



Managerial Ownership and Firm Performance under South Africa's Black Economic Empowerment Policy

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Abstract: Managerial Ownership and Firm Performance under South Africa's Black Economic Empowerment Policy

Purpose: This study examines the impact of managerial ownership on firm performance and the implementation of demographic diversity of ownership and control of listed firms on the JSE market.

Method: This study employs a dynamic panel model with generalized method of moments (GMM) estimation and a probit model.

Results: The study finds that managers holding both managerial and ownership positions enhance the performance of listed firms during the implementation phase of demographic diversity in management, ownership, and control in South Africa. However, such dual managerial ownership and control roles do not optimally promote the Black Economic Empowerment (BEE) program in support of corporate governance practices.

Novelty: This research not only examines the relationship between managerial ownership and company performance, but also introduces the unique transformative policy context of the South African BEE.

Contribution: This study provides corporate boards and policymakers with evidence-based strategies to balance performance incentives with Black Economic Empowerment compliance.

Abstrak : *Kepemilikan Manajerial dan Kinerja Perusahaan berdasarkan Kebijakan Pemberdayaan Ekonomi Kulit Hitam Afrika Selatan*

Tujuan: Studi ini mengkaji dampak kepemilikan manajerial terhadap kinerja perusahaan dan penerapan keragaman demografis kepemilikan dan kontrol perusahaan tercatat di pasar JSE.

Metode: Penelitian ini menggunakan model panel dinamis dengan estimasi metode momen umum (GMM) dan model probit.

Hasil: Studi ini menemukan bahwa manajer yang memegang posisi manajerial dan kepemilikan meningkatkan kinerja perusahaan terdaftar selama fase implementasi keragaman demografis dalam manajemen, kepemilikan, dan kontrol di Afrika Selatan. Namun, peran kepemilikan dan kontrol manajerial ganda tersebut tidak secara optimal mempromosikan program Black Economic Empowerment (BEE) untuk mendukung praktik tata kelola perusahaan.

Kebaruan: Penelitian ini tidak hanya menguji hubungan antara kepemilikan manajerial dan kinerja perusahaan, tetapi memperkenalkan konteks kebijakan transformatif unik Afrika Selatan BEE.

Kontribusi: Studi ini memberi dewan perusahaan dan pembuat kebijakan strategi berbasis bukti untuk menyeimbangkan insentif kinerja dengan kepatuhan Pemberdayaan Ekonomi Hitam.



1. Introduction

The issues of management, ownership, and control have been central to South African economic discourse since the end of colonisation, the disempowerment wrought by apartheid, and the systemic marginalisation of Black South Africans [1], [2]. The post-apartheid democratically elected government recognised the need to address past imbalances and introduced the Black Economic Empowerment (BEE) program to promote equitable ownership and control in the economy [3], [4]. The BEE framework became law in 2003 and was subsequently reviewed with measures covering ownership, management, and skills development, mandating that certain businesses and listed firms comply with BEE requirements to qualify for government contracts or specific licenses [5], [6]. Recently, the King IV report on corporate governance in South Africa prompted amendments to the listing requirements for firms on the Johannesburg Stock Exchange (JSE) to promote racial diversity at the board level and ensure annual disclosure of BEE performance in accordance with the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2013 [7], [8]. Failure to comply with these requirements may lead to corporate management breaching their fiduciary duties due to the opportunity costs associated with the BEE policy [9], [7].

Thus far, managerial ownership, firm performance, and corporate governance practice in South Africa remain subjects of debate primarily due to the country's unique institutional framework and socioeconomic transformation objectives. Extensive corporate finance literature has emphasised the importance of managerial ownership in determining firm performance and aligning corporate governance practices. Ownership is widely regarded as an essential internal governance mechanism to mitigate agency conflict that arises between managers and shareholders [10], [11], [12], [13]. As a result, managers holding ownership stakes in a company are more likely to act in the best

interests of shareholders and work towards maximising the company's value [14]. Manager-owners, who occupy both managerial and ownership roles, tend to adopt behaviors that reflect either role depending on the extent of their stock ownership [15]. Therefore, higher levels of ownership tend to align their actions more closely with the owners' focus on long-term value creation.

On the other hand, the interests of corporate managers may diverge somewhat from those of other stakeholders [16], [17]. As employed professionals who contribute labour, they must demonstrate their individual competence in the corporate environment by enhancing firm performance and adeptly managing organisational concerns such as staffing and external stakeholder relations. This duality creates a complex dynamic where managerial ownership can simultaneously enhance firm performance while potentially conflicting with broader socioeconomic transformation goals, such as those outlined in the BEE programme.

Our study considers the program of managers, examines dependency perspectives, and analyses the theoretical environment in relation to Resource Dependency Theory (RDT), developed by Pfeffer and Salancik (1978) [18], which posits that organisations depend on external resources to survive and thrive [19]. These resources include capital, raw materials, human resources, information and government support [1,9]. Firms largely rely on external suppliers (e.g., shareholders, government, suppliers) for resources to balance internal goals such as operational efficiency and profitability. From a resource dependency perspective, the BEE framework in South Africa can be viewed as a mechanism that influences how businesses access critical resources, such as government contracts, licenses, and other opportunities that require compliance with specific criteria. Furthermore, institutional theory posits that organisations operate within a framework of societal norms, regulations, and expectations

that influence their structures and practices [20]. In the context of South Africa, institutional theory helps explain how external pressures, such as the Broad-Based Black Economic Empowerment (B-BBEE) Act and the King IV report on corporate governance, shape managerial ownership and compensation practices. These institutional frameworks create a normative environment that encourages firms to adopt practices aligned with socioeconomic transformation goals, even if they conflict with traditional managerial agency objectives. In South Africa's emerging economy, researchers have examined managerial ownership within a unique context that combines conventional concerns with socioeconomic objectives through BEE programs. Examining firm performance reveals a lack of additional knowledge on how managerial ownership impacts the implementation of policies aimed at promoting management and ownership in JSE-listed firms.

In this regard, our study contributes to the literature on managerial ownership, firm performance, and corporate governance practices in several ways, considering South Africa's distinct framework and corporate governance context. Extensive studies have examined managerial ownership effects on firm performance in various markets. There is a significant impact. However, there is a significant gap in understanding how these relationships operate in South Africa's apartheid context, where the formation of ownership structures is a deliberate policy objective. Past studies by Scholtz and Smit (2012) and Ntim (2015) have examined general corporate governance in South Africa but have not explicitly addressed how managerial ownership influences firm performance during a period of mandated demographic transformation. Furthermore, while resource dependency perspectives have been applied to understand board diversity in South Africa [21], the application of both resource dependency and managerial ownership, as well as institutional theories, to

understand managerial ownership within the BEE context remains unexplored.

To the best of our knowledge, this study is the first to explore the role of managerial owners of South Africa's corporate governance through Black Economic Empowerment (BEE) initiatives. It considers the institutional framework and resource dependency perspective in the corporate environment. Research on corporate governance in South Africa has primarily focused on either general governance mechanisms [22], [23], [24], [9], [4] or specifically on BEE implementation [24], [9]. Studies by Sartorius and Botha (2008) have examined general BEE compliance among JSE-listed firms but did not specifically address the interplay between managerial ownership and BEE policy compliance and implementation. While studies have separately examined BEE implementation and firm performance [24], the tension between managerial ownership interests and BEE policy objectives remains unexplained, creating a significant knowledge gap regarding the efficacy of management mechanisms in transformation-oriented institutional contexts. This study is particularly significant as it sheds light on the ongoing process of transforming South African corporate governance practices concerning racial diversity and ownership control.

From a methodological perspective, this study deviates from previous research by utilising a panel data model with other estimating techniques. Using the Generalised Method of Moments (GMM) estimation technique, we address issues of endogeneity and autocorrelation to ensure robustness of the findings. Previous studies on South African corporate governance have predominantly employed panel data models [21], [25], which fail to address endogeneity concerns inherent in ownership and performance relationships. This study differs from existing literature that employed static linear regression models with a short-term focus and pooled OLS estimation

[26], [27]. Additionally, this study employs a probit model to analyse the compliance of BEE policies by firms on the JSE. The overall BEE compliance is measured using the firm's BEE score rating, which is treated as a binary variable, and the probit model provides a robust framework for this analysis. Based on the description above, the purpose of this study is to examine the impact of managerial ownership on firm performance and the implementation of demographic diversity of ownership and control of listed firms on the JSE market.

This study will discuss the empirical findings and present detailed, actionable recommendations for corporate managers and policymakers to navigate the complex interplay between managerial ownership, firm performance, and socioeconomic transformation in South Africa.

2. Method

This study employs a dynamic panel model with generalised method of moments (GMM) estimation and a probit model as methods. The research steps started from 1) collecting data from a panel of 257 companies; 2) data analysis with the GMM system model; 3) followed by a probit model to analyse the compliance of the BEE rating, by conducting diagnostic tests such as Arellano-Bond and Hansen to ensure the validity of the results. The data for this study were sourced from the McGregor BFA and Bloomberg terminal database, covering firms listed on the JSE capital market in South Africa from 2004 to 2020 using panel data. This period encompasses the enactment and subsequent amendments of the Broad-Based Black Economic Empowerment (BEE) Act by the South African government, as well as amendments to the King Code II, III, and IV reports on corporate governance. The equity market includes the Mainboard and the Alternative Exchange (AltX). The study population includes all sectors (basic materials, consumer goods, consumer services, healthcare, oil and gas, financial services, industrial, technology,

telecommunication, utility) on the JSE equity market, comprising 287 firms from 2004 to 2020 [28]. Firms delisted due to violations of listing requirements, or those involved in mergers and acquisitions were excluded due to inadequate information. The final sample consists of 257 firms, representing 89.55% of the study population, ensuring data quality assurance.

The dependent variables include firm performance, BEE share ownership, and BEE score ratings, while the independent variable is managerial ownership. Other control variables include board size, board remuneration, firm size, leverage, and liquidity.

Firm performance is described as the benefit of effective and efficient management monitoring of the firm over time [29]. It is classified into accounting-based and market-based measures. This study applies both accounting-based and market-based measures to evaluate firm performance, including Tobin's Q and its weaknesses [30], [31], [32], [33].

BEE Share Ownership is a critical element of the South African BEE framework, aimed at increasing Black participation in company ownership to address historical economic inequalities and promote inclusive growth. This study used the BEE share ownership, which is measured as the percentage of shares held by the black majority in JSE-listed companies, as proposed by the South African government to promote racial diversity in ownership and control. The BEE ownership initiative is prompted by the enactment of the B-BBEE Act in 2004 to emphasise the reform of ownership and control as tools for addressing historical economic imbalances [9], [34].

This study used the BEE dummy scorecard rating of (1) if a firm complies with BEE ratings and (0) the firm's non-compliance with BEE ratings in a given year. As noted previously, the release of the King IV report on corporate governance prompted an amendment to the listing requirements for companies on the JSE. This amendment aims

to promote racial diversity at the board level and ensure annual reporting complies with the B-BBEE Act as amended in 2013 [4].

Managerial ownership is measured as the sum of ordinary shares owned by insiders, including the Board of Directors, the CEO, and managers [35], [36], [37], [38], [39], [22], [40], [26], [27], [41]. This study adopts the structural measures described in the cited literature, defining managerial ownership as the percentage of shares held by directors annually for each firm listed on the JSE market in South Africa.

Board size reflects the diverse ideas of professional managers employed to oversee the firm's operations [42]. We examine the significance of board remuneration on managerial ownership and the firm value of JSE-listed firms in South Africa [43]. Board remuneration is measured as Board Directors' [44]. The Firm size is measured as the natural logarithm of the firm's total assets. Leverage is measured by long-term debt divided by the firm's total assets. The research study includes liquidity as a primary control variable that influences the ownership structure and increases firm value.

This study used a dynamic panel data model with the System Generalised Method of Moments (GMM) [45], [46] to address endogeneity issues such as simultaneity bias and unobserved heterogeneity. The basic model is stated as follows:

$$y_{it} = \beta_0 + \delta y_{i,t-1} + \beta_1 x_{it}' + w_i + v_t + \varepsilon_{it}$$

The GMM system combines level and first difference equations by using lag variables as instruments, resulting in consistent and efficient estimates [47]. Three empirical models were developed: 1) Model 1 (company performance); 2) Model 2, BEE share ownership; 3) Model 3, BEE rating using probit regression. The reliability of GMM estimation is validated by the Arellano-Bond

test for autocorrelation and the Hansen test for overidentifying restrictions [48].

3. Result and Discussion

Descriptive statistics. The descriptive statistic test in Table 1 summarises aggregate sample data of managerial ownership, black economic empowerment equity share, black economic empowerment rating, board sizes, board remuneration, leverage, liquidity, firm sizes, and firm performance of listed firms on the JSE market in South Africa. The firm performance proxy, using Tobin Q and return on equity, shows an average value of 1.84 and 13.42, respectively, on the JSE market. The firm performance average value, which is higher than previous research studies in South Africa, indicates that the longer a firm remains in operation, the greater the improvement in both market and accounting-based measures of corporate performance [22],[26].

The managerial ownership accounts for 15.54% of total equity shareholders, and the BEE equity share ownership held by the black majority averages 28.36% of the total equity in the JSE market in South Africa. This implies that the diversity of ownership and control on the JSE market is evolving, as the BEE share equity average exceeds the managerial equity. The average BEE rating is 0.26, indicating that fewer than average firms on the JSE market implement the government-proposed BEE programme in South Africa. The board size of directors overseeing the operation of the firm on the JSE equity market is 16, with board remuneration standing at 13.29% of firm profitability in the South African capital market.

Leverage (LV) on the average value on the JSE equity market is 0.476. This suggests that South African listed companies are more equity-financed than debt-financed. The average liquidity (LQ) of 2.54 indicates that

firms listed on the JSE equity market are less liquid, making it difficult to meet financial obligations during financial distress and thus reducing the chances of accessing debt financing [49], [50]. The firm size (FS) on average is 6.96, indicating that JSE-listed firms have opportunities to diversify investment and improve firm performance.

Table 1. Descriptive statistics test summary variable of JSE-listed firms in South Africa

Variables	Observation	Mean	Std dev	Min	Max
<i>Firm performance</i>					
TOQ	3,172	1.4563	1.5001	-.12	51.27
ROA	2,935	9.2554	23.542	-805.43	131.3
<i>Other variables</i>					
MO	3,307	16.533	23.016	0.0000	100
BEE0	565	28.491	18.764	0.0000	100
BEED	3,321	0.2818	0.4500	0	1
BRM	2,913	13.613	272.80	-695.26	14464
BS	3,229	10.986	4.0178	2	36
FS	2,937	8.3067	2.2204	-0.5656	14.745
LV	2,940	1.4749	0.2750	0	2.91
LQ	2,940	2.2205	10.359	-1.07	239.64

obligations during financial distress and thus reducing the chances of accessing debt financing [49], [50]. The firm size (FS) on average is 6.96, indicating that JSE-listed firms have opportunities to diversify investment and improve firm performance.

Note: *Tobin Q (TOQ) measure of firm performance, return on asset (ROA) measure of firm performance, (MO) managerial ownership, (BEE0) BEE equity share ownership, (BEED) BEE firm rating dummy, (BRM) board remuneration, (BS) board size, (FS) firm size, (LV) leverage (LQ) liquidity.*

Correlation coefficient analysis. Table 2 presents the correlation coefficients between managerial ownership, firm performance, and the demographic diversity of ownership and control in the South African market, specifically, firms listed on the JSE. The correlation coefficients in the table are relatively low, with the highest value being 0.5878 (between ROA and TOQ), indicating that multicollinearity is unlikely to be a significant concern. Multicollinearity becomes problematic only when correlation coefficients are excessively high, which is not the case in this study [51]. The results suggest a moderate positive correlation (0.5878) between ROA and TOQ, both of which are measures of firm performance. This indicates that firms with higher return on assets tend to

have a higher Tobin's Q, and Tobin's firm profitability is positively associated with investors' market valuation.

Managerial ownership (MO) exhibits weak correlations with most variables, with the highest being 0.2450 (with board remuneration, BRM). This suggests that firms with higher managerial ownership tend to have slightly higher board remuneration and possibly increased incentives for executives. However, MO shows an almost negligible correlation with firm performance measures (0.0723 with TOQ and 0.0609 with ROA). This indicated that managerial ownership does not have a substantial direct impact on firm performance in the observed sample.

Regarding demographic diversity factors, BEE equity ownership (BEE0) has a weak positive correlation with TOQ (0.2085), suggesting that firms with higher Black Economic Empowerment (BEE) equity ownership may experience a slight increase in market valuation. However, the BEE firm rating dummy (BEED) is negatively correlated with ROA (-0.1380) and TOQ (-0.0353), indicating that highly rated BEE firms may have slightly lower firm profitability and market valuation.

Among the control variables, board size (BS) and firm size (FS) exhibit negative correlations with firm performance. The South African corporate governance policies to improve the Board size are negatively correlated with ROA (-0.3022) and TOQ (-0.1449). This suggests that larger boards on the JSE market may reduce efficiency and performance. Firm size follows a similar trend, with negative correlations of -0.4035 (ROA) and -0.2545 (TOQ), which implies that larger firms may struggle with profitability and market valuation.

Leverage (LV) shows a slight positive correlation with TOQ (0.1506) and ROA

Table 2. Correlation of Managerial Ownership and Firm Performance (with Diversity Controls)

	TO Q	RO A	MO	BE EO	BE ED	BR M	BS	FS	LV	LQ
TO B	1.00 00									
RO A	0.58 78	1.00 00								
MO	0.07 23	0.06 09	1.00 00							
BE EO	0.20 85	- 08	- 11	1.00 00						
BE ED	- 03	- 13	- 07	- 01	1.00 00					
BR M	- 00	0.04 09	0.24 50	0.13 83	- 0.21	1.00 00				
BS	- 14	- 30	- 15	0.01 25	0.12 31	- 0.41	1.00 00			
FS	- 25	- 40	- 27	- 07	0.26 17	- 0.65	0.65 28	1.00 00		
LV	0.15 06	0.05 01	- 04	- 04	- 0.16	0.00 72	0.05 41	0.07 49	1.00 00	
LQ	- 06	- 02	0.05 39	0.01 81	0.00 39	0.06 58	- 0.10	- 0.16	- 0.28	1.0 00

(0.0501), indicating that firms with higher leverage might experience a minor performance improvement. However, liquidity (LQ) has weak negative correlations with most firm performance measures,

Note: Tobin Q (TOQ) measure of firm performance, return on asset (ROA) measure of firm performance, (MO) managerial ownership, (BEE) BEE equity share ownership, (BEED) BEE firm rating dummy, (BRM) board remuneration, (BS) board size, (FS) firm size, (LV) leverage (LQ) liquidity.

Particularly with TOQ (-0.0624) and ROA (-0.0284), suggesting that firms with higher liquidity may not necessarily translate this into improved performance.

Overall, the findings suggest that some managerial ownership, demographic diversity and control variables influence firm performance, and their effects remain relatively weak. Additionally, the unreported variance inflation factors (VIFs) with a mean

of 1.07 confirm that multicollinearity is not a significant issue. This indicated that the explanatory variables can be included in further regression model analysis without concerns about bias.

The result shows that managerial ownership is positively related to firm performance during the phase of demographic diversity in ownership and control within the corporate environment. The results in Table 3 demonstrate that managerial ownership is statistically significant and positively related to firm performance as measured by Tobin's Q ($\beta=0.0$ Tobin's bin's and ROA ($\beta=0.3473$, $p<0.01$) for JSE-listed firms in South Africa. This significant positive impact of managerial ownership suggests that individuals who hold both managerial and ownership positions are better equipped to provide practical guidance and optimise the utilisation of firm resources. This, in turn, enhances the performance of JSE-listed firms within the context of demographic ownership and control transformation in South Africa. The results are contrary to previous studies that found significant negative relationships between managerial ownership and firm performance in South Africa [52], [27], [53]. Our methodological approach may explain this contradiction. The findings of the dynamic GMM model account for the fact that a firm's past performance directly influences the corporate information environment, profit potential, opportunity costs, and other factors affecting board ownership on the JSE market.

Our findings align with the propositions of agency theory by Jensen and Meckling (1976), suggesting that managerial ownership helps better align management interests with shareholders, leading to more efficient resource utilisation. The positive relationship also supports previous research indicating that

better-governed firms tend to be associated with higher market valuation in South Africa, suggesting that managerial ownership functions as an effective governance mechanism in this context.

From a resource dependency perspective [19], managers with ownership stakes are more motivated to secure critical resources in South Africa's unique BEE compliance, which facilitates access to government contracts and licenses. From an institutional theory perspective, our findings suggest that managerial owners are responding positively to institutional pressures for transformation rather than resisting them, contrary to some theoretical predictions [20]. The results also complement Ntim and Soobaroyen's (2013) observation [54] that better-governed corporations are more predisposed to pursue socially responsible agendas, indicating that managerial ownership may facilitate rather than impede transformation objectives. This reconciles the tension between profit maximisation and social responsibility, suggesting that in the South African context, these objectives can be complementary rather than contradictory.

The control variables provide additional insights into corporate governance dynamics in South Africa. Board remuneration exhibits a significant negative correlation with firm performance (Tobin's Q: -3.5563, $p < 0.01$), suggesting that higher compensation packages for board members may not necessarily translate into improved firm performance. Additionally, firm size displays a statistically significant negative association with ROA (-0.0000, $p < 0.05$), while liquidity exhibits a significant negative relationship with ROA (-0.0705, $p < 0.05$). These findings suggest that larger firms and more liquid firms tend to have lower profitability, possibly due to inefficiencies or higher operational costs in

the South African context. However, firm liquidity exhibits a significantly positive relationship with Tobin's Q (0.002), suggesting that higher liquidity correlates with greater market valuation.

The statistical validity of our estimation is confirmed by the Hansen test p-values above 0.10, indicating that the null hypothesis could not be rejected and the overidentification restriction is valid. Similarly, the AR (2) test p-value above 0.10 implies that the null hypothesis of no serial correlation could not be rejected. These tests validate our dynamic regression model with GMM estimation as the appropriate model for examining the relationship between managerial ownership and firm performance in the South African context.

Our findings reveal a critical governance dilemma for JSE-listed firms: managerial ownership is a double-edged sword. While it enhances performance, it simultaneously creates a powerful constituency resistant to the ownership dilution required by BEE. This presents a clear challenge for boards: how to harness the performance benefits of managerial ownership without allowing it to undermine transformational mandates? From a practical standpoint, this suggests that generic corporate governance prescriptions are insufficient. Boards must develop targeted interventions, such as explicitly linking a portion of executive remuneration to the achievement of BEE ownership and management control targets. This would directly incentivise the manager-owner to view transformation not as a threat, but as a key performance objective aligned with their personal interest.

Table 3. Managerial ownership's impact on firm performance amid demographic diversity in South Africa

	Model 1	
	GMM	
	<i>TOQ</i>	<i>ROA</i>
<i>FP_{it-1}</i>	0.4863*** (5.10)	0.4511*** (6.24)
<i>MO</i>	0.0252*** (2.71)	0.3473*** (2.6)
<i>BRM</i>	-0.1278** (-4.31)	-3.5563*** (-2.23)
<i>BS</i>	0.0203 (2.33)	0.0306 (-1.92)
<i>FS</i>	0.0341 (0.71)	-0.0000** (0.56)
<i>LV</i>	0.1176 (0.68)	3.3442 (0.95)
<i>LQ</i>	0.0027** (1.94)	-0.0705** (0.31)
<i>Constant</i>	-0.1283 (-0.24)	4.4722 (-1.45)
<i>No of Observations</i>	2,136	2149
<i>AR (2)</i>	0.879	0.297
<i>Hansen test</i>	0.826	0.411

t/z statistics parentheses; * significant at the 10% level, ** significant at the 5% level, *** significant at the 1% level

Note: Tobin *Q* (*TOQ*) measure of firm performance, return on asset (*ROA*) measure of firm performance, (*MO*) managerial ownership, (*BEEQ*) BEE equity share ownership, (*BEED*) BEE firm rating dummy, (*BRM*) board remuneration, (*BS*) board size, (*FS*) firm size, (*LV*) leverage (*LQ*) liquidity. This finding extends beyond conventional agency theory and suggests that incorporating elements of both resource dependency and institutional theories provides a more comprehensive framework for analysing corporate governance in transitional economies.

Managerial ownership and BEE share ownership of JSE-listed firms. The Black Economic Empowerment (BEE) policy was introduced to address historical economic imbalances in South Africa (Esser and Dekker, 2008). Supported by the King II, III, and IV corporate governance reports, the policy reformed JSE listing requirements to promote racial diversity in ownership and control structures [52], [4]. This transformation created dual monitoring

responsibilities for managers, who must oversee both internal operations and external partners' Act [9].

The GMM model results in Table 4 (Model 2) reveal a statistically significant negative relationship between managerial ownership (*MO*) and BEE share ownership in JSE-listed firms, with a coefficient of -0.3879 ($t=-1.89$, $p<0.05$). This finding provides strong evidence that as managerial ownership increases, there is a corresponding decrease in BEE share ownership structures. This suggests that managers who hold dual roles (ownership and management) may impede the implementation of BEE initiatives aimed at promoting demographic diversity. Our significant negative findings suggest that primarily manager-owned JSE-listed firms remain resistant to these transformation imperatives of BEE implementation. However, our findings suggest that these institutional pressures face significant resistance from entrenched managerial-ownership structures that prefer maintaining status quo power arrangements over transformation objectives.

The negative relationship between managerial ownership and BEE share ownership strongly supports the institutional theory prediction that managers with significant ownership stakes resist institutional pressures for transformation.

This resistance appears particularly pronounced when transformation initiatives directly threaten their control through ownership dilution. The results contradict predictions from resource dependence theory [19], which suggests that manager-owners would embrace BEE initiatives to secure access to critical resources like government contracts. Instead, the evidence indicates that the managers of manager-owners maintaining

control outweigh the potential resource advantages from BEE compliance.

The South African context presents unique characteristics that differentiate it from other markets, primarily due to its institutional framework focused on addressing historical imbalances. Ntim (2013) [22] examined corporate governance practices and firm valuation on the JSE from 2002 to 2007, finding that better-governed firms tend to be associated with higher market valuation. This study highlighted the importance of considering South Africa's institutions when analysing corporate governance mechanisms. Similarly, previous research investigated the relationship between corporate governance and firm performance in South Africa from 2002 to 2014, noting that the country's framework has evolved significantly following the implementation of the King Reports [55].

The lagged BEE share ownership variable (BOit-1) demonstrates a strong positive relationship with managerial ownership ($\beta=0.8465$, $p<0.01$), suggesting that BEE ownership stakes significantly predict higher managerial ownership in subsequent periods, possibly due to retention incentives or alignment of interests. This aligned with Mathura's (2009) study, which concluded that BEE ownership mandates reduce agency conflicts in JSE-listed firms and ultimately elevate market valuation, as measured by Tobin's Q.

The relationship between firm size and BEE share ownership ($\beta=-1.6653$, $p<0.05$) contradicts the findings in the BEE score rating model (Model 3), where firm size positively influences BEE scores. This discrepancy suggests that while larger firms may achieve higher BEE scorecard ratings through various elements (skills development, procurement, etc.), they may simultaneously

struggle with or resist substantial changes to their core ownership structures.

Board size and board remuneration are positive but not significantly related to BEE share ownership on the JSE market in South Africa. The coefficient for board size is positive but not statistically significant, suggesting that larger boards do not significantly influence BEE share ownership. This indicates that board size alone is insufficient to drive BEE compliance without active commitment from board members. Similarly, board remuneration is positively associated with BEE share ownership but not statistically significant. This implies that higher remuneration does not necessarily incentivise boards to prioritise BEE initiatives.

Theoretical tensions emerge between institutional theory, which suggests that managerial ownership structures resist transformation pressures threatening existing power structures, and resource dependency theory, which proposes that managers embrace BEE initiatives to secure critical resources like government contracts. This research highlights the unique institutional environment created by South Africa's B-BBEE. The appropriateness of the GMM model, the Hansen test for overidentification restrictions and the Arellano and Bond (AB) test of autocorrelation errors for autoregressive terms were estimated. The Hansen test p-value of 0.540 suggests that the null hypothesis could not be rejected, and the overidentification restriction is valid. The p-value of the AR (2) test of 0.106 implies that the null hypothesis of no serial correlation Table 4. The impact of managerial ownership on BEE compliance and diversity.

	GMM Model 2		Probit Model 3	
	Co-efficient	t-value	Co-efficient	t-value
Boit-1	0.8465***	8.47		
MO	-0.3879**	-1.89	-0.0074***	-4.46
BREM	0.0091	1.28	-0.0001	-0.24
BS	0.3558	1.34	0.1463	1.34

FS	-1.6653**	-2.04	0.3077***	14.23
LV	-1.1950	-0.31	-0.0560	-0.45
LQ	-0.1560	-0.84	-0.0150	-1.10
Constant	20.528**	2.03	-3.4329***	-14.41
Observation	325		2,539	
AR (2)	0.106			
Hansen test	0.540			
Log likelihood			-1197.4	
Prob			0.0000	
Pseudo (R2)			0.2139	
Predicted PR (EXCL=1)			0.2199	

t/z statistics parentheses; * significant at the 10% level, ** significant at the 5% level, *** significant at the 1% level

Note: Tobin Q (TOQ) measure of firm performance, return on asset (ROA) measure of firm performance, (MO) managerial ownership, (BEEQ) BEE equity share ownership, (BEED) BEE firm rating dummy, (BRM) board remuneration, (BS) board size, (FS) firm size, (LV) leverage (LQ) liquidity.

could not be rejected. The dynamic panel model using GMM estimation is thereby validated as the most appropriate estimation. This confirms that the GMM estimation is appropriate for analysing the dynamic relationship between managerial ownership and BEE implementation.

Managerial ownership and BEE scores rating of JSE-listed firms. Black Economic Empowerment Act 53 of 2013 establishes South Africa's legal economic transformation, expanding the BEE scope to address systemic racial barriers across public and private sectors [9], [34]. The Department of Trade and Industry oversees implementation through Codes of Good Practice, which include generic codes with general application and sector-specific codes developed by industry stakeholders [5]. The BEE scorecard evaluates companies across five key elements: ownership, management control, skills development, enterprise and supplier development, socioeconomic development [56]. Companies receive ratings from Level 1 (highest) to Level 8 (lowest), with higher ratings providing preferential access to government procurement and enhanced private sector opportunities.

The probit regression model reveals a statistically significant negative relationship between managerial ownership and BEE

score ratings, with a coefficient of -0.0074 ($t=-4.46$), significant at the 1% level. This finding suggests that managers with dual ownership and managerial roles are less likely to actively promote BEE compliance aimed at enhancing demographic diversity in ownership and control structures. The higher the managerial ownership, the lower the chances of promoting BEE compliance in advancing goalsocioeconomic transformation in SAfrica'sica's emergingSAfrica'sica'se findings contribute to the empirical studies on the relationship between ownership structures and BEE compliance, addressing the gap identified in previous studies [57], Krüger (2014) [58] and others who did not specifically examine the impact of managerial ownership on BEE implementation.

The firm size variable shows a significant positive coefficient of 0.3077 ($t=14.23$) with BEE scores rating, indicating that larger firms are more likely to implement BEE initiatives effectively. This may be due to greater resources, higher public visibility, and increased regulatory scrutiny. The coefficient for board size shows a positive but non-significant relationship of 0.1463 ($t=1.34$), suggesting that board composition alone does not substantially influence BEE compliance of listed firms on the JSE market. Board remuneration shows a negligible and insignificant negative relationship with BEE scorecard ratings, with a coefficient of -0.0001 ($t=-0.24$). Firm leverage has a negative but insignificant association with BEE scorecard ratings, with a coefficient of -0.0560 ($t=-0.45$). Similarly, firm liquidity exhibits a negative but insignificant relationship with BEE scorecard ratings, with a coefficient of -0.0150 ($t=-1.10$). Both firm leverage and firm liquidity show negative but

non-significant relationships with BEE scores, indicating the firm's financials do not strongly predict its commitment to transformation policies.

The model demonstrates a good fit, as evidenced by the Pseudo R^2 value of 0.2139, indicating that approximately 21.39% of the variation in BEE score ratings is explained by the independent variables. The log likelihood value of -1197.4 and the Prob > χ^2 value of 0.0000 confirm the overall statistical significance of the model. The predicted probability (PR) of the dependent variable (BEE compliance) is 0.2199, suggesting a moderate likelihood of BEE programme adoption across the sample.

In summary, the results indicate that managers holding both ownership and management positions do not promote compliance with or implementation of BEE policies and programmes aimed at achieving demographic diversity in ownership and control on the JSE markets.

Practical implications. For corporate boards and managers of JSE-listed firms, our results necessitate a move beyond compliance to a strategy of integrated governance. The tension between performance and transformation can be managed through deliberate structural and incentive changes. We recommend: 1) integrate BEE metrics into executive compensation; 2) empower board committees with oversight authority; 3) develop innovative ownership Structures.

For South African policymakers, such as the Department of Trade and Industry and the JSE, our findings indicate that a one-size-fits-all BEE scorecard may be suboptimal. We recommend that policymakers consider a more nuanced approach, adjusting the weighting of certain BEE elements based on a firm's ownership. The JSE listing requirements should mandate more granular

disclosure on the implementation of BEE ownership. The government could introduce additional tax incentives for companies that achieve and maintain high levels of substantive BEE ownership over a sustained period.

4. Conclusion

Corporate governance literature has primarily focused on the relationship between managerial ownership and firm performance when determining the quality of governance practices within corporate environments. This study examines the impact of managerial ownership on firm performance and implementation of the Black Economic Empowerment (BEE) affirmation programme during the phase of demographic diversity in management, ownership, and control in South Africa. Using panel data from firms listed on the Johannesburg Stock Exchange (JSE) from 2004 to 2020, we employed a dynamic panel model with generalized method of moments (GMM) estimation and a probit model. Our findings reveal that managers who hold both managerial and ownership positions tend to enhance the financial performance of firms, suggesting effective alignment of interests between management and shareholders in accordance with agency theory. However, these same managerial ownership structures do not promote BEE transformation initiatives, as evidenced by negative relationships with both BEE share ownership and BEE score ratings.

The empirical findings reflect theoretical tensions in South African corporations regarding how to enhance firm performance and implement socioeconomic transformation objectives simultaneously. Our results necessitate an integrated theoretical framework that combines agency, institutional, and resource dependence

perspectives to fully explain corporate governance dynamics in transforming economies. Standard agency theory adequately explains the performance benefits of managerial ownership but fails to capture transformation resistance dynamics. Conversely, institutional theory effectively explains transformation resistance but offers limited insights into performance effects.

JSE-listed firms should implement governance innovations that preserve the performance benefits of managerial ownership while mitigating resistance to socioeconomic transformation in South Africa. These firms should establish board-level transformation committees with enhanced voting rights for independent and diverse directors, specifically on BEE matters. This approach will preserve managerial ownership benefits while creating dedicated mechanisms for transformation oversight. Firms should implement advisory boards or stakeholder councils that include representatives from the Department of Trade and Industry (DTI), allowing them to provide meaningful input into strategic decisions without immediately diluting existing ownership structures. Additionally, firms should incorporate BEE compliance and implementation progress into core executive performance metrics, with significant financial incentives, such as equity-based benefits.

For policymakers, the DTI should create regulatory flexibility for firms to pilot innovative approaches to socioeconomic transformation, ownership and control on the JSE that may achieve substantive change through non-traditional mechanisms. The DTI should develop sector-specific transformation frameworks that account for industry differences in ownership patterns, competitive

dynamics, and transformation opportunities. The South African government should introduce BEE compliance and implementation tax incentives or benefits for firms that achieve substantive socioeconomic transformation milestones, particularly in the area of ownership transfer.

Although our study has limitations, future research can address these constraints. First, our study focuses solely on the relationship between managerial ownership and firm performance, considering the demographic diversity of management, ownership, and control in the South African JSE market. Further studies could expand on this by investigating the impact of managerial ownership on firm performance before and after the implementation of the BEE program. Second, we have highlighted the relationship between managerial ownership and BEE share ownership on the JSE market. Future studies could explore the impact of BEE employee share ownership, gender demographics, and firm performance of JSE-listed firms. Finally, this study observed the relationship between managerial ownership and the BEE scorecard rating. Future research could investigate potential non-linear relationships between managerial ownership and BEE compliance, identifying critical ownership thresholds where resistance patterns intensify.

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