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| **SAJEMS #627: THE ASSOCIATION BETWEEN THE SEVEN ELEMENTS OF THE BLACK ECONOMIC EMPOWERMENT SCORE AND MARKET PERFORMANCE (REVIEWER A)** |
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| Thank you for taking the time to review the paper. Thank you for the very valuable comments / suggestions made throughout the paper. Please see our feedback / actions undertaken based on your review. |
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| **Comment** | **Action taken** |
| The first impressions of this paper are positive. It has an acceptable structure and an impressive list of references. However, it is a pity that an experienced researcher was not consulted and could have given guidance on basic rules on how to report research. **SAJEMS** should really require this from future submissions! Referees cannot be expected to give basic research rules to novice researchers!  | Thank you very much. We apologise that our paper has given the impression of research done by novices. We have attempted to address this concern in the resubmission. |
| 1. The list of references (LOR) is not alphabetically sorted.
 | Corrected.  |
| 1. Please review ALL the sources in your LOR. The initials of one of the last authors in your LOR are not complete. That specific source is thus not accurately cited.
 | Corrected. |
| 1. The following is a serious mistake which you commit again and again. Please consult an experienced researcher on this. On page 4 you cite Jack & Harris (2007) six times of which four times with no other author in between. How can you improve this and make the reader know you are citing a single source, until you cite a different author or make your own clear conclusion?
 | Corrected. The rest of the document has been corrected to eliminate this error. |
| 1. You commit the same mistake of citing a source twice (without any other in between) on other pages such as Ward & Muller (2010) (p.16) and Ferreira & De Villiers (2011)(p.11 – four times!) See also pages 5 and 6.
 | Corrected. |
| 1. Page 11: DTI (2011) is not in your LOR.
 | Thank you, this has been corrected. |
| 1. Page 2: “The ownership element of BEE ... share price in the short term.” It is not correct to make this conclusion from the sources cited. The authors cited did not all test the different elements of BEE. It is therefore not correct to conclude this from only **ONE** element of BEE. If you cannot adequately acknowledge the different contributions that previous researchers have made, you should not even attempt to publish in future. The same holds for your first sentence on page 5 concerning the ownership element of BEE. If event studies are reported performed on the share price reaction to company announcements concerning BEE in its various forms, how can you imply that these studies relate only to the ownership element which forms only 20% of the total BEE score??!! To just say these researchers only focused on one element (which is only 20% of the BEE score) is a serious understatement of their combined contribution to existing knowledge. Failure to adequately recognise previous researchers’ contributions is, in itself, serious enough to justify an outright rejection of a paper. However, I assume that this was not your intention, and that you will rewrite this part.
 | Thank you for this valuable comment. Our intention was never to undermine the contributions of previous authors. Each paper published contributes to the body of knowledge on BEE. Our intention was rather to highlight how our study differs from prior research and, as such, is able to contribute to the BEE literature. The previous studies focused on BEE announcement deals. These BEE deals relate to providing BEE candidates shares in a company. Therefore, as the announcement relates to the ownership (shares) of the company, the company issuing the shares will improve their own BEE score with regards to ownership. The BEE deal announcement will not contribute to any other element but the ownership element. Ownership is probably the most important element but it is only one of the seven elements. It therefore makes sense that BEE deal announcements have been tested extensively. Furthermore, BEE deal announcements also get the most media attention and it is therefore logical to deduce that most research focussed on BEE announcements.However, we acknowledge that your comment reflects our inability to clearly articulate our ideas in the first draft. We have attempted to improve on this in the revised version.Please pay specific attention to page 8 (the first paragraph below hypothesis 1) where we have attempted to address the concerns highlighted. |
| 1. Page 2: “... how the market reacts to each element ...” The market does not react to each element individually, which seems to be implied here. No, the market only reacts by affecting one variable, namely the share price. If you review and restate this relationship, it may be more acceptable.
 | Yes, the market does not react to each element. We have changed the wording as we are only investigating the association between the elements and the share price. |
| 1. Page 2: “... in that it helps them ...” Do you mean it **COULD** help in the formulation of transformation policies? (Please review – how can you be sure that it **IS** currently helping them?)
 | Corrected. |
| 1. Page 3: You refer to Section 9 of the BBBEE Act without citing any source!?! The whole first paragraph of your Section 2 **Literature survey** cites no source whatsoever!
 | Corrected. |
| 1. Page 3: “Companies could elect to be BEE compliant ...(Ferreira & De Villiers, 2011.” This single source is cited quite a number of times, which makes one suspect that this paper may be an extension of these authors’ work (you confirm this later). Don’t you rely too much on a single previous study in justifying every aspect of your paper? Would it not have been more scientific to find an authority on different reasons for BEE compliance and presented **empirical evidence** of the most important two of say 10 possible reasons for BEE compliance? Then you would prove that you know that each scientific paper typically tries to make a small but significant contribution in one specific area of the body of knowledge and does not necessarily try to be an authority of everything.
 | Thank you. The reliance on Ferreira and de Villiers has been reduced in the revised version. With regards to this particular section, we attempt to indicate two different perspectives of being BEE compliant, i.e. corporate social responsibility vs being profitable. These are definitely not the top two or only reasons but definitely two contrasting views of compliance. However, the wording has been changed to indicate this fact. |
| 1. Page 3: Table 2.1: Source? Should this not perhaps be **Table 1** in line with generally accepted scientific principles and SAJEMS guidelines to authors? (Please review this and Tables 4.1 to 4.4 later in the paper.)
 | Corrected.*.* |
| 1. Page 4: Citing one source too many times (or for a whole page of information?) is scientifically speaking unhealthy. Would it not be more impressive and authoritive if you were to offer debate by citing several sources, and THEN only come to a conclusion?
 | Corrected.We have referenced the original source, the codes themselves, i.e. South Africa (2007). We therefore, at this stage, do not want to debate or come to a conclusion but merely devote this section to explaining the elements.  |
| 1. The acronym B-BBEE (why not BBBEE?) is used on pages 3 and 6 without explaining it or distinguishing it from BEE.
 | This has been explained in the endnotes. However, to avoid any confusion these acronyms have been changed to BEE. The endnote also has been corrected. |
| 1. Page 7: “This study is an extension of the work by ...” Hint: rather than referring to your own previous work, try to present this paper to be published as a unique contribution, not just an extension of your previous work. Cite your previous work (perhaps once or twice), yes, but just so that the interested reader can see you are not repeating many of the stuff that you have already said. The reader will see that you are citing yourself, which may reduce the value of the **independent unique** contribution that you are trying to make with this paper. If say half of your paper is quoting from your previous work, obviously you are not as focused on trying to make a unique contribution.
 | Thank you. The reliance on Ferreira and de Villiers has been reduced in the revised version.  |
| 1. Page 8: Is there a specific reason why H1 is stated as a negative correlation but H2 as a positive correlation?
 | The direction of the hypothesis was based on the evidence from prior literature. It should also be clearly evident after the information relating to point 6 is changed as suggested by the reviewer. |
| 1. Page 8: “stated in alternative from” Spelling mistake? Please have the whole document language edited by an English first language editor!
 | Corrected. |
| 1. Page 9: “Will be tested ...” At the time that the reader sees this, were the experiments not already performed? Is” is tested” not better?
 | Corrected. |
| 1. Page 10: IND is stated as a dummy variable, being one or zero – indicating what with these two values?
 | A dummy variable was used for each sector. In other words, there were actually 9 industry variables, for example, (INDconsumergoods) would be assigned 1 for companies in the consumer goods industry and 0 for all other companies, (INDtechnology) would be assigned 1 for companies in the technology industry and 0 for all other companies. |
| 1. Page 11: BEE scores are announced in April of each year, share returns are calculated in August, but McGregorBFA data for the previous financial year is used? Could the McGregorBFA data not have changed a lot during the time interval?
 | Agreed that it could have. But by using the same opening balance we provide all companies with same “base” to work from. This is also consistent with prior research. Furthermore, please refer to page 12 paragraph 3 where the lag period is discussed. |
| 1. Page 13: variable VIF is not explained or its significance indicated. Why is it used?
 | Thank you. This has been elaborated on in the revised version. |
| 1. Page 14, Table 4.3 foot notes: Why repeat “from the annual Empowerdex ranking” so many times?
 | Based on comments from the other reviewer, this has been deleted as a full description has been provided on page 10. |
| 1. Page 14: What does “under the Pearson/Spearman correlations” mean? These statistical techniques are used to measure correlations, but if I understand you correctly, you use them as assumptions?!
 | Thank you. The wording has been corrected. |
| 1. Page 14: What is the significance of the results discussed here? Would it not be better to concisely summarise it in a table?
 | This was originally summarised in a table. However, due to page constraints it was decided to not include the table. Furthermore, these results are straight forward correlations without taking into account any of the other control variables. The regression does the same as these correlations but includes various control variables. It was therefore decided to rather include the tables relating to the regression. However, should the editor wish to include the tables, the tables will be included. |
| 1. Page 15: Are the foot notes to Table 4.4 not a repetition of those of Table 4.3? Is this really necessary?
 | Thank you. These footnotes have been deleted where applicable. |
| 1. Page 16: H2 is discussed, but what about H1? If the null hypothesis is accepted, what does this means in terms of which variables are related/not related to which ones?
 | Corrected. H1 was discussed on the bottom of page 13. Hypothesis 2 only tests the whether the ownership element is positively associated with the share returns. In this instance the ownership element is not positively associated with share returns, it is actually negative, and therefore the hypothesis is rejected. The other elements are discussed later on the same page. |
| 1. Page 16: “The negative relationship ... in contrast to ... ownership element.” See my previous notes on this. Previous studies certainly **did not** investigate only the ownership element (you forgot about Ferreira & De Villiers (2011) who got the same negative results!)
 | Please refer to our detailed explanation at point 6. By testing the BEE announcement deals the previous studies are focussing on the ownership element. The previous studies did however not test the BEE score. Our wording in explaining this has been improved in the revised version (see point 6). |
| 1. Page 16: “Only two studies ... over a one year period.” No, definitely not. All of these studies contained data of at least a number of years!
 | Thank you. This was a mistake in the wording. The previous studies were all event studies. Only the two studies mentioned investigated the effect of an announcement over a period greater than a year. The other studies did include numerous years but investigated the effect of the announcement over a period of less than one year. |
| 1. Page 17 “... preferential procurement is the element responsible ...” Are you saying that this is the only element motivating BEE compliance? Why would the other elements then be included in the BEE score calculations?
 | Thank you for this comment. The wording has been again changed to indicate that this element motivates companies which would not generally be BEE compliant to be BEE compliant, because of the trickledown effect. The other elements are included to increase the score. The company wishing to obtain a higher BEE score would then rather buy from a higher rated BEE company. The wording has been changed to link this concept with the trickledown effect. |
| 1. Page 17: “... identify the positive and negative BEE elements ...”Is the purpose of the study correctly stated here? Please review.
 | Corrected. |
| 1. Page 18: Department of Trade and Industries 2012 – source?
 | Corrected.  |