FAMILY INVOLVEMENT AND FIRM PERFORMANCE: EVIDENCE FROM SAUDI ARABIA

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ABSTRACT

Economies around the world are full of family businesses, the main and significant players in the growth of a nation. Saudi Arabia is no exception. As a result, family firm performance is considered as an important variable in the context of financial and management research. This study investigates the relationship between family involvement in ownership, management, control, and succession, as well as the presence of other blockholders on firm performance. Using longitudinal data from a panel of 38 non-financial Saudi family public-listed companies (190 firm–year observations) from 2007 to 2011, and employing two different performance indicators (MBV and ROA), this study provides a sharp insight and deep understanding of the family- firm characteristics and their influence on firm performance. The results provide strong evidence of the outperformance of family firms. However, when the non-linearity of family ownership is taken into account, the results become different; firm value decreases when family ownership increases from 0 to 31 per cent, and the relationship is positive beyond the 31 per cent level. Further, it is found that the positive impact of family ownership depends mainly on whether the CEO positions are occupied by the founders or not. In other words, founder CEOs play important roles in improving the firms' market and accounting performance. Family involvement on the board of directors is also found to be positively related to firm value, indicating that family directors are considered as stewards of the companies. Thus, they work for the benefit of the firms and the shareholders. In terms of the presence of other blockholders in ownership, this study documents its negative impact on market performance. In contrast, the presence of other blockholders in management positively influences firm accounting performance. The results, in general, are statistically and methodologically robust.

Keywords: family business, family involvement, firm performance, other blockholders, Saudi Arabia

ABSTRAK

Ekonomi di seluruh dunia dipenuhi dengan perniagaan keluarga yang merupakan bentuk perniagaan utama dan amat penting dalam pertumbuhan sesebuah negara. Negara Arab Saudi juga tidak terkecuali. Oleh itu, prestasi syarikat keluarga dianggap sebagai pemboleh ubah yang penting dalam konteks kajian kewangan dan pengurusan. Kajian ini menyiasat hubungan antara penglibatan keluarga dalam pemilikan, pengurusan, kawalan dan penggantian, serta kehadiran "blockholders" lain ke atas prestasi syarikat. Dengan menggunakan data longitudinal daripada panel yang terdiri daripada 38 firma keluarga awam bukan kewangan yang tersenarai di Arab Saudi (pemerhatian 190 firma-tahun) dari 2007-2011, dan menggunakan dua penunjuk prestasi yang berbeza (MBV dan ROA), kajian ini memberikan gambaran yang jelas dan pemahaman yang mendalam tentang ciri-ciri syarikat keluarga dan peranannya dalam mempengaruhi prestasi firma. Dapatan kajian memberikan bukti kukuh tentang prestasi syarikat keluarga yang kurang memuaskan. Walau bagaimanapun, apabila hasil ketidaklinearan (*non-linearity*) pemilikan keluarga diambil kira, keputusan menjadi semakin berbeza; nilai firma merosot apabila berlaku peningkatan dalam pemilikan keluarga daripada 0 kepada 31 peratus, dan hubungannya menjadi positif apabila melebihi tahap 31 peratus. Selain itu, didapati bahawa kesan negatif pemilikan keluarga sangat bergantung kepada faktor sama ada jawatan CEO dipegang oleh pengasas firma atau sebaliknya. Dalam kata lain, CEO pengasas memainkan peranan yang baik dalam meningkatkan pasaran dan prestasi perakaunan firma. Penglibatan keluarga dalam lembaga pengarah, juga didapati mempengaruhi prestasi firma secara positif, dan ini menunjukkan bahawa CEO pengasas dan penglibatan keluarga dalam lembaga pengarah boleh dianggap sebagai pengelola (*steward*) kepada firma. Justeru, mereka akan bekerja untuk kebaikan firma dan pemegang saham. Dari segi kehadiran "blockholders" lain dalam pemilikan, kajian mendokumenkan kesan negatif ke atas prestasi pasaran. Sebaliknya, kehadiran "blockholders" lain dalam pengurusan dan lembaga pengarah mempengaruhi prestasi perakaunan firma secara positif. Sebagai keputusan, secara amnya perubahan statistiks dan metodologi adalah tekal.

Kata kunci: perniagaan keluarga, penglibatan keluarga, prestasi syarikat, "blockholder" lain, Arab Saudi

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IN THE NAME OF GOD, THE MERCIFUL, THE COMPASSIONATE

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BOD	: Board of Directors
CEO	: Chief Executive Officer
CMA	: Capital Market Authority
GCC	: Gulf Cooperation Council
GDP	: Gross Domestic Product
GNP	: Gross National Product
IFC	: International Finance Corporation
MBV	: Market-to-Book Value
MENA	: Middle East and North Africa
OROA	: Operating Return on Assets
PLCs	: Public Listed Companies
Q	: Tobin's Q
R&D	: Research and Development
ROA	: Return on Assets
ROE	: Return on Equity
S&P	: Standard & Poor's 500 Index
SAMA	: Saudi Arabian Monetary Agency
SLTC	: Saudi Law Training Center
SMEs	: Small and Medium Sized Enterprises
SOCPA	: Saudi Organization of Chartered Public Accountants
Tadawul	: Saudi Stock Exchange
UHNW	: Ultra-High-Net-Worth
VIF	: Variance Inflation Factor
FGLS	: Feasible Generalized Least Squares

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1   General Overview of Worldwide Family Businesses

The current global economic system is saturated with family businesses; the most common existing type of business in industrialized as well as developing countries (Astrachan & Shanker, 2003; Zahra & Sharma, 2004). As a result, the topic of family business has been increasingly researched over the past decade (Collins & O'Regan, 2011), and hence family firms' performance has often been discussed in many business strategy and financial economic studies (Mazzi, 2011).

Family businesses take a special place in academicians and practitioners' writings, as evidenced by the amount of research dedicated to it (e.g., Astrachan & Shanker, 2003; Rutherford, Kuratko, & Holt, 2008). The increasing universal interest in family businesses stems from the evolution of many academic, consultative and particular centres offering scientific research, educational programmes and advisory services. On the basis of these activities, family business is commonly known as a distinct and important field of study (Walsh, 2007).

Many huge and popular valued companies that are common in our daily lives started out as family businesses implying their positive significance in the overall

economy and global market (El-Chaarani, 2013). Saddi, Karlsson, Youssef, and Abdullah (2009) stated that in this time of global corporations, multinational forces and board-dominated corporate elements, it is not difficult to ignore the fact that some of the thriving companies are family businesses, which are the most pioneering kind of business in the world. Corporations including Wal-Mart, Ford, Cargill, Koch, Camex, and Bombardier in the Americas all started out as family businesses. In addition, Peugeot, LVMH, IKEA, and Bosch are their European counterparts and Tata, LG and Samsung the Asian ones.

In the Middle East and North Africa (MENA) region and most particularly the Gulf Cooperation Council (GCC) countries, including Saudi Arabia, the number of family businesses is significant. Warren (2007) revealed that families have always stayed on top of the economies in the Gulf, managing and controlling huge masses of wealth and influence. Consequently, they drive the region's economy and play a significant role in the region's GDP. Accordingly, John A. Davis,[1] hailing from Harvard Business School, relates that Arab family businesses have a significant role in supporting the Arab communities by sharing their economic prosperity; a characteristic attributable to cultural as well as religious traditions (Tiller, Dietze, & Glozat, 2009). He also mentioned that in the Arab world, family businesses are distinct from the Western family businesses in terms of cultural background, and, hence, they face different issues that require more research on account of these differences (Tiller et al., 2009).

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[1] John A. Davis is a senior lecturer of Business Administration. He has been a faculty member at Harvard Business School since 1996. Professor Davis teaches and researches in family business, family wealth, and life planning fields.

One of the major reasons that make family businesses stand out is the 'family component' (Walsh, 2007). Even under poor economic conditions, only a limited number of new businesses can sustain for over five years while the only thriving businesses that live longer are family businesses. This is not owing to their efficient model but to the family element per se (Keogh & Forbes, 1991). This element of family businesses provides many significant advantages and is viewed as a crucial source of stability (Westhead & Howorth, 2006) and performance evolution (James, 1999), which allows this type of business to be competitive in the current market. Some of these components include commitment, knowledge continuity, reliability, pride (IFC, 2007), familial ties, trust and loyalty between owners, workers and customers (James, 1999).

Block (2010) made use of both the identity theory and the agency theory to show that in poor economic situations characterized by sales drop and profits falling, family businesses are less likely to downsize compared to their counterparts owing to the fact that the main goal of family owners in setting up a business is to keep harmful actions from happening to the family reputation. Additionally, these firms are characterized by a high concentration of ownership by family members implying that a huge sum of shares is controlled by individuals or a group of individuals (family) that guarantees the long-term stability of the firms.

1.2   Problem Statement

1.2.1   Problem Statement Background

Family firm performance is considered as an important variable in the context of
financial and management research (Sacristan-Navarro, Gomez-Anson, &
Cabeza-Garcia, 2011a). As a result, the field of family business has been
receiving increasing interest from researchers as evidenced by the blooming
research dedicated thereto (Bertrand & Schoar, 2006; Cucculelli & Micucci,
2008).

Saudi Arabia is described as a family-oriented country, which is characterized by
a high number of family businesses (Paul, Al-Munajjed, & Alacaklioglu, 2006;
Hussainey & Al-Nodel, 2008; Qobo & Soko, 2010) and it is considered as a
dominant economy in the GCC countries (Espinoza & Senhadji, 2011). The vast
majority of the companies in Saudi Arabia are either family-owned or controlled
(Qobo & Soko, 2010), including Al-Rajhi Bank, Kingdom Holding Company,
Saudi Bin Ladin Group, Alabdullatif Industrial Investment Co. Zamil Industries
Investment Co., Al-Babtain Power and Telecommunication Co, and many others.
Despite this fact, Saudi Arabia is still viewed as a country that is less developed
than its Western counterparts in varying aspects. For instance, the Saudi
regulation structure is weak and the market control in the corporate structure is
still in the first phase of development. As for governance mechanisms, Saudi
Arabia shows a lack with corporate governance only being developed in 2006
with an attempt to improve the capital market's efficiency (Al-Shetwi, Ramadili,

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Chowdury, & Sori, 2011). Moreover, rules and regulations are still at the early stage of development (Hawkamah, 2006) and modifications are made frequently owing to the effect of the cultural and traditional legacies obstructing the employment of effective corporate governance.

In the middle of 2009, regional financiers raised warning flags over untold billions of dollars in further losses as a result of a decision by Saudi authorities against two main diversified commercial trading family-owned Saudi Business groups – the Al-Gosaibi Group and the Saad Group (Executive, 2009). The authorities suspended all bank accounts belonging to the owners of the two groups based on a recommendation of the Saudi Arabian Monetary Agency (SAMA). The Al-Gosaibi group is owned by Ahmad Hamad Al-Gosaibi and his brothers while the Saad Group is owned by Maan Al-Sanea. Both personalities were considered by Forbes magazine as two of the world's billionaires in 2008 with a total net worth of U.S.$10.1 billion. The relation was such that Maan Al-Sanea, the Chairman of the Saad Group, is related to Al-Gosaibi through marriage and business relationships. The relation between the two was threatened by the collapse of companies that are owned by the two family businesses (O'Neill, 2009).

Based on the suit filed by Al-Gosaibi in New York, it seems that the opportunism and entrenchment of a family member (Maan Al-Sanea), who utilised the business money of the group for his personal private benefits, thereby overriding the rights

of other shareholders (O'Neill, 2009), resulted in crisis for over 100 local and international banks, such as Deutsche Bank, HSBC, and Societe Generale, that faced debts of around U.S.$22 billion (Miedema, Robbins, & White, 2011). Consequently, many bank accounts by members of the two families were frozen by the Saudi Central Bank (O'Neill, 2009) and Standard & Poor's cut Saad Group's ratings from BBB+ to default status and then stopped reporting owing to the company's management lack of information (7days, 2009). Saad's and Al-Gosaibi's problems, for the time being, have spread from Saudi Arabia to the Gulf region along with other parts of the world. This scandal rattled international investor confidence over the ability of the Gulf's family companies to succeed, which led to some central bank governors of the region reporting that family companies in the region are not a serious problem as it happens internationally and the local authorities are prepared to take the necessary action (Al-Menshawi, 2009). Literally, incidents like these may stem from the effect of high degrees of family involvement in the business. According to Anderson and Reeb (2003), Sciascia and Mazzola (2008), and Mazzola, Sciascia, and Kellermanns (2012), family involvement in ownership can assist firms at a particular point, however, to a certain degree, family entrenchment and taking advantage of private benefits occurs, which overlooks the rights of minority shareholders, and, consequently, adversely impacts the organization's success.

1.2.2 The Problem Statement

The collapse of the aforementioned Saudi family groups support the warning voices from preceding literature that involvement in ownership is not the only channel available for the family to expropriate minority shareholders. The others are maintaining excessive control through dominating board of directors (Filatotchev, Lien, & Piesse, 2005) or managing day-to-day activities (Corbetta & Montemerlo, 1999).

Thus, with the fact that family involvement in ownership and management in the emerging and GCC countries including Saudi Arabia, is a common enough occurrence (O'Neill, 2009; Abdullah, Shah, Iqbal, & Gohar, 2011) even when the founder retires (Burkart, Panunzi, & Schleifer, 2003), along with the ambiguous and inconsistent findings of many theoretical and empirical studies (Anderson & Reeb, 2003; Astrachan & Shankar, 2003; Dyer, 2006; Villalonga & Amit, 2006; Cucculelli & Micucci, 2008; King & Santor, 2008; Jiang & Peng, 2011; Sciascia, Mazzolla, Astrachan, & Pieper, 2012), it is of importance to develop significant questions regarding the moderating impact of family involvement in management and the impact of the presence of other blockholders on family firms' performance (Jiang & Peng, 2011; Sacristan-Navarro, Gomez-Anson, & Cabiza-Garcia, 2011b).

Recently many gaps in family business research have been reported (Collins & O'Regan, 2011). Among these gaps is the link between family management and its effect on the performance, which is still under debate (Filatotchev et al., 2005).

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Any current evidence extending knowledge that causes the inconsistent empirical literature is valuable (Sacristan-Navarro *et al.*, 2011a). as these inconsistencies have made the link between family ownership and firm performance more "complex and very probably moderated or mediated by factors..." (Mazzi, 2011, p. 166). According to Baron and Kenny (1986), this may be the reason behind the inconsistencies. Barth, Gulbrandsen, and Schone (2005) advised that future researchers should mainly concentrate on who runs the firm as opposed to who owns it; many supports have been reported for the impact of ownership concentration on the firm's performance. One possible explanation for why the results were inconsistent may be related to the lack of understanding of the moderating effect of a family CEO and founder CEO. At the best of the researcher's knowledge, Jiang and Peng (2011) were the only ones who investigated the moderating effect of family CEOs on the family ownership-firm performance relationship in Asia, in which family CEOs were found to positively moderate the relationship in some countries (e.g., Indonesia and Taiwan), and negatively moderate the relationship in Hong Kong. However, their study has clearly neglected the moderating impact of founder CEOs on the relationship, which in turn, limits our understanding on the fact of family involvement effect on firm performance.

Based on the above rationale, this study aims to examine the moderating effect of founder CEO along with the moderating effect of family CEO on the relationship between family ownership and firm performance, as suggested by Jiang and Peng

(2011). It is hypothesized that family firms in which a member of the dominant family shareholder (founder) is the CEO outperform their non-family (non-founder) counterparts.

In other words, family ownership may have a greater effect on the performance of family-managed (founder-managed) firms than in non-family managed (non-founder-managed). This hypothesis is in line with the spirit of prior studies (e.g., Anderson & Reeb, 2003; Villalonga & Amit, 2006) along with the evidence provided by Jiang and Peng (2011). The key limitation of the prior studies is the failure to consider the effect of family involvement in management, particularly the level to which the family CEOs and their generation moderate the relationship between family ownership and firms' performance.

It also seems clear that agency theory leaves some gaps that need to be filled when family firms' performance is investigated. Among them are the role of other blockholders and their identity. While most studies are still delving into the role of blockholders and their implications on firm performance, empirical findings are limited and inconsistent (Sacristan-Navarro et al., 2011b). For instance, Lehman and Weigand (2000), and Sacristan-Navarro et al. (2011b) revealed that the existence of other large shareholders affects the firm's profitability positively and that it can be considered as a method to protect minority shareholders from manipulation by the controlling owners and hence improve firm performance (Lopez-de-Foronda, Lopez-Iturriaga, & Santamaria-Mariscal, 2007). In contrast,

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Maury and Pajuste (2005) revealed that the existence of second family shareholders in the ownership of family firms impacts the performance in a negative way while higher voting rights by another large non-family shareholder improves the valuation of the firm.

The inconsistent findings show that there may be a difference between the kinds of other blockholders and the extent to which they are involved (Maury & Pajuste, 2005). According to Pergola and Verreault (2009), previous studies have failed to identify other blockholders. To the best of the researcher's knowledge, prior studies solely investigated the presence of other blockholders in company ownership. There is still limited research regarding the role of other family firm blockholders in the management and the board of directors. Therefore, the present study attempts to examine the role of other blockholders in family firms through taking into consideration their identity (i.e., family or non-family) and their involvement in management and board of directors, as recommended by Sacristan-Navarro *et al.* (2011b).

Therefore, to the best of the researcher's knowledge, this study will be a part of the pioneering studies addressing the effect of family involvement upon Saudi family publicly listed firms.

1.3   Research Questions

Based on the above discussed research problem, this study attempts to answer the following research questions:

1. Does family involvement in ownership positively affect firm performance?

2. Is there a non-linear relationship between family ownership concentration and firm performance?

3. Does family firms managed by family CEOs outperform family firms managed by non-family CEOs?

4. Is there a moderating impact of family CEOs upon the relationship between family ownership and firm performance?

5. Does family firms managed by founder CEOs outperform family firms managed by non-founder CEOs?

6. Is there a moderating impact of founder CEOs upon the relationship between family ownership and firm performance?

7. Does family representation on boards of directors positively affect firm performance?

8. Does family firms controlled by family chairmen outperform family firms controlled by non-family chairmen?

9. Does family firms controlled by founder chairmen outperform family firms controlled by non-founder chairmen?

10. Does family successor negatively affect firm performance?

11. Is there any significant relationship between the presence of other blockholders in ownership and firm performance?

12. Is there any significant relationship between the presence of other family blockholders in ownership and firm performance?

13. Is there any significant relationship between the presence of other blockholders on the board of directors and firm performance?

14. Is there any significant relationship between the presence of other blockholders in the management and firm performance?

15. Is there any significant relationship between the presence of other family blockholders on either the board of directors and/or the management and firm performance?

1.4   Research Objectives

For the purpose of answering the above research questions, the study attempts to successfully achieve the objectives of the study, which are:

1. To examine the effect of family involvement in ownership on Saudi family firms' performance.

2. To examine the non-linearity of Saudi family ownership concentration.

3. To examine the outperformance of Saudi family firms managed by family CEOs.

4. To investigate the moderating impact of family CEOs upon the relationship between family ownership and Saudi family firms' performance.

5. To examine the outperformance of Saudi family firms managed by founder CEOs.

6. To investigate the moderating impact of founder CEOs upon the relationship between family ownership and Saudi family firms' performance.

7. To examine the outperformance of Saudi family firms with family representation on boards of directors.

8. To examine the outperformance of Saudi family firms controlled by family chairmen.

9. To examine the outperformance of Saudi family firms controlled by founder chairmen.

10. To investigate the negative effect of family successor on Saudi family firms' performance.

11. To examine the relationship between the presence of other blockholders in ownership and Saudi family firms' performance.

12. To examine the relationship between the presence of other family blockholders in ownership and Saudi family firms' performance.

13. To examine the relationship between the presence of other blockholders on the board of directors Saudi family firms' performance.

14. To examine the relationship between the presence of other blockholders in the management and Saudi family firms' performance.

15. To examine the relationship between the presence of other family blockholders on either the board of directors and/or the management and Saudi family firms' performance.

1.5   Contribution of the Study

The present study contributes to the existing literature in terms of theoretical and practical contributions.

1.5.1   Theoretical Contributions

Besides contributing to the increasing body of literature concerning family businesses (Claessens, Djankov, & Lang, 2000; Cronqvist & Nilsson, 2003; Ben-Amar & Andre, 2006) by providing an insight into family businesses in the emerging economies, and, in particular, Saudi Arabia, this study attempts to contribute to the extant literature concerning family business in various ways. First, it adopts two theories in an attempt to develop the hypotheses, namely, the agency theory and stewardship theory. The agency theory is the dominant theoretical basis of many family business studies (e.g., Fama & Jensen, 1983; Jensen & Meckling, 1976; Morck, Shleifer, & Vishny, 1988; La Porta, Lopez-de-Silanes, & Shleifer, 1999; Schulze, Lubatkin, Dino, & Bucholtz, 2001; Anderson & Reeb, 2003; Schulze, Lubatkin, & Dino, 2003; Chrisman, Chua, & Litz, 2004) but it does not solely explain the overall family firm performance (Corbetta & Salvato, 2004).

Corbetta and Salvato (2004) claimed that while the stewardship theory has the possibility of explaining family firm performance, it has not been widely adopted by studies dedicated to the topic even though there is a considerable call for complementing it with the agency theory (Salvato & Moores, 2010). Therefore, it

is fair to state that the stewardship theory is a relatively novel theory (Miller & Le Breton-Miller, 2006) and holds the common philosophy of successful family businesses (Sacristan-Navarro *et al.*, 2011a). Even with the debate regarding the applicability of the stewardship theory and agency theory in family business studies (Blumentritt, Keyt, & Astrachan, 2007), it is accepted that both theories have influential applications in family businesses (Miller & Le Breton-Miller, 2006) and offer the best explanation for the differing elements that family businesses are characterized by (Ramachandran & Jha, 2007; Davis, Allen, & Hayes, 2010).

Second, theoretically speaking, the absence of homogeneity among prior findings implies that the relationship between family business and corporate performance is complex and moderated by factors that have been overlooked (Mazzi, 2011). These inconsistent findings (i.e., positive, negative, and insignificant) result in the introduction of moderator variables that have not been examined before and may be the reason behind the inconsistencies (Baron & Kenny, 1986). Hence, this study provides fresh evidence on the moderating effect of family CEOs and their generation (i.e. founder CEOs) on the relationship between family ownership and firm performance. This contribution holds more weight as it is in line with the evidence provided by Jiang and Peng (2011).

Third, the most significant ongoing discussion concerning family businesses is the existence of other blockholders and their effect on firm performance. However,

empirical findings regarding the same are few and far between (La Porta *et al.*, 1999; Isakov & Weisskopf, 2009; Navarro. Anson, & Garcia, 2009; Sacristan-Navarro *et al.*, 2011b). Previous studies concentrated on the presence of other blockholders solely in the ownership of the company (e.g., Isakove & Weisskopf, 2009; Sacristan-Navarro *et al.*, 2011b), while some studies (Sacristan-Navarro *et al.*, 2011b) have suggested in-depth investigation concerning the presence of these blockholders in management and the board of directors. Hence, the third theoretical contribution of this study is the examination of the effect of the existence of other blockholders, either in ownership and management, and their representation on the board of directors with taking into consideration their identity. Such examination has value as there are three types of ownership structure reported in Saudi listed companies – government ownership, family ownership and dispersed ownership (Falgi, 2009).

Forth, most of the empirical studies on family businesses have been conducted in the context of developed countries and the findings were ambiguous and inconsistent. In addition, handful studies were conducted in emerging economies also provides inconsistent results. Through this study, additional knowledge can be presented and it is hoped that the generalisability of the findings can be improved by providing new evidence confirming the relationship between family involvement in ownership, management, control, succession and the role of other blockholders on firm performance. Therefore, to the best of the researcher's knowledge, the present study provides a new contribution to the existing Saudi

literature concerning the topic and may offer useful knowledge in conducting comparative studies between Saudi family businesses and other nations

1.5.2 Practical Contribution

This study attempts to provide a practical contribution dedicated to the family business field in several ways:

First, numerous studies revealed that family firm performance is substantially influenced by the decision of whether or not to have family or non-family members in the company ownership structure, board of directors, management positions and the identity of their potential successor and other blockholders. Thus, it is hoped that the present study will provide detailed guidance to help Saudi companies upon their related-decisions that need to be carefully determined.

Second, the findings of the present study will be meaningful to the regulatory bodies including the Capital Market Authority (CMA), Saudi Arabian Monetary Agency (SAMA), Saudi Organization of Chartered Public Accountants (SOCPA) in developing formal rules and regulations for family firms. Currently, there is a lack of rules and regulations that are appropriate for family firms that also takes into consideration culture and values. The family firms still refer to the regulation of non-family companies for recourse.

Third, the identification of family businesses in the participation of research is generally challenging owing to the lack of formal or legal categorization of family firms (Finelli, 2011). Therefore, the provision of an extensive classification for family businesses is a great contribution for future studies (Bocatto, Gispert, & Rialp, 2010). Hence, this study attempts to provide an extensive classification of Saudi publicly listed family firms, as there is a lack of formal classification and research that estimates the accurate proportion of family businesses in Saudi Arabia.

1.6   Significance of the Study

The importance of this study stems from the worldwide fact that the majority of the firms are family-owned, with merely 15% of them having a good chance of surviving to three generations and over (Ward, 1987; Leach, 1994), and with a majority of them being sold to third parties or end up being closed down. Owing to the lack of studies dedicated to family firms in the context of Saudi Arabia, this study contributes to the knowledge of the performance of family firms by providing a new empirical evidence on the implication of family involvement in management. In particular, this study shows to what extend family and founder CEOs moderate the relationship between family ownership and family firms' performance.

Additionally, because the performance of family firms is considerably impacted by the decision of having other blockholders, this study attempts to investigate the

effect of the existence of such blockholders in the ownership structure of family firms. It also adds to the literature by examining their existence in management and board of directors and its effect on the firm performance, taking into account their identity. The findings are expected to assist family firms that are publicly listed in the Saudi Stock Exchange (*Tadawul*) in their resolution of issues and to steer clear of possible risks.

1.7   Scope of the Study

This study concentrates on the examination of the relationship between family involvement in ownership, management, control, succession, and the presence of other blockholders with firm performance.

For the purpose of this study, all non-financial firms listed on the Saudi Stock Exchange (*Tadawul*) that possess audited annual reports from the year 2007-2011 were considered. In order to realize a balanced panel data, a family firm failing to satisfy the criteria of family definition was excluded. Consequently, a total of 38 non-financial family firms were gathered in the period, with a corresponding 190 firm-year observations.

The reason for the selection of the duration is due to the fact that Saudi corporate governance mechanisms was enforced by CMA towards the end of 2006 and were only implemented by PLCs in 2007. The year 2011 was chosen as it was the last

year in which all published annual reports were available at the time of data collection.

On the basis of prior studies, and as will be discussed later, financial institutions like banks and insurance companies were omitted owing to several major reasons, namely, the differences between Saudi financial and non-financial companies in terms of annual report characteristics (Alsaeed, 2006), government regulations impact on their performance (Lee, 2006; Isakov & Weisskopf, 2009), and the general differences of their accounting standards in terms of income and profit (Claessens & Djankov, 1999; Lemmon & Lins, 2003). Consequently, any comparison between the performance measures of financial and non-financial institution will not be fair and applicable (Martinez, Stohr, & Quiroga, 2007). This is considered significant as accounting profit is made use of as a performance indicator in the present study. The study makes use of secondary data provided in the annual reports, books, magazines, newspapers, Thomson database, Tadawul, and other online sources (e.g., Aljoman.net, Zawya.com, Gulfbase.com, Argaam.com, and Hoover's database).

1.8   Organization of the Thesis

This thesis is organized into six chapters. In Chapter One, a review of family businesses worldwide and in Saudi Arabia is provided along with the challenges faced by them. The chapter also includes the problem statement, research questions, research objectives, the scope and the contributions of the study.

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In Chapter Two, an extensive literature review concerning family involvement in ownership, management, control, succession and the presence of other blockholders is presented along with the effect of this involvement on firm performance.

Chapter Three explains the research framework and the hypotheses development. It explains the relationship between the independent variables and the dependent variables of the study. The hypotheses development is then explained. This is followed by Chapter Four wherein the research method and research model are elaborated upon and the factors influencing firm performance are determined. The chapter also explains the sample selection process and the statistical methods to be utilised in data analysis.

Chapter Five presents the results and addresses each research question and hypothesis in detail. The concluding chapter is Chapter Six, which summarizes the findings, discusses the study limitations and suggests recommendations for future studies.

1.9   Summary of the Chapter

The present chapter provides a detailed discussion of the background of the study, the problem statement, research questions, research objectives, and the significance of the study. This study attempts to fill the gap in literature

concerning the issues of family business in the context of Saudi public listed companies. Prior literature reveals that family ownership, management, control, family succession and the presence of other blockholders have a significant impact on firm performance. The findings of the present study may differ from prior studies owing to the uniqueness of the Saudi environment in light of institutional settings, governance systems and business environment.

CHAPTER TWO

LITERATURE REVIEW

2.1   Introduction

In the past, there have been notable changes in research concerning family business trends. The first set of studies concentrated on family businesses by stressing the characteristics in comparison to non-family businesses (Lam, 2009). Currently, research trends have expanded from examining the companies within the family business field to linking with other aspects as well (Chrisman, Chua, & Steier, 2005). This calls for the need for more examination to complete the picture of the impact of family involvement in business.

This chapter discusses on the reviews of literature. The chapter proceeds with the definition of family business, and the advantages and disadvantages of family businesses in Section 2.2 and Section 2.3, respectively. Family businesses in the Arab world and Saudi Arabia is discussed in Section 2.4. In Section 2.5 the performance differences between family and non-family businesses is highlighted. The related literature is critically reviewed starting from Section 2.6 and up to Section 2.10. Finally, a summary of the chapter is provided in Section 2.11.

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2.2 Definition of Family Business

Despite many studies dedicated to family business studies by academicians, practitioners, researchers, scholars and investors all over the world, a consensus regarding its definition has not yet been reached (Brockhaus, 2004; Litz, 2008; Arosa, Iturralde, & Maseda, 2010; Iturralde, Maseda, & Arosa, 2011).

Until today, there is no clear definition concerning the term and several aspects of it have been investigated from varying perspectives (Allouche, Amann, Jaussaud, & Kurashina, 2008). While some studies have made use of a general definition, others have narrowed down its definition (Shanker & Astrachan, 1996). In their attempt to examine the impact of employing a different definition of family firms, Astrachan and Shanker (2003) noted that the contribution of family businesses to the U.S. GDP and its workforce varies on the definition employed. A broader definition of the term that requires only family participation and control showed that family firms constitute 64% of the U.S. GDP and that they employ 62% of the total workforce while a narrower definition, which encompasses multiple generations, showed that the percentage of family businesses contribution decreased to 29% of the U.S. GDP and employed a mere 27% of the total workforce. Moreover, when they employed a more refined definition, it called for the founder's or the descendants' willingness to retain the company within the family control. Under this view, they revealed that the percentage of family businesses fell between the two prior statistics, i.e., the GDP contribution was at 59% and employment was at 58% of the U.S. total workforce.

In a related study, Westhead and Cowling (1998) clarified how the different definitions of the term may impact the comparative studies between family and non-family businesses. They first divided the companies into two categories – family and non-family business – on the basis of seven definitions, and contrasting findings were achieved. Along the same lines, family business definitions have been categorized by scholars to clarify its attributes. Among these scholars, Villalonga and Amit (2006) claimed that there are three dimensions of family firm definition as noted from prior studies; the portion of capital holding and voting rights, management position by family members and company control.

Definitions of family business have been proposed by studies on a global scale and date back as far as 1996. On the basis of the three dimensions, the definitions can be categorized into ownership, governance (e.g., family board and family chairman) and management (e.g., family management and family CEO), as shown in Table 2.1.

Family business has been defined by a single criterion namely ownership by several studies (e.g., Górriz & Fumas, 1996; Filatotchev *et al.*, 2005; Barontini & Caprio, 2006; Ben-Amar & Andre, 2006; Maury, 2006; Sraer & Thesmar, 2007; Kowalewski, Talavera, & Stetsyuk , 2010). Others employed multiple criteria in their definition of family business, such as ownership along with governance

(e.g., Anderson & Reeb, 2003; Lee, 2006; Arosa *et al.*, 2010), ownership and management (e.g., Smith & Amoako-Adu, 1999; Miller, Le Breton-Miller, Lester, & Cannella, 2007), and finally ownership, governance and management (e.g., Villalonga & Amit, 2006; Martinez *et al.*, 2007; Allouche *et al.*, 2008; Andres, 2008; Saito, 2008).

Table 2.1

Family Firm Definition Criteria from Previous Studies

Source	Country	Ownership	Governance		Management	
		Family Ownership	Family Board	Family Chairman	Family CEO	Family Management
Górriz & Fumas (1996)	Spain	√				
McConaughy & Phillips (1999)	U.S.				√	
Smith & Amoako-Adu (1999)	Canada	√			√	
Anderson & Reeb (2003)	U.S.	√	√			
Filatotchev *et al.* (2005)	Taiwan	√				
Villalonga & Amit (2006)	U.S.	√	√		√	
Lee (2006)	U.S.	√	√			
Barontini & Caprio (2006)	Europe	√				
Maury (2006)	Europe	√				
Ben-Amar & André (2006)	Canada	√				
Sraer & Thesmar (2007)	France	√				
Martinez *et al.* (2007)	Chile	√	√			√
Miller *et al.* (2007)	U.S.	√	√			√
Saito (2008)	Japan	√		√	√	
Allouche *et al.* (2008)	Japan	√	√			√
Andres (2008)	Germany	√	√			√
Sciascia & Mazzola (2008)	Italy	√				
Amran & Che-Ahmad (2009)	Malaysia	√	√		√	
Hillier & McColgan (2009)	U.K				√	
Adams *et al.* (2009)	U.S.				√	
Isakov & Weisskopf (2009)	Swiss	√				
Arosa *et al.* (2010)	Spain	√	√			
Kowalewski *et al.* (2010)	Poland	√				
Sacristán-Navarro *et al.* (2011a)	Spain	√				
Ibrahim & Samad (2011)	Malaysia	√	√			

It is evident that the lack of a consensus regarding the definition of family business makes the topic ambiguous (Lam, 2009). One example that illustrates such ambiguity is that the researcher can derive contrasting results by adopting different definitions for family business even when the same dataset is used (Shanker & Astrachan, 1996). In the context of the U.K., Westhead, Cowling, and Storey (1997), as cited by Klein (2000), stated that even with a single set of data, the percentage of family businesses differs from 15% to 78.5% according to the criteria employed. This shows that the definition of family business is one of the most important elements in family business studies (Brockhaus, 1994) and searching for the most accurate and suitable operational definition is a matter of research (Chrisman *et al.*, 2005; Chrisman, Sharma, & Taggar, 2007; Chrisman, Kellermanns, Chan, & Liano, 2010).

The number of family business definitions adopted in prior research was not less than 21, as noted by Chua, Chrisman, and Sharma (1999). However, a recent study by Litz (2008) revealed that there are 30 definitions proposed in academic papers and articles dedicated to the family business field. Hence, it is not surprising that no agreement has been reached since the launching of Tagiuri and Davis's (1982/1996) influential three-circle model comprising family, ownership and management whereby the model "...describes the family business system as three independent but overlapping subsystems" (Parker, 2004, p. 56).

Varying definitions of the term from one country to another have been found based on their institutional legal contexts (Allouche *et al.*, 2008). This urged the researcher to examine the definition in an in-depth manner and search for a suitable definition of Saudi family business, as a general definition of family business may lead to inaccurate conclusions owing to the lack of consideration of legal and institutional aspects that differs from one country to another (Carney, 2005; Dyer, 2006). In the context of Saudi Arabia, such a confirmation is valued on the basis of its particular institutional environment (Davis, Pitts, & Cormier, 2000).

Chua *et al.*'s (1999) definition of family business which states, "*... a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families*" (p. 25) would be an appropriate definition for the purpose of the present study. More importantly, the definition is chosen for its rational and extensive composition of a longitudinal view of family involvement in business in terms of ownership, management, control and succession to guarantee that the firm's vision is aligned with the family objectives to be carried on to the next generation. Most scholars stated the importance of transfer intention by the founder of the business in terms of family business (e.g., Ward, 1988; Heck & Trent, 1999), which has been satisfied by the above definition. Moreover, it does not limit the business to management by family but

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also covers firms that are managed by professional CEOs who are non-family members (Hall & Nordqvist, 2008); both are included within this research.

2.3   Advantages and Disadvantages of Family Business

Family business in the context of family ownership, management, control and succession can be viewed either as an advantage or a disadvantage based on several factors.

2.3.1   Advantages of Family Business

In their attempt to provide an overview of the significance of the legal system and the degree of investor protection in order to explain optimal companies' ownership structure and management style, Burkart *et al.* (2003) argued that widely held organizations that are under professional management are optimal in economies having strong legal systems while in economies having weak legal systems, firms managed by family is optimal.

The main advantage of family firms, according to Donaldson and Davis (1991), and Davis, Schoorman, and Donaldson (1997), is the stewardship. In addition, Graves (2007) claimed that sharing similar values in the family can lead to strengthening the family harmony and relation with the business and would eventually lead to the reinvestment of their dividends in the business to facilitate future business development. Further, family values contribute appreciably to the competitive advantage for the business, as when this type of business competes

against a widely-traded company having a million shares, its goals and expectations can be potentially high while with family, values are held dear and shape the vision, thereby automatically achieving 50% of the strategic planning process. Coupled with this vision is the clear focus or direction where the business is heading. In other words, values and vision are a competitive advantage of family businesses if effectively established (Pallister, 2010). Family businesses are also known for developing entrepreneurial talent, loyal employees, long-term strategic commitment, family belonging and corporate independency (Poutziouris, 2001).

In a related report, HOLTS[2] (2010) listed several factors that facilitate family business investment, which impact the performance of family companies and its success in a positive way. For instance, family owners tend to have a long-term perspective as opposed to a short-term one on the results, and, hence, they maintain the reduction of agency cost by aligning management shareholders' interest. This is further supported by Anderson and Reeb (2003) who stated that distinctive characteristics of family business include: long-term decision making, employment of unconventional strategies, trans-generational sustainability and family management commitment. They further stated that these characteristics could be the secret of family business value creation.

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[2] HOLTS is a part of the Credit Suisse series of equity indices. It is a corporate performance and valuation advisory service that offers unique insights into corporate performance and valuation.

2.3.2 Disadvantages of Family Business

Conflict among family members is one of the topmost drawbacks with family businesses, particularly the different opinions arising between the family system and the business. To avoid such issues, according to Davis and Stern (1988), it is worth incorporating a legitimized structure of values, and principles for the coherent interaction of the family members.

In addition, although the concentration on familial ties can be viewed as a source of competitive advantage in some businesses (Chrisman, Chua, & Zahra, 2003), this focus may also be viewed as a weakness (Pollak, 1985), especially in the situation when the owner is unwilling to transfer control to non-family members who are proficient in making rightful business decisions. This stems from the distinction of goals and values of family owners and those who are non-family but are working in the family firm (Dyer, 2003).

In instances whereby the family and firm are viewed as synonymous, owners attempt to protect family agendas by maintaining their independence and they undertake activities that may cause damage to the performance and competitiveness of the firm. For instance, the owner may choose to ignore professionalism in business, having in mind that employing a non-family executive may compromise the family agenda (Howorth, Rose, Hamilton, & Westhead, 2010). However, empirical findings revealed that bypassing professionalism, particularly in the context of emerging economies, results in a decrease in performance (Filatotchev *et al.*, 2011). Moreover, employment and

promotion in family businesses are not often made on the basis of experience and qualification but based on trustworthiness, which can eventually impact the business performance and growth.

On a narrower note, in the context of Arab family businesses, one of the disadvantages lies in members' refusal to incorporate the company as this may diffuse ownership. A good example is Saudi Arabia's Prince Alwaleed Bin Talal Bin Abdulaziz, who is also the Chairman of the Kingdom Holding Company, a significant foreign investor overseas, who was quoted by the Korn/Ferry Institute (2011) as saying that things may remain hidden in family businesses but in public companies this is impossible as there are shareholders, auditors and regulators overseeing how the business is run.

However, in certain family businesses, the idea of transparency is supported but on the owner's terms. Faisal Al-Ayyar, vice chairman of the Kuwait Projects Company, stated that although being transparent is not mandatory, in the case of Kuwait Projects Company, they urge themselves to be transparent and keep people abreast of the running of the organization.

Another disadvantage of family businesses is the perception of the investors; shareholders and creditors may be mistrustful of them owing to the risk of any abusive behaviour occurring and hence threatening investors' rights. Therefore,

investors are wary of investing in family firms, particularly in countries where low investor protection exists (IFC, 2009).

As for the ownership strategy of family businesses, studies have shown that the family have direct and indirect voting rights, which is commonly referred to as a pyramidal ownership structure. The structure entails family control through equity cross-holding between related firms, and, as such, family owners are inclined to expropriate the resources within the firm, which harms the rights of minority shareholders (La Porta *et al.*, 1999).

2.4 Family Business in Arab World and Saudi Arabia

2.4.1 Family Business in Arab World

A Saudi family business is included in the Arab family business system, which is a term in literature that comprises three interconnected systems, namely, Arab, family and business. The first one describes the Arab cultural environment stemming from the historical tribal system (Paul *et al.*, 2006) while the second one signifies the company ownership by a group of family members or groups thereof. Finally, the third one refers to the activities of local and international businesses.

Most private organizations in the Arab countries were set up by families of ancient merchants doing businesses, specifically, in the Gulf and Red Sea ports

(Saddi *et al.*, 2009). The dominance of family businesses is backed by Ernst & Young's survey regarding family businesses in 2008. Family businesses constitute 95% of the entire organizations in the Arab region and they control over 90% of the business activities. In addition, it is estimated that more than $1 trillion assets will be inherited by the next generation in the coming five to ten years. Statistics presented that almost 75% of the family businesses are owned and managed by second generation families and one-fifth of them by the third generation. The remaining 5% are held by fourth generation and over. Hence, it can be stated that family businesses struggle for survival over third generation management.

Saddi *et al.* (2009) also revealed that 88% of the family business in the GCC countries is prominent in over three sectors and that from 2003-2007, this type of business showed better performance when they specialize in one industrial sector as opposed to several sectors. Based on their report, the consultants stressed the need for family businesses to grow at a rate of 18% per annum for the maintenance of wealth from one generation to the next. As the family grows, the pressure to perform also grows. This makes it quite difficult to maintain family businesses from one generation to the next generation.

2.4.2 Family Business in Saudi Arabia

Saudi Arabia is considered a big economic player in the global economy operating as the largest stock exchange in the Arab World having a market capitalization of around U.S.$313 billion followed by Kuwait with U.S.$94

billion, as of December 2009 (SAMBA. 2009). On a global scale, Saudi Arabia has shown high returns and increasing development as evidenced by its market capitalization of its stock exchange, which reportedly exceeded the South Korean capitalization in 2004-2005 (Cheng, Jahan-Parvar, & Rothman, 2009).

According to Nicholas Davis, a scenario expert at the World Economic Forum, Saudi Arabia has a crucial role in establishing the future of the Middle East if not the whole world (Olayan, 2007). Saudi Arabia has been receiving increasing attention towards driving the international economy, particularly in the earlier part of the 1900s when oil was discovered. Therefore, the economic development plans have led to the Arabian Gulf region becoming one of the main concerns of various Western countries, particularly considering its strategic significance in economic growth (Ali, 1992). As such, owing to the increasing growth of the region's wealth, liquidity from the rising oil prices and the shift of Arab investment from the U.S. markets after 11 September 2001 (Wallis & Khalaf, 2006), more studies are called for to investigate the Saudi family businesses.

Based on the 11th report of Becerra et al. (2011), millionaire families throughout the world own 39% of global wealth and Saudi Arabia is on top of the list of the highest concentrated country of ultra-high-net-worth (UHNW) families whose earnings are over $100 million. It was revealed that 826 UHNW families in Saudi Arabia are earning over $100 million, averaging around 18 out of 100,000 families followed by Switzerland, Hong Kong, Kuwait and Austria. These

families provide support to their communities in different ways apart from thriving performance. For instance, the founders of family businesses hand over informal advisory tasks to the local governors through their contribution to the governance development process and play crucial social responsibilities in the communities including sharing part of their wealth through Awqaf[3] (Davis *et al.*, 2000). The net worth of some of the richest family businesses in Saudi Arabia is listed in Table 2.2.

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[3] Awqaf is "a type of Islamic and Sharia endorsement, which enables Muslims to share their wealth with other members of the community" (Dahlan & Klieb, 2011, p. 6).

Table 2.2
List of Some of the Richest Families in Saudi Arabia

Family Name	Net Worth (USD bn)
HRH Prince Alwaleed Bin Talal Alsaud	19.60
Mohammed Al Amoudi	12.30
Mohamed Bin Issa Al Jaber	12.00
Olayan family	12.00
Al-Rajhi family	11.90
Issam Alzahid	10.00
Bin Ladin family	10.00
Hariri family	9.11
Bugshan family	7.00
Al Juffali family	6.20
Tarek Abdullah Al Qahtani	6.00
Mubarak Al Suwaiket	5.20
Mohamed Abdul Latif Jameel	5.10
Naghi family	5.00
Abdullah Al Rushaid	4.55
Mohammed Sharbatly	4.10
Mohammad Kamal Jamjoom	4.02
Ahmed Saleh Baeshen	3.50
Abdullah Bin Saleh Al Othaim	3.28
Abdullatif Al Fozan	3.26
The Saedan family	3.22
Abdulaziz Al Sulaiman	3.20
Hussein Bakry Gazzaz	3.17
Osama Ismail Ali Abdulwadood	3.10
Mohammed Elkhereiji	3.00
Adel Aujan	2.90
Al-Zamil family	2.80
Mansour Ojjey	2.70
Saleh Kamel	2.60
Abdul Mohsen Bin Abdul Aziz Al Hokair	2.00
Mohammed Alesayi	1.70

Source: Al Masah (2011, pp. 27-28)

Qobo and Soko (2010) revealed that, the proportion of family businesses in the Saudi economy makes up around 90% of the whole economy. Many of these businesses are drivers of the economy, contributing around 33% of the country's GDP (Paul et al., 2006). Paul et al. (2006, p. 237) stated that, "Saudi Arabia is a very traditional family-oriented country populated by family businesses that are rooted in ancient tribal systems". They proceeded by stating that one of its most

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prominent traditions is its inclination to maintain family relations. This relation cements family members and keeps them interdependent of each other in their personal and business lives. The positive side of the family business is the highly dependable, loyal, sincere and trustworthy workforce. Additionally, family businesses are not only managed by families but also managed for the families. A manager's achievement is not viewed merely by the profits he makes but also by the responsibility and commitment he dedicates to the family. This is the reason why most Saudi family businesses work hard to keep it within the family.

Several successful factors were associated with family businesses by researchers in the GCC region, which is distinctive from Western businesses. Among these researchers are Saddi *et al.* (2009) who stated that these factors include limited external competition, multiple opportunities, specific capital access, business networks, and information, concentrated control, and traditional guidelines for business succession.

Notwithstanding the above successful factors, some complexity also appears in the humanity issues like continuity, successor generation and gender, while others are linked with inheritance laws that are dealt with by Shari'ah (Islamic law). This constitutes challenges for 90% of the Saudi family businesses (Davis *et al.*, 2000) to continue surviving to the third generation (Dahlan & Klieb, 2011). However, Saddi *et al.* (2009) explained that the transfer of control from owners to the following generation is a process that is not as difficult as in the Western rules for

succession, as the traditional practice entails that business leadership is expected to be passed on to the eldest brother in the family.

As for inherent management, it was reported that 30% of Gulf family businesses are successful in passing on the business control and ownership to the second generation and around 13% to the third. However, according to David Gibson-Moore, Chief Representative of LGT Bank in Lichtenstein (Alarabiya, 2011), only 4% of the companies survive to the fourth generation.

This brings the critical issue of the founder effect to the surface. According to Miller *et al.* (2007), when the founder effect dissipates, the superiority of family-ownership may also disintegrate. Nevertheless, this also highlights the impact of succession management upon the performance of the firm. This effect has presented a negative impact in a study on Italian manufacturing family companies (Cucculelli & Micucci, 2008).

Up to now, a review of the literature reveals that the role of family businesses in the GCC countries with the inclusion of Saudi Arabia has only received little or no attention. This may be because of the limited published data on family businesses and the lack of governmental resources that can be depended on to carry out such studies. Hence, this creates a gap in the empirical perspective regarding the family impact on firm performance in the Gulf region in general and

in Saudi Arabia in particular. The reasons for selecting Saudi Arabia are listed as follows:

1. Saudi Arabia is the most concentrated country based on ultra-high-net-worth (UHNW) families reaching number one of the list of Global Wealth 2011 report before Switzerland, Hong Kong, Kuwait and Austria (Becerra *et al.*, 2011).

2. Many businesses in Saudi Arabia are owned by families (Paul *et al.*, 2006; Hussainey & Al-Nodel, 2008; Qobo & Soko, 2010) and the dominating shareholders in the Saudi Stock Exchange are reported to be family members and the state (Falgi, 2009). Family businesses contribute a great deal to the country's GDP and national employment (Omar, 2011).

3. The Saudi Stock Exchange owns the highest market capitalization in the Arab world being the 8th largest emerging market and the 23rd in the world (Alsaeed, 2006).

4. Based on the report by World Bank Doing Business 2012, Saudi Arabia takes the 17th place out of 183 economies based on the strength of the investor protection index and it is within the top 20 economies that manage business regulation.

5. Saudi Arabia has a 25% stake in the total Arab GDP and is considered as the world's 25th largest importer and exporter (Al-Jarf, 2004).

2.5   Performance Differences between Family and Non-family Businesses

Researchers (Gersick, Davis, Hampton, & Lansberg, 1997; La Porta *et al.*, 1999; Collins & O'Regan, 2011) found that a family business is the most common type of business organization on a global scale and it constitutes a great portion of the business (Faccio & Lang, 2002) dominating entire industries in some countries (Mazzi, 2011).

Based on various research (e.g., Anderson & Reeb, 2003; Ben-Amar & Andre, 2006; Sraer & Thesmar, 2007), family businesses perform better than non-family businesses. McConaughy, Matthews, & Fialko (2001) claimed that family firms are valuable in terms of economic aspects as compared to their counterparts. These claims are further supported by the Credit Suisse Index, as cited by Saddi *et al.* (2009), who stated that family firms outperformed non-family firms, as well as in terms of value creation for shareholders, at a rate of 15% for the period from January 2005 until October 2008 (see Figure 2.1). Analysts of Credit Suisse made a comparison between the performance of stocks of several European family and non-family firms.
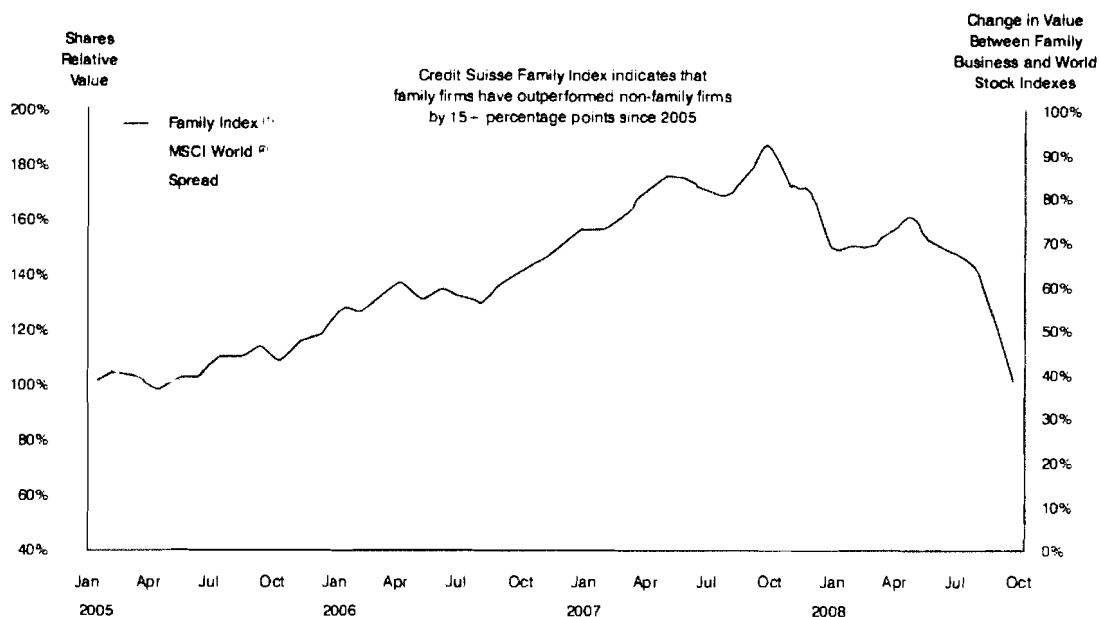
Figure 2.1
Credit Suisse Family Index for Family Firms (2005-2008)

Similarly, like the above findings, Anderson and Reeb's (2003) study involving

304 listed firms on the S&P 500 revealed that family firms display better

performance compared to non-family firms. However, contrary findings were

provided by Gallo, Tàpies, & Cappuyns (2004) in terms of superior performance;

they revealed that non-family firms displayed better growth compared to family

firms.

With regards to the definition of family firms, Allouche *et al.* (2008) and Miller *et*

al. (2007) emphasized its effect on the performance of firms. For instance, Miller

et al. (2007) revealed that if the lone-founder impact is left out from the family

category, the superior value of family firms disappears. In other words, family

firms do not perform better than others, even with the first generation at the helm.

However, contrary to the above, lone-founder family firms displayed a high level

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of market value throughout the analyses. This calls for more in-depth research for the clarification and generalization of the role of the founder's control in the firm's performance and its value (Mishra, Randoy, & Jenssen, 2001).

Moreover, for emerging countries, Abdullah *et al.* (2011) revealed no statistical significant difference in the context of Pakistan in the context of both ROA and profit margin. However, the Tobin's Q of family organizations is economically larger but statistically insignificant compared to their counterparts.

It is evident from the above discussion that the contrasting findings are attributed to the role the family plays in the firm although the gap stems from many reasons including different methodological research approaches (i.e., different family business definitions, different sample size, different types of firm in terms of listing, varying firm performance measurements) (Dyer, 2006). These contrasting views are what urged the researcher to carry out an in-depth study on family business versus non-family business performance in the context of Saudi Arabia. This urge is further perpetuated by Allouche *et al.*'s (2008) statement, "the level of family control has consequences on performance; this finding requires confirmation in other national and institutional contexts".

2.6   Family Involvement in Ownership

2.6.1   Family Ownership Concentration

Jensen and Meckling (1976) offered several techniques of corporate control affecting organizations' achievement of objectives and among them is the ownership structure. It is a crucial technique particularly in firms owned by a family or by a group of families, as the firm's objectives are interrelated with those of the family and owners who are protecting the family agenda by maintaining the independence of their company. This leads to irregular alignment of the owner's interest concentrating on the family relations and the manager's interest concentrating on both profitability and competitive advantage and the possibility of agency problems (Agency cost I) (Villalonga & Amit, 2006). In other words, maintaining ownership and management in family hands may lead to the reduction of a conflict of interest and agency costs, which invariably leads to the maximization of shareholders' wealth (Seifert, Gonenct, & Wright, 2005).

Moreover, the determination of the agency cost II is also done with the help of ownership structure that sometimes arises between family members having control of the firm and other shareholders who have some shares in ownership (Villalonga & Amit, 2006). This cost may impact the firm's value in a negative way (Lopez-de-Foronda et al., 2007). The minimization of conflict and agency cost may be realized through the involvement of shareholders of the family firm's equity while keeping the family control rights (Firth, Fung, & Rui, 2006; Sacristan-Navarro et al., 2011b).

In addition, family owners holding a majority of the voting shares seem likely to be interested on a personal level in the firm and are not far from using their clout to acquire private advantage by taking advantage of resources and appropriating them to other companies owned by them or to others owned by family members, and, hence, expropriating the rights of the minority shareholders (La Porta *et al.*, 1999; Claessens *et al.*, 2000; Schulze *et al.*, 2001; Villalonga & Amit, 2006). Additionally, selling assets or products of the company to selected family members at an unfair price, offering high positions to relatives not competent to do the job, paying excessive compensation are other good examples of minority expropriation (Abdullah *et al.*, 2011).

According to Corbetta and Salvato (2004), the agency problem (Agency cost II) does occur between family and minority shareholders although the conflict of interest is low if not negligible in those that are privately held. However, it tends to be high in the case of publicly listed family firms or in firms wherein external entities have a hand in ownership. However, while the expropriation of resources by majority shareholders has been known to occur in publicly listed companies (Miller *et al.*, 2007), it has also been found in small and medium non-listed companies (Arosa *et al.*, 2010).

2.6.2 Family Ownership and Firm Performance

A significant question regarding the topic of study is the effect of family involvement in ownership upon firm performance; previous studies provided

mixed findings (Sciascia & Mazzola, 2008). Although a considerable amount of the literature regarding the topic is dedicated to the relationship of family involvement in ownership and firm performance, it is confined to the developed Western countries sharing similar institutional characteristics (de Miguel, Pindado, & de la Torre, 2004; Omran, Bolbol, & Fatheldin, 2008). In the emerging economies, only a few studies have been done (Kowalewski *et al.*, 2010). The recommendations of these studies are inadequate and may not be appropriate for the context of the study that has a different cultural constitution, economic environment and legal system. This calls for further study to minimize the existing gap in the literature (Sciascia & Mazzola, 2008).

It is argued by Berle and Means (1932) that if the ownership is concentrated in the hands of blockholders, it impacts the firm's value in a positive way as it minimizes the agency cost that may appear between shareholders and management. Similarly, Jensen and Meckling (1976) recommended the family firm as the model that minimizes cost while Anderson and Reeb (2003) stated that firms with family ownership are outperformers in the S&P 500. Lee (2006) extended Anderson and Reeb's (2003) list of S&P 500 by a sample period of three years from 1992 to 2002. They reached the same conclusion revealing that family firms are better achievers of high employment, revenue, and income growth at the 1% significant level and that they present greater net profit margin at the 10% level of significance. Evidence from the context of Europe confirmed the superiority of family firms has been provided by two studies: the first, included 13

European countries (Maury, 2006), and the second focuses only on non-financial and non-regulated companies in 11 continental Western European countries by Barontini and Caprio (2006). Both studies confirmed the distinctive role of the family which is beneficial to the firm performance. In the context of Canada, the same conclusion applies, and, hence, family ownership is also known to be a positive factor in value creation (Ben-Amar & Andre, 2006).

In the context of Asian countries, Japanese family businesses were examined by Saito (2008), particularly the performance of those listed in the first and second sections of the Tokyo Stock Exchange, Osaka and Nagoya. He did not include public utility and financial firms owing to the challenges that arise during the calculation of Tobin's Q. He revealed that the founder plays a great role in the determination of performance; for instance, with the founder's active participation, the firm outperforms its counterparts but when the founder is no longer active (e.g., retiring of the founder or death), the results turned out to be mixed. He found that family firms in which the descendants owned and managed the firms exhibit poor performance, although descendant-owned or descendant-managed family firms outperformed. The study provided an overview of the role of the founder in the family business and the significance behind the founders' control and descendants' control that assists in extending the understanding of firm performance (Villalonga & Amit, 2006). In Malaysia, Amran and Che-Ahmad (2010) claimed that family owned businesses listed on Bursa Malaysia are significantly better performers from 2003 to 2007.

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The difference between market performance of the family and non-family firms was also examined in United Arab Emirates by Majumdar and Varadarajan (2012) in a study involving 327 firm-year observations in the Dubai Financial Market and the Abu Dhabi Securities Market from 2005 to 2009. They revealed that family firms perform not as well as non-family counterparts in the context of Tobin's Q. Similarly, Miller *et al.* (2007) study the performance of family firms in the U.S. They found that family firms with other relative owners or managers do not perform better than non-family firms in the market (i.e., Tobin's Q). In other words, only lone founder family firms outperform their non-family counterparts.

Meanwhile, Gallo *et al.* (2004) revealed a contrary finding in their study involving 305 Spanish firms. Similar to the above study, they also categorized the firms into two major types: family and non-family firms in light of the respondents' perceptions. They showed that although family firms achieved lower leverage and debt ratios, their sales/assets ratio was higher. This is attributed by Faccio, Lang, & Young (2001) to the fact that family firms display poor performance owing to their intention to possess and control firm positions.

In a related study, Demsetz and Villalonga's (2001) examined 223 firms taken from the sample of Demsetz and Lehn's (1985) study, and reinvestigated the relationship between corporate ownership and average Tobin Q's as a proxy for performance. They revealed no significant link between the two factors, which

was consistent with the earlier study, revealing no significant relationship between ownership concentration and accounting profit rates. Other studies (Westhead & Howorth, 2006; Sciascia & Mazzola, 2008) evidenced the absence of a significant relationship between family involvement in ownership and firm performance in the context of non-listed private firms.

Furthermore, several founding families running family firms possess greater information over other shareholders – information regarding firm's financial position, and long-term relations with management and business network. Accordingly, they have an option to minimize their shareholding, particularly when a business is not doing so well (Saito, 2008). Demsetz (1983) referred to this phenomenon as endogeneity of ownership. However, Demsetz and Lehn (1985) revealed that even when the endogeneity issues were considered, ownership did not have any significant impact on the performance of the firm; a finding confirmed by Filatotchev *et al.* (2005) and Sacristan-Navarro *et al.* (2011a). Even when Sacristan-Navarro *et al.* (2011a) made use of several methodologies in their examination of the relationship between family ownership and firm profitability, they failed to find a statistically significant relationship.

2.6.3 Non-linearity of Family Ownership Concentration

Arguments from research imply that family involvement in ownership will affect firm performance in either a positive or a negative manner (Sciascia & Mazzola, 2008). This argument is expected, particularly in light of the expropriation and monitoring behaviour of the dominant family blockholders (Arosa *et al.*, 2010).

Corbetta and Salvato (2004) argued that ownership concentration in the hands of a family or group of families diminishes the agency problem that may exist between dominant and minority shareholders. Kula (2005) adds to this contention by stating that a high level of family ownership concentration assists in the prevention of agency problems.

With regards to relationship linearity, several studies revealed a non-linear relationship between the concentration of ownership and firm performance in publicly listed family firms (Morck *et al.*, 1988; Anderson & Reeb, 2003; Ng, 2005; Maury, 2006; Kowalewski *et al.*, 2010), which was recently confirmed by Amran and Che-Ahmad (2013) with Q, ROA and ROE. Meanwhile, Morck *et al.* (1988) investigated the cross-sectional relationship between management ownership and the market valuation of 371 firms from Fortune 500 with the help of piece-wise linear regression. They revealed that Tobin's Q (performance proxy) increases with the increase in ownership from 0% to 5% and decreases as ownership increases to 25%. It increases again, when ownership goes over 25%. The increase is attributed to the interest convergence between owners and management while the decrease is attributed to the management entrenchment behaviour.

However, de Miguel *et al.* (2004) revealed an inverted U-shaped relationship having three cut-off points between ownership concentration and value in the context of Spanish firms. They proceeded to show that firm value increases with

the increase in family ownership from 0% to 35%, after which it starts decreasing with an increase in ownership from 35% to 70%. When ownership goes over 70%, the positive relation continues, implying the concern of the family owners in maximizing their wealth at the onset while establishing their business. Following its establishment, it seems that family owners lose concern regarding the shareholder's welfare, particularly with family ownership ranging between 35% and 70%. As mentioned earlier, the convergence arises again after the 70% cut-off point.

In the same vain, Kowalewski *et al.* (2010) examined the inverted U-shaped relationship between family ownership and firm performance (ROE and ROA), using a sample of 217 Polish public companies (1270 firm-year observations) the regression results confirmed the hypothesis with the both performance indicators and even by employing different family ownership cut-offs. They found that ROE increases with the increase in family ownership and starts to decrease when family ownership exceeds the peak point of 40%. The inverted U-shaped relationship between ownership concentration and firm performance explains the behaviour of monitoring and expropriation of the main shareholders as depicted by Arosa *et al.* (2010) in Figure 2.2.

ROA

Monitoring   Expropriation   FOC
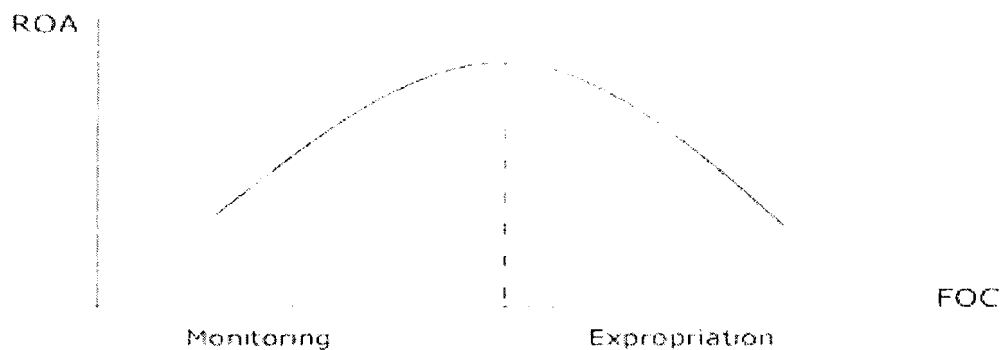
Figure 2.2
Relationship between Ownership Concentration and Firm Profitability

In instances where family ownership is related with firm performance taking a U-shaped pattern, it indicates first, the performance of the firm shows a decrease as family ownership increases as in the expropriation phase. Following an increasing family ownership level, the firm performance increases with it as in the monitoring phase. On the other hand, in the inverted U-shaped relationship, family owners are more incentivized to carry out their monitoring and support the performance of the firm when their shares are low. When they become dominant, they are more inclined to expropriate minority shareholders via obtaining various objectives from those laid down by the firm or through their influence on management (Anderson & Reeb, 2003).

According to Arosa *et al.* (2010), the relationship between ownership concentration and firm performance varies according to the managing generation. In the first-generation, family firms display great results and a positive relation between the two factors with low levels of control rights stemming from the monitoring hypothesis, and a negative relation with high levels of ownership

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concentration stemming from the expropriation hypothesis. This implies that the family's role in business is considered as a key factor in determining the relationship between the two factors. For instance, if the family is the major firm shareholder, and they have their own representative on the board of directors or the CEO is closely related to them, then the firm differs from other concentrated ownership structured firms. However, the study has been criticized for its use of cross-sectional data, which is inappropriate as the study aimed to determine the causality of the variables (Arosa *et al.*, 2010).

The non-monotonic relationship was also confirmed by a study in East-Asia (Ng, 2005) including Malaysia (Amran & Che-Ahmad, 2013) and also in Western Europe (Maury, 2006). While Maury (2006) says that it is incorrect to say that family control is always helpful to firm performance, Ng (2005) suggests that at a very high level of ownership, the entrenchment effect becomes dominant. Therefore, the company must take initiative to improve its corporate governance practices in order to enhance its performance.

In the context of Malaysia, a study involving 420 Malaysian public listed firms in the period from 2003 to 2007 conducted by Amran and Che-Ahmad (2013) revealed a non-linear relationship between family ownership and firm performance (proxied by Q, ROA and ROE) with two cut-offs (15% and 49%). Specifically, family members owning less than 15% of the total firms' shares are expropriated and in turn negatively affected the performance of the firm. With an

increase of family holdings from 15% to 49%, the performance showed an improvement owing to the alignment of family interest with that of minority shareholders' interest. With over 49% of shares, family members were reported to practice extensive expropriation behavior and private self-serving objectives that are different from those of the firm's aims.

In the context of non-listed companies, non-linearity of the relationship between family ownership and firm performance in Italy has been examined by Sciascia and Mazzola (2008). The regression results of their study could not confirm the existence of any relationship between family ownership and firm performance and thus their hypothesis of the non-linear relationship was not supported

2.7   Family Involvement in Management

Based on the agency theory, there is an ingrained conflict of interest and objectives between company shareholders and managers (Jensen & Meckling, 1976). This implies that managerial ownership can mitigate and moderate the principal-agent problem (Seifert *et al.*, 2005), or, in other words, family involvement in ownership and management may mitigate the same (Bocatto *et al.*, 2010) and eventually enhance firm value. In addition, family ownership has been known to align managers' interests with that of the family and external shareholders, leading managers to maximize value creating behaviour.

In line with the above contention, two concepts are generally discussed when it comes to family business literature – family-managed and family-owned firms. Family-owned firms may be managed by the firm founders or their descendants, siblings and any relative by blood or marriage or by non-family management, as in an external CEOs (Corbetta & Montemerlo, 1999). However, the literature makes use of terms including non-family, external, outsider, non-owner and professional CEO synonymously when the CEO is not related to the family in any way.

Similarly, Sciascia and Mazzola (2008) refer to family involvement in management as the participation of the family members in the decision making process of the firm – a definition parallel to the one provided by Villalonga and Amit (2010). They referred to family-managed firms as those in which the CEO is the founder of the firm or a member of the family.

Nevertheless, the reality of family businesses is the significant representation of family members on the board of directors and in management (Anderson & Reeb, 2003, 2004). For instance, in the context of Finland, Maury and Pajuste (2005) revealed that firms often have family representation in the management team while Sciascia and Mazzola (2008) revealed that, on average, family involvement in management registered at 63.22%.

Therefore, it can be stated that in the majority of family businesses, the decision making is concentrated in a small group of individuals (Ward, 1987) as the owner is worried about losing control when the decision making is left in the hands of external managers. This will lead to the possibility of conflicts between family business owners and external managers, which, in turn, will negatively impact firm performance (Chua, Chrisman, & Sharma, 2003). Therefore, in family businesses, a family member is likely to be the one to fill the CEO's shoes to lessen the possibility of conflicts and to reinforce family control (Jiang & Peng, 2011).

Contrary to some prior studies (McConaughy et al., 2001; Martinez et al., 2007) and consistent with others (Kowalewski et al., 2010), this study examines family involvement in ownership and management separately to determine which factor has a considerable impact on firm performance, family ownership, family management or whether each of them has an equal effect on the above. This issue is worthy of scholarly investigation based on Kowalewski et al.'s (2010, p. 47) statement: "there is still a need to investigate the association of FIM – Family Involvement in Management and performance because, in light of previous research, there is no clear answer as to the effect of FIM on financial performance in public companies". This stems from the fact that most prior studies failed to assess the family impact separately when day-to-day transactions are managed by family members, and, at the same time, the family members have a place on the board of directors overseeing these transactions (Sacristan-Navarro et al., 2011a).

However, the empirical findings from Villalonga and Amit (2006) revealed that family involvement in management positively impact on firm performance. This finding was reinforced by Anderson and Reeb (2003) who confirmed the family firms' superiority in the context of ROA owing to the fact that a member of the family holds the CEO position.

Certain advantages were noticed by the authors in family management that were not really present in professional management, which includes the mitigation of conflicts between owners and managers. When family members become CEOs of the firms, they present stewardship behaviours within the business and have a long-term understanding of the business processes. This contention is further confirmed by Lee (2006) who stated that the active involvement of family members affects the revenue growth, employment and firm profitability in a positive way.

In contrast, some studies revealed no significant relationship between family management and performance in the context of small family firms, such as Daily and Dollinger (1992), while mixed results were found when publicly listed firms were taken into account. In a comparative study, El-Chaarani (2013) compares between performance of 315 Lebanese and French family firms in terms of ROA and ROE. Among several variables, a dummy variable for indicating the presence of family executive was examined. He found that family executive neither impacts the performance of Lebanese family firms nor French counterparts.

2.7.1 The Moderating Effect of Family CEO and Founder CEO

Issues concerning corporate governance and ownership separation were highlighted by Berle and Means (1932). Ever since then, the topic has been tackled by various researchers in order to examine and find a solution to the issues.

The majority of the studies utilized the agency theory as their theoretical basis (Anderson & Reeb, 2003), as it offers an extensive framework that clarifies the conflicting interest among owners and managers. However, despite the many studies dedicated to the examination of the relationship between family involvement in management and firm performance, contradictory findings were reached by some authors (e.g., Kowalewski *et al.*, 2010; Sciascia & Mazzola, 2008). This stems from the contrasting viewpoints of the agency theory and stewardship theory and the implications they have on family firms.

The agency theory advocates argue that managers only care about their self-interest (Davis *et al.*, 1997) who will likely act against the interest of shareholders and carry out activities that have nothing to do with maximizing shareholders' wealth. In contrast, the stewardship theory (Dalton, Daily, Ellstrand, & Johnson, 1998) postulates that family executives, owing to their familial relations, are trustworthy, and, hence, act as effective stewards for resources and are in a superior position for making decisions to the advantage of the firm.

In a related study, Lin and Hu (2007) contended that a family member is the best CEO appointee in firms having a low requirement for managerial skills and a high degree of expropriation. Moreover, the study revealed that companies, in contrast, are more likely to hire external CEOs. While the majority of the Canadian family firms (54.2%) appoint CEOs who are related to the dominant family owners (Ben-Amar & Andre, 2006), the majority of the family firms in the U.S. were noted as appointing professional CEOs (Anderson & Reeb, 2003). The latter finding is in line with studies that revealed that larger, older and more established family businesses opt for professional CEOs, as opposed to family members (Bhattacharya & Ravikumar, 2004).

Studies comparing between external and family CEO's performance is well documented (Anderson & Reeb, 2003; Isakov & Weisskopf, 2009). For instance, Isakov and Weisskopf (2009) claimed that external CEOs display inferior performance to family CEOs in the context of profitability. Other studies revealed a contrasting picture and contended that concentrated power in the family management may harm other shareholders as private benefits are extracted and the self-interest of family members are satisfied, which compromises the rights of minority shareholders. This is clearly revealed in the study conducted by Sacristan-Navarro *et al.* (2011a). They concluded that family CEOs impact the performance of Spanish listed companies in a negative manner reinforcing the entrenchment and expropriation behaviour of family controlling shareholders.

Other studies have also supported the finding but in the context of non-listed privately held companies (e.g., Westhead & Howorth, 2006; Sciascia & Mazzola, 2008).

Similarly, family CEOs show poor firm performance as they lack the required talent, skill, expertise and competency to run the business. According to Burkart *et al.* (2003), a professional CEO is superior to one who is a descendant, thereby implying that the employment of unrelated CEOs may result in better performance depending upon the firm's characteristics and the CEO's background.

Taking the middle ground, Lin and Hu (2007) revealed that both types of CEO might assist in enhancing firm performance depending on their qualifications and managerial skills. They contended that when the operation of the firm is in need of particular advanced managerial skills, it is more convenient to acquire qualified help from the labour market rather than from family members. This implies that when firms need selective managerial skills, the discrepancy between the ability of professional managers and family members increases, which leads to the magnification of the differences in their productivity.

Therefore, it can be concluded that the firm's operating features and requirements may impact the employment of external CEOs and lead to the separation of

management from ownership by hiring professionals instead of family members (Burkart *et al.*, 2003).

Jiang and Peng (2011) looked at the broader perspective and explored the good and bad impact of CEO family members, however, the findings were not consistent for all eight East and Southeast Asian countries -- Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand. In Indonesia and Taiwan, the good impact of family CEO was revealed while in Hong Kong the opposite was revealed. As for the other countries, family CEOs did not have any significant impact because of the effective external monitoring mechanisms the countries employ.

With regards to founder CEO affect, Anderson and Reeb (2003) revealed that a family CEO who is either the founder or descendant helps the performance of firms. Similarly, other studies also reveal consistent although extended findings. For instance, Andres (2008) reinvestigated the relation and revealed that founder CEO is more effective than descendant CEO or professional CEO. He noted that both descendants and professional CEOs are equal in their performance level but they show better performance to their non-family counterparts. Along the same lines, Chen, Gray, and Nowland (2013) examined a sample of 536 Taiwanese family firms that were publicly listed. They conclude that family founder CEOs rather than family non-founder CEOs positively contribute to firm performance as measured by a three-year average return on assets due to their specific

characteristics. Also, Adams *et al.* (2009) revealed a positive link between founder-CEO and firm performance in their study involving Fortune 500 firms for the years 1992 until 1999. During that period, U.S. researchers advocated the view of the superior role of family firms. Sraer and Thesmar's (2007) research, however, shows good performance from all types of management, for instance, founder-management, external professional management and descendant-management.

Judging from the above heterogeneity of results, the relationship between family business and performance is complex and seemingly moderated or mediated by unknown factors (Mazzi, 2011). To date, the obvious limitation of prior studies is their failure to study the moderating impact of family CEOs and their generation on the ownership-performance relationship. Anderson and Reeb (2003) provided evidence that family firms having family CEOs at the helm display superior accounting performance and higher market value suggesting that the more profitable the family firms are, relative to non-family firms, the more likely that a family member is in the CEO position.

The importance of founder-CEOs is explicitly emphasized by Villalonga and Amit (2006) who revealed that founder-CEO leads to the creation of firm value and with descendant-CEO the value disappears. To shed light on the topic further, Jiang and Peng (2011) investigated the interaction effect of family CEO on the relationship between family ownership and performance. They revealed that

family CEO moderates the said relationship in a positive way in Indonesia and in a negative way in Hong Kong

Insignificant effects were noted in Malaysia, the Philippines, Singapore, South Korea, and Thailand. Conflicting findings such as these encouraged the researcher to investigate the moderating effect of family CEO and overcome the limitations of Jiang and Peng's (2011) study by extending the research to include the moderating effect of the founder CEO in the context of Saudi Arabia.

2.8   Family Control

The board of directors is considered to be the core of the corporate governance framework, as it forms a significant part of the corporate structure conducting important monitoring of, and advisory functions to the top management (Coles, Daniel, & Naveen, 2008). It is the bridge between the shareholders investing in the firm and the managers who are responsible for the day-to-day running of the firm. According to Fama and Jensen (1983), the board of directors possess a great degree of decision control and play a crucial role in the formulation and implementation of strategic initiatives in large as well as in small organizations. In other words, they contribute to the establishment of the mission and goals, provide their approval to the company's strategic operational and financial plans and monitor the overall firm performance.

In this scenario, family control is considered as the family's hand in management or on the board of directors (Sacristan-Navarro *et al.*, 2011a). As such, in the present study, family control refers to the family members' involvement in the board of directors.

Burkart and Panunzi (2006) argued that, "being a board member or even its chairman is quite different from being the CEO of the firm and their interests are likely to differ" (p. 3). This is in line with the assumption of the agency theory that postulates that the main role of the board of directors is to monitor the CEO. The board is among the main mechanisms utilized to effectively control agency costs (Jensen & Meckling, 1976; Fama & Jensen, 1983). The distribution of functions is such that management is responsible for running the company for value creation while the board of directors is responsible to ensure that management does what it is supposed to do and that management's goals are aligned with that of the shareholders. Hence, in their monitoring capacity, the board of directors can hire, fire the CEO and top executives and decide upon their compensation (Rediker & Seth, 1995).

The contrary view of stewardship holds that managers are stewards that better protect the resources and act in the firm's best interest as opposed to their own interests (Donaldson & Davis, 1991). Hence, theorists claim that there is no issue with the motivation of the executives and the board's main role is to work with

the CEO, support their decision-making process and offer suitable and effective counsel and advice.

In the context of Saudi Arabia, the functions of the board are strictly defined. Saudi Arabia's corporate governance regulations elaborate on Article 10 in detail, the board's functions and duties including corporate strategy, internal control system, relations with stakeholders, and monitoring and disclosure. The functions of the board are described as follows:

> "a) *Approving the strategic plans and main objectives of the company and supervising their implementation; this includes:*
> 1. *Laying down a comprehensive strategy for the company, the main work plans and the policy related to risk management, reviewing and updating of such policy.*
> 2. *Determining the most appropriate capital structure of the company, its strategies and financial objectives and approving its annual budgets.*
> 3. *Supervising the main capital expenses of the company and acquisition/ disposal of assets.*
> 4. *Deciding the performance objectives to be achieved and supervising the implementation thereof and the overall performance of the company.*
> 5. *Reviewing and approving the organizational and functional structures of the company on a periodical basis.*
>
> b) *Lay down rules for internal control systems and supervising them; this includes:*
> 1. *Developing a written policy that would regulate conflicts of interest and remedy any possible cases of conflict by members of the Board of Directors, executive management and shareholders. This includes misuse of the company's assets and facilities and the arbitrary disposition resulting from dealings with the related parties.*
> 2. *Ensuring the integrity of the financial and accounting procedures including procedures related to the preparation of the financial reports.*

3. *Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the company could encounter and disclosing them with transparency.*
4. *Reviewing annually the effectiveness of the internal control systems.*

c) *Drafting a Corporate Governance Code for the company that does not contradict the provisions of this regulation, supervising and monitoring in general the effectiveness of the code and amending it whenever necessary.*

d) *Laying down specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Assembly.*

e) *Outlining a written policy that regulates the relationship with stakeholders with a view to protecting their respective rights; in particular, such policy must cover the following:*
1. *Mechanisms for indemnifying the stakeholders in case of contravening their rights under the law and their respective contracts.*
2. *Mechanisms for settlement of complaints or disputes that might arise between the company and the stakeholders.*
3. *Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them.*
4. *A code of conduct for the company's executives and employee compatible with the proper professional and ethical standards and regulate their relationship with the stakeholders. The Board of Directors lays down procedures for supervising this code and ensuring compliance therewith.*
5. *The Company's social contributions.*

f) *Deciding policies and procedures to ensure the company's compliance with the laws and regulations and the company's obligation to disclose material information to shareholders, creditors and other stakeholders."*

On the basis of the above beliefs, family control encompasses the level of family representation on the board, the position of chairmanship, and the family generation. These are further elaborated in the next sections.

2.8.1 Family Representation on Board of Directors

For the establishment of board of directors in family businesses, it is important for shareholders to think of a suitable structure that may facilitate an effective governance framework in the firm for the achievement of shareholders' goals. As such, the board of directors may be structured in two different ways; it can be completely staffed by related members to the family, either by blood or marriage. This structure dominates in family SMEs as the law does not dictate governance disciplines upon them (Voordeckers, Van Gils, & Van den Heuvel, 2007). Alternatively, the board can comprise a group with insiders and outsiders as prevalent in public listed companies (He & Sommer, 2010).

Oftentimes, in the context of family businesses, family shareholders prefer to confine membership of the board to family members (Poza, 2010) owing to the nature of the family business and to keep the control of business within the family. Hence, it is the prerogative of the family shareholders to select a suitable board structure that maintains their generational transition's strategy and objectives (Voordeckers *et al.*, 2007).

Hence, the most ideal structure of the board of directors recommended by agency scholars is the inclusion of both inside and outside directors (Hermalin & Weisbach, 2003) where inside directors are those who are related to the family through blood or marriage or those who actively work or retired as executives of the firm (Anderson & Reeb, 2004), while the outside ones are those members who are not employees of the company and are neither subordinates, relatives nor managers of the subsidiaries of the firm (Pearce & Zahra, 1991). It is generally believed that the greater the number of external board members, the more the board will be independent from management and the more favourable outcomes will be achieved in favour of shareholders, such as better quality financial reporting, minimized agency cost, effective internal control and greater firm profitability and market value (El-Mahdy & Norman, 2010).

As for the board independence, a board with a greater number of independent directors is considered as a good internal monitoring tool that can be used by the organization owners (Jensen & Meckling, 1976). This is because agency theory postulates that external directors are more professional in terms of monitoring managers relative to their inside counterparts (Fama & Jensen, 1983). In addition, they are better advisors (Coles et al., 2008) and they play a role in minimizing conflict between the majority and minority shareholders (Anderson & Reeb, 2004). This is also owing to the owner's perception of managers; according to the agency theory, managers of organizations cannot be trusted (Ramachandran & Jha, 2007). Based on this argument, managers may not act in the principal's best

interests but in their own at the expense of the former. A contrasting view from the stewardship theory implies the opposite whereby agents are considered to be trustworthy stewards, and, therefore, their goals are primarily aligned with those of the principal (Donaldson & Davis, 1991; Davis *et al.*, 1997). Arregle, Hitt, Sirmon, and Very (2007) argued that: *"Family members are concerned about the firm because it is part of their collective patrimony and is often the main asset of the family"* (p. 84). In other words, the stewardship theory postulates that the board should comprise a majority of inside members as opposed to outside ones to guarantee effective and efficient decision making as the former is privy to the business goals and they act in the interests of the firm and must be more competent in achieving higher profits compared to their external counterparts (Donaldson & Davis, 1991).

In corporate governance literature, the board of directors has received considerable attention, however, research regarding the boards of family businesses has not received extensive examination (Collin & Ahlberg, 2012) and the findings regarding the impact of board composition upon firm performance are mixed (Coles *et al.*, 2008).

In the context of Finland, Maury and Pajuste (2005) revealed that family firms are always represented in the management or board of directors while Klein (2000) reported that in Germany, two-thirds of the family boards have insider members in the form of owners who prefer to maintain the control of the business in the

family and who largely ignore external control. Navarro *et al.* (2009) found a consistent result in Spanish public listed companies where the percentage of independent directors is equal in proportion to non-family directors. Their findings revealed that a large proportion of the insider directors are members of the family. In addition, in Spain, no significant difference was found between family and non-family firms in the composition of the board (Arosa *et al.*, 2010). In the context of Asia region, specifically in Malaysia, 55% of the board members are independent non-executive directors (Amran & Che-Ahmad, 2009). As for family and non-family businesses, they revealed that the former registered a lower mean for board independence compared to the latter.

Narrowing down the region to Saudi Arabia, the study of Al-Abbas (2009) examined the composition of the board of Saudi publicly traded companies within a 3-year span (2005-2007). He found that independent directors dominated the board with a mean of 81% indicating that most of the public listed companies in Saudi Arabia adhere to the regulations laid down by the corporate governance stating that at least one-third of the board should be independent and non-executive members.

In a related study, Anderson and Reeb (2004) made use of the framework of the agency theory for their examination of 403 non-utility/non-banking firms in the S&P 500 from 1992-1999. They found that independent directors reduce the possibility of conflicts between the majority and minority shareholders, and, more

precisely, independent directors positively affect the founding-family firm's performance where the firm balances between family and non-family shareholders. The positive relationship between the number of the independent directors over the total number of the board of directors and firm performance (ROA and ROE) was also confirmed in the context of the Arab region, more specifically Lebanon, by the study of El-Chaarani (2013). This finding is consistent with Fama and Jensen's (1983) argument that argued that outside directors could strengthen a firm's value with their experience and monitoring skills. On the contrary, outside directors, as an internal governance mechanism, found to be negatively associated with the firm profitability (ROA) of Malaysian family public listed firms (Ibrahim & Samad, 2011).

For family directors in Taiwan, Filatotchev *et al.* (2005) found a significant negative relationship between the proportion of family directors and firm performance as measured by market-to-book value, return on assets, return on capital employed and sales revenue. In other words, family control via dominating the board of directors is detrimental for performance and can be another channel for extraction of private benefits. Similar findings were reported in Taiwan by Chen *et al.* (2013) in their study involving 536 family firms listed on the Taiwan Stock Exchange in 2007. They showed that family involvement in the board of directs is not beneficial to the shareholders, where adding a family member to the board is associated with a decline in return on assets.

In contrast, Sciascia and Mazzola (2009) used a data of 294 small privately-held companies in Italy to examine the relationship between family involvement in board of directors and firm performance using two accounting-based indicators, specifically ROA and ROE. They failed to find any significant relationship between the two variables. Similarly, Haniffa and Hudaib (2006), and Villalonga and Amit (2006), found no significant relation between the independent directors' proportion and firm value measured by Tobin's Q.

2.8.2 Family Chairman

Family chairman is established in family businesses to get the upper hand from non-family businesses. Advantages, such as the reduction of owner-manager agency cost through chairman monitoring is facilitated (Burkart *et al.*, 2003).

In addition, Maury (2006) revealed that family controlled firms in Western Europe, outperform their non-family rivals although their report regarding the impact of family control upon market-based valuation and accounting-based performance resulted in different outcomes. Through a dummy variable, he assigned a value of one if the controlling shareholder is a family member or family member holds the position of CEO, Honorary Chairman, Chairman or Vice Chairman. Otherwise, a zero was assigned. He concluded that family-controlled firms presented higher performance compared to other firms. The positive relationship between accounting profit and family control was in fact tied to hold at least one position of CEO or chairman by a family member. In Taiwan,

Filatotchev *et al.* (2005) study the relationship between the independent chairman (has no relation with the family owners) and firm performance measured by five indicators: market-to-book value, return on capital employed, return on assets, sales revenue and earning per share. They found that family chairman has a significant positive effect on the performance measured by sales-to-issued capital ratio only.

According to the literature, a board without inside members may face the issue of information asymmetry. Berle and Means (1932) were among the first researchers to provide an overview of the agent-principal issue stemming from information asymmetry. The scenario of asymmetry is such that the agents are privy to private information but the principal is not, without a cost. To minimize this cost, the company must be represented by insiders. This contention is supported by Harris and Raviv's (2008) model of optimal control of corporate boards of directors theorizing that external directors may adversely affect the business value. They recommended that if insiders have more important information compared to outsiders, inside-controlled boards is effective. Therefore, when family owners take the position of chairman or members of the board, they are privy to any existing information regarding the company and they are in the best position to protect the family's resources.

A study by Amran and Che-Ahmad (2009) revealed mixed results contrary to the common belief regarding board independence. The findings revealed a negative

relation between board independence and firm performance. Other studies also revealed the same result (e.g., Booth & Deli, 1996; Subrahmanyam, Rangan, & Rosenstein, 1997; Filatotchev et al., 2005). They supported Burkart et al.'s (2003) argument that there is less owner-manager agency cost if the family chairman undertakes the monitoring role. A similar result was presented by Isakov and Weisskopf (2009) who associated the outperformance of family firms to the family chairman. In contrast, according to Sacristan-Navarro et al. (2011a), family chairman negatively impacts the performance of listed companies in Spain confirming the family shareholders' entrenchment and expropriation behaviour.

Note that, some other works confirmed the absence of any statistical significant relationship between family chairman and firm performance. For example, Chen et al. (2013) examined the relationship between family chairman and firm profitability (i.e., ROA) for a sample of 536 family public listed firms in Taiwan Stock Exchange in 2007. They found that family chairman is not associated with ROA. Also, Kowalewski et al. (2010) in their study on Poland revealed that family chairman has no influence on all the three performance measures that are employed, i.e. ROE, ROA, and OROA. Similarly, Miller et al. (2007) obtained the same results for US public companies, they fail to find any relation between the two variables by employing OLS regressions, 4 out of 5 regressions produce insignificant relationship which implies that family chairman is playing no value-enhancing for the company.

2.8.3 Founder Chairman

According to Isakov and Weisskopf (2009), family business outperformance is attributed to the family chairman of the board of directors. If an external member chairs the board, the family firm does not display better performance compared to widely-held companies. As for family generation, family firms with family chairman present good performance but market performance is even better when the founder is the chairman of the board of directors. Firm profitability shows better performance when the descendant is on the helm as the chairman of the board.

A notable finding was reached by Villalonga and Amit (2006). They revealed that founder-CEO and founder-chairman both have a positive effect on firm performance and founder chairman contributes value to the firm with a non-family CEO. Such a finding confirms the unique contribution of the founders in their business, as they are more concerned and committed (Janjuha-Jivraj, 2004).

When a founder establishes the business, they keep in their mind some significant issues related to their business, such as the continuity of the family business, passing the assets to the next generation, and long-term growth. To do so, they invest heavily in capital, and research and development (R&D) to gain an advantage from new ideas and technologies to assist rapid company growth (McConaughy & Phillips, 1999) and build an enduring long-term business network with the firm's stakeholders, as opposed to their descendants (DeNoble, Ehrlich, & Singh, 2007). The short-term views of the descendant chairmen make

them more susceptible to difficulties and risks while forming networks (De Massis, Chua, & Chrisman, 2008).

Miller *et al.* (2007), however, comprehensively examined the impact of family involvement in management and control upon market-based performance through three dummy variables. They gave a value of 1 if a family member is the CEO, and otherwise a 0; a value of 1 if a family member is the chairman of the board, and otherwise a 0; a value of 1 if a family member is both the CEO and Chairman, and otherwise a 0. In the last case, they revealed that family firms in which the founder holds the chairman and CEO positions outperform other firms of the same calibre with external CEO and founder-chairman. They also revealed that family firms with founder-chairman but descendant-CEO registered the lowest mean Tobin's Q.

In a recent study on family public listed firms in Taiwan, Chen *et al.* (2013) confirmed the distinctive role of the founder when he is the chairman of the board. While a founder chairman is found to have a positive impact on a three-year average annual return on assets, stock return, and the three-year average annual stock return, a non-founder chairman had a negative effect on the later performance indicator. These findings are consistent with Miller *et al.* (2007) who revealed that as the founder effect dissipates, the family-ownership's outperformance dissipates with it.

2.9 Family Involvement in Succession

2.9.1 Family Successor

Family businesses are faced with numerous challenges (Fernandez & Nieto, 2005; Dahlan & Klieb, 2011), but according to the majority of researchers, the most significant problem that concerns the family firm's survival is the succession, which refers to transferring ownership and management from one generation to the next (Ward, 1988; Brockhaus, 2004; Le Breton-Miller, Miller, & Steier, 2004; Wang, Watkins, Harris, & Spicer, 2004; Duh, Tominc, & Rebernik, 2009; Beyrouti, 2010; Bocatto et al., 2010; Cubico, Togni, & Bellotto, 2010; El-Chaarani, 2013). This calls for a comprehensive analysis from varying viewpoints, for instance, from the point of view of family, management and ownership, to comprehend how varying stakeholders perceive such an event (Brockhaus, 2004). This is the reason why academic literature considers succession as one of the most ambiguous issues characterizing family organizations (Sacristan-Navarro et al., 2011a).

A broad definition of family business succession is provided by Walsh (2007, p. 7):

> ..the process of transitioning the management and the ownership of the business [from the first generation] to the next generation of family members. The transition may also include family assets as part of the process. Family members typically play a controlling role in both the management succession as well as the ownership succession.

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However, this study adopts the definition of family business succession by Sharma, Chua, and Chrisman (2000), which states that it is, "the explicit process by which the management control is transferred from one family member to another" (p. 233).

The seriousness of the topic of CEO succession in family businesses lies in the fact that the appointment of top senior positions like CEO is a crucial event (Duh *et al.*, 2009; Bocatto *et al.*, 2010; Abdullah *et al.*, 2011) and a critical decision (Urooj, Zafar, & Khattak, 2010) that is time and again faced by family firms in their business lifecycle. The importance lies in the impact upon the family fortune and the family business (Westhead, Howorth, & Cowling, 2002) and the critical outcome to external shareholders coupled with the firm's future (Bocatto *et al.*, 2010). In order to meet the research objective, the present study concentrates on management (CEO) succession, as it is the crucial goal for family businesses (Abdullah, Abdul Hamid, & Hashim, 2011).

Along with ownership, management and control, succession is important in the long-term and future success of family businesses. Reports suggest that world family businesses have a low survival rate (Dahlan & Klieb, 2011) and state that around one third of family businesses may be able to survive until the second generation, 10-15% survive to the third generation and a mere 3-5% make it to the fourth generation (Srisomburananont, 2004), supporting the Chinese proverb, "wealth does not endure three generations".

The main problem with the succession process is the confined list of talented individuals within the family (Le Breton-Miller *et al.*, 2004) who are capable of dealing with both internal and external issues pertinent to being a member of the family for reasons, such as the founder's age or death (Surdej & Wach, 2010), intra-family conflicts (Dahlan & Klieb, 2011) or the replacement of CEO.

In the context of Poland, Surdej and Wach (2010) revealed three succession situations: the dominant situation entails the transference of the ownership and control of the firm to the heir, the second is to sell the whole company shares or part of them, and, finally, the combination of both methods. This signifies the risk of family businesses (Tatoglu, Kula, & Glaister, 2008) specifically when the heir is not qualified or has a lack of experience or knowledge (Bocatto *et al.*, 2010). Failure to plan for the future not only has an adverse effect on family businesses but also on the overall economy (Duh *et al.*, 2009).

The opposite of the above negative situation is phenomenal as a successful succession may lead to the development of competitive advantage for the family business through the utilization of practical knowledge, experience, family members' skills and knowledge continuity (IFC, 2007).

A family business is primarily set up by a person according to his/her capabilities and requirements. He/she then gathers a veritable pool of knowledge from

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working at his/her business and from life experience. Knowledge at this level is considered as a firm's resource and it requires development and transference from the founder to his/her descendant or his/her successor related by blood or marriage (Smith & Amoako-Adu, 1999), preferably one who has worked by his/her side through the years and is capable of running an effective business venture.

Choosing a successor entails two options – promotion from inside the organization or appointment of an external CEO (Urooj et al., 2010). However, family firms often opt to promote family members, such as siblings or children (Smith & Amoako-Adu, 1999; Agrawal, Knoeber, & Tsoulouhas, 2006) owing to the advantages that come with it.

In Saudi Arabia, most founders' surnames are kept for corporate identity. This urges family members to be concerned for their company's health and success, as the firm represents the founder's legacy and the family's social status. Another reason for a family member succession to the CEO position is the fact that such a member has gathered enough of the knowledge of the firm owing to his/her close relations with the firm's founder (Smith & Amoako-Adu, 1999).

Nevertheless, Levinson (1971) is of the opinion that any company presenting a considerable growth rate should not engage family members in its management and should opt for a professional external manager instead. Family firms oppose

this idea and prefer insiders as the successor. Hence, it is imperative for family firms to consider successors with vast experience and extensive firm knowledge (Bocatto *et al.*, 2010) for the firms' success.

Family firms are mostly concerned about intra-family transitions in a considerable way (Amran & Che-Ahmad, 2010; Dahlan & Kleib, 2011), making the control transmission of the firm a critical issue (Duh *et al.*, 2009; Surdej & Wach, 2010) and the most significant event (Bocatto *et al.*, 2010) that family firms have to undergo. Despite its importance, most family firms fail to come up with a clear plan to deal with it (Zhang & Rajagopalan, 2010), which may lead to a negative impact on the shareholders' wealth, particularly when the successor insists on succession despite his inexperience and inability to manage the firm. One of the most important steps that the founder may undertake to prepare the firm for succession is to keep a clear list of possible successors who could support the organization's harmony and facilitate and maintain its future success (Urooj *et al.*, 2010).

2.9.2 Family Succession and Firm Performance

Due to the conflict of interest between the founding family and the rest of the shareholders, the succession issue in family firms remains unresolved (Bocatto *et al.*, 2010). Moreover, although the outcome of CEO succession has been frequently addressed (Bocatto *et al.*, 2010), it still calls for extensive empirical studies for the confirmation of its validation and generalizability (Chittoor & Das,

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2007). The significance of generation in family firms has been depicted by numerous researchers. Among them, Villalonga and Amit (2006) carried out a study in the U.S. to examine the relationship between family management and firm value through Tobin's Q. They revealed that family businesses whose founders are CEOs perform better than other businesses. In other words, successors may do more harm than good to the firm as CEOs.

This contention is supported by Bennedsen, Nielsen, Perez-Gonzalez, and Wolfenzon (2007) when they stated that a negative relation may exist between family succession and firm profitability, particularly in an industry that is fast growing and the company is in need of highly skilled workforce. Furthermore, Perez-Gonzalez (2006), upon examining the relation between inherited control and firm performance revealed that firms with a family successor CEO who has a relationship by blood or marriage tend to underperform in the context of operating profitability and Market to Book Value (MBV) ratio.

Further support comes from Smith and Amoako-Adu (1999) who found a negative reaction of shareholders to a family successor owing to the uncertainty they perceive over the quality of management. In addition, founder-managed family firms are found to disclose their information to shareholders more efficiently than non-family firms (Ali, Chen, & Radhakrishnan, 2007). Thus, the shareholders of the former are more comfortable, and, consequently, strengthen and preserve the founder's image and reputation.

Cucculelli and Micucci's (2008) study, involving 229 small-sized manufacturing companies in Italy, revealed that family firms with successor management negatively impacted firms' performance. In addition, Hillier and McColgan (2009) showed that stock prices reacted positively and performance improved following the news of the departure of a family CEO.

Other studies revealed a contrasting result; Sraer and Thesmar (2007), and Amran and Che-Ahmad (2010) revealed improved performance in terms of Tobin's Q and ROA of family firms with the descendant-CEO at the helm. Barontini and Caprio (2006), however, revealed no statistical relationship between descendant-CEO and firm performance.

2.10   Presence of Other Blockholders

Berle and Means's (1932) influential work expounds on the typical principal-agent problem that Villalonga and Amit (2006) referred to as "agency problem I". Among the many who were influenced are Jensen and Meckling (1976) who stated that the separation of ownership and management facilitates management's extraction of self-interests, and, hence, compromises shareholders' wealth and eventually negatively affects the firm's value. Stated differently, firms with CEOs possessing greater equity holdings are predicted to possess lower agency cost, as the manager's incentives are consistent with the shareholders. Hence, the agency

cost decreases as managerial ownership increases (Fama & Jensen, 1983; Morck *et al.*, 1988).

In the context of family firms, the family's position as the large shareholder may have a significant impact on the agency problems resolution (Jensen & Meckling, 1976) owing to the overlapping elements of family, ownership, and management systems along with several functions that family shareholders carry out. Among these functions is the monitoring function, which makes management incentives consistent with the desire of the family shareholders (Allouche *et al.*, 2008). However, viewed through the stewardship perspective, managers are stewards (Davis *et al.*, 1997) and are emotionally linked to the family (Miller & Le Breton-Miller, 2006). As a result, they display better performance than that of external CEOs. The stewardship behaviour of family managers facilitates the alignment of family and organizational interests and attempts to safeguard family wealth rather than maximize their personal utility, which, ultimately, enhances the firm's value (Howorth *et al.*, 2010).

Researchers are, however, of the consensus that the classical principal-agent agency problem is inapplicable to most family firms (Sacristan-Navarro *et al.*, 2011b); it no longer prevails outside the U.S. and U.K. and has been replaced by principal-principal conflicts termed by Villalonga and Amit (2006) as "agency problem II". This agency problem arises in situations wherein dominant blockholders are inclined to expropriate minority shareholders (Maury, 2006)

through their firm's clout to acquire monetary and other private benefits and appropriating resources to other family companies (La Porta et al., 1999; Claessens et al., 2000; Schulze et al., 2001; Faccio & Lang, 2002; Villalonga & Amit, 2006). The literature recommends the existence of other large shareholders in the organizational ownership to tackle such a problem (Isakov & Weisskopf, 2009).

Hwang and Hu (2009) refer to monetary private benefits as "...private benefits that can be stated in monetary terms", for instance, extraordinarily high salary or misappropriation of resources. Additionally, non-monetary private benefits are defined as those that cannot be expressed in monetary terms, for instance, the pride of a large owner, being part of the business network, interacting with well-known businessmen, politicians, and celebrities and achieving recognition, fame and prestige owing to one's increased social status.

According to La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998), dispersed ownership structure is more prevalent in economies characterized as having high legal protection for minority shareholders. However, in countries with weak legal protection, concentrated ownership by family is an alternative form of external monitoring. The argument holds that the role of the corporate control market of the country is a technique that reduces the agency problem within a firm. In the context of the U.S., dispersed ownership structure and the possibility of conflict

may occur between the manager and shareholders owing to the considerable gap between both parties' interests.

In Saudi Arabia, concentrated ownership structure is prevalent, and, as such, owners are desirous to maintain control over their firms, making firms vulnerable to agency problems. Agency problems that may arise between dominant shareholders and minority owners are increasingly becoming a big issue (Sacristan-Navarro *et al.*, 2011b).

In order to reduce agency problems and to protect investors' wealth in family firms, literature concerning corporate governance recommends several mechanisms to make sure that directors act in ways that benefit the firms' owners. One of the recommendations is to include another large blockholder in the firms' ownership (Seifert *et al.*, 2005; Firth *et al.*, 2006; Sacristan-Navarro *et al.*, 2011b). The argument stands that owing to their power, dominant family shareholders can acquire private benefits from the company (Maury & Pajuste, 2005) and this expropriation behaviour of family owners has been evidenced in both publicly listed companies (Miller *et al.*, 2007) and SMEs (Arosa *et al.*, 2010). It follows that the existence of large blockholders can work effectively in monitoring family shareholders (Isakov & Weisskopf, 2009) who are inclined to use their clout, and, in so doing, compromise the minority shareholders (La Porta *et al.*, 1999). Similarly, Anderson and Reeb (2003, 2004) recommended that other large blockholders like institutional shareholders should be involved in an attempt

to monitor and discipline family managers despite their considerable power. As a result, this will lead to superior organizational performance and improved firm value.

However, the misalignment of family goals with the goals of large shareholders (whether they may be economic or non-economic), may result in a conflict of interest between the two parties, particularly in publicly listed firms (Corbetta & Salvato, 2004), which will consequently impact the firm performance and value in a negative manner (Lopez-de-Foranda *et al.*, 2007). Although conflicts arising between majority and minority shareholders have been handled by some academic researchers (Maury, 2006), until now, there has been limited discussion regarding them (Sacristan-Navarro *et al.*, 2011b).

2.10.1 Presence of Other Blockholders and Firm Performance

Researchers have attempted to explain the relationship between the presence of large shareholders and firm performance; however, so far, the results have been inconsistent and ambiguous. Sacristan-Navarro *et al.*'s (2011b) analysis of the Spanish Stock Exchange to examine the impact of the presence of another large shareholder upon the profitability of the firm revealed a significant positive relation notwithstanding the econometric technique utilized. Their stance on the matter based on their findings is that the existence of another large shareholder moderates agency problem II, which leads to improved firm performance.

A related study was conducted by Isakov and Weisskopf (2009) in an attempt to investigate the impact of the existence of another shareholder on firm performance. Through the data gathered from the Swiss listed companies in the years 2003-2007, they revealed that family firms having a second blockholder that holds between 5% and 10% of voting rights outperform other non-family firms based on their ROA (5%) and Tobin's Q (1.27). This is attributed to the reduction of agency cost I and II through the monitoring of the dominant blockholders and challenging the extraction of private benefits. However, a contrasting finding was revealed by Villalonga and Amit (2006) who presented a negative relationship between another non-family blockholder ownership and Tobin's Q as firm value proxy. This is especially true for non-family firms compared to family firms.

Similarly, in the context of Finland, Maury and Pajuste (2005) found that the impact of sharing firm ownership with another large shareholder is not always positive depending on the shareholdings' size and its identification. They investigated the impact of other large shareholders on firm performance through the involvement of 136 non-financial firms over a span of eight years. They revealed that family firms having to contend with another large shareholder who is family and holds greater voting rights displayed negative firm value. However, firms with other non-family blockholders holding higher voting rights enhance firm value. Hence, it can be deduced that two families sharing ownership destroy firm value instead of enhance it.

As for the effect of family generations, Her and Williams (2002) revealed that the lack of large external blockholders in Taiwanese descendants-managed firms (wherein the descendants occupy most of the board of directors positions and other supervisory positions) might result in the negative behaviour of entrenchment and tunnelling.[4] In other words, such corporations' performance is low in relation to founder-managed firms in economies characterized as having low legal protection.

2.11   Summary of the Chapter

In this chapter, discussions regarding the theoretical and empirical literature concerning family ownership, family management, family control, family succession, and the presence of other blockholders impacting firm performance were presented. The study mainly concentrated on both the agency and the stewardship theory that are predictors of family involvement's impact on firm performance. Both developing and emerging countries have tackled the above factors and they revealed mixed results. This calls for more studies to confirm the relationship specifically in an emerging country possessing unique institutional setting, cultural institutions and legal systems, such as Saudi Arabia, a country governed by Islamic law.

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[4] Tunneling is defined in the literature as "the transfer of assets and profits out of firms for the benefit of their controlling shareholder" (Villalonga & Amit, 2010, p. 865).

CHAPTER THREE

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

3.1 Overview of the Chapter

The aim of the chapter is to create a comprehensive theoretical framework and hypotheses on the basis of the relevant theoretical and empirical studies from the literature that would highlight the effect of family involvement in ownership (Section 3.3), management (Section 3.4), control (Section 3.5), succession (Section 3.6) and the presence of other blockholders on the firm performance of Saudi PLCs (Section 3.7). Finally, a summary is provided in the end of this chapter (Section 3.8).

3.2 Theoretical Framework

The study's theoretical framework encompasses family involvement in ownership, management, control, succession, and the presence of other blockholders and their impact on firm performance and the moderating impact of family CEOs and their generation in the relationship between family ownership and firm performance.

3.2.1 Proposed Theoretical Framework

Prior studies only examined the relationship between family involvement and firm performance in a general manner. As a result, little or no attention has been given to the moderating effect of family CEOs and their generation on the relationship between family involvement in ownership and firms' performance and the role of the other blockholders' presence in family businesses. The present research model is based on the question, "What is the impact of family involvement in ownership, management, control, succession and the presence of other blockholders on firm performance among PLCs in Saudi Arabia?" The study brings forward a theoretical framework built on the prior literature dealing with the relationship between family involvement and firm performance, as presented in the previous chapter.

The theoretical model is depicted in Table 3.1 whereby a hypothesized relationship between family involvement in ownership, management, control, succession, the presence of other blockholders and firm performance is presented. The direct impact of the factors is depicted by the straight line while the dotted line depicts the impact of control variables upon firm performance.

Figure 3.1
*Conceptual Framework for Family Involvement in Ownership, Management,
Control, Succession and the Presence of Other Blockholders with Firm
Performance*
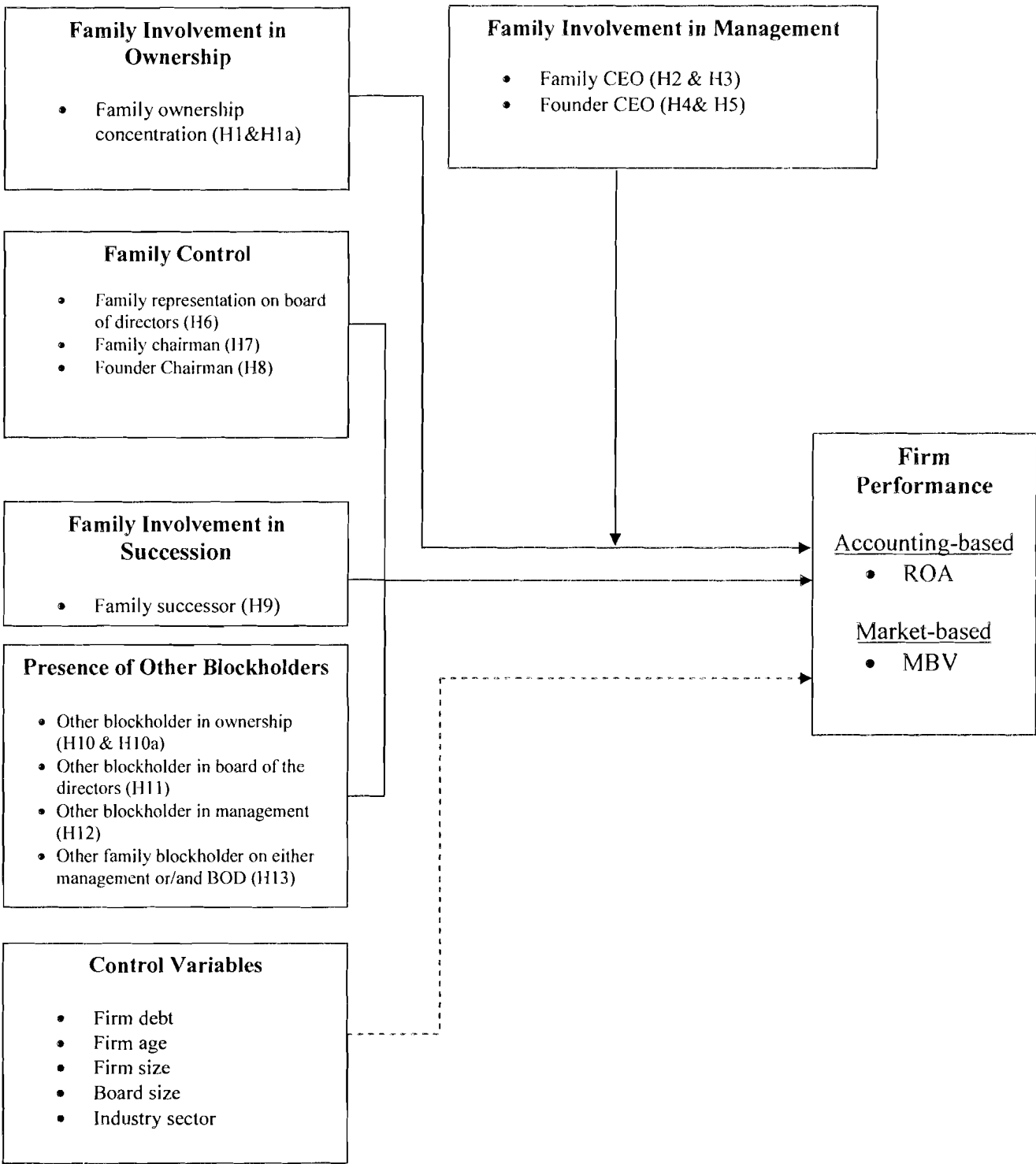
3.3   Family Involvement in Ownership

3.3.1   Family Ownership Concentration

The relationship between owners and management holds one of the most critical issues that modern firms are faced with because while the interest of owners is focused on increasing the shares value, managers' focus lie in their self-serving interests. This marked divergence of interests lead to agency problems and agency costs. From the perspective of agency theory, a workable method that assists in minimizing such problems within the firm is ownership concentration or shareholders-related hands (Berle & Means, 1932; Jensen & Meckling, 1976). Berle and Means (1932) contended that ownership concentration in the blockholders' hands positively affect the value of the firm by working to minimize the agency cost that may occur between management and shareholders. Nevertheless, according to Anderson and Reeb (2003), the positive effect of ownership concentration on the performance of the firm is still ambiguous, particularly in the context of family firms.

In theory, there are several reasons behind the beneficial financial outcomes of family ownership. For instance, Jensen and Meckling (1976) lauded the family firm as an appropriate model for decreasing agency cost and Yoshikawa and Rasheed (2010) contended that family owners are incentivized to enhance the performance of the firm. They added that when family owners are also managers,

the shareholders and management interests are in consistent with each other and therefore, agency problems are decreased.

This notion is backed by several justifications. First, it is extensively acknowledged that the consistency between the controlling family's interests with that of other shareholders' interests is dominant in family businesses because of the dominant ownership of the former along with their long-term existence (Wang, 2005). Contrasting to other shareholder types, family shareholders have a tendency to adopt a long-term perspective in their investment and hence, managerial short-sightedness is not as likely to arise in family firms (Anderson & Reeb, 2003). This is supported by the fact that family owners are eager to promote the firm survival to the next generation and they will not ignore profitable long-term investment opportunities to take advantage of short-term profits (Andres, 2008). Thus, family members sustain the agency cost reduction by keeping their interests aligned with those of shareholders.

In this regard, Graves (2007) argued that family firms proved to be more consistent than its non-family counterparts, as the members of the family are more in sync among themselves and with business. This is why family owners reinvest their dividends in the business to bring about future long-term growth. Furthermore, family firm founders who first established and developed the business, possess knowledge and experience of the firm, making them capable of

building long term connections and trust with management and employees as well as banks and government, the basis of the successes of such firms.

Despite the above arguments, evidence also points out that family ownership concentration can be detrimental. For instance, Pindado and De la Torre (2006) demonstrated that dominant family ownership may not be helpful in increasing the value of a firm and monitoring its management. There is also a high probability of family entrenchment – an issue that is compounded by weak investor protection (Arosa *et al.*, 2010). This is because entrenchment supports information manipulation by the members of the family that can adversely impact the firm's image to the public (Ali *et al.*, 2007). On a similar note, Saito (2008) showed that because of the family controlling shareholders' superior information, they can downsize their shareholders, particularly in the face of economic recession. Based on the above arguments, the following hypothesis is proposed;

H1: There is a positive relationship between family ownership and firm performance.

3.3.2 Non-linearity of Family Ownership Concentration

Some authors claim that family ownership concentration may both positively and negatively impact firm performance (Sciascia & Mazzola, 2008), which is consistent with the dominant blockholder's expropriation and monitoring behaviour (Arosa *et al.*, 2010). It has also been argued that ownership

concentration of one or a few family members decreases, if not eliminates, the agency cost between the dominant shareholder and its minority counterparts (Corbetta & Salvato, 2004).

Much empirical research has evidenced a non-linear relationship between ownership concentration and firm performance in publicly listed family firms (Morck *et al.*, 1988; Anderson & Reeb, 2003; Maury, 2006; Amran & Che-Ahmad, 2013). For example, Morck *et al.* (1988) investigated the effect of managerial ownership on Tobin's Q and revealed that the link between the two factors is non-linear indicating that an increase in Tobin's Q occurs when management works in the owner's best interest. However, a decrease in market value indicates manager's behaviour of entrenchment. The study also revealed that Tobin's Q increases with the increase in ownership of management to 5% and it decreases with an ownership increase to 25%. The rising trend continues when ownership is more than 25%. This non-linear relationship is supported by Kowalewski *et al.* (2010), but only with accounting-based performance indicators (i.e., ROE and ROA). The ownership concentration positively affects ROE when it was less than 40%, and negatively affects ROE when the concentration level was 40% and above.

Similarly, Morck *et al.* (1988) revealed the same behaviour, which was also supported by de Miguel *et al.* (2004) from three varying cut-off points. They evidenced that the relationship between family ownership and firm value is

positive in cases when family ownership increases up to 35%, and it decreases with the increase of ownership from 35-70% and when the latter increases to over 70%, the relationship again turns positive.

In a recent study, Amran and Che-Ahmad (2013) investigate the nonlinearity of family ownership for the PLCs in Malaysia. They found that the relationship is significantly cubic (i.e. negative, positive and negative) with Q, ROA and ROE that confirms the alignment-entrenchment-alignment behaviour. Therefore, on the basis of these studies, the following hypothesis is formulated:

H1a: There will be non-linear relationship between family ownership concentration and firm performance.

3.4   Family Involvement in Management

3.4.1   The Moderating Effect of Family CEO

While the agency relationship is more commonly applied to small and non-listed companies, it may also be present in large and listed companies. The agency theory postulates that the absence of interest-convergence among shareholders holding a part of the firm's ownership and external managers significantly increases the agency cost (Jensen & Meckling, 1976). The reason lies in the fact that according to the agency theory, managers are self-interested individuals (Davis *et al.*, 1997), driven by personal ego (Ramachandran & Jha, 2007) who act mainly in their own best interests, forsaking the interests of other shareholders and carry out activities that go against the maximization of shareholder's wealth.

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Hence, to reduce the agency problem, managers also have to be owners, so that maximum efforts can be expended for the improvement of firm value (Seifert *et al.* 2005) or for family to be involved in both ownership and management (Bocatto *et al.*, 2010).

Several researchers (Maury & Pajuste, 2005; Sciascia & Mazzola, 2008) examined the family representation on the management of family firms. Owing to the family's legacy being one and the same with the firm's welfare, family owners are often disinclined to relinquish their power to external managers. Hence, family owners may block non-family members from gaining key managerial positions in the company (Westhead & Howorth, 2006). Moreover, family owners opt to keep the decision making process in their hands (Ward, 1987) to prevent the occurrence of any conflict between them and external managers that would consequently impact the performance of the firm in a negative way (Chua *et al.*, 2003). This scenario is present in the Arab family businesses and most family businesses have their management in the hands of family members (Al Masah, 2011).

In addition, family CEOs help to align family shareholders' incentives with managers' incentives, which eventually results in positive firm performance (Anderson & Reeb, 2003). This alignment can be achieved through the goal alignment between owners and managers (Davis *et al.*, 1997), manager's identification with the firm (Block, 2010), and family managers' trustworthiness,

as postulated by the stewardship theory (Dalton *et al.*, 1998). Hence, a family member has more chance of being a CEO as opposed to non-family members in family firms owing to their alleviation of agency cost and provision of support to family control (Jiang & Peng, 2011).

Contrary to the above, Her and Williams (2002) revealed that CEOs of Taiwanese descendant-controlled firms that have a majority of family directors and supervisors are inclined to participate in managerial entrenchment in a way that family CEOs often transfer firms' wealth or resources to their own family members. However, Anderson and Reeb (2003) revealed that firms with family CEOs outperform their counterparts in terms of profitability, a finding supported by Lee (2006) and Isakov and Weisskopf (2009). Based on Isakov and Weisskopf's (2009) study, the performance of family firms with external CEOs is inferior compared to those with family CEOs in the context of accounting performance (ROA).

Similarly, Lee (2006) revealed that family firms underperform compared to non-family firms with the exception of situations where family members were CEOs. According to Block (2010), this is because of management's identification with the firm. When the CEOs have greater identification and possess more incentive not to employ actions that may tarnish the firm's reputation, their identification encourages them to expend effort and work together for the protection of the welfare and reputation of both the family and firm. However, in the context of

Arab countries, El-Chaarani (2013) documents a non-significant impact of family executives on Lebanese family firms' performance as measured by ROA and ROE.

The mixed findings regarding family ownership and firm performance, as shown by prior studies, highlight the complexity of the relation that seems to be moderated by other factors (Mazzi, 2011). The key limitation of prior studies is that they failed to study the level to which the family CEOs and their generation moderate the relationship between ownership and performance. Based on the study by Anderson and Reeb (2003), the positive accounting performance and greater market value displayed by family businesses is perpetuated by the family CEO at the helm. In their own words, "the greater profitability in family firms, relative to non-family, stems from those firms in which a family member serves as the CEO" (Anderson & Reeb, 2003, p. 1324). Similarly, Villalonga and Amit (2006) presented that family ownership only develops value in situations where the founder is the CEO of the firm and this value dissipates once the descendants take the founder's place as the CEO.

In another related study, Jiang and Peng (2011) showed that family ownership does not significantly relate to firm performance. Further analysis showed that through the interaction of family CEO with family ownership, family CEO was found to positively moderate the impact of family ownership upon firm performance in the context of Indonesia and Taiwan. However, it negatively

moderates the relationship in the context of Hong Kong. Based on the above discussion, the following hypothesis is postulated:

H2: Family firms managed by family CEOs outperform family firms managed by non-family CEOs.

H3: Family CEO moderates the relationship between family ownership and firm performance.

3.4.2 The Moderating Effect of Founder CEO

McConaughy and Phillips (1999) examined family generation differences in their effect on performance. According to them, "both theory and former empirical research suggest the occurrence of the so-called 'founder effect', meaning that the performance of family firms is particularly strong when the founder is still active as CEO" (Andres, 2008, p. 439). Similarly, Burkart *et al.* (2003) posited that a professional is more able compared to the descendant when it comes to being firm CEO.

However, empirical findings show that founder and descendant CEOs have a varying effect on firm performance owing to their different behaviour (Sacristan-Navarro *et al.*, 2011a) with the firm performance being superior with a founder-CEO (e.g., Morck *et al.*, 1988; Villalonga & Amit, 2006; Adams *et al.*, 2009; Chen *et al.*, 2013). This view is supported by Andres (2008) who investigated the founder effect on the performance of listed companies in Germany and revealed the superior performance of family firms that are managed by founder CEOs in

the context of accounting performance measured by ROA. Using Tobin's Q as a measure, descendant CEOs and external CEOs in family firms and CEOs in non-family business perform on a similar level. In same vein, Chen *et al.* (2013) evidenced the outperformance of family public listed firms in Taiwan, in which CEO positions are occupied by firms' founders. They found that family founder CEOs are significantly associated with a three-year average annual return on assets, while family non-founder CEO variable remains insignificant.

However, Burkart *et al.* (2003) hypothesize that in a family firm, the suitable action is to employ an external CEO as opposed to allowing the descendant of the founder to hold the helm of the business. This hypothesis is supported by different sets of findings. Smith and Amoako-Adu (1999), and Perez-Gonzalez (2006) revealed a negative reaction of the stock market to the announcement of the appointment of descendant CEOs for the U.S. and Canada respectively. The results of these studies imply a positive reaction to founder CEOs as opposed to descendant CEOs, as the former employs disclosure behaviour in an efficient way compared to non-family firms (Ali *et al.*, 2007).

On the whole, prior studies posited that founders develop their businesses for countless reasons, such as making a living, providing secure jobs for the members of their family, improve quality of life and so forth. They are always concerned with their vision for the evolution of the business from its inception along with other issues, such as the business survival, and protection of family legacy for the

coming generations (Zahra, 2005). When a descendant takes the place of the founder as a CEO, the firm value dissipates as they "face different challenges to maintain and enhance the business and these tasks may be better performed in a more professional manner, often by non-family members" (Sonfield & Lussier, 2004, p. 191). Therefore, based on the above discussion of prior findings, the following hypotheses are postulated:

H4: Firms managed by founder CEOs outperform firms not managed by founder CEOs.

H5: Founder CEO moderates the relationship between family ownership and firm performance.

3.5   Family Control

3.5.1   Family Representation on the Board of Directors

Based on common belief, internal directors are more privy to firms' processes and goals. Therefore, in family firms, the family attempts to occupy more seats on the board of directors to maintain firm control within the family (Voordeckers et al., 2007). To do so, family owners often confine board representation to family members (Poza, 2010) or have significant family members on the board as family directors. Along this line, the stewardship theory considers family directors more effective advisors of top management as the latter is prevented from employing tactics that are adverse to the family shareholders' interest. Eventually, the interest of the firm is balanced with those family owners' interests.

In the context of Finland, Maury and Pajuste (2005) showed that family firms are often represented in the management or board of directors. Similarly, the presence of family members on the board of directors of family firms stems from their disinclination to transfer their control of the firm (Klein, 2000). In Lebanon (an Arabic country), independent directors have been found to have a positive impact on family firms' performance as measured by ROA and ROE (El-Chaarani, 2013). However, Her and Williams (2002) evidenced that dominant representation by family members on the board of directors of Taiwanese descendant-controlled firms is detrimental to firm performance. Similarly, for Taiwanese family public listed firms, Chen *et al.* (2013) showed that family involvement in the board has a negative impact on firm's return on assets. For Malaysia, Amran and Che-Ahmad (2009) revealed that 55% of the boards is often occupied by independent non-executive directors. Family businesses were shown to have a lower mean for board independence compared to their non-family counterparts. In Saudi Arabia, Al-Abbas (2009) examined the board composition of all PLCs and revealed that the independent directors' proportion is high having a mean of 81% indicating that most public listed companies adhere to the corporate governance regulations mandating that at least one-third of the board are independent and non-executive members.

On the other hand, Arosa *et al.* (2010) revealed no significant difference between Spanish non-listed companies and their counterparts in light of the board of

director's composition. Navarro and Anson (2009) revealed that most internal directors of the PLCs in Spain are family members.

Empirically, Ibrahim and Samad (2011) found that outside directors have a negative effect on Malaysian family firms' profitability (i.e., ROA), suggesting that "... *family firms may require a prudent balance between the objectivity of independent directors and the interests of family directors in order to pursue family members' interest*" (p. 20). In contrast, Haniffa and Hudaib (2006) and Villalonga and Amit (2006) indicate the absence of any significant relationship between the proportion of independent directors and the value of a firm measured by Tobin's Q. In Italy, Sciascia and Mazzola (2009) found no significant association between family involvement in board of directors and ROA and ROE. The hypothesis is therefore postulated as follows:

H6: There is a relationship between family representation on boards of directors and firm performance.

3.5.2 Family Chairman

The agency theory posits that firm managers are inherently untrustworthy (Ramachandran & Jha, 2007) and that external directors are better performers and are effective monitors owing to their profession (Fama & Jensen, 1983). External directors assist in decreasing conflicts that may occur between the minority-majority shareholders relationship (Anderson & Reeb, 2004). In contrast, the stewardship theory considers family as a resource (Sacristan-Navarro *et al.*,

2011a), and it is evident from the name that the directors are viewed as stewards who are trustworthy individuals acting in the firm's best interests. They do so through the maximization of their own utility while simultaneously aligning goals and objectives between directors and owners (Donaldson & Davis, 1991; Davis *et al.*, 1997) and between directors and the overall organization (Corbetta & Salvato, 2004). As for having a family member control the reins as chairman, Burkart *et al.* (2003) claimed that owner-manager agency cost is generally low as the family chairman is monitoring the firm's management.

Moreover, Sacristan-Navarro *et al.* (2011a) provided empirical evidence to support the fact that a family chairman impacts the performance of Spanish listed companies in a negative way confirming the suggestion of entrenchment and expropriation behaviour of family shareholders. This is also backed by Fama and Jensen (1983) who stated that external directors could reinforce the firm's value as they are experienced and are good monitors.

Meanwhile, other studies (Booth & Deli, 1996; Subrahmanyam *et al.*, 1997; Filatotchev *et al.*, 2005; Amran & Che-Ahmad, 2009) revealed a negative relationship between board independence and firm performance. In other words, Filatotchev *et al.* (2005) found that a chairman whose relation with family controlling shareholder contributes positively to the performance of the firm measured by sales-to-issued capital ratio. In the same vein, Maury's (2006) study showed a positive link between accounting profit and active family control – a

term used to mean family holding of either the position of CEO or Chairman. Similarly, Isakov and Weisskopf (2009) evidenced the high performance of family businesses when the founder or the descendant of the founder takes hold of the position of the chairman of the board. This means that if the position of the chairman is held by an external individual, the family firm will not perform so well as non-family companies. It is however notable that the stewardship theory is employed by successful family firms (Sacristan-Navarro et al., 2011a).

However, the absence of any statistical significant relationship between family chairman and firm performance has been confirmed by some other works (Miller et al., 2007; Kowalewski et al., 2010; Chen et al., 2013). Hence, from the above discussion of studies in the literature, the following is hypothesized:

> *H7: Firms controlled by family chairmen outperform firms not controlled by family chairmen.*

3.5.3 Founder Chairman

Founders and descendants have varying impacts on firm performance. The former is shown to have a positive effect not only as a CEO but also as a chairman as evidenced by Villalonga and Amit (2006). Along a similar vein, Miller et al. (2007) investigated the relationship between family involvement on boards of directors and Tobin's Q. They revealed that a lone family business[5] wherein the

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[5] Lone family businesses are family businesses where no relatives of a founder are involved.

founder holds the position of a chairman, or a CEO or both, outperformed other firms.

As for family generation, Isakov and Weisskopf (2009) evidenced that founder chairman shows better market performance (Tobin's Q) while descendant chairman showed better accounting performance (ROA). Those family firms with external chairman underperformed compared to widely-held corporations. Similarly, Chen *et al.* (2013) provided evidence from Taiwan that family firms with founder chairmen perform better than their non-founder counterparts in terms of a three-year average annual return on assets, stock return, and the three-year average annual stock return.

The above results imply that founders seem to contribute unique, value-added skills to the firm, thereby explaining the superior performance. For instance, when founders set up their own businesses, they are often highly involved and concerned regarding the survival of the business (Janjuha-Jivraj, 2004). To do so, they invest in capital equipment and research and development (R&D) to leverage new ideas and technologies assisting rapid company growth (McConaughy & Phillips, 1999). They also take crucial steps for the maintenance of strong and trusting relations and network with stakeholders (e.g., customer, supplier, and employees) in the long-run.

In contrast, descendants often have short-term vision (DeNoble *et al.*, 2007) making them more vulnerable to difficulties and risks in forming networks (De Massis *et al.*, 2008). Consequently, employees show greater productivity in family firms managed by founders (McConaughy & Philips, 1999). Moreover, daily activities are viewed and handled by founders in a more conservative manner in terms of their decision-making attitude. They bypass mistakes that may damage long-term relations and are not inclined to handling risks as their descendants. From the above discussion, it is hypothesized that:

> *H8: Firms controlled by founder chairmen display higher performance than those controlled by non-founder chairmen.*

3.6   Family Involvement in Succession

3.6.1   Family Successor

The selection of a new CEO is a significant (Urooj *et al.*, 2010) and serious event (Bocatto *et al.*, 2010) and it may just be the most trying challenge faced by family businesses (Dahlan & Klieb, 2011) during its succession planning and continuity (Pitcher, Cherim, & Kisfalvi, 2000).

The survival rate for family businesses has been revealed as low by several studies; a mere 3-5% of family business can survive over the third generation (Srisomburananont, 2004). This is supported by studies from the Arab world, revealing that a mere 5% of the Arab family businesses are managed by the fourth generation (Ernst & Young, 2008). These statistics imply that the succession-

related risk to the stability of family businesses is high, particularly when the successor is inexperienced and under-qualified (Bocatto *et al.*, 2010). In hindsight, successful succession can be the family business's competitive advantage as successors are able to acquire gathered knowledge by the founder, uniting the experience over the years and tackling daily challenges and opportunities that the business may encounter (IFC, 2007).

There are two options that a firm can follow in choosing a successor (Urooj *et al.*, 2010); it can promote an inside successor who is a family member, characterized as a steward who is full of enthusiasm and commitment to the family business and who has experience by working in the firm, or it can employ an outsider, characterized as a professional talent with capabilities, skills and ample experience (Burkart *et al.*, 2003). More often than not, family firms opt for the promotion of their own (Smith & Amoako-Adu, 1999; Agrawal *et al.*, 2006).

The hypothesis underlying family succession in family businesses can be developed through varying arguments. First, Saudi family businesses are often run in the founder's surnames for its distinct identification, and, hence, family members place emphasis on the company's success. In the words of Smith and Amoako-Adu (1999, p. 345), "...the firm represents the legacy of its founder and social status of the family". Second, the family-CEO should possess accumulated knowledge, ample experience and a deep understanding of the challenges and

opportunities that the firm faces that he/she has adopted from having long-standing connections with the founder.

It is notable that while Levinson's (1971) suggestion to family firms is to hire professional managers, particularly when the company is facing considerable growth rate, most family businesses still opt for the opposite and nominate family successors. However, no matter who they nominate to be successors, family businesses must choose someone who is qualified and competent so that the continuity of their business is ensured (Bocatto *et al.*, 2010).

Successor family-CEOs are the stewards of the firms (Davis *et al.*, 1997) as they help enhance firm performance by bypassing agency problems that are related to family businesses (Anderson & Reeb, 2003). Similarly, Amran and Che-Ahmad (2010) along with Sraer and Thesmar (2007) revealed that firms display better performance through Tobin's Q, when the CEO is the descendant.

Contrary to the above findings, other empirical findings found a negative relationship between family successor and firm performance based on firm profitability (Bennedsen *et al.*, 2007) and in terms of operating return on assets (OROA) and MBV (Perez-Gonzalez, 2006). While Bennedsen *et al.* (2007) revealed that the negative impact of family successors can be serious in fast growing industries where employees who are skilled and expert are called for, Smith and Amoako-Adu (1999) claimed that the negative shareholders' reaction

towards the announcement of a family member appointment as the next successor stems from the management quality uncertainty. This is consistent with the findings of Hillier and McColgan (2009) that showed that stock prices positively react to and operating performance displays a positive reaction to the announcement of family CEO departure.

Moreover, while the negative effect of inherited management upon firm performance is evidenced by empirical findings (Cucculelli & Micucci, 2008), and upon firm value (Villalonga & Amit, 2006), Barontini and Caprio (2006) revealed that family firms with descendant-CEO still perform as good as non-family firms. In light of the aforementioned studies, the hypothesis is postulated as follows:

H9: Firms managed by family successor-CEO show lower firm performance compared to firms managed by non-family successor CEO.

3.7 Presence of other Blockholders

Two varying perspectives have been put forward as an attempt to explain the family role in the firm. First, in the agency theory perspective, a family firm wherein family ownership is concentrated is preferred, as, in this scenario, family wealth is closely related to firm welfare (Anderson & Reeb, 2003), and owners are encouraged to provide sufficient monitoring characterized by a low level of agency cost (Fama & Jensen, 1983), which improves firm value.

A contrary scenario would be that family owners may have personal interests in the firm and plan to use their clout for expropriation and acquisition of private benefits through the diversion of resources to other companies or those companies favoured by the family, and, in doing so, forsake the rights of minority shareholders (La Porta *et al.*, 1999; Claessens *et al.*, 2000; Schulze *et al.*, 2001; Anderson & Reeb, 2003; Villalonga & Amit, 2006). This is supported by studies conducted for family PLCs (Miller *et al.*, 2007) and also for non-listed SMEs (Arosa *et al.*, 2010).

It is thus recommended that the involvement of other blockholders in ownership of the company should be enabled as it is considered the most suitable way to reduce agency cost (Isakov & Weisskopf, 2009), and to monitor expropriation of family shareholders (La Porta *et al.*, 1999; Anderson & Reeb, 2003). In addition, institutional investors as other blockholders have stringent controlling power making them the most suitable controllers of family managers, which leads to performance enhancement and valuation improvement (Anderson & Reeb, 2003, 2004). These findings are parallel with the efficient-monitoring hypothesis brought forward by Pound (1988), which predicts a positive link between firm performance and institutional ownership where the institutional investors possess expertise and monitoring skills to monitor management at minimal cost compared to minority shareholders.

Empirical studies also evidenced the positive link between the existence of other blockholders in ownership and firm performance (e.g., Isakov & Weisskopf, 2009; Sacristan-Navarro *et al.*, 2011b). According to Isakov and Weisskopf (2009), family firms, having second blockholder holding 5-10% of ownership, display superior performance in terms of ROA and Tobin's Q. Contrary findings were evidenced by Villalonga and Amit (2006) who revealed a significant negative link between the presence of non-family blockholders and firm value. They stated that other non-family blockholders significantly negatively impact non-family firms compared to family firms.

As for the possibility of the family generation effect, Her and Williams (2002) presented detailed findings; they revealed that descendant-controlled firms in which the descendants representing a major proportion of the board and having top managerial positions with the absence of external blockholders perform poorly compared to those family firms overseen by founders. This is because the descendants seek to maximize their own interests at the expense of minority shareholders.

Maury and Pajuste (2005) stated that the relationship between the factors might not always be positive as this hinges on the blockholder's identity and the size of their shareholdings. Nevertheless, they revealed that a second family shareholder negatively impacts the performance of the firm while a second non-family assists its performance. This stems from the fact that the dominant family shareholders

are answerable to other non-family shareholders who are capable of minimizing the managerial cost of private extraction by the major family shareholders through their monitoring influence, and, hence, improving firm performance. Based on the above discussion, the hypotheses are postulated as follows:

H10: There is a relationship between other blockholders' presence in ownership and firm performance.

H10a: There is a relationship between other family blockholders' presence in ownership and firm performance.

H11: There is a relationship between other blockholders' presence on the board of directors and firm performance.

H12: There is a relationship between other blockholders' presence in the management and firm performance.

H13: There is a relationship between other family blockholders' presence on either the board of directors and/or the management and firm performance.

3.8 Summary of the Chapter

This chapter began with the explanation of the theoretical framework and the development of the related theories in light of studies in the extant literature. The chapter also highlighted the justification of the conceptual framework's development and the hypothesis development. The proceeding chapter will test the developed hypotheses and explain the research methodology followed in the current study.

CHAPTER FOUR

RESEARCH METHODOLOGY AND DESIGN

4.1 Overview of the Chapter

On the basis of the proposed objectives, the overview of the literature review and the hypotheses developed in the preceding chapters, the research methodology is explained in detail in this chapter. The sequence of sections in this chapter is organized as follows: data collection, population of the study, techniques of data analysis, research model, and, finally, variable definition and measurement.

4.2 Data Collection

This study makes use of data collected through five years of observation (2007-2011), from all non-financial family firms included on the Saudi Stock Exchange, commonly known as Tadawul. In all cases, data were collected for the end of every financial year for the purpose of consistency. Secondary source data were utilized, including both quantitative and qualitative forms (Kervin, 1992). Data were collected from the audited annual reports and Thomson DataStream. The former were collected through the website of the Saudi Stock Exchange (www.tadawul.com.sa), including the name and standard industrial classification code of the company, along with its financial information. Missing data were supplemented through the information taken from varying sources, particularly

online sources (e.g., Aljoman.net, Zawya.com, Gulfbase.com, Argaam.com, and Hoover's database), books, magazines, articles and newspapers.

Some of the main advantages of secondary data are ease, speed and economy, which characterize the quantitative research (Ghauri & Gronhaug, 2002). In addition, secondary data are known to be of higher quality compared to data collected by the researcher on his/her own (Stewart & Kamins, 1993), and it is a type of data that is permanent and readily available for the perusal and reconfirmation by others (Denscombe, 2010).

For the purpose of this study, five different types of data were collected: accounting data and firm's value; company's descriptive data, including date of establishment; ownership structure data; names of directors of the boards and management board members and their relationship to shareholders; and, finally, blockholders' affiliation and interrelation between board members for each company in the data set.

4.3   Population of the Study

This study's target population comprises the entire list of non-financial family firms included on the *Tadawul* from the end of the 2007 until 2011 financial years with available audited annual reports. This type of company is suitable as the company data are readily available and they possess the most well-audited financial statements.

However, for the purpose of using balanced panel data and to avoid biases, family firms that are failed to fulfil family definition conditions in a specific year will be dropped. On the basis of these requirements, a total of 38 non-financial Saudi listed companies for the period 2007-2011 were selected, totalling 190 firm-year observations, as presented in Table 4.1.

Taking the cue from prior studies conducted in the context of Saudi Arabia, including Alsaeed (2006) and Al-Shetwi *et al.* (2011), along with studies conducted in the context of other countries, such as Anderson and Reeb (2003), and Martinez *et al.* (2007), the researcher did not include financial institutions (banks, insurance, etc.) in the target sample for the following reasons:

- Non-financial companies have distinct annual reports from financial companies in Saudi Arabia (Alsaeed, 2006);

- Financial institutions have to follow mandated scrutiny from external organizations (McKnight & Weir, 2009);

- Stringent government regulations have a significant impact on financial institutions' performance (Lee, 2006; Isakov & Weisskopf, 2009);

- The accounting standards for income and profit between the two types of institutions are different (Claessens & Djankov, 1999; Lemmon & Lins,

2003), which could result in bias in their performance results (Sacristan-Navarro & Gomez-Anson, 2007); and

- The performance measures of the financial companies cannot be compared directly to industrial or service companies (Martinez *et al.*, 2007; Andres, 2008).

Consequently, the comparison between both types of institutions' performance measures will be unfair and inapplicable (Martinez *et al.*, 2007). This is significant to the study as accounting profit is used as the indicator for performance.

As for the choice of five (5) year period (2007-2011), this coincides with the Saudi corporate governance code set up by the CMA in the later part of 2006 and made mandatory in 2007. The year 2011 was chosen as it was the last year in which all published annual reports were available at the time of data collection. In addition, the code enforces General Assemblies of Saudi companies to appoint members of the board of directors every three years, unless otherwise provided for in the Articles of Association of the company. Thus, five (5) years is long enough to show variability in board composition and chairman post, and it provides a sufficient number of companies that have undergone at least one succession event. This justifies the appropriateness of the period for the study of the impact of family involvement.

Table 4.1
Population of the study

	Number of companies
Total family PLCs on Tadawul as at 31 December 2011with available audited annual reports of 5 years (207-2011)	47
(-) Family firms that are failed to fulfil family definition conditions in a specific year	9
Total non-financial family PLCs in year 2011	38
Total firm-year observations for 2007 to 2011	190

4.4   Techniques of Data Analysis

The statistical method that is most suitable for this type of research model is the multiple regression analysis. It is a method that analyses the variability of a dependent variable through the use of information on one or more than one independent variable/s (Hair, Black, Babin, & Anderson, 2010). This method is also appropriate for the analysis of individual and collective impacts of two or more independent variables on a dependent variable (Pedhazur, 1997).

In the present study, the researcher aimed to investigate both the individual and collective impacts of independent variables upon the dependent variable. Data were analysed through statistical software package, namely STATA, Version 12. All the variables in this study (independent, dependent, and control variables) were characterized as categorical and continuous. For the assessment of the moderating impact of family CEOs and founder CEOs upon the relationship

between family ownership and firm performance (H3 & H5), following the suggestions of several statisticians (e.g., Foster, Barkus, & Yavorsky, 2006; Jaccard & Turrisi, 2003), the researcher focused on examining the significance test of interaction coefficient instead of conducting a hierarchical test in order to confirm the hypothesis of the moderation effect of family CEO and founder CEO.

While Foster *et al.* (2006, p. 41) stated that, "*The interaction is significant if the regression coefficient for the interaction scores is shown to be significant*", Jaccard and Turrisi, (2003, p. 26) asserted that "*... this t test yields the same p value as that of the more traditional hierarchical F test for adding a product term to a main-effect model, so it is not necessary to conduct the hierarchical analysis for this purpose*". Hence, the hypotheses of moderating effects of family CEO and founder CEO will be confirmed if the interaction terms' coefficients; family ownership concentration * family CEO and family ownership concentration * founder CEO are significant.

4.5   Research Model

Factors that affect firm performance were summarized into five main categories, as shown in the conceptual framework: family involvement in ownership, family involvement in management, family control, family involvement in succession, and the presence of other blockholders.

$$
\begin{aligned}
FPERF = \ & \alpha_0 + \beta_1 FAMCON_{it} + \beta_2 (FAMCON)^2_{it} + \beta_3 FAMCEO_{it} + \beta_4 FOUNDCEO_{it} + \\
& \beta_5 (FAMCON \times FAMCEO)_{it} + \beta_6 (FAMCON \times FOUNDCEO)_{it} + \\
& \beta_7 (FAMCON^2_{it} \times FAMCEO_{it}) + \beta_8 (FAMCON^2_{it} \times FOUNDCEO_{it}) + \\
& \beta_9 FAMCHAIR_{it} + \beta_{10} FOUNDCHAIR_{it} + + \beta_{11} FAMBOD_{it} + \\
& \beta_{12} FAMSUCCESS_{it} + \beta_{13} BLOCKHOLD_{it} + \beta_{14} FAMBLOCK_{it} + \\
& \beta_{15} MANAGBLOCK_{it} + \beta_{16} BOARDBLOCK_{it} + \beta_{17} FAMBOARDBLOCK_{it} + \\
& \beta_{18} FDEBT_{it} + \beta_{19} LNFAGE_{it} + \beta_{20} LNFSIZE_{it} + \beta_{21} BODSIZE_{it} + \beta_{22} PET_{it} + \\
& \beta_{23} CEM_{it} + \beta_{24} RET_{it} + \beta_{25} FOD_{it} + \beta_{26} INV_{it} + \beta_{27} IND_{it} + \beta_{28} BLD_{it} + \beta_{29} EST_{it} + \gamma_i + \mu_{it}
\end{aligned}
$$

Where:

FPERF = Firm performance (ROA and MBV), FAMCON = Family ownership concentration, FAMCON2= Quadratic term of family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCON_FAMCEO = Interaction term of FAMCON * FAMCEO, FAMCON_FOUNDCEO = Interaction term of FAMCON * FOUNDCEO, FAMCON2_FAMCEO = Interaction term of FAMCON2 * FAMCEO, FAMCON2_FOUNDCEO = Interaction term of FAMCON2 * FOUNDCEO, FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on board of the directors, FAMSUCCESS = Family successor, BLOCKHOLD = Presence of other blockholders in the ownership, FAMBLOCK = Presence of other family blockholders in ownership, MANAGBLOCK = Presence of other blockholders in the management as CEO, BOARDBLOCK= Presence of other blockholders on board of the directors, FAMBOARDBLOCK= Presence of other family blockholders, either on the management and/or the board of directors FDEBT = Firm debt, LNFAGE = Natural log of firm age, LNFSIZE = Natural log of firm size., BODSIZE = Board size, PET = Petrochemical sector, CEM = Cement sector, RET = Retail sector, FOD = Agriculture and food sector, INV = Multi-investment sector, IND = Industrial investment sector, BLD = Building and construction sector, EST = Real estate development sector, γ = The firm's effect, μ = The error term.

4.6   Variable Definition and Measurement

The data collected for this study comprised three categories: dependent variable, independent variables and control variables.

4.6.1   Dependent Variable

The dependent variable tested in this study is firm performance (FPERF). A variety of measurements of firm performance has been used in previous studies. Brush and Vanderwerf (1992) found more than 35 variables in the literature. Prominent among them are changes in sales, operating business/discounted business, changes in employees, and profitability. Nevertheless, there is little consensus among the researchers as to which measurement instrument to apply (Cochran & Wood, 1984), which can give more flexibility to the researchers in choosing the appropriate variables, as long as the purpose of the study is achieved. Notably, many researchers on family businesses commonly used two types of performance measurement to observe the relationship between family involvement and firm performance: accounting-based and market-based measures.

Accounting-based measures (e.g., return on assets (ROA), return on equity (ROE), return on investment (ROI), earnings per share (EPS), net profit, etc.) are backward-looking measurements (King & Santor, 2008), that reflect accounting rules and show the current performance of the firm, while market-based indicators, such as Tobin's Q and MBV are forward-looking measures that reflect

the market's valuation of the firm. However, ROA is commonly used by a massive number of studies (see Anderson & Reeb, 2003; Ng, 2005; Villalonga & Amit, 2006; Andres, 2008; Adams *et al.*, 2009; Carney, Shaprio, & Tang, 2009; Sciascia & Mazzola, 2009; Ibrahim & Samad, 2011; Amran & Che-Ahmad, 2013; El-Chaarani, 2013). ROE has also been advocated (Anderson & Reeb, 2003; Peng, 2004; Sciascia & Mazzola, 2009; Amran & Che-Ahmad, 2013), besides sales growth (Peng, 2004). Market-based measures like Tobin's Q have been used by a considerable number of researchers (Demsetz & Villalonga, 2001; Anderson & Reeb, 2003; Villalonga & Amit, 2006; Andres, 2008; Saito, 2008; Adams *et al.*, 2009; Ibrahim & Samad, 2011; Amran & Che-Ahmad, 2009, 2010; 2013). Some studies used MBV (McConaughy *et al.*, 2001; Chen, Cheung, Stouraitis, & Wong, 2005; Beiner, Drobetz, Schmid, & Zimmermann, 2006; Perez-Gonzalez, 2006; Villalonga & Amit, 2006; Sraer & Thesmar, 2007; Liu & Sun, 2010; Jiang & Peng, 2011).

King and Santor (2008, p. 2427) clearly stated that: "*Both measures [*accounting-based and market-based performance*] suffer from measurement problems related to accounting choices, the difficulty of valuing intangible assets, and the market value of assets and liabilities*". Nevertheless, each type of performance measurement has its own advantage and disadvantage over the others and shows a different perspective of how to evaluate firm performance. Accordingly, the results would differ according to the performance measurements that are used (Farrer & Ramsay, 1998). Thus, the literature strongly suggests that measures rely

on a combination of performance measures (Dalton & Kesner, 1985) in order to overcome such drawbacks.

Joh (2003) and Sheu and Yang (2005), claimed that the accounting-based measures are better performance indicators than market-based measures. Precisely, as argued by Peng (2004), if the stock market is not well-developed, the market-based measures may provide a misleading picture of firm performance. In other words, the share price in inefficient markets does not reflect all the available information that helps the investigation of investors. In contrast, given the peculiarities of accounting practice, accounting-based measures may not be appropriate indicators for performance, especially from the finance and economic points of view. Most financial economists believe that the stock market provides an adequate measure of a firm's value; a firm is only worth what the market is willing to pay for it (Oswald & Jahera, 1991). This argument makes sense, especially from the perspective of outsider investors. They need to estimate the expected returns of their investment, especially when considering PLC companies, which this study is concerned with.

According to Masdupi (2010), studies that use MBV to measure firm performance in the context of non-developed countries are limited, even though it is very similar and comparable to Tobin's Q. Thus, this study employed MBV instead of Tobin's Q. The combined performance measurements (accounting and non-accounting) were applied towards creating an accurate understanding of the true

performance of family businesses in Saudi Arabia, as a single measure may have been inadequate (Peng, 2004).

Therefore, this study utilized the widely used accounting-based performance measure, namely, ROA (Kiel & Nicholson, 2003), as it is the most useful measurement for firm's efficiency and profitability (Barzegar & Babu, 2008), and MBV as an alternative market-based measure to the Tobin's Q as described in Table 4.2.

Table 4.2
Measures of Company Performance

Company Performance	Description
$$ROA = \frac{\text{Net income}}{\text{Total assets}}$$	ROA = return on assets at the end of the financial year, calculated as net income divided by book value of total assets (Anderson & Reeb, 2003; Carney, Shaprio, & Tang, 2009; Haniffa & Hudaib, 2006; Chen *et al.*, 2005; AbdulSamad et. al., 2008; Perez-Gonzalez, 2006; Ibrahim & Samad, 2011; Amran & Che-Ahmad, 2013).
$$MBV = \frac{\text{Market value of common shares}}{\text{Book value of common shares}}$$	MBV = market value of common shares divided by the book value of common shares. Market value of common shares is measured by the closing price of shares at the fiscal year end. (Beiner *et al.*, 2006; Chen *et al.*, 2005; Jiang & Peng, 2011; Liu & Sun, 2010; McConaughy *et al.*, 2001).

However, in overcoming the measurement limitations, each indicator was tested one at a time. In fact, having such multiple measures helped the study to provide a clearer and accurate picture of the performance of the firm, as suggested by previous studies (Rechner & Dalton, 1991).

4.6.2 Independent Variables

The independent variables in this study are divided into five main parts: (1) family involvement in ownership; (2) family involvement in management; (3) family control; (4) family involvement in succession; and (5) presence of other blockholders.

4.6.2.1 Family Involvement in Ownership

4.6.2.1.1 Family Ownership Concentration

Saudi Arabia has no official database of family firms; so there is no way to directly identify family firms. This limitation led the researcher to adopt a unique definition in order to identify family businesses. The definitions of family firm used in the literature are many (La Porta *et al.*, 1999; Anderson & Reeb, 2003; Barontini & Caprio, 2006; Maury, 2006; Miller & Le Breton-Miller, 2006; Lee, 2006; Villalonga & Amit, 2006; Martinez *et al.*, 2007; Andres, 2008; AbdulSamad et. al., 2008; Saito, 2008; Hillier & McColgan, 2009; Arosa *et al.*, 2010; Kowalewski *et al.*, 2010; Sacristán-Navarro *et al.*, 2011a).

However, consistent with the family firm definition adopted by some previous studies (La Porta *et al.*, 1999; Smith & Amoako-Adu, 1999; Anderson & Reeb, 2003; Villalonga & Amit, 2006), this study also adopted the same methodology but with some modification to match the Saudi family business scenario. Family businesses must fulfil two requirements: (1) A company in which a person or a group related by family ties by blood (i.e., share same surname), holds directly or indirectly at least 5% of the total shares; and (2) the chairman and/or CEO is a family member, or at least one family member sits on the board of directors. Non-family firms are other firms that do not fall under the definition of family firms.

The 5% cut-off has been widely used and agreed in the family business literature (Anderson & Reeb, 2003; Villalonga & Amit, 2006; Saito, 2008), and could be considered high enough for a family to exercise effective control, especially when it is a public listed company. However, different ownership cut-offs (10% and 20%), were utilised to further analyse the impact of adopting different definitions on the results as can be seen in Section 5.6.2.

The corporate governance regulations in Saudi Arabia consider any shareholder who owns at least 5% of the outstanding shares as blockholder (as stated in *Tadawul* website). This 5% threshold gives the shareholders the right to convene a general assembly meeting and the entitlement to add one or more items to the agenda. The Saudi Stock Exchange only discloses in the '*Major Shareholders*'

section in the *Tadawul* website the names of company shareholders who hold 5% or more of the company's outstanding shares.

To determine compliance with these two conditions, the researcher conducted a thorough review of shareholding structures (percentage of common shares) and composition (full names of shareholders) through three sources: (1) the annual report; (2) the '*Major Shareholders*' section in *Tadawul* website, whereby the website reveals the names and percentage of shareholders who own at least 5% of the company's shares, as shown in Figure 4.1.; and (3) the database that is provided by Aljoman Center website *(http://ksa-malik.aljoman.net/ownership/ownerKSA.aspx)*, as depicted in Figure 4.2. In order to investigate the relationship between the shareholders, chairmen, CEOs, and directors of each selected firm, three steps were performed: (1) recording the full name of the shareholders, chairmen, CEOs, and directors of the company in a worksheet; (2) the surnames of the chairmen, CEOs and directors who share the same surnames of the company's shareholders; and (3) based on the coincidence of the surnames, blood relationship was confirmed. Kinship relationships are out of the interest of this study as no publicly available information discloses such relations (Villalonga & Amit, 2006).

This study focused on the concentration of family ownership in the firm to examine the expropriation and monitoring behaviour of the family. Family ownership concentration (FAMCON) was measured as the proportion of shares

(direct and indirect shareholding) held by the family members over the total number of shares issued. A high value of family ownership concentration indicates a greater family interest in the firm (Wang, 2006). This measurement has been used by several previous studies in other countries (Anderson & Reeb, 2003; Wang, 2006; Sciascia & Mazzola, 2008, 2009; Block, 2010; Bocatto *et al.*, 2010; Kowalewski *et al.*, 2010; Jiang & Peng, 2011; Sacristan-Navarro *et al.*, 2011a; Amran & Che-Ahmad, 2013).

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Detail Quote	Historical Data	Chart	Last 6 traded days	Profile	Dividends	Statements & Indicators	Major Stakeholders

NAME	PERCENTAGE
ـــ ـــ ـــ	27 5 %
ـــ ـــ ـــ	17 7 %
ـــ ـــ ـــ	5 0 %

This list shows the major shareholders who owns 5 or more from the company shares

Last Update Date: 05 04 2013
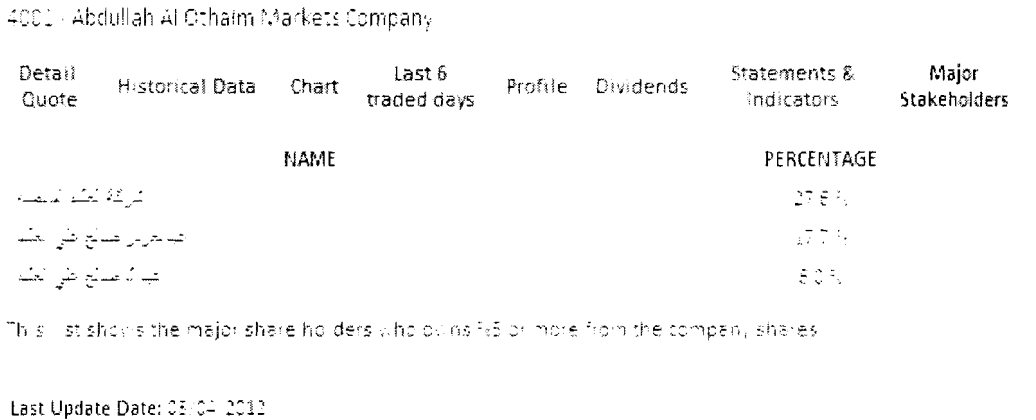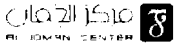
Figure 4.1
"Major shareholders" Section in Tadawul Website

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Figure 4.2

Ownership Structure of Saudi companies in Aljoman Center Website

4.6.2.2 Family Involvement in Management

4.6.2.2.1 Family CEO

Family CEO (FAMCEO) was measured by the CEO position held by a family member, coded using a dummy variable with the value of 1 if the CEO is a family member, otherwise 0 for outsider/professional CEO. Family CEO has been used as a proxy for family management in previous empirical works (e.g., Anderson & Reeb, 2003; Barontini & Caprio, 2006; Ben-Amar & Andre, 2006; Villalonga & Amit, 2006; Miller *et al.*, 2007; Isakov & Weisskopf, 2009; Kowalewski *et al.*, 2010; Jiang & Peng, 2011; Sacristan-Navarro *et al.*, 2011a). The information on CEO was compiled from several sources: (1) the annual reports; (2) official corporate websites; (3) *Tadawul* website; (4) Hoover's database, online business magazines and newspapers; and (5) biographies. An example of a *Company Profile* report retrieved from Hoover's database is described in Figure 4.3.

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People

Employees

Title	Name	Age	Salary	Bonus
Chairman	Sheikh Hussein Gazi Ibrahim Shaker	--	--	--
Chief Executive Officer	Hassan G.I. Shaker	--	--	--
Manager Finance & Administration	Anan Nayef	--	--	--

Figure 4.3
Company Profile Report for a Company from Hoover's Database

4.6.2.2 Founder CEO

The importance of "founder effect" in holding CEO position has been emphasized

by several studies (Burkart, *et al.*, 2003; Burkart & Panunzi, 2006; Villalonga &

Amit, 2006; Andres, 2008; Adams *et al.*, 2009). In line with previous studies

(e.g., Andres, 2008), an individual was identified as 'founder' if he is the founder

of the company or the predecessor of the company (in case of a change in the

legal form and/or the company's name). Accordingly, non-founder CEO refers to

any person other than the founder of the company who occupies the CEO

position. In order to test Hypothesis 4, founder CEO (FOUNDCEO) was coded

using a dummy variable, with the value of 1 if the CEO position is occupied by

the founder, otherwise 0 (Andres, 2008; Arosa *et al.*, 2010).

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The data on founder CEO was recorded using the following methodology: if a CEO's full name matched the full name of the founder, then the company was given the value of 1, which meant that the CEO position is held by the founder. In the case that the full name of the CEO did not match the founder's full name, the dummy variable was given the value of 0. This meant that the CEO position is occupied by either the founder's relatives or outsider non-family members. For example, the founder of the Al Hassan Ghazi Ibrahim Shaker Company is Al Hassan Ghazi Ibrahim Shaker, and the CEO of the company is the same person. Therefore, in this case, the dummy variable was 1. However, in the case of the Abdullah A. M. Al-Khodari Sons Company, the company was established by Abdullah Al-Khodari, while the CEO of the company is his son, Fawwaz Al-Khodari. Therefore, the dummy variable was coded 0, which meant that the CEO position is occupied by the non-founder CEO.

4.6.2.3 Family Control

4.6.2.3.1 Family Representation on Board of Directors

To measure family representation on the board of the directors (FAMBOD), the researcher used the ratio of family directors to the total board membership (Sciascia & Mazzola, 2009; Bocatto et al., 2010). This represented the level of family control over firm management. Family director is defined as a director who shares the same last name (surname) of the controlling family.

4.6.2.3.2 Family Chairman and Founder Chairman

The data on family control (i.e., involving the board of the directors) was collected from the annual report of the company, specifically from the *Directors'*

Profile section, and/or *"Profile"* section on the *Tadawul* website, or the annual reports. Following the standard methodology used by previous research, a dummy variable (FAMCHAIR) was given the value of 1 if the family firm has a member of the family acting as family chairman (i.e., sharing the same surname) (Miller *et al.*, 2007; Kowalewski *et al.*, 2010; Sacristan-Navarro *et al.*, 2011a). In addition, for testing Hypothesis 8, a dummy variable (FOUNDCHAIR) was created. It equalled 1 if the founder of the company is the chairman and 0 otherwise (Isakov & Weisskopf, 2009). All the dummy variables are explained in Table 4.3.

Table 4.3
Measurements of Family Chairman and Founder Chairman

Variable	Description
FAMCHAIR	Dummy variable that takes the value of 1 if the chairman of the board of the directors is a family member, 0 otherwise.
FOUNDCHAIR	Dummy variable that takes the value of 1 if the chairman of the board of the directors is a family member and he is also the founder, 0 otherwise.

As previously mentioned in Section 4.6.2.2.2, an individual is identified as 'founder' if he founded the company or the predecessor company if the company changed its legal form and/or name (Andres, 2008).

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4.6.2.4 Family Involvement in Succession

4.6.2.4.1 Family Successor

The variability of the performance among firms that are run by the first-generation (founder) and firms that are run by the second and subsequent generations has been confirmed by a number of studies (e.g., Smith & Amoako-Adu, 1999; Anderson & Reeb, 2003; Villalonga & Amit, 2006; Miller *et al.*, 2007). Thus, to achieve the objective of the study, this study created a dummy variable (FAMSUCCESS) to identify the identity of the successor if there had been at least one succession event during the period; taking the value of 1 when the CEO successor is a family member (who shares the same surname) and 0 when he is a non-family member (Bocatto *et al.*, 2010). However, the study did not take into account any succession event before or after the sample period.

4.6.2.5 Presence of Other Blockholders

As one of the main contributions of this study is to measure the effect of the presence of other blockholders, either in ownership, management, or the board of directors of the firm, this study sought to identify the identity of the blockholders of each company and the level of their involvement in the firm. For this purpose, this study adopted a similar methodology of Faccio *et al.* (2001) and Sacristan-Navarro *et al.* (2011a), by creating a dummy variable (BLOCKHOLD) to reflect the presence of other blockholders in the ownership; taking the value of 1 if there is at least one other blockholder who controlled at least 5% of the total shares. As the present study focused on the other blockholders' identity (family or non-

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family) and following the suggestion of Maury and Pajuste (2005), firms split into two groups: firms with other family blockholder and firms with other non-family blockholder. This was done by using a dummy variable (FAMBLOCK) that adopted the value of 1 if there is at least one family or individual as the next largest blockholder and 0 otherwise (Sacristan-Navarro *et al.*, 2011b). Another two dummy variables were created to measure the presence of other blockholders on the board of the directors and management. The first dummy variable (BOARDBLOCK) took the value of 1 if the other blockholder hold the chairman's position or at least one member is on the board of directors, and 0 otherwise. The second dummy variable (MANAGBLOCK) reflected the presence of other blockholders in the management of the firm with the value of 1 if the other blockholder occupies the CEO position, and 0 otherwise. Finally, the presence of other family blockholders on the board of directors and/or management was measured by a dummy variable (FAMBOARDBLOCK); with 1 if the CEO of the company or at least one director shares the same surname of any other family blockholder, 0 otherwise.

Table 4.4
Measures of Presence of Other Blockholders

Variable	Description
BLOCKHOLD	Dummy variable that adopts value 1 if there is a presence of another blockholder who holds at least 5 % of company's shares, 0 otherwise.
FAMBLOCK	Dummy variable that adopts value 1 if the other blockholder is either a family firm or individual, 0 otherwise.
BOARDBLOCK	Dummy variable takes the value of 1 if the other blockholder is a director or holds a chairman's position, 0 otherwise.
MANAGBLOCK	Dummy variable takes the value of 1 if the other blockholder holds a CEO position, 0 otherwise.
FAMBOARDBLOCK	Dummy variable takes the value of 1 if the CEO or chairman of the company or at least one director shares the same surname of any other family blockholder, 0 otherwise.

4.6.2.6 Control Variables

This study introduced several control variables into the analysis to control for industry and firm characteristics.

4.6.2.6.1 Firm Debt

For family companies, studies note that first generation firms had the highest use of equity versus debt financing (Sonfield & Lussier, 2004). Chen, Chen, & Cheng (2008) found that family firms are less likely to acquire external capital from the debt or equity market.

Braun and Sharma (2007, p. 118) argued that, "*debt provides a mechanism to curb agency costs*". Thus, firm debt is included as a control variable. In this study debt (FDEBT) was measured as the book value of long-term debt divided by total assets (Anderson & Reeb, 2003; Martinez *et al.*, 2007; Amran & Che-Ahmad, 2013).

4.6.2.6.2 Firm Age

Business characteristics and firm goals are not stable during the life of the company, and may change depending on the age of the firm (Braun & Sharma, 2007). Older firms have enough time for developing their sales, equity, assets, and cash (Dyke, Fischer, & Reuber, 1992).

Further, the older the company is, the greater the chance the CEO is a family member (Liu. Ahlstrom & Yeh, 2006), with a possibility to increase his managerial opportunism and entrenchment (Wong, Chang, & Chen. 2010). As such, this study followed some previous studies by including firm age as a control variable. Firm age (LNFAGE) was measured as the natural log of the number of years since the firm's inception (Anderson & Reeb, 2003; Martinez *et al.*, 2007; Andres, 2008; Adams *et al.*, 2009; Isakov & Weisskopf, 2009; Arosa *et al.*, 2010; Sacristan-Navarro *et al.*, 2011a, 2011b; El-Chaarani, 2013).

The age of the company was retrieved from the firm's date of establishment through *Profile* section for each company on the *Tadawul* website, as described in Figure 4.4.

Abdullah Al Othaim Markets Company

Trading Name: A.Otha m Market

Company Activities

Who e sa e and reta trad ng for food and nonfood stuff, f sh and meat & Home app ances.

Company H story
A -Otha m Commerc a Company s a cont nu ty of Sa h A -Otha m Trad ng Estab shment, founded n 1376h (1956) by ate She kh Sa h A -Otha m. By the root age of A -Otha m name as a eader n the f e d of centra and cash & carry markets the company cont nued to g ve good and nterest ng market ng exper ment, w th compet t ve pr ces, exce ent serv ces and qua ty, and a th s was ed not on y by ntroduc ng new deas n market ng but a so n estab sh ng a creat v ty concepts n dea ng w th vendors and c ents, and a so ntroduced new techn ques n reta and who esa e bus ness throughout ts branches.

Date Established
1980/05/21

F nanc a Year End
31/12

Externa Aud tors
De o tte

Abdullah Al Othaim Markets Company

Last Update: 2011 04 05
Source   Saud Arab an Corporate Prof er

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Equity Profile

Author zed Cap ta	225,000,000
ssued Shares	22,500,000
F oated ssued Shares	12,274,000
Pa d Cap ta	225,000,000
Fa r Va ue/Share	10
Pa d up Va ue/Share	10

Board Information

Cha rman :	Abdu ah S. A. A Otha m
Members :	Abdu az z S. A. A Otha m
	Fahad A. S. A Otha m
	Youse M. N. A Gafar
	Sa eh M S. A Otha m
	Abdu sa em S A A rajh
	Abdu az z S A A Febd
Manage	

Figure 4.4
Profile Section of the Company on the Tadawul Website

4.6.2.6.3 Firm Size

There is an argument that large companies tend to be professionalized companies (Liu *et al.*, 2006). In other words, a family firm starts with its management team, which, in most cases, comprises members of the controlling family. When the company grows in size, the controlling family seeks to hire an outsider professional CEO who is more qualified, experienced and talented. Thus, larger

family businesses may have more qualified and experienced candidates in place for possible succession (Harveston, Davis & Lyden, 1997).

Fama and Jensen (1983) posited that family businesses with a greater percentage of family ownership would perform better financially, even after controlling for size. Alzharani, Che-Ahmad and Aljaaidi, (2012) evidenced that Saudi small public firms doing better than larger ones in terms of ROA. Other researchers (Anderson & Reeb, 2003; Barontini & Caprio, 2006; Sacristan-Navarro *et al.*, 2011a) have shown that firm size can influence the ownership-firm performance relationship. Thus, they suggest that size of a company should be included as a control variable. Firm size (LNFSIZE) is calculated as the natural log of the book value of total assets (Anderson & Reeb, 2003; Liu *et al.*, 2006; Martinez *et al.*, 2007; Arosa *et al.*, 2010; Sacristan-Navarro *et al.*, 2011a; Alzharani *et al.*, 2012; Amran & Che-Ahmad, 2013; El-Chaarani, 2013; Ibrahim & Samad, 2013).

4.6.2.6.4 Board Size

Wagner III *et al.* (1998) recommended in their meta-analysis involving 29 empirical studies, that board size may be more significant compared to composition. Similarly, Jensen (2010) revealed that firms having a small board of directors might effectively enhance their performance. The preceding findings reveal a negative relationship between board size and firm performance (e.g., Yermack, 1996; Singh & Davidson III, 2003; AbdulSamad et. al., 2008; El-Chaarani, 2013).

In the context of Malaysia, non-family firms having a small board of directors (i.e., < = 8 members) outperform those having large boards (i.e., > 8 members) (Amran & Che-Ahmad, 2009). Meanwhile, Singh and Davidson III (2003) revealed that board size has a positive link with firm size and a negative one with asset turnover ratio. Contrary findings came from Bhagat and Black (2002) who revealed no relationship between firm performance and board size. Coles *et al.* (2008) posited the presence of a U-shaped relation between board size and the firm's value through Tobin's Q.

Board size (BODSIZE) in this study refers to the total number of directors on the board of the firm. This measurement has been used by previous studies in Saudi Arabia by Al-Abbas (2009), AlNodel & Hussainey (2010), Al-Shetwi *et al.* (2011), and in some Arab countries, such as Egypt (Samaha, Dahawy, Hussainey, & Stapleton, 2012) and Lebanon (El-Chaarani, 2013). This is also in line with the methods of some overseas studies (Ng, 2005; Haniffa & Hudaib, 2006; Amran & Che-Ahmad, 2009; Hillier & McColgan, 2009; Arosa *et al.*, 2010; Benson, Davidson, Wang, & Worrell, 2011). All directors whose names are in the list of board of directors at the financial year-end were included in the counting regardless of the time of the appointment. This measurement has been used by previous studies (e.g., Hillier & McColgan, 2009).

4.6.2.6.5 Industrial Type

In this study, the companies belong to the following industries: petrochemical (PET), cement (CEM), retail (RET), agriculture and food (FOD), multi-investment (INV), industrial investment (IND), building and construction (BLD), real estate development (EST), and others (Others) that includes 10 companies in five sectors: telecommunications and information technology, energy and utilities, hotel and tourism, transport, and media and publishing. The number of companies in each sector with available annual reports for the 2007-2011 period are depicted in Table 4.5. Following the general method of Arosa *et al.*'s (2010) study, industrial type was measured using eight dummy variables and the dummies used are one less than the number of categories on industry type. Each sector was labelled 1 if it belongs to its sector, and 0 otherwise.

Table 4.5
Distribution of Sampled Companies by Sectors

Sector	Number of companies
Real estate development	5
Multi-Investment	5
Cement	8
Retail	5
Petrochemical industries	11
Building & Construction	10
Industrial Investment	10
Agriculture & Food Industries	11
Others	10
Total	**75**

CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 Overview of the Chapter

This chapter presents the empirical evidence concerning the relationship between family involvement in ownership, management, control, succession and presence of other blockholders with firm performance. The discussion in this chapter is divided into five sections. Section 5.2 discusses the descriptive data. Then Section 5.3 focuses on univariate analyses. Next, Section 5.4 shows the tests for panel data. Section 5.5 reports the results of the main model. Finally, Section 5.6 presents results of robust analyses.

5.2 Descriptive Data

Tables 5.1 to 5.9 present the distribution of companies with regards to family ownership concentration, family involvement in management, family control, family succession, and presence of other blockholders.

Table 5.1 shows that the number of family listed firms in Saudi Stock Exchange (*Tadawul*) is 38 firms resulting in 190 firm-year observations for the period of 2007-2011.

Table 5.1

Frequency of Family Firms in Saudi Stock Exchange

	Frequency
Family firms	38
Total firm-year observations for 2007-2011	190

The results in Table 5.2 describe the frequency of family firms with relation to the industry as defined by *Tadawul*. Family firms are mainly involved in the building and construction sector (7 firms) followed by agricultural and food sector (6 firms), petrochemical sector (5 firms), cement (5 firms), others (5 firms), retail (3 firms), industrial investment (3 firms), multi-investment (3 firms), and real estate (1 firm).

Table 5.2
Frequency and Percentage of Family Firms by Sectors

	Family Firms	
	Frequency	**Percent**
Building and construction	7	18.42
Agricultural and food	6	15.79
Petrochemical	5	13.16
Cement	5	13.16
Others	5	13.17
Retail	3	7.89
Multi-investment	3	7.89
Industrial investment	3	7.89
Real estate	1	2.63
Total	**38**	**100**

5.2.1 Family Involvement in Ownership

5.2.1.1 Family Ownership Concentration (FAMCON)

Table 5.3 reports the mean, standard deviation, minimum, first quantile, median, third quantile and maximum family ownership concentration. The mean level of family ownership concentration for Saudi PLCs is 24%. This is greater than what has been found in some developed countries, such as in the U.S., and lower than some other developed and developing countries (e.g., Western European countries and Malaysia). In the U.S. and Western Europe, the mean of family ownership was 16% (Villalonga & Amit, 2006) and 37.55% (Maury, 2006), respectively. In emerging countries, the results were also inconsistent. For example, in Malaysia, a study by Amran and Che-Ahmad (2010; 2013) found that the mean of family ownership was about 43%, which is above Saudi mean level; meanwhile in

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Poland, it was 17.8% (Kowalewski *et al.*, 2010), which is lower than what was found in Saudi Arabia.

Table 5.3
Mean, Standard Deviation and Quantiles of Family Ownership

	Family firms
Observations	190
Mean	0.24
Standard deviation	0.19
Family ownership quantiles	
Minimum	0.05
1st quantile (0.25)	0.10
Median	0.17
3rd quantile (0.75)	0.29
Maximum	0.67

5.2.2 Family Involvement in Management

5.2.2.1 Family CEO (FAMCEO)

Management in family firms is divided into two categories; family CEO and non-family CEO (professional outsider). Family firms are further divided into two categories: family firms with founder CEOs and family firms with non-founder CEOs (subsequent generation or professional outsider). Table 5.4 shows that the majority of family firms (84.21%) have non-family CEOs (professional outsiders) in their management. The proportion of family firms that have family member as CEO is only 15.79%. While the tendency of family firms is to recruit a large pool of family members in the top key managerial positions, the findings are contrary to the notion. It appears that Saudi family businesses change their propensity of employing family members as CEOs when they go public, to ensure the

professionalism of the management. However, the above findings are in line with

the study by Anderson and Reeb (2003) in the U.S., and in contrast to the findings

of Ben-Amar and Andre (2006) in Canada.

Table 5.4
Frequency and Percentage of Family (Founder) and Non-family
(Non-founder) CEOs in Family Firms

	Family firm (n=190)	
	Frequency	**Percent**
Family CEO	30	15.79
Non-family CEO	160	84.21
Founder CEO	12	6.32
Non-founder CEO	178	93.68

5.2.2.2 Founder CEO (FOUNDCEO)

Table 5.4 above also illustrates the percentage of family companies with family

CEOs where the founder of the company is also a CEO. The results show that the

majority of family CEOs are non-founders (60%), and only 40% (12 companies)

of family companies have founder CEOs. This indicates that the decision making

process of the majority of family businesses is less centralized and the CEOs, as a

second and subsequent generation, tend to adopt a more professional style of

management, in comparison to a more paternalistic, informal, and subjective

management style and culture in founder-CEO family firms.

5.2.3 Family Control

5.2.3.1 Family Representation on Board of Directors (FAMBOD)

Table 5.5 shows the descriptive statistics of family directors in family firms. The results indicate that the mean of family representation on the boards of directors is 16% with a standard deviation of 15%. The minimum, median and maximum representations of the family on family firms' board of directors are 0%, 13% and 57%, respectively. In contrast to the findings of Amran and Che-Ahmad (2009) in Malaysia, Her and Williams (2002) in Taiwan and Navarro and Anson (2009) in Spain, the majority of the board members of Saudi family PLCs are non-family members. However, the above findings support the results of Al-Abbas' (2009) study, whereby the Saudi boards of directors consist mainly of independent directors.

Table 5.5
Percentage of Family Representation on Board of Directors

Family firms	
Observations	190
Mean	0.16
Standard deviation	0.15
Quantiles:	
Minimum	0.00
1st quantile (0.25)	0.00
Median	0.13
3rd quantile (0.75)	0.22
Maximum	0.57

5.2.3.2 Family Chairman (FAMCHAIR)

Table 5.6 reveals that family members dominate the chairman positions in the family firms. The results show that 73.68% of family PLCs have a family member as chairman. On the other hand, the chairmen of 26.32% of family firms are non-family members. The descriptive statistics presented in Table 5.4 along with Table 5.6, indicate that Saudi families are more concerned about acquiring chairman rather than CEO positions. They are in favor of keeping the power in the hands of the family members to overrule board decisions, minimize CEO's entrenchment and expropriation behaviour, which in turn will protect family agendas.

Table 5.6
Frequency and Percentage of Family (Founder) and Non-family (Non-founder) Chairman in Family Firms

	Family firm (n=190)	
	Frequency	Percent
Family Chairman	140	73.68
Non-family Chairman	50	26.32
Founder Chairman	81	42.63
Non-founder Chairman	109	57.37

5.2.3.3 Founder Chairman (FOUNDCHAIR)

In addition, Table 5.6 shows the summary statistics for family firms with founder and non-founder chairmen. It shows that 42.63% and 57.37% of family firms have founder and non-founder chairmen, respectively. It seems a majority of Saudi family PLCs are governed significantly by non-founder chairmen.

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5.2.4 Family Involvement in Succession

5.2.4.1 Family Successor (FAMSUCCESS)

Table 5.7 presents the descriptive information on the presence of succession events in family firms. It shows that 7.89% (15 observations) of the sample had at least one successful succession event during the 2007-2011 period of study. The results also indicate that family firms do not prefer establishing any succession event at least within 5 years, where 92.11% (175 observations) of family firms are not involved with succession.

Table 5.7
Frequency and Percentage of Succession Event in Family Firms

	Frequency	Percent
Presence of Succession event	15	7.89
Absence of Succession event	175	92.11

Table 5.8 shows the summary statistics of the succession type in family firms. Contrary to the notion that the successor in family business comes from the family, it was found that only one family successor was chosen from among the 15 succession events made during 2007-2011 period in all family firms. In other words, family firms prefer to assign non-family (professional outsider) individuals for incoming CEO positions. This can be attributable to the family management quality uncertainty, as claimed by Smith and Amoako-Adu (1999), or the needs of fast growing industries for employees who are skilled and with expertise (Bennedsen *et al.*, 2007).

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Table 5.8

Frequency and Percentage of Family and Non-Family Successor in Family Firms

	Family successor		Non-family successor	
	Frequency	Percent	Frequency	Percent
Succession type (15 events)	1	6.67	14	93.33

5.2.5 Presence of other Blockholders

5.2.5.1 Presence of other Blockholders in Ownership (BLOCKHOLD)

Table 5.9 (Panel 1) reports the frequency of the presence of other blockholders in family firms' ownership. It shows that 56.32% (107 observations) of family firms have other blockholders in their ownership structure, while 43.68% of family firms with no other blockholders. This indicates that even if the family wealth is closely related to firm welfare, the majority of family firms tend to have other blockholders in order to ensure sufficient monitoring, characterized by a low level of agency cost (Fama & Jensen, 1983), which helps improve firm's performance.

Table 5.9

Frequency and Percentage of Presence of Other Blockholders in the Ownership, Board of Directors and Management of the Family Firms

	Family firms	
	Frequency	Percent
Panel (1)		
Presence of other blockholders in ownership	107	56.32
Absence of other blockholders in ownership	83	43.68
Total	190	100
Panel (2)		
Presence of other family blockholders in ownership	70	65.42
Absence of other family blockholders in ownership	37	34.58
Total	107	100
Panel (3)		
Presence of other blockholders in BOD	75	70.09
Absence of other blockholders in BOD	32	29.91
Total	107	100
Panel (4)		
Presence of other blockholders in management	10	9.35
Absence of other blockholders in management	97	90.65
Total	107	100
Panel (5)		
Presence of other family blockholders in the management and/or BOD	46	42.99
Absence of other family blockholders in the management and/or BOD	61	57.01
Total	107	100

5.2.5.1.1 Presence of Other Family Blockholders in Ownership (FAMBLOCK)

Table 5.9 (Panel 2) presents the presence of other family blockholders in ownership for family firms. It shows that about 65.42% of the other blockholders in Saudi family firms are families as well, while the rest are non-family blockholders. This indicates that family firms are more attractive for other family investors to invest money in rather than non-family investors. This is attributable to the common denominators and values among family shareholders, which in turn, strengthen the family harmony and relations with the business, making family firms more competitive (Graves, 2007).

5.2.5.2 Presence of Other Blockholders on Board of Directors (BOARDBLOCK)

Table 5.9 (Panel 3) explains that 70.09% (75 observations) of Saudi family firms that have other blockholders present in their ownership structure, also have presence in family firms' board of directors, and only 29.91% have no presence. The results of family representation on the board of directors in section 5.2.3.1, and the results of this Table indicate that family shareholders in Saudi Arabia pay more interest on the chairman's position or membership of their own firm's board of directors or of other firms' boards of directors.

5.2.5.3 Presence of Other Blockholders in the Management (MANAGBLOCK)

As can be clearly seen from Table 5.9 (Panel 4), CEO positions in family firms are not mainly restricted to the controlling family members, whereby the CEOs could be appointed from the other blockholders as well. The Table shows that only 9.35% of Saudi family firms have CEOs from other blockholders, whereas no other blockholders are in CEO positions for the majority (90.65%) of the firms. According to such results, along with those of Table 5.4, it can be concluded that Saudi family firms tend to employ outside professional CEOs rather than insider family members because of the need for advanced managerial skills when family members are not qualified.

5.2.5.4 Presence of Other Family Blockholders on the Board of Directors and/or Management (BOARDBLOCK)

The presence of other family blockholders on the board of directors and/or management is described in Table 5.9 (Panel 5). From the results produced, it can be seen that almost half of Saudi family firms have other family blockholders on their boards of directors and/or management (42.99% observations). This confirms the absolute power of the family not only by its massive active in firm's ownership, but also by sitting on the board of directors and/or being actively involved in key managerial positions, even if they are considered as second blockholders. In such cases, two different scenarios can be drawn. On the one

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hand, dominant family shareholders with the help of other family blockholders, can create a powerful coalition that may negatively impact the firm's performance through expropriating minority shareholders; on the other hand, such presence may produce effective control by distributing the power of dominant family shareholders (Sacristan-Navarro et al., 2011b).

5.3   Univariate Analysis

In this study, the t-test and Pearson correlation matrix were conducted for all companies to test the key variables.

5.3.1   T/z-test for the Key Variables of the Study

Two panels are displayed in Table 5.10 with Panel 1 testing the mean/proportion differences between family firms having family CEO/chairman and those having non-family CEO/ chairman, and Panel 2 testing the mean/proportion differences between family firms with founder CEO/chairman and those with non-founder CEO/chairman. In Panel 1, it is evident that family firms having family CEOs displayed considerably higher means in terms of MBV, ROA, family ownership concentration, family representation on board of directors, firm age, and size of the firm. Additionally, other factors including proportions of family chairmen, founder chairman, and family successors are significantly higher in family firms with family CEOs over those with non-family CEOs. In family firms with non-family CEOs, other blockholders are greatly represented in the board of directors.

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With regards to family generation, family firms with founder CEOs displayed higher means in terms of MBV, ROA, family ownership concentration, family representation on the board of directors, age of the firm and proportions of having family members and founders as chairmen are also greater such family firms. As for the presence of other blockholders in the board of directors and other family blockholders in management and/or board of directors, family firms having founder CEOs displayed a lower proportion.

Moreover, in Panel 2 of Table 5.10, family firms with family members as chairmen showed high debt ratio and appoint family and founder as CEOs more compared to those with non-family chairmen. As for the blockholders' presence, the proportions of such presence in family firms' ownership structure, management and board of directors are greater in family firms having non-family chairmen compared to those having family chairmen. Also, the presence of other family blockholders in management and/or board of directors was higher in those family firms having non-family chairmen. Panel 2 also presents that family firms with founder chairmen displayed greater means of ROA, family ownership concentration, and family representation on the board of directors but lower debt ratio as well as size of the board. Furthermore, the proportions of firms with family and founder CEOs are greater in family firms with founder chairmen. For the same type of family firms, the proportion is reported to be lower for the blockholders' presence on the board of directors and management.

Table 5.10
T/z-Test Results For the Key Variables of the Study

	Mean for all family firms	Mean for family firms with family CEO	Mean for family firms with non-family CEO	t/z-statistics	Mean for family firms with founder CEO	Mean for family firms with non-founder CEO	t/z-statistics
			Panel (1)				
MBV	1.67	2.17	1.58	-2.93***	3.05	1.58	-5.03***
ROA	0.08	0.13	0.07	-4.27***	0.18	0.07	-5.49***
FAMCON	0.24	0.34	0.22	-3.32***	0.39	0.23	-2.88***
FAMBOD	0.16	0.44	0.11	-17.37***	0.50	0.14	-9.59***
FDEBT	0.15	0.12	0.16	0.15	0.09	0.16	1.57
FAGE	26.89	35.17	25.34	-3.43***	38.42	26 12	-2.84***
FSIZE	3,440	5,180	3,110	-2.29**	1,580	3,560	1.45
BODSIZE	9	9	8	-0.44	9	9	0.0109
FAMCHAIR	—	—	—	-3.57***	—	—	-2.14**
FOUNDCHAIR	—	—	—	-4.91***	—	—	-4.15***
FAMSUCCESS	—	—	—	-2.32**	—	—	0.26
BLOCKHOLD	—	—	—	0.76	—	—	-0.15
FAMBLOCK	—	—	—	0.02	—	—	-0.36
BOARDBLOCK	—	—	—	2.79***	—	—	2.89***
MANAGBLOCK	—	—	—	1.41	—	—	0.84
FAMBOARDBLOCK	—	—	—	1.05	—	—	2.02**

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Table 5.10 (Continued)

	Mean for all family firms	Mean for family firms with family chairman	Mean for family firms with non-family chairman	t/z-statistics	Mean for family firms with founder chairman	Mean for family firms with non-founder chairman	t/z-statistics
				Panel (2)			
MBV	1.67	1.65	1.73	0.44	1.70	1.65	-0.29
ROA	0.08	0.07	0.09	1.53	0.09	0.07	-1.79*
FAMCON	0.24	0.25	0.21	-1.01	0.28	0.20	-2.96***
FAMBOD	0.16	0.16	0.15	-0.71	0.19	0.13	-2.80***
FDEBT	0.15	0.16	0.12	-1.75*	0.13	0.17	1.81*
FAGE	26.89	26.01	29.36	1.38	25.43	27.98	1.18
FSIZE	3.440	3,570	3,070	-0.66	3,540	3,360	-0.26
BODSIZE	9	8	9	0.93	8	9	2.59**
FAMCEO	—	—	—	-3.57***	—	—	-4.91***
FOUNDCEO	—	—	—	-2.14**	—	—	-4.15***
FAMSUCCESS	—	—	—	-0.60	—	—	-1.16
BLOCKHOLD	—	—	—	3.27***	—	—	1.37
FAMBLOCK	—	—	—	0.88	—	—	-0.35
BOARDBLOCK	—	—	—	5.14***	—	—	2.39**
MANAGBLOCK	—	—	—	5.44***	—	—	2.80***
FAMBOARDBLOCK	—	—	—	3.04***	—	—	-0.13

Notes: ***significant at 1% level (2 tailed), **significant at 5% level (2 tailed), *significant at 10% level (2 tailed). For continuous variables (i.e. MBV, ROA, FAMCON, FAMBOD, BODSIZE, FDEBT, FAGE, and FSIZE) (ttest) command in STATA is used to report the t-value, while (prtest) has been employed to report z-value for dummy variables (i.e., FAMCEO, FOUNDCEO, FAMCHAIR, FOUNDCHAIR, FAMSUCCESS, BLOCKHOLD, FAMBLOCK, MANAGBLOCK, BOARDBLOCK, and FAMBOARDBLOCL). Negative t/z statistics indicating the low mean/proportion of non-family (non-founder) CEO/chairman compared to the mean/proportion of family (founder) CEO/chairman. FAMCON = Family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on the board of the directors, FAMSUCCESS = Family successor, BLOCKHOLD = Presence of other blockholders in the ownership. FAMBLOCK = Presence of other family blockholders, MANAGBLOCK = Presence of other blockholders on the management as CEO, BOARDBLOCK= Presence of other blockholders on the board of directors, FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of directors FDEBT = Firm debt, FAGE = firm age, FSIZE = firm size (expressed in millions of Saudi Riyals), BODSIZE = Board size.

5.3.2 Pearson Correlation Matrix

According to Cramer and Howitt (2004), correlation matrix is the statistical tool that can be used before conducting a regression analysis in order to detect any relationship between two variables. The relationship can be either positive or negative; it depends on the correlation coefficient sign and it is statistically significant, if, and only if, the correlation coefficient substantially differs from zero. The size of a correlation ranges between 0 (no relationship) and ±1.0, which means that there is a perfect positive or negative relationship. However, the relationship between two variables can be small, medium, or strong, if the correlation coefficient value (r) ranges from ±0.1 to ±0.29, ±0.30 to ±0.49, or above ±0.50, respectively (Hair *et al.*, 2010).

In addition, correlation technique can also be utilized to examine the existence of multicollinearity among the independent variables. Table 5.11 shows no indication for potential multicollinearity, as none of the variables has correlation coefficients value above 0.90 (Pallant, 2011; Hair *et al.*, 2010), or even 0.80 threshold as suggested by Gujarati (2003). Either way, multicollinearity is solved by using the panel data analysis method (Baltagi, 1998; Hsiao, 2003).

The Pearson correlation for the all companies is displayed in Table 5.11. According to the results, FAMCON and MANAGBLOCK have small positive correlations (r <0.29) with performance indicators, MBV and ROA. Additionally, FAMCEO and FAMBOD have a small positive correlation with MBV while

BLOCKHOLD has a small negative correlation with MBV. As for FOUNDCEO, it has a positive correlation with MBV at the medium level (r > 0.30). With regards to accounting performance (ROA), it has a medium positive correlation with FAMCEO, FOUNDCEO and FAMBOD and a small positive correlation with FOUNDCHAIR and BOARDBLOCK.

Table 5.11

Pearson's Correlation Test for All Companies

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) MBV	1.0000								
(2) ROA	0.5255***	1.0000							
(3) FAMCON	0.1599**	0.2892***	1.0000						
(4) FAMCEO	0.2089***	0.2972***	0.2351***	1.0000					
(5) FOUNDCEO	0.3442***	0.3719***	0.2055***	0.5996***	1.0000				
(6) FAMBOD	0.2547***	0.3613***	0.2876***	0.7848***	0.5730***	1.0000			
(7) FAMCHAIR	-0.0320	-0.1105	0.0731	0.2588***	0.1552**	0.0518	1.0000		
(8) FOUNDCHAIR	0.0211	0.1291*	0.2111***	0.3564***	0.3012***	0.1998***	0.5152***	1.0000	
(9) FAMSUCCESS	-0.0482	-0.0273	-0.0146	0.1680**	-0.0189	0.1148	0.0435	0.0844	1.0000
(10) BLOCKHOLD	-0.1363*	0.0973	-0.3002***	-0.0551	0.0106	-0.1089	-0.2372***	-0.0990	0.0641
(11) FAMBLOCK	-0.0884	-0.0387	-0.1603**	-0.0016	0.0260	-0.1498**	-0.0639	0.0255	-0.0556
(12) BOARDBLOCK	-0.0346	0.1800**	-0.2418***	-0.2020***	-0.2097***	-0.2733***	-0.3732***	-0.1736**	-0.0587
(13) MANAGBLOCK	0.1733**	0.1421*	-0.0890	-0.1021	-0.0612	-0.1456**	-0.3944***	-0.2032***	-0.0171
(14) FAMBOARDBLOCK	0.0133	0.0821	-0.1260*	-0.0763	-0.1468**	-0.2355***	-0.2203***	0.0097	-0.0411
(15) FDEBT	-0.1304*	-0.2755***	-0.2330***	-0.1048	-0.1137	-0.2162***	0.1263*	-0.1309*	0.0249
(16) LNFAGE	0.0531	0.2244***	-0.0408	0.1981***	0.1774**	0.3616***	-0.1282*	-0.0571	0.0365
(17) LNFSIZE	-0.2845***	-0.0902	-0.1884***	0.0413	-0.1222*	-0.0110	0.1139	-0.0641	0.0613
(18) BODSIZE	-0.1716**	0.1642**	-0.2524***	0.0323	-0.0008	-0.0246	-0.0677	-0.1853**	0.0632

Notes: ***significant at 1% level (2 tailed), **significant at 5% level (2 tailed), *significant at 10% level (2 tailed). FAMCON = Family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on the board of directors, FAMSUCCESS = Family successor, BLOCKHOLD = Presence of other blockholders in the ownership, FAMBLOCK = Presence of other family blockholders in ownership, BOARDBLOCK= Presence of other blockholders on the board of directors, MANAGBLOCK = Presence of other blockholders on the management as CEO, FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of the directors FDEBT = Firm debt, LNFAGE = Natural log of firm age, LNFSIZE = Natural log of firm size., BODSIZE = Board size

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Table 5.11 *(Continued)*

	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
(10) BLOCKHOLD	1.0000								
(11) FAMBLOCK	0.6727***	1.0000							
(12) BOARDBLOCK	0.7113***	0.5216***	1.0000						
13) MANAGBLOCK	0.2076***	0.3086***	0.2919***	1.0000					
(14) FAMBOARDBLOCK	0.4978***	0.7400***	0.6999***	0.4170***	1.0000				
(15) FDEBT	0.2323***	0.3209***	0.1963***	-0.0130	0.1801**	1.0000			
(16) LNFAGE	0.2446***	0.0504	0.0804	0.0235	-0.0007	-0.2807***	1.0000		
(17) LNFSIZE	0.3370***	0.2040***	0.2729***	-0.3355***	0.1406*	0.3949***	-0.1078	1.0000	
(18) BODSIZE	0.4873***	0.2642***	0.4454***	-0.0967	0.2341***	0.1240*	0.0119	0.6343***	1.0000

Notes: ***significant at 1% level (2 tailed), **significant at 5% level (2 tailed), *significant at 10% level (2 tailed) FAMCON = Family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on the board of directors, FAMSUCCESS = Family successor, BLOCKHOLD = Presence of other blockholders in the ownership, FAMBLOCK = Presence of other family blockholders in ownership, BOARDBLOCK= Presence of other blockholders on the board of directors, MANAGBLOCK = Presence of other blockholders on the management as CEO, FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of the directors FDEBT = Firm debt, LNFAGE = Natural log of firm age, LNFSIZE = Natural log of firm size., BODSIZE = Board size.

5.4 Testing for Panel Data

In this section, the results of multicollinearity, heteroscedasticity, autocorrelation and the Hausman tests, which were conducted to examine whether the data violates the underlying statistical assumptions, are presented.

5.4.1 Results of Multicollinearity

Before starting with the results of regression analysis, it is necessary to ensure that the data is free of multicollinearity problem. This problem exists when one or more regressor/s are highly correlated with each other that can badly affect the results of the regression analysis (Hair *et al.*, 2010). The most commonly utilized tool to assess multicollinearity for each regressor is Variance Inflation Factor (VIF) (Pallant, 2011). Until now, in the literature, there is no agreed cut-off point that can be relied on to indicate for presence of collinear independent variables (Alsaeed, 2006). However, Tabachnick and Fidell (2007) and Hair *et al.* (2010) suggested that the researcher should be concerned with the value of VIF of greater than 10, which indicates severe multicollinearity. Alternatively, the researcher can rely on the level of tolerance factor (1/VIF) to give a decision on multicollinearity. Conceptually, the tolerance factor explains the level of corresponding independent variable's variability that is not explained by other independent variables in the regression model. If the value of 1/VIF is less than 0.10, it suggests collinearity problems (Pallant, 2011).

The results of VIF, as depicted in Table 5.12, show no evidence of multicollinearity problems. The VIF scores of all the independent and control variables are less than 5, and far below the cut-off value of 10, as suggested by (Hair et al., 2010), thus confirming the absence of the mulitcollinearity issue. Although the data are not influenced by any multicollinearity problem, panel data method has the ability to deal with such problem, if it exists, as it is an effective way to generate many more degrees of freedom which can help alleviate any collinearity problems (Baltagi, 1998; Hsiao, 2003).

Table 5.12
Variance Inflation Factor (VIF) and Tolerance Factor (1/VIF) Tests

Variable	VIF	1/VIF
FAMBOARDBLOCK	4.60	0.28
BLOCKHOLD	4.47	0.22
BOARDBLOCK	4.39	0.23
FAMBLOCK	4.32	0.23
FAMBOD	3.95	0.25
FAMCEO	3.70	0.27
LNFSIZE	2.62	0.38
BODSIZE	2.43	0.41
FAMCHAIR	2.13	0.47
FOUNDCEO	1.97	0.51
FOUNDCHAIR	1.88	0.53
MANAGBLOCK	1.78	0.56
FDEBT	1.72	0.58
LNFAGE	1.57	0.64
FAMCON	1.30	0.77
FAMSUCCESS	1.14	0.88
Mean VIF	2.75	

Notes: FAMCON = Family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on the board of directors, FAMSUCCESS = Family successor, BLOCKHOLD = Presence of other blockholders in the ownership, FAMBLOCK = Presence of other family blockholders in ownership, MANAGBLOCK = Presence of other blockholders on the management as CEO, BOARDBLOCK= Presence of other blockholders on the board of directors, FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of the directors FDEBT = Firm debt, LNFAGE = Natural log of firm age, LNFSIZE = Natural log of firm size, BODSIZE = Board size.

5.4.2 Results of Hausman Specification Test

Prior to carrying out the Hausman specification test, a test has to be carried out to determine the acceptance or rejection of the hypothesis regarding the need for individual-specific heterogeneity of μ_i (comparing pooled Ordinary Least Square (OLS) against fixed-effect model). This may be taken from the fixed-effect regression output in STATA V.12. An F test of the null hypothesis that the constant terms remain equal throughout the units is provided by a written-command *xtreg, fe*. The rejection of the null hypothesis shows that pooled OLS would generate estimates that are inconsistent (Baum, 2006). It is evident from Table 5.13 that the result of the F test showed significant individual effects (significant p-value, prob > F lower than 0.05) that indicate the inappropriate employment of pooled OLS, in which case, the fixed-effect model should be employed (Baum, 2006).

The second step is to conduct the Hausman test. One advantage of applying Hausman test is that it compares a more efficient model (i.e., random-effect model) with a less efficient but consistent model (i.e., fixed-effect model), in order to check whether the more efficient model also produces consistent results (Davidson & Mackinnon, 1993; Greene, 2011; Stock & Watson, 2007). As such, the test directs the researcher to use either the fixed-effect (FE) model or the random-effect (RE) one, the decision obviously depending on the existence of a correlation between the regressors included in the model and the individual random effects (i.e., εi). Under the null hypothesis, Hausman specification test

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hypothesizes that, there is no correlation between x variables and individual random effects. In other words, RE model is consistent. However, if the null hupothesis can be rejected (significant p-value, prob>chi² less than 0.05), then FE model should be used, otherwise RE model is consistent.

Table 5.13
F and Hausman Specification Tests

	MBV	**ROA**
F test that all u_i=0:		
F(37, 133)	4.53	5.01
Prob > F	0.000	0.000
Hausman test:		
Chi² (18)	107.69	65.38
Prob > Chi²	0.000	0.000

From the results revealed in Table 5.13, a significant p-value is found (prob>chi² less than 0.05) for MBV and ROA models. Even though Hausman test suggests using FE model, this study used RE model for both performance indicators (i.e., MBV and ROA) due to several significant reasons. First, several of our primary variables of interest are time-invariant (e.g., FAMCEO, MANAGBLOCK, and industry dummies) and cannot be estimated with FE model. He and Sommer (2010) stated that "When one or several independent variable/s are time invariant or rarely change over time, standard FE models are inappropriated" (p. 277). This is, however, because FE model eliminates all time-invariant variables within transformation of the variable (Wooldridge, 2002), and hence, the results are unreliable (Beck, 2001; Plumper, Toeger, & Manow, 2005; Plumper & Toeger, 2007; Steinberg & Saideman, 2008). Second, as the objective of this study is to

provide inferences about a larger population, RE model is better than the FE model for achieving such objective, whereas FE model is suitable when the researcher needs to make inferences to the specific observed units (Beck, 2001). Third, regardless of the suggestion of Hausman test, the researcher must think carefully and take into consideration all the costs (e.g., high collinearity) that are associated with the decision to adopt FE model that may affect the variables, especially those that are not changed or slowly changed, by excluding them from the examined model (Beck, 2001). Moreover, in some cases, including fixed effects make the variables of interest hardly substantively or statistically significant (Beck & Katz, 2001). Consequently, by considering all the costs related to the FE model and weighing them with the strength of its comparable model (i.e., RE model), the researcher adopted Random-Effect Feasible Generalized Least Square (RE FGLS) regression as suggested by Wooldridge (2002) as it provides reliable estimates in the presence of heteroscedasticity problem. This technique have been used by some previous studies (Yoshikawa & Rasheed, 2010; Benson *et al.*, 2011)

5.4.3 Results of Heteroscedaticity

Breusch-Pagan / Cook-Weisberg Test is designed to detect any linear form of heteroscedasticity. Conceptually, the data can be heteroscedasticitic if the error variances are not constant that may cause standard errors to be biased. However, by checking for heteroscedasticity, the researcher may be able to identify model

problems. and this is can be done by using *hettest* command after running a regression of the STATA software.

Table 5.14 shows the results of the Breusch-Pagan / Cook-Weisberg test. As the reported p-value of the both models (MBV and ROA) is less than 5% significance level, then the null hypothesis of homogeneity of variance (error variance are all equal) can be rejected implying that the data are heteroscedasticitic. Hence, when the data suffers from heteroscedasticity problem, a remedy is necessary.

Table 5.14
Breusch-Pagan / Cook-Weisberg Test for Heteroscedasticity

	MBV	ROA
Chi² (24)	183.41	37.00
Prob > Chi²	0.00	0.04

Note: H0 (null): Constant variance (homoscedasticity).

5.4.4   Results of Autocorrelation

One of the problems that make panel data models' results biased and less efficient is the autocorrelation problem (first-order correlation). Thus, researchers have to examine their models against such problem in order to get correct results and appropriate conclusions. While many tests for autocorrelation in panel data have been proposed by econometricians, a new attractive test introduced by Wooldridge (2002) was comparably accepted because of its low requirements and ease of implementation (Drukker, 2003). Drukker (2003) presented his simulation results of different types of panel data (balanced and unbalanced), models (FE and

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RE), as well as with and without conditional homoscedasticity. He found that the test has good size and power properties in reasonably sized samples. Hence, this study conducted a user-written command, called "xtserial", written by Drukker (2003), to test for the existence of first-order correlation in panel data. By looking at the probability F value in Wooldridge test, if the value is below the 5% significance level, we can reject the null hypothesis, that there is no first-order correlation. This consequently indicates that autocorrelation problem exists.

The results in Table 5.15 show that autocorrelation exists in the data when the performance indicator is MBV or ROA. The results suggest that the null hypothesis can be rejected for both models, implying that autocorrelation is a serious problem and need for remediation.

Table 5.15
Wooldridge Test for Autocorrelation in Panel Data

	MBV	**H0 (null)**	**ROA**	**H0 (null)**
F (1, 37)	53.210	Rejected	7.193	Rejected
Prob > F	0.000		0.0109	

Note: H0 (null): No first-order autocorrelation

From the analyses conducted above (univariate test, Hausman test, Breusch-Pagan/Cook-weisberg test and Wooldridge test), results show that FGLS need to be used to correct for heteroscedasticity and autocorrelation. Next, multivariate tests were conducted to provide more meaningful analysis for this study.

5.5   Multivariate Analysis

Using STATA software V.12, the hypotheses were tested in two panels. The first panel (Panel A) in Table 5.16 was created to examine the main effects of the three constitutive terms for the multiplicative interaction models on the firm performance, namely family ownership (FAMCON), family CEO (FAMCEO), and founder CEO (FOUNDCEO). According to Fairchild and McQuillin (2010), Braumoeller (2004), Jaccard and Turrisi (2003) and other statisticians, any conclusions regarding the direct effect of any constitutive terms are meaningless and illegitimate. Therefore, conclusions regarding the main effect of the three previous mentioned variables were derived from the results of Panel A, while the moderating effects of FAMCEO and FOUNDCEO were confirmed according to the significance of their multiplicative interaction terms, FAMCON_FAMCEO and FAMCON_FOUNDCEO respectively, from Panel B. However, although Panel B was used to test the moderating hypotheses of this study (H3 and H5), it was also utilized to test the remaining hypotheses as well. Technically, all feasible generalized least square models were estimated using the "*xtgls*" command with two options for both models. Specifically, *panels(het)* and *corr(ar1)* in order to correct for heteroscedasticity and autocorrelation problems respectively (StataCorp, 2009).

Table 5.16

Cross-Sectional Time-Series Feasible Generalized Least Squares (FGLS) Regression for MBV and ROA

	Hypothesis	Hypo. direction	Panel A		Panel B	
			MBV	ROA	MBV	ROA
Constant			6.96*** (4.18)	-0.06 (-0.58)	8.62*** (6.03)	-0.02 (-0.20)
FAMCON	H1	+	0.07 (0.21)	0.09*** (2.83)	-2.36* (-1.66)	-0.04 (-0.31)
FAMCON2	H1a	+ -	---	---	3.80* (1.77)	0.17 (0.97)
FAMCEO	H2	+	-0.34 (-1.06)	-0.01 (-0.42)	-0.17 (-0.16)	0.02 (0.51)
FAMCON_FAMCEO	H3	+/-	---	---	0.50 (0.07)	0.11 (0.39)
FAMCON2_FAMCEO		+/-	---	---	-0.06 (-0.01)	-0.34 (-0.89)
FOUNDCEO	H4	+	1.56*** (4.43)	0.10*** (4.21)	4.51*** (3.95)	0.03 (0.40)
FAMCON_FOUNDCEO	H5	+/-	---	---	-27.93*** (-3.69)	-0.36 (-0.73)
FAMCON2_FOUNDCEO		+/-	---	---	43.56*** (4.32)	1.20* (1.81)
FAMBOD	H6	+/-	1.37** (2.31)	0.02 (0.47)	1.19** (1.99)	0.04 (0.97)
FAMCHAIR	H7	+	0.10 (0.63)	-0.00 (-0.22)	0.07 (0.48)	-0.00 (-0.15)
FOUNDCHAIR	H8	+	-0.20* (-1.72)	-0.00 (-0.32)	-0.10 (-0.85)	-0.01 (-0.69)
FAMSUCCESS	H9	-	0.56 (0.91)	0.05 (1.23)	0.15 (0.33)	0.00 (0.08)
BLOCKHOLD	H10	+/	-0.47*** (-2.96)	-0.01 (-1.00)	-0.29* (-1.81)	-0.01 (-0.90)
FAMBLOCK	H10a	+/	0.03 (0.23)	-0.00 (-0.21)	0.04 (0.37)	-0.00 (-0.15)
BOARDBLOCK	H11	+/	0.22 (1.00)	0.01 (1.07)	0.30 (1.45)	0.012 (1.01)
MANAGBLOCK	H12	+/	0.43 (0.76)	0.04 (1.30)	0.50 (0.93)	0.07** (2.43)
FAMBOARDBLOCK	H13	+/	0.19 (0.87)	0.00 (0.21)	0.17 (0.84)	0.00 (0.25)
FDEBT			0.05 (0.14)	-0.05** (-2.10)	0.25 (0.78)	-0.07** (-2.46)
LNFAGE			-0.25** (-2.39)	-0.00 (-0.03)	-0.11 (-1.15)	0.00 (0.57)
LNFSIZE			-0.23** (-2.48)	0.01 (1.00)	-0.34*** (-4.20)	0.00 (0.60)
BODSIZE			-0.00 (-0.01)	0.00 (0.73)	0.02 (0.51)	0.00 (0.69)
PET			0.09 (0.29)	-0.04* (-1.74)	0.28 (0.97)	-0.03 (-1.18)

Table 5.16 (*Continued*)

	Hypothesis	Hypo. direction	Panel A		Panel B	
			MBV	**ROA**	**MBV**	**ROA**
CEM			1.01*** (4.30)	0.07*** (3.42)	0.97*** (4.50)	0.06*** (3.29)
RET			0.75** (1.99)	0.03 (1.37)	0.22 (0.52)	-0.02 (-0.69)
FOD			0.52** (2.38)	-0.03* (-1.93)	0.63*** (3.26)	-0.03 (-1.42)
INV			-0.42* (-1.81)	-0.06*** (-3.45)	-0.19 (-0.86)	-0.05** (-2.57)
IND			0.44 (1.34)	-0.00 (-0.06)	0.16 (0.46)	0.02 (0.75)
BLD			-0.00 (-0.00)	-0.04* (-1.94)	0.18 (0.83)	-0.04* (-1.87)
EST			0.42 (0.80)	-0.00 (-0.11)	0.50 (1.06)	-0.03 (-0.73)
R^2			0.34	0.56	0.41	0.62
Wald Chi^2			193.25	388.64	303.63	441.33
P value			0.00	0.00	0.00	0.00
Number of observations			190	190	190	190
Number of companies			38	38	38	38
Time periods			5	5	5	5

Note: Figure in the parenthesis is (z value) for MBV and ROA models, Decimals are rounded to the nearest hundredth, ***significant at 1% level (2 tailed). **significant at 5% level (2 tailed), *significant at 10% level (2 tailed). FAMCON = Family ownership concentration, FAMCON2= Quadratic term of family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO. FAMCON_FAMCEO = Interaction term of FAMCON * FAMCEO, FAMCON_FOUNDCEO = Interaction term of FAMCON * FOUNDCEO. FAMCON2_FAMCEO = Interaction term of FAMCON2 * FAMCEO, FAMCON2_FOUNDCEO = Interaction term of FAMCON2 * FOUNDCEO. FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on the board of directors. FAMSUCCESS = Family successor. BLOCKHOLD = Presence of other blockholders in the ownership, FAMBLOCK = Presence of other family blockholders in ownership. MANAGBLOCK = Presence of other blockholders on the management as CEO. BOARDBLOCK= Presence of other blockholder on the board of directors. FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of the directors FDEBT = Firm debt. LNFAGE = Natural log of firm age, LNFSIZE = Natural log of firm size. BODSIZE = Board size, PET, CEM , RET, FOD, INV, BLD & EST are dummies indicate to Petrochemical. Cement. Retail. Agriculture and food, Multi-investment. Industrial investment. Building and construction. Real estate development sectors respectively.

5.5.1 Family Involvement in Ownership

5.5.1.1 Family Ownership Concentration (FAMCON)

From the analysis in Table 5.16 (Panel A), it is found that there is a positive relationship between family ownership and both firm performance measurements, but only significant with ROA ratio (β= 0.09, t= 2.83, p<0.01). This result indicates that family firms in which family own substantial shares work more profitably than those of little family ownership. However, the results are consistent with those of studies for family ownership concentrated countries, such as Malaysia (Amran & Che-Ahmad, 2010) and Japan (Saito, 2008), and studies in developed countries like the U.S. (Anderson & Reeb, 2003; Lee, 2006), Europe (Barontini & Caprio, 2006; Maury, 2006), Canada (Ben-Amar & Andre, 2006). Hence, hypothesis H1 is partially supported by the findings of this study.

The results are consistent with the widely held notion of the controlling family owners' successful alignment between the interests of the family and the management's interests as contended by Berle and Means (1932) and Jensen and Meckling (1976). This may be attributed to the explanation that when family holdings are considerable, family controlling shareholders have minimal agency cost that does not result in severe losses in decision-making efficiency, as the managers' incentives are aligned with those of the family controlling shareholders' (McConaughy et al., 2001). Thus, as family ownership increases, the agency cost decreases and eventually, this leads to the firm performance enhancement.

This positive impact of family ownership may also be attributed to the significant role of family firms in the Saudi economy and their relationships with the rulers as mentioned. In Saudi Arabia, family firms are capable of establishing successful long-term connections with their employees as well as their suppliers, customers and financiers. This stable connection assists in facilitating a trusted and loyal working environment, promoting lower turnover and costs of recruitment that positively impacts the profitability of the firm (Ward, 1998).

Hence, both minority shareholders and investors in Saudi Arabian firms are faced with the risk of expropriation in firms having less family ownership concentration than those concentrated family firms owing to the fact that little shares possessed by the controlling family shareholders lead to greater non-family management expropriation. As such, management is capable of gaining advantages from the firm and obtaining the wealth of the firm to serve their self-interests. The shareholders' perception of risk from entrenchment and opportunistic behavior of non-family management may urge them to invest in firms with high family control and ownership concentration. This finding and the finding discussed in the next section (5.5.1.2) support the positive performance of firms characterized by high family concentration.

5.5.1.2 Non-linearity of Family Ownership Concentration (FAMCON2)

The hypothesized non-linear relationship between family ownership concentration (FAMCON2) and firm performance (H1a) is supported by the findings of this

study. The negative value of the first coefficient for MBV model in panel B(β= -2.36, t= -1.66, p<0.10) and ROA model (β= -0.04, t= -0.31, p>0.10), combine with the positive sign of its square (FAMCON2) for MBV model (β= 3.80, t= 1.77, p<0.10) and ROA model (β= 0.17, t= 0.97, p>0.10), confirming that the relationship is U-shaped over the period of the study. Thus, there is an evidence of the non-linearity of family ownership concentration, implying that the behaviour of expropriation and monitoring of the family controlling shareholders as described by Arosa *et al.* (2010) can be confirmed. Hence, hypothesis H1a is partially supported. However, the results are contrary to the findings of some previous studies, such as Anderson and Reeb (2003) in the U.S., and Kowalewski *et al.* (2010) in Poland, whereby the relationship between family ownership and firm performance was inverted U-shaped.

For determining the breakpoint of the curve, we followed de Miguel et al.'s (2004) method: ownership breakpoint $= -(\beta\, FAMCON / 2 \times \beta\, FAMCON2)$. Thus family ownership breakpoint is – (2.36/2*3.80) = 0.31. These results suggest that as family ownership rises from 0% to 31% Saudi firm value decreases and beyond this breakpoint (31%) any increment to family ownership resulting in increase in firm value. A possible explanation is that when family businesses decide to go public in Saudi Arabia, they first focus on satisfying their personal objectives and exerting greater private benefits at the expense of minority shareholders. Nevertheless, when families insure the owing of more than one third of firms' shareholding they feel that their objectives are satisfied that mitigates the conflicts

between them and their minority shareholders. Put another way, any increase in family ownership in Saudi firms bringing about more feelings by family owners that firm value is closely tied to family wealth that motivates family individuals to look after the interests of the firm and shareholder's welfare, than maximizing their wealth in order to maintain the continuity of the firm and safeguard their family's name and keep it healthy, which they are more concerned about.

5.5.2 Family Involvement in Management

5.5.2.1 Family CEO (FAMCEO)

From the results shown in Table 5.16 Panel A, family CEO variable (FAMCEO) and its interaction term with family ownership (FAMCON_FAMCEO) in Panel B are found to be statistically insignificant in both models. In other words, family CEO is neither impacting significantly on firm performance (ROA and MBV) nor moderating the relationship between family ownership (FAMCON) and both the performance indicators of the firm. Alternatively, it can be said that when CEO position is occupied by a family member, the evidence of the distinctive role of the family in the management is weaker. So, hypotheses H2 and H3 are not supported in this study.

This finding is consistent with some previous empirical studies which revealed that family CEOs have no significant impact on either the ROA (Barontini & Caprio, 2006; El-Chaarani, 2013) or MBV (Barontini & Caprio, 2006; Jiang & Peng, 2011). Additionally, Jiang and Peng (2011) confirmed there is no

moderating impact of family CEO for some Asian countries, like Malaysia, the Philippines, Singapore, South Korea and Thailand separately, and for the whole sample as well. However, the insignificant value-enhancing role of family CEO that is confirmed by the results of this study support the importance of taking the family generation into consideration.

5.5.2.2 Founder CEO (FOUNDCEO)

In order to examine more closely the moderating impact of the founder's role (FOUNDCEO) on the relationship between FAMCON and firm performance, two multiplicative terms were made; one for FAMCON and the other for its quadratic variable (FAMCON2). While the main effect of FOUNDCEO in Panel A was found to be positively significant for MBV (β= 1.56, t= 4.43, p<0.01) and ROA (β= 0.10, t= 4.21, p<0.01), the interaction terms FAMCON_FOUNDCEO and FAMCON2_FOUNDCEO in Panel B were found to be negative and positive, respectively, for both MBV and ROA models. On one hand, the significant positive coefficient of FAMCON2_FOUNDCEO confirmed the U-shaped relationship discussed in Section 5.5.1.2. On the other hand, it also confirmed the positive moderating role of the founder when he becomes a CEO. These results support the superior role of the founder in the family firm that was confirmed by some previous studies (Morck *et al.*, 1988; Villalonga & Amit, 2006; Adams *et al.*, 2009), especially when the family ownership is highly concentrated in the hands of the controlling family. In other words, the performance of a firm is

heavily dependent on whether the founder is still active in the management of the organization or not. Hence, hypotheses H4 and H5 are supported.

5.5.3 Family Control

5.5.3.1 Family Representation on the Board of Directors (FAMBOD)

While El-Chaarani (2013) confirmed the significant positive impact of independent directors on the Lebanese family firms' performance (ROA), family representation on the board of directors (FAMBOD) in this study is positive but not significant in ROA model (β= 0.04, t= 0.97, p>0.10). The finding is consistent with the past work of Sciascia and Mazzola (2009). In terms of MBV, family representation on the board of directors found to be positively impact firm's market performance (β= 1.19) that is significant at the 5% level. This implies that firm's performance is associated with greater family representation on the board of directors. Hence, hypothesis H6 is partially supported.

This is consistent with the position of the stewardship theory positing that family members are more focused on the survival of the firm as their legacy is related to its assets. Accordingly, family exerts effort to maintain effective control to facilitate firm's success and to steer clear of risks for the future generation (Arregle *et al.*, 2007). In this perspective, family directors are deemed as trustworthy agents who are knowledgeable and are practical advisors to steer the firm into achieving an alignment between the family shareholders' interest with that of management.

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5.5.3.2 Family Chairman (FAMCHAIR)

While prior studies confirm the positive and negative impact of family chairman on firm performance (Filatotchev *et al.*, 2005; Maury, 2006; Isakov & Weisskopf, 2009; Sacristan-Navarro *et al.*, 2011a), the results of the current study failed to establish any relationship between family chairman and firm performance, i.e., family chairman does not affect MBV nor ROA. Therefore, hypothesis of the outperformance of family chairman-controlled firms (H7) is not supported.

With reference to Panel B in Table 5.16, family chairman (FAMCHAIR) is found to have a positive coefficient but not significant ($\beta = 0.07$, $t = 0.48$, $p > 0.10$) with MBV and ($\beta = -0.00$, $t = -0.15$, $p > 0.10$) with ROA. Miller *et al.* (2007) came up with the same results when they eliminated lone family business from their sample, and also when they studied family firms that are controlled by the second generation alone. Further, these are the same results as yielded by Kowalewski *et al.*'s (2010) study of Polish PLCs with the operating ROA.

5.5.3.3 Founder Chairman (FOUNDCHAIR)

Regarding family chairman generation, the FOUNDCHAIR coefficient did not show significance in either of the models. In other words, there is no evidence on the superiority of the founders after becoming chairmen in the firms. This result can be explained by the nature of the founders' skills that they offer to the firms (Villalonga & Amit, 2006). This finding with those presented in Section 5.5.2.2

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indicates that the founders have unique contributions and they contribute to shareholders value when they are involved in the daily firm management. Founders possess competitive edge when it comes to accessing the many resources, business knowledge and timely information that may not be accessed by others for free. In these instances, founders are capable of uniquely contributing and driving the firm direction when needed. On the other hand, when they limit their services to an advisory and control capacity via the chairman position, their contributions do not stand out from others'. Therefore, H8 is rejected.

5.5.4 Family Involvement in Succession (FAMSUCCESS)

Hypothesis 9 posited a negative relationship between family involvement in succession (FAMSUCCESS) and firm performance. This hypothetical relationship has been confirmed by a number of empirical studies (Perez-Gonzalez, 2006; Bennedsen et al., 2007). The analysis showed that there is no significant relationship between MBV ($\beta = 0.15$, $t = 0.33$, $p > 0.10$) and ROA ($\beta = 0.00$, $t = 0.08$, $p > 0.10$), on one side, and the variable representing family involvement in succession, on the other side. This can be attributed to the small frequency of family succession compared to non-family ones as mentioned earlier in Section 5.2.4.1. As such, it is difficult to draw any conclusion about the negative impact of family successors on firms' performance in Saudi Arabia. Thus, hypothesis 9 is not supported.

5.5.5 Presence of Other Blockholders

The hypotheses of the presence of other blockholders in ownership, board of directors, and management along with the identity of the other blockholders (i.e., family or non-family) were tested in two models, the results of which are presented in Panel B of Table 5.16. The presence of other blockholders (BLOCKHOLD) is found to have a negative coefficient estimate in both models - MBV and ROA, but only significant for MBV at the 10% level (β= -0.29, t= -1.81, p<0.10). This indicates the harmful effect of sharing the ownership with other blockholders resulting from Agency problem II among major shareholders. So, the hypothetical relationship between other blockholders' presence in ownership and firm performance (H10) is partially supported with the multiple regression findings.

With respect to the presence of other family blockholders in ownership, this study hypothesized that there is a relationship between other family blockholders' presence in ownership and firm performance. However, the findings of the analysis are not in line with those of Villalonga and Amit's (2006) study which presented a negative relationship between another non-family blockholder ownership and firm value. The results failed to find any statistical significant relationship between the variable FAMBLOCK and both performance indicators (i.e., MBV and ROA). It can be concluded that the existence of other family blockholders in the ownership structure of the firm does not have any value adding to the performance of the firm. Further, this may reinforce the hypothetical

influential role of the other family blockholders on firms' performance when they exist in the board of directors or management as well.

While there is no statistical evidence to support Hypothesis 11, a significant relationship is nevertheless found between the presence of other blockholders in management (MANAGBLOCK) and ROA with (β= 0.07, t= 2.43, p<0.05). Therefore, Hypothesis 12 is supported indicating evidence of blockholders' control over the expropriation of major shareholders' behavior and over the prevention of the maintenance of power of controlling shareholders for self-benefits (e.g. transferring the resources of the firm to other firms or selling goods/services at a discount to relatives.

Other family blockholders' influence in Saudi family firms is not confirmed by this study's findings, as the coefficient of the presence of other family blockholders on the board of directors and/or management (FAMBOARDBLOCK) showed insignificant in both models. This indicates that sharing ownership or management control with other family blockholders in a firm does not harm/benefit performance. Thus, Hypothesis 13 is rejected.

5.5.6 Control Variables

With regards to the control variables, firm debt (FDEBT) exhibits a negative relationship with ROA (β = - 0.07, t= -2.46, p<0.05), and it is consistent with the results produced by Pearson correlation table (Table 5.11). This indicates that

firms in Saudi Arabia are reluctant to use high amount of debt financing for the firm because there is an additional bankruptcy risk associated with the higher level of debt engendered (Fosberg, 2004). Also, this may be a result of the compliance of Saudi family firms to Islamic principles that prohibit dealings with debts that generate interests, because it is considered usury and is therefore impermissible.

Firm age (LNFAGE) and board size (BODSIZE) were found to have insignificant relationship with MBV and ROA. However, Firm size (LNFSIZE) was found to be negatively impact MBV (β = - 0.34, t= -4.20, p<0.01). This indicates that large firms show a decreasing market performance. When a firm needs to expand, the management team is reluctant to raise external funds because they fear losing control (Church, 1993). Hence, the firm value starts to decrease.

5.6 Robustness Analysis

5.6.1 Examining the independent variables individually

The robustness of the results is examined through the regression of firm value (MBV) and firm profitability (ROA) on each independent variable as presented in Tables 5.17 and 5.18. The results generated by the main analysis are similar to those by the individual analysis of individual variables. Nevertheless, three distinct differences are noted. First, in H2, the positive effect of family CEO on firm performance was not statistically significant at any level of significance in the direct MBV and ROA models but it is significant at (p< 0.05) and weakly

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significant (p< 0.10) in MBV and ROA models respectively. Therefore, H2 is supported. Second, the variable FAMBLOCK showed opposite coefficient signs of those in the main model and showed significance at (β = - 0.19, t= -1.77, p< 0.10) indicating that sharing ownership structure with other family blockholders would have a detrimental effects on the firm value if no other blockholders exist in management or board of directors. However, when the entire variables of the blockholders' presence are considered, the negative effect of the presence of other family blockholders on ownership disappeared. Third, an insignificant positive effect of family representation on the board of directors (FAMBOD) was found on firm profitability (ROA) in the main model but it was significant at (p< 0.05) when it was individually examined as presented in Table 5.18. The result is consistent with that of MBV in the main model. The findings of this analysis of robustness support the main model's inferences and results.

Table 5.17
Robust Analysis: Cross-Sectional Time-Series Feasible Generalized Least Squares (FGLS) Regression for MBV

														Direct Model	Moderating Model
Constant			7.81***	7.97***	7.30***	7.59***	6.30***	7.98***	8.19***	7.78***	8.01***	8.10***	6.96***	8.62***
			(4.82)	(4.87)	(4.77)	(5.02)	(4.14)	(5.92)	(5.04)	(4.86)	(5.06)	(4.92)	(4.18)	(6.03)
FAMCON	H1	+/-	0.37	-2.84*		-2.37*		-3.77***					0.07	-2.36*
			(1.06)	(-1.96)		(-1.69)		(-3.22)					(0.21)	(-1.66)
FAMCON2	H1a	+-		4.68**		3.62*		5.76***					---	3.80*
				(2.20)		(1.73)		(3 36)						(1.77)
FAMCEO	H2	+			0.49**	-1.02							-0.34	-0.17
					(2.07)	(-1.12)							(-1.06)	(-0.16)
FAMCON_FAMCEO	H3	+-				5.84							---	0.50
						(0.95)								(0.07)
FAMCON2_FAMCEO		+-				-3.21							---	-0.06
						(-0 40)								(-0.01)
FOUNDCEO	H4	+					1.23***	4.15***					1.56***	4.51***
							(3 84)	(6.12)					(4.43)	(3 95)
FAMCON_FOUNDCEO	H5	+-						-25.55***					---	-27.93***
								(-5.33)						(-3.69)
FAMCON2_FOUNDCEO		+-						41.48***					---	43.56***
								(5.34)						(4.32)
FAMBOD	H6	+/-							1.48***			1.47***	1.37**	1.19**
									(2.91)			(2.89)	(2.31)	(1 99)
FAMCHAIR	H7	+								-0.07		-0.01	0 10	0.07
										(-0.53)		(-0.07)	(0.63)	(0 48)
FOUNDCHAIR	H8	+									-0.11	-0.14	-0.20*	-0.10
											(-1.01)	(-0.94)	(-1.72)	(-0 85)
Control variables			Include	Include	Include	Include	Include	Include	Include	Include	Include	Include	Include	Include
R²			0.21	0.24	0.23	0.30	0.29	0.37	0.24	0.20	0.21	0.24	0.34	0.41
Wald Chi²			86.56	96.97	116.36	152.17	150 46	261.91	108.71	104.76	99.86	114.61	193.25	303 63
P value			0.00	0.00	0.00	0.00	0.00	0 00	0.00	0.00	0.00	0.00	0.00	0.00
Number of observations			190	190	190	190	190	190	190	190	190	190	190	190
Number of companies			38	38	38	38	38	38	38	38	38	38	38	38
Time periods			5	5	5	5	5	5	5	5	5	5	5	5

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Table 5.17 (Continued)

										Direct Model	Moderating Model
Constant			7.89*** (4.98)	7.38*** (4.71)	7.53*** (4.59)	8.00*** (4.85)	7.86*** (4.86)	7.97*** (4.86)	7.79*** (4.73)		
FAMSUCCESS	H9	-	-0.09 (-0.32)							0.56 (0.91)	0.15 (0.33)
BLOCKHOLD	H10	+/-		-0.29** (-2.48)					-0.34** (-2.34)	- 0.47*** (-2.96)	-0.29* (-1.81)
FAMBLOCK	H10a	+/-			-0.19* (-1.77)				-0.08 (-0.65)	0.03 (0.23)	0.04 (0.37)
BOARDBLOCK	H11	+/-				0.03 (0.18)			0.18 (0.97)	0.22 (1.00)	0.30 (1.45)
MANAGBLOCK	H12						0.20 (0.32)		0.22 (0.34)	0.43 (0.76)	0.50 (0.93)
FAMBOARDBLOCK	H13	+/-						0.01 (0.07)	0.08 (0.37)	0.19 (0.87)	0.17 (0.84)
Control variables			Include	Include	Include	Include	Include	Include	Include	Include	Include
R^2			0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.34	0.41
Wald Chi²			103.93	106.36	103.08	102.25	102.42	101.48	110.79	193.25	303.63
P value			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Number of observations			190	190	190	190	190	190	190	190	190
Number of companies			38	38	38	38	38	38	38	38	38
Time periods			5	5	5	5	5	5	5	5	5

Note: Figure in the parenthesis is z value for ROA model. Decimals are rounded to the nearest hundredth. ***significant at 1% level (2 tailed). **significant at 5% level (2 tailed), *significant at 10% level (2 tailed). FAMCON = Family ownership concentration, FAMCON2= Quadratic term of family ownership concentration. FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCON_FAMCEO = Interaction term of FAMCON * FAMCEO, FAMCON_FOUNDCEO = Interaction term of FAMCON * FOUNDCEO, FAMCON2_FAMCEO = Interaction term of FAMCON2 * FAMCEO, FAMCON2_FOUNDCEO = Interaction term of FAMCON2 * FOUNDCEO. FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman. FAMBOD = Family representation on the board of directors, FAMSUCCESS = Family successor, BLOCKHOLD = Presence of other blockholders in the ownership. FAMBLOCK = Presence of other family blockholders in ownership, MANAGBLOCK = Presence of other blockholders on the management as CEO. BOARDBLOCK= Presence of other blockholder on the board of directors, FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of the directors Control variables include: FDEBT = Firm debt. LNFAGE = Natural log of firm age. LNFSIZE = Natural log of firm size. BODSIZE = Board size, and Industry dummies.

Table 5.18

Robust Analysis: Cross-Sectional Time-Series FGLS Regression for ROA

Variable	H	Sign	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	Direct Model	Moderating Model
Constant			0.09 (0.61)	0.09 (0.61)	0.09 (0.85)	0.14 (1.00)	0.06 (0.43)	0.13 (1.01)	0.11 (0.95)	0.06 (0.57)	0.06 (0.52)	0.10 (0.92)	-0.06 (-0.58)	-0.02 (-0.20)
FAMCON	H1	+/-	0.11*** (3.02)	0.08 (0.59)		0.11 (0.67)		0.10 (0.76)					0.09*** (2.83)	-0.04 (-0.31)
FAMCON2	H1a	+ -		0.04 (0.21)		-0.05 (-0.22)		-0.06 (-0.29)					---	0.17 (0.97)
FAMCEO	H2	+			0.03* (1.89)	-0.03 (-0.58)							-0.01 (-0.42)	0.02 (0.51)
FAMCON_FAMCEO	H3	+ -				0.14 (0.41)							---	0.11 (0.39)
FAMCON2_FAMCEO		+ -				0.02 (0.03)							---	-0.34 (-0.89)
FOUNDCEO	H4	+					0.07*** (3.11)	0.07 (1.08)					0.10*** (4.21)	0.03 (0.40)
FAMCON_FOUNDCEO	H5	+ -						-0.50 (-1.17)					---	-0.36 (-0.73)
FAMCON2_FOUNDCEO		+ -						1.14* (1.83)					---	1.20* (1.81)
FAMBOD	H6	+/-							0.07** (2.44)			0.07** (2.47)	0.02 (0.47)	0.04 (0.97)
FAMCHAIR	H7	+								-0.01 (-0.78)		-0.01 (-0.54)	-0.00 (-0.22)	-0.00 (-0.15)
FOUNDCHAIR	H8	+									-0.00 (-0.51)	0.00 (0.40)	-0.00 (-0.32)	-0.01 (-0.69)
Control variables			Include	Include	Include	Include	Include	Include	Include	Include	Include	Include	Include	Include
R^2			0.47	0.47	0.44	0.52	0.50	0.58	0.44	0.42	0.42	0.44	0.56	0.62
Wald Chi²			92.28	91.73	251.08	103.12	92.97	129.70	256.79	234.46	241.30	276.53	388.64	441.33
P value			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Number of observations			190	190	190	190	190	190	190	190	190	190	190	190
Number of companies			38	38	38	38	38	38	38	38	38	38	38	38
Time periods			5	5	5	5	5	5	5	5	5	5	5	5

Table 5.18 (*Continued*)

										Direct Model	Moderating Model
Constant			0.06 (0.55)	0.02 (0.15)	0.03 (0.25)	0.06 (0.53)	0.03 (0.28)	0.05 (0.49)	-0.03 (-0.22)		
FAMSUCCESS	H9	-	0.01 (0.27)							0.05 (1.23)	0.00 (0.08)
BLOCKHOLD	H10	+ /-		-0.01 (-1.41)					-0.01 (-0.91)	-0.01 (-1.00)	-0.01 (-0.90)
FAMBLOCK	H10a	+ /-			-0.01 (-1.30)				-0.00 (-0.31)	-0.00 (-0.21)	-0.00 (-0.15)
BOARDBLOCK	H11	+ /-				-0.00 (-0.16)			0.01 (0.45)	0.01 (1.07)	0.012 (1.01)
MANAGBLOCK	H12						0.03 (1.16)		0.04 (1.39)	0.04 (1.30)	0.07** (2.43)
FAMBOARDBLOCK	H13	+ /-						-0.00 (-0.46)	0.00 (0.03)	0.00 (0.21)	0.00 (0.25)
Control variables			Include	Include	Include	Include	Include	Include	Include	Include	Include
R^2			0.42	0.41	0.41	0.41	0.42	0.41	0.40	0.56	0.62
Wald Chi²			241.41	244.16	250.91	225.21	239.03	235.60	257.41	388.64	441.33
P value			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Number of observations			190	190	190	190	190	190	190	190	190
Number of companies			38	38	38	38	38	38	38	38	38
Time periods			5	5	5	5	5	5	5	5	5

Note: Figure in the parenthesis is z value for ROA model, Decimals are rounded to the nearest hundredth, ***significant at 1% level (2 tailed). **significant at 5% level (2 tailed), *significant at 10% level (2 tailed). FAMCON = Family ownership concentration, FAMCON2= Quadratic term of family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCON_FAMCEO = Interaction term of FAMCON * FAMCEO. FAMCON_FOUNDCEO = Interaction term of FAMCON * FOUNDCEO, FAMCON2_FAMCEO = Interaction term of FAMCON2 * FAMCEO. FAMCON2_FOUNDCEO = Interaction term of FAMCON2 * FOUNDCEO. FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on the board of directors, FAMSUCCESS = Family successor. BLOCKHOLD = Presence of other blockholders in the ownership. FAMBLOCK = Presence of other family blockholders in ownership. MANAGBLOCK = Presence of other blockholders on the management as CEO. BOARDBLOCK= Presence of other blockholder on the board of directors. FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of the directors Control variables include: FDEBT = Firm debt. LNFAGE = Natural log of firm age. LNFSIZE = Natural log of firm size. BODSIZE = Board size, and Industry dummies

5.6.2 Discarding the Outliers and Influential Observations

In order to ascertain the robustness and to show that the results are not biased, studentized residuals and Cook's Distance tests were conducted in STATA in order to detect for any influential observations. Following the recommendation by Belsley, Kuh, and Welsch (1980), any observations with studentized residuals greater than three or Cook's Distance greater than one were removed from the sample before running the regression analyses. As can be seen in Table 5.19, all the independent variables included in the analyses kept their significance and directions of the relationship with the two indicators of performance without any change. This indicates that inference and results of this study are robust and not biased.

Table 5.19

Robustness Analyses: Cross-Sectional Time-Series FGLS Regression for MBV and ROA after Deleting All the Influential Observations

	Hypothesis	Hypotheses direction	Panel 1: Base dataset		Panel 2: Discarding outliers	
			MBV	ROA	MBV	ROA
Constant			8.62*** (6.03)	-0.02 (-0.20)	7.79*** (5.82)	-0.02 (-0.19)
FAMCON	H1	+ / -	-2.36* (-1.66)	-0.04 (-0.31)	-1.85 (-1.24)	-0.10 (-0.90)
FAMCON2	H1a	+ - +	3.80* (1.77)	0.17 (0.97)	3.02 (1.34)	0.29* (1.81)
FAMCEO	H2	+	-0.17 (-0.16)	0.02 (0.51)	-0.32 (-0.32)	0.00 (0.01)
FAMCON_FAMCEO	H3	+ - +	0.50 (0.07)	0.11 (0.39)	0.38 (0.06)	0.23 (0.76)
FAMCON2_FAMCEO		+ - +	-0.06 (-0.01)	-0.34 (-0.89)	0.31 (0.04)	-0.50 (-1.29)
FOUNDCEO	H4	+	4.51*** (3.95)	0.03 (0.40)	4.54*** (3.94)	0.04 (0.48)
FAMCON_FOUNDCEO	H5	+ - +	-27.93*** (-3.69)	-0.36 (-0.73)	-26.91*** (-3.51)	-0.41 (-0.79)
FAMCON2_FOUNDCEO		+ - +	43.56*** (4.32)	1.20* (1.81)	41.15*** (4.05)	1.24* (1.82)
FAMBOD	H6	+ / -	1.19** (1.99)	0.04 (0.97)	1.56** (2.54)	0.05 (1.34)
FAMCHAIR	H7	+	0.07 (0.48)	-0.00 (-0.15)	0.04 (0.29)	0.00 (0.15)
FOUNDCHAIR	H8	-	-0.10 (-0.85)	-0.01 (-0.69)	-0.07 (-0.66)	-0.01 (-0.54)
FAMSUCCESS	H9	.	0.15 (0.33)	0.00 (0.08)	0.19 (0.38)	0.00 (0.10)
BLOCKHOLD	H10	+ / -	-0.29* (-1.81)	-0.01 (-0.90)	-0.26 (-1.63)	-0.01 (-1.01)
FAMBLOCK	H10a	+ / -	0.04 (0.37)	-0.00 (-0.15)	0.04 (0.27)	-0.00 (-0.09)
BOARDBLOCK	H11	+ / -	0.30 (1.45)	0.012 (1.01)	0.21 (1.04)	0.01 (0.83)
MANAGBLOCK	H12	+ / -	0.50 (0.93)	0.07** (2.43)	0.38 (0.99)	0.07** (2.57)
FAMBOARDBLOCK	H13	+ / -	0.17 (0.84)	0.00 (0.25)	0.18 (0.87)	0.01 (0.52)
FDEBT			0.25 (0.78)	-0.07** (-2.46)	0.28 (0.78)	-0.06*** (-2.79)
LNFAGE			-0.11 (-1.15)	0.00 (0.57)	-0.15 (-1.53)	0.01 (0.77)
LNFSIZE			-0.34*** (-4.20)	0.00 (0.60)	-0.31*** (-3.92)	0.00 (0.43)
BODSIZE			0.02 (0.51)	0.00 (0.69)	0.05 (0.99)	0.00 (1.06)

Table 5.19 *(Continued)*

	Hypothesis	Hypotheses direction	Panel 1: Base dataset		Panel 2: Discarding outliers	
			MBV	ROA	MBV	ROA
PET			0.28 (0.97)	-0.03 (-1.18)	0.18 (0.61)	-0.02 (-0.89)
CEM			0.97*** (4.50)	0.06*** (3.29)	0.92*** (4.35)	0.08*** (5.13)
RET			0.22 (0.52)	-0.02 (-0.69)	0.34 (0.82)	-0.01 (-0.26)
FOD			0.63*** (3.26)	-0.03 (-1.42)	0.55*** (2.95)	-0.01 (-0.97)
INV			-0.19 (-0.86)	-0.05** (-2.57)	-0.18 (-0.81)	-0.04** (-2.55)
IND			0.16 (0.46)	0.02 (0.75)	0.19 (0.54)	0.03 (1.31)
BLD			0.18 (0.83)	-0.04* (-1.87)	0.07 (0.31)	-0.03 (-1.64)
EST			0.50 (1.06)	-0.03 (-0.73)	0.45 (0.89)	-0.01 (-0.30)
R^2			0.41	0.62	0.50	0.64
Wald Chi^2			303.63	441.33	292.65	443.87
P value			0.00	0.00	0.00	0.00
Number of observations			190	190	188	189
Time periods			5	5	5	5

Note: Figure in the parenthesis is (z value) for MBV and ROA models, Decimals are rounded to the nearest hundredth, ***significant at 1% level (2 tailed), **significant at 5% level (2 tailed), *significant at 10% level (2 tailed). FAMCON = Family ownership concentration, FAMCON2= Quadratic term of family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCON_FAMCEO = Interaction term of FAMCON * FAMCEO, FAMCON_FOUNDCEO = Interaction term of FAMCON * FOUNDCEO, FAMCON2_FAMCEO = Interaction term of FAMCON2 * FAMCEO, FAMCON2_FOUNDCEO = Interaction term of FAMCON2 * FOUNDCEO, FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on the board of directors, FAMSUCCESS = Family successor, BLOCKHOLD = Presence of other blockholders in the ownership, FAMBLOCK = Presence of other family blockholders in ownership, MANAGBLOCK = Presence of other blockholders on the management as CEO, BOARDBLOCK= Presence of other blockholders on the board of directors, FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of the directors FDEBT = Firm debt, LNFAGE = Natural log of firm age, LNFSIZE = Natural log of firm size, BODSIZE = Board size, PET, CEM , RET, FOD, INV, BLD & EST are dummies indicate to Petrochemical, Cement, Retail, Agriculture and food, Multi-investment, Industrial investment, Building and construction, Real estate development sectors respectively.

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5.6.3 Sensitivity of Family Firm Definition

Consistent with prior studies such as Astrachan and Shanker (2003), and Westhead and Cowling (1998), in testing the robustness of the results to define family firms, two differing family ownership cut-off points were used namely 10% and 20%. Firms having 5%, 10% and 20% are represented as low, moderate and high family ownership concentration respectively. Table 5.20 displays the results. Specifically, in Table 5.20 Panel 1, where the MBV is a dependent variable, it is evident that the non-linearity of family ownership is confirmed when the family ownership cut-off is low at 5% and moderate at 10%.

Nevertheless, with the employment of 20% family ownership as a minimum cut-off for defining family firms, the evidence becomes insignificant at $(p > 0.10)$ indicating the non-existence of family members entrenchment-controlling behavior in firms with highly concentrated family ownership. With regards to family involvement in management, significant evidence points to the negative moderating impact of family CEOs in firms having moderate and high family ownership concentration.

Contrastingly, founder CEOs was reported to positively moderate the family ownership-market performance relationship (MBV). This indicates the significant role of the founders when they involve themselves in the daily functions of the firm. Additionally, evidence supports the contention that family directors have an important role in protecting the shareholders' interests in family firms, regardless

of the reported family ownership cut-offs. Evidently, the results showed that the presence of other blockholders in ownership structure failed as an efficient governance mechanism in Saudi family firms because the variable coefficient of BLOCKHOLD maintained a negative sign in the entire models (5%, 10% and 20%). In a minimum of 20% family ownership, sharing ownership with other family blockholders (FAMBLOCK) and the other blockholders presence on the board of directors (BOARDBLOCK) negatively and positively impacts the market performance of the firm (MBV), respectively.

It is interesting to note that with regards to ROA, the presence of other blockholders on the firm's ownership structure was found to be significant at the 10% level but this is only confined to high family concentrated firms – the rest of the variables were found to be statistically insignificant.

The results presented in Table 5.20 are consistent with the contention of Shanker and Astrachan (1996) that contrasting outcomes can be reached through the adoption of differing definitions of family firms despite the same dataset employed. This shows the importance of an accurate and appropriate definition of family firms which has been stressed time and again by business scholars (Chrisman et al., 2005; and Chrisman et al., 2007).

Table 5.20

Robustness Analyses: Cross-Sectional Time-Series FGLS Regression for MBV and ROA after Adopting Different Family Ownership Cut-Offs

Variable	Panel 1 : Market-to-Book value models			Panel 2 : Return on Assets models		
	Model (1) Family ownership 5% cut-off	Model (2) Family ownership 10% cut-off	Model (3) Family ownership 20% cut-off	Model (1) Family ownership 5% cut-off	Model (2) Family ownership 10% cut-off	Model (3) Family ownership 20% cut-off
FAMCON	-2.36* (-1.66)	-3.68** (-2.45)	2.64 (0.52)	-0.04 (-0.31)	-0.17 (-0.79)	-0.63 (-0.89)
FAMCON2	3.80* (1.77)	6.05*** (2.68)	-2.58 (-0.40)	0.17 (0.97)	0.28 (0.93)	0.69 (0.75)
FAMCEO	-0.17 (-0.16)	-2.50** (-2.32)	-8.18*** (-4.58)	0.02 (0.51)	-0.02 (-0.17)	-0.51* (-1.82)
FAMCON_FAMCEO	0.50 (0.07)	18.23*** (2.60)	50.77*** (5.03)	0.11 (0.39)	0.30 (0.41)	3.02* (1.76)
FAMCON2_FAMCEO	-0.06 (-0.01)	-23.43*** (-2.74)	-58.55*** (-5.22)	-0.34 (-0.89)	-0.43 (-0.49)	-3.21 (-1.62)
FOUNDCEO	4.51*** (3.95)	6.94*** (5.68)	5.91*** (2.96)	0.03 (0.40)	0.09 (0.76)	0.20 (0.62)
FAMCON_FOUNDCEO	-27.93*** (-3.69)	-40.30*** (-5.12)	-36.55*** (-2.92)	-0.36 (-0.73)	-0.60 (-0.77)	-1.25 (-0.64)
FAMCON2_FOUNDCEO	43.56*** (4.32)	56.16*** (5.36)	45.60*** (3.38)	1.20* (1.81)	1.36 (1.40)	1.61 (0.75)
FAMBOD	1.19** (1.99)	1.21* (1.80)	2.34** (2.22)	0.04 (0.97)	0.01 (0.09)	-0.17 (-1.18)
FAMCHAIR	0.07 (0.48)	-0.03 (-0.16)	-0.21 (-0.30)	-0.00 (-0.15)	0.01 (0.56)	-0.05 (-0.89)
FOUNDCHAIR	-0.10 (-0.85)	-0.18* (-1.82)	1.00 (1.63)	-0.01 (-0.69)	-0.00 (-0.07)	0.04 (0.79)
FAMSUCCESS	0.15 (0.33)	0.31 (0.53)	0.24 (1.24)	0.00 (0.08)	0.01 (0.25)	0.02 (0.36)
BLOCKHOLD	-0.29* (-1.81)	-0.33* (-1.88)	-1.23*** (-3.84)	-0.01 (-0.90)	-0.02 (-0.84)	-0.06* (-1.71)
FAMBLOCK	0.04 (0.37)	0.19 (1.45)	-0.52*** (-3.02)	-0.00 (-0.15)	-0.01 (-0.47)	-0.00 (-0.03)
BOARDBLOCK	0.30 (1.45)	0.41 (1.50)	1.99*** (2.65)	0.012 (1.01)	0.03 (1.34)	0.03 (0.51)
MANAGBLOCK	0.50 (0.93)	0.79 (1.35)	1.54 (1.32)	0.07** (2.43)	0.06 (1.41)	-0.10 (-0.85)
FAMBOARDBLOCK	0.17 (0.84)	-0.07 (-0.26)	-0.06 (-0.11)	0.00 (0.25)	-0.00 (-0.03)	0.04 (0.93)
FDEBT	0.25 (0.78)	0.150 (0.36)	-1.245* (-1.96)	-0.07** (-2.46)	-0.05 (-1.18)	-0.03 (-0.40)
LNFAGE	-0.11 (-1.15)	-0.12 (-1.01)	-0.32** (-2.17)	0.00 (0.57)	-0.01 (-0.80)	0.01 (0.57)
LNFSIZE	-0.34*** (-4.20)	-0.05 (-0.50)	0.35* (1.89)	0.00 (0.60)	-0.00 (-0.36)	0.01 (0.63)
BODSIZE	0.02 (0.51)	-0.18*** (-3.35)	-0.35*** (-7.50)	0.00 (0.69)	0.00 (0.42)	-0.01 (-0.94)
PET	0.28 (0.97)	0.19 (0.53)	0 (.)	-0.03 (-1.18)	-0.03 (-0.81)	0 (.)
CEM	0.97*** (4.50)	1.48*** (4.80)	1.86*** (3.37)	0.06*** (3.29)	0.09*** (3.61)	0.11*** (3.27)

Table 5.20 *(Continued)*

Variable	Panel 1 : Market-to-Book value models			Panel 2 : Return on Assets models		
	Model (1) Family ownership 5% cut-off	Model (2) Family ownership 10% cut-off	Model (3) Family ownership 20% cut-off	Model (1) Family ownership 5% cut-off	Model (2) Family ownership 10% cut-off	Model (3) Family ownership 20% cut-off
RET	0.22 (0.52)	0.47 (0.99)	0.65 (0.73)	-0.02 (-0.69)	0.01 (0.16)	0.08 (0.87)
FOD	0.63*** (3.26)	0.50** (2.23)	0.87 (1.58)	-0.03 (-1.42)	-0.00 (-0.15)	-0.03 (-0.52)
INV	-0.19 (-0.86)	-0.24 (-0.97)	0.74 (0.91)	-0.05** (-2.57)	-0.05* (-1.80)	-0.07 (-1.21)
IND	0.16 (0.46)	0.47 (1.21)	0.81* (1.65)	0.02 (0.75)	0.03 (0.81)	-0.00 (-0.08)
BLD	0.18 (0.83)	0.07 (0.26)	1.21** (2.42)	-0.04* (-1.87)	-0.00 (-0.14)	0.04 (0.89)
EST	0.50 (1.06)	0.20 (0.37)	-0.49 (-0.94)	-0.03 (-0.73)	-0.01 (-0.23)	0.00 (0.03)
Constant	8.62*** (6.03)	4.19*** (2.83)	-3.90 (-1.16)	-0.02 (-0.20)	0.16 (1.03)	0.057 (0.20)
N	190	147	80	190	147	80
R^2	0.41	0.55	0.73	0.62	0.62	0.79
Wald chi²	303.63	150.54	9371.85	441.33	420.75	185.90
p value	< 0.001	< 0.001	< 0.001	< 0.001	< 0.001	< 0.001

Notes: z-statistics in parentheses, Decimals are rounded to the nearest hundredth , *p < 0.1, **p < 0.05, ***p < 0. FAMCON = Family ownership concentration, FAMCON2= Quadratic term of family ownership concentration, FAMCEO = Family CEO, FOUNDCEO = Founder CEO, FAMCON_FAMCEO = Interaction term of FAMCON * FAMCEO, FAMCON_FOUNDCEO = Interaction term of FAMCON * FOUNDCEO, FAMCON2_FAMCEO = Interaction term of FAMCON2 * FAMCEO, FAMCON2_FOUNDCEO = Interaction term of FAMCON2 * FOUNDCEO, FAMCHAIR = Family chairman, FOUNDCHAIR = Founder chairman, FAMBOD = Family representation on the board of directors, FAMSUCCESS = Family successor, BLOCKHOLD = Presence of other blockholders in the ownership, FAMBLOCK = Presence of other family blockholders in ownership, MANAGBLOCK = Presence of other blockholders on the management as CEO, BOARDBLOCK= Presence of other blockholders on the board of directors, FAMBOARDBLOCK= Presence of other family blockholders either on the management and/or the board of the directors FDEBT = Firm debt, LNFAGE = Natural log of firm age, LNFSIZE = Natural log of firm size, BODSIZE = Board size. PET, CEM , RET, FOD, INV, BLD & EST are dummies indicate to Petrochemical, Cement. Retail, Agriculture and food. Multi-investment, Industrial investment, Building and construction. Real estate development sectors respectively.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Overview of the Chapter

This chapter concludes the main findings from the results presented in the previous chapter, and suggests some recommendations for the appropriate regulatory bodies and interested parties to consider. It consists of five sections, including Section 6.1. Section 6.2 summarizes the findings from the main equation in the study, while Section 6.3 highlights the implications of the study. This is followed by Section 6.4, which explains the limitations of the study and suggests future research. Finally, Section 6.5 concludes the entire thesis.

6.2 Summary of the Study

The present study examined the effect of family involvement in the ownership of the firm, management, control, succession and the blockholders' role on the performance of Saudi family public listed firms. The study employed panel data of 190 firm-year observations from 38 firms in the years from 2007 to 2011. The study showed that family ownership concentration enhances accounting performance despite the non-linearity. The study results are consistent with the U-shaped relationship between family ownership concentration and firm value. In

particular, firm value dips when family ownership ranges from 0 to 31% and beyond 31%, it is positively impacted by family ownership concentration.

The results are robust to alternative definition of family ownership (10% family ownership cut-off). This emphasizes the concerns of family shareholders to maximize their own wealth at the expense of minority shareholders, which in turn, impacts the market performance of the firm negatively when their shareholdings are low. However, beyond that degree of ownership (31%), value-maximization of wealth is projected to be in favor of the minority shareholders when family owners maximize their level of ownership. In other words, at low levels of family ownership concentration, the costs of family monitoring exceed the benefits, while the reverse is true at higher level of family ownership concentration.

Regarding the fifth and sixth objective of this study, the results of this study emphasized the beneficial role of the founder in the firm. It is found that founder CEO directly impacts the performance, and also moderates positively the relationship between family ownership and firm performance in the context of MBV and ROA. In other words, when the founder occupies the CEO position of his company, he has the ability to increase the profit and value of the firm. The reasoning is similar to that of the previous literature, which states that the founder is often the one person who knows much about his business and has experienced most of the firm's day-to-day events, starting from its establishment. Such long tenure of the founder and his accumulated knowledge equip him with a good

enough experience to efficiently maintain firm's culture, vision and long-term survival. Therefore, it can be noted that in Saudi Arabia, the founder occupies a unique position in the firm and management members always consult the founder before most of the decisions are made. Another possible justification behind the result is that, most family businesses in Saudi Arabia have a priority to protect their reputation in the market against any damage - this motivates them to effectively manage and strive for long-run profit creation and value maximization, by aligning the interests of the family owners and those of management. In addition, the ambitions and leadership of the founder, coupled with the various internal and external resources available, can serve as a platform of opportunity to the founder to exert considerable influence on the performance of his firm.

Further, family representation on board of directors is revealed to positively affect firm's value. As stewardship theory postulates superior performance of family directors on the board; the results partially confirm this superiority in terms of market performance of Saudi PLCs. The reasons behind these findings may be that family directors appear to have well-built trustful relations with their relatives that equip them with a unique advantage and incentive to effectively monitor and avoid any possible opportunistic and exploitative behaviour of management. Bearing in mind the strong ancient tribal system in Saudi Arabia, family directors are believed to be more knowledgeable of the firm due to flow of information from various sources. This provides their motivation to work in the best interests of the controlling family shareholders, in terms of achieving family objectives,

protecting family legacy, longevity and maintaining business survival, in order to pass it on to subsequent generations. Hence, family directors contribute to firm performance positively.

The objectives 11,12,13,14 and 15 of this research focus on the impact of the existence of other blockholders in ownership (H10, H10a), the board of directors (H11), management (H12) (and their identity (H13)) on the performance of Saudi PLCs. Findings from this study partially support hypotheses H10 for the existence of other blockholders in ownership and H12 for the presence of other blockholders in management.

Existence of other blockholders in ownership is found to have a negative relationship with MBV. The findings show that the presence of other blockholders only in ownership does not lead to better performance, but instead affects market performance of the firm in a negative way. The reason behind these results may be that only the presence in ownership without further contribution to the tasks of the board of directors and/or management may deprive the company of gaining different resources that are vital and necessary for the company to maintain success and competitive advantages. Another possible explanation is that the lack of presence of other blockholders, except in ownership, without further monitoring and controlling, facilitates the expropriation behaviour of the controlling shareholders (i.e., increases principal-principal agency cost), and,

hence, compromises shareholders' wealth and eventually negatively affects the firm's value.

In terms of other blockholders' existence in the management, the findings show a positive relationships between the variable and ROA, supporting the view of the critical role of other blockholders in mitigating the possible agency problem that may arise between the dominant shareholders and management, specially in countries with concentrations of wealth, such as Saudi Arabia. This ultimately enhances the firm's profitability. Another possible explanation for the positive effect of presence of other blockholders in the management comes from the hindrance of the centrality of the decision-making process being in the hands of the dominant shareholders. Since Saudi Arabia is a country with concentrated ownership firms, the decision-making is mostly a closed process maintained by a closed related group of directors. So, presenting other blockholders in the management tying them closely to firm's mission, day-to-day operations that make them greatly involved in more managerial responsibilities that increasingly contribute to the success.

6.3 Implication of the Study

Both theoretical and practical implications of the study are discussed in the following sections.

6.3.1 Theoretical Implications

The present study explicitly investigates the relationship between family involvement in ownership, management, control, succession, and presence of other blockholders with firm performance. Further, this study includes some new variables (presence of other blockholders in management, board of directors, and presence of other family blockholders, either on the board of directors and/or management) and new moderating variable (founder CEO). In doing so, this study contributes to the extant literature and provides conclusive evidence concerning family involvement of firms based in a Saudi setting.

Although Saudi Arabia is a country full of family businesses, the role of family involvement in the organization is still unclear and needs to be addressed. For achieving such a goal, one must take into account the unique characteristics of those businesses and the country under focus (e.g., ingrained tribal solidarity system, nomadic lifestyle, and others). Hence agency and stewardship theories are found to be integrally pronounced in this study. On the one hand, the significant positive moderating effect of the founder when he takes the place as CEO of the company, holding the position of firm chairman, and dominating the board of the directors by family members, support the stewardship perspective of family role, but on the other hand, the presence of other blockholders on board of directors and management, statistically and significantly impacts the company's profitability and supports the agency perspective.

6.3.2 Practical Implications

This study may have several practical implications to companies and shareholders in Saudi Arabia. First, the findings of this study may assist the potential investors, stakeholders, and the public to understand the characteristics of family and non-family firms and the role of family involvement in relation to firm performance. Second, family firms should strive for more nuanced understanding of the available corporate governance mechanisms to adapt their own appropriate mechanisms in order to facilitate better performance. Third, the results contribute to the existing debate on the appropriate regulations for an effective corporate governance code. They offer regulatory bodies additional evidence on the positive impact of corporate mechanisms to protect shareholders' wealth. Fourth, there are implications in these results that suggest that some of the regulations of Saudi corporate governance code can be a problem that may influence the development process of Saudi code; for example, restriction of members' independence on the board of directors. While the Saudi corporate governance code clearly states that the percentage of non-independent members on the board of directors shall not exceed two-thirds of the total members, the evidence from this study indicates that the higher the level of family representation on the board of directors, the better the firm performs in the context of MBV. However, such rule may adversely affect the performance of listed companies, more specifically, family firms, which in turn, restrains the intention of many family firms to go public. Therefore, in order to expand the efficiency of Saudi code, the code should deal

with family businesses as a special case or different codes should be set up distinct from those that apply to non-family ones.

6.4 Study Limitations and Recommendations for Future Research

As with all other studies, this study has its own limitations. For instance, one of the limitations of the study is its focus on the family firms listed on the Saudi Stock Exchange. This shows that the results may not be appropriately employed on family privately-owned firms (non-listed firms).

Another limitation is the scarcity of official information concerning Saudi family firms, in a country where secrecy issue is acknowledged and is characterized by a tribal and nomadic lifestyle. Also, as Winter *et al.* (1998) contended, one of the significant issues in research methodologies related with family business studies on a global scale is the collection of data. Most of the information of family businesses is unpublished and on top of that, they are hesitant to expose business information to the media or for study purposes. Therefore, future research may embark on examining the same topic via a different methodology. Although this study's secondary data is confirmed to have empirical robustness, an overall picture of family involvement in the firm could be highlighted and explained by using other data collection methods like questionnaires/surveys.

Furthermore, the present study neglected all succession events out of the five year period of study (2007-2011) and accordingly, future studies could take any succession event existing within the firm's lifetime into consideration.

Moreover, the difficulty of getting organization structures of the companies along with the names of executives, make it difficult to measure the level of family involvement in management. Consequently, the study only focuses on whether or not the family is present by using a dummy variable.

Finally, the study relies solely on the last names of shareholders and supervisory directors to define family members in the firm. In other words, this study emphasizes the direct (blood) relationships among shareholders and supervisory directors. However, any indirect (kinship) relationships (i.e., by marriage) are not taken into account due to the scarcity of governmental and specialist sources that are able to provide such information. With respect to research insights, it might be interesting to investigate the direct and indirect relationships between shareholders and executive and advisory directors, and even among shareholders themselves.

6.5 Conclusion of the Study

In summary, this study investigates the relationship between family involvement in ownership, management, control, succession, and the presence of other blockholders to firm performance. Using longitudinal data, from a panel of 38

non-financial Saudi PLCs (190 firm-year observations) from 2007 to 2011, and employing two different performance indicators (MBV and ROA), this study provides a sharp insight and deepens our understanding of the family firm's characteristics influencing firm performance, especially with unique family culture and different Arabic traditions. In line with the general notion and findings stream of some studies in family-oriented countries around the world, outperformance of high-concentrated family ownership firms is evidenced by the results of this study. However, when the non-linearity of family ownership is considered, a strong evidence of entrenchment-controlling behaviour of the family is confirmed.

The stewardship theory and the agency theory were both found to be essential in expounding on the difference in the performance of Saudi family PLCs. On the one hand, founder-CEOs and family directors are considered as stewards of the companies, so they work for the benefit of the firms and all shareholders as a whole. On the other hand, the presence of other non-family blockholders in management not in ownership plays a vital role in mitigating principal-principal agency cost, which consequently, increases the firm's profitability. In practice, Saudi companies have made great strides to practice corporate governance, however, further improvements in enactment of the code to accommodate the unique characteristics of family firms are still needed.

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