FAMILY INVOLVEMENT AND FIRM PERFORMANCE: EVIDENCE FROM SAUDI ARABIA

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DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
August 2014
FAMILY INVOLVEMENT AND FIRM PERFORMANCE: EVIDENCE FROM SAUDI ARABIA

BY

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Thesis Submitted to the
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in fulfillment of the requirements for the degree of Doctor of Philosophy
Kolej Perniagaan  
(College of Business)  
Universiti Utara Malaysia

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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

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

IN THE NAME OF GOD, THE MERCIFUL, THE COMPASSIONATE:

Praise be to God, the Lord of the worlds and prayers and peace upon Mohammed, His servant and Messenger.

The road to achieving a successful PhD thesis is rife with various obstacles and concerns that may well lead to failure if not for continuous commitment to the task and unraveling support from family and friends.

Accordingly, I would like to acknowledge all the individuals involved in my PhD journey and to express my heartfelt gratitude and appreciation for their unending generosity of support and encouragement. Firstly, I am thankful to Allah, SWT for His immeasurable blessings and guidance that guided me in my quest for PhD and for granting me with good health.

My heartfelt gratitude goes to my main supervisor, Prof. Ku Nor Izah Bt Ku Ismail and my co-supervisor Dr. Noor Afza Binti Amran for their encouragement, support and guidance from the onset of the thesis to its completion. Their unending supervision, guidance and opinions have transformed me into the better student and researcher I am today.

I also owe a great amount of gratitude to my dearest father Abdullah, my mother, Radiah, my siblings, Hafez, Ramzi, Mohammed, Ebrahim, Belal, Haitham, Ahlam, and Ebtihal, my uncle Abdulghani, my aunt Moghniah and all my family members in Yemen for their unwavering love, respect, prayers and support. Specifically, I thank my father for his continuous concern about my education, his generosity, and the good values and pride he taught me and I thank my mother for bringing me up with kindness, and mercy and for her unending prayers. I have accomplished what I did to make you all proud of me in this world and in the hereafter.

My heartfelt gratitude goes to my wife Wardali who stood by me through thick and thin, providing love, sacrifice, patience, and confidence and putting up with my occasional absent minded self, and most of all taking care of our children and always facilitating the most suitable environment for my research completion. I also give my thanks and support to my children, Al-Khattab, Basmalah and Ayat who made my PhD journey enjoyable, with the hope that when they reach my status, they will realize how much effort and sacrifice I have exerted and how I will always love them.

My deepest gratitude goes to the government of the Republic of Yemen for the scholarship provided by the Ministry of High Education and Scientific Research and my close friend, Ali Al-Ansi who assisted me in completing the scholarship...
procedures, without which my dissertation and PhD would never have been possible.

I am also thankful to Al-Joman Center for Economic Consultancy for printing a part of my data free of charge, the UUM library staff and experts for their untiring assistance in collecting data online, and every individual working in OYA and College of Business for their sincere help and support.

I want to extend my deepest gratitude to all my dear friends in UUM for their continuous support, kindness and encouragement, and my doctoral friends who enlightened me with statistical knowledge and methodologies, particularly Dr. Abdullah Al-Swidi, Dr. Nasser Al-Ariqi, Dr. Hamdan Al-Jaifi, and Dr. Abdulsamad Al-Azzani and others. Please know that even though your names are not mentioned here, your great contribution to my PhD journey will not be forgotten.

My gratitude also goes to my classmate, Khalaf Al-Khazalh from Jordan, who eventually had to defer his doctoral study in favor of returning home to his ailing mother. I would also like to thank all my Malaysian and Arab classmates, my friends and my neighbors in Changloon who shared my joys and sorrows, if only for a short while.

Last but not least, to my best friend for life since my Bachelor days in Egypt, Mareai Al-Awbathni, I am beholden to you for maintaining contact and for your endless moral support and encouragement.
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LIST OF ABBREVIATIONS

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
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