Does It Pay for Entertaining Your Stakeholders?

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Expenditure on own executives or others

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Very Brief Overview of the Paper

- Examines if BEE influences firm outcomes: sales, profit, valuation
- Analyses if these effects are fully anticipated by the market
- Identifies the channels through which BBE affects firm outcomes: lower litigation incidence, better quality trade credit to/from consumers, higher govt. subsidies, lower collateral requirements
- Justifies why BEE cannot be used fully to maximize firm value
Contribution

- One of the first papers to study effect of BBE and firm outcomes
- Meticulously hand collected data
- Innovative use of Heckman’s model to correct self-reporting bias
- Robust results with alternative definitions of BEE
- Particularly useful is the attempt to identify the channels
- Usual techniques for handling endogeneity which is now almost a cliché in empirical work
The Nature of BEE

- Is BEE is a rent seeking expenditure to manage “favourable” outcomes or it is usual business development expenditure (BDE)?
  - Entertainment or sharing of information
  - Entertainment or meeting expenditure
  - High value projects may require intense negotiation
  - BEE classified under Business Expenses / Management Expenses

- The governance angle is important since you mention corruption, political connections etc.

- Will it help to look more closely at firms which incur “more than usual” BEE? Do they show “more than usual” performance?

- A regression discontinuity approach?
Effect of BEE Unanticipated by Market

- Intuitive results as building relationships, exchanging soft information like trust and familiarity etc. are not immediately observable by the market.

- One concern: Unanticipated market effect lasts for 12 months i.e. one full year which is the same when the effect of BEE shows up in accounting performance.

- Expected it to be shorter since the channels thru which BEE affects outcomes are likely to be known in advance e.g. whether the firm received a concessional loan; higher subsidy, etc.
Channels – Can we get sharper evidence?

- Ideally BEE needs to be tied to expenditure made on customer, supplier, governments, creditors, etc. as in PRT data.

- Data does not permit this: evidence is indirect as specific outcomes are regressed on aggregate BEE.

- Can we make the results sharper?

- Trade credit effect: is the effect of BEE higher in industries/firms which have higher dependence on trade credit?

- Subsidy effect: is the effect of BEE higher for industries/firms that rely on subsidized inputs?

- Will interaction models help?
Why does BEE affect outcome with lag of one year and not in the same year? Taking lags is not enough to guarantee lack of endogeneity.

Are there better instruments than the median BEE of other firms in the industry? Surely BEE of other firms may be correlated with the BEE of the firm due to industry characteristics.

However, since BEE of other firms correlate with their performance, it may be also correlate with the performance of the firm in presence of strategic interactions (game theoretic effects).

Exogenous change in announcement: it affected all firms so the reference point has changed; what is perhaps more important is relative BEE and not absolute BEE: look at firms with large changes.

Why look at decline in performance of SOEs and not firms that were more connected to SOE's? SOE's are receivers or givers of BEE?

Check sample observations, reporting years and reporting rates.
Enjoyed reading the paper and hope to see it published in a top tier journal.

THANK YOU
Limits to BEE. Why not go all the way? Why can’t you reach the key player if you have already reached high up the ladder. It assumes you know that BEE was directed to lower than top key decisions maker

Surprising result: Less politically connected firm only benefit but they do not have access to key decision makers, then who helps more politically connected firms should have more access to key decision makers can influence them more should spend more on BEE!!