UNIVERSITY OF KWAZULU-NATAL

An analysis of financial statements to determine the primary purpose of JSE listed companies in the food and drug retail sector

By:
Vanessa Margaret Gregory
Student Number: 205501388

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Graduate School of Business & Leadership
College of Law and Management Studies

Supervisor: Dr. Mihalis Chasomeris

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DECLARATION

I, Vanessa Margaret Gregory declare that

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ABSTRACT

The overall purpose of the study is to analyse financial statements to determine the primary purpose of JSE listed companies in the food and drug retail sector. There were three parts to the analyses. First, the study examines the literature on the three models, namely: neoclassical, conscious capitalism and entity maximization and sustainability in order to identify themes or major identifiers of each model. Second, it analyses the financial statements (over five years from 2010 to 2014) of JSE listed companies in the food and drug retail sector, in particular the non-financial information. The entire population was analysed as there were only four in the population, namely SPAR, Pick n Pay, Shoprite and Clicks. Annual integrated reports and sustainability reports (where separately published) were analysed using content analyses. Keywords and themes were used to link the attributes of the company to the attributes identified in the literature to determine the model the company used. Finally, ratio analyses are used to compare and contrast the results of these companies to observe which company produced the most profitable result over the five year period and to ascertain if a particular model is observed as being associated with a higher profitability than another. The content analyses showed that the dominant model was the entity maximisation and sustainability model, however, each company appears to have chosen to focus on a different stakeholder, SPAR on employees, Pick n Pay on customers (with a differentiation strategy), Shoprite on customers (with a low cost strategy) and Clicks on shareholders. The ratio analyses showed that Clicks performed the best and Pick n Pay the worst over the period from 2010 to 2014. Shoprite and SPAR alternated mostly between second and third position, however by looking at the ranking of each ratio, it appears that Shoprite was showing greater profitability than SPAR. Therefore it was concluded that, over the period from 2010 to 2014, an entity maximisation and sustainability model with a focus on shareholders was observed as being associated with higher profitability.

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LIST OF ABBREVIATIONS

CC	Conscious Capitalism
EMS	Entity Maximisation and Sustainability
CSR	Corporate Social Responsibility
CSI	Corporate Social Investment
JSE	Johannesburg Securities Exchange
GRI	Global Reporting Initiative

CHAPTER ONE

INTRODUCTION

1.1. Introduction

Over the years there have been many different approaches to running businesses and many different goals, aims and schools of thought pertaining to what the ultimate goal or purpose of an entity should be. There has been much research and published literature on models that can be followed by businesses but they ultimately boil down to three types of models: neoclassical, conscious capitalism (CC) and entity maximisation and sustainability (EMS). The research also explores the merits and pitfalls of such models, however, most of the research falls outside of the South African business realm and is rather applied to American or other first world countries. This study therefore focuses on the three main models in a South African context and applies it to a single industry.

The purpose of this chapter is to give an overview and introduction into the proposed study, show what the objectives are as well as the research methodology adopted and any limitations posed by the chosen method of the study.

1.2. Problem Statement and Motivation for Study

The literature presents three types of models that indicate the ultimate purpose of a business. The first of these is the neoclassical model which indicates that the main purpose of an entity is to make profits and therefore the focus solely on the shareholders (Vranceanu, 2014). This model stemmed from Adam Smith in 1776 and is still used in economic theory today (Schiller, 2011). The second of three models is conscious capitalism (CC). This model is a trend in America at present and has been endorsed by Whole Foods CEO John Mackey (Mackey, 2011). However, according to Keay (2008) similar models had been proposed as early as the 1930s. The model is different to the neoclassical in that the focus turns from shareholders to all stakeholders and has the business focussing on a higher purpose as opposed to profits (Mackey, 2011). The last model is the entity maximisation and sustainability (EMS) model. The model has a similar focus to CC as the main focus is to maximise entity wealth (which positively impacts on stakeholders) and maintain the sustainability of the business in the long-term. This model has been researched since the 1960s (Høgevold et al., 2014).

Within the literature on these three models, there was no identified literature exploring which purpose South African companies follow, nor for any particular industry in South Africa. Furthermore, although the literature does explore pitfalls and merits of each model, it is unclear which model is dominantly followed as well as which one is observed as being associated with higher profitability. Therefore the researcher has chosen an industry on the JSE (being the food and drug retail industry) to begin unfolding such issues by investigating annual financial statements.

1.3. Aims and Objectives

The overall purpose of the study is to analyse financial statements to determine the primary purpose of JSE listed companies in the food and drug retail sector.

In order to achieve the overall purpose, the following major objectives have been established:

- To examine the literature on the three models (neoclassical, CC and EMS) in order to identify themes or major identifiers of each model.

- To examine the financial statements (over five years from 2010 to 2014) of JSE listed companies in the food and drug retail sector, in particular the non-financial information, for themes that could link to the identification of any of the three models.
- To prepare an analysis based on the examination of the financial statements that draws a conclusion on which model each company listed in the food and drug retail sector on the JSE appears to be following based on themes identified.
- To establish if there is a dominant model used by companies listed in the food and drug retail sector on the JSE and if so, which one.
- To compare and contrast the results of the companies listed in the food and drug retail sector on the JSE in order to assess performance to determine if a particular model is observed as being associated with a higher profitability than another.

1.4. Research Methodology

A detailed literature review was conducted using secondary data from journals, books and electronic sources (such as websites). The review provided insight into the three models that were present as well as the main stakeholders involved in business and the methods used to report to these stakeholders who are the users of financial statements. It also provided background information into the companies that form part of the food and drug retail sector listed on the JSE.

From the literature review themes, characteristics of each model were identified and similarities across the models noted. These themes were then used to perform a content analysis that drew information from annual reports that were published by all of the four listed entities within the chosen sector. The listed entities are SPAR, Pick n Pay, Shoprite and Clicks. From this content analysis a conclusion was able to be drawn on the model followed by each company within the sector. Ratio analysis was then used to analyse the profitability of each entity to ascertain how well each company was performing and to rank the companies according to their profitability.

1.5. Overview of the Study

The study has followed a standard framework as set out below.

Chapter one gives an introduction into the study. The introduction encompasses a brief background to the study including what the motivation for conducting it was, the research methodology adopted and the limitations and delimitations of the study.

Chapter two provides a detailed literature review in regard to the key aspects of the study. It introduces each model that can be used as a basis for the primary purpose of the business and explores their merits and pitfalls along with research indicating whether a model is observed as being associated with a higher profitability or not. It also explores the stakeholders identified in the literature as well as the types of financial reporting and an industry background.

Chapter three discusses the research methodology of the study in more detail and explains what techniques are available, which have been chosen for this study and how the method has been applied to the study.

Chapter four applies the content analysis methodology and explores each company within the industry in accordance with the identified themes. It presents the data that has been received through the analysis and concludes as to the model that each company is applying over the five year period from 2010 to 2014.

Chapter five applies the ratio analysis methodology and explores the profitability of each of the four companies listed in the food and drug retail sector on the JSE over the five year period from 2010 to 2014 and ranks them accordingly.

Chapter six concludes the study with a summary of the objectives and how these have been met. Recommendations for further studies have also been provided.

1.6. Limitations and Delimitations of the Study

Due to the approach taken for the study, as discussed above, there are a number of limitations and delimitations to the findings that will be reported in the chapters that follow.

- The researcher has decided to only look at annual integrated financial statements and sustainability reports (where available and disclosed separately) for purposes of this study. Such reports contain a summary of company information suitable to draw conclusions. As such, conclusions are based on these summaries.

- The researcher has decided to analyse a five year period from 2010 to 2014. The conclusions are therefore only relevant for the applicable period and further analysis would have to be performed to monitor continued profitability and the business model followed. The researcher is, however, of the opinion that a five year period encompasses a sufficient period from which to be able to draw conclusions as any long-term trend can be identified over a period of five or more years (FinancialDictionary, 2015).

- As a qualitative approach has been used, it is acknowledged that conclusions in the narrative may be subjective.

- With respect to the ratio analysis, it is acknowledged that many factors can impact on the variables used to calculate the profitability ratios of a company (which have been used as an indication of profitability) and that the company objective is only one such variable. Therefore, the fact that one company is more profitable than another does not necessarily mean that that company is more profitable as a direct consequence of their chosen model. However, in this study the objective was merely to observe which model produced better results and not to conclude that the model was directly related to such results.

1.7. Conclusion

This chapter has explored the background of the chosen study including what the motivation for conducting it was, the research methodology adopted and the limitations and delimitations of the study.

The next chapter is the literature review that provides background information on the three models, the stakeholders involved in such models, the reporting frameworks and the background of the four companies in the food and drug sector that are listed on the JSE.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

What is the primary purpose of a business? Is it just to make profits or is there a deeper focus for the entity? If a certain model is followed, could it be associated with higher profitability than another? This has been researched for a countless number of years, probably since the incorporation of any business. There have been numerous ideas proposed throughout literature tracing back to as early as the 1700s from varying sources including businessmen and academics amongst others. The answer, however, was not definitive and appeared to vary from century to century and country to country. In considering the literature presented over the last decade, two common prevailing perspectives have been identified: neoclassical (or shareholder model) (Sundaram and Inkpen, 2004) and conscious capitalism (or the stakeholder model) (Mackey, 2007). A third perspective (the entity maximisation and sustainability model) had recently been proposed that combined aspects from each of the two common perspectives (Keay, 2008).

This chapter explores all three of the main models identified in the literature, namely the neoclassical model, the conscious capitalism (CC) model as well as the entity maximisation and sustainability (EMS) model and illustrates key traits of each model. Stakeholders that have been identified in the exploration of literature will be discussed. The focus of the study is on the JSE food and drug retail sector, therefore information with regard to this sector has also been explored along with reporting requirements and other integrated reporting issues that are associated with the industry.

2.2. Neoclassical Model

The neoclassical model has been a continuing viewpoint braced by economists world-wide. Its foundation in classical economics was initiated after Adam Smith wrote *The Wealth of Nations* in 1776 (Schiller, 2011). The principles that were suggested, and have been at the forefront of economics from that time, were that of profit maximisation by businesses and utility maximisation by consumers. Essentially the model was of supply and demand and showed equilibrium for profit maximisation where a firm's marginal revenue is equal to marginal cost. He proposed that if a market was out of a state of equilibrium, the 'invisible hand' within the market would assist in returning that market back to equilibrium otherwise it would have resulted in either a surplus or deficit within the market (Schiller, 2011). Effectively Smith's view was that self-interested behaviour by individuals and firms would result in moral outcomes for society as a whole (Jones and Felps, 2013).

Economists have encompassed Adam Smith's stated principles and established microeconomic theories around such assumptions. Abdur-Rahman (2011) noted one of the most significant assumptions of the model was that profits were maximised by businesses and that therefore businesses would only produce at equilibrium output in order to guarantee that profits were maximised. However, this did not represent an everyday life situation as the model did not account for such things as time differentials between when costs were sustained and revenues were received and that perfect information was not close at hand either. Loderer et al. (2010) also add to this view indicating that some assumptions under Smith's model such as complete markets, price-taking behaviour, perfect information and zero transaction costs are rarely met in a real-world scenario. Regardless of this disagreement with the model, there was still, however, agreement that the primary objective of any business was to maximise profits.

Ireland (2005), Jones and Felps (2013), Loderer et al. (2010) and Magaro (2010) refer to the model as the shareholder / stockholder model. They proposed that the goal in such a model was solely to maximise profits, profits would then maximise business market value, thereafter result in a maximisation of owner or shareholder wealth, and thus referred to as the shareholder model. Corporate social responsibility (CSR) undertakings would therefore not be incorporated unless shareholders ultimately benefited from such activities (Vranceanu, 2014). CSR would be engaged in with the sole goal of increasing business profits which ultimately would benefit shareholders and therefore be seen as an investment which should produce shareholder benefits regardless of benefits that might be experienced by others in society (Queen, 2015). Keay (2008) added and said that the method was only based on efficiency and productivity, directors would therefore shift their attention to shareholders' wealth instead of CSR (thus eliminating focus on any other stakeholders).

Keay (2008) further illustrated that this outlook had a very short-term focus and such an application would not keep a business going in the long-term. This view was supported by Stout (2013) who indicated that there is incentive for company managers and directors to focus on short-term share prices as opposed to the long-term future of the business. She emphasised that research showed that directors indicated that they would cut expenditure such as that on marketing and product development if it was necessary to reach their earnings despite the fact that long-term performance might be adversely affected. The immediate consequences of these decisions that have been made by directors to steer the short-term often undermine the ongoing ability to create shareholder value (Jones and Felps, 2013). Thus following the shareholder focussed model does not produce the best results as according to Halburd (2014) the model destroys shareholder value and has resulted in the life span of businesses becoming reduced over the past thirty years.

Despite the reservations of the model showed by several studies including Stout (2013), Halburd (2014) and Jones and Felps (2013), other studies such as Elson (2010) and Magaro (2010) produce evidence as to why the shareholder focussed model should still be adopted by businesses. The main support is with reference to the fact that shareholders are owners of businesses and that they in turn receive a residual claim on the business. Magaro (2010) explain that shareholders technically place directors as trustees over their property (being the business) and therefore directors have a duty towards them before any other people. As such, the problem of agency cost (the cost associated with the fact that the directors manage the business and do not necessarily own the business and therefore do not agree with the way forward (BusinessDictionary, 2015a)) is eliminated (Stout, 2013). Magaro (2010) further explain that other stakeholders such as creditors and employees usually have contracts in place with a business. As there is a contract in place, they have fixed claims against the business and in the event that the contract was breached, remedies could be sought through the legal system (Sundaram and Inkpen, 2004). Shareholders, on the other hand, do not have the same recourse as those other stakeholders and are the last to receive their claim on the business, they succumb to any losses and enjoy any gains the business has experienced (Magaro, 2010). As such studies Elson (2010) and Magaro (2010) indicate that shareholders should therefore be the focus of the model a business chooses to follow as their objective.

Further support for the model is that shareholders provide additional sources of capital (in the form of issuing of new shares). If shareholders are not focussed on, Elson (2010) indicates that investors will then not be keen to invest and therefore companies would have to rely more on debt and current earnings for funding and as such the capital system would be greatly affected. Sundaram and Inkpen (2004) also indicate that by only focusing on shareholders, the business will not end up focussing on benefiting another group at the expense of the wellbeing of the business. This being so, within the shareholder group there will be various different individual interests being represented and conflict could therefore occur within the shareholder group where some shareholders are focussed on short-term profits (as they are trading) whilst others are interested in long-term profits (as they are investing) (Stout, 2013).

Keay (2008) and Jones and Felps (2013), however, are of the view that many stakeholders are affected by a business's actions and that focussing merely on shareholder interests can result in depriving another stakeholder which could in turn have detrimental side-effects on the business. An example of such an instance is where businesses have gone on cost-cutting exercises, in order to increase profits and create shareholder value, but have detrimentally affected employees (as they are being paid less or being given less benefits). The knock-on effect was that employees became less motivated and therefore less productive than they were previously (Jones and Felps, 2013).

Many authors support Keay's (2008) view that the shareholders were not the only ones who would be affected by any business actions and decisions made. Sundaram and Inkpen (2004), Queen (2015) and Magaro (2010) agree with Keay's (2008) view and indicate that as other stakeholders would be affected, they too need to be considered in management's decision making. The shareholder model discussed above would be unsuccessful in considering any other values infused in a business other than to become productive, efficient and profit maximising (Keay, 2008). Therefore other models needed to be investigated that involved other stakeholders. The next model discussed, conscious capitalism (CC) (which some authors like Jones and Felps (2013), Keay (2008), Sundaram and Inkpen (2004) and Omran et al. (2002) also refer to as a stakeholder model), incorporates all stakeholders.

2.3. Conscious Capitalism Model

As discussed above, businesses do not function in isolation and incorporate several different stakeholders. Jones and Felps (2013) indicate that unlike the shareholder model, stakeholder models do not rely on assumptions that rarely exist in a real-world scenario such as complete markets, price-taking behaviour, perfect information and zero transaction costs. There is one particular stakeholder centric model that authors have focussed on recently being the conscious capitalism (CC) model (Mackey, 2007, Mackey, 2011).

The CC model illustrates a viewpoint that entrepreneurs have begun to support in the last few years and has been growing in popularity in America in particular. Companies such as Whole Foods (Mackey and Sisodia, 2013) and Container Store (Tindell et al., 2014) have embraced the model and claimed many successes along the way. Evidence does, however, exist showing similar models being followed by businessmen as early as the 1930s (Keay, 2008). The viewpoint emphasises a focus on all stakeholders of a business rather than just the owners (as in the neoclassical model discussed in section 2.2.) and thus brings triple bottom line (profits, plant and people) into consideration (Coates, 2013). CSR was therefore a large focus in entities that follow the CC model.

Wang (2013), Sisodia (2011), O'Toole and Vogel (2011) and Mackey (2011) give four essential principles of CC, namely higher purpose, stakeholder orientation, conscious leadership and conscious culture. These four principles are discussed below.

- Higher purpose

  Waligo et al. (2014) indicate that management need to widen their vision beyond profit maximisation and rather focus on stakeholder cooperation. The purpose would be one that creates value to other stakeholders and thus enhances the business as a whole (Young-Ferris, 2015). The higher purpose of a business is of vital importance as the other three principles (as described below) hinge onto this purpose and the core values of the business as a foundation and also because the purpose falls at the core of every business decision that is made (Schawbel, 2013). Sandling (2014) points out that the higher purpose is usually stated as part of a company's mission statement and illustrates to a stakeholder what the business does, why it does it and what they are hoping to achieve by doing such actions. Through this focus, a business would have a purpose beyond simply maximising profits (in contrast to the neoclassical model).

- Stakeholder orientation

  Following a CC model entails that all stakeholder prosperity should be maximised (Mackey, 2011). Waligo et al. (2014) indicate that management will need to consider simultaneous demands from multiple stakeholders. However, Sandling (2014) purport that all stakeholders are interdependent and therefore it is essential to create value for all identified stakeholders simultaneously without compromising one against the other. Thus far, six major stakeholders have been identified in the literature and are applicable to most businesses: customers, employees, suppliers, investors, society and the environment (Mackey, 2011). These stakeholders are discussed in more detail in section 2.5. of this literature review. This being said, other entities could have additional stakeholders too that they would want to consider in their goals and business outlines.

- Conscious leadership

  Conscious leadership entails that leaders (directors and managers) should be looking at serving the higher purpose of the business and when making decisions should consciously look at the direct and indirect impact that would be made on stakeholders and whether such actions promote the higher purpose or not (Mackey, 2011). Sisodia (2011) and Sandling (2014) both agree that such leadership is delivered through mentoring, motivating, developing and inspiring people rather than through methods such as the carrot and the stick or command and control. Conscious leadership therefore embraces the higher purpose and creates a focus on creation of value through the harmonisation of stakeholder needs. Successful conscious leadership will result in creation of a conscious culture (Sandling, 2014).

- Conscious culture

  A conscious culture is created when cultures such as trust, truthfulness, caring, transparency, integrity and learning and empowerment are implanted in the business to create a working environment that focusses on the higher purpose and striving towards those goals (Sisodia, 2011). Such a culture is created with the help of conscious leadership (Sandling, 2014). As such, the culture in a business that applies CC is very different to a traditional company culture (Mackey, 2011) and embodies integrity, learning and empowerment amongst other characteristics (Young-Ferris, 2015).

Schawbel (2013) notes that all four of these principles need to be focussed on, one cannot simply neglect one or more principles or put more emphasis on a single principle. He emphasises that should any one principle be neglected then the entire system could suffer in the long-term and then the business's full potential would not be achieved.

Effectively, by applying the CC model, a business would go all-out in order to achieve their higher purpose rather than merely maximising profits. The reasoning behind this theory is that all stakeholders (including shareholders) are interdependent and therefore by applying the higher purpose there would not only be maximisation of shareholder wealth but also the wealth of other stakeholders (Sisodia, 2011). For example, in the case of Whole Foods, part of their higher purpose is to support the happiness of their employees which has in turn has led to happy customers who have become loyal and resulted in low staff turnovers. Loyal customers have promoted revenues and lower staff turnovers in decreasing staff recruitment costs thus resulting in more profits which pleased shareholders (Mackey, 2007). Therefore by applying part of their higher purpose, shareholder wealth was maximised and both customers and employees were positively impacted.

CC therefore appeared to be the more attractive model as more people benefited from the business rather than just the shareholders. However there were fears on whether CC had indeed resulted in what had been suggested. Sisodia (2011) researched a series of American businesses that applied CC and research revealed that, over a ten year period ending 30 June 2006, these overseas companies outperformed the market when considering their overall return on equity by nine times. The indication was that the outperformances were likely due to lower levels of staff turnover and 'free' marketing amongst other things. This evidence supported that CC had a higher benefit (Aburdene, 2013). It was also deduced that it was highly improbable that shareholder value would have been maximised if other stakeholders' interests were ignored. Sisodia (2013) further clarified the point and said that those who had applied CC principles had enhanced long term performance, and that this was not to say that such companies would always have enhanced performance as they would still be subject to normal business fluctuations in a business cycle.

Wang (2013) did similar research to Sisodia (2011), he also found that those who applied CC principles outperformed the market when considering their overall return on equity, but only by 2.6 times as opposed to Sisodia's 9 times. He investigated further and found that this outperformance was mainly due to only one company, Amazon, with a 365% return. As Amazon was an outlier, it was excluded and thereafter it was found that the other businesses in the sample actually underperformed in relation to the market rather than overperformed. This questioned the legitimacy that CC maximised shareholder value more than businesses that did not adopt CC. It also brought into question whether the benefits from CC were sustainable or whether CC only worked for certain types of companies in certain industries.

Sundaram and Inkpen (2004) have found that there is no clear relationship that shows whether performance is indeed better under a model such as CC. They explored the relationship between social performance and financial performance and concluded that there was no consensus between the two. Omran et al. (2002) explored the orientation of the business based on exploration into mission statements to conclude whether an entity was shareholder focussed or stakeholder focussed. Their research too showed that there was no significant difference in returns when comparing a shareholder focussed company to a stakeholder focussed company. It is very clear, therefore that the answer as to which model proves most profitable has not been established completely as there are differing findings in the literature.

Entities that followed the CC principles were probably going to be involved in CSR activities because they would focus on looking after all stakeholders. Burke et al. (2011) show that 67% of business leaders in the United States had confidence that CSR made a significant contribution to net profits and 80% of these leaders also believed CSR added to the reputation of the business. Business profits would increase due to an increase in sales, growth in market share, decreased operating costs, better brand position, improved corporate image, a greater ability to draw in employees, motivate and secure them and increased attraction to investors and financial analysts. Decreased operating costs could be experienced as a result of lower recruitment costs due to a lower turnover of staff, lower marketing costs as the CSR activities have promoted the brand and savings related to the use of environmentally friendly approaches such as solar energy (saving on electricity) and collection as use of rain water (saving on paying for municipal water). As such, it is evident that value could indirectly flow to businesses by benefiting employees, society and the environment (Ganescu, 2012). Businesses would still have to incur costs on CSR in order to succeed in getting these benefits, and sometimes the benefits received did not always exceed this cost incurred. Despite this, Budan (2013) reports from an interview with John Mackey, that CSR was not equivalent to CC. Mackey maintained that CSR was rather a way for businesses to improve its reputation, however a business that applies CC had built social responsibility into their purpose (part of their higher purpose) and was therefore inherently socially responsible and did not need separate CSR projects.

Another concern of CC was that one stakeholder's interest would differ from another stakeholder's interest and thus it was virtually impossible to please all stakeholders in the real world (O'Toole and Vogel, 2011). Magaro (2010) agree with this sentiment and simply conclude that no one can serve two masters and that by having to please all stakeholders a business then is in fact trying to please more than just two masters. He further emphasises that directors could end up making poor decisions as there is no real accountability. Rauch (2011) suggested, however, that stakeholders of a business should be treated as though they were comparable to organs in a human body. In certain decisions, one 'organ' (stakeholder) would need to be favoured over the other in order to ensure the proper functioning of the 'body' (business). Effectively, each 'organ' was aligned and optimised to ensure a properly, fully functional 'body' and the result was a win-win-win situation for all. Such a goal was essential in a business. Others such as Sundaram and Inkpen (2004), Omran et al. (2002), Waligo et al. (2014), Sandling (2014) and Mackey (2011) still insist that all stakeholder's interests can be pleased and that despite stakeholder differences, a common goal can be found amongst such stakeholders to ensure long-term success for the business and stakeholder happiness.

2.4. Entity Maximisation and Sustainability Model

The final model to be discussed is a combined perspective referred to as the entity maximisation and sustainability model (EMS). EMS was a model suggested by Keay (2008) that entrepreneurs should be focussing on maximising their own wealth rather than the wealth of any particular stakeholder (as in neoclassical that focusses on only shareholders) or group of stakeholders (as in CC) whilst maintaining sustainability. He maintained that maximisation was not just measured through profits (like the neoclassical perspective) as profits were merely one part of business wealth and did not encompass wealth in its entirety. Maximisation would also benefit all stakeholders as it would foster their common interests (similarly to the CC perspective). The second part of the model was to maintain sustainability. The argument here was that, if sustainability was not upheld, the business would not continue as a going concern and therefore would not survive in the long-term (Keay, 2010).

The origin of sustainability discussions, however, trace farther back than Keay's (2008) suggestion of the EMS model. According to Høgevold et al. (2014) scholars have been researching such issues since the 1960s. In 1987, sustainable development was defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, 1987, p. 54). This definition has been reiterated in several different studies on sustainability including by Šimanskienė and Paužuolienė (2010), Bocken et al. (2013) and Seay (2015), however, there is no universally accepted definition yet as the concept is still evolving (Høgevold et al., 2014).

Seay (2015) explains that following a model that encompasses sustainability (such as EMS) would result in a business not only recognising the importance of making profits and growing, but also pursuing societal, environmental and governance goals to achieve long-term value creation and success. Wagner and Svensson (2014) agree with Seay's explanation and add that from observation it appears that most definitions of sustainability share core elements that incorporate economic, social and environmental considerations. All three of these core elements need to be balanced so that each is mutually reinforced (Høgevold et al., 2014). Business models that incorporate sustainability go beyond simply delivering economic value and also incorporate value for a broader range of stakeholders (Bocken et al., 2013). A sustainability approach therefore also encompasses the triple bottom line approach (similar to CC) (Høgevold et al., 2015).

The spheres of economic, social and the environmental considerations incorporate many different aspects that businesses can focus on. It is therefore evident that there are many ways in which a company can illustrate their impact on each of the three considerations. Høgevold et al. (2015) provides a brief overview of what each pillar should be illustrating to any stakeholder of an entity:

- Economic pillar: A business should be illustrating their ability to be able to make profits in order to continue.

- Environmental pillar: A business should be illustrating what impact the business has on the environment. This entails showing how their business has positively contributed to their environment as well as any negative impacts and how these have been improved or negated in later years.
- Social pillar: This pillar is perhaps the most difficult to illustrate and many businesses have struggled to express their contribution in this sphere. The social pillar should comprehend social interactions and values that the business has with people both internally and externally. Most organisations illustrate this through CSR.

Seay (2015), Dos Santos et al. (2014) and Dos Santos et al. (2013) expand on the principles discussed in Høgevold et al. (2015) and give specific illustrations of what businesses can do to integrate the pillars and thus sustainability into their activities. Some suggestions include:

- reduction of energy use, emissions (such as carbon emissions), water and waste,
- commitment of resources used for research and development to products aimed at sustainability and promotion of such products to consumers as opposed to non-sustainable products,
- motivation of employees through various means such as training, providing permanent positions, maintaining employee equity and focusing on their health and safety,
- focus on climate change and improving how the company impacts on it and
- ensuring revenues, return on equity and earnings per share are at increasing levels.

Seay (2015) explained that businesses are following the sustainability model as it creates more value within a company which reaches all stakeholders as opposed to other models that focus on either just one stakeholder or a handful of stakeholders. The investment in such business practices is therefore warranted as benefits flow to the business as well as to stakeholders (Dos Santos et al., 2014). Benefits that have been derived from sustainability efforts can be summarised into three broad themes:

- Improved company / brand image leading to competitive advantage

  Consumers of an entity's offerings of products and services have a large impact on how the business performs. If the items do not satisfy the consumer then the business will not be successful (Jones and George, 2011). Seay (2015) shows that consumers respond more negatively to poor company sustainability and poor commitment to economic sustainability. As a result, those with poor sustainability will not be as successful as those who please customers through positive sustainability. Some customers will even pay more to get a product that contributes towards sustainability (Seay, 2015). Customers would also be attracted more to a sustainable company's items and therefore that company's market share would grow (Seay, 2015, Šimanskienė and Paužuolienė, 2010).

- Cost savings

  Cost savings are achieved through various different avenues. But effectively the most direct saving is through reducing of items such as waste, energy, water and emissions as there would be a lower cost due to lower usage and also lower taxes (such as carbon emission tax) (Seay, 2015).

- Enhanced employee recruitment and retention

  Robbins et al. (2011) indicate that businesses that foster a favourable working environment through any means will result in a happy workforce. They further iterate that if you have a happy workforce there would be less employee turnover and the business would be able to recruit expertise easily as they would be an employer of choice. Costs would be saved through not having to recruit as often and also not having to advertise heavily to attract new employees (Seay, 2015).

Despite all the evidence showing how sustainability creates value, Høgevold et al. (2015) says that measuring performance is not necessarily an easy task. They do say that certain measures are easy to quantify such as shareholder value, market share, customer satisfaction and employee well-being as there are standard measures that can be applied to each and every company relatively easily. This being so, most other social and environment activities that a business undertakes are unique and therefore are difficult to quantify using a standard measure (Høgevold et al., 2015).

There has been an increased focus on sustainability in order to achieve long-term growth in business. Seay (2015) states that issues of sustainability have become of increasing concern to humanity and for that reason it has escalated into a central business concern. Lamb et al. (2010) also emphasise that customers are very aware of their impact on the environment as a result of consuming different products and, as a result, it will inevitably become difficult to sell items that are not environmentally friendly. The Global Reporting Initiative was therefore formed in the 1990s in order to explore sustainability issues and how progress and goals related to these issues can be reported to users. This research has expanded from general sustainability issues to industry-specific ones and in future companies (especially those listed on a securities exchange) are likely to have to report on such considerations (Global reporting initiative, 2015). Further information regarding reporting considerations are discussed in section 2.6. of this literature review.

2.5. Stakeholders

As evidenced in the review on the three different models that entities can apply as their primary objective, stakeholders play an important part either individually (as in the neoclassical model) or collectively (as in the CC and EMS models). It is therefore vitally important that managers and directors are aware of what stakeholders are, who they are and what their role is in relation to their business entity (Waligo et al., 2014). Jones and Felps (2013) define stakeholders as individuals and constituents who contribute voluntarily or involuntarily to a business's wealth-creating capacity. Omran et al. (2002), Bocken et al. (2013) and Mackey (2011) identify six key stakeholders that are common to the majority of businesses that should be explored, namely customers, employees, suppliers, investors, society and the environment. Each stakeholder will be defined and their generic role in business discussed relative to the food and drug retail industry.

2.5.1. Customers

BusinessDictionary (2015b) defines a customer as someone that receives or consumes products in either the form of a good or a service. Customers can also be referred to as consumers, shoppers, clientele or clients. Due to their function, it is evident that without customers a business would not be able to perform their services or sell their goods and therefore would not be able to generate money. Effectively the business would therefore become non-existent. Customers are therefore a vital stakeholder to any business and there needs to be some focus to be able to retain and attract more customers towards the entity. There are many marketing techniques available to achieve the retention and attraction of such customers which could be incorporated directly into strategy (likely for CC or EMS models) or be performed as a course of business to ensure sales (most likely for the neoclassical model).

2.5.2. Employees

An employee is defined as a person or individual who works in either a full-time or part-time capacity for the business as a result of a contract of employment that has been entered into (BusinessDictionary, 2015c). Collectively, employees form a staff compliment. As per their contract of employment, employees would be expected to perform certain tasks to aid the business in achieving their predefined goals. For example, a food retail company would need a merchandiser to manage their products and ensure that they are on the shop floor. If merchandisers were not hired, certain products would not appear on the shelves of the entity and therefore customers would have to shop elsewhere to attain the products and no money would flow into the business. It is therefore important to hire employees.

In South Africa, employees are able to join a trade union. A trade union is an organisation that workers create in order to protect themselves, improve working conditions and to provide a means of collective expression for workers (Nel et al., 2013). Businesses therefore also have to consider trade union views when dealing with staff matters. Where staff are unhappy, they can approach the trade union to make agreements with their employer, however where there are disagreements and an amicable solution cannot be found, staff could go on strike (Nel et al., 2013). Strikes can cause major disruptions to business activities and can result in large losses for the business if not resolved timeously. It is therefore in the business's best interest to consider employees as stakeholders as well as their affiliated trade unions.

2.5.3. Suppliers

Suppliers are those who supply a company with the goods and or services necessary for them to achieve their goals (BusinessDictionary, 2015g). Suppliers are important because without a supplier delivering the required stocks, the business will not be able to stock shelves and customers will then go elsewhere for those products. Businesses need to liaise with their suppliers as often as possible as they can have a direct impact on their business. For instance, if a product is not manufactured to standard and attracts a large amount of returns, the customer reflects on both the supplier and the retailer and this could cause a bad reputation for the retailer.

2.5.4. Investors

Investors are those who invest in business in order to receive income therefrom (BusinessDictionary, 2015e). In a business context, an investor is synonymous to a shareholder. A shareholder is defined as someone who owns shares in a company (BusinessDictionary, 2015f). When a business issues shares, it attains money in the form of share capital (Kew and Watson, 2012). This, however, only occurs on the primary market of the JSE. Shares are then traded amongst individuals in the secondary market. The holder of a share is entitled to a residual claim on the business should it close down and is entitled to any dividends declared. It is in the best interest of companies to ensure profits are being made. The reasons for this interest is two-fold, firstly so that dividends can be declared to shareholders frequently enough to maintain interest in the company should further funding be required through a primary issue and secondly so that profits can be re-invested in the company in order for the company to grow and produce even greater earnings.

2.5.5. Society

Society refers to people within a certain area or country and how they are organised and is synonymous with a community of people (InvestorWords, 2015). Every business would function within at least one community where they are situated. Some larger companies that have branches in different countries span across an international community and therefore might need to consider quite a few different communities in their business approach. An example would be Shoprite that not only functions in South Africa, but also has a large footprint in Africa (Shoprite, 2014). Several African communities are much less developed than those in South Africa and therefore have different needs. As a company is a part of a community, they cannot function in isolation to what is happening in the community as they would not be successful (Jones and George, 2011). The community is therefore an important stakeholder that needs to be considered when determining business goals as without knowledge of what is occurring in the community, one cannot effectively manage a company within that community.

2.5.6. Environment

Environment can actually mean many different things to an individual. The context of environment that is relevant when considering stakeholders is the “planet” definition of the environment. BusinessDictionary (2015d, p. 1) defines the environment as “surroundings of any living organism”. There are currently certain trends that are being focussed on by entities to ensure that they are considering environmental matters and “going green” in order to ensure preservation of the earth so that businesses can continue to function. Some examples of such initiatives, especially in relation to South Africa, are recycling to minimise waste in landfill sites which are getting fuller, energy saving in order to aid the minimisation of loadshedding, and water saving to aid in drought situations. A company could neglect to focus on the environment, but researchers have shown that customers have become much more aware of environmental matters and would prefer to have products that are environmentally friendly and may even pay more for such products (Seay, 2015).

From the above discussion it is evident that stakeholders on their own or as a group need to be considered at some level in order for the business to continue functioning. Depending on the model that the business chooses to follow, their focus on the different stakeholders would vary.

2.6. Entity Reporting Requirements

As per the Companies Act 71 of 2008, all companies need to produce annual financial statements. However, according to the JSE listing requirements, annual reports should be prepared and published by companies that are listed on the securities exchange. Annual reports should incorporate annual financial statements that are prepared using International Financial Reporting Standards (IFRS) and audited according to International Standards on Auditing (ISA). Over and above the financial information, annual reports should also contain non-financial information such as information on the King code and how the company implements those principles (Johannesburg Securities Exchange, 2015). Incorporating both financial and non-financial information in annual reports has brought the need for integrated reporting into consideration.

An integrated report aims to tell an entire story about the company. It fully incorporates and illustrates who the company is, what their values are and how they intend creating value. This is illustrated through their strategies, business models and objectives and gives stakeholders a holistic view of where the company is currently as well as where they are anticipating to go in future (Integrated Reporting South Africa, 2015). Integrated reporting has grown in popularity and is particularly important when considering the information that entities are required to produce if they are listed. As such, integrated reporting has expanded into several different spheres and produces information that is not only relevant to shareholders but also to the different stakeholders of the business. It therefore caters for all three models that have already been discussed.

Høgevold et al. (2014) point out that the concept of sustainability is still a relatively new concept that is still evolving and this too is indicated in reporting. Seay (2015) informs that sustainability reporting is growing and becoming mainstream practice. One example of reporting that incorporates sustainability has been established by the Global Reporting Initiative (GRI). The GRI was formed in the 1990s in order to explore sustainability issues that business's experience and how their progress and goals related to these issues can be reported to users. This research has expanded from general sustainability issues to industry-specific ones and in future companies (especially those listed on a securities exchange) are likely to have to report on such considerations (Global reporting initiative, 2015). The current initiative that the GRI has established is the G4 sustainability reporting guidelines. The guidelines provide universal provisions that companies can follow to illustrate what sustainability measures they are implementing towards each stakeholder in their reporting. The following of the guidelines is not compulsory, however, many companies have chosen to follow some or even all of the guidelines so that they report effectively to stakeholders (Global reporting initiative, 2015).

Another initiative that has been implemented and needs to be implemented according to the JSE listing requirements are the King III Report (Institute of Directors, 2009) requirements. The code encourages what is referred to as triple bottom line reporting. Triple bottom line reporting shows what impact a company is having economically, socially and environmentally (Høgevold et al., 2015). Financial statements, in particular annual reports, illustrate profits (economic), how the entity supports people (social) and how the entity works to improve the environment (environmental). These illustrations are similar to those given in the G4 sustainability reporting guidelines, however, the G4 guidelines go more in depth than King III.

Companies use different reporting techniques to report relevant information to users of financial statements. Depending on the model that the company would like to follow (i.e. neoclassical, CC or EMS) a company will report either only financial information (for shareholders) or report both financial and non-financial information (incorporating more stakeholders as opposed to only the shareholders). Annual financial reports therefore have adequate information in order to ascertain what model a company follows based on the items that have been reported on.

2.7. Food and Drug Retail Industry

The food and drug retail industry on the JSE comprises five different companies namely: SPAR, Pick n Pay Holdings, Pick n Pay Stores, Shoprite and Clicks. A background of each individual company within the industry will be discussed.

2.7.1. SPAR

SPAR originated in 1963 and listed on the JSE as The SPAR Group Limited in 2004. SPAR have expanded from only providing food stuffs and now also supply building and DIY supplies through Build it, liquor through TOPS at SPAR and pharmaceutical products through SPAR Pharmacy. SPAR also have a smaller store format to service rural towns and central business districts which they call Savemor, by 2014 only twenty eight of these stores had been opened. SPAR operates mainly in South Africa, but also has presence in certain African countries such as Mozambique, Zimbabwe, Swaziland, Botswana, Lesotho, Namibia and Angola. A recent business deal has also seen them emerging into Ireland and South West England (SPAR, 2014).

SPAR operates on a voluntary trading basis meaning that SPAR does not own their individual supermarkets but rather individuals own the stores and SPAR supplies these retailers with goods. Retailers contribute a percentage of turnover together with an administration fee to the SPAR Guild which in turn provides retailer support services including advertising, training and development, advisors to help with store layout and design and logistic services. SPAR then has distribution centres (six in South Africa and a further one dedicated to Build It) which service these retailers by delivering the necessary goods. Overall, 1 864 stores are serviced by these distribution centres (SPAR, 2014).

2.7.2. Pick n Pay Holdings

Pick n Pay Holdings was listed on the JSE in 1968 and is controlled by the Ackerman Family who hold approximately 51% of the shares. The only asset that the company holds is a 53.6% holding in Pick n Pay stores. As such, Pick n Pay Holdings' sole purpose is to hold a controlling share in Pick n Pay Stores, therefore all operations are held through Pick n Pay Stores and Pick n Pay Holdings merely operates as a holding company (Pick n Pay, 2014).

2.7.3. Pick n Pay Stores

Pick n Pay Stores was founded by Raymond Ackerman in 1967 when he purchased four small shops for R620 000 in Cape Town. The company was subsequently listed on the JSE in 1968. As with SPAR, Pick n Pay have too expanded their horizons beyond simply being a food supply company and have operations linked to clothing (Pick n Pay Clothing), liquor (Pick n Pay Liquor) and pharmaceuticals (Pick n Pay Pharmacy). They also own Boxer stores who operate in food supply but also liquor (Boxer SuperLiquors) and building and DIY (Boxer Build). Pick n Pay have also delved into convenience stores through their twenty four hour Pick n Pay express stores that can be found at selected BP service stations, by 2014 these had grown to twenty one stores (Pick n Pay, 2014).

As with SPAR, Pick n Pay's primary operations are in South Africa, however, they too have a presence in Zambia, Namibia, Botswana, Swaziland, Lesotho as well as Zimbabwe. Pick n Pay function with their own stores (643 stores), franchised stores (433 stores) and through their associate in Zimbabwe with 52 stores. They too have distribution centres that supply their stores, one in Cape Town and one in Johannesburg, however some suppliers do still deliver directly to stores (Pick n Pay, 2014).

2.7.4. Shoprite

Shoprite began in 1979 through a purchase of eight supermarkets for one million rand in the Cape and in 1986 the company listed on the JSE (Shoprite, 2015). Shoprite is also primarily based in South Africa, however has grown the most into Africa relative to others in the industry with their footprint being found in fourteen different African countries. They too have ventured into further markets such as liquor and pharmaceuticals but unlike others have decided to concentrate on the furniture market through their OK and House and Home divisions rather than building and DIY supplies. Shoprite too functions using distribution centres. They have three main centres situated in Centurion, Durban and Cape Town. Their OK division runs under a franchise system (Shoprite, 2014).

2.7.5. Clicks

Clicks was established in 1968 and first listed on the JSE in 1979 (Clicks, 2015). Unlike the other three companies in this industry, Clicks does not focus on food and consumables, but rather health and beauty products. Initially Clicks was formed to be a corporately owned pharmacy, however, at the time South African legislation prohibited this. Clicks opened its first pharmacy in 2004 after this legislation was changed and acquired United Pharmaceutical Distributors to distribute pharmaceuticals to Clicks pharmacies. As Clicks has a different initial focus, their branch out has also shown a different focus. Clicks primarily trades under the Clicks stores (464 of them) but also owns Musica (118 stores) and The Body Shop which is run under a franchising agreement (48 stores). Through these ventures Clicks has grown in South Africa and also expanded into neighbouring countries Namibia, Botswana, Swaziland and Lesotho (Clicks, 2014).

2.8. Conclusion

The aim of the study is to analyse financial statements to determine which model companies listed in the food and drug retail sector on the JSE are following and to further determine whether there is a dominant model and whether there is consequently a higher profitability observed as being associated with a particular model. This chapter explored three types of models that indicate the ultimate purpose of a business, namely: neoclassical, conscious capitalism (CC) and entity maximisation and sustainability (EMS).

It was found that the neoclassical model had the earliest origin (being the 1700s), followed by CC from the 1930s and then EMS from the 1960s. The emphasis of each model differed in that neoclassical emphasised profit maximisation, and therefore a focus on shareholders only, whereas CC emphasised four equally essential principles: higher purpose, stakeholder orientation, conscious leadership and conscious culture and EMS emphasised the maximisation of business wealth whilst maintaining sustainability of the company which encompassed fostering common interests of stakeholders.

It is evident from this chapter that no one model was favoured or unfavoured completely and that each model had its pros and cons. However, the literature indicated that the EMS model was the upward trending perspective in the current context, followed by the CC model and that the neoclassical perspective was not highly prevalent as a result. This being said, the literature only referred mainly to American companies and a few other overseas first world countries. There was no evidence of which model was "trending" in South Africa or any specific industry in South Africa. The literature review further indicated that due to the shift in attention from a neoclassical model to a CC or EMS model, reporting trends had also changed. Annual financial reports therefore have adequate information in order to ascertain what model a company follows based on the items that have been reported on.

It is clear from the literature review that studies in this area are lacking in South Africa and therefore there is a need to investigate this arena. The methodology used to conduct this investigation is discussed in chapter three.

CHAPTER THREE

RESEARCH METHODOLGY

3.1. Introduction

This third chapter provides an insight into the research methodology used for the study. Chapter two explored the literature relevant to the three different models that have been identified, namely neoclassical, conscious capitalism (CC) and entity maximisation and sustainability (EMS). Through this review it has been identified that there are certain key characteristics to each objective. As there has been no known research on identifying the primary objective of the companies in the food and drug retail sector, in order to ascertain which model is dominant, each company listed in the food and drug retail industry needed to have their model discovered. Thereafter a profitability analysis could be performed to establish if a particular model is observed as being associated with higher profitability over the five year period from 2010 to 2014.

3.2. Aims and Objectives

It is unclear from literature which model is followed by each company within the food and drug retail sector on the JSE as well as whether there is a dominant one or whether one model is observed as being associated with a higher profitability than another. It is for this reason that this study has been conducted. The overall purpose of the study is to analyse financial statements to determine the primary purpose of JSE listed companies in the food and drug retail sector. This entails determining which model that is indicative to the ultimate purpose of a business such companies are following and to further determine whether there is a dominant model and whether there is consequently a higher profitability observed as being associated with a particular model.

In order to achieve the overall purpose, the following major objectives have been established.

- To examine the literature on the three models (neoclassical, CC and EMS) in order to identify themes or major identifiers of each model.
- To examine the financial statements (over five years from 2010 to 2014) of JSE listed companies in the food and drug retail sector, in particular the non-financial information, for themes that could link to the identification of any of the three models.
- To prepare an analysis based on the examination of the financial statements that draws a conclusion on which model each company listed in the food and drug retail sector on the JSE appears to be following based on themes identified.
- To establish if there is a dominant model used by companies listed in the food and drug retail sector on the JSE and if so, which one.
- To compare and contrast the results of the companies listed in the food and drug retail sector on the JSE in order to assess performance to determine if a particular model is observed as being associated with a higher profitability.

3.3. Research Methods

Research is defined as "an organised, systematic, data-based, critical, objective, inquiry or investigation into a specific problem, undertaken with the purpose of finding answers or solutions to it" (Sekaran and Bougie, 2013, p 2). Kumar (2011) expands on this by dividing research into two syllables, *re* and *search*. He emphasised that the prefix *re* means anew and *search* means examining closely or to test, try or probe. This essentially means that the researcher investigates to find where there is a gap in information and thereafter seeks to find a solution to fill the gap. In order to ascertain the gap and to find solutions, different research techniques have been developed. There are ultimately three broad techniques for research: the qualitative approach, the quantitative approach and a mixed methods approach. Each method is described briefly below.

Ritchie and Lewis (2009) describe qualitative research as an interpretive and naturalistic approach where researchers study things in their natural setting and an attempt is made to decipher what meaning comes from the phenomena. Such research encompasses collection of data in the form of words (Sekaran and Bougie, 2013). Research is therefore focussed on descriptions and smaller sample sizes and result in narrative responses and conclusions (Kumar, 2011). There are various sub-approaches that a researcher can embark upon in order to achieve their qualitative analysis.

Quantitative research in contrast encompasses collection of data in the form of numbers and figures rather than words (Sekaran and Bougie, 2013). Research is therefore focussed on measurements and can entail large sample sizes. Responses can be easily analysed in order for conclusions to be made therefrom (Kumar, 2011). As with qualitative research, there are also various sub-approaches that can be embarked upon to perform quantitative analysis. The analysis, however, is much more objective as it focuses on the results that the numbers present rather than on a description of the themes.

Mixed methods research encompasses both qualitative analysis and quantitative analysis during a single study (Flick, 2011). In some studies a dominant model is selected and research performed using that model and thereafter supported with the secondary model. Other studies perform both types of analysis on equal footing and compare and contrast findings to get a deeper insight into the research. Lastly, each objective defined in the study could be more suited to a type of research and therefore that research used to achieve those objectives sometimes resulting in a few objectives following a qualitative approach and others a quantitative approach.

This particular study used a mixed methods approach. As there was no known research into which model each company purported to follow, a qualitative approach was used to establish this. Once all companies had been analysed, a dominant model could be determined. A quantitative approach was then followed to establish which model is observed as being associated with a higher profitability. Under the qualitative approach, content analysis was adopted as a sub-approach and under the quantitative approach ratio analysis was adopted as a sub-approach. More detail on these sub-approaches have been provided below as well as how these approaches have been applied to this particular study.

3.3.1. Content Analysis

Content analysis is a research method where the contents of notes made from secondary data or primary data from interviews is analysed to identify main themes that are present (Kumar, 2011). Effectively, categories are derived from theoretical models and these categories are then applied in context to the texts or data being analysed (Flick, 2011). The result being that either secondary data or primary data that has been collected is analysed in relation to defined categories so that inferences can be drawn. The most common approach to content analysis is measuring the frequency of appearance of words in the primary or secondary data that link to the identified themes (Dane, 2010, Best, 2014). The reasoning behind this methodology is that the frequency signifies importance, in other words, more mentions amounts to higher importance (Crowther and Lancaster, 2012, Gilbert, 2008).

The determination of the reliability and validity of qualitative research has been the centre of debate as the nature of research is different to quantitative research and therefore such criteria needs to be determined differently (Kumar, 2011). Kumar (2011) concludes that in order to determine reliability and validity of any qualitative research, four indicators need to be considered: credibility, transferability, dependability and confirmability. All four indicators encompass that findings should be believable, methods should be able to be applied in other contexts and results can be corroborated (Robert Wood Johnson Foundation, 2006). In this study conclusions have been based on data that has been published by each individual in the population in the public domain. The views that have been published are therefore those views of the individual company and have been seen to be consistent with other publications from the same company and therefore are corroborated and credible. The methods that have been used could be applied to other industries or even to smaller entities and are therefore able to be applied in other contexts.

In this study themes were identified from the literature. Thereafter, public information in the form of annual integrated financial statements and sustainability reports (where available and disclosed separately) for a five year period from 2010 to 2014 were analysed according to these categories that were defined. From the analysis a conclusion was able to be drawn on the company model adopted.

Content analysis entails the derivation of themes or categories from literature in order to apply data to the categories during the analysis stage. As part of this study, literature has been reviewed and presented in chapter two. From this review it was evident that each possible primary objective of a company had a different focus, however, each focus entailed a focus on either some, all, or just one stakeholder. As a result, different stakeholders became the main themes to consider. From the literature, six main stakeholders were identified, namely: customers (also referred to as consumers), employees (also referred to staff), suppliers, investors (also referred to as shareholders), general society (also referred to as community) and the environment.

Frequencies for each mention of such stakeholders in non-financial sections of the company's annual integrated report from 2010 to 2014 were recorded in order to ascertain a relativity of importance in accordance with the content analysis methodology. When considering frequencies, synonyms as identified in the literature have been grouped together and pronouns (such as it and they) have been ignored due to the fact that such pronouns could replace any noun and not just a single stakeholder. As it is in the opinion of the researcher that such frequencies were not solely sufficient to draw a final conclusion, the financial statements were read in more detail to explore further into what each company was saying about and doing for each stakeholder. The frequencies and narrative were then considered to ascertain the extent of focus on each stakeholder.

Where the extent of focus was solely on the investor, this was evidence of the neoclassical model. Where the focus was divided amongst the different stakeholders, either an EMS or conscious capitalist approach was evidenced. Further exploration into the literature revealed that where an entity does have a focus on all (or most) of the stakeholders, but the focus is on sustainability of the entity and its wealth rather than maximising stakeholder wealth, then an EMS approach is evidenced. Therefore a further theme of sustainability was explored in the same manner as the stakeholders before making a conclusion on the approach followed.

3.3.2. Ratio Analysis

Further to investigating which model each company is applying, it needed to be established which model, if any, was observed to be associated with a higher profitability. As mentioned above, ratio analysis was used to make this determination. Ratio analysis is defined by BusinessDictionary (2015h, p. 1) as the "Single most important technique of financial analysis in which quantities are converted into ratios for meaningful comparisons". As this study is focussing on profitability, ratios that indicate short-term profitability, such as the gross profit percentage, net profit percentage and earnings per share, as well as long-term profitability indications such as return on assets and return on equity have been looked at.

Ratios can be compared across a series of time or across firms in the same industry. Such an analysis can aid in determining how well a company has done over a period in time and contrast this to others in their industry. For this reason ratio analysis was used for each of the five years analysed to determine a trend over the years as well as to compare each company in the food and drug retail sector to each other and rank them according to their profitability. This then aided in determining which company model is observed to be associated with a higher profitability.

Validity and reliability are important in a quantitative study (Kumar, 2011). In terms of validity, the researcher needs to ask whether the study is providing answers to the researcher's objectives. In this study, in order to associate profitability with any particular model, it was essential to calculate the profitability ratios to conclude on how profitable the company was. This could then be compared to other company profitability to determine which company was most profitable over the period. The approach is valid as it achieves the objective of determining which model could be observed as being associated with the highest profitability. Reliability encompasses the accuracy of the method (Kumar, 2011). In this study the accuracy of the method is considered to be high as audited financial information has been used in ratio formulas that are globally employed.

3.4. Population

The population of the chosen sector (food and drug retailers) on the JSE comprises five different companies, namely: SPAR, Pick n Pay Holdings, Pick n Pay Stores, Shoprite and Clicks. Upon further investigation it was noted that Pick n Pay Holdings' sole purpose was to hold a controlling share in Pick n Pay Stores (Pick n Pay, 2010). As a result, the financial statements are presented in one document and the information for both have been consolidated and Pick n Pay treated as one in this study. After this consolidation there is only four companies in the sector that represent the population, therefore all four have been analysed in this study using both content analysis and ratio analysis as discussed above.

3.5. Research Limitations and Delimitations

Due to the approach taken for the study, as discussed above, there are a number of limitations and delimitations to the findings that will be reported in the chapters that follow. Such limitations include that:

- annual financial statements are a summary of company information,
- only a specific period has been analysed,
- a qualitative approach has been used and
- variables used in ratio analysis calculations can be influenced by a number of variables.

Full details of the above limitations and delimitations were introduced and discussed in section 1.6. of the text.

3.6. Summary

This chapter has explored the research techniques that will be applied in the study along with the focus and objectives that will be explored going forward. The techniques have been explained in brief detail along with descriptions as to how they apply to this particular study. Further application of the techniques is presented in chapter four where content analysis has been applied to determine the model followed by the companies in the population and draw a conclusion on the dominant model applied. Further to this, in chapter five ratio analysis has been adopted to analyse the profitability of the companies in the population in order to rank them according to their profitability and determine which model is observed as being associated with higher profitability.

CHAPTER FOUR

ANALYSIS OF COMPANY MODEL

4.1. Introduction

As identified in the literature review in chapter two, there are three different schools of thought pertaining to the overall objective or primary purpose of an entity. Each of these schools of thought illustrates a different primary focus:

1. Conscious capitalism (CC) - the focus is on all stakeholders;
2. Neoclassical - the focus is only on one stakeholder, the investor (shareholder);
3. Entity maximisation and sustainability (EMS) model - the focus is on fostering common interests in order to ensure the entity wealth is maximised and sustained in the long term.

As a result, each listed company in the food and drug retail sector has been analysed using annual integrated reports over a period of five years from 2010 to 2014. The findings have been illustrated according to what has been done for the individual stakeholders (including shareholders) and any efforts to sustain the company in the long-term in order to draw a conclusion on which school of thought the entity appears to be following.

This chapter will explore each company listed on the JSE in the food and drug retail sector (namely SPAR, Pick n Pay, Shoprite and Clicks) in relation to each of the six major stakeholders that were identified in the literature review. These stakeholders are customers (also referred to as consumers), employees (also referred to as staff), suppliers, investors (also referred to as shareholders), general society (also referred to as community) and the environment. The initial analysis quantified the frequency that these stakeholders were mentioned in the non-financial sections of the annual integrated report from 2010 to 2014 in order to ascertain a relativity of importance in accordance with the content analysis methodology (refer to chapter three, section 3.3.1.). Most companies reported similar reporting information with the exception revolving around the remuneration report. A detailed remuneration report was produced by Clicks for all five years from 2010 to 2014 and Pick n Pay for three of the five (being 2012 to 2014) whereas other companies included this detail in their financial information. Therefore in considering non-financial information the researcher decided to leave out the remuneration report to prevent a bias towards employees for those companies. This extends to a narrative on stakeholders in general as well as each specific stakeholder as the frequencies were deemed not to be solely sufficient to draw a final conclusion. The narrative discussion also explores sustainability initiatives. By taking into account both the frequency analysis and narratives, a conclusion will be drawn on which model each of the four listed companies appear to be following.

4.2. SPAR

4.2.1. Stakeholders

Through the analysis of their annual reports, there is evidence that shows that SPAR considers stakeholder needs and acknowledges that each stakeholder has their value that they bring to the group. In the 2014 Chairman's Report, the Chairman indicates that the group undertook discussions to "ensure a deep understanding of the impact on all stakeholders" (SPAR, 2014, p. 9) when considering a large transaction. In 2010 it was also indicated that "the group understands the need to engage with its stakeholders who are not just interested in the financial aspects of the business, but are also interested in the social and environmental sustainability of the business" (SPAR, 2010, p. 25).

Table 4.1 Summary of SPAR Stakeholders from 2010 to 2014

	2014		2013		2012		2011		2010		Total	
	Times	**%**	**Times**	**%**	**Times**	**%**	**Times**	**%**	**Times**	**%**	**Times**	**%**
Customers	17		6		16		12		5		56	
Consumers	41		26		21		18		11		117	
	58	18%	32	17%	37	17%	30	17%	16	13%	173	17%
Employees	74		40		32		38		32		216	
Staff	12		13		11		9		8		53	
	86	27%	53	29%	43	19%	47	27%	40	32%	269	26%
Investor	3		0		4		5		3		15	
Shareholder	18		22		28		20		11		99	
	21	7%	22	12%	32	14%	25	14%	14	11%	114	11%
Society	3		3		3		2		3		14	
Community	19		10		16		11		5		61	
Communities	10		8		24		10		8		60	
	32	10%	21	11%	43	19%	23	13%	16	13%	135	13%
Supplier	64	20%	30	16%	24	11%	17	10%	10	8%	145	14%
Environment	62	19%	26	14%	45	20%	32	18%	29	23%	194	19%
Total	323	100%	184	100%	224	100%	174	100%	125	100%	1 030	100%

Source: Author compiled using data from SPAR (2010; 2011; 2012; 2013; 2014)

Table 4.1 indicates how often SPAR has acknowledged the different key stakeholders in their non-financial section of their annual reports. It shows how often the key stakeholders have been mentioned within those sections. As can be seen, SPAR mentions employees quite often in the report (26% of all mentions over the period 2010 to 2014), followed by the environment (19%), customers (17%), suppliers (14%), general society (13%) and lastly investors (shareholders) (11%). Further discussion has also been provided in the sections that follow to illustrate how SPAR acknowledges and supports these different stakeholders.

4.2.1.1. Customers

SPAR operates on a voluntary trading structure. This essentially means that each SPAR store is individually owned and not owned by SPAR itself. SPAR therefore has direct customers (being the retailers who own the stores under the trading structure) and also has indirect customers (those who shop at the retail stores). Under the structure both direct and indirect customers are an important focus as retaining the indirect customers would result in more being supplied to the retailers. Furthermore, retailers are not obliged to procure all their products from the SPAR distribution centres, therefore there is a need to focus on the direct customer relationship in order to retain their procurement. Within the period under analysis it was noted that SPAR has committed resources to both direct and indirect customers.

4.2.1.1.1. Direct Customers (Retailers)

One of SPAR's strategic focuses is retailer support. SPAR acknowledges that because of the business model that they have adopted, the success of SPAR is highly dependent on their retailers. They have therefore ensured that measures are in place to aid retailer success as part of their mission. Support services such as assisting retailers to make their stores appealing to customers (SPAR's indirect customers) through design and revamp assistance, encouraging merchandising best practice, assisting with public relations activities and offering other training where necessary are some support mechanisms availed to retailers (SPAR, 2014).

4.2.1.1.2. Indirect Customers (Shoppers)

SPAR also concentrates attention on their indirect customers as, without their indirect customers, the retailers would not be able to remain open resulting in fewer operations for SPAR. In 2012 more than 9 million was invested to assist in developing skills at retailers to aid in servicing the needs of their customers better (SPAR, 2012). Over and above this, for all five years analysed, SPAR had an in-house customer care line to address any customer complaints as well as queries relating to all products sold at retailer stores. Consumer surveys and focus groups were also held at retail store levels. Using this feedback, SPAR has been able to continue in its efforts to deliver quality products to their indirect consumer as well as aid retailers to better their services (SPAR, 2011).

4.2.1.2. Employees

SPAR acknowledges that employees are a key stakeholder and are critical to the success of the group as evidenced by the many mentions as per Table 4.1 (SPAR, 2011). As employees are key, SPAR has strived to ensure employee satisfaction (SPAR, 2013) and as such was named top employer in South Africa for 2014 and has not been subject to much strike action (SPAR, 2014). Various training and development programmes are on offer through SPAR with focus on leadership, management, supervision and graduate trainees. Technical training such as computer skills, driver training and first aid are also offered to employees. Further to this, in-house training is availed not only to SPAR staff, but SPAR retailer staff too (SPAR, 2012).

SPAR also acknowledges that the health and safety of their employees is of vital importance. Health and safety training has been provided each year as well as wellness services through onsite clinics on which an increasing amount of money has been invested each year from two million in 2010 (SPAR, 2010) to three million in 2014 (SPAR, 2014) (see Table 4.2). HIV/AIDS awareness campaigns have been launched and HIV positive employees are also provided with counselling and support. Lastly SPAR is also committed to transformation and has targeted level 3 BBBEE status. However, in the period reviewed SPAR achieved level 6 (2010, 2011, 2012) or 7 (2014) status.

Table 4.2 Summary of SPAR's investment in onsite clinics from 2010 to 2014

	2014	2013	2012	2011	2010
Investment in onsite clinics (millions)	3	2.9	2.7	2.5	2

Source: Author compiled using data from SPAR (2010; 2011; 2012; 2013; 2014)

4.2.1.3. Suppliers

SPAR works in partnership with their suppliers (SPAR, 2014) and believes that strong collaborative relationships with this stakeholder are important (SPAR, 2011). Of particular interest to SPAR has been partnering with suppliers to reduce packaging, create transport efficiencies, maintain low prices and even some social investment projects. Suppliers are audited to ensure compliance with SPAR standards. SPAR has also begun training farmers who provide them with fresh produce on sustainable farming methods. The initiative began in 2011 with 21 farmers (SPAR, 2011) and has almost doubled in 2014 to 41 farmers (SPAR, 2014). SPAR has also attempted to source goods from local sources first wherever possible in order to support the community and encourage local employment (SPAR, 2010).

4.2.1.4. Investors (Shareholders)

SPAR produces annual financial statements for shareholders to be able to see that there is growth in their investment in SPAR. In each year analysed it was noted that SPAR highlighted performance statistics for shareholders to illustrate the growth in the company and value given back to shareholders. The main indications of the growth of SPAR and their distributions to shareholders are highlighted in Table 4.3. Table 4.3 shows headline earnings per share (earnings based solely on operational and capital investment activities) (Kew and Watson, 2012) increasing annually as well as business turnover (sales). Dividends per share has also increased from 362c to 540c representing a 49% increase. This illustrates that SPAR is growing and increasingly giving back to shareholders.

Table 4.3 Summary of SPAR performance statistics from 2010 to 2014

	2014	2013	2012	2011	2010
Percentage increase in turnover	15%	9.8%	12.2%	10.4%	9%
Percentage increase in headline earnings per share	12.5%	13%	10.6%	3.9%	12.1%
Dividends per share	540c	485c	430c	377c	362c

Source: Author compiled using data from SPAR (2010; 2011; 2012; 2013; 2014)

4.2.1.5. General Society

SPAR has acknowledged that broader society is an important stakeholder group.(SPAR, 2011). They contribute to society through various corporate social investment (CSI) initiatives, some of these initiatives not only benefit general society, but also benefit other specific stakeholders. Broad focus areas for CSI have been on healthcare, hunger, poverty alleviation, safety and sports. Some examples of on-going CSI initiatives over the period analysed are as follows.

- Campaigns to improve awareness of the importance of nutrition.

- Encouraging and supporting responsible alcohol consumption.
- Introducing school children to the concept of sustainability.
- Long-term sports sponsorships (especially in women's sport).
- Junior achievement programme that provides entrepreneurial skills as well as life skills.
- Ubuntu Community programme that focuses on crime prevention.
- Various feeding schemes such as Isonka and Ubomi Obutsha to name a few.
- Garden projects where children and disadvantaged communities are taught how to grow and care for their own fruit and vegetable gardens.
- Roundabout water projects where children's merry-go-rounds are used to pump water to reservoirs as the children play.
- Involvement in the Ikamv'elihle rehabilitation centre, Kids Haven Orphanage, Gozololo day care centre and Arebaokeng child day care centre to name a few.
- Bursary programmes.

Total CSI spend has increased over the years from 9.3 million in 2010 (SPAR, 2010) to 13.2 million (SPAR, 2014) (refer Table 4.4). However, as a percentage of net profits and revenues, has been maintained at approximately 1% and at approximately 0.025%.

Table 4.4 Summary of SPAR CSI spending from 2010 to 2014

	2014	2013	2012	2011	2010
CSI spend (millions)	13.2	11.8	11.4	9.6	9.3
CSI spend as a percentage of revenue	0.024%	0.025%	0.026%	0.025%	0.027%
CSI spend as a percentage of net profits	0.981%	0.991%	1.077%	1.008%	1.016%

Source: Author compiled using data from SPAR (2010; 2011; 2012; 2013; 2014)

4.2.1.6. Environment

SPAR is focussed on their impact on the environment in which they operate. As part of their focus, the group has created an environmental policy that focuses on reducing the negative impact of operations and making a positive contribution to preservation of the environment (SPAR, 2010). In 2012 the group held a three day children's conference to educate children on environmental issues including biodiversity, recycling and climate change (SPAR, 2012). Further to this, in 2013 specific goals were set with reference to reduction in electricity consumption, fuel emissions, waste to landfills and municipal water use. (SPAR, 2013). In 2014 efforts towards these goals were reflected as there was a 25% reduction in electricity usage, 14% reduction in total carbon footprint, more usage of biodiesel, rain water recycling and a new trailer prototype designed to reduce fuel costs and carbon dioxide emissions (SPAR, 2014). SPAR has also actively participated in the Carbon Disclosure Project. Efforts in decreasing energy consumption and increasing recycling are illustrated in Table 4.5. It is shown that since 2011 energy consumption has halved and recycling has increased by three to five times.

Table 4.5 Summary of SPAR Environmental Initiatives from 2010 to 2014

	2014	2013	2012	2011	2010
Energy consumed (kilowatt hours)	37 696 714	49 999 540	Not quantified	75 925 352	Not quantified
Recycling of cardboard (metric tonnes)	9 995	9 241	6 477	2 973	Not quantified
Recycling of plastic (metric tonnes)	1 037	925	569	282	Not quantified

Source: Author compiled using data from SPAR (2010; 2011; 2012; 2013; 2014)

4.2.2. Sustainability

SPAR's prevailing purpose throughout the analysis period has been "To provide expert leadership and support to retailers to enable them to run sustainably profitable and professional business" (SPAR, 2014, p. 2). In furtherance of their purpose, SPAR indicates that "focus is on stakeholder returns through a sustainable system" (SPAR, 2014, p. 39) and SPAR has ensured that sustainability thinking has been integrated into all aspects of their strategy. As a consequence of their chosen purpose, SPAR has also encompassed certain values into their business model, amongst these are values directly aimed at certain stakeholders such as customers and employees and aimed at a long-term as opposed to a short-term focus. Such values include passionate commitment to customers, empowerment of people, teamwork and a family culture where work can be seen to be fun. Throughout the reports, sustainability has been an increased focus for SPAR, this can be evidenced by the fact that sustainability has been mentioned more times in the later reports than the earlier reports (23 in 2010 to 100 in 2014). Table 4.6 summarises the frequency of mentioning sustain in the reports.

Table 4.6 Summary of SPAR mentioning sustain from 2010 to 2014

	2014	2013	2012	2011	2010
Number of times sustain is mentioned in annual report	100	72	48	31	23

Source: Author compiled using data from SPAR (2010; 2011; 2012; 2013; 2014)

4.2.3. Summary and Conclusion

From the analysis, it is evident that SPAR has considered all six major stakeholders and their relevant interests to a certain extent in their financial statements from 2010 to 2014. Their main concentration, however, appears to be towards their employees as described in section 4.2.1.2. It has also been established that their long-term goal is that of sustaining the group with a concentration on the key stakeholders of the group as has been discussed under section 4.2.2. SPAR therefore does not focus solely on shareholder wealth, nor do they focus on general stakeholder wealth, but rather focuses on ensuring that the company itself is sustained. It is consequently concluded that, based on the period reviewed, SPAR's prevailing purpose is closest to that of the EMS model.

4.3. Pick n Pay

4.3.1. Stakeholders

Pick n Pay focuses on several different stakeholders as shown in Table 4.7. The company is committed to continue and expand their engagement with stakeholders to improve each year (Pick n Pay, 2014). It is further acknowledged that with stakeholder focus, shared value can grow (Pick n Pay, 2013). Table 4.7 indicates how often Pick n Pay has acknowledged the different stakeholders in the non-financial section of their annual reports. It is evident from the number of mentions that customers are a large focus for Pick n Pay (36%). Investors (shareholders) follow with only a 21% mention indicating further just how much emphasis Pick n Pay put on their customers. Employees follow a close third at 13% with suppliers, society and the environment at the tail end with 10% for both suppliers and society and 9% for the environment. It must be noted that Pick n Pay also produces a bi-annual sustainable living report which further emphasises their involvement with stakeholders. Further discussion has also been provided in the sections that follow that illustrate how Pick n Pay acknowledges and supports these different stakeholders.

Table 4.7 Summary of Pick n Pay Stakeholders from 2010 to 2014

	2014		**2013**		**2012**		**2011**		**2010**		**Total**	
	Times	**%**	**Times**	**%**	**Times**	**%**	**Times**	**%**	**Times**	**%**	**Times**	**%**
Customers	179		89		67		42		27		404	
Consumers	37		23		19		18		16		113	
	216	40%	112	38%	86	35%	60	29%	43	33%	517	36%
Employees	44		24		14		36		32		150	
Staff	12		11		7		4		2		36	
	56	10%	35	12%	21	9%	40	19%	34	26%	186	13%
Investor	25		6		8		5		3		47	
Shareholder	83		60		36		44		31		254	
	108	20%	66	22%	44	18%	49	23%	34	26%	301	21%
Society	15		6		5		2		1		29	
Community	20		9		6		2		2		39	
Communities	36		8		15		12		1		72	
	71	13%	23	8%	26	11%	16	8%	4	3%	140	10%
Supplier	47	9%	36	12%	30	12%	27	13%	9	7%	149	10%
Environment	44	8%	22	7%	36	15%	17	8%	8	6%	127	9%
Total	542	100%	294	100%	243	100%	209	100%	132	100%	1 420	100%

Source: Author compiled using data from Pick n Pay (2010; 2011; 2012; 2013; 2014)

4.3.1.1. Customers

Pick n Pay have three enduring business principles that they follow, one of them being customer sovereignty. As part of the upliftment of this principle, Pick n Pay holds that “the customer is queen” (Pick n Pay, 2010, p. 6) and has appointed a customer director to enable an ongoing emphasis on customer needs. The company is passionate about getting to know customers and getting feedback through various channels such as personal meetings as well as customer surveys, forums and online panels. It is evident from the reports that Pick n Pay “put customers at the heart” of their business and create value for this stakeholder (Pick n Pay, 2014, p. 11). This prevailing focus on customers is too emphasised through the evidence in that Table 4.7 shows that customers were the most mentioned in the non-financial sections of the Pick n Pay annual report from 2010 to 2014.

At the end of the 2011 financial year, Pick n Pay launched its smart shopper loyalty programme that boasts to be the biggest loyalty programme in South Africa (Pick n Pay, 2012). The number of card holders after the first year of the programme sat at just over five million and had escalated to almost eight million by the end of the 2014 financial year. It is evident that through this loyalty programme customers have been rewarded and have reaped savings as well as being able to transfer those savings to charitable affairs. Pick n Pay are, however, still trying to find new ways of rewarding their customers further for their loyalty as they are important stakeholders of their business (Pick n Pay, 2014).

Pick n Pay has been awarded several awards including most reputable retailer, most trusted retailer, South Africa’s number one grocery store in 2014 (Pick n Pay, 2014) and most reputable retailer in 2013 (Pick n Pay, 2013). The number of awards indicates that Pick n Pay has received that their focus on customers is being recognised.

4.3.1.2. Employees

In 2014 Pick n Pay employed approximately 50 000 people directly and close to 73 000 if their franchise stores are included (Pick n Pay, 2014). Communication between the company and employees is placed in high regard. Some examples of how communication is effected is via management updates, employee surveys, monthly publications, in-house television, in-house radio and through unions. Further communication is also provided in the form of training and skills development. Pick n Pay is committed to developing skills of employees and has spent an increasing amount on training and bursaries over the period under review. Table 4.8 shows how Pick n Pay have increased spending on training of bursaries each year, producing a total increase of 36.5 million, from 55.2 million in 2010 (Pick n Pay, 2010) to 91.7 million in 2014 (Pick n Pay, 2014). The biggest increase was seen between 2010 and 2011 where 16.6 million more was spent in 2011. There are over 330 training programmes for employees to attend and in 2014 their own graduate recruitment programme was launched.

Table 4.8 Summary of Pick n Pay training investments from 2010 to 2014

	2014	2013	2012	2011	2010
Investment in training and bursaries (millions)	91.7	89.9	80.2	71.8	55.2

Source: Author compiled using data from Pick n Pay (2010; 2011; 2012; 2013; 2014)

4.3.1.3. Suppliers

Pick n Pay is passionate about supporting local suppliers with a particular focus on helping develop small businesses into becoming successful suppliers. From 2012 to 2014, private label products sourced locally have increased from 88% (Pick n Pay, 2012) to 92% (Pick n Pay, 2014). Pick n Pay has also developed a Small Business Incubator where senior managers in the group are involved in ongoing mentorship of smaller entities to help develop them into suppliers of Pick n Pay stores. In 2013, seventy two businesses were involved in the Incubator (Pick n Pay, 2013). Further to this, in 2014 thirty three million was spent on technical support for suppliers and 100% of the almost five thousand suppliers that service Pick n Pay were audited on health, safety and environmental issues (Pick n Pay, 2014).

4.3.1.4. Investors (Shareholders)

Pick n Pay produces annual financial statements for their shareholders to monitor the status of their investment. In each year analysed it was noted that Pick n Pay highlighted key performance statistics as part of their annual report. The main indicators of the performance of Pick n Pay and their distributions to shareholders are highlighted in Table 4.9. Table 4.9 shows headline earnings per share (earnings based solely on operational and capital investment activities) (Kew and Watson, 2012) increasing slightly by only 2.1% in 2010 and decreasing thereafter till 2014 where an increase of 43.3% was experienced. Business turnover (sales), however, have still increased year on year. Dividends per share has decreased from 84.9c in 2010 to almost half (44.3c) in 2014. This illustrates that Pick n Pay has not performed well over the review period but picked up in 2014.

Table 4.9 Summary of Pick n Pay performance statistics from 2010 to 2014

	2014	2013	2012	2011	2010
Percentage increase in turnover	7.7%	7.1%	8.1%	5.9%	9.8%
Percentage increase / (decrease) in headline earnings per share	43.3%	(30.9)%	(13.5)%	(22.9)%	2.1%
Dividends per share	44.3c	40.8c	63.5c	69.3c	84.9c

Source: Author compiled using data from Pick n Pay (2010; 2011; 2012; 2013; 2014)

Pick n Pay held an investment day in August 2013 to give shareholders an update on their strategies (Pick n Pay, 2014) and have an open door policy when it comes to their shareholders (Pick n Pay, 2011).

4.3.1.5. General Society

Pick n Pay engages with society through various different social responsibility programmes partnering with the Ackerman Pick n Pay Foundation (Pick n Pay, 2013). Some of these programmes benefit both general society and other specific stakeholders. Examples of on-going projects during the period analysed are:

- Development of community gardens (113 in 2014 and 100 in 2013)
- Donations of food to Foodbank South Africa
- Assisting schools with curricula-aligned educational material
- Small enterprise support
- In 2014, raising money for Nelson Mandela Children's Hospital and Nelson Mandela's Children's Fund
- Providing employment to women through the selling of manufactured eco-bags

Total CSI spend has fluctuated over the years. Table 4.10 shows this fluctuation. The amount spent has decreased from 61 million in 2010 (Pick n Pay, 2010) to only 36 million in 2014 (Pick n Pay, 2014) with the only increase being in 2012 where 75.6 million was spent (Pick n Pay, 2012). Even the spend as a percentage of revenue has fluctuated with the lowest in 2014 (0.057%) and the highest in 2012 (0.137%). The spend as a percentage of net profits increased and decreased each year. From 2010 to 2011 the percentage spiked by 1.81% with a small decrease of 0.144% to 2012, another marginal increase of 0.4% in 2013 and lastly an increase of 1% in 2014.

Table 4.10 Summary of Pick n Pay CSI spending from 2010 to 2014

	2014	2013	2012	2011	2010
CSI spend (millions)	36	39.5	75.6	54.4	61
CSI spend as a percentage of revenue	0.057%	0.067%	0.137%	0.106%	0.124%
CSI spend as a percentage of net profits	6.191%	7.199%	6.799%	6.943%	5.133%

Source: Author compiled using data from Pick n Pay (2010; 2011; 2012; 2013; 2014)

4.3.1.6. Environment

Pick n Pay has a focussed approach to minimising the impact that business has on their surrounding environment. General focus has been emphasised at lowering of their carbon footprint which has been achieved through reduction of energy usage as well as recycling. Several achievements have also been made by Pick n Pay regarding environmental performance, namely being the highest ranked retailer on Carbon Disclosure Project's Climate Performance and Leadership Index in 2014 and included in the JSE top 100 in previous years as well as having their climate change strategy assessed as foremost among African businesses (Pick n Pay, 2014). Other awards that have been received include most environmentally responsible South African retailer, grand prix winner for green awareness, most innovative environmental strategies.

Pick n Pay has successfully managed to reduce their carbon footprint and invested 55 million in 2014 on energy efficient projects in an attempt to further decrease the carbon footprint. Table 4.11 shows that Pick n Pay have almost trebled the amount of recycling done from 6 444 tonnes (2010) to 18 591 tonnes (2014). They have also lowered energy usage by 10% and have lowered their carbon emissions by 9% despite growing the company over the period reviewed.

Table 4.11 Summary of Pick n Pay Environmental Initiatives from 2010 to 2014

	2014	2013	2012	2011	2010
Waste recycled (tonnes)	18 591	13 611	12 456	6 444	Not quantified
Energy use (gigawatt hours)	510	517	530	557	569
Carbon foot print (carbon dioxide emissions in tonnes)	582 518	577 289	607 156	602 782	642 351

Source: Author compiled using data from Pick n Pay (2010; 2011; 2012; 2013; 2014)

4.3.2. Sustainability

One of their values and beliefs in relation to business principles is that "doing good is good business" (Pick n Pay, 2013, p. 13). In their elaboration on this principle, the indication is that growth of a company flows from doing good business, a similar principle to conscious capitalism. Pick n Pay (2012), however, indicates that, by applying these principles, a solid platform will be formed for a sustainable business indicating more of an EMS model.

Further indications of Pick n Pay's belief in the sustainability approach have been illustrated from 2011 to 2014. It has been acknowledged that stakeholders have conflicting needs, however the only way to ensure long-term sustainability is to balance the relevant stakeholder interests and ensure a mutually beneficial relationship exists. This became a priority in 2014 for Pick n Pay (Pick n Pay, 2014). In 2013 it was noted that Pick n Pay's focus on sustainability continues to lie at the heart of the business model and that this commitment back dates to the early 1980s (Pick n Pay, 2013). Lastly, in 2011 the CEO stated in his report that "sustainability has gained a foothold within our Company" (Pick n Pay, 2011, p. 19).

Table 4.12 indicates the number of times sustainability has been mentioned in the Pick n Pay annual reports. It is evident that Pick n Pay begun a greater focus on sustainability in 2011 shown by the increase in mention from 39 times in 2010 to 82 times 2011 and has maintained the focus through the remaining period under review with mentions staying in the 80s up to 2014.

Table 4.12 Summary of Pick n Pay mentioning sustain from 2010 to 2014

	2014	2013	2012	2011	2010
Number of times sustain is mentioned in annual report	86	85	81	82	39

Source: Author compiled using data from Pick n Pay (2010; 2011; 2012; 2013; 2014)

4.3.3. Summary and Conclusion

From the analysis it is clear that Pick n Pay has paid a lot of attention to their different stakeholders with a very strong focus on customers in particular (as described in section 4.3.1.1.). Despite the acknowledged attention to each stakeholder, section 4.3.2. indicates that Pick n Pay has a strong focus on sustainability of the group. It has also been mentioned by management that without a certain extent of focus on stakeholders and their involvements, Pick n Pay would not be sustainable in the long term. Pick n Pay therefore does not focus solely on shareholder wealth, nor do they focus on general stakeholder wealth, but rather focuses on ensuring that the company itself is sustained. It is consequently concluded that, based on the period reviewed, Pick n Pay's prevailing purpose is closest to that of the EMS model.

4.4. Shoprite

4.4.1. Stakeholders

Shoprite identifies several stakeholders in their annual reports as identified in Table 4.13. They acknowledge that it is central to long-term success to effectively engage with these stakeholders to identify solutions to drive business forward as a mutual interest. They also understand that the business and the communities within which it operates are interdependent and cannot stand alone (Shoprite, 2013). The Table 4.13 indicates how often Shoprite has acknowledged the different stakeholders in their non-financial section of their annual reports from 2010 to 2014. As with Pick n Pay, Shoprite too has their highest mention being their customers at 29%, however, they are closely followed by employees at 27%. Less focus has been placed on investors (shareholders) and suppliers at 14% and 13% respectively. Communities and the environment are the least mentioned, both coming in at 9%. Further discussion has also been provided in the sections that follow that illustrate how Shoprite acknowledges and supports these different stakeholders.

Table 4.13 Summary of Shoprite Stakeholders from 2010 to 2014

	2014		2013		2012		2011		2010		Total	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customers	39		33		32		40		115		259	
Consumers	33		35		39		35		70		212	
	72	26%	68	24%	71	26%	75	32%	185	33%	471	29%
Employees	54		71		66		37		98		326	
Staff	12		13		15		24		47		111	
	66	23%	84	30%	81	29%	61	26%	145	26%	437	27%
Investor	7		11		8		6		7		39	
Shareholder	49		50		47		16		23		185	
	56	20%	61	22%	55	20%	22	9%	30	5%	224	14%
Society	2		2		1		1		8		14	
Community	8		5		3		7		28		51	
Communities	14		13		14		11		29		81	
	24	9%	20	7%	18	6%	19	8%	65	11%	146	9%
Supplier	34	12%	26	9%	30	11%	38	16%	84	15%	212	13%
Environment	30	11%	22	8%	22	8%	20	9%	58	10%	152	9%
Total	282	100%	281	100%	277	100%	235	100%	567	100%	1 642	100%

Source: Author compiled using data from Shoprite (2010; 2011; 2012; 2013; 2014)

4.4.1.1. Customers

Shoprite values customers and their needs and as evidenced in Table 4.13, customers are a large focus for Shoprite. As part of Shoprite strategy they have pinpointed one main customer need as being low costs and have geared themselves towards satisfying this customer need. Over the period of review Shoprite has successfully managed to keep their internal food inflation below the official food inflation rate and prevented over one billion rands worth of price increases from reaching customers in 2014 (Shoprite, 2014). Table 4.14 illustrates the difference in the two inflation rates and it can be seen that every year Shoprite has managed to undercut the official food inflation so that their customers benefit from lower prices.

Table 4.14 Summary of Shoprite internal inflation versus official food inflation from 2010 to 2014

	2014	2013	2012	2011	2010
Internal (Shoprite) inflation	4.7%	4.3%	4.9%	-0.1%	2.2%
Official food inflation	6.1%	6.1%	8.8%	3.2%	3.5%
Difference	(1.4%)	(1.8%)	(3.9%)	(3.3%)	(1.3%)

Source: Author compiled using data from Shoprite (2010; 2011; 2012; 2013; 2014)

Further to ensuring low prices, Shoprite also ensure that customers have excellent service and send staff for customer service training and training on the consumer protection act. A customer feedback system has also been implemented to resolve any instances of negative feedback (Shoprite, 2011).

From a customer point of view, it has been shown through AMPS (All Media and Products surveys) data that Shoprite is valued by customers. Examples of data illustrating such value is that in 2010 Shoprite had the largest market share (Shoprite, 2010), 67% of South Africa's adult population claim to buy groceries from stores in the Shoprite Group in 2012 (Shoprite, 2012), which increased to 70% in 2013 (Shoprite, 2013) and in 2014 showed the highest number of loyal, regular customers (Shoprite, 2014). Shoprite has also been rated the number one supermarket in all five grocery categories, including overall customer experience in the Sunday Times Top Brands awards and the Times / Sowetan Retail awards a few times over the review period (Shoprite, 2014).

4.4.1.2. Employees

The Shoprite group are currently Africa's largest food retailer and as a result they employ many individuals throughout Africa. The number of employees has grown from 88 000 in 2010 (Shoprite, 2010) to 123 000 in 2014 (Shoprite, 2014) meaning an average increase of 7 000 individuals have been employed by Shoprite in each year analysed. With such a large amount of individuals working for Shoprite, they acknowledge that it is of utmost importance to train them and maintain employee satisfaction in order to retain staff. Staff turnover over the review period has remained under 20% which is favourable in comparison to the international industry average of 30.2% indicating that staff are satisfied. Shoprite has also ensured that transformation has taken place within their business having gone from a level 6 BBBEE rating in 2010 (Shoprite, 2010) to a level 4 rating in 2014 (Shoprite, 2014).

Shoprite has been committed to training employees and furthering their skills. In 2014 they were one of the largest contributors to skills development in South Africa (Shoprite, 2014). This was evidenced by 1 387 707 training hours from 293 756 interventions in 2014 (Shoprite, 2014) growing from 144 863 interventions in 2010 (Shoprite, 2010). Bursaries are also issued to deserving candidates in order for them to attain tertiary qualifications at universities prior to working for the company. Further to this, a number of learners are completing twelve and three month learnerships after which Shoprite has committed to employing 90% of the successful candidates (Shoprite, 2011, Shoprite, 2012, Shoprite, 2013).

A further benefit supplied to employees is a voluntary counselling and testing project where employees are able to be tested for the HIV virus and receive counselling. This service is offered free to employees and was launched in 2011 (Shoprite, 2011) and has been rolled out to hundreds of Group facilities ever since. Further to this in 2014 all employees and their immediate families were covered by the post exposure prophylactics medication programme in case of accidental exposure to the HIV virus (Shoprite, 2014).

4.4.1.3. Suppliers

Shoprite recognises top suppliers annually in an awards ceremony. Top suppliers that were given awards for their efforts were recognised in the 2012, 2011 and 2010 annual financial statements. Shoprite also has placed focus on local suppliers and will utilise them as opposed to international suppliers in order to support the country (Shoprite, 2013), this includes small farmers and other small businesses (Shoprite, 2010). One supplier describes the relationship with Shoprite as win-win, “based on mutual respect and trust, with collaboration on logistics and planting programmes that enables proactive planning, forges mutual reliance and builds a long-term partnership” (Shoprite, 2014, p. 25).

4.4.1.4. Investors (Shareholders)

Shoprite produces annual financial statements for shareholders to be able to see that there is growth in their investment in Shoprite. In each year analysed it was noted that Shoprite highlighted performance statistics for shareholders to illustrate the growth in the company and value given back to shareholders. The main indications of growth of Shoprite as well as their distributions to shareholders are highlighted in Table 4.15. Table 4.15 shows headline earnings per share (earnings based solely on operational and capital investment activities) (Kew and Watson, 2012) increasing annually as well as business turnover (sales).

Dividends per share has also increased from 227c to 350c representing a 54% increase. This illustrates that Shoprite is growing and increasingly giving back to shareholders.

Table 4.15 Summary of Shoprite performance statistics from 2010 to 2014

	2014	2013	2012	2011	2010
Percentage increase in turnover	10.5%	12.1%	14.4%	7.3%	13.6%
Percentage increase in headline earnings per share	3.3%	11.3%	19.6%	11.5%	13.5%
Dividends per share	350c	338c	303c	253c	227c

Source: Author compiled using data from Shoprite (2010; 2011; 2012; 2013; 2014)

4.4.1.5. General Society

Shoprite engages with the general society through various initiatives. The annual reports under the review period do not quantify the amount of money spent in total on corporate social investment activities, however, they do indicate each year that more than 1% of net profits after taxation has been spent on such projects. Some of the projects that have been focussed on are:

- Food donations
- The Shoprite Mobile Soup Kitchen feeding scheme that began in February 2007 and has since served up to nineteen million cups of soup to disadvantaged individuals
- Strokes of Genius art project that gives young artists the opportunity to showcase their work to buyers
- Shoprite Checkers Women of the year awards where exceptional and visionary women are recognised and rewarded for their contributions to society
- Shoprite Community Network which provides support to organisations that are making a difference in their communities.

Shoprite also create opportunity for their customers to become involved in philanthropic initiatives through projects such as pretty little things for little things (where clothes, blankets and toys are made and distributed to needy children), trolley collection campaigns and gift-wrapping services where proceeds go towards charity (Shoprite, 2014).

4.4.1.6. Environment

Shoprite has adopted the principles of waste avoidance first, followed by reduction, re-use and recycling where possible (Shoprite, 2011). Over the review period, steps have been taken to manage electricity consumption (Shoprite, 2012), a state of the art grey-water system has been installed at a distribution centre (Shoprite, 2013) and food waste has been minimised whilst recycling of cardboard and plastic has risen (Shoprite, 2014). They have even collaborated with their carrier bag supplier to increase the use of recycled plastics to 100% which would result in 2 100 tonnes of plastic waste diverted from the landfill site each year (Shoprite, 2014).

4.4.2. Sustainability

Shoprite recognises that sustainability should be a core aspect of corporate governance to ensure long-term success (Shoprite, 2010) and therefore established a Social and Ethics Committee to ensure that they operate in a responsible, ethical and sustainable manner (Shoprite, 2012). In the 2014 integrated report Shoprite elaborated and indicated that their context of sustainability means focusing on customers, employees, the environment, suppliers as well as the communities served (Shoprite, 2014). Throughout the reports sustainability has been mentioned by Shoprite. Table 4.16 shows the number of mentions has remained in the 20s with a drop of mention in 2011 to only 9 which is much less than fellow competitors SPAR and Pick n Pay.

Table 4.16 Summary of Shoprite mentioning sustain from 2010 to 2014

	2014	2013	2012	2011	2010
Number of times sustain is mentioned in annual report	29	21	23	9	21

Source: Author compiled using data from Shoprite (2010; 2011; 2012; 2013; 2014)

4.4.3. Summary and Conclusion

In the 2013 integrated report, Shoprite writes: "the reason d'être of any business is to make a profit [but] in our modern society that can no longer happen in isolation" (Shoprite, 2013, p. 11). This solidifies that Shoprite believes that the objective of a business cannot merely be to make profits but rather that something over and above this needs to be done too. The neoclassical model is therefore not applicable. Having analysed the five year period of Shoprite, it is evident that Shoprite engages with stakeholders, customers being their main emphasis, to satisfy basic needs in order for their business to remain sustainable. As such, the EMS model is the closest fit.

4.5. Clicks

4.5.1. Stakeholders

The Clicks annual reports contain many different reports in their non-financial information, however, many of the reports mainly focus on the group performance rather than what has been done for stakeholders. The only report that focuses on stakeholders is the social and ethics committee report, illustrating more of a shareholder focus as opposed to general stakeholders (Clicks, 2010, Clicks, 2011, Clicks, 2012, Clicks, 2013, Clicks, 2014). Despite this, Table 4.17 shows that employees are mentioned the most at 31% closely followed by investors (stakeholders) at 30%. Customers follow at only 20% and the environment at 12%. Suppliers and communities round up the tail end at 4% and 3% respectfully. Further discussion has also been provided in the sections that follow that illustrate how Shoprite acknowledges and supports these different stakeholders.

Table 4.17 Summary of Clicks Stakeholders from 2010 to 2014

	2014		2013		2012		2011		2010		Total	
	Times	%	Times	%	Times	%	Times	%	Times	%	Times	%
Customers	30		32		49		44		35		190	
Consumers	20		20		20		17		15		92	
	50	22%	52	21%	69	21%	61	20%	50	17%	282	20%
Employees	49		48		67		81		75		320	
Staff	13		17		33		34		22		119	
	62	28%	65	27%	100	30%	115	37%	97	32%	439	31%
Investor	3		4		7		10		17		41	
Shareholder	68		74		93		78		62		375	
	71	32%	78	32%	100	30%	88	29%	79	26%	416	30%
Society	1		0		0		0		3		4	
Community	3		4		5		4		11		27	
Communities	3		3		6		1		2		15	
	7	3%	7	3%	11	3%	5	2%	16	5%	46	3%
Supplier	4	2%	9	4%	18	5%	15	5%	13	4%	59	4%
Environment	31	14%	31	13%	33	10%	24	8%	48	16%	167	12%
Total	225	100%	242	100%	331	100%	308	100%	303	100%	1 409	100%

Source: Author compiled using data from Clicks (2010; 2011; 2012; 2013; 2014)

4.5.1.1. Customers

Over the period analysed, Clicks has not overwhelmingly mentioned their customers (refer to Table 4.17), however, part of their strategic objectives is to create a great customer experience and to drive customer loyalty through their ClubCard loyalty programme and as part of their values they are passionate about customers (Clicks, 2014). The ClubCard loyalty programme is one of the biggest programmes in South Africa and has grown steadily over the period reviewed evidenced by the increase in active card holders from 3 million in 2010 to 4.7 million in 2014 (refer to Table 4.18). A total of R240 million was given back to customers in cash back vouchers in 2014 amounting to a total pay back of over R1.1 billion over the five years (Clicks, 2014).

Table 4.18 Summary of Clicks ClubCard holders from 2010 to 2014

	2014	2013	2012	2011	2010
Active ClubCard holders (millions)	4.7	4.1	3.9	3.4	3

Source: Author compiled using data from Clicks (2010; 2011; 2012; 2013; 2014)

4.5.1.2. Employees

Clicks believe that an important business enabler is motivated and skilled staff who operate in a values driven culture that rewards them based on performance. In order to achieve success in this business enabler, Clicks have embraced transformation and moved from a level 5 BBEEE score in 2010 (Clicks, 2010) to a level 3 in 2011 mainly as a result of a broad-based employee share ownership programme that was introduced (Clicks, 2011). The company has maintained a level 3 score, but has improved it from the lower end of the level to the upper end from 2011 (score 76.99) to 2014 ((score 80.54) (see Table 4.19). Proof of their efforts towards transformation is that Clicks were rated as most empowered company in the retail sector in a survey conducted by the Financial Mail in 2013

(Clicks, 2013). This has been achieved whilst increasing workers from 7 289 to 8 089 and maintaining an employee turnover rate of between nineteen and twenty two percent.

Table 4.19 Summary of Clicks BBEEE Score from 2010 to 2014

	2014	2013	2012	2011	2010
BBEEE score (calculated using the BBEE scorecard)	80.54	77.99	77.26	76.99	58.37

Source: Author compiled using data from Clicks (2010; 2011; 2012; 2013; 2014)

Clicks have also contributed a growing amount towards their bursary scheme that aids university students in paying for tuition and learning resources. Every year in excess of forty million rand has also been invested in learning and skills development for employees. Further to this Clicks also provides a wellness programme to permanent employees and their dependents that provides independent, confidential, professional counselling and advisory services. It is no wonder that Clicks therefore attained an employee satisfaction rating of 65% in 2012 (Clicks, 2012) and was ranked first in the retail sector and within the top ten employers nationally by the Top Employers Institute in 2014 (Clicks, 2014).

4.5.1.3. Suppliers

Over the period analysed there has been little evidence that illustrates Clicks' focus on suppliers (only a 4% mention). In all the periods reviewed, however, the annual report did indicate that Clicks prefers to source merchandise from locally-based and empowered suppliers indicating that they do support their local community.

4.5.1.4. Investors (Shareholders)

Clicks produces annual financial statements for shareholders to be able to see that there is growth in their investment in Clicks. In each year analysed it was noted that Clicks highlighted performance statistics for shareholders in several different reports contained in the annual report to illustrate the growth in the company and value given back to shareholders. Their return on equity has remained the highest of the sector throughout the period reviewed.

Unlike the other companies already analysed, Clicks highlighted diluted headline earning per share rather than headline earnings per share and was the only company to highlight their return on equity. Diluted earnings per share is calculated using earnings based solely on operational and capital investment activities and number of shares to include shares that could be issued as a result of warrants and convertible instruments. Therefore the only difference between this indicator and the headline earnings per share highlighted by the other companies is that number of shares used is diluted (Service, 2015). These indicatiors that Clicks brings attention to are highlighted in Table 4.20. Table 4.20 shows diluted headline earnings per share (increasing annually as well as business turnover (sales). Dividends per share has also increased from 106c to 190c representing a 79% increase. Return on equity showed a large increase from 2010 to 2011 but decreased back to the 51% level in 2012 and steadily increased to 55% from then till 2014. This illustrates that Clicks is increasingly giving back to shareholders.

Table 4.20 Summary of Clicks performance statistics from 2010 to 2014

	2014	2013	2012	2011	2010
Percentage increase in turnover	9.2%	13.6%	9.2%	6.2%	9%
Percentage increase in diluted headline earnings per share	12.9%	9.2%	9.5%	18.1%	27.4%
Dividends per share	190c	168c	152c	125c	106c
Return on equity	55%	54.52%	51%	67.44%	49.4%

Source: Author compiled using data from Clicks (2010; 2011; 2012; 2013; 2014)

4.5.1.5. General Society

Clicks have invested just over 1% of profit after tax on corporate social investment activities in each of the years reviewed. Further to this, millions have also been spent on enterprise development initiatives. Some of the activities that have been focused on over the five year period include:

- Being collection points for state patient medication
- Offering free clinic services to mothers whose babies were born in state hospitals and do not have medical cover since 2011
- Donating surplus stock and other items to the Clothing Bank which supports and empowers previously disadvantaged women
- Donating to other beneficiaries that aid hearing impaired individuals, child welfare and towards medical education

4.5.1.6. Environment

Clicks have dedicated itself to responding to climate change. Their focuses are on energy efficiency, water efficiency, water and waste management and distribution network optimisation (Clicks, 2014). As such, Clicks has been involved in recycling items such as plastic, paper and cardboard. In 2013 an initiative was implemented that involved capturing waste water from air-conditioning towers and recycling it to be used to flush toilets. This initiative has resulted in about eighty thousand litres of water being saved in 2013 and 2014 (Clicks, 2013, Clicks, 2014). Carbon emissions have increased by twelve thousand metric tonnes since 2010, however, this is partly attributable to the fact that the group has grown by just over seventy stores over this period.

4.5.2. Sustainability

Clicks aims to create sustainable long-term shareholder value by utilising a retail-led health, beauty and wellness business model. They report that they use their annual reports to demonstrate how shareholder value is being sustained over the time period. As such, the annual reports illustrate the material issues that have impacted or aided performance of the company and its sustainability for the short, medium and long term.

4.5.3. Summary and Conclusion

It is evident that Clicks, although not ignoring other stakeholders, has a strong focus on shareholders and creating value and returns for them as their aim is to demonstrate how shareholder value is being sustained. Whilst they do also have a strong focus on employees (indicated by Table 4.17), most of the annual report is aimed at illustrating to shareholders how their value has been increased year on year. Their focus, however, is not simply to merely make profits but rather to make these profits and sustain the group for the long-term so that profits can continue to be made and distributed to shareholders. Therefore it is concluded that the EMS model has been applied, but unlike other businesses in the sector, Clicks prefers to focus on shareholders with less focus on other stakeholders.

4.6. Overall Conclusion

All the entities in the food and drug retail sector of the JSE appear to be following an entity maximisation and sustainability approach as opposed to a neoclassical or conscious capitalism approach. It has however been discovered that their approach towards entity maximisation differs. This is noted in that Pick n Pay and Shoprite for instance focus more on customers, and SPAR on employees in their approach whereas Clicks focuses on shareholders in applying their approach. Chapter six will investigate the profitability of the companies and which application of the model is observed as being associated with a higher profitability.

CHAPTER FIVE

PROFITABILITY ANALYSIS

5.1. Introduction

Following from the previous chapter, it has been established that all four companies (SPAR, Pick n Pay, Shoprite and Clicks) appear to follow the entity maximisation and sustainability approach when strategising their business activities as evidenced by the details given in their annual reports from year ends 2010 to 2014. It has further been established that the different entities consider and apply emphasis to different stakeholders as follows:

- SPAR placed the most emphasis on employees in the five year period 2010 to 2014, as evidenced by the fact that they are mentioned 269 times throughout the non-financial information in the annual reports from 2010 to 2014 (SPAR, 2014) as well as their efforts to achieve greater employee satisfaction.

- Pick n Pay placed the most emphasis on the customers which they mentioned 517 times throughout the non-financial information in the annual reports from 2010 to 2014. Pick n Pay applies a differentiation strategy (competitive advantage gained by distinguishing their products (Jones and George, 2011)) through the SmartShopper Card initiative (Pick n Pay, 2014).

- Similar to Pick n Pay, Shoprite also placed the most emphasis on their customers. Shoprite, however, applies a low cost strategy (competitive advantage gained by driving costs below those of competitors (Jones and George, 2011)) evidenced by Shoprite's internal food inflation which has been consistently below the official food inflation rate (Shoprite, 2014).

- Clicks – Clicks on the other hand mainly focussed on shareholders in their annual reports as only one report was aimed at other stakeholders and all the rest were aimed at shareholders and indicating how Clicks is making profits whilst maintaining sustainability (Clicks, 2014).

As all of the companies follow the same model but have applied the focus to different stakeholders, the profitability analysis will revolve around the application of the model to the stakeholder and which application is observed to be associated with a higher profitability. In order to ascertain this association, the four companies need to be analysed using ratio analysis, in particular profitability ratios. In this chapter, each profitability ratio has been identified and calculated for each of the four JSE listed food and drug retail sector companies over the five year period from 2010 to 2014. Each ratio has been analysed across the years for each listed entity as well as across the company. A conclusion has then been made about each ratio regarding company profitability and which company is the most profitable of the four.

5.2. Ratio Analysis

5.2.1. Gross Profit Percentage

The gross profit percentage signifies the percentage of sales revenue remaining after subtracting cost of sales (Kew and Watson, 2012). The formula for gross profit ratio is: Gross Profit / Sales x 100 (Kew and Watson, 2012). Different entities require different gross profit percentages due to the nature of operations as some entities need higher percentages as they have other operating costs that need to be covered whereas others can have low percentages because their other expenses are not as large. A high gross profit percentage does not necessarily mean that ultimately that entity will be profitable. For this reason other ratios need to also be looked at in relation to the gross profit percentage to make a more accurate conclusion. A high gross profit does, however, indicate that the company is more likely to be able to cover other operating costs easier than an entity with a lower gross profit percentage (Kokemuller, 2015).

Table 5.1 Gross profit percentages for listed food and drug retail sector companies from 2010 to 2014

	2014	2013	2012	2011	2010	Mean
SPAR	8.26%	8.06%	7.98%	8.12%	7.92%	8.068%
Pick n Pay	17.49%	17.44%	18.04%	17.75%	17.98%	17.74%
Shoprite	20.81%	20.88%	20.52%	20.30%	19.66%	20.434%
Clicks	21.53%	21.56%	22.51%	23.04%	21.87%	22.102%

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

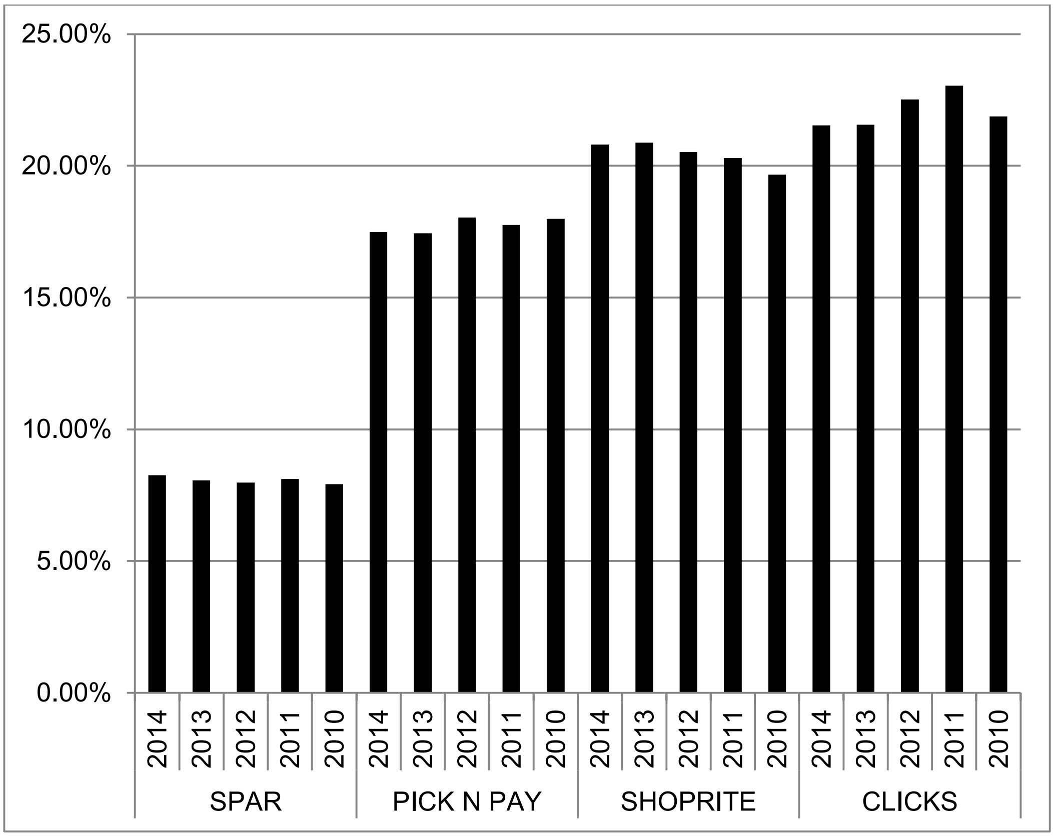

Figure 5.1 Gross Profit Percentage for listed food and drug retail companies from 2010 to 2014

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

Table 5.1 and Figure 5.1 show that all entities have maintained their gross profit percentage at their chosen level and have not deviated from the mean by significant amounts. SPAR, whose gross profit percentage mean is 8% follows a different operation structure as they do not own their stores but rather rely on distribution centres that supply goods to voluntary traders and therefore can afford to have a lower gross profit percentage due to lower operating costs. The other three companies (Pick n Pay, Shoprite and Clicks) have gross profit percentages around similar levels as they operate according to a similar operating structure of owning their own stores from which they operate with a few franchises (in the case of Pick n Pay and Shoprite) (Pick n Pay, 2014, Shoprite, 2014). Clicks has achieved the highest gross profit percentage with a five year mean of 22.102%, followed by Shoprite (20.434%), then Pick n Pay (17.74%) and lastly by SPAR (8.068%).

5.2.2. Net Profit Percentage

The net profit percentage signifies the percentage of sales remaining after subtracting all costs that the entity has incurred throughout the year (Kew and Watson, 2012). The formula for net profit percentage is: Net Profit / Sales x 100 (Kew and Watson, 2012). A positive net profit percentage indicates that an entity has made more money through income than it has incurred on its expenses. Therefore the higher the net profit percentage, the more profitable a company is (Hamel, 2015). Unlike the gross profit percentage that could not indicate true profitability, net profit percentage gives the whole picture as all costs have been subtracted to get to the final net profit. The net profit percentage calculations are therefore a better indication of profitability.

Table 5.2 Net profit percentages for listed food and drug retail sector companies from 2010 to 2014

	2014	2013	2012	2011	2010	Mean
SPAR	2.47%	2.51%	2.45%	2.48%	2.63%	2.508%
Pick n Pay	0.92%	0.93%	2.01%	1.53%	2.42%	1.562%
Shoprite	3.66%	3.91%	3.68%	3.50%	3.39%	3.628%
Clicks	4.52%	4.28%	4.46%	4.61%	4.25%	4.424%

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

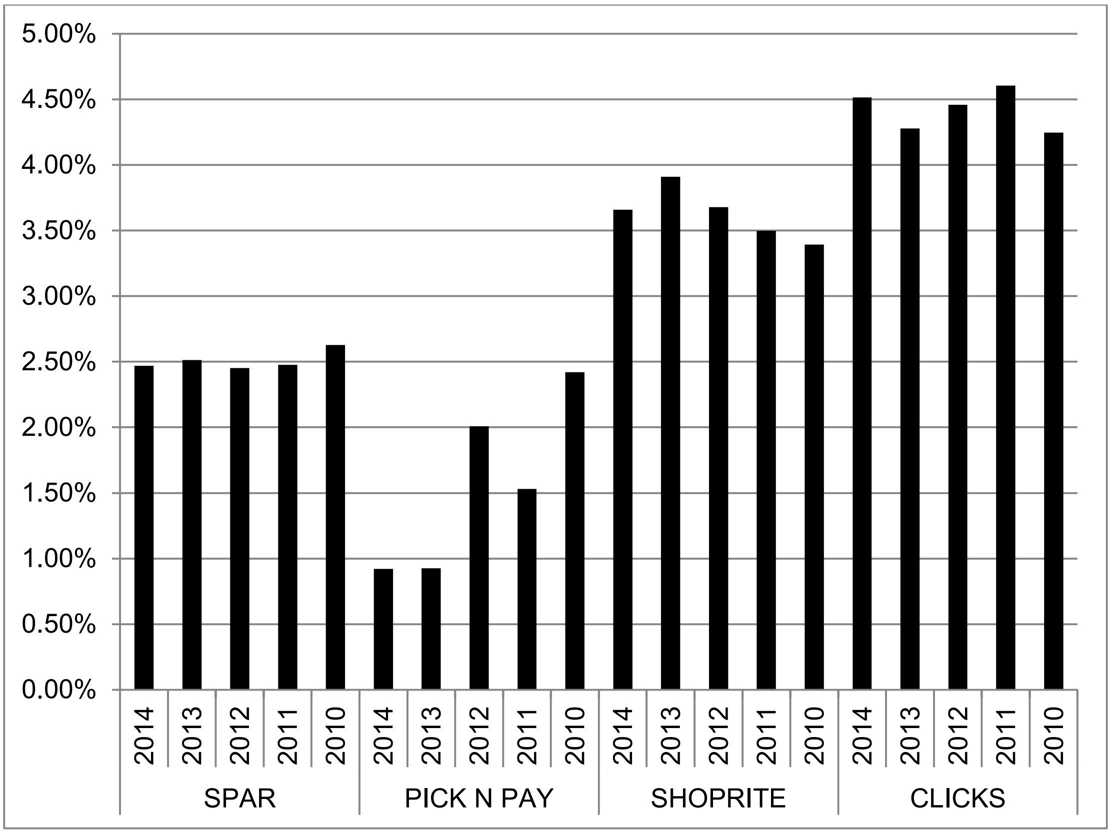

Figure 5.2 Net Profit Percentage for listed food and drug retail companies from 2010 to 2014

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

Table 5.2 and Figure 5.2 show that SPAR have maintained the most consistent net profit percentage when comparing year on year in comparison to the other three listed companies in the sector. Clicks was the most profitable, producing a net profit percentage in excess of 4% for all years, however, although performance grew from 2010 to 2011, it fell in both 2012 and 2013, only growing again in 2014. Their performance was followed by Shoprite whose net profit percentage was in excess of 3% over the period and grew from 2010 till 2013 falling slightly in 2014. SPAR then followed with net profit percentages all hovering around 2.5%. Lastly Pick n Pay who began with a 2.42% net profit percentage in 2010, dropped in 2011, recovered slightly in 2012, but then plummeted to 0.93% in 2013 and remained fairly constant in 2014. Whilst the difference of a few percent is not an exorbitant difference, the ratio does illustrate that Clicks is making larger profits relative to sales in comparison to those who are focussing on other stakeholders.

5.2.3. Return on Assets

The return on assets ratio signifies how much profit is being generated given the level of assets used to assist in the profit generation. The formula for return on assets is: Profit After Tax / Total Assets (Kew and Watson, 2012). If assets are being used efficiently the ratio will be higher than an entity not using assets as efficiently (Kew and Watson, 2012). A higher ratio is therefore more favourable and indicates higher profitability. The ratio is most useful in comparing companies across a single industry as it is expected that assets would be used in a similar manner to generate income (MyAccountingCourse, 2015a).

Table 5.3 Return on assets for listed food and drug retail sector companies from 2010 to 2014

	2014	2013	2012	2011	2010	Mean
SPAR	7.94%	12.17%	10.70%	11.47%	12.16%	10.888%
Pick n Pay	4.12%	4.21%	9.41%	7.06%	10.61%	7.082%
Shoprite	9.23%	10.80%	9.79%	12.22%	12.71%	10.95%
Clicks	13.97%	13.79%	14.41%	15.30%	13.72%	14.238%

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

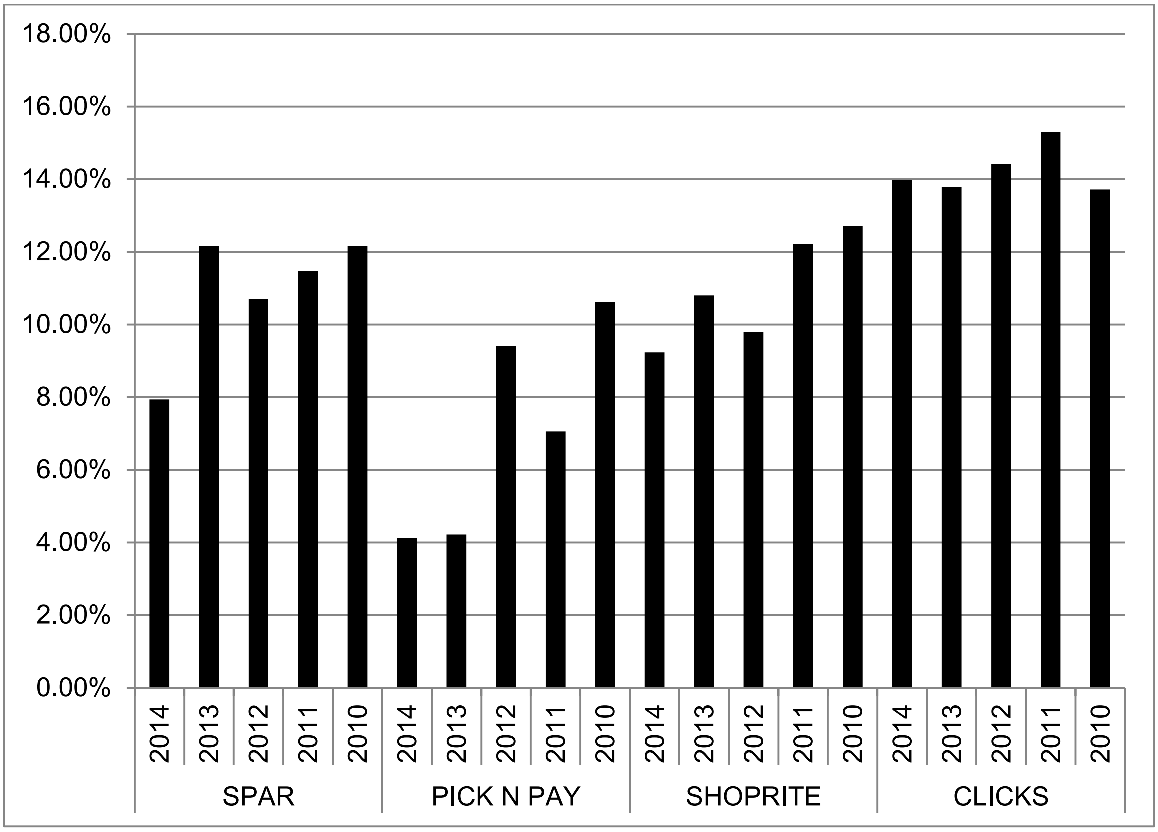

Figure 5.3 Return on Assets for listed food and drug retail companies from 2010 to 2014

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

Table 5.3 and Figure 5.3 show that all entities have had fluctuations in their return on assets when comparing year on year. With the exception of Clicks whose return on assets has not changed dramatically from 2010 through to 2014, other than the spike up in 2011 and back down again in 2012, return on assets has declined in the 2014 year. Pick n Pay, who produced the lowest return on assets and largest decline over the period from 2010 to 2014 declined from a 10.61% return in 2010 to 4.12% in 2014, a decline of 6.49%. They experienced their largest decline in 2013, a decline of 5.2%. The next lowest, with a mean return over the five year period of 10.888% was SPAR. They began with a 12.16% return in 2010 which decreased and then stabilised back to 12.17% in 2013, however, consequently in 2014 decreased by 4.23%. Not too far in front of SPAR, Shoprite showed a five year mean of 10.95%. They followed a similar trend to SPAR, however, when they stabilised their return only increased back to 10.8% and subsequently decreased by only 1.57% to 9.23%. Clicks once again showed the best performance with a five year mean return of 14.238%. Whilst the difference between the companies was not very large in 2010 only a 3.11% difference, by 2014 the gap widened and it became more clear that Clicks utilised their assets much more efficiently than the other entities.

5.2.4. Return on Equity

Return on equity signifies how well a shareholder’s investment in equity has performed for the year by taking profits into account (Kew and Watson, 2012). It shows how much profit each rand of equity generates. The formula for return on equity is: Profit / Total Equity x 100 (Kew and Watson, 2012). A high return on equity illustrates higher profitability and better performance as funds are being used effectively. Investors would also want to see a higher return on equity (MyAccountingCourse, 2015b).

Table 5.4 Return on equity for listed food and drug retail sector companies from 2010 to 2014

	2014	2013	2012	2011	2010	Mean
SPAR	44.44%	37.46%	37.32%	38.26%	41.87%	39.87%
Pick n Pay	21.57%	22.76%	46.31%	36.32%	55.42%	36.476%
Shoprite	21.64%	23.70%	23.76%	35.41%	38.30%	28.562%
Clicks	55.19%	54.52%	51.03%	67.44%	49.40%	55.516%

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

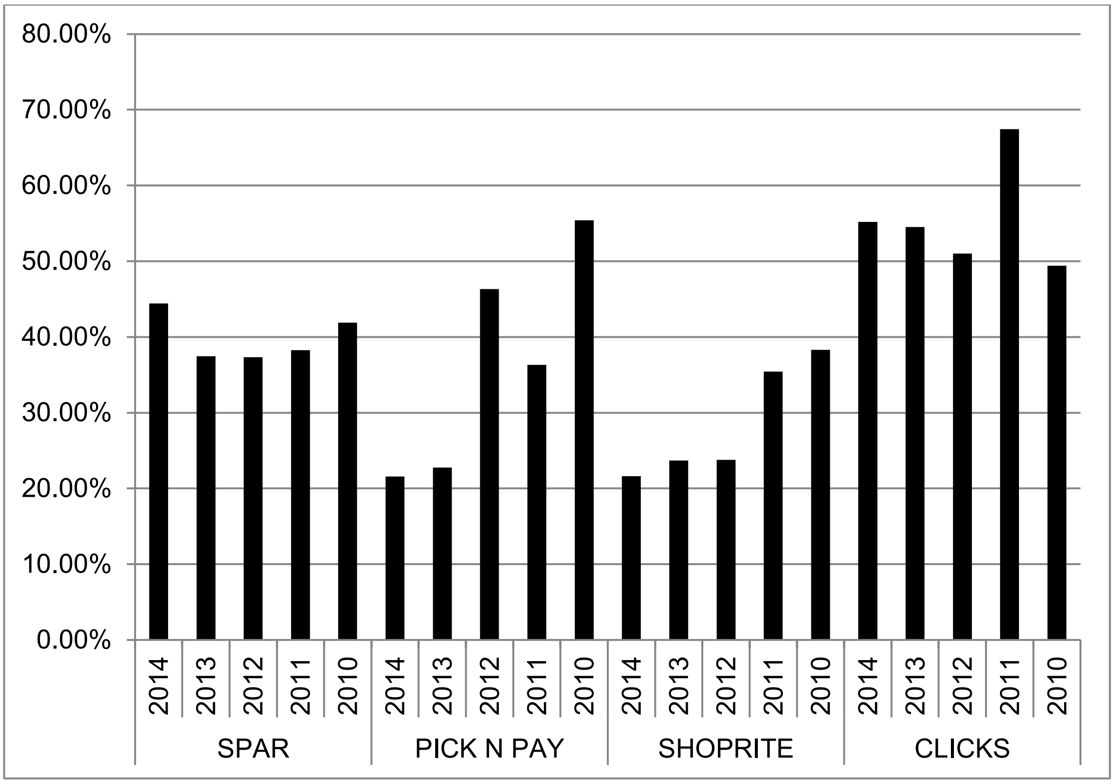

Figure 5.4 Return on Equity for listed food and drug retail companies from 2010 to 2014

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

Table 5.4 and Figure 5.4 show that all entities have had fluctuations in their return on equity when comparing year on year. Both Clicks and SPAR have a relatively stabilised return on equity, however both Pick n Pay and Shoprite have shown a net decline over the period from 2010 to 2014. Clicks has once again been the most profitable producing a return on equity of over 50% for four of the five years analysed resulting in a five year mean of 55.516%. Unlike in the other ratios already analysed, SPAR followed Clicks with a mean of 39.87%, then followed by Pick n Pay (mean of 36.476%) and lastly Shoprite with a mean of 28.562%. Also unlike the other ratios analysed, the difference between the top two company's means (Clicks and SPAR) is 15.646% and between SPAR (second) and the bottom two (Pick n Pay and Shoprite) 3.394% and 11.308%. These differences are significant and illustrate even further just how much more profitable and efficient Clicks has been over the period reviewed in comparison to the other companies.

Looking further at the return on equity changes from 2010 to 2014, SPAR experienced an increase of 2.57% from 41.87 to 44.44% and Clicks an increase of 5.79% from 49.4% to 55.19%. Shoprite saw a gradual decline of 16.66% from 38.3% to 21.64% whilst Pick n Pay also experienced a very large net decline over the period of 33.85%. This occurred after recovering by 9.99% in 2012 from a large decline of 19.1% in 2011 but experiencing a further plummet of 23.55% in 2013 and another 1.19% in 2014. Therefore, whilst Pick n Pay's mean return is still greater than Shoprite's, in 2014 they actually performed worse than Shoprite and achieved the lowest return on equity in the sector.

5.2.5. Earnings Per Share

Earnings per share signifies how much profit is generated for each share held. The formula for earnings per share is: Profit / Number of Shares in issue (Kew and Watson, 2012). A high earnings per share illustrates that a shareholder holding that share will value the share at a higher amount because it is earning better. A higher ratio also signifies a more profitable company (Kew and Watson, 2012).

Table 5.5 Earnings per share for listed food and drug retail sector companies from 2010 to 2014 (in cents)

	2014	2013	2012	2011	2010	Mean
SPAR	778.36	690.55	614.57	555.13	535.56	634.834
Pick n Pay	110.30	104.08	210.91	148.62	225.40	159.862
Shoprite	652.85	633.57	533.29	465.43	420.86	541.2
Clicks	351.37	279.77	249.30	240.52	198.52	263.896

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

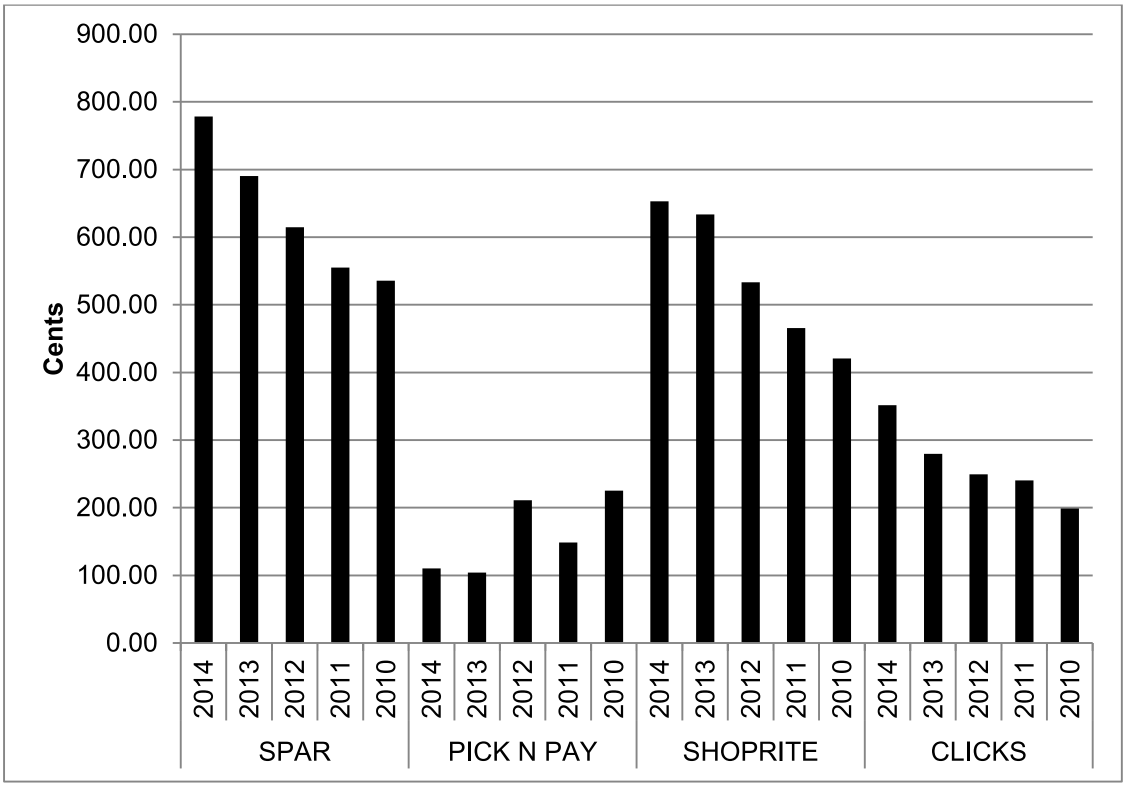

Figure 5.5 Earnings per share for listed food and drug retail companies from 2010 to 2014

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

Table 5.5 and Figure 5.5 show that all entities, with the exception of Pick n Pay, have experienced an increase in earnings per share from 2010 to 2014. Pick n Pay has experienced a decrease in earnings per share of 115.1c which is mostly attributable to the lower profits experienced by the company. SPAR has shown to be most profitable with earnings in 2014 at 778.36c, a 242.8c increase from 2010. They are followed by Shoprite who have increased their return to 652.85c for 2014, an increase of 231.99c. Clicks falls in at a much lower earnings of 351.37c but also showed an increase of 152.85c. The differences in earnings per share are significant and illustrate the different earning potential of a single share. Clicks has been shown to be more profitable using the other ratios but has slipped into third when analysing earnings per share.

5.3. Conclusion

A summary of the ranking of the four companies in relation to the five profitability measures and their means over the five year period from 2010 to 2014 is shown in Table 5.6 below.

Table 5.6 Ranking of each listed food and drug retail sector company from 2010 to 2014

	Gross Profit Percentage	Net Profit Percentage	Return on Assets	Return on Equity	Earnings per share
1	Clicks	Clicks	Clicks	Clicks	SPAR
2	Shoprite	Shoprite	Shoprite	SPAR	Shoprite
3	Pick n Pay	SPAR	SPAR	Pick n Pay	Clicks
4	SPAR	Pick n Pay	Pick n Pay	Shoprite	Pick n Pay

Source: Author compiled with data from SPAR (2010; 2011; 2012; 2013; 2014), Pick n Pay (2010; 2011; 2012; 2013; 2014), Shoprite (2010; 2011; 2012; 2013; 2014) and Clicks (2010; 2011; 2012; 2013; 2014)

Despite all four of the listed companies from the food and drug retail sector appearing to follow the entity maximisation and sustainability model, each entity has chosen a different stakeholder focus. Each entity has also shown significantly different performance levels possibly as a result of their choices in that strategy. From the analysis it can be seen that Clicks has performed the best and Pick n Pay the worst over the period 2010 to 2014. Shoprite and SPAR alternate mostly between second and third position, however by looking at the ranking of each ratio, it appears as though Shoprite is showing greater profitability than SPAR.

It is therefore concluded that based on the analysis of financial statements, Clicks' approach of sustainability through a main focus on shareholders has been observed as having provided the most profitable scenario. Pick n Pay, on the other hand, who focuses more of customers and a differentiation strategy is observed as not performing as well when comparing profitability ratios and ranking entities accordingly as the researcher has done in this chapter. It is noted, however, that there are many implications within a business that could affect profits which are the primary numerators in all the profitability ratios. The model applied by an entity is merely only one variable that could influence these profits. For instance, it could be argued that one of the reasons for Pick n Pay performing worse over this period was due to the unexpected hype over the new strategic SmartShopper loyalty card and that the benefits of such efforts are still to be reaped. However, in this study the objective was merely to observe which application of the model produced better results and not to conclude that the model was directly related to such results and therefore such analysis is beyond the scope of this dissertation.

In conclusion, over the period from 2010 to 2014 based on the rankings shown in Table 5.6, Clicks appeared to apply the EMS model with a focus on shareholders and whilst applying the model produced more profitable results. Shoprite followed using the EMS model with a focus on low cost towards customers. Then SPAR, who also appear to follow the EMS model but with a focus on employees and lastly Pick n Pay who have a similar strategy to Shoprite with the exception that they have chosen to differentiate as opposed to exposing customers to low cost. Therefore it can be concluded that, over this period, an EMS model with a focus on shareholders was observed as being associated with higher profitability.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1. Introduction

This chapter provides a conclusion based on the study conducted as well as recommendations derived from the study and recommendations for future studies.

The prevailing purpose of the study was to analyse financial statements to determine the primary purpose of JSE listed companies in the food and drug retail sector. Data was collected from financial statements of each of the four companies in the food and drug retail sector, namely SPAR, Pick n Pay, Shoprite and Clicks. The data was analysed using content analysis and ratio analysis and findings discussed to provide insight into the primary purpose of the companies and the profitability of each company as they focus on their purpose.

6.2. Summary of Findings

The purpose of the study was divided into five objectives that the researcher sought to achieve. The findings and contributions to each of the objectives are discussed below.

6.2.1. Objective One

The first objective was to examine the literature on the three models that indicate the ultimate purpose of a business (neoclassical, conscious capitalism (CC) and entity maximisation and sustainability (EMS)) in order to identify themes or major identifiers of each model. Chapter two focussed on the literature review of the three models and compared and contrasted all three.

It was found that the neoclassical had the earliest origin (being the 1700s), followed by CC from the 1930s and then EMS from the 1960s. The emphasis of each model differed in that neoclassical emphasised profit maximisation, and therefore a focus on shareholders only, whereas CC emphasised four principles: higher purpose, stakeholder orientation, conscious leadership and conscious culture and EMS emphasised the maximisation of business wealth whilst maintaining sustainability of the company. Under CC it was stressed that all four principles needed to be paid attention to, otherwise the entire business and those linked thereto would suffer. Under EMS it was stressed that in order to maximise wealth and maintain sustainability, focus needed to be not only on profits but also societal and environmental concerns (which would involve stakeholder interests) and all three spheres needed to be balanced to ensure that each was mutually reinforced.

It was therefore concluded that CC focussed on all stakeholders, neoclassical focussed only on one stakeholder (being the shareholder) and EMS focussed on the maximisation of entity wealth to sustain the business in the long-term which encompassed fostering common interests of stakeholders. It became evident that, whilst each model did have a different focus, all models spoke of at least one stakeholder whilst EMS also spoke about sustainability. Consequently, further research was conducted to identify who the key stakeholders of the business were and what their impact of the business was. The major stakeholders that were identified were: customers (also referred to as consumers), employees (also referred to as staff), suppliers, investors (also referred to as shareholders), general society (also referred to as community) and the environment. The themes and major identifiers that were adopted to undertake the research was therefore to explore what each company listed in the food and drug retail sector has been doing for the major stakeholders as identified as well as any efforts to sustain the company in the long-term.

6.2.2. Objective Two and Three

Objective two was to examine the financial statements (over five years, from 2010 to 2014) of JSE listed companies in the food and drug retail sector, in particular the non-financial information, for themes that could link to the identification of any of the three models. In order to achieve this objective, financial statements for each of the five years from 2010 to 2014 of each food and drug sector listed company were explored to see which of the six main stakeholders had been mentioned. Where a stakeholder had been mentioned, note was taken as to what focus the company had made on the stakeholder and activities surrounding that focus. The financial statements were also explored to see if there was any mention of sustainability and, if there was, note was taken as to how sustainability had been focussed on. From the examination it was noted that all four listed companies in the food and drug retail sector (SPAR, Pick n Pay, Shoprite and Clicks) had incorporated information regarding each of the six major stakeholders as well as some information on sustainability of the company in their non-financial sections within their published annual reports.

Objective three then followed the examination conducted in Objective two. This objective was to prepare an analysis based on the examination of the financial statements that drew a conclusion on which model each company appeared to be following. Chapter four illustrates the findings from our examination into the focus on stakeholders and sustainability that SPAR, Pick n Pay, Shoprite and Clicks (the four listed companies in the food and drug retail sector) and concludes, based on these findings, what model the company appeared to be following. Tables 6.1, 6.2, 6.3 and 6.4 below summarise some key findings that were discovered when analysing the non-financial sections of the company annual reports, including their frequencies of appearances.

Table 6.1 Summary of SPAR findings

Customers (Frequency: 173 times (17% mention))	Direct customers (retailers): retailer support, which included design and revamp assistance, encouraging merchandising best practice, assisting with public relations activities and offering other training where necessary Indirect customers (shoppers): in-house customer care lines and consumer surveys and focus groups to receive feedback and improve services.
Employees (Frequency: 269 times (26% mention))	Provided with many training opportunities, a work environment conducive to health and safety standards with onsite clinics and HIV/AIDS awareness campaigns and counselling. Named top employer in South Africa for 2014.
Suppliers (Frequency: 145 times (14% mention))	Local suppliers were favoured and aid was provided through training on sustainable farming techniques.
Investors (Shareholders) (Frequency: 114 times (11% mention))	Key performance statistics were highlighted annually for shareholders that indicated positive results for 2010 to 2014.
General Society (Frequency: 135 times (13% mention))	Various CSI initiatives that focussed on healthcare, hunger, poverty alleviation, safety and sports were supported to benefit general society and other stakeholders were undertaken.
Environment (Frequency: 194 times (19% mention))	Educated children on environmental issues whist reducing energy usage and increasing recycling.
Sustainability	SPAR's prevailing purpose throughout the analysis period was to enable retailers to run sustainably profitable and professional businesses.
Conclusion	EMS model with a focus on employees.

Table 6.2 Summary of Pick n Pay findings

Customers (Frequency: 517 times (36% mention))	One of three enduring business principles followed is customer sovereignty: the customer is to be treated as a queen. Feedback received through personal meetings, customer surveys, forums and online panels. Smart shopper loyalty programme that boasts to be the biggest loyalty programme in South Africa. Further ways are being investigated to reward customers more for their loyalty as they are important stakeholders of their business. Awarded several awards including most reputable retailer, most trusted retailer and South Africa's number one grocery store.
Employees (Frequency: 186 times (13% mention))	Training and bursaries offered to employees and high focus on good communication with employees.
Suppliers (Frequency: 149 times (10% mention))	Passionate about supporting local suppliers with a particular focus on helping develop small businesses into becoming successful suppliers.
Investors (Shareholders) (Frequency: 301 times (21% mention))	Key performance statistics were highlighted annually for shareholders that indicated diminishing results for 2010 to 2013 with an increase in 2014.
General Society (Frequency: 140 times (10% mention))	Supported CSI initiatives that benefited general society and other stakeholders simultaneously.
Environment (Frequency: 127 times (9% mention))	Decreased carbon foot print and increased recycling to minimise their impact on the environment.
Sustainability	Believe in the principle that "doing good is good business" and this will lead to sustainability.
Conclusion	EMS model with a differentiation strategy focus on customers.

Table 6.3 Summary of Shoprite findings

Customers (Frequency: 471 times (29% mention))	Pinpointed one main customer need as being low costs and over the period of review have successfully managed to keep their internal food inflation below the official food inflation rate. Ensured that customers had excellent service and sent staff for customer service training and training on the consumer protection act and implemented a customer feedback system. Rated number one supermarket in all five grocery categories, including overall customer experience in the Sunday Times Top Brands awards and the Times / Sowetan Retail awards a few times over the review period.
Employees (Frequency: 437 times (27% mention))	Trained and maintained employee satisfaction in order to retain staff. Staff turnover over the review period remained under 20%. One of the largest contributors to skills development in South Africa. Voluntary counselling and testing for HIV/AIDS.
Suppliers (Frequency: 212 times (13% mention))	Recognised top suppliers annually and placed focus on local suppliers and utilised them as opposed to international suppliers in order to support the country.
Investors (Shareholders) (Frequency: 224 times (14% mention))	Key performance statistics were highlighted annually for shareholders that indicated positive results for 2010 to 2014.
General Society (Frequency: 146 times (9% mention))	Supported CSI initiatives that benefited general society and other stakeholders simultaneously.
Environment (Frequency: 152 times (9% mention))	Food waste minimised, recycling increased.
Sustainability	Recognised that sustainability should be a core aspect of corporate governance to ensure long-term success.
Conclusion	EMS model with a low-cost strategy focus on customers.

Table 6.4 Summary of Clicks findings

Customers (Frequency: 282 times (20% mention))	Strategic objective was to create a great customer experience and to drive customer loyalty through their ClubCard loyalty programme. Values indicated that they were passionate about customers.
Employees (Frequency: 439 times (31% mention))	Embraced transformation (level 3 BBEEE score). Contribute towards bursaries and provide a wellness programme.
Suppliers (Frequency: 59 times (4% mention))	Preferred to source merchandise from locally-based and empowered suppliers indicating that they do support their local community.
Investors (Shareholders) (Frequency: 416 times (30% mention))	Key performance statistics were highlighted annually for shareholders that indicated positive results for 2010 to 2014.
General Society (Frequency: 46 times (3% mention))	Supported CSI initiatives that benefited general society and other stakeholders simultaneously.
Environment (Frequency: 167 times (12% mention))	Dedicated to responding to climate change. Focuses were on energy efficiency, water efficiency, water and waste management and distribution network optimisation.
Sustainability	Used their annual reports to demonstrate how shareholder value is being sustained over the time period.
Conclusion	EMS model with a focus on shareholders.

As indicated from Tables 6.1, 6.2, 6.3 and 6.4, the analysis revealed that all four of the listed companies (SPAR, Pick n Pay, Shoprite and Clicks) appear to follow the EMS model when strategising their business activities. However, each company applied emphasis to different stakeholders, SPAR to employees, Pick n Pay to customers (with a differentiation strategy), Shoprite to customers (with a low cost strategy) and Clicks to shareholders.

6.2.3. Objective Four

Following on from objective three, the fourth objective was to establish if there was a dominant model in the food and drug retail sector. It was found in achieving objective three that all four companies follow the EMS model. Despite each company having a slightly different focus when applying the model, the conclusion is still that there is a dominant model in the food and drug retail sector when considering the listed entities and that model is the EMS model.

6.2.5. Objective Five

The last objective was then to compare and contrast the results of the food and drug retail sector listed companies in order to assess their performance and determine if a particular model is observed to be producing better results. Ratio analysis was used and the five most common profitability ratios (gross profit percentage, net profit percentage, return on assets, return on equity and earnings per share) were calculated for each of the five years from 2010 to 2014 and compared year on year and company to company. The companies were then ranked from most profitable to least profitable for each ratio to draw an overall conclusion based on all ratios as to which one was observed to be most profitable (refer to Table 6.5). As from the research conducted all companies follow the same model (EMS), however, they apply the model slightly differently. As this is the case, the companies were still compared, but rather to see which application of the EMS model was observed to be associated with better results as opposed to which model.

Table 6.5 Ranking of each listed food and drug retail sector companies from 2010 to 2014

	Gross Profit Percentage	Net Profit Percentage	Return on Assets	Return on Equity	Earnings per share	Overall Ranking
1	Clicks	Clicks	Clicks	Clicks	SPAR	Clicks
2	Shoprite	Shoprite	Shoprite	SPAR	Shoprite	Shoprite
3	Pick n Pay	SPAR	SPAR	Pick n Pay	Clicks	SPAR
4	SPAR	Pick n Pay	Pick n Pay	Shoprite	Pick n Pay	Pick n Pay

Despite all four of the listed companies from the food and drug retail sector appearing to follow the entity maximisation and sustainability model, each entity had chosen a different stakeholder focus. Each entity also showed a significantly different performance level possibly as a result of their choices in that strategy. From the analysis it was found that Clicks performed the best and Pick n Pay the worst over the period 2010 to 2014. Shoprite and SPAR alternate mostly between second and third position, however by looking at the ranking of each ratio, it appears as though Shoprite is showing greater profitability than SPAR. Therefore it was concluded that, over the period from 2010 to 2014, an EMS model with a focus on shareholders is observed as being associated with higher profitability.

6.3. Recommendations

Many of the principles explored in relation to the EMS model and the sustainability reporting are fairly new concepts. My recommendation to South African companies is to keep up to date with the different models and monitor progress against their own strategy standards, updating strategies when change becomes necessary. It is difficult to monitor progress when applying a sustainability model, so models should be devised in order to monitor progress successfully so that businesses can ascertain whether they are applying their strategies effectively.

6.4. Recommendations for Future Studies

The following are some areas of interest that could be considered and explored further in future studies.

- The current study looks only at one industry listed on the JSE. The study could be applied to other industries on the JSE to see which models each company is following.

- The current study also only looks at listed companies on the JSE, this could be extended to contrast JSE listed companies to companies listed on other stock exchanges in the same industry. The study could also be extended to small and medium enterprises (SMEs) in South Africa.

- During the study it has been identified that many factors can affect the profitability variables other than just the model the business has chosen to follow. A case study could be done on a company to identify variables that affect profitability and make a clearer determination as to which variables have the greatest impact.

- During the study it was also identified that it is difficult to ascertain measures to gauge how a company is performing on social and environmental activities undertaken as part of their sustainability initiatives. As such, measures are usually unique. A case study of a particular company could be undertaken to develop measures to gauge performance. It could then be tested to see if these measures could be adapted for other companies to gauge their performance and compare it to other companies within the same industry.

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APPENDIX 1

ETHICAL CLEARANCE

UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI

21 May 2015

Ms Vanessa Margaret Otten (205501388)
Graduate School of Business & Leadership
Westville Campus

Dear Ms Otten,

Protocol reference number: HSS/0508/015M
Project title: An analysis of financial statements to determine the primary purpose of JSE listed companies in the food and drug retail sector

Full Approval – No Risk / Exempt Application

In response to your application received on 13 May 2015 the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

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

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

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

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

Yours faithfully

....

Dr Shenuka Singh (Chair)

/ms

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

Humanities & Social Sciences Research Ethics Committee
Dr Shenuka Singh (Chair)
Westville Campus, Govan Mbeki Building
Postal Address: Private Bag X54001, Durban 4000
Telephone: +27 (0) 31 260 3587/8350/4557 **Facsimile:** +27 (0) 31 260 4609 **Email:** ximbap@ukzn.ac.za / snymanm@ukzn.ac.za / mohunp@ukzn.ac.za
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APPENDIX 2

TURNITIN ORIGINALITY REPORT

turnitin **Turnitin Originality Report**

An analysis of financial statements to determine the primary purpose of JSE listed companies in the food and drug retail sector by Vanessa Gregory

From Dissertation Final Chapter - Part 1 (Moodle 33111945) (2015 GSOB8FDW1 MBA Dissertation F/T (Moodle 9700032))

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