

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 boleh 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. Dapatkan 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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## **LIST OF APPREVIATIONS**

|         |  |
|---------|--|
| 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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