

UNIVERSITY OF KWAZULU-NATAL

A content analysis of financial statements to determine the primary purpose of JSE listed companies in the mobile telecommunications sector.

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## ABSTRACT

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This study analyses the listed companies in the mobile telecommunications sector of the JSE, with the intention of determining their primary purpose. The study explores the literature of the three economic models, namely the neoclassical theory, Conscious Capitalism and the entity maximisation and sustainability models. This is vital as the major identifiers and themes of each model need to be compared and contrasted with each other in order to determine the differences between the models. The next stage is to match the economic models with the companies in the study using a content analysis of each company's annual integrated reports. The annual integrated reports, the annual financial statements and the sustainability reports (where separately disclosed) were analysed over a five-year period from 2013 to 2017. The companies in the study are Blue Label Telecoms, The Huge Group, MTN and Vodacom. The selected companies are listed on the JSE in the mobile telecommunications sector and have to adhere to the strict reporting requirements of the JSE. The study then uses financial ratio analysis to determine the profitability of each company in the review. The study then concludes which company, using the economic model, performed the best over the five-year period. The content analysis determines the dominant model in the mobile telecommunications sector which happens to be the entity maximisation and sustainability model. Each company, though, has a different focus from the other. Blue focuses on shareholders and customers, the Huge Group on shareholders, MTN on its employees and Vodacom focused on its customers. The ratio analysis reveals that Vodacom had performed the best followed by MTN while Blue and Huge were tied for third place. Therefore, it can be concluded that the Vodacom entity maximisation and sustainability model with a focus on customers that Vodacom follows performs the best over the 2013 to 2017 period.

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# Chapter One

## Introduction

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### 1.1. Introduction

There has been much debate about the different goals and approaches to running a business such as what the main aim of running a business ought to be. While there has been much research and literature about the ultimate goal and purpose of a business and what these should be, there has been very little research and study about the kind of goals and approaches that a business should be striving to achieve. This study seeks to close that gap by looking at the South African context and identifying models and approaches that would make a successful business. One that can operate in a South African industry while staying true to its main purpose. For this to happen, the models that will provide clarity as to the objectives of a business need to be identified. From the literature, there are basically three types of models that will need to be discussed in this study: (1) neoclassical (sometimes called the shareholder value model), (2) entity maximisation and sustainability (EMS) and (3) conscious capitalism (CC) (Also called stakeholder value model). These models and identifiers will be discussed in more detail in the next chapter.

This study will focus on these three models in a South African setting and will utilise the mobile telecommunications sector of the JSE.

This introductory chapter will serve as an overview of the study highlighting the various aims and objectives as well as the limitations and the research methodology employed in this study.

### 1.2 Problem Statement and Motivation for Study

According to Adam Smith (1776), the main purpose of a business is to make profits and this requires it to concentrate solely on maximising shareholders' profits. This is known as the neoclassical model (Vranceanu, 2014). The Neoclassical theory was first theorised by Adam Smith and is still relevant today. This model focuses on the shareholders of the company and if a company focuses solely on this stakeholder group then it will be focusing on short term

profits that would maximise the shareholders' value (Mizruchi and Kimeldorf, 2005). The authors stated if the company executives are no longer focusing on long term growth and stability strategies but rather concentrating on the bottom line of the firm which would add the most value to the shareholder.

The next model that will be reviewed is conscious capitalism (CC). John Mackey and Raj Sisodia championed this particular model and it has proven to be very popular in America. This model focuses on stakeholders rather than the actual owners of the business which makes the business focus on enriching the lives of all the stakeholders rather than maximising profits for only the shareholders (Mackey, 2011). The interests of the major stakeholders are usually varied and sometimes at odds with each other. The model requires that these stakeholders' interests have to become integrated for the company to become successful.

The third model is called the entity maximisation and sustainability (EMS) model. The third model is similar to the previous model discussed (CC) in that the focus of the model is in the creation of higher worth to the company while maintaining the value proposition on the long run (Hogevold et al, 2014). The model seeks to maximise the wealth of the business thereby making future sustainability, a key priority of the firm (Keay, 2011).

There is a dearth of research which investigates the main purpose or model followed by South African companies or even the models followed by a specific industry within the South African context. The three models identified above, do have their merits and weaknesses as the literature review will show however it is unclear, in a South African, context, which model is the dominant one and yields the higher profits. The mobile telecommunications sector as listed on the JSE has been selected for further analysis by interrogating the annual integrated reports to figure out the objective of the company.

There is an inadequate source of research dedicated to determining the purpose of the company within a localised regional setting like South Africa (Gregory and Chasomeris, 2016). The companies included in this study are Blue Label Telecoms, Huger Group (which comprises Huger Telecoms), MTN and Vodacom. These companies and their strategies and objectives will be further analysed in the forthcoming chapters.

### **1.3 Aims and Objectives**

This study is intended to analyse the annual integrated reports, annual financial statements and any other publicly available report of the listed telecommunications sector companies on the JSE so as to determine their overall purpose.

The aims and objectives of the study have been identified as follows:

1. To examine the literature of the three models, namely the neoclassical model, conscious capitalism (CC), and the entity maximisation and sustainability model (EMS) in order to identify themes and major identifiers of each one.
2. To examine the financial statements over a five-year period from 2013 to 2017, of the listed companies in the telecommunications sector of the JSE, in particular all the publicly available information contained in the statements issued by the relevant companies, for key identifiers that could link to any of the three models.
3. Investigate to find which model each of the companies listed on the JSE is following, based on an analysis on each company's annual financial statements and integrated reports.
4. To ascertain if there is a dominant model utilised by companies who are relevant to this study and if so, which model, in particular.
5. To determine if a particular model linked to the relevant companies in this study, is associated with a higher profitability by analysing the integrated annual reports and using profitability ratio analysis.

### **1.4. Research methodology**

A thorough literature review was undertaken using secondary data from books, publications, and online websites. This literature review provides information about the three models that were selected and the main stakeholders that affected the listed companies such as the users of the financial statements. The review enabled background information about the telecommunications sector to be obtained and analysed.

The literature review was essential in identifying themes and other key factors that the models revealed. The integrated annual statements that are publicly available on the various companies' websites were reviewed and used to complete a content analysis of the selected companies. As mentioned previously the four JSE listed companies are Blue Label Telecoms (Blue), Hugel, MTN and Vodacom.

This content analysis enabled a conclusion to be drawn about the dominant model followed by each company and how it impacts on each of the companies listed above. Chapter two shows how ratio analysis is used to determine the profitability of each company so the performance can be ascertained and a determination of which company (and model) would be the most advantageous to follow.

### **1.5. Overview of the study**

This study has followed a standard methodology as described below.

Chapter one sets out the problem and provides some background for the motivation of the study. This chapter includes the motivation and the research methodology performed which includes the limitations and delimitations of this study and the objectives have been listed.

Chapter two comprises of the literature review undertaken. As stated above, there is little research and subsequently literature in a local setting. Once the models have been identified then they can be analysed as to how they would affect the objective of the companies that have been selected in this study. This will include their strengths and weaknesses as well as identify the stakeholders normally associated with the companies in the industry.

Chapter three includes the research methodology with more detail than what has been undertaken in this chapter. The chapter will explain the techniques that have been selected and how they are used for the study.

Chapter four analyses the annual financial reports and other public statements from the companies in the industry to relate them to the identified models. It uses the model identifiers to analyse which model is being used by each company. Once each company's model has been identified then ratio analysis will be used in chapter five to determine the profitability of each strategy.

Chapter five uses ratio analysis to determine how profitable each company is within the telecommunications sector of the JSE and ranks them accordingly. This is done to ascertain which model is associated with the highest profits in this country.

Chapter six concludes with the data accumulated and summarises the results and findings. Recommendations for future studies are also provided.

## **1.6. Limitations and delimitations of the study**

The limitations and delimitations of the study can be expected to include:

1. This study will use publicly available information such as the annual financial reports of each company and the sustainability reports if published separately. These reports, by necessity, are summarised by the companies themselves and the conclusions drawn from them are based on these summaries.
2. It is possible that the conclusions drawn from these summaries may be subjective in nature.
3. A five-year period has been selected as being of sufficient length from which to draw conclusions based on the information researched. The conclusions drawn may only be relevant to the five-year period analysed.
4. The strengths and weaknesses of ratio analysis are described more in-depth in the following chapters though it must be acknowledged that the company objective and therefore the model used is only one such factor that may impact on the effectiveness of the ratio analysis used.

## **1.7. Conclusion**

The lack of literature and research has resulted in local businesses not having a well-known corporate objective model. This study will investigate to determine the purpose of the company and each company's profitability within the telecommunications sector. The limitations and delimitations of the study have been clearly defined.

This chapter gives an overview of the current situation as regards to the telecommunications sector while relying on previous literature and research conducted in other industries in a South African context.

The second chapter will deal with the literature on the available models that will be defined by the stakeholders involved in such models as well as the reporting frameworks and the background of the selected companies in this study.

# Chapter Two

## Literature Review

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### 2.1 Introduction

This chapter gives an overview to the purpose of a company and the three models that were mentioned in chapter one. In general terms, the reason why a company is formed and whether a specific model might be better suited for maximising that purpose. The company could be focused on maximising profits or perhaps have another aim in which profits are merely a means to an end.

There has been much research over the course of centuries as companies appeared for the first time and when they become the dominant form of business. Various researchers, academics and even businessmen have tried to formulate theories but with no definitive answer being found. These ideas have differed from place to place and even over the centuries as new trends and ideas are uncovered and established. In considering the recent literature, there have been 3 models that stand out. These have been covered in the first chapter and are namely, the neoclassical (or shareholder) model (Sundaram and Inkpen, 2004), the stakeholder model (sometimes referred to as conscious capitalism) (Mackey, 2007), the entity maximisation and sustainability model and identifies the various models' characteristics and the differences between each one. The study concentrates on the telecommunications component of the JSE which includes the four companies mentioned, being Blue, Hugel, MTN and Vodacom as well as the various rules and regulations that the JSE requires each company to uphold.

### 2.2 The Neoclassical Approach

This approach is sometimes known as the shareholder value model. This approach was promulgated by economists after *The Wealth of the Nations* was published by Adam Smith (Schiller, 2013). The basic aim of this model was that companies were only interested in maximising profits for themselves thus increasing the wealth of their shareholders. The company would choose to sell its good at the highest profits. This would be where the marginal

revenue equalled the marginal cost and where the company would attain the most profits. This model has a few weaknesses as it theorises that companies and individuals in pursuing their own interests, would still enable society to uplift itself and create a better life for its citizens. Patently this outcome would be highly unlikely as individuals and even the companies themselves have different and sometimes, opposing views.

Shareholders have the largest interest in the company performing well as their investment is intrinsically linked to the company maximising its profits and increasing the value of their investments (Macey, 1998). A major concern of shareholders would be in appointing the appropriate directors to manage and maximise their investment in the company. In this way, the directors act as agents for the principal which is the shareholders (Ross, 1973).

Keay (2008) has theorised three assumptions identifying the efficiency of the Neoclassical model. These are (1) shareholders are more likely to strive to adopt policies that maximise profits and will therefore increase economic efficiencies; (2) Since the directors have to only satisfy a single segment, i.e. the shareholders, so their aims and objectives will only be focused on this group and lastly; (3) by increasing profits, every part of the company will be greatly enhanced and will benefit by this profit taking.

Neoclassical theory states that it is much easier and therefore, more economical for directors to focus on the interests of one group of stakeholders rather than the varied interests of many different types of stakeholders (which will be discussed later in this chapter) especially since this would be hard to manage (Van der Weide, 1996).

Other stakeholders also have some protection in the form of legal binding contracts with the company like employees who have employment contracts and are thus legally protected. The shareholders have no such protection and the value of their shares are heavily dependent on the company's performance and profits (Keay, 2008). This would suggest that the shareholder's main focus would be on profit maximisation and increasing the company's value even at the expense of other stakeholder's interests. As mentioned previously, the shareholders appoint the directors who act as agents of the shareholders. In this way, the shareholders are the most important stakeholder for the directors to keep contented. This might narrow the focus of the directors and other areas of the company might suffer unless it can be shown to increase the wealth of the company and therefore the value of the shareholder's investments.

There are patent weaknesses with this model as suggested by Abdur Rahman (2011) when he noted that profits were maximised by companies and this would only occur when companies produced at the equilibrium output. This may not suit the society's needs and wants and this doesn't represent a real world view as the model assumes perfect information for consumers as well as there being no timing differences between costs being incurred and revenues collected.

Authors such as Jones and Felps (2013) and Loderer et al (2010) argue that other corporate elements that could lead to the prolonged sustainability of the company might be ignored. One such significant area would be corporate social responsibility (CSR) and it is conceivable that this vital area would not be acted on unless the directors were convinced that this would achieve their objectives. Other areas including product development, marketing and human resources could be scaled back to the detriment of long term growth while increasing short term profits through decreased expenses. This sole focus on shareholders would neglect the other stakeholders and this entails a short term focus which would mean that the company may, theoretically, not be sustainable in the long term as Keay (2008) states.

There is also a debate as to which approach would best suit the director's objective of maximising the shareholder's wealth. Should their efforts be focused on short term value or investing in the company for sustainable profits in the future? Keeping this in mind, it would be foolhardy for directors to keep increasing short term profits at the cost of long term ones. Halburd (2014) states that this model would destroy shareholder value in the long run as the lifespan of the company would be greatly diminished if the focus is only on short term profits.

As the above paragraph notes, the focus of the directors is very narrow as it only deals with increasing the shareholder wealth in the company. This means that it is much easier just to focus on one stakeholder's interest rather than the myriad of interests by a number of stakeholder groupings.

Another argument stated by Elson (2010) is that as shareholders provide the bulk of the capital, they will not be keen to invest in a company unless their interests, namely the maximisation of shareholder wealth, are seen to. This would lead to the ability of the company to fund itself being greatly reduced as shareholder investment is a large part of how a company can fund itself. The directors would be forced to rely on current profits and debt bearing instruments to

fund itself. This would place added strain on the profits as they would be needed to service the debts as well as partly fund the company's operations. An example of this would be where a company has gone on a cost-cutting exercise when it needs to increase revenues and it can only do this by decreasing costs, in order to maximise shareholder wealth. These cost cutting exercises have detrimentally affected the operation that was impacted. In the case where employee benefits have been reduced or even where the workforce has been reduced, employees could potentially become demoralised which leads to a loss of productivity from the workforce as a whole (Jones and Felps, 2013).

The model discussed above fails to recognise any other stakeholder other than shareholders. Many researchers, such as Keay (2008) have stated that all the stakeholders are impacted by the company's operations and practices and as such, all of these stakeholders need to be included in the directors' decisions especially ones which affect them directly.

The next model is Conscious Capitalism which is sometimes referred to as the Stakeholder Model. Conscious Capitalism takes all the stakeholders into account before a decision or practice is implemented.

### **2.3 Conscious Capitalism Model**

As discussed in the previous section, Conscious Capitalism is sometimes referred to as the Stakeholder model. The stakeholder model does not rely on assumptions that usually don't exist in the normal, everyday world. Things like complete information, price-taking behaviour, zero transaction costs and perfect knowledge between consumers and producers are just a few examples (Jones and Felps, 2013). Conscious Capitalism is one of the stakeholder models that has been identified as being relevant to today's business and corporate environment.

Conscious Capitalism is a model that has been rising in popularity, particularly in the U.S.A. and various regions of North America and one that businesspeople have been quick to embrace. Some large companies such as Whole Foods (Mackey and Sisodia, 2013) have been championing the model of late. While there is evidence that such a model has been around for a long time in the early 1930s (Keay, 2008), it is generally acknowledged that Edward Freeman had been the first to actually research the model and the publish it in an article (Keay, 2012) and then expand on the model in a book (Keay, 2012). This book entitled "Strategic

Management: A Stakeholder Approach” that has been credited as linking the performance of management to the various stakeholders. (Keay, 2012).

This model focuses on not only on the shareholders of the company but on everyone that is affected by its business practices and policies. These stakeholders in the company need to be more narrowly defined. Keay (2016) suggests that stakeholders are people related to the business and contributing to the ability of the business in achieving its desired outcomes. There have been many other studies to define who stakeholders actually are and some exhaustive studies have listed as many as 27 different types of stakeholders (Mitchell et al, 1997) however the emphasis for this study shall be on the main key stakeholders only.

There are four main principles as discussed by the literature. These are a Higher Purpose, Stakeholder Orientation, Conscious Leadership and Conscious Culture. These four main principles will be explored further below.

### **2.3.1. Higher Purpose**

As suggested by the Neoclassical method, the focus for management remains firmly on the shareholder. This higher purpose is related to management focus and where it should lie. Young-Ferris (2015) argues that this focus should be more varied than merely profit maximisation and more on the interests of all stakeholders. This would be an indication that the higher purpose of a business is vitally important to its workings and the three other principles would all depend on it. Sandling (2014) states that the higher purpose is usually found in the company’s mission statement and this would show stakeholders and any potential stakeholders what the company does, why it does it and what the directors hope that they will achieve by taking that particular course of action. By focusing on this higher purpose, the company will have other reasons to exist beyond maximising profits for its shareholders which the Neoclassical model attributes to. This means that this higher purpose is the most important point of Conscious Capitalism since the other three principles derive their own objectives from it. This would mean that this higher purpose would engage, motivate and build trust with employees, customers, the surrounding environment and other stakeholders.

### **2.3.2. Stakeholder Orientation**

Stakeholder orientation refers to a company that knows that it cannot operate in solely on its own but is dependent on a web of stakeholders. This would indicate that the company should be relying on maximising stakeholder wealth as opposed to shareholder wealth. Authors such as Keay (2008) have noted the complex relationships that are required to maximise this wealth. In some cases, the interests of the stakeholders may even run against each other. Sandling (2014) says that stakeholder orientation would tackle these varied interests since all the stakeholders are dependent on each other in some way or form and this would make it essential to simultaneously maximise value for all the stakeholders. There are many different types of stakeholders who could potentially be important to a business however there are six main types and these are customers or consumers, suppliers, the employee workforce, the community, investors and the environment (Mackey, 2011). This theory would basically entail that the company makes a reasonable profit for the shareholders and also adds some value to its other stakeholders.

### **2.3.3 Conscious Leadership**

Now that the company has been orientated towards stakeholders and not just shareholders, an effective leadership team needs to be recognised. This requires that the directors and top management team need to tailor their management style with one that will suit the principals of Conscious Capitalism. These conscious leaders need to serve the higher purpose (as discussed in 2.3.1) of the company and monitoring the effects of their critical decisions to ensure that they understand the impact on the various stakeholders' interests (Mackey, 2011). These directors should have the ability to mentor, motivate, develop and inspire the workers and staff around them rather than utilising the simply issuing directive and commands or using a simple reward and punishment method according to Mackey (2017). As such, these leaders would be motivated to serve the interests and goals of the company rather than concentrating solely on profits. Sandling (2014) states that these successful leaders will create an environment of conscious culture around the company.

#### **2.3.4. Conscious Culture**

The culture of a company is paramount in defining a company's working environment. These values and principles will aid a company in determining its culture which will give the company a purpose and create a resonance which potential investors and others will identify with and want to be associated with. A conscious culture will be realised when trust, authenticity, caring, transparency, integrity, learning and empowerment are valued by the company and this will create a business environment that is dedicated to these main principles and striving towards achieving them (Sisodia, 2011). Sisodia (2011) also creates the acronym "TACTILE" formed by the values discussed so that the effects of these values can be seen on the company and its stakeholders. This corporate culture can only be developed by combining the other three principles but particularly with conscious leadership (Sandling, 2014).

So it can be seen from above that all four principles would need to be analysed and implemented and if any of these principles were neglected then the company's long term potential would not be realised. In this case, all the principles would need to be harnessed in order for the company to benefit from these enhancements (Schawbel, 2013). Sisodia (2011) believes that all four principles to be used in conjunction for the best results to be achieved.

Instead of maximising profits, the company and its directors would rather try to achieve the higher purpose and by doing this, they would increase the value of the shareholders' investments as well as taking cognisance of the other stakeholders in their business plans (Sisodia, 2011). This strategy would lead to the company adopting Conscious Capitalism principles becoming more successful than those that don't adhere to these principles.

It does appear that these principles would make up a more attractive model than the Neoclassical one as more stakeholders would benefit as opposed to just the shareholders. Sisodia (2011) has done research resulting in a conclusion that companies observing the principles above would outperform other companies who aren't adherents of Conscious Capitalism by a level of nine to one. This seemed to indicate that these impressive performances were the results of low margins of staff turnover and these staff would be more inclined to "market" the company and its products rather than a staff complement that is disgruntled. It also suggested by the research that if the company wanted to maximise shareholder's wealth, this couldn't be done if the other stakeholders were ignored.

Sisodia (2011) states that companies following the Conscious Capitalism principles will, in the long run, outperform other companies financially and in other segments. He goes on further to clarify that this model does not claim to resolve all the traditional problems associated with capitalism such as the usual rises and falls of business cycles, rewarding short term profits, and the uneven distribution of wealth. Mackey (2011) disputes that Conscious Capitalism is just a company's corporate social responsibility element but is something which forms part of the higher purpose of a company but is not the only higher purpose that is pursued. He argues that a company's conscious capitalism is more than its corporate social responsibility segment. Corporate Social Responsibility is just one part of a higher purpose segment that a company should strive for with the other parts being the quest for excellence, increasing information that is available, creating wonders and resolving complex problems amongst other things.

Companies following these principles would have some of their resources focused on corporate social investment since focusing on all stakeholders is part of the philosophy. Research undertaken by Burke et al (2011) states that business leaders believe that corporate social responsibility increased net profits and also increased the reputation of the business with the knowledge that increased net profits would follow as market share would increase leading to an increase in sales, decreased operating expenses, an elevated product brand positioning, enhanced company image, an increased attraction to potential employees since they would be better motivated by an inclusive workplace environment and these increased profits would send a signal to potential investors and financial analysts about the sustainability of the company.

Sisodia (2011) conducted research that revealed that American businesses that applied Conscious Capitalism principles actually outperformed their peers which didn't use conscious Capitalism, by a factor of 9 to 1. These conclusions seemed to suggest that these principles had a higher benefit for companies but warned that these companies would still be caught in the normal business cycle fluctuations that affect economic activities.

Research on this topic was also done by Wang (2013) and his conclusions differed from Sisodia (2011) in that he only found a 2.6 to 1 by conscious capitalism companies outperforming other companies. He also found that this outperformance was mainly the result of one company and when this outlying company was removed from the analysis then the companies following the conscious capitalism approach actually underperformed when compared to their peers. His conclusions also brought into question whether these types of companies could actually

maximise shareholder wealth and whether the previously mentioned benefits of conscious capitalism were actually sustainable in the medium and long terms. It was also noted that these principles could possibly only apply to certain companies within a specific industry.

A critical point of these conscious capitalism principles is the creation of stakeholder wealth as opposed to merely shareholder wealth. Mackey (2011) states that a company cannot treat all stakeholders equally as this would be impossible with different stakeholders having different, and at times opposing, interests. He goes on further to state that companies actually place different levels of emphasis, and therefore value creation, on different stakeholders. A company could place particular emphasis on customers or on employees while still maintaining their conscious capitalism principles.

Sisodia (2011) focuses on the creation of wealth creation rather than wealth extraction by which he means that the company's value should not depend on exploiting people and that the wealth created should not be done by making other stakeholders such as the environmental, social, cultural, spiritual well-being, physical and intellectual segments of the company worse off. Mackey (2011) further argues that the higher purpose principle is vitally important as the three other principles follow on from this principle which will create a company philosophy that will see an increase in the creation of stakeholder wealth while adhering to all the other stakeholder interests. Thus, Conscious Capitalism can be seen to improve the reputation of the company while minimising the negative effects of a traditional philosophy while ethically increasing the stakeholders' interests on the world around them.

#### **2.4 Entity Maximisation and Sustainability Model (EMS)**

The third and last model in this study is a combination of the models and has been named the entity maximisation and sustainability model (EMS). The Neoclassical approach and Conscious Capitalism both have their strengths but fortunately they also do have weaknesses. The neoclassical model focuses on shareholders whereas conscious capitalism focuses on all stakeholders. This means that both models are focused on the people's interests rather than the company's interest. Keay (2008) tries to formulate another model that incorporates the strengths of both models while downplaying their weaknesses. He suggests that potential investors would be more comfortable in creating or increasing their own wealth rather the

wealth of the other stakeholders while encouraging the company to increase its own sustainability.

Maximisation need not be achieved solely through business profits but could be achieved to benefit all of the stakeholders involved in the business. Sustainability would also need to be maintained as the second part of the model since the company could not exist in the future if it was not sustainable. This would mean that profits and wealth creation would cease to exist if the company closed down.

Seay (2015) agrees with this sentiment and argues that any model that follows a sustainability path would result in the company recognising the importance of growing the business and making profits but also targeting governance, societal and environmental goals which would make the company sustainable in the long term. These three elements would need to be utilised in conjunction with each other so that the business could become sustainable in the not-too-distant future.

The three elements mentioned above encompass the three aspects that the company can concentrate their resources on. A company should be able to show how it affects the three pillars as Hogevoid et al (2015) calls them. He goes on to mention that the economic pillar should illustrate how a company records its profits in order to sustain itself in the future; the environmental pillar that would show the environmental footprint that the company has and if this impact is positive or negative and what the future environmental plans are and what the company was doing to minimise its impact on the environment; the social pillar would contextualise how the company affected people inside and outside of the workplace. The last pillar has remained the hardest to quantify and most companies try to assess their impact through their CSR programs. The company has to ensure that its impact on the three pillars is positive or if negative then it has to plan how to effect a turnaround strategy that will enable its impact to become favourable once more. In effect each of the principles would need to be strategically planned as the environmental pillar would dictate how to reduce energy waste such as emissions especially emissions that would be taxed by the government. The social pillar would encourage the company to commit its resources to research and development so that only sustainable products would be sold to its customers as well motivating employees through such programs as health and safety and training opportunities. The economic pillar would

require that the company maintained or increased its earnings per share and revenue levels. In this way the company will be adhering to the principles set out above.

Keay (2008) sets out that the company is central in importance to the model and maintains that the company should be a separate entity from the investors and other stakeholders. In South Africa, there are three types of legally recognised companies that will be discussed further. These are:

- The Sole Proprietor: This is the simplest company structure as the owner is said to be liable for the company if the company was not able, for any reason, to meet its obligations in terms of liabilities and debts. There is no limited liability provided for the owner and their assets and liabilities are considered to be jointly held with the company. The owner and the company are one entity and not seen as separate by the law. (Intergate, 2017).
- The Private Company: These type of companies introduces the terms of a ‘shareholder’ and a ‘director’. The shareholder is titled as the owner and there can be just one shareholder who can also act in a directorship capacity. The private company and the shareholder are treated as separate legal entities. A private company offers limited liability to directors and owners and even liability protection to the entity itself (Rocher, 2017).
- The Public Company: A public company is set up so that the public can invest by buying shares. The public can invest in any public company and can sell their shares to other public investors should they wish to. This can be done through stock exchanges as most public companies are listed on these exchanges in order to make to easier and simpler for people to buy and sell various shares in the relevant companies. Public stock exchanges like the Johannesburg Securities Exchange have been set up to allow for easy transfer of shares between willing investors and sellers. The companies used in the study are all Public Companies listed on the JSE.

Seay (2015) states that companies that follow the sustainability will create more wealth within the company and this, in turn, impacts positively on the stakeholders in the company. The other two models focus solely on just one stakeholder or all the other stakeholders. Keay (2016) further argues that that the challenge for the directors will be to maximise the long run value of the company while simultaneously ensuring that the company is viable in the long term. This means that the directors would be entrusted in creating wealth in the company even if it

requires that a certain segment of the stakeholders doesn't benefit as much as the others. This helps the model deal with the real world problems that were lacking in the first two models.

Keay (2008) shows that one of the main difference with CC and EMS is that the focus is of CC is on the stakeholders whereas EMS focuses almost solely on the company. So EMS can be said to be focusing on maximising the value in the company which is vital in the ongoing operations and business of the company. This requires that long term sustainability be the focus of most decisions made within the company and that the share price is not the main deciding factor but rather the three pillars mentioned above.

Keay (2008) emphasises the fact that the EMS model in which sustainability is a major component would be concerned in increasing or maintaining its long term growth in profits and that the company's growth and business would reflect how many resources could be focused on the social and environmental pillars. Van Marrewijk and Wempe (2003) have done research into a company's business analysis by delving into different business situations, the historical perspectives surrounding the business and the industry, the effects of globalisation as well as real world issues that make it problematic to implement a one-plan-fits-all scenario that could be followed by any company in any industry. Instead they suggest that a good and coherent sustainability plan should recognise the nature of that company's business and should take into account all the risks and rewards associated with it. With the three pillars acting in conjunction with one another, a company would need to create an environment where these pillars could flourish appropriately and maximise the company's wealth.

Investors have realised that a growing trend with companies that are following the EMS model, is the creation of growth and maximising a company's value while also ensuring that the business's operations are sustainable in the future (Keay, 2008). This would mean that investors would rather place their funds in a company that followed the EMS principles that they would believe that the company would be best placed to achieve long term shareholder value while still be agile enough to react to any challenges in the social and environmental segments that might occur.

Sustainability in the EMS model does not achieve a company's objectives if this is all that the company wished to accomplish. This is particularly true in the long term though it may have a few benefits in the short term especially when it comes to shareholders' interests (Keay, 2008).

This aim would mean that the company would be solely concentrating only on survival which is only the minimum economic activity that is required for the company to maintain its ongoing operations. Instead the company and the directors need to provide vision and resources in order for this long term vision to come to fruition. In this study, public companies are being analysed and all these companies have shares that are traded publicly so this could lend itself to a short term view of wealth maximisation as there will be a temptation to maximise profits immediately in terms of share price and investor sentiment (Tonello, 2006).

## **2.5 Stakeholders**

This study has discussed in-depth, the three different models that a company can adopt as their primary objective. In each case, stakeholders play a key role either on their own (in the case of the Neoclassical Model) or combined together (in the cases of the CC and EMS models). It can be seen that stakeholders are a vital component to the business model and as such, directors need to be very aware of the role that they play in regards to the company. Jones and Felps (2013) try to breakdown stakeholders as individuals and singly in order for them to contribute voluntarily to the company's wealth-gathering processes. Mackey (2011) and Omran et al. (2002) both discuss how six key stakeholders are found throughout the majority of businesses and name them as customers, employees, shareholders, general society, suppliers and the impact of a company on the environment. Each stakeholder will be discussed more in-depth and their roles in the telecommunications sector will be explored below.

### **2.5.1. Customers**

A customer is a person or consumer who purchases a company's products or services. Customers have many different names including clients, patrons and buyers. Many companies view customers one of the most vital segments as without them, there would be no short term or long term sustainability and the company would cease to exist as an entity. As such, customers are viewed as critical stakeholders for the company's continued existence and directors need to take cognisance of their importance as they seek to maintain and grow the levels that the customers seek to achieve. There are many methods that seek to perform this vital task and the directors need to craft and implement carefully laid out marketing plan to ensure the retention of existing customers and creation of new ones in order for the company to grow and become sustainable.

### **2.5.2. Employees**

An employee or staff member is a person or individual who uses their skills in either a normal or part-time capacity for the business as a result of a contract of employment and as such has recognised rights and duties (Business Dictionary, 2019a). Employees would form the entirety of the staff complement and as they would have a signed contract of employment, they would be required to perform specific tasks so that the company could achieve its set goals. There are various pieces of legislature that govern the employer-employee relationship. The main laws and acts are Basic Conditions of Employment Act, Labour Relations Act, Employment Equity Act and the Skills Development Act (Worklaw, 2006). According to Worklaw (2006) if one of seven requirements are fulfilled then the prospective incumbent is an employee and the company is an employer. These are:

- The manner in which the person works is subject to the control or direction of another person.
- The person's hours of work are subject to the control and direction of another person.
- In the case of a person who works for an organisation then that person will form part of the staff complement of that organisation.
- The person has worked for the other person for an average of at least 40 hours per month over the last three months.
- The person is economically dependent on the other person for whom they work or render a service
- The person is provided with tools of the trade or work equipment by the other person.
- The person only works or renders a service to one person.

South Africa also has trade unions to which every staff member can associate with and become a full member of. Trade unions were created by employees usually to improve their working conditions, to protect themselves and to provide a means for collective bargaining (Nel et al., 2013). Trade unions provide a formal negotiating platform for employees and employers to resolve any grievances. If a matter cannot be resolved, then the trade union members could go on strike. In South Africa, this can cause major problems at the workplace and can result in large losses due to lost production and any damage sustained to buildings or equipment. With this in mind, the directors of the company would be well advised to consider the views of employees and related trade unions as stakeholders.

### **2.5.3. Suppliers**

Suppliers provide the company with its required goods and services without which, the company would not have any stock or services to sell to its customers. Customers would then seek other companies for which to purchase the products as the company would not have the required items for sale. This would be detrimental to the growth and wealth creation aspects of the company. Seuring and Muller (2008) state that there are increasingly more companies who are interested in forming sustainable and beneficial supply chains so that risk and performance can be better managed by the company. Supply chain management has become vitally important as the company seeks to strengthen ties with its suppliers due to the globalisation of the world's markets while maintaining a healthy relationship between buyers and sellers. If products are not manufactured according to strict standards, then inferior products would be produced by the company and this would lead to customer dissatisfaction and a decrease in the customer base.

### **2.5.4 Investors**

Investors are people who provide finance to a company or entity with an expectation of a return on their funds (Investopedia, 2019). In the primary market of the JSE, shares are issued by the company and then bought by shareholders willing to pay the required price. Shares are then bought and sold between willing people in the secondary market. Investors look to maximise returns by scouring for the best investment, that is, one with the lowest risk and the highest return. The return on a shareholder's investment can be measured in one of two ways, either by the price of the shares that are held by the investor or the dividends paid out by the company to shareholders. A strong, sustainable company with good profits would be attractive to investors and this could raise the share price. This would allow current shareholders to sell their shares for a profit. The shareholder would also be entitled to any dividend paid out by the company and this would also be attractive to any potential investors. This would create demand for the company's shares and as a consequence, the share price would rise according to market demand.

### **2.5.5. Society**

Companies have seen the benefits of Corporate Social Responsibility (CSR) and have undertaken programs that will enhance their standing in society and the communities that they operate in. CSR would be the impact that the company has on the community that the business serves. Fraedrich (2011) states that the company's impact on society can be defined as either protecting or improving society. By protecting, he means that the business must ensure that its operations do not impact negatively on society and improving society would mean that the company would positively uplift the community in which it operates and thereby contributing to the welfare of the community. CSR is a very important aspect of companies operating in the Republic of South Africa due to the unique operating environment in which they are involved in. Company regulations are governed by the King Report which will be examined more thoroughly in later chapters. Companies such as MTN and Vodacom not only have a large footprint in the Republic but also operate in various countries including other regions of the world such as Europe (in the form of Vodafone) and in North Africa and the Middle East. This means that those companies would need to take cognisance of the various international communities that they operate in.

### **2.5.6. Environment**

The environment can mean many things to many people. Oxford (2017) defines the environment as the natural world, as a whole or in a particular geographical area, especially as affected by human activity. Naturally, this is a very broad definition in terms of the business environment but most corporate activities will focus on environmental issues such as preserving the planet so that companies can operate sustainably into the foreseeable future. Seay (2015) reveals that customers are very aware of ecological issues and matters concerning the planet and end up paying more for such ecological products and services. The company might choose to ignore the environmental impact of such activities but this could have negative connotations for the company's profitability and sustainability into the future. Negative publicity such as environmental protests could lead to the directors reviewing their policies and operations in order to minimise or actually enhance their ecological footprint.

## **2.6 Entity Reporting requirements**

All the companies being under investigation are public companies that have their listings on the JSE in the telecommunications sector and as such, have detailed reporting requirements as specified by the JSE. All companies that are registered in South Africa need to compile annual financial statements according to the Companies Act 71 of 2008. The JSE has a more comprehensive system of financial reporting. Annual reports have to be compiled and published by the companies that have been listed. The annual financial statements have to be included in these annual reports and have to have been compiled using the International Financial Reporting Standards (IFRS) and have been audited by a registered auditing company using International Standards of Auditing (IAS). The annual reports also have to include performance details about the company and the plans of how the company intends to achieve its goals (JSE, 2019). This is required as investors should be allowed to be able to make accurate investments decisions and using the International Financial Reporting Standards, it is hoped that annual reporting can be harmonised across various companies and industries.

Annual reports contain financial as well as non-financial information. This means that there is a need for integrated reporting to be done by companies. An integrated report seeks to reveal to stakeholders the story of the company. It has to show possible stakeholders how the company is, the values that the company espouses and how value is created for the various stakeholders. This would give stakeholders and potential stakeholders a holistic view of the company by revealing their strategies, objectives and business models that the company will utilise in order to achieve their objectives. The report should also contain the future prospects of the company including any opportunities that might arise as well as any threats to its sustainability into the future (Integrated Reporting, 2015).

The JSE also requires that the companies already listed adhere to the King Code principles and practices that have been deemed mandatory. The King Code prescribes that a company is able to generate wealth but must achieve this wealth using sustainable methods. This is the core value of the King Code but the code also has other principles. These principles seek to improve the corporate governance since this would improve the corporate ethical culture and make it become more sustainable (IODSA, 2016).

Seay (2015) informs that sustainability reporting is growing and becoming mainstream practice. The King Code is now in its Fourth version as it seeks to become more current and

applicable to modern companies. One of its requirements is called triple bottom line reporting. This refers to the operations of the company and how it affects the three pillars of economic, social and the environment. (Hogevoold et al., 2015).

Companies use different reporting methods, depending on which model they are following. A Neoclassical model would dictate that the company reports only the economic information as they would be solely concerned with the shareholders. A company following either the CC or the EMS model would seek to report on not only financial but also non-financial information as they would be concerned with all stakeholders as well as showing that the business is sustainable for any potential stakeholders as well.

## **2.7. Telecommunications Industry**

The telecommunications industry on the JSE has four listed companies. These are Blue Label Telecoms, Huge Group, MTN Group Limited and Vodacom. A brief discussion on each company will be given below.

### **2.7.1 Blue Label Telecoms**

BLUE started operations in 2001 and was listed in 2007 on the JSE as BLU (Blue, 2019). BLUE market itself as a JSE-listed company that sells innovative technology for mobile commerce to emerging markets in South Africa and internationally. They target both rich and poor, urban and rural customers so that they can transact and interact in both physical and virtual distribution channels.

Most of the BLUE products and services are aimed at customers without easy access to the banking (being the unbanked masses) and the customer is provided with ease of use facilities to purchase products at a time when it is convenient to the customer. Products include data and starter packs, cell phone vouchers, cell phones, contracts (post and prepaid) and digital offerings. Vouchers for prepaid electricity and other service utilities including water vouchers are offered. Other services involve tickets for major event and entertainment, financial technology tools and other services.

Blue's business model hinges on long term contracts and agreements with suppliers in addition to selling products directly to the market via various electronic and web based channels in addition to increased customer interactions in retail stores which are situated outside of major towns and cities.

In 2016, Blue purchased 45% of the shares in Cell-C. The company is the third largest mobile telephone company in South Africa. This makes it one of the largest shareholders in the Cell-C and thus a major player in the telecommunications sector. BLUE also has operations in emerging markets like Mexico and India.

### **2.7.2 Huge Group**

Huge started off in 2007 when a merger between TelePassport (Propriety) Limited and Centracell (Propriety) Limited was formed and became known as the Huge Group. The Huge Group Ltd successfully applied to join the JSE's Alt-X board in the late 2007 but later upgraded its listing to the full board of the JSE in 2016 (Huge, 2019). The Huge Group is mainly a holding company that has invested in a group of companies that it owns either fully or partly which focus on telephony, data and payment connectivity. Huge strives to provide the infrastructure to make all its products and services available at a touch of a button.

Huge is mainly an investment vehicle that attempts to acquire powerful and independently successful companies which add value to its overall strategic objectives in the telecommunications sector. Some well-known subsidiaries of the Huge Group are Huge Connect, Huge Telecom and Huge Networks.

Huge Connect sells its data service which utilise mobile telephone networks to businesses to provide point-to-point connectivity. Huge Telecom sells digital telephone services and networking capabilities as an alternative to fixed line services. Huge Networks provides access to the digital needs of the consumer including internet and dedicated networking services.

### **2.7.3 MTN Group**

MTN was started operating in 1994 and successfully listed on the JSE in 1995 (MTN, 2019). MTN offers cell phone services, including voice calls, messages and internet related services to consumers in 21 countries and business solutions to the company and government customers in 23 countries.

MTN is mainly operating in emerging markets such as Africa and the Middle East. The company striving to become the market leader in its chosen field. MTN is primarily based and was founded in South Africa. Since then it has developed an operational footprint across the African continent and the Middle East which the company believes is a fast rising region for the growth of the mobile telecommunications industry (MTN, 2019).

MTN is the ninth largest company that is part of the Johannesburg Stock Exchange at the end of the 2017 financial year (MTN, 2019).

### **2.7.4 Vodacom**

Vodacom is a market leader in South Africa in the telecommunications sector and works to provide a number of cell phone and digital services to over 103 million customers that it has acquired at the end of the 2017 year. The business was founded in South Africa in 1993 and now it sells products and services all over the African continent operating as far afield as Kenya and Tanzania. Corporate services are offered to business clients in 32 countries. Vodafone which is one of the largest telecommunications companies in the world owns 64.5% of Vodacom making it the majority shareholder (Vodacom, 2019).

Vodacom's main products and services involve mobile telephones and data and services that emanate from these offerings. The company has expanded into financial services, digital entertainment options and had included public and private sector tailored packages. The company has a varied product and services offering which has made it a market leading companies in the countries that it operates in. Vodafone being a majority shareholder, also lends a world class reputation to its operations.

## **2.8 Conclusion**

This study's objectives are to interrogate the annual integrated reports of the specified businesses listed on the telecommunications section of the JSE to ascertain which of the models discussed in this chapter, the companies are following and to investigate whether there is a dominant model. Also under investigation, will be if this dominant model is one that is associated with a higher profitability. This chapter has discussed the three models that may indicate the true purpose of the company. These are the Neoclassical Model, Conscious Capitalism and the Entity Maximisation and Sustainability Model.

The neoclassical model emphasises maximisation of wealth with a particular concentration on the shareholders only as opposed to the other stakeholders (Schiller, 2011). This model is based on the fact that the directors would be most concerned with increasing the returns that their shareholders are getting (Macey, 1991). While the model was founded on Adam Smith's theories, it has been shown that these theories are not current with the real world (Abdur-Rahman, 2011). As the shareholders do, in theory, own the business and the directors are answerable to them, it would make sense for the directors to focus on increasing the value of the shareholders' investments (Elson, 2010). However, Keay (2008) argues that this model only has a short term impact and could potentially be detrimental in the long term as well as alienating the other stakeholders.

The next model is Conscious Capitalism (CC) which is also known as the stakeholder model. The main emphasis of this model is on all the stakeholders as opposed to just one stakeholder, i.e. the shareholder (Jawahar and McLaughlin, 2001). Keay (2008) states that there are four principles that CC is based on: higher purpose, stakeholder orientation, conscious leadership and conscious culture. These four principles need to work in conjunction with each other in order to achieve the best results (Schwabel, 2013). The directors will need to balance the different interests of all the stakeholders instead of just the shareholders (Jones and Felps, 2013). A weakness of the model is that not all the stakeholders will be satisfied as their interests could potentially be at odds with another group of stakeholders. (O'Toole and Vodel, 2011). There has also been some debate about whether this model is as profitable as the other models with even the researchers themselves bringing up conflicting conclusions. (Wang, 2013, Sisodia, 2011).

The last model that was discussed is the Entity Maximisation and Sustainability (EMS) model. This model emphasises the maximisation of company value while also attempting to maintain the sustainability of the company (Keay, 2008). The model traces its roots to the 1960s but has only recently grown in popularity and decrees that value maximisation and for the company to remain sustainable in the future, the efforts of the company should not only be on maximising the economic segment but also on other segments like the societal and the environmental segments (Seay, 2015). These three pillars need to be treated equally to ensure that the company remains a going concern in the long term. A weakness in the EMS model is that since there are so many variables to be accounted for, it makes it difficult to measure the performance of the models when compared to others (Hogevold et al, 2015).

It can be said that the three models all have their various strengths and weaknesses and that one model cannot be elevated above the others. From the literature, there is a definite emphasis towards the EMS model while the CC model and the neoclassical model appear to be less popular. As stated previously, most of the literature is based on the American economy and the companies participating in that space. There is still no clear evidence as to which model is being followed in this country. Once again, a literature review clearly shows that with the CC and the EMS models being more popular than the neoclassical one, reporting behaviour has changed and the annual financial reports are now quite clearly adequate to ascertain the model which the company is following.

As can be seen from this literature review, the American research is by far, ahead of the ones in South Africa which is why this study is necessary. The research methodology methods will be investigated in Chapter 3.

# **Chapter Three**

## **Research Methodology**

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### **3.1 Introduction**

This chapter will deal with the research methodologies utilised in this study. In the previous chapter, the literature for the three models was discussed. The three different models are the neoclassical, conscious capitalism (CC) and the entity maximisation and sustainability (EMS). There are a various strengths and weaknesses that have been identified in the literature. These strengths and weaknesses, along with other key characteristics of the models will provide insight into each company's primary objective. Since there has been no research done into the primary objective of each company in the telecommunications section of the JSE, the primary driving model of each company will have to be ascertained. So it stands to reason that each company will need to have their primary models identified and then a profitability analysis can be calculated to ascertain if a higher profitability can be linked to a certain model. This study will review the companies listed in the telecommunications sector that have integrated reports that are publicly available for the years 2013 to 2017. The qualitative section will use content analysis of the data obtained from the publicly available integrated reports match which model best fits each company. Then the quantitative section will use ratio analysis to calculate which company has maximised its profits.

### **3.2 Aims and Objectives**

Since it is unknown which model each company follows in the telecommunications sector and which is the dominant model as well as the model with the highest profit value. The aim of this study is to analyse the annual financial returns as well as the integrated annual reports to ascertain the primary purpose of the companies listed in the telecommunications section of the JSE.

In order to ascertain the motives of the company, the major aims of this study need to be established:

1. To examine the literature of the three models, namely the neoclassical model, conscious capitalism (CC), and the entity maximisation and sustainability model (EMS) in order to identify themes and major identifiers of each one.
2. To examine the financial statements over a five-year period from 2013 to 2017, of the listed companies in the telecommunications sector of the JSE, in particular all the publicly available information contained in the statements issued by the relevant companies, for key identifiers that could link to any of the three models.
3. Investigate to find which model each of the companies listed on the JSE is following, based on an analysis on each company's annual financial statements and integrated reports.
4. To ascertain if there is a dominant model utilised by companies who are relevant to this study and if so, which model, in particular.
5. To determine if a particular model linked to the relevant companies in this study, is associated with a higher profitability by analysing the integrated annual reports and using profitability ratio analysis.

### **3.3 Research Methods**

Business Dictionary (2019b) contains a definition for research as being “a systematic investigative process employed to increase or revise current knowledge by discovering new facts.” Sekaran and Bougie (2009) also have a definition for research which they interpret as “a process of finding solutions to a problem after a thorough study and analysis of situational factors”. Basically, the study intends to fill the gaps that exists in the current literature and research methods. For this gap to be closed, various research methodologies have to be used. There are three popular methods that are utilised, namely, the quantitative approach, the qualitative approach and the mixed methods approach.

Sekaran and Bougie (2009) state that quantitative research data comprises of information in the form of numbers as opposed to words. This would entail quantitative research being of larger sample sizes and being more of a form of measurement. This leads to conclusions being more easily drawn from the data collection and these conclusions will be much more objective

than that of qualitative research since it is based on numbers and figures rather than themes. There are a few sub-approaches that can be utilised to formulate a quantitative analysis.

Qualitative research data is usually research that involves data analysis and this data is usually informational rather than numerical which makes this data not easily quantifiable (Sekaran and Bougie, 2009). This research data also concentrates on descriptions and naturally lends itself to small samples and can be measured in narrative responses and conclusions (Kumar, 2011). Like the quantitative approach, the researcher can use various sub-approaches to achieve the qualitative analysis required.

The third method is called a mixed methods approach and includes elements of both quantitative and qualitative research (Flick, 2011). This study uses the mixed methods approach. Each company will be quantitatively analysed so as to ascertain their primary purpose as the primary purpose for each company was unknown. After the companies' primary purpose has been determined then the dominant purpose in the telecommunications sector can be ascertained. This is one of the objectives of the study. Once this has been completed then a quantitative study can be utilised and the best performing model in terms of profitability can be determined. Research authored recently by Gregory (2015) in the food and drug retail sector and Ramautar (2017) in the apparel retail sub sector both use a similar approach to determine the dominant purpose of a company.

Content analysis is a sub-approach of quantitative research while ratio analysis is used as a sub-approach of the quantitative approach. These sub-approaches shall be explored and a greater understanding obtained in this chapter as well as how these sub-approaches have been applied to get results in this study.

### **3.3.1 Content Analysis**

This research methodology relies on primary and secondary data and the notes derived therefrom which can be analysed for the primary purpose to be identified (Kumar, 2011). Sekaran and Bougie (2009) state that content analysis is “an observational research method that is used to systematically evaluate the symbolic contents of all forms of recorded communication”. This would indicate that the primary or secondary data would be analysed in specific categories so that scientific conclusions can be reached.

This study includes information about the business and its stakeholders to gain a greater working knowledge of the model that each company is following. A similar content analysis has been used by Gregory (2015) in her research study into her JSE-listed sector and Ramautar (2017) in apparel retail sub sector. This content analysis also has a few similarities with a thematic analysis.

Kumar (2011) describes the validity and reliability of the qualitative research as being dependent on four factors, namely, credibility, dependability, confirmability and transferability. The results of this study have to be dependable and can be proven. The data collected in this study have been from the annual integrated reports that are published by each company and released for public consumption. This has been in terms of JSE regulations such as International Financial Reporting Standards and the King Code. This means that the data can be considered confirmable and dependable. The research methodology utilised by this study is similar to the studies done by Gregory (2015) and Ramautar (2017) and this illustrates that the methods can be used in other contexts which expresses an opinion on the transferability of the research methods.

The literature review in chapter 2 identified the models that can identify the primary purpose of the JSE-listed companies in the telecommunications sector. Once all categories have been defined by the literature then the data collected from the publicly available reports over a five-year period can be analysed and the relevant model identified. It was quite apparent that each model had a different focus which was usually on a different stakeholder and in some cases on a few stakeholders while neglecting the others. The neoclassical model dictated that the sole focus should be on the shareholder as an investor and owner. The EMS and CC models generally preached a more encompassing focus on all the stakeholders as opposed to the narrow focus of the neoclassical model. When all the stakeholders were the focus of the company then the CC model and the EMS model need to be differentiated. The EMS model prescribes that the company not only focus its efforts on the stakeholders but also has to focus on becoming sustainable for future operations. When the company model has been identified as the focus being on the stakeholders then a further examination of the data needs to be investigated to ascertain whether there is a sustainability component and if so, this would suggest that the company is following an EMS model.

### **3.3.2 Ratio Analysis**

Once the model that each company has been following has been identified then the profitability of each company needs to be assessed. The company with the highest profitability needs to be identified along with the associated model. Ratio analysis will be used to identify the profitability of each model. Ratio analysis is defined by Firer et al (2008) as “relationships determined from a firm’s financial information and used for comparison purposes.” This means as these ratios can be used to compare and investigate the relationships between different companies and different sets of financial results. This study is focusing on profitability so short term ratios have been selected as well as a few long term ratios. With this balance of profitability ratios, an analysis of the selected companies can be completed and this would determine the profitability of each company in relation to the other competitors in the industry. Ratio analysis will be used in each of the years for the five-year period under review and then each company will be ranked according to their profitability. This will help to indicate the company and its model with the highest profitability ratios.

This study relies on identifying which model is associated with which company and then measuring the profitability of each company. This would make it vital that the profitability of each company can be measured accurately and then profitability ratios will be used to measure this. The results for each company can be compared and the companies can be ranked to conclude which was the most profitable. The annual financial reports are audited and this will lend a high degree of accuracy to the data that has been extracted from these reports and used to calculate the financial ratios.

### **3.4 Population**

The population in this research consists of four companies that are on the telecommunications section of the JSE. These are Blue Label Telecoms, the Huge Group, MTN Group and Vodacom. Since there are only four companies in the population, all four companies have been analysed in this study using content analysis and ratio analysis as described previously. The companies integrated reports which are available publicly and online have been analysed for the period 2013- 2017.

### **3.5 Research Limitations and Delimitations**

There are a number of limitations and delimitations associated with this study and this is caused by the mixed method nature of this study which includes quantitative and qualitative methods which were used. These results are presented in the chapters that follow.

1. The annual integrated reports and sustainability statements that are publicly available from companies listed on the telecommunications sector of the JSE that have been used in this study. These reports and statements contain only a summary of the company information. The conclusions contained in the study are drawn from these summaries.
2. This study uses the qualitative approach for content analysis and this may result in subjective conclusions.
3. When utilising ratio analysis, it is widely known that various factors can affect the variables that are used to calculate the profitability ratios which suggests that while a company may seem to be more profitable than its peers, it might not be all or in part due to the model that it is currently following but due to another variable.
4. This study analyses the five period from 2013 to 2017 and the conclusions drawn will only be applicable for that time period. Further analysis and conclusions would need to be done on an ongoing basis to define which model is being utilised and the continued profitability associated with it.

### **3.6 Conclusion**

In the previous chapter, the literature review around this study was discussed. This concluded with the opinion that content and ratio analysis should be utilised in this study. This chapter further demonstrates that both content analysis and ratio analysis will be required to ascertain which model is being used and the performance of the companies using these models. The research methods have been discussed as well as the need to apply them in this study.

This research methodology will be applied in chapter four and chapter five. Chapter four will form the content analysis of each company and thus determine the models followed by each company. Chapter five will apply the financial ratios to ascertain which companies are the most profitable in order for the performance of the model being utilised, to be measured.

# **Chapter 4**

## **Analysis of Company Model**

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### **4.1 Introduction**

Carrying on from Chapter two where three different models were identified with respect to identifying the overall primary purpose of each company. These models have a different primary focus:

1. Neoclassical – The focus is only on one stakeholder, the shareholder or investor.
2. Conscious Capitalism (CC) – The focus of this model is on the stakeholders who are involved in the company.
3. Entity Maximisation and Sustainability (EMS) – Here, the stakeholders are the main focus together with bringing together various factors to enable the company to ensure that its wealth is maximised and it is sustainable for the foreseeable future.

Thus, each telecommunications business that has been listed on the JSE will have been analysed by using the integrated annual reports over five years (2013 to 2017). The results have been evaluated with the aim focused on individual stakeholders and efforts to sustain the net worth of the company over a number of years so that that a conclusion can be drawn to ascertain the models, if any, that the individual businesses have adopted.

This study intends to assess each company in the telecommunications section with special emphasis on major stakeholders that were identified in chapter two. Assessing the non-financial information, this study intends on forming a conclusion about which model each company is following. The non-financial information also includes sections about the stakeholders and the sustainable portion of the annual integrated reports.

### **4.2 Blue**

This section analyses Blue Label Telecom's integrated annual reports for the years 2013 to 2017. The frequency that each of the main stakeholders is mentioned in the reports would suggest their importance to the company. The reports, which are publicly available, give an

insight of the planning and strategies of management and the relative importance placed on each stakeholder. A brief overview of the company's sustainability report is given and the section is concluded with by determining which model Blue follows.

#### **4.2.1. Stakeholders**

By analysing Blue's annual integrated reports, the company does concern itself with the stakeholders' needs and even asserts the values that are brought to the company. IN the 2013 Reporting Structure Approach, the company has identified the most important stakeholders "in particular, its relationship with its employees, providers of capital, the media, customers, business partners and suppliers, communities, educational institutions and government bodies." (Blue Label, 2013). The 2013 Strategic objectives also state that there is a need to "invest in our people" and "to increase profitability and operational effectiveness" (Blue Label, 2013).

The Board at Blue acknowledges that its stakeholders are a vital component of its strategy and that stakeholder relationships are considered a competitive advantage since this can lead to an enhanced reputation and brand awareness (Blue, 2017).

The company has identified and prioritised stakeholders as being a competitive advantage and has based its criteria on the below:

- Individuals or people who transact with the company, and the effects of the company's operations on these stakeholders and
- Individuals or entities who can affect the company's future objectives and strategies. (Blue, 2017).



**Figure 4.1 Blue Label’s Business Model**

**Source: (Blue, 2017 p.3)**

Figure 4.1 shows Blue’s business model and follows on how the model has strengthened since the listing on the JSE which provided a positive cash generation. This provided the company to grow its operational footprint robustly and sustainably even in the face of economic fluctuations which has hampered the general economic growth of most countries, let alone individual companies.

Table 4.1 reflects how Blue focuses on its stakeholders in the annual integrated reports. These main stakeholders being customers (consumers), employees (staff), investors (shareholders), society, communities, suppliers and the environment. The annual integrated reports were analysed from the years 2013 to 2017 for the company.

Blue appears to place high importance on its customers, employees and investors. Table 4.1 provides further evidence of this as it can be seen that the investors had the highest frequency in the annual integrated statements with a frequency mean of 39% and customers and employees ranking in at second and third with frequency percentages of 25% and 21% respectively.

It can be suggested that Blue follows the entity maximisation and sustainability approach with shareholders and customers as its main focus. A greater understanding about the approach

adopted by Blue will be revealed once all the stakeholder groupings have been analysed and investigated in the later paragraphs including the summary and the overall conclusions.

**Table 4.1 Summary of Blue stakeholder frequencies from 2013 to 2017**

	2013		2014		2015		2016		2017		Totals	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customer	87	17%	85	13%	81	17%	108	21%	104	19%	465	18%
Consumer	29	6%	47	7%	37	8%	30	6%	43	8%	186	7%
Employees	76	15%	81	13%	64	14%	67	13%	75	13%	363	14%
Staff	30	6%	35	5%	38	8%	49	10%	41	7%	193	7%
Investor	12	2%	11	2%	14	3%	10	2%	10	3%	57	2%
Shareholder	186	37%	310	48%	140	30%	150	30%	180	33%	966	37%
Society	1	1%	1	1%	1	1%	1	1%	3	1%	7	1%
Community	24	5%	31	4%	33	7%	29	7%	31	6%	148	5%
Supplier	24	5%	23	4%	23	6%	27	5%	32	6%	129	5%
Environment	33	6%	19	3%	24	6%	25	5%	24	4%	125	4%
<b>Total</b>	<b>502</b>	<b>100%</b>	<b>643</b>	<b>100%</b>	<b>455</b>	<b>100%</b>	<b>496</b>	<b>100%</b>	<b>543</b>	<b>100%</b>	<b>2643</b>	<b>100,00%</b>

Source: Author compiled using data from Blue (2013, 2014, 2015, 2016, 2017)

#### 4.2.1.1. Customers



**Figure 4.2 Blue Label Vision, Mission and Values**

**Source: (Blue, 2017 p.5)**

As can be seen in Figure 4.2 above, Blue Label concentrates on their customer service orientation as they recognise that consumers are vital in achieving their objectives and the company has to responsibly and ethically satisfy their needs.

Blue Label Telecoms has two types of customers. The company sells its products and services to merchants to sell them onto customers and direct customers who pay the company directly to use the products and services.

Blue's customer base comprises of corporate clients, chain stores, petroleum forecourts, large independent retail clients, wholesale/cash-and-carry stores and Mom and Pop stores.

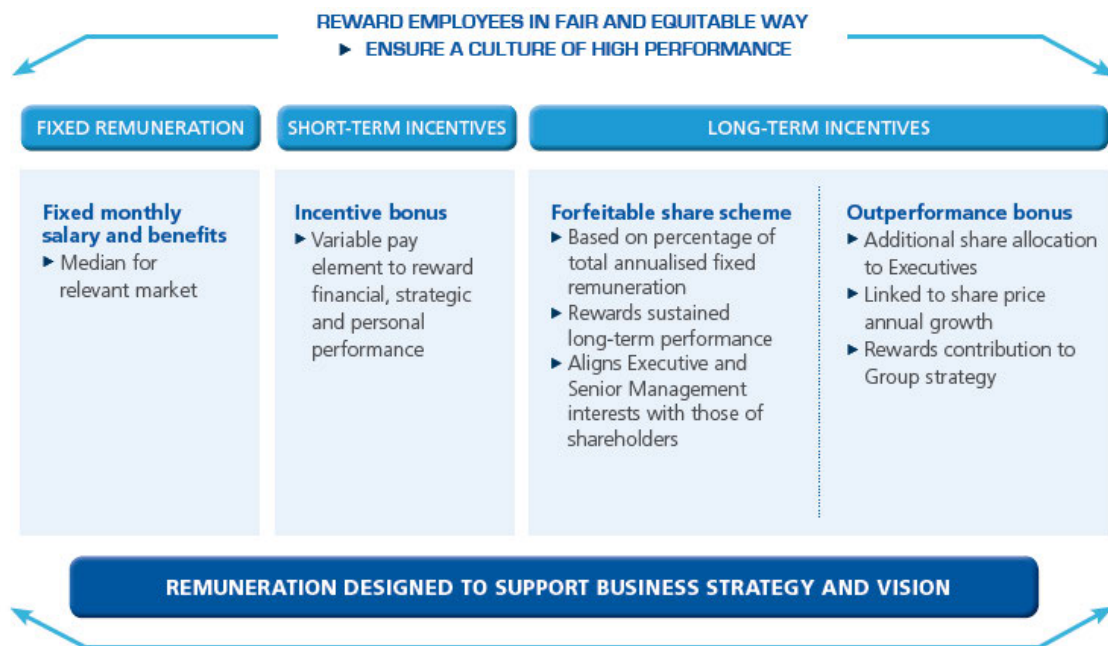
Customer engagement would entail face-to-face meetings where product information is shared. Blue also operates a helpdesk that customers can contact anywhere in the country and which is staffed by a team of technical experts and customer orientated consultants.

The company is available electronically and on the web to deal with any customer orientated queries marshalled by a CRM system, and expert sales and support staff to handle the queries.

Customers will decide how much and when they will spend as the products and services are prepaid in nature or as is commonly called "Pay-as-you-go". These products and services can be purchased using voucher codes or directly from an online portal whenever the customer requires it. These products and services also allow the customers to transact whenever they wish even if they do not have bank accounts or limited functionality on their accounts (Blue, 2015).

#### **4.2.1.2. Employees**

Blue Label has stated that employees are key stakeholders and are striving towards creating an "enjoyable work environment in which we motivate and incentivise employees to become more productive and creative" (Blue, 2017).



**Figure 4.3: Remuneration of Employees**  
Source: (Blue, 2016 p.57)

As Figure 4.3 shows, Blue Label has a highly developed remuneration structure that enables the company’s objectives to be achieved and also creates a culture that is conducive for the employees to maintain the high standards required.

The word frequency over the period of 2013 to 2017 for employees remains fairly stable between 18% and 23%, and the average of 21% being calculated for the period under review. This is the third highest frequency after the shareholders and the customers.

The group believes that it is necessary to invest in the development of its employees. It attempts to pursue this aim by continuously communicating with its employees on a range of matters including the operational, strategic and financial issues which might include technical updates, new services being marketed, staff wellbeing, human resource matters, charitable considerations, staff wellness.

The company attempts to engage its employees via a variety of avenues including emails, notices, canteens, elevators and coffee station discussions. Social events also proves to be an excellent avenue where staff engagement can be discussed and dissected in an informal manner which contributes to staff wellness.

Blue Label Galaxy which is an internal communication platform which the company hopes will engage the staff about related issues and areas of concern.

#### **4.2.1.3 Suppliers**

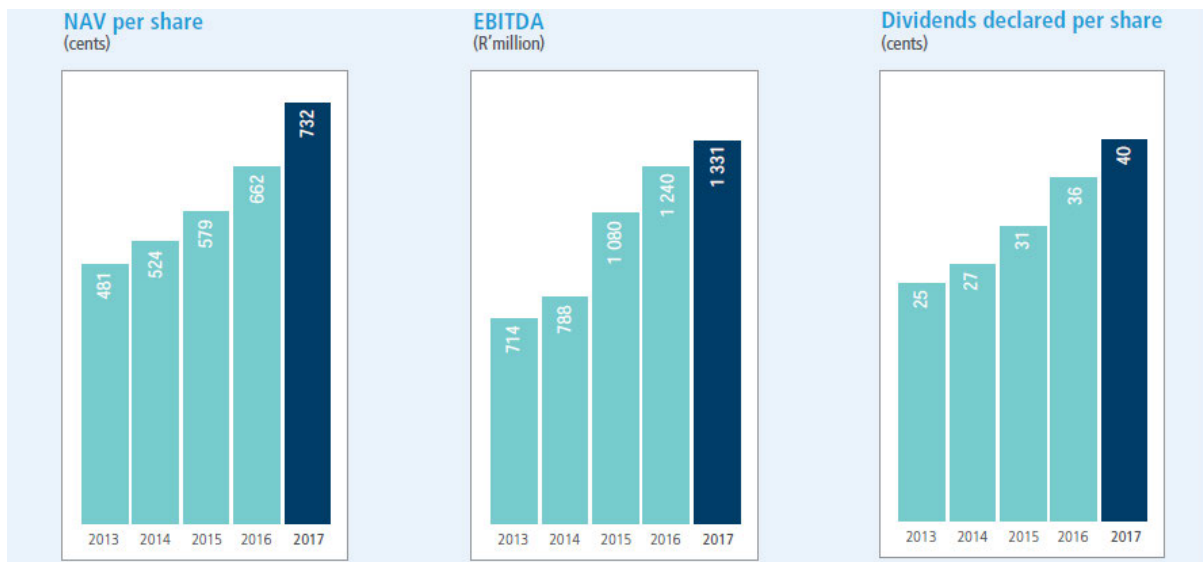
Blue's main products are data, airtime, electricity, water, ticketing, prepaid vouchers, financial and fintech services. Most of these products and services are prepaid which means that the customer pays cash upfront which guarantees payment to the supplier. These guaranteed payments also mean that there are no bad debts and no need for a large debt collection section.

The company collaborates with its suppliers and business partners to ensure that the customer's needs are satisfied. Blue has written distribution and dealer agreements with the majority of its major suppliers which include the four major cell phone providers in the country as well as engaging with associated companies such as banks and service providers, companies in the private and public sectors of the economy.

Blue's acquisition of 45% of Cell C during the year showed that the company was intent on building sound relationships with its suppliers, of which Cell C is one of the largest in terms of supplying customers with airtime, data and starter packs for the market.

#### **4.2.1.4. Shareholders**

The shareholders remain one of the biggest emphasis of the company. The word frequency mean is nearly 40% with a high of 50% during the 2014 year. This shows how the company is focused on their shareholders and intent on creating shareholder value.



**Figure 4.4: Blue’s NAV per share, EBITDA, Dividends per share over the period 2013-2017**

**Source: (Blue, 2017 p.11)**

As seen in figure 4.4, Blue Label’s Net Asset Value per share, Earnings before interest, taxation, debt and amortisation and the Dividends declared per share have all increased over the period under review.

The company tries to provide value to all of its shareholders. Blue engages its shareholders by sending its management on local and international roadshows which are attended by expert and technical business analysts as well as shareholders. The company also releases public reports during the financial year and at year end and these are all aimed at providing shareholders with essential information.

#### **4.2.1.5. Society**

Blue Label Telecoms contribute to the community through their corporate social investments schemes (CSI). The focus is firmly on encouraging the youth to participate in the business and recreational activities. Two of the biggest CSI projects remain the Boys and Girls Club of South Africa. This NPO is dedicated to supporting children when they are not in school on a sustainable basis. The other project is called the Blue Label Alexander Cricket programme and as the names suggests, looks to encourage the cricketing community in the primary schools of the Alexander Township through the application of life skills in a cricketing context.

Blue Label are focused on the following areas of their CSI programme:

- Creating a social enterprise strategy
- Forming a stronger business alignment with mainstream business strategy and operations.
- Forming a stronger partnership with increasing collaboration among beneficiaries
- Continuing to focus on the expansion of the flagship project, Boys and Girls Club of South Africa (Blue, 2017).

The company believes that by participating with communities where they are based, it will enhance their reputational and brand value and that this will aid the company to achieve its strategic objectives by gaining the community's trust and strengthening the relationships. The burgeoning needs of the company's CSI project led to a group CSI manager being appointed to oversee the group's strategic and operational needs and enhancing the group's service delivery as well as realising an adequate results from its CSI spend (Blue, 2017).

#### **4.2.1.6. Environment**

The environment makes up one of the smallest groups in terms of the frequency value in Table 4.1. The environment made a high of 7% in 2013 and kept a mid-level of 5% thereafter before finally ending with 4% during the 2017 report.

Blue has initiated a social, ethics and transformation committee. The committee is charged to oversee such material matters as the ecological impact, health regulations and social events to manage how this will affect the company's operations.

The committee also focuses on the environment in terms of:

- Health and safety review
- Health and safety practices
- Review of the environmental footprint.

#### **4.2.2. Sustainability**

There are various mentions of creating sustainable value throughout the annual integrated reports. The acquisition of Cell-C shows that Blue are willing to invest for achieve sustainable success for its stakeholders. Cell-C is large service provider and also a major supplier and business partner and now Blue has representation on its board of directors and can influence its operations in favour of itself.

The company has also agreed long term distribution contracts with its main suppliers and business partners. Blue has replicated its business model, with success, in other emerging markets such as Mexico and India. This means that the company is not solely reliant on its South African market and while it enjoys a large operational footprint locally, the group isn't as reliant on the South African market as it was previously.

#### **4.2.3. Summary**

It is fairly evident that Blue concentrates on its stakeholders and their interests while also focusing on the future growth prospects of the business into the future. It can be seen from above, that the strategy that Blue is following, appears to be the EMS model.

The frequency mean of the shareholders is 39%. This is the highest frequency of all the groups under review. Customers also form a significant proportion of the frequency analysis with a mean of 25%. It can be suggested that Blue is following the EMS approach with a focus on shareholders mainly but also focusing on customers too.

## 4.3. The Huge Group

### 4.3.1. Stakeholders

#### STAKEHOLDERS

##### OUR STAKEHOLDERS, WHO DRIVE OUR CONNECTIVITY



**Figure 4.5: Huge Business Strategy**

**Source: (Huge, 2017 p.4)**

As Figure 4.5 Indicates the Huge Group's main stakeholders are its shareholders who meet the monetary demands of the group for maximising profits, its business partners (part of its customer base) who provide outlets so that the company's goods and services can be sold, the end customers who are the direct purchasers of the company's products, suppliers who are integral as they supply the company with the necessary stock so that the company sell to the customers, and employees who have various tasks from administration to technical support. The Huge Group also identifies the large mobile telephone providers who provide the infrastructure required to sell its products, regulators to assist with governmental and legal issues and financial institutions which aid in funding for acquisitions and working capital.

Table 4.2 below shows the frequencies associated with the annual integrated reports for the Huge Group for the period 2013 to 2017. There is a strong emphasis towards shareholders with a 55% total though customers are mentioned 22% and employees focused on for 12%.

**Table 4.2 Summary of the Huge Group's stakeholder frequencies from 2013 to 2017**

	2013		2014		2015		2016		2017		Totals	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customer	42	17%	33	14%	37	17%	90	32%	107	22%	309	21%
Consumer	4	2%	3	1%	3	1%	6	2%	1	0%	17	1%
Employees	24	10%	25	11%	29	13%	28	10%	40	8%	146	10%
Staff	4	2%	4	2%	8	4%	4	1%	9	2%	29	2%
Investor	1	0%	3	1%	2	1%	1	0%	18	4%	25	2%
Shareholder	140	58%	135	59%	120	54%	128	45%	256	53%	779	53%
Society	15	6%	16	7%	18	8%	18	6%	30	6%	97	7%
Community	0	0%	1	0%	0	0%	1	0%	11	2%	13	1%
Supplier	5	2%	4	2%	3	1%	5	2%	7	1%	24	2%
Environment	6	2%	5	2%	3	1%	4	1%	6	1%	24	2%
Total	241	100,00%	229	100,00%	223	100,00%	285	100,00%	485	100,00%	1463	100,00%

Source: Author compiled data from Huge (2013, 2014, 2015, 2016, 2017)

#### **4.3.1.1. Customers**

“Huge telecom focuses on the things that count – like happy customers and a happy workforce” (Huge CEO Report, 2014).

Table 4.2 shows that customers are the second highest frequency to be recorded at a mean of 22%. It started off at 19% in 2013 and then dropped to 15% in 2014 before going back up to 18% in 2015. In 2016 and 2017, the percentage spiked up to 34% before dropping down to 22%. This would indicate that Huge is quite concerned about maintaining good relationships with its customers.

Huge made a strategic decision to redirect its focus by encouraging its resellers to take the burden of maintaining a capable sales force to sell its products and services rather than having to utilise its own resources to create an in-house sales force, by partnering with organisations that could sell its products and services. Huge calls these resellers “Business Partners”.

#### **4.3.1.2 Employees**

Huge places a big emphasis on employees as seen in the previous section where they state that the company focuses on a happy workforce. The frequency shows that this to be true as well since the staff is the third highest after the shareholders and the customers.

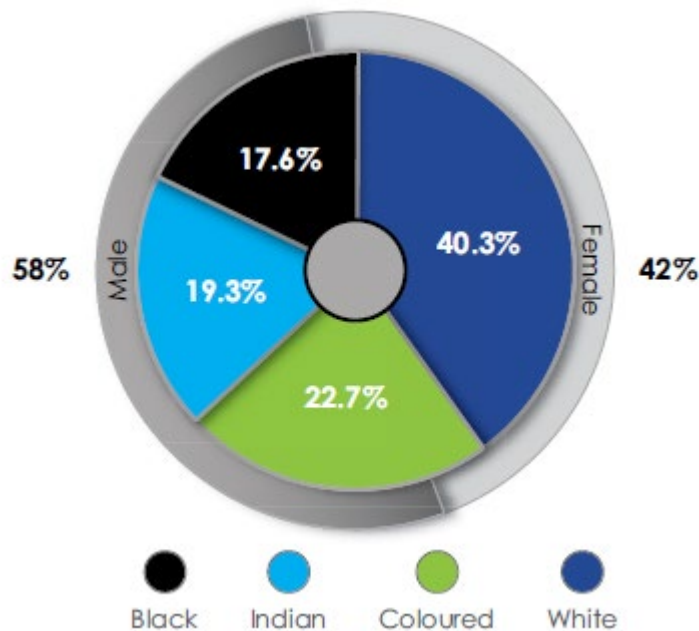
The mean percentage is rather low at 12% since in 2013, it was sitting at that percentage and went up by 1%, to 13% in 2014 and a large increase in 2015 where it jumped to 17%. However, in 2016 and 2017, the rate has dropped to 11% and 10% respectively.

The Huge Group also identifies Human Capital as being one of its “Six Capitals” (Huge Group, 2018). Human Capital includes the skills, technical knowledge and expertise of the company’s employees and their motivation towards excellence in the following ways:

- Alignment with and support for Huge’s governance framework, risk management approach and ethical values.
- Ability to understand, develop and implement the Growing Huge Strategy.
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

(Huge Group, 2018)

The Group employs a little over 120 full time employees in five offices around South Africa. As at the 2017 financial year-end, the staff complement was made up of the percentages as shown in Figure 4.6 below.



**Figure 4.6: The Huge Group’s staff demographics.**

**Source: (Huge, 2017 p. 34)**

In Figure 4.6, Huge has a 58% of its employees who are male and 42% who are female. Broken down into race groups, Huge has a 40,3% of staff who are white, 22,7% who are coloured, 19,3% who are Indian and 17,6% who are black.

#### **4.3.1.3. Suppliers**

In Figure 4.5, Huge lists suppliers as one of its main stakeholders. It is vital that their suppliers have the necessary quality stock to enable the company its goods for the customers to purchase (Huge, 2017). The Huge Group has a common base of suppliers including Vodacom, MTN, Virgin Mobile, Cell C, and Telkom Mobile.

While the company does value its relationships with its suppliers, the mean frequency only results in a 2% value in the annual integrated reports.

#### **4.3.1.4. Shareholders**

This is the largest word frequency in the integrated reports with a mean frequency of 55%. The highest frequencies occurred in the 2013 and 2014 years with a 58% and 60% reported frequency respectively. The lowest frequency was 45% in the 2016 year. Such a high frequency mean suggests that the directors place a large emphasis on the shareholders.

In Figure 4,5, Huge describes its shareholders as providing the financial capital for sustainable earnings growth. This reinforces the assertion that the shareholders are the main point of focus for the company.

#### **4.3.1.5. Society**

The Huge Group prides itself on being an active member of society and defines itself as an institution while strengthening ties between itself and the communities, various related stakeholders while being able to enrich the lives of the community to deliver a sustainable future for itself and the other stakeholders. This includes:

- Shared norms, common values and behaviours
- Key stakeholder relationships and the trust and willingness to engage, which Huge has developed and strives to build and protect with external stakeholders.
- Intangibles associated with the brand and the reputation that Huge has built.
- Huge has donated various hardware, software and infrastructural needs to educational and welfare organisations and orphanages. (Huge, 2017)

Huge has made it a priority to increase its already extensive distribution capacity. Huge had made donations for its CSI project in the form of laptops, printers, desktops, air-conditioning units, projectors, smartphones, WiFi packages and cash towards technology needs.

#### **4.3.1.6. Environment**

The Huge Group takes its environmental impact very seriously. Huge's environmental impact is closely monitored as the company acknowledges that for value to be created for its stakeholders, all the natural resources need to be responsibly managed to ensure that the company prospers in the future.

The company's motor vehicle fleet is an essential requirement to provide services and products to the customers. The fleet is needed to adequately tend to the needs of the customers but it is a major contributor to the 296 621 kg of carbon emissions that the company produces.

Huge plans to monitor these emissions on a continuous basis annually.

#### **4.3.2. Sustainability**

The company believes that a competent and successful sustainability program requires decision-making to underpin value creation of the company. The directors of the company have stated that while short term profits contribute to the value of the company, these should not be considered if it puts the sustainability of the company at risk (Huge, 2017).

Huge has been formulating other systems to ensure the long term sustainability of the company. These include formal monitoring systems which feedback to the various committees and directors who have been charged with ensuring the sustainability of the company as well as creating value for their stakeholders. The company's business strategy must also be aligned so that their objectives can be achieved (Huge, 2017).

#### **4.3.3. Summary**

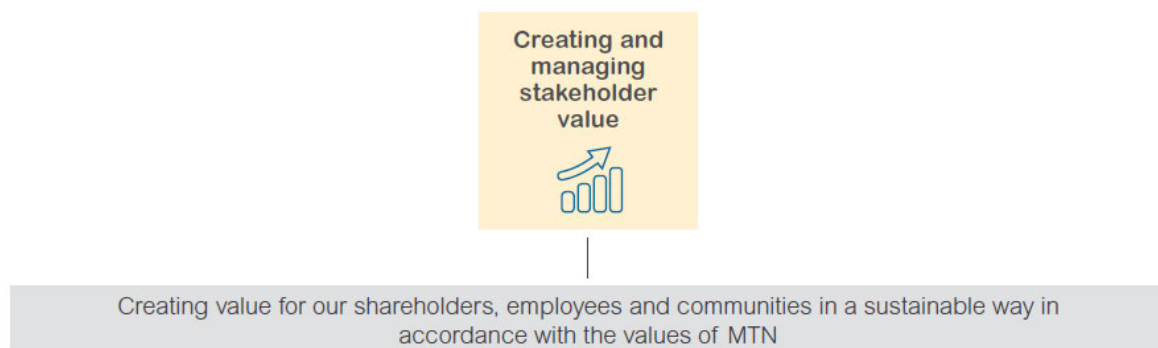
The above analysis proves that Huge is following the EMS model as its business strategy. The Huge group does value its stakeholders and seeks to maximise their value but does so without affecting the sustainability of the company.

The company does seem to value its shareholders rather highly with a 55% mean frequency over the period 2013 to 2017. This would suggest that Huger has adopted the EMS approach while concentrating on its investors.

#### 4.4. MTN

##### 4.4.1. Stakeholders

MTN stakeholder relationships include group and operations shareholders, governments, regulators, customers, communities, civil societies, suppliers, media, industries and employees. In 2015, MTN introduced a new quarterly reporting protocol aligned to international Stakeholder Engagement Standard. The company separated their stakeholders into different groups and appointed a corporate affairs manager tasked with implementing greater monitoring and measurement of the stakeholder engagements.



**Figure 4.7: Creating MTN stakeholder value**

**Source: (MTN, 2015 p.22)**

Figure 4.7 shows that MTN is intent on creating stakeholder value in a sustainable way. In 2015, the Nigerian regulator imposed a \$5,2 billion (US) fine on MTN Nigeria for a slow disconnection rate. This impacted strongly on both the financial and non-financial aspects like the reputational damage to the company. This was later decreased to \$3,9 billion (US) fine. Further engagement with the Nigerian authorities is on-going but this has brought the company's focus with its stakeholder relationships under question.

As a result of regulatory fine and subsequent reputational and business damage done to the company, MTN has adopted the “BRIGHT” focus that clearly defines six areas that the company needs to concentrate on to create value in a sustainable manner. BRIGHT stands for:

B – Best customer experience

R – Returns and efficiency focus

I – Ignite commercial value

G – Growth through data and digital

H – Hearts and minds

T – Technology excellence.

**Table 4.3 Summary of the MTN's stakeholder frequencies from 2013 to 2017**

	2013		2014		2015		2016		2017		Totals	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customer	20	16%	88	27%	113	28%	86	24%	70	19%	377	24%
Consumer	2	2%	5	2%	10	3%	11	3%	13	4%	41	3%
Employees	29	24%	74	23%	115	29%	98	27%	121	34%	437	28%
Staff	3	2%	12	4%	33	8%	23	6%	22	6%	93	6%
Investor	3	2%	18	6%	11	3%	17	5%	12	3%	61	4%
Shareholder	61	50%	36	11%	32	8%	31	9%	30	8%	190	12%
Society	1	1%	44	14%	42	11%	42	12%	31	9%	160	10%
Community	0	0%	6	2%	8	2%	18	5%	14	4%	46	3%
Supplier	2	2%	8	2%	7	2%	6	2%	11	3%	34	2%
Environment	2	2%	30	9%	28	7%	25	7%	36	10%	121	8%
<b>Total</b>	<b>123</b>	<b>100%</b>	<b>321</b>	<b>100%</b>	<b>399</b>	<b>100%</b>	<b>357</b>	<b>100%</b>	<b>360</b>	<b>100%</b>	<b>1560</b>	<b>100%</b>

Source: Author compiled using data from MTN (2013, 2014, 2015, 2016, 2017)

#### 4.4.1.1. Customer

MTN values its customers highly as the customer section (Customer plus Consumer frequency) is the second highest frequency at a mean of 27%.

Strategic theme	Strategic priorities over three to five years	KPI target in 2015
Creating a distinct customer experience 	<ul style="list-style-type: none"><li>■ Brand leadership</li><li>■ Customer experience</li><li>■ Customer analytics</li><li>■ Network quality and coverage</li></ul>	<ul style="list-style-type: none"><li>■ Net Promoter Score improvements</li><li>■ 17,5 million net additions</li><li>■ Implement core managed services</li></ul>

**Figure 4.8 MTN’s customer strategy**

**Source: (MTN, 2015 p.23)**

As can be seen from figure 4.8, MTN seeks to create a personalised customer base by using customer analytics and improving its offerings to the customer which include services like value add-ons and customer service.

As mentioned previously, MTN is following the “BRIGHT” operational strategy. MTN desires to be a market leader in Net Promoter Score (NPS) and achieve the best brand in the market as well as reducing the monthly churn rate of customers.

The company proposes to achieve these aims by:

- Revamping the customer experience
- Refreshing the brand
- Being on the customers’ side.
- Increasing the efficiency of customer relationship systems.

#### 4.4.1.2. Employees

Employees have the highest word percentage frequency mean in the integrated annual reports put out by MTN with an average of 34%. The lowest frequency being in 2013 at 26% while the highest is in 2017 at 40%.

MTN provides many employment opportunities with 18 931 being created in 2017 as well as R9 billion being paid out in salaries and wages in 2017.

MTN relies on its employees to have the necessary expertise so that the company can achieve their desired objectives. The below figure taken from the annual integrated report shows how MTN wishes to manage its employees by motivating and engaging them to ensure the creation of value and sustain the company in the long term.



**Figure 4.9: MTN relationships leading to value creation**

Source: (MTN, 2017 p.20)

#### 4.4.1.3. Suppliers

MTN has important and vital agreements with its suppliers and business partners to ensure a steady supply of quality goods that the company can offer to its customers. This would ensure that the desired outcomes would be mutually beneficial to both parties.

Figure 4.10 demonstrates this effectively as the company has stringent rules in place that all suppliers and business partners will have to adhere to.



**Figure 4.10: MTN's relationship with Suppliers.**

**Source: (MTN, 2017 p.20)**

#### 4.4.1.4. Shareholders

MTN sees shareholders as providing financial capital for sustainable growth.

Shareholders rank third on the frequency table above. From a high of 52% in 2013, shareholders have dropped from first to third with a mean value of 16% in the period from 2013 to 2017.

As Figure 4.11 below shows, the company values the trust and confidence of its shareholders for allowing it the ability to access the required financial capital to create a sustainable business.

MTN has planned to increase dividends from 10% to 20% per year to reward its current shareholders and attract potential shareholders to invest in the company.



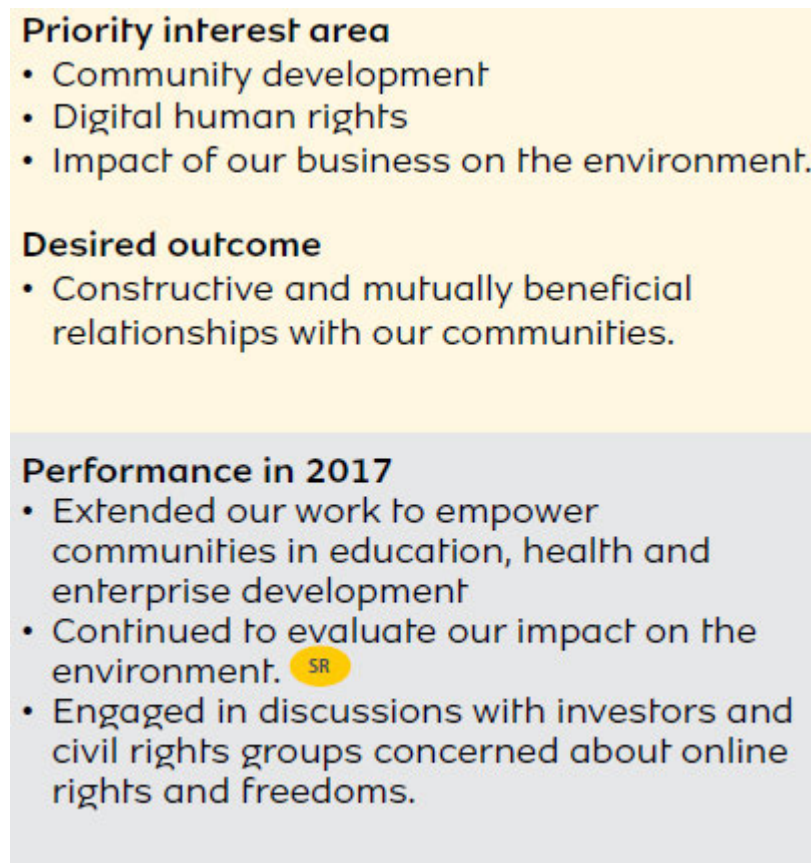
**Figure 4.11: MTN's relationship with Shareholders**

Source: (MTN, 2017 p.18)

#### **4.4.1.5. Society**

MTN engages with this section of the stakeholders in a number of various ways through its corporate social investment (CSI) projects. The company also sees society as a market for its products and services and as a safeguard to ensure that the business is responsible and accountable.

Figure 4.12 below shows MTN’s reliance on this strategy as a method to assess its business impact on its markets as well as trying to develop the community to take advantage of the goods that are available. In this way, the company hopes to create a constructive and mutually beneficial relationship together.



**Figure 4.12: MTN’s relationship with Society.**

**Source: (MTN, 2017 p.19)**

#### **4.4.1.6. Environment**

MTN generated around 2 006 248 tons of greenhouse gas emission during the 2017 period. However, the company did save over 1529 tons of greenhouse gases from the previous year. MTN seeks to maximise the trade-offs between capital allocations and minimising negative emissions.

MTN is also responsible for creating value for the stakeholders while ensuring that it does not negatively impact on other key relationships including those with the governmental and legal

regulators. It can achieve this objective by ensuring its operations are within the law and that it is held accountable for any infringements.

#### **4.4.2. Sustainability**

The annual integrated report includes a sustainability report for the stakeholders and outlines the business strategies that create value in a sustainable manner. The creation of the social and ethics committee was fostered by the need to create a sustainable environment for the company's value creation strategies. The committee has evolved its focus on sustainability of the company and utilises its corporate social spend to gain the best outcomes for shareholders and communities.

MTN also tries to advance the aims of the UN Sustainable Development Goals, part of which is attempting to avoid any negative effects of the company's operations on the environment.

#### **4.4.3. Summary**

Having analysed the annual reports over a 5-year period, MTN does attempt to take cognisance of its stakeholders and as such, it can be concluded that the EMS model is the best fit in this scenario.

The word frequency with employees as its highest mean rating of 34% would also suggest that MTN favours its employees as its main focus group. This would mean that the company is following an EMS approach with its employees as its main focus.

## **4.5. Vodacom**

### **4.5.1. Stakeholders**

Vodacom states that its stakeholders should read its integrated report if they increase their knowledge of how Vodacom intends to create increased profits in the future, the past year's performance and acknowledge the business objectives in creating stakeholder wealth for the relevant parties. Vodacom is busy implementing its Vision 2020 strategy which is based on 5 strategic elements with the aim of achieving its objective of being a world class company that enriches the lives of its consumers (Vodacom, 2017).

These five elements are segmented propositions, best customer experience, best technology, digital organisation and culture, and the Vodacom brand and reputation.

**Table 4.4. Summary of Vodacom’s stakeholder frequencies for the period 2013 - 2017**

	2013		2014		2015		2016		2017		Totals	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customer	245	51%	372	57%	355	57%	437	58%	352	50%	1761	55%
Consumer	15	3%	17	3%	42	7%	56	7%	49	7%	179	6%
Employees	68	14%	77	12%	71	11%	75	10%	88	13%	379	12%
Staff	10	2%	16	2%	16	3%	15	2%	12	2%	69	2%
Investor	13	3%	13	2%	17	3%	23	3%	33	5%	99	3%
Shareholder	77	16%	85	13%	64	10%	75	10%	79	11%	380	12%
Society	8	2%	15	2%	12	2%	12	2%	21	3%	68	2%
Community	18	4%	16	2%	9	1%	14	2%	9	1%	66	2%
Supplier	4	1%	21	3%	15	2%	16	2%	26	4%	82	3%
Environment	20	4%	22	3%	27	4%	34	4%	30	4%	133	4%
Total	478	100%	654	100%	628	100%	757	100%	699	100%	3216	100%

Source: Author compiled data from Vodacom (2013, 2014, 2015, 2016, 2017)

From Table 4.4 above, Vodacom appears to have a highly skewed frequency towards its customers with a mean of 61%. Shareholders and employees come a relatively distant second and third with 15% and 14% of the frequency percentage.

This would suggest that Vodacom is certainly focusing on its customers above the other stakeholder groupings.

#### **4.5.1.1. Customers**

Vodacom has certainly highlighted its focus on the customers. The frequency mean from Table 4.4 is 61% with a high of 65% in 2016 and a low of 54% in 2013. This suggests that the customers are the most important stakeholder grouping for the company.

Customers form a key part of Vodacom's Vision 2020. The company attempts to engage with its customers by providing the latest technological trends while enhancing customer interaction to create a lasting impression on its customers.

Vodacom seeks to achieve these aims by:

- Using Big Data analytics, machine learning and AI to provide a complete 360-degree view of the customer.
- Providing customers with a seamless, fully integrated one channel, ensuring consistent, personalised and efficient customer engagement, both online and in-store, with digital being the main support channel and MyVodacom app the channel of choice
- Developing high technology stores of the future that use biometric and the Internet of Things (IoT) – enabled services and augmented and virtual reality.
- Increasing the use of automation, robotics and biometrics to optimise the customer experience and achieve operational efficiencies across our engagement channels.

(Vodacom, 2017)



**Figure 4.13 Vodacom’s key relationship status with customers**

**Source: (Vodacom, 2017 p.24)**

#### 4.5.1.2. Employees

Vodacom considers its employees as one of its vital resources and deemed it necessary to invest responsibly in this segment. Employees have the third highest frequency in the integrated annual reports with a mean of 14% which is only 1% behind the second highest stakeholder which are the shareholders. The highest percentage was in the 2013 year when employees were at 16% and the lowest frequency was in 2016 when the percentage was 12%.

Vodacom values the technical and managerial skills as well as the effectiveness and efficiency of its employees as these are deemed important to create lasting value for the company when coupled with a healthy working environment and technological systems that aid employees to innovate new methods easily (Vodacom, 2015).

Investing in this critical area does not come without its associated expenses for the company, and while this might impact negatively on the income statement and profits, the high remuneration will attract and retain skilled personnel.

Vodacom has 7554 employees and has invested R278 million in employee and leadership training in the 2017 financial year. Vodacom seeks to retain and attract employees by providing competitive remuneration and personal development opportunities, investing in technical skills and leadership development, employee wellness and safety and promoting employee diversity to address inequalities and improve customer appreciation.

### 4.5.1.3. Suppliers

Vodacom has a relatively low frequency for suppliers at just 3% although the highest frequency of 4% was recorded in 2017 (the last year of the review period). However, the company still view suppliers as a key relationship since the cost of supplies will have an effect on the company's financial statements as Figure 4.14 indicates.



**Figure 4.14 Vodacom's key relationships with suppliers**

Source: (Vodacom, 2017 p.37)

### 4.5.1.4. Shareholders

This segment is the second highest frequency in Table 4.4 though it lags quite far behind the highest frequency with a mean of 15%.



**Figure 4.15 Vodacom key relationships with Shareholders**

Source: (Vodacom, 2017 p.78)

Vodacom still places a strong emphasis on shareholders since the company knows that this segment provides the financial capital that it needs to become sustainable and grow its operations as figure 4.15 above shows.

#### **4.5.1.5. Society**

Vodacom has committed itself, as a world class company, to fulfilling its ambition in aiding the United Nations to attain its Sustainable Development Goals which includes aiding communities and others to create better living spaces. One of the company's main objectives is to enable its customers to be at the forefront of technology so they can achieve their own goals and objectives. The company can aid the UN's Sustainable Development Goals by enhancing its product offering to its customers.

Vodacom has identified and prioritised the following seven sustainable development goals and the Social and Ethics Committee has been tasked to implement these goals into the company and corporate culture. The seven sustainable goals are:

1. Good Health and Wellbeing
2. Quality Education
3. Gender Equality
4. Decent Work and Economic Growth
5. Sustainable Communities
6. Climate Action
7. Partnerships for the Goals.

#### **4.5.1.6. Environment**

Vodacom utilises environment by using energy and work spaces that require the financial resources of the company. This may put a strain on the environmental impact of the company as it would have a negative effect though the company will closely monitor the potential effects.

The company used approximately 501GW of electricity, 3 910 892 litres of fuel, 203 516kl of water for the 2017 financial year. Vodacom has 6000 sites that are environmentally friendly

and have little to no ecological footprint thus saving the company R72 million in energy costs. Vodacom also operates 871 solar powered sites across the group (Vodacom, 2017)

#### **4.5.2. Sustainability**

As stated above, Vodacom is committed to achieving the UN Sustainable Development Goals. Vodacom has identified seven of the goals that the company can actively participate in. These goals are good health and wellbeing, quality education, gender equality, decent work and economic growth, sustainable communities, climate action and partnerships for the goals. The Social and Ethics committee has been tasked to implement these developmental goals.

Vodacom's plans to accelerate social upliftment of its customers and the community by allowing faster connectivity between its devices and this is the core of the company's Vision 2020 approach. Vodacom's social and ethics committee oversees and provides feedback for the company's operations such as:

- Social and economic development including Broad-Based Black Economic Empowerment ((BBBEE) and Employment Equity.
- Good corporate citizenship which includes the promotion of equality, prevention of unfair discrimination, corporate social responsibility, ethical behaviour and managing the environmental impacts of the company.
- Customer relations
- Labour and employment
- Safety, health and environmental issues.

#### **4.5.3. Summary**

From the above analysis, Vodacom appears to favour its stakeholders while keeping an eye on its sustainability. This would suggest that the company is using an entity maximisation and sustainability strategy.

The word frequency statistics seem to favour a customer orientated approach. With this in mind, Vodacom appears to be favouring an EMS approach while focusing on its customers.

#### **4.6. Conclusion**

All the companies listed in the telecommunications sector of the JSE seem to be utilising the entity maximisation and sustainability approach while discarding the neoclassical or the conscious capitalism strategy. The companies however, have different stakeholder groups that they appear to be focusing on with no one company having the identical grouping.

Vodacom appears to be favouring its customers whereas MTN seems to be focusing on its employees. Hush is focusing on its shareholders and this seems to be a sensible approach as these shareholders are a key stakeholder in the company. Blue also focuses on shareholders but it appears that the company is also focusing on its customers to a great extent. It is suggested that Blue has been emphasising both its shareholders and its customers.

The next chapter will calculate the profitability of the four companies using ratio analysis to determine the model associated with the higher profitability.

# CHAPTER FIVE

## PROFITABILITY ANALYSIS

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### 5.1 Introduction

In chapter four, the models that each company used were identified by the data collected and analysed. The four companies, Blue, Huger, MTN and Vodacom, are using the entity maximising and sustainability (EMS) model although their focus is based on different stakeholders and with varying degrees of emphasis.

All the companies analysed in the telecommunications section of the JSE appeared to be utilising the EMS approach but with a different focus for each. Blue Label Telecoms put most of its focus on shareholders and consumers. Huger only placed emphasis on its shareholders. MTN had its focus squarely on its employees. Vodacom focused its attentions almost solely on its customers.

Now that the models have been identified, there is a need to investigate which company has the greatest earnings. To calculate these earnings for each company, ratio analysis will be utilised for each of the listed telecommunications companies in the study. The results will be commented on in the conclusion.

### 5.2 Ratio Analysis

The objective of ratio analysis also sometimes called financial ratios, is the comparative measurement of financial data to facilitate wise investment and managerial decisions. Financial ratios are used for a number of reasons by variety of people and institutions for different

reasons. Investors and asset managers will use financial ratios to aid them in generating profits for their customers, while stock brokers specialise in making quick profits through buying and selling, companies to gauge their operations and those of other companies while loan officers might want to measure the risk before a request for a loan can be granted (Cameron, B, 2010).

The main limitations of ratios are:

- Ratios are only valid to the timeframes when their inputs were reported. What can be valid this year, will be obsolete next year. Ratios fare better when they are used comparatively with other ratios over a period of a few years.
- Ratios may not give the full picture as there may be extenuating circumstances due to a number of reasons. As such, the ratio may not be sufficient to form a decision. There might be other factors can influence the ratio equation.
- Since ratios are calculated, a greater in depth analysis might be required as changing factors could affect the calculation. A better method to utilise might be using a number of financial ratios to gain a greater insight.
- A ratio might seem to be appealing but this could lead to the incorrect decision being made as the calculation is only as good as the figures that have been used.

### **5.2.1 Gross Profit Percentage**

Gross Profit Percentage which is sometimes called gross profit margin. Gross profit is calculated by taking sales revenue minus the cost of goods sold and then divided by the sales revenue. Gross profit represents the percent of sales revenue that the company retains after deducting the direct costs associated with producing the goods and services. The higher the percentage, the more the company retains of its sales to pay off its other costs and calculate its final profits (Investopedia, 2019). The levels of gross profit can fluctuate wildly between different industries. The gross profit percentage should generally be much higher for a software company than a manufacturing one.

**Table 5.1 Gross Profit percentages for the telecommunications sector companies from 2013 - 2017**

	2013	2014	2015	2016	2017	Mean	Rank
Blue	6.70%	6.96%	7.46%	6.98%	8.26%	7.27%	4
Huge	29,68%	46,29%	39,56%	48,22%	55,94%	43,94%	1
MTN	29,98%	33,79%	24,02%	9,56%	15,48%	22,57%	3
Vodacom	26,94%	25,82%	26,30%	26,76%	18,02%	24,77%	2

Source: Author compiled data from Blue (2013, 2014, 2015, 2016, 2017), Huge (2013, 2014, 2015, 2016, 2017), MTN (2013, 2014, 2015, 2016, 2017), Vodacom (2013, 2014, 2015, 2016, 2017).

Table 5.1 shows that the Huge Group was clearly in the lead for the largest gross profit margin in the sector with a mean of almost 44% over the period with Blue having the smallest gross profit margin of a mean of 7,27% for the period under review. MTN had started off strongly but a Nigerian regulatory fine of \$5.2 billion (US) had to be reflected in its annual financial statements and annual integrated reports. This saw a gross profit margin that was in the mid-20s to mid-30s fall sharply to below 10% and then gradually see a recovery to almost pre-regulatory fine levels.

### 5.2.2 Net Profit Percentage

Net Profit Percentage is also known as net profit margin. A relatively high net profit margin is desirable though circumstances could change this (Firer et al, 2008). The net profit margin, like the gross profit margin are ratios that are intended to measure how efficiently the company uses its assets and how efficiently the company manages its operations and controls its expenses. This ratio measures the total sales after all the expenses have been deducted. Net margins will almost always be different when comparing different companies though companies in the same industry might be expected to have similar ratios since they would be facing similar conditions as each other. A wholesaler might have low percentage margins as it sells high volume items

while a specialist store like a technology company will usually have high margins as volumes will be significantly lower (Investopedia, 2019).

**Table 5.2 Net Profit percentages for the telecommunications sector companies from 2013 - 2017**

	2013	2014	2015	2016	2017	Mean	Rank
Blue	2,24%	2,32%	2,62%	2,64%	2,99%	2,56%	4
Huge	-4,46%	5,57%	5,50%	10,90%	19,20%	7,34%	3
MTN	19,49%	21,83%	13,74%	-2,10%	3,42%	11,28%	2
Vodacom	18,05%	16,79%	16,12%	16,15%	18,02%	17,03%	1

Source: Author compiled data from Blue (2013, 2014, 2015, 2016, 2017), Huge (2013, 2014, 2015, 2016, 2017), MTN (2013, 2014, 2015, 2016, 2017), Vodacom (2013, 2014, 2015, 2016, 2017).

Table 5.2 shows that Vodacom clearly had the largest net profit mean of 17,03% over the period 2013 to 2017 with Blue Label once again bringing up the rear with a mean of 2,56%. The Huge Group had the largest net profit margin but now only has the third highest net profit percentage of 7,34% average over the period. This would suggest that while the company has good controls over its cost of sales, its other operating expenses are much higher than the rest of the sector. Once again the Nigerian regulatory fine very negative effect on MTN as the net profit margin dropped 8% in 2015 and in 2016 was in negative territory as the company had to declare a loss in that year. The next year (2017) showed a slight recovery as the company worked hard to rebuild relationships and restore its reputation and its international image.

### 5.2.3 Return on Equity

The Return on Assets and Return on Equity ratios are known as operating or efficiency ratios. These ratios will signify whether or not a company is utilising its financial resources efficiently

to maximise its profits. The Return on Equity (RoE) ratio indicates the amount of the shareholder's returns (this being the funds that have been generated through sales of shares in the company) that the company is generating. The greater the ratio, the more satisfied the shareholder will be. The ratio indicates that the company is using shareholder funds to generate better profits. The RoE ratio is a useful tool for comparing companies in the same industry with each other (Cameron, B, 2010).

**Table 5.3 Return on Equity percentages for the telecommunications sector companies from 2013 - 2017**

	2013	2014	2015	2016	2017	Mean	Rank
Blue	13,10%	12,78%	14,74%	15,30%	15,73%	14,33%	2
Huge	-5,58%	5,16%	4,46%	8%	14%	5,21%	4
MTN	21,96%	24,04%	13,31%	-2,91%	4,74%	12,23%	3
Vodacom	57,56%	57,80%	56,07%	57,08%	22,03%	50,11%	1

Source: Author compiled data from Blue (2013, 2014, 2015, 2016, 2017), Huge (2013, 2014, 2015, 2016, 2017), MTN (2013, 2014, 2015, 2016, 2017), Vodacom (2013, 2014, 2015, 2016, 2017).

Table 5.3 shows that Vodacom has the best Return on Equity (RoE) percentage mean of 50,11% over the period while the Huge Group has the least at a mean of 5,21%. Vodacom showed a remarkably steady RoE in the mid-50% until 2017 when the percentage fell to a mere 22,03%. MTN operating under the burden of the regulatory fine when its RoE dropped more than 10%, in 2015, and then was negative in 2016.

The Huge Group have been particularly impressive. The Net loss recorded in 2013 seemed to stimulate the group to increase its RoE into positive territory and in 2017, the company recorded an impressive 14% figure.

Blue Label Telecoms kept its range quite narrow, between 12,78% and 15,73%. This meant that the range was less than 3% for the period under review. This meant that its consistency was rewarded with a second place for the RoE percentages.

#### 5.2.4 Return on Assets

This ratio differs from RoE because it is broader since the assets calculation doesn't consist of just equity but also includes all other forms of financial capital available to the company. This would include all forms of debt such as loans and debentures. These forms of capital funding should create value and profits for the company and returns for the stakeholders. As with the RoE, a higher percentage, would indicate a better use of the funds (Cameron, B. 2010). Ideally, a company should be generating higher returns while using as little capital as possible in order to produce these returns.

**Table 5.4 Return on Assets percentages for the telecommunications sector companies from 2013 - 2017**

	2013	2014	2015	2016	2017	Mean	Rank
Blue	7,43%	6,92%	8,22%	9,47%	9,06%	8,22%	2
Huge	-3,28%	3,28%	3,52%	13,00%	21,00%	7,50%	3
MTN	11,65%	12,65%	6,44%	-1,15%	1,86%	6,29%	4
Vodacom	22,50%	17,54%	16,40%	16,18%	11,85%	16,89%	1

Source: Author compiled data from Blue (2013, 2014, 2015, 2016, 2017), Huge (2013, 2014, 2015, 2016, 2017), MTN (2013, 2014, 2015, 2016, 2017), Vodacom (2013, 2014, 2015, 2016, 2017).

Table 5.4 shows that, once again, Vodacom has the best Return on Assets (RoA) percentage over the period while MTN has the worst. Vodacom's RoA percentage did fluctuate between a 10% margin. MTN dealing with the effects of the Nigerian regulatory fine which halved its RoA percentage in 2015 and then in 2016 when the company declared a net loss for the year, the RoA percentage was negative. The 2017 year showed a marginal positive growth but this wasn't enough for the company as it ended up last on the table.

The Huge Group's RoA percentage over the period was, once again, particularly impressive. The company's RoA went from a negative figure to 21% over the period.

Blue Label was once again, the most consistent company with a 2,55% variation between the results and ended up second on the table.

### 5.2.5 Earnings per Share

Earnings per share (EPS) forms part of the Valuation ratios. The EPS ratio can provide an indication of both capital growth and income of the company. For a shareholder or potential shareholder, the most important things to know about a company are how much profit it makes and how much profit does it make on one share. The earnings per share ratio shows how much profit is earned for every share that has been issued. If a listed company doesn't make sound profits on its shares, then a shareholder or potential shareholder would be better advised to put their money in a bank or invest in an RSA retail bond.

**Table 5.5 Earnings per Share figures for the telecommunications sector companies from 2013 - 2017**

	2013	2014	2015	2016	2017	Mean	Rank
Blue	64.22	67.88	86.86	103.85	117.92	88.15	3
Huge	-11.01	13.54	12.80	26.3	47.4	17.81	4
MTN	1434	1752	1109	-144	246	879,4	2
Vodacom	903	864	881	915	947	902	1

Source: Author compiled data from Blue (2013, 2014, 2015, 2016, 2017), Huge (2013, 2014, 2015, 2016, 2017), MTN (2013, 2014, 2015, 2016, 2017), Vodacom (2013, 2014, 2015, 2016, 2017).

Once again, Vodacom is first on the table. The company keeping a steady EPS around the 900 mark. MTN was first in the first three years under review. Once again the Nigerian regulatory

fine meant that, in 2016, the company recorded a net loss and this pushed the EPS into the negative. Again, the company made a slight recovery in 2017 but still managed to get to second place on the table by quite a large margin.

Blue is third on the table with a mean of 88.15 while the Huge group is at the bottom with a mean for the period under review of 17.81.

### **5.3 Discussion**

Table 5.6 shows a summary of the four companies analysed in the telecommunications sector of the JSE, in relation to the five financial ratios that were calculated for the period under review. All four companies are shown, from chapter four, to be following the entity maximisation and sustainability model but with varying focuses on different stakeholders. Each company is also shown to have different performance levels despite following the same model (EMS). This can be attributed to the different stakeholder focus that each one follows.

Vodacom is the clear leader in profitability using the financial ratios. From Table 5.6, Vodacom is placed first in four out of the five financial ratios tested and second in the other ratio. MTN has two second places, two third places and a last place and just edges out Blue which has 2 second places, one third place and two fourth places and Huge has one first place, two third places and two fourth places.

Table 5.7 shows the rankings of the companies based on a point total of their positions in the financial ratio analysis table. Vodacom is clearly the overall leader with a points total of 6 while MTN just edges both Blue and Huge with 14. Blue and Huge have ended up tie third with a points total of 15.

**Table 5.6 Summary of the ranking of each JSE listed telecommunications company from 2013 to 2017**

Rank	Gross Profit Percentage	Net Profit Percentage	ROE	ROA	EPS
1	Huge	Vodacom	Vodacom	Vodacom	Vodacom
2	Vodacom	MTN	Blue	Blue	MTN
3	MTN	Huge	MTN	Huge	Blue
4	Blue	Blue	Huge	MTN	Huge

**Table 5.7 Telecommunications sector companies ranked on profitability performance**

Rank	Company	Position Total
1	Vodacom	2+1+1+1+1 = 6
2	MTN	2+2+3+3+4 = 14
3=	Blue	4+4+2+2+3 = 15
3=	Huge	1+3+4+3+4 = 15

## **5.4 Conclusion**

Vodacom which follows the EMS approach but with a focus on customers has appeared to be the most profitable amongst the companies in this industry. MTN despite recording losses because the large fine imposed by the Nigerian regulators, has managed to claim second place by one point as can be seen in Table 5.7. Blue and Huge have tied for third position since both have a similar approach with EMS and a focus on shareholders. Blue, however, does have a secondary focus on customers. This prove to be advantageous to Blue in the future as its return on equity, return on assets and EPS are all superior to Huge.

The next chapter shall deal with the overall conclusions as well as detailing a few recommendations for future studies.

# Chapter Six

## Conclusions and Recommendations

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### **6.1. Introduction**

This chapter will draw conclusions from the previous chapters and the results of the research methodology as they have been applied in chapters four and five. There is also a section for recommendations derived from the results of the study. The last section comprises of recommendations for future studies.

One of the objectives of this study was to gather and analyse the publicly available documents and the annual financial statements (if the company issued it separately) to determine the primary purpose of companies listed in the telecommunications sector of the JSE. The annual integrated reports and where applicable, the annual financial statements of Blue, the Huge Group, the MTN Group and Vodacom were utilised in this study. These companies form the population of the mobile telecommunications section of the JSE for the 5 years from 2013 to 2017. The information in these statements were analysed using the research methodology described in previous chapters to determine the primary objective and then the profitability of the company and its objectives.

### **6.2. Summary of Results**

This study had five objectives and these are listed below:

1. To examine the literature of the three models, namely the neoclassical model, conscious capitalism (CC), and the entity maximisation and sustainability model (EMS) in order to identify themes and major identifiers of each one.
2. To examine the financial statements over a five-year period from 2013 to 2017, of the listed companies in the telecommunications sector of the JSE, in

particular all the publicly available information contained in the statements issued by the relevant companies, for key identifiers that could link to any of the three models.

3. Investigate to find which model each of the companies listed on the JSE is following, based on an analysis on each company's annual financial statements and integrated reports.

4. To ascertain if there is a dominant model utilised by companies who are relevant to this study and if so, which model, in particular.

5. To determine if a particular model linked to the relevant companies in this study, is associated with a higher profitability by analysing the integrated annual reports and using profitability ratio analysis.

#### **6.2.1. Objective One: Identifying major themes and characteristics of the models**

The first objective was to examine the literature on the models and identify the major themes and characteristics in the neoclassical theory, conscious capitalism and the entity maximisation and sustainability models. Chapter two consists of the literature review which compared and contrasted these three models.

The neoclassical theory focused on short term profit maximisation which increased the value for the shareholders of the company. This was held to be a narrow focus on only one section of the stakeholders which could be justified as the shareholders were the legal owners of the company and would be expecting a return on their investment.

CC has a wider ambit and focused on four principles. These were higher purpose, stakeholder orientation, conscious leadership and conscious culture. These four principles would have to be followed otherwise the company and its profits would suffer. This meant that the company would not only focus on one stakeholder as the neoclassical theory did. Instead all stakeholders would be equally focused on.

EMS focused on the maximisation of profits while keeping the company sustainable in the long term. The company would not only focus on profit maximisation but also on the community that it operated in and the environment that it exists. This means that while the company was

focused on being economically active, it also had to balance the concerns of the other two spheres in order to become successful.

### 6.2.2. Objective Two and Three: Identifying the model and analysing reports

Each model has a different focus with the neoclassical theory only focusing on one stakeholder, CC focusing on all the stakeholders and EMS adding sustainability to the stakeholder focus. From the literature, the major stakeholders were identified and listed as employees, suppliers, customers, shareholders, the environment and society. Research was undertaken to identify which stakeholders the companies were focusing and the sustainable process adopted, if any, to enable profit maximisation for the companies in the long term.

Objective three was to analyse the annual integrated reports and the annual financial statements as well as any other relevant reports issued by the companies that are in the mobile telecommunications section of the JSE. This was for the 5 years under review, from 2013 to 2017. The annual reports were analysed to determine how often the main stakeholder groupings were mentioned. This is suggestive as to which stakeholder group, the company is targeting as their strategic plan. A summary of the main stakeholder groups was given and the annual reports were also analysed to investigate whether the companies were mentioning the effects of their sustainability approaches and what courses of action were being followed to enable the companies to become more sustainable in the future.

Chapter four provides details of the content analysis into the annual reports of the JSE-listed companies in the telecommunications sector. The main stakeholders as well as the sustainability of the companies is discussed and explored for the period 2013 to 2017. Tables 6.1, 6.2, 6.3, and 6.4 summarises the results of these analysis.

**Table 6.1 Summary of results for Blue from 2013 to 2017**

<p>Customers</p> <p>Frequency: 651 times</p>	<p>Customer service orientation forms part of the Blue value system. Customers are the company’s most important assets and the</p>
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(25% mention)	company needs to satisfy their expectations in a sustainable manner.
Employees Frequency: 556 times (21% mention)	Employees are a key stakeholder and Blue is striving towards creating an enjoyable work environment in which employees can be motivated and incentivised to become more productive and creative.
Suppliers Frequency: 129 times (5% mention)	The company collaborates with its suppliers and business partners in an attempt to enhance the end customer's experience. Blue has agreed long term distributor and dealer agreements with the majority of its suppliers and business partners.
Shareholders Frequency: 1023 times (39% mention)	Shareholders are one of Blue's key focus stakeholder's groups along with customers. The company engages its shareholders and potential investors by sending its management team on various roadshows during the year.
Society Frequency: 155 times (6% mention)	Blue has a large CSI program through which, they contribute to the community. The focus is mainly on youth development, entrepreneurship and sport. Two big projects are the Blue Label Alexander Cricket programme and the Boys and Girls Club of South Africa.
Environment Frequency: 125 times (4% mention)	Environmental matters form part of the social, ethics and transformation committee's responsibilities. The committee reviews the company's environmental footprint several times during the year.
Sustainability	Blue has diversified to other emerging markets such as India and Mexico. The

	company has also acquired a 45% shareholding stake in Cell-C which is one of its major suppliers.
Conclusion	Blue appears to be following an EMS approach with a focus on shareholders and customers.

**Table 6.2 Summary of results for Huge from 2013 to 2017**

Customers  Frequency: 326 times  (22% mention)	Customers are a key stakeholder for the Huge Group as the company recognises them as being the purchasers of their products and services. Huge focuses on having happy customers as this would ensure the sustainability of the company.
Employees  Frequency: 175 times  (12% mention)	Huge identifies its employees as being one of the “Six Capitals, being the Human Capital. This includes the competencies, capabilities and experience of the workforce as well as their motivation.
Suppliers  Frequency: 24 times  (2% mention)	The company does value its suppliers since they provide the necessary quality of goods and services. However, the frequency mean is a mere 2%, suggesting that this might not be the case.
Shareholders  Frequency: 804 times  (55% mention)	Huge places a large emphasis on its shareholders. The company believes that this key stakeholder group provides financial capital for sustainable earnings growth.
Society  Frequency: 110 times	The company does run a CSI program where it attempts to bring in technical ICT knowledge and expertise to underprivileged

(8% mention)	educational environments through the form of donations of laptops, printers, desktops, Wifi packages and cash.
Environment Frequency: 24 times (2% mention)	All renewable and non-renewable resources and processes that provide goods and services that support the past, current and future prosperity of the Huge group is considered vital towards the sustainability of the company.
Sustainability	The company is of the considered view that sound and effective governance requires decision-making based on achieving the long term sustainability of the Huge Group.
Conclusion	Huge appears to be following the EMS approach with the focus firmly on shareholders.

**Table 6.3 Summary of results for MTN from 2013 to 2017**

Customers Frequency: 418 times (27% mention)	MTN's strategy for customer involves creating a distinct and memorable customer experience by using customer analytics and improving its products and services such as network quality and coverage.
Employees Frequency: 530 times (34% mention)	MTN relies on its employees to provide the skills required to deliver on the company's strategy, vision and purpose. MTN engages its employees to find ways to create value and become sustainable in the future.

Suppliers  Frequency: 34 times  (2% mention)	MTN relies on its suppliers and business partners to provide quality products as well as the opportunity to jointly create solutions for customers that would be mutually beneficial to both parties.
Shareholders  Frequency: 251 times  (16% mention)	The company views shareholders as providing financial capital for future growth. MTN plans to increase dividends from 10% to 20% per year to reward its current shareholders.
Society  Frequency: 206 times  (13% mention)	MTN engages society mainly through its CSI program. The company sees this stakeholder group as a market for its products and services and as a safeguard to ensure that it is held responsible and accountable.
Environment  Frequency: 121 times  (8% mention)	The company has saved over 1529 tons of greenhouse gases during the 2017 year. MTN seeks to maximise the trade-offs between capital allocations and minimal negative emissions.
Sustainability	MTN issues a sustainability report for its stakeholders that outlines its business strategies. The company does attempt to advance the aims of the UN Sustainable Development Goals.
Conclusion	MTN appears to be following the EMS approach with a focus on employees.

**Table 6.4 Summary of results for Vodacom from 2013 to 2017**

<p>Customers</p> <p>Frequency: 1940 times</p> <p>(61% mention)</p>	<p>Vodacom appears to be very focused on its customers as being a key stakeholder in the business. Customers form an integral part of the company's 2020 Vision by providing a customer-centric experience. Vodacom has over 103 million customers at the end of the 2017 financial year.</p>
<p>Employees</p> <p>Frequency: 448 times</p> <p>(14% mention)</p>	<p>Vodacom acknowledges that its staff complement as one of its critical assets and acknowledges the necessity to invest responsibly so that the company can trade sustainably in the future.</p>
<p>Suppliers</p> <p>Frequency: 82 times</p> <p>(3% mention)</p>	<p>The company views suppliers as a key relationship despite the fact that it is one of the lowest frequencies. The company acknowledges that suppliers have an impact on its ability to provide products and services cost-effectively.</p>
<p>Shareholders</p> <p>Frequency: 479 times</p> <p>(15% mention)</p>	<p>Vodacom believes that shareholders are necessary to secure the funding required so the company can create greater value in the future.</p>
<p>Society</p> <p>Frequency: 134 times</p> <p>(4% mention)</p>	<p>Vodacom has also committed itself to following the UN Sustainable Development Goals. The company has identified seven of the development goals as being a priority and tasked the social and ethics committee to implement these goals.</p>
<p>Environment</p>	<p>Vodacom utilises the environment in order to create value and wealth for its stakeholders.</p>

Frequency: 133 times  (4% mention)	Vodacom has 6000 sites that reduce its environmental footprint. The company also operates 871 solar powered sites.
Sustainability	Vodacom has committed the company and its resources to achieving seven of the UN's Sustainable developmental goals. A few of these are a quality education, sustainable communities, an climate action
Conclusion	Vodacom appears to be following the EMS approach with a focus on customers.

### 6.2.3. Objective Four: Determining the dominant model being used

Utilising the results of chapter four, this objective was to identify the main economic model in the telecommunications section. These conclusions from chapter four lends itself to the opinion that all four companies are following the EMS approach though the companies are focusing on different stakeholder groupings. Blue focused on shareholders and customers, the Huge Group focused on shareholders, MTN focused on employees, and Vodacom focused on customers.

### 6.2.4. Objective Five: Determining the model with the highest profitability

The fifth and last objective of this study was to use ratio analysis to determine which company had the highest profitability. Once the company was identified then the model associated with that company could deemed to be the best performing in the telecommunications sector. The financial ratios utilised were gross profit percentage, net profit percentage, return on equity, return on assets and earnings per share.

The figures used in the financial analysis were from the publicly available reports which were available online on the internet and were taken from the years 2013 to 2017. The JSE-listed companies were ranked, as Table 6.5 shows, from best performing to worst performing. Vodacom was first then MTN, followed by Blue and then the Huge Group in fourth place. These companies appear to be following the EMS approach although each company focuses on different stakeholder groups.

**Table 6.5 Ranked on overall profitability performance from 2013 to 2017**

Rank	Company	Model
1	Vodacom	EMS (customers)
2	MTN	EMS (employees)
3=	Blue	EMS (Shareholders and customers)
3=	Huge	EMS (Shareholders)

### **6.3. Recommendations**

The four companies listed in the mobile telecommunications section of the JSE seem to be using an EMS approach. This model is still fairly new when compared to the neoclassical model and the conscious capitalism model. Companies have been trying to enhance their reputation and brand image by engaging with its stakeholders rather than just focusing on its shareholders. The results from this research, tend to indicate that focusing solely on shareholders might not be the best strategy though it may reap its rewards over a short period of time, especially if the company wishes to exist in the future.

Vodacom with its focus on its customers, appears to have performed the best over this five-year period under review. However, its main competitors, MTN and Cell-C, have been under considerable pressure from issues ranging from a huge regulatory fine from the Nigerian authorities which caused massive reputational and brand damage to Blue Label Telecoms buying a major stake (45%) to re-capitalise Cell-C. MTN appeared to be recovering from the huge fine and restoring its damaged reputation by 2017 while the effects of the Blue share buy-out remains to be seen by Cell-C.

Companies and their directors need to keep up to date with the latest developments in company models to ensure that they strive to stay relevant in a rapidly changing business environment. This would go a long way to ensuring growth and becoming sustainable in the future.

#### **6.4. Recommendations for Future Studies**

Future recommendations for this study could include investigating and exploring the following points:

- Only one sector of the JSE was analysed. More sectors could be analysed to find out which model is being followed by the company listed.
- Only JSE listed companies were used in this study. For future studies, other stock exchange listed companies might be considered and where, annual reports are publicly available, smaller unlisted companies might be considered for study.
- It was suggested that many factors could affect profitability and could affect the measurement of profitability through ratio analysis. A study could be conducted that could lessen the limitations of ratio analysis to ensure its effectiveness in measuring the profitability status of a model.
- This study used publicly available reports issued by the relevant companies in terms of their legislative, regulatory and governance laws. Future studies could include an interview process whereby the researcher interviews the relevant company's board of directors, executive directors and management as well as financial analysts with valuable technical knowledge of the sector.

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## Appendix One Ethical Clearance



03 May 2019

**Mr Yash Naicker (200278670)**  
Graduate School of Business & Leadership  
Westville Campus

Dear Mr Naicker,

**Protocol reference number: HSS/0363/019M**

**Project title:** A content analysis of financial statements to determine the primary purpose of JSE listed companies in the mobile telecommunications sector

**Full Approval – No Risk / Exempt Application**

In response to your application received on 15 April 2019, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Title of the Project, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 1 year from the date of issue. Thereafter Recertification must be applied for on an annual basis.

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I take this opportunity of wishing you everything of the best with your study.



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