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Black Economic Empowerment Transactions in South Africa: Understanding When Corporate Social Responsibility May Create or Destroy Value

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Why can some firms create value from a particular corporate social responsibility (CSR) action while other firms destroy value from the same type of CSR action? This study explores this question in the context of Black Economic Empowerment (BEE) in South Africa. BEE has helped to drive the transformation in the economic, political and social landscapes of post-apartheid South Africa. It strives to increase black wealth through the sale of an equity stake in a company to black empowerment groups. Thus, BEE appears to represent corporate social responsibility that benefits the previously disadvantaged population. This inductive study investigates whether BEE can represent a value-creating CSR action and under what conditions. We explore the economic impact of BEE for the shareholders and find that South African firms that engaged in BEE transactions that were completed at a discount experienced positive and significant average shareholder returns. However, the firms that engaged in BEE transactions that were completed at a premium experienced negative and significant average shareholder returns. Furthermore, for empowerment deals completed at a discount, the size of the equity stake was positively associated with shareholder returns. Our analysis suggests that the CSR aspects of BEE deals created value when pursued in earnest, but destroyed value otherwise. We offer several implications from our findings for managers. We also link the insights from our findings to implications for stewardship theory, signalling theory and broader CSR perspectives.

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Introduction

Corporate social responsibility (CSR) has been defined as "…any discretionary corporate activity intended to further social welfare" (Barnett, 2007) and "…actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams and Siegel, 2001). Yet, beyond social benefit considerations, firms experience varying degrees of positive and negative performance associated with their CSR actions. Given the pressure on firms from stakeholders regarding CSR, understanding why some firms create value from a specific CSR action while other firms destroy value from the same CSR action is critical.

Black Economic Empowerment (BEE) transactions in South Africa appear to represent actions of CSR. BEE transactions, encouraged by the South African government, involve the sale of equity stakes of firms to black investors or consortia. Since 1994, over R150bn-worth of BEE deals have been concluded, although this is a conservative estimate as many deals involve private companies and details are not provided (Shubane and Reddy, 2005). BEE deals further the goals of the South African government to improve the wealth of the black majority, to aid in the development of a black middle class and to develop the knowledge and skills of the black majority. While the government has been actively encouraging BEE by pushing for industry charters involving BEE quotas, as well as by instituting requirements for BEE activity when conducting business with the state, BEE deals are not required. Thus, BEE transactions appear to serve as a vehicle to accomplish social benefits.

BEE deals may also offer potential economic gains to participating firms (Husted, 2003; Husted and Allen, 2007). Potential value creation from BEE deals include access to government contracts, increased social capital with black empowerment groups, access to new market opportunities and enhanced reputation with the black majority. All of these benefits may offer participating firms the chance to generate new business. However, BEE deals are expensive and can increase the business risk of participating firms, thereby reducing future cash flows. This study explores the economic impact of BEE deals from a CSR perspective, investigating possible drivers of value creation or value destruction.

Knowledge of key aspects of the South African context is critical in order to understand BEE and its CSR implications. Because of apartheid, prior to 1993 almost all South African firms were owned by white investors. By 1995, blacks still owned less than 1 per cent of the total market value of the Johannesburg Stock Exchange (JSE) (Cargill, 1999), a fact that is even more amazing when one considers that in 1998 the JSE was the seventeenth largest stock exchange in the world (in terms of market capitalisation) and constituted almost 90 per cent of the entire continent's capitalisation (including Egypt) (International Finance Corporation, 1999). To increase the participation of blacks in the ownership of major industrial firms, BEE was introduced by the new South African government headed by President Nelson Mandela. BEE has transformed the economic, social and political landscape in South Africa. The aim of BEE is to increase the share of black ownership and to increase the wealth of the black majority (Van Wyk et al., 2004).

Given the importance of the BEE movement as an instrument of achieving power for the black majority in South Africa, the South African business press was diligent in reporting BEE deals as they occurred. In its extensive coverage, the business press suggested that BEE deals might be pursued either for motivations of promoting the greater good or self-interested economic reasons, or both (Cargill, 1999; Cargill et al., 1996; *The Economist,* 1997; Haddock, 1999; Kamm, 1994). This suggests that the motivations behind BEE deals may vary considerably, in similar ways to other CSR actions in the broader CSR-financial performance debate. This paper explores how the motivations of BEE deals, discernible from attributes of the deal, may impact the economic performance of BEE deals. We examine the link between motivations behind the BEE deal and the deal attributes, including deal pricing, equity stake involved and timing. With a dataset of 64 transactions, which represents the population of BEE deals for which the required information was available, this study is exploratory in nature, rather than confirmatory. We examine the investor reaction to announcements of BEE deals. Thus, we answer the following question: Can BEE transactions represent