

UNIVERSITY OF KWAZULU-NATAL

An analysis of annual integrated reports to determine the corporate objective of companies  
focused on the apparel retail sector in South Africa

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## ABSTRACT

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The purpose of this study is to analyse the annual reports of companies in the apparel retail sector to determine their corporate objective and examine profitability. The corporate objective is determined using content analysis. The study focuses on three dominant economic models namely; the shareholder value model, the stakeholder model and the entity maximization and sustainability models. The study then examines the profitability of the companies using profitability ratios. There are three distinct stages to this study. The first stage of the study begins by examining existing literature on the shareholder value model, the stakeholder model and the entity maximization and sustainability model with the purpose of being able to identify themes and major identifiers of each model. The next stage of the study then attempts to best fit the established models using content analysis of the company's annual integrated reports. The study uses reports over a five year timespan (2012-2016). Over these five years both financial and non-financial aspects of the annual integrated reports were studied. The companies selected include Truworths Int. Ltd, Mr Price Group Ltd, The Foschini Group Ltd and Holdsport Ltd. All the selected companies are listed on the JSE and therefore are required to conform to the strict reporting requirements determined by the stock exchange. Finally the study uses the financial statements to examine the profitability of the companies selected using various profitability ratios. The study then concludes by determining which model performs best based on the financial ratios examined in the final stage of analysis.

The content analysis revealed that the dominant model in the apparel retail sector was the entity maximisation and sustainability model. However, the companies in the apparel retail sector all followed different variants of the model, Truworths focussed on the employee, Holdsport on shareholders with a differentiation strategy, Mr Price on shareholders with a low cost strategy and Foschini on the customer. The profitability ratio analyses revealed that Truworths performed the best followed in second place by Mr Price. In third position was Holdsport and Foschini was in fourth position. Therefore it was concluded that, over

the period from 2012 to 2016, the Truworths entity maximisation and sustainability model with a focus on employees performed the best.

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## LIST OF ABBREVIATIONS

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CC	Conscious Capitalism
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
EMS	Entity Maximisation and Sustainability
EPS	Earnings per Share
IFRS	International Financial Reporting Standards
JSE	Johannesburg Securities Exchange
KPI	Key Performance Indicators
LSM	Living Standards Measure
ROA	Return on Assets
ROE	Return on Equity
SD	Standard Deviation

# CHAPTER ONE

## INTRODUCTION

---

### **1.1. Introduction**

The need to effectively exchange goods using an efficient mechanism has been a problem that society has had to deal with for many millennia. The modern economy has been created and defined by an ever-increasing number of structured processes and entities. An essential cog in this grand machine we call the modern economy is the public company. The role and responsibilities of a public company is an ongoing research space in modern economics. Defining the corporate objective of public companies is seen as an elusive task as corporate law does not provide a rigid process that enforces this (Keay, 2008). Three major models categorize corporate objectives; these are the shareholder value principle, the stakeholder model and the entity maximization and sustainability model. South African companies have not been clearly defined as fitting any of these specific models, as South Africa does not have any specific laws to enforce disclosure on such information. This study focusses on the three main models in a South African context and applies it to companies listed in the apparel retail sector on the JSE for the period 2012 to 2016.

The rest of this chapter provides an overview of the purpose of this study, including a discussion on the objectives, methodology and limitations.

### **1.2. Problem statement and motivation for the study**

Defining corporate objective is a complicated task as an entity can have many different stakeholders with conflicting interests. This study shall focus on six different stakeholders these being customers, employees, suppliers, investors, society and the environment

(Mackey, 2011). This study begins by investigating the three major economic models that exist in economic theory.

The shareholder value principle also known as shareholder value maximization or as the shareholder value model has been a debated model for many years. This principle is based on the predicate that the focus of a company should be the shareholders with the primary goal being maximizing short term profits (Mizruchi and Kimeldorf, 2005). Mizruchi and Kimeldorf (2005) have suggested that the business world has undergone a significant change, no longer are managers focusing on stability and long term growth but are rather at the mercy of institutional investors and financial analysts. This has led to the focus on short term economic objectives while sacrificing long term sustainability (Bistrova et al., 2014).

The second model is the stakeholder value model and of the various stakeholder theories this study shall focus on the concept of Conscious Capitalism. This concept was made popular by John Mackey and Raj Sisodia. The concept of Conscious Capitalism requires that the interest of all major stakeholders are integrated (Mackey and Sisodia, 2013). To facilitate this objective four guiding principles are to be followed 'higher purpose', 'stakeholder orientation', 'conscious leadership' and 'conscious culture'. More detail on these guidelines will be provided later in the study.

The last model analysed is the Entity Maximization and Sustainability model. There have been many debates as to which model is more effective, weaknesses have been identified in both the shareholder primacy and the stakeholder theory (Keay, 2011). This new normative model hinges on two main elements, the maximizing of entity wealth and while ensuring the long term sustainability of the entity (Keay, 2011).

There is a limited amount of literature dedicated to the task of investigating corporate objectives within a South African context (Gregory and Chasomeris, 2016). This study researches which corporate objective model the companies in the apparel retail sector on the JSE appear to follow for the period 2012 to 2016. The companies researched include Truworths Int. Ltd, Mr Price Group Ltd, The Foschini Group Ltd and Holdsport Ltd. All of

these companies are listed on the JSE which ensures strict reporting requirements are adhered to. After having matched which corporates objective model the companies appear to follow, the study then determines the profitability of the companies.

### **1.3. Aims and objectives**

This study aims to analyse the annual reports of companies listed in the apparel retail sector on the JSE, to determine their corporate objective and examine profitability for the period 2012 to 2016.

The five research objectives that have been identified are as follows:

1. To examine the literature on the three models in order to identify themes and major identifiers for the shareholder value principle, the stakeholder model (conscious capitalism) and the entity maximization and sustainability models.
2. Analyse the annual integrated reports of the companies listed in the apparel retail sub sector on the JSE for the period 2012 to 2016 in order to identify key focus areas that could link to the three main models.
3. Based on the information found from analysing the annual integrated reports determine which of the three models each company listed in the apparel retail sector on the JSE appears to be following.
4. Determine if there is a dominant model in the apparel retail sub sector on the JSE and if so which one.
5. Analyse the financial statements included in the annual integrated reports and using profitability ratios determine which model is associated with higher profitability for the selected companies.

## **1.4. Research Methodology**

This study begins with a detailed literature review that analyses the three major models in detail. Key characteristics are noted for each individual model as well as their similarities. The research then identifies the major stakeholders and the role and emphasis given to each stakeholder. This study focusses on the annual integrated reports published by these companies to provide insight into which model they appear to follow. The literature review also includes a brief of the history of the selected companies.

The literature review provides us with the required insight allowing us to delve deeper into analysing the corporate objective model that is used by the companies. Given the model characteristics identified the next section of the study uses a qualitative approach to analysing the content of the annual reports. The non-financial content to be analysed is found in the annual integrated report of the companies. Keyword frequency and content analysis is performed to determine which stakeholders have been given more importance. Using this information the study then determines which corporate objective model the company's strategy resembles. The financial content such as income statements, cash flow statements and balance sheets is analysed to determine profitability ratios and financial performance. As all four of the companies in this research have listed on the JSE, they are required to conform to the International Financial Reporting Standards (IFRS) (JSE, 2017b). This will allow for consistency across the companies and fair comparison. The study then ranks the profitability of companies based on the five profitability ratios.

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

The study follows a structured framework:

Chapter one is the introductory chapter to the study. This research begins by providing a quick overview of the study. This is followed by the problem statement and reasons for conducting the research. The next section then discusses the aims and objectives of the study and defines the scope. Following this is a brief discussion on the research methodology used which then leads to the limitations and delimitations of the study.

Chapter two is a detailed research literature review. It begins with a detailed review of the two most dominant theories of corporate objective, the shareholder primacy theory and the stakeholder theory. The stakeholder theory shall include focus on the Conscious Capitalism credo. This is then followed by a detailed analyses of the new model called entity maximization and sustainability.

Chapter three discusses the research methodology selected. The chapter then provides more detail into the qualitative analysis that shall be used to analyse the non-financial aspects of the annual reports, as well as provide details on the quantitative analysis that will be used to calculate the profitability ratios.

Chapter four is focused on applying the qualitative analyses of the non-financial aspects in the annual reports. It focusses on the major themes and identifiers which were discussed in the literature review. The chapter concludes having matched the four companies listed on the JSE with one of the three major corporate objective models.

Chapter five is focused on applying the quantitative analyses using the financial aspects in annual reports. Profitability financial ratios are used to rank the company's performance for the years 2012-2016.

Chapter six is the conclusion. It contains a summary of the findings as well as recommendations for future studies.

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

Expected limitations and delimitations of this study include:

1. This research uses information obtained from the annual integrated reports of the company's listed on the JSE. The information contained in these reports has been summarised. As such, conclusions are based on these summaries.
2. The qualitative nature of the content analyses may result in conclusions that are subjective.
3. The time period used for the research is a five year period 2012 to 2016. The conclusions are thus only applicable to this period in time.
4. There are many factors that affect a company's profitability ratios and the effectiveness of a company's model is a single constituent factor.

## **1.7. Conclusion**

South African companies have not been clearly defined as fitting any specific corporate objective model. This study focusses on the three main models namely the shareholder value model, the stakeholder model and the entity maximisation and sustainability model. The research aims to analyse the annual reports of companies listed in the apparel retail sector on the JSE, to determine their corporate objective and examine profitability for the period 2012 to 2016. To achieve this, a detailed literature review is provided in chapter two which is followed by the research methodology in chapter three. Chapter four contains the content analysis which then leads to the profitability analysis in chapter five and finally the conclusion in chapter six.

## CHAPTER TWO

### LITERATURE REVIEW

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#### **2.1. Introduction**

The public company is an essential cog in the modern economy, its reach permeating through society with its effects influencing our political and economic lives (Bottomley, 2007). Companies collect transform and distribute economic resources in society. It is clear that an entity with this much of power should behave in a manner that is both trustworthy and ethical. The internet has changed the way we transact and absorb information, the ease of access to data has created a modern hyper aware society (Castells, 2002). Companies have to respond to this and are now focussing on more holistic strategic models that encompass more than just financial focus, included in their decision making is their impact on the environment and other stakeholders while ensuring sustainability. As a result of the interconnected network of interacting entities that make up our modern economy, we begin to challenge traditional business models and ways of thinking (Keay, 2008).

This chapter explores three models the shareholder value model, the stakeholder model which includes focus on conscious capitalism and finally the entity maximisation and sustainability model. The study then identifies the main stakeholders associated to the models. Thereafter a brief description of the reporting requirements of the JSE is done.

#### **2.2. The Shareholder Value Model**

The shareholder value model measures the magnitude of a business's success by its ability to increase the wealth of its shareholders (Friedman, 2007). The principle hinges of the ability for senior management to effectively generate a positive return on invested capital

for the shareholders of the company (Macey, 1991). The shareholders are said to have the largest investment in the outcome of the company (Macey, 1998). This stake in the company can have both a positive and negative impact. When a company successfully improves sales, earnings and free cash flows the shareholders benefit by the increased value in wealth. In the event of poor management decisions leading to financial loss and a decrease in wealth, the shareholders are negatively impacted and in extreme cases such as liquidation are the ultimate losers. It is therefore preferable for a shareholder to ensure the wealth of the company grows positively and to avoid a negative financial situation for the company (Van der Weide, 1996, Macey and Miller, 1993).

The study begins by looking at theories that support shareholder primacy. A major concern for shareholders is handing over of the responsibility to run the business in a manner that maximizes their wealth. Usually this involves appointing directors that are tasked to do this, the shareholders guide and ensure directors carry out their jobs in a manner that is conducive for the business (Matheson and Olson, 1991). The directors are the agents who are acting on behalf of the shareholders who are the principals in this relationship (Ross, 1973). A problem known as the principal-agent exists when an agent acts in his own best interests which conflicts with that of the principal (Jensen and Meckling, 1976). When asymmetric information is available the principal is unable to ensure that the agent will behave in a manner that is congruent with that of their best interests (Bebchuk, 2009). This difference between how the agent and principals interest is referred to as agency costs (Bebchuk, 2009). Shareholder primacy simplifies the task of measuring the agent's performance by only allowing focus on a single stakeholder's interest. This further improves director accountability.

Keay (2008) identified three principles based on efficiency in favour of shareholder primacy theory. The first principle states that shareholders are more likely to adopt economic efficiency because of their drive to increase profits (Keay, 2008). Secondly, because management have to concentrate on a single objective while considering the interests of a single stakeholder it is easier to maximise efficiency (Keay, 2008). Lastly by

maximizing the wealth of the shareholders the various other parts that make the entity are positively impacted (Keay, 2008).

In terms of efficiency it would be difficult for directors to focus on multiple stakeholders with different interests (Association, 1990). Shareholder primacy is therefore much easier to implement within a company and allows the legal framework to make sensible and ethical decisions (Van der Weide, 1996).

Keay (2008) further argues that the various other stakeholders have agreements with the business in the form of contracts that serve as a shield against the business. The directors operating the business have power over the shareholders as it is often difficult to monitor the purpose of the director's actions (Newman, 1998). Stakeholders such as employees on the other hand are also protected by the law. In South Africa the main employment law statutes include The Labour Relations Act, The Basic Conditions of Employment Act and the Employment Equity Act (Bhoola, 2002).

The last argument in favour of the shareholder primacy theory is that shareholders have an absolute vested interest in the company and are unable to minimize risk associated to this investment (Keay, 2008). Shareholders may not be able to sell their shares easily unless they are listed on a public stock exchange such as the Johannesburg Stock Exchange.

### ***2.2.1 Criticisms of the shareholder primacy theory***

Paul Polman, Unilever's Chief Executive Officer has been an ambassador for creating sustainable business strategies (Unilever, 2017). His focus on climate change and sustainable development goals is in stark contrast to Milton Friedman's short term shareholder gain strategies (Pearson, 2012). A major criticism of the shareholder primacy theory is that it makes no clear indication as to whether the goal of increasing shareholder wealth is one that must focus on the long term or short term goals (Simon, 1959). Research has indicated that implementers of shareholder primacy theory are incentivised to focus on short term share prices as opposed to long term performance (Stout, 2013). Stout stated

that spending on expenses that usually would reinforce long term performance, such as marketing and product development is avoided. Emphasis is given to projects that improve short term profitability. This in the long run as indicated by Jones and Felps (2013) impede the ability of directors to ensure long term shareholder value. In recent years it has been noted that the lifespan of companies using these principles has been reduced (Halburd, 2014).

Another contentious aspect of shareholder primacy theory is the definition of what is exactly meant by shareholder value. The ambiguity of the definition allows for interpretation that could lead to different strategies, should directors focus on short term revenue or long term profitability (Drucker, 1958). Shareholder primacy is often credited with a transparent objective when compared to stakeholder theory which is often attached with the negative connotation of lacking clear methods of managing conflicting stakeholder goals (Loderer et al., 2010). This seemingly transparent goal exuded by the simplistic shareholder value paradigm is complicated when multiple shareholders are considered. Shareholders seen as investors have different time and risk preferences. No clear guidelines are provided to directors on how to combine these differing needs thereby allowing them the ability to act as fair agents to all shareholders. Orts (1993) research shows that situations which help improve profitability in the short term might severely impact long term sustainability of the company. The ease of use of the shareholder paradigm is clouded when you consider the difficulty the law framework has when ascertaining whether a director has actually performed in the best interest of the shareholder and in fact has focused on maximizing profits (Elhauge, 2005).

The next criticism of the shareholder value paradigm lies in the definition of a shareholder as described by Keay (2008). In many companies shareholders hold other stakeholder positions; they are bondholders in certain instances and are sometimes also employees. These other stakeholder roles have at times conflicting requirements to the shareholder roles which lead to a more well-rounded decision making strategy. Directors also have the responsibility of ensuring other stakeholder interests are taken into account (Keay, 2008). If

directors solely focus on shareholders and always prioritize their interests, the enticement of investing from other stakeholders is reduced (Kelly and Parkinson, 1998).

A key aspect of shareholder primacy theory is one of maximizing efficiency thereby increasing shareholder wealth. It is therefore logical and in the best interest of shareholders to monitor the performance of directors. Research has shown that shareholders have limited tools at their disposal to effectively enforce and control directors (Keay, 2007). Shareholders do have limited ability to influence the board but this is not regarded as substantial enough to be effective (Keay, 2012). Due to the directors limited accountability to shareholders the effectiveness of the shareholder paradigm is diminished as directors can behave in a manner that benefits their own self-interests which may conflict with shareholder value primacy (Keay, 2008).

Further research has debated that focussing on shareholder primacy does not necessarily convert effectively into prosperity for society (Loderer et al., 2006). Narrowly focussing on a single stakeholder results in other stakeholders being negatively impacted (Jones and Felps, 2013). The short term focus on profits can result in a company taking steps to reduce its financial burden. This can take the form of staff reduction or possibly a cut in salary incentives. The result is that value is transferred from one stakeholder at the cost of another (Keay, 2008).

The impact of a company's decisions has far reaching consequences that impact more than just shareholders. Researchers Magaro (2010), Queen (2015) and Keay (2008) conclude that various stakeholders have invested and are dependent on the decisions a firm makes. The environment and communities a company operates in are affected by how ethically responsible a company manages their resources. All members that constitute part of the value chain are directly affected, these include customers and suppliers. Financial institutions that provide the company with the necessary finance are impacted by the stability of the company's ability to pay back borrowed money. Human capital invested by employees of the company are susceptible to management caprice (Keay, 2008).

The final main criticism is directly a result of directors focussing on maximizing the wealth of the shareholders (Keay, 2008). This has the effect of affecting the way directors make decisions and has them focus on short term goals such as share prices for those companies listed on public stock exchanges (Stout, 2013). Stout (2013) criticised the expenditure reducing effect this had on decisions. Budgets that were previously allocated to projects such as marketing, which would positively impact long term sustainability, are cut. This has a detrimental effect on the long term profitability of a company which negatively impacts shareholder value (Jones and Felps, 2013). The negative impact of focussing on short term goals is perfectly illustrated by the merger between Time Warner and AOL. AOL was focussed primarily on the shareholder primacy value system which focussed on share prices and maximising shareholder value. Whereas Time Warner placed a higher priority on the wellbeing of the company than on shareholders (Bodie, 2005). AOL in an effort to please Wall Street expectations neglected clients and accounting proprieties (Bodie, 2005). This had a detrimental effect on the company's core business, by 2003 AOL had lost \$200 billion dollars in equity value (Munk, 2009). Time Warner's management was left to steer the company as a result of the poor management from AOL (Bodie, 2005). This is an effective example showing the ineffectiveness of the shareholder primacy paradigm, where the focus on short term goals negatively impacts society (Wallman, 1991).

The shareholder primacy paradigm whilst simple in its implementation, simple measurable metrics such as profit and share prices are used, it is not holistic enough to be morally effective in the real world where there are many stakeholders and factors that affect the institution (Allen et al., 2002, Jensen and Meckling, 1976). Keay (2008) concludes that the theory lacks the human dimension which is critical to all facets of life.

### **2.3 The Stakeholder Model**

Research done by Sundaram and Inkpen (2004) states that stakeholder theory has been in existence since the beginning of the modern corporate entity. Edward Freeman has been

credited with being the first to formally develop the principle (Mitchell et al., 1997). His article titled “Stockholders and stakeholders: A new perspective on corporate governance” which was published in the California management review in 1983 was his first academic publication on the topic (Freeman and Reed, 1983). Although it is the book he wrote in 1984 titled “Strategic Management: A Stakeholder Approach” that is credited by scholars to have established the link between management and stakeholders (Freeman, 1984, Sundaram and Inkpen, 2004, Mitchell et al., 1997).

The central core concept of this theory states that the investments of all stakeholders needs to be considered and not just that of the shareholders (Jawahar and McLaughlin, 2001). The stakeholder framework has been described as having the aim of being able to balance multiple objective functions rather than a single function that maximizes shareholder wealth as described by the shareholder paradigm (Freeman and McVea, 2001).

The theory itself revolves around stakeholders; it therefore attempts to answer questions such as who are stakeholders? And which stakeholders should the company’s managers focus on? Research done by Freeman (1984) describes stakeholders as those who are affected by the ability of the company in achieving its objectives. Mitchell et al. (1997) categorised stakeholders based on four dimensions legitimacy, power, dependence and urgency. The study further defines a list of 27 different stakeholders. This definition has been described as overwhelming in studies and this study shall focus only on key stakeholders (Sundaram and Inkpen, 2004, Mitchell et al., 1997).

A major criticism of stakeholder theory is the difficult task of having to balance the needs of many different stakeholders. The theory does not provide guidelines on how to achieve this task (Sundaram and Inkpen, 2004). Many researchers have argued that it is an impossible task to attempt to represent these different stakeholders while simultaneously pleasing them all (O’Toole and Vogel, 2011, Magaro, 2010). Specifically the needs of shareholders and other stakeholders often conflict which makes the task impossible to manage as decisions are pulled in opposing directions (Licht, 2004, Jensen, 2001). Further complications arise as clear complete contracts for various stakeholders do not exist. This allows for stakeholders taking advantage to benefit themselves when conflicting interests

are present with other stakeholders (Blair and Stout, 1999). This results in a dilemma for directors as they are tasked with balancing the benefits for all stakeholders.

Stakeholder theory fails to define a well-developed methodology to effectively execute its objectives particularly when considering the situation of conflicting stakeholder interests. The lack of accountability of directors allows them to take advantage of the situation and make decisions to benefit their own self interests. This type of opportunistic behaviour is called 'Agency cost' and is the central tenant of agency theory. The theory states that when shareholders, the principle, have differing interests from managers, the agent, there is a potential for devious behaviour to benefit the managers self-interests at the cost of the shareholders (Dalton et al., 2007). Easterbrook and Fischel (1996) further states that when managers attempt to balance these conflicting interests between opposing stakeholders, they are accountable to neither party and as a result increase agency cost while decreasing social wealth. This leads to the problem of the directors having too much power resulting in most stakeholder theory advocates to rely on the ethical behaviour of directors to make decisions that are fair, unbiased and trustworthy (Keay, 2008).

A problematic effect of stakeholder theory lies in the inability to manage a director's performance. The theory requires that all stakeholders are to be identified as well as how the director is expected to maximise each individual's interests (Keay, 2008). This clearly would result in a lack of accountability as conflicting interests could be played off against each other in justifying decisions. Many researchers thus conclude that stakeholder theory as a result of this major problem is unfeasible (Keay, 2008).

### ***2.3.1 Conscious capitalism***

A recent stakeholder model that has gained momentum is Conscious Capitalism. The theory has many analogous properties that align with stakeholder theory but is different in that it provides a framework in which to implement the stakeholder strategy. A major contributor to the Conscious Capitalism movement is Whole Foods Market co-founder

John Mackey and Professor Raj Sisodia (Mackey and Sisodia, 2013). They base the foundations of the theory on four tenets these being a higher purpose, stakeholder integration, conscious leadership and conscious culture and management.

John Mackey challenged Milton Friedman a Nobel Prize winning economist on his views of capitalism (Mackey and Sisodia, 2013). Friedman believed that the sole purpose of a business should be to shareholders and to increase profits. Whereas John Mackey's view was not as narrowly defined and encapsulated a broader view of the role of companies in society. His view is described as being more 'authentic capitalism' that realises benefits for all relevant stakeholders namely investors, suppliers, society, customers, employees and the environment (Mackey and Sisodia, 2013).

#### *2.3.1.1 Higher purpose*

At the heart of conscious capitalism is the principle that a business exists for a higher purpose that transcends the simple objective of profit maximisation (Mackey and Sisodia, 2013). The theory does not discredit the value of profits in a company and states that it is in fact required for the vitality and sustainability of a company (Mackey and Sisodia, 2013). Sandling (2014) explains that the goal of aiming for a higher purpose essentially helps the business answer three important questions: 1) what you do? 2) why you are doing it? and 3) what you hope to achieve? Analysis on the model and its contribution to a higher purpose by Young-Ferris (2015) goes on to state that a company's should increase the wealth of society by improving the standard of living and providing prospects for a greater purpose. The study describes this as being a more altruistic view on capitalism and better than a single objective profit maximization function (Young-Ferris, 2015). The theory states that this alignment with a greater purpose helps engage, motivates and builds trusts with employees, customers and other stakeholders. The objective of a higher purpose is a focal point of conscious capitalism from which the other three tenets hinge of, it forms the core of decision making in a business (Schawbel, 2013).

### *2.3.1.2 Stakeholder orientation*

Conscious Capitalism acknowledges the fact that a business does not operate in isolation and instead has been described as an interconnected web of relationships (Mackey and Sisodia, 2013). Many researchers have discussed in great detail the complexity of attempting to balance the requirements of multiple stakeholders (Kelly and Parkinson, 1998, Keay, 2008, Jones and Felps, 2013). Stakeholder orientation in a conscious business tackles this by an attempt to create and optimize value for all stakeholders (Sandling, 2014). The theory states that engaged stakeholders allow for a business that is healthy, sustainable and resilient (Mackey and Sisodia, 2013). Conscious capitalism recognises that without stakeholders such as investors, suppliers, society, customers, employees and a life sustaining ecosystem the business would not exist (Mackey and Sisodia, 2013). Therefore it states that a reasonable profit that generates sufficient value to shareholders while adding some form of value to its key stakeholders is essential (Mackey and Sisodia, 2013). Research done by Sisodia (2011) states that the net result of a business model should be a positive impact on the world. Section 2.6 discusses the key stakeholders in more detail.

### *2.3.1.3 Conscious leadership*

To effectively implement a conscious business one needs strong leadership. The leadership style used when attempting to implement the Conscious Capitalism model is critical, a clear distinction is made between management which involves efficiency and implementation and leadership which involves change and transformation (Mackey and Sisodia, 2013). Conscious leaders focus on the greater good of the entire business rather than selfish goals, they are excellent at bringing out the best in everyone around them by effectively mentoring and inspiring people (Mackey, 2017, Sisodia, 2011). These selfless leaders need to be able to serve the organization, while supporting staff and simultaneously generating

value for stakeholders (Mackey, 2017). Sisodia (2011) further states that conscious leaders should be driven by first serving the goals of the organization rather than by power and money. Conscious leaders do not use command and control or carrot and stick type of incentives (Sisodia, 2011). If implemented correctly by true conscious leaders a culture of trust and care can be achieved (Mackey, 2007).

#### *2.3.1.4 Conscious culture*

A company's values, principles and practices results in an organizations specific culture. These elements that form the culture of the company define its purpose, people and processes that resonates with all stakeholders (Sandling, 2014). Sisodia (2011) states that to embody the principles of a conscious culture the company must nurture the following values: trust, authenticity, caring, transparency, integrity, learning, and empowerment. With these values he elegantly creates the acronym TACTILE with which he suggests when interpreted as the word "tactile" clearly illustrates the tangible nature of a conscious culture on stakeholders (Sisodia, 2011). Having a conscious culture is said to be a unifying and energizing force that seeds and provides sustainable vitality to a conscious business (Mackey, 2017).

Sisodia (2011) in his article titled "Conscious Capitalism: A better way to win" describes these four tenets of Conscious Capitalism as being mutually reinforcing. These principles have to be applied with equal priority, a higher prominence should not be given to any tenet, doing this could as Schawbel (2013) points out result in one neglecting a specific tenet, resulting in the organization not achieving its full potential and realizing conscious business status.

O'Toole and Vogel (2011) provide a critique on the Conscious Capitalist movement in an article titled "Two and a Half Cheers for Conscious Capitalism". This study delves deeper into the insights of this article as both founders John Mackey and Rajendra S. Sisodia of the Conscious Capitalist movement have offered response articles defending the Conscious

Capitalist philosophy (Sisodia, 2011, Mackey, 2011). This study starts by analysing the O'Toole and Vogel (2011) article, while simultaneously looking at both responses from the founders of Conscious Capitalism in detail as the insights provide a deeper understanding on the topic and clarify any misconceptions on its core purpose. Further Sisodia et al. (2003) goes on to claim that companies engaging and using the Conscious Capitalist philosophy have outperformed the market by a staggering nine to one ratio. Some of the companies associated with Conscious Capitalism include Whole Foods, Southwest Airlines, Starbucks, The Container Store and Google (O'Toole and Vogel, 2011).

The article by O'Toole and Vogel (2011) starts by attempting to critically evaluate the claims made by the major companies involved with Conscious Capitalism. They begin by stating that capitalism suffers from traditional business cycles, rewards short termism and unevenly distributes wealth between nations (O'Toole and Vogel, 2011). Sisodia (2011) defends Conscious Capitalism by stating that it in no way claims to resolve all of traditional capitalisms problems and states that instead of targeting specific capitalist issues the philosophy states that in the long run companies that follow Conscious Capitalism will outperform other companies in more than just the financial dimension (Sisodia, 2011). Mackey (2011) states that O'Toole and Vogel fail to understand what Conscious Capitalism really is and that their analysis actually describes Corporate Social Responsibility. He further goes on to state that Conscious Capitalism is more than just about a business “doing good” and tackling the problems of “virtue in business” (Mackey, 2011). The higher purpose tenet of Conscious Capitalism while including the ability to do “good” is only one of the many higher purposes that apply to a conscious business, others include the pursuit of excellence, furthering human knowledge, creating beauty, and solving problems (Mackey, 2011). Mackey (2011) further states that businesses are inherently virtuous; they do not need to engage in philanthropic activities or any Corporate Social Responsibility plans to be classified as virtuous. He argues that businesses create value for all stakeholders by its business exchanges and this is inherently good and at its core these exchanges collectively is what creates value for society resulting in the embodiment of “business virtue” (Mackey, 2011).

Conscious Capitalism is a philosophy of doing business and does not make any claim of being a comprehensive business model or strategy (Sisodia, 2011). His definition of the concept as explained by the article is dynamic and is subject to improvement as we begin to understand and grow our consciousness (Sisodia, 2011).

A critical point of a conscious business is value creation for all stakeholders. The six major stakeholders are customers, employees, suppliers, investors, society and the environment. O'Toole and Vogel (2011) incorrectly interpret stakeholder orientation and assumes that a conscious business should treat all stakeholders equally, Mackey (2011) clearly states that this is impossible to achieve, with many conscious businesses placing differing levels of emphasis for different stakeholders such as Whole Foods Market which gives customers a higher priority. This is important to note as this study attempts to measure the focus of various South African companies on these major stakeholders.

To sum the essence of Conscious Capitalism this study critiques the conclusions of both founding members John Mackey and Rajendra S. Sisodia in their respective responses of James O'Toole and David Vogel's article. Sisodia (2011) states that to create a conscious business one needs to focus on value creation and not value extraction. He states that value should not be created by exploiting others and that profits should not be generated at the expense of social, cultural, environmental, intellectual, physical, and spiritual well-being (Sisodia, 2011). Mackey (2011) goes on to state that focussing on the higher purpose is critical and that conscious capitalism is a philosophy that aims at creating value for all stakeholders while maintaining the harmony of interests of interdependent stakeholders. Conscious Capitalism not only has the ability to improve the reputation of a business and absolve it from the negative connotations of traditional capitalism but it also more importantly results in a positive net impact on the world itself through its ethical creation of value (Mackey, 2011, Sisodia, 2011).

## **2.4 The Entity Maximisation and Sustainability Model**

The previous two theories discussed the shareholder value model and the stakeholder model; both have weaknesses making them inefficient to implement when considering the goals of society in its entirety. The sustainability of the goals these theories suggest has been concluded as non-feasible (Macey, 1999). Keay (2008) states that the stakeholder model is not feasible in its current forms as shareholders are the individuals who provide the funding for a company and the incentive of their investment is diluted by the stakeholder model. To some up his major statements that warranted the formulation of the Entity Maximisation and Sustainability (EMS) model, he argued that both the stakeholder and the shareholder model have their advantages and disadvantages, the stakeholder model is workable, but it lacks the holistic view modern society demands, and while the stakeholder view encompasses more of the values society demands, it is not easy to implement (Keay, 2008).

A critique of previously stated models is in the way they define their objectives as focus is either given to stakeholders or shareholders. This creates emphasis and focus on people and reduces the focus on the business entity itself. The EMS model focuses its theory on the entity itself. It is based on two key elements which can be interpreted from the theories name, firstly the primary goal is to maximise the entity, and with this goal emphasis is not only placed on financial performance as suggested by the shareholder model (Keay, 2008). The second element again forming part of the theories title is sustainability, the goal here is to ensure the long term existence of the entity (Keay, 2008).

### **2.4.1 Entity**

With the entity being a key element of this theory Keay (2008) further defines what is meant by the corporate entity, with primary emphasis on the fact that a business exists as its own entity separate from the various stakeholders. The South African companies act has five main company types these being Sole Proprietor, Private Company, Personal Liability Companies, Public Companies and State Owned Companies (CIPC, 2008). This study will briefly describe these types of companies within a South African context as this provides more detail into the definition of an entity and how this applies to local companies. The Sole Proprietor is the simplest of entities. This type of entity does not separate the assets and liabilities of the owner's personal assets and that of the business (Intergate, 2017). It is said to not offer limited liability, the owner is liable for any financial burden suffered by the business. The business and owner are treated as one entity. Private companies on the other hand have the simple requirement of having a single shareholder and director. The major difference between a sole proprietor company and a private company is that in a private company the business is treated as a separate legal entity. Private companies also offer protection against liability and are said to offer limited liability to shareholders (Rocher, 2017). The next major type is that of a public company. Public companies are set up to offer share to the public and are primarily set up to allow financial investment from the public. These companies are often listed on Stock exchanges, the largest stock exchange in South Africa being the Johannesburg Stock Exchange (Yartey, 2008). Public companies also offer limited liability and have the additional requirement of having at least one shareholder and at least three directors (Intergate, 2017). Personal Liability Companies is a type of company generally used by professionals such as doctors, lawyers and accountants. This type of entity allows previous and current directors to be both jointly and severally liable to any financial distress that may have occurred during their time in the respective positions (Rocher, 2017). Since the companies this study is looking at are Public Companies in South Africa the characteristic of a distinct legal entity holds.

It is important to state the advantages of having a company operating as a separate legal entity, one of the major advantages is that it serves to protect all stakeholders especially those invested in the long term financial sustainability of the entity (Blair, 2004). The entity is said to have its own legal standing as well as its own personality. This personality it creates forms an important characteristic of the entity (Blair and Stout, 2001).

Public companies in South Africa are usually listed on the JSE; the shareholders thus form a large mass of unknown individuals. These individuals are not involved in the management of the company and have no significant influence over the current directors thus allowing the concept of a company as an entity to be more palpable (Keay, 2008).

#### ***2.4.2 Maximization***

Taking into account that various stakeholders have invested in the entity the challenge for directors using EMS as their guiding principle is the task of maximizing the overall long term value of the company as a whole, this must be done while ensuring the long term sustainability of the company (Keay, 2016). Although directors have to focus on growing the business entity and ensure all stakeholders are considered before decisions are made, the principle does not force that all investors benefit from decisions and accepts that in certain conditions a stakeholder will benefit at the expense of others (Venkataraman, 2002). This concept allows for EMS to handle more realistic real world business environments where the transfer of value from one stakeholder to another is required to move a company in a specific direction.

A key distinction between stakeholder theory and EMS is the focus of the models, stakeholder theory clearly places stakeholders at the centre of decision making whereas EMS focuses decision making around the entity itself (Keay, 2008). The maximization of the entity with a long term horizon forms a pivotal aspect of decision making in EMS. This results in a company not making the current share price the primary focus and rather focuses on research and development, upskilling employees and investing in the

community as these types of investment help it maintain long term sustainability (Keay, 2008, Sundaram and Inkpen, 2004).

Keay (2008) further states that if a company uses the EMS model there would be a reduction in costs as more efficiency is fostered. As long term sustainability is the primary focus a positive impact may be noticed in some stakeholders such as employees, increased loyalty may result thus reducing the burden of having to look for new employees (Keay, 2008). This is in stark contrast to shareholder primacy which slowly draws away loyalty as shareholders force management to focus on profits which could possibly result in staff reductions and could decrease existing staff morale (Tadenuma, 2002).

### ***2.4.3 Sustainability***

Defining exactly what sustainability means isn't as straightforward as it may seem. Corporate sustainability for some includes the social and environmental dimensions other than the economic dimension, this is known as triple bottom line reporting (Savitz, 2013). Dyllick and Hockerts (2002) states that current stakeholders needs have to be balanced without sacrificing future stakeholders. He then makes it clear that in his EMS model which includes the entity sustainability aspect, is primarily concerned with maintaining good long term financial health, however he further states that the nature of a company's business shall substantiate the extent to which the company focuses on the social and environmental dimension (Keay, 2008). Van Marrewijk (2003) shows that as a result of analyses using historical perspectives, philosophical analyses, impact of changing contexts and situations and practical concerns makes it difficult to develop a single solution that can be followed by companies, and states that a company's corporate sustainability plan should be based on its individual needs based on the nature of its business. Van Marrewijk and Werre (2003) further reinforces this mind-set, this research states that the different context and values systems a business operates in makes it difficult to create a one-solution-fits-all methodology. With research having established a link between social and economic

performance, creating an environment that facilitates social welfare may facilitate entity wealth maximisation (Aguilera et al., 2007, Keay, 2008).

While creating growth and maximising the value of a company is a critical aspect of the EMS model, doing this while simultaneously achieving long term survival of the company is essential (Keay, 2008). A growing trend with investors is to invest in companies that have some form of corporate sustainability, this for them is seen as attractive as they believe this type of focus within a company helps to foster long term shareholder values while maintaining the agility to respond to social and environmental changes (Knoepfel, 2001).

It has been determined that sustainability is not an automatic result of value maximization of an organization, it is a concept that requires planning and focus to ensure long term survival of a company (Li, 1960). This survival tends to receive more focus in emerging markets, research has shown using data from the top one hundred companies listed on the JSE and Fortune Global one hundred that South African companies deliver more detail on corporate social responsibility reporting in their company reports (Dawkins and Ngunjiri, 2008).

Corporate sustainability with long term goals does not serve well as being the only goal in a company's corporate objective, the focus on survival alone does not provide enough vision and energy required to grow a business and instead only defines the minimum economic activity required to maintain ongoing operations (Drucker, 1958, Keay, 2008). A balance between short term sustainability and long term sustainability strategies needs to exist. As with all companies listed on a stock exchange, there exists a certain level of short termism that forces company profit maximisation as this affects share prices and investor incentive, but as Tonello (2006) points out the organization needs to be careful not to lose sight of their long term strategic business models when focusing on short term fluctuations that affect the stock market such as economic, political, and social shocks. This is reinforced by Keay (2008), with research that suggests that one should always monitor the long term sustainability of a company while aspiring to maximizing entity wealth.

Sustainability is critical and can have long term value implications if not taken seriously, a business who has suffered short term financial distress can have long term negative undertones with investors which affect its overall value generating capacity (Zingales, 2000). This is also said to affect the reputation of management, in certain cases severely impacting future career options (Gilson, 1989).

## **2.5 Distinguishing the different models**

EMS is clearly different from the shareholder primacy theory, whereas shareholder primacy theory has been described as value extracting, that is removing value from other stakeholders and transferring it to shareholders, EMS is focused on establishing and generating value for the entire entity and as a result, value is transferred to stakeholders (Keay, 2008).

Stakeholder theory focuses on balancing and generating value for all stakeholder of a company, similarly Conscious Capitalism focuses on guiding principles on achieving a balance on the creation of value to the critical stakeholders. Directors in an EMS model are responsible for increasing the value of the corporate entity whereas in stakeholder theory they have the mandate of distributing the value generated in a fair and just manner to all stakeholders, they are the caretakers for the wellbeing of stakeholder interests (Keay, 2008).

## **2.6 Stakeholders**

The business environment has seen major changes in the last few decades. The information age and the advent of new technology, to the globalisation of capital markets, these changes have rendered traditional business models inefficient (Freeman et al., 2007). A key underling factor and pivotal aspect of the models discussed above is the stakeholder. All the

models discussed have made reference to stakeholders the shareholder primacy theory, the stakeholder models and the entity maximisation and sustainability models. The identification and understanding of these key players is therefore critical to developing effective strategies for business (Waligo et al., 2014). The word stakeholder was first defined in 1963 in a memorandum at Stanford Research Institute (Wang and Dewhirst, 1992). A stakeholder has been defined as “any individual or group who can affect or is affected by, the achievement of the organization's objectives” (Freeman, 2010). Omran et al. (2002) and Bocken et al. (2013) have identified six main stakeholders that have relevance to the majority of businesses these include customers, employees, suppliers, investors, society and the environment. As identification of these stakeholders and the significance of the role they play is pivotal to our goal of defining corporate objective this study shall endeavour to further define them.

### ***2.6.1 Customers***

A customer is defined as an entity that purchases good or services. The study uses the word entity as customers can take the form of a business or a person, this is determined by the different type of business exchanges that exist Business-to-Customer, Business-to-Business, Customer-to-Business and Customer-to-Customer (Marketing Teacher, 2017). Research has proved that company centric models that have worked are becoming obsolete in the modern era, this as customers are no longer isolated, misinformed, passive buyers but have changed into more informed, connected and active consumers of goods and services (Prahalad and Venkat, 2004). The customer is a critical component of any business, various marketing strategies exist to attract, engage and capture new customers. Current trends expect businesses to extend customer focus throughout their businesses creating customer centric models that permeates the entire company (Wilson et al., 2012). Amazon being a perfect example of a company that has leveraged information technology to develop effective customer centric business models (Fader, 2012). The company is determined to

perfect customer experience and strives to be the world's most customer-centric company (Mellahi and Johnson, 2000).

### **2.6.2 Employees**

An employee is defined as a person who works part-time or full-time under a contract of employment and had recognized rights and duties (Business Dictionary, 2017a). South Africa has various laws and acts that help determine if a person is an employee these include the Labour Relations Act, Basic Conditions of Employment Act, Employment Equity Act and Skills Development Act (Worklaw, 2006). A person is presumed to be an employee if any one of seven factors can be established.

1. "The manner in which the person works is subject to the control or direction of another person.
2. The person's hours of work are subject to the control or direction of another person.
3. In the case of a person who works for an organisation, the person forms part of that organisation.
4. The person has worked for that other person for an average of at least 40 hours per month over the last three months.
5. The person is economically dependent on the other person for whom he or she works or renders services.
6. The person is provided with the tools of trade or work equipment by the other person.
7. The person only works for or renders services to one person." (Worklaw, 2006)

South African employees are also protected by trade unions which provide amongst other benefits the ability for an employee to use the collective bargaining power of a union to negotiate labour matters, this is usually used to negotiate wages (Bhorat et al., 2015). The

three largest unions in South Africa in order of size beginning with the largest include the Congress of South African Trade Unions (COSATU), Federation of Unions of South Africa (FEDUSA) and National Council of Trade Unions (NACTU) (Brand South Africa, 2015). These trade unions are recognised by the South African constitution and allow unions to collectively bargain and strike (Brand South Africa, 2015). These powers bestowed onto unions need to be factored when considering employee relations and its impact on the South African society.

### ***2.6.3 Suppliers***

Business Dictionary (2017b) defines a supplier as “a party that supplies goods or services”. Maintaining an effective supply chain is critical to business success, supply chain management is a topic dedicated to creating efficiencies and managing suppliers. Seuring and Müller (2008) indicate an upward trend in the amount of research involving building sustainable supply chains; two common strategies include managing risks and performance with the second involving supply chain management for sustainability. While having a successful strategy is important, the buyer-supplier relationship needs to be shielded from the globalization of markets, maintaining a healthy relationship between buyers and suppliers has become critical in this modern day and age (Wilson, 1994). Companies especially in the apparel sector need to constantly monitor the performance of suppliers and ensure they perform well in key attributes including quality, price, flexibility, and delivery performance (Verma and Pullman, 1998).

### ***2.5.4 Investors***

Investopedia (2017d) defines an investor as a person who provides finance with the expectation of a return. Although many vehicles exist for investors to use, this study shall focus on those investors using the JSE to purchase shares. As stated previously the JSE is

South Africa's largest stock exchange and all the companies in this study are listed on the stock exchange. The use of stock markets by investors has enhanced decisions, they have improved efficiencies and drastically reduced transaction times and also enriched the quality of information investors can use to make informed decisions (Muller, 1999). There are two fundamental factors investors use to make decision these are risk and return. A rational investor will attempt to maximise returns by looking for investments with the lowest risk factor that provides the most return. Investors have varying risk tolerances, an older investor close to retirement might seek to invest more conservatively by taking on less risk and accepting moderate returns whereas a younger investor might want to accept the higher risk with the reward of possible higher returns. Stock exchanges use company beta values to measure a company's systematic risk relative to that of the market (Mirzayev, 2015). This volatility measure predicts the expected change in a company's values relative to a change in the overall market (Mirzayev, 2015).

### ***2.5.5 Society***

Oxford (2017e) defines society as "The aggregate of people living together in more or less ordered community". A common business practice often linked to the welfare of society in a business context is Corporate Social Responsibility (CSR), which can be defined as the impact of the company's actions on society. A companies impact on society can be divided into two core values this being protecting and improving society, to protect involves ensuring the companies activities do not negatively impact society in any way whereas improving society would imply making a positive contribution and adding some form of value back to society (Fraedrich, 2011). South Africa's unique socio-economic environment which is riddled with problems such as inequality and poverty, requires that various organizations such as regulatory bodies, government and businesses work together to ensure societies welfare. These synergies are therefore critical and it is for this reason that CSR is an important aspect of South African companies and as a result, the JSE enforces corporate governance by requiring that all listed companies comply with the King

Reporting requirements (JSE, 2017d). The King Report requires that companies achieve sustainable economic, social and environmental performance (Kabir et al., 2015). Included in the reporting requirements of the JSE is disclosure of racial diversity at a board level, this requirement has to be published to comply with the broad-based black economic empowerment act (Fin24, 2017).

### ***2.5.6 Environment***

Oxford (2017a) defines the environment as “the natural world, as a whole or in a particular geographical area, especially as affected by human activity”. There has been an increase in the amount of focus society has placed on environmental concerns in recent times. The proliferation of information has raised awareness of various environmental issues; one that has gained specific momentum is global warming and the effect of greenhouse gases. Research has shown that the impact of current environmental abuse has a long lasting impact that could take centuries to correct (Hughes, 2000). These changes in climate have already affected species physiology, distribution and phenology (Hughes, 2000). Volkswagen a German automaker purposefully rigged emissions during laboratory emissions testing (Chappell, 2015). As a result the group’s stock price dropped fifty percent (Monica, 2015). The automakers violation of the Clean Air Act, clearly reinforces the notion that society has become hyper responsive to environmental concerns (Monica, 2015).

The textile industry has unique challenges; individuals who are environmentally conscious are driving manufacturers in an eco-friendly direction. Clothing fibres can be divided into two major categories, those that are natural such as cotton, silk and wool and those that are synthetic which are sometimes made from petrochemicals. Cheap synthetic fibres have numerous negative impacts on the environment, nylon can take up to forty years to decompose (Challa, 2014). The manufacture of garments affect natural resources such as air quality and water, during the dyeing and printing processes use of harmful chemicals

releases dangerous amounts of harmful vapours, that affect air quality and consume large quantities of scarce water resources (Challa, 2014).

## **2.6 Reporting Requirements**

All the companies in our current study have listing requirements that must conform to the JSE standards. The JSE requires a company publishes its results twice a year with interim results published mid-year and final results at the end of the year (JSE, 2017a). These results include financial information in the form of the income statement, cash flow statement and balance sheet as well as details as to how the company is currently performing and what its long term goals are (JSE, 2017a). All of the company's financial results have to conform to the International Financial Reporting Standards (IFRS), this allows for the market to enjoy consistent results aiding in investment decisions that require company comparison (JSE, 2017a).

Listing on the JSE also requires that a company listing on the exchange needs to apply all of the King Code principles and a subset of the King Code practises it has deemed compulsory (Michalsons, 2017). The King Code requires a company be able to generate value while achieving this in a sustainable manner, while this remains the core theme of the King Code its implementation has broader more holistic goals. These goals include promoting corporate governance which should facilitate the creation of an ethical culture, improve reporting by creating a transparent and meaningful standard (IODSA, 2016). The King Code emphasis that its goal isn't just to create a set of processes to follow but instead allow for corporate governance to be presented with ethical consciousness and conduct (IODSA, 2016). The forth version of the code provides further refinement on the philosophical foundations presented in previous versions. At its core is the concept of integrated thinking which requires that a company take into account the various factors that are constituents in a company's value creation process when making decisions. The King Code also states that as a company has corporate citizenship status it requires that it act in a

manner that is congruent with responsible behaviour towards the environment and society while also maintaining stakeholder inclusivity (IODSA, 2016). Stakeholder inclusivity requires that a company respect the interdependent nature of its relationships with various stakeholders and includes that while it must extract value from stakeholders it must also add value to maintain a sustainable relationship (IODSA, 2016).

This study now explores the requirements of the integrated report for companies listed on the JSE in more detail. The Integrated Reporting Committee of South Africa endorses the use of the International Integrated Reporting Framework which was developed by the International Integrated Reporting Council (Integrated Reporting SA, 2015). The integrated report allows a business to report the story of the business and explain in a clear concise manner on how they are creating value. The report forces business to think holistically about its operations so that when reporting they are able to entice investors and ensure stakeholder engagement (Integrated Reporting SA, 2015). Furthermore, it requires the integrated report to include details on the businesses governance, strategy, current and future performance, while considering the environment it operates in and how it is planning to create sustainable value (Integrated Reporting SA, 2015).

## **2.7 Apparel Retail Sector**

This study focuses on four large retailers that are listed on the JSE and focus on the apparel retail sector in South Africa. The companies selected include Truworths Int. Ltd (Truworths), Mr Price Group Ltd (Mr Price), The Foschini Group Ltd (Foschini) and Holdsport Ltd (Holdsport). This section will provide a brief overview of the above companies.

### ***2.7.1 Truworths***

Truworthis first store was opened in 1917 and was called The Alliance Trading Company (Truworthis, 2017b). The name later changed in the 1930's to Truworthis Fashion House (Truworthis, 2017b). Truworthis has grown into one of South Africa's leading fashion retailers. The group currently has 728 stores in South Africa (Truworthis, 2017a). The investment holding company Truworthis international which Truworthis forms part of is listed on the JSE (Truworthis, 2017a). Truworthis International is engaged in the retailing of fashion apparel (Truworthis, 2017a). Popular retailers that are part of the Truworthis International group include Uzzi, YDE and Identity (Truworthis, 2017a).

### ***2.7.2 Holdsports***

Holdsports began in Rondebosch, Cape Town where the first Sportmans Warehouse opened in 1986. The group grew into the leading specialist sports and outdoor goods retailer with the brands Sportmans Warehouse and Outdoor Warehouse.

The unique retail model of creating large stores that include diverse brands and staff that are equipped with technical expertise, have been the underpinnings of the groups growth (Holdsport, 2017). Furthermore the group claims to have "pioneered the concept of dedicating a retail environment to the active sporting and outdoor enthusiast" (Holdsport, 2017)

### ***2.7.3 Mr Price***

Founders Stewart Cohen and Laurie Chiappini met in 1979 in this early stage the founders believed in changing the traditional business model into one in which individuals exploited their full potential (Mr Price, 2016c). The group from a very early stage incorporated a low cost high volume business model (Mr Price, 2016c). By 1995 the group had a total of 237

stores, today this number is closer to 1000 corporate owned stores in South Africa (Mr Price, 2016c).

Mr Price Group Limited describes itself as an omni-channel, fashion value retailer (Mr Price, 2017). The group operates in Africa and Australia, with stores that operate in the apparel, homeware and sportswear categories (Mr Price, 2017). The group targets younger customers in the mid to upper LSM categories. The business model aims at offering fashionable merchandise at “everyday low prices” (Mr Price, 2017). The Mr Price Group is focussed on being a cash driven retailer with over 80% of total sales being cash transactions.

### ***2.7.3 Foschini***

The Foschini group started trading in 1924 and is focussed on the clothing and lifestyle sectors (IFashion, 2017). The group is driven by its corporate culture which set out to provide customers with the best possible experience (IFashion, 2017). The Foschini group aims to be the leaders in the fashion and lifestyle sectors of the retail industry in South Africa with the group boasting more than 1800 stores across Africa (IFashion, 2017).

## **2.8. Conclusion**

The overall aim of this study is to use the annual integrated reports for the period to 2012 to 2016 to determine which corporate objective model companies in the apparel retail sector on the JSE companies are following. The study also attempts to determine whether the apparel retail sector has a dominant model, as well as determine based on profitability ratios how well the company’s model performed. The three main corporate objective models studied in this chapter include the shareholder value model, the stakeholder model

and the entity maximisation and sustainability model. A summary extract of the key elements from the models are described in the remainder of this conclusion.

The shareholder value model measures the magnitude of a business's success by its ability to increase the wealth of its shareholders (Friedman, 2007). The principle hinges on the ability for senior management to effectively generate a positive return on invested capital for the shareholders of the company (Macey, 1991). The shareholders are said to have the largest investment in the outcome of the company (Macey, 1998). Further research has debated that focussing on shareholder primacy does not necessarily convert effectively to prosperity to society (Loderer et al., 2006). Narrowly focussing on a single stakeholder results in other stakeholders being negatively impacted (Jones and Felps, 2013).

The next model discussed is the stakeholder model. The central core concept of this theory states that the investments of all stakeholders need to be considered and not just that of the shareholders (Jawahar and McLaughlin, 2001). The stakeholder framework has been described as having the aim of being able to balance multiple objective functions rather than a single function that maximizes shareholder wealth as described by the shareholder paradigm (Freeman and McVea, 2001). A major criticism of stakeholder theory is the difficult task of having to balance the needs of many different stakeholders. The theory does not provide guidelines on how to achieve this task (Sundaram and Inkpen, 2004). O'Toole and Vogel (2011) and Magaro (2010) have argued that it is an impossible task to attempt to represent these different stakeholders while simultaneously pleasing them all. Specifically the needs of shareholders and other stakeholders often conflict which makes the task impossible to manage as decisions are pulled in opposing directions (Licht, 2004, Jensen, 2001). Further complications arise when clear complete contracts for various stakeholders do not exist. This allows for stakeholders taking advantage to benefit themselves when conflicting interests are present with other stakeholders (Blair and Stout, 1999). This results in a dilemma for directors as they are tasked with balancing the benefits for all stakeholders.

The previous two theories discussed shareholder value model and the stakeholder model, both have weaknesses making them inefficient to implement and don't effectively meet the goals of society in its entirety. The sustainability of the goals these theories suggest has been concluded as non-feasible (Macey, 1999). Keay (2008) states that the stakeholder model is not feasible in its current forms as shareholders are the individuals who provide the funding for a company and the incentive for their investment is diluted by the stakeholder model. To some up his major statements that warranted the formulation of the Entity Maximisation and Sustainability (EMS) model, he argued that both the stakeholder and the shareholder model have their advantages and disadvantages, the stakeholder model is workable, but it lacks the holistic view modern society demands, and while the stakeholder view encompasses more of the values society demands, it is not easy to implement (Keay, 2008).

The shareholder value model and the stakeholder model focus either on stakeholders or shareholders. This creates emphasis and focus on people and reduces the focus on the business entity itself. The EMS model focuses its theory on the entity itself. It is based on two key elements which can be interpreted from the theories name, firstly the primary goal is to maximise the entity, and with this goal emphasis is not only placed on financial performance as suggested by the shareholder model (Keay, 2008). The second element again forming part of the theories title is sustainability, the goal here is to ensure the long term existence of the entity (Keay, 2008).

The next chapter of this study describes the methodology used to investigate the corporate objective and profitability performance of the companies listed on the JSE, in the apparel retail sector, for the period 2012 to 2016.

## CHAPTER THREE

### RESEARCH METHODOLOGY

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#### **3.1 Introduction**

This study combines both qualitative and quantitative methods to achieve its research goals. This mixed method approach allows for deeper insight into the company's selected from the JSE. The previous chapter provided key characteristics that the three models in this study focus on to ascertain corporate objective, these being The Shareholder Model, The Stakeholder Model and the Entity Maximisation and Sustainability Model. This information is used to facilitate the qualitative study on the selected companies that focus on the apparel retail sector. Using companies selected from a single sub sector within the JSE allows this study to minimize business cycle shocks associated with different sectors. Furthermore the study only includes companies that are listed on the JSE as the stringent reporting requirements allow for consistent and reliable data. The study further only includes companies that have publicly made available their integrated annual reports on their websites for the period 2012 to 2016. The qualitative section of this study uses content analysis and frequency data obtained from the integrated annual reports or social and environmental reports where made available separately, to ascertain the corporate objective that best matches the businesses. Finally, the quantitative section includes calculating various profitability financial ratios to determine which model has generated higher profitability.

### **3.2 Aims and objectives**

This study aims to analyse the annual reports of companies listed in the apparel retail sector on the JSE, to determine their corporate objective and examine profitability for the period 2012 to 2016.

The five research objectives that have been identified are as follows:

1. To examine the literature on the three models in order to identify themes and major identifiers for the shareholder value principle, the stakeholder model (conscious capitalism) and the entity maximization and sustainability models.
2. Analyse the annual integrated reports of the companies listed in the apparel retail sub sector on the JSE for the period 2012 to 2016 in order to identify key focus areas that could link to the three main models.
3. Based on the information found from analysing the annual integrated reports determine which of the three models each company listed in the apparel retail sector on the JSE appears to be following.
4. Determine if there is a dominant model in the apparel retail sub sector on the JSE and if so which one.
5. Analyse the financial statements included in the annual integrated reports and using profitability ratios determine which model is associated with higher profitability for the selected companies.

### 3.3 Research methods

Oxford (2017d) defines research as the “The systematic investigation into and study of materials and sources in order to establish facts and reach new conclusions”. The fundamental concept behind research is to find solutions to problems using objective and systematic analysis (Rajasekar et al., 2006). The search for new knowledge and the drive for improvement is a core aspect of human nature. Research allows mankind to grow its existing knowledge base by attempting to solve problems that permeate throughout society. These problems are in a constant state of flux as new events and various phenomena occur in nature. It is therefore a critical requirement that research is carried out in a very diligent and systematic manner to ensure results that are consistent, reproducible and reliable. This study uses research methodologies to achieve this; a research methodology is defined as a way to systematically solve a research problem. This study focuses on the mixed methods approach which consists of both a quantitative and a qualitative aspect. The sections that follow briefly describe these methods as well as how they are used in the study.

Qualitative research is predominantly focussed on exploratory research. The word qualitative is defined as “Relating to, measuring, or measured by the quality of something rather than its quantity” (Oxford, 2017b). This type of research helps us understand a specific subject by analysing its qualities which helps develop a deeper understanding possibly leading to a quantitative approach (Wyse, 2011). Qualitative research is also often associated with small sample sizes with results being descriptive rather than predictive. This naturalistic approach to subject matter which involves creative and interpretive analysis can provide rich information (McLeod, 2017).

Contrasting qualitative research is quantitative research which is defined as “Relating to, measuring, or measured by the quantity of something rather than its quality” (Oxford, 2017c). This type of research often involves numerical data that is analysed and converted into usable statistics. Data collection is often much more structured than in qualitative research. Quantitative research uses this data to formulate facts and reveal patterns (Wyse, 2011).

The method used in this study involves both quantitative and qualitative sections. This type of approach has been classified as a mixed methods approach, which is defined as being composed of both quantitative and qualitative data. It is important to create relevant research questions that justify the use of quantitative and qualitative components as well as mixed components in a study (Creswell, 2013). The qualitative aspect of the study is used to deduce which corporate objective model best resembles what the companies in the study are using in their business strategy. Recent research conducted by Gregory (2015) in the food and drug retail sector used a similar approach to determine the primary purpose of companies (Gregory and Chasomeris, 2016). Content analysis on the annual integrated reports constitutes the qualitative aspect of this study and to achieve these goals this study uses NVivo. NVivo has been designed for qualitative data analysis allowing this study to easily gain insights into the data using content analysis. The quantitative aspect of this study uses profitability ratios to determine the financial performance of a company. For the subset of companies selected in this study the study links which models and focus areas are associated with higher profitability. A more detailed description of the content analysis and ratio analysis methods follow.

### ***3.3.1 Content Analysis***

Weber (1990) in his book based on content analysis defines it as a method to “classify textual material, reducing it to more relevant, manageable bits of data”. It is a method used in the field of social sciences, which is used to quantify patterns in communication (Weber, 1990). It is important to note that the content analysis adopted in this study has a strong focus on the intentionality and inferences that are drawn from deep content analysis. Although the research does contain dictionary based frequency distribution analysis on words to aid in the classification of which model a company most likely follows, it is important to note that as stated previously deeper descriptive narratives of content on each of the categories, defined in our literature review, relative to the source data are used to reinforce the model selection (Vaismoradi et al., 2013). The narratives include information

on all stakeholders and the companies focus on sustainability, with the aim of gaining deeper insight to help determine which model a company most likely follows. It is also important to note that the qualitative analysis used in this study includes many parallel characteristics with thematic analysis. A very similar content analysis method was recently undertaken by Gregory (2015).

To ensure the quality of our research the study has to establish the trustworthiness of its qualitative research. The common trustworthiness criteria used by qualitative researchers is dependability, credibility, transferability and confirmability (Guba, 1981, Schwandt et al., 2007). The dependability of the research requires that the results of this research are consistent and can be repeated. To ensure confirmability, the research results must be supported by the data. A credible research study requires that all results must be believable and to ensure transferability the methods must be applicable to other contexts. As the research methodology followed by this research parallels work done by Gregory (2015) in her dissertation on the companies listed in food and drug sector on the JSE, this shows that the methods in her study are applicable to other contexts, therefore reinforcing the transferability of this study (Gregory, 2015). The use of public data in the form of integrated annual reports that has to conform to rigorous quality standards such as the IFRS and King Code reporting standards ensures that dependability and confirmability is maintained (JSE, 2017c). To further corroborate the aspect of confirmability this study uses frequency data on words found in the annual reports of the companies being studied.

The literature review in chapter two sets the foundation for the content analysis in this study. The identification of themes and categories form the key elements of this analysis phase. The literature review provides insight into the different corporate objective models and in particular how each model focuses differently on stakeholders. This variance in stakeholder focus allows us to identify which model a company's strategy resembles. This study achieves this identification by focusing on the six main stakeholder's namely, customers, employees, suppliers, investors, society and the environment. Detailed content analysis and keyword frequency data is used to determine the magnitude of a company's focus on each of these stakeholders. To differentiate the three main models the shareholder

value principle, the stakeholder model and the entity maximisation and sustainability models, the study analyses the stakeholder focus as well as the sustainability approach adopted. To achieve this goal the content of the annual integrated reports for the period 2012 to 2016 were analysed to determine the magnitude of each company's focus on the respective stakeholders and sustainability. If the main focus of the company was the investor a shareholder value principle was deemed to have been evidenced. If instead the focus was more widely spread across different stakeholders, either an 'entity maximisation and sustainability model' or stakeholder model is evidenced. Furthermore an increased focus on sustainability combined with focus on a wide variety of stakeholders, with a theme of maximising the value of the entity, suggests an entity maximization and sustainability model is evidenced. The content analysis method to determine the corporate objective closely parallels methods used by Gregory (2015) and Gregory and Chasomeris (2016) analysing the food and drug retail sector.

### ***3.3.2 Financial Ratio Analysis***

To determine the profitability of each of the selected companies, different financial ratios were used. The use of financial ratios can provide important information on the financial condition of a company. Numerous studies have proved the importance of analysing financial ratios, accuracy and predication abilities of these ratios have proved to be so accurate, that if financial ratios are analysed for a specific company a year before the declaration of bankruptcy, the probability of a successful prediction is ninety percent (Chen and Shimerda, 1981). Consistent with the research done in the food and drug industry, this research focusses on profitability ratios (Gregory, 2015). This study focusses on the following ratios: gross profit percentage, net profit percentage and earnings per share, return on assets and return on equity.

To determine how well a specific model performed in the apparel sector the study uses the data in the integrated annual reports for the period 2012 to 2016. The companies are then

ranked based on the specific financial ratios performance using the ratios mean values for the period 2012 to 2016. The financial ratios used in this study require higher values to indicate better performance and as a result positive trends are favoured for the five year period. As a consequence trend performance is determined for each financial ratio for the period 2012 to 2015. A companies trend performance is calculated as either positive or negative based on the formulae below:

$$b = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sum (x - \bar{x})^2}$$

Source: (Seber and Lee, 2012)

x = the year the financial ratio value was obtained

y = the value of the financial ratio for a particular year

$\bar{x}$  = population mean of x for the period 2012 to 2016

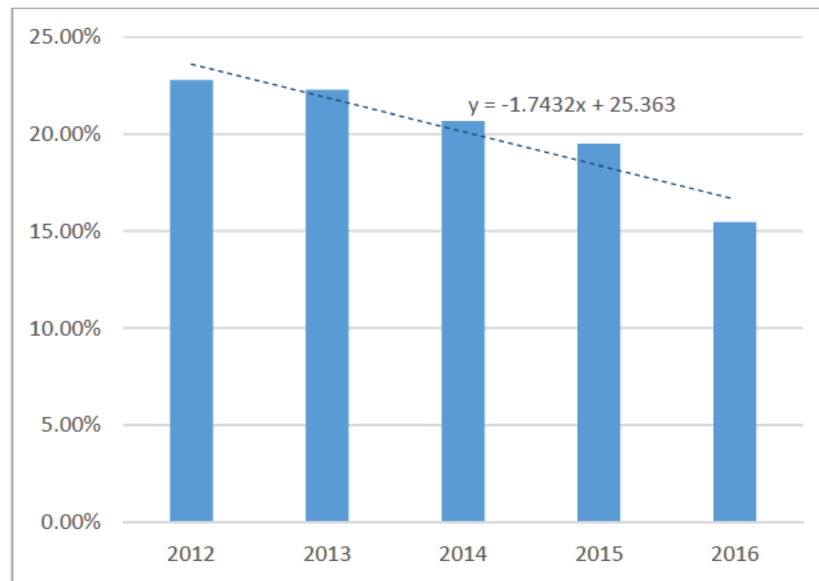
$\bar{y}$  = population mean of y for the period 2012 to 2016

The equation above returns the slope of the linear regression line through the data values of x and y. If the value of *b* in the equation above is above zero, indicating a positive slope, the trend is positive, if the value of *b* is below zero, indicating a negative slope, the trend is negative. The example below shows how the slope information is used in the financial ratio analysis of this study.

**Table 3.1 Slope and trend analysis for Truworths net profit from 2012 to 2016**

	2012	2013	2014	2015	2016	Mean	SD	Rank	Trend	Slope
Truworths	22.78%	22.28%	20.67%	19.49%	15.45%	20.13%	2.62%	1	Negative	-1.7

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b)



**Figure 3.1 Slope and trend analysis for Truworths net profit from 2012 to 2016**

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b)

Table 3.1 displays Truworths net profit percentage for the period 2012 to 2016. The calculated slope value is -1.7, resulting in a negative trend value. Figure 3.1 displays the trend line, as well as the linear equation which includes the slope value. Figure 3.1 also clearly displays the negative gradient of the trend line.

Furthermore using a sector at the lowest level of granularity listed on the JSE allows us to mitigate larger sector specific business cycle fluctuations. The companies selected in this study are then ordered based on their respective profitability performance to facilitate and draw conclusions on which model in this study is associated with higher profitability. It is important to note that there are many factors impacting a company's profitability and the corporate objective serves only as a contributing factor. The measurement of the magnitude with which a company's corporate objective affects the profitability of a company goes beyond the scope of this study. However within the domain of the specific sub sector listed on the JSE and the time period selected the results are insightful.

To ensure the quality of this study's quantitative approach, research has proved that results need to have proper validity and reliability (Kumar, 2011, Gregory, 2015). Validity is defined as the "extent to which a concept is accurately measured in a quantitative study" (Heale and Twycross, 2015). All profitability ratios used in this study are based on data that have been audited and therefore results in a high level of validity in the study. Reliability is primarily concerned with the overall reliability of the instrument used and the data collected, while also being a pre-requisite for validity (UWE, 2017). The instruments used in the quantitative aspect of this research are well known financial ratios that are widely used in business as well as academic institutions, with the data used in the formulae extracted from the integrated annual reports published by JSE listed companies. All the financial results have to conform to the International Financial Reporting Standards which has enjoyed widespread acceptance by those in the accounting profession (Carmona and Trombetta, 2008). These factors contribute to the high standards of reliability of the research instruments and data used.

### **3.4 Population**

All companies that have been selected belong to the apparel sub-sector as classified by the JSE. The companies selected all had to have annual integrated reports available for the period under study 2012 to 2016. African and Overseas Enterprises Limited which is the holding company for Rex Trueform Clothing Company Limited was excluded from the analysis as their annual integrated reports were unavailable for the period 2012 to 2016, the company website only included information for the 2016 financial year (Rextrueform, 2016). Other than Rex Trueform Clothing Company Limited and its holding company, the entire population of companies that listed on the JSE in the apparel retail sub sector, for the period 2012 to 2016 was included, namely Truworths Int. Ltd, Mr Price Group Ltd, The Foschini Group Ltd and Holdsport Ltd. These four companies represent the population of this study and both content analysis and profitability ratio analysis were applied to their annual integrated reports for the given period.

### **3.5. Research limitations and delimitations**

This study contains many limitations and delimitations related to the mixed method approach that combines both quantitative aspects as well as qualitative research aspects as discussed above.

1. This research uses information obtained from the annual integrated reports of the company's listed on the JSE. The information contained in these reports has been summarised. As such, conclusions are based on these summaries.
2. The qualitative nature of the content analyses may result in conclusions that are subjective.
3. The time period used for the research is a five year period 2012 to 2016. The conclusions are thus only applicable to this period in time.
4. There are many factors that affect a company's profitability ratios and the effectiveness of a company's model is a single constituent factor.

### **3.6 Summary**

This study aims to analyse the annual reports of companies listed in the apparel retail sector on the JSE, to determine their corporate objective and examine profitability for the period 2012 to 2016. The study further only includes companies that have publicly made available their integrated annual reports on their websites. The content analysis of the annual integrated reports includes a word frequency count and narratives that provide more insight into the company's engagement with stakeholders. The study focusses on the six main stakeholder's namely, customers, employees, suppliers, investors, society and the environment. Using the stakeholder engagement information a decision is made on which

model the company is most likely following. The next stage in the study uses five profitability ratios namely, gross profit percentage, net profit percentage and earnings per share, return on assets and return on equity, to determine how well the companies model performed. The next chapter begins the content analysis of the annual integrated reports of all the companies selected in this study for the period 2012 to 2016.

## CHAPTER FOUR

### ANALYSIS OF COMPANY MODEL

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#### **4.1 Introduction**

The literature review of this study provided us with three different corporate objectives:

1. The shareholder value model – The focus is only on the shareholder.
2. The stakeholder model – The focus is on all stakeholders.
3. The entity maximisation – The focus is on growing the size of the entities wealth in a sustainable manner while including common interests of the various stakeholders.

The sections that follow analyse the annual integrated reports and supporting social investment reports where provided, for each listed company in the apparel retail sector of the JSE for the period 2012 to 2016. The aim is to determine which corporate objective the entity follows. The key stakeholders identified in chapter 2 are the following: customers, employees, suppliers, investors (shareholders), society and the environment. Initially word frequency tests are done on the reports using the key stakeholders as inputs. This is followed by creating narratives based on all stakeholders and each individual stakeholder with the aim of gaining deeper insight. The next narrative delves deeper into the group's sustainability. Based on the initial analysis and narratives a conclusion is made to reveal which model best describes the company.

#### **4.2 Truworths**

Section 4.2 of the study analyses Truworths annual integrated reports including the company's social and environmental reports for the period 2012 to 2016. A narrative for each of the key stakeholders follows including a description of the company's sustainability

efforts. Finally this section ends with a summary and conclusion that describes which model Truworthis most likely follows.

**4.2.1 Stakeholders**

Truworthis value creation model focussed on three key stakeholder groups, namely shareholders, customers and employees (Truworthis, 2012a, Truworthis, 2013a, Truworthis, 2014a, Truworthis, 2015b). The report includes information for stakeholders that encompasses the groups broader strategy and includes information on its economic, social and environmental strategies (Truworthis, 2012a). The business philosophy of Truworthis is centred on the key stakeholders and stands on three core pillars: their purpose, values and vision. Figure 4.1 below was extracted from the annual integrated report for 2012 and provides for detail on its business philosophy and the core pillars.



**Figure 4.1 Truworthis Business Philosophy**

Source: (Truworthis, 2012b)

Truworthis has a vision statement for each individual key stakeholder shown in Table 4.1 below.

**Table 4.1 Truworthis Vision**

Vision for customers	“Truworthis will be the first place I go when I want quality fashion that makes me look attractive and successful and feel enthused with confidence because shopping at Truworthis is effortless and I am helped by lively and committed people.”
Vision for shareholders	“We are long-term investors in Truworthis because we trust in management’s capacity to execute innovative strategies which deliver significant real growth year after year.”
Vision for employees	“I am totally committed to Truworthis because I am always encouraged to offer innovative ideas which contribute to the ultimate purpose of Truworthis. As a result Truworthis is generous in recognising my role as an effective team member.”

Source: Truworthis (2012a, 2013a)

Stakeholder engagement is further emphasized in the 2013 annual integrated report. The group identified a broad range of stakeholders that could possibly impact the business these included suppliers of merchandise and services, employees, shareholders, customers, trade unions, regulatory bodies and the communities in which it operates (Truworthis, 2013a). Key stakeholders that have material impact on its business are the customer, shareholders and employees (Truworthis, 2013a, Truworthis, 2014a). The reason for engaging with these core stakeholders is given as follows: for customers, they are regarded as the buyers of merchandise and a source of revenue; for shareholders, principal providers of financial

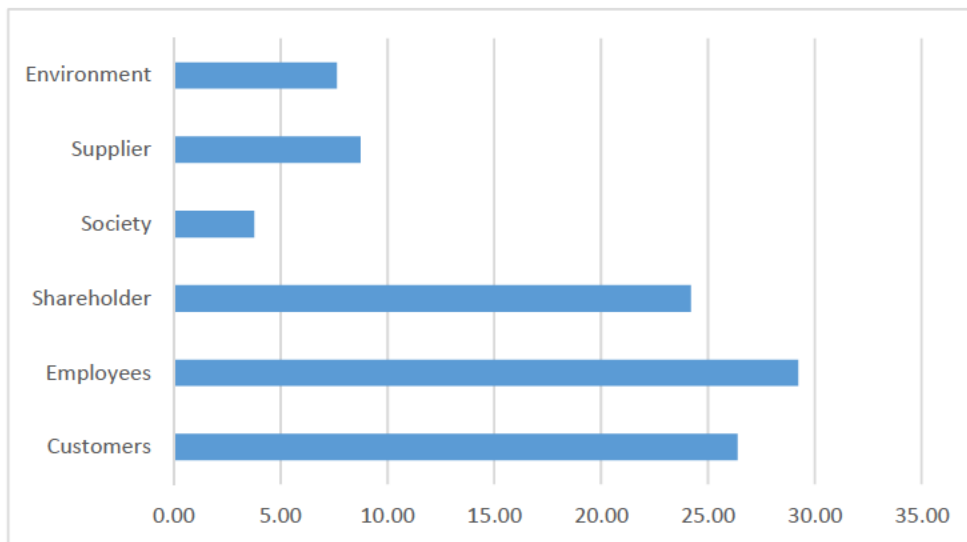
capital, and finally employees, as providers of talent and skills. The group claims to be proactive in responding to the requirements of its stakeholders (Truworths, 2015b).

Table 4.2 provides a summary of how often Truworths makes reference of the selected stakeholders, these being customers, employees, shareholders, society, suppliers and the environment. The documents analysed for keywords were the Annual Integrated reports for the period 2012 to 2016, supporting Corporate Social Investment reports for the period 2012 to 2015 and the Social and Environmental report for 2016. As has been noted in previous sections Truworths has identified three key stakeholders being customers, shareholders and employees. Table 4.2 strengthens the previous statement by showing that the stakeholders with the highest frequency mean for the period 2012 to 2016 was indeed the employees, customers and shareholders, with them contributing 30%, 27% and 24% respectively. This is followed by a much lower frequency mean for suppliers, the environment and society, with these stakeholders contributing 9%, 8% and 2% respectively. The next section provides more detail on the level of engagement Truworths makes with the main stakeholders.

**Table 4.2 Summary of Truworths stakeholder frequencies from 2012 to 2016**

	2012		2013		2014		2015		2016		Total	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customers	105		105		88		120		136			
Consumers	28		43		31		27		29			
	133	22%	148	24%	119	24%	147	31%	165	34%	712	26%
Employees	188		184		120		117		135			
Staff	14		9		13		0		9			
	202	33%	193	31%	133	26%	117	24%	144	30%	789	29%
Investor	10		13		14		10		18			
Shareholder	163		146		126		107		46			
	173	29%	159	25%	140	28%	117	24%	64	13%	653	24%
Society	1		1		3		0		1			
Community	17		29		21		18		11			
	18	3%	30	5%	24	5%	18	4%	12	2%	102	4%
Supplier	38	6%	53	8%	44	9%	45	9%	56	12%	236	9%
Environment	41	7%	45	7%	44	9%	36	8%	40	8%	206	8%
Total	605	100%	628	100%	504	100%	480	100%	481	100%	2698	100%

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b, 2012c, 2013b, 2014b, 2015c, 2016c)



**Figure 4.2 Summary of Truworths stakeholder frequencies from 2012 to 2016**

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b, 2012c, 2013b, 2014b, 2015c, 2016c)

#### *4.2.1.1 Customers*

Customers form part of Truworths key stakeholders (Truworths, 2012a). As shown in Table 4.2 and Figure 4.2 customers form 26% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 22% which increased to 24% in 2013. This further increased to 31% in 2015 from 24% in 2014. The last value for the period in this study was for 2016 at 34%. The overall percentage increase for the period 2012 to 2016 was 12 percentage points. This is a clear indication that Truworths has focused on customers. Customers form one of the three pillars in the company’s vision statement as seen in Table 4.1 (Truworths, 2014a). Truworths has identified material sustainability topics that focus on specific stakeholder groups. There are five material sustainability topics that Truworths uses that include the customer as the primary stakeholder, these are “Managing the risk of fashion”, “Managing

the risk of credit”, “Maximising supply chain efficiency”, “Adopting leading information technology systems” and “Expanding retail presence” (Truworthis, 2012b). Truworthis claims that their knowledge of customer preferences and their ability to interpret international trends give them a unique advantage (Truworthis, 2012a). Included in the group strategy is the need to offer customers the latest international fashion styles across its brand portfolio and also to be first to the market (Truworthis, 2013a). Truworthis positioned itself to focus on the middle income market (Truworthis, 2014a). The group further expanded its reach to customers with its Omni-channel retail project easing the effort of shipping at retail outlets and offering technology solutions with a relaunch of the group’s website in 2016 (Truworthis, 2015b). The Truworthis group active account holders increased from 2.4 million customers in 2012 to 2.7 million customer in 2016 (Truworthis, 2012a, Truworthis, 2016b).

#### *4.2.1.2 Employees*

Employees are one of the key stakeholders identified by Truworthis (Truworthis, 2012a). As shown in Table 4.2 and Figure 4.2 employees form 29% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 33% which decreased to 31% in 2013. This further decreased to 26% in 2014 and dropped another 2 percentage points to a value of 24% in 2015. The last value in the study is for 2016 at 30%, representing a 6 percentage point increase from the value in 2015. In 2012 the group had more than 9000 employees, this grew to 10184 in 2013, 10500 in 2014 (Truworthis, 2012a, Truworthis, 2013a). Truworthis in their effort to drive their strategic purpose and direction, harness the energy and passion of their employees by aligning their efforts using the business philosophy (Truworthis, 2012a). There are two material sustainability topics that Truworthis uses that include the customer as the primary stakeholder, these are “Being the employer of choice in fashion” and “Accelerating transformation” (Truworthis, 2012b). Truworthis is also on attracting and developing high potential employees with 5686 employees trained in scarce skill in 2012 (Truworthis,

2012a). The group aims to position itself as the employer of choice in the fashion retailing sector (Truworthis, 2012a). All employees in the group are encouraged to realise their full potential. The company is committed to rewarding outstanding performance and contribution to the group (Truworthis, 2013a). The groups reward strategies are aimed at motivating, attracting and retaining employees (Truworthis, 2013a). Employee health and wellness is an important focus of the business with all employees being members of the Wooltru Healthcare Fund or Momentum Health (Truworthis, 2013a). Table 4.3 provides more detail on the employee skill development commitment. The number of employees trained increased from 9800 in 2012 to 10682 in 2016 (Truworthis, 2016b, Truworthis, 2012a). Truworthis also increased its training budget from R81 million in 2012 to R107 million in 2016 (Truworthis, 2012a, Truworthis, 2016b).

**Table 4.3 Summary of Truworthis skills development summary**

	2012	2013	2014	2015	2016
Employees trained	9800	9400	9876	10592	10682
Expenditure in millions of rands	81	83	87	103	107

Source: Author compiled using data from Truworthis (2012a, 2013a, 2014a, 2015b, 2016b)

#### *4.2.1.3 Suppliers*

Suppliers do not form part of Truworthis key stakeholders but are still regarded as an important stakeholder (Truworthis, 2016b). As shown in Table 4.2 and Figure 4.2 suppliers form 9% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 6% which increased to 8% in 2013. This further increased to 9% in 2014 which then showed no movement for 2015 at 9%. The last value in the study is for 2016 at 12%, representing a 3 percentage point increase from the value in 2015. There are three material sustainability topics that Truworthis uses that include the suppliers as the secondary stakeholder, these are “Managing the risk of fashion”, “Adopting leading information technology systems” and “Maximising supply

chain efficiency” (Truworthis, 2015a). Furthermore, the business follows a centralised distribution model, with suppliers delivering goods to company owned distribution centres which are then transported to stores using outsourced transport service providers (Truworthis, 2016b). The company also uses both international and local suppliers during procurement phases (Truworthis, 2016b). Truworthis Manufacturing division acts as a design house and uses cut-make-trim suppliers to manufacture the products (Truworthis, 2016b). The group manages suppliers to effectively distribute risk across the supply chain (Truworthis, 2016b). Truworthis strongly supports the manufacture of goods locally as this results in a shorter time to market which is seen as a critical characteristic of a high fashion retailer that needs to rapidly respond to customers changing purchasing patterns (Truworthis, 2016b). In 2015, Truworthis introduced the supplier scorecard to measure existing performance and to identify potential areas that should be improved (Truworthis, 2015b).

#### *4.2.1.4 Investors (Shareholder)*

The Truworthis Annual Integrated Reports are targeted at shareholders who are the major providers of financial capital (Truworthis, 2016b). As shown in Table 4.2 and Figure 4.2 shareholders form 24% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 29% which decreased to 25% in 2013. This then increased to 28% in 2014 which then dropped 4 percentage points to a value of 24% in 2015. The last value in the study is for 2016 at 13%, representing an 11 percentage point decrease from the value in 2015. The contents of the report cover both domestic and international operations for a 52 week period (Truworthis, 2016b). All of the group’s financial reporting complies with JSE listing requirements, the South African Companies Act and International Financial Reporting Standards (Truworthis, 2016b). Value creation for shareholders is at the heart of Truworthis strategic operations, this is achieved by focusing on increasing the share price and providing attractive returns through dividend payments (Truworthis, 2016b). The operations of Truworthis are aligned to

target investors looking to take advantage of the growing South African middle class and retail sector (Truworths, 2016b). The group returned to shareholders R 8.8 million in dividends and share buy backs for the period 2012 to 2016 (Truworths, 2016b). Table 4.4 displays the improved performance in headline earning per share with values increasing from 526.7 cents in 2012 to 667.6 cents in 2016. These statistics reinforce Truworths commitments to providing value for stakeholders.

**Table 4.4 Summary of Truworths performance statistics from 2012 to 2016**

	2012	2013	2014	2015	2016
Headline earnings per share (cents)	526.7	570.8	576.8	593.8	667.6

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b)

#### *4.2.1.5 Society*

Truworths publishes separate corporate social responsibility reports which were included in the calculations for Table 4.2. As shown in Table 4.2 and Figure 4.2 society forms 4% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 3% which increased to 5% in 2013. This then maintained its value of 5% in 2014 which then dropped 1 percentage point to a value of 4% in 2015. The last value in the study is for 2016 at 2%, representing a 2 percentage point decrease from the value in 2015. Deeper analyses of the social and environmental reports reveal that Truworths does in fact support various social and environmental matters (Truworths, 2016c). Truworths supports numerous corporate social investment (CSI) programmes under the banner Truworths Involved (Truworths, 2016c). Table 4.5 provides a summary of CSI activity for the period 2014 to 2016.

**Table 4.5 Summary of Truworths CSI statistics from 2014 to 2016**

CSI at a glance	2016	2015	2014
Donations by Truworths to the CSI trusts (R'000)	–	5 000	10 000
Donations of merchandise for distribution to charities (R'000)	2 392	895	1 087
Total donations by Truworths (R'000)	2 392	5 895	11 087
Total donations as a percentage of after-tax profit (%)	0.1	0.2	0.5
Investments held by the trusts at the end of the reporting period (Rm)	195	171	165
Number of projects supported during the period	37	31	28
Total donations from the trusts (R'000)	2 566	2 288	2 786
Number of beneficiaries assisted in ongoing projects	4 800	4 799	4 099
Number of projects supported for more than ten years	5	5	5

Source: Truworths (2016c)

A significantly large portion of Truworths CSI funding has been directed at improving the healthcare sector (Truworths, 2016c). Over the last 6 years Truworths has donated more than R10 million towards hospital projects as seen in Table 4.6 (Truworths, 2016c).

**Table 4.6 Summary of Truworths healthcare sector donations, 2010 to 2015**

Hospital	Area	Donation	Completed
Livingstone Hospital	Eastern Cape	R1.6 million	2015
Kalafong Hospital	Gauteng	R1.75 million	2014
Itireleng Community Health Centre	Gauteng	R2.2 million	2013
Leratong Provincial Hospital	Gauteng	R1.6 million	2012
Hanover Park Community Health Centre	Western Cape	R275 000	2011
Mitchells Plain Community Health Centre	Western Cape	R1 million	2011
Somerset Hospital	Western Cape	R2 million	2010

Source: Truworths (2016c)

#### 4.2.1.6 Environment

As shown in Table 4.2 and Figure 4.2 the environment forms 8% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 7% which remained constant at 7% in 2013. This then increased to 9% in 2014 which then dropped to a value of 8% in 2015 and remained constant at 8% for 2016. Truworths monitors its impact on the climate using the Carbon Discloser Project Report. Table 4.7 summarizes Truworths carbon emissions for the period 2014 to 2015. Carbon footprint results were restricted to the Truworths and Identity brands. Truworths has setup target to control its emissions and impact on the environment (Truworths, 2016c). Two targets have been created an electricity reduction target and a corresponding carbon dioxide target of a five percent per meter squared reduction (Truworths, 2016c). For the 2016 reporting period Truworths was able to achieve a 1.1% reduction in electricity consumption per square meter, this result equated to a 162 ton decrease in carbon dioxide (Truworths, 2016c).

**Table 4.7 Carbon Emissions of Truworths for the period 1 July 2014 to 30 June 2015**

Scope 1	482.37 metric tonnes CO <sub>2</sub> e per square metre of which
	437.67 metric tonnes were from mobile fuel combustion
Scope 2	74 777.00 metric tonnes CO <sub>2</sub> e per square metre of which
	69 581.99 metric tonnes were from stores emissions
	4 150.38 metric tonnes were from head office emissions
	1 044.94 metric tonnes were from distribution centres emissions
Scope 3	13 741.78 metric tonnes CO <sub>2</sub> e per square metre of which
	8 537.27 metric tonnes were from upstream transportation and distribution
	3 070.46 metric tonnes were from purchased goods and services
	2 133.35 metric tonnes were from business travel
	0.70 metric tonnes were from waste generated in operations

Source: Truworths (2016c)

### ***4.2.2 Sustainability***

Truworths has a dedicated section in its integrated annual report titled “Creating Sustainable Value” (Truworths, 2016a). The chapter begins by stating the following, “Our Business Philosophy is core to the success of the business and is therefore integral to creating sustainable value” this is a clear indication that sustainable value has been incorporated into business strategy (Truworths, 2016a). The group has further committed to creating value for stakeholders in the short, medium and long term (Truworths, 2016b). Truworths argues that its business model has several features that allow it to maintain a sustainable competitive advantage (Truworths, 2016b). Other than material issues relating to financial and capital management Truworths has identified that human and technology factors are critical to the sustainability of the business (Truworths, 2016b). The Truworths group qualified to be included in the JSE Socially Responsible Investment Index which recognises the businesses sustainability and governance practices (Truworths, 2015b).

### ***4.2.3 Summary and Conclusion***

The analysis above proves that Truworths has a holistic view on catering for its various stakeholders with focus on key stakeholders. The group recognises and engages with all relevant stakeholders with a frequency and engagement level that fits the needs of the business. Furthermore as the group is part of JSE Socially Responsible Investment Index it has proved to have effective sustainability and governance practises. As shown in Table 4.2 and Figure 4.2 employees form 29% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. This is the highest word frequency percentage of all stakeholders. Furthermore deeper content analysis reveals that the company does focus strongly on employees. It has been concluded that Truworths prevailing corporate objective closely resembles that of the entity maximization and sustainability model with a focus on employees.

## **4.3 Holdsport**

### ***4.3.1 Stakeholders***

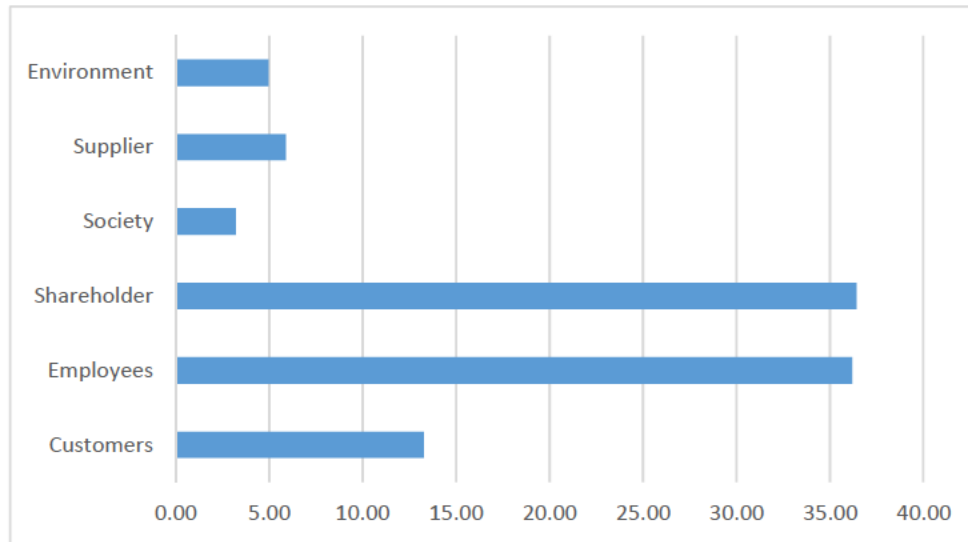
Holdsport produced its first Annual Integrated Report to stakeholders in 2012 (Holdsport, 2012). The company although humble in its initial attempt of creating an annual integrated report, they do promise to enhance it and describe the creation of the document as an evolving process (Holdsport, 2012). The report focuses primarily on company performance with a major focus on shareholders (Holdsport, 2012).

Table 4.8 provides a summary of how often Holdsport makes reference to the selected stakeholders, these being customers, employees, shareholders, society, suppliers and the environment. The documents analysed were the annual integrated reports for the period 2012 to 2016. The Holdsport group focussed primarily on their shareholders and employees. Table 4.8 strengthens the previous statement by showing that the stakeholders with the highest frequency mean for the period 2012 to 2016, were shareholders with 36.5% (588) and then employees with 36.2% (584). This is followed by a much lower frequency mean for customers, suppliers, the environment and society, with these stakeholders contributing 13%, 6%, 5% and 3% respectively. The next section provides more detail on the level of engagement Holdsport makes with the main stakeholders.

**Table 4.8 Summary of Holdsport stakeholder frequencies from 2012 to 2016**

	2012		2013		2014		2015		2016		Total	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customers	32		31		34		33		38			
Consumers	10		6		11		12		7			
	42	12%	37	12%	45	14%	45	14%	45	14%	214	13%
Employees	86		84		84		85		82			
Staff	32		35		31		32		33			
	118	35%	119	38%	115	37%	117	37%	115	35%	584	36.2%
Investor	8		6		6		6		6			
Shareholder	125		108		102		103		118			
	133	39%	114	36%	108	35%	109	34%	124	38%	588	36.5%
Society	1		1		1		1		1			
Community	10		10		9		9		9			
	11	3%	11	3%	10	3%	10	3%	10	3%	52	3%
Supplier	19	6%	19	6%	19	6%	19	6%	19	6%	95	6%
Environment	19	6%	15	5%	14	5%	17	5%	15	5%	80	5%
Total	342	100%	315	100%	311	100%	317	100%	328	100%	1613	100%

Source: Author compiled using data from Holdsport (2012, 2013, 2014, 2015, 2016a)



**Figure 4.3 Summary of Holdsport stakeholder frequencies from 2012 to 2016**

Source: Author compiled using data from Holdsport (2012, 2013, 2014, 2015, 2016a)

#### 4.3.1.1 Customers

The Holdsport group has a strong focus on customers. As shown in Table 4.8 and Figure 4.3 customers form 13% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 12% which remained constant at 12% in 2013. This then increased to 14% in 2014 and did not move in 2015 also at 14%. The last value for the period in this study was for 2016 also at 14%. The overall percentage increase for the period 2012 to 2016 was 2 percentage points. Holdsport aims to provide customers with a large range of products and brands with a skilled workforce that can guide and help customers with their purchasing decisions (Holdsport, 2012). In addition, the group aims to use its scale to deliver products in the most efficient manner (Holdsport, 2012). It was in 2012 that the group began looking at expanding distribution channels with a focus on internet sales (Holdsport, 2012). Throughout 2013, with the economy's stifled growth, Holdsport was committed in its mission of providing new and innovative products to its customers (Holdsport, 2013). The company further bolstered its

communication strategy with both electronic and online initiatives (Holdsport, 2013). In 2014 management investigated further expansion into internet sales thereby improving its customer reach (Holdsport, 2014). To improve its stock availability for its customers the group added an additional warehouse (Holdsport, 2014).

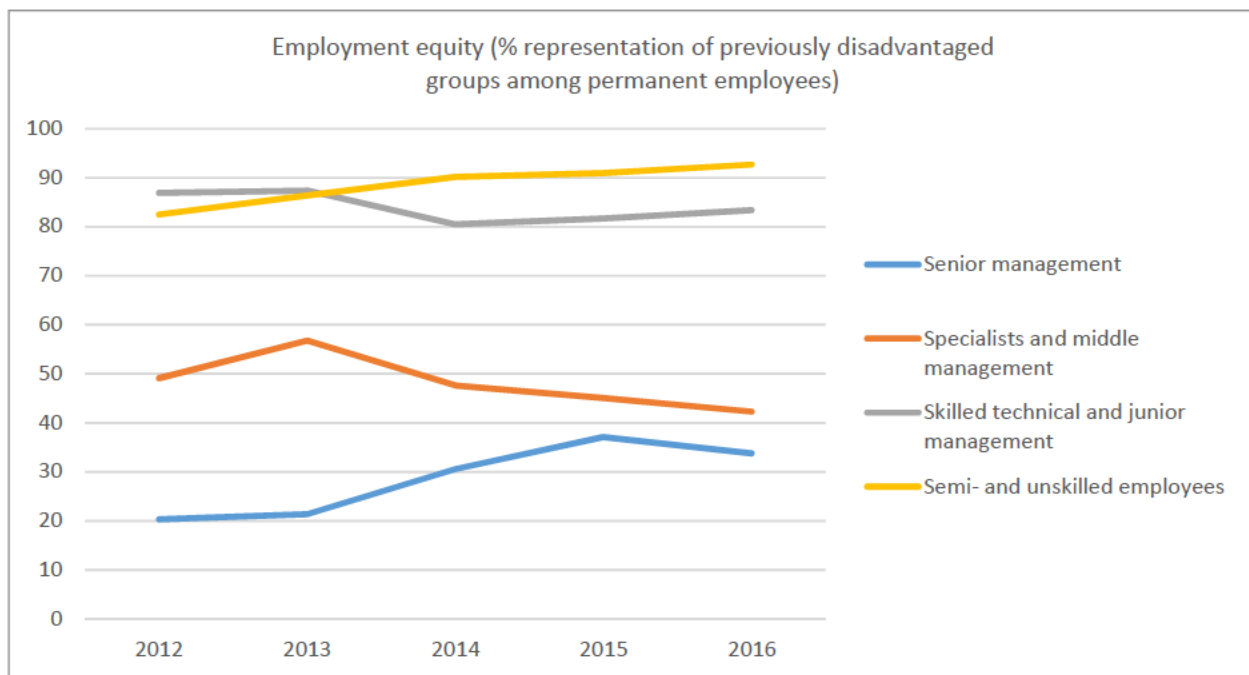
#### *4.3.1.2 Employees*

As shown in Table 4.8 and Figure 4.3 employees form 36.2% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 35% which decreased to 38% in 2013. This then decreased to 37% in 2014 and remained constant in 2015 at 37%. The last value in the study is for 2016 at 35%, representing a 2 percentage point decrease from the value in 2015. Holdsport strives to attract employees who are leaders and talented employees who also possess characteristics such as skill, motivation, energy and passion (Holdsport, 2012). Furthermore, the group supports employment equity and aims to address and improve the racial composition of its staff compliment (Holdsport, 2012). Remuneration is aimed at being competitive in the market with the aim of retaining as well as attracting potential talent in the South African workforce (Holdsport, 2012). An important note is that all incentive schemes for employees are aligned with the interest of shareholders (Holdsport, 2012). Holdsport adopted the Holdsport Forfeitable Share Plan, this allows employees to receive shares with the purpose of aligning the interests of employees with that of shareholders (Holdsport, 2012). Participation is limited to those employees who's roles directly have an impact on the company performance (Holdsport, 2012). The group also stipulates in its conditions of service that all permanent employees are to be covered by the Horizon Medical Aid Scheme (Holdsport, 2012). Table 4.9 displays the group's employment equity performance for the period 2012 to 2016. The group increased representation of previously disadvantaged employees for senior management positions from 20.3% in 2012 to 33.8% in 2016. Table 4.8 shows that semi-skilled and unskilled employee representation also increased from 82.5% in 2012 to 92.7% in 2016.

**Table 4.9 Holdspport employment equity percentage for 2012 to 2016**

	2012	2013	2014	2015	2016
Senior management	20.3	21.4	30.6	37.1	33.8
Specialists and middle management	49.1	56.8	47.6	45.1	42.3
Skilled technical and junior management	86.9	87.4	80.5	81.7	83.4
Semi- and unskilled employees	82.5	86.4	90.2	91	92.7

Source: Author compiled using data from Holdspport (2012, 2013, 2014, 2015, 2016a)



**Figure 4.4 Holdspport employment equity percentage for 2012 to 2016**

Source: Author compiled using data from Holdspport (2012, 2013, 2014, 2015, 2016a)

#### 4.3.1.3 Suppliers

As shown in Table 4.8 and Figure 4.3 suppliers form 6% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 6% and for the remainder of the study period, 2013 to 2016, the value remained

constant at 5%. For the 2012 financial year Holdsport had approximately 100 international and 300 local suppliers (Holdsport, 2013). The group buys the majority of its products from local suppliers who deliver directly to stores (Holdsport, 2012). All international imports are received at the group’s distribution centre (Holdsport, 2012). Holdsport’s main international partner being China with a contribution of 30% (Holdsport, 2012). To ensure the groups quest of innovating and providing customers with new products it regularly engages with suppliers to ensure it is up to date with the latest developments (Holdsport, 2016a). The group also sources from different suppliers and countries thereby mitigating the risk of disruptions to its distribution process (Holdsport, 2014). To further enhance the group’s ability to reduce the impact of supply chain operational issues such as labour disputes or economic instability, the group has included processes as shown in Table 4.10.

**Table 4.10 Holdsport measures to reduce supply chain operational issues**

Maintain appropriate insurance cover for loss of profit
Specific supplier terms and conditions
Regular follow-up on order status with suppliers
Risk reviews to consider events and factors that can cause a disruption in our supply chain
Closely monitor the market, both locally and internationally
Quality assurance and quality control processes
Sourcing from different suppliers or importing directly.

Source: Holdsport (2012)

The group also engages in preferential procurement practises that supports Broad Based Black Economic Empowerment (Holdsport, 2012).

*4.3.1.3 Investors (Shareholders)*

Broader investment community, potential investors and shareholders are the individuals the Holdsport Annual integrated report primarily targets (Holdsport, 2012). As shown in Table 4.8 and Figure 4.3 shareholders form 36.5% of the stakeholder frequency total in their

annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 39% which decreased to 36% in 2013. This then decreased to 35% in 2014 which then dropped to a value of 34% in 2015. The last value in the study is for 2016 at 38%, representing a 4 percentage point increase from the value in 2015. For the period 2012 to 2016 Holdsport provided performance statistics illustrating incremental growth. A summary of Holdsport's performance statistics can be found in Table 4.11. The total turnover from operations increased from R1 243 million to R1 727 million for 2012 to 2016. Headline earnings also increased for the same period from R153 million to R218 million. Profit before tax showed a similar growth trend with values R217 million in 2012 to R304 million in 2016. The results show consistent incremental growth for the period 2012 to 2016 while creating shareholder value. It is evident that the focus of the annual integrated report pivots around the shareholder.

**Table 4.11 Summary of Holdsport performance statistics from 2012 to 2016**

	2012	2013	2014	2015	2016
Total turnover from operations	1,243,539	1,374,531	1,417,584	1,544,844	1,727,436
Operating profit before finance charges	226,431	243,290	250,009	266,744	308,925
Profit before tax	217,259	234,742	242,450	261,839	304,128
Profit attributable to equity holders	153,695	168,516	173,710	187,895	218,776
Headline earnings	153,547	168,259	173,237	182,259	218,349

Source: Holdsport (2016a), Note: Data values in thousands of rands.

#### 4.3.1.5 Society

Holdsport's annual integrated reports have very little focus on general impact on society and its community. As shown in Table 4.8 and Figure 4.3 society forms 3% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The annual frequency percentage value remained constant for the period 2012 to 2016. Holdsport does however mention that it does include community based activities as part of its marketing strategy (Holdsport, 2012). The group focusses on presence and branding at

events such as large sporting events and selected schools sports days (Holdsport, 2016a). It also actively involves itself in sporting events which are organised by clubs including using the store as a registration point for various races (Holdsport, 2012).

#### *4.3.1.6 Environment*

Holdsport's annual integrated report has minimal information on the environment. As shown in Table 4.8 and Figure 4.3 the environment forms 5% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The annual frequency percentage value remained constant for the period 2013 to 2016 at 5%. However during construction of its new warehouse the group did consider the environment. Environmentally friendly features included the use of low emission materials handling equipment, energy efficient lighting and heating combined with water efficient plumbing and landscaping (Holdsport, 2016a). The group has also made an effort to reduce paper consumption and does not print its annual integrated reports which are now made available on its website (Holdsport, 2013).

#### *4.3.2 Sustainability*

The Holdsport's annual integrated report aims to show how through the groups sustainable business practices it is capable of maintaining short, medium and long term viability of the group (Holdsport, 2016a). The transformation, sustainability, social and ethics committee has been given the objective of "advising the board on all relevant aspects that may have a significant impact on the long-term sustainability of the group" (Holdsport, 2016b). The group's human resources also form part of its sustainability plan with it focussing on industrial relations, employment equity, succession planning and skills development (Holdsport, 2016a). Promoting business continuity and sustained performance the group has achieved a senior management turnover rate of 20% for 2016 (Holdsport, 2016a).

### ***4.3.3 Summary and Conclusion***

It is evident that Holdsport's focus is on both shareholders and its employees. As shown in Table 4.8 and Figure 4.3, shareholders and employees both contribute 36.5% and 36.2% respectively of the stakeholder frequency total in the company's annual integrated reports for the period 2012 to 2016. Furthermore deeper content analysis reveals that the company does focus strongly on shareholders and it also converts key employees into shareholders using the Holdsport Forfeitable Share Plan. Table 4.8 displays the word frequency rate of other stakeholders with customer, society, suppliers and the environment having values of 13%, 3%, 6% and 5% respectively. However a more detailed look at the content analysis reveals that the group does indeed focus on these stakeholders, with business practices that delivered incremental growth for the 2012 to 2016. The company's focus on providing new and innovative products suggests a differentiation product strategy. It has been concluded that Holdsport's prevailing corporate objective closely resembles that of the entity maximisation and sustainability with a very large focus on shareholders (differentiation strategy)

## **4.4 Mr Price**

### ***4.4.1 Stakeholders***

The Mr Price group values maintaining a meaningful relationship between its stakeholders and the group and as a result the annual integrated report centres itself around stakeholder engagement (Mr Price, 2012). The group is committed to being a good corporate citizen and while acting responsibly always considers the interest of its stakeholders (Mr Price, 2012). The group has a holistic view when reporting in its annual integrated report and not only focusses on its economic performance but also takes into account environmental and social performance (Mr Price, 2012). Mr Price also recognises that there are many different

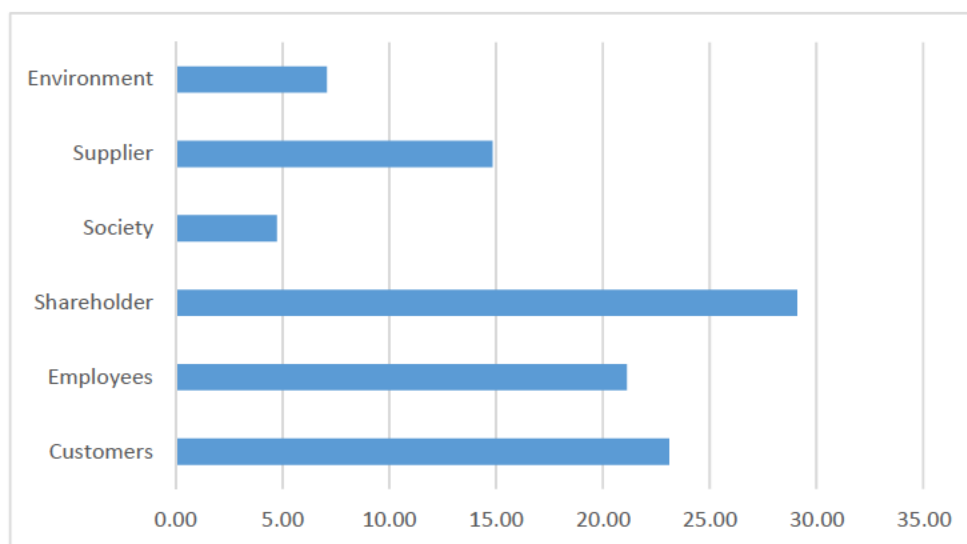
stakeholder groups that affect its performance but the primary stakeholders are the customers, shareholders and employees (Mr Price, 2016a).

Table 4.12 provides a summary of how often Mr Price makes reference of the selected stakeholders, these being customers, employees, shareholders, society, suppliers and the environment. The documents analysed were the annual integrated reports for the period 2012 to 2016. The Mr Price group focussed primarily on their customers, shareholders and employees according to the annual integrated reports (Mr Price, 2016a). Table 4.12 strengthens the previous statement by showing that the stakeholders with the highest frequency mean for the period 2012 to 2016, were indeed the customers, employees and shareholders, with them contributing 24%, 20% and 28% respectively. This is followed by a lower frequency mean for suppliers, the environment and society, with these stakeholders contributing 15%, 8% and 5% respectively. The next section provides more detail on the level of engagement Mr Price makes with the main stakeholders.

**Table 4.12 Summary of Mr Price stakeholder frequencies from 2012 to 2016**

	2012		2013		2014		2015		2016		Total	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customers	73		63		56		87		61			
Consumers	20		16		14		4		11			
	93	19%	79	27%	70	29%	91	24%	72	21%	405	23%
Employees	79		14		17		51		43			
Staff	51		14		21		39		41			
	130	26%	28	9%	38	16%	90	24%	84	25%	370	21%
Investor	19		5		2		4		3			
Shareholder	151		111		29		91		95			
	170	35%	116	39%	31	13%	95	25%	98	29%	510	29%
Society	6		5		6		1		4			
Community	16		16		11		9		9			
	22	4%	21	7%	17	7%	10	3%	13	4%	83	5%
Supplier	60	12%	27	9%	55	23%	69	18%	49	14%	260	15%
Environment	16	3%	24	8%	33	14%	26	7%	25	7%	124	7%
Total	491	100%	295	100%	244	100%	381	100%	341	100%	1752	100%

Source: Author compiled using data from Mr Price (2012, 2013, 2014, 2015, 2016a)



**Figure 4.5 Summary of Mr Price stakeholder frequencies from 2012 to 2016**

Source: Author compiled using data from Mr Price (2012, 2013, 2014, 2015, 2016a)

#### *4.4.1.1 Customers*

Customers form part of Mr Price’s primary stakeholder groups the others being shareholders and employees (Mr Price, 2016a). As shown in Table 4.12 and Figure 4.5 customers form 23% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 19% which increased to 27% in 2013. This further increased to 29% in 2014 but then dropped to 24% in 2015. The last value for the period in this study was for 2016 at 21%. The Mr Price business model is focussed on bringing fashionable merchandise at affordable prices to customers (Mr Price, 2016a). Table 4.13 shows an extract from the group’s 2016 annual integrated report showing how Mr Price satisfies its customers’ needs for fashion. As can be seen from Table 4.13 the group actively researches and makes necessary operational adjustments to ensure the needs of the customer are met. Mr Price mentions that its primary purpose is: “To add value to our customers’ lives and worth to our partners’ lives, while caring for the communities and environments in which we operate” (Mr Price, 2016b). The group goes

further in stating that one of its core values is adding value to customers lives, this is achieved by not only offering a competitive price but also offering quality products (Mr Price, 2016a). This strong purpose and value system at the heart of the business shows that the customer is at the core of the businesses purpose.

**Table 4.13 Summary of how Mr Price satisfies its customers’ needs for fashion**

Specialist trend teams, frequent international travel and thorough research
Active dialogues through social and digital media
Responding to customers’ changing fashion needs
Product testing before making significant merchandise commitments
Slow moving merchandise cleared to make way for fresh, new merchandise

Source: Mr Price (2016a)

#### *4.4.1.2 Employees*

Employees form part of Mr Price’s primary stakeholder groups the others being shareholders and customers (Mr Price, 2016a). As shown in Table 4.12 and Figure 4.5 employees form 21% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 26% which decreased to 9% in 2013. This then increased to 16% in 2014 and to a value of 24% in 2015. The last value in the study is for 2016 at 29%. The group for the 2016 financial year employed 17 956 employees (Mr Price, 2016a). Mr Price further offers employees who have been employed for more than a year to participate in the Mr Price Group share or share option schemes (Mr Price, 2012). Employees who participate in this programme are then referred to as partners (Mr Price, 2012). Mr Price as part of its many divisions includes a People Division. This division is responsible for monitoring human resource policies and processes (Mr Price, 2012). For the 2016 financial year the group invested R34.8 million rand in training, 94% of those employees were black (Mr Price, 2016a). The group further commits to ensuring that its workforce is representative of the demographics in South Africa and has

clear and defined Employment Equity objectives (Mr Price, 2016a, Mr Price, 2015, Mr Price, 2014). Mr Price also has in place Group Wellness initiatives which includes a low cost medical plan offered to store associates (Mr Price, 2016a). Furthermore, the group has in place remuneration structures that stimulate and incentivise high achievers (Mr Price, 2016a, Mr Price, 2012, Mr Price, 2013, Mr Price, 2014, Mr Price, 2015). The group strongly invests in its employees to ensure that they are aligned with its strategic vision of becoming the top performing international retailer (Mr Price, 2016a).

#### *4.4.1.3 Suppliers*

For the Mr Price group, partnership with suppliers forms part of their core value system (Mr Price, 2016a). As shown in Table 4.12 and Figure 4.5 suppliers form 15% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 12% which decreased to 9% in 2013. This then increased to 23% in 2014 and in 2015 decreased to 18%. The last value in the study is for 2016 at 14%. The group strives to create healthy relationships with suppliers in both the short and long term (Mr Price, 2016a, Mr Price, 2013, Mr Price, 2014, Mr Price, 2015). Suppliers are regarded as essential to the performance of the company and key to its strategic positioning with development initiatives forming part of Mr Price's social and relationship building strategy (Mr Price, 2016a). For the 2016 financial year, 78% of all suppliers form part of the Supplier Ethical Data Exchange programme (Mr Price, 2016a). Furthermore suppliers are expected to uphold the spirit of the Supplier Code of Conduct (Mr Price, 2015). A key focus for the group is to enhance and improve their supplier grading system and supplier risk ratings against future order levels (Mr Price, 2016a). The group also focuses on supporting local suppliers and in 2016 sourced 80.5 million units from local suppliers which accounted for 31% of the total (Mr Price, 2016a). South Africa has been identified as a key priority country and as a result the group has begun testing innovative solutions with the aim of creating a sustainable local market (Mr Price, 2016a).

#### 4.4.1.3 Investors (Shareholders)

The Groups annual integrated reports are aimed primarily at shareholders who have been described as the providers of financial capital (Mr Price, 2016a). As shown in Table 4.12 and Figure 4.5 shareholders form 29% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 35% which increased to 39% in 2013. This then decreased to 13% in 2014 which then increased by 12 percentage points to a value of 25% in 2015. The last value in the study is for 2016 at 29%, representing a 4 percentage point increase from the value in 2015. In 2016 the group paid R1.6 billion rand in dividends to shareholders (Mr Price, 2016a). Table 4.14 summarizes the group's key performance indicators of economic progress. Dividends per share increased from 314 cents for 2012 to 667 cents for 2016 while headline earnings per share increased from 503 cents in 2012 to 1057.8 cents in 2016. The group's revenue also showed growth year on year. These key performance indicators show that Mr Price is growing the amount of value it adds to shareholders.

**Table 4.14 Summary of the Mr Price groups KPI's of economic progress**

	2012	2013	2014	2015	2016
Revenue					
-53 weeks R'm	12 122	13 800	15 892	18 099	20 004
-52 weeks R'm	12 122	13 800	15 892	18 099	19 628
Headline earnings per share					
-53 weeks cents	503	634.8	765.1	919.7	1 057.8
-52 weeks cents	503	634.8	765.1	919.7	1 035.2
Operating margin					
-53 weeks %	14.4	15	16	17.1	18.1
-52 weeks %	14.4	15	16	17.1	18.2
Dividends per share cents	314	398	482	580	667
Share price (closing) Rand	94.34	116.99	156.01	251.96	177.69
Return on net worth %	43.8	46.4	47.6	45.7	47.1
Cash sales as a % of total sales %	81.4	79.9	80.8	81.9	82.8

Source: Mr Price (2016a)

#### *4.4.1.5 Society*

For Mr Price the objective of engaging with communities is part of the groups sustainability plan (Mr Price, 2016a). As shown in Table 4.12 and Figure 4.5 society forms 5% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was which increased to 7% in 2013. This then maintained its value of 7% in 2014 which then dropped 4% to a value of 3% in 2015. The last value in the study is for 2016 at 4%. As part of the groups engagement strategy Mr Price aims to facilitate education and skills developments (Mr Price, 2016a). To achieve this the group has created the MRP Foundation, their achievements for 2016 include having created school programmes that have impacted more than 65 000 learners (Mr Price, 2016a). Mr Price also has the JumpStart Retail Programme which trained 10 000 youth for the period 2014 to 2016 and resulted in 4300 of them being employed (Mr Price, 2014, Mr Price, 2015, Mr Price, 2016a). The group has also worked with various suppliers, using its JumpStart Manufacturing Programme and facilitating job creation the group was able to train 550 youths for the period 2015 to 2016 with 76% of them having found employment (Mr Price, 2016a). The MRP Foundation ensures that the group positively impacts society and the communities in which they live.

#### *4.4.1.6 Environment*

Mr Price includes details that suggest that it does focus on priorities such as national energy and broader environmental issues (Mr Price, 2016a). As shown in Table 4.12 and Figure 4.5 the environment forms 7% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 3% which increased to 8% in 2013. This further increased to 14% in 2014 which then dropped to a value of 7% in 2015. This remained constant at 7% for 2016. The group has focussed on aligning South African cotton production to the Better Cotton Initiative standard which

ensures that the environment and communities are considered (Mr Price, 2016a). A big environmental concern in South Africa at the moment is water scarcity and as such Mr Price is targeting the increase of small scale rain fed cotton production (Mr Price, 2016a). Stuart Bird, the Chief Executive Officer of the group reinforces the groups commitment to society and the environment and has stated the following: “Mr Price Group supports Southern African cotton and the development of a globally competitive and sustainable local cotton value chain that improves the livelihoods of people while also ensuring that the environment is cared for” (Mr Price, 2016b). The group focuses its environmental strategy by reducing its environmental impact on the following aspects that are a result of business operations; waste to landfill, water, fuel and the efficient use of electricity (Mr Price, 2016a). Mr Price has further committed to reduce its carbon footprint. Over the period 2014 to 2016, the group reduced its carbon footprint by approximately 32.1 million Kwh or 29 424 tons CO<sub>2</sub> emissions (Mr Price, 2016a, Mr Price, 2014, Mr Price, 2015). Furthermore at its Durban head office the group has installed a photovoltaic system which produces 286 Mwh of clean energy annually (Mr Price, 2016a). This installation further reduces the groups carbon footprint by 305 tonnes CO<sub>2</sub> emissions annually (Mr Price, 2016a). In 2016, Mr Price was able to half the amount of waste it sends to the landfill (Mr Price, 2016a). The transportation provider changed operations and was able to reduce fuel and kilometre travel reduction (Mr Price, 2016a).

#### ***4.4.2 Sustainability***

Mr Price is committed to delivering value over the short, medium and long term through sustainable relationships with various stakeholders (Mr Price, 2016a). The group strategy is made up of five pillars of growth: building loving brands, operations, people and sustainability (Mr Price, 2015, Mr Price, 2016a). Mr Price engages with all key stakeholders to ensure that it has a sustainable business model. The Sustainable Cotton Cluster which involves Mr Price as the founding retailer has created over 400 jobs and through which the company has purchased more than 4.2 million clothing items (Mr Price,

2016a). The group also prides itself with nurturing talent development and maintains that this is critical to its competitiveness and long term sustainability (Mr Price, 2016a). Mr Price also focuses on building sustainable and efficient supply chains, the group has identified South Africa as a key country and as such has been testing innovative solution with local suppliers and government departments (Mr Price, 2016a). The MRP Foundation in an attempt to grow local businesses and create a sustainable local market has committed to ten years of investment into the socio-economic landscape of South Africa (Mr Price, 2016a).

#### ***4.4.3 Summary and Conclusion***

The analysis above shows that the Mr Price group has identified all the key stakeholders as well as provided sustainable strategies. The group identified their primary stakeholders as customers, shareholders and employees but does not fail to focus on other stakeholders that influence the business. Mr Price's sustainability strategy aims to deliver value for the short, medium and long term, with contributions to both society and the local economy. As shown in Table 4.12 and Figure 4.5 shareholders form 29% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. Furthermore in its effort to add value to customer's lives, Mr Price ensures that it offers products at competitive prices, suggesting a low cost product strategy. It has been concluded that Mr Price's prevailing corporate objective closely resembles that of the entity maximization and sustainability model with a focus on shareholders (low cost strategy).

## **4.5 The Foschini Group**

### ***4.5.1 Stakeholders***

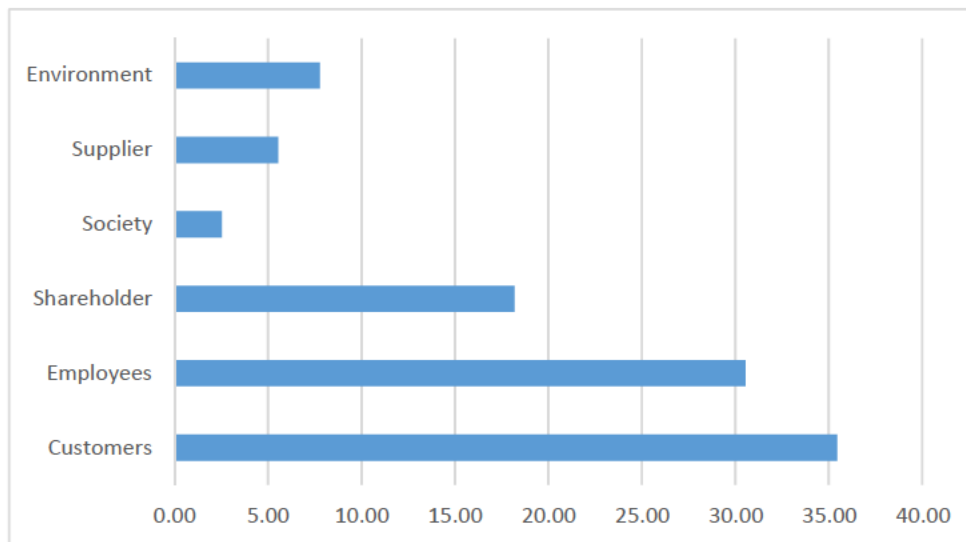
The Foschini Group business model creates value for stakeholders using a concept of shared value (Foschini, 2016a). The shared value model aims to address economic and social issues directly impacting performance in the regions the group operates (Foschini, 2016a). Furthermore, the shared value principle aims to create partnerships with a strong focus on public and private sector collaboration (Foschini, 2016a). Foschini has also identified a list of primary stakeholders with whom they focus their engagement efforts and these are: employees, customers, shareholders, government and regulators, communities, key service providers, merchandise suppliers and finally landlord and concession partners (Foschini, 2016a). The business model not only aims to improve the lives of customers but also to enhance the supply chain, thereby ensuring they support the company's competitive advantage.

Table 4.15 provides a summary of how often Foschini makes reference to the selected stakeholders, these being customers, employees, shareholders, society, suppliers and the environment. The documents analysed were the annual integrated reports for the period 2012 to 2016. Table 4.14 shows that the stakeholders with the highest frequency mean for the period 2012 to 2016 were the customers, employees and shareholders, with them contributing 36%, 30% and 18% respectively. This is followed by a lower frequency mean for suppliers, the environment and society, with these stakeholders contributing 5%, 8% and 2% respectively. The next section provides more detail on the level of engagement Foschini makes with the main stakeholders.

**Table 4.15 Summary of Foschini stakeholder frequencies from 2012 to 2016**

	2012		2013		2014		2015		2016		Total	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customers	164		123		132		142		109			
Consumers	46		50		24		23		45			
	210	37%	173	33%	156	37%	165	38%	154	32%	858	35.5%
Employees	140		133		134		95		101			
Staff	54		39		19		12		12			
	194	34%	172	33%	153	36%	107	25%	113	24%	739	31%
Investor	11		13		8		17		30			
Shareholder	45		82		46		84		104			
	56	10%	95	18%	54	13%	101	23%	134	28%	440	18%
Society	4		4		1		1		1			
Community	18		9		7		6		10			
	22	4%	13	2%	8	2%	7	2%	11	2%	61	3%
Supplier	61	11%	23	4%	15	4%	15	3%	20	4%	134	6%
Environment	24	4%	45	9%	41	10%	35	8%	43	9%	188	8%
Total	567	100%	521	100%	427	100%	430	100%	475	100%	2420	100%

Source: Author compiled using data from Foschini (2012, 2013, 2014, 2015, 2016a)



**Figure 4.6 Summary of Foschini Stakeholders from 2012 to 2016**

Source: Author compiled using data from Foschini (2012, 2013, 2014, 2015, 2016a)

#### 4.5.1.1 Customers

Foschini regards its customers as a very important stakeholder. As shown in Table 4.15 and Figure 4.6 customers form 35.5% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 37% which decreased to 33% in 2013. This then increased to 37% in 2014 and further increased to 38% in 2015. The last value for the period in this study was for 2016 at 32%. Customers form the core of the company's strategy (Foschini, 2012, Foschini, 2013, Foschini, 2014). The group's strategy consists of four pillars these being the customer, leadership, profit and growth (Foschini, 2016a). These four pillars each have specific objectives which again seem to be aligned with the customer in three of them, for the customer pillar the group aims to deliver superior customer experiences, the profit pillar they aim to improve the flow of goods from source to the customer, and finally for the growth pillar Foschini aims to deliver an integrated, secure omnichannel customer

experience across its various brands (Foschini, 2016a). The business also includes excellent service as part of its value system which states the following: “Our customers are our future – we look after them” (Foschini, 2016c). Furthermore, the group also ventured online which allows customers further access to their brands online (Foschini, 2016a). The Retail Academy of the group aims to achieve greater customer service through its training programmes (Foschini, 2016a).

#### *4.5.1.2 Employees*

Employees form part of the primary stakeholder group that Foschini sees as key to delivering its products and services (Foschini, 2016a). As shown in Table 4.15 and Figure 4.6 employees form 31% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 34% which decreased to 33% in 2013. This then increased to 36% in 2014 and then decreased to a value of 25% in 2015. The last value in the study is for 2016 at 24%. The group’s engagement intent with employees aims to maximise productivity and efficiency and to reduce staff turnover (Foschini, 2016a). To enable Foschini to become an employer of choice the group offers attractive incentives, market related salaries and supportive environments (Foschini, 2016a). In 2016, the group invested in 116 043 training interventions for employees at a cost of R124.9 million (Foschini, 2016a). Training amounted to 3.9% of the groups payroll cost for 2016 (Foschini, 2016a). In terms of employment equity the group remains committed to transformation with 92.25% of staff being from designated groups as at March 2016 (Foschini, 2016a). This is up from March 2015 which had a 91.7% representation (Foschini, 2015). Foschini also offer in-house medical aid schemes to employees which require lower contributions from lower earning staff (Foschini, 2016a).

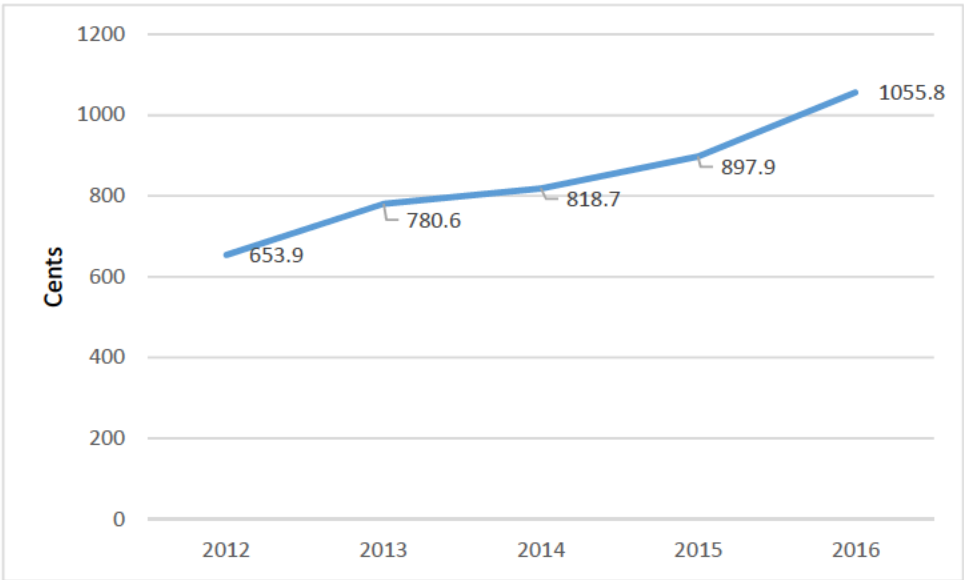
#### *4.5.1.3 Suppliers*

Merchandise suppliers form part of Foschini's primary stakeholder group (Foschini, 2016a, Foschini, 2015). Furthermore, improving supply chain capability, purchasing processes and response times from suppliers, forms part of Foschini's profit key strategic pillar (Foschini, 2016a). As shown in Table 4.15 and Figure 4.6 suppliers form 6% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 11% which decreased to 4% in 2013. In 2014 this value was the same as the previous year at 4% and in 2015 decreased to 3%. The last value in the study is for 2016 at 4%. In the groups effort to ensure a sustainable market Foschini aims to develop an ethical local supply chain (Foschini, 2016a). This also allows the group to better manage exchange rate fluctuations allowing them to focus on supplier negotiation and measurement (Foschini, 2016a). To mitigate the risk of changing economic conditions the group includes in its supply chain strategy the ability to source from alternate suppliers (Foschini, 2016a). In 2012, the group purchased Prestige Clothing a clothing manufacturing supplier in an effort to cater for customers changing needs during the in-season fast-fashion merchandise periods (Foschini, 2012). The group also embarks on continuously measuring the performance of suppliers and grading them based on this, a move that began in 2013 with a formalised review and measurement process (Foschini, 2016a, Foschini, 2013).

#### *4.5.1.3 Investors (Shareholders)*

The annual integrated report of Foschini, although aimed at all stakeholders, is primarily aimed at shareholders (Foschini, 2016a). As shown in Table 4.15 and Figure 4.6 shareholders form 18% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 10% which increased to 18% in 2013. In 2014 this decreased to 13% which then increased by 10 percentage points to a value of 23% in 2015. The last value in the study is for 2016 at 28%,

representing a 5 percentage point increase from the value in 2015. The word frequency for shareholders is significantly lower than both customers and employees, with values of 36% and 30% respectively. Figure 4.6 displays headline earnings per share performance that exceeds expectations in the current economic environment. Headline earnings per share increased with a compounded growth rate of 14.5% this against a 2.1% gross domestic product growth rate for South Africa in the same period (Foschini, 2016a).

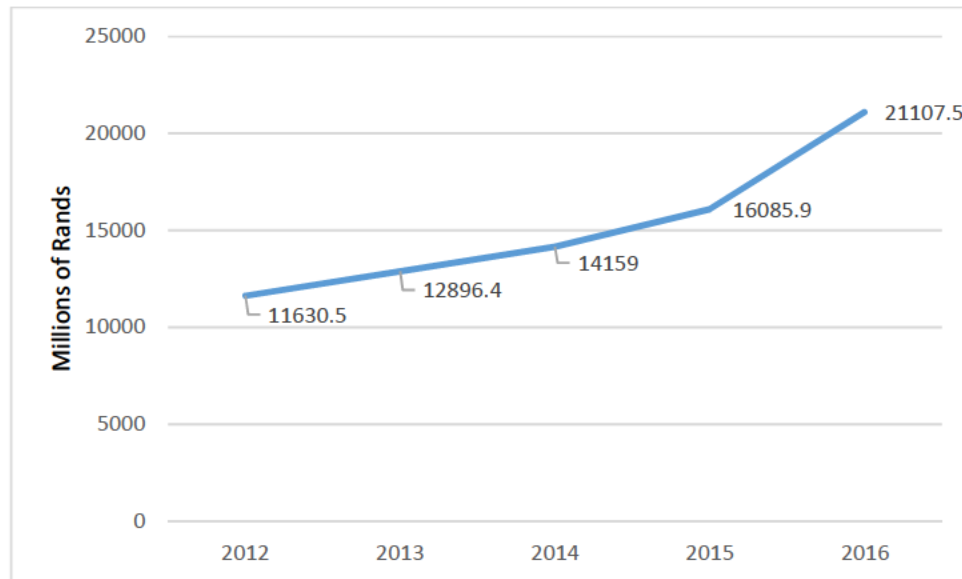


**Figure 4.6 Foschini’s headline earnings per share for the period 2012 to 2016**

Source: Author compiled using data from Foschini (2012, 2013, 2014, 2015, 2016a)

Michael Lewis, chairman of the group, states the following “the board believes that the strategic initiatives undertaken over the last two years position the group well to deliver increased shareholder value over the medium to long term” (Foschini, 2016b). Furthermore, the group created value for shareholders by reinvesting R1.8 billion into future expansion and growth with R1.3 billion paid to shareholders (Foschini, 2016a). The Foschini group’s turnover was up 31.2% in 2016 to a value of R21.1 billion as seen in figure 4.7. Figure 4.7 also shows consistent growth over the period 2012 to 2016 with a spike in the growth rate

from 2015 to 2016. These results show that the Foschini group is creating value for its shareholders.



**Figure 4.7 Foschini's retail turnover in millions of rands for the period 2012 to 2016**

Source: Author compiled using data from Foschini (2012, 2013, 2014, 2015, 2016a)

#### 4.5.1.5 Society

The group, in an attempt to create sustainable value, supports communities by providing support to small businesses, promoting entrepreneurial opportunities and providing employment in local communities (Foschini, 2016a). As shown in Table 4.15 and Figure 4.6, society forms 3% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 4% which decreased to 2% in 2013. This then maintained its value of 2% for the period 2012 to 2016. Although supporting evidence that focusses on society as a stakeholder is found in the 2016 annual integrated report. Firstly, through the groups in-house manufacturing, it created 191 jobs in South Africa for 2016 (Foschini, 2016a). Additionally goods to the value of R27.4 million

rand were donated by the TFG Foundation to the Feel Good Store project and donations of R7 million across 49 organisations (Foschini, 2016a). The aim of these donations were to earn the trust of the communities in which they operate (Foschini, 2016a). Table 4.17 shows the groups corporate social investment for the period 2012 to 2016. Corporate social investment spend increased from R4.7 million in 2012 to R7 million in 2016, with merchandise donations totalling R164 million for the period 2012 to 2016.

**Table 4.16 Summary of Foschini’s CSI activity for the period 2012 to 2016**

	2012	2013	2014	2015	2016	Total
CSI total spend (Rm)	4.7	5	5.3	8.6	7	30.6
Merchandise donations: Feel Good Project (Rm)	22.8	47	35	32.1	27.4	164.3

Source: Author compiled using data from Foschini (2012, 2013, 2014, 2015, 2016a)

#### *4.5.1.6 Environment*

The group integrates resource efficiency initiatives in its operations with the aim of decreasing natural capital and carbon emissions. As shown in Table 4.15 and Figure 4.6 the environment forms 8% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. The word frequency count for 2012 was 4% which increased to 9% in 2013. This further increased to 10% in 2014 which then dropped to a value of 8% in 2015. This then increased to a value of 9% for 2016. Table 4.17 provides a summary of the group’s environmental statistics for the period 2012 to 2016. The groups water consumption significantly increased from 46 449 kilolitres in 2012 to 76 618 kilolitres in 2014 before declining to 58 924 kilolitres in 2016. Foschini’s carbon footprint decreased from 213 424 tonnes in 2012 to 207 301 tonnes in 2016 and its electricity usage declined from 165 million kilowatt-hours in 2012 to 156 million kilowatt-hours in 2016. It is clear from these statistics that the group is making a concerted effort to reduce its impact on the environment.

**Table 4.17 Summary of environmental statistics for Foschini for the period 2012 to 2016**

	2012	2013	2014	2015	2016
Carbon footprint (tonnes CO <sub>2</sub> e) Total emissions	213,424	201,837	207,332	213,382	207,301
Water consumption (kilolitres)	46,449	67,302	76,618	64,481	58,924
Purchased electricity usage (kilowatt-hours)(millions)	165	150	152	156	156

Source: Author compiled using data from Foschini (2012, 2013, 2014, 2015, 2016a)

Note: electricity usage for stores, distribution centres and offices, water consumption for head offices and distribution centres.

#### **4.5.2 Sustainability**

The groups sustainability strategy was created in 2011 with external advisors being involved in an extensive review in 2014 (Foschini, 2012, Foschini, 2013, Foschini, 2014). Furthermore, during the 2016 financial year the group engaged in a strategic shift towards a goal of shared value (Foschini, 2016a). The Foschini shared value strategy involves creating value for all stakeholders (Foschini, 2016a). The strategy focuses on supply chain development with priority given to the South African local industry (Foschini, 2016a). Core to its shared value principle are four strategic objectives namely socioeconomic development, resource efficiency, employee empowerment and governance, ethics and accountability (Foschini, 2016a). The group has also created a sustainability reporting framework which includes reporting on material issues such as social, environmental and governance issues.

### ***4.5.3 Summary and Conclusion***

The analysis above shows that the Foschini group has identified all the key stakeholders as well as developed strategies to engage with them. The group focuses a lot on customers and employees with those stakeholders accounting for 66% of the stakeholder word frequency total. Customer focus has been included at all levels of the business and has been included in their vision, strategy and values. The group also includes a sustainability strategy that concentrates on long term value creation. As shown in Table 4.15 and Figure 4.6, customers form 35% of the stakeholder frequency total in their annual integrated reports for the period 2012 to 2016. This is the highest word frequency percentage of all stakeholders. Furthermore, deeper content analysis reveals that the company does focus strongly on customers. It has been concluded that the Foschini group's prevailing corporate objective closely resembles that of the entity maximization and sustainability model with a major focus on customers.

### **4.6 Overall Conclusion**

The entity maximisation and sustainability approach appears to be the dominant model for the companies listed on the JSE in the apparel retail sector for the period 2012 to 2016. Each company however places different levels of emphasis on the key stakeholders Truworths focussed on employees, Holdsport focussed on shareholders with a differentiation strategy, Mr Price focussed on shareholders with a low cost strategy and finally Foschini focussed on customers. The next chapter analyses the financial statements of the business's and determines which company's model generates better performance in terms of the profitability ratios.

# CHAPTER FIVE

## PROFITABILITY ANALYSIS

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### 5.1 Introduction

The previous chapter established the entity maximisation model as the dominant model that all four companies (Truworths, Mr Price, Foschini, and Holdsports) appear to follow using the data contained in their annual reports for the period 2012 to 2016. Additionally this study revealed that the companies focussed with varying levels on the different stakeholders as follows:

- Truworths placed the most emphasis on employees for the period 2012 to 2016 with them contributing 29% of the stakeholder word frequency total in the annual reports.
- Holdsports placed the most emphasis on shareholders for the period 2012 to 2016 with them contributing 36% of the stakeholder word frequency total in the annual reports.
- Mr Price placed the most emphasis on shareholders for the period 2012 to 2016 with them contributing 28% of the stakeholder word frequency total in the annual reports.
- Foschini placed the most emphasis on customers for the period 2012 to 2016 with them contributing 35% of the stakeholder word frequency total in the annual reports.

To determine which variant of the model was associated with the highest profitability, the study uses financial ratio analyses. The financial ratios used are profitability ratios namely gross profit percentage, net profit percentage, return on assets, return on equity and earning per share. In this chapter, each profitability ratio is described and calculated using the

financial statements found in the annual integrated reports for the period 2012 to 2016. A conclusion is then drawn on which of the company's was most profitable.

## **5.2 Ratio Analysis**

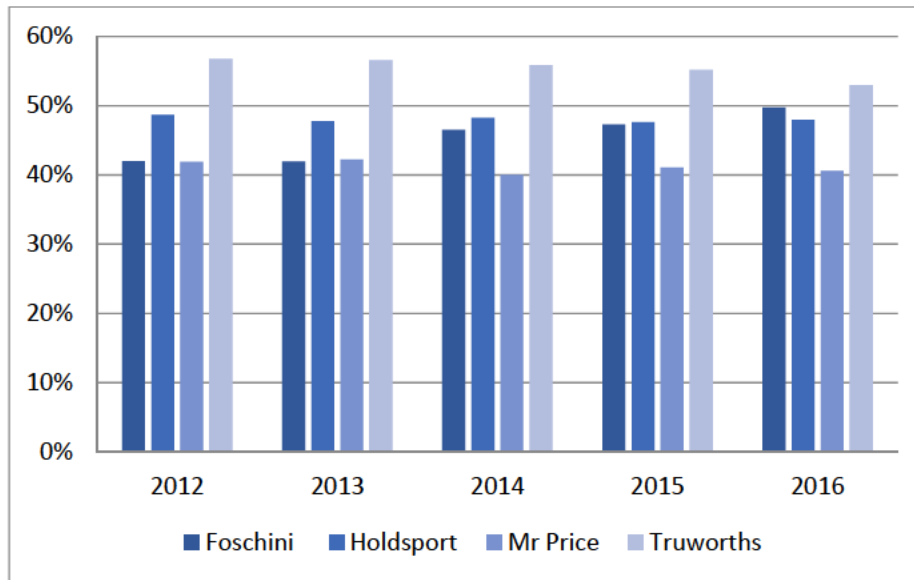
### ***5.2.1 Gross Profit Percentage***

Gross profit percentage, also known as gross profit margin, is calculated by dividing gross profit by revenue (Kew and Watson, 2012). To calculate gross profit, revenue is subtracted from the cost of goods sold. There are multiple levels of profitability analysis and this first level ratio allows the ability to judge how effective the company is at selling its products (Investopedia, 2017b). A company that operates with a sufficient operating gross profit margin is able to cover its operating expenses (Kokemuller, 2017). Without drastic change to the company's existing business model, a company's gross profit margin should have a low level of variability. Gross profit percentage can be influenced by many factors including market environments or a change in the company's pricing strategy. Simply increasing the price of products will increase gross margin if product demand is able to remain constant. This is an unlikely situation in the real world as consumers may not purchase the products if they are too expensive.

**Table 5.1 Gross profit percentages for apparel retail sector companies from 2012 to 2016**

	2012	2013	2014	2015	2016	Mean	SD	Rank	Trend	Slope
Foschini	41.96%	41.90%	46.47%	47.26%	49.72%	45.46%	3.07%	3	Positive	2.1
Holdsport	48.63%	47.77%	48.22%	47.58%	47.93%	48.02%	0.37%	2	Negative	-0.2
Mr Price	41.85%	42.23%	40.01%	41.07%	40.57%	41.14%	0.81%	4	Negative	-0.4
Truworths	56.74%	56.57%	55.85%	55.18%	52.94%	55.46%	1.37%	1	Negative	-0.9

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)



**Figure 5.1 Gross Profit Percentage for listed apparel retail companies from 2012 to 2016**

Truworths (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)

Table 5.1 and Figure 5.1 show that all companies have not exhibited any significant change in the standard deviation of the data for the period 2012 to 2016. The largest standard deviation value for gross profit margin was recorded by Foschini with a value of 3.07%, all other companies show very little deviation from the mean with values well below 2% for the standard deviation. Truworths achieved the highest gross profit margin for 2016 with a value of 52.94%, although Truworths has also shown a steady decline over the period 2012 to 2016. Foschini on the other hand has been able to achieve growth in gross profit percentage from 41.9% in 2013 to 45.46% in 2016.

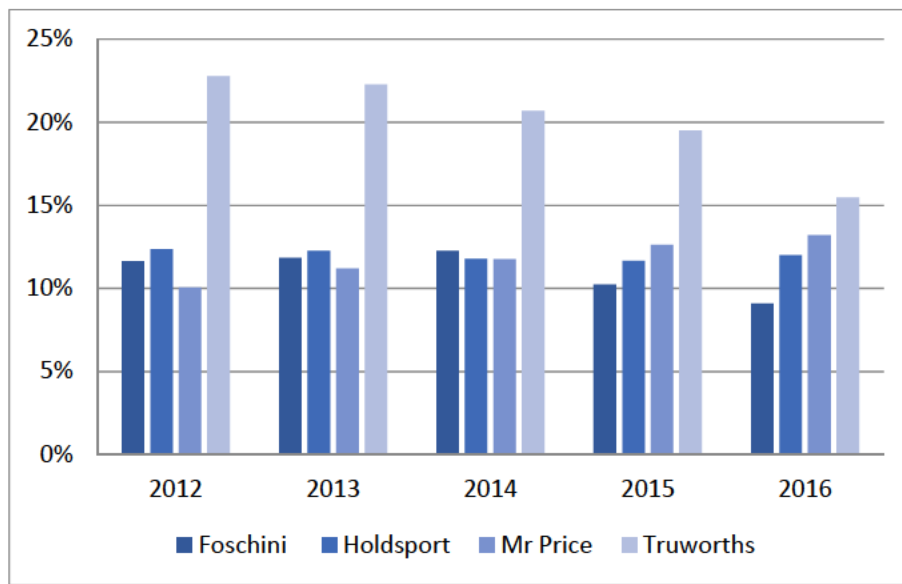
### ***5.2.2 Net Profit Percentage***

Net profit percentage also known as net profit margin is calculated by dividing a company's net profit by its revenue (Kew and Watson, 2012). Net profit is calculated by subtracting total revenue by total expenses. A small profit percentage does not necessarily result in low profits. Shareholders may still enjoy high returns with low net profit margins (Investopedia, 2017e). This is a result of net profit margin being a percentage and not a currency value. As a result, businesses with larger operations reporting lower net profit margins than smaller businesses may actually have a much higher net profit (Investopedia, 2017e). The advantage of the percentage value is that it allows comparison of companies of different sizes. Net profit margin is a good indicator of profitability as all costs have been accounted for. It is often monitored by financial analysts as it provides insight into how effectively revenue is being used to generate profits for shareholders (Investing Answers, 2017)

**Table 5.2 Net profit percentages for apparel retail sector companies from 2012 to 2016**

	2012	2013	2014	2015	2016	Mean	SD	Rank	Trend	Slope
Foschini	11.64%	11.83%	12.25%	10.23%	9.08%	11.01%	1.18%	4	Negative	-0.7
Holdsport	12.36%	12.26%	11.77%	11.67%	11.99%	12.01%	0.27%	2	Negative	-0.1
Mr Price	10.04%	11.20%	11.75%	12.63%	13.21%	11.76%	1.11%	3	Positive	0.8
Truworths	22.78%	22.28%	20.67%	19.49%	15.45%	20.13%	2.62%	1	Negative	-1.7

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)



**Figure 5.2 Net Profit Percentage for listed apparel retail companies from 2012 to 2016**

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)

Table 5.2 and Figure 5.2 show that Truworths net profit margin was the highest for the period 2012 to 2016, with a net profit margin starting at 22.78% for 2012 and eventually falling to 15.45% in 2016. Foschini, Holdsport and Mr Price showed a more consistent performance with very low variance with standard deviations not exceeding 1.18%. Mr Price was the only company able to display consistent growth over the entire period with a value of 10.04% for 2012 which increased every year with a final value of 13.21% for 2016. Holdsport suffered a gradual decrease for the period 2012 to 2015 with values falling from 12.36% to 11.67%, and only moderate recovery was seen in 2016 with a value of 11.99%. The Foschini group's net profit margin increased between the periods 2012 to 2014 but fell rapidly between the periods 2014 to 2016 with the value of net profit margin falling from 12.25% to 9.08%. Truworths is clearly seen as the outlier with much larger net profit margins relative to the other companies.

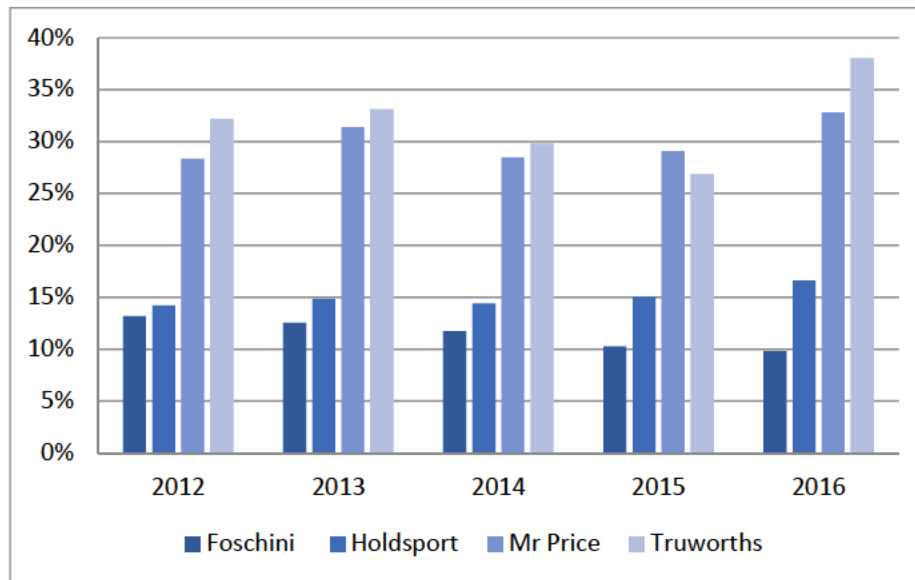
### ***5.2.3 Return on Assets***

This profitability measure measures a company's profitability relative to its assets (Kew and Watson, 2012). The formulae used to calculate return on assets is simply net income divided by total assets. The return on assets formula gives insight into how effectively the company under observation is using assets to generate profit (Investopedia, 2017f). Results from this ratio is dependent on the industry and can result in a high variance for listed companies (Investopedia, 2017f). It is therefore important to focus on companies that belong to the same industry when comparing results. Investors monitor this value as it provides information on how effectively a company is converting capital into income. A higher value is more desirable as it shows that a company is able to generate more income on less investment (Investopedia, 2017f).

**Table 5.3 Return on assets for apparel retail sector companies from 2012 to 2016**

	2012	2013	2014	2015	2016	Mean	SD	Rank	Trend	Slope
Foschini	13.16%	12.52%	11.72%	10.24%	9.76%	11.48%	1.30%	4	Negative	-0.9
Holdsport	14.19%	14.83%	14.38%	15.03%	16.60%	15.00%	0.85%	3	Positive	0.5
Mr Price	28.33%	31.39%	28.45%	29.05%	32.77%	29.99%	1.77%	2	Positive	0.7
Truworths	32.17%	33.12%	29.79%	26.86%	38.00%	31.99%	3.70%	1	Positive	0.5

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)



**Figure 5.3 Return on assets for listed apparel retail companies from 2012 to 2016**

Source: Author compiled using data from Truworths (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)

Table 5.3 and Figure 5.3 show that Truworths performed the best for the periods 2012, 2013, 2014 and 2016 with values 32.17%, 33.12%, 29.79% and 38%. Mr Price performed the best in 2015 with a value of 29.05%. Truworths also had the highest level of variance with a standard deviation value of 3.70%. The Foschini group performed consistently lower than the other companies during the period 2012 to 2016. The final value recorded for Foschini for 2016 was 9.76%. Both Mr Price and Truworths utilised their assets much more efficiently than Holdsport's and Foschini. Mr Price and Truworths mean values hovered at around 30% while Holdsport's and Foschini had values of 15% and 11.48% respectively. Holdsport return on assets increased for the period 2014 to 2016 ending on a value of 16.60%. Only moderate levels of variance were experienced for Holdsport with a standard deviation value of 0.85%.

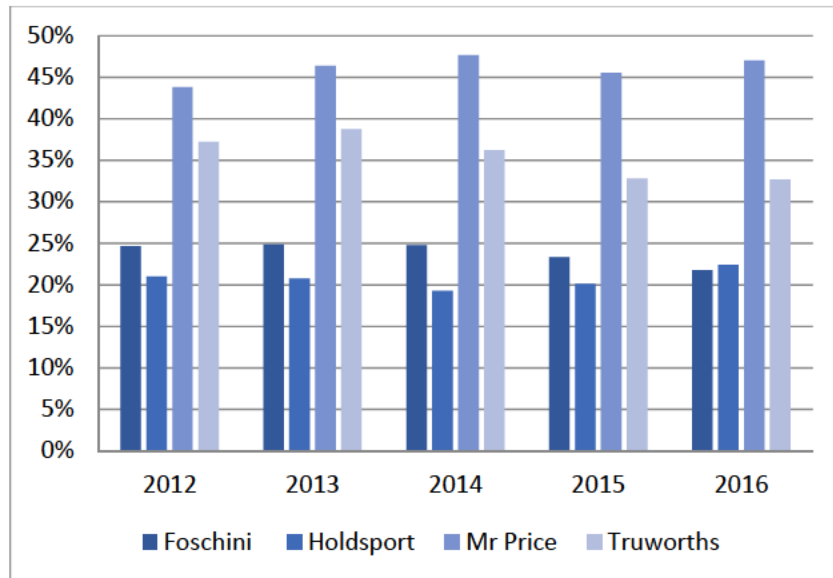
#### ***5.2.4 Return on Equity***

The return on equity ratio is calculated by dividing net income by total equity. It provides more detail on how much profit was generated relative to the amount of money invested by shareholders (Investopedia, 2017g). Investors monitoring the return on equity profitability ratio look for higher values as this indicates that their investment capital is being used effectively (Gregory, 2015). Many investors focus on return on equity, Warren Buffet has indicated that this is one of his favourite metrics (Investopedia, 2017g). The critical aspect that investors are attracted to is the fact that it provides insight into the efficiency with which a company generates profits using the available equity (McClure, 2017). An important aspect to note on return on equity is that it doesn't provide information on the businesses current debt status. A company with excessive debt has less equity available and therefore a higher return on equity (McClure, 2017). As previously mentioned no single profitability metric should be viewed in isolation or be described as a perfect tool. By comparing companies in the same industry sector with a minimum five year average return on equity the study can provide invaluable insight into which companies are able to generate shareholder value (McClure, 2017).

**Table 5.4 Return on equity for apparel retail sector companies from 2012 to 2016**

	2012	2013	2014	2015	2016	Mean	SD	Rank	Trend	Slope
Foschini	24.65%	24.86%	24.78%	23.33%	21.79%	23.88%	1.19%	4	Negative	-0.7
Holdsport	21.01%	20.73%	19.28%	20.10%	22.40%	20.70%	1.04%	3	Positive	0.2
Mr Price	43.76%	46.35%	47.60%	45.51%	47.01%	46.05%	1.34%	1	Positive	0.6
Truworhts	37.20%	38.72%	36.22%	32.78%	32.66%	35.52%	2.42%	2	Negative	-1.5

Source: Author compiled using data from Truworhts (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)



**Figure 5.4 Return on equity for listed apparel retail companies from 2012 to 2016**

Source: Author compiled using data from Truworhts (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)

Table 5.4 and Figure 5.4 show that the Mr Price group performed better than all other companies under investigation for the period 2012 to 2016. The business was capable of delivering a significantly higher return on equity than others, for the year 2016 Mr Price had a value of 47.01%, Truworths 32.66%, Foschini 21.79% and Holdsport with a final value of 22.4%. All companies maintained a relatively low variance with standard deviation values not exceeding 2.42%. Interesting to note is that Truworths showed a steady decline for the period 2013 to 2016 with values dropping from 38.72% to 32.66%. Truworths also showed the highest level of variance with a standard deviation value of 2.42%. Foschini and Holdsport had a significantly lower level for its return on equity when compared to Mr Price and Truworths group. The Foschini group also displayed a steady decline for the same period that Truworths experienced a decline, for the period 2013 to 2016, with values dropping from 24.86% to 21.79%. Mr Price is the clear winner in this category with it being able to perform better than all other companies with a mean return on equity value of 46.05% and a standard deviation of 1.34%.

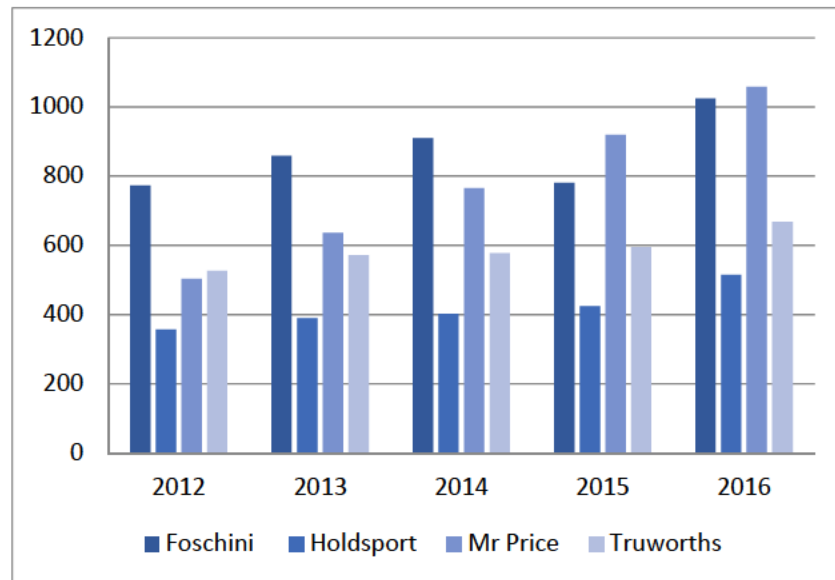
### ***5.2.5 Earnings per Share***

Headline earning per share was used to compare the companies for the period 2012 to 2016. Investors use headline earning per share as a stringent comparison tool comparing different companies as the measure uses a standard measure for net income (Investopedia, 2017c). Earnings per share is calculated by dividing profit by the number of shares in issue (Kew and Watson, 2012). An important note when using earnings per share is the amount of capital required to generate the profit used in the calculation above. Companies may have the same earning per share but the amount of equity used to generate the specific value may differ, as such a company with the lower value of equity is seen as more desirable (Investopedia, 2017a).

**Table 5.5 Earnings per share for apparel retail sector companies from 2012 to 2016**

	2012	2013	2014	2015	2016	Mean	SD	Rank	Trend	Slope
Foschini	772.00	858.60	908.90	780.30	1024.00	868.76	92.74	1	Positive	42.6
Holdsport	355.80	389.90	401.50	423.40	513.90	416.90	53.20	4	Positive	35.0
Mr Price	503.00	635.50	765.10	919.70	1057.80	776.22	197.20	2	Positive	139.4
Truworhts	526.70	570.80	576.80	593.80	667.60	587.14	45.92	3	Positive	30.5

Source: Author compiled using data from Truworhts (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)



**Figure 5.5 Earnings per share for listed apparel retail companies from 2012 to 2016**

Source: Author compiled using data from Truworhts (2012a, 2013a, 2014a, 2015b, 2016b), Holdsport (2012, 2013, 2014, 2015, 2016a), Price (2012, 2013, 2014, 2015, 2016a), Foschini (2012, 2013, 2014, 2015, 2016a)

The best performing company for the year 2016 was the Mr Price group with a value of 1057.80 cents. The company displayed exceptional growth for the period 2012 to 2016 with its headline earning per share more than doubling with values for 2012 moving from 503 cents to 1057.80 cents in 2016. Mr Price had a standard deviation of 197.20 cents which is a result of its rapid increase in headline earnings per share values. Foschini also displayed a large increase for the period 2012 to 2016 with its value only dropping in 2015 and then recovering in 2016, its value of 772 cents for 2012 increased to 1024 cents by 2016. In line with the industry trend of increasing value Holdsport showed consistent price increases for the period 2012 to 2016, although the level of this increase was less aggressive when compared to Foschini and Mr Price as indicated by its 53.2 cents standard deviation. Truworths value increased from 2012 to 2016 with values of 526.70 cents for 2012 and 667.60 cents for 2016. Truworths variance was also the lowest with a standard deviation value of 45.92 cents.

### **5.3 Conclusion**

A summary of the results from the profitability ratios can be found in Table 5.6 below. The table was constructed by calculating the mean for the period 2012 to 2016 for each of the profitability ratios and then ranking the results based on the best performing value to the worst performing value.

**Table 5.6 Ranking of each apparel retail sector company from 2012 to 2016**

Rank	Gross Profit Percentage	Net Profit Percentage	ROA	ROE	EPS
1	Truworths	Truworths	Truworths	Mr Price	Foschini
2	Holdsport	Holdsport	Mr Price	Truworths	Mr Price
3	Foschini	Mr Price	Holdsport	Foschini	Truworths
4	Mr Price	Foschini	Foschini	Holdsport	Holdsport

**Table 5.7 Apparel retail sector companies ranked on profitability performance**

Rank	Company	Position Total	Number of negative trends
1	Truworths	$1+1+1+2+3 = 8$	3
2	Mr Price	$4+3+2+1+2 = 12$	1
3	Holdsport	$2+2+3+4+4 = 15$	2
4	Foschini	$3+4+4+3+1 = 15$	3

Table 5.7 presents data which ranks the company's based on their positions in Table 5.6 and the number of negative trends for each financial ratio. As a lower financial ratio position and a lower number of negative trends indicate better performance, the companies are then ranked in ascending order, based on position total and then the number of negative trends, as shown in Table 5.7.

Based on the results above, Truworths performed the best with a corporate objective that appeared to apply the entity maximisation and sustainability model with focus on its employees. Mr Price followed, with an entity maximisation model that focused on its shareholders. Finally, Holdsport followed in third position with Foschini taking last position, both companies appear to follow the entity maximisation model although with different emphasis with Holdsport focussing on shareholders and Foschini on customers. It is important to note that various other factors other than the corporate objective of a company and its strategy affect profitability. The corporate objective model is a single

contributing factor, other factors and the magnitude with which they influence profitability is beyond the scope of this dissertation.

The next chapter is the conclusion. It contains a summary of the findings as well as recommendations for future studies.

# CHAPTER SIX

## CONCLUSIONS AND RECOMMENDATIONS

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### **6.1 Introduction**

This chapter provides a conclusion to this study including any recommendations resulting from this study and recommendations for future studies.

The main purpose of this study was to analyse the annual integrated reports of JSE listed companies in the apparel retail sector to determine their corporate objective. The annual integrated reports of Truworths, Holdsports, Mr Price and Foschini were collected for the period 2012 to 2016. These four companies are listed on the JSE under the apparel retail sector. The information gathered was then analysed using content analyses and financial ratio analyses, with the content analyses providing insight into the corporate objective of the company and the financial ratio analyses providing profitability performance measures.

### **6.2. Summary of findings**

There are five objectives in this study listed below:

1. To examine the literature on the three models in order to identify themes and major identifiers for the shareholder value principle, the stakeholder model (conscious capitalism) and the entity maximization and sustainability models.
2. Analyse the annual integrated reports of the companies listed in the apparel retail sub sector on the JSE for the period 2012 to 2016 in order to identify key focus areas that could link to the three main models.

3. Based on the information found from analysing the annual integrated reports determine which of the three models each company listed in the apparel retail sector on the JSE appears to be following.
4. Determine if there is a dominant model in the apparel retail sub sector on the JSE and if so which one.
5. Analyse the financial statements included in the annual integrated reports and using profitability ratios determine which model is associated with higher profitability for the selected companies.

The results of this study based on each objective are discussed below:

#### ***6.2.1. Objective One***

The first objective was to examine the literature to identify themes and major identifiers in the shareholder value principle, the stakeholder model and the entity maximization and sustainability models. In the literature review of chapter 2 the study analysed and contrasted these models.

The emphasis of each model differed significantly. The shareholder value principle focussed on a single stakeholder being the shareholder and as a result placed emphasis on profit maximisation. The stakeholder model focusses on the needs of all stakeholders and not just that of shareholders. A complexity as a result of this is the need to balance multiple objective functions rather than a single function of maximizing shareholder wealth as described by the shareholder paradigm. The final model discussed was the entity maximisation and sustainability model. This model differs in that its objectives focus on the business entity itself and not on people as in the case of the shareholder principle and stakeholder model. The entity maximisation and sustainability model consists of two key elements. Firstly the primary goal is to maximise the entity, and with this goal emphasis is not only placed on financial performance and instead requires fostering common interests

of all stakeholders. The second element is to ensure sustainability; the goal here is to ensure the long term existence of the entity.

It was therefore concluded that the three models had differing focus, both the shareholder model and the stakeholder model focussed on different stakeholders with the shareholder model only focussing on shareholders and the stakeholder model focussing on all stakeholders. The entity maximisation and sustainability model required focus on stakeholders with the added notion of sustainability. Consequently further research was done to identify key stakeholders. The key stakeholders identified were customers, employees, suppliers, investors (shareholders), society and the environment. The major themes and identifiers used for the research was as a result to investigate how each company in the apparel retail sector contributed towards each key stakeholder and what efforts were made towards long term sustainability.

### ***6.2.2. Objective Two and Three***

Objective two was to analyse the annual integrated reports of the companies listed in the apparel retail sub sector on the JSE for the period 2012 to 2016 in order to identify key focus areas that could link to the three main models (the shareholder value principle, the stakeholder model and the entity maximization and sustainability models). To achieve this objective, the annual integrated reports for the period 2012 to 2016 of the companies listed in the apparel retail sector was analysed to determine which of the six main stakeholders were mentioned. For each mentioned stakeholder a narrative was provided showing the level of engagement for that specific stakeholder. The annual integrated reports were also used to check if there was any mention of sustainability as well as provide more detailed insight into how sustainability was achieved. The results of this study show that all four companies listed on the JSE in the apparel retail sector have mentions on all key stakeholders as well as detail on sustainability plans.

Objective three builds on the results obtained in objective two. Based on the information found from analysing the annual integrated reports determine which of the three models each company appears to be following. Chapter four provides more detail on the results of the investigation into the level of focus on stakeholders and sustainability that Truworths, Holdsport, Mr Price and Foschini. It concludes by providing detail on what model the companies appear to be following. Tables 6.1, 6.2, 6.3 and 6.4 provide a summary of the results found in chapter 4.

**Table 6.1 Summary of content analysis results for Truworths from 2012 to 2016**

<p>Customers Frequency: 712 times (27% mention)</p>	<p>Customers form part of Truworths key stakeholders. Customers form one of the three pillars in the company’s vision statement. The group further expanded its reach to customers with its Omni-channel retail project easing the effort of shipping at retail outlets and offering technology solutions with a relaunch of the group’s website in 2016. The Truworths group active account holders increased from 2.4 million customers in 2012 to 2.7 million customers in 2016.</p>
<p>Employees Frequency: 789 times (29% mention)</p>	<p>Employees are one of the key stakeholders identified by Truworths. Truworths in their effort to drive their strategic purpose and direction harness the energy and passion of their employees by aligning their efforts using the business philosophy. All employees in the group are encouraged to realise their full potential. Employee health and wellness is an important focus of the business with all employees being members of the Wooltru Healthcare Fund or Momentum Health. The number of employees trained increased from 9800 in 2012 to 10682 in 2016.</p>
<p>Suppliers</p>	<p>Suppliers do not form part of Truworths key stakeholders but</p>

Frequency: 236 times (9% mention)	are still regarded as an important stakeholder. Truworthis strongly supports the manufacture of goods locally as this results in a shorter time to market which is seen as a critical characteristic of a high fashion retailer that needs to rapidly respond to customers changing purchasing patterns. In 2015 Truworthis introduced the supplier scorecard to measure existing performance and to identify potential areas that should be improved.
Investors (Shareholders) Frequency: 653 times (24% mention)	The operations of Truworthis are aligned to target investors looking to take advantage of the growing South African middle class and retail sector. The group returned to shareholders R 8.8 million in dividends and share buy backs for the period 2012 to 2016. Headline earning per share with values increased from 526.7 cents in 2012 to 667.6 in 2016.
General Society Frequency: 102 times (4% mention)	A significantly large portion of Truworthis CSI funding has been directed at improving the healthcare sector. Over the last 6 years Truworthis has donated more than R10 million towards hospital projects.
Environment Frequency: 206 times (8% mention)	For the 2016 reporting period Truworthis was able to achieve a 1.1% reduction in electricity consumption per square meter, this result equated to a 162 ton decrease in carbon dioxide
Sustainability	Truworthis has identified that human and technology factors are critical to the sustainability of the business. The Truworthis group qualified to be included in the JSE Socially Responsible Investment Index which recognises the businesses sustainability and governance practices.
Conclusion	Truworthis appeared to be following the EMS model with focus on employees.

**Table 6.2 Summary of content analysis results for Holdsport from 2012 to 2016**

<p>Customers Frequency: 214 times (13% mention)</p>	<p>Throughout 2013, with the economies stifled growth, Holdsport was committed in its mission of providing new and innovative products to its customers. The company further bolstered its communication strategy with both electronic and online initiatives. In 2014 management investigated further expansion into internet sales thereby improving its customer reach.</p>
<p>Employees Frequency: 584 times (36% mention)</p>	<p>Holdsport strives to attract employees who are leaders and talented employees and who also possess characteristics such as skill, motivation, energy and passion. Holdsport adopted the Holdsport Forfeitable Share Plan; this allows employees to receive shares with the purpose of aligning the interests of employees with that of shareholders The group increased representation of previously disadvantaged employees for senior management positions from 20.3% in 2012 to 33.8% in 2016.</p>
<p>Suppliers Frequency: 95 times (6% mention)</p>	<p>For the 2012 financial year Holdsport had approximately 100 international and 300 local suppliers. The group buys majority of its products from local suppliers who deliver directly to stores.</p>
<p>Investors (Shareholders) Frequency: 588 times (36% mention)</p>	<p>The total turnover from operations increased from R1 243 million to R1 727 million for 2012 to 2016. Headline earnings also increased for the same period from R153 million to R218 million. Profit before tax showed a similar growth trend with values R217 million and R304 million. The results show consistent incremental growth for the period 2012 to 2016 while creating shareholder value.</p>
<p>General Society</p>	<p>The group focusses on presence and branding at events such as</p>

Frequency: 52 times (3% mention)	large sporting events and selected schools sports days. It also actively involves itself in sporting events which are organised by clubs including using the store as a registration point for various races.
Environment Frequency: 80 times (5% mention)	During construction of its new warehouse the group did consider the environment. Environmentally friendly features included the use of low emission materials handling equipment, energy efficient lighting and heating combined with water efficient plumbing and landscaping.
Sustainability	The group's human resources form part of its sustainability plan with it focussing on industrial relations, employment equity, succession planning and skills development.
Conclusion	Holdspport appeared to be following the EMS model with focus on shareholders (differentiation strategy).

**Table 6.3 Summary of content analysis results for Mr Price from 2012 to 2016**

Customers Frequency: 405 times (24% mention)	Mr Price mentions that its primary purpose is to: "To add value to our customers' lives and worth to our partners' lives, while caring for the communities and environments in which we operate" (Mr Price, 2016b).
Employees Frequency: 370 times (20% mention)	Mr Price offers employees who have been employed for more than a year to participate in the Mr Price Group share or share option schemes. For the 2016 financial year the group invested R34.8 million rand in training, 94% of those employees were black.
Suppliers Frequency: 260 times (15% mention)	For the 2016 financial year 78% of all suppliers form part of the Supplier Ethical Data Exchange programme. The group also focuses on supporting local suppliers and in 2016 sourced 80.5 million units from local suppliers which accounted for

	31%.
Investors (Shareholders) Frequency: 510 times (28% mention)	In 2016 the group paid R1.6 billion rand in dividends to shareholders. Dividends per share increased from 314 cents for 2012 to 667 cents for 2016 while headline earnings per share increased from 503 cents in 2012 to 1057.8 cents in 2016. The group's revenue also showed growth year on year.
General Society Frequency: 83 times (5% mention)	Mr Price contribution to society for 2016 includes having created school programmes that have impacted more than 65 000 learners. Mr Price also has the JumpStart Retail Programme which trained 10 000 youth for the period 2014 to 2016 and resulted in 4300 of them being employed.
Environment Frequency: 124 times (8% mention)	Mr Price has further committed to reduce its carbon footprint, over the period 2014 to 2016 the group reduced its carbon footprint by approximately 32.1 million Kwh or 29 424 tons CO <sub>2</sub> emissions.
Sustainability	The Sustainable Cotton Cluster which involves Mr Price as the founding retailer has created over 400 jobs and through which the company has purchased more than 4.2 million clothing items. The group also prides itself with nurturing talent development and maintains that this is critical to its competitiveness and long term sustainability.
Conclusion	Mr Price appeared to be following the EMS model with focus on shareholders (low cost strategy)

**Table 6.4 Summary of content analysis results for Foschini from 2012 to 2016**

<p>Customers Frequency: 858 times (36% mention)</p>	<p>Foschini aims to deliver an integrated, secure omnichannel customer experience across its various brands. Furthermore the group also ventured online which allows customers further access to their brands online. The Retail Academy of the group aims to achieve greater customer service through its training programmes.</p>
<p>Employees Frequency: 739 times (30% mention)</p>	<p>In 2016 the group invested in 116 043 training interventions for employees at a cost of R124.9 million. In terms of employment equity the group remains committed to transformation with 92.25% of staff being from designated groups as at March 2016.</p>
<p>Suppliers Frequency: 134 times (5% mention)</p>	<p>In the group's effort to ensure a sustainable market, Foschini aims to develop an ethical local supply chain. The group also embarks on continuously measuring the performance of suppliers and grading them based on this, a move that began in 2013 with a formalised review and measurement process.</p>
<p>Investors (Shareholders) Frequency: 440 times (18% mention)</p>	<p>Headline earnings per share increased with a compounded growth rate of 14.5%, this against a 2.1% gross domestic product growth rate for South Africa for the period 2012 to 2016. Furthermore the group created value for shareholders by reinvesting R1.8 billion into future expansion and growth with R1.3 billion paid to shareholders.</p>
<p>General Society Frequency: 61 times (2% mention)</p>	<p>Through the groups in-house manufacturing it created 191 jobs in South Africa for 2016. Corporate social investment spend increased from R4.7 million in 2012 to R7 million in 2016, with merchandise donations increasing from R22.8 million in 2012 to R27.4 million in 2016.</p>

Environment Frequency: 188 times (8% mention)	The groups water consumption significantly increased from 46 449 kilolitres in 2012 to 76 618 kilolitres in 2014 before declining to 58 924 kilolitres in 2016. Foschini's carbon footprint decreased from 213 424 tonnes in 2012 to 207 301 tonnes in 2016 and its electricity usage declined from 165 million kilowatt-hours in 2012 to 156 million kilowatt-hours in 2016.
Sustainability	Foschini focuses on supply chain development with priority given to the South African local industry. Core to its shared value principle are four strategic objectives namely socioeconomic development, resource efficiency, employee empowerment and governance, ethics and accountability.
Conclusion	Foschini appeared to be following the EMS model with focus on customers.

### ***6.2.3. Objective Four***

Using the results of the previous objective, the next objective was to determine if there is a dominant model in the apparel retail sector and if so which one. The results show that all four companies in the apparel retail sector appear to follow the entity maximisation and sustainability model. Each company however places different levels of emphasis on the key stakeholders Truworths focussed on employees, Holdsport focussed on shareholders with a differentiation strategy, Mr Price focussed on shareholders with a low cost strategy and finally Foschini focussed on customers.

### 6.2.5. Objective Five

The final objective of this study was to analyse the financial statements included in the annual integrated reports and using profitability ratios determine which model performed better for the specific company. Five common profitability ratios were used namely gross profit percentage, net profit percentage, return on assets, return on equity and earnings per share. The inputs for the ratios were obtained from the financial statements included in the annual integrated reports for the period 2012 to 2016. Using the results from the profitability ratio analysis the companies were ranked. The rankings based on best performing to worst performing were as follows: First is Truworths, followed by Mr Price in second position, Holdsport in third position and Foschini in fourth position. All four companies listed on the JSE in the apparel retail sector appear to follow the EMS model however each company implements it slightly differently. Consequently the study compares which variant of the EMS model performed better in the profitability ratio analyses.

**Table 6.5 Apparel retail sector companies ranked on profitability performance**

Rank	Company	Model
1	Truworths	EMS (Employees)
2	Mr Price	EMS (Shareholders, low cost)
3	Holdsport	EMS (Shareholders, differentiation)
4	Foschini	EMS (Customers)

Table 6.5 shows us that for the period 2012 to 2016 the Truworths Entity Maximisation and Sustainability model with emphasis on employees performed the best.

### **6.3. Recommendations**

Entity maximisation and sustainability models are still relatively new with companies only recently embracing strategies that include focus on environmental and sustainability issues. Companies need to monitor the latest developments in corporate objective models and ensure their needs are aligned with the needs of modern society as discussed in the EMS model and conscious capitalism. Furthermore this study's results suggest that focussing primarily on the shareholder does not necessarily produce the best outcome for an entity. Truworths which appeared to follow the EMS model with focus on its employees performed the best. The corporate objectives of business entities need to holistically encapsulate and provide for the needs of its various stakeholders to ensure growth and sustainability into the future.

### **6.4. Recommendations for future studies**

Future studies could consider the following research areas:

- A similar study could be applied to other industries listed on the JSE as the current study only focussed on the apparel retail sector.
- The current study was limited to companies listed on the JSE. Future studies could include companies listed on different stock exchanges.
- The relationship between profitability and corporate objective could be studied to determine the magnitude of the relationship and correlation strength.
- This study was limited to documents published by the JSE listed companies on their websites, such as annual integrated reports. Future studies could make use of more information such as marketing publications and content on the website to help determine corporate objective.

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APPENDIX 1  
ETHICAL CLEARANCE

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27 November 2017

Mr Neeraj Ramautar (203505385)  
Graduate School of Business & Leadership  
Westville Campus

Dear Mr Ramautar,

Protocol reference number: HSS/0888/017M

New Project Title: An analysis of annual integrated reports to determine the corporate objectives of companies focused on the apparel retail sector in South Africa

Approval notification – Amendment Application

This letter serves to notify you that your application for an amendment dated 24 November 2017 has now been granted Full Approval as follows:

• Change in Title

Any alterations to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study must be reviewed and approved through an 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 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

Best wishes for the successful completion of your research protocol.

Yours Faithfully



Dr Sharmila Valloor (Deputy Chair)  
Humanities & Social Sciences Research Ethics Committee

/pm

Cc Supervisor: Dr Mihalis Chasomeris  
Cc Academic Leader Research: Dr Muhammad Hoque  
Cc School Administrator: Ms Zarina Sullyra

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Humanities & Social Sciences Research Ethics Committee  
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Website: [www.ukzn.ac.za](http://www.ukzn.ac.za)



Fourteen Campuses: Edgewood Howard College Medical School Pietermaritzburg Westville

## APPENDIX 2

### TURNITIN ORIGINALITY REPORT

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#### Dissertation

##### ORIGINALITY REPORT

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