**Corporate Social Responsibility and Instrumental Stakeholder Theory: Contextualizing B-BBEE and Firm Performance**

**ABSTRACT**

In this paper we focus on the corporate social responsibilities (CSR) implications of the introduction of broad-based black economic empowerment (B-BBEE) in South Africa. We develop a more targeted version of the enlightened stakeholder theory by merging together the traditional shareholder and stakeholder perspectives, and identifying the shareholders as the most instrumental group in the successful implementation of such CSR initiatives as implicit in B-BBEE. We hypothesize that the adoption B-BBEE programs will lead to positive abnormal returns in firms that have already been identified as being socially responsible. In this way, we anticipate that the adoption of the policy will lead to increases in BEE scores which will lead to increases in share prices and returns, thus resulting in abnormal returns. In our hypothesis tests we found that the positive abnormal returns were a function of the firm’s sector. However, the results showed support for the assertion that firm performance (returns) is influenced by BEE scores and the firm’s industry, but none for any abnormal returns.

**Keywords:** corporate social responsibility (CSR), event study methodology, stakeholder theory

**INTRODUCTION**

This study joins the broader corporate social responsibility (CSR) debate on whether CSR decisions lead to profit enhancement or hinder profits, and whether firms with high profits engage in socially responsible initiatives or if the latter lead to higher profits. A review of the prior research in CSR yields no recognized or universally accepted definition of CSR. Frederick (1994) asserts that the “obligation to work for social betterment” that firms have is the fundamental idea embedded in CSR and this obligation may be voluntarily recognized and discharged by the firm, or it may be imposed by the government. Wolramans and Sartorious (2009) defined CSR activities as any policies or actions the firm engages in which are concerned with “society-related issues”. In contrast, McWilliams, Siegel and Wright (2006) define CSR as a situation where the firm engages in actions that appear to further some social good and goes beyond compliance, the interests of the firm and legislation. The firm’s overtures beyond what is necessary and mandated by law are central to this definition (McWilliams, et al. 2006; Windsor, 2001).

In addition to the lack of a clear definition of CSR, there is also the confusion between CSR and corporate social performance (CSP), as well as the interchangeable CSR1 and CSR2. CSR1 is the definition of social responsibility which involves the puzzle of defining “social betterment” (Frederick, 1994), whereas CSR2 is the capacity of a corporation to respond to social pressures or the company’s ability to manage its relations with various social groups i.e. the firm’s responsiveness (Frederick, 1994). CSR2 is narrower and more technical than CSR1 but it is unclear at what level, or if at all, social responsiveness leads to the general condition of social betterment (Clarkson, 1995; Frederick, 1994). CSP is how CSR is often analyzed and evaluated (Wood, 1991). Frederick, (1994) describes a conceptual transition from CSR1 to CSR2 in which business and society scholarship transitioned from the philosophical-ethical concept of social responsibility to the action-oriented managerial concept of corporate responsiveness. In this way, firms shifted from being obliged to work for social betterment to identifying the capacity of a corporation to respond to social pressure (Frederick, 1994; Wolramans & Sartorious, 2009). CSP, CSR1 and CSR2 are normative concepts that lack clarity and specificity and thus remain elusive constructs (Wood, 1991).

Despite the lack of a clear definition, many studies in the area of CSR have been undertaken under the proposed dimensions of social responsibility which are economic, legal, ethical, and discretionary, following Carroll's (1979) original classification (Clarkson, 1995). Prior CSR studies have examined CSR activities in the environment, affirmative action programs, equal employment opportunity policies, community involvement, product safety, policies toward South Africa, energy policies, and social responsibility disclosure (Clarkson, 1995; Cowen et al., 1987; McGuire et al., 1988).

CSR studies are usually evaluated using the shareholder, stakeholder or resource based view theories. The most common analysis uses stakeholder theory. However, even this analysis has its limitations. Jensen, (2001) acknowledged the shortcomings of the stakeholder theory in explaining CSR. He used a combination of shareholder and stakeholder theory to propose an “enlightened stakeholder theory” to remedy the heterogeneous nature of the stakeholders and their interests. We acknowledge the heterogeneous stakeholders and their interests but assert that integrating previously disadvantaged stakeholders that are the target of CSR initiatives mitigates the “us versus them” scenario that has been argued to lead to the stakeholder problem and tradeoffs.

This paper’s key assertion is that owners are the instrumental stakeholders and that by including systematically excluded members into the shareholders stakeholder group, the CSR-performance tradeoff often discussed is mitigated. If we understand firms using the stakeholder theory, and acknowledge that CSR seeks to change some institutionalized exclusionary structures, it follows then that by introducing new (previously excluded) stakeholders into the shareholders (owners) stakeholder group dispels the “us against them” scenario and subsequent tradeoff. This study uses the term “instrumental theory” in the same manner it was employed by Donaldson and Preston (1995) and Jones (1995) to mean a theory that establishes theoretical connections between initiatives and results and makes no assumption that the practices will be followed or of desirable outcomes. The instrumental approach of the Stakeholder Theory uses empirical data to identify the connections that exist between the management of stakeholder groups and the achievement of corporate goals- most commonly profitability and efficiency goals (Donaldson & Preston, 1995; Jones, 1995). This study contributes to CSR literature through its development of a more targeted version of the enlightened stakeholder theory which merges the shareholder and stakeholder theories and identifies the shareholder group as instrumental in the success of CSR initiatives.

The next section will discuss the broad CSR debate and how the basic stakeholder theory has failed to fully explain profitable CSR, as well as how integrating an instrumental stakeholder theory will yield a more instructive model. This will be followed by a discussion of the institutionalized dual economy present in South Africa and the Black Economic Empowerment (BEE) policies that seek to change this structure.

**THEORETICAL BACKGROUND**

An examination of prior empirical research into CSR and the relationship between CSR and financial performance reveals two types of studies. The first set of studies deals with the short run impact of socially responsible and irresponsible acts by the firm on financial returns. This set uses event study methodology to assess the short-run financial impact (abnormal returns) of firms’ CSR initiatives or failures. The results from these studies are mixed (McWilliams, Siegel & Teoh, 1999; McWilliams & Siegel, 1997; 2000; Wolramans & Sartorious, 2009), even when investigating the same “event”. For example Wright and Ferris (1997) found a negative relationship; Posnikoff reported a positive relationship; and Teoh et al. (1997) found no relationship between CSR and financial performance, when examining divestitures from South Africa during the Apartheid controversy (McWilliams, et al, 1999; McWilliams & Siegel, 1997; 2000).

The second set of studies uses accounting or financial measures of profitability to examine the nature of the relationships between some measure of CSP (a measure of CSR), and measures of long term firm performance (McGuire, Sundgren & Schneeweis, 1988; Waddock & Graves, 1997). The results from these studies have also been mixed. For example Aupperle, Carroll, & Hatfield, (1985) found no relationship between CSP and profitability, McGuire et al. (1988) found that prior performance was more closely related to CSP than was subsequent performance, and Waddock and Graves (1997) found significant positive relationships between an index of CSP and performance measures such as ROA in the following year (McWilliams & Siegel, 2000).

Several researchers (Friedman, 1962; Aupperle et al., 1985; McGuire, et al., 1988) argue that CSR engagements will have a negative impact on financial performance, because the benefits do not outweigh the costs. They posit that socially responsible actions result in additional costs that put a firm at an economic disadvantage compared to other, less socially responsible firms, and that concern for social responsibility may limit a firm's strategic alternatives (Aupperle, et al, 1985; McGuire, et al., 1988; Friedman, 1962; Bird et al., 2007; Brummer, 1991; Jensen, 2001). In addition to socially responsible behavior and social constraints on firms possibly conflicting with value maximization, managers may choose to pursue their own objectives, which may conflict with shareholder and stakeholder objectives (Williamson, 1964; Jensen & Meckling, 1976) and in a quest for legitimacy, stakeholder may put pressure on firms to put social responsibility over financial performance (Sethi 1979).

Some authors argue for neutral interaction between CSR and firm performance. Aupperle et al., (1985) argue that if the benefits are too small or unobservable, no systematic relationship between CSR and financial performance can be found. McGuire, et al (1988) posit CSR doesn’t affect firm performance but instead that the firm's prior financial performance conditions influence CSR more than its subsequent financial performance. McWilliams and Siegel (2001) argue that the neutral interaction between financial and social performance is because firms invest in social activities that satisfy the conflicting demands of their stakeholders. In market equilibrium, the costs and the profits of socially responsible conduct will compensate each other.

Some researchers investigated the relationship between CSR and firm financial performance and found a positive association (Brishammar & Odemann, 2013; McWilliams & Siegel, 2001; Orlitzky et al., 2003; Freeman, 1984). Other researchers assert that firms engage in CSR activities to benefit a wide range of the multiple stakeholders and because of this, the benefits of CSR outweigh the costs of CSR engagement (Orlitzky et al., 2003; Freeman, 1984). McGuire, et al. (1988) cited improved employee and customer goodwill as an important outcome of social responsibility. McWilliams and Siegel (2001) assert that the explicit costs of CSR are minimal and that the market equilibrium might cancel out the costs of CSR behavior, or that the costs of socially responsible actions are significant and are offset by a reduction in other firm costs (McWilliams & Siegel, 2001; Brishammar & Odemann, 2013). This is in line with the stakeholder theory that asserts that satisfying stakeholders' interests will result in an improvement of the firm's financial and economic performance (Freeman, 1984). Orlitzky et al. (2003) conducted a meta-analysis of 52 previous studies on the CSR and financial performance relationship and concluded that the empirical evidence of the relationship between CSR and financial performance is not as fragmented as previously asserted, and that there are generalizable results indicating that CSR pays off financially.

From the foregoing it is clear that empirical tests of whether CSR companies have higher rates of return in the short- and long-run have produced mixed results. Some researchers found a positive correlation, others found no correlation, a third group tried to explain why correlations may vary, and others concluded that the effects are inconsequential (Wolramans & Sartorious, 2009; Roberts, 1992; McGuire, et al. 1988). Some researchers have argued that this CSR debate on whether and the methods by which, firms should engage in CSR boils down to the traditional controversy between the stakeholder and shareholder approaches (McGuire, et al., 1988; Brishammar & Odemann, 2013).

**Shareholder Theory**

Shareholder theory predicts a negative relationship between CSR and stock market reactions, i.e. the firm’s perceived value of financial performance (Brishammar & Odemann, 2013). According to shareholder theory, the corporation is an instrument owned by the shareholders and its only responsibility is increasing firm value within the legal boundaries. Therefore CSR is not one of management’s concerns (Friedman 1962). It should be noted that “doing good” can be acknowledged as part of some shareholders’ preferences. However, since a company can never satisfy all of its heterogeneous shareholders’ preferences, to engage in CSR activities would be suboptimal for the firm as it diverts attention (and resources) from the company’s core focus- value maximization. Because value maximization refers strictly to financial performance and since it is highly unlikely that potential financial benefits of CSR activities will not outweigh the costs, it is therefore highly likely that CSR activities will result in a cash flow waste and not have a positive impact on financial performance (Becchetti & Ciciretti, 2009). In this way, by acting in a socially responsible manner, the firm violates the agreement regarding its shareholders through what may be even regarded as expropriation of shareholder wealth (Bird et al., 2007).

Brishammar and Odemann, (2013) found no support for the existence of a relationship between stock returns and negative social CSR events and found that shareholders do not seem to assign any value mitigating effect to current events due to high CSR performance. This calls into dispute the shareholder theory (Brishammar & Odemann, 2013).

**Stakeholder Theory**

Stakeholder theory is the most common theory put forward to assess the impact of CSR on firms and is the key model in understanding CSR (McWilliams & Siegel, 1997; Donaldson & Preston, 1995). A stakeholder is defined as "any group or individual who can affect or is affected by the achievement of the firm's objectives" (Freeman, 1984). This includes stockholders, creditors, employees, customers, suppliers, public interest groups, and governmental bodies. The stakeholder approach recognizes there are a broad range of stakeholders and maintains that it lies within the firm’s responsibility to simultaneously account for, and attain the ability to balance the conflicting demands and interests of the various stakeholders. Under the stakeholder approach the impact on shareholder value is not of primary interest and engaging in CSR activities can be justified because it is morally right and because it benefits the various stakeholders of the firm (Buysse & Verbeke, 2003; Orlitzky et al., 2003; Bird et al., 2007; Jensen, 2001; Roberts, 1992). This view of the stakeholder theory is often referred to as the normative, or moral view (Roberts, 1992; Clarkson, 1995).

McWilliams and Siegel, (1997) assert that the issue in the area of corporate social responsibility (CSR) is how to measure the impact of managerial decisions so as to have an impact on public policy decision making. Stakeholder theory postulates that when socially responsible decisions are implemented, a tradeoff exists between profit enhancement (which benefits shareholders) and the CSR action (or program) which benefits the other stakeholders (McWilliams & Siegel, 1997; Jensen, 2001; Buysse & Verbeke, 2003). The literature on stakeholder theory has been examined from various perspectives, including agency theory (Hill & Jones, 1992), corporate social responsibility (Donaldson & Preston, 1995), network theory (Rowley, 1997), and resource-based thinking (Frooman, 1999). There are two broad branches of stakeholder literature: a strategic and a moral branch (Frooman, 1999). This study is more concerned with the strategic view of stakeholder theory but will discuss the development of stakeholder theories as they pertain to CSR.

Under the strategic stakeholder theory, stakeholders are classified as primary or secondary, depending on the nature of their relationship with the firm. Primary stakeholders are employees, suppliers, customers, and public agencies engaged in formal relationships with the organization while secondary stakeholder groups include actors such as the media and special interest groups, not engaged in formal transactions with the organization. In this way the firm is “a complex set of relationships between and among interest groups with different rights, objectives, expectations, and responsibilities” whose survival and continuing profitability depend upon the ability of its managers to create sufficient wealth, value, or satisfaction for those who belong to each stakeholder group, so that each primary stakeholder group continues as part of the corporation's stakeholder system (Clarkson, 1995). This theory emphasizes the active management of stakeholder interests, whereas the moral stakeholder theory is primarily interested in balancing stakeholder interests (Frooman, 1999; Savage et al, 1991). The corporation has a high level of interdependence with the primary stakeholders such that the firm will fail if the firm fails to retain the participation of, or is unable to satisfy one or more primary stakeholder groups (Clarkson, 1995).

A key reason for the stakeholder theory’s wide acceptance in the area of CSR is that it acknowledges the firm as a system of stakeholders that includes external influences on the firm that may assume adversarial positions (Roberts, 1992). The firm’s decisions and strategies are a function of the strength of the stakeholder orientation (Hart, 1995). Mitchell et al. (1997) classified stakeholders based on power, legitimacy and urgency of their association with the firm and asserted that the strength of stakeholder orientation, or stakeholder salience, as perceived by managers, is positively related to the cumulative impact of the three stakeholder attributes. Preston (1990) listed the "four parties to any business in the order of their importance" as "customers, employees, community, and stockholders". However, because stakeholder claims depend on the issue under review and vary over time, so too is stakeholder salience. As the power of the stakeholder group increases, meeting the needs of that group increases in importance (Buysse & Verbeke, 2003). If the needs of the most important groups are met, often profit is a by-product of success in satisfying responsibly the legitimate needs and expectations of the corporation's primary stakeholder groups (Mitchell et al., 1997).

Modern stakeholder theory posits that the value of a firm depends on the cost of explicit and implicit claims (Cornell & Shapiro, 1987). A socially responsible firm engaged in CSR activities may contribute to its main goal of creating long term shareholder wealth because implicit claims like product quality are less costly to a firm than explicit claims like wage contracts or stockholder or bondholder demands. In this way, if a firm is socially irresponsible, stakeholders engaged in implicit CSR contracts concerning the social responsibility of the firm, may doubt the ability of a firm to honor implicit claims and may attempt to transform their implicit contracts into more costly explicit agreements (McGuire, et al., 1988). Additionally, stakeholders may view CSR as investments in reputation, which may improve the image of the firm's management and permit it to exchange costly explicit claims for less costly implicit charges (Alexander & Bucholtz, 1978).

Miles and Friedman (2001) posit a “value attuned” stakeholder theory in which they argue that the weakness of traditional stakeholder theory lies in the under-specification of the organization/stakeholder relation itself. The authors assert that some stakeholders have more influence over organizations than others due to the structural nature of the relationship, the contractual forms existing and the institutional supports available between the organization and stakeholder group. Stakeholders whose relationship with organizations is both necessary and compatible are likely to be more influential than others because both parties lose if the relationship does not run smoothly. The nature (and existence of formal contracts between stakeholder groups and organizations legitimizes the stakeholders. Only stakeholders in necessary relations with the organization are regarded as legitimate stakeholders by the firm and other stakeholders become legitimate when they build institutional connections with organizations, or if intermediaries develop which provide such connections. They present a model that merges the normative, instrumental and descriptive stakeholder theory and the systems of ideas with normative implications are explicitly considered along with material structures and interests (Swanson, 1999; Miles & Friedman, 2001).

To remedy the problem of attempting to meet the heterogeneous nature of the stakeholders and their interests, Jensen, (2001) proposes an “enlightened stakeholder theory” that combines shareholder theory with stakeholder theory. This new theory accounts for the interests of the various stakeholders, but asserts that these diverse interests are subordinate to the shareholders’ overarching aim of value maximization (Jensen, 2001). According to enlightened stakeholder theory, if CSR initiatives are considered an investment in an intangible assets, then the activities should only be undertaken if the net present value of perceived benefits exceeds the net present value of expected expenses associated with the activities (Bird et al., 2007; Brishammar & Odemann, 2013).

Given this understanding of CSR and the debates regarding its implementation and effects on firm performance, the next section discusses the South African business economy, on which are theory will be tested.

**THE SOUTH AFRICAN CONTEXT**

The traditionally high degree of concentration in South Africa’s formal economy is a result of the organizing logics of racial segregation and separatism reminiscent of the apartheid era. These organizing logics deem big, concentrated firms with close relationships an appropriate economic structure at the top of the economy. Capital, management control, commercial and even inter-personal relationships in big firms have been a closed domain to business actors without the appropriate social and racial profile. This systematic exclusion of black South Africans from the mainstream economy led to the institutionalization of a highly closed and concentrated formal economic structure in South Africa, and other primary commodity-based countries' formal economies (Andrews, 2008; Fafchamps, 2001). The resultant structure is the now institutionalized dual economy in South Africa.

Scott (1995), DiMaggio and Powell (1983), Meyer and Rowan (1977) assert that organizations must conform to the rules and belief systems prevailing in the environment they operate in order to survive because institutional isomorphism, both structural and procedural, will earn the organization legitimacy. New institutionalism recognizes that institutions operate in an environment consisting of other institutions, called the institutional environment, and that every institution is influenced and in some sense pressured to conform by the broader environment in order to survive. Some of those pressures in the institutional environments have been noted to influence competitive strategy and hiring practices (Dacin, et al., 2002; Scott, 2005). The social, economic, and political factors that constitute the institutional environment “reward” firms with advantages for engaging in specific types of activities and firms tend to perform more efficiently if they receive the institutional support. Firms need to establish legitimacy within the world of institutions and in order to do so they need to do more than succeed economically; they need to accept the prevailing structures, including schemes, rules, norms, and routines (Scott, 2001; 2005). Despite the implied stability of the institutional environment, institutions are subject to both incremental and discontinuous change processes (Scott, 2005; Dacin, et al., 2002). It is these changes in the institutions that this study seeks to investigate.

Several scholars have noted that South Africa’s economic structures have had negative influences on racial access and equity and economic opportunity, creativity and responsiveness (Andrews, 2008; Fafchamps, 2001; Mangaliso & Mangaliso, 2013). Among the initiatives that the new South African government introduced to address the wealth distribution problem was the Black Economic Empowerment (BEE) program. BEE was a flagship program intended to accelerate the participation rate of Blacks in the country’s economy without disturbing the fundamentals of the market enterprise system (Mangaliso& Mangaliso, 2013; McFarlin, Coster, & Mogale-Pretorius, 1999).

Some of the aforementioned scholars have noted an overlap between the relational structures BEE targets for change (ownership, supply chain relationships, etc.) and the structures identified as defining, and hindering, South Africa’s country’s economic structure. Fafchamps (2001) notes that in order to rectify the racial inequality and catalyze growth in the formal economy there is need for structural change that challenges the race-based institutions because the same prohibitive institutions that hinder growth also dampen racial empowerment. Woolsey-Biggart and Guillen (1999) assert that although adding individuals into a system does not change the underlying organizing logics in that system; policy should seek to change the economic and organizational institutions because these institutions reflect values and influence patterns of behavior, empowerment and opportunities for economic growth (Woolsey-Biggart & Guillen, 1999). Andrews, (2008) proposes change in economic structures in order to achieve both transformation and growth.

Andrews (2008) asserts that B-BBEE is a solution that will act both as a growth catalyst and a racial transformation mechanism. BEE is aimed at changing intra and inter-firm relational patterns of capital and control, personnel selection, promotion and development, supplier selection, enterprise development and social engagement. B-BBEE, and even Narrow Based BEE, was anticipated to change these structures and enhance access and openness, with emphasis on transferring ownership and management of some large firms to new black entrants. The latter emphasis would imply opening up capital and control structures. This capital de-concentration and the inclusion of more black and female faces in board rooms would bring possibilities for new ideas, new ways of thinking and new connections to new networks thus leading to the development of new structures and networks (Andrews, 2008; DTI, 2013b). Andrews (2008) argued that intra and inter-firm relational structures and the networks they establish influence who participates in economies and how these people benefit and that the same structural variables that influence who participates in, and benefits from an economy also impact what new ideas enter, what products are produced and what growth opportunities exist. In this way, organizational arrangements prompt and constrain economic actors, shaping what and how they produce (Andrews, 2008).

**Broad-Based Black Economic Empowerment (B-BBEE)**

During apartheid, the South African government systematically excluded African, Indian and “Colored[[1]](#footnote-1)” people from meaningful participation in the country's formal business environment and economy. This more than four decades systematic exclusion of close to 80 percent of the population resulted in a country with one of the most unequal distributions of wealth in the World (Mangaliso & Mangaliso 2013). After the country’s first democratic elections in 1994, the government of the African National Congress devised various policies which were aimed at directly intervening in the redistribution of assets and opportunities to reduce the effects that the previous government’s unequal policies had on the masses. The Black Economic Empowerment (BEE) policies were intended to transform the economy to resolve the economic disparities created by Apartheid policies. The BEE policies aimed to substantially transfer and confer ownership, management and control of South Africa's financial and economic resources to help the previously disadvantaged people to positively contribute and participate in the economy (Andrews, 2008; DTI, 2004 & 2007).

The Black Economic Empowerment Act of 2003 states that "black people" is a generic term which means Africans, Coloureds and Indians and included provisions to ensure that they must have been South African citizens prior to 1994 (DTI, 2004). Initially Chinese people who were South African citizens prior to 1994 were excluded as beneficiaries of black empowerment. Under the apartheid system, some Chinese individuals were classified as Coloureds, others as honorary white. However, they were all submitted to legal discrimination prior to 1990 (but exempt from the Group Areas Act as of 1984 when the Group Areas Amendment Act was promulgated). In 2008, these Chinese people were reclassified as "black" after the Chinese Association of South Africa took the South African government to court and won (Leonard, 2008). Chinese people who were South African citizens prior to 1994 are now included in the definition of the beneficiaries of BEE. The Amendment Bill gazetted in December 2011 and signed into law in February 2012 now includes this expansion of the definition of BEE beneficiaries (DTI, 2004 & 2012; Leonard, 2008).

Central to BEE prior to the BEE Act of 2003, was the development of what is called the Preferential Procurement facet which made sure that any government tenders got assigned to people who were black or at least partially black. Any supplier, including any white-owned providers, who could show proof of black ownership for the company, would then be allotted points in accordance with the degree of compliance that they met. Suppliers would thus by awarded government contracts based on this scale. However, only a small but empowered set of groups benefited in the short term because there were only a limited number of black individuals that could afford to buy into supplier firms large enough to qualify to apply for government tenders. Thus the benefits of these policies were not transferred to the majority of the disadvantaged black population. When the government realized this shortfall, it was deemed that a broader view of empowerment was needed in order to promote long term sustainability in the communities where it was needed the most. This initial group of BEE policies is termed Narrow Based BEE (DTI, 2003 & 2013a).

In 2003, the South African government launched a new, broader BEE program to redress the inequalities of apartheid by redistributing wealth to previously disadvantaged groups (Africans, Coloureds, and Indians who arrived before 1994) of South African citizens. Broad-Based Black Economic Empowerment (B-BBEE) is the economic empowerment program launched by the South African government in 2003 in response to criticism that Narrow Based BEE led to the enrichment of a few previously disadvantaged individuals. While Narrow Based BEE measured only equity ownership and management representation, B-BBEE includes measures such as employment preference, skills development, ownership, management, socioeconomic development, and preferential procurement. The goal of Broad-Based Empowerment is to distribute wealth across as broad a spectrum of previously disadvantaged South African society as possible (DTI, 2004 & 2012).

BEE is a quantitative measure of the attempts to incorporate the black majority into the economic mainstream through the stimulation of economic growth and employment creation. BEE is not transformation (though it could be interpreted as a measure of CSR), but it is a reporting exercise that encourages specific activities in a business that help yield better BEE scores on the scorecard (Andrews, 2008; DTI, 2013b). It should be noted that the BEE Act and its associated Codes of Good Practice are only legally binding on government departments, state-owned enterprises (SOEs) and other public entities. The Act and Codes are not legally binding on the private sector. However, when customers are choosing which supplier to use they are likely to look at price, quality and service and the BEE Score. The weight that customers put on the BEE Score depends on how important BEE points are to the customer. Government departments, SOEs and other public entities have to apply the Act and Codes when making decisions regarding procurement, licensing and concessions, public-private partnerships and the sale of state-owned assets and businesses. Private sector firms may choose not to comply but this may harm their business, especially in terms of securing government tenders or getting licences renewed. Many private firms are incentivized towards transformation as an economic imperative due to the high profitability of state contracts, which may be worth millions (Embassy of Japan in South Africa, 2010; DTI, 2012 & 2013a).

The voluntary nature of the BEE compliance for the private sector ensures that firms are not forced but instead choose to change their exclusionary structures by incorporating empowerment initiatives. This choice requires an altering of the stakeholders and the former structure and system. The voluntary nature of the policy also ensures that it meets the various definitions of CSR by Frederick (1994); McWilliams, et al. (2006); Windsor, (2001) and Wolramans and Sartorious (2009).

**Study Contributions**

CSR research on (and in) South Africa has mostly focused on the impact of divestitures from firms trading with South Africa during apartheid (Teoh, Welch & Wazzan, 1999; Wright & Ferris, 1997; Posnikoff, 1997) and the impact of BEE announcements on South African firms (Wolramans & Sartorious, 2009). These studies have yielded mixed results. Teoh, et al. (1999) found little discernible effect of the divestment either on the valuation of banks and other corporations with South African operations, or on the South African financial markets because corporate involvement with South Africa was so small. Wright and Ferris (1997) found significant and negative excess returns accrued to shares of companies announcing divestments from South Africa. However, Posnikoff (1997) found a positive effect on the multinational corporations that withdrew investments from South Africa during this time. Wolramans and Sartorious (2009) found a positive relation between BEE transaction announcements and shareholder wealth creation in the short run.

Although there are a broad range of business and social agendas that are considered CSR, a common thread among these approaches, is the inclusion of stakeholder groups that have traditionally been omitted from analysis, often because many of these groups were assumed to have adversarial relationship with the firm. Freeman and McVea, (2001) argue that CSR research needs to broaden the scope of stakeholder analysis and illustrate to management, through research, the importance of building relationships with previously estranged groups. Changing the perspective of the stakeholder relationships from a perceived adversarial relationship to an inclusive cooperative one requires changes in institutions and logics.

Authors such as Andrews (2008) and Fafchamps (2001) have called for structural changes from the CSR perspective to rectify these inequalities. Building on the need for *profitable* CSR investments championed in the enlightened stakeholder theory, and Jones (1995) assertion that shareholders are among the firm's important stakeholders, we propose that CSR investments that diversify the shareholders introduce greater opportunities for implicit benefits such as creativity and different perspectives, career incentives through signaling and mentoring, good public relations, investor relations, and legitimacy and explicit benefits such as expanded avenues for access to resources and connections. Targeting the shareholders group also dispels the anticipated negative shareholder relationship with CSR. All of this, we postulate will be reflected in an improvement in the firm’s performance.

This study uses Institutional Theory to understand the organizational structure of South Africa's formal economy together with Stakeholder Theory to explain how B-BBEE, by being multi-pronged, targets multiple stakeholders and seeks to change both stakeholder relations and institutions thus subsequently yielding higher (profitability) benefits for the firm. Narrow BEE, through its focus on preferential procurement, inadvertently attempted to change the stakeholder relations without addressing the underlying institutions. This study contributes to CSR literature through its development of a more targeted version of the enlightened stakeholder theory which merges the shareholder and stakeholder theories and identifies the shareholder group as instrumental in the success of CSR initiatives.

**Hypotheses**

The dual economy present in South Africa is a result of the institutionalization of big, concentrated firms with close relationships as the appropriate structures in the formal economy. This study will use event study methodology to assess how the broadening of the institutional owner stakeholder group leads to higher stock performance. This study tests for the changes in institutions because significant cumulative abnormal returns in BEE compliant firms when the policy is gazetted illustrate that more “black” South Africans are being incorporated in the ownership stakeholder group from which they were previously barred, thus illustrating that the closed institutions are indeed changing. However, drawing from Cowen et al. (1987), who concluded that company size and industry classification are generally associated with corporate social disclosures, this study hypothesizes that these changes in institutions will occur at different rates in the different sectors. This study focuses on only the impact of the changes in the stock prices of firms that have made substantial changes to their owners’ stakeholder group as reflected by their “Top 100 BEE Achievers” rankings because it assumes the shareholders group has the highest impact on firm performance and directly benefits from the CSR and increased firm performance. This study’s key assumptions are that (a) the broadening of the stakeholders will lead to higher profitability, and (b) that these benefits will vary depending upon the firm’s sector. The underlying assumption in this study is that BEE scores are positively related to the firm’s financial performance. The study uses the simple case of the broadening of the definition of “black” South Africans to investigate if firms can adopt the change to their structures and in which sectors these changes will be most significant. These assumptions will be tested in the following two hypotheses:

**Hypothesis 1**: Socially responsible, unified firms (i.e. BEE compliant firms) will experience positive shareholder value creation (where the cumulative abnormal returns are the proxy for the latter) when the policy broadens

**Hypothesis 2**: There will be differences in the shareholder value creation according to the sector the firm falls within

**RESEARCH METHODOLOGY**

This study uses event study methodology, such as Sherer & Lee (2002), Wright, Ferris, Hiller, and Kroll, (1995) and Wolramans & Sartorious (2009), to analyze the impact of the Amendment BEE Bill of 2012 on the share prices of BEE compliant firms. The study assumes stock prices incorporate all relevant information about a firm and reflect investors’ expectations about the discounted value of all future cash flows, thus reflecting the firm’s true value (McWilliams & Siegel, 1997; Brishammar & Odemann, 2013).

This study uses the event study method even though McWilliams and Siegel, (1997) found no support for the hypotheses that decisions based on CSR had an impact on stock prices. They assert that event study methodology is inappropriate because it is difficult to measure the impacts of CSR on the multiple stakeholders and warn against an analysis of only share price effects as they relate only to financial stakeholders, whereas non-financial stakeholders are also affected by CSR activities (McWilliams, et al., 1999; McWilliams, et al., 2006; Wolramans & Sartorious, 2009). However, if we are focused on the owners (shareholders) as the instrumental stakeholders, then this concern is void because the changes in the ownership group and the impacts on it become more important (McWilliams &Siegel, 1997; 2000).

**Sample**

We started off with a sample of 100 companies that are currently, or have previously been, listed on the JSE Socially Responsible Investment (SRI) Index between 2007 and 2012. The JSE’s SRI index was launched in May 2004 and promotes sustainable and transparent business practices. The launch of the SRI index series coincided with the advent of sustainability initiatives internationally and the King code in South Africa. Listed companies in the FTSE/JSE All Share index are reviewed annually based on a holistic set of Environmental, social and governance (ESG), sustainability and climate change criteria. The sample was selected from the index because the index was created to foster good corporate citizenship and promote sustainable development and companies listed on the index are assumed to be socially responsible (JSE, 2013). Of these 100 companies, 4 were excluded because they had fewer than 12 monthly observations (closing monthly share prices) and would have thus been unable to cover any single event period.

The 96 companies are then cross referenced against a sample from a combination of top 100 rankings of BEE compliant firms from the Financial Mail and Empowerdex. This is because there is no formal central repository in which BEE information is stored despite the measurement taking constantly underway (Andrews, 2008). Financial Mail/Empowerdex Top Empowerment Companies 2011 gives the top 100 BEE compliant firms of 2011, their overall BEE scores and the sector to which the firms belong. The Financial Mail’s“Top Empowerment Companies” publication (for 2012) gives the top 100 BEE compliant firms, their overall BEE scores, as well as their ownership and preferential procurement scores. Empowerdex also gives the top 100 BEE compliant firms of 2013, their overall BEE scores and the sector to which the firms belong. All of the firms in the sample are BEE compliant to varying degrees. Of the 96 firms from the SRI index, 67 firms had been listed in the top 100 BEE compliant of 2011, 2012 and 2013 and had publicly listed BEE scores. This is similar to the sampling used in Andrews (2008) and Wolramans and Sartorious, (2009). The use of these data sources also allows for industry effects to be estimated. The study can therefore split the companies into organizational "fields" and create indices for the different fields, or look at specific industry or field effects.

**Variable Specifications**

*Dependent Variable:*

This study uses firm’s share price to proxy for the returns to shareholders. Narrow Based BEE measured only equity ownership and management representation and led to the enrichment of a few previously disadvantaged individuals (African, Coloured or Indian). To remedy this, B-BBEE has seven components namely: ownership; management control; employment equity; skills development; preferential procurement; enterprise development; and socioeconomic development (including industry-specific and corporate social investment initiatives). This study focuses on the equity ownership dimension of B-BBEE because ownership has remained a key facet in the policies since their inception and it has quicker returns to recipients than management representation in strategic and operation control positions in the company (the other constant aspect). Equity ownership is also directly affected by the firm’s share prices. Therefore, by assessing the change in firm’s share prices, the study also makes an important observation. If firm share prices represent returns to shareholders, and if these are returns to shareholders of BEE compliant firms, then it seems that increases in share prices are a step towards the achievement of the goals of BEE through the empowering the black shareholders of the firms, i.e. equity ownership (DTI, 2012 & 2013b). We obtained monthly share prices for the 60 month period from January 2007 to December 2012 from the Johannesburg Stock Exchange (JSE).

*Independent Variables:*

The average total BEE scores for 2011 and 2012 will determine the company’s level of BEE compliance. An index of the ratio of ownership scoring to total BEE scoring was used to assess the weight of ownership in the BEE scoring. Cochran & Wood (1984) used corporate social responsibility rankings similar to BEE scores.

*Control Variables:*

A sector dummy variable was created to control for some industry-level factors that have been shown to explain variation in firm performance across industries, such as economies of scale and competitive intensity (Waddock & Graves, 1997). Other studies (Cochran & Wood, 1984; Cowen et al., 1987) also controlled for corporate age, company size, profitability, and the presence of a corporate social responsibility committee, in addition to the industry classification.

**Model Specification**

The study used the standard event study approach of estimating market related returns and then calculating abnormal returns for the periods before and after the event (Wolramans & Sartorious, 2009; McWilliams & Siegel, 1997). The study used 5 year monthly data and the past period to estimate the returns. These are the standard modifications to the Fama, Fisher, Jensen and Roll (1969) model employed in most studies using event study methodology (Binder, 1998).

*Assumptions & justifications*

The event study method assumes efficient markets, unanticipated events and no confounding events. Stock prices are assumed to incorporate all relevant information available to market traders (McWilliams & Siegel, 1997; Brishammar & Odemann, 2013). This study uses monthly data because the changes in the definition had been expected since the Chinese Association won the case in 2008, therefore daily data would have had a higher possibility of a greater signal to noise ratio (Binder, 1998; Lamdin, 2001).

Although long windows are discouraged, due to the time lag in the necessary changes that need to be incorporated into the stock prices, small windows are not efficient. The event window is less concise because this study is investigating the effect of a regulatory change. This is due to the difficulty in finding unanticipated regulatory changes. The event window is also extremely difficult to estimate because of the staggered event sequence from when the issue was first substantively broached, then debated, then the Chinese Association won the case in mid-2008, and the bill was gazetted in December 2011 and finally signed into law in February 2012. The multiplicity of events necessitates multiple “event periods” all encompassed in the 60 month time frame during which the probability of the bill was substantively affected (Lamdin, 2001; Binder, 1985). Although market returns are calculated from January 2008 for the full 60 months, there are 3 event windows for the effect of the Chinese Association winning the case in mid-2008, the gazetting of the Amendment Bill in December 2011, and the signing of the bill in February 2012. The study could create 3 dummy variables for each event and event period, create a single dummy variable to represent the effect in the entire 60 month event window, or create a single dummy variable to represent only the individual event periods within the event window. Comparisons of the results of a simple robustness test from these three approaches reveal the best approach (Lamdin, 2001).

-----------------------

Insert Table 1 here

------------------------

Non-parametric testing was used to identify outliers and the use of the all share index and market returns will control for market wide confounding effects. The sector effects also control for sector wide confounding effects (McWilliams & Siegel, 1997). McWilliams and Siegel (1997) suggest that if the non-parametric tests yield many outliers that need to be excluded and the sample size drops significantly, we will use “bootstrap” methods.

*Estimation*

Two fixed effects models were run for each measure of AR. Equation 1 shows the first equation which will determine the rate of return on share prices:

*Equation 1*

where:

*Rit* = the return on share *i* in month *t*

*Rmt* = the return on market portfolio in month *t*. The All-Shares Index on the JSE

*αi* = the intercept term for share *i*

*βi* = the systematic risk of share *i*

*εit* = the error term

From Equation 1, the abnormal returns can then be calculated as shown in Equation 2:

*Equation 2*

where:

ARit = the abnormal return of firm *i* in month *t*

Rit = the observed return of firm *i* in month *t*

(ai + bitRmt) = firm *i*’s forecast return in month *t*, based on market return

*γi* = impact of BEE on firm returns

*τi* = impact of a firm’s sector on firm returns

*BEEi* = the average total BEE scores

*Secti* = the sector variable

In this study, as is common practice in event studies, we examined the returns for the different event periods around the 3 event dates. We calculated the cumulative abnormal return (CAR) as the sum of the AR terms over the six different periods in question. AR is defined as the difference between the predicted return (*R= a+bRmt*) and actual return (*Rit)* for a period. If parametric tests reveal that CARs differ from zero, this means the deviation is statistically significant (Meznar, et al. 1994). If the Amendment Bill has had a positive impact on BEE scores and firm prices, the average R4, R5 and R6 would be significantly positive (Wolramans & Sartorious, 2009). If the winning of the case had a significant impact, R1 and R2 would be significant, and R3 and R4 will be significant if the gazetting of the bill has a significant impact.

**RESULTS**

As has already been discussed above, empirical studies of the relationship between CSR and firm performance- usually profitability, have yielded inconsistent (some positive, negative, inconclusive and neutral) results. McWilliams and Siegel, (2000) posited that this inconsistency could be due to flaws in empirical analysis, particularly a mis-specified model. To remedy this potential for inaccuracies, as a 1st step we performed several tests to check for normality and outliers were dropped, as were firms with significant numbers of missing observations. The correlations for each event are given in the appendix. Table 2 gives the final numbers for the 3 event periods.

------------------------

Insert Table 2 here

-------------------------

As part of the method, we needed to model Equation 1 and estimate α and β. We split the 60month period into three event period. Table 3 shows the estimated α and β coefficients and the average market returns.

-----------------------

Insert Table 3 here

-----------------------

In terms of testing for abnormal returns (AR), we also ran separate regressions of the returns (*Rit*) on BEE scores and the sector dummy. The significantly lower average market returns in the 1st event period are noteworthy. We used the coefficients from these regressions to estimate Equation 2. We summed up the AR and tested if the CAR were different from zero. The sector and BEE coefficients, the CAR and the Z test statistics for R1 to R6 are given in Table 4.

------------------------

Insert Table 4 here

------------------------

Although none of the CAR were significant, the sector coefficients were significant in R1, R2 and R5, and the BEE coefficients were significant in R3, R5 and R6. It is interesting to note that both BEE and sector coefficients are significant in R5.

The results fail to confirm our first hypothesis that the broadening of the BEE policy will lead to positive value creation, as seen through significantly positive CAR. The results confirm that BEE scores and the sector to which a firm belongs to have an impact on a firm’s performance. The significant positive coefficients on the BEE variable indicates that as BEE scores rise, so too does a firm’s performance. The firm’s sector has a significant and positive impact on firm performance in R1 and R2. However, in R5, the firm’s industry now has a significantly negative effect on firm performance. The *Sector* dummy variable tests if industrials (Basic Industrials, General Industrials, and Industrial Goods & Services), as a sector, are significantly different from the other industries listed on the JSE. The statistical significance of this variable in R1, R2 and R5 confirms our second hypothesis. It illustrates the importance of the impact of a firm’s sector on its performance in those event windows. Its positive significance in R1 and R2 indicates that a firm’s inclusion in any of the other sectors will have a positive impact on its performance. In contrast, in R5, firms in the industrials sector will now have the advantage, in terms of performance.

**DISCUSSION**

There is still much to be learned about this relationship between CSR engagement and corporate performance. The results of the various prior empirical studies that have investigated the relationship between CSR and firm performance (profitability) have yielded mixed results and are thus inconclusive. Some studies reported positive, negative, and neutral results. McWilliams and Siegel (2000) believe these inconsistencies could be due to serious flaws in the research design and implementation of the event study methodology, such as the estimation of a mis-specified model, involving (but not limited to) missing variables that might be critical in affecting financial and social performance but were left out in the analysis (e.g. R&D and advertising intensity, industry effect).

Scholtens (2008) believes the inconsistent results could be due to the conflicting views about causality between corporate financial performance and corporate social performance. This study asserts that social responsibility will result in better financial performance through the commitment of the in-company stakeholders, as well as the positive reputation perceived by the other stakeholders. However, another view is that good firm performance makes available finances for CSR initiatives (Scholtens, 2008). Although both views have merit, we believe that the causality is a function of the CSR decision or initiative under investigation. In general, financial performance does indeed precede many CSR initiatives (e.g. community involvement, employee relations, diversity, environment, and product) because a firm needs to have the financial, and other resources, at their disposal to engage in these activities (Scholtens, 2008; McWilliams and Siegel, 2000).

Our statistically insignificant results are similar to McWilliams and Siegel, (1997; 2000) who found no support for the hypotheses that CSR decisions had an impact on stock prices. McWilliams and Siegel, (1997) retested the findings from a sample of CSR articles that had inferred from their empirical findings that stakeholder theory was supported and that the events had significant impacts on stock prices. They revealed some research design issues which when controlled for, led to different results. The authors assert that event study methodology is inappropriate because it is difficult to measure the impacts of CSR on the multiple stakeholders that are also affected by CSR activities (McWilliams, et al., 1999; Wolramans & Sartorious, 2009). However, we are focused on the owners (shareholders) as the instrumental stakeholders in firms that have integrated previously excluded persons into their shareholder stakeholder group, thus changes in the ownership group and the impacts on it (such as the financial benefits they reap from higher share prices) become more important (McWilliams &Siegel, 2000).

In contrast to this debate Donaldson and Preston, (1995) postulate that there is no compelling empirical evidence, as yet, that the stakeholder theory (or any variant of it), is indeed the optimal theory to understand, or strategy for maximizing a firm performance. They argue that stakeholder theory is managerial in that it involves attitudes, structures, and practices that ultimately rest on more than purely instrumental grounds. Therefore, stakeholder theory cannot be fully justified by instrumental considerations. They assert that the notion that stakeholder management is casually related to corporate performance ultimately resorts to normative arguments in support of these views because the empirical evidence is inadequate (Donaldson & Preston, 1995).

Our research enters this continuing CSR debate with many opportunities for development. It should be noted that our identification of the shareholders as a key stakeholder group is feasible in CSR decisions and activities that are more large scale. However, this is not always necessary as there are some forms of CSR engagement which do not “affect” the whole firm but instead may need targeting of middle managers and employers rather than shareholders and the top management team. This study’s key implication is that it recognizes that shareholder-stakeholder and agent-principal conflicts can be mitigated by categorizing CSR initiatives according to the level of firm management that will be instrumental in making the CSR decisions and targeting the identified stakeholders for CSR. CSR engagement that seeks to change institutions will need to target all stakeholders, especially shareholders (and often top management teams) as they have the most power to change firm decision making. Policies such as B-BBEE that are multi-pronged and target various stakeholders, therefore have better chances of increasing both CSR engagement and firm performance, and thus increasing value to all stakeholders.

**Limitations and Future Research**

While CSR engagement is an important issue across the world, B-BBEE assessment is an important topic in South Africa, especially given the failure of the Narrow Based BEE initiatives. Despite the importance of BEE investigations, research into the policies impacts is limited because data on BEE transactions are not widely available. Data on BEE announcements is somewhat easier to gain access to. Wolramans and Sartorious (2009) used such data and found that BEE announcements had a positive impact on shareholder wealth in 2006, but not during the period 2002 to 2005. Our investigation looked at the impact of the broadening of the policy on firms with high BEE scores. Although our study found no evidence of the impact of the policy, it did find that BEE scores had a positive relationship with shareholder wealth creation during certain periods. Our study and the Wolramans and Sartorious (2009) study both looked at the short term relationship between BEE and share prices. It would be interesting to assess the changes in the relationship between BEE scores and the share prices in the medium and long term. This would answer the question of whether the increases in shareholder wealth created at the time of an announcement are sustainable over the long-term, as well as what factors limit the success of BEE transactions? Another important research area would be an investigation of the impact of different types of BEE announcements on the share values, and the stakeholders, as well as their trajectory. All of this future research requires that a more compact BEE database be constructed.

**CONCLUSIONS**

This paper merged the shareholder and stakeholder theories to develop the enlightened theory further through the identification of key stakeholders in CSR transactions. Although the study does not find statistical significance to support its hypothesis that the broadening of the policy would be reflected in positive CARs, it does find support for its hypothesis that the sector that a firm belongs to is important. The study also finds evidence to show that BEE scores and firm performance are positively related, at least in the case of firms with high BEE scores. This result was expected because the BEE scores are heavily dependent on the CSR diversification and inclusion of previously excluded individuals into the shareholder group who benefit directly from the firm’s positive shareholder wealth creation. Although CSR engagement involves different stakeholders, when the form of CSR hopes to change institutions, it makes sense to target the stakeholders with the most power to impact changes as well as influence firm performance. Identifying the key group helps mitigate the shareholder-stakeholder conflict through the alignment of interests, or negotiation to a Pareto efficient outcome. While different CSR initiatives and decisions may have a different instrumental stakeholder group, the process remains the same- identify the group with the most power and investigate the impacts of its decisions which may not always be through share prices. In this way, this study acknowledges the multiple stakeholders and their interests and opens the door to assessing the impacts (not just financial) of CSR engagement on other stakeholders, besides shareholders.

**REFERENCES**

Alexander, G. J., & Buchholz, R. A. 1978. Corporate social responsibility and stock market performance. ***Academy of Management journal***, 21(3): 479-486.

Andrews, M. 2008. ***Is Black Economic Empowerment a South African Growth Catalyst? (Or Could it Be...).*** Harvard Kennedy School (HKS) Working Paper No. RWP08-033. September 10, 2008

Aupperle, K. E., Carroll, A. B., & Hatfield, J. D. 1985. An empirical examination of the relationship between corporate social responsibility and profitability. ***Academy of management Journal***, 28(2): 446-463.

Becchetti, L., & Ciciretti, R. 2009. Corporate social responsibility and stock market performance. ***Applied Financial Economics***, 19(16): 1283-1293.

Binder, J. 1998. The event study methodology since 1969. ***Review of Quantitative Finance and Accounting***, 11(2): 111-137.

Bird, R., Hall, A. D., Momentè, F., & Reggiani, F. 2007. What corporate social responsibility activities are valued by the market? ***Journal of Business Ethics***, 76(2): 189-206.

Brishammar, C. & Odemann, L. 2013. ***Shareholder Reaction to Socially Responsible and Irresponsible Firm Behavior: An Event Study Approach.*** Masters Thesis in Accounting and Financial Management, Stockholm School of Economics, Department of Accounting

Brummer, J. J. 1991. ***Corporate responsibility and legitimacy: An interdisciplinary analysis*** Greenwood Press New York.

Buysse, K., & Verbeke, A. 2003. Proactive environmental strategies: A stakeholder management perspective. ***Strategic Management Journal***, 24(5): 453-470.

Carroll, A.B. (1979). A Three-Dimensional Conceptual Model of Corporate Social Performance. ***Academy of Management Review,*** 4: 497–505.

Clarkson, M. E. 1995. A stakeholder framework for analyzing and evaluating corporate social performance. ***Academy of management review***, 20(1): 92-117.

Cochran, P. L., & Wood, R. A. 1984. Corporate social responsibility and financial performance. ***Academy of management Journal***, 27(1): 42-56.

Cornell, B., & Shapiro, A. C. 1987. Corporate stakeholders and corporate finance. ***Financial Management***: 5-14.

Cowen, S. S., Ferreri, L. B., & Parker, L. D. 1987. The impact of corporate characteristics on social responsibility disclosure: A typology and frequency-based analysis. ***Accounting, Organizations and society***, 12(2): 111-122.

Dacin, M. T., Goodstein, J., & Scott, W. R. 2002. Institutional theory and institutional change: Introduction to the special research forum. ***Academy of management journal***, 45(1): 45-56.

DiMaggio, P. J., & Powell, W. W. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. ***American Sociological Review***: 147-160. Donaldson, Thomas, and Lee E. Preston. The stakeholder theory of the corporation: Concepts, evidence, and implications. ***Academy of management Review*** 20.1 (1995): 65-91.

Department of Trade and Industry (DTI), 2003. “South Africa’s Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment”. Pretoria, South Africa.

\_ \_ \_ . 2004. “Broad-Based Black Economic Empowerment Act, 2003”. Act No. 53, 2003. Government Gazette, 9 January 2004. Pretoria, South Africa.

\_ \_ \_ . 2007. “Codes of Good Practice on Black Economic Empowerment”. Notice 112 of 2007. General Notice, 9 February 2007. Pretoria, South Africa.

\_ \_ \_ . 2012. “Broad-Based Black Economic Empowerment Amendment Bill”. Bill, 9 February 2012. Pretoria, South Africa.

\_ \_ \_ . 2013(a). “Broad-Based Black Economic Empowerment Act (53/2003): Issue of Codes of Good Practice”. Notice 1019 of 2013. General Notice, 11 October 2013. Pretoria, South Africa.

\_ \_ \_ . 2013(b). “Amended B-BBEE Codes of Good Practice Launch Presentation by the Minister”. Pretoria, South Africa.

(The) Embassy of Japan in South Africa, 2010. “Black Economic Empowerment: The Legislative Framework”.April 2010

Fafchamps, M. 2001. “Networks, Communities and Markets in Sub-Saharan Africa: Implications for Firm Growth and Investment,” *Journal of African Economies*, Vol.10, 109-142.

Frederick, W. C. 1994. From CSR1 to CSR2 the maturing of business-and-society thought. ***Business & Society***, 33(2): 150-164.

Freeman, R. E., & McVea, J. 2001. ***A stakeholder approach to strategic management***.

Friedman, A. L., & Miles, S. 2001. Socially responsible investment and corporate social and environmental reporting in the UK: an exploratory study. ***The British Accounting Review***, *33*(4): 523-548.

Frooman, J. 1999. Stakeholder influence strategies. ***Academy of management review***, 24(2): 191-205.

Hart, O. 1995. Corporate governance: Some theory and implications. ***The economic journal***: 678-689.

Jensen, M. C. 2001. Value maximization, stakeholder theory, and the corporate objective function. ***Journal of Applied Corporate Finance***, 14(3): 8-21.

Jensen, M. C., & Meckling, W. H. 1979. ***Theory of the firm: Managerial behavior, agency costs, and ownership structure.*** Springer.

Jones, T. M. 1995. Instrumental stakeholder theory: A synthesis of ethics and economics. ***Academy of management review***, 20(2): 404-437.

Jones, C., W. Hesterly and S. Borgatti. 1997. “A General Theory of Network Governance: Exchange Conditions and Social Mechanisms.” *Academy of Management Review*, Vol.22(4): 911-945.

Lamdin, D. J. 2001. Implementing and interpreting event studies of regulatory changes. ***Journal of economics and business***, 53(2): 171-183.

Leonard, A. 2008. “What color are Chinese South Africans? According to the country's High Court, they are now considered "black".” URL: <http://www.salon.com/2008/06/19/chinese_declared_black/> Published by Salon, June 19, 2008

Mangaliso, M.P. & Mangaliso, N.A. 2013. Transformation to an equitable socioeconomic dispensation: Observations and reflections on South Africa. ***Journal of Black Studies***, 44(5): 529-546.

Margolis, J. D. and Walsh, J. P. (2001). Misery Loves Companies: Whither Social Initiatives by Business? ***Harvard Business School: Social Enterprise Series,*** No. 19

McFarlin, D. M., Coster, E. A., & Mogale-Pretorius, C. (1999). South African management development in the twenty-first century: Moving toward an Africanized model. ***Journal of Management Development***, 18, 63-78.

McGuire J. B., Sundgren A. and Schneeweis T. (1988). Corporate Social Responsibility and Firm Financial Performance. *Academy of Management Journal* 31(4):854–872

McWilliams, A. and D. Siegel 1997. “Event studies in management research: Theoretical and empirical issues”, *Academy of Management Journal*, 40(3): 626-657.

McWilliams, A., D. Siegel and S. H. Teoh, 1999. Issues in the use of the event study methodology: A critical analysis of corporate social responsibility studies, ***Organizational Research Methods***, 2(4): 350–372.

McWilliams, A., & Siegel, D. 2000. Corporate social responsibility and financial performance: Correlation or misspecification? ***Strategic Management Journal***, 21(5): 603-609.

McWilliams, A., & Siegel, D. 2001. Corporate social responsibility: A theory of the firm perspective. ***Academy of management review***, 26(1): 117-127.

McWilliams, A., Siegel, D. S., & Wright, P. M. 2006. Corporate social responsibility: Strategic implications\*. ***Journal of management studies***, 43(1): 1-18.

McWilliams, A., Siegel, D., & Teoh, S. H. 1999. Issues in the use of the event study methodology: A critical analysis of corporate social responsibility studies. ***Organizational Research Methods***, 2(4): 340-365.

Meyer, J. W., & Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. ***American journal of sociology***: 340-363.

Meznar, M. B., Nigh, D., & Kwok, C. C. 1998. Announcements of withdrawal from south africa revisited: Making sense of contradictory event study findings. ***Academy of Management Journal***, 41(6): 715-730.

Mitchell R. K., Agle B. R. and Wood D. J. (1997). “Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts.” *Academy of Management Review* 22:853–886

Orlitzky M., Schmidt L. F. and Rynes S. L. (2003). “Corporate Social and Financial Performance: A Meta-analysis.” *Organization Studies* 24(3):403–441

Preston, L. E. 1990. Stakeholder management and corporate performance***. Journal of Behavioral Economics***, 19(4): 361-375.

Posnikoff, J. F. 1997. Disinvestment from South Africa: They did well by doing good. ***Contemporary Economic Policy***, 15(1): 76-86.

Roberts, R. W. (1992). Determinants of corporate social responsibility disclosure: an application of stakeholder theory. ***Accounting, Organizations and Society,*** 17(6): 595-612.

Rowley, T. J. 1997. Does relational context matter? An empirical test of a network theory of stakeholder influences. ***Research in stakeholder theory***, 1998: 21-37.

Scholtens, B. 2008. A note on the interaction between corporate social responsibility and financial performance. ***Ecological Economics***, 68(1): 46-55.

Sethi, S. P. 1979. A conceptual framework for environmental analysis of social issues and evaluation of business response patterns. ***Academy of Management Review***, 4(1): 63-74.

Siegel, D. S., & Vitaliano, D. F. 2007. An empirical analysis of the strategic use of corporate social responsibility. ***Journal of Economics & Management Strategy***, 16(3): 773-792.

Swanson, D. L. 1999. Toward an integrative theory of business and society: A research strategy for corporate social performance. ***Academy of Management Review***, 24(3): 506-521.

Teoh, S. H., Welch, I., & Wazzan, C. P. 1999. The effect of socially activist investment policies on the financial markets: Evidence from the South African boycott\*. ***The Journal of Business***, 72(1): 35-89.

Savage G. T., T. H. Nix, C. J. Whitehead, & Blair J. D. 1991. Strategies for Assessing and Managing Organizational Stakeholders.” ***Academy of Management Executive*** 5(2):61–75

Scott, J. 1991. “Networks of Corporate Power: A Comparative Assessment” *Annual Review of Sociology*, Vol. 17, 181-203.

Scott, W.R. 1995. *Institutions and organizations*. Thousand Oaks, CA: Sage Publications.

Scott, W.R. 2001. *Institutions and Organizations*, 2nd ed. Thousand Oaks: Sage Publications.

Scott, W. R. 2005. Institutional theory: Contributing to a theoretical research program. K. G. Smith, M. A. Hitt, eds. *Great Minds in Management*. Oxford University Press, Oxford, UK, 460–484.

Sethi, S. P. 1979. A conceptual framework for environmental analysis of social issues and evaluation of business response patterns. ***Academy of Management Review***, *4*(1): 63-74.

Sherer, P.E. & Lee, K. 2002. “Institutional change in large law firms: A resource dependency and institutional perspective”. ***Academy of Management Journal*** 45: 102-119.

Siegel, D. S., & Vitaliano, D. F. 2007. An empirical analysis of the strategic use of corporate social responsibility. ***Journal of Economics & Management Strategy***, *16*(3): 773-792.

Swanson, D. L. 1999. Toward an integrative theory of business and society: A research strategy for corporate social performance. ***Academy of Management Review***, *24*(3): 506-521.

Teoh, S. H., Welch, I., & Wazzan, C. P. (1999). The Effect of Socially Activist Investment Policies on the Financial Markets: Evidence from the South African Boycott\*. ***The Journal of Business***, *72*(1): 35-89.

Thornton, P.H. & Ocasio, W. 2008. “Institutional Logics”. In Royston Greenwood, Christine Oliver, Kerstin Sahlin and Roy Suddaby (eds.) Handbook of Organizational Institutionalism, CA: Sage.

Waddock S. A. and Graves S. B. 1997. The Corporate Social Performance–Financial Performance Link. ***Strategic Management Journal*** 18: 303–319

Williamson, O. E. 1964. ***The Economics of Discretionary Behavior: Managerial Objectives in a Theory of the Firm,*** Prentice-Hall, Englewood Cliffs, NJ

Windsor, D. 2001. “***Corporate Social Responsibility: A Theory of the Firm Perspective": Some Comments***.

Wolmarans HP, Sartorius K. 2009. Corporate social responsibility: The financial impact of black economic empowerment transactions in South Africa. ***South African Journal of Economic and Management Sciences (SAJEMS)***, 12 (2): 180-193

Wood, D. 1991. Corporate social performance revisited. ***Academy of Management Review***, 16: 691-718.

Woolsey Biggart, N. & M.F. Guillen. 1999. Developing Difference: Social Organization and the Rise of the Auto Industries of South Korea, Taiwan, Spain and Argentina. ***American Sociological Review****,* Vol. 64(5): 722-747.

Wright, P., & Ferris, S. P. 1997. Agency conflict and corporate strategy: The effect of divestment on corporate value. ***Strategic Management Journal***, 18(1): 77-83.

Wright, P., Ferris, S. P., Hiller, J. S., & Kroll, M. 1995. Competitiveness through management of diversity: Effects on stock price valuation. ***Academy of Management Journal***, *38*(1): 272-287.

**Table 1: Time Periods for the abnormal Returns**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Event 1 | Event 2 | Event 3 | Measure of AR |
| t0i | case won | gazetting | signing |
| Event date | July 2008 | Dec 2011 | Feb 2012 |
| Months Relative to Event | -6 to +6 |  |  | R1 |
| -6 to +41 |  |  | R2 |
|  | -12 to +2 |  | R3 |
|  | -4 to +4 |  | R4 |
|  |  | -2 to +2 | R5 |
|  |  | -10 to +10 | R6 |

**Table 2: Final sample sizes**

|  |  |  |
| --- | --- | --- |
| Event Period | Number of months | Number of firms |
| 1 | 48 | 63 |
| 2 | 15 | 65 |
| 3 | 21 | 64 |

**Table 3: Estimated Equation 1 coefficients**

|  |  |  |  |
| --- | --- | --- | --- |
| Event Period | *α* | *β* | Mean *Rmt* |
| 1 | -0.001903 | 0.727802 | 0.004924 |
| 2 | -0.001874 | 0.61878 | 0.010103 |
| 3 | -0.000456 | 0.623335 | 0.011219 |

**Table 4: Model Results**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Event | Sector Coefficient | BEE Coefficient | CAR | Z |
| R1 | 0.001639\*\*\* | 1.45E-05 | 0.00965 | 0.50385 |
| R2 | 0.00057\*\* | -6E-05 | 0.024466 | 0.50976 |
| R3 | -0.00012 | 0.000149\* | 0.060432 | 0.524094 |
| R4 | -0.0004 | 5.77E-05 | 0.03867 | 0.515423 |
| R5 | -0.00125\*\* | 0.000419\*\*\* | -0.04352 | 0.482643 |
| R6 | 8.96E-05 | 0.00017\*\* | 0.059515 | 0.523729 |

\*\*\*p≤0.01

\*\* p≤0.05

\* p≤0.1

1. In Africa, particularly in southern Africa, mixed race people are referred to as “Coloureds”. [↑](#footnote-ref-1)