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The Impact of Broad Based Black Economic Empowerment on Financial Performance of Top Empowered Companies Listed on the JSE in South Africa

by

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¹ **Note:** The findings from this working paper does not in any way reflect the views of the Development Finance Centre (DEFIC). The views are only representative of the authors.





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The Impact of Broad Based Black Economic Empowerment on Financial Performance of Top Empowered Companies Listed on the JSE in South Africa

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Abstract

This study aims to provide insight into the relationship between Broad-Based Black Economic Empowerment (BBBEE) compliance and the financial performance of top empowered companies listed on the Johannesburg Stock Exchange (JSE) in South Africa. Using a sample of 64 out of the 100 JSE listed companies featured in the annual Financial Mails Top Empowerment Survey Publication from 2009 until 2012, financial data on the share price, price to earnings ratio, price to book value and JSE indices were obtained for the period 2008 until 2012 from McGreggor BFA and I-Net Bridge databases while BBBEE compliance ratings as published by Financial Mail. The sample was classified into 10 economic sectors from which the financial metrics and JSE indices were correlated with the BBBEE compliance ratings.

The findings suggest there was a negative and weak relationship between share price and BBBEE compliance rating. However, a positive but weak relationship was found between price to earnings and price to book value. The cluster of companies with high BBBEE compliance ratings achieved higher and lower annualised share price returns than the respective JSE sector indices. The cluster of companies with low BBBEE compliance ratings also achieved higher and lower annualised share price returns than the respective JSE sector indices. It was also observed that high BBBEE rated companies achieved higher and lower share price returns than low BBBEE rated companies. Companies with high BBBEE compliance ratings achieved both higher and lower price to earnings than the respective JSE indices. Companies with low BBBEE compliance ratings also achieved higher and lower price to earnings than the respective JSE indices. Companies with low and high BBBEE compliance ratings achieved profit to book values below the respective JSE sectors. Of the seven BBBEE compliance indicators five positively correlated to the annualised share price return i.e. employment equity, skills development, preferential procurement, enterprise development and socio- economic development. Ownership, skills development, preferential procurement, enterprise development, socio- economic development positively correlated to the price to earnings ratio. Skills development, preferential procurement, enterprise development, socio- economic development positively correlated to the price to book value ratio.

Keywords: BBBEE | Financial Performance | JSE | South Africa |