

Full Length Research Paper

Corporate social responsibility: The performance of black economic empowerment (BEE) companies in a developing country after the global financial crisis

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The aim of this study is to measure the medium term financial performance of companies who had previously shown their corporate social responsibility (CSR) by engaging in black economic empowerment (BEE) in a developing country. Performance was measured before, during and after the recent global financial crisis (GFC) that affected global markets, and more specifically the Johannesburg Stock Exchange (JSE), the only stock exchange in South Africa. Whereas a previous study tried to answer the question of whether the specific announcements of BEE transactions by listed companies on average increase shareholder wealth, this study focuses on the medium term performance of these companies. The focus is on the performance between 2 January, 2007 and 30 September, 2009 of companies who had previously engaged in BEE transactions during the period January 2002 to July 2006. The average performance of these companies is compared with the performance of the market index before, during and after the financial crisis. The results of this study could be important for all developing countries that need to address social inequities.

Key words: Black economic empowerment (BEE), corporate social responsibility (CSR), corporate social performance (CSP), corporate financial performance (CFP), global financial crisis (GFC), Johannesburg stock exchange (JSE), share performance, shareholder wealth creation.

INTRODUCTION

Corporate social responsibility has recently received considerable attention in literature. Some researchers even investigate different ways of measuring the CSR of companies (Dahlsrud, 2008: 1), while many use the term corporate social performance (CSP). In the literature these two terms are often used interchangeable. One of the vehicles by which companies can conform to CSR in South Africa is BEE. This could be defined as sharing ownership in companies with previously disadvantaged groups of shareholders and is usually financed by the company itself or by loans obtained from financial institutions on beneficial terms. In this regard, BEE has been employed to assist previously disadvantaged groups of investors to obtain a larger share of the equity of South African listed companies.

Since 1994 when the first democratic election occurred in South Africa, the government has strongly encourages

companies, and specifically companies listed on the Johannesburg stock exchange (JSE), to increase the participation of the black majority previously disadvantaged population in the shareholding and control of companies. When BEE was introduced it was regarded as one of the cornerstone programmes of economic policy (Gevisser, 1997; Jackson et al., 2005; Wolmarans and Sartorius, 2009). BEE has been justified on an equity basis, as well as for economic reasons. Giving previously disempowered people better access to markets and institutions may enable them to acquire additional human capital, a condition necessary for continued sustainable economic growth (Black, 2002: 1160).

This study investigates the share performance of 63 BEE companies listed on the JSE, specifically in terms of its creation of shareholders' wealth before, during and after the recent global financial crisis (GFC). The study

develops as follows: introduction; research questions; literature review of existing relationship between CSR (or CSP) and corporate financial performance (CFP); research methodology; empirical results; limitations of the study and identification of areas for future research; conclusion.

Research questions

The research questions addressed in this study are the following:

- 1) Did the BEE companies perform different from the market before the recent financial crisis?
- 2) Did the BEE companies perform different from the market during the recent financial crisis?
- 3) Did the BEE companies perform different from the market after the recent financial crisis?
- 4) Did companies with the BEE transactions in different years perform differently?
- 5) Did BEE companies with different market capitalisation perform differently?

LITERATURE REVIEW

The definition and importance of corporate social responsibility

McWilliams et al. (2006: 1) define CSR as occurring where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law. Siegel and Vitaliano (2007: 773) agree that CSR occurs when firms advance a social agenda beyond that which is required by rules and regulations. Boutin-Dufresne and Savaria (2004: 64) believe that market participants care more and more about CSR.

Frederick (1994: 150) outlines a conceptual transition from CSR₁ to CSR₂, which he defines as the transition in scholarship from the philosophical-ethical concept of social responsibility (corporations' obligation to work for social betterment) to the action-oriented managerial concept of corporate responsiveness (the capacity of a corporation to respond to social pressure). After reviewing 30 years of research and theory on corporate social responsibility, De Bakker et al. (2005: 312) conclude that the field of CSR has become firmly embedded in the management sciences.

Munilla and Miles (2005: 371) see CSR as an important part of stakeholder theory. A company that engages in CSR activities and proves that it is socially responsible, may thus contribute to its long term goal of shareholder wealth creation. Other researchers have found that CSR plays a key role in economic and social development (Galan, 2006: 1640), that research in CSR is driven by

interests not only in the business environment but also in continuing scientific engagement (Lockett et al., 2006: 115), and that CSR requires a fine balance between social responsibility and responsibility towards the shareholders of a company (Windsor, 2006: 93).

Ofori (2007:53) concluded that the CSR perceptions of a majority of the companies listed on the stock exchange of a developing country are strategic, moral, and ethical, as well as economic. Ackers (2009:1) found that despite its developing country status, the prevalence of CSR assurance by South African companies compared favourably with that of their counterparts in developed countries. Scholtens (2009: 19) proposes that finance is the strongest driver of CSR. He also argues that there is much more scope for finance to promote socially and environmentally desirable activities and to discourage detrimental activities than has been acknowledged in the academic literature so far.

Carroll and Shabana (2010:102) provide a strong business case for CSR based on the following four arguments: (1) reducing cost and risk; (2) strengthening legitimacy and reputation; (3) building competitive advantage; (4) creating win-win situations through synergistic value creation. They conclude that only when firms are able to pursue CSR activities with the support of their stakeholders can there be a market for virtue and a business case for CSR. Ditlev-Simonsen and Midttun (2011: 25) tried to determine the major drivers of managers' adherence to CSR goals.

Shareholders appear to view CSR in a positive light (Waddock and Graves, 1997: 303; Galan, 2006: 1640; Munilla and Miles, 2005: 371; Siegel and Vitaliano, 2007: 774) and BEE, from an efficiency perspective, may enhance wealth because it could be a strategic opportunity to grow market share (Woolley, 2005: 14; Morsing and Schultz, 2006: 323). Finally, BEE acts as a strategy to integrate South Africa into the global arena; it stimulates human resource development and promotes the firm's social and economic contacts (Jackson et al., 2005:1).

Corporate financial performance and corporate social performance

Empirical tests of whether CSR companies have higher rates of return have produced mixed results. Some researchers found a positive correlation between corporate financial performance (CFP) and corporate social performance (CSP). Others found no correlation, while a third group tried to explain why correlations may vary. Boutin-Dufresne and Savaria (2004: 57) point out that the value of the socially screened portfolios in the US has grown by 240% between 1995 and 2003, 40% faster than all professionally managed assets. In 2003 there were as many as 200 mutual funds which were managed according to strong ethical guidelines, versus only 55 in

Table 1. Values of the ALSI on selected dates and its percentage increase or decrease.

Date	Value of ALSI	Percentage return on the ALSI
2 January 2007	25,157	
22 May 2008	33,233	+32.1
20 November 2008	17,814	-46.4
30 September 2009	24,911	+39.8

1995. This reflects a significant increase in the demand for shares of companies that are aware of their CSR responsibilities, which is positive for CSR. McGuire et al. (1988: 854) found a positive relationship between CSR and financial performance. McWilliams and Siegel (1997: 98) found a positive relationship between CSR and the ability of money market managers to assess the risk of their portfolios. Waddock and Graves (1997: 303) found that CSR is positively related not only to prior financial performance, but also to future financial performance. Orlitzky et al. (2003: 403) conducted a meta-analysis of 52 previous studies on the relationship between CSR and corporate financial performance (CFP) and found a positive relationship.

Van Beurden and Gössling (2008) provide an excellent literature review of the relationship between corporate social performance (CSP) and corporate financial performance (CFP). The majority of studies that investigated this relationship found a positive correlation.

Kristoffersen et al. (2008: 45) demonstrate clear associations between measures of corporate environmental, social and governance performance and financial characteristics. Wahba (2008: 89) demonstrates that the market compensates those firms that exert social responsible behaviour. Callan and Thomas (2009:61) confirms a positive CSP–CFP relationship, which supports proponents of stakeholder theory. Lo (2010: 311) provides evidence that CSR definitely counts towards a firm's profit generation. Other researchers that found positive relations between CSR and CFP are Roman et al. (1999: 109), Ruf et al. (2001: 143) and Moore (2001: 299).

A second group of researchers found no positive correlation between CFP and CSR. Aupperle et al. (1985: 446) found no relationship between financial performance and varying levels of social orientation. Guerard (1997: 11) found no significant difference between the average returns of a socially screened universe (N = 950) and an unscreened universe (N = 1300) for the period 1987 to 1994. McWilliams and Siegel (2000: 603) found that CSR had a neutral impact on financial performance. Strydom et al. (2009: 67) and Griffin and Mahon (1997: 36) found little correlation between CFP and CSP.

One of the third groups of researchers is Barnett (2007: 794) who tried to explain why the effects of CSR on CFP vary across firms and time. He also developed a set of propositions to aid future researchers on the contingencies that seem to produce variable financial returns to

investment in high CSR companies. Barnett and Salomon (2003: 386) are of the opinion that firms are not inherently good or bad. Rather, they are profit-seeking, and will engage in those behaviours that they expect to increase their shareholders' value. CSR research thus best functions as a means of helping firms and investors identify what the market wants. Campbell (2007: 946) argues on the other hand, that the relationship between financial performance and corporate social behaviour is mediated by several institutional conditions. Examples of these are public and private regulations, the presence of non-governmental and other independent organisations that monitor corporate behaviour and institutional norms regarding appropriate corporate behaviour. Other conditions include associative behaviour amongst corporations themselves and organised dialogues between corporations and their stakeholders. Whether companies that engage in more CSR will always perform better financially, is thus not an easy question to answer.

METHODOLOGY

A total of 95 companies had engaged in BEE transactions between January 2002 and July 2006 as identified by Businessmap (2007). These companies were investigated by Wolmarans and Sartorius (2009: 180) when they analysed the impact of the BEE announcement on shareholder wealth through an event study methodology. From these companies 63 were identified for this study after screening out those that had been delisted due to for instance having merged with other companies, or also those that experienced thin trading that would have made them unsuitable for this study. The price performance of these 63 companies was investigated between 2 January, 2007 and 30 September, 2009, with the all shares index (ALSI) for companies listed on the Johannesburg securities exchange (JSE) as a benchmark.

Values for the index and price data for the companies were gleaned from McGregor BFA (2009), a comprehensive electronic data base with information of companies listed on the JSE in South Africa.

The date of 2 January 2007 was chosen because at that time all the BEE transactions of 2006 were completed. From Table 1 it can be seen that the value of the ALSI was at 25,157 at that time and increased by 32.1% to an all time high of 33,233 about sixteen months later. Over the next six months the ALSI decreased by 46.4% to a relative minimum of 17,814 at 20 November 2008. After this the ALSI recovered by increasing by 39.8% to a value of 24,911 at 30 September 2009, only ten months later, before it started to decline again, although only slightly. This movement between 2 January 2007 and 30 September 2009 is graphically illustrated in Figure 1.

The total time of about 32 months between 2 January 2007 and 30 September 2009 could thus be divided into three time periods as



Figure 1. The daily values of the ALSI from October 2004 to September 2009.

indicated in Table 2. The first time period is the 16 months between 2 January 2007 and 22 May 2008 (before the financial crisis). The second time period is the six months between 22 May 2008 to 20 November 2008 (during the financial crisis). The last time period is the ten months from 20 November 2008 to 30 September 2009 (after the financial crisis). These three time periods are defined in Table 2 as well as the number of months and the measures of return to be calculated for each of the companies in the study.

Companies were also sorted into groups according to the year in which they had first engaged in BEE transactions. Only a few companies had had two or three BEE transactions during the period under investigation, and sorting into number of BEE transactions as an additional classification variable was thus not deemed to be feasible. The numbers of companies per year (Appendix 1) are given in Table 3.

Companies were also sorted in three groups according to their market capitalisation in order to determine whether size had an impact on the performance of the share price. These three groups are: less than R3, 000 million; between R3, 000 million and R19, 000 million; and more than R19, 000 million as indicated in Table 4.

From Table 4 it is clear that the companies were more or less equally divided between the three classes of market capitalisation. MCAP was the variable used to distinguish between small, medium and large companies in this study. This was in addition to the other classification variable in this study which was the year of the company's BEE transaction.

EMPIRICAL RESULTS

Tests of performance before, during and after the financial crisis

From the daily price data available from McGregor BFA (2009) the rates of return RET1 to RET3 were calculated for each of 63 BEE companies for the three time periods

as set out in Table 2. The average (mean), minimum, first quartile, median, third quartile and maximum for each of the measures RET1, RET2 and RET3 were then determined, as set out in Table 5.

From Table 5 it is seen that, although it could be argued that measure RET2 has a mean and median which are almost the same (an indication of a possible normal distribution), the same can definitely not be said of measure RET1. Because no assumption can be made with respect to the underlying distribution, it was decided to rather use nonparametric tests to test for differences between average performances. Under these circumstances the median is a much better measure of locality, in other words of the average performance of a group of companies.

According to Schaeffer and McClave (1982: 372) the signed rank test of Wilcoxon is the most appropriate test to use to test whether a sample is symmetrically distributed around a hypothesised value as median. The procedure PROC UNIVARIATE was used in the SAS computer system on the mainframe of the University of Pretoria to test whether the medians of the variables RET1 to RET3 were equal to the hypothesised values, as indicated in Table 6. The resulting p-values in Table 6 are those of two-sided Wilcoxon signed rank test.

From Table 6 it is clear that the average performance of the 63 BEE companies was significantly less than that of the ALSI during time period 1, the time before the recent financial crisis. This answers research question 1.

During time period 2, however, there also was a significant difference between the decline (-27.3 %) of the BEE companies and that of the index. This means that the BEE companies did not on average experience nearly as sharp a decrease in their share prices as that of the ALSI. This answers research question 2. On the other hand, during time period 3 there was no significant difference between the average performance of the BEE companies and that of the index. This answers research question 3.

Tests for differences between years

In Table 3 the 63 BEE companies were sorted according to the year of their first BEE transaction. Some of these companies were involved in two or even (a small minority) in three BEE transactions during the total time period investigated. The year of the first BEE transaction was chosen to make it comparable with the other companies. In Table 7 the medians for measures RET1, RET2 and RET3 are given, as well as the p-values for the Kruskal-Wallis test. This text is appropriate when the equality of medians of independent samples needs to be tested (Schaeffer and McClave, 1982: 379).

The chi-square values, degrees of freedom and p-values in Table 7 emanate from applying the Kruskal-Wallis test for equality of medians in the procedure PROC NONPAR1WAY in the SAS computer system on

Table 2. The percentage return of the ALSI for three time periods as well as three measures of return to be calculated for 63 BEE companies in the study.

Time period	Number of months	Percentage return on the ALSI	Measure of return for the time period
1	16	+32.1	RET1
2	6	-46.4	RET2
3	10	+39.8	RET3

Table 3. The number of companies engaged in BEE transactions per year for the period 2002 to 2006.

Year	Number of companies
2002	6
2003	10
2004	16
2005	19
2006	12
Total	63

Table 4. The number of BEE companies sorted according to market capitalisation.

Market capitalisation	Number of companies	Value for MCAP
Less than R3,000 million	23	1
Between R3,000 and R19,000 million	21	2
More than R19,000 million	19	3
Total	63	

Table 5. The average (mean), the median, first quartile, third quartile, minimum and maximum for three measures of return (percentage) of 63 BEE companies.

Measure	Mean	Minimum	Q1	Median	Q3	Maximum
RET1	18.8	-65.9	-24.0	-7.1	19.2	416.0
RET2	-27.8	-73.7	-50.3	-27.3	-9.9	46.5
RET3	37.2	-69.6	18.9	33.5	63.5	120.2

Table 6. The medians for three measures of performance, the hypothesised values, and the resulting p-values for 63 BEE companies.

Time period	Measure	Median	Hypothesised value (%)	p-value
1	RET1	-7.1	+32.1	0.0023
2	RET2	-27.3	-46.4	0.0001
3	RET3	33.5	+39.8	0.5376

Table 7. The medians for three measures of performance for 63 BEE companies sorted according to the first year of their BEE transactions.

Measure	2002 (n=6)	2003 (n=10)	2004 (n=16)	2005 (n=19)	2006 (n=12)	Chi-square value	D.O.F	p-values
RET1	8.2	-12.9	-20.8	-1.3	-6.3	6.6161	4	0.1576
RET2	-43.3	-28.3	-13.8	-28.7	-27.2	5.3737	4	0.2511
RET3	56.9	32.8	39.0	28.2	19.7	2.2469	4	0.6905

Table 8. The medians for three measures of performance for 63 BEE companies sorted according to different classes of market capitalisation.

Measure	MCAP=1 (n=23)	MCAP=2 (n=21)	MCAP=3 (n=19)	Chi-square value	D.O.F	p-values
RET1	4.2	-10.8	-7.2	0.4094	2	0.8149
RET2	-30.6	-15.2	-25.0	2.0366	2	0.3612
RET3	22.4	35.6	40.6	2.5265	2	0.2827

the mainframe of the University of Pretoria. Although it may seem that the median performance of 8.2% for the measure RET1 of the six companies that had engaged in BEE transactions in 2002 could be different from the median of -20.8% for the comparable measure of the 16 companies of year 2004, the overall variability is too large to say that this is a significant difference. For measures RET2 and RET3 the p-values are also not small enough (less than 0.10 or preferably less than 0.05) to indicate significant differences. The year of BEE transactions thus seem not to have influenced the price performance of the companies before, during or after the financial crisis. This answers research question 4.

Tests for difference between market capitalisation classes

The medians for measures RET1, RET2 and RET3 for three different classes of market capitalisation are given in Table 8. The chi-square values, degrees of freedom and p-values in Table 8 emanate from applying the Kruskal-Wallis test for equality of medians in the procedure PROC NONPAR1WAY in the SAS computer system on the mainframe of the University of Pretoria.

From Table 8 it is seen that although relatively small companies performed better (median 4.2 %) than their larger counterparts (-7.2%) before the financial crisis, their prices decreased more (-30.6 %) than that of the large companies (-25.0%). After the financial crisis, however, small companies recovered less (only 22.4%) than large companies (40.6%). There were no significant differences between the performance of companies with different market capitalisation before, during or after the financial crisis. This answers research question 5.

LIMITATIONS OF THE STUDY AND AREAS FOR FURTHER RESEARCH

The biggest limitation of this study was most likely the limited number of companies for which data was available. Future studies of the medium term financial performance of BEE companies could aim at including more companies and from more years. Another limitation is that the specific sectors of the companies were not taken into account. It may be true, for instance, that the

resource sectors (mining and raw materials) may have followed the performance of the ALSI closer than other companies. If the resource sectors could perhaps have had a larger impact on the movement of the ALSI (the benchmark used here), this would not be obvious in this study. The question could thus be asked of whether it would perhaps not be more appropriate to compare a BEE company's performance of that of the other companies in the same sector? Future research could address this question.

Total return for a period of time on an investment in shares should include the dividends received. Dividends were, however, ignored in this exploratory study as it could be argued that on average the dividends could have affected all companies the same. The exclusion of the dividends was thus not regarded as a serious flaw in this study.

There is also a large plethora of questions related to the financial performance of companies that engage in CSR that needs to be researched. One of these is the question of whether CSR companies have changed their capital structures significantly in order to obtain the funds needed to meet their CSR targets. Another one is, especially with respect to small companies, what the extent is that CSR companies experienced financial stress during the financial crisis. Small companies may have increased their leverage by borrowing money in order to meet their CSR targets.

CONCLUSIONS AND RECOMMENDATIONS

In this study the medium term financial performance of companies who had previously shown their corporate social responsibility by engaging in black economic empowerment transactions in a developing country was investigated. Specifically the companies' performance before, during and after the recent financial crisis was studied, with the performance of the all shares index of the Johannesburg stock exchange as benchmark.

Although the average performance of the BEE companies (-7.1%) was significantly less than that of the market (32.1%) before the financial crisis, the average decrease in value (-27.3%) was also significantly less than that of the market (-46.4%). After the financial crisis the average performance of BEE companies (33.5%) was not significantly different from that of the market (39.8%).

The year of BEE transaction and the size of the companies did not have a significant impact on performance before, during or after the financial crisis.

Corporate social responsibility is an increasingly important subject internationally and deserves much more research in future. The financial impact of CSR should likewise be frequently scrutinised. This study contributes to the continuing debate on the interface between these two important concepts.

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APPENDIX

Appendix 1. Names of 63 companies sorted according to the year of first bee transaction.

2002	2003	2004	2005	2006
Angloplats	ARM	Absa	Assore	Acucap
Aspen	BJMH	Astrapak	BasRead	Afgri
Dcentrix	Cargo	Aveng	Delta	BCX
Drdgold	Imperial	Brait	Discovery	Capitec
MTN Group	M and R	Cadiz	Exxaro	Comair
Trnshex	Mustek	Capital	Group 5	Elbgroup
	Nampak	CashBil	Illovo	Emira
	PPC	EOH	KGMedia	Hiveld
	PSG	Firststrand	M&F	MvelaRes
	Sanlam	Goldfields	Medclin	Oceana
		MvelaGrp	Nedbank	RA-Hold
		Naspers	OldMutual	Sappi
		Netcare Stanbank	Panprop	
		Sunint	Pergrin	
		Supergp	Petmin	
			Pinnacle	
			Resilient	
			Sasfin	
			Telkom	