STAKEHOLDER VALUE IN SOUTH AFRICA: AN EMPIRICAL STUDY

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REMARKS

The reader is reminded of the following:

- The dissertation comprises two research articles in line with the policy of the North-West University's programme in Management Accounting (Potchefstroom Campus).

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TABLE OF CONTENTS

List of Figures vi
List of Tables vii
Summary viii
Opsomming ix

CHAPTER ONE
INTRODUCTION

1.1. Background 1
1.2. Rationale for the study 3
1.3. Problem statement 3
1.4. Hypothesis 3
1.5. Research aim and objectives 4
1.6. Method of research 4
1.7. Overview 6
References 8

CHAPTER TWO
STAKEHOLDER-APPROACH IN CREATING SHAREHOLDER-VALUE

2.1. Introduction 13
2.2. Problem statement 13
2.3. Methodology 14
2.4. Shareholder-value theory 14
2.5. Agency-theory 14
2.6. Theory of property 16
2.7. Definition of stakeholders 17
2.8. Stakeholder-orientation models 18
2.8.1. Strategic stakeholder-management 19
2.8.2. Intrinsic stakeholder-commitment 21
2.9. Stakeholder-identification-attributes 22
2.9.1. Power 23
2.9.2. Legitimacy 23
2.9.3. Urgency 23

2.10. Stakeholder-classes 24
2.10.1. Latent stakeholders 25
2.10.2. Expectant stakeholders 25
2.10.3. Definitive stakeholders 27
2.11. Summary and conclusion 27
References 29

CHAPTER THREE

SUSTAINABLE DEVELOPMENT IN SOUTH AFRICA: AN EMPIRICAL STUDY

3.1. Introduction 34
3.2. Problem statement 35
3.3. Hypothesis 35
3.4. Concept of triple bottom line 35
3.5. Methodology 37
3.5.1. Analytical approach 38
3.5.2. Data-collection 41
3.6. Empirical results 42
3.6.1. Accounting-based principles 42
3.6.2. Economic-based principles 45
3.7. Summary and conclusion 47
3.7.1. Summary 47
3.7.2. Areas for future research 48
References 49

ANNEXURE A

Table 1 Return on assets 51
Table 2 Return on equity 52
Table 3 Earnings per share 53
Table 4 Headline earnings per share 54
Table 5 Economic value added 55
Table 6 Market value added 56

CHAPTER FOUR

SUMMARY AND CONCLUSION

4.1.	Introduction	57
4.2.	Approach followed	58
4.3.	Research results	58
	4.3.1. Theoretical study	59
	4.3.2. Empirical study	60
4.4.	Limitations of the study	61
4.5.	Areas for future research	62
4.5.	Conclusion	62
	References	63

LIST OF FIGURES

Table	Description	Page
	Research Article 1	
Figure 1	Classes of stakeholders	24

LIST OF TABLES

Table	Description	Page
	Research Article 2	
Table 1	Return on assets	43
Table 2	Return on equity	44
Table 3	Earnings per share	44
Table 4	Headline earnings per share	45
Table 5	Economic value added	46
Table 6	Market value added	47

SUMMARY

Topic: Stakeholder value in South Africa: an empirical study.

Key-terms: Shareholder-value, agency-theory, stakeholder-management, stakeholder-attributes, stakeholder-classes, sustainable development, triple bottom line, return on assets, return on equity, earnings per share, headline earnings per share, economic value added, market value added.

It is acknowledged that the primary objective of any company should be the creation of shareholder-value. However, it is also recognised that there are other stakeholders, with their own financial and/or non-financial objectives, which could impact on a company's overall financial performance. Management should therefore identify stakeholder-groups which could impact on the company and formulate a model in addressing their objectives. This study integrates elements from the theory of shareholder-value, the agency-theory, the theory of property rights and different stakeholder orientation-models to develop the approach of responsible stakeholder-management in the creation of shareholder-value. Stakeholders can be grouped into economic, social and environmental components. The concept of sustainable development has exploded in recent years. Three main elements of sustainable development were identified, namely economic, social and environmental development, referred to as "Triple Bottom Line (TBL)". Several organisations have started focussing on the concept of sustainability by guiding the development of sustainability policies. However, the Global Reporting Initiative (GRI) has become the *de facto* global standard for reporting on sustainable development. The concept of TBL, and how the three elements of sustainability could contribute to the maximisation of shareholder-value, is discussed. The results of the empirical study, where the financial performance and shareholder-growth of companies listed on the JSE and which adopted and reported on the GRI-guidelines, were compared to a group of companies in the same index grouping of the JSE that had not formally adopted and reported on the guidelines, identified a clear trend that those reporting on their sustainability policies had had a much better growth in five of the six financial measures used than the comparative group.

OPSOMMING

Onderwerp: Belangegroepwaarde in Suid-Afrika: 'n empiriese studie.

Sleutelwoorde: Aandeelhouerswaarde, agentskapsteorie, belangegroepbestuur, belangegroep-eienskappe, belangegroep-klasse, volhoubare ontwikkeling, drievoudige winslyn, opbrengs op bates, opbrengs op ekwiteit, verdienste per aandeel, wesensverdienste per aandeel, ekonomiese toegevoegde waarde, marktoegevoegde waarde.

Dit word algemeen aanvaar dat die primêre doel van enige maatskappy die skep van aandeelhouerswelvaart moet wees. Daar is ook ander belangegroepe, met hulle eie finansiële en/of nie- finansiële doelwitte, wat die maatskappy se finansiële prestasie kan beïnvloed. Bestuur moet dus die belangegroepe wat die maatskappy kan beïnvloed, identifiseer en 'n model ontwikkel wat sy doelwitte kan aanspreek. Hierdie studie integreer aspekte van die aandeelhouerswelvaart-teorie, die agentskapsteorie en die teorie van eiendomsreg met verskillende belangegroepe-oriënteringsmodelle om 'n benadering vir verantwoordelike belangegroepbestuur te ontwikkel om by te dra tot die skep van aandeelhouerswelvaart. Belangegroepe kan gegroepeer word in ekonomiese, sosiale en omgewingskomponente. Die konsep van volhoubare ontwikkeling het die afgelope paar jaar ontplof. Daar is drie elemente vir volhoubare ontwikkeling geïdentifiseer, naamlik ekonomiese, sosiale en omgewingsontwikkeling, waarna verwys word as "Drievoudige Winslyn (DWL)". Verskeie organisasies het begin konsentreer op die konsep van volhoubaarheid deur die daarstelling en ontwikkeling van volhoubaarheidsbeleidsdokumente. Die Global Reporting Initiative (GRI) het die *de facto* globale standaard geword vir die rapportering van volhoubare ontwikkeling. Hierdie studie konsentreer op die konsep van DWL, en hoe die drie elemente van volhoubaarheid kan bydra tot die maksimalisering van aandeelhouerswelvaart. Die resultate van die empiriese studie, waar die finansiële prestasie en aandeelhoudersgroei van maatskappye genoteer op die JSE en wat die riglyne van die GRI aanvaar het en daarop rapporteer, vergelyk word met 'n groep maatskappye in dieselfde indeks groepering van die JSE wat nie die riglyne aanvaar het en daarop rapporteer nie, het 'n duidelike neiging uitgewys dat maatskappye wat op hulle volhoubaarheidsbeleid rapporteer, 'n baie beter groei gehad het in vyf van die ses finansiële aanwysers as diè van die vergelykende groep maatskappye.

CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND

There is general consensus that the primary objective of a company should be to maximise its shareholders' value (Arnold, 2005; Jensen, 2001). It could be debatable whether this should be the sole motivation of a company's management, but it should be without a doubt the dominant variable in management-decisions (Brummer & Hall, 1999). However, it is widely recognised that there are other stakeholder-groups, such as employees, customers, suppliers, management and the community which are impacted by a company and have their own objectives which can be financial or non-financial in nature. These stakeholder-groups have different levels of influence, where the stakeholder-group with the most power influences the objectives of a company most. The most influential stakeholder-group, besides shareholders, is normally senior management, which are appointed and dismissed by the shareholders via a board of directors (De Wet, 2004).

Shareholders are taking priority in management's decisions because they have the option in a free-market to withdraw their invested capital and invest it in other investments which will yield returns that will compensate them better for the risk they are taking. In the modern corporation system, there is normally a separation between ownership and management. This separation could lead to a clash in the objectives of shareholders as these differ from those of management (Jensen & Meckling, 1976). The difference in objectives between shareholders and management has given rise to the establishment of the value-based management (VBM) –framework in order to align the objectives of shareholders and management. VBM-systems provide an integrated management strategy and financial control system intended to increase shareholder-value by mitigating agency conflicts (Ryan & Trahan, 2007).

Stakeholder-theory can be defined as the managerial consideration of the non-market forces of the social aspects of corporate activity outside a market or regulatory framework and includes the consideration of issues such as employee-welfare, community programmes, charitable donations and environmental protection (Carter *et al.*, 2000). Stakeholder-theory also focuses on the non-financially-based value-drivers that could assist in value-creation (Jensen, 2001).

Shareholders could be concerned with a company's level of social investment, since a weak level may negatively affect its value. There are only a few international studies that have analysed the link between financial performance and social investment. Companies with, for example, good human

resource management practices, might increase their financial performance and shareholder-wealth, as their staff could be more productive and staff turnover could decrease, enabling a company to recruit a higher level of employee (Huselid, 1995). These studies have shown mixed evidence on the link between financial performance and social investment (Goergen & Renneboog, 2002).

Corporate social investment projects such as education, housing and environment could enhance a company's standing in the community and thereby increase its consumer-base. This would also assist in the development of future workforce and people being positive about a company as employer of choice (Goergen & Renneboog, 2002).

Waddock and Graves (1997) acknowledge the issue about the direction of causality: better financial performance may be caused by a higher level of social investment and vice-versa. It is argued that the relationship between financial performance and social investment will be negative if social responsibility imposes a cost on the firm. The cost of being socially responsible will make a company less competitive if its competitors decide not to incur this kind of cost (for example pollution control). Alternatively, the link will be positive if the benefits from being socially responsible, exceed the costs (for example positive employee-policies).

Hillman and Keim (2001) formulated a model which explicitly allows for the possibility of having a negative or positive relationship between financial performance and social investment. They argued that there are two components of social investment, one being the improvement of relationships with primary stakeholders - it is called stakeholder management (SM). The other component relates to social issues that do not improve relationships with primary stakeholders, also called social-issue-participation (SIP). The empirical study of Hillman and Keim (2001) revealed that SM has a positive impact on company performance, while SIP negatively impacts financial performance. This theory that certain stakeholder-approaches could be beneficial to shareholders and increase their value, while others could destroy it, is also confirmed by international studies (Berman *et al.*, 1999; Jones & Wicks, 1999).

There is continuous pressure on companies, as good corporate "citizens", to invest more in social causes to assist with the eradication of poverty. This is especially relevant to Africa, where about thirty-five per cent of Africa's population is estimated to be food-insecure, with famine currently threatening millions in Southern Africa (Naudé, 2002).

Many financial performance measurement indicators are used to calculate shareholder-value, for example net present value and internal rate of return for the evaluation of new investment opportunities, the traditional accounting rates of return such as return on equity (ROE) and return on

assets (ROA), earnings per share (EPS), price/earnings ratios (P/E ratio) and economic measurements such as economic value added (EVA) and market value added (MVA) to evaluate the performance of existing business activities (Correia *et al.*, 2007; Stern Steward and Co, 2007). All of these indicators are used to calculate the return on shareholders' investment. However, capital is only one scarce resource utilised in the creation of shareholder-value (Seisreiner & Träger, 2004). Companies should therefore take into account the contribution of other resources or stakeholders in measuring the value a company has created.

1.2. RATIONALE FOR THE STUDY

Several international studies have been performed to establish the financial impact of the stakeholder-theory on shareholder-value. However, not many of those studies are backed by empirical data. Furthermore, no proof could be obtained of any studies regarding the impact of the stakeholder-theory in South Africa.

1.3. PROBLEM STATEMENT

There might be conflict of interest between shareholders and stakeholders. Shareholders wish to maximise their investment in a company by way of dividends or value-growth in their investment. This is linked to future cash flows generated by a company. However, capital providers are not the only stakeholders that contribute to the increase in value of a company. Other stakeholders should also be compensated for inputs.

Managers wanting to maximise shareholder-value, can invest in value-enhancing investments or enhance operating efficiency by reducing the cost-base of a company. However, there is also the contribution to other stakeholders to be considered, which normally means a cash outflow. With the emphasis on financial performance, these stakeholders could be neglected by managers, especially if remuneration is linked to a company's financial performance. The question should therefore be asked whether a focus on all stakeholders-groups could contribute to the creation and maximisation of shareholder-value.

1.4. HYPOTHESIS

The working hypothesis of this study is that companies focussing on all the performance-value drivers, that is the shareholders as well as the other value-enhancing stakeholders, achieve better financial performance and therefore maximise shareholder-value.

1.5. RESEARCH AIM AND OBJECTIVES

The primary objective of this study is to determine whether companies investing in all their stakeholders could provide shareholders with a better return on investment. This objective will be reached by:

1. Discussing the theory of shareholder-value, referring to the agency-problem and the value-based management framework. Furthermore, by discussing the stakeholder-theory as well as conflict between shareholders' and stakeholders' theories and possible ways to align these theories by way of the discussion of stakeholder-orientation models and the identification of stakeholders;
2. Discussing performance value-drivers that could have an impact on a company's financial performance, focussing on economic, social and environmental performance-drivers;
3. Discussing the theory of financial performance measurement models in calculating the impact of management decisions and investments on shareholder equity by looking at traditional accounting models of return on assets and return on equity as well as economic models of economic value added and market value added; and
4. Empirically determining whether companies that invest in all their stakeholders, yield a better return on investment to shareholders.

1.6. METHOD OF RESEARCH

To achieve the objectives, a theoretical study of recent literature as well as an empirical study are required.

1.6.1. Literature study

The theoretical study to be conducted, will present current developments in the field of shareholder-value, with specific reference to the stakeholder-theory. Value-drivers that will contribute to the increase in shareholder-equity, with the accent on economic, social and environmental value-drivers will be discussed. Furthermore, there will also be a literature review focussing on financial performance measurement indicators that could be used in calculating shareholder-value or the return on investment. The indicators to be investigated are traditional accounting rate of return methods such as return on assets (ROA) and return on equity (ROE) as well as earnings per share (EPS) and headline earnings per share (HEPS). These methods will be compared to economic methods such as market value added (MVA) as external method and economic value added (EVA) as internal method. The function of net present value (NPV) and internal rate of return (IRR) -models in evaluating new

projects and the function of the weighted average cost of capital (WACC) in influencing the value of a company will also be discussed.

The traditional accounting-based principles, which are also internal measurement indicators to be used by a company to calculate growth, are the following:

- ROA, which measures the profitability of a company in relation to total assets employed. It is calculated by dividing earnings by total assets;
- ROE, which measures the return on ordinary equity. It is calculated by dividing net profit after interest and tax by ordinary equity;
- EPS, which refer to the profit attributable to ordinary shares; and
- HEPS, which are EPS adjusted for items of a capital nature, as such items are not necessarily an indication of sustainable earnings.

The following two economic-based principles to calculate growth, will also be used:

- EVA, which is a way of measuring the economic value (profitability) of a business after the total cost of capital, both debt and equity, has been taken into account. This is an internal measurement method to calculate growth in shareholder-equity; and
- MVA, which is the difference between the equity market-valuation of a listed company and the sum of the adjusted book-value of debt and equity invested in a company. This is an external measurement method to calculate growth in shareholder-equity.

1.6.2. Empirical study

The empirical study will involve the statistical analyses of the financial data of industrial companies that form part of the JSE Top 40 Index and have a history of stakeholder-management by using the annual growth in ROA, ROE, EPS, HEPS, EVA and MVA as measurement indicators, as well as comparing the results with those of the remaining industrial companies of the JSE Top 40 Index, using the same measurement indicators. Some of the companies with a history of stakeholder-management will be identified as "employer of choice" by studies conducted by Deloitte and the Corporate Research Foundation.

The following databases will provide the necessary data for the study:

- Global Reporting Initiative [http://globalreporting.org].

- Corporate Research Foundation – Best company to work for surveys from 2000 to 2006 [http://www.bestcompaniestoworkfor.co.za].
- Deloitte - Best company to work for surveys from 2000 to 2006 [http://www.bestcompany.co.za].
- Database of the McGregor Bureau of Financial Analysis (BFA) of the University of Pretoria.
- JSE Security Exchange – The market value of the identified employer of choice as well as the JSE to 40 companies [http://www.jse.co.za].
- Individual web pages of the companies selected to form part of the sample as employer of choice for their annual financial results.

This list is by no means conclusive, but will provide the mainstay of data for the study.

1.7. OVERVIEW

The study is divided into four chapters.

Chapter 1: Introduction

This chapter will address the following:

- Background to the study;
- Rationale on why the study was conducted;
- Problem statement;
- Hypothesis;
- Research objectives;
- Methodology used in the study; and
- Outline of the study.

Chapter 2: Stakeholder-approach in creating shareholder-value (Research article 1)

The following will be discussed in this chapter:

- Definition of shareholder-value;
- Description of agency-theory;
- Discussion on the development and impact of the VBM-framework;
- Discussion on the theory of property;
- Definition of stakeholders;

- Discussion of different stakeholder-orientation models; and
- Discussion on how to identify a stakeholder.

This forms a foundation from which the rest of the study can be conducted and the tests thereof interpreted.

Chapter 3: **Sustainable development in South Africa: an empirical study (Research article 2)**

This chapter flows from Chapter 2. It takes the foundation of the stakeholder-approach in creating shareholder-value, as set out in Chapter 2 and discusses the following:

- The theory of triple bottom line as performance value-drivers which would impact on a company's financial performance and shareholder-value;
- A discussion on the accounting-based as well as economic-based principles in calculating shareholder-value;
- The evaluation of data and data sources;
- The results of the empirical study in the context of the literature study.

Chapter 4: **Conclusions and recommendations**

This chapter will provide a summary of the study in the light of the objectives stated in Chapter 1. Conclusions and recommendations are also briefly discussed.

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CHAPTER TWO

RESEARCH ARTICLE 1

STAKEHOLDER-APPROACH IN CREATING SHAREHOLDER-VALUE

Abstract: This study analyses the impact of stakeholders in the creation of shareholder-value. It is acknowledged that the primary objective of any company should be the creation of shareholder-value. However, it is recognised that there are other stakeholders, with their own financial and/or non-financial objectives, which could impact on a company's overall financial performance. Management should therefore identify stakeholder-groups, which could impact on a company and formulate a model in addressing its objectives. This study integrates elements from the theory of shareholder-value, the agency-theory, the theory of property rights and different stakeholder-orientation models to develop the approach of responsible stakeholder-management in the creation of shareholder-value. The possible conflict of interest between shareholders and management as one of the most important stakeholders, with value-based management as solution, is discussed. Furthermore, different stakeholder-attributes are discussed to assist in the identification of stakeholder-groups.

Opsomming: Die studie analiseer die impak van belangegroepe op die skep van aandeelhouerswelvaart. Dit word algemeen aanvaar dat die primêre doel van enige maatskappy die skep van aandeelhouerswelvaart moet wees. Daar is ook ander belangegroepe met hulle eie finansiële en/of nie- finansiële doelwitte, wat die maatskappy se finansiële prestasie kan beïnvloed. Bestuur moet dus die belangegroepe wat die maatskappy kan beïnvloed, identifiseer en 'n model ontwikkel wat hulle doelwitte kan aanspreek. Hierdie studie integreer aspekte van die aandeelhouerswelvaart-teorie, die agentskapsteorie sowel as die teorie van eiendomsreg met verskillende belangegroepe-oriënteringsmodelle om 'n benadering vir verantwoordelike belangegroepbestuur te ontwikkel om by te dra tot die skep van aandeelhouerswelvaart. Die moontlike konflik van belange tussen aandeelhouers en bestuur, as een van die belangrikste belangegroepe, sowel as waardegebaseerde bestuur as oplossing vir konflik, word ook bespreek. Ten laaste word verskillende belangegroep-eienskappe bespreek om met die identifikasie van belangegroepe te help.

2.1. INTRODUCTION

The business environment offers multiple and diverse opportunities and threats to a company. It is hard for managers to design and evaluate an optimal action-plan specifying where and how to compete in that environment. Companies respond to the diversity and complexity of the business world with a variety of commitments to handle corporate risk, for example managers diversify their businesses to establish opportunities for growth and enter into strategic alliances to optimise the value-chain (Seisreiner & Träger, 2004). It is acknowledged in literature that the primary objective of a company should be to create shareholder-value (Arnold, 2005; Jensen, 2001). However, it is also recognised that there are various other stakeholder-groups that have their own financial and/or non-financial objectives. The stakeholders that make up this coalition of constituents have different levels of influence. The stakeholder-group with the most power will be able to influence the objectives of a company the most (De Wet, 2004; Mitchell *et al.*, 1997).

In this study the shareholder-value theory will be discussed, with emphasis on:

- Why management's primary objective should be the creation of shareholder-value;
- The identification of shareholder-value-drivers;
- The possible conflict between shareholders (principals) and management (agents); and
- Value-based management as an instrument to align principal-agent objectives.

Although shareholders are the legal owners of a company, they are not the only stakeholders. The stakeholder-value theory will be examined with the emphasis on:

- The theory of property as justification of the stakeholder-theory;
- Defining the concept of stakeholders;
- Discussing different stakeholder-orientation models; and
- Identifying different classes of stakeholders.

2.2. PROBLEM STATEMENT

There are several stakeholders in a company that contribute to its value-creation, such as shareholders, senior managers, employees, customers, suppliers and the community. Each of the stakeholder-groups wishes to share in the created value and have different financial and/or non-financial expectations from a company. This could lead to a conflict of interest between the various groups. The question then is the impact of stakeholders in the creation of shareholder-value.

2.3. METHODOLOGY

A study on the theory of shareholder-value and the impact of stakeholders on the creation thereof was conducted by means of a review of recent literature on the subject.

2.4. SHAREHOLDER-VALUE THEORY

In order to establish a company, capital investment is required for the acquisition of assets, which will generate the goods or services required. It is therefore necessary to raise the required capital. Investors must be persuaded to invest in a company's operations, as opposed to all other investment alternatives available to them. They will base their investment-decision on the possible future value of a company and the risk profile thereof. In return, they expect a company to generate an adequate return to increase and maximise the value of the investment (Correia *et al.*, 2007).

Value is created when investments produce a rate of return greater than that required for the risk class of investment (Arnold, 2005). Companies can create shareholder-value by enhancing operating-efficiency, undertaking value-enhancing investments and withdrawing capital from unrewarding activities (Stern, 1994). Furthermore, additional shareholder-value could also be unlocked by moving closer to the optimal capital structure (De Wet & Dhanraj, 2007).

Management's primary objective should be to create shareholder-value (Arnold, 2005; Jensen, 2001). A company's financial objectives need to tread a delicate balance between the interests of all stakeholder-groups. However, shareholders will always receive preferential treatment because they have the option in a free market to withdraw their invested capital and putting it in other investments which will yield returns that will compensate them better for the risks they are taking (De Wet, 2004). They are also the legal owners of a company (Donaldson & Preston, 1995). A company could be socially conscious and environmentally responsible, but without generating adequate financial returns and creating shareholder-value, it will not be sustainable in the long run.

2.5. AGENCY-THEORY

In the modern-day economy there is a distinct separation between the **shareholders** and the **management** of a company. This is especially applicable to listed companies, where management generally does not own the majority of shares in a company and therefore manages it on behalf of the shareholders. The agency-relationship could therefore be defined as a contract in which one or more persons (principals) engage another person (agent) to take action on behalf of the principals, which involves the delegation of some decision-making authority to the agent (Jensen & Smith, 1985).

There may be possible conflict between the objectives of the shareholders and those of management:

- When a manager's ownership claims in a company fall, his incentive to devote significant effort to creative activities such as searching out new profitable ventures, falls. On the other hand, shareholders expect management to do all in its power to maximise their shareholder-value (Jensen & Meckling, 1976).
- Another possible source of conflict is the remuneration of managers. Often a manager does not have a majority-share in a company and his income from investment in a company will therefore be limited. A manager might therefore appropriate benefits out of a company's resources for own consumption. It would be necessary for shareholders to expend more resources in monitoring his behaviour (Jensen & Meckling, 1976). Recent corporate scandals, such as WorldCom and Enron in the USA, Parmalat in Italy and LeisureNet in South Africa, are results of management's misappropriation of company's resources.

With the separation between shareholders and management there may also be a risk that management could pursue objectives attracted and beneficial to them but not necessarily to the shareholders (Arnold, 2005). It is therefore important for shareholders to have a say in the decision-making process because the managers who initiate and implement important decisions may not be the major-shareholders and may therefore not bear the major financial impact of such decisions. Without effective control procedures, such managers are more likely to take actions which deviate from the interest of the shareholders. An effective system for decision-control implies that the control (ratification and monitoring) of the decisions is to some extent separate from the management (initiation and implementation) of decisions. The checks and balances of such decision-systems have costs, but they also have important benefits. This system allows valuable knowledge to be used at points in the decision-process where it is most relevant and they help control the agency problems (Fama & Jensen, 1983).

This view of management and control over decisions in a company is also shared by the Second Report on Corporate Governance in South Africa, commonly known as the King II Report. It sets out the responsibilities and duties of non- executive (independent) directors, as representatives of the shareholders of a company. The board of directors of a company is overall accountable for the performance and affairs thereof. Delegating authority to board committees or management, does not in any way mitigate or dissipate the discharge by the directors of their duties and responsibilities. The board should define levels of materiality, reserving specific power to itself and delegating other matters to management. These matters should be evaluated and monitored on a regular basis (King, 2002).

For management to focus on shareholder-value maximisation, it would be important for them to share in the value a company has created for the shareholders. Traditional incentive schemes rewarded management based on traditional accounting rates of return and other non-value performance measures achieved in the short-term (Arnold, 2005). More recently, managers' performance is measured based on their contribution to value-creation. Methods used to determine value-creation are based on economic objectives and include measures such as economic value added (EVA) and cash flow return on investment (CFROI) (Ittner & Larcker, 2001).

The value-based management (VBM) systems could provide an integrated management-strategy and financial control system intended to increase shareholder-value by mitigating agency conflicts. VBM could reduce agency-conflict and help create shareholder-value since it reveals value-increasing decisions to employees, to allow for the easier monitoring of managers' decisions, and provides a method to tie compensation to outcomes that create shareholder-value. VBM could also provide management with a set of decision-making tools that identify which alternatives create or destroy value, and often by linking compensation and promotions to shareholder-value (Ryan & Trahan, 2006). The fundamental aspects of VBM are to analyse where and how value has been created, to identify new possible sources of wealth-creation and to avoid activities that could destroy or neutralise value (Seisreiner & Träger, 2004).

2.6. THEORY OF PROPERTY

It is generally accepted that shareholders, as capital providers, are the legal owners of a company. The traditional viewpoint has been that the property rights of shareholders justify the dominance of management's decisions to advance shareholders' interests (Donaldson & Preston, 1995). Property rights are normally protected by countries' juridical systems.

However, shareholders are not the only stakeholder-group managers should take into account in their decisions (Jensen, 2001; Seisreiner & Träger, 2004). International legislatures have started acknowledging the stakeholder perspective in their writings as well. The American Law Institute (1992), affirms the central corporate objective of enhancing corporate profit and shareholder-gain, but qualifies this statement by stating that a company must abide by law and may take into account ethical considerations and engage in philanthropy. Furthermore, a company could have a legitimate concern with other groups such as employees, customers, suppliers and members of the community in which the corporation operates. The response to social and ethical considerations is often consistent with long-term (if not short-term) increases in profits and value of the corporation (Donaldson & Preston, 1995). King (2002) also acknowledges that the challenge for good citizenship is to seek a balance between the expectations of the shareholders for capital growth and taking into account the

responsibility towards the other stakeholders of a company. The King II Report encouraged the move from a single to a triple bottom line, taking into account the economic, environmental and social aspects of a company's activities.

It is therefore necessary to move towards a model where all stakeholders' interests are taken into account while still recognising shareholders' ownership rights. It could be perceived as conflict of interest to propose that the stakeholder-value theory could be justified on the theory of property, because the traditional view has been that the focus on property-rights justifies the dominance of shareholders' interests. However, the right of ownership is not an unrestricted right. Property rights are embedded in human rights, and therefore restrictions against harmful uses are intrinsic to the property rights and hence bring the interests of non-shareholder stakeholders into the picture. The contemporary concept of private property rights does not ascribe *unlimited* rights to owners and therefore does not support the popular claim that managers should exclusively act as agents for the shareholders (Donaldson & Preston, 1995).

2.7. DEFINITION OF STAKEHOLDERS

In recent years the stakeholder-*approach* has been used to broaden management's vision of its role and responsibility beyond maximisation of shareholder-value to include the interests of the non-shareholders or stakeholder-groups. Stakeholder-*theory* focuses on the question of which groups are stakeholders and require management's attention and which not. It is thus necessary to answer the questions of who is a stakeholder and what is at stake (Mitchell *et al.*, 1997).

Freeman (1984) laid a foundation for defining stakeholders. He defined stakeholders as any group or individual who can affect or is affected by the achievement of a company's objectives. This is a very broad definition and could virtually include anyone. In this definition the basis of stake can be uni-directional or bi-directional and there is no implication of or necessity for mutual impact, as definitions involving relationships, transactions or contracts require. The only parties excluded from having a stake are those who cannot affect a company, who have no power and are not affected by it, or have no claim or relationship (Mitchell *et al.*, 1997).

The stakeholder-theory could be defined from a social responsibility approach. Jones (1980) defined corporate social responsibility as the notion that companies have an obligation to stakeholder-groups in society other than shareholders and beyond that prescribed by law or union contract, indicating that a stake may go beyond mere ownership.

The above definitions are broad in the sense that they are all-inclusive, namely groups who have an affect or are affected by a company, can be considered as stakeholders. Freeman and Reed (1983) recognised that there could be differences in opinion about the impact of the broad definition of "stakeholder" and therefore defined it as "any identifiable group or individual on which the organisation is dependent for its continual survival, including employees, customer segments, certain suppliers, key government agencies, certain financial institutions, as well as others in the narrow sense of the term". Clarkson (1994) also promoted narrowing the definition by defining a "stake" as "something that can be lost".

The narrow views of stakeholders are based on the practical reality of limited resources and limited time and attention. Generally-speaking, narrow views attempt to define relevant groups in terms of direct relevance to a company's core economic interests, its moral claims, or fulfilling of its affirmative duty to stakeholders in terms of fairly distributing the harms and benefits of its actions. The supporters of the narrow stakeholder-view are searching for a normative core of legitimacy so that managers can focus on claims of a few legitimate stakeholders. In contrast, the broad view of stakeholders is based on empirical reality that companies can indeed be vitally affected, or they can vitally affect, almost anybody (Mitchell *et al.*, 1997).

2.8. STAKEHOLDER-ORIENTATION MODELS

Several scholars have contributed to the development of the stakeholder-theory. This was developed around the following foundational principles:

- Companies have relationships with many stakeholder-groups that affect and are affected by their decisions (Freeman, 1984);
- The theory is concerned with the nature of these relationships in terms of both processes and outcomes for a company and its stakeholders (Jones & Wicks, 1999);
- The interests of all *legitimate* stakeholders have intrinsic value and no set of interests is assumed to dominate the others (Clarkson, 1995; Donaldson & Preston, 1995); and
- The theory focuses on managerial decision-making (Matten & Crane, 2005; Donaldson & Preston, 1995).

Donaldson and Preston (1995) structured early stakeholder-theorising. They classified the central stakeholder-theory in three possible propositions, namely descriptive, instrumental and normative. The descriptive theory presents a model describing a company as a constellation of cooperatives and competitive interests possessing intrinsic value. The instrumental theory establishes a framework for

examining connections between practising stakeholder-management and the achievement of various corporate performance goals. The main focus is that companies practising stakeholder-management will be successful in achieving their conventional performance goals. The first two theories are significant but the normative theory is considered as the fundamental basis of stakeholder-management. This theory involves ideas such as that stakeholders are groups with legitimate interests in a company. They are identified by their interests in a company and not by whether a company has a corresponding interest in them or whether the interests of stakeholders have intrinsic value. This means that each stakeholder-group's interest merits consideration for its own sake and not because of its ability to advance the interests of another group, such as the shareholders. Briefly summarised, the descriptive theory addresses the question of "what happens", the instrumental theory of "what happens if" and the normative theory of "what should happen" (Jones, 1995).

Stakeholder-management requires that attention should be given to the interests of all legitimate stakeholders, both in the establishment of organisational structures and general policies and in day-by-day decision-making. This should be applicable to all policy-makers and groups affecting policies, not only to corporate managers, but also to shareholders, government and others. Policy-makers should therefore take all legitimate stakeholders into account with the formulation and implementation of corporate policy (Donaldson & Preston, 1995).

One of the problems with the stakeholder-theory has been confusion about its nature and purpose. Some scholars have used the stakeholder-theory to describe how the organisation operates and to help predict organisational behaviour. Others have used the theory to try and explain the decision-making process in a company in terms of goals, expectations and decision-making procedures. However, the stakeholder-theory is intended both to explain and guide the structure and operation of an established company. This means that there could be many and diverse participants which accomplish multiple, but not always similar, purposes. It goes beyond the descriptive observation that companies have stakeholders (Donaldson & Preston, 1995).

The stakeholder-theory can be, and has been, presented and used in a number of ways. Two distinct stakeholder-orientation models have emerged:

2.8.1. Strategic stakeholder-management

The strategic stakeholder-management model describes a company-stakeholder relationship, namely how a company is affected by stakeholder-actions. It is instrumental in nature as it accepts as theory that certain outcomes will be achieved if certain behaviours are adopted (Jones & Wicks, 1999).

Stakeholder-management has stated that a company can be affected by stakeholders' actions (Freeman, 1984). This implies that a company has a stake in the behaviour of its stakeholders. Good management of a company also includes good relationships with stakeholders, and is therefore of instrumental value. A fundamental assumption of this model is that the primary objective of corporate decisions is to achieve market-place success and maximise shareholder-value (Berman *et al.*, 1999; Jensen, 2001). Stakeholders are therefore part of the environment that must be managed in order to assure revenues, profits and increase in shareholder-value. Stakeholder-management is therefore a means to an end. The end, or ultimate result, may have nothing to do with the welfare of stakeholders in general, but with the advancement of only one stakeholders' group, namely the shareholders. A company's interest in stakeholder-relationships is instrumental and contingent-based on the value of those relationships on corporate financial success. Management will therefore only attend to those stakeholders who might have strategic value to a company (Jones & Wicks, 1999).

Management plays a vital part in the strategic stakeholder-management model. Top managers are a company's contracting agents because they contract with all stakeholders directly or indirectly and have strategic positions regarding key-decisions in a company. Management actions could influence stakeholder-behaviour. It is reflected in a company's policies and procedures and in the nature of its direct dealings with corporate stakeholders, as policies and decisions are normally products of top management. Some of the policies and decisions can be readily apparent to the stakeholders affected by them. For example, if a company decides to retrench a part of its workforce to boost profits, the effects will be well-known to its employees. If a company implemented a policy of "no returns" on products, the policy will become known to its customers. These policies are "visible" to the affected stakeholders, and its reputation among the affected stakeholder-groups will be affected accordingly. It is also likely that these kinds of policies and decisions will influence the judgement of other stakeholders not directly affected.

Top management also affects the corporate culture of a company. Formal and informal rules and policies, together with its enforcement, reflect its values and moral sentiments. This could influence individuals' behaviour at lower levels of a company. The latter and top management can earn a reputation of being ethical or opportunistic through the policies and decisions implemented (Jones, 1995).

Criticism against the strategic stakeholder-management theory could be that strategically applying ethical principles, that is, acting according to moral principles only when doing so is to your advantage, is by definition, not following ethical principles at all. It could be argued that if the purpose of acting ethically is to acquire a good reputation that could provide a company with

economic benefits, why not pursue ethical behaviour and therefore good reputation directly (Berman *et al.*, 1999)?

2.8.2. Intrinsic stakeholder-commitment

The intrinsic stakeholder-commitment model is a normative approach because managerial relationships with stakeholders are based on moral commitments rather than on a desire to use those stakeholders solely to maximise profits. Management therefore establish certain moral principles that guide a company in how it is supposed to do business, especially related to shareholder management, and use those principles in its decision-making process. Companies address stakeholder-concerns because of a moral commitment to stakeholder-groups and that this commitment will drive strategic decision-making, which could impact on company financial performance (Donaldson & Preston, 1995; Berman *et al.*, 1999).

The normative theory is based on a principle that a company's decisions affect stakeholder-outcomes. Ethics deal with the obligations that could arise when a company's decisions could affect others. Regardless of what an ethical decision is, decisions without taking into account the impact on others, are normally deemed unethical (Berman *et al.*, 1999). Management should therefore consider their moral obligations, especially the relative importance of obligations to shareholders and those to other stakeholder-groups. Stakeholders should be treated as "ends" or ought to view the interests of stakeholders as having intrinsic value (Jones & Wicks, 1999). Certain claims of stakeholders are based on fundamental moral principles unrelated to stakeholders' instrumental value to a company. Companies cannot ignore these claims only because honouring them does not serve its strategic interests. Stakeholder-interests form the foundation of a company's strategy itself, representing "what we are" and "what we stand for" as a company. A company therefore shapes its strategy around certain moral commitments to its stakeholders (Berman *et al.*, 1999).

The normative theory does not try and shift a company's focus away from market-place success and towards human decency. Rather, it tries to come up with understandings of business in which the objectives of value-maximisation and human decency are linked and mutually reinforced (Donaldson & Preston, 1995).

This view of stakeholder-relationships is called the intrinsic stakeholder-commitment model because the interests of stakeholders have intrinsic value and enter a company's decision-making before strategic considerations. This forms a moral strategy for corporate strategy itself (Berman *et al.*, 1999).

However, one of the main weaknesses of this model is the identification of stakeholders. Freeman (1984) defines stakeholders as any group that affects or is affected by a company. It is management's function and responsibility to select activities and direct resources to obtain benefits for legitimate stakeholders. The question arises of who legitimate stakeholders are or up to what extent management should consider stakeholder-claims. For example:

- To what extent should management consider a potential job-applicant, unknown to a company, claim in a company to be considered for a job, but not necessarily to get a job? This potential job-seeker does qualify as a stakeholder but the question should be answered whether it is a legitimate stakeholder.
- To what extent should management consider a community's claims if it is necessary to shut down business activities which do not perform financially (Donaldson & Preston, 1995)?

2.9. STAKEHOLDER-IDENTIFICATION-ATTRIBUTES

Stakeholder-management is the responsibility of senior management, which is also responsible for the establishment of a corporate identity. This is the setting of core values and beliefs shared between top management and stakeholders about the central, enduring and distinctive characteristics of a company. Goals, missions, values and actions contribute in the shaping of a corporate identity. This differentiates one company from another in the eyes of management as well as stakeholders (Scott & Lane, 2000). Corporate identity might influence management's approach in identifying and managing stakeholder-relations (Collins & Porras, 2005).

One of the main challenges of the stakeholder-theory is the identification of stakeholders. It is necessary to try and answer the questions of who and what really counts. Literature suggests that stakeholders should have certain attributes to qualify, namely they should have a claim as well as the ability to influence a company (Savage *et al.*, 1991). They also should have a relationship (actual or potential) with a company. The nature of the relationship will also determine their status as stakeholders; that is a power-dependence relationship (Mitchell *et al.*, 1997).

Two important stakeholder-attributes are power and legitimacy. A stakeholder must have power to influence a company as well as a legitimate claim against or interest in it. However, there is also a final attribute that profusely influences managerial perception and attention. This is urgency, the degree to which stakeholder-claims call for immediate attention. Urgency adds a catalytic component to stakeholder-identification, because urgency demands attention (Mitchell *et al.*, 1997). Manager-stakeholder relationships should be evaluated in terms of the absence or presence of some or all of the attributes: power, legitimacy and/or urgency.

2.9.1. Power

The Concise Oxford English Dictionary (2004) defines power as "the capacity to influence the behaviour of others, the emotions or the course of events or the ability to do something or act in a particular way". Scholars have defined power as the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance against or a relationship among social actors, where one social actor, A, can get another social actor, B, to do something that B would not otherwise have done (Mitchell *et al.*, 1997). Power is difficult to define but easy to identify. A party in a relationship has power, to the extent it has or can gain access to coercive, utilitarian or normative means, to impose its will on the relationship (Mitchell *et al.*, 1997). Power is also transitory as it can be acquired but also lost.

2.9.2. Legitimacy

Scholars of especially the narrower stakeholder-definition have focused almost exclusively on defining the basis of stakeholder-legitimacy. This refers to socially-accepted and expected structures or behaviours and is often linked to power when relationships in society are evaluated. Legitimacy and power are distinct attributes that can be combined to create authority, which is the legitimate use of power, but can exist independently as well. Suchman (1995) defined legitimacy as a "generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially-construed system of norms, values, beliefs and definitions". This recognised that the social system within which legitimacy is attained, has various levels and that it is a desirable social good, that it is something larger and more shared than self-perception and that it may be defined and negotiated differently at various levels of social organisations (Mitchell *et al.*, 1997).

2.9.3. Urgency

The Concise Oxford English Dictionary (2004) defines urgency as "requiring immediate action or attention". Urgency exists only when a relationship or claim is of a time-sensitive nature as well as important or critical to the stakeholder. Urgency is the degree to which stakeholder-claims call for immediate attention. It is not necessary to specify why stakeholders assess their relationship with a company as critical or try to predict the circumstances under which time will be of the essence. It is necessary for a stakeholder-claim or interest that both these factors be present to be deemed as urgent (Mitchell *et al.*, 1997).

There are some other implications of power, legitimacy and urgency to be considered. These could provide a preliminary framework to understand how stakeholders can gain or lose salience to a

company's managers. Firstly, each attribute is a variable and not steady state and can change for any company or relationship. Secondly, the existence of each attribute is a matter of perception and a constructed reality, rather than an objective one. Thirdly, a stakeholder may not be conscious of possessing an attribute or may not choose to endorse any implied behaviour (Mitchell *et al.*, 1997).

2.10. Stakeholder-classes

Stakeholder-theory is based on the fact that managers will pay attention to various classes of stakeholders that will assist them in achieving their goals, that corporate identity will influence stakeholder-management and that stakeholder-identification will be based on the absence or presence of three attributes: power, legitimacy and urgency. There are different stakeholder-classes that could emerge from various combinations of the three attributes. These will be analysed, as shown in Figure 1.

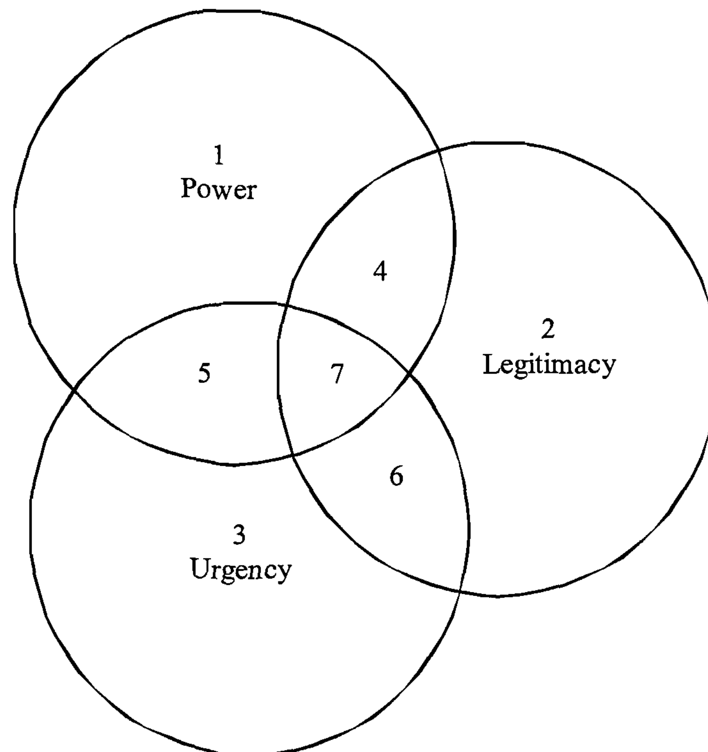

Figure 1: Classes of stakeholders *Source: Mitchell et al. (1997)*

2.10.1. Latent stakeholders

With limited time, energy and other scarce resources, managers may well do nothing about stakeholders they believe have only one of the identifying attributes (areas 1, 2, and 3). These classes are of low importance and will be referred to as latent stakeholders. Management may not even recognise those stakeholders' existence. Similarly, latent stakeholders may also not give attention or acknowledgement to a company (*Mitchell et al.*, 1997).

- **Dormant stakeholders**

Dormant stakeholders possess power as attribute. They have power to impose their will on a company, but they do not have a legitimate relationship with or an urgent claim against a company and therefore their power remains unused. Management should remain aware of dominant stakeholders, even if they do not have any or very little interaction with a company, because they could acquire a second attribute of either legitimacy or urgency (Mitchell *et al.*, 1997).

- **Discretionary stakeholders**

Discretionary stakeholders have legitimacy, but they neither have power to influence a company nor an urgent claim against it. Groups who benefit from corporate social responsibility could be classified as discretionary stakeholders, but only if the attributes of power and urgency are absent. There is absolutely no pressure on management to enter into an active relationship with these stakeholders, although managers can choose to do so (Mitchell *et al.*, 1997).

- **Demanding stakeholders**

Where urgency is the sole attribute in the stakeholder-manager-relationship, the stakeholder is classified as "demanding". These stakeholders have an urgent claim, but neither legitimacy nor power. They could therefore be an "annoyance" to management; irritating but not dangerous, inconvenient but not warranting more than passing management attention (Mitchell *et al.*, 1997).

2.10.2. Expectant stakeholders

Stakeholders who possess two of the three attributes of the stakeholder-manager-relationship (areas 4, 5 and 6) are called expectant stakeholders. Management's attitude towards them is also drastically different from that of latent stakeholders. Expectant stakeholders are seen as "expecting" something

and therefore led from a passive to an active management mind-set. The level of interaction between management and expectant stakeholders is also much higher (Mitchell *et al.*, 1997).

- **Dominant stakeholders**

Both powerful and legitimate stakeholders' influence in a company is assured, since by having both, they form a dominant coalition. Dominant stakeholders have a legitimate claim against a company and have the power to act upon it. Because of the legitimacy and power, it is likely that their claims against and relationship with a company will matter to management. It is also expected that there would be some formal structures in place to recognise their importance to a company, for example an investor-relations-office to handle ongoing relationships with investors or a human resource department to recognise the importance of the employee-manager-relationship. Companies also keep powerful, legitimate stakeholders informed (Mitchell *et al.*, 1997).

- **Dependent stakeholders**

Dependent stakeholders have urgent, legitimate claims against a company, but they do not have the power to enforce these. They are therefore dependent on others for the necessary power to carry out their will. Power is not mutually shared in this relationship and therefore its exercise is governed through the support of other stakeholders, or through the guidance of internal management-values. Using the giant Alaskan-oil-spill in the late 1980's as an example, it is evident that several stakeholder-groups, namely the local community and environment, have urgent and legitimate claims, but they have little or no power to enforce their will in the relationship. They have had to rely on dominant stakeholders, that is the Alaskan State Government and the Court System, to have their claims satisfied (Mitchell *et al.*, 1997).

- **Dangerous stakeholders**

When urgency and power characterise stakeholders who have no legitimacy, the stakeholders could be possibly coercive and violent, and therefore pose a physical threat to a company. They have therefore been classified as dangerous as they could use coercive means to advance their claims. Sometimes these means may also be illegitimate and could include employee-sabotage, terrorism and wildcat strikes. These stakeholder-actions are dangerous to both the stakeholder-manager-relationship as well as to individuals and entities involved. It is important to recognise this group of stakeholders to try and mitigate the dangers posed by them, but without acknowledging them (Mitchell *et al.*, 1997).

2.10.3. Definitive stakeholders

Management will give high priority and attention to stakeholders that possess all three of the attributes. A stakeholder who has power and legitimacy will already be a member of a company's dominant coalition. When they acquire urgency as well, management will have a clear and immediate mandate to attend to and give priority to these stakeholder-claims. The most common event is when dominant stakeholders move into the definitive category (area 7). For example, when shareholders (dominant stakeholders) of a company feel that their legitimate interests are not served by management, they can become active. A sense of urgency would also be produced if these legitimate and powerful stakeholders see a company's share-price plummeting. These definitive stakeholders would be able to remove management because they have the power, are the legitimate owners of a company and there is a sense of urgency. Any expectant stakeholder can become a definitive one by acquiring the missing attribute (Mitchell et al, 1997).

2.11. SUMMARY AND CONCLUSION

Two hundred years of work in economics and finance imply that social welfare is maximised when all companies in an economy attempt to maximise their own value. A company that takes inputs out of the economy and puts back its output of goods and services into the economy, increases aggregate welfare if the prices at which it sell the goods more than cover the costs it incurs in purchasing the inputs. Value is created whenever a company produces an output that is valued by its customers at more than the value of the inputs it consumes. Total value is not just the value of equity, but also includes the market-values of all other financial claims, including debt, preference-shares and warrants. Management should therefore focus on the maximisation of market-value (Jensen, 2001).

In contrast, stakeholder-theory argues that managers should make decisions so as to take into account the interests of all stakeholders in a company. As the concept of stakeholders is extremely broad, and many scholars in stakeholder-theory do not specify how to make the necessary trade-offs between these competing interests, they leave managers with a theory rendering it impossible to make purposeful decisions. However, a company cannot maximise its value if it ignores the interests of its stakeholders. It is therefore necessary to reach a proper balance between value-maximisation and the stakeholder-theory.

Responsible stakeholder-management implies that managers should attend to the interests and claims of shareholders as the dominant stakeholders and legal owners of a company. However, management should also attend to the interests and claims of other stakeholders contributing to value-creation in a

company. The question, however, is to which group of stakeholders management should attend to and to what extent.

The strategic stakeholder-management orientation model focuses on stakeholders as a means to an end. The end normally is an increase in profits and shareholder-value and may not have anything to do with the welfare of stakeholders in general. Criticism against this model is that strategically-applied ethics are by definition not following ethical principles at all. The intrinsic stakeholder-commitment-model is based on moral commitments rather than sound financial principles. The implementation of this model could negatively impact on shareholder-value, which could result in the withdrawal of capital from a company. Both of these orientation-models are flawed in themselves, but responsible stakeholder-management would be a combination of them. Ethical behaviour and focus on strategic stakeholders, which could impact on the performance and value of a company, that is stakeholders with at least two of the three stakeholder-attributes of power legitimacy and urgency, would assist in maximising shareholder-value.

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CHAPTER THREE

RESEARCH ARTICLE 2

SUSTAINABLE DEVELOPMENT IN SOUTH AFRICA: AN EMPIRICAL STUDY

Abstract: The concept of sustainable development has exploded in recent years. Three main elements of sustainable development were identified, namely economic, social and environmental development. For the purpose of this study, the three areas of sustainable development will be referred to as "triple bottom line (TBL)". Several organisations have started focussing on the concept of sustainability by giving guidance in and developing sustainability policies. However, the Global Reporting Initiative (GRI) has become the *de facto* global standard for reporting on sustainable development. This study focused on the concept of TBL, and how the three elements of sustainability could contribute to the maximisation of shareholder-value. The results of the empirical study, in which the financial performance and shareholder growth of companies listed on the JSE and which adopted and reported on the GRI-guidelines were compared to a group of companies in the same index grouping of the JSE that had not formally adopted and reported on those guidelines, identified a clear trend that the companies reporting on their sustainability policies, had had a much better growth in five of the six financial measures used than the comparative group.

Opsomming: Die konsep van volhoubare ontwikkeling het die afgelope paar jaar ontplof. Daar is drie elemente vir volhoubare ontwikkeling geïdentifiseer, naamlik ekonomiese, sosiale en omgewingsontwikkeling. Vir die doel van hierdie studie sal daar na die drie areas van volhoubare ontwikkeling verwys word as "drievoudige winslyn (DWL)". Verskeie organisasies het begin konsentreer op die konsep van volhoubaarheid deur die daarstelling en ontwikkeling van volhoubaarheidsbeleidsdokumente. Die Global Reporting Initiative (GRI) het die *de facto* globale standaard geword vir die rapportering van volhoubare ontwikkeling. Hierdie studie konsentreer op die konsep van DWL, sowel as hoe die drie elemente van volhoubaarheid kan bydra tot die maksimalisering van aandeelhouerswelvaart. Die resultate van die empiriese studie waarin die finansiële prestasie en aandeelhouersgroei van maatskappye genoteer op die JSE en wat die riglyne van die GRI aanvaar het en daarop rapporteer, vergelyk word met 'n groep maatskappye in dieselfde indeks groepering van die JSE wat nie die riglyne formeel aanvaar het en daarop rapporteer nie, het 'n duidelike neiging uitgewys dat maatskappye wat op hulle volhoubaarheidsbeleid rapporteer, 'n baie beter groei gehad het in vyf van die ses finansiële aanwysers as diè van die vergelykende groep maatskappye.

3.1. INTRODUCTION

In 1987, the World Commission on Environment and Development published its report "Our Common Future". Since then, a number of meanings of the concept of sustainable development have exploded. The main critique against the report is related to it being biased towards economic growth. In a straight forward sense it is undoubtedly true. The report clearly stated that there should be a new era of economic growth. The question is what kind of growth was prescribed? What kind of growth is seen as compatible with sustainable development? The answer came from the report, in which was stated that the world should quickly design strategies that would allow nations to move from the present, often destructive processes of growth and development onto sustainable development paths. The report is mainly focused on the environment, but highlights the importance of social development as well. It states that poverty and the lack of social development could result in the destruction of the environment. The report further states that, given the current population growth rates, the goal of reducing poverty requires national income growth (Langhelle, 1999). The report identifies three main elements of sustainable development, namely economic, social and environmental development. For the purpose of this study, the three areas of sustainable development will be referred to as "triple bottom line (TBL)".

The last few years saw an increase in the sustainable development field. Several organisations started focussing on the concept of sustainability, such as the SIGMA Project, Accountability and SustainAbility. These focused on giving guidance in and development of sustainability policies. However, the Global Reporting Initiative (GRI) has become the *de facto* global standard for reporting on sustainable development (Global Reporting Initiative, 2007a).

This study will focus on the concept of TBL, and how the three elements of sustainability could contribute to the maximisation of shareholder-value. Furthermore, the empirical portion of this study will compare companies listed on the JSE and which have adopted and reported on the GRI-guidelines, financial performance and shareholder-growth with a group of companies in the same index grouping of the JSE that had not formally adopted and reported on these. Indicators used in analysing financial performance and shareholder-value creation will be accounting-based principles, such as return on assets (ROA), return on equity (ROE), earnings per share (EPS) and headline earnings per share (HEPS). The results of the accounting-based principles will be compared to economic-based principles, such as economic value added (EVA) and market value added (MVA). The data used in the study was retrieved from the database of the McGregor Bureau of Financial Analysis of the University of Pretoria.

3.2. PROBLEM STATEMENT

Shareholders wish to maximise their investment in a company by way of dividends or growth in their investment. Growth in investment is linked to future cash flow generated by a company. Shareholders expect that a company should be sustainable over the long run. There are other stakeholders involved in a company, which could contribute to the sustainability thereof as well as the creation of value. Compensation to these stakeholders has normally resulted in a cash outflow. The emphasis on financial performance could result in management neglecting the objectives and expectations of these stakeholders, which could result in a decline or slow growth of value over the long-term. The question is whether companies that consider other stakeholders, show relatively better financial performance than those who do not.

3.3. HYPOTHESIS

The hypothesis of this study is that companies focussing on all stakeholders' expectations, that is the shareholders as well as the other value-enhancing stakeholders, achieve better financial performance and therefore maximise shareholder-value. The results of the empirical study will indicate whether the hypothesis that companies focussing on all three areas of sustainable development, will have an economic advantage in the long run and thereby maximise shareholder-value, is valid or not.

3.4. CONCEPT OF TRIPLE BOTTOM LINE

A company's primary objective should be to maximise its shareholders' value. In order to do this a company should attend to its stakeholders' expectations (Jensen, 2001). A company should therefore balance economic prosperity, environmental quality and social wellbeing to be able to be sustainable in the long run. For a company to be sustainable it must not only be financially secure (as evidenced through such measures as profitability) but it should minimise negative environmental impact and act in conformity with society's expectations. Sustainability could be achieved by good corporate governance and meeting stakeholders' expectations by delivering a well-planned and implemented corporate strategy to gain a competitive advantage. Sustainable businesses build on partnerships with a range of stakeholders, including employees, customers, shareholders, members of the local community and government agencies by turning these partnerships into valuable resources. Meeting the expectations of all stakeholders ensures success in both the short as well as the long-term (Nelson & Wilson, 2003).

The roots of the world's sustainability crisis are social and political, but corporations have the global reach, resources and motivation to achieve sustainability. Sustainable development could be defined as development that meets the needs of the present world without compromising the ability of future generations to meet their own needs (Adams *et al.*, 2004). The term TBL was coined by John Elkington in 1994 and describes organisational culture-change to ensure that everyday business decisions are made within an economic, social and financial framework to ensure long-term sustainability. The TBL-agenda focuses corporations not only on the economic value that they add, but on the environmental and social value that they add or destroy as well (Elkington, 2004).

Sustainability is a combination of environmental, social and economic performance. Economic sustainability is the most complex and elusive component of the TBL-approach. It could also be considered as the most important element. A company could be socially conscious and environmentally responsible, but if it does not have a positive financial bottom line, a company will be out of business over the long run. Economic sustainability can be interpreted as how companies stay in business, without damaging the social fabric of the community or harming the environment. Economic sustainability is integrally linked to the environmental and social outcomes a company achieves. It could be argued that ignoring social and environmental issues, could financially benefit a company in the short-term, but it could be a barrier to long-term survival at both micro and macro levels. Companies that can effectively manage environmental and social issues will make themselves economically sustainable (Doane & MacGillivray, 2001).

It could be assumed that the economic bottom line is synonymous with the financial bottom line (profitability). Although both are important for a company to be sustainable, there are significant differences between the two. The financial bottom line reflects historical information about the market-value of transactions passed through a company's books. Economic bottom line reflects the investment in human and natural resources in the pursuit of human welfare. It therefore impacts on the society at large (Jennings, 2004). Economic bottom line might include everything from employment and the provision of public services such as public transport by way of paying taxes, to ensure a sustainable skilled workforce and a productive and healthy community in which a company could continue to do business. Economic bottom line is integrally linked with decisions that go well beyond the traditional understanding of financial bottom line. In recent years investors have also started looking at "long-term" shareholder-value, that is stable companies with a history of providing reliable added-value to the economy as a whole (Doane & MacGillivray, 2001).

The social bottom line is used to examine and enhance the interface between a company and its stakeholders. Social performance is linked to human capital, both within and outside a company. It

could include aspects as investment in staff through good occupational health and safety practices, training and good employee policies and investment in the local community. A company is part of a local community and not a stand-alone entity and has partnerships with stakeholders such as suppliers. A key-element of social performance is stakeholder engagement (Nelson & Wilson, 2003).

The environmental bottom line focuses on the relationship between a company and the natural environment. It is used to optimise the inputs of a company by optimising the use of paper, fuel, water and electricity, as well as to minimise waste generation. The environmental bottom line is all about the impact of a company's operations on the environment (Nelson & Wilson, 2003).

It is important for a company to ensure that economic, social and environmental balance sheets are in the black to be sustainable. Companies should therefore manage four types of capital successfully, namely:

- Natural capital being resources, living systems and eco-system services;
- Manufactured capital such as infrastructure and property, plant and equipment;
- Financial capital consisting of cash, investments and financial instruments; and
- Human capital in the form of labour, intelligence, culture and organisation.

Human capital is the hardest to manage, with no key-performance indicators and with responsibility divided between different functions, such as human resources, information technology and corporate communications departments. The glue that binds together the different types of capital as well as the goodwill of different stakeholders, is called social capital (MacGillivray, 2004). The Global Reporting Initiative (2007b) defines social capital as "innovative partnerships with stakeholders around environmental or social aspects of products or markets which could lead to product differentiation or brand enhancement". Some view strong stakeholder-relationships as an intangible asset in its own right.

3.5. METHODOLOGY

The methodology for this study involves the analysis of data to evaluate company performance and shareholder-value-creation based on their adoption of the sustainability-guidelines of the Global Reporting Initiative.

3.5.1. Analytical approach

The analytical approach for this study involves the analysis of data by using accounting-based principles, as well as economic-based principles to evaluate company performance and shareholder-value-creation.

- **Accounting-based principles**

The accounting model of valuation dictates that the value of a company is determined by a multiple of its earnings. The earnings attributable to ordinary shareholders are the net income after deduction of tax and any preference dividends. The multiple, or price/earnings ratio (P/E ratio) is calculated by using the market-price per share and dividing it by the earnings per share. For valuation purposes the multiple is assumed to remain constant. However, this unrealistic assumption is the P/E ratio's, as earnings driver of value, main shortcoming. It could change due to changes in companies' financial structures and policies, new investment opportunities and acquisitions or disposals. Furthermore, earnings are reported according to International Accounting Standards, which allow for the use of different accounting policies. A focus on earnings could therefore lead to a manipulation of accounting policies that maximise earnings (De Wet, 2004; Steward, 1991).

EPS refer to the profits attributable to each ordinary share. It is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The net profit or loss for the period includes all items of income and expenses recognised in the period after deducting tax expenses, extraordinary items and minority interest. HEPS is calculated after separation of all the items of capital nature from earnings, as such items are not necessarily an indication of sustainable earnings (Vorster *et al.*, 2007).

A favourite overall corporate performance-measure is the accounting rate of return (ARR). ARR is used to measure the effectiveness with which management is utilising the assets of a company. ARR could be calculated as follows:

ARR = Average incremental net income / investment

where the average incremental net income is the expected annual average increase in net income. Net income is income after deducting depreciation and other non-cash flow expenses (Correia *et al.*, 2007).

ARR could be used in different permutations with ROA and ROE being the most popular. ROA measures the profitability of a company as a whole in relation to total assets employed. It is also frequently referred to as return on investment (ROI). This ratio is calculated by dividing earnings by total assets. Earnings used, could be before interest and tax (EBIT), earnings after interest and tax (EAIT) or, conceptually the most correct approach, earnings before interest and after tax (EBIAT). The reason is that interest is a cost of financing, while tax is an operating cost (Correia *et al.*, 2007). ROA is therefore:

ROA = EBIAT / total assets

ROE measures the rate of return on ownership interest (shareholders' equity) of ordinary shareholders. ROE is viewed as one of the most important financial ratios. It measures a company's efficiency at generating profits from every rand of net assets (assets minus liabilities), and shows how well a company uses investment rands to generate earnings growth. ROE is calculated by taking EAIT of a given year and dividing it by the book-value of equity (ordinary shares) at the beginning of the year. The average equity could also be used. Equity would consist of the issued ordinary share capital, plus the share premium and reserves (De Wet, 2004). The calculation of ROE can be broken up in three separate ratios as follows:

ROE = (earnings / sales) x (sales / assets) x (assets / equity)

The three components can be described (in sequence) as profitability, asset-turnover and financial leverage. The ROE can therefore be improved by improving profitability, by using assets more efficiently and by increasing financial leverage (De Wet, 2004).

One important problem with ARR is that there are certain flaws inherent to earnings, which also affects ARR. The main flaws are differences in accounting policies, the effect of non-cash flow expenses such as goodwill amortisation and the write-off of expenses such as research and development costs, which will lower the earnings but could lead to an increase in share price because of the long-term benefits for a company. ROE is also specifically sensitive to changes in financial gearing. ROE increases with more financial gearing, as long as returns on borrowed funds exceed the costs of borrowings. The increase in financial gearing beyond certain levels could increase the financial risk and result in a decrease in the value of a company. Pursuing higher ROE's could lead to wealth destruction and is therefore not in line with shareholder value-creation (De Wet, 2004).

- **Economic-based principles**

In contrast with accounting-based principles which are based on earnings, there are a number of economic models, such as net present value (NPV) that emphasises cash flows rather than profits, in the estimate of value. The continuous quest for value has also led to critical evaluations of existing accounting measures of performance. There is now a greater emphasis on valuation-models focussing on economic profits, such as EVA and MVA than on accounting profits (De Wet, 2004).

One major difference between accounting-based and economic-based principles is the inclusion of the cost of capital in the economic-based models' equation. The value of a business based on the going concern expectations, is the present value of all expected future cash flows to be generated by the assets, discounted at a company's weighted average cost of capital (WACC). Therefore WACC has a direct impact on the value of a company. WACC is calculated in relation to the mix of debt to equity of a company. The sources of long-term capital, such as share capital and long-term debt, determine the average cost of capital and the lower the WACC, the higher the value of a company (De Wet & Dhanraj, 2007).

NPV is generally acknowledged to be a preferred approach to evaluate capital investment projects. It entails the estimation of a project's future cash flows, by discounting these at a company's required rate of return, and subtracting cost of investment from present value. If the result is positive, this indicates that the project results in an increase in shareholders' value as the project earns more than the required rate of return (Correia *et al.*, 2007). Projects with a positive NPV would increase shareholders' value and a company can invest in these projects.

A company's total market-value is equal to the sum of the market-value of its equity and the market-value of its debt. MVA is the difference between the total market-value thereof and the invested capital (IC). IC is the amount invested in a company and is basically fixed assets plus the net working capital (De Wet, 2004).

MVA = Market-value of a company – IC

From an investor's point of view, MVA is the best external measure of a company's performance. It is a cumulative measure of corporate performance and represents the securities exchange's assessment from a particular time onwards of the NPV of all a company's past and projected capital projects (De Wet, 2004).

EVA™, a registered trademark of Stern Steward & Co., is an internal measure of performance that tries to capture the true economic profit of a company. It is also linked to the creation of shareholder-wealth over time. EVA is net operating profit less an appropriate charge for the opportunity cost of all capital invested in a company. It is therefore an estimate of the true economic profit, or the amount by which earnings exceed or fall short of the required minimum rate of return capital providers could get in investing in other financial products of comparable risk (Correia *et al.*, 2007).

EVA = Net operating profit after tax (NOPAT) – {Capital x WACC}

The inclusion of capital charge in the calculation is the most important aspect of EVA. With traditional accounting-based models many companies may appear to be profitable, although they are not. When a company returns profit less than its WACC, it is not creating, but destroying wealth. EVA was developed to incorporate two basic principles in the decision-making process. The first is that a company's primary objective should be to maximise shareholder-value and the second is that the value of a company depends on the extent to which investors expect future profits to exceed or fall short of the cost of capital. A sustained increase in EVA should bring an increase in the market-value of a company. Current performance is already reflected in the share price. It is a continuous improvement in EVA that brings continuous increases in shareholder-value (Correia *et al.*, 2007).

3.5.2. Data collection

There is an international move to report on areas of corporate sustainability. This could include reporting on corporate social investment and environmental programmes. There are also local and international surveys to identify companies with the reputation of preferred employer. South African companies could participate at three different stakeholder-related initiatives. Annual surveys are conducted by the Corporate Research Foundation (CRF) and Deloitte (www.bestcompany.co.za) (Deloitte, 2007) to identify an "employer of choice". These surveys focus only on one stakeholder-group, namely employees, since they could be considered one of the key stakeholder-groups in a company. However a company should still take into account economic, social and environmental aspects to be sustainable in the long run (Doane & MacGillivray, 2001).

The Global Reporting Initiative (GRI), on the other hand, refers to a 30,000 strong multi-stakeholder network that collaborates to advance sustainability reporting. To date more than 1,000 organisations, including many of the world's leading brands, have declared their voluntary adoption of the GRI-guidelines worldwide. Consequently these guidelines have become the *de facto* global standard for reporting. The GRI is a collaborating centre of the United Nations Environment Programme. The

GRI has pioneered the development of the world's most widely-used sustainability reporting framework and is committed to its continuous improvement and application world-wide. This framework sets out principles and indicators organisations could use to measure and report on their economic, environmental, and social performance (Global Reporting Initiative, 2007a). This study focused on companies which adopted and reported on the GRI-guidelines. Companies were able to submit their sustainability reports from 2001 onwards.

The source of the data used in the study, was the McGregor's Bureau of Financial Analysis database at the University of Pretoria. As a first step, a decision was made to use all companies, part of the JSE Top 40 Index from 1998 to 2006, which adopt and report on the GRI-guidelines and compare them with remaining companies on the index. Next, because of the availability of data, it was decided that only industrial companies would provide the required information to determine critical variables for the analysis. Therefore, companies in the mining, financial and investment sectors were eliminated. In total, twenty companies were identified, ten of which had adopted and reported on GRI-guidelines. This will be referred to as the test group for the remainder of the study. They are Barloworld, Bidvest, Mittal SA, the MTN Group, Pick 'n Pay Stores, PPC Cement, SABMiller, Sasol, Telkom and Wooltru and were compared to Imperial Holdings, the JD Group, Nampak, Naspers, Netcare, Remgro, Richemont, Sappi, Steinhoff and Tiger Brands, referred to as the control group. Some of the companies were also identified as employer of choice by the CRF and/or Deloitte. The most important indicators used for the analysis were ROA, ROE, EPS, HEPS, EVA and MVA.

3.6. EMPIRICAL RESULTS

In this section the results of the empirical analysis are presented, discussed and interpreted. The results were obtained as outlined in the previous section and consist of the individual results of the six specified indicators.

3.6.1. Accounting-based principles

The accounting-based principles used in the empirical analysis were ROA, ROE, EPS and HEPS.

- **Return on assets**

As discussed earlier, ROA measures the profitability of a company as a whole in relation to total assets employed. The final results of the ROA analysis as set out in Annexure A, Table 1, are summarised below:

Table 1

Return on assets

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	%	%	%	%	%	%	%	%	%
Test group	16.78	18.50	15.20	11.90	13.63	10.39	13.30	9.66	11.14
Control group	14.27	14.27	10.53	10.61	10.84	16.01	23.23	12.48	11.68
Total	15.52	16.39	12.86	11.26	12.23	13.20	18.01	11.00	11.38

There has been a 36.38% growth in the ROA for the total population from 1998 to 2006, from 11.38% to 15.52%. However, the test group had had a ROA-growth of 50.63% (from 11.14% to 16.78%), compared to the ROA-growth of 22.17% (from 11.68% to 14.27%) for the control group for the same period under review. It is important to note that from 2001 to 2006, after the adoption of the GRI-guidelines, the test group had had a ROA-growth of 61.50% (from 10.39% to 16.78%), while the control group's ROA declined with 10.87% from 16.01% to 14.27% for the same period. The ROA-growth for the population was 17.58% for that period. There was no visible trend in the year-on-year growth for the total population as well as for the test and control groups.

In the calculation of ROA, no adjustments were made to take into account the effect of any recapitalisation programmes, or the effect of the adoption of IFRS 1, *First-time Adoption of International Financial Reporting Standards.* Assuming the effects of any recapitalisation-programmes and the adoption of IFRS 1 are neutral for the total population, it can be concluded that companies that focus on all aspects of sustainability, have performed better for its shareholders over the period under review than the remaining companies. The test group therefore had had a better return on investment.

- **Return on equity**

ROE measures the rate of return on shareholders' equity of ordinary shareholders. The results of the ROE analysis are set out in Annexure A, Table 2, and are summarised below:

Table 2

Return on equity

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	%	%	%	%	%	%	%	%	%
Test group	-31.88	1315.3	23.67	0.23	42.77	26.65	25.36	17.23	20.23
Control group	33.60	31.78	48.08	16.69	29.59	19.26	65.69	256.80	-14.18
Total	0.86	673.53	35.88	8.46	36.18	22.95	44.46	130.71	4.94

The total ROE has declined with 82.59%, from 4.94% to 0.86%, for the period 1998 to 2006. The control group reported better ROE's than the test group because of lower equities from the test group.

The main reason for the lower equity was an assumption to impair all goodwill and intangible assets for the total population for the whole of the period under review. This was in accordance with IFRS 3, *Business Combinations*. This assumption affected the results for companies such as the MTN Group, Pick 'n Pay Stores, SABMiller, Netcare and Sappi because of an increase in acquisitions during the period under review.

- **Earnings per share and headline earnings per share**

EPS refers to profits attributable to each ordinary share, while HEPS excludes the impact of items of capital nature from the earnings calculation. Annexure A, Tables 3 to 4 on pp. 54 to 55, sets out the final results of EPS and HEPS respectively. The results are summarised in Tables 3 and 4 respectively below. The same trends as seen in the ROA-results are also seen with both the analytical results for EPS and HEPS.

Table 3

Earnings per share

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	R	R	R	R	R	R	R	R	R
Test group	1,019.07	883.12	641.46	498.16	593.09	310.82	305.18	255.34	232.18
Control group	683.89	541.69	360.47	463.05	229.32	555.73	987.41	305.06	270.37
Total	851.48	712.41	500.97	480.61	411.20	433.28	628.34	277.44	249.15

Table 4
Headline earnings per share

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	R	R	R	R	R	R	R	R	R
Test group	1,085.68	906.13	669.41	531.08	464.30	390.72	271.83	222.34	258.61
Control group	553.84	502.60	423.83	374.85	359.99	411.43	372.30	290.33	267.39
Total	819.76	704.36	546.62	452.97	412.14	401.07	319.42	254.54	262.51

There has been substantial growth in both EPS and HEPS for the total population from 1998 to 2006. EPS increased by 241.75% (from R249.15 to R851.48) and HEPS by 212.28% (from R262.51 to R819.76). When the two groups within the population are compared, the control group had a better growth in EPS and HEPS from 1998 to 2001. However, from 2001, when the GRI-guidelines were adopted, the test group outperformed the control group. The test group's EPS growth was 227.87% (from R310.82 to R1,019.07) and that of HEPS with 177.87% (from R390.72 to R1,085.68), compared to an EPS-growth of 23.06% (from R555.73 to R683.89) and HEPS growth of 34.61% (from R411.43 to R553.84) for the control group.

- **Summary of results of accounting-based principles**

Based on the results from the analyses of ROA, EPS and HEPS over the nine-year period under review, the hypothesis that companies that attend to the economic, social and environmental aspects of their business have the possibility to perform better than companies that do not attend to these aspects, could be supported.

Critique on the accounting-based principles to determine shareholder-growth could be that no cost of capital was taken into account. Furthermore, data used in the calculation of the indicators was historical and did not take into account any "economic" profits, that is future profits to be generated by investing in new sustainable operations. Differences in accounting policies could also make the interpretation of financial information difficult, as seen in the ROE analysis. Certain companies impaired their goodwill and intangible assets, which resulted in negative shareholder-equity. It was therefore necessary to adjust the financial data to get comparative information.

3.6.2. Economic-based principles

The economic-based principles used in the empirical study were EVA and MVA.

- **Economic value added**

EVA is an internal measure of performance that tries to capture the true economic profit of a company. EVA takes into account the WACC in its calculation. The WACC used in the empirical study is a company average over the period of the available data. The average WACC used, was calculated by the McGregor BFA of the University of Pretoria. The EVA calculations were also based on a Stern Steward adopted model. The final results of the EVA analysis are set out in Annexure A, Table 5. This is summarised in Table 5, below:

Table 5

Economic value added

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Test group	2,914	2,811	1,594	1,289	509	552	312	(25)	181
Control group	(132)	(184)	(512)	(292)	(254)	11	(72)	273	250
Total	1,391	1,314	541	499	128	282	130	116	212

Analysing the results, it is evident that the same trends found in the results of the accounting-based principles are repeated. The test group had had a positive growth in EVA from 1998 to 2006 of 1,509.94%(from R181 million to R2,914 million). However, the control group had had a decrease in EVA. They moved from a positive EVA of R250 million in 1998 to a negative EVA of R132 million in 2006. This could be interpreted as though the test group had created value over the period with a constant growth in EVA, while the control group had destroyed value. The same trends are also applicable for the period 2001 to 2006. The test group's EVA increased with 427.90%, from R552 million to R2,914 million, while the test group's EVA decreased from a positive R11 million to a negative R132 million over the same period. Therefore the EVA analysis also supports this study's hypothesis.

There are more than 150 possible adjustments to be made to calculate EVA. This could include the capitalisation of research and development and marketing expenses to adjustments for provisions. It has not been possible to do these adjustments due to a lack of sufficient data.

One disadvantage of EVA as measure for value-creation, could be that it only uses historical financial information in its calculations. Furthermore, EVA could discourage future investments, which could

ensure sustainability, especially if the short-term returns of those investments are less than WACC (De Wet, 2004). This would result in a decrease of EVA, and could be applicable for companies where performance bonuses are based on EVA.

- **Market value added**

MVA is the best external measure of a company's performance and is a cumulative measure of corporate performance. It represents the securities exchange's assessment from a particular time onwards of the NPV of all a company's past and projected capital projects. MVA therefore brings into account current investments, which could generate future profits and value.

The MVA-results are set out in Table 6 of Annexure A. The MVA results are summarised in Table 6.

Table 6

Market value added

	2006 R'm	2005 R'm	2004 R'm	2003 R'm	2002 R'm	2001 R'm	2000 R'm	1999 R'm	1998 R'm
Test group	48,491	30,037	16,523	6,218	10,164	8,845	9,643	4,748	5,246
Control group	18,815	12,260	8,578	2,342	11,803	8,553	8,188	3,454	687
Total	33,653	21,148	12,550	4,280	11,027	8,691	8,916	4,101	3,100

The test group had had a growth in MVA for the period 1998 to 2006 of 824.34% (from R5,246 million to R48,491 million) compared to the 2,638.72% (from R687 million to R18,815 million) of the control group. However, the test group's growth in MVA exceeded the control group's growth for the period 2001 to 2006, when the GRI-guidelines were adopted. The test group's MVA increased with 448.23% or from R8,845 million to R48,491 million, compared to an increase of only 119.98% or from R8,553 million to R18,815 million for the control group. Therefore the MVA analysis also supports the hypothesis of this study.

3.7. SUMMARY AND CONCLUSIONS

3.7.1. Summary

A company's primary focus should be to maximise shareholder-value. This means that a company should attend to all its stakeholders' expectations. The concept of TBL, also referred to as

sustainability reporting, has been given impetus as a result of the South African King II Report (2002) on Corporate Governance. Simply put, TBL means that corporate "citizens" now have a responsibility to report to all their stakeholders (that is more than just their shareholders) on more than just their financial results. There is now a need also to report on their ongoing sustainability as an organisation in terms of environmental responsibilities as well as their interpretation of and response to their social responsibilities.

Certain groups, especially shareholders, could ask about the financial impact when a company has adopted certain TBL-policies. In this study, the financial measures of companies which have adopted and reported on TBL, were compared to companies that had not reported on it. The financial measures used in the analysis were ROA, ROE, EPS, HEPS, EVA and MVA. However, in this study mostly qualitative statistical analysis were used in the evaluation of results, and only a few quantitative tests were performed.

The empirical analysis identified a clear trend that companies reporting on their sustainability policies had had a much better growth in five of the six measures than the comparative group. The only exception was ROE, because of the adoption of certain accounting policies. The empirical results proved that this study's hypothesis is therefore valid.

3.7.2. Areas for further research

Further areas of study could be investigating other specific areas of stakeholder management, such as the impact of human resource management on the creation of shareholder-value. Staff are one of the most important stakeholders of a company, and one of the few under a company's direct control. Any other further research could also be focused on economic sustainable development and aspects which could improve or destroy sustainability. Shareholders have invested their funds to generate a return over the long-term. A company should therefore be sustainable to generate long-term returns.

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ANNEXURE A

TABLE 1

Return on assets

	2006	2005	2004	2003	2002	2001	2000	1999	1998
TEST GROUP									
BARWORLD	11.48%	9.96%	10.29%	0.95%	14.80%	11.78%	14.39%	11.61%	10.04%
BIDVEST	12.37%	16.28%	11.08%	9.23%	14.02%	14.31%	13.44%	10.23%	11.30%
MITTAL-SA	16.78%	20.78%	23.02%	18.90%	10.99%	-0.28%	7.86%	1.68%	8.19%
MTN GROUP	28.14%	40.07%	20.91%	16.69%	19.29%	21.09%	26.25%	17.19%	17.35%
PICKNPAY	11.60%	10.49%	10.73%	8.36%	14.84%	9.27%	8.17%	7.27%	8.09%
PPC	29.20%	31.51%	27.46%	19.25%	21.17%	15.93%	12.29%	10.44%	14.12%
SAB	20.93%	22.89%	23.91%	23.93%	7.20%	7.09%	21.88%	12.51%	9.51%
SASOL	12.92%	15.05%	7.67%	9.69%	21.49%	16.22%	19.77%	14.25%	13.72%
TELKOM	21.46%	15.70%	14.98%	10.18%	11.38%	7.49%	7.61%	8.57%	16.13%
WOOLIES	2.87%	2.24%	1.92%	1.84%	1.12%	0.98%	1.37%	2.88%	2.93%
Average	16.78%	18.50%	15.20%	11.90%	13.63%	10.39%	13.30%	9.66%	11.14%
CONTROL GROUP									
IMPERIAL	9.58%	12.27%	8.43%	10.04%	12.79%	13.01%	10.09%	10.88%	9.54%
JDGROUP	18.29%	18.39%	15.59%	12.75%	11.03%	7.23%	14.38%	12.83%	13.69%
NAMPAK	12.15%	12.13%	13.98%	8.35%	7.95%	7.88%	11.81%	13.57%	12.18%
NASPERS	24.61%	25.81%	12.30%	6.80%	-8.43%	24.33%	47.12%	8.52%	9.85%
NETCARE	4.03%	17.24%	16.13%	19.03%	17.78%	13.57%	13.48%	13.90%	11.48%
REMGRO	18.66%	14.47%	5.36%	5.99%	17.07%	23.74%			
RICHEMONT	11.26%	7.69%	2.71%	7.95%	10.19%	35.45%	77.71%	20.39%	16.65%
SAPPI	2.35%	-1.64%	5.15%	10.98%	6.63%	1.89%	7.43%	5.88%	8.25%
STEINHOFF	11.65%	11.57%	7.16%	7.23%	14.07%	13.84%	10.71%	8.92%	
TIGBRANDS	30.15%	24.82%	18.46%	17.01%	19.33%	19.22%	16.35%	17.40%	11.79%
Average	14.27%	14.27%	10.53%	10.61%	10.84%	16.01%	23.23%	12.48%	11.68%
TOTAL AVERAGE	15.52%	16.39%	12.86%	11.26%	12.23%	13.20%	18.01%	11.00%	11.38%
Standard deviation	8.34%	9.62%	7.22%	6.09%	7.16%	8.76%	17.40%	4.77%	3.58%
Average plus standard deviation	23.86%	26.00%	20.08%	17.34%	19.39%	21.96%	35.41%	15.77%	14.96%
Average less standard deviation	7.19%	6.77%	5.64%	5.17%	5.08%	4.44%	0.60%	6.23%	7.79%

ANNEXURE A

TABLE 2

Return on equity

	2006	2005	2004	2003	2002	2001	2000	1999	1998
TEST GROUP									
BARWORLD	28.81%	22.81%	24.24%	-7.87%	31.84%	24.54%	24.35%	20.36%	15.29%
BIDVEST	55.78%	63.70%	39.96%	23.40%	38.90%	33.43%	32.76%	25.25%	16.30%
MITTAL-SA	20.38%	24.84%	30.32%	24.12%	12.88%	-8.31%	5.42%	-2.62%	9.29%
MTN GROUP	-434.09%	119.41%	45.92%	37.79%	88.95%	106.63%	67.86%	27.92%	27.97%
PICKNPAY	-115.21%	12555.81%	475.54%	477.56%	119.69%	29.18%	26.44%	28.50%	31.40%
PPC	89.51%	74.88%	67.38%	35.17%	34.05%	22.66%	13.67%	11.27%	18.18%
SAB	-73.49%	190.50%	-508.78%	-634.47%	29.49%	14.27%	41.80%	20.63%	18.32%
SASOL	24.38%	27.75%	14.02%	18.04%	39.93%	31.22%	25.62%	16.69%	18.84%
TELKOM	48.06%	32.31%	24.68%	11.64%	18.30%	2.12%	5.12%	10.68%	18.03%
WOOLIES	37.05%	40.68%	23.45%	16.97%	13.70%	10.72%	10.57%	13.63%	28.70%
Average	-31.88%	1315.27%	23.67%	0.23%	42.77%	26.65%	25.36%	17.23%	20.23%
CONTROL GROUP									
IMPERIAL	28.10%	32.93%	15.97%	18.46%	26.90%	19.19%	14.09%	13.34%	12.99%
JDGROUP	29.57%	27.14%	23.73%	17.60%	13.54%	9.82%	20.23%	15.74%	18.71%
NAMPAK	24.87%	21.54%	27.51%	13.02%	18.30%	14.16%	24.04%	22.18%	18.22%
NASPERS	64.87%	85.37%	313.44%	2.68%	78.45%	-67.86%	219.90%	38.35%	10.97%
NETCARE	-4.17%	27.72%	24.39%	27.89%	26.56%	21.68%	20.48%	16.95%	14.31%
REMGRO	21.81%	16.62%	6.35%	6.80%	19.72%	26.77%			
RICHEMONT	15.44%	9.88%	3.40%	10.64%	20.10%	84.15%	173.41%	2145.76%	-226.89%
SAPPI	-0.54%	-10.95%	7.23%	20.66%	11.26%	-1.36%	9.97%	6.11%	13.31%
STEINHOFF	56.06%	42.65%	11.34%	10.37%	26.61%	24.14%	18.93%	13.10%	
TIGBRANDS	99.97%	64.93%	47.41%	38.81%	54.47%	61.88%	90.14%	39.72%	24.95%
Average	33.60%	31.78%	48.08%	16.69%	29.59%	19.26%	65.69%	256.80%	-14.18%
TOTAL AVERAGE	0.86%	673.53%	35.88%	8.46%	36.18%	22.95%	44.46%	130.71%	4.94%
Standard deviation	113.35%	2797.15%	173.70%	183.19%	28.65%	34.97%	58.11%	488.07%	58.18%
Average plus standard deviation	114.20%	3470.68%	209.57%	191.65%	64.83%	57.92%	102.57%	618.79%	63.12%
Average less standard deviation	-112.49%	-2123.63%	-137.82%	-174.72%	7.54%	-12.02%	-13.65%	-357.36%	-53.24%

ANNEXURE A

TABLE 3

Earnings per share

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	R	R	R	R	R	R	R	R	R
TEST GROUP									
BARWORLD	1,138.90	897.40	760.90	582.10	769.60	315.70	684.00	735.60	372.10
BIDVEST	796.30	678.60	512.50	448.60	415.00	358.70	310.00	261.00	185.60
MITTAL-SA	1,042.00	1,137.00	1,093.00	667.00	1,200.00	-276.70	18.00	10.30	26.80
MTN GROUP	605.40	738.70	223.60	117.00	35.10	47.30	50.70	25.10	14.20
PICKNPAY	152.50	138.60	109.60	93.20	79.60	63.90	54.20	32.70	23.20
PPC	2,258.80	1,754.90	1,463.20	1,166.90	1,121.10	826.30	518.60	373.10	520.10
SAB	674.04	589.76	388.41	267.91	388.16	377.04	395.60	258.10	347.50
SASOL	1,673.00	1,560.00	974.00	1,283.00	1,550.00	1,120.00	662.00	409.00	343.00
TELKOM	1,744.70	1,241.80	812.00	292.60	343.80	244.10	332.00	418.80	452.10
WOOLIES	105.10	94.40	77.40	63.30	28.50	31.90	26.70	29.70	37.20
Average	1,019.07	883.12	641.46	498.16	593.09	310.82	305.18	255.34	232.18
CONTROL GROUP									
IMPERIAL	1,198.10	1,168.10	802.30	718.70	588.60	573.50	441.10		270.90
JDGROUP	826.50	705.30	473.30	335.70	213.80	245.30	301.80	253.90	206.10
NAMPAK	148.60	122.40	150.90	141.10	123.70	82.70	122.80	118.10	112.70
NASPERS	1,124.00	938.00	144.00	185.00	-1,320.00	632.00	2,700.00	515.00	86.00
NETCARE	50.40	57.20	44.60	46.00	36.40	25.80	19.40	14.60	12.60
REMGRO	1,697.60	1,771.00	722.70	1,682.90	676.60	1,262.50			
RICHEMONT	164.86	149.20	51.65	135.32	67.11	1,591.92	3,661.72	588.28	565.65
SAPPI	-13.18	-588.25	285.27	539.79	1,013.00	469.61	1,005.81	329.00	417.00
STEINHOFF	166.00	141.00	97.00	93.00	76.00	78.00	55.10	27.60	
TIGBRANDS	1,476.00	953.00	833.00	753.00	818.00	596.00	579.00	594.00	492.00
Average	683.89	541.69	360.47	463.05	229.32	555.73	987.41	305.06	270.37
TOTAL AVERAGE	851.48	712.41	500.97	480.61	411.20	433.28	628.34	277.44	249.15
Standard deviation	682.05	631.54	410.88	456.52	610.17	470.30	954.29	233.48	194.59
Average plus standard deviation	1,533.53	1,343.94	911.84	937.13	1,021.38	903.58	1,582.64	510.91	443.74
Average less standard deviation	169.43	80.87	90.09	24.09	-198.97	-37.02	-325.95	43.96	54.56

ANNEXURE A

TABLE 4

Headline earnings per share

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	R	R	R	R	R	R	R	R	R
TEST GROUP									
BARWORLD	1,170.80	893.60	857.20	592.80	621.70	499.00	380.40	319.70	321.50
BIDVEST	804.60	686.60	546.70	479.00	436.20	365.40	310.00	261.00	185.60
MITTAL-SA	1,042.00	1,139.00	1,019.00	661.00	139.00	215.60	13.30	14.70	28.40
MTN GROUP	606.50	744.80	263.70	150.60	71.30	74.50	50.70	25.10	14.20
PICKNPAY	153.00	141.50	117.40	102.20	77.90	63.90	54.70	43.70	36.40
PPC	2,259.50	1,729.50	1,463.20	1,154.00	829.50	709.70	500.20	391.90	519.40
SAB	695.23	611.07	550.66	512.44	464.46	398.27	348.40	315.90	653.50
SASOL	2,293.00	1,749.00	934.00	1,280.00	1,544.00	1,236.00	727.00	402.00	340.00
TELKOM	1,727.20	1,274.10	863.60	314.00	414.90	312.50	306.60	418.80	452.10
WOOLIES	105.00	92.10	78.60	64.80	44.00	32.30	27.00	30.60	35.00
Average	1,085.68	906.13	669.41	531.08	464.30	390.72	271.83	222.34	258.61
CONTROL GROUP									
IMPERIAL	1,222.10	1,045.80	840.50	700.20	608.80	535.00	444.00	364.80	284.80
JDGROUP	823.50	704.70	522.00	338.80	225.20	351.20	300.00	253.10	204.30
NAMPAK	151.20	119.20	146.10	145.40	138.60	88.10	123.10	117.60	112.00
NASPERS	756.00	781.00	302.00	(19.00)	(313.00)	(299.00)	(111.00)	(12.00)	83.00
NETCARE	56.20	60.30	45.90	45.90	36.70	27.90	20.20	15.10	13.40
REMGRO	1,052.30	1,001.80	937.60	945.80	819.30	615.10			
RICHEMONT	169.58	133.41	106.68	119.74	129.30	1,218.59	960.94	839.73	565.65
SAPPI	(72.48)	43.81	298.54	589.61	1,044.98	899.42	959.80	456.00	376.00
STEINHOFF	173.00	141.00	112.00	105.00	93.00	67.00	51.70	27.60	
TIGBRANDS	1,207.00	995.00	927.00	777.00	817.00	611.00	602.00	551.00	500.00
Average	553.84	502.60	423.83	374.85	359.99	411.43	372.30	290.33	267.39
TOTAL AVERAGE	819.76	704.36	546.62	452.97	412.14	401.07	319.42	254.54	262.51
Standard deviation	699.37	539.31	409.95	382.71	439.37	401.82	318.64	231.19	213.04
Average plus standard deviation	1,519.13	1,243.67	956.57	835.67	851.51	802.89	638.06	485.74	475.55
Average less standard deviation	120.40	165.06	136.67	70.26	(27.22)	(0.74)	0.79	23.35	49.47

ANNEXURE A

TABLE 5

Economic value added

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
TEST GROUP									
BARWORLD	307	59	(224)	131	(520)	(482)	(483)	(772)	(221)
BIDVEST	1,118	968	648	581	281	284	257	109	(78)
MITTAL-SA	(195)	1,047	1,566	635	(1,506)	(863)	(1,448)	(1,969)	(1,042)
MTN GROUP	9,389	10,831	3,456	2,189	1,071	910	635	78	47
PICKNPAY	730	685	542	457	345	183	193	160	115
PPC	991	868	620	373	111	39	(78)	(96)	(21)
SAB	7,573	5,777	5,131	3,499	776	955	933	733	601
SASOL	(257)	1,409	(778)	1,775	2,818	2,988	1,842	(250)	(353)
TELKOM	8,992	6,054	4,605	2,917	1,494	1,402	1,172	1,610	2,433
WOOLIES	494	415	380	333	216	104	95	148	332
Average	2,914	2,811	1,594	1,289	509	552	312	(25)	181
CONTROL GROUP									
IMPERIAL	(42)	101	(186)	(120)	(257)	(1)	(247)	(101)	(149)
JDGROUP	604	462	270	(19)	(130)	(28)	14	(6)	21
NAMPAK	68	137	337	555	(54)	(92)	1	33	46
NASPERS	1,371	1,196	896	(406)	(1,325)	(1,390)	(940)	(375)	(7)
NETCARE	(2,334)	87	100	86	80	(69)	(59)	(94)	(92)
REMGRO	1,884	846	(446)	1,017	472	542			
RICHEMONT	(1,289)	(3,365)	(4,420)	(2,866)	(53)	2,083	185	4,007	3,503
SAPPI	(3,776)	(3,062)	(3,205)	(2,582)	(2,306)	(1,695)	(487)	(1,789)	(1,796)
STEINHOFF	797	468	421	418	88	24	59	(4)	
TIGBRANDS	1,399	1,290	1,113	1,002	949	737	822	789	473
Average	(132)	(184)	(512)	(292)	(254)	11	(72)	273	250
TOTAL AVERAGE	1,391	1,314	541	499	128	282	130	116	212
Standard deviation	3,408	3,105	2,182	1,496	1,093	1,080	748	1,237	1,153
Average plus standard deviation	4,799	4,419	2,723	1,995	1,220	1,361	878	1,353	1,365
Average less standard deviation	(2,016)	(1,792)	(1,640)	(997)	(965)	(798)	(618)	(1,120)	(942)

ANNEXURE A

TABLE 6

Market value added

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
TEST GROUP									
BARWORLD	9,228	7,186	302	(1,375)	(3,157)	(1,539)	(791)	(2,737)	(3,315)
BIDVEST	21,004	15,709	10,798	7,018	9,761	10,180	9,822	11,511	9,612
MITTAL-SA	15,487	4,321	9,974	(3,152)	2,747	(3,892)	(7,917)	(7,733)	(8,565)
MTN GROUP	114,116	74,185	40,704	11,117	13,672	25,415	48,445	4,948	3,356
PICKNPAY	13,680	10,400	7,605	5,617	4,245	5,191	4,378	2,499	2,911
PPC	18,681	13,418	7,736	4,188	1,572	1,022	330	324	(352)
SAB	159,572	99,508	63,740	43,670	36,034	23,407	23,171	24,536	34,903
SASOL	77,590	47,117	17,703	14,640	25,324	19,228	9,126	7,192	5,306
TELKOM	49,456	25,147	3,410	(22,053)					
WOOLIES	6,100	3,383	3,261	2,508	1,277	592	227	2,193	3,357
Average	48,491	30,037	16,523	6,218	10,164	8,845	9,643	4,748	5,246
CONTROL GROUP									
IMPERIAL	9,377	8,322	2,053	(888)	(161)	5,183	3,110	4,192	6,546
JDGROUP	4,825	7,389	2,899	1,037	(1,292)	928	2,304	1,930	3,004
NAMPAK	3,487	4,495	3,387	2,682	2,642	806	2,196	3,317	791
NASPERS	27,304	15,385	7,869	323	(5,863)	(3,958)	7,616	697	2,903
NETCARE	(9,328)	5,492	3,875	2,393	1,612	78	(872)	(835)	(643)
REMGRO	24,046	9,579	11,361	2,879	10,892	9,871			
RICHEMONT	104,879	56,344	50,070	15,845	110,383	75,101	63,929	26,346	14,751
SAPPI	(6,873)	(8,156)	(7,133)	(7,642)	(9,331)	(9,228)	(12,579)	(9,486)	(23,607)
STEINHOFF	9,018	4,007	228	392	2,380	1,726	2,384	1,196	
TIGBRANDS	21,411	19,738	11,168	6,398	6,772	5,018	5,607	3,732	1,748
Average	18,815	12,260	8,578	2,342	11,803	8,553	8,188	3,454	687
TOTAL AVERAGE	33,653	21,148	12,550	4,280	11,027	8,691	8,916	4,101	3,100
Standard deviation	45,167	27,221	17,994	12,258	26,288	18,519	18,906	9,137	11,538
Average plus standard deviation	78,820	48,369	30,544	16,538	37,314	27,210	27,821	13,239	14,639
Average less standard deviation	(11,514)	(6,072)	(5,443)	(7,979)	(15,261)	(9,828)	(9,990)	(5,036)	(8,438)

CHAPTER FOUR

SUMMARY AND CONCLUSIONS

4.1. INTRODUCTION

There is wide-spread agreement that maximising shareholder-wealth is the single most important financial objective of a company, but there are widely opposing opinions as to how this value-maximisation could be accomplished most effectively (Arnold, 2005; Jensen, 2001). Shareholders invest capital in a company and expect a return on investment. They are also the legal owners of a company. The traditional viewpoint has been that property rights of shareholders justify the dominance of management's decisions to advance shareholders' interests. It is also recognised that there are other stakeholders, which could influence the objectives of a company and thereby have an impact on value-maximisation. The right of ownership is therefore not an unrestricted right and restrictions against harmful uses are intrinsic to property rights and bring interests of the non-shareholder stakeholders into the picture (Donaldson & Preston, 1995).

Over the last few years the stakeholder-approach has been used to broaden management's vision of its role and responsibility beyond maximisation of shareholder-value to include the interests of the non-shareholders or stakeholder-groups. The challenge for good corporate citizenship is to seek a balance between the expectations of shareholders for capital growth and taking into account responsibilities towards other stakeholders of a company. International legislatures have started acknowledging the stakeholder-perspective in their writings as well, e.g. Principles of Corporate Governance (American Law Institute, 1992), and the King II Report on Corporate Governance (King, 2002).

Since the late 1980's there has been an international move towards a focus on sustainable development. Sustainability is rapidly emerging as a critical element of business strategy, driven by a convergence of factors, for example increasing regulations, changing customer expectations, competitor and technology advances and global risk management. A number of meanings of the concept of sustainable development have been developed. The majority focused on environmental development but others acknowledged the importance of social development in order to achieve environmental development. The importance of economic sustainability was also highlighted. Three elements of sustainable development have emerged, namely, environmental, social and economic development (World Commission on Environment and Development, 1987). These three elements are coined in the phrase TBL.

This study has endeavoured to investigate the most recent research on stakeholders' approach to create shareholder-value. Companies listed on the JSE were used in testing the hypothesis that companies applying the stakeholder-approach would create better value for their shareholders. A summary of the approach used to achieve this, is given in the next section.

4.2. APPROACH FOLLOWED

A theoretical study in the shareholder-value theory and how the stakeholder-approach could contribute in the creation of shareholder-value, have laid the foundation for the empirical study done on the data of South African companies. An analysis of six key-financial indicators was used to identify the best performers in value-creation.

The companies were grouped, based on their adoption and reporting on the sustainability guidelines of the GRI. The GRI-standards have become the *de facto* global standard for sustainability reporting (Global Reporting Initiative, 2007). The grouping was followed by analytical studies to determine the value created by each of the groups. The recommendations are based on the outcomes of the theoretical and empirical findings. The steps implemented in the approach could be summarised as follows:

- Theoretical research on the theory of shareholder-value (p. 14), and the impact of the agency-theory (p. 14) and property rights-theory (p. 16) on the shareholder-value theory;
- Theoretical research on the stakeholder-theory (p. 17);
- Theoretical research on the concept of TBL (p. 35);
- Theoretical research on accounting as well as economic-based principles of value-creation (p. 38 to p. 41);
- Grouping of companies, based on their adoption and reporting on GRI-guidelines (p. 41);
- Analytical tests to identify the best performers in value-creation (p. 42 to p. 47); and
- Recommendations based on the outcomes of the steps above.

4.3. RESEARCH RESULTS

The primary objective of this study was to determine whether companies investing in all their stakeholders could provide shareholders with a better return on investment. The research results are summarised in two categories, namely the theoretical and empirical studies.

4.3.1. Theoretical study

The first research objectives of this study were to discuss the theory of stakeholder-value referring to the agency-theory and VBM-framework and possible conflict between shareholders' and stakeholders' theories. Stakeholder-orientation models and the identification of stakeholders were presented as possible solutions to align these theories and resolve conflict.

The need to take stakeholders into account in financial strategies to assist in the creation of shareholder-value has emerged clearly from this research. Two hundred years of work in economics and finance implies that social welfare is maximised when all companies in an economy attempt to maximise their own value. Value is created whenever a company produces an output that is valued by its customers at more than the value of the inputs it consumes. However, a company cannot maximise its value if it ignores the interests of its stakeholders. It is necessary to reach a proper balance between value-maximisation and the stakeholder-theory. Management should therefore have a responsible approach to stakeholder-management. There are flaws in current stakeholder-orientation models. The strategic stakeholder-management model focuses on stakeholders as a means to an end. The end normally is an increase in profits and shareholder-value and may not have anything to do with the welfare of stakeholders in general. The intrinsic stakeholder-commitment model is based on moral commitments rather than sound financial principles. The implementation of this model could negatively impact on shareholder-value. A responsible stakeholder-management model is thus required.

Responsible stakeholder-management implies that managers should attend to the interests and claims of shareholders, as the dominant stakeholders and legal owners of a company as well as to the interests and claims of other stakeholders contributing to value-creation in a company. The concept of stakeholders is extremely broad and management should be able to identify only the stakeholders which could impact on their company and attend to their objectives. Stakeholders could be grouped in economic, social and environmental components.

The economic, social and environmental components of stakeholder-groupings could be considered as performance value-drivers that could have an impact on a company's financial performance, as per research objective two. The TBL-concept could provide corporate management focus areas in managing stakeholders responsibly. Everyday business decisions should be made within an economic, social and financial framework to ensure long-term sustainability. The TBL-agenda

focuses corporations not only on the economic value, but also the environmental and social value that they add or destroy. A company could be sustainable not by only ensuring financial security but also by minimising its negative environmental impact and act in conformity with society's expectations. Sustainability could be achieved by good corporate governance and meeting stakeholders' objectives.

Economic sustainability is the most complex and elusive component of TBL. It could also be considered as the most important element. A company could be socially conscious and environmentally responsible, but if it does not have a positive financial bottom line, it will be out of business over the long run. Economic sustainability is integrally linked to the environmental and social outcomes an organisation achieves. It could be assumed that the economic bottom line is synonymous with the financial bottom line, but there are significant differences between the two. However, both are important for a company to be sustainable. The financial bottom line reflects historical information about the market-value of transactions passed through a company's books. Economic bottom line reflects the investment in human and natural resources in the pursuit of human welfare. It therefore impacts on the society at large.

4.3.2. Empirical study

Certain groups, especially shareholders, could ask about the financial impact when a company adopts certain TBL-policies. In the empirical study data was analysed by using accounting-based as well as economic-based principles to evaluate company performance and shareholder-value-creation.

The third research objective was addressed by discussing the traditional accounting models as well as the economic models in determining shareholder-value. The accounting model for valuation dictates that the value of a company is determined by a multiple of its earnings. Those attributable to ordinary shareholders are the net income after tax and deduction of any preference dividends. Accounting-based indicators used in the empirical study are ROA, ROE, EPS and HEPS. The important problem with accounting-based principles is that there are certain flaws inherent to earnings, the main of which are differences in accounting policies, the effect of non-cash flow expenses such as goodwill amortisation and the write-off of expenses such as research and development costs, which will lower the earnings but could lead to an increase in share price because of the long-term benefits for a company (De Wet, 2004).

In contrast with accounting-based principles based on earnings, the economic models emphasised cash flows, rather than profits, in the estimate of value. One major difference between the accounting-based principles and the economic-based principles is the inclusion of the cost of capital

in the economic-based models' equation. EVA and MVA were used as economic-based models. One disadvantage of EVA as measure of value-creation is that it only uses historical financial information in its calculations. Furthermore, EVA could discourage future investments, which could ensure sustainability, especially if the short-term returns of those investments are less than WACC. There are also over 150 possible adjustments to be made in the calculation of EVA (De Wet, 2004).

The fourth research objective was addressed through the analytical study conducted. In this study mostly qualitative statistical analyses were used in the evaluation of results, and only a few quantitative tests were performed. The empirical analysis identified a clear trend that companies reporting on their sustainability policies had had a much better growth in five of the six measures than the comparative group. The only exception was ROE, because of the adoption of certain accounting policies. The empirical results proved therefore that companies that invest in all their stakeholders, could provide the latter with a better return on their investment.

4.4. LIMITATIONS OF THIS STUDY

It has become clear from this study that the stakeholder-approach could contribute to shareholder-value-creation. However, in the empirical study mostly quantitative statistical analyses were used by calculating financial performance measures. As mentioned, the differences in accounting policy could affect the comparison of results between different companies. Financial data was not adjusted to align the different companies' accounting policies. Furthermore, adjustments related to goodwill and intangible assets, in accordance with IFRS, were also not reversed. This also could affect the results between the different companies.

This study also used a straight forward comparison of EVA-results, which could be unfair because the IC employed to earn EVA differs from company to company. It is recommended that data should be aligned for differences in accounting policies. Furthermore, the relative adjusted version of EVA should be used when EVA-performance is compared. An average WACC for the period under review was used for every company. To obtain a more accurate EVA result, the actual WACC for each year should be used.

No qualitative statistical tests were performed to determine the correlation between stakeholder management and value-creation. The study also did not test the effect of causality. It is recommended that qualitative statistical tests are performed to determine the correlation between stakeholder-management and value-creation.

4.5. AREAS FOR FUTURE RESEARCH

Further areas of study could be investigating other specific areas of stakeholder-management, such as the impact of human resource management on the creation of shareholder-value. Staff are one of the most important stakeholders of a company, and one of the few under a company's direct control.

It is also suggested that further research could be focused on economic sustainable development and aspects which could improve or destroy sustainability. Shareholders invest their funds to generate a return over the long-term. A company should therefore be sustainable to generate long-term returns.

4.5. CONCLUSION

The quest for shareholder-value maximisation has continued for many years and still continues. Many studies focus on ways to create better returns for the shareholders by concentrating on business process re-engineering and moving to optimal capital structures. The impact of stakeholders on a company and its responsibility towards them has been acknowledged in recent years.

This study has analysed companies listed on the JSE and has illustrated the impact of a stakeholder-approach on a company's financial performance. Two groups of companies were compared and the group focussing on stakeholder-management outperformed the control group in most of the measures used.

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