FINANCIAL PERFORMANCE OF ENVIRONMENTALLY RESPONSIBLE SOUTH AFRICAN LISTED COMPANIES

by

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TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>ACKNOWLEDGEMENTS</th>
<th>CHAPTER CONTENTS</th>
<th>APPENDICES</th>
<th>SYNOPSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>ii</td>
<td>vi</td>
<td>vii</td>
</tr>
</tbody>
</table>

CHAPTER CONTENTS

1. INTRODUCTION AND PROBLEM STATEMENT ........................................ 1
   1.1 INTRODUCTION AND BACKGROUND ........................................... 1
   1.2 PURPOSE AND IMPORTANCE OF THE STUDY ................................ 5
   1.3 DEFINITIONS ............................................................................. 6
   1.4 PROBLEM STATEMENT ............................................................. 6
   1.5 HYPOTHESES ........................................................................... 7
   1.6 LIMITATIONS ........................................................................... 8
   1.7 ORGANISATION OF THE STUDY ................................................. 8

2. REVIEW OF THE RELATED LITERATURE ........................................ 11
   2.1 INTRODUCTION .......................................................................... 11
   2.2 THEORETICAL FOUNDATION OF ENVIRONMENTAL REPORTING ...... 11
   2.3 STAKEHOLDERS INTERESTED IN ENVIRONMENTAL REPORTING ..... 15
     2.3.1 Society ................................................................................. 19
     2.3.2 Governments and their agencies .......................................... 21
     2.3.3 Local communities .............................................................. 29
     2.3.4 Customers ............................................................................ 29
     2.3.5 Suppliers and other trading partners .................................... 30
     2.3.6 Employees ........................................................................... 31
     2.3.7 Investors, lenders and insurers ............................................ 32
     2.3.8 Accountants and auditors ................................................... 35
6.2.4 Summary and comparison of correlation analyses .........................................135
6.2.5 Discussion of results of correlation analyses ..................................................143
6.2.6 Summary and conclusion for correlation analyses .........................................146
6.3 RESULTS OF SECTOR TREND ANALYSES ..................................................148
6.3.1 Environmental responsibility per sector ......................................................148
6.3.2 Summary and conclusion for environmental responsibility per sector ..........157
6.3.3 Average financial performance of environmentally responsible companies in comparison to that of companies without an environmental responsibility measure per sector ........................................159
6.3.4 Data plots of ERP and financial performance measure per sector ...............165
6.3.5 Discussion of results of sector trend analyses .............................................176
6.3.6 Summary and conclusion for sector trend analyses ...................................183
6.4 FINAL SUMMARY AND CONCLUSIONS.......................................................185
7. SUMMARY AND CONCLUSIONS ..................................................................193
7.1 INTRODUCTION ...........................................................................................193
7.2 REVIEW OF THE RELATED LITERATURE ..................................................193
7.3 ENVIRONMENTAL RESPONSIBILITY .........................................................197
7.4 FINANCIAL PERFORMANCE ......................................................................200
7.5 RESEARCH DESIGN AND METHODOLOGY ..............................................202
7.6 ANALYSIS OF RESULTS .............................................................................204
7.7 FINAL SUMMARY AND CONCLUSIONS .....................................................208
7.8 SUGGESTIONS FOR FUTURE RESEARCH .................................................218
APPENDICES

APPENDIX 1  CONTROL LIST .......................................................... 220
APPENDIX 2  JUDGEMENT SCALE .................................................. 224
APPENDIX 3  ENVIRONMENTAL REPORTING PERCENTAGES .......... 226
APPENDIX 3.1 TOTAL QUALIFYING POPULATION ......................... 227
APPENDIX 3.2 TOTAL POPULATION EXCLUDING WILD POINTS ........ 234
APPENDIX 3.3 COMPANIES REPORTING ON ENVIRONMENTAL
   MATTERS FOR FOUR TO FIVE YEARS ............................... 238
APPENDIX 4  FINANCIAL PERFORMANCE DATA ............................... 240
APPENDIX 4.1 FINANCIAL PERFORMANCE DATA – ROC .................. 241
APPENDIX 4.2 FINANCIAL PERFORMANCE DATA – ROA .................. 256
APPENDIX 4.3 FINANCIAL PERFORMANCE DATA – ROE .................. 270
APPENDIX 4.4 FINANCIAL PERFORMANCE DATA – EVA .................. 284
APPENDIX 5  MEASURES PER SECTOR ........................................... 293
APPENDIX 5.1 AVERAGE FINANCIAL PERFORMANCE MEASURES PER
   SECTOR .............................................................................. 294
APPENDIX 5.2 AVERAGE ERP PER COMPANY PER SECTOR (NOT
   INCLUDED IN APPENDIX 5.1) .............................................. 352
APPENDIX 6  DATA PLOTS ............................................................. 355

BIBLIOGRAPHY ............................................................................. 378
SYNOPSIS

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by

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The purpose of this study was to investigate whether there is a positive relationship between environmental responsibility and financial performance of South African listed companies.

For the purposes of this study annual financial statements for the periods ending from 1994 to 1998 were investigated. Only companies listed on the Johannesburg Stock Exchange (JSE) during the calendar years 1994 to 1998 were included. The investigation was not limited to certain sectors of the JSE in order to include all possible environmentally responsible companies.

In the review of the related literature the theoretical foundation of environmental reporting was investigated based on fundamental accounting principles. The stakeholders interested in environmental reporting were identified and their influence on the environmental information presented in annual financial statements was
examined. The costs or disadvantages versus the benefits or advantages of environmental responsibility were explored. The findings of previous studies that examined the relationship between environmental performance and financial performance were investigated.

Environmental responsibility was defined, taking previous researchers’ definitions into consideration. Pressures towards environmental responsibility that companies experience and progress made by companies were discussed. Previous studies were used to identify the most appropriate measures to use when measuring environmental responsibility. A control list and a judgement scale developed from previous research were selected for use in this study to determine environmentally responsible companies.

Profitability, as a key component of financial performance, was defined. Elements of financial performance were discussed under the profit zone and causal factors. Financial performance measures most often used were identified from relevant literature. These measures were considered as well as measures used in previous research before selecting return on equity, return on assets, return on capital and economic value added for purposes of this study.

Correlation analyses were performed for the following groups of companies for every year from 1994 to 1998:

- Total qualifying population of companies;
- total population excluding wild points regarding environmental reporting percentages; and
- companies reporting on environmental matters during four to five years of the period examined.
The financial performance measures ROE, ROA and ROC were individually correlated with the environmental reporting percentages for all the companies, regardless of the JSE sector of the companies. The correlation of EVA with the environmental reporting percentages was limited to industrial companies.

Analyses per sector were performed by way of the following trend analyses for every year from 1994 to 1998:

- Environmental responsibility per sector;
- average financial performance for environmentally responsible companies in comparison to average financial performance for companies without a environmental responsibility measure per sector; and
- data plots.

There is a positive relationship between the environmental responsibility and the financial performance of South African listed companies; i.e. the higher the environmental responsibility of a company is, the higher is the financial performance of that company. However, it is important to note that this conclusion is based on the results in total and that causality could not be addressed. There are still many sectors with no or very little evidence of environmental responsibility.