI Index for the period 2011 to 2015 at the 5% level of significance.

The results of the study also showed mixed results in terms of the direction of the relationship. These results are illustrated in table 5.2 below:

Table 5.2

ROE Mean			
	Non-SRI	SRI	Relationship
2011	18,72	22,53	Positive
2012	17,39	16,19	Negative
2013	13,54	18,59	Positive
2014	16,05	17,84	Positive
2015	13,47	12,69	Negative

Although the mean between the two groups is not significantly different for the majority of the period in question, the results still show that the mean ROE for SRI companies is still higher than the mean for Non-SRI companies for three of the five years indicating a positive but insignificant relationship between ROE and CSR activities during the years 2011, 2013 and 2014. The results of a positive relationship are similar to the findings of Waddock and Graves, (1997), Tsoutsoura, (2004), Okwoma, (2010), Orlitzky et al., (2003), Mutezo, (2011), Balabanis et al., (1998), May and Khare, (2008) and McPeak and Tooley, (2007).

The study also indicates a different conclusion as the results also show that mean ROA for SRI companies is still lower than the mean for Non-SRI companies for two of the five years indicating a negative but insignificant relationship between ROA and CSR activities during the years 2012 and 2015.

Overall, inconsistent or mixed results can be due to the lack of consistent and reliable instruments to measure CSR (Garcia-Castro et al., 2007; Waddock & Graves, 1997). Another reason for inconsistent results can be attributed to a change in circumstances of the relationship which may not have been understood at the time of measurement (McWilliams & Siegel, 2000; Waddock & Graves, 1997; Garcia-Castro et al., 2007).

The third reason for inconsistency is due the fact that the relationship is usually measured over the same single year which leaves the long-term consequences of certain decisions affecting stakeholders unexplored (Garcia-Castro et al., 2007; Demarcarty, 2009). Much of the research conducted has concluded an inconsistent relationship between CSR and financial performance (Aupperle et al., 1985; Ullmann, 1985; McGuire et al., 1988; Waddock & Graves, 1997; Balabanis et al., 1998; McWilliams & Siegel, 2000; Fiori et al., 2007; Lougee & Wallace, 2008; Nelling & Webb, 2008; Okwoma, 2010; Yang et al., 2010; Tang et al., 2012).

5.3 DISCUSSION

In the next section of this chapter, the interpretation of the enumerated findings will be provided. In this regard, this section will show the findings that were consistent with the findings of some prior researchers, those that diverged from the findings in the prior studies, as well as those that were unique to this study. While interpreting these findings this study was guided by the differing interpretations provided by different researchers to similar findings, in order to find a meaning for the findings in this study in the context of the literature.

An implication of these findings was that business managers might not be able to improve their book-based accounting returns significantly by doing good, suggesting further that efforts made and the resources expended to improve social conduct by business managers were not rewarded with improved book-based accounting returns.

As stated earlier in Chapter 2, divergent findings were reported in the empirical literature on the nature and the strength of the effects of the CSR activities on the financial performance of business firms. The results of the prior empirical studies of the effects of CSR on financial performance included those with strong positive effects, those with strong negative effects, those with neutral effects, and those with mixed effects. This study showed insignificant but mixed or inconsistent effects of the CSR on the financial performance, depending on the particular model tested.

Orlitzky (2013) also shared the view that the stakeholder orientation inherent in the CSR is a restraint to value maximization. These pessimistic views on business engagement in social conduct seemed to be supported by the global business leaders, who recently expressed skepticism in the CSR-business value link and therefore questioned the continued championing of the sustainability drive by the business sector (UN Global Compact & Accenture, 2013).

These downcast views on CSR suggest that business firms engaged in CSR activities not necessarily because they believed it would help to improve their bottom line but as a reactive strategy either to respond to an adverse development (like the need to restore stakeholders' confidence) or to increase the provision of social goods so as to avoid the risk of being ostracized in the industry.

This result was consistent with Soana (2011), in which no effect was observed between the multidimensional CSR ratings and accounting returns including ROA, ROE, CIR (cost to income ratio), MTB, and P/E ratio. The result was also consistent with Dinsmore (2014) who did not find significant effect of CSR on the financial performance in his study data. When no effect of CSR is observed on the financial performance, it implies that CSR is irrelevant to the financial returns of the business, which is consistent with the classical view of corporate social responsibility, as argued by Friedman (1970) and supported by Jensen (2010). Friedman contended that social responsibility and business are incompatible. If the two are incompatible, then CSR should produce no significant effect on the financial performance of a business, as revealed by the results of this study. The results of this study supported the classical theory of corporate social responsibility. The observation of no effect of social conduct on financial performance also supported the pessimism expressed by some empirical researchers (Grove, et al. 2011; Montiel & Delgado-Ceballos, 2014; Orlitzky, 2013; UN Global Compact & Accenture, 2013).

Conversely, the result of the absence of a significant effect of CSR on the accounting returns revealed by this study was at variance with Servaes and Tamayo (2013), Moura-Leite, Padgett, and Galan (2014), and Saeidi, et al. (2015). In these studies, researchers found positive effects of the CSR factors on the accounting returns including ROA, ROE, net profit margin, and ROI. The result also contradicted the findings of Rahmawati & Dianita (2011) and Lioui & Sharma (2012), who found negative effect of the CSR factors on the financial performance.

In summary, a significant effect of the CSR factors on the accounting financial performance measures was not found in this study, which was both consistent with some studies and also contrary to many others. Overall, the observation of no effect of social conduct on the financial performance supported the pessimism jointly expressed by researchers (Grove, et al. 2011; Montiel & Delgado-Ceballos, 2014; Orlitzky, 2013) and the global business leaders (UN Global Compact & Accenture, 2013).

CHAPTER 6 – CONCLUSIONS, RECOMMENDATIONS, IMPLICATIONS AND LIMITATIONS OF STUDY

6.1 SUMMARY

The 21st century ushered in misfortune for investors, employees, consumers, and other sympathizers of business corporations. This followed the collapse of many corporate giants like Tyco, Enron, Adelphi, WorldCom, Global Crossing, and Merrill Lynch, among others in the United States and Swissair, Metallgesellschaft, Parmalat, and Vivendi in Europe, due to managerial opportunism and large scale accounting fraud (Dinsmore, 2014). Similarly, the world economy is yet to recover fully from the ravaging effects of the global economic crisis that occurred in 2008. To a large extent the social consequences of these crises have reduced consumer confidence in business enterprises, thus creating reputational issue for organizations and limiting their competitiveness and prosperity. In addition, from the industrial age spanning the 18th to 19th century to the turn of the 21st century, businesses showed a lack of social responsibility and sustainability (Adeleke, 2014).

They were portrayed as depleting natural resources, not mindful of the footprint of their activities on the earth's capacity, polluting the environment and threatening the ozone layer (Stanley, 2011).

These developments have created a desire for increased oversight of corporate activities and have also attracted public attention to the social conduct of business organizations (Idemudia, 2011). In response to the challenging business environment arising from these developments, business firms embarked on aggressive social responsibility activities and other strategies that are capable of improving their reputation and restoring stakeholder confidence (Servaes & Tamayo, 2013). Many of these acts have been perceived to be green-washing, a distorted marketing strategy (Sun & Cui, 2014). This creates a challenge for understanding the motive behind corporate social conducts.

There are different views with respect to the social obligations of organizations as 'good corporate citizens'. Most scholars seem to agree that all organizations should follow the rules, and conduct their operations in ethical manner. While some organizations argue that the pursuit of profits is their only social responsibility, others argue that these are selfish desires, and more should be of benefit the environment and the community. Although most organizations are able to identify the benefits of conducting their operations in a socially responsible manner, they still find it difficult to measure these benefits. This makes it difficult to determine if putting resources into CSR is justified regardless of the expense, and whether the position of the organization has improved because of the implementation of CSR activities.

This study explores the relationship between CSR activities and company financial performance in South African companies forming part of the FTSE/JSE SRI Index. A quantitative research approach was used to allow for a systematic empirical investigation of the relationship between CSR and financial performance.

To study the relationship between company financial performance and CSR T-Test analysis was employed as the main statistical method. The t-test investigates whether any two groups are statistically unique in relation to each other. This type of analysis is commonly used to compare the means of two groups. It can be used to figure out whether two groups are fundamentally different from each other. There are various types of T-tests, and one of them is the paired t-test which will be used in this study.

Based on the T-Test analysis, the study investigated the relationship between companies listed on the JSE for the period under review. One hundred companies adhered to these specifications and represented the sample selection. The study used data covering a five-year period from 2011 to 2015. Secondary data used in the study was gathered from INET (BFA) as well as annual and sustainability reports. The selection of ratios was based on variables deemed to have a link with CSR. The variables included ROA and ROE.

The previous chapter conducted the data analysis, starting with the effects of CSR activities on ROA, followed by the effects of CSR activities on ROE. This chapter will discuss the findings, provide a conclusion, outline the limitations of the study and suggestions areas for further research.

6.2 CONCLUSION

This study found mixed effects of corporate social conduct on the financial performance of companies listed on the JSE. For the accounting returns, no significant effect of the CSR was observed on the financial performance. This result supported the irrelevance theorem of the neoclassical economic theory by Friedman (1970) and a few empirical researchers who observed no significant effect (Grove, et al. 2011; Montiel & Delgado-Ceballos, 2014; Orlitzky, 2013; Soana, 2011). With this result, there is a basis for the skepticism expressed by the world business leaders that it is inappropriate for the business sector to champion the corporate social responsibility because no clear link between the CSR and business value has been established (UN Global Compact & Accenture, 2013).

The overall conclusion is that the controversy of whether social conduct of a business firm creates or destroys value is far from being resolved. The inconsistent results of such studies constitute an opportunity to further explore this topic in varying contexts and scope.

6.3 LIMITATIONS OF THE STUDY

This study investigates the relationship between financial performance and the CSR activities performed to be included on the FTSE/JSE SRI Index for the period of 2004 to 2014. This study suffers from some limitations. The first one is that this study is focusing only to the companies listed on the FTSE/JSE SRI Index that were listed on the index for the entire period under investigation.

This study is restricted to two financial performance indicators, namely; ROA and ROE to measure organizational financial performance. The use of financial ratios is an inherent limitation, as they are based on historical accounting data. External profitability measures, such as market value-added (MVA) (Garcia-Castro et al., 2007) or market-based measures such as stock market return (Muhammad et al., 2010) have additionally been used by different scholars and can also be used to determine if the same results can be concluded for the same companies.

Where a relationship between CSR activities and financial performance has been identified, the study is restricted seeing that it is hard to pinpoint which variable was responsible for the positive result. Organizations with better financial performance may have had more cash to put resources into CSR activities. In this manner it might have been the improved financial performance which has brought on the expanded interest in CSR activities.

This study concentrates on the South African environment subsequently the external validity is low. The results cannot be generalized to any other population outside South Africa for example for U.S. listed companies.

6.4 IMPLICATIONS OF THE STUDY

The corporate sector is large, well resourced and plays a central role in both the economy and wider society. Its support, knowledge and help are vital in addressing and ameliorating the broad range of pressing concerns that are facing the globe. This is especially apparent in the environmental arena where global warming and lack of sustainability threaten the future welfare of the whole world.

Most countries have market based economies which use financial signals and incentives to direct resources. Therefore assessing the size and extent of the financial return from adopting a socially responsible stance is central to understanding the behaviour of firms and their commitment to these social issues.

Although there is no financial incentive to engage with corporate social responsibility this study shows that there is no difference in the financial performance of companies that engage in socially responsible activities compared to companies that do not engage in such activities. These results indicate that organizations listed on the JSE can no longer use the justification that engaging in socially responsible activities takes away from their main objective of increasing shareholder value, as there is no significant impact on their financial performance whether positive or negative.

6.5 SUGGESTIONS FOR FURTHER RESEARCH

There is a substantial amount of research that still needs to be done concerning the link between corporate social responsibility and financial performance. The following are suggestions for further research:

- The dynamic nature of this relationship is still largely unknown and in order to further understand this relationship, a meta-analysis of completed studies could be done to search for relationship patterns for nations in various stages of economic development.
- This study and the developed methodology could be applied to other countries with an investment index similar to the JSE SRI Index. This could be useful for organizational leaders to better focus on their CSR activities with emphasis on how these activities will impact their financial performance in different regions.
- Further research could also be done, focusing on mono-industry research, so as to have a more exact measurement of the impacts that CSR can have on various industries. In the event that the research conducted is still made on a multi-industry study, it is suggested that every industry be assigned a different weight, so as to include the industry effect.
- Another area that deserves more attention is the world of the small-medium enterprises. The literature about them is really scarce; it would be interesting to give a closer look to these business realities to understand if the discussions made for “the big companies” apply in the same way to the SMEs. It would be interesting to understand in which way SMEs approach

CSR and, in particular, if for them as well there is the possibility of an increase in profits.

- Another area that merits more consideration is CSR and Small-medium enterprises (SME). The research about them is limited, and it would be interesting to determine if the decision making process for “large organizations” with regards to CSR is similar to that of SMEs, and whether the effect on financial performance is the same.
- Further research should also be conducted to determine how much the transparency of CSR reporting affects financial performance. This is because if the stakeholders don't know about the projects an organization is occupied with their attitudes towards an organization and their decision making process can't be affected.
- It would also be valuable to know exactly what number of CSR activities an organization on the JSE SRII completes when compared to a non SRII organization. A situation could exist where there is a fine line between being considered socially responsible and not. In addition to this research, it would also be useful to quantify the costs that SRII organizations incur while conducting their CSR activities. By breaking down the costs for both SRI and non SRI organizations, it could be possible that the reduced financial performance could be because of the additional CSR cost or not.

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8.1 APPENDIX A

JSE SRO Constituents as at February 2015

1	ADvTECH Ltd.	42	Lonmin plc
2	AECI Ltd.	43	Massmart Holdings Ltd.
3	African Oxygen Ltd.	44	Mediclinic International Ltd.
4	Allied Electronics Corporation Ltd.	45	MIMI Holdings Ltd.
5	Anglo American Platinum Ltd.	46	Mondi Ltd.
6	Anglo American plc	47	Mpact Ltd.
7	AngloGold Ashanti Ltd.	48	MTN Group Ltd.
8	Aquarius Platinum Ltd.	49	Mr Price Group Ltd.
9	ArcelorMittal South Affrica Ltd.	50	Murray & Roberts Holdings Ltd.
10	Aspen Pharmacare Holdings Ltd.	51	Nampak Ltd.
11	Aveng Ltd.	52	Nedbank Ltd.
12	Barclays Africa Group Ltd.	53	Netcare Ltd.
13	Barloworld Ltd.	54	Northam Platinum Ltd.
14	BHP Billiton Plc	55	Oceana Group Ltd.
15	The Bidvest Group Ltd.	56	Old Mutual plc
16	British American Tobacco plc	57	Pick n Pay Stores Ltd.
17	Business Connexion Group Ltd.	58	PPC Ltd.
18	Capevin Holdings Ltd.	59	RCL Foods Ltd.
19	Clicks Group Ltd.	60	Redefine Properties Ltd.
20	Discovery Ltd.	61	Remgro Ltd.
21	Exxaro Resources Ltd.	62	Reunert Ltd.
22	Firststrand Ltd.	63	RMB Holdings Ltd.
23	Gold Fields Ltd.	64	Royal Bafokeng Platinum Ltd.
24	Grindrod Ltd.	65	SAB Miller plc
25	Group Five Ltd.	66	Sanlam Ltd.
26	Growthpoint Properties Ltd.	67	Santam Ltd.
27	Harmony Gold Mining Company Ltd.	68	Sappi Ltd.
28	Howden Africa Holdings Ltd.	69	Sasol Ltd.
29	Hyprop Investments Ltd.	70	Sibanye Gold Ltd.
30	Illovo Sugar Ltd.	71	The Spar Group Ltd.
31	Impala Platinum Holdings Ltd.	72	Standard Bank Group Ltd.
32	Imperial Holdings Ltd.	73	Steinhoff International Holdings Ltd.
33	Intu Properties plc	74	Sun International Ltd.
34	Investec Ltd.	75	Super Group Ltd.
35	JSE Ltd.	76	Telkom SA SOC Ltd.
36	KAP Industries Holdings Ltd.	77	Tiger Brands Ltd.
37	Kumba Iron Ore Ltd.	78	Tongaat Hulett Ltd.
38	Lewis Group Ltd.	79	Truworths International Ltd.
39	Liberty Holdings Ltd.	80	Vodacom Group Ltd.
40	Life Healthcare Group Holdings Ltd.	81	Woolworths Holdings Ltd.

8.2 APPENDIX B

JSE Top 100 Companies Ranked by Turnover

1	Glencore plc	51	Discovery
2	BHP Biliton plc	52	Santam
3	Anglo American plc	53	Sibanye Gold
4	British American Tobacco plc	54	Pioneer Food Group
5	SABMiller plc	55	Nampak
6	Sanlam	56	RCL Foods
7	Sasol	57	Clicks Group
8	The Bidvest Group	58	Blue Label Telecoms
9	Companie Fin Richemont	59	Distell Group
10	MTN Group	60	Omnia Holdings
11	Steinhoff International Holdings	61	AECI
12	Standard Bank Group	62	KAP Industrial Holdings
13	Imperial Holdings	63	Tongaat Hulett
14	Shoprite Holdings	64	Harmony Gold Mining Company
15	Mondi	65	Grindrod
16	Mondi plc	66	Group Five
17	Firststrand	67	MR Price Group
18	Barclays Africa Group	68	Super Group
19	Vodacom Group	69	The Foschini Group
20	Massmart Holdings	70	Exxaro Resources
21	Barloworld	71	Capitec Bank Holdings
22	Sappi	72	Illovo Sugar
23	Pick n Pay Stores	73	Life Healthcare Group Holdings
24	Pick n Pay Holdings	74	Adcorp Holdings
25	Naspers	75	Reunert
26	Nedbank Group	76	Sun International
27	Datatec	77	Rand Merchant Insurance Holdings
28	Old Mutual Plc	78	Tsogo Sun Holdings
29	Anglo American Platinum	79	Combined Motor Holdings
30	The Spar Group	80	Invicta Holdings
31	AngloGold Ashanti	81	Truworths International
32	Aveng	82	AVI
33	Kumba Iron Ore	83	Lonmin plc
34	Woolworths Holdings	84	Africa Rainbow Minerals
35	Murray & Roberst Holdings	85	Eqstra Holdings
36	Liberty Holdings	86	Astral Foods
37	MMI Holdings	87	Stefanutti Stocks Holdings

38	JD Group	88	Hosken Consolidated Investments
39	Telkom SA Soc	89	PPC
40	ArcelorMittal SA	90	Clover Industries
41	Netcare	91	Hulamin
42	Gold Fields	92	Mpact
43	Mediclinic International	93	PSG Group
44	Tiger Brands	94	Metair Investments
45	Aspen Pharmacare Holdings	95	EOH Holdings
46	Impala Platinum Holdings	96	Pinnacle Holdings
47	Oando plc	97	Cashbuild
48	Allied electronics Corp	98	Growthpoint Prop
49	Wilson Bayly Holmes-Ovcon	99	Trencor
50	Remgro	100	Business Connexion Group

8.3 APPENDIX C

SRI Companies in JSE Top 100 as ranked by Turnover			
1	BHP Biliton plc	35	Mediclinic International
2	Anglo American plc	36	Tiger Brands
3	British American Tobacco plc	37	Aspen Pharmacare Holdings
4	SABMiller plc	38	Impala Platinum Holdings
5	Sanlam	39	Allied electronics Corp
6	Sasol	40	Remgro
7	The Bidvest Group	41	Discovery
8	MTN Group	42	Santam
9	Steinhoff International Holdings	43	Sibanye Gold
10	Standard Bank Group	44	Nampak
11	Imperial Holdings	45	RCL Foods
12	Mondi	46	Clicks Group
13	Firststrand	47	AECI
14	Barclays Africa Group	48	KAP Industrial Holdings
15	Vodacom Group	49	Tongaat Hulett
16	Massmart Holdings	50	Harmony Gold Mining Company
17	Barloworld	51	Grindrod
18	Sappi	52	Group Five
19	Pick n Pay Stores	53	MR Price Group
20	Nedbank Group	54	The Foschini Group
21	Old Mutual Plc	55	Exxaro Resources
22	Anglo American Platinum	56	Illovo Sugar
23	The Spar Group	57	Life Healthcare Group Holdings
24	AngloGold Ashanti	58	Reunert
25	Aveng	59	Sun International
26	Kumba Iron Ore	60	Rand Merchant Investment Holdings
27	Woolworths Holdings	61	Truworths International
28	Murray & Roberst Holdings	62	Lonmin plc
29	Liberty Holdings	63	Africa Rainbow Minerals
30	MMI Holdings	64	PPC
31	Telkom SA Soc	65	Mpact
32	ArcelorMittal SA	66	Growthpoint Prop
33	Netcare	67	Business Connexion Group
34	Gold Fields		

8.4 APPENDIX D: JSE TOP HUNDRED COMPANIES AS RANKED BY TURNOVER (ROA)

	Company	2011	2012	2013	2014	2015	AVG
1	Glencore plc	4,88	1,05	-5,68	1,5	-3,54	-0,358
2	BHP Bilton plc	24,67	13,28	8,14	9,56	1,38	11,406
3	Anglo American plc	8,87	-1,97	-1,28	-3,66	-9,53	-1,514
4	British American Tobacco plc	11,26	14,11	14,02	11,74	14,87	13,2
5	SABMiller plc	8,93	5,76	6,15	6,56	5,92	6,664
6	Sanlam	1,4	1,38	1,63	1,5	1,47	1,476
7	Sasol	11,84	12,36	11,6	11,17	9,84	11,362
8	The Bidvest Group	7,76	8,57	7,79	6,24	6,91	7,454
9	Companie Fin Richemont	14,4	15,34	13,62	7,34	10,98	12,336
10	MTN Group	12,35	11,41	12,88	13,55	7,12	11,462
11	Steinhoff International Holdings	6,5	4,83	4,9	5,5	5,19	5,384
12	Standard Bank Group	0,96	0,99	1,02	1,02	1,08	1,014
13	Imperial Holdings	7,24	7,25	6,77	5,91	4,9	6,414
14	Shoprite Holdings	12,97	11,73	11,17	10,08	9,77	11,144
15	Mondi	5,2	3,87	6,03	7,58	8,6	6,256
16	Mondi plc	5,44	3,98	6,01	7,48	9,36	6,454
17	Firstrand	2,64	1,84	1,81	2,06	2,19	2,108
18	Barclays Africa Group	1,29	1,05	1,36	1,35	1,34	1,278
19	Vodacom Group	22,65	25,03	22,77	19,19	17,22	21,372
20	Massmart Holdings	6,47	7,23	5,66	3,92	3,73	5,402
21	Barloworld	3,59	4,67	4,42	5,06	3,72	4,292
22	Sappi	-3,44	1,67	-2,71	2,41	3,22	0,23
23	Pick n Pay Stores	9,72	4,43	4,3	5,98	6,81	6,248
24	Pick n Pay Holdings	5,22	2,37	2,31	3,21	3,68	3,358
25	Naspers	3,83	6,54	4,95	9,82	6,8	6,388
26	Nedbank Group	0,99	1,12	1,21	1,26	1,24	1,164
27	Datatec	3,76	3,11	1,98	2,3	1,18	2,466
28	Old Mutual Plc	0,38	0,77	0,5	0,42	0,47	0,508
29	Anglo American Platinum	4,2	-7,71	-1,57	0,7	-14,79	-3,834
30	The Spar Group	12,03	11,64	12,1	10,06	7,83	10,732
31	AngloGold Ashanti	15,09	7,01	-20,59	-0,61	-0,88	0,004
32	Aveng	4,83	1,98	1,6	-1,24	-1,57	1,12
33	Kumba Iron Ore	54,73	34,43	38,1	22,47	0,94	30,134
34	Woolworths Holdings	18,05	21,43	23,36	16,76	9,78	17,876
35	Murray & Roberst Holdings	-8,36	-3,5	4,28	5,69	4,56	0,534
36	Liberty Holdings	1,06	1,39	1,22	1,08	1,01	1,152
37	MMI Holdings	0,67	0,79	0,81	0,85	0,67	0,758
38	JD Group	0,85	5,5	5,33	3,04	-8,82	1,18
39	Telkom SA Soc	-0,4	-24,68	9,43	7,74	5,06	-0,57
40	ArcelorMittal SA	0,02	-1,6	-6,75	-0,48	-26,99	-7,16
41	Netcare	3,4	-8,83	15,09	8,5	8,43	5,318

42	Gold Fields	9	6,31	-4,07	0,03	-3,8	1,494
43	Mediclinic International	2,87	2,61	-1,87	5,32	5,74	2,934
44	Tiger Brands	17,71	15,97	11,93	8,07	6,95	12,126
45	Aspen Pharmacare Holdings	11,06	9,63	9,13	7,83	6,08	8,746
46	Impala Platinum Holdings	10,2	5,96	1,33	0,01	-4,66	2,568
47	Oando plc	0,72	2,23	1,01	-23,76	-5,49	-5,058
48	Allied electronics Corp	1,41	-2,36	3,93	-0,06	-5,89	-0,594
49	Wilson Bayly Holmes-Ovcon	7,78	7,12	5,19	3,29	4,1	5,496
50	Remgro	20,84	16,29	6,79	9,09	10,01	12,604
51	Discovery	14,6	8,81	6,17	7,45	10,16	9,438
52	Santam	8,18	5,84	5,86	7,53	10,24	7,53
53	Sibanye Gold	27,73	15,6	8,53	6,48	2,55	12,178
54	Pioneer Food Group	7,78	5,9	4,42	7,79	9,01	6,98
55	Nampak	4,86	8,57	7,35	5,62	4,51	6,182
56	RCL Foods	8,36	5,35	0,24	-1,55	4,28	3,336
57	Clicks Group	15,56	15,25	14,69	14,85	13,89	14,848
58	Blue Label Telecoms	9,05	8,74	7,97	7,37	8,54	8,334
59	Distell Group	11,52	10,57	9,1	10,12	8,54	9,97
60	Omnia Holdings	9,12	10,66	10,15	8,36	5,77	8,812
61	AECI	6,84	4,95	6,91	7,53	6,2	6,486
62	KAP International Holdings	5,09	6,72	4,58	4,72	5,64	5,35
63	Tongaat Hulett	5,51	5,48	5,1	3,92	2,86	4,574
64	Harmony Gold Mining Company	1,56	6,37	-5,55	-3,06	-11,78	-2,492
65	Grindrod	3,37	4,28	4,88	3,46	-3,94	2,41
66	Group Five	-2,46	-9,52	3,33	4,28	2,78	-0,318
67	MR Price Group	29,84	33,44	32,6	31,78	33,21	32,174
68	Super Group	4,89	6,66	6,86	6,42	1,7	5,306
69	The Foschini Group	13,43	12,69	11,45	8,89	10,61	11,414
70	Exxaro Resources	23,36	24,39	13,53	-1,82	0,59	12,01
71	Capitec Bank Holdings	5,75	5,18	4,82	5,12	5,52	5,278
72	Illovo Sugar	4,17	7,31	6,94	5,77	3,81	5,6
73	Life Healthcare Group Holdings	15,76	16,88	18,32	25,47	13,45	17,976
74	Adcorp Holdings	5,64	5,02	3,74	4,87	3,54	4,562
75	Reunert	19,02	16,81	13,67	23,15	10,47	16,624
76	Sun International	4	5,6	5,7	3,82	6,26	5,076
77	Rand Merchant Investment Holdings	3,24	11,48	10,21	11,98	11,17	9,616
78	Tsogo Sun Holdings	8,16	9,52	9,92	7,42	7,11	8,426
79	Combined Motor Holdings	5,64	7,15	6,38	5,79	6,66	6,324
80	Invicta Holdings	6,45	6,95	5,04	4,68	3,37	5,298
81	Truworths International	33,4	33,86	33,94	31,35	28,55	32,22
82	AVI	12,69	17,79	17,95	19,25	17,6	17,056
83	Lonmin plc	5,64	-8,65	3,59	-4,19	-48,9	-10,502
84	Africa Rainbow Minerals	10,94	10,17	4,45	8,82	0,29	6,934
85	Eqstra Holdings	2,96	4,18	2,97	1,77	1,75	2,726
86	Astral Foods	13,18	9,48	6,49	8,1	16,94	10,838

87	Stefanutti Stocks Holdings	4,81	-2,68	1,89	3,13	3,55	2,14
88	Hosken Consolidated Investments	7,33	6,79	4,93	10	1,84	6,178
89	PPC	12,53	11,53	14,36	8,21	5,2	10,366
90	Clover Industries	5,54	5,52	5,75	4,13	6,95	5,578
91	Hulamin	1,07	1,77	-20,36	6,42	2,53	-1,714
92	Mpact	1,66	5,4	6,31	6,38	7,96	5,542
93	PSG Group	3,66	4,87	3,54	3,94	2,53	3,708
94	Metair Investments	17,72	14,97	6,29	7,82	6,21	10,602
95	EOH Holdings	10,62	10,73	11,11	10,67	9,83	10,592
96	Pinnacle Holdings	14,76	14,19	12,22	8,46	8,1	11,546
97	Cashbuild	7,52	14,12	12,29	11,35	12,63	11,582
98	Growthpoint Prop	4,04	-1,76	-1,68	7,57	7,33	3,1
99	Trencor	5,88	4,01	3,68	1,95	-0,23	3,058
100	Business Connexion Group	5,14	3,02	4,09	4,74	6,18	4,634

8.5 APPENDIX E: JSE TOP HUNDRED COMPANIES AS RANKED BY TURNOVER (ROE)

	Company	2011	2012	2013	2014	2015	AVG
1	Glencore plc	14,76	3,01	-16,93	4,41	-10,7	-1,09
2	BHP Bilton plc	44,17	24,7	15,64	17,57	2,45	20,906
3	Anglo American plc	15,2	-3,43	-2,37	-7,23	-21,02	-3,77
4	British American Tobacco plc	35,63	49,12	52,77	48,87	79,11	53,1
5	SABMiller plc	17,99	12,54	12,85	13,05	11,36	13,558
6	Sanlam	15,75	15,99	20,88	20,07	18,85	18,308
7	Sasol	19,07	19,76	18,66	18,03	16,01	18,306
8	The Bidvest Group	16,68	15,2	19,41	22,61	20,57	18,894
9	Companie Fin Richemont	19,78	21,38	18,69	10,11	15,12	17,016
10	MTN Group	25,82	22,78	24,72	25,34	14,16	22,564
11	Steinhoff International Holdings	16,52	13,32	12,84	13,07	9,92	13,134
12	Standard Bank Group	13,77	13,59	13,23	13,19	13,97	13,55
13	Imperial Holdings	22,17	22,37	20,35	18,27	16,36	19,904
14	Shoprite Holdings	38,64	30,53	25,7	22,93	22,63	28,086
15	Mondi	11,77	9,21	14,95	18,27	19,85	14,81
16	Mondi plc	12,34	9,46	14,25	16,41	19,73	14,438
17	Firstrand	34,78	21,02	20,64	23,16	24,33	24,786
18	Barclays Africa Group	16,31	12,99	16,62	16,52	16,67	15,822
19	Vodacom Group	59,48	66,06	60,39	56,17	55,89	59,598
20	Massmart Holdings	27,39	30,79	26,1	19,39	19,11	24,556
21	Barloworld	8,75	12,08	11,67	12,86	9,13	10,898
22	Sappi	-13,75	6,93	-12,06	12,34	16,22	1,936
23	Pick n Pay Stores	48,81	22,85	22,81	29,55	30,32	30,868
24	Pick n Pay Holdings	50,29	16,07	12,25	15,86	16,57	22,208
25	Naspers	6,56	11,94	9,59	19,1	11,83	11,804
26	Nedbank Group	13,31	14,53	15,08	15,35	15,12	14,678
27	Datatec	10,68	9,41	6,51	8,28	4,76	7,928
28	Old Mutual Plc	7,75	15	10,15	8,54	9,56	10,2
29	Anglo American Platinum	6,47	-12,58	-2,74	1,24	-26,78	-6,878
30	The Spar Group	40,74	39,76	39,58	43,36	44,72	41,632
31	AngloGold Ashanti	33,86	15,73	-54,86	-1,93	-2,72	-1,984
32	Aveng	9,37	4,03	3,56	-2,85	-3,49	2,124
33	Kumba Iron Ore	112,97	79,31	73,29	39,58	1,8	61,39
34	Woolworths Holdings	44,06	48,34	50,09	44,93	29,33	43,35
35	Murray & Roberst Holdings	-33,29	-14,55	13,77	17,24	14,15	-0,536
36	Liberty Holdings	20,85	26,41	23,64	21,09	19,46	22,29
37	MMI Holdings	10,28	9,95	11,03	13,26	11,59	11,222
38	JD Group	1,56	10,03	10,45	7,03	-22,95	1,224
39	Telkom SA Soc	-0,73	-48,88	18,82	13,01	8,67	-1,822
40	ArcelorMittal SA	0,04	-2,26	-10	-0,76	-50,51	-12,698
41	Netcare	30,51	38,32	85,11	19,05	18,61	38,32

42	Gold Fields	14,84	11,18	-7,3	0,06	-7,53	2,25
43	Mediclinic International	14,59	12,46	-7,08	15,54	14,68	10,038
44	Tiger Brands	28,43	25,69	20,38	14,51	12,46	20,294
45	Aspen Pharmacare Holdings	21,09	18,41	17,52	19,38	16,5	18,58
46	Impala Platinum Holdings	14,53	8,55	2	0,01	-6,83	3,652
47	Oando plc	2,86	10,65	4,28	4,35	7,51	5,93
48	Allied electronics Corp	3,45	-6,12	12,72	-0,23	-26,92	-3,42
49	Wilson Bayly Holmes-Ovcon	22,91	20,14	14,34	8,96	11,68	15,606
50	Remgro	22,86	17,68	7,75	10,67	12,06	14,204
51	Discovery	29,99	21,47	16,76	21,3	24,8	22,864
52	Santam	24,66	17,79	19,24	24,03	31,12	23,368
53	Sibanye Gold	-42,84	-27,54	-13,16	12,89	4,86	-13,1575
54	Pioneer Food Group	14,23	10,34	7,78	15,2	17,28	12,966
55	Nampak	11,42	20,33	19,48	15,72	12,23	15,836
56	RCL Foods	13,92	9,26	0,53	-3,51	8,68	5,776
57	Clicks Group	61,84	59,55	55,14	58,76	53,33	57,724
58	Blue Label Telecoms	15,59	14,94	13,74	13,28	15,52	14,614
59	Distell Group	17,59	16,32	16,28	19,18	15,83	17,04
60	Omnia Holdings	17,11	19,66	18,32	14,94	9,79	15,964
61	AECI	16,71	11,79	15,07	14,97	11,99	14,106
62	KAP Industrial Holdings	9,5	16,41	11,41	11	12,01	12,066
63	Tongaat Hulett	13,67	12,93	11,75	8,81	6,49	10,73
64	Harmony Gold Mining Company	2,08	8,23	-7,14	-4,01	-15,7	-3,308
65	Grindrod	7,75	9,42	11,13	7,2	-7,47	5,606
66	Group Five	-9,41	-36,96	13,51	16,32	9,87	-1,334
67	MR Price Group	47,05	50,43	51,62	51,28	49,71	50,018
68	Super Group	14,94	17,26	16,57	15,34	4,19	13,66
69	The Foschini Group	26,92	26,87	26,06	20,64	23,91	24,88
70	Exxaro Resources	37,31	36,94	19,11	-2,5	0,86	18,344
71	Capitec Bank Holdings	25,34	23,43	22,03	23,8	25,6	24,04
72	Illovo Sugar	8,24	15,2	14,89	12,9	9,6	12,166
73	Life Healthcare Group Holdings	40,44	40,11	36,89	48,21	30,22	39,174
74	Adcorp Holdings	10,96	10,52	8,28	10,71	8,05	9,704
75	Reunert	31,95	25,46	20,45	34,97	15,22	25,61
76	Sun International	31,76	29,81	21,31	17,56	37,6	27,608
77	Rand Merchant Investment Holdings	5,88	19,54	17,4	21,02	20,21	16,81
78	Tsogo Sun Holdings	18,57	20,66	20,74	19,86	23,3	20,626
79	Combined Motor Holdings	20,84	25,35	24,83	25,26	32,55	25,766
80	Invicta Holdings	27,59	28,33	19,41	15,84	10,17	20,268
81	Truworths International	41,27	40,36	39,48	37,42	34,78	38,662
82	AVI	23,76	29,71	29,77	33,34	32,67	29,85
83	Lonmin plc	9,68	-15,13	5,63	-5,54	-67,77	-14,626
84	Africa Rainbow Minerals	17,01	15,5	6,72	12,26	0,38	10,374
85	Eqstra Holdings	11,93	17,25	12,34	7,14	6,73	11,078
86	Astral Foods	28,63	20,85	14,73	18,38	36,05	23,728

87	Stefanutti Stocks Holdings	13,32	-7,89	5,65	8,75	9,25	5,816
88	Hosken Consolidated Investments	10,33	10,33	8,52	26,42	6,62	12,444
89	PPC	86,6	72,08	68,29	36,84	25,01	57,764
90	Clover Industries	12,87	11,24	11,9	8,51	14,42	11,788
91	Hulamin	1,72	2,81	-32,89	10,64	4,26	-2,692
92	Mpact	7,48	12,72	14,24	14,4	18	13,368
93	PSG Group	16,85	21,21	16,38	18,52	12,55	17,102
94	Metair Investments	28,77	24,78	12,06	15,37	11,7	18,536
95	EOH Holdings	25,47	24,21	24,12	22,95	19,35	23,22
96	Pinnacle Holdings	37,8	39,04	34,3	23,47	20,13	30,948
97	Cashbuild	20,29	32,6	23,46	22,58	27,59	25,304
98	Growthpoint Prop	117,6	-79,6	18,14	22,27	12,28	18,1375
99	Trencor	22,81	18,33	19,42	11,18	-1,39	14,07
100	Business Connexion Group	8,62	5,02	7,03	8,26	10,91	7,968