THE CORPORATE RESPONSE TO THE SOCIALLY RESPONSIBLE INVESTMENT (SRI) INDEX OF THE JOHANNESBURG STOCK EXCHANGE (JSE)

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Abstract

This paper examines the trend in corporate response to the social responsible investing index (SRI) of the Johannesburg Stock Exchange (JSE). The motif of the paper is to discover how and if SRI drives corporates towards public declaration of their social responsible investments. The approach is archival with a descriptive and quantitative analysis of data drawn from the Johannesburg Stock Exchange. Descriptively, we charted a trend of the rate at which the JSE firms join the JSE SRI Index, and our findings indicate an upward trend from 2004 to 2013. Quantitatively, we examined the likely difference in corporate climate disclosure before and after the introduction of the Code for Responsible Investing in South Africa (CRISA). Our findings – using a T-Test of difference in means, indicate a significant difference in means, which apparently show that the CRISA may have added further impetus to corporate climate disclosure. In 2013, the JSE SRI deepened its stringency in measuring corporate responsible claims by assessing only the publicly available responsible information of corporations for inclusion in its SRI index. We thus evaluate possible difference in climate disclosure before and within the year of the new stringent criteria of measurement. Our second T-Test of difference in means also shows a significant difference in means, which signal that corporations exerted extra efforts in making the extent of their climate responsibility publicly available. We conclude that the JSE SRI, coupled with the CRISA motivates firms to improve on their public disclosure. We also conclude that the carbon disclosure project (CDP) is adding pragmatic momentum on the activities of JSE firms to strive towards their improvement in climate performance. Thus voluntary codes and indexes, in the absence of binding regulations, could spur corporate social and environmental initiative in a developing country.

Keywords: Responsible Investing, Environmental Responsibility, Climate Performance, Carbon Disclosure

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1 Introduction

Corporate social responsibility and expected environmental disclosure and performance have largely been campaigned globally by international organisations and national departments trusted with social and environmental protection. However, corporate acceptance and compliance with desired social and environmental ethics has not met expectations (Laughland and Bansal, 2011). Current research posits that government and the stock exchanges' voluntary and/or regulatory codes of sustainability may galvanise corporate response to environmental initiatives (Economist Intelligent Unit, 2010). South Africa has been seen as a country facing the risks of climate change impacts (Midgley, 2003; Schlenker & Lobell, 2010), but corporate may contribute to reducing existing and looming nation's climate change risks by embracing social and environmental responsible operational processes (Albino et al, 2009). To propel corporate momentum to social and climate change practices, the nation has witnessed an emergence of voluntary codes and/or index of social and environmental performance guidance, namely the kings Committee on Corporate Governance 1994, 2002 and 2009; Code for Responsible Investing in South Africa (CRISA) 2011; the Johannesburg Stock Exchange (JSE) Social Responsible Investing (SRI) Index 2004, and the JSE 100 Carbon Disclosure Project. Given scholarly research claim that these and similar codes might bring about a change in corporate social and environmental responsibility (Bauer et al 2005; Ortas et al 2012); it is thus apposite to examine the rate with which the JSE companies have joined the JSE SRI, and whether the JSE SRI and CRISA have made a difference on climate disclosure performance of JSE firms in the CDP. Hence the question that underpins

this paper is: how has the JSE SRI and CRISA made a difference in the climate disclosure performance of JSE firms in the JSE 100 carbon disclosure project (CPD)? The objective of this paper thus is to examine how the JSE SRI and CRISA have made a difference in the climate disclosure performance of JSE firms in the JSE 100 carbon disclosure project (CDP).

The paper is organised as follows: following the introduction, a brief related literature is presented. This is followed by the research design and method; the preliminary findings. And the paper ends with the conclusion and recommendation.

2 Concise literature

Most world stock exchanges have recognised the importance of sustainable development in their dealings as anticipated by the Brundtland Report (World Federation of Exchanges (WFE), 2010) and thus requiring improved transparency and disclosure on environmental social and governance issues (ESG) (WFE, 2009) through voluntary or mandatory codes and/or indexes of social and environmental responsibility (KPMG et al 2013). Accordingly there is a growing awareness and response by the global corporate of the inevitability of adhering to sustainable development ideals (Hilson and Murck, 2000). Many research literatures have thus argued that voluntary codes of social and environmental behaviour may stimulate corporate social and climate responsibility (Wright & Rwabizambuga (2006). Although some companies have tended to display seeming apathy to social responsible investing (SRI) campaigns and screenings due to conventionally perceived fear that social and environmental investing might jeopardise corporate capital and profitability (Stefan & Paul (2008). But some empirical researches have shown that companies may not be deleteriously affected if they submit to the SRI principles and initiatives (Sauer, 1997; Cummings, 2000; Michelson et al 2004), despite profit considerations though, international research literatures have proved that there is a growing response to socially responsible investing index, or socially responsible mutual funds (as referred to in the West). The literatures alluding to the rising trajectory of corporate response to socially responsible investing index include *inter alia*, Bauer et al (2005) on mutual funds' performance; Ortas et al (2012) on socially responsible indexes in emerging markets; Lenox & Nash (2003) on industry self-regulation; Nash & Ehrenfeld (1996) on corporate adoption of green investment standards. The rising trajectory of firms in the socially responsible terrain appears to be in response to investors' demands; (Berry & Junkus, 2013) finds that investors appreciate and rewards firms that adopt a comprehensive social initiatives. In their empirical research, Cheng et al. (2014) demonstrates that firms with high social responsibility have less restriction to capital formation, with the implication of easier access to finance for socially responsible companies; again, this finding, may offer a clue while companies a embracing the SRI indexes. In another study seeking to understand the drivers for socially responsible investing, Scholtens & Sievänen (2013) finds – amongst other reasons that firms join the socially responsible investing drive to evade uncertainties. Whilst the above literatures are all foreign, this paper attempts look at the South African corporate response to the Johannesburg Stock Exchange Socially Responsible Index (JSE SRI Index).

3 Method

The research makes use of archival data from the JSE SRI and Carbon Disclosure project. The companies whose data are examined are those adjudged by the CDP as the carbon disclosure leaders in the years 2011-2013. Since the objective is to examine how the JSE SRI index may have brought about a difference in corporate responsibility and climate disclosure; the analytical method is a t-Test of difference in mean climate disclosure scores between two major events; before and after the introduction and adoption of code for responsible investing in South Africa (CRISA), and the difference in mean climate disclosure scores before and within the year of using only the publicly available data to assess the JSE SRI. The CRISA was released in July 2011 and expected corporate compliance commenced in 2012; hence the first analysis of the t-Test of difference in mean disclosure scores is between 2011 and 2012. Furthermore, the decision to use only the publicly disclosed data to determine the 2013 SRI index of the JSE warranted the researchers to also evaluate the difference in means of climate disclosure scores before and within the year of using only the publicly available data for the JSE SRI – 2012 &2013 to check if this made a difference in climate disclosure rate of the companies adjudged as the climate disclosure leaders. In addition to the presentation of t-Test results, tables and graphs are used to pictorially show the differences in overall climate disclosure scores and mean scores.

Table 1. Rate at which the corporate join the JSE Social Responsible Index (SRI)

Year	*Constituent Members (no of companies)*
2004	51
2005	48
2006	58
2007	56
2008	60
2009	69
2010	73
2011	74
2012	77
2013	72

Figure 1. Rate at which the corporate join the JSE Social Responsible Index (SRI)

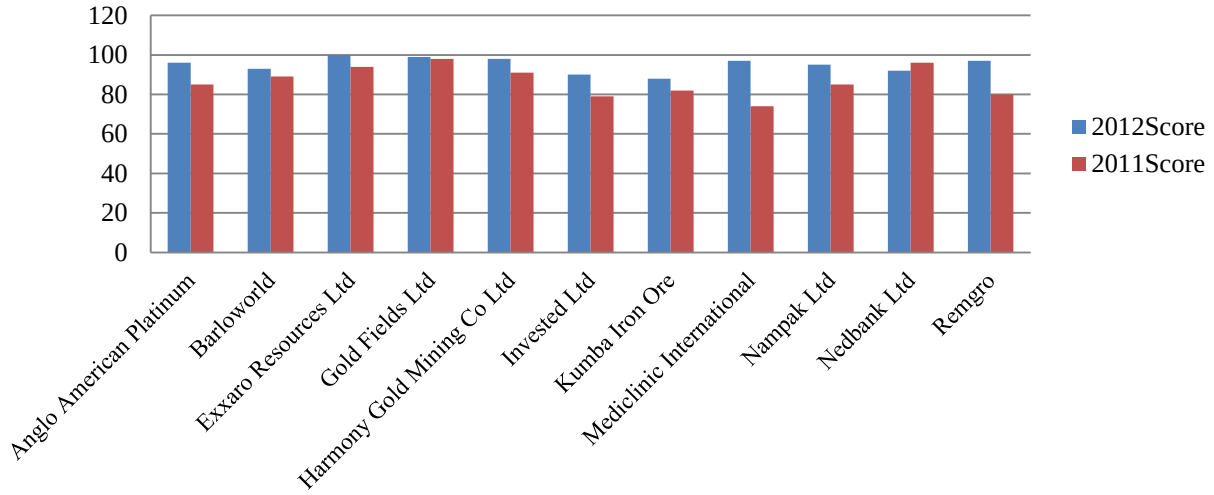
Source: authors' graph

Table 2. Difference in climate disclosure score before and after the code for responsible investing in South Africa (CRISA)

Company	*2012Score*	*2011Score*
Anglo American Platinum	96	85
Barloworld	93	89
Exxaro Resources Ltd	100	94
Gold Fields Ltd	99	98
Harmony Gold Mining Co Ltd	98	91
Invested Ltd	90	79
Kumba Iron Ore	88	82
Mediclinic International	97	74
Nampak Ltd	95	85
Nedbank Ltd	92	96
Remgro	97	80

Source: compiled from Carbon Disclosure Project (CDP) 2013 (http://www.nbi.org.za/Lists/Publications/Attachments/360/CDP_Report_2013.pdf)

Figure 2. Differences in climate disclosure score before and after the code for responsible investing in South Africa (CRISA)



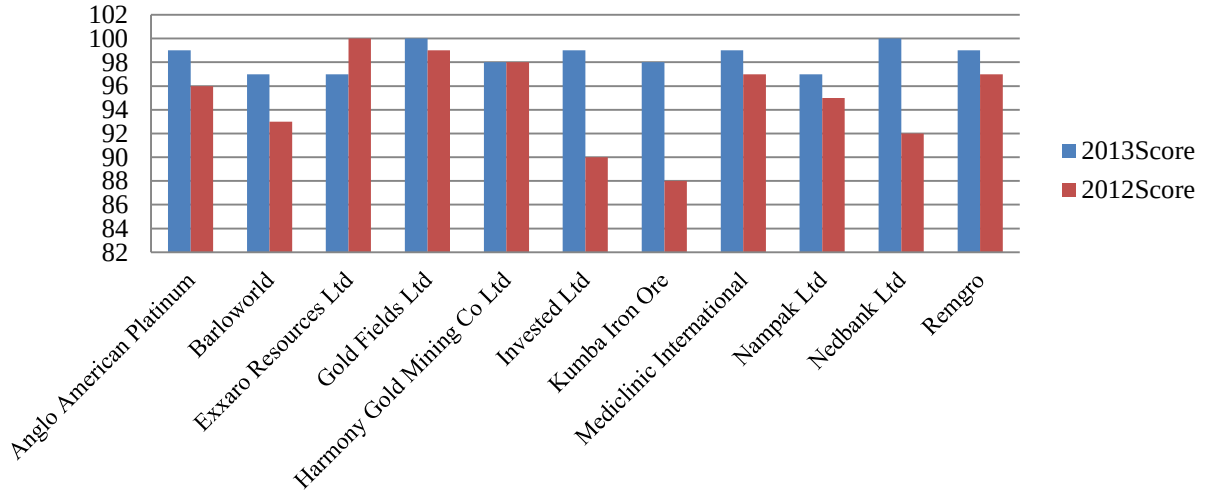
Source: Authors' graph with data from Table 2

Table 3. Difference in climate disclosure score before and within the year of using only corporate publicly available data to assess the JSE Social Responsible Investing (SRI) index

Company	*2013Score*	*2012Score*
Anglo American Platinum	99	96
Barloworld	97	93
Exxaro Resources Ltd	97	100
Gold Fields Ltd	100	99
Harmony Gold Mining Co Ltd	98	98
Invested Ltd	99	90
Kumba Iron Ore	98	88
Mediclinic International	99	97
Nampak Ltd	97	95
Nedbank Ltd	100	92
Remgro	99	97

Source: compiled from Carbon Disclosure Project (CDP) 2013 (http://www.nbi.org.za/Lists/Publications/Attachments/360/CDP_Report_2013.pdf)

Figure 3. Difference in climate disclosure score before and within the year of using only corporate publicly available data to assess the JSE Social Responsible Investing (SRI) index



Source: Authors' graph with data from Table 3

Table 4. t-Test: Paired two sample for means in climate disclosure score within and after the introduction of CRISA

	2012Score	*2011Score*
Mean	95	86.63636364
Variance	14.6	58.45454545
Observations	11	11
Pearson Correlation	0.318344519	
Hypothesized Mean Difference	0	
df	10	
t Stat	3.759018094	
P(T<=t) one-tail	0.001864082	
t Critical one-tail	1.812461123	
P(T<=t) two-tail	0.003728163	
t Critical two-tail	2.228138852	

Figure 4. Mean climate disclosure scores before and after the CRISA

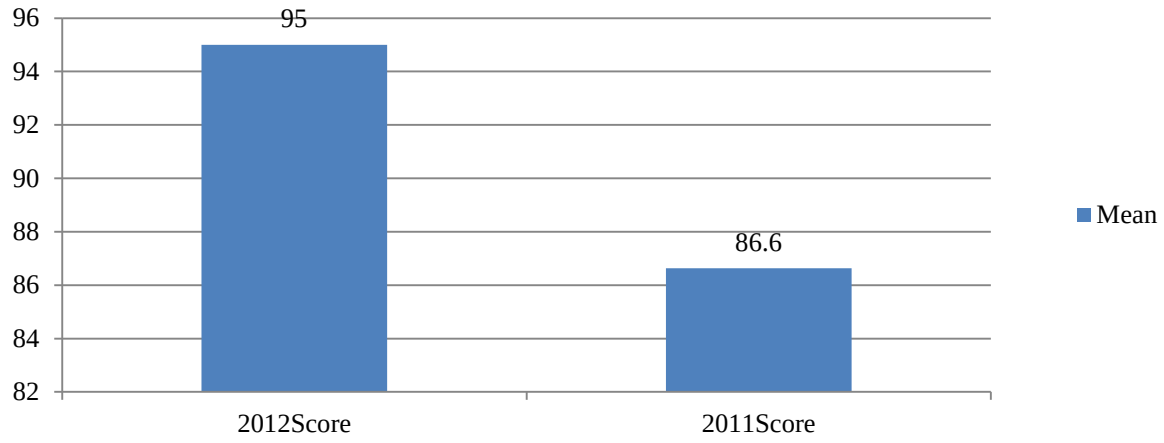
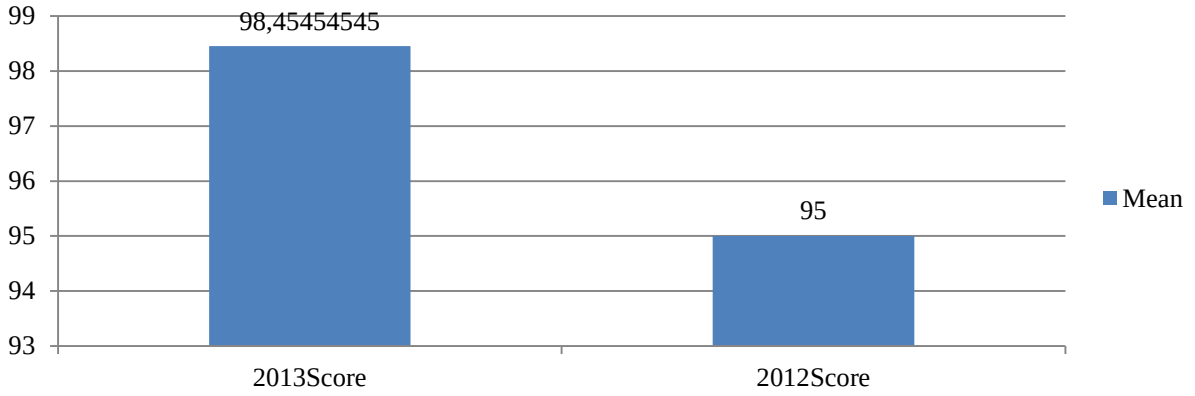


Table 5. t-Test: Paired two sample for means within and before the JSE SRI adoption of only the publicly disclosed data for assessment

	2013Score	*2012Score*
Mean	98.45454545	95
Variance	1.272727273	14.6
Observations	11	11
Pearson Correlation	-0.02319829	
Hypothesized Mean Difference	0	
df	10	
t Stat	2.857869979	
P(T<=t) one-tail	0.008509463	
t Critical one-tail	1.812461123	
P(T<=t) two-tail	0.017018925	
t Critical two-tail	2.228138852	

Figure 5. Climate disclosure before and within the adoption of PDD* for JSE SRI assessment



4 Findings

Results from the foregoing analysis indicate that the JSE SRI and the CRISA is likely causing a positive differential effect in corporate responsible investing and climate disclosure in South Africa. Since the introduction of the JSE SRI index in 2004, it is apparent from the information presented in Table 1 and Figure 1, that there has been a steady growth in the yearly number of companies that join the JSE SRI. After the release of CRISA, the mean climate disclosure of JSE companies increased from the 2011 rate of 86.6 to 95 in 2012. It is also worth noting that after the JSE SRI decided to use only the companies' publicly disclosed data to rate constituent members' qualification for SRI, the mean climate disclosure score of the JSE firms increased from the 2012 figure of 95 to 98.5 in 2013. This preliminary finding tends to support existing literature that voluntary and/or regulatory codes of sustainability may ginger corporate responsibility.

5 Conclusion

This paper examined the trend in corporate response to the social responsible investing index (SRI) of the Johannesburg Stock Exchange (JSE). An analysis of the content of SRI constituent results was used to extract the annual statistics of companies that join the SRI. The literature evidence supports the findings from our analysis that SRI has galvanised and deepened the commitment of JSE firms to responsible business investing practices of social and environmental initiatives. Furthermore our examination of the likely difference in corporate climate disclosure before and after the introduction of the Code for Responsible Investing in South Africa (CRISA) using a T-Test of difference in means, indicate a significant difference in means, which thus show that the CRISA may have added further impetus to corporate climate disclosure.

We therefore make a preliminary conclusion that the JSE SRI, coupled with the CRISA motivates firms to improve on their public disclosure; we also conclude that the carbon disclosure project (CDP) is increasing the momentum on the activities of JSE firms to strive toward climate performance. Thus voluntary codes and indexes, in the absence of binding regulations, could spur corporate social and environmental initiative in a developing country. The trajectory of the rate of corporate acceptance of JSE SRI may offer a managerial clue on the indispensability of socially responsible investing in the near future, such that apathetic firms may begin to rethink their stance, and prepare to join or lose the implicit imperative of socially responsible investing as an emerging corporate strategy. Given that firms joining the SRI are mainly the large multinational and national firms, the paper recommends further research to identify the foundations of medium firms' apparent apathy in joining the socially responsible investing index of the JSE. This is important as the expected actualisation of sustainable development requires a collective effort; thus within the corporate sector, the big firms alone cannot achieve desired sustainability since they function in partnership with the medium and small firms.

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