The Effect of Transaction Characteristics on the Market Response to Black Economic Empowerment Transactions

Barry Strydom
Andrew Christison
Joao Matias

Abstract

Previous studies have found that the announcement of Black Economic Empowerment (BEE) transactions elicits a positive market reaction but recently Strydom, Christison and Matias (2009) found that the positive reaction to the announcement of BEE transactions is not universal. This paper uses an event study approach to investigate the type of BEE transaction and the size of stake acquired as two possible explanations for differing market reactions to BEE transactions. Evidence of a positive reaction to the announcement of Joint Ventures is found but not to Acquisitions or Strategic Alliances. When Acquisitions are analysed by size of stake acquired, however, a positive response to the acquisition of a controlling interest is found but acquisitions of a 100% stake are found to elicit a negative market reaction. Transaction characteristics are thus found to have an impact on the market response to BEE transactions.

Keywords: Black Economic Empowerment, Firm Valuation, Shareholder Wealth, Event Study, Abnormal Returns, Fisher's Separation Theorem.

Acknowledgements

An earlier version of this paper was presented at the Business Management 2009 Conference at the University of KwaZulu-Natal, Westville Campus.

Introduction

The social and political imperative of Black Economic Empowerment (BEE) has resulted in companies on the Johannesburg Stock Exchange (JSE) having to undertake major corporate restructuring in order to facilitate the transfer of sizable ownership proportions from existing shareholders to new black shareholders. In addition, especially in the initial wave of BEE transactions, firms had to adopt innovative financing arrangements to enable the purchase of shares by BEE role-players with little or no capital of their own often having to provide BEE partners with the capital to finance the purchase of their own shares (Ross, Westerfield, Jordan & Firer 2001: 649).

Financial theory holds that the goal of a firm is to maximize the wealth of the owners for whom it is being operated (Gitman 2009: 15). It follows, therefore, that the only financial justification for corporate restructuring is if it results in a higher share value (Ross, Westerfield & Jaffe 2002: 815). However, Fisher's Separation Theorem shows that the value of a firm is solely a product of its investment opportunities, how a firm is financed and who owns it should, therefore, have no impact on the value of the firm (Copeland, Weston & Shastri 2005: 18-19).

In general then, theory suggests that changing the ownership of a firm should have no impact on its value and as a result one should find that share prices do not respond to the announcement of BEE transactions. Further, if such a transaction is interpreted by the market as a signal that management are pursuing a costly strategy which will not result in greater revenues or lower risk then it may even result in a decrease in the share price. To date only three studies (Jackson, Alessandri & Black 2005; Wolmarans & Sartorius 2009; Strydom, Christison & Matias 2009) have attempted to empirically test the market reaction to the announcement of BEE transactions. All three studies employed an event study methodology and all three found that BEE transactions were associated with a positive abnormal return indicating a favourable market reaction.

Strydom *et al.* (2009: 75), however, also found that the positive reaction to announcements of BEE transactions is not universal and appears to be restricted to a relatively small portion of the overall sample. In addition, some of the individual firms exhibited negative reactions to BEE transactions suggesting that the nature of the market reaction to BEE

transactions may be related to firm specific and/or transaction specific characteristics. The purpose of this paper, therefore, is to examine the relationship between the market reaction to the announcement of BEE transactions and the nature and size of the transaction. The paper is organized as follows. In the literature review the concept of Black Economic Empowerment and empirical evidence regarding stock market reactions to BEE transactions is examined. Following this, the research problem and objectives are developed and the methodology to be employed is described. The empirical results are then presented and in conclusion the results are interpreted and recommendations are made.

Literature Survey

Defining BEE

The Black Empowerment Commission defined BEE[1] as 'An integrated and coherent socio-economic process within the context of the national transformation programme, which is aimed at redressing the imbalances of the past by substantially and fairly transferring the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens' (BEECom 2002: 4). Similarly, the South African government defined BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities (DTI 2003: 12).

It is evident from the above definitions that the concept of BEE is broad and refers to any economic activity that leads to the empowerment of black South Africans. For the purpose of this study, therefore, the authors

[1] Since 2007 the term Broad-Based Black Economic Empowerment (BBBEE) has replaced that of BBE. BBBEE focuses on distributing wealth across a broad spectrum of black South Africans while BEE had a narrower focus on equity ownership and management representation regardless of the number of beneficiaries. Since the sample employed in this study covers transactions between 1996 and 2006 the term BEE more accurately describes the transactions involved and is thus retained.

will focus on a narrower definition of BEE transactions that the government defined as:

- All transactions for the acquisition, by black people, of direct ownership in an existing or new entity (other than a SME) in the financial or any other sectors of the economy; and
- Joint ventures with debt financing or, or any other form of credit extension to, and equity investments in BEE companies (other than SMEs) (Republic of South Africa 2007: 5).

Benefits of BEE Transactions

As with any other form of corporate restructuring, a BEE transaction should only result in an increase in share value if it is perceived by the market to be a positive NPV undertaking; in other words it must either result in increased future cash flows to the firm (whose present value is greater than the cost of the BEE transaction) or a lower cost of capital. In the case of joint ventures and strategic alliances the normal synergistic benefits normally associated with such an undertaking would potentially be on offer. For BEE transactions, a specific potential benefit on offer is that of *revenue enhancement*. Ross *et al.* (2001: 653) indicate that corporate combinations may result in strategic benefits that allow the combined firm to generate greater revenues.

In the case of BEE legislation, being BEE compliant can result in preferential procurement, concessions, licenses and financial support from state owned enterprises (Marais & Coetzee 2006a: 121). BEE scorecards, critical in obtaining lucrative government contracts, reward firms for contracting with BEE firms and so there is also a direct financial incentive for firms not dealing directly with government to be BEE compliant if they want to do business with firms seeking government tenders. For this reason, any firms wanting to do business in South Africa should consider becoming BEE compliant (Araujo, Denenga & Milovanovic 2007: 41).

Surprisingly, Sartorius and Botha (2008: 443), reporting on a survey of 72 JSE-listed companies regarding BEE, found that the foremost reason given for engaging in BEE transactions was that BEE is essential for South Africa to sustain its economic and democratic structures. This suggests that maximising shareholder wealth is not the prime motivation for BEE

transactions. Examining the full range of responses contained in Table 1, however, shows a number of reasons given that relate to financial benefits. 32 firms saw it as an opportunity to grow their business and market share, 23 believed that they would lose market share if they did not implement BEE, 7 saw an advantage in being the leading BEE firm in their industry, 7 reported that their customers required the company to have BEE credentials, 7 used it to raise finance and 5 companies indicated that they were required by Government procurement to comply with BEE requirements (Sartorius & Botha 2008: 443).

Table 1: Reasons for implementing BEE ownership initiatives

Reason	Total
BEE is essential for South Africa to sustain its economic and democratic structures	37
Companies see BEE as an opportunity to grow their business and market share	32
Companies are committed to the principles of BEE	29
Companies realise that BEE is a business imperative and that they will lose market share if BEE is not implemented	23
Companies wish to comply with requirements of their respective industry charter/legislative reasons/ licences	19
A BEE ownership initiative is part of a broader BEE strategy	17
Companies hope to attract and retain black staff by implementing a BEE ownership initiative	15
Companies see an advantage in being the first mover or leading BEE company in their industry	7
The companies customers require the company to have BEE credentials	7
Companies use a BEE ownership initiative as an opportunity to raise finance	7
Companies are required by government procurement to comply with BEE requirements	5

Source: Sartorius and Botha (2008: 443).

Previous Studies

Jackson, Alessandri and Black (2005)

The first study to empirically test the market reaction of the JSE to BEE transactions was that of Jackson *et al.* (2005: 13) who used data from the BusinessMap Black Empowerment Database to identify BEE transactions. They identified a potential sample of 208 BEE deals between 1996 and 1998 but after applying several data filters they were left with a sample of only 20 transactions. They employed a standard event-study methodology using the

market model to calculate abnormal return and found that on average the announcement of a BEE transaction resulted in a significant positive cumulative abnormal return (CAR) of 0.013 for the 3-day event window and a 0.018 CAR for the 5-day event window which were found, using a Z statistic, to be significantly different from zero at the five percent level (Jackson *et al.* 2005: 19). Jackson *et al.* (2005: 16) then conducted univariate regressions on the CARs against the percentage of equity purchased by the BEE group, a dummy variable indicating if the BEE group was a union, the size of the discount in the BEE transaction, the size of the transaction in Rand, and a dummy variable showing the industry of the firm. They found that there was a significant positive relationship between the size of the stake acquired and the CAR of the transaction. The other independent variables (namely UNION, DISCOUNT and VALUE), however, were found to not have significant coefficients associated with them (Jackson *et al.* 2005: 19). In addition, Jackson *et al.* (2005: 20) found no relationship between CARs and the industries represented in their sample or with the financing method (debt or equity) used by the BEE group.

Wolmarans and Sartorius (2009)

Wolmarans and Sartorius (2009: 185) used a data set comprising 125 BEE transactions for 95 companies between January 2002 and July 2006. It is worth noting that their sample period does not overlap with that of the Jackson *et al.* study. Following Jackson *et al.* they calculated both a three-day CAR and a five-day CAR. They found a significant positive CAR for the three-day event window of 0.0115. The five-day CAR of 0.0091, however, was found to not be significant at the five percent level (Wolmarans & Sartorius 2009: 187).

Wolmarans and Sartorius (2009: 187) then employed an analysis of variance to test whether or not the year of the transaction and the type of transaction were significant in determining the CARs. Types of transaction investigated were: a) the selling of equity to a BEE company; b) the acquisition of a stake in a BEE firm; c) other BEE transactions such as partnerships or joint ventures. The year of announcement was found to have a significant positive relationship with the three-day CAR but further investigation found that only 2006 had a significant positive CAR indicating

that this effect was restricted to only the one year (Wolmarans & Sartorius 2009: 188). Wolmarans and Sartorius (2009: 187) also found that the type of transaction had no impact on the CARs observed.

Strydom, Christison and Matias (2009)

Similarly to the previous two studies, Strydom *et al.* (2009: 70, 73) employed an event study approach to evaluate the CAR associated with BEE transactions for the period 1996 to 2006, totalling 254 transactions. This study thus employed both the longest sample period of the three studies (the period examined includes both the early study of Jackson *et al.* and the later study of Wolmarans and Sartorius) and the largest sample size. Strydom *et al.* (2009: 73) found a cumulative average abnormal return (CAAR) of 0.0159 for the sample but this result was not significant at the five percent level. The average abnormal return (AAR) on the announcement day, however, was 0.00836 and was significant at the five percent level indicating that positive same-day abnormal returns are associated with the announcement of BEE transactions.

Of the 254 transactions included in the sample, however, only 25 resulted in statistically significant CARs and only 15 of these were positive with the remaining 10 being negative. Similarly, only 33 transactions led to statistically significant announcement-day abnormal returns (AR), 22 of which were positive and the other 11 were positive. Further, only 9 transactions were found to have both statistically significant CARs and ARs (Strydom *et al*. 2009: 74).

Data and Methodology

Research Problem and Objectives

Whilst all three studies discussed above found a positive reaction to the announcement of BEE transactions it was also evident that the positive market response was not universal, in fact in the Strydom *et al.* (2009) study a number of transactions were found to display a negative market reaction! Little is understood as yet, however, regarding what the determinants might be that affect the size and nature of the market's reaction to the announcement of a BEE transaction. The question that this paper seeks to

address, therefore, is to what extent the size and nature of a BEE transaction are related to positive returns to shareholders. Specifically the authors investigate the following questions:

a) Is there a relationship between the type of transaction and the magnitude and direction of abnormal returns surrounding the announcement of a BEE transaction?
b) In the case of acquisitions, does the size of the stake acquired affect the magnitude and direction of abnormal returns surrounding the announcement of the transaction?

Research Methodology

This study extends the previous work of Strydom *et al.* (2009) and employs the same data set and event study methodology to generate the abnormal returns. The method involves measuring the difference between the actual returns on a share during a relevant time period (the 'event window'), and the 'normal' returns expected based on some pricing model (Campbell, Lo & MacKinlay 1997: 149-152). For a given event, the presence of statistically significant cumulative average abnormal returns (CAAR) across all firms, for a given event window, would then signify that the event studied has a significant impact on share price. It is also possible to test for the abnormality of returns in respect of a particular day in the event window, either in respect of the sample as a whole (one-day average abnormal return (AAR) or a particular sub-sample.

In order to address research question (a), the authors construct three different samples of firms undertaking the following types of BEE transaction: acquisitions; joint ventures and strategic alliances. They also examine both the CAARs over the event window and the announcement day AARs for the different types of transaction, and test the statistical significance of these measures.

Similarly, in order to address research question (b), the authors classify firms that undertook BEE acquisitions into different samples based on the size of the ownership stake acquired. The following categories were used:

Table 2: Classification of BEE Acquisitions by size of stake

Category	Size of ownership stake acquired
Minor	Below 10%
Substantial	10% to less than 35%
Controlling[2]	35% to 50%
Majority	More than 50% to less than 100%
Outright	100%

We then calculate and test the statistical significance of the CAARs and announcement day AARs for each category.

Return Estimation

The study employs the market model to estimate the expected or normal returns for each share. The market model was preferred to other economic models such as the Capital Asset Pricing Model and Arbitrage Pricing Model because of their reliance on assumptions that may influence the results of the event study (MacKinlay 1997: 19). The market model assumes a stable linear relationship between the market return and the security return (Dasgupta, Laplante & Mamingi 1997: 12):

$$R_{it} = \beta_{1i} + \beta_{2i}R_{mt} + u_{it} \quad (1)$$

Here, R_{it} is the return on security *i* during period *t;* β_{1i} is the intercept; β_{2i} is the slope coefficient; R_{mt} is the return on the market portfolio proxy (JSE All Share Index) during period t and u_{it} is the error term for security *i*, representing the random component of R_{it} not explained by movements in R_{mt}. By assumption, $E(u_{it}) = 0$ and $Var(u_{it}) = \sigma^2_{ui}$. Therefore, the authors estimate the model $R_{it}(\beta)$ over an estimation window of 205 days, and calculate the normal return, R_{it}^*, as:

[2] In terms of the Takeover Code introduced under the Companies Act 61 of 1973, the acquisition of a 35% ownership stake is deemed to be the acquisition of a controlling interest.

$$R_{it}^{*} = \beta_{1i} + \beta_{2i}R_{mt} \quad (2)$$

Abnormal returns are measured using an event window that covers the period from 5 days prior to the announcement to 5 days after the announcement – a total of 11 days. The abnormal return, AR_{it}, is the actual return (R_{it}) of the security for some day t in the event window minus the predicted normal return (R_{it}^{*}):

$$AR_{it} = R_{it} - R_{it}^{*} = R_{it} - \beta_{1i} - \beta_{2i} R_{mt} \quad (3)$$

The average abnormal return for some day t (AAR_t) is the average of all the abnormal returns of the securities in the sample for that day:

$$AAR_t = \Sigma^{N} AR_{it} / N \quad (4)$$

The cumulative average abnormal return is the sum of the average abnormal returns of all securities in the sample over the course of the event window, which as stated above, lasts 11 days – that is, defining t = T as the announcement date, from t = T-5 to t = T+5:

$$CAAR = \Sigma_t AAR_t \qquad \text{for } t = T\text{-}5, \ldots, T\text{+}5 \quad (5)$$

Constructing Test Statistics

To test the statistical significance of the CAARs and announcement day AARs estimated for each sample, the authors use a z-statistic defined:

$$z = r / s(r), \quad (6)$$

where s(r) is the sample standard deviation of the estimated return r.

Although the use of a sample standard deviation would suggest use of t-statistics, the measurement window used to calculate the sample standard deviation has a large number of observations (205 days). This has the result that t-statistics would approximately follow the standard normal distribution, or more precisely, follow a t-distribution with such a large number of degrees of freedom that it converges with the standard normal distribution. Therefore, it makes sense to use a z-statistic.

In respect of the average abnormal return across the sample for some day, t, in the event window, the test statistic is defined as:

$$z_{AAR} = AAR_t / s(AAR) \quad (7)$$

In this case, $s(AAR_t)$ requires the estimation of average abnormal returns for each day in the estimation window, to give a sense of the level of non-systematic variation in the sample's average returns under normal trading conditions:

$$s(AAR) = [(1/204)\Sigma_t (AAR_t - E(AAR))^2]^{1/2}, \quad (8)$$

$$E(AAR) = (1/205)\Sigma_t AAR_t, \quad (9)$$

$$t = 1, \ldots, 205$$

The test statistic for the cumulative average abnormal return for the sample is defined as:

$$z_{CAAR} = CAAR / s(CAAR) \quad (10)$$

where

$$s(CAAR) = s(AAR)(11^{1/2})$$

The standard deviation of the cumulative abnormal return is simply the standard deviation of a security's one-day abnormal return, scaled up for the length of the event window, which in this study is 11 days (Weston, Mitchell & Mulherin 2004: 167):

To determine whether an abnormal return is statistically significantly different from zero, the test statistic is compared against the five and ten per cent significance level two-tailed critical values from the standard normal distribution, ± 1.96 and ± 1.64 respectively.

Data and Sample Selection

This paper employs the same data set as the Strydom *et al.* (2009) paper. The data concerning BEE transactions for this study were obtained from the BusinessMap Foundation and the Ernst & Young annual reviews of Merger and Acquisition Activity. The data included all the BEE transactions for the period 1996 to 2006, as well as the details for each transaction including the parties involved, the announcement date, and payment terms. Daily share price data was obtained from the McGregors BFA database. The initial data

set contained information on 1,195 BEE transactions. After applying several restrictions (see Strydom *et al.* 2009: 73) a final sample of 249 BEE transactions was left for research question (a) and 160 BEE acquisitions for research question (b).

Empirical Results

For research question (a) the difference in market reaction between types of BEE transactions was examined. It is evident from Table 3 that acquisitions dominated the sample of BEE transactions. The announcement day AAR was 0.00698 indicating a positive reaction to the announcement of acquisitions but the result was not statistically significant at either the five percent or ten percent levels. The CAAR over the event window was also positive at 0.01788 but again this result was not statistically significant.

Joint Ventures, on the other hand, were found to have a statistically significant (at the five per cent level) positive AAR of 0.01579. The CAAR for Joint Ventures was 0.01846 but was not statistically significant. These results would seem to suggest that the market responded more positively to the announcement of Joint Ventures than of Acquisitions. Such a finding would be in keeping with Fisher's Separation Theorem which holds that the value of a firm is not a function of who owns it. In contrast, if Joint Ventures involve the cooperation of two firms to exploit mutually beneficial opportunities then it follows that the market should react positively to the announcement of such a transaction.

Table 3: Tests of significance for transactions by type of transaction

	No. of Trans-actions	Announc. Day AAR	σ_{AAR}	z-stat.	CAAR	σ_{CAAR}	z-stat.
Acquis-ition	192	0.00698	0.00524	1.3319	0.01788	0.0174	1.0278
Joint Venture	48	0.01579	0.00647	2.4398	0.01846	0.02147	0.85997
Strategic Alliance	9	0.00285	0.01054	0.2704	-0.00713	0.03497	-0.2039

Research question (b) involved testing whether or not the size of the stake taken in a BEE transaction had an impact on the market's reaction to

the announcement of the transaction. Table 4 presents the results and tests of significance by size of stake.

While the results for the full sample of acquisitions reported in Table 3 indicates that acquisitions do not appear to impact on the acquiring firm's value, when the market reaction to acquisitions is analysed by size of stake, it becomes apparent that BEE acquisitions do have implications for shareholder value.

Table 4: Tests of significance for transactions by size of ownership stake acquired

	No. of Trans-actions	Announc. Day AAR	σ_{AAR}	z-stat.	CAAR	σ_{CAAR}	z-stat.
Below 10%	8	0.01504	0.00956	1.5733	-0.02286	0.0317	-0.7213
10% to 35%	7	0.00622	0.00761	0.8184	0.0380	0.02522	1.5064
35% to 50%	7	0.01118	0.00588	1.9022	0.03369	0.01949	1.7286
50.1% to <100%	5	0.048687	0.02970	1.6392	0.02116	0.0985	0.2148
Outright	3	-0.04706	0.01001	-4.702	-0.04681	0.0332	-1.4099

Most notably, outright acquisitions appear to destroy shareholder value, as indicated by the statistically significant negative announcement day AAR. While the CAAR is not statistically significant at the ten percent level of significance, it nonetheless reflects a very substantial negative cumulative return. The implication is that the market perceives such transactions as destroying shareholder wealth. At face value these results may seem contradictory. If, however, one considers the potentially substantial legal costs involved in the absorption of an acquired firm it becomes less surprising that outright acquisitions may be viewed as wealth reducing transactions. This situation is compounded if the acquisition involves the payment of a significant premium to the owners of the acquired firm over the market value of the firm, a scenario which is fairly typical for acquisitions. Empirical evidence shows that the returns to the shareholders of acquiring firms are generally low or negative (Firer, Ross, Westerfield & Jordan 2004: 786), often because the potential gains of the acquisition are

overestimated by the management of the acquiring firm leading them to pay more for the target firm than it is worth as the promised benefits fail to materialise in reality (Damodaran 1997: 687).

With respect to partial acquisitions, only acquired stakes ranging from 35% to 50% exhibited a statistically significant announcement day AAR (at the five percent level) and CAAR (at the ten per cent level), in both cases positive. In addition, the announcement day AARs for other partial acquisitions were all positive and in two cases are almost statistically significant at the ten percent level. Insofar as the CAARs for the other partial acquisitions are concerned, none of these are statistically different from zero.

Conclusion

In a previous paper (reported in Strydom *et al.* 2009), the authors found some evidence for the period 1996 to 2006 of a positive market response to the announcement of BEE transactions, particularly on the announcement date. This finding is in line with the studies by Jackson *et al.* (2005) and Wolmarans and Sartorius (2009) who reported a statistically significant positive CAAR associated with the announcement of BEE transactions. The Strydom *et al.* (2009) study however, using a larger sample covering a longer time period, while reporting a positive CAAR across the sample did not find that the relationship was statistically significant. In addition, it was found that the positive reaction to announcements of BEE transactions was not universal, appears to be restricted to a relatively small portion of the overall sample, and in some instances is negative. The implication of these findings is that a positive market response to the announcement of a BEE transaction is not guaranteed but rather depends on specific characteristics of the transaction or of the firms engaging in the transaction. In this study, we therefore set out to investigate the relationship between the market reaction to the announcement of BEE transactions and the type of BEE transaction and the size of the stake acquired in a BEE acquisition.

The authors found that while it appears that acquisitions and strategic alliances do not impact on shareholder value, joint ventures appear to induce a positive market response on the day the transaction is announced. However, in keeping with the findings of Wolmarans and Sartorius (2009),

there is no evidence that any type of BEE transaction returns a statistically significant CAAR. This finding is in keeping with Fisher's Separation Theorem that states that the value of a firm is determined by its investment opportunities, not by whom owns it. If all a BEE transaction achieves is a change in ownership then it is entirely in keeping with financial theory that there should not be a significant market reaction to the announcement of a BEE transaction. Similarly, the finding that the market reacts more favourably to the announcement of Joint Ventures than to Acquisitions is not surprising. Assuming that the market is reasonably efficient and that share acquisitions do not occur at a substantial discount or premium then the Net Present Value of a share acquisition should be zero. If firms engaging in a BEE acquisition pay fair value for the stake that they are acquiring the transaction should not have a significant impact on the overall value of either party.

The above result, however, is based on measuring the CAAR across the entire sample of BEE transactions. When we look at the size of stakes acquired in BEE transactions, we find a more nuanced picture with some evidence of a market response depending on the size of the stake acquired. Most notably, while we find some evidence of a positive market reaction to the acquisition of a partial stake, this effect is most evident for the acquisition of a controlling interest between 35 to 50%, we find that the announcement of outright acquisitions is significantly associated with a negative market reaction. This result would suggest that in general the market believes that the potential benefits of an outright acquisition do not outweigh the greater costs associated with such a transaction.

Unlike Jackson *et al.* (2005), we did not find evidence of a clearly positive relationship between abnormal returns and the size of ownership stake but this may partly be a result of the research design, which divided acquisitions into discrete categories based on the materiality of the acquisitions whilst they employed a univariate regression. This suggests that if this relationship is to be estimated econometrically, a non-linear specification might be more appropriate than the linear specification they used. This represents an opportunity for further investigation. In addition, our results indicate the danger of studying the effects of BEE transactions in a collective manner. It is evident from our results that the market responds differently to different types of BEE transactions, although at this stage there

is still much that is not understood concerning the various factors that determine the nature and extent of the market reaction. Pursuing these interactions in greater detail remains a productive area for further research.

While the evidence presented in this study does not produce unequivocal results regarding the statistical significance of the market reaction to different types of BEE transactions it is nevertheless important to observe that in general the market reaction is at least neutral. As suggested by financial theory then, BEE transactions are not associated with a negative market reaction and if one ascribes broader social benefits to BEE then these results indicate that if the financial effects are neutral then the net societal benefit of BEE transactions would be positive. Given that being BEE compliant may result in real economic benefits to firms, however, it is entirely plausible, as found by previous studies, that BEE transactions may result in a positive market reaction. The results of this study, however, indicate that caution should be exercised in assessing the returns to BEE transactions. As is to be expected in an efficient market, investors appear to be discerning in their response to BEE transactions. Positive market reaction is not general but rather seems to be limited to those transactions that offer the greatest potential for securing real financial benefits to shareholders. The implication for management and policy makers is that in order to achieve real economic benefits through BEE requires that the specific characteristics of BEE transactions should be carefully considered.

References

Araujo, J, M Denenga & A Milovanovic 2007. Section 6: Broad-based Black Economic Empowerment. *Investing in South Africa* 40-44.

BEECom 2002. *Executive Summary Report of the BEECom 2001*. Available at: http://www.bmfonline.co.za/bee_rep.html.

Brown, SJ & JB Warner 1980. Measuring Security Price Performance. *Journal of Financial Economics* 8,1: 205-258.

Campbell, J, A Lo, & AC MacKinlay 1997. *The Econometrics of Financial Markets*. Princeton, NJ: Princeton University Press.

Copeland, T, JF Weston, & K Shastri 2005. *Financial Theory and Corporate Policy*. 4th Edition. Boston, MA: Addison-Wesley.

Damodaran, A. 1997. *Corporate Finance: Theory and Practise*. New York: John Wiley & Sons.

Dasgupta, S, B Laplante & N Mamingi 1997. *Capital Market Responses to Environmental Performance in Developing Countries*. The World Bank Development Research Group: October.

DTI. 2003. *Department of Trade and Industry*. *Strategy for Broad-Based Black Economic Empowerment*. Available at: http://www.dti.gov.za/bee/bee.html.

Firer, C, S Ross, R Westerfield & B Jordan 2004. *Fundamentals of Corporate Finance*. 3rd Edition. South African Edition. Berkshire: McGraw-Hill.

Gitman, LJ 2009. *Principles of Managerial Finance*. 12th Edition. Englewood Cliffs: Prentice Hall.

Jackson, WE, TM Alessandri & SS Black 2005. The Price of Corporate Social Responsibility: The Case of Black Economic Empowerment Transactions in South Africa. Working Paper 2005-29, December, Federal Reserve Bank of Atlanta Working Paper Series.

Mackinlay, C 1997. Event Studies in Economics and Finance. *Journal of Economic Literature* XXXV, March: 13-39.

Marais, F & L Coetzee 2006. The Determination of Black Ownership in Companies for the Purpose of Black Economic Empowerment (Part 2). *Obiter* 502-538.

Ross, S, RW Westerfield & J Jaffe 2002. *Corporate Finance*. 6th Edition. New York: McGraw-Hill.

Ross, S, RW Westerfield, BD Jordan & C Firer 2001. *Fundamentals of Corporate Finance*. 2nd South African Edition. Roseville: Irwin/McGraw-Hill.

Sartorius, K & G Botha 2008. Black Economic Empowerment Ownership Initiatives: A Johannesburg Stock Exchange Perspective. *Development Southern Africa* 25,4, October: 437-453.

Soongswang, A 2007. An Investigation of Tender Offer Effects on Thai Target Firms During the Bid Period. *International Research Journal of Finance and Economics* 9: 87-104.

Strydom, B, A Christison & J Matias 2009. An Empirical Investigation of the Effect of Black Economic Empowerment Transactions on Share Prices: 1996 to 2006. *African Journal of Accounting, Economics, Finance and Banking Research* 5,5: 67-76.

Weston, JF, M Mitchell & JH Mulherin 2004. *Takeovers, Restructuring and Corporate Governance*. 4th Edition. Upper Saddle River, NJ: Prentice-Hall.

Wolmarans, H & K Sartorius 2009. Corporate Social Responsibility: The Financial Impact of Black Economic Empowerment Transactions in South Africa. *South African Journal of Economic and Management Sciences* 12,2: 180-193.

Barry Strydom
School of Economics and Finance
University of KwaZulu-Natal
South Africa
strydomb@ukzn.ac.za

Andrew Christison
School of Economics and Finance
University of KwaZulu-Natal
South Africa
christison.a@gmail.com

Joao Matias
Barnard Jacobs Mellet Wealth (Pty.), Ltd.
Durban, South Africa
joaom@bjm.co.za