

The copyright of this thesis vests in the author. No quotation from it or information derived from it is to be published without full acknowledgement of the source. The thesis is to be used for private study or non-commercial research purposes only.

Published by the University of Cape Town (UCT) in terms of the non-exclusive license granted to UCT by the author.

THE VALUE PROPOSITION OF BLACK ECONOMIC EMPOWERMENT
TRANSACTIONS ON SOUTH AFRICAN COMPANIES

A RESEARCH THESIS TO BE PRESENTED TO THE
DEPARTMENT OF ACCOUNTING
UNIVERSITY OF CAPE TOWN

IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
MASTERS OF COMMERCE
IN FINANCIAL MANAGEMENT

By

MICHAEL MILLER
(MLLMIC026)

Free from Plagiarism Declaration:

1. I know that plagiarism is wrong. Plagiarism is to use another's work and pretend that it is one's own.
2. I have used the Harvard UCT convention for citation and referencing. Each contribution to, and quotation in, this partial dissertation from the works of other people has been attributed, and has been cited and referenced.
3. The submission of this partial dissertation is my own work.
4. I have not allowed, and will not allow, anyone to copy my work with the intention of passing it off as his or her own work.
5. I acknowledge that copying someone else's assignment or essay, or part thereof, is wrong, and declare that this is my own work.



Signature:

Michael Miller

MLLMIC026

August 20 1

Definition of Key Acronyms:

1. APT – Arbitrage Pricing Theory;
2. AR – Abnormal Returns;
3. BBBEE - Broad Based Black Economic Empowerment;
4. BEE - Black Economic Empowerment;
5. BHAR - Buy and Hold Abnormal Returns;
6. CAR - Cumulative Abnormal Returns;
7. CAAR - Cumulative Average Abnormal Returns;
8. CAPM - Capital Asset Pricing Model;
9. CGP - Codes of Good Practice;
10. E&Y - Ernst & Young;
11. FDI - Foreign Direct Investment;
12. JSE - Johannesburg Stock Exchange;
13. M&A - Mergers and Acquisitions; and
14. SPV - Special Purpose Vehicle.

Abstract:

The purpose of this study is to evaluate the financial impact of Black Economic Empowerment (BEE) transaction announcements on shareholder value. The study investigated 49 BEE transactions (classified as 28 disposals, 9 acquisitions, 9 employee share schemes and 3 broad based schemes) over a testing period of 72 months between 2000 and 2008.

The results of the full sample suggests that investor sentiment is positive regarding BEE announcements as is seen by the positive CAAR's at event date of 0.84% and months +12 of 2.52%. However, when controlling for size and transaction type the degree of positivity varies.

Small cap companies outperform large cap companies. The results suggest that small cap companies tend to favour acquisitions as a means of improving their BEE credentials. Thus the better results of small cap companies is driven by the fact that acquisitions create the most value over the long term, with a 36 month CAAR of 4.42%. ESS schemes are considered value destroying as ESS earn negative CAAR's throughout the testing period to +36 months. The CAAR plots of both disposals and BBBEE share many similarities and this is expected because in fundamental structure they are the same. The CAAR plot of BBBEE schemes however is more positive over the event period to +21 months. Although both earn positive CAAR's, BBBEE creates more value over the same time period. This indicates that the market has a more positive outlook on and rewards companies that engage in broad based schemes.

Companies should look to employ an investment type approach only when looking to invest in BEE. This will ensure that BEE commitments conform with current business operations and as such act as a catalyst in creating value.

Table of Contents

Definition of Key Acronyms:	3
Abstract:	4
Chapter 1: Introduction	6
1.1 Overview	6
1.2 Study Aims and Objectives:.....	9
1.3 Understanding Ownership Transactions - Mergers and Acquisitions	10
1.4 Setting the scene: Ownership restructuring since 1895	16
1.6 The Concept of Black Economic Empowerment.....	18
1.7 Black Economic Empowerment’s Impact on Business	21
Chapter 2: Literature Review	24
2.1 General.....	24
2.2 Academic Studies.....	31
2.3 South African Studies	41
2.4 BEE Studies	43
Chapter 3: Methodology	46
3.1: Abnormal Returns.....	46
3.2: Benchmark.....	49
3.3: Hypotheses.....	51
Chapter 4: Data	52
4.1: Extracting the Data	52
4.2: Defining Black Economic Empowerment Announcements	53
4.3: Research Methodology	56
Chapter 5: Results	59
5.1 Hypothesis 1:	59
Chapter 6: Conclusion:	71
Appendices.....	74
Appendix A: Final Sample.....	74
Chapter 7: Bibliography:.....	76

Chapter 1: Introduction

1.1 Overview

The purpose of this study is to evaluate the financial impact of Black Economic Empowerment (BEE) transaction announcements on shareholder value. Companies invest in BEE to improve their BEE credentials thereby improving their corporate image and unlocking increased future operational opportunities. Regardless of their form, BEE transactions represent both an investment and financing decision to the company which usually result in large changes in company ownership. This study looks to evaluate the impact of BEE announcements by analysing the share price reaction at announcement date, +12 months, +24 months and +36 post announcement dates – noting that share price changes are driven by shareholder sentiment.

For the purposes of this study, the impact of BEE transactions on shareholders will be compared to that of other ownership transactions. Mergers and acquisitions (M&A) account for the majority of ownership transactions and as such the impact of BEE transactions on shareholder value will be compared to similar M&A studies.

BEE transactions cannot be strictly classified as mergers or acquisitions because BEE transactions also include the disposal of shares to BEE partners. However the underlying principle is the same in that they all result in large changes in ownership. Thus given that the purpose of the study is to evaluate the impact on shareholders of the transaction itself, the linkage to similar M&A studies is appropriate.

BEE deals typically involve the acquisition or formation of new BEE entities, or the disposal of ownership to BEE partners. The mechanics of each transaction may vary however the end goal is the same in that they all look to transfer ownership to BEE participants. For the most part BEE transactions can be categorised into the following:

- 1.1.1. Acquisitions – Companies acquire or form new BEE companies or joint ventures in order to improve the company's or group's BEE credentials. Acquisitions would typically derive BEE points from all elements of the scorecard, other than from the transfer of ownership;
- 1.1.2. Disposals – Companies sell off equity, usually at a discount to market prices, to BEE partners. Throughout the 1990's this was common and involved a few large BEE consortiums such as the Mvelaphanda and PEU Groups. Typically these groups were not considered to be broad based and as such wide spread ownership was limited to only a few. Special purpose vehicles (SPV's) were used to structure these deals where the company would transfer shares to the SPV. The BEE participant would leverage the shares against the underlying loans and would look to pay off the loan through any dividends paid. This type of transaction, where only an elite few gained, was not sustainable as post 2000 there was a much bigger drive by government to make these deals more broad based;
- 1.1.3. Broad Based Black Economic Empowerment Schemes (BBBEE) - BBBEE deals involve shares being on offer to qualifying BEE participants, usually broad based groups or the public, at a discount to market prices. The imperative being that transactions need to be broad based with widespread ownership; and
- 1.1.4. Employee Share Schemes (ESS) – The rationale for these schemes is the transfer of ownership to existing employees. These schemes were used to incentivise employees work performance.

Other than with acquisitions, the underlying principle is the same in that ownership, regardless of price, has been transferred to BEE participants. Acquisitions result in an indirect transfer of ownership, because the new BEE Company or joint venture results in greater black ownership – ownership that would not have been obtained without the deal.

In order to fully understand and evaluate the value proposition of BEE announcements it is important to analyse how investors have reacted to other similar announcements – such as with other M&A announcements. Given the similarities and linkages between BEE deals and M&A, investor reaction to M&A announcements will be used as a base for comparison purposes.

What is important is that shareholder sentiment determines the value creation, if any, of mergers, acquisitions and disposals. It is this sentiment that we look to evaluate to determine the impact of BEE transactions - because investor sentiment is indifferent between the forms of the transaction.

Due to the fact that BEE is a relatively new phenomenon in South Africa (SA), there are few published studies that evaluate the financial implications of BEE transactions on shareholder value. Before focussing specifically on BEE transactions, it is useful to consider the nature of traditional ownership transactions. The successful strategies and business models which create value in ownership transactions will generate a framework on which successful BEE transactions will be modelled. The study also considers the common factors underlying BEE deals that have failed as well as those factors underlying deals that have succeeded. This will ensure that not only do we have a comprehensive understanding of what was required for successful ownership transactions in general but critically why certain BEE deals have failed.

1.2 Study Aims and Objectives:

The purpose of this study is to evaluate the impact of BEE transactions on shareholder value. As mentioned previously, there are limited studies in this area. The majority of these studies have limitations such as small samples sizes and simplified methodology. Ward and Muller (2010) examined the impact of BEE announcements on the share price movements of companies listed on the Johannesburg Stock Exchange (JSE). They used robust standard event study methodologies that have withstood academic scrutiny. Their research examined 188 announcements and they found a positive cumulative abnormal return (CAR) of approximately 10% for the first year post announcement. This positive return was confined to smaller companies with market capitalisation of less than R3.5 billion, whilst larger companies showed a marginally negative cumulative return.

This study looks to extend the work performed by Ward and Muller (2010) by evaluating the financial implications of BEE announcements over a longer period of time (3 years). Analysing the results over a period of 3 years from announcement date will allow this study to determine the following:

1. Whether the market has a positive or negative sentiment to the announcement of a BEE transaction for the acquiring firm. This will be established by evaluating the cumulative abnormal returns around the announcement date; and
2. Whether the cumulative abnormal returns are retained over the following three year period.

1.3 Understanding Ownership Transactions - Mergers and Acquisitions

M&A studies will be incorporated into this study for comparison purposes due to the similarities between BEE and M&A transactions, being large transfers of ownership. For this reason further understanding of M&A transactions is required.

Globally, and certainly from a South African point of view, the terms merger, acquisition and takeover are used interchangeably. While there are technical differences that have been established for accounting and legal purposes, however from an economic stand point they are not easily distinguished.

It is the characteristics of the underlying transaction that are somewhat different. Mergers are typically considered “friendly” transactions, whereas takeovers, usually in the form of tender offer, tend to be more aggressive in nature. This distinction is made even more subjective, as the difference is often based on the relationships between the acquiring and incumbent management. Where the management style involves the domination of the target management, then typically the transaction would be considered a takeover. This is often the case where one of the factors driving the transaction was considered to be the inefficiency and incompetence of the target management. Where transactions result in both management teams working together, as equals, then the transaction is typically described as a merger. BEE transactions cannot inherently be considered hostile and as such the majority of BEE acquisitions would be considered mergers. However, for the rest of this study, these transactions will be globally referred to as M&A, and simply describe the transaction where one company (the acquirer) takes over another company (the target).

M&A are typically classified into three different categories; horizontal, vertical and conglomerate transactions. Strategically, horizontal BEE transactions allow the combined firm to achieve synergistic efficiencies through market power and/or economies of scale. Companies with higher BEE profiles result in a greater market power because of the additional potential benefits of being more BEE compliant. Greater BEE profiles result in reduced competition. Economies of scale might be achieved through the streamlining of similar operations and knowhow. Vertical M&A refers to transactions which enable the company to capture or control the production process. Upward transactions refer to the

acquisition of suppliers which guarantees supply and downward transactions refer to the acquisition of customers. Thus the pioneering BEE firm has the potential to have a far greater degree of control over the whole supply chain. ('Arnold, 2005b)

Companies looking to expand have the option of growing internally (organically) or externally. Organic growth, being less risky, is a slower means of increasing business capacity whilst external growth via M&A allows for rapid expansion. The uncertainty of M&A's makes them risky, but offers management a faster means of achieving their goals. Strategically, BEE deals could offer the same level of growth with a reduced level of risk. This would be the case where companies purchase the minority interests in established BEE compliant companies.

M&A strategy, specifically including BEE, allows the unlocking of synergies that the stand-alone non BEE compliant company would not have access to. If carefully selected, although not exhaustive, the following synergies might be unlocked:

- 1.3.1. Economies of scale: The combined BEE company allows for efficiencies to reduce their per units costs. The increased size and improved BEE profile will afford the company more negotiating powers with suppliers;
- 1.3.2. Reduced fixed costs: Any unwanted or non-value adding assets can be sold. It might be the case that there are duplicate buildings, production lines and staffing that are no longer required and as such the operations can be streamlined to achieve all round efficiencies;
- 1.3.3. Increased market share: The increased size and improved BEE profile will result in the elimination of potential competitors results in increased market share and might enable the company to exercise more control in setting prices;
- 1.3.4. Efficient resource distribution: Allows for the transfer of resources – knowhow and spare capacity in production lines etc.;
- 1.3.5. Entry to new markets and industries: By the pooling of resources, increased market share and the improved BEE profile the new BEE firm will have access

to new and greater markets (both geographic and product). At the same time re-enforcing the barriers to entry; and ('Arnold, 2005b; 'Terjesen)

1.3.6. Identification of locked potential: The acquirer might identify a target as having potential due to the following financial and non-financial factors:

1.3.6.1. Excess cash reserves, which if the acquirer had control over then would facilitate a better working capital structure; and

1.3.6.2. The target might have incompetent management and thus the restructuring of staff might improve financial performance and production efficiencies.

The majority of M&A deals fail to achieve their original expectations yet over the last century we have seen a dramatic growth in both the number and value of transactions. This begs the questions—what motivates management to adopt an acquisition growth strategy given the risks involved despite the fact that achieving pre-deal objectives are unlikely? The Neo-classical theory of the firm, dating back to the 18th and 19th centuries, suggests that managers of businesses looked to maximize profits so as to maximize shareholder wealth. This is a theory that is widely used today to describe the motives of management. However there are other factors that require consideration when applying this theory. In the Neo-classical era, the majority of business operations were simple and were mostly owner managed. Management and owners were one, and as such their goals and objectives were aligned. Thus maximising profits for the business meant a maximisation of wealth for the owner.

Today's business is more complex. Typically larger companies are publicly listed and as such there is a split between management (i.e. directors) and owners (i.e. shareholders). Shareholders are looking for management to make investment decisions that increase shareholder wealth (via the impact on share prices). Management's objectives and motives may be different if they do not have a vested ownership in the company. Management incentive programs are driven by company growth in sales, total profits and assets. Thus these drivers are key to the underlying reasons for entering into M&A transactions. Although not exhaustive, other managerial motives might include agency theory, power of bondholders, empire building, status, recognition and power. The hubris hypothesis suggests that greed and the over-confidence of management lead to poor investment decision making.

Mistakes are often made by management thinking that they can outsmart the market. (Roll, 1986)

The motives and objectives of management and shareholders would be aligned if the incentives were profit based on indicators such as earnings per share or return on assets. Thus logic would suggest that in scenarios where management hold equity, their investment strategies should be based on profit maximization.

Bhana (1982) evaluated the motives of the SA's top 100 firms to determine what their takeover objectives were. The results show that 51.6% of the top 100 companies listed on the JSE focussed on growth which suggests that management utility is of greater importance than the maximization of profit. The research concluded that growth maximization was acceptable if it was a short term strategy and that unless profit maximization was the long term objective then there would be a conflict between the interests of the shareholder and that of management. In another study, Bhana (1983) evaluated the different valuation techniques used by the top 100 companies in valuing potential takeover targets. The results of this study show that the discounted cash flow technique was not used as a primary means of valuing target companies. This result is anomalous given that it is widely accepted that free cash flow valuations are robust. Bhana (1983) concluded that from the results that it was evident that management did not view acquisitions as an alternative investment option to internal capital projects. Thus M&A deals typically were not analysed to ensure the efficient allocation of resources thus increasing the risk that M&A's were not profitable.

On the basis of these research results, investors should weigh up the motives of management against the access they may have to inherent business or industry knowledge that investors may not have. Growth simply for growth purposes results in inefficiencies and poor utilisation of resources. However strategic growth, driven by profit maximisation objectives, creates value for the shareholder. Strategic growth with BEE partners provides a platform for greater business opportunities and as such offers companies greater profit maximization potential. Thus in today's business environment, the objectives of both management and shareholders can be aligned – but must be carefully monitored.

With most M&A transactions not achieving pre-deal expectations it is important to understand the potential reasons for the successes and failures. ('Sadler, 2009)The primary reasons for M&A failures are:

1. The payment of excessive premiums erodes any value created through the transaction. This might be as a result of a Hubris effect, where over confident management believe that they know better than the market in terms of the pricing of targets; (Roll, 1986)
2. Identifying inappropriate target companies based on flawed value creation logic. This refers to scenarios where synergistic benefits are not realised because the target company never possessed the potential for synergy. This would include BEE deals where the benefits of BEE would be unattainable;
3. Leadership crisis when there is a struggle for power between the management of the acquiring company and the target;
4. In M&A transactions there is often the merging of multiple differing cultures. The inability to manage these organisational differences results in a lack of integration and efficiency;
5. The inability to integrate information technology systems and processes within the merged firms. The stand-alone firms might well have efficient systems and processes, however the systems may be very different and as such require a large investment and time to integrate;
6. Poor financial planning and due diligence might result in the valuation of the target being based on incorrect numbers;
7. Acquisition strategies are often not appropriate and as such impact the execution of the deal. Poorly executed deals increase the likelihood of failure; and
8. The economic climate is a key driver of M&A success. Boom period promote deal success whereas recessionary periods increase the chances of deal failure. Large deals take a long time to implement and as such there is a significant lag between

conceptualisation and consummation and as such markets can change within the interim. Thus probability of deal success is increased if timed correctly.

Given the above mentioned causes of failure, what then drives success?

Firstly, the financial planning and due diligence numbers need to be correct. If these numbers are not correct, incorrect investment decisions might be made. Secondly, when the acquiring company has satisfied itself as to the desirability of the investment opportunity it is vital that the deal is aligned with their acquisition strategy. Thirdly, consideration must be given to how the integration of the two businesses will happen.

To ensure successful integration, the following must be addressed:

1. The acquirer needs to gain control over the performance and cash management of the target. Operating policies and reporting requirements need to become more stringent in terms of the timing and content. This is particularly important when the target's management has been identified as being weak;
2. The acquirer needs to ensure a fast and effective integration of systems and processes. The managerial processes need to be brought in line with those of the acquiring company. These would include; business planning, budgeting, capital expenditure and human resource management. The acquirer would effectively need to remove some level of autonomy until they were satisfied that their systems and processes were 100% compatible;
3. Leadership change must be fast and efficient and as such avoiding any clashes for power. If this is done properly with the right people in the right places, then integration and business risks will be reduced; and
4. The core reasons for the acquisition must be clearly understood and must facilitate and drive the transaction and thinking throughout the process. The most important reason for an acquisition is the creation of value. This value need not necessarily be financial, but whatever was the reason, it must remain fundamental to the whole deal. The underlying motives supporting the acquisition must not be forgotten.

1.4 Setting the scene: Ownership restructuring since 1895

The concept of merging two firms has been around almost since the start of formalised business. It all started with the Great Merger movement, which took place from 1895 to 1905 in the United States of America (US), where small companies producing homogeneous products looked to create bigger, more efficient production lines. Since then, the global economy has seen a number of M&A waves. Although these waves have occurred throughout the 20th century, they are individually very different and differ between various industries and characterised by unique drivers and changes to their business operating environments. These primary catalysts for change seen in the 20th century include; globalization, advancements in information technology, supply and/or demand changes, deregulation and the change in world power and subsequent political relationships.

The M&A waves that occurred during the early parts of the 20th century were typically either horizontal (buying similar) or vertical mergers (buying into the supply chain). The first wave took place between 1895 and 1905 and focussed on horizontal transactions.

The latter period was dominated by the two World Wars and the absolute necessity to achieve the sufficient supply of armaments. The companies who supplied the war effort were typically heavy manufacturing businesses that enjoyed monopolistic powers in their respective industries. The majority of these companies failed when peace resumed as a result of falling demand.

The economic boom that followed the end of World War 1 was the primary driver for the second wave which took place between 1916 and 1929. The majority of these mergers were vertical and were oligopolistic in nature as anti-trust laws of this era restricted monopolistic transactions as such efficiencies within the production process were sought. The stock market crash in 1929 saw the end of the second wave.

The Great Depression and the start of World War 2 subdued M&A activity, until the third wave peaked between 1964 and 1969. This period of M&A activity was dominated by conglomerate mergers, where managers sought economies of scale through diversified products using similar production lines and knowhow. The third wave of M&A was

characterized by companies acquiring targets far bigger than themselves. This was a period where there were a significant number of transactions relative to the number of publicly available targets, far more than the number of deals concluded in the 1980's. ('Andrade, 'Mitchell & 'Stafford, 2001)

The fourth wave was characterized by the acquisition of large targets, with nearly 15% of all transactions being in the form of hostile takeovers. Thus, in value terms this decade was far more significant than the 1960's, as the value per transaction was far higher. It signified an era of massive asset relocation which ended in 1990 with the onset of the Gulf War and the collapse of the US junk bond market. ('Andrade, 'Mitchell & 'Stafford, 2001)

Fuelled by globalization and the deregulation of markets, the fifth M&A wave, consisting mainly of cross-border activities, took place between 1992 and 2000. This was a period of increased M&A activity which is significant as the number of deals was equivalent to that experienced in the 1960's with transactional values matching those of the 1980's. ('Andrade, 'Mitchell & 'Stafford, 2001) The 2000 collapse of the information technology (IT) bubble and crash of global stock market ended the 1990's M&A boom.

It took the crash of 2000 nearly two years to show any form of recovery, but from 2003 to 2007, global M&A has been rampant. The sixth wave covers the majority of the period covered by this study. The principle drivers of this wave were; globalization, the rise in commodity and share prices, availability of cheap financing and shareholder activism - all of which led to a significant growth in private equity funds and an increased number of varying management buyouts. In 2007, global M&A reached an all-time high of USD4 trillion with SA M&A reaching USD72.8 billion (R514 billion) and SA BEE M&A reaching USD13.6 billion (R96 billion). (Ernst & Young, 2009) Throughout this time market capitalisation of stock markets world-wide were peaking and company executives in SA were able to sell non-core companies within their groups at attractive prices. This was especially the case for BEE consortia which had easily accessible funding. The banking crisis was one of the primary reasons for the collapse of the world economy in 2008. The limited supply of financing available to private equity funds slowed M&A activity generating the end of the sixth wave.

1.6 The Concept of Black Economic Empowerment

Apartheid was a system that looked to suppress the rights of non-white South Africans by promoting and securing the rights of the minority. The regime was officially imposed by the National Party (NP), between 1948 and 1994, in a system that was designed to enforce mass racial segregation. The concept of racial segregation was not new as in Africa it originated in the colonial era.

After the 1994 democratic elections, the Government's mandate was to redress the economic and social inequalities created by the Apartheid regime. In order to expedite this transformation process and to redress past disparities, new legislation was introduced. These laws aimed to make the private sector, which was primarily controlled by the white minority, more representative of the country's demographics.

Government (1994) drafted the Reconstruction and Development Programme (RDP) and furnished parliament with the "White Paper". The White Paper had the following six core principles:

1. Integration and sustainability: The RDP was to be an integrated and sustainable mechanism in order to overcome the effects of Apartheid;
2. People Driven: The RDP was not about the delivery of goods to citizens, but to get the citizens actively involved in the process of transformation and for them to become more self-sufficient;
3. Peace and security: The roll out of the RDP was to be peaceful;
4. Nation building: The emphasis being on one nation, contrary to the Apartheid ideals of multiple nations. This was evident in Nelson Mandela's approach to the 1995 Rugby World Cup;

5. Meeting basic needs and building the infrastructure: the RDP highlighted an infrastructural programme designed to bring modern and effective services such as, water and electricity etc. to areas without basic services; and
6. Democratisation: That the people affected must participate in decision making.

The RDP provided the overall blue print and guidance for the implementation of the country's BEE policies. By the late 1990's the impact of BEE had been limited and was well below original expectations. To promote and enhance BEE's implementation, the Black Economic Commission was formed in 1998. The Commission's directive was to formalise the BEE process and to establish benchmarks that would become business practice. In 2001, the BEE Commission Report was completed and set out the visions and strategies for the BEE policies.

By the end of 2003, there was still no formal framework in place for business to measure broad-based BEE. In 2004 the Broad-Based Black Economic Empowerment Act (2004) (BBBEE Act) was promulgated and used as a mechanism to promote the Codes of Good Practice (CGP) as set out by the various industry Charters.

“The intention of the Codes of Good Practice is therefore to level the playing field for all entities operating within the South African economy by providing clear and comprehensive criteria for the measurement of broad-based BEE.” (Department of Trade and Industry, 2007)

Section 10 of the BBBEE Act (2004) requires that government and public companies must apply the CGP when dealing with the following:

1. Issuing of licenses, concessions or authorisations;
2. Procurements;
3. Establishing qualification criteria for the sale of state-owned enterprises; and
4. Establishing criteria for the entering into partnerships with the private sector.

Thus the private sector would need to comply with the CGP in order to transact with government or public entities in order to tender for business, apply for licenses or concessions etc. Private companies would also benefit from preferential procurement

throughout the chain of supply based on their compliance levels and percentage allowances for procurement.

In order to measure compliance with the CGP, Section 8 of the BBBEE Act defines the generic scorecard. The Scorecard was created to measure compliance based on six different elements. They were initially proposed in 2003, but were later revised in 2007.

Element	2003 Weighting	2007 Weighting
Ownership	20%	20%
Management Control	10%	10%
Employment Equity	10%	15%
Skills Development	20%	15%
Preferential Procurement	20%	20%
Enterprise Development	10%	15%
Socio-Economic Initiatives	10%	5%

Based on the overall score of a business, as measured by the scorecard above, businesses are categorised in terms of their BEE compliance. The higher the points achieved or the lower the level obtained, the higher the BBBEE recognition level.

BBBEE Status	Qualification (Scorecard)	BBBEE Recognition Level
Level one	≥ 100 points	135%
Level two	≥ 85 points ≤ 100	125%
Level three	≥ 75 points ≤ 85	110%
Level four	≥ 65 points ≤ 75	100%
Level five	≥ 55 points ≤ 65	80%
Level six	≥ 45 points ≤ 55	60%
Level seven	≥ 40 points ≤ 45	50%
Level eight	≥ 30 points ≤ 40	10%
Non-compliant	< 30 points	0%

1.7 Black Economic Empowerment's Impact on Business

The test of our progress is not whether we add more to the abundance of those that have much; it is whether we provide enough for those that have too little” Franklin D Roosevelt - 2nd Presidential Address January 20, 1937 (2009).

In 1994, democracy demanded change in order to establish a viable means of redressing the inequalities created by the Apartheid regime. Knowing that the majority of the post-Apartheid economy was owned and controlled by the white minority, it was the white minority who were to face the biggest change. This invoked a widespread fear within the business community. In 1994 the RDP set out the blue print strategies for these policy changes but nothing followed that established practical guidelines for business. Although the Employment Equity Act and Prevention of Unfair Discrimination Acts were introduced in 1998 and 2000 respectively, they had little practical effect. It was only in 2001 that the BEE Commission formalised this and paved the way for the BBBEE Act of 2003. The result was that during the 7 years, between 1994 and 2001, business was unclear as to the practical business implications of BEE. This vagueness fuelled business's fear and negative sentiment of BEE.

As was to be expected, the introduction of the RDP brought about a significant amount of criticism. Critics argued that the implementation of BEE followed a very similar philosophy to that of Apartheid, where economic discrimination was based on race, culture and upbringing and as such would fuel the “brain drain”. Thus, the affirmative action program was seen as an extension of Apartheid and as such would have a negative impact on foreign direct investment (FDI). They further argued that over and above the high implementation costs, BEE would be ineffectual in redistributing wealth and would serve to benefit the politically connected elite.

“What is black empowerment when it seems to benefit not the vast majority but an elite that tends to be recycled.” Archbishop Desmond Tutu -BBC News (Tuesday, 23 November, 2004, 15:13 GMT)

Empowerdex, South Africa's leading BEE Rating and Advisory Company negated a number of the criticisms highlighted above, in two different surveys. The intention of the first study was to change the perception - that BEE had a negative impact on FDI. Qualitatively, the analysis clearly shows that FDI is strongly correlated to business and economic confidence and as such the usual mechanisms of attracting FDI, such as tax incentives and import duty exemptions etc., are largely ineffectual. McKinsey Global Institute reports that the primary drivers of FDI are strength of economic foundations, stability and the creation of strong brands. Thus a policy such as BEE would attract FDI rather than repel it. Quantitatively, the South African Chamber of Business (SACOB) reports that Business Confidence Index (BCI) has been increasing, from a low in September 1998 to the highs experienced in September 2004 and this positive influence can be seen in the growth in annual FDI since 2001. (Empowerdex, June 2005)

The second study looked to dispel the perception that the costs of BEE were excessive and unwarranted. Although simply put, the study qualitatively shows that the firms with higher BEE scores tend to perform better, in terms of profit margins, than firms with lower scores. This would not be the case if the costs of implementing BEE were excessive and unwarranted. (Empowerdex, September 2006)

Hoffman (2008) argues that although BEE is inevitable if SA is to redress the past inequalities, the fundamental flaws of BEE need to be addressed. Hoffman highlights a number of policy flaws.

Firstly, Apartheid's structural plan was to empower the Afrikaans nation and in doing so alleviate white poverty and strengthen support for the ruling party. Given that the beneficiaries of BEE have been the black elite few, there are no major differences between the principles of Apartheid and BEE.

Secondly, the focus of BBEE was on ownership and management and as such was problematic in that it created an artificial demand to fill quotas with inadequate skills. Given that Apartheid limited the education and skill sets available to non-whites, there was an obvious shortage of adequate skill to fill the quotas. Thus it was a trend of business to fill the necessary quotas for compliance purposes, but for representation purposes only and thus lacked true empowerment.

Thirdly, for BBBEE to be wider spread there needs to be mandatory compliance within the private sector. Currently the BBBEE Act relates to organs of state and public entities and as such the private sector is indirectly impacted. Thus the impact of BEE would be far wider spread if the private sector was included within the ambit of the Act.

Lastly, BBBEE has been ineffectual in benefiting the majority of the population, and currently there is only a small group of politically connected elites that are benefiting. BEE in its initial form had no broad based impact and as such there was no creation a new black middle class. The term “Black Diamonds” refers to the new emerging black middle class.

Hoffman (2008) concludes that the current BBBEE policy is not sustainable over the long term unless there is adequate reformation and reconstruction of the policies themselves and offers the following reforms.

Firstly, South Africa’s policies need to be broadened on all business levels so that the focus is not only on black ownership and management. The vast majority of the population does not have the necessary skill to obtain the opportunities created through BBBEE nor do they have the capital to acquire ownership (via shares etc.). To alleviate this, South Africa should promote an environment that supports entrepreneurship by making funding more attainable.

Secondly, legislation should be changed to exclude race from being the controlling factor in BBBEE. Alternative methods available exist, that would produce similar sustainable results. For example given that the majority of non-whites were restricted in terms of the education possibilities, government should improve education on a broad level to ensure that more people are educated and as such enable more people access to jobs that they would previously not had access to.

Chapter 2: Literature Review

2.1 General

2.1.1 BEE in the Market Place

In 2010, global M&A reached USD2.4 trillion, being the strongest period since the start of the recession. This resilience and subsequent growth was driven by the growth in emerging markets M&A which contributed 33% of global M&A (USD806.3 billion), being up 76.2% from 2009. (Thompson Reuters)

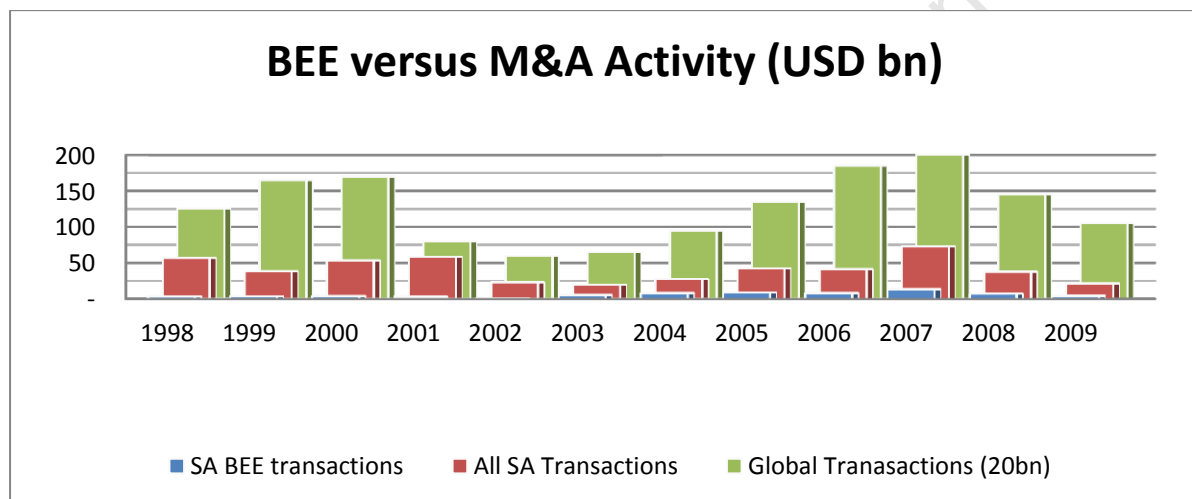


Figure 1- (Ernst & Young, 2008; Ernst & Young, 2009)

The contribution of emerging markets to Global M&A has been significant and thus the impact it is having on the emerging economies demands greater evaluation and understanding. In South Africa in 2009, total M&A reached R181.63 billion with BEE transactions contributing 20% at R36.5 billion. Throughout the period of review, 1998 to 2008, BEE has seen both the up and downside of the local economy and yet it remained resilient, contributing on average 20% of all South African M&A activity. The primary driver of this resilience was the political pressure that was placed on business - via the Broad Based Black Economic Empowerment Act (BBBEE Act) and the various BEE charters. The impact of these charters is clearly seen in figure 3, where there is a significant increase in BEE. (Ernst & Young, 2009) Figure 2 shows that the biggest contributors to global M&A in 2007 were Europe and the USA, with 39% and 33% respectively. What is interesting to note is that

Africa and the Middle East contributed 3% to global M&A with South Africa contributing on average 62% of all M&A activity in Africa and the Middle East.

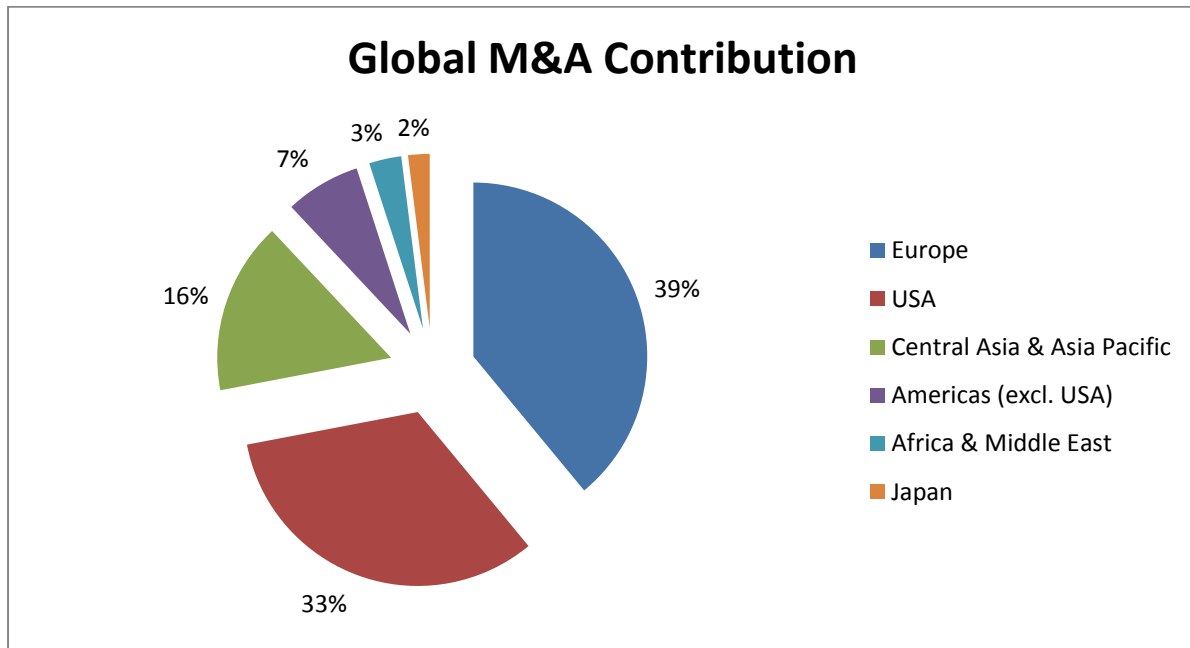


Figure 2 – Global contribution to M&A activity (Thompson Reuters, 2009)

2.1.2 Quantifying the Impact:

Ponte, Roberts & van Sittert (2007) in their study outlining the history and development of BEE, show that BEE policies in the late 1990's had a negative effect on black ownership. They show that black ownership on the JSE fell from 9.6% in 1998 to 3.5% in 2002. The primary reason for this was the inadequate financing structures used. In the 1990's, the majority of the deals were financed through special purpose vehicles. Due to the fact that black business had limited capital, deals were highly leveraged against the underlying shares. Stock market performance was sluggish and due to the pressure on emerging markets resulted in many of the transactions defaulting. Throughout this cycle interests rates increased, share prices dropped and dividends decreased thus reducing the amount of income available to service the debt. However, although not in line with original quotas, black ownership on the JSE has increased quite significantly.

In 2006, Empowerdex released a report that tracked the progress of the implementation of BEE for all companies listed on the main JSE board. The average score achieved in 2006,

throughout all of the various sectors, was 49.34% which resulted in an average level 6 contribution being achieved which results in a BEE procurement recognition level of 60%. 98 companies out of a total of 228 listed companies achieved a BEE score of 50 points or more. (Wu, Serrao & Matja, June 2006)

The following table reviews the top 100 BEE compliant companies listed on the JSE, the vast majority of which fall into the top 100 companies.

Detail	Scorecard 2003	Actual 2006 1.	Scorecard 2007	Actual 2011 2.	% Change (2 - 1)
Ownership	20%	7.99%	20%	16.98%	8.99%
Management Control	10%	3.89%	10%	5.75%	1.86%
Employment Equity	10%	3.94%	15%	7.38%	3.44%
Skills Development	20%	9.76%	15%	8.55%	-1.21%
Preferential Procurement	20%	5.93%	20%	16.38%	10.45%
Enterprise Development	10%	3.75%	15%	13.53%	9.78%
Social Economic Development	10%	7.90%	5%	4.71%	-3.19%
Total / Average	100%	43.17%	100%	73.27%	30.10%

Source: Data adapted from Tholiwe Ngidi, Empowerdex (BEE Scores of JSE Top 100 BEE Companies 2006/2011)

As seen from the table above, the average BEE compliance in 2006 was 43.17% with skills development (SD) and ownership being the biggest contributors. 47% of the companies achieved a score in excess of the average, with the average score equating to a level seven compliance and the best score achieving level three compliance. The emphasis on skills development would tend to negate Hoffman's (2008) criticism, as this spend would suggest that companies are looking to improve education standards and skill levels within company structures. The underachievement of preferential procurement supports Hoffman's (2008) claim that there needs to be mandatory compliance within the private sector. However given the fact that ownership, management and employment equity targets have not been met suggests that real transformation objectives have not materialised. This is further supported by the fact that not one company met the ownership requirements, only 1% of the companies

met the employment equity requirements and only 2% of the companies met the management requirements per the generic scorecard.

It is evident from the above 2006 results that companies prefer the easier spend without giving away ownership or management control. Any expenditure in terms of skills development or socio-economic development (SED) would entitle the company to rebates such as tax and SETA rebates. Thus companies want to be perceived as being highly BEE compliant and to the general public spend in terms of SED or SD would achieve this. Thus companies get the image of being BEE compliant without the loss of ownership or control. However this is to be expected given the enormity of change required by Government – it is inevitable that companies would be hesitant.

In 2011, the average BEE score of the top 100 Companies listed on the JSE was 73.27% with the biggest contributors, in terms of actual points, being ownership and preferential procurement. 53% of these companies achieved a score in excess of this average, with the average score equating to a level four compliance and with the best score achieving a level two compliance. Preferential procurement has increased significantly by 10.45%. This indicates that companies are being selective - only dealing with suppliers and customers who are more BEE compliant. This would suggest that throughout the supply chain businesses are looking to take advantage of percentages claimable as a result of the preferential procurement. Enterprise development and ownership increased significantly by 9.78% and 8.99% respectively. This clearly illustrates the point that public perception is of the utmost importance for companies. This is further supported by the fact that companies spend excessive amounts of money in order to support BBBEE initiatives, which at a maximum would result in a 20% contribution to their scorecard. Public perception and a moral duty to try and rectify past injustices is the primary reason for this. However of the top 100 companies, no companies met the employment equity targets and only 4% of the companies met the management targets. This highlights the point that real transformation in the workplace has not been achieved.

The increase in ownership from 2006 to 2011 appears to be in line with JSE findings. The JSE, in September 2010, pegged black ownership at 18% of the JSE. Further to their findings, the JSE shows that if foreign investors are excluded from their analysis then actual relative black ownership is 36% (Loubser, 02/09/2010). In order to track the increased black

ownership of the JSE, black and white ownership of the JSE needs to be calculated and tracked on a net basis, excluding foreign investment. This will show the true transfer of ownership from the white minority to the black majority. This suggests that black ownership of the JSE has increased at a rate more than the public is aware of.

Behavioural finance suggests that movements in the markets are created by changing investor perceptions. It is important to understand what the announcement of an imminent BEE transaction signals to the stakeholders and external public as this sentiment will be reflected in the underlying share price on announcement date. Alessandri, Black & Jackson (2009) conclude that a company's BEE strategy forms part of its Corporate Social Responsibility (CSR) – i.e. serve to accomplish social benefits whilst offering potential economic benefits. Each firm's CSR strategy being different based on their stakeholder priorities. Their results show that stakeholders view BEE deals as a positive CSR and as such this is seen by their achieving positive abnormal returns around the announcement date of such transactions.

Whilst there are definitely areas of concern within BEE policy that need to be addressed, there can be no doubt that BEE, in its short life, is starting to gain momentum. As such the understanding, perception and appreciation of these policies is growing. Thus the need to understand and evaluate the value proposition of BEE announcements is vital.

2.1.3 The Market's Reaction to Ownership Announcements

An efficient market is one in which the market price of a share reflects the unbiased estimate of the true economic value of the share. (Damodaran, 1996b) Thus if new information is publicised about a company, that news will be incorporated into the share price quickly and rationally with respect to both the direction and size of the change. There have been a number of studies performed on the JSE with no clear indication as to how efficient the market really is. Jefferis and Smith (2005) found the JSE to be weak form efficient throughout the period 1990 to 2001. Weak form efficiency suggests that share prices fully reflect all historical information contained in past price movements. (Arnold, 2005c)

In its simplest form, the value of a share is the present value of the share's future cash flows – being the future dividends and eventual selling price. For the Dividend Discount Model, there are two basic inputs: the expected dividends and the required rate of return. To determine the future dividend amounts, assumptions have to be made around earnings, growth and dividend policy. The required rate of returns is driven by the riskiness of the share and this is measured differently depending on which model is used. (Damodaran, 1996a)

Knowing that the value of a share is determined by the future cash flows and the relative risk of the underlying business, any information that might potentially impact cash flows and/or a company's risk profile will have a direct impact on the current pricing of a share. This change to the share price reflects the investor's reaction or sentiment to the new information. Event studies use time series analysis to measure the impact of an event on the value of a company. Share price changes at or around the announcement date reflect the market's sentiment either positively or negatively.

This study looks to evaluate whether or not BBBEE ownership announcements create or destroy value for the acquiring firm. Positive short term price reactions, around the announcement date, would reflect positive investor sentiment arising from the increased level BEE compliance. The share price movements will be evaluated over the longer-term, allowing us to determine whether or not any value created is sustained. The biggest limitation facing long term studies are the impact of confounding events. In order to reduce this risk, companies involved in multiple deals will be eliminated from the sample. Short term studies are limited to some extent in that they simply reflect the market's reaction to the

announcement. The speed at which this change occurs differs from market to market, and is determined by how efficient the market is thought to be. The faster a market reacts to information and with larger trading volumes, the more efficient it is considered to be.

2.2 Academic Studies

2.2.1 Overview of Literature

South African literature is limited in terms of the number of research studies performed on BEE transactions. This is primarily due to the fact that BEE is a new phenomenon and as a result a number of the studies suffer from small sample sizes. Jefferis & Smith (2005) in their analysis of African stock markets, show that the JSE is weak form efficient and that this characteristic is common for many of the larger stock exchanges – such as the London Stock Exchange.

Typically ownership transactions form part of a company's financing strategy. However BEE ownership transactions can be considered a hybrid strategy in that they form both a financing and investment strategy. The structures of most BEE ownership transactions are similar to traditional forms of finance, such as share offers. However there is definitely an investment element to the decision. BEE transactions are more costly than traditional financing and are entered into not only to improve public image, but also as a result of the increased business opportunities. Thus there is a definite decision to take the more expensive financing option to gain access to a greater business market. Thus BEE transactions form part of a company's investment strategy and are not inherently different to any other investment decision. Companies are motivated to engage in acquisitions for many different reasons with the ultimate goal of maximising company profits. BEE compliance is a business imperative to achieve greater exposure to the market. Thus, in theory, the investment in BEE now will create greater shareholder value by companies taking advantage of increased opportunities.

This study looks to evaluate the share price reaction to BEE announcements around the announcement date and the following 3 years. The short term reaction will indicate whether investor sentiment regarding the deal is positive whereas the longer term reaction will indicate whether shareholder value is created or destroyed.

Due to the fact that this study evaluates the impact of BEE announcements over the short and the longer term, it is important to gain an understanding of the literature so as to gain support statistical findings.

2.2.2 Overview of Ownership Transactions – M&A Studies

M&A, as an investment strategy, provides management with a fast and effective means to grow business operations. The neo-classical theory suggests that management make decisions that maximise shareholder value. In order to maximise shareholder value, on a timely basis, M&A has been used as a tool to generate additional profits. BEE M&A has been used for exactly the same purpose in that the improved public image and improved BEE compliance ratings will result in greater business opportunities.

Given that the majority of M&A transactions do not meet original expectations, why then has M&A growth been so dramatic? Given the significant impact of M&A on business, there have been a vast number of studies that have looked to analyse the impact of such transactions. The majority of studies have looked to evaluate the impact of M&A through financial (accounting) and economic (efficient markets) means. Given the accounting restrictions imposed on valuations, this study looks to review the economic impact of M&A announcements through changes in share prices.

Existing evidence in both the US and the United Kingdom (UK) suggests that M&A creates value for shareholders where the target company's gain and the acquiring companies do not lose or show small positive returns. These returns tend to peak around the announcement date where thereafter these returns tend to erode and shift downwards. This is because synergistic benefits are not realised over the long term and as such cannot retrospective justify the premiums paid. Thus negative post acquisition price changes are a mechanism used by the market to correct announcement returns.

Target Company Returns:

There are a number of studies that find significant positive returns for target company shareholders. The premiums paid to target company shareholders drive these gains. Mandelker (1974), shows that the shareholders of the target companies earn positive abnormal returns of approximately 14% for the period leading up to and including the merger date. The results of Langetieg (1978) were in line with that of Mandelker (1974) which showed that the target companies earned positive abnormal returns for the period up to and including the announcement date of 12.92%. Dodd & Ruback (1977) and Dodd (1980) show that regardless of whether a bid is accepted or rejected, the target company shareholders still earn positive abnormal returns.

These results have also been corroborated by more recent studies of Franks & Harris (1989) and Andrade, Mitchell & Stafford (2001) which show that target shareholders earn positive abnormal returns of 23% and 15.98% around the announcement date respectively. This would appear to be the case for BEE participants regardless of whether the transaction involved an acquisition or disposal of shares. Acquisitions made at premium prices or disposals at discounts would both result in that benefit passing on to the “target” BEE beneficiary.

Combined Company Returns:

The ability of the combined firm to create value hinges on the premium paid for the acquisition of the target. The combined company will create value provided that the premium paid by the acquiring company is not in excess of the synergistical returns created from the acquisition. Thus if the acquiring company does not lose from the deal, then the net result is an increase in value and thus supports the notion that M&A's are a value adding growth strategy. Andrade, Mitchell & Stafford (2001) evaluated a sample of 3 688 mergers through the period 1973 to 1998. Their study evaluated the short term abnormal returns around the announcement dates over the periods -1 day to +1 day post announcement and -20 to announcement date. Their results show that the combined companies produce abnormal positive un-weighted average returns of 1.83% and 1.70% through the period 1973 to 1998. Their results also indicate positive abnormal returns throughout all of the three decades.

Acquiring Company Abnormal Returns:

There are contrasting results for the abnormal returns of the acquiring companies. Some of the earlier studies show tendencies for positive abnormal returns. Asquith, Bruner & Mullins (1983) show that acquiring companies earn positive abnormal average returns of 2.8% around the merger announcement date. These returns are even greater when controlled for target size and outcome of the merger bid. Schipper & Thompson (1983), show that regardless of whether an acquisition forms part of a new investment or acquisition program, the acquiring company shareholders earn positive abnormal returns of 13% for the period -12 months to announcement dates. Dodd (1980) shows that regardless of whether a bid is rejected or accepted, the acquiring company shareholders earn negative abnormal returns of between -5.50% and -7.2% during the announcement period. Barnes (1984) shows that although the acquiring company might earn small abnormal returns around the announcement date, these returns were on average eroded downwards by 6.3% over the five year period post acquisition. This study showed that 56% of the population re-valued their announcement share price downwards. The prominent reason for the negative returns, is the hefty premiums that acquirers are forced to pay. The excessive premiums paid counter any synergistically value created. Barber & Lyon (1997) also suggests that the contrasting results may be due the considerable variations used in measuring long run returns.

Given the contrasting results and now understanding what the above deal characteristics have on the transactions, a review of the comprehensive studies needs to be performed.

Agrawal, Jaffe & Mandelker (1992) US study examines the long term impact of M&A transactions on the acquiring company through the period 1955 to 1987. Their study uses standard event study methodology and controls for company size and beta risk. Their results show, that regardless of whether an equal or value weighted index is used, the post acquisitions CAAR's are -7.5% and -10.26% through 5 years respectively. Limmack (1991) shows in his study of UK transactions through the period 1977 to 1986, that acquiring company shareholders do lose value over a 2 year period post acquisition. Announcement period CAR's of -0.20% shift downwards to between -6.87% and -14.08% depending on the benchmark over the 2 year period. Gregory (1997) shows that regardless of benchmarks used, the post-acquisition performance of acquirers is negative at -11.17% for 2 years post acquisition. Their results show that companies actively involved in multiple M&A deals

produce better 2 year results at -5.18%. Mitchell & Stafford (2000) provide estimates of long term abnormal returns in their review 2068 transactions during the period 1961 to 1993. Their study uses both equal and value weighted benchmarks controlling for medium of exchange and classification of growth versus glamour. Their results show that for the full sample, regardless of benchmark, 3 year post acquisition returns are negative. When controlled for the medium of exchange, cash transactions produced more positive results than equity based transactions. Value companies also produce better results than those of glamour companies. Their results show that only equal weighted portfolios produce significant abnormal returns suggesting that post acquisition abnormal returns are limited to smaller acquirers.

Conclusion:

In conclusion, it is evident that M&A do create or at least not destroy shareholder value. This is because target companies make significant positive returns, whereas acquiring companies might not make positive returns, but their negative returns are often more than offset by the gains made by the target. Acquirer's tend to make positive abnormal returns around the announcement, but these returns are quickly eroded post acquisition.

2.2.3 Further considerations

It is also evident that as the study of M&A has progressed and become more comprehensive - methodologies and trends have advanced in order to reduce the number of variables. The characteristics of each M&A transaction need to be reviewed in isolation in order to determine its impact on the share returns. In reviewing multiple studies it is evident that the most noticeable characteristics are the following and their impact on returns need careful understanding because BEE transactions structured and executed in similar ways would be subject to similar return reactions.

Means of payment

There are a number of studies that have clearly shown that the means of payment has a significant influence on the outcome in M&A transactions. Typically transactions are either considered to be mergers or tender offers. Mergers, usually in the form of stock, are often characterized as "friendly" transactions where the acquirer is working with the incumbent

management. Tender offers, usually in the form of cash, are considered “hostile” as the acquiring company usually makes bids directly to the target company shareholders. Loughran & Vijh (1997) in their study show that acquirers in merger deals on average earn 15.9% less than matched firms whereas acquirers in tender offers earn 43% more than matched firms over a 5 year period. Rau & Vermaelen (1996) study corroborates these findings as they show that acquirers in mergers on average under-perform the market by 4% whereas acquirers in tender offers outperform the market by 9% over a period of 3 years.

A number of reasons might exist for the varying results based between mergers or tender offers. Deals via tender offers are on average faster to conclude than mergers. Given that transaction speed is key to deal success, tender offers produce better results. The hostility of the transaction ensures that ineffective management are replaced and as such there is no vagueness as to the corporate hierarchy which allows for a more effective management. These findings would impact BEE acquisitions where acquiring companies buy equity in BEE companies. The results indicate that acquirers should utilise cash resources as the primary source of funding when entering such transactions.

Medium of exchange

The medium of exchange used to effect transactions has a significant impact on the share price movement and as such on the returns achieved. This is because the financing decision (cash versus equity) carries important information to investors. The decision has both positive and negative bearings for both sets of shareholders. If cash is used, the acquiring company shareholders benefit as they do not lose control over their company by issuing stock. Cash transactions are far faster, and as such better the chances of success. For the target company shareholders cash received has a definite value but because the gain will be realised there will be resulting capital gains tax implications. This would again indicate that BEE acquisitions should be utilised out of cash reserves as the BEE benefit will be obtained without any loss of ownership or control.

Arnold (2005b) Management’s internal valuation of their stock also has a bearing on this decision. If management consider their stock to be undervalued by the market, management would prefer a cash deal as the relative cost is lower. Barnes (1984) shows that the CAR’s for acquirers in cash transactions to be more positive than for equity transactions. During the

announcement month, cash transactions had a cumulative average abnormal return of 1.6% as opposed to the -2.6% earned via equity transactions. Loughran & Vihj (1997) show in their study that cash acquirers earn 18.5% more than the matched companies, whereas equity acquirers earn 24.2% less than matched firms. Thus, given these results, it appears that investors recognise equity transactions as a signal of the acquiring company's shares being overvalued and hence the downward adjustment of the share price to compensate for this.

The use of cash or equity as the medium of exchange has also varied throughout various decades. Andrade, Mitchell & Stafford (2001) in their analysis show that transactions in the 1990's were characterized by the overwhelming use of stock as the medium of exchange with 70.9% of all transactions involving some form of stock (57.8% of transactions entirely stock based). This is considerably more than the 1970's and 1980's where stock transactions were 45.1% (all stock 37%) and 45.6% (all stock 32.9%) respectively.

Chatterjee & Kuenzi (2001) evaluated the influence that the medium of exchange had on the acquiring company share price for transactions throughout the 1990's. Their results indicate that there has been a shift in the information content associated with regards to the medium of exchange. Their results show that stock based transactions no longer lead to negative abnormal returns, but in fact result in positive abnormal returns. They conclude that this shift in the investor's assessment of the information content of medium of exchange is as a result of changing sensitivity to levels of risk, as stock transactions are being used to finance the riskier more audacious deals. Given the inherent riskiness of BEE deals, this shift in the information content of medium of exchange might see investors preferring BEE deals financed by their own stock.

Glamour/Neutral/Value Firms

Behavioural finance supports the fact that investor behaviour drives changes in the market. The information content of decisions made by management sway investor perception and sentiment. Various studies have shown that controlling for whether the acquirer is considered "glamour" or "value" company has a significant impact on the potential returns from deals. Companies are considered to be "value" companies if they have a high book to market ratio and a low book to market ratio for "glamour" companies. Management of glamour firms recognise that their share price is overvalued by the market and as such will prefer to use

stock as the medium of exchange. The greater the discrepancy in the valuation, the greater the premium the acquirer would-be willing to pay. The opposite is the case for “value” companies. Thus management of “glamour” companies are more likely to overestimate their abilities and less likely to have stringent deal or no deal price parameters resulting in a greater probability of unsuccessful M&A deals. Rau & Vermaelen (1996) in their study show that “glamour” companies, regardless of whether considered a takeover or a merger, underperform the market over a three year period (takeovers -24.28% and mergers -56.77%). Whereas value firms outperform the market with CAR’s of 36.13% and 26.07% for takeovers and mergers respectively. Wimberley & Negash (2004) corroborated these results from the South African perspective.

Prior Control

The fact that an acquirer had a prior interest in the target suggests that the acquirer is well entrenched into the business operations of the target and as such was well aware of its profit potential and risk profile. The risk of poor integration is negated, as any integration issues would have been worked through in the initial acquisition. Thus having prior control should have a positive bearing on any returns achieved in subsequent transactions.

Van den Hoenert, Barr, Affleck-Graves & Smale (1988) in their study controls for whether there was prior shareholding; those transactions which had prior control greater than 50%, and those transactions where prior control was less than 50%. Although the announcement abnormal returns for the two control groups were similar, the post acquisitions share price movements differed quite considerably. In the group where prior control was greater than 50%, post-acquisition abnormal returns declined at a slow rate and at 1 year post acquisition resulted in a net CAR of 2%. The abnormal returns of the second group were volatile and post-acquisition abnormal returns declined at a faster rate, resulting in a net CAR at 1 year post acquisition of approximately -10%. Although this study suffered from small sample size, the impact of prior control is clearly pointed out. Franks & Harris (1989) corroborate the above findings, and show an increased level of value to the combined firm in transactions where the acquirer had a pre-deal interest in the target.

Thus following this results, repeated BEE deals with the same partners should result in positive investor sentiment. This is because repeat BEE partners would only exist if the

acquiring company was deriving benefit from that partner. Non-value adding partners would not be reused. This however would come at the expense of deals not being considered broad-based.

Size mismatching

Size-mismatching occurs when acquirers buy targets that are small relative to their size. If there is a high degree of mismatch, where the acquirer is far larger than the target, any intrinsic value from the acquisition is difficult to single out. Thus mismatch would definitely have an impact on BEE deals with larger BEE deals will having a far greater impact on share prices. Critics argue that management must be aware of acquiring targets that are too small because the relative opportunity costs of the transaction are far higher. Brews (1987), concludes that “organizations should be wary of acquiring other organizations very much smaller than themselves. The management time and effort required to negotiate and implement such a transaction, and indeed to correct matters should the deal go awry is usually exorbitant.” Thus given how costly BEE deals are, companies should identify larger more strategic transactions so as to minimise opportunity costs.

Relatedness

Diversification should not drive M&A programs. This is because investors would be able to diversify their own portfolios by simply buying varying shares. Arnold (2005b; 2005c) It is believed that by entering unrelated industries, management are less likely to be successful over the long term especially as the learning curve is time consuming. Thus buying a company that is related and as such is similar to that of the target promotes a far higher probability of success for the merger. Brews (1987), through a series of questionnaires given to senior management and directors, concludes that the nature of business of the target company is the single most important factor contributing to the success of M&A. van den Hoenert, Barr, Affleck-Graves and Smale (1988) in their study compare related and unrelated transaction over a period of – 50 weeks to + 50 weeks post announcement. The results show that, although the share price movements had similar patterns, the results for the related transactions were more positive. At announcement date, both unrelated and related returns shift downward, to a point where related and unrelated transactions show abnormal returns of 7% and -14% respectively. This study did suffer from small sample sizes, but regardless the

results definitely do support the fact that related transactions tend to have more favourable outcomes.

2.3 South African Studies

Wimberley & Negash (2004) study is the most comprehensive SA study relating to M&A. Their study examines the long term price effects of M&A for firms listed on the JSE over the period 1989 to 1998. Two methodologies were used in order to establish the long term impact of M&A announcements. The use of CAR and the calendar time abnormal returns (CTAR) determines if companies persistently earn abnormal returns when ignoring the months transaction cost of repurchasing (i.e. the inherent costs involved with the buying and selling of shares). The control portfolio method was used in order to establish the benchmark. The benchmark was calculated on the population, as defined below, net of eliminated firms. The benchmark firms were then grouped according to their size and book to price ratios.

Due to the fact that M&A activity in the industrial sector accounted for 1/3 of all JSE activity and that this activity was comprised of a huge amount of transactions thus eliminating the risk of being distorted by a few transactions, the industrial sector was used to extract the sample. Not all of the M&A transactions were defined as events for the purposes of their study and as such defined events required the following:

- The acquiring firms had to be listed in the industrial sector;
- To avoid size mismatching, size criterion were used to rank the size of the acquisitions. Only significant transactions, where the consideration was at least 20% of the market capitalisation of the acquiring firm, were selected;
- A 20% shareholding was used as a minimum cut-off. This is because M&A success is largely dependent on the acquirer's ability to influence the business operations of the target; and
- All unusual transactions or structures were eliminated from the sample – e.g. “N” shares or pyramid companies.

The total number of M&A transactions during the period was 728 and after eliminating the unusual transactions the end sample was 609. The three control groups were established and

classified accordingly based on the return to shareholders, market capitalisation and book to price value.

The results of the research suggest that investors should not invest in M&A active firms over the long term. The CAR for the 36 months post acquisition result is -10.5% with the CTAR showing a more negative trend. The CAR analysis suggests that investors should sell out at 7 months post-acquisition in order to maximise returns. When the sample was split into value, glamour or neutral firms, it was on the value firms that showed a positive CAR of 10.1% at month 36. Neutral firms showed the worst results with a CAR of -28.9% (Glamour CAR - 14.4%) at 36 months. This is in line with studies previously mentioned.

Although the studies of Affleck-Graves, Flach & Jacobson (1988) and van den Hoenert, Barr, Affleck-Graves & Smale (1988) suffer from small sample sizes, their results corroborate the above.

2.4 BEE Studies

Alessandri, Black & Jackson (2009) applied standard short-term event study methodology to determine whether or not BEE deals created value. Their sample included 64 BEE deals concluded between 1993 and 2005 which accounted for 8% of the number of transactions and 48% of the value of transaction during that period. Their results show that of the 64 transactions, 40 were made at a discount of on average 35% with the remaining 24 made at a premium of 58%. The calculation and determination of the premium or discount was based on the difference between the market price and deal price on the day of the announcement. The inherent deal data was obtained from BusinesMap, a strategic investment company whose focus is on BEE deals. Their results show that the transactions made at a discount earned shareholders a short term positive abnormal return of 3.2% around the announcement date. Transactions made at a premium resulted in a short term negative abnormal returns of approximately -1% around the announcement date. This study concluded that BEE transactions formed an integral part of Corporate Social Responsibility and genuine BEE deals offered at a discount were rewarded with positive returns. Although this study identified key variables, it suffered from a small sample size and poor methodology. The bench mark used was the market model and did not control for key factors such as size, sector or timing.

The research completed by Ward & Muller (2010) examined the long term impact of BEE announcements on the share price of the acquiring company. The testing period for the study was 8 years and covered the period 2000 to 2008. Given that it is a JSE requirement for companies to make SENS announcements for any transactions that might impact its share price, the SENS database was used to extract the BEE transactions. An initial sample of 175 firms had announced at least one BEE deal but the final sample only included 118 companies after eliminating transactions with confounding events, which are events that typically would impact share price movements. These would include for example trading results or unrelated corporate actions. A second control group was created for companies that engaged in multiple BEE transactions over the event period, of which there were 28.

The methodology used to calculate the long term impact of the BEE transactions was CAR. The benchmark or expected return was created using the controlled portfolio, controlling for the following:

- Whether the company was in the resource or non-resource sector. All mining and non-mining shares were classified as resource;
- Classification as either a growth or value company ranked according to their price to earnings (PE) ratios. After ranking the companies, the median was calculated with all companies with PE ratios above the median being classified as growth;
- Size of the companies was calculated using their market capitalisation and split into 3 groups; large, medium and small capitalisation portfolios;
- The transactions were grouped according to their timing - being early or late with the aim of identifying whether the pioneering BEE announcements were more or less successful in terms of returns; and
- Companies making multiple BEE deals were controlled for, where the returns of the second transaction were compared to the initial transaction.

Each acquiring company share was allocated into one of the 12 portfolios where each portfolio was rebalanced every quarter to ensure that any material changes to the share profile were closely tracked. To ensure the robustness of the results a single beta coefficient capital asset pricing model was estimated. The significance of the results was tested using both the t-test and bootstrapping tests.

The results show that for the full sample that positive abnormal returns are experienced from 80 days post announcement and that the 250 day CAR is approximately 10%. When controlled for size, the smaller companies experienced stronger positive abnormal returns whereas the larger companies experienced marginally negative CAR's. The CAR for smaller companies reached a maximum of approximately 20% at 180 days post announcement. This observation supports the size mismatching argument where large companies are already so entrenched in the market that the benefits of BEE are difficult to distinguish. When controlled for timing, it was evident that the "late" transactions earned positive abnormal returns at announcement date whereas the first movers only experienced these returns from

140 days post acquisition. However, irrespective of timing, both first and last movers earned positive abnormal returns of 8% and 12% over the 250 days post acquisition respectively. When controlled for multiple BEE deals, it was evident that the subsequent transactions were less attractive than the initial deals.

Du Plooy (2009) investigated 13 companies involved in BEE transactions in 2005 to determine if abnormal returns were associated with the BEE announcements. The results of this paper show that positive CAR's of 1.85% were observed around the announcement date. The average CAR's were found to be statistically significant. Although this paper suggests that the market has a positive sentiment to BEE deals it does suffer from small sample sizes.

University of Cape Town

Chapter 3: Methodology

3.1: Abnormal Returns

Standard event study methodology will be used to measure the impact of the unanticipated event – being the announcement of the BEE deal. A market return will be calculated to establish a benchmark in order to establish abnormal returns. This standard event study methodology will allow the study to determine whether there has been an abnormal share price reaction associated with a particular BEE announcement. Abnormal returns will be used to determine the significance of the BEE announcement through the change in share price relative to the change in the market. Tests of significance will be performed in order to establish if abnormal returns are significantly different from zero.

Event study methodology is based on three key assumptions (McWilliams & Siegel, 1997). Any violation of these assumptions might result in the conclusions being incorrectly drawn from the results.

Firstly, markets are assumed to be efficient and as such share prices account for all relevant information that is freely available to investors thus share prices adjust quickly to any new news regarding that share. Therefore the announcement of a BEE deal will be the event and as such the information regarding the deal will be quickly incorporated into the share price. The event date for this study will be the announcement date;

Secondly, it is assumed that the market had no knowledge of the announcement until the actual announcement through the press, or typically in SA through SENS. This allows for the impact of the announcement to be evaluated through the changes to the underlying share price. Information leakage is a reality on the JSE and this is clearly evident as the market adjusts for pending announcement before they are actually made. The leakage of information will be primarily due to insider trading and the advancement in information technology and globalisation. The advancements in information technology have made information more accessible to the public and more difficult for companies to keep secret. This timing differs from market to market. On the JSE Van den Hoenert, Bar, Affleck-Graves and Smale (1988)

and Affleck-Graves, Flach and Jacobson (1988) show that the impact of this information leakage is seen between 10 and 12 weeks prior to announcement.

Lastly, is the methodology assumes that the BEE announcement was the sole reason for any change to the underlying share.

Cumulative abnormal returns (CAR) and buy and hold abnormal returns are the most commonly used methods for calculating abnormal returns with both of these methods achieving different outcomes. The BHAR determines whether abnormal returns are achieved over a specific period. Thus the method assumes that a share is bought on day 1 and sold on a specific date in the future. Thus the abnormal return is the difference between the return on the share and the return on the market for this period of time. CAR's however determine whether abnormal returns are persistently earned because the abnormal return calculation is established on a more frequently – daily, weekly or monthly. The primary difference between these abnormal returns is that the CAR calculation ignores the effect of compounding whereas BHAR's do not. (Lyon, Barber & Tsai, 1999)

Barber and Lyon (1997) in their study analysis of long-run abnormal stock returns, identify three biases in their results namely new listing, rebalancing and skewness biases.

New listing bias impacts the evaluation of long term returns. When comparing company returns to the market, company returns are positively skewed because the market or benchmark includes newly listed companies, companies who at the beginning of their lives, on average, perform poorly. Rebalancing bias occurs because benchmark compound returns are typically rebalanced monthly whereas the sample company returns are compounded without being rebalanced. Skewness bias results in long-run abnormal returns being positively skewed.

Their study highlights the fact that all of the methods for calculating abnormal returns suffer from these biases. CAR's are most severely subject to new listing bias, but are also subject to rebalancing and skewness bias. BHAR 's are most severely subject to skewness bias, but are also subject to rebalancing and new listing bias. Although their study advocates the use of the BHAR method in calculating long-run abnormal returns, this methodology will not be used in

this study. The reason for this is the inherent difficulties involved with determining an appropriate benchmark for the BHAR method.

The abnormal return is defined as the difference between the return on the share and the risk adjusted return on the market. The abnormal return reflects the market's reaction to the arrival of new information and is calculated in equation 3.1.1 below:

$$(3.1.1) AR_{it} = (R_{it} - R_f) - E(R_{it} - R_f)$$

Where;

AR_{it} = abnormal return on share i at month t ,

R_{it} = the rate of return on the share prices of company i at month t ,

R_f = the risk free rate (3-month Floating T-bill Rate)

$E(R_{it})$ = the expected rate of return for company i at month t .

The CAR is calculated by summing all of the abnormal returns for all of the sample companies. In determining this, each share is treated as having been purchased at the beginning of the month, held throughout the month and subsequently sold at the end of the month. This calculation is performed throughout the testing period of -3 to + 3 months and -3 months to 36 months post event date (See hypotheses below). Average AR's and CAR's were established over the same periods. Refer to equation 3.1.2 below:

$$(3.1.2) CAR_{it} = \sum_{i=1}^t AR_{it}$$

Where

CAR_{it} = the cumulative abnormal return for share i at month t , and

AR_{it} = the average abnormal return for share i at month t .

3.2: Benchmark

The choice of the correct and most appropriate benchmark is the most crucial decision when selecting methodologies. The use of benchmark is dependent upon the methodology employed. It has been shown in many studies that the use of an inappropriate benchmark results in incorrect outcomes and poor test statistics. The most common benchmarks used in such studies include market indices, asset pricing models ((Kothari & Warner, 1997)) ((Fama & French, 1993)), matched firms ((1997)) ((Wimberley & Negash, 2004)) and matched portfolios ((Rau & Vermaelen, 1996)).

The capital asset pricing model (CAPM) has received frequent exposure in the academic literature and has been widely used in practice since the 1960's. The CAPM suggests that returns on financial assets vary according to the level of risk to which that asset is exposed. The CAPM model assumes that systematic or market risk, as measured by beta, is the only factor affecting the return on a portfolio. This model has been proven to be too simplistic and has a number of limitations such as; the model makes unrealistic assumptions, there is poor correlation between betas and share returns and parameters for the model are difficult to define. (Damodaran, A) (Arnold, 2005a) The reasonable investor is assumed to hold a diversified portfolio of shares to mitigate firm specific risk. Thus differences in returns are as a direct result of market risk and thus a model taking into account these risks needs to be considered.

In order to improve the inadequacies of the simple CAPM further models or benchmarks were created to take into account numerous factors in order to establish a model where the variables were closer correlated to the returns. Fama and French (1993) in their study identified three common systematic risk factors impacting share returns. These included an overall market factor and two company factors relating to size and price to book ratios. As a result they modified the standard two factor model to encompass the third risk factor. Furthering this, researchers, in order to account for the vast number of variables, created benchmarks by trying to match like with like and as such created matching portfolios and firms. The rationale was to match firms to other firms with similar profiles. However, regardless of how well companies are matched, no two firms are the same and as such their risk profiles will be different. These models appear to be superior to that of the CAPM model

as they better act as proxies for the market. No model is ever going to take into account all of the relevant risk factors facing companies – given the enormity of risk factors facing companies.

van Rensburg and Slaney (1997) in their study found the two factor arbitrage pricing theory (APT) model, to be superior to that of a single index model, such as the CAPM. Their study shows that the use of both the All Gold Index and the Industrial Index as proxies for the market is appropriate due to the influence that the Mining and/or Industrial Indices (seldom both to the same degree) have on JSE shares. Their paper concludes that the CAPM, calculated using the All Share Index as a proxy for the market, did not hold on the JSE. Given the re-classification of the JSE in 2000, van Rensburg (2002) updated the work performed in their 1997 study. Their updated study showed that the new Financial-Industrial and Resource Indices should be used as the proxies in the two factor APT model.

Given the difficulties in determining the most appropriate benchmark, this two factor APT model has been used for the purposes of this study.

$$(3.2.1) E(R_{it}) = \beta_0 + \beta_1 R_{Sector1} + \beta_2 R_{Sector2}$$

Where

β_0, β_1 & β_2 = are the ordinary least squares regression (OLS) estimates obtained from the regression of R_{it} with R_{FINDI} and R_{RESI} over the sample period; and

$R_{Sector1}$ & $R_{Sector2}$ = the monthly returns on the FINDI and RESI indices for month t respectively.

3.3: Hypotheses

This study looks to determine the impact of BEE announcements on shareholder returns. Two hypotheses will be tested as follows:

- H_0 – BEE announcements result in positive share price changes, reflecting positive investor sentiment which creates shareholder value.
- H_1 – BEE announcements result in negative share price changes, reflecting negative investor sentiment which destroys shareholder value.

University of Cape Town

Chapter 4: Data

4.1: Extracting the Data

The Ernst & Young (E&Y) ownership database was used as the primary source for identifying relevant BEE deals. For the purposes of this study, the E&Y database is considered to be complete. This is due to the fact that their database is considered to be the most comprehensive M&A database in SA. The accuracy and completeness of the database is regularly checked against SENS announcements. This is corroborated by the fact that numerous SA studies have used their database as the primary source of M&A data.

The E&Y database includes every transaction that involves changes in a company's shareholding and as such includes acquisition, disposals, formation of joint ventures, share buy-backs and unbundling's. In order to identify BEE transactions the database was sorted according to transaction characteristics thereby identifying BEE deals.

The I-Net Bridge and McGregor BFA databases were used as the secondary sources of information. The following monthly information was obtained:

- Monthly opening and closing share prices, market capitalisation and dividend yields for the sample, over the required 72 month testing period, being 36 months pre-announcement to 36 months post announcement;
- FINDI and RESI returns for the period 1997 to 2011. This is to ensure that any announcements made in 2000 and 2008 had sufficient data for the requirements of the OLS regression; and
- The three month T-Bill rates for the period 1997 to 2011 in order to calculate the excess returns.

4.2: Defining Black Economic Empowerment Announcements

For the purposes of this study not all BEE announcements were considered events. To be considered an event, the following criteria needed to be met:

- 4.2.1. The deal needs to be disclosed in the E&Y database as a BEE transaction. E&Y's classification is based on the SENS announcement and the classification as BEE is determined on pertinent details of the transactions such as classification of beneficiary as BEE and price details;
- 4.2.2. The company needs to be listed on the JSE throughout the testing period. Given that the testing period is 36 months post announcement, the company will have to have been listed for the 36 month period pre-announcement for the OLS regression calculations;
- 4.2.3. All pertinent information relating to the deal is required to be disclosed. This would include transaction features or characteristics, pertinent dates, values and % shareholding changes;
- 4.2.4. Transactions were required to be simple once off transactions. Piecemeal transactions have been excluded to reduce the impact of confounding events. The elimination of piecemeal transactions would ensure that announcement abnormal returns are not overstated;
- 4.2.5. Companies involved in multiple BEE transactions will be excluded thereby reducing the number of confounding events; and
- 4.2.6. All companies who would be considered BEE companies or consortiums (E.g. Mvelaphanda, PEU etc.) were excluded from the sample. Due to the fact that BEE transactions form part of their core business they were excluded to ensure that the results show the financial impact of BEE transactions for non-traditional BEE companies. Due to the fact that BEE transactions form part of their core business, these businesses will be involved in multiple BEE deals and are

therefore eliminated to ensure there are no confounding events. The elimination of such companies will ensure that the results will only reflect the share price reactions of non-BEE companies.

The total number of BEE announcements per the E&Y database for the testing period 2000 to 2008 was 919. After adjusting for the above mentioned criteria the final sample was 49. Refer to the table below for the different forms of BEE announcements.

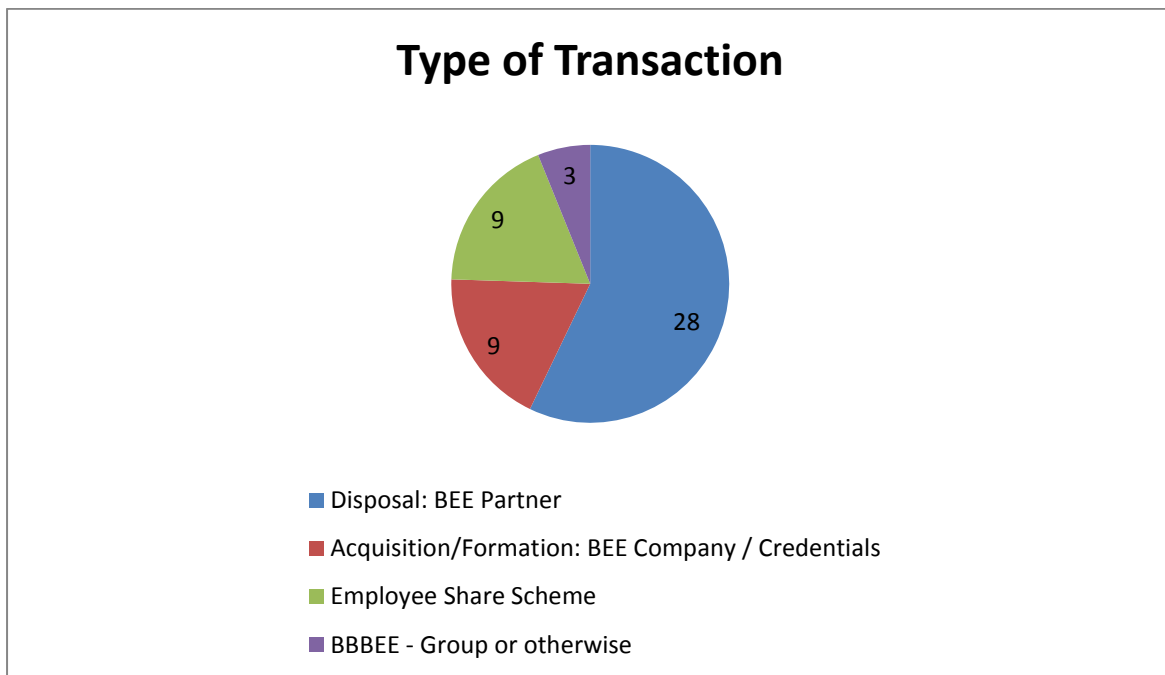


Figure 3 Classification of the sample

BEE transactions take on many different forms, mainly because the company initiating the BEE transaction might be the acquirer or the target. The company initiating the transaction might be offering its shares in itself to BEE partners and as such would be classified as the target. For the purposes of this study, BEE announcements have been classified into four different categories. Although these categories are broadly defined, they take into account the material aspects of each transaction. These categories are defined as below:

1. Disposals refer to a scenario where a company sells off equity to a BEE partner or consortium;

Chapter 5: Empirical Results

2. Acquisitions and formations refer to scenarios where a company's acquire or create new BEE companies or joint ventures. This would include the formation of BEE joint ventures;
3. Employee Share Scheme refers to any employee share incentive scheme; and
4. BBBEE – Refers to any transaction that can be defined as broad based. Typically this would involve a general subscription to the public or acquisition of shares by a broad based company.

University of Cape Town

4.3: Research Methodology

Sample selection

E&Y captures all of the relevant transaction detail for all M&A (including BEE) transactions. This detail would typically include; the acquirer, the target, the seller, transaction description, features of the transaction, values, dates and commentaries. On an annual basis, the transaction listings were sorted according to the features of the transactions, identifying all of the BEE transactions. BEE classification, as described in the previous section, is based on the relative SENS announcement;

The remaining BEE transactions were checked thoroughly to ensure that all of the criteria for selection were met. This includes:

- Listing - The company initiating the transaction was required to be listed thus non-listed or undisclosed companies were excluded from the sample;
- Foreign companies and companies listed on the ALTX were excluded;
- Transaction features were required to be clearly expressed to ensure appropriate classification; and
- Transactions where BEE companies' initiated the BEE deal were excluded.

After taking the above into account, the sample was analysed on an annual basis to identify companies involved in multiple BEE transactions over the testing period. Any company involved in multiple deals within the testing period was excluded to reduce any confounding events; and

The remaining sample companies were analysed to ensure that the companies had been listed for the required time period. Thus company share price histories were checked according to the I-Net Bridge and McGregor BFA databases. Companies who were not listed for the full testing period or who had missing share price information were excluded.

Calculating Abnormal Returns

In order to calculate the beta estimates required by the two factor JSE Model (per equation 3.2.1), OLS regression was performed on the 73 month abnormal share returns and the corresponding monthly excess returns of the FINDI and RESI. The OLS regression was completed for the 48 sample transactions with the regression being checked by:

1. Inspection of the computed R^2 numbers to ensure the adequate fit of the model. This will be used to establish the unknown parameters for each individual share thus ensuring that the returns of a share fit with the returns of the market's variables;
2. Creation of the normal probability plot to ensure that the parametric assumption of normal distribution is met; and
3. Creation of a scatter graph of the predicted versus residual values to ensure that there was no signs of multi-collinearity.

The residuals calculated in the OLS regression were used as the AR's. The individual AR's were aggregated onto one sheet where the sample AAR's and CAAR's were calculated.

The control groups for the hypothesis were as follows:

1. Size – Companies were identified as being large cap or small cap companies based on their market capitalisation values as at announcement dates. The cut off used by Ward and Muller of R3.5 billion was used to determine this split; and
2. Transaction features – Transactions were categorised according to salient features, being acquisitions, disposals, employee share schemes and BBBEE schemes.

Statistical Significance

Tests of significance are performed at all testing dates as per the hypothesis. The Durbin-Watson statistic was calculated initially to determine whether there were any instances of serial correlation or autocorrelation within the sample. The statistic was applied to the residuals calculated in the OLS regression for each sample company. The following formula was used:

$$(4.3.1) \quad d = \frac{\sum_{t=2}^T (e_t - e_{t-1})^2}{\sum_{t=1}^T e_t^2}$$

Where

- d = the Durbin-Watson number that lies between 0 and 4,
- e_t = the residuals calculated in the regression at time t , and
- T = is the number of observations.

The Durbin-Watson number always lies between 0 and 4, with 2 indicating no serial correlation. A number smaller than 2 indicates positive correlation whereas a number greater than 2 indicates negative correlation. Positive or negative correlation highlights results that might be positively or negatively skewed.

Parametric testing, through the use of standard t-stat testing, was used to determine the statistical inference. T-Statistic testing requires that the sample population be normally distributed. Although AAR tend not to be normally distributed ('Wimberley & 'Negash, 2004), the Central Limits Theorem states that where a sample is greater than 30, the calculated means will approximate a normal distribution ('Underhill & 'Bradfield, 1998). Thus the t-test will be used via the following formula 6.

$$(6) \quad t = \frac{\bar{x}_1 - \bar{x}_2}{S_{x_1 x_2} \cdot \sqrt{\frac{2}{n}}}$$

Where

$S_{x_1 x_2}$ = is the standard deviation of the sample and

\bar{x}_1, \bar{x}_2 = is the means of the sample.

Chapter 5: Results

5.1 Hypothesis 1:

The hypothesis tests whether or not BEE announcements result in positive or negative share price changes around the announcement date, reflecting either positive or negative investor sentiment. The long term CAAR, to 36 months post announcement, will be evaluated to determine the value proposition of BEE deals.

Short Term Evaluation: Investor Sentiment

Full Sample:

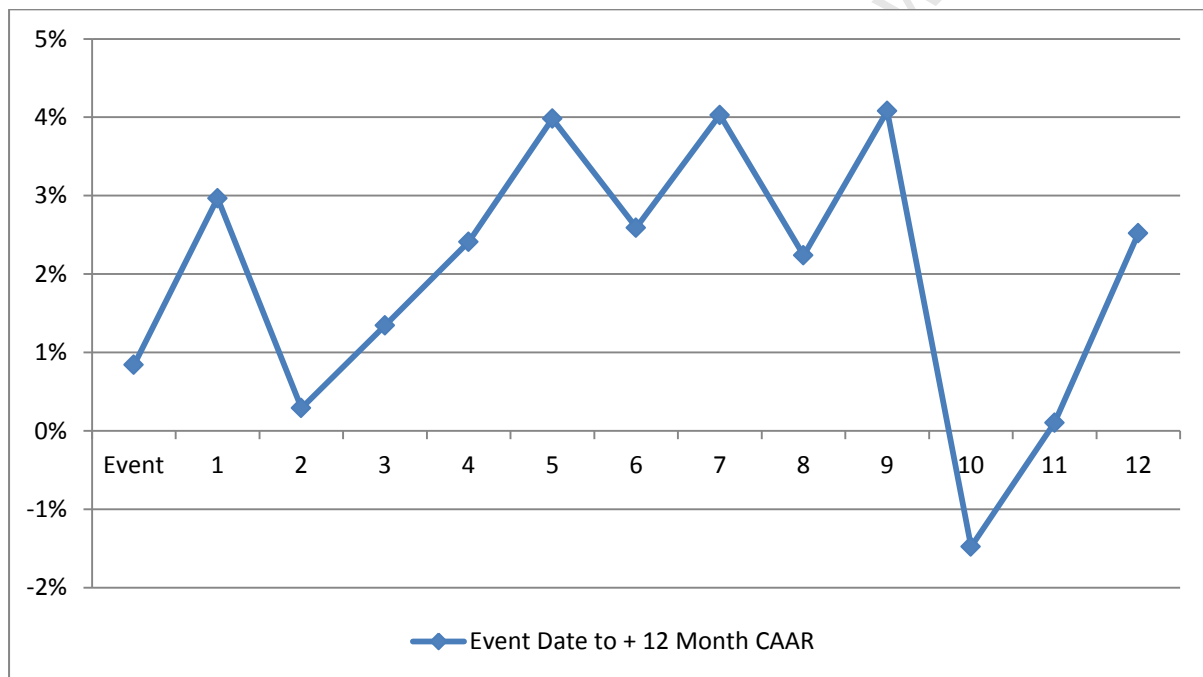


Figure 4 Event Date to +12 months CAAR plot

Figure 4 shows the CAAR plot for the uncontrolled full sample for the event period, being announcement month to +12 months. The CAAR plot reaches CAAR's of 0.84%, 1.35% and 2.52% over the announcement period, +3, and +12 months respectively. The positivity of the plot indicates a positive investor sentiment driven by positive price changes in the underlying share. The growth in the CAAR from time announcement to +3 months indicates that the market anticipates the impending BEE deals prior to actual announcement date. This is consistent with other South African M&A studies which suggest that the market on average anticipates announcements 3 months prior to the actual announcement. Van den Honert, Barr,

Affleck-Graves and Smale ((1988) and Affleck-Graves, Flach and Jacobson (1988) confirm that market anticipation occurs between 12 and 13 weeks prior to announcement. This would seem to suggest that information regarding the BEE transaction is leaked early however given the logistical difficulties in structuring BEE deals this would be expected. CAAR's remain positive over the event period peaking at month +9 at 4.08%. At month +9 the CAAR plot shifts downwards and becomes negative at month +10 at -1.48%. The general downward shift in returns indicates that the market is revising the expectations set at announcement date. This is in line with most M&A work.

The positivity of the CAAR's around the announcement date to month +12 for both event periods provides strong evidence that investor sentiment regarding BEE deals, as a whole, is positive.

University of Cape Town

Large Cap vs. Small Cap

The full sample of BEE announcements was controlled for size where companies were categorised as either small or large cap companies. This distinction was made according to the relevant market capitalisation values as at announcement date, with R3.5 billion being the cut off. Ward and Muller (2010) in their study controlled for size based on the same criteria. Their study showed that on average smaller cap companies out-performed larger cap companies.

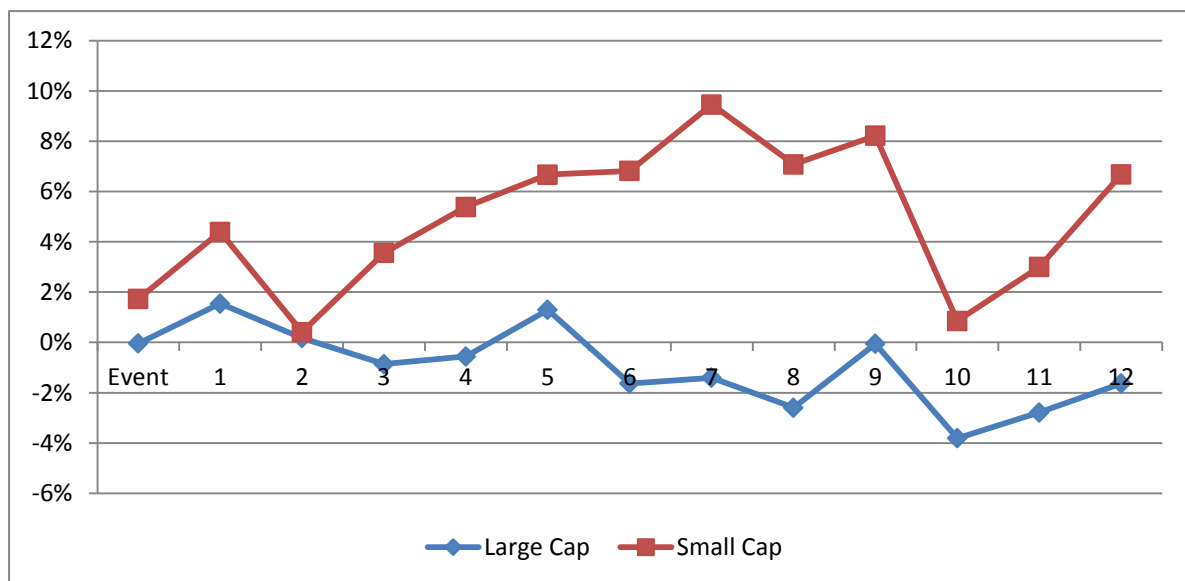


Figure 5 Size Controlled -3 to +12 Month CAAR plot

Figure 5 plots the CAAR for both large and small cap companies over the event period to +12 months. Overall, regardless of size CAAR's are positive around the announcement date confirming that investor sentiment is positive. Large cap companies show CAAR's for the announcement, +3 and +12 months periods of -0.04%, -0.08% and -1.63% respectively. Small cap companies show CAAR's for the announcement, +3 and +12 month periods of 1.73%, 3.56% and 6.68% respectively. Small cap CAAR's consistently out-perform large cap CAAR's and are positive throughout the period to +12 months, peaking at month +7 at 9.46%. Large cap CAAR's peak at month+1 at 1.54% where thereafter there is a downward trend with CAAR's becoming consistently negative from month +5. These findings are in line with the work of Ward and Muller.

The superior performance of small cap companies can be attributed to the following factors: Firstly, the proportional change, both in terms of the number of shares and the Rand value, is considerably larger for smaller cap companies. Thus the impact of the BEE announcement would have a bigger proportional impact on the smaller companies and be more visible. Secondly large cap companies are typically owned by institutional funders such as pension funds and private equity firms. Such funders typically buy big blocks of shares less frequently looking to value invest over longer periods of time. This strategy reduces the marketability and movement of shares around announcement date and as such dampens price movements. Thirdly institutional funders are typically risk adverse and the “flight to quality” results in them investing in more stable large cap firms. BEE transactions are typically seen as being overly expensive and having a dilutive effect on the underlying shares. Thus institutional funders would typically be sceptical of such transactions.

University of Cape Town

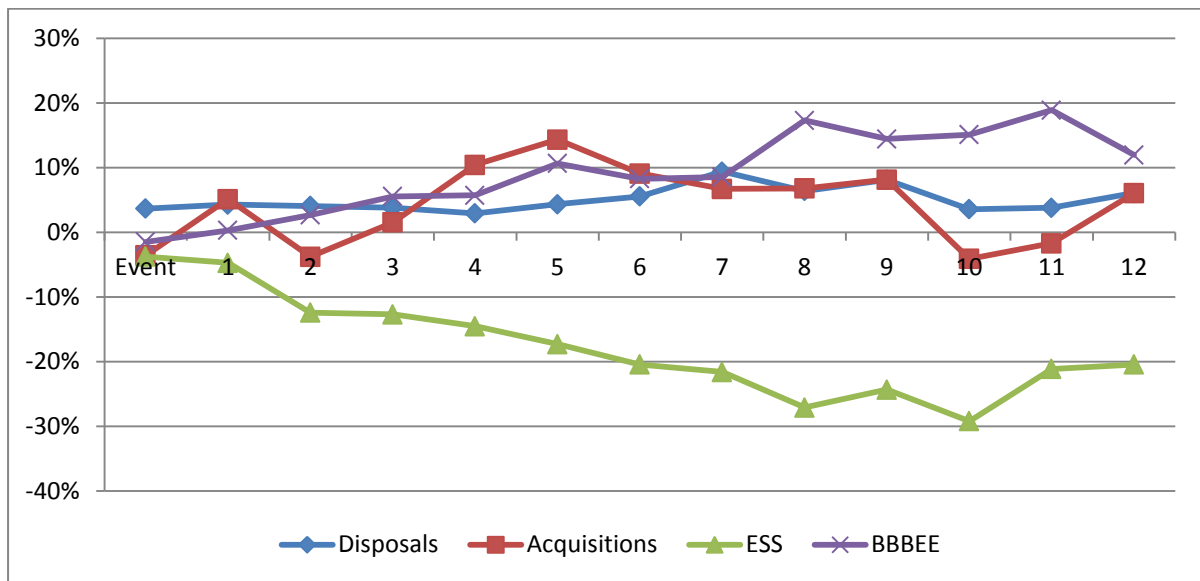
Transaction Type: Disposals, Acquisitions, Employee Share Scheme (ESS) and BBBEE

Figure 6 Transaction Type Event Date to +12 month CAAR plot

Figure 6 shows the CAAR plots for the four different categories of transactions. With the exception of ESS's, all transaction categories show positive CAAR's around the announcement period.

ESS schemes perform the worst with CAAR's becoming negative from announcement month. This indicates that investors view such transactions as being overly costly whilst adding no real benefit. Employee incentive schemes are viewed as a passive means of BEE implementation with the inherent discount being too big and the inherent costs of implementing such schemes being too costly. ESS CAAR's for the announcement, +3 and +12 month periods are -3.76%, -12.70% and -20.45%* respectively. ESS CAAR's reach a minimum of -29.29% in month +10.

Acquisition CAAR's are consistently positive over the event period to +12 months with the announcement, +3, and +12 months CAAR's reaching -3.56%, 1.54% and 6.02% respectively. There appears to be a positive trend in CAAR's post announcement, although there is a short term dip in CAAR's between months +1 and +3. The dip in short term CAAR's might be as a result of increased inefficiencies due to organisational restructuring and poor integration. The overall positivity of CAAR's would be due to the fact that whole

businesses or business units are acquired thus making benefits measurable and as such the inherent synergies quantifiable. The acquisition CAAR plot is positive for the majority of the period to +12 months.

BBEEE and disposal transactions are identical in structure. The only difference being that BBBEE schemes require a broad base of beneficiaries. Thus they will be evaluated together. BBBEE schemes tend to show more positive CAAR's than that of disposals over the event period to +12 months. BBBEE CAAR's show CAAR's for the announcement, +3 and +12 months of -1.48*%, 5.54*% and 11.95*% respectively. Disposal CAAR's over the same periods were 3.67%, 3.77% and 6.06% respectively. The superior performance of broad based schemes tends to indicate that public perception of broad based schemes is more positive. As previously noted, the early pitfall of BEE implementation was that the benefit only served the politically connected elite.

*The CAAR's were found to be statistically significant at the 95% confidence level. Refer to figures 10 and 11.

Long Term Evaluation: Value Proposition

Full Sample

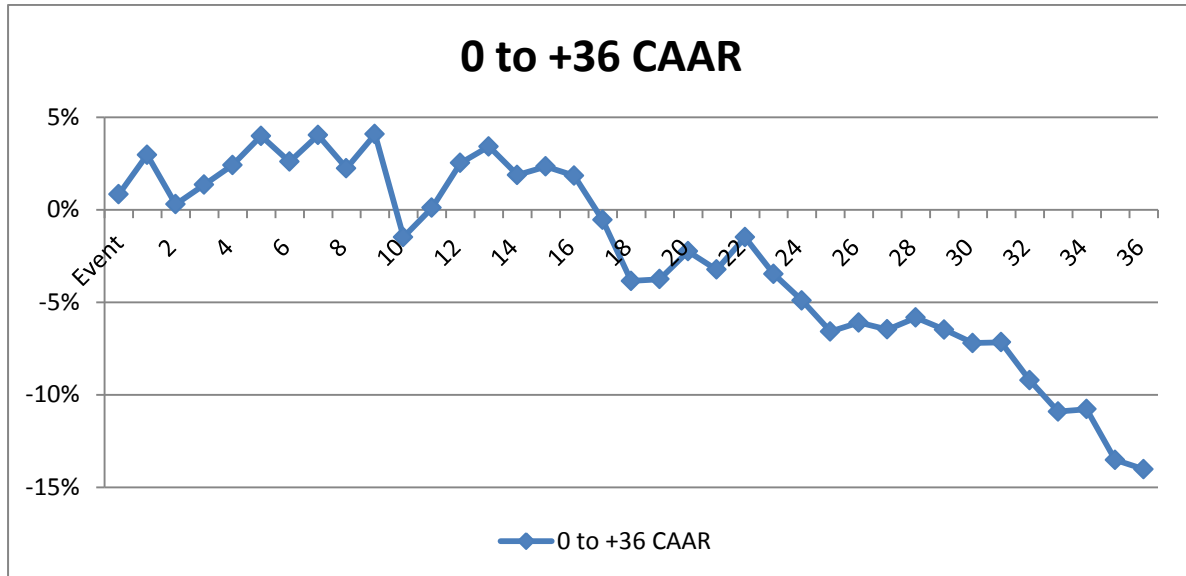


Figure 7 Event Date to +36 CAAR plot

Figure 7 shows the CAAR plot for the full sample for the event period to +36 months post announcement. The CAAR plot reaches a peak of 4.08% in month +9, where there after there appears to be a general downward shift in returns. This downward shift reflects the revision of the market's original expectations. There appears to be a spike in CAAR's between +10 and +13 months. This spike in returns might be generated by material economic information such as, the winning of big tenders that would renew investor confidence. Although the BEE deal would improve a company's BEE credentials, there would be a definite lag between the deal and the fruition of the benefits. Thus although the share price would reflect the present value of future cash flows, not all of the cash flows might be apparent at announcement date, resulting in the share price reaction.

CAAR's remain positive until month +18 where they remain at negative levels reaching +24 and +36 month CAAR's of -4.91% and -14.02% respectively. The is a general downward shift in returns from month +9 where the plot becomes and remains negative from month +18. It is evident from this that without controlling for size or transaction type, BEE deals create value over the event period to +18 months as returns exceed that of the market.

Large Cap vs. Small Cap

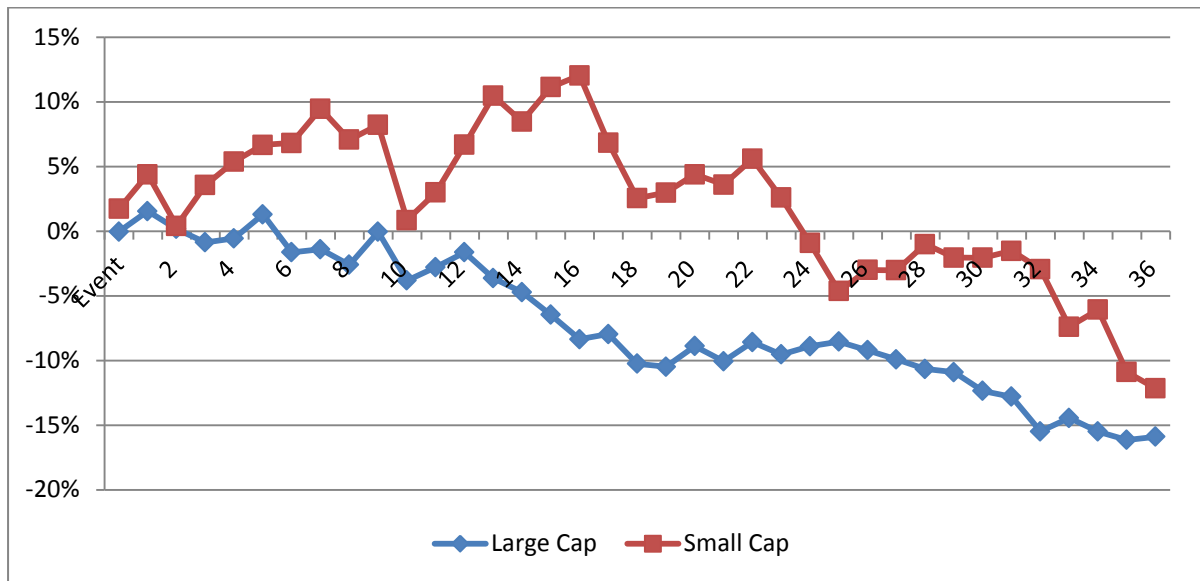


Figure 8 Size Controlled Event Date to +36 month CAAR plot

Figure 8 shows the size controlled CAAR plot for the event period to +36 months for both large and small cap companies. Large cap companies reach CAAR's at months +12, +24 and +36 of -1.63%, -8.90% and -15.90*% respectively. CAAR's peak at 1.54% at +1 month where there after there appears to be a downward trend in returns. Large cap CAAR's are negative from month +5 onwards indicating that large cap companies involved in BEE deals do not create value for the shareholder over the long term.

Small cap companies reach CAAR's at months +12, +24 and +36 of 6.68%, -0.92% and -12.15% respectively. CAAR's peak later at 12.04% at month +16 where there after there is a decrease in CAAR's. CAAR's become and remain negative from month +24 where they reach a minimum of -12.15% at month +36. CAAR's are positive over the period -1 to +24 months and as such indicate that small cap companies involved in BEE deals create value for the shareholder over the long term. Both small and large cap companies show the same spike in results at month +10 as per the full sample thus the spike is not driven by size.

It is evident that whilst the plots for both small and large cap companies tend to move in tandem, small cap companies are on average more positive. The primary driver of the small cap's superior returns relates to the points mention earlier in this section where; the proportional change, both in number of shares and Rand value, is considerably bigger and

more visible for small cap companies and that the investors of large cap companies trade less frequently in the underlying shares thus minimising the impact of announcements on share prices. Smaller companies are also less entrenched in their markets than larger cap companies and as such the potential benefits are thus that much bigger. The superiority of small cap CAAR's is consistent with the findings of Ward and Muller.

*Note that the CAAR is statistically significant at the 95% confidence level - refer to tables 11 and 12.

University of Cape Town

Transaction Type: Disposals, Acquisitions, ESS and BBEE

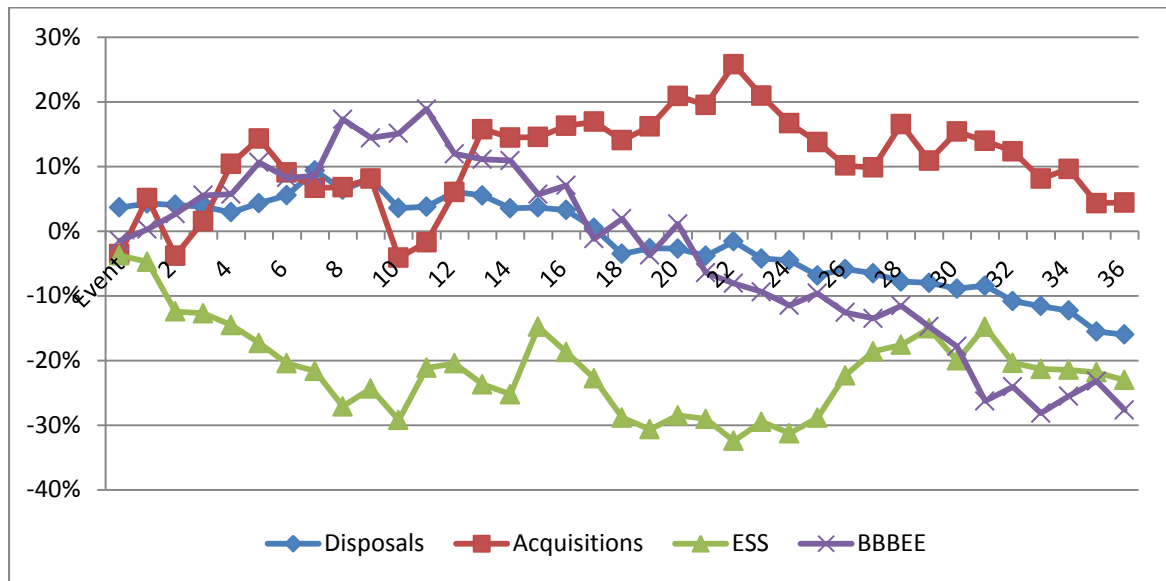


Figure 9 Transaction Type Event Date to +36 month CAAR plot

Figure shows the CAAR plots controlled for the type of transaction over the event period to +36 months. It is clearly evident that ESS transactions destroy value over the long term. Returns are negative from announcement and reach CAAR's at months +12, +24 and +36 months of -20.45%, -31.27% and -23.02% respectively. This highlights the fact that the market considers ESS to be excessively costly.

The CAAR's of disposals and BBEE deals have similar characteristics - which is understandable given their structural similarities. The CAAR plot of BBEE schemes however is more positive over the period -3 to +21 months. This indicates that the market has a more positive outlook on and favours broad based schemes. Although both earn positive CAAR's, BBEE creates more value over the same time period. BBEE schemes earn CAAR's at the months of +12, +24 and +36 of 11.95%, -11.50% and -27.64% respectively. BBEE CAAR's peak at 18.88% at +11 months where there after there appears to be a downward trend in returns. It must be noted that the BBEE control group suffers from a small sample size. Disposals earn CAAR's at the months +12, +24 and +36 of 6.06%, -4.52% and -16.00% respectively. Disposal CAAR's peak at 8.12% at +9 months where there after there appears to be a downward trend in returns. BBEE CAAR's decrease at a faster rate than those of disposals. This would suggest that the benefits of partnering with

BEE consortium outweigh the benefits of a public offering. This might also indicate that the companies' good public image of the initial offering has eroded.

Acquisitions clearly outperform all the other types of transactions and as such create value over the long term. Acquisition CAAR's remain positive throughout the testing period reaching CAAR's at +12, +24 and +36 months of 6.02%, 16.68% and 4.42% respectively. The CAAR peaks at 25.77% in month +22 where thereafter there is a downward shift in returns. Investors view acquisitions as the most sustainable form of BEE deal over the long term. This indicates that over and above the improved BEE credentials there is also a measurable increase in operations. The fact that the operations are measurable means that investors are easier able to analyse the impact of the BEE deal. With all the other form of deals this is not the case.

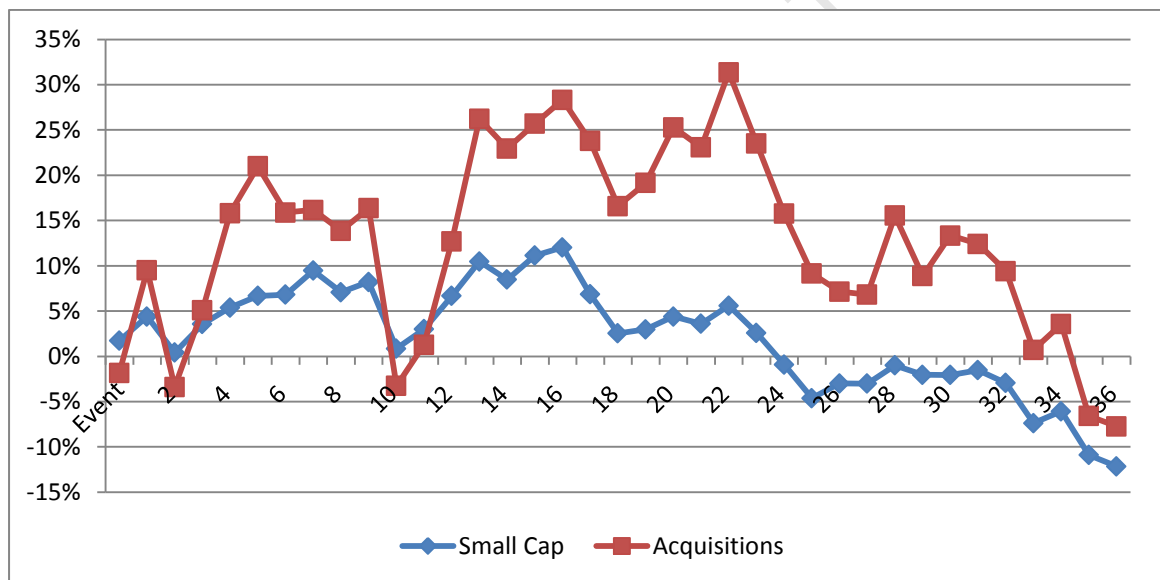


Figure 10 Small Cap vs. Acquisitions Event Date to +36 month CAAR plot

Figure 10 shows the CAAR plots of both small cap companies and companies involved in acquisitions as a means of BEE implementation. The acquisition CAAR plot shows very similar characteristics to that of the small cap companies and would indicate that small cap companies tend to focus on the acquisitions or formations of BEE companies or joint ventures as their primary method of BEE implementation. This makes sense in that smaller companies would prefer not to transfer ownership of their companies in order to obtain higher BEE credentials.

*Note that the CAAR's are statistically significant at the 95% level of confidence.

Tests of significance were performed on the CAAR, to determine if the expected CAAR was significantly different from zero. Refer to the tables below which include an analysis of the CAAR and P Values for the relevant time periods.

Statistical Testing – Control Groups						
Period	Full Sample		Large Cap		Small Cap	
Months	CAAR	P Value	CAAR	P Value	CAAR	P Value
0 to +3	1.35%	0.684	-0.87%	0.202	3.56%	0.364
0 to +12	2.52%	0.644	-1.63%	0.729	6.68%	0.279
0 to +24	-4.91%	0.552	-8.90%	0.021	-0.92%	0.934
0 to +36	-14.02%	0.149	-15.90%	0.0001*	-12.15%	0.360

Figure 11 Statistically significant at the 95% confidence level

Statistical Testing – Control Groups								
Period	Disposals		Acquisitions		ESS		BBBEE	
Months	CAAR	P Value	CAAR	P Value	CAAR	P Value	CAAR	P Value
0 to +3	3.77%	0.242	1.54%	0.748	-12.70%	0.000*	5.54%	0.000*
0 to +12	6.06%	0.297	6.02%	0.331	-20.45%	0.000*	11.95%	0.000*
0 to +24	-4.52%	0.578	16.68%	0.170	-31.27%	0.000*	-11.50%	0.004*
0 to +36	-16.00%	0.113	4.42%	0.741	-20.34%	0.000*	-27.64%	0.000*

Figure 12 Statistically significant at the 95% confidence level

Chapter 6: Conclusion:

The purpose of this study is to evaluate the financial impact of Black Economic Empowerment (BEE) announcements on company shareholders. The hypothesis tested whether or not BEE announcements resulted in positive or negative share price changes around the announcement date, reflecting either positive or negative investor sentiment. The longer term CAAR was evaluated to determine whether or not BEE announcements created or destroyed value over the long term (Announcement date to +36 months). This would suggest that initial investor sentiment regarding the deal was correct.

The results all show a significant spike in CAAR's around the announcement dates which indicates that the market had anticipated the deal the prior to the actual announcement. This timing supports the findings of Van den Honert, Barr, Affleck-Graves and Smale ((1988) and Affleck-Graves, Flach and Jacobson (1988) who all confirm that JSE's anticipation occurs between 12 and 13 weeks prior to announcement..

The analysis of the full sample suggests that investor sentiment is positive regarding BEE announcements as is seen by the positive CAAR's at event date of 0.84% and months +12 of 2.52%. This is in line with the findings of Ward and Muller whose study reflected positive CAAR's from the event date to +6 months of approximately 10%. The results are also in line with the findings of Alessandri, Black & Jackson (2009) whose study indicated event period CAAR's of 2.4%. However, when controlling for size and transaction type the degree of positivity varies.

Small cap companies outperform large cap companies. The results suggest that small cap companies tend to favour acquisitions as a means of improving their BEE credentials. Thus the better results of small cap companies is driven by the fact that acquisitions create the most value over the long term, with a 36 month CAAR of 4.42%. This is in line with the findings of Ward and Muller whose study indicates that long term value applied to smaller companies with market capitalization of less than R3.5billion. A possible reason for this long term value creation is that the value from an acquisition is measurable and as such makes the BEE investment decision measurable. Thus the underlying company does not only benefit from the

improved BEE credential, but also from the prospects of increased operations. The fact that large companies are so entrenched in their respective markets limits their ability to benefit from further BEE implementation.

ESS schemes are considered value destroying as ESS earn negative CAAR's throughout the testing period to +36 months. Investors see such transactions as being costly, dilutive to shareholders and at the very least non-value enhancing.

The CAAR plots of both disposals and BBEE share many similarities and this is expected because in fundamental structure they are the same. They both are "disposals" however it is only their beneficiaries that differ because BBEE are restricted to beneficiaries that are broad based. The CAAR plot of BBEE schemes however is more positive over the event period to +21 months. Although both earn positive CAAR's, BBEE creates more value over the same time period. This indicates that the market has a more positive outlook on and rewards companies that engage in broad based schemes. This is in contrast to the 1990's where BEE schemes resulted in the wealth creation of the politically connected business.

In summary it is evident that the market has a positive sentiment regarding BEE deals around the announcement date. The downward trend of post-acquisition abnormal returns suggests that the initial expectations for the value creation of BEE were overstated. It appears that there is an overstated hype driven by an all talk no action type approach to BEE investment decisions. Companies should look to employ an investment type approach only when looking to invest in BEE. This will ensure that BEE commitments conform with current business operations and as such act as a catalyst in creating value.

Limitations:

As is the case with any long term event studies conducted in RSA, there are a number of restrictive considerations that need to be taken into account:

1. Long term studies suffer severely from confounding events and as such it remains very difficult to test event studies over the long term;

2. The testing period of 2000 to 2008 is subject to timing bias. This is because this period suffered two economic recessions with a strong bull run in between. The contrasting economic climate would result in increases in the variances of results; and
3. The fact that BEE is a relatively new phenomenon puts pressure on sample sizes and limits the researcher's ability to extensively test control groups within the population.

Further Research:

Taking into account the above limitations it would be suggested that similar hypothesis be tested over time with larger populations. This will result in more statistically significant results. It would also be interesting to analyse the results on an annual basis and as such gauge whether sentiment and confidence is growing in BEE.

Appendices

Appendix A: Final Sample

BEE Company	JSE Code	Announcement Date	Transaction Type
Caxton Publishers	CAT	24/02/2000	Disposal
Anglo American Platinum	AMS	31/07/2001	Acquisition
Forim Holdings	FOM	31/10/2001	Disposal
SA Breweries	SAB	29/11/2001	Disposal
Dimension Data	DDT	17/10/2002	Disposal
Absa Group	ASA	24/11/2003	Disposal
Argent Industrial	ART	03/06/2004	Acquisition
Hosken Consolidated Investment	HCI	09/07/2004	Acquisition
Howden Africa Holdings	HWN	27/08/2004	Disposal
FirstRand	FSR	04/11/2004	BBBEE
Old Mutual PLC	OML	27/01/2005	Acquisition
Imperial Holdings	IPL	07/04/2005	BBBEE
Simmer & Jack	SIM	25/07/2005	Disposal
Digicore Holdings	DGC	06/09/2005	Disposal
Thabex Holdings	TBX	30/11/2005	Acquisition
Acucap Properties	ACP	13/02/2006	Disposal
Metropolitan Holdings	MMI	22/02/2006	Disposal
ELB Engineering	ELR	17/03/2006	Disposal
Glenrand MIB	GMB	21/03/2006	Disposal
Winhold	WNH	23/03/2006	Disposal
Massmart Holdings	MSM	16/05/2006	ESS
Oceana Group	OCE	26/06/2006	ESS
Comair	COM	25/07/2006	Disposal
PSG Group	PSG	31/08/2006	ESS
Wilson Bayly Holmes-Ovcon	WBO	12/09/2006	Disposal
Anglo Gold Ashanti	ANG	03/10/2006	ESS
DRD Gold	DRD	30/10/2006	ESS / Disposal
York Timber	YRK	06/11/2006	Disposal
Combined Motor Holdings	CMH	16/11/2006	Disposal
Reunert	RLO	21/11/2006	ESS
Santam	SNT	28/02/2007	Disposal
Pangbourne Properties	PAP	05/03/2007	Disposal
Gold Reef Resorts	GDF	09/03/2007	Disposal
Italtile	ITE	11/05/2007	Disposal
Woolworths Holdings	WHL	21/05/2007	ESS
Sasol	SOL	11/09/2007	BBBEE
Vox Telecom	VOX	12/11/2007	Disposal

Appendices

BEE Company	JSE Code	Announcement Date	Transaction Type
Stella Vista Technologies	SLL	19/02/2008	Disposal
Rainbow Chicken	RBW	20/02/2008	Disposal
Anglo American Platinum	AMS	10/03/2008	ESS
Assore	ASR	12/03/2008	Disposal
Network Healthcare Holdings	NTC	12/03/2008	Disposal
Absa Group	ASA	20/03/2008	Acquisition
Business Connexion Group	BCX	20/03/2008	Acquisition
Nedbank Group	NED	28/03/2008	ESS
Ceramic Industries	CRM	10/06/2008	Disposal
Tawana Resources	TAW	17/06/2008	Acquisition
Bauba Platinum	BAU	30/06/2008	Acquisition

University of Cape Town

Chapter 7: Bibliography:

- Act, B.B.B.E.E. 2004. No 53 (2003). *Government Gazette* 463:25899.
- 'Affleck-Graves, J., 'Flach, T. & 'Jacobson, A. 1988. The effect of merger announcements on the share prices of the acquired and acquiring companies. *South African Journal of Business Management*. 19(4):147-153.
- 'Agrawal, A., 'Jaffe, J. & Mandelker, G. 1992. The Post-Merger Performance of Acquiring Firms: A Re-examination of an Anomaly. *The Journal of Finance*. XLV11 (Number 4):1605-1621.
- 'Alessandri, T., 'Black, S. & 'Jackson, W. 2009. Black Economic Empowerment in South Africa: Corporate Social Responsibility that Creates Value? *Academy of Management Annual Meeting Proceedings*: 1-6 [Online].
Available:<http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=44244332&site=ehost-live>.
- 'Andrade, G., 'Mitchell, M. & 'Stafford, E. 2001. New Evidence and Perspectives on Mergers. *Journal of Economic Perspectives*, number 2 15:103-120.
- 'Arnold, G. 2005a. The Capital Asset Pricing Model and Multi-Factor Models. In *Corporate Financial Management*. Third Edition ed. UK: Financial Times Pitman Publishing. 329.
- 'Arnold, G. 2005b. Mergers. In *Corporate Financial Management*. 'Pearson Education', Ed. Third Edition. Great Britain: Financial Times Pitman Publishing 1040-1092.
- 'Arnold, G. 2005c. Stock Market Efficiency. In *Corporate Financial Management*. Third Edition UK: Financial Times Pitman Publishing 684-730.
- 'Asquith, P., 'Bruner, R. & 'Mullins, D. 1983. The Gains to Bidding Firms from Merger. *Journal of Financial Economics* 11(1-4):121-139 [Online].
Available:<http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=12154432&site=ehost-live>.
- 'Barber, B. & 'Lyon, J. 1997. Detecting long-run abnormal stock returns: The empirical power and specification of test statistics. *Journal of Financial Economics* 43(3):341-372.
- 'Barnes, P. 1984. The Effect of a Merger on the Share Price of the Attacker, Revisited. *Accounting and Business Research*: 45-49.
- BBC News Tuesday, 23 November, 2004, 15:13 GMT. *Tutu warns of poverty "powder keg"* [Online]. Available: <http://news.bbc.co.uk/2/hi/africa/4035809.stm> [2011, 06/13].
- Bhana, N. 1982. The take-over objectives of South African Acquiring Companies. *The Investment Analysts Journal* 30(3):72-74.
- Bhana, N. 1983. The valuation of take-overs by companies listed on The Johannesburg Stock Exchange. *Ratio (P/E ratio)*. 22(23):9.

- 'Brews, P. 1987. Corporate growth through mergers and acquisitions: Viable strategy or road to ruin? *South African Journal of Business Management* 18(1):10-20.
- 'Chatterjee, R. & 'Kuenzi, A. 2001. Mergers and Acquisitions: The Influence of Methods of payment on Bidder's Share Price. University of Cambridge.
- 'Damodaran, A. 1996a. Dividend Discount Models. In *Investment Valuation*. University Edition ed. USA: John, Wiley & Sons Inc. 191-218.
- 'Damodaran, A. 1996b. Market Efficiency - Definition and Tests. In *Investment Valuation*. University Edition ed. USA: John Wiley & Sons Inc. 146-158.
- Department of Trade and Industry 2007. Intention & Application of the Codes of Good Practice. 2007. [Online]. Available:http://www.thedti.gov.za/economic_empowerment/bee_codes.jsp.
- 'Dodd, P. 1980. Merger proposals, management discretion and stockholder wealth. *Journal of Financial Economics*. 8(2):105-137.
- 'Dodd, P. & 'Ruback, R. 1977. Tender offers and stockholder returns: An empirical analysis. *Journal of Financial Economics*. 5(3):351-373.
- Empowerdex June 2005. The Effects of Black Economic Empowerment (BEE) on Foreign Direct Investment (FDI): 1-9 [Online]. Available: <http://www.empowerdex.co.za/RESEARCH/ResearchArchive/tabid/192/Default.aspx> [14/06/2011].
- Empowerdex September 2006. The Impact of BEE Implementation on Profit Margins and Productivity: 1-9 [Online]. Available: <http://www.empowerdex.co.za/RESEARCH/ResearchArchive/tabid/192/Default.aspx> [14/06/2011].
- Ernst & Young. 2008. *Mergers and Acquisitions*. 18th Edition RSA: E&Y.
- Ernst & Young. 2009. *Mergers and Acquisitions*. 19th Edition RSA: E&Y.
- 'Fama, E. & 'French, K. 1993. Common risk factors in the returns on stocks and bonds. *Journal of Financial Economics*. 33(1):3-56 [Online]. Available:<http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=12243094&site=ehost-live>.
- 'Franks, J. & 'Harris, R. 1989. Shareholder wealth effects of corporate takeovers: The U.K. experience 1955–1985. *Journal of Financial Economics* 23(2):225-249.
- 'Government, R. 1994. *White Paper: Reconstruction and Development*. Notice No. 1954 of 1994. Cape Town.
- 'Gregory, A. 1997. An examination of the long run performance of UK acquiring firms. *Journal of Business Finance & Accounting* 24(7):971-1002 [Online].

Available: <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=9710111672&site=ehost-live>.

Hoffman, E. 2008. A Wolf in Sheep's Clothing: Discrimination Against the Majority Undermines Equality, while Continuing to Benefit Few Under the Guise of Black Economic Empowerment. *Syracuse Journal of International Law & Commerce* 36(1):87-115 [Online].

Available: <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=36964091&site=ehost-live>.

Jefferis, K. & Smith, G. 2005. The changing efficiency of African stock markets. *South African Journal of Economics*. 73(1):54-67.

Kothari, S. & Warner, J. 1997. Measuring long-horizon security price performance. *Journal of Financial Economics*. 43(3):301-339 [Online].

Available: <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=12243168&site=ehost-live>.

Langetieg, T. 1978. An Application of a Three-factor Model Performance Index to Measure Stockholder Gains from Mergers. *The Journal of Financial Economics* 6:365-383.

Limmack, R. 1991. Corporate Mergers and Shareholder Wealth Effects: 1977 - 1986. *Accounting and Business Research* 21(83):239-251.

Loubser, R. 02/09/2010. JSE Presents Findings on Black Ownership on the JSE. 2010. [Online]. Available: http://www.jse.co.za/about-us/media/press-releases/full-story/10-09-02/JSE_Presents_Findings_on_Black_Ownership_on_the_JSE.aspx [28/06/2011].

Loughran, T. & Vijh, A. 1997. Do Long-Term Shareholders Benefit From Corporate Acquisitions? *The Journal of Finance* 52(5): pp. 1765-1790. [Online].

Available: <http://www.jstor.org/stable/2329464>.

Lyon, J., Barber, B. & Tsai, C. 1999. Improved Methods for Tests of Long-Run Abnormal Stock Returns. *Journal of Finance* 54(1):165-201 [Online].

Available: <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=1556602&site=ehost-live>.

Mandelker, G. 1974. Risk and Return: the Case of Merging Firms. *Journal of Financial Economics* 1(4):303-335 [Online].

Available: <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=12154534&site=ehost-live>.

McWilliams, A. & Siegel, D. 1997. Event Studies in Management Research: Theoretical and Empirical Issues. *Academy of Management Journal* 40(3):626-657 [Online].

Available: <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=970812223&site=ehost-live>.

Mitchell, M. & Stafford, E. 2000. Managerial Decisions and Long-Term Stock Price Performance. *Journal of Business* 73(3):287 [Online].

Available:<http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=3433108&site=ehost-live>.

- 'Ponte, S., 'Roberts, S. & 'van Sittert, L. 2007. 'Black Economic Empowerment', Business and the State in South Africa. *Development & change* 38(5):933-955 [Online]. Available:<http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=27476718&site=ehost-live>.
- 'Rau, P. & 'Vermaelen, T. 1996. Glamour, value and the post-acquisition performance of acquiring firms: 1-52.
- Roll, R. 1986. The Hubris Hypothesis of Corporate Takeovers. *Journal of Business* 59(2):197-216.
- 'Roosevelt, F. 2009. Quotations In *Q Finance: The Ultimate Resource*. First Edition. USA: Bloomsbury. 1818.
- 'Sadler, D. 2009. Acquisition Integration: How to do it successfully. In *Q Finance: The Ultimate Resource*. First Edition UK: Bloomsbury Information Ltd. 390-391.
- 'Schipper, K. & 'Thompson, R. 1983. Evidence on the Capitalized Value of Merger Activity for Acquiring Firms. *Journal of Financial Economics* 11(1-4):85-119 [Online]. Available:<http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=12154431&site=ehost-live>.
- 'Terjesen, S. Mergers and Acquisitions: Patterns, Motives and Strategic Fit. In *Q Finance: The Ultimate Resource*. First Edition UK: Bloomsbury Information Ltd. 418-420.
- Thompson Reuters Thompson Reuters Releases full year 2010 Global Investment Banking Review. 2011. [Online]. Available:http://thomsonreuters.com/content/press_room/financial/2011_01_10_investment_banking_review [05/06/2011].
- Thompson Reuters 2009. Mergers and Acquisitions In *Q Finance: The Ultimate Resource*. First Edition ed. USA: Bloomsbury. 419.
- 'Underhill, L. & 'Bradfield, D. 1998. The t- and F- Distributions. In *IntroSTAT*. Second Edition RSA: Juta & Co. 207-232.
- 'van den Honert, R. and others. 1988. Merger announcements and the share price return - the role of the relationship between acquiring and target firms. *South African Journal of Business Management* 19(1):1-19.
- 'Van Rensburg, P. 2002. Market segmentation on the Johannesburg Stock Exchange II. *Journal for Studies in Economic and Econometrics* 26(1):83-99.
- 'Van Rensburg, P. & 'Slaney, K. 1997. Market Segmentation on the Johannesburg Stock Exchange. *Journal for studies in Economics and Econometrics*. 21(3):1-20.

Appendices

- 'Ward, M. & Muller, C. 2010. The long-term share price reaction to Black Economic Empowerment announcements on the JSE. *The Investments Analysts Journal* 71:27-36 [Online]. Available: [02/06/2011].
- 'Wimberley, T. & 'Negash, M. 2004. The value creation effects of mergers and acquisitions: Evidence from the JSE Securities Exchange South Africa. *The Investments Analysts Journal* 58:31-59.
- 'Wu, C., 'Serrao, J. & 'Matja, K. June 2006. Empowerdex: Interim Progress Report and Sector Comparison 2006: 1-39 [Online]. Available: <http://www.empowerdex.co.za/RESEARCH/ResearchArchive/tabid/192/Default.aspx> [14/06/2011].

University of Cape Town