



Ownership Concentration and Agency Cost on the Performance of Johannesburg Stock Exchange Listed Companies

Lethabo Mosimanyane¹, Godfrey Marozva²

Abstract: This article examines the relationship between ownership concentration as a proxy to alleviating agency costs on the performance of the JSE-TOP40 listed companies from 2010-2018. The two-step generalised method of moments methodology was employed to examine the nexus. The results revealed that foreign ownership does not influence company performance. Whereas performance was found to deteriorate with increase in managerial ownership. In many instances, companies are encouraged to align the managerial ownership with company performance by choosing to shorten or prolong their vesting period. Therefore, future studies might need to empirically study the same relationship accounting for management share option schemes.

Keywords: Foreign ownership; managerial ownership; TOP40; Chief Executive Officer; Johannesburg Stock Exchange

JEL Classification: G32; G34

1. Introduction

South Africa developed and adapted good corporate governance policies before other African countries as envisioned by the introduction of King Report I in 1994, King Report II in 2002, King Report III in 2009, and King Report IV in 2016 (Tshipa, Brummer, Wolmarans & Du Toit, 2018; Rossouw, van der Watt & Malan, 2002). It was these developments that were meant to curb the agency cost problems displayed by corporate agents to protect the interest of shareholders. These corporate governance studies are introduced to understand how best to address these issues in line with international corporate governance policies.

¹ University of South Africa, South Africa, Address: Pretoria, South Africa, Tel.: 0124296426, Corresponding author: mosimle@unisa.ac.za.

² Professor, University of South Africa, South Africa, Address: Pretoria, South Africa, Tel.: 0124294977, E-mail: marozg@unisa.ac.za.

As a result, many empirical studies used corporate governance variables through the application of the agency cost theory (Al-Saidi & Al-Shammari, 2015; Jensen, 2004; Jensen & Meckling, 1976), pecking order theory (Myers, 1984), stakeholder theory (Clark, 1998), trade-off theory (Myers, 1984), institutional theory (Saleh, Halili, Zeitun & Salim, 2017; De-la-Hoz & Pombo, 2016), resource dependency theory (Tshipa, 2018), innovative theory (Lazonick, 2017), and stewardship theory (Donaldson & Davis, 1991) to deal with corporate agent misconduct. They used board-specific variables, firm-specific variables, and ownership variables as a proxy of corporate governance and the effect they have on the performance of companies (Tshipa et al. 2018; Briano-Turrent & Rodriguez-Ariza, 2016).

In essence, stakeholder theory argues that shareholders are becoming richer at the expense of increased unemployment because of the silo effect of management running the company to enrich shareholders rather than stakeholders (Clark, 1998). Innovation theory asserts that shareholders are not the driving force for the maximisation of shareholders' wealth but innovative initiatives happening in the organisation (Lazonick, 2017). Resource dependency theory asserts that skills, education, and level of education in the form of board executives are a force to be reckoned with because they are inimitable but could be transferred through the training of employees and other primary stakeholders, thus leading to better performance and superior information advantages by the board of directors (Mollah, Al Farooque & Karim, 2012). The stewardship theory used to address matters pertaining to CEO duality, separating such position to positively affect the performance of companies (Donaldson & Davis, 1991). The agency cost is concerned with misalignment between the agent and shareholders as a possible cause for the lack of better performance (Clark, 1998).

However, studies warn about the danger of heavily entrenched board of directors because they lead to ineffective decisions. In some studies, companies consider foreign ownership, family ownership, government ownership, managerial ownership, percentage of 5 percent as means to alleviate and minimise managerial interest to protect shareholders' wealth (Ali, Qiang & Ashraf, 2018; Rossi, Cedula & Barth, 2018; Tawfeeq & Alabdulla 2018; Al-Saidi & Al-Shammari, 2015; Mollah et al. 2012). In addition, major shareholders are at the liberty of expropriating wealth at the expenses of shareholders with smaller stake in the company by directly or indirectly coercing management to consider their interest before other shareholders.

Considering that corporate governance misconduct is present in developed countries such as the United States of America (USA), United Kingdom (UK), Canada, and developing countries such as India, China, and South Africa. In a nutshell, these countries are considered the architects of corporate governance policies and classified as common law and Anglo-Saxon countries. The Anglo-Saxon because of their affiliation with the common law countries influence of corporate governance policies in their financial markets (Tshipa et al. 2018; Makina & Wale, 2016). These studies

use the agency cost theory to propose that aligning the interest of shareholders with corporate agents is one of the available options to protect shareholders wealth.

However, these countries have experienced major blow back as companies listed in their financial market experienced bankruptcy because of the agency problem such as Enron, Lehman Brothers, Bear-Sterns and other well-known prestigious companies (Tawfeeq & Alabdulla 2018; Jensen, 2004). In South Africa and other developing countries, Satyam had fraud (Ararat & Dallas, 2011), Steinhoff International Holding N.V. misstated their financial statement, African Bank borrowed excessively to unqualified clients and VBS Mutual bank had a Chief Executive Officer (CEO) and senior executive that embezzled depositors funds (Rossouw & Styan, 2019).

Hence, the focus of this study is on the managerial ownership and foreign ownership concentration effect on the performance of JSE-TOP40 listed companies. Thus, finding that there is the presence of agency cost as ownership measured by the above variables was not effective in controlling the agency cost problems due to the negative relationship with the performance measured by the profitability ratio and market measure. Consequently, leading to the following objectives of the study:

- To examine the relationship between foreign ownership and managerial ownership in the return of asset (ROA) of the JSE-TOP40 listed companies.
- To examine the relationship between foreign ownership and managerial ownership in the share price of the JSE-TOP40 listed companies.

2. Literature Review

Rossi et al. (2018) assert that ownership concentration of non-controlling shareholders and family firms are good at reducing the agency cost problem. This is because of a family heirs' eagerness to enhance the reputation of the family's name by expanding the company to another economic horizon. In addition, the study does not support the use of debts as a monitoring mechanism to minimise the agency cost problem (Rossi et al. 2018). However, the following studies from a perspective of a developed and developing nations found that there is a significant relationship between leverage and firm performance (Saleh et al. 2017; Nguyen, Locke & Reddy, 2015).

Migliardo and Forgione (2018) with sampling consisting of the banking sector from the 15 European countries, namely: Austria, Belgium, Denmark, Finland, France, and Germany just to mention few, used a panel data with the combination of random effect (IV-RE) model with a sampling starting from 2011 to 2015 and thus found that there is a significant relationship between highly concentrated ownership structure and the bank's profitability. In relation to the ownership concentration of insider ownership, they found that there is a positive relationship between managerial ownership

emanating from a low degree of concentration as measured by the technical efficiency of the bank.

This is perpetuated by Tuggle, Simon, Beutzel and Bierman (2010) findings that director age and insider ownership concentration is one of the mechanism which could be used to align the interest of shareholder with directors, as widely argued that with age comes experience and knowledge Jensen & Meckling, (1976). In addition, Rossi et al. (2018) focusing in Italy a civil law country supports the agency problem theory that institutional concentration could be used as an external mechanism to monitor the performance of directors by shareholders. Briano-Turrent and Rodriguez-Ariza (2016) adjusting to the CEO Duality finds no relationship.

This is consistent with Tawfeeq and Alabdullah (2018) focusing on Jordan with a sampling consisting of non-financial companies and thus found that managerial ownership concentration does create value for companies listed in the Amman Stock Exchange (ASE) as retained through the multiple regression methodology. These findings support the agency theory perspective as argued by Jensen and Meckling (1976); Smith (1776). In contrast Mollah et al. (2012) found that directors ownership concentration does not create value to the performance of the Botswana listed companies as denoted by their market capitalisation rate. This is further supported by Waweru and Prot (2018) that an increase in insider ownership led to an increase in conflict of interest between shareholders and the agents. In return, this perpetuates misalignment in the execution of the strategic directions in the company.

It is extremely important that ownership concentration affect corporate governance in a positive way especially in regions where there is weak governance and the interest of shareholders are not protected. As found by Briano-Turrent and Rodriguez-Ariza (2016) that ownership concentration plays a significant role in monitoring directors to align their interest with their shareholders and investors. As noted by Rossi *at al.* (2018) as such could only happen when institutional shareholders externally monitor the performance of directors' shareholding.

Furthermore, Mollah et al. (2012) found that companies listed in the Botswana Stock Market (BSM) benefits from having foreign ownership concentration. In addition, Waweru and Prot (2018) finds that ownership concentration when measured using the top 10 shareholdings lead to reduction in their earning management. This is a major problem because it indicates that African countries are prone to the agency cost problem. The ownership concentration when measured by the Institutional investor and minority shareholders found a slightly positive relationship in the performance of companies listed in the BSM (Mollah et al. 2012).

Briano-Turrent and Rodriguez-Ariza (2016) found that countries with the civil law characteristics have the tendency of not protecting their investors, in contrast to common law counties that have introduced and made a significant progress in introducing policies that protect the interest of shareholders.

In relation, to the firm age and size for non-family and family the study found that there is no relationship between the performance of mining and non-mining companies during the financial crisis as measured by the ROE and ROA (Saleh et al. 2017). De-la-Hoz and Pombo (2016) focused on the Latin American countries, namely: Argentina, Brazil, Chile, Colombia, Mexico and Peru, with their sampling date starting from 1997 to 2011 which consisted of 562 non-financial companies. They found that performance when measured by Tobin Q declines with firm size. Al-Saidi and Al Shammari (2015) also found no relationship between firm size and performance of companies listed in Kuwait a middle east developing country. Yet, yield contrasting view in terms of firm age and the performance of companies as measured by Tobin Q and ROA.

Tshipa et al. (2018) did a study on the JSE with their samples starting from 2002-2014 and consisted of 186 listed companies. They used Ohlson valuation methodology and found that roughly 93 per cents of listed firms in the JSE consist of non-dual leadership structure. Their study found that there is a significant relationship between internal corporate structure, like, board diversity, board size, leadership structure with the share price and earning per share (EPS). This indicated that such companies adhere to corporate governance and therefore helps to create an environment that shareholders are familiar with which led to confidence that their interest are protected. In addition, it was found that board size adjusted to 1 percent had a significant relationship with the movement in shares. Supporting the assertion made by other scholars that “skills, expertise and efficacy” create shareholders wealth (Tshipa et al. 2018; Jensen & Meckling 1976).

The Audit committee found that there is a major improvement in the performance of companies when an external director chairs the audit committee. However, a negative relationship was found in relation to the performance of companies listed in the BSM when the executive committee is chaired by the internal directors (Mollah et al. 2012). It is evident from the above results that shareholders value the independence associated with the external directors because they are likely to render an independent advice to the board of directors, shareholders and other key stakeholders.

In light of this revelation, we have to bear in mind, ownership concentration varies across region, geographies. As a result, it could be effective when shareholders question the strategic direction that managers are implementing through the elected board executives when shareholders meetings takes place. In many cases, they must act in unison to hold rogue agents accountable for their own misconduct as the board of directors could only be held accountable when the majority of shareholders are dissatisfied with their level of performance and decide to vote against their re-election.

3. Methodology and Data Analysis

These data was collected from the IRESS BFA INET from 2010 to 2018 available in the University of South African (UNISA) library portal. In some cases, there were JSE listed companies which reported their financial statement using foreign currencies because of dual listing. As a result, we had to convert the monthly currencies spot price to the annual spot price to deal with outliers, which were used to convert the firm size as denominated by the total asset to the rand. In addition, financial companies, investment companies, and banking companies were excluded from the final sample because of their unique capital structure. Secondly, they have stringent policies that govern their operational activity. Those companies which were not operating when the study commenced were excluded from the final sample. Consequently, we used MS excel to collate and clean raw dataset and thus led to a total sampling of 23 JSE-TOP40 listed companies. This was applied before the actual application of the two-step dynamic GMM model through Stata software. The following model is a two-step GMM system model that will represent the analysis of the study as outlined in Table 1.

$$\Delta Y_{it} = (\alpha - 1)\Delta y_{t-1} + \sum_{k=1} \beta_k \Delta X_{k,it} + \Delta \delta_i + \Delta \mu_t + \Delta \varepsilon_{it} \quad (1)$$

ΔY_{it} represent dependent profitability variable and market variable which will be used to gauge the performance of the JSE-TOP40 listed firms. $\Delta X_{k,it}$ represent the independent variables included in the study such as ownership concentration used as a proxy to manage the agency cost problems, independent firm control variables and independent control macro-economic variables. α and β_k represent unknown coefficient. $\Delta \delta_i$ represent the non-random variables. $\Delta \mu_t$ represent all the variables that were not included in the study which have the effect on the performance of the variables in this study. $\Delta \varepsilon_{it}$ represent the error term which had the ability to influence the main variables in this study.

Table 1. Main Variables of the Study

Samples			
Variable type	Acronym	Proxied by	Proxy
Accounting measures			
Dependent profitability variable	<i>L. ROA</i>	Return on Asset	Log of net income over total asset
Market Measures			
Dependent market variable	<i>L. SP</i>	Share price	Log of share price at year-end
Agency cost measures			
Independent main variable of the study	<i>D_F</i>	Foreign ownership	measured by a dummy variable of 0 for foreign firms and 1 for local companies
	<i>MO</i>	Managerial ownership	measured by the value of shareholder-beneficial over the 12 months average value of ownership concentration
Firm-specific variables			
Independent firm control variables	<i>FSlog</i>	Firm Size	Natural logarithm of total asset
	<i>DR</i>	Debt ratio	Total debts over total assets
	<i>GS</i>	Growth in sales	Increase or decrease in sales over a period
	<i>LR</i>	Liquidity ratio	Current assets over current liabilities
Macro-economic variables			
Independent macro-economic control variables	<i>LGDP</i>	Gross domestic product	Logged averaged quarterly nominal gross domestic product
	<i>PR</i>	Prime rate	Average monthly prime rate

Dependent variables- the performance of the market variability is denominated by the share price. This study is following on the foot-steps of other empirical studies that used the share price at the end of the year such as Tshipa et al. (2018). The share price was chosen as a performance measure because market participants are willing to pay that value when investing in these selected companies. Therefore, the JSE is characterised as one of the safest, financially stable, politically stable and transparent financial market in the African continents thus leading to the share price chosen as one of the measures (Tawfeeq & Alabdulla 2018). Additionally, we use return on assets (ROA) because it represents the interest of stakeholders such as creditors, ordinary shareholders, employees and other key stakeholders.

Independent variables – dummy variable of foreign ownership concentration will be used to denote the ownership structure of a firm. Thus, zero will indicate that a specific company was established outside South Africa and one will indicate that a specific company was established in South Africa. The use of a dummy variable to denote

foreign ownership concentration was motivated by lack of access to raw foreign ownership variables. It emulated Migliardo and Forgione (2018) who used dummy variables to represent ownership variables in their empirical study in the European region. Managerial ownership concentration will be measured using the value of beneficial ownership concentration over the 12 months averaged value of outstanding shares.

Control variables – log of firm size was used to control for differences in the effect across sectors (Al-Saidi & Al-Shammari, 2015). Secondly, debt ratio is used to discourage inside shareholders from using company resources on personal projects therefore leading to lower rates of return (Rossi et al. 2018). However, it is extremely important to note that excessive debts could lead to excessive finance charges which could lead to the agency cost problem when insiders borrows funds to invest in project that align with their interest (Migliardo & Forgione, 2018). Thirdly, growth in sales is concerned with the future performance of the company. Therefore, the inclusion of growth in sales was to try and determine their business cycle due to the differences in the maturity cycle and differences in the level of growth. In addition, investment analyst, financial analyst and stockbrokers use growth in sales to project the future performance of the company. Fourthly, liquidity ratio is used to detect the financial solvency of the JSE-TOP40 listed firms as it assists with companies' ability to meet their short-term liabilities. Additionally, macro-economic variables were used to detect macro-economic changes using the log of nominal gross domestic product (LGDP) and prime rate to monitor the influence of monetary policy in the performance of the JSE-TOP40 listed companies.

3.1. Presentation and Analysis of Results

Table 2 present descriptive statistics for performance measures, ownership concentration, macro-economic and firm-specific variables. The table is used to detect outliers in the variables contained in the study to outline such matters accordingly before running the actual test. As a result, there is no huge differences between the mean and median because it shows that there is no presence of outliers among the selected variables with the exclusion of the share price (Gyimah, Addai & Asamoah, 2021). In Table 2 we find that the ROA is 13.8107 with the best average performance of 46,85 and the worst average performance of a negative return of 25.76 and the share price mean of 24 539.98 and best performing company with a 345 100 and the worst with 1 345.00. The ROA of the JSE-TOP40 companies is slightly better than the ROA of suspended companies in the study by Mangena and Chamisa (2008) who found a ROA with a negative of 4.3 percent in the South African listed companies. Whereas a different perspective could show the side of companies in the JSE-TOP40 listed companies that might be suspended should their performance consistently deteriorate.

The managerial ownership concentration has a 0.030 with the highly concentrated managerial ownership concentration owning a 0.5296 percentage ownership stake. This is slightly lower than the mean of managerial ownership concentration observed by Mugobo, Mutize and Aspeling (2016) of 6.00 percent therefore attributed to difference in sampling because this study focused on the JSE-TOP40 companies. Secondly, small companies are prone to compensate their board of directors with higher stock options to minimise the effect of agency problems because their businesses are not well-known and small as a result explaining the differences in mean.

The control firm specific has a debt ratio of 57.46 percent, dividend pay-out of 41.76 percent, liquidity of 1.67 and growth in sales of 8.11 and logged firm size of 17.78. It seems that a major cause of suspension of firms could be attributed to the high usage of debts because Mangena and Chamisa (2008) found debt mean of suspended companies had the average of 86.2 percent. As a result, we could argue that excessive use of debts does not align the interest of shareholders with managers as proposed by the agency cost theory (Jensen & Meckling, 1976; Smith 1776). In addition, a study by Mamaro and Tjano (2019) had a dividend pay-out of 37.40 percent. In this study, we had a slightly higher dividend pay-out which could be attributed to inflation as shareholders require higher rate of return when inflation rate is high to compensate for additional risk. In some case, might re-allocate their capital to risk free rate instrument should the opportunity cost of investing in risk free rate instruments be higher than the rate of return generated in the JSE-TOP40 listed companies. However, the high growth in sales of 8.10 percent could be enough motivation for shareholders to keep their investment with the JSE-TOP40 listed companies because it is higher than the inflation rate of 5.3 percent.

Consequently, shareholders, creditor and other stakeholders could view this as an opportunity to generate higher rate of return to shareholders in future as they continue to expand their business in other sectors. The nominal gross domestic product (GDPN) had a mean of R3 811 919 in billions. In addition, all data used in this study were not normally distributed because of lack of generating a zero-confidence value as noted by the skewness and Kurtosis. Also, the Jarque-Bera confirmed that joint hypothesis of the skewness being zero and the excess kurtosis is rejected therefore, variables are not normally distributed with the exclusion of the logged firm size.

Table 2. Descriptive Statistics

Variab les	Mean	Media n	Maximu m	Minimu m	Std. Dev.	Skewne ss	Kurtos is	Jarque- Bera
ROA	13,8107	12,09	46,85	-25,76	11,659	0,3017	3,4456	4.8524*
SP	24539,98	15920,00	345100,00	1345,00	38934,83	5,4869	38,3028	11787.9** *
DP	0,4176	0,4414	3,0769	-7,4351	0,6511	-8,0423	105,0533	92059.78** **
DR	0,5746	0,52	2,67	0,04	0,328	2,5357	15,8486	1645.69** *
Logged FS	17,783	17,8396	21,6712	15,0993	1,3528	0,1794	2,7076	1,8481
GDPN	3811919,00	3805350,00	4873899,00	2748008,00	695373,90	0,0277	1,7448	13.6147** *
LR	1,6671	1,29	6,82	0,22	1,031	2,2445	8,949	479.0504** **
PR	9,5046	9,4167	10,4583	8,5	0,6762	0,0465	1,585	17.3443** *
MO	0,03	0,0068	0,5296	-	0,0596	4,4014	29,8507	6886.588** **
GS	8,1085	8	53	-64	12,7085	-0,3116	8,5367	267.7452** **
CPI	5,3	5,3	6,3	4,3	0,6782	-0,0043	1,5832	17.3136** *

***, **, * represent significant at 0,1%, 1% and 5% percent, respectively

Table 3. Pearson Correlation Matrix

Variab les	ROA	SP	DP	DR	FS	GDPN	LR	PR	MO	GS
ROA	1									
SP	-0,0052	1								
DR	0,1093	0,007	0,0276	1						
FS	(0,2732***)	0,3582**	-0,0462	0,2075*	1					
GDPN	-0,0729	0,1854*	0,0556	0,0688	0,2089*	1				
LR	0,2492**	0,0278	0,0078	-0,5058**	0,2138*	-0,0328	1			
PR	-0,048	0,1121	0,0256	0,0501	0,1164	0,6156**	-0,0481	1		
MO	-0,1254	(0,1432*)	-0,091	0,0439	0,2782**	-0,1018	0,0941	0,019	1	
GS	0,1589*	0,0844	0,0632	0,1560*	-0,1046	-0,1398*	0,0162	0,1179	0,025	1

***, **, * represent significant at 0,1%, 1% and 5% percent, respectively. The Pearson Correlation Matrix in Table 3 finds managerial ownership concentration has a negative significant relationship with the share price at the confidence interval of five percent. Firm size had a negative significant relationship with the ROA. Whereas, it had a positive significant relationship with the share price (SP) at significance interval of 0.01 percent. This indicates that shareholders do not consider ROA to be an important element of performance which could lead to better performance in the share price. However, there is too much confidence that the share price is a good variable to gauge any mispricing in the market because they are in a position to buy more shares when they believe that investors have oversold their share price thus leading to the share price being undervalued and sell when the opposite happens. Secondly, they could buy more shares when they believe that the JSE-TOP40 listed companies could possibly perform better in future.

The liquidity ratio had a significant positive relationship with the ROA at a significance interval of 0.01 percent. This means that the average of 1.66 from 2010 to 2018 was enough to motivate shareholders that these companies will be solvent in the next 12 months. Secondly, they believe management would continue to manage their short-term liabilities efficiently in the future and thus would not jeopardise the interest of the stakeholders.

The growth in sales had a positive relationship with the ROA and significant at 5 percent. The positive relationship might be an indication that the JSE-TOP40 listed companies are poised to perform better in the future. Due to being used to gauge the future performance of companies which could out-perform their competitors in the future. The hypothesis is that companies with growth in sales which is above inflation will continue to perform better in the future by generating real rate of return to shareholders. The inflow of capital from developed companies when searching for better returns must use the performance of companies with the highest market capitalisation in the South African Developing Countries (SADC) countries. As such, there is an absence of multicollinearity in the independent variables because the correlations are well below 0.8 (Mollah et al. 2012).

Table 4. The Effects of Corporate Governance Elements on Financial Performance

Dependent variable	Share price	Return on Asset
	2-Step GMM	2-Step GMM
L.SP	1.053*** (0.00390)	0.103 (0.0684)
D_F	-8386.9 (7187.8)	-23.12 (13.99)
MO	-41964.1* (18396.4)	-51.62*** (11.48)
FS	-777.2 (473.3)	-3.352*** (0.745)
DR	-11523.5*** (2369.9)	-2.971 (2.037)
GS	-47.29 (34.89)	0.0738 (0.0441)
LR	-1794.3** (534.3)	3.294* (1.264)
PR	-182.7 (710.9)	2.675* (0.977)
LGDPN	-15724.3** (5006.0)	-27.03* (10.34)
_cons	137965.0** (36766.0)	239.7** (77.39)
N	184	184
R2		
F-Stats	131251.58	174.73
AR (1)	-1.17	"-1.33
AR (2)	1,15	0.70
Sargan	93.88	67.58
Hansen	20.83	0.70

***, **, * represent significant at 0,1%, 1% and 5% percent, respectively. Standard errors are in the parenthesis.

The managerial ownership concentrating in Table 4 did not enhance the financial performance of the JSE-TOP40 listed companies as measured by the share price and ROA at the significance of 5 and 0.1 percent, respectively. Consequently, we posit that shareholders do not benefit for offering stock options to align their interest with management executives responsible for managing the JSE-TOP40 listed companies. Secondly, it is not a good measure of alleviating the agency cost because it does not align the interest of shareholders with management as other studies have argued (Jensen & Meckling, 1976) but consistent with Mugobo et al. (2016).

The negative relationship between performance and managerial ownership can be explained within the Steinhoff International Holding N.V case study, whose senior

executives have not been held accountable for their failure to implement corporate governance policy while managing the company to pursue the company's strategic direction. There was also a lack of proper auditing oversight by some major auditing companies in the world which resulted in an increase in the reputational risk of the South African corporate sector and its corporate governance spectrum (Rossouw & Styran, 2019). Due to their failed attempt to advocate for good corporate governance when executing their strategic directions and perpetuated a myth while pursuing wealth maximisation (Ongore, 2018).

In addition, foreign ownership did not show any significant relationship with the financial performance as measured by the share price and ROA. Although, theory argues that incorporating foreign ownership concentration is beneficial for companies in the developing countries as they are major donors of capital in developing nations, have superior human resource prowess, technological advantages and maximise operational efficiency (Ongore, 2018). As such, many factors have made it hard in the current study to clearly articulate the praxis and size of foreign ownership concentration because of the use of a dummy variable. Consequently, we are not at liberty to determine the average size of foreign ownership as the argument is that high concentration tend to lead to effective monitoring and the maximisation of shareholder wealth as noted in the Kenyan listed companies (Ongore, 2018).

The results are contrary to the findings by Mollah, et al. (2012) who found that Botswana companies benefitted from foreign investment to the performance of the BSM companies as denoted by ROA and underperformed when incorporating the log of market capitalisation. There are many factors that could be associated with lack of better performance because of foreign investment such as the high cost of investing in a foreign market, negative impact of corruption, poor macro-prudential policies, lack of effective corporate governance policy. However, the case lacks ground concerning South Africa because it has introduced superior corporate governance policies that were aligned to western nations often termed Anglo-Saxon corporate governance policy (Tshipa et al. 2018; Makina & Wale, 2016) and the envy for many African countries. Therefore, disbanding an argument by Ongore (2018) that foreign shareholders benefit at the expense of domestic shareholders because of their ability to minimise the tax expense through "tax avoidance schemes".

In addition, firm size was found to have a negative relationship with ROA but insignificant with the share price. The scale and size of the JSE-TOP40 listed companies does not act as a buffer to motivate shareholders to direct their investment to the JSE-TOP40 listed companies, even when the average growth in sales from 2010 to 2018 exceed inflation. However, debt ratio could be cited as the reason behind the poor performance because it exceed equity contributed by shareholders and thus prompted a negative relationship with the debt ratio. Contrary to the argument by Jensen and Meckling (1976) who argued that using debts demotivates management

from investing in projects that conflict with shareholders due to their needs to ensure that they are able to service finance charges. However, liquidity has a positive relationship with ROA but an inverse relationship with the share-price.

According to Belkhir, Maghyereh and Awartini (2016) good position in the liquidity ratio led to high use of debts in the financing of total assets which is slightly relevant in this study. This could have prompted managers of the JSE-TOP40 listed companies to use debts wisely while financing total assets even when debts did not generate significant capital appreciation as observed by a negative relationship with the share price and therefore prompting foreign shareholders to allocate their investment to developing nations with higher return on investment.

In addition, the prime rate has a positive relationship with the ROA which is inconsistent with the debt ratio because it had a negative relationship with the share price and the logarithm of the nominal gross domestic product (LGDPN) which had a negative relationship with ROA and the share price which is consistent with Marozva (2020) who found that returns in the JSE-index are positively affected by the interest rate proxied by prime rate. These means when the interest rate increases the profitability of the JSE-TOP40 listed companies increases. This is contrary to the popular believe and theory that an increase in the interest rate lead to an increase in finance charges therefore leading to a decline in the profitability of these companies and deterioration in their share price. As a result, increasing the cost of future projects as noted in this study because of slightly higher use of debt in the capital structure.

4. Conclusion and Summary

In this study, we examined the relationship between foreign ownership and managerial ownership concentration on the performance of JSE-TOP40 listed companies. It was found that managerial ownership concentration of the JSE-TOP40 companies negatively affected performance. This is consistent with other studies that argued that aligning insiders ownership tend to lead to underperformance in the financial markets because management tend to invest in projects that have a lower rate of return which is below the cost of debts (Tuggle et. al. 2010). However, there was insignificant relationship between foreign ownership concentration and performance. These results imply that companies might need to align the managerial ownership with company performance. These companies might decide to prolong their share scheme options issued to the management or prolong their vesting period.

Therefore, future studies might need to relook at the same relationship accounting for firstly management share option schemes. Secondly, it would also be beneficial for studies to be extended to the period beyond the current period accounted for in this study to thoroughly understand the implementation of King IV report on the JSE-TOP40 companies as it was effective from the 01 April 2017 to clearly put things into

perspective. The King IV report is unique as it advocates a new paradigm that the board of directors may “explain and comply” with corporate governance policy which is different from the previous King reports. Thirdly, a segmented approach in the analysis of the connection between firm performance and corporate governance might provide better insights. Lastly, other studies should determine the average size of foreign ownership because high foreign ownership concentration is argued to lead to effective monitoring and the maximisation of shareholder wealth.

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