THE FINANCIAL PERFORMANCE OF THE ROYAL BAFOKENG NATION

by

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List of Acronyms

AG	Asset Growth
AEEI	African Equity Empowerment Investments Limited
ANGLO	Anglo American Public Limited Company
ANGLOPLAT	Anglo American Platinum Limited
ARM	African Rainbow Minerals Limited
BAUBA	Bauba Limited
BHP	Broken Hill Propriety Group Public Limited Company
BRAIT	Brait SA Limited
CORONATION	Coronation Fund Managers Limited
DER	Debt to Equity Ratio
EXXARO	Exxaro Resources Limited
GEMFIELDS	Gemfields Group Limited
HCI	Hosken Consolidated Investments Limited
IMPLATS	Impala Platinum Holdings Limited
JSE	Johannesburg Stock Exchange Limited
Mastdrill	Master Drilling Group Limited
MC MINING	MC Mining Limited
MERAFE	Merafe Resources Limited
NORTHAM	Northern Platinum Limited
NRF	National Research Foundation
PGM	Platinum Group Metals
PSG	PSG Group Limited
PURPLE	Purple Group Limited
RBH	Royal Bafokeng Holdings
RBPLAT	Royal Bafokeng Platinum Limited
Reinet	Reinet Investment SCA
REMGRO	Remgrow Limited

RESGEN	Resource Generation Limited
RMBH	Rand Merchant Bank Holdings Limited
RMIH	Rand Merchant Investment Holdings Limited
ROA	Return on Assets
ROE	Return on Equity
SASFIN	Sasfin Holdings Limited
TA	Total Assets
Tharisa	Tharisa Integrated Resource Group
TRANSCAP	Transaction Capital Limited
TRUSTCO	Trustco Group Holdings Limited
UJ	University of Johannesburg
WESCOAL	Wescoal Holdings Limited
WESIZWE	Wesizwe Platinum Limited

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Declaration

I, Prisca Sheyama, declare that the research work produced in this mini dissertation is my own, except where indicated and acknowledged. It is submitted in fulfilment of the requirements for the Master of Commerce in Finance degree at the University of Johannesburg, which is based in Johannesburg. This mini dissertation has not, either in part or whole, been submitted for a degree or diploma to any institution or university for similar qualification.

Signature: PSheyama Date: 04 May 2021

Dedication

I would like to dedicate this piece of work to God Almighty for always being there for me and making sure that I had everything that I needed throughout my life to date.

Abstract

This study aimed at investigating and comparing the financial performance between Royal Bafokeng shareholding companies and other listed companies. The study sample consisted of 14 companies from the financial services sector and 16 companies from the mining sector. These companies were all listed on the Johannesburg Stock Exchange (JSE) mainboard and were divided in two groups: Royal Bafokeng shareholding companies and other listed companies. The study was carried out in South Africa and covered a 5-year period from 2015 through to 2019. A quantitative research methodology was utilised, and financial ratio analysis was performed to analyse data. Return on assets (ROA), return on equity (ROE), price earnings (P/E), debt to equity ratio (DER) and asset growth (AG) were used to measure the financial performance between the two groups of companies.

The results of the study revealed that in the financial services sector, Royal Bafokeng shareholding companies performed better than other listed companies in terms of mean ROE, P/E and DER. On the other hand, other listed companies in the same sector performed better than Royal Bafokeng shareholding companies in terms of mean ROA and AG. In the mining sector, Royal Bafokeng shareholding companies performed better than other listed companies in terms of mean PE and DER. Other listed companies in the mining sector on the other hand performed better than Royal Bafokeng in terms of mean ROA, ROE and AG. In summary, it was therefore established that, Royal Bafokeng shareholding companies outperformed other listed companies in the financial services sector. Other listed companies in the mining sector, on the other hand, outperformed Royal Bafokeng shareholding companies.

Key Words

Family business, financial performance, return on assets (ROA), return on equity (ROE), debt to equity ratio (DER), price earnings (P/E), asset growth (AG), financial ratio analysis, governance, traditional leadership, Royal Bafokeng.

Chapter 1: Introduction and Background

1.1 Introduction

The financial performance of any company, despite the form, can increase national wealth (Lee, 2006). Financial wealth, in turn, increases the worthiness of societies in which these companies operate through job creation, which further reduces the level of crime and poverty (Amezcua, Grimes, Bradley & Wiklund, 2013; Miller, Steier & Brenton-Miller, 2016). To ensure that this contribution materialises, it is especially imperative to establish and operate companies that are financially healthy (Burca & Batrinca, 2014). Companies that thrive financially entice investors, increase credit worthiness, and strengthen consumer confidence (Foo, Jamal, Karim & Ulum, 2015; Miller et al., 2016). It should be noted that investors seek opportunities to invest in companies that are deemed financially stable (Foo et al., 2015).

Although it is challenging to measure the performance of a company, there are numerous financial ratios that may be used as indicators of the financial performance of a company (Burca & Batrinca, 2014). According to Hanif, Tariq, Tahir and Momeneen (2012), Kumbirai and Webb (2010) and Pandey (2017), financial ratios, such as return on assets (ROA) and return on equity (ROE), can be used to measure the profitability of a company. On the other hand, the financial position of a company can also be measured in terms of its credit riskiness by using the debt-to-equity ratio (DER) (Ali, Ullah, Shah, Shehzd & Nawab, 2016; Kara & Erdur, 2015; Mwangi & Murigu, 2015). In addition, a company's performance can also be measured in terms of value and future earnings prospects using price earnings (P/E) (Ali, 2017; Dutta, Das & Saha, 2018; Ghaeli, 2017; Kumar, 2017). Lastly, the performance of a company can further be evaluated in terms of its growth prospects that can, at times, be assessed using asset growth (AG) (Hutabarat & Nugrahadi, 2018; Inyiama, Oluchukwu & Nnenna, 2017; Kouser, Bano, Azeem & Hassan, 2012).

Burca and Batrinca (2014) point out that profitability is a reserve of financial accomplishment, mainly because it enriches the robust aspiration that an organisation possesses to outperform its rivals, thereby creating shareholder's wealth. Both family and non-family operated companies should, therefore, constantly evaluate their financial performance. This is in order to assess the efficiency and effectiveness of their business strategies and revise them as deemed appropriate. Once companies can identify the financial determinants that contribute towards improved financial performance, this can assist them to be profitable thereby creating shareholders wealth, improving company value and the overall economic position of the nation (Lindow, Stubner & Wulf, 2010; Mazzi, 2011).

1.2 Background

Although past studies have attempted to define the nature of a family company, definitions are inconclusive. Allouche, Amann, Jaussaud and Kurashina (2008) and Miller, Miller, Lester and Cannella Jr (2007) explain the concept of a family company in the following three ways: a solitary or manifold relations reserve with a considerable portion of investment, family members influence the processes and procedures of the company and lastly, family members fill top management positions within the company. Family companies are believed to be different from their counterparts due to family ties that impact the way they behave, as well as their financial performance (Lee, 2006; Miller et al., 2007; Miller et al., 2016).

According to Agbim (2018) and Chua, Chrisman and Sharma (2005), a family company is one where the company is managed by family relations arising from the same family, or an insignificant number of family relations with a vision to keep the company running from one generation to another. Diéguez-Soto, López-Delgado and Rojo-Ramírez (2015) and Lee (2006) add that a family company is a company where a family holds significant control in terms of shareholding interest. Several studies conducted revealed that family companies perform better financially than non-family companies due to the belief that in family companies, senior managers think and plan beforehand, which places them at an advantage as compared to non-family companies (Allouche et al., 2008; Die'guez-Soto et al., 2015). On the contrary, other studies indicate that family companies are old fashioned because of the way they manage and run company activities, which further affects their financial performance negatively (Carney & Nason, 2016; Miller et al., 2016). In the same manner, traditional communities throughout the world are believed to be old fashioned and lagging in terms of innovation and modern governance style (Molobye, 2014; RBH, 2017; Thornhill & Selepe, 2010). It is, however, a different story for the Royal Bafokeng nation.

The Royal Bafokeng achieved financial freedom without any financial support from the government of South Africa. Due to the level of financial freedom that it has acquired so far, this tribe has become a household name in South Africa and beyond (Molobye, 2014; Thornhill & Selepe, 2010). This tribe is a traditional family community that is established within the North West Province of South Africa (Thornhill & Selepe, 2010). It comprises of nearly 128 000 Setswana-speaking individuals who occupy a piece of land inherited from their ancestors (RBH, 2017; Thornhill & Selepe, 2010). This tribe is one of South Africa's largest traditional communities with investment enterprises that divert income generated from mineral deposits into comprehensive investment groups (Cook, 2011). This author further highlights that the funds generated from these investment groups are also used to provide financial support for social development programmes within the community. Molobye (2014) concurs with this sentiment by stating that the Royal Bafokeng uses the affluence gained from platinum mining activities to erect social structures and encourage social development where every community member benefits.

1.3 Preliminary literature overview

Prior studies concerning macroeconomic aspects reveal that renowned economies all over the world enjoy enriched economic growth and job formation when most of the community gets involved in business activities (Carr & Sequeira, 2007; Diéguez-Soto et al., 2014). Further studies have disclosed that family companies dominate different company industries internationally (Gottardo & Moisello, 2015; Jaskiowicz, Combs & Rau, 2015). Azizi, Bidgoli and Taheri (2021), Lee (2006) and Visser and Chiloane-Tsoka (2014) concur with this notion by stating that family companies account for about 80% of all companies in United States of America (USA).

A family company denotes any company where a specific family supports and or controls a significant part of that company (Amezcua et al., 2013; Brockhaus, 2004; Lee, 2006). Carr and Sequeira (2007) and Sharma, Chrisman and Chau (1997) remark that a family company is a company that is run with the aim of establishing and going after a vision of the company conducted by primary relations. These relations comprise of providers of both economic and physical assets originating from the same family, from generation to generation in a stable and realistic manner (Carr & Sequeira, 2007). Furthermore, Minichilli, Corbetta and MacMillan (2010) and Poza and Daugherty (2013) highlight that for a company to be viewed as a family company, two or more family members should possess ownership control of at least 15% or more. Zattoni, Gnan and Huse (2015) concur with this sentiment by pointing out that a family company is a company where the supervision of the company and its management are in the custody of one or more family relations.

Literature has revealed that there is a strong link between family participation and the financial performance of family companies due to the fact that family relations offer initial investment and operational capital at a small charge of cost of capital, as compared to sourcing capital from financial institutions (Kara & Erdur, 2015; Kowalewski, Talavera & Stetsyuk, 2010). These authors further state that the resource-based view theory fits well in family companies in the sense that family members provide unique resources in the form of physical resources, intellectual resources, trust, and loyalty. These unique resources provide competitive advantage to the company. Dogan (2013) and Eddleston, Kellermanns and Sarathy (2008) accentuate the positive side of family relations and discloses that an altruism is an exclusive capability that is enjoyed by family companies which carries the possibility to impact the performance of the company, further resulting in an increase in profitability.

According to Mwangi and Murigu (2015), financial performance entails the activity of measuring the business income and returns, as well as increase in business value. Abubakar et al. (2018) highlight that financial performance is a basis of company revenue, returns and growth in business value demonstrated by the increase in the value of the company. It is further stated that financial performance refers to the earnings generated by a company from its company activities (Miller, Le Brenton-Miller & Lester, 2007; Samiloglu, Oztop & Kahraman, 2017). The financial performance of a company can be measured in terms of the balance between company income and expenditures, and this balance is referred to as profitability.

High financial performance is an indication that the management of the company is competent and effective in the way it utilises company owned resources (Mwangi & Murigu, 2015). Effective utilisation of company resources enhances the achievement of objectives such as conducting a profitable company as pointed out by Dyer (2006), which further influences the economic condition of the nation, the continent, and the world at large. Companies that do not perform well financially are not able to attract investors. It is stated that investors are willing to invest in companies that are believed to be financially healthy and stable (Foo et al., 2015; Miller et al., 2016).

Several characteristics can be used to classify the Royal Bafokeng as a large family business minded traditional tribe or community. These characteristics include, but not limited to, the reliance on family members from different households of the same tribe to contribute funds towards the purchase of land. Royal Bafokeng Holdings (RBH) (2017) and Thornhill and Selepe (2010) state that, to raise funds for the purchase of land, Kgosi Mokgatle requested young working men to contribute part of their earnings towards this course. The term Kgosi means king (Thornhill & Selepe, 2010). In family companies, family relations usually invest their capital in the form of time, energy, physical assets, financial assets, intellectual assets, and emotional support (Zachary, 2011).

In addition, it is reported that the Royal Bafokeng has gained its wealth through platinum mining activities with its kings occupying CEO positions (RBH, 2017). Allouche et al. (2008), Ashwin et al. (2015) and David, O'Brien, Yoshikawa and Delios (2010) highlight that family companies consist of family members that occupy senior management or strategic decision-making and operational posts in these companies. Diéguez-Soto et al., (2015) and Gomez-Mejia, Cruz, Berrone and Castro (2011) are of the same view and they state that a family company is where two or more-family relations hold directorship positions.

1.4 Research problem

It is believed that family companies achieve better financial results than non-family companies due to the belief that in family companies, high-ranking personnel reason and establish goals concurrent strategies in advance, which eventually offers them an advantage over their counterparts (Allouche et al., 2008; Miller et al., 2008; Miller et al., 2016). Minichilli, Corbetta and MacMillan (2010) and Zachary (2011) state that, family companies possess distinctive resources and competencies that result from familiness among family relations accompanied by the desire to protect their companies from outsiders and contenders. Zachary (2011) is of a view that in family companies, family relations willingly contribute capital in the form of time, energy, physical assets, financial assets, intellectual assets, and emotional support. Furthermore, family managers are usually dedicated to the company and inspired to serve in the company for extended periods as opposed to non-family managers, and this helps to build an atmosphere of trust, commitment as well as a sense of community within the company (Ashwin et al., 2015; Zachary, 2011).

However, Nieto et al. (2013) highlight that family engagement may, at times, lead to higher agency outlays because of the difficulties regarding self-discipline and altruism where families battle to hire, reward, and oversee executives in a commendable manner. The results of such behaviour are that these companies end up lacking experienced and proficient professional capacity. Although family companies are considered as major contributors of economic expansion of different nations, they unfortunately appear to be lacking a reputable character for innovative development (Jaskiewicz et al., 2014). Miller et al. (2007) indicate that since privacy is such an important issue in family companies and especially the way they manage their businesses, this might motivate investor risk avoidance, resulting in collusion instead of competition. Banalieva et al. (2015) agree with this sentiment by stating that family companies are not fully prepared to participate in expanding economies due to their indisposition to receive innovation.

It is important to note that a strong link has been identified between family participation and the financial performance of family companies (Kara & Erdur, 2015; Kowalewski, Talavera & Stetsyuk, 2010). Since family companies are the most common type of companies worldwide, it is important that their financial performance is regularly monitored to evaluate the financial determinants that play a critical role in influencing their performance (Gottardo & Moisello, 2015; Lee, 2006). Company financial performance therefore plays a critical role in terms of creating shareholder's wealth as well as company value (Almajali et al., 2012).

The Royal Bafokeng is one of the most affluent traditional tribes within the context of family-owned companies in South Africa (Horner, 2012; Mathonsi & Sithole, 2017). Their affluence comes because of the prudence that their previous leaders applied in securing and procuring the ancestral land during the nineteenth century, accompanied by recent productive contracts with platinum mining companies (Horner, 2012). To overcome the challenge of total dependence on minerals which recently started diminishing, the Royal Bafokeng started strategising through diversification by investing its assets in different asset classes (Horner, 2012; RBH, 2017). This tribe is the only traditional tribe with a significant presence through its shareholding companies on the JSE.

Preceding studies relating to the financial performance of family companies largely focused on countries outside the African continent, with minimal studies conducted in Africa, and specifically in South Africa. Due to this gap, the purpose of this study is to investigate and compare the financial performance between Royal Bafokeng shareholding companies and other listed companies, in order to determine if Royal Bafokeng's performance outperforms other listed companies in South Africa.

1.5 Aims and Objectives

The objectives of this study are:

(1) To establish and compare the financial performance between Royal Bafokeng shareholding companies and other listed companies.

(2) To explore and understand the Royal Bafokeng in the context of family companies.

1.6 Significance of the Study

The financial performance of any company is crucial as it can influence the economic health of the nation either positively or negatively (Lee, 2006). It is therefore important that a study of this nature is carried out to establish and compare the financial performance between two groups of companies, the Royal Bafokeng shareholding companies and other listed companies. South Africa, as an emerging market in the African continent is considered as an example to many African countries (Andreasson, 2011; McManus, 2018). South Africa is also part of the BRICS countries, which is a group of five emerging economies namely: Brazil, Russia, India, China, and South Africa (Gwatidzo, Ntuli & Mlilo, 2016). The lessons generated from this study will offer feasible alternatives to wealth creation to other companies, whether family or non-family, within or outside South Africa.

Furthermore, the financial services and mining sectors, which are the focus of this study, are significant to the overall economy of South Africa. Based on the report by Industrial Development Corporation (IDC) (2019), the finance sector accounted for 19.7% of the total Gross Domestic Product (GDP) of South Africa in 2018. The Minerals Council South Africa (2019) adds that the mining sector contributed 8.10% to the South African GDP in 2019. This sector alone contributed 458,861 jobs to the South African labour force in 2019. In addition, these two sectors are also crucial because they are the biggest economic contributors to the Royal Bafokeng's gross asset portfolios. The financial services sector accounts for 61.02% of the Royal Bafokeng's gross asset portfolio, while the mining sector accounts for 14.76% (RBH, 2019). These two sectors amount to just over 75% of the Royal Bafokeng's gross asset portfolio.

Using the Royal Bafokeng as an example of a traditional community will produce results that will contribute to the existing body of literature, mainly because this tribe has achieved and continued to achieve its financial independence and stability over the years. Many traditional communities and family companies will acquire business principles that have contributed to the financial stability of the Royal Bafokeng. These principles, when applied diligently by other companies, whether family or non-family-based, will assist them to become more financially independent and stable thereby creating shareholder's wealth. This will further help to decrease poverty levels as well as crime rates, thereby creating a healthy environment for human occupancy and conducting businesses. The results of this study will help other African traditional communities to follow the example that the Royal Bafokeng has set, which will further positively affect the economic positions of these countries and eventually influence the economic development of the African continent. Therefore, when South Africa progresses financially through the establishment of financially stable family companies, especially in traditional communities, its neighbours will also benefit from both the knowledge gathered from this study and the financial stability achieved by South Africa as a nation.

1.7 Methodology overview

A quantitative research methodology was adopted for the purpose of this study, based on the quantitative data used. To investigate and compare the financial performance between Royal Bafokeng shareholding companies and other listed companies, ratio analysis is required. Ratio analysis is a mathematical or quantitative analysis tool. A quantitative research approach allows the researcher to collect and analyse data with the assistance of statistical methods (Apuke, 2017). Furthermore, quantitative methodology is believed to be clear of the researcher's bias (Walliman, 2017), and this adds credibility to the study.

Companies included in the sample of the study were listed on the Johannesburg Stock Exchange (JSE) mainboard for the period from 2015 to 2019. Companies also needed to possess full and complete financial information relating to the financial ratios included in this study for the period under study. Focus was placed on companies in the financial services and mining sectors since these two sectors account for 75.78% of the Royal Bafokeng's gross asset portfolio, with the financial sector alone accounting for 61.02% and the mining sector accounting for 14.76% (RBH, 2019).

Secondary data was gathered from the IRESS online database covering a period of 5 years from 2015 to 2019. A total of 30 companies were included in the sample of the study. The sample consisted of 14 companies from the financial services sector and 16 companies from the mining sector. The financial performance of Royal Bafokeng shareholding and other listed companies was measured using ROE, ROA, P/E, DER and AG. Details relating to the data collection, research methodology, and analysis method as well as the sampling strategy are given in Chapter 3.

1.8 Conclusion

All business activities play a vital role in relation to the advancement of the economic status of the nation (Ahlstrom, 2010; Chen & Hsu, 2009; Cochrane & Cafer, 2017). Companies that operate profitably contribute to the wealth of the community and nation because profitable companies attract investors, increase credit worthiness, and create strong consumer confidence (Foo, Jamal, Karim & Ulum, 2015; Miller et al., 2016). Financial wealth, in return, improves the value of communities in which these businesses operate by opening job opportunities, which further improve the livelihood of community members thereby resulting in decreased crime levels as well as poverty (Amezcua, Grimes, Bradley & Wiklund, 2013; Miller, Steier & Brenton-Miller, 2016).

The Royal Bafokeng was used as the focus of the study because despite this tribe being a traditional tribe, it is also known as one of the wealthiest traditional tribes that exists in South Africa and possibly in the world (Horner, 2012; Mathonsi & Sithole, 2017). Its wealth can be attributed to factors such as diversification, entrepreneurial leadership and community and employee involvement in decision making as well as the involvement of women leaders in key decision-making roles (RBH, 2017, 2018). As a result of the successful operation of its different business activities, the Royal Bafokeng has become an example to many African traditional communities and has proved that it is possible for a traditional community to acquire wealth and transform the lives of its community.

The Royal Bafokeng increased their portfolio return which grew by 12.9% from R29 billion in 2016 to R32.1 billion in 2017 (RBH, 2017). In addition, the Royal Bafokeng's financial portfolio increased by 22.2% in 2017 to R27 billion as compared to the financial results reported in 2016 (RBH, 2017). Furthermore, the Royal Bafokeng through the RBH acquired a 10.3% ownership interest in Liquid Telecom in 2017 (RBH, 2017). Just like any other traditional community, the Royal Bafokeng have been facing all kinds of challenges in its business ventures. However, this tribe did not let these challenges stand in the way of creating wealth.

Chapter 2: Literature Review

2.1 Introduction

Although family companies tend to be the most common type of companies established and managed throughout the globe (Ahlstrom, 2010), there seems to be minimal effort made towards research in this area. Previous researchers in this regard have not yielded conclusive definitions of what really constitutes a family company. A family company can be described as one where one- or two-family relations agree to put resources together with the intention of establishing a company and getting involved in its management or administration (Hamilton, Cruz & Jack, 2017; Kjellman, 2014; Kowalewski, Talavera & Stetsyuk, 2010).

2.2 Definition and characteristics of family business

Economic activities conducted hand in hand with family relations form what is known as a family company (Burch, Batchelor, Burch & Heller, 2015). Diéguez-Soto, Lopez-Delgado and Rojo-Ramírez (2015) and Gomez-Mejia, Cruz, Berrone and Castro (2011) state that, a family company is one where two or more-family relations serve as directors, or where two or more directors are from the same family. In addition, a company is considered a family company if: relations from the same family are heavily involved in strategic decision-making roles, members of the descendent group together with their off-springs own at least 5% voting rights in the company, a single member of a family owns at least 20% of the cashflow or controlling interests, or where the largest controlling shareholder possessing at least 10% of voting rights is a family relation (Allouche et al., 2008; Ashwin et al., 2015; Diéguez-Soto et al., 2015; Kowalewski et al., 2010).

Furthermore, a company is said to be a family company if the vision of the company is run by family relations in a way that can allow for long-term sustainability from generation to generation (Allouche et al., 2008; Zachary, 2011). For this to happen, there should be a desire and willingness among family relations to transfer company activities to the next generation (Chrisman, Kellermanns & Chua, 2009; Diéguez-Soto et al., 2015). Chrisman et al. (2009) and Zachary (2011) concur with this sentiment by stating that a company is