

**Dancing with giants: Contextualizing state and family ownership effects on firm performance  
in the Gulf Cooperation Council**

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**Abstract:** While principal–principal problems are prevalent in emerging economies, the severity of these problems could vary based on the identity of shareholders and the institutional context. This study theoretically and empirically analyzes the effect of state and family blockholders as well as their possible interaction on financial firm performance in the Gulf Cooperation Council (GCC) countries. Using a dataset of 389 non-financial firms and 2,607 observations (2009–2015), we found that ownership held by the state as the largest shareholder has a negative effect on firm performance, whereas this negative effect disappears when the state owns between 15% and 50% of shares and coexists with local families as other large shareholders. Our findings contribute to the nexus between the family business and corporate governance literature by studying principal–principal agency problems and the impact of owner combinations on firm performance in emerging economies in the GCC region.

**Keywords:** state ownership, family ownership, agency theory, emerging economies, Gulf Cooperation Council countries

## **ACKNOWLEDGEMENTS**

The authors gratefully acknowledge the support of the Sheikh Saoud bin Khalid bin Khalid Al-Qassimi Chair in Family Business and the Spanish Ministry of Economy, Industry and Competitiveness, Secretariat for Research, Development and Innovation; project ECO2015-69058-R. Irma Martínez García acknowledges the grant from the Ministry of Education's Faculty Training Programme (FPU14/04758) and the Sheikh Saoud bin Khalid bin Khalid Al-Qassimi Chair in Family Business at American University of Sharjah for her visiting period and for supporting her research on family business in the Arab world. We would like to thank our research assistants Simran Chowdhry, Raya Alhawandeh, and Bilal Awan for their help during the data collection process.

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**Abstract:** While principal–principal problems are prevalent in emerging economies, the severity of these problems could vary based on the identity of shareholders and the institutional context. This study theoretically and empirically analyzes the effect of state and family blockholders as well as their possible interaction on financial firm performance in the Gulf Cooperation Council (GCC) countries. Using a dataset of 389 non-financial firms and 2,607 observations (2009–2015), we found that ownership held by the state as the largest shareholder has a negative effect on firm performance, whereas this negative effect disappears when the state owns between 15% and 50% of shares and coexists with local families as other large shareholders. Our findings contribute to the nexus between the family business and corporate governance literature by studying principal–principal agency problems and the impact of owner combinations on firm performance in emerging economies in the GCC region.

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## 1. Introduction

Empirical evidence undermines the traditional assumption of dispersed ownership in modern corporations by showing that ownership concentration is a common pattern globally (e.g., Borisova, Fotak, Holland, & Megginson, 2015; Claessens, Djankov, & Lang, 2000; Faccio & Lang, 2002; Gonzalez, Molina, Pablo, & Rosso, 2017). The two most common types of investors are controlling shareholders, namely, the state and families. While state ownership accounts for about one-fifth of market capitalization globally (Borisova et al., 2015), family ownership is the most prevalent type of ownership worldwide (La Porta, Lopez-De-Silanes, & Shleifer, 1999). Ownership concentration and the identity<sup>1</sup> of firms' primary large owners matter for corporate governance because of principal–principal agency problems (Kumar & Zattoni, 2017), or Type II agency problems, which may affect firm performance. Principal–principal problems lie in the conflicts of interests not only between large and small shareholders (e.g., tunneling) but also among large shareholders whose objectives, risk preferences, and investment horizons often differ (Bennedsen & Wolfenzon, 2000; Boyd & Solarino, 2016; Sutton, Veliyath, Pieper, Hair, & Caylor, 2018; M. N. Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

The effect of multiple large shareholders on firm performance cannot be considered in isolation, however, as the institutional and developmental conditions vary across countries (Basco, 2017a; Whetten, 2009). Indeed, institutional factors shape cross-national differences in corporate ownership patterns, such as ownership concentration and the identity of the main

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<sup>1</sup> In this article, ownership identity refers to categories of owners based on common similarities, such as individuals (e.g., sole owners or entrepreneurs), groups of individuals (e.g., families), and legal entities (e.g., other organizations, states, and mutual funds among other types of owners).

shareholders (Aguilera & Jackson, 2003; Morgan, Campbell, Crouch, Pedersen, & Whitley, 2010). In particular, emerging economies are characterized by weaker formal institutions than developed countries as well as different informal institutions (Armitage, Hou, Sarkar, & Talaulicar, 2017). As a result, larger shareholders—especially families and the state—frequently hold controlling stakes in firms (Claessens & Yurtoglu, 2013), making principal–principal agency problems even more pervasive (Boyd & Solarino, 2016; Young et al., 2008). Following Armitage et al. (2017), who addressed the importance of ownership structures and controlling shareholders in emerging economies and drawing on agency theory, this study focuses on principal–principal agency problems that may emerge when the state and families are large shareholders, and on these shareholders’ impact on financial firm performance in the institutional contexts of emerging economies.

In particular, this study analyzes the effect of state and family ownership on financial firm performance across Gulf Cooperation Council (GCC) countries, namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).<sup>2</sup> We focus on GCC countries not only because less research on corporate governance has been conducted in these countries (with some exceptions; e.g., Abdallah & Ismail, 2017) but also because of the specificities of the GCC region. GCC countries share homogeneous characteristics in both their formal institutional contexts (e.g., Arab monarchies) and their informal institutional contexts (e.g., patriarchal culture). In addition, the economic development of all GCC countries has been based on the

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<sup>2</sup> The boundaries of the emerging economy concept are diffused across academic, practical, and political arenas. While the list of emerging economies employed by different groups of analysts varies (International Monetary Fund, FTSE International Limited, Morgan Stanley Capital International Emerging Markets Index, Standard & Poor’s 500, Emerging Markets Bond Index, Dow Jones, and Russell), we followed an inclusive approach by considering GCC countries to be emerging economies.

exploitation of natural resources, a rentier economic system, the power of the state, and the association between ruler families and the network among local and regional business family elites (Hanieh, 2011). GCC countries are examples of state-led capitalism, with real estate markets and financial sectors often linked to state interests (Young, 2018). Under these circumstances, the ownership concentration of listed firms across GCC countries is high (Eulaiwi, Al-Hadi, Taylor, Al-Yahyaee, & Evans, 2016). All these characteristics allow us to answer the following research questions: *Does state and family ownership matter for financial firm performance in GCC countries? How does the coexistence of families—as large shareholders—with the state—as the largest shareholder—affect financial firm performance in GCC countries?*

Building on principal–principal agency problems, we hypothesize that both state and family blockholders as the largest shareholders negatively affect financial firm performance in GCC countries because each of these blockholders pursues its own agenda at the expense of the other blockholders and minority owners. We also theorize that the close social connections and local embeddedness of these two large shareholders in GCC countries lead families to monitor the state when families are not the largest shareholders but coexist with the state when they are the largest shareholders. Consequently, the negative impact of the state as the largest owner on financial firm performance is mitigated when families coexist as blockholders with the state. To test our hypotheses, we built a dataset taking the entire population of firms listed on GCC stock markets between 2009 and 2015 as the initial sample. Using the universe of all listed firms in the region enables us to overcome the frequent limitation of using only the largest listed firms (Sacristán-Navarro, Cabeza-García, & Gómez-Ansón, 2015). After applying filters and focusing on

non-financial firms only, we ended up with a longitudinal dataset consisting of 389 non-financial listed firms and 2,607 observations.

After controlling for firm heterogeneity and endogeneity issues, we found that ownership identity matters for firm performance. Consistent with our hypothesis on the prevalence of principal–principal agency problems in emerging economies, the results indicate that the state as the largest shareholder has a negative effect on financial firm performance, whereas families as the largest shareholders do not seem to affect financial firm performance. Additionally, we found that the negative effect of state ownership on firm performance disappears when the state as the largest shareholder owns between 15% and 50% of the shares and coexists with local families as other blockholders. Finally, there is evidence to support that, at least under certain circumstances, families can control and contest the state, reducing the negative impact of state ownership on financial firm performance.

Our findings contribute to the nexus between the family business and corporate governance literature in several ways. First, we empirically contribute to Maury and Pajuste's (2005) thesis that the relationship between multiple blockholders and financial firm performance is significantly affected by blockholders' identity. In this sense, we shed new light on whether family ownership creates or destroys firm value (Kammerlander, Sieger, Voordeckers, & Zellweger, 2015). Specifically, we found that when a family is the largest shareholder, there is no evidence that it creates or destroys value; however, the combination of families as other large shareholders with the state alleviates the principal–principal problems associated with state ownership, thus improving financial firm performance. Second, we respond to the call by Peng and Sauerwald (2013) to challenge the general claim that ownership concentration and a poor

formal institutional context increase the probability of principal–principal agency problems (Young et al., 2008) by demonstrating that principal–principal agency problems do not necessarily always have to occur. The identity of blockholders and coexistence of large owners (in different combinations) matter, and they may determine whether multiple blockholders collude or control one another and, consequently, how they affect firm financial performance. Third, our study responds to the call by Armitage et al. (2017) to study ownership structure and concentration in emerging economies by contextualizing the principal–principal agency problems between large blockholders in GCC countries. Addressing the research gap that family business research is contextless (Gomez-Mejia, Basco, Müller, & Gonzalez, 2020), we show that the effect of family ownership on firm financial performance changes when combined with other large blockholders in GCC countries.

The remainder of this article is organized as follows. Owing to the importance of the context for our research, we first discuss the peculiarities of emerging GCC countries to identify the characteristics that play a role in contextualizing the theory (Whetten, 2009). Second, we discuss the theoretical framework and reasoning used to develop our hypotheses. Next, we explain the sample, data, and methodology adopted in this study. Finally, we report the results and discuss the findings, along with concluding remarks and practical implications.

## **2. Emerging GCC countries**

Emerging and developing economies such as Africa, the Middle East, Eastern Europe, Latin America, and Asia represent most of the world’s population and encompass the majority of global purchasing power (Fainshmidt, Smith, & Judge, 2016). The state and families as large



shareholders are especially relevant in emerging economies (Aguilera & Judge, 2014). For instance, as Wooldridge (2012, p. 7) pointed out, “state companies make up 80% of the value of the stock market in China, 62% in Russia and 38% in Brazil. They accounted for one-third of the emerging world’s foreign direct investment between 2003 and 2010 ... as well as a growing proportion of the very largest firms.”

Moreover, emerging markets are known for their large successful family firms, such as Tata Group in India, Arçelik A.Ş. in Turkey, Falabela in Chile, Metalurgica Gardau in Brazil, and America Movil in Mexico, to mention but a few. Even in countries typically associated with state-owned businesses such as China, family firms are important economic actors. In other countries such as South Korea, family firms dominate economic activities but also possess government connections (e.g., a member of the family that controls Samsung is the former president of the country) (Aguilera, Kabbach de Castro, L. R. Lee, & You, 2012; Wharton, 2016). Emerging economies are not homogeneous, however, and specificities that could influence the theoretical interpretations for analyzing and predicting firm behavior and performance must be recognized.

Moreover, because of their specificities, GCC countries differ from other emerging economies. Although each GCC country’s relationship with the British Empire (Hanieh, 2011), the United States, and other European countries has a specific historical trajectory, all the GCC countries have common homogenous characteristics in terms of their formal institutional contexts (i.e., they are all ruled by Arab monarchies) and their informal institutional contexts (i.e., they all have high levels of power distance, uncertainty avoidance, and masculinity and low levels of individualism [Hofstede, 1983]). Table 1 provides a summary of GCC countries’ economic, institutional, and social indicators. An additional common characteristic among GCC countries is

that their recent economic development has come from the exploitation of natural resources, which has triggered rapid political, social, cultural, and economic changes. Unlike other emerging economies, economic development in the GCC has been linked to member countries' political structure, which is characterized by monarchies (ruler families), state control over economic and social environments to guide and define economic development, and the association between ruler families and network of local/regional business families (Hanieh, 2011) as mechanisms to sustain economic progress (Kamrava, Nonneman, Nosova, & Valeri, 2016).

Insert Table 1 around here.

Owing to their formal and informal institutional contexts, political and economic structures, and the link between business elites and the state, GCC countries belong to an institutional system that Fainshmidt et al. (2018) called a "centralized tribe."<sup>3</sup> In these economies, "a set of elites controls and manages dominant firms and many other aspects of the economy" (Fainshmidt et al., 2018, p. 318). This variety of institutional systems corresponds to welfare state systems with high state dominance and indirect intervention; the low importance of equity markets; high family wealth; high state-provided capital; high knowledge capital; low social capital (generalized trust); and corporate governance characteristics involving high ownership concentration, family ownership, and family intervention. In this type of institutional system, families play a paternalistic role, serving as the guardians of key resources and providing a safety net for lower levels of society. Hence, in these economies, the boundaries between family and state often blur (Fainshmidt et al., 2018).

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<sup>3</sup> Fainshmidt et al. (2016) considered 68 economies from Africa, the Middle East, Eastern Europe, Latin America, and Asia, including all GCC countries with the exception of Oman.

Based on the aforementioned contextual characteristics, the International Monetary Fund described the firm ownership structure in GCC countries as strongly concentrated, with a public sector highly involved in economic activities and holding companies, non-widespread cross-shareholdings, and networks based on ownership involving hierarchical structures and multiple lines of command (Oliveira Santos, 2015). The high ownership concentration of GCC-listed firms reflects the weak formal institutional context's inability to protect shareholders' rights, specifically those of minority shareholders. In this context, large ownership stakes are necessary for investors to appoint a board of directors and control and protect the firm financial endowment. Thus, GCC countries are ideal for exploring the effect of state and family ownership on financial firm performance.

### **3. Theoretical background and hypotheses development**

#### *3.1. State ownership and firm performance in GCC countries*

The relationship between state ownership and performance has been studied extensively in emerging economies, mainly in relation to the privatizations that accompanied market liberalization in the 1980s. The theoretical reasoning justifying privatization comes from agency theory. While the state as a shareholder can reduce principal–agent (i.e., Type I) agency problems by aligning the interests of owners and managers, its power inside and outside firms can lead firms to pursue political agendas or non-financial goals that may contradict their goal of maximizing profits (principal–principal problems) (Megginson & Netter, 2001).

For example, the state as a large shareholder may pursue inefficient (from the firm's point of view) political goals to maximize social welfare (Cabeza-García & Gómez-Ansón, 2007), and

public firms may be more risk-averse and less free to make decisions because managers need to justify their strategic decisions to other stakeholders such as employees and the state (Frydman, Gray, Hessel, & Rapaczynski, 2000). Moreover, additional principal–principal problems may arise from dual-level agency relationships (i.e., citizen–government and government–management relationships), the government’s political objectives, firms’ probability of relying on the state for funding (and thus their lower likelihood of facing bankruptcy), and the reduced likelihood that the state will decide to sell firm shares in cases of low profitability (Cabeza-García & Gómez-Ansón, 2007). In line with such principal–principal problems, empirical evidence is inconclusive on whether the relationship between state ownership and firm performance is positive or negative (Boubakri & Cosset, 1998; Wang & Shailer, 2018).

In the GCC, governments and government-owned entities play an important role as investors and hold stakes in more than one-third of the companies in the region (Boubakri, 2013). Two factors may exacerbate the principal–principal problems in GCC countries: 1) low (but developing) investor protection; and 2) important blockholders with different motivations and goals. Regarding the first factor, the quality of legal regulations plays a role. Boubakri et al. (2018) reported that the relationship between state ownership and firm performance in emerging East Asian economies is influenced by the quality of a country’s institutions. That is, state ownership yields higher valuations in countries with better investor protection and enforcement of shareholder rights. In GCC countries, legal protection for minority shareholders has been growing since the 2008 global financial crisis, but still requires significant changes (IMF, 2018). A weak formal institutional environment with low legal protection for investors enhances the agency problems between majority and minority shareholders (i.e., principal-principal problems), forcing

shareholders who have an interest in a firm to increase their ownership position to overcome institutional voids while serving as a substitute for the market for corporate control. Therefore, we expect a negative relationship between state ownership and financial firm performance because of these countries' weak protection of minority shareholders and the resulting probability of wealth expropriation by dominant shareholders due to this lack of protection.

Regarding the second aggravating factor (i.e., misaligned shareholder goals), we must recognize the state's motivations in the GCC. First, as discussed in Section 2, the state redirects the wealth coming from natural resources to support economic and social development. The rentier economy through which the state defines and balances power among business family elites, state's intervention in markets, and economic and social development role of the state (Fainshmidt et al., 2018; Hanieh, 2011; Young, 2018) also mean that the state's power, particularly as the largest shareholder, negatively influences firm behavior. For instance, the state can use its power to impose its own agenda on firms. That is, it likely mandates firm goals that are not necessarily in line with the goals of other shareholders, which might be more profit-oriented.

Some previous empirical findings support the negative impact of state ownership on firm performance in GCC countries: Alfaraih, Alanezi, and Almujaed (2012) found a negative relationship between state ownership and firm performance in Kuwait; Abdallah and Ismail (2017) reported that the positive relationship between governance quality and firm performance is an increasing function of dispersed ownership; and Boubakri, El Ghoul, Guedhami, and Megginson (2018) reported that when state control rights exceed 50%, state ownership leads to lower firm valuations. Boubakri et al's (2018) results are in line with those reported by Tihanhi et

al. (2019), who found, based on a meta-analysis, that state ownership has a negative effect on firm performance that seems to be driven by the state having large shareholdings.

Consequently, considering the above stated aggravating factors that may exacerbate principal-principal problems associated to state ownership and previous empirical evidence for the GCC context, we argue that Gulf states, as the largest shareholders, negatively affect financial firm performance. The importance of states in local and national socioeconomic development allows them to prioritize goals that may not be in the interests of all shareholders and profit maximizing; moreover, they strategically manage information, thereby creating asymmetries with other shareholders. Such asymmetric goals are exacerbated by rising investor protection in the GCC region. Therefore, we propose the following hypothesis:

*Hypothesis 1: State ownership as the largest shareholder negatively affects firm financial performance in GCC countries.*

### *3.2. Family ownership and firm performance in GCC countries*

From an agency theory perspective, family ownership concentration could overcome principal–agent problems because it provides stronger incentives for family owners to control professional managers and align managers’ interests with their own. A high level of family ownership could thus lead to principal–principal conflicts (Calabrò, Campopiano, & Basco, 2017; Morck, Wolfenzon, & Yeung, 2005). Indeed, principal–principal agency problems could be more pronounced when ownership is concentrated in the hands of a family, a homogeneous group of owners, which also controls the strategic direction of the firm (Sutton et al., 2018).

Some authors such as Khanna and Palepu (2000) and Luo and Chung (2005) argued that in weak formal contexts (i.e., those with lower legal protection for shareholders) such as emerging economies, informal family norms (e.g., trust and obligation) act as substitutes for weak formal institutions and hence reduce the agency costs stemming from owner–management conflicts. In weak formal contexts such as those in GCC countries, family owners may also exacerbate informational, risk, and goal asymmetries, triggering the incentives of family owners to expropriate wealth from minority investors to the benefit of the family. Indeed, family owners may aggravate informational asymmetries because of altruism, specifically in collectivistic Arab cultures, which would accelerate family nepotism and entrenchment. For example, the controlling generation, as a result of its altruistic behavior, may develop nepotistic attitudes toward its own children or promote family entrenchment. Family owners may also intensify risk asymmetries because of their family portfolio investment (e.g., when family owners do not have a diversified portfolio to mitigate risks, thereby forcing the firm to pursue conservative strategies) as well as increase goal asymmetries because of family-oriented goals (Aparicio, Basco, Iturralde, & Maseda, 2017; Basco, 2017b). For instance, societies with tribal roots can favor family-oriented goals such as maintaining the managerial or governance control of the firm, even when family managers or directors are ill prepared.

The empirical evidence that supports or rejects these arguments by testing the relationship between family ownership and firm performance in emerging markets is inconclusive. Some authors reported a non-significant relationship in Thailand and Taiwan (Connelly, Limpaphayom, & Nagarajan, 2012; Filatotchev, Lien, & Piesse, 2005). Others showed a positive effect, such as Baek, Kang, and Park (2004) and Chang (2003) for Korean firms, Chu

(2009) for Taiwanese firms, Ciftci, Tatoglu, Wood, Demirbag, and Zaim (2019) for Turkish firms, and Martín-Reyna and Duran-Encalada (2015) for Mexican firms. Empirical evidence also supports the negative impact of family ownership on firm performance, such as Kouki and Guizani (2015) for Tunisian firms, Saidat, Silva, and Seaman (2018) for Jordanian firms, Silva and Majluf (2008) for Chilean firms, and Prabowo and Simpson (2011) for Indonesian firms. Such contradictory results could be associated with the context in which firms operate. Indeed, the relationship between family ownership and firm financial performance may be contingent on the context within emerging economies (Aguilera & Crespi-Cladera, 2012), which could constrain or expand the relationships under study (James, Hadjielias, Guerrero, Discua Cruz, & Basco, 2020; Johns, 2006).

Overall, the characteristics that GCC countries share with other emerging economies (e.g., low protection of minority shareholders) predict a negative effect of family ownership on firm performance. Additionally, considering the specificities of GCC countries in which family elites dominate huge parts of natural and human resources, control substantial proportions of internal productive structures and markets, and legitimate the political structure of the GCC region itself (Hanieh, 2011), families have considerable power, which may aggravate the informational, risk, and goal asymmetries in principal–principal relationships even more, thus negatively affecting firm financial performance. Therefore, we propose our second hypothesis:

*Hypothesis 2: Ownership held by families as the largest shareholder negatively affects firm financial performance in GCC countries.*



### 3.3. Interaction effect between state and family shareholders on firm performance in GCC countries

The presence of multiple large shareholders is common in firms globally, both in developed and in emerging economies. For example, one-third of publicly listed firms in Europe have multiple blockholders (Laeven & Levine, 2008), and multiple blockholdings are also common in the United States (Holderness, 2009) and East Asia. For example, Claessens et al. (2000) reported that more than 30% of their sample of East Asian firms have more than one blockholder. Similarly, the existence of multiple large shareholders is also common in GCC countries (Oliveira Santos, 2015).

Theoretically, the presence of multiple blockholders may influence firm value in two ways (Basu, Paeglis, & Rahnamaei, 2016). First, having multiple blockholders may lead to *collusion*; that is, multiple blockholders may compete to form controlling coalitions to obtain private benefits at the expense of other shareholders, leading to a negative relationship between the dispersion of cash flow rights across large shareholders and firm value (Bennedsen & Wolfenzon, 2000). Second, *monitoring* may affect firm value in the presence of multiple blockholders, as they may monitor each other, reducing the expropriation of wealth and enhancing firm value, particularly when ownership is evenly distributed (Bloch & Hege, 2013; Pagano & Röell, 1998).

Blockholders' identity may influence their collusive or monitoring attitudes. Villalonga and Amit (2010) argued that family firms have greater incentives for both collusion and monitoring, as the private benefits and benefits of monitoring may not be diluted among several independent owners. Whether blockholders' identities coincide may also affect the marginal cost of the private benefit extraction of a controlling coalition and, therefore, their incentives to

collude with or monitor large shareholders (Maury & Pajuste, 2005). The marginal cost of private benefits is presumably lower when the identities of blockholders coincide, which helps explain why, in the European context, some studies report that families, as the largest shareholders, reduce firm performance (Jara-Bertin, López-Iturriaga, & López-de-Foronda, 2008).

To uncover the impact of multiple large shareholders on firm performance, it is also important not only to recognize the identity of blockholders and whether their identities coincide, but also to consider the institutional context. As already discussed, two important large shareholders coexist in emerging economies: the state and families (Aguilera & Judge, 2014; Aguilera & Crespi-Cladera, 2012; Wooldridge, 2012). This is also the case in GCC countries (Eulaiwi et al., 2016; Oliveira Santos, 2015), where the state and wealthy families are generally the only actors that possess sufficient resources to invest in large-scale projects or other activities related to economic development. Thus, to theoretically unpack the collusion/monitoring effect in GCC countries, it is necessary to understand the relationship between the state and family elites.

In GCC countries, the state dominates firm ownership and significantly intervenes in the economy, while family ownership and family intervention in firm management is high. In this context, elites “tend to take care of their own within the extended clan” (Fainshmidt et al., 2018, p. 316). State and business elites share similar identities and a common long-term objective embracing national identity because their social and economic legitimacy depends on their acceptance of each other. The close ties between the government and families that own firms would, in principle, favor the existence of controlling behaviors. Additionally, in GCC countries, it is necessary to consider that families (business elites) also exercise a paternalistic role toward lower levels of society and consider themselves to be the guardians of key resources. Thus, to

safeguard these key resources, they are likely to monitor and/or contest the state when sharing firm ownership. This situation emerges because of the delicate balance between these economic actors.

We argue that the marginal cost of private benefits is higher if the controlling coalition includes as large shareholders both the state and families, as their interests, incentives, and objectives are more likely to differ. Moreover, families—as other large shareholders—have incentives to monitor the state, as they do not want the benefits to be diluted among several independent owners (Villalonga & Amit, 2010). In East Asia, Attig, El Ghoud, and Guedhami (2009) supported the monitoring role of families as other large shareholders. Families as other large blockholders may thus alleviate principal–principal problems and the negative influence on firm performance that state ownership creates, thereby restricting, at least to some extent, the state’s goals, which may not be value-maximizing for the firm. Therefore, our third hypothesis is as follows:

*Hypothesis 3: The coexistence of families—as other large shareholders—with the state as the largest shareholder—reduces the negative effect of state ownership on financial firm performance in GCC countries.*

#### **4. Sample, variables, and methodology**

##### *4.1. Data and variables*

The initial sample comprised the entire population of firms listed on GCC stock markets—the Bahrain Bourse (Bahrain), Kuwait Stock Exchange (Kuwait), Muscat Securities Market (Oman), Qatar Stock Exchange (Qatar), Saudi Stock Exchange or Tadawul (Saudi Arabia), Abu Dhabi

Securities Exchange, Dubai Financial Market, and NASDAQ Dubai (the UAE)—over the period from 2009–2015 (751 firms and 4,713 observations). Companies belonging to the finance, banking, and insurance industries were excluded because of their different regulatory, accounting, and governance characteristics (Adams & Mehran, 2003; Macey & O’Hara, 2003; Prowse, 2014; Stoney & Winstanley, 2002). The following filters were applied: we excluded firms with headquarters located outside the GCC region, firms with no ownership records, firms for which information for at least four consecutive years was not available, and merged firms. After we applied these filters, the final sample comprises an unbalanced panel of 389 non-financial firms and 2,607 observations (Table 2).

Insert Table 2 around here.

Kuwait has the highest number of firm-year observations (32.11%) followed by Saudi Arabia (23.86%), Oman (20.83%), the UAE (13%), Qatar (5.60%), and Bahrain (4.60%). In terms of the relative importance of each country’s GDP, Kuwaiti and Omani observations are over-represented, whereas Saudi Arabian and UAE observations are under-represented. The countries’ rank in the GCC economy in terms of GDP is led by Saudi Arabia (46.48%), followed by the UAE (25.24%), Qatar (11.14%), Kuwait (10.09%), Oman (4.91%), and Bahrain (2.15%).

The data used to estimate the variables employed in the study were collected manually. Information on firm ownership structure was obtained from the Thomson Reuters Zawya database; when ownership information was not available from this source, data were retrieved from companies’ annual reports. Firm economic and financial information came from the

Thomson Reuters Zawya and ORBIS–Bureau van Dijk databases, GCC stock market reports, and companies' annual reports.

Table 3 lists the variables employed in the analysis. The dependent variable was a measure of financial firm performance: industry-adjusted firm market-to-book ratio (*AVALUE*). This dependent variable aimed to reflect the existence/severity of principal-principal agency problems: when principal–principal agency problems exist or are severe, financial firm performance is lower.

For the independent variables, we considered the largest shareholder to be the entity that owns the highest percentage of firms' voting rights. Large shareholders or blockholders are those that hold more than 5% of a firm's voting rights. We then built two continuous variables that capture the voting rights held by the state as the largest shareholder (*FSHSTATE*) and by a family or individual as the largest shareholder (*FSHFAM*).<sup>4</sup> To capture the joint effect of the coexistence of the state as the largest shareholder and a family or individual as a blockholder, we created a dummy variable (*EXISTFAM*), which takes the value of 1 if the company has a family (or individual) blockholder in its ownership structure.

As control variables, we included three firm characteristics—age, size, and leverage—that have been frequently considered in the literature when studying determinants of firm performance (e.g., Anderson & Reeb, 2003; Sacristán-Navarro, Gómez-Ansón, & Cabeza-García, 2011b; Villalonga & Amit, 2006). Firm age may positively influence performance because of the greater experience, reputation, business relationships, and networks of older firms; however, it

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<sup>4</sup> Multiple definitions of family firms exist (see Miller, Le Breton-Miller, Lester, & Cannella, 2007). Similarly to Faccio and Lang (2002) and Maury (2006), our definition considers both families and individuals to be family firms.

may also negatively impact firm performance through organizational rigidity (Coad, Holm, Krafft, & Quatraro, 2018). We measured firm age as the number of years since the firm was founded (*AGE*). We measured firm size as the natural logarithm of the book value of total assets (*ASSETS*). The impact of firm size on firm performance is not clear. Large firms may benefit from learning effects, economies of scale, competitive power, and other efficiencies (Geroski, 1998), whereas small firms may also benefit from behavioral advantages such as entrepreneurial dynamism, internal flexibility, and responsiveness to changing circumstances (Rothwell, 1989). Finally, leverage may act as a monitoring mechanism (Jensen, 1986) that enhances firm performance, whereas financial distress may also decrease firm value (Opler & Titman, 1994). We measured firms' leverage using the leverage ratio (*LEV*), computed as the book value of total debt to the book value of total assets.

Insert Table 3 around here.

#### *4.2. Methodology*

Empirical analyses of ownership structure and firm performance may be affected by two potential problems: unobservable individual heterogeneity and endogeneity (Villalonga & Amit, 2006). Unobservable heterogeneity refers to the behavior, characteristics, and specifics of a company. Reverse causality endogeneity is inherent in economics, management, finance, and the social sciences, and Demsetz (1983) argued that ownership concentration is the endogenous outcome of profit-maximizing decisions by current and potential shareholders. Thus, as Sánchez-Ballesta and García-Meca (2007) and Wang and Shailer (2015) pointed out, research on the relationship between ownership structure and firm performance should control for endogeneity.

Panel-data models control for unobservable heterogeneity by decomposing the random error term  $\varepsilon_{it}$  into two parts: the combined effect ( $\mu_{it}$ ), which depends on the individual and time period, and the individual effect ( $\eta_i$ ), which represents the characteristics of the company and is constant over time. Fixed-effects and random-effects models are the most common panel data models. As static panel models, these techniques assume that all the independent variables are exogenous, an assumption that does not hold for ownership-related variables. The best solution for dealing with endogeneity issues is to apply the instrumental variable and generalized method of moments (GMM) techniques (Pindado & Requejo, 2015). Instrumental variable techniques find it difficult to prove that outside instruments are uncorrelated with the error term and lack sufficient information on the explanatory variables in the model that are not strictly exogenous. Given the limitations of outside instruments, another stream of the literature proposes using lagged values of the independent variables included in the model as instruments, which is the solution adopted by GMM. These lagged values are natural candidates as valid instruments because they contain information on the current value of variables since there is frequently a delay between the decisions made by individuals/firms and their actual realization. As a result, we decided that GMM was the best solution to deal with the endogeneity problems (Sacristán-Navarro, Gómez-Ansón, & Cabeza-García, 2011a). Consequently, to analyze the potential effects of ownership concentration, ownership identity, and ownership identity among listed firms in GCC countries, we applied the GMM estimator proposed by Arellano and Bond (1991). The two-step difference GMM model was defined as follows:

$$AVALUE_{it} = \beta_1 X_{it} + \sum_{t=2009}^{2015} Y_t + \varepsilon_{it}$$

where  $AVALUE_{it}$  is the continuous firm performance variable (i.e., industry-adjusted market-to-book ratio) of firm  $i$  in year  $t$ ,  $X_{it}$  denotes the explanatory and control variables,  $\sum_{t=2009}^{2015} Y_t$  is a set of time dummy variables, and  $\varepsilon_{it}$  is the error term. Additionally, to test the validity of the GMM model specification, we employed the  $M^2$  statistic to verify the lack of second-order serial correlation in the first-difference residuals used and the Hansen statistic of over-identifying restrictions to test for the absence of a correlation between the instruments and error term. Although some variables showed a statistically significant correlation, analysis of the variance inflation factors (Kleinbaum, Kupper, & Muller, 1998) revealed no evidence of multicollinearity (i.e., no factor above 10). Finally, we corrected the autocorrelation and heteroscedasticity issues using the finite sample-corrected two-step covariance matrix.

## 5. Results

### 5.1. Descriptive statistics

Table 4 presents the descriptive statistics (mean, standard deviation, minimum, median, and maximum values) and bivariate correlations of the variables employed in the panel data estimations.

Insert Table 4 about here.

From table 4 we observe that the state holds an ownership of 8.87% of GCC firms as the largest shareholder ( $FSHSTATE$ ), whereas families and individuals ( $FSHFAM$ ) hold 4.54%. When the state is the largest shareholder (22.86% of GCC firms on average;  $N = 596$ ), it holds 38.81% of voting rights ( $FSHSTATE$ ), whereas families as the largest shareholders control 18.91% of firms ( $N = 493$ ) and families as the main shareholders hold 24.01% ( $FSHFAM$ ) on average. Thus, the state



is more frequently the largest shareholder and holds more voting rights in GCC firms, on average, than families and individuals. With regard to the presence of families as large shareholders (not necessarily the largest shareholder), their importance is high; they are significant shareholders in almost half of GCC firms (*EXISTFAM*). Finally, GCC-listed firms have higher market performance (*AVALUE*) than their industry peers on average, have an average leverage ratio (*LEV*) value of 0.42, and have an average age of 24 years (*AGE*).

The bivariate correlation matrix seems to reject Hypothesis 1, as it indicates that the dependent variable (*AVALUE*) is positively related to state ownership (*FSHSTATE*), whereas it supports the prediction of Hypothesis 2: the higher the voting rights held by families as the largest shareholders (*FSHFAM*), the lower are market-to-book ratios (*AVALUE*). As expected, the presence of families as large blockholders (*EXISTFAM*) is negatively associated with state ownership (*FSHSTATE*),<sup>5</sup> as the presence of other large shareholders reduces the shareholdings held by the state as the largest shareholder. Additionally, when the state is the largest shareholder (*FSHSTATE*), firms tend to be larger (*ASSETS*) and younger (*AGE*) and have lower leverage ratios (*LEV*), whereas family ownership (*FSHFAM*) is related to smaller firms (*ASSETS*) and older firms (*AGE*) with higher leverage ratios (*LEV*).

## *5.2. Effects of the state and families on firm performance*

We analyzed how GCC industry-adjusted market value (firm financial performance) is affected by the state (Hypothesis 1) and by families (Hypothesis 2) as the largest shareholders and by the

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<sup>5</sup> Although not shown, state ownership is also negatively correlated with the existence of other large shareholders irrespective of their identity and is therefore positively correlated with the existence of only one large shareholder.

coexistence of family blockholders with the state as the largest shareholder (Hypothesis 3). Table 5 summarizes the results of the GMM regression model.

Insert Table 5 about here.

The results of Model 1 show that the voting rights held by the state as the largest shareholder (*FSHSTATE*) have a negative and significant influence on financial firm performance, thus supporting Hypothesis 1. This finding supports the argument that state ownership may come with goals other than maximizing firm value, which is particularly evident in GCC countries because of the economic and social development role of the state. The state may pursue political and non-financial goals (i.e., maximizing social welfare) that are inconsistent with efficiency and contradict other shareholders' interests (e.g., maximizing firm value), thus leading to principal–principal agency problems. This result is in line with multiple political and economic analyses that place GCC governments at the center of economic and social development. Governments' commitment to its own natural function of looking after the general interests of the country may interfere with the position of other shareholders looking to maximize firm value when investing. On the contrary, the results of Model 2 show that when families are the main shareholders, family ownership does not influence GCC firm performance. Therefore, Hypothesis 2 was not supported.

Regarding the interaction of families as large shareholders with the state as the largest shareholder, our results confirm the monitoring role of family blockholders when they coexist with the state, as proposed in Hypothesis 3 (Models 3 and 4). The interaction between the state as the largest shareholder and existence of a family as a large blockholder (*FSHSTATE \* EXISTFAM*)

positively influences firm value. Therefore, our results support Hypothesis 3. To better understand this finding, Figure 1 plots the interaction term ( $FSHSTATE * EXISTFAM$ ), showing that the difference between having and not having family blockholders is marginally significant for values of state ownership of 15–50%. Hence, the marginal cost of the private benefits of control appears to be higher when the state as the largest shareholder is not too low or too high; in this situation, firms with state ownership benefit (in terms of firm financial performance) from the presence of families as other large shareholders.

This finding provides evidence to support the monitoring and contesting arguments related to firms having multiple blockholders in GCC countries. When the state as the largest shareholder owns less than 15% of shares (in such cases, it holds 12.50% of firm shares on average), families as other blockholders control 9% of voting rights on average. The small difference between the voting rights of both large shareholders may neither allow the state to impose its strategies and policies nor families the incentives to control to produce significant effect on firm financial performance. When the state holds more than 50% of firm shares, families hold 14.7% of firm shares on average, which is a relevant ownership share. However, because the state holds the majority of firm shares, families cannot monitor or contest it. Finally, the significant effect on firm financial performance is produced when state owns between 15% and 50% of the shares. In this context, families as other large shareholders may be able to monitor and contest the state, thereby reducing agency costs and enhancing firm financial performance.

Insert Figure 1 around here.

### 5.3. Robustness checks

We repeated our estimations by considering additional measures, models, and methodologies. First, we estimated all the models presented in Table 5 using industry-adjusted return on assets (*AROA*) as the dependent variable instead of firms' industry-adjusted market-to-book ratio (*AVALUE*). The results were similar.

Second, we employed static panel data methodologies, namely fixed-effects and random-effects panel data models. We focused on fixed-effects models since the Hausman test turned out to be significant (Hausman, 1978). The results showed a negative and significant effect of families as the largest shareholders (*FSHFAM*) on firm value. The results confirmed that the methodology used to explore the relationship between ownership and firm performance does matter and that studies should consider endogeneity issues. Generally, after endogeneity issues were taken into account, most of the explanatory variables had lower significance. Therefore, the GMM methodology, which accounts for endogeneity issues, was the correct empirical strategy for this study.

Third, for Models 1 and 2, we considered other ownership structure variables that may affect the relationship between family and state ownership and firm performance. Two factors may affect this relationship: large shareholders' contestability power (*VOTING2341*), defined as the voting rights of the second, third, and fourth largest shareholders divided by the voting rights of the largest shareholder, and the final distribution of power between the other large shareholders and largest shareholder (whether the firm has only one large shareholder [*WHOCNTROLS1*] and whether the firm has multiple shareholders and the largest owner has more [*WHOCNTROLS2*] or less [*WHOCNTROLS3*] voting power than the second, third, and fourth largest shareholders). These variables had no statistically significant effect on firm

performance. Fourth, for the models related to family ownership (Models 2–4 in Table 5), we considered alternative family definitions. We included the ownership held by holding firms and non-financial corporations as the largest shareholders. The results did not change.

Finally, we explored whether the coexistence of state ownership with other large shareholders (e.g., financial institutions and mutual funds) had a similar effect as the exclusive presence of families. We interacted the state as the main shareholder with the existence of other large shareholders and found no significant relationship. This evidence suggested that only families (business elites) can monitor and contest the state. Hence, only the state and families together can have a positive and significant impact on firm performance. In sum, this result highlights the monitoring role of family blockholders in keeping firms aligned with a market logic when the principal owner is the state.

## **6. Discussion**

Our study examined the effect of state and family ownership on financial firm performance in GCC countries. To answer our research questions on whether the state and families as the largest shareholders matter for financial firm performance in GCC countries and to what extent the coexistence of families as other large shareholders with the state as the largest shareholder affects financial firm performance, we examined a sample of non-financial listed firms from the stock exchanges of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE from 2009 to 2015.

Coinciding with the findings of previous studies revealing the importance of the state and families as large shareholders in emerging economies in general (Aguilera & Judge, 2014) and in the GCC region in particular (Oliveira Santos, 2015), our analyses showed that the state is the

largest shareholder (in 22.86% of GCC firms) and holds the largest stakes in GCC firms (8.87% of GCC firm ownership), followed by families (18.91% of GCC firms and 4.54% of GCC firm ownership). Nevertheless, the presence of families as large shareholders is high; they are significant shareholders in almost half of GCC firms (45.53% of firms). The analyses also revealed that the state as the largest shareholder tends to be present in larger and younger firms, whereas families as the largest shareholders tend to invest in smaller and older firms. This evidence may be explained by the long-lasting presence of elite families in economic activities in GCC countries and by the more recent move of ruling families (and governments) into economic activities by controlling powerful, important, and strategic firms (Kamrava et al., 2016).

Our result on the influence of the state as the largest shareholder is in line with the meta-analyses conducted by Wang and Shailer (2018) on 17 developing countries and by Alfaraih et al. (2012) for Kuwait, which showed a negative influence of state ownership on firm performance. We find that ownership held by the state as the largest shareholder negatively affects firm performance. This negative effect may be explained by agency theory, particularly by principal–principal problems. The state in GCC economies could have different goals and expectations than other large and minority shareholders. For instance, it may pursue social and political aims to favor all economic actors with an interventionist strategy or expropriate the benefits of the firm for its own needs at the expense of other shareholders.

Further, our findings revealed that the shareholdings of families as the largest shareholders do not affect firm performance in GCC countries. These results differ from the positive significant relationship between family ownership and firm performance reported by Baek et al. (2004) and Chang (2003) for Korea, Chu (2009) for Taiwan, Ciftci et al. (2019) for

Turkey, and Omran et al. (2008) for Arab countries as well as the negative relationship reported by Kouki and Guizani (2015) for Tunisia and Saidat et al. (2018) for Jordan. By contrast, our results are in line with studies that found a non-significant relationship between family ownership and firm performance in Thailand and Taiwan (Connelly et al., 2012; Filatotchev et al., 2005). The non-significant effect of families as the largest shareholders on financial firm performance can mask the two opposite effects predicted by agency theory: the positive effect of reducing principal-agent (Type I) problems and negative effect of increasing principal–principal (Type II) agency problems. Future studies should thus further investigate the relationship between family ownership and firm performance to tease out the different agency problems that family ownership generates or prevents/alleviates in this institutional context.

On the contrary, families as other large shareholders increase the marginal cost of the private benefits of control and may have incentives to monitor the state, counteracting the weight of the state and thus reducing principal-principal agency problems. Accordingly, we found a positive interaction between state ownership and family ownership. When family blockholders accompany (as other large shareholders) the state, they may reduce the negative impact of state ownership as the principal shareholder on firm financial performance. Thus, family blockholders may balance the power of the state by alleviating principal–principal problems; however, they can only monitor and contest the state when state ownership is not too high (above 50%) or too low (below 15%).

Indeed, when the state holds less than 15%, the control rights it possesses in excess of families' rights may be insufficient for it to impose its strategies and policies. As such, the state may opt to collude with families to forge alliances with them to control firms. When the state

holds more than 50% of firm shareholdings, it controls the majority of firms' voting rights, and thus the contestability power of families as other large shareholders does not restrict the state from imposing its will. Therefore, the possible positive impact on firm performance from families as other large shareholders is negated. This evidence is in line with the results reported by Boubakri et al. (2018), who showed that state control rights above 50% lead to lower valuations in East Asia as well as the evidence of Tihanyi et al. (2019) that the negative effect of state ownership on firm performance seemed to be driven by the state taking large shareholdings.

### *6.1. Contributions*

Our study contributes to the cross-fertilization of knowledge between the family business and corporate governance literature in several ways. First, following Maury and Pajuste's (2005) thesis that the combination of different ownership types influences the marginal cost of the private benefits of control and thus may aggravate or alleviate principal–principal problems, we found empirical evidence of the positive effect of families as other large shareholders by focusing on the combined effect of family and state ownership. In this sense, our study helps explain how family ownership either creates or destroys firm value (Kammerlander et al., 2015) by showing that the negative effect of the state, as the largest owner, on financial firm performance disappears when local families restrict state power within firms' ownership structure. Therefore, at least in the emerging countries of the GCC, families internalize the benefits of monitoring through their participation in ownership (Villalonga and Amit, 2006) and may balance the distribution of power by reducing information asymmetries, aligning risk preferences among large and minority shareholders (thus minimizing risk asymmetries), and aligning blockholder goals by diminishing asymmetries.



Second, this study challenges the general claim that the combination of ownership concentration and poor formal institutional context systematically increases the probability of principal–principal problems arising (Young et al., 2008). Our empirical evidence demonstrates that principal–principal problems do not necessarily always happen. Unveiling the identity of blockholders and coexistence of ownership combinations, we show that not all types of blockholders affect firm financial performance in the same way and that the coexistence of different blockholders could trigger principal–principal problems or not. While family blockholders as the largest shareholders do not affect firm financial performance, state blockholders negatively affect it, highlighting the occurrence of principal–principal conflicts. By contrast, family owners, as other large shareholders, may counter the negative effect of the state as the largest shareholder on firm financial performance. Our results highlight the importance of recognizing the potential micro-environment in which the coexistence of different types of blockholders hinders or boosts collusion or controlling behaviors among blockholders.

Third, following Wang and Shailer’s (2015) suggestion to compare the ownership–performance relationship in countries with “seemingly similar corporate governance environments” and the calls to address principal–principal conflicts in emerging economies by Armitage et al. (2017) and Young et al. (2008), our study challenges the general prediction of agency theory by contextualizing principal–principal problems in GCC countries. Considering that the context can intensify, eliminate, or change a relationship under study (Gomez-Mejia et al., 2020; Johns, 2006), we add new evidence that this could explain the contradictory empirical results in the literature (Basco, 2013; Mazzi, 2011) on whether family ownership creates or destroys firm value. In line with Luo and Chung (2013), our results reinforce the need to

contextualize theories to advance our understanding of this phenomenon (Whetten, 2009). To make predictions, the theoretical reasoning underlying agency theory must consider not only the owners of firms, but also the context in which the phenomenon is studied to better interpret owners' goals, incentives, and time horizons. This is an important step forward in understanding the phenomenon of family ownership outside developed countries (Basco, 2018) and it reveals that the heterogeneity of emerging economies matters for theorizing the role that families play within firm boundaries.

Finally, this study also has practical implications for family owners, policymakers, and investors. For family owners, our study puts into perspective their role in counterbalancing state power to maintain market discipline and focus firms as instruments not only to coordinate economic and social development but also to pursue the economic interests of other shareholders. In GCC countries, where the boundaries between the state and ruler families are blurred, the state looking for families as owners' companions could accelerate firm competitiveness by increasing market discipline.

## *6.2. Limitations and future research directions*

Our study is one of the first attempts to contextualize and empirically test the relationship between state and family ownership and firm performance in GCC countries. While we achieved our specific research goals, it has a number of limitations that not only represent the boundaries of its contributions, but also provide opportunities for future research.

First, one of the main limitations is the inability to generalize our results beyond GCC countries. Future studies should thus expand our analysis by including countries from the Middle

East and North Africa region because Arab countries are not homogeneous in their formal and informal institutions, and the whole block of countries could provide better evidence of how context affects the ownership–firm performance relationship. Second, in this study, we focused on ownership but do not consider corporate governance aspects that could affect the relationship under study (e.g., ownership and firm performance). Future studies could incorporate measures related to the board of directors, such as board composition and family board influence. This line of research would help elucidate the roles that the state and families play in listed firms and clarify the agency problems they alleviate or aggravate.

Third, we did not consider the possible links between families and the state (e.g., marriages), which may be particularly important in GCC countries. Future studies could analyze the interactions and interlinkages between families as large shareholders and the state. Fourth, because of the difficulty of obtaining reliable data, for our measure of family ownership, we did not distinguish between ruling families and elite businesses, and it therefore includes families and individuals in the same group. Using different definitions of family ownership could be useful for future research to explore the extent to which agency problems (principal–principal problems) emerge when these family types participate in firms' ownership structure.

Fifth, we assumed the existence of principal–principal problems using firm financial performance, but do not measure agency problems. Future research could thus examine collusion and controlling effects more in depth. Additionally, future research should use alternative measures of firm performance since the financial performance of other firms may yield different results. Finally, a natural line of research in GCC countries is on the effect of political connections in listed firms. This study opens new research opportunities to contextualize

the phenomenon of family ownership in GCC countries and the Arab world, theorize about context and its relationship with family business, and contextualize those theories.

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### **Authors' Statement**

All authors contributed equality to the article titled "Dancing with giants: Contextualizing state and family ownership effects on firm performance in the Gulf Cooperation Council"

**Table 1: GCC economic, institutional, and social indicators**

Country	Economic						Institutional		Social and cultural				
	<i>GDP</i>	% <i>GDP<sub>GCC</sub></i>	<i>ΔGDP</i>	<i>GDP<sub>PC</sub></i>	External balance	External balance (% of GDP)	Government	Political system	Population	Power distance	Individualism	Masculinity	Uncertainty avoidance
Bahrain	37,746.20	2.29	1.78	24,050.76	6,399.12	16.95	Constitutional monarchy	Presidential	1.57	-	-	-	-
Kuwait	141,677.81	8.60	1.24	34,243.95	2,779.43*	2.32*	Constitutional monarchy	Presidential	4.14	90	25	40	80
Oman	79,294.93	4.81	2.13	16,418.93	9,687.65	12.22	Absolute monarchy	Presidential	4.83	-	-	-	-
Qatar	192,009.34	11.66	1.43	69,026.47	23,011.81*	13.79*	Absolute monarchy	Presidential	2.78	93	25	55	80
Saudi Arabia	782,483.47	47.50	2.21	23,219.13	100,403.47	12.83	Absolute monarchy	Presidential	33.70	95	25	60	80
UAE	414,178.90	25.14	1.42	43,004.95	107,202.18	25.88	Federation of constitutional monarchies	Presidential	9.63	90	25	50	80
GCC	1,647,390.64	100	1.81	29,080.76			-	-	56.65	-	-	-	-
Arab World	2,781,325.61		2.10	6,625.51			-	-	419.79	-	-	-	-

Source: World Bank (2019), Central Intelligence Agency (2019), and Hofstede website ([www.hofstede-insights.com](http://www.hofstede-insights.com)).

Economic definitions: *GDP*—gross domestic product (data are in current USD [millions]); % *GDP<sub>GCC</sub>*—country GDP over GCC GDP (current USD); *ΔGDP*—annual percentage growth rate of GDP at market prices based on constant local currency (aggregates [GCC and Arab World] are based on constant 2010 USD); *GDP<sub>PC</sub>*—GDP divided by midyear population (data are current USD); external balance (of goods and services)—exports minus imports of goods and services (data are in current USD [thousands]); external balance (% of GDP)—external balance (of goods and services) over GDP (current USD). All data refers to 2018.

\*Refers to 2017 (last year available).

**Table 2: Sample description**

	GCC		Bahrain			Kuwait			Oman			Qatar			Saudi Arabia			UAE		
Year	N	%	N	% <sub>B</sub>	% <sub>GCC</sub>	N	% <sub>K</sub>	% <sub>GCC</sub>	N	% <sub>O</sub>	% <sub>GCC</sub>	N	% <sub>Q</sub>	% <sub>GCC</sub>	N	% <sub>SA</sub>	% <sub>GCC</sub>	N	% <sub>UAE</sub>	% <sub>GCC</sub>
2009	344	13.20	15	12.50	4.36	109	13.02	31.69	76	14.00	22.09	17	11.64	4.94	80	12.86	23.26	47	13.86	13.66
2010	353	13.54	15	12.50	4.25	112	13.38	31.73	76	14.00	21.53	18	12.33	5.10	83	13.34	23.51	49	14.45	13.88
2011	377	14.46	18	15.00	4.77	121	14.46	32.10	79	14.55	20.95	19	13.01	5.04	91	14.63	24.14	49	14.45	13.00
2012	389	14.92	18	15.00	4.63	124	14.81	31.88	80	14.73	20.57	23	15.75	5.91	94	15.11	24.16	50	14.75	12.85
2013	384	14.73	18	15.00	4.69	124	14.81	32.29	79	14.55	20.57	23	15.75	5.99	92	14.79	23.96	48	14.16	12.50
2014	382	14.65	18	15.00	4.47	124	14.81	32.46	77	14.18	20.16	23	15.75	6.02	92	14.79	24.08	48	14.16	12.57
2015	378	14.50	18	15.00	4.76	123	14.70	32.54	76	14.00	20.11	23	15.75	6.08	90	14.47	23.81	48	14.16	12.70
<b>Total</b>	<b>2,607</b>	<b>100</b>	<b>120</b>	<b>100</b>	<b>4.60</b>	<b>837</b>	<b>100</b>	<b>32.11</b>	<b>543</b>	<b>100</b>	<b>20.83</b>	<b>146</b>	<b>100</b>	<b>5.60</b>	<b>622</b>	<b>100</b>	<b>23.86</b>	<b>339</b>	<b>100</b>	<b>13.00</b>

The sample used comprises all non-financial firms headquartered in GCC countries that had ownership records and information for four consecutive years, did not merge, and were listed on the GCC stock markets—Bahrain Bourse (Bahrain), Kuwait Stock Exchange (Kuwait), Muscat Securities Market (Oman), Qatar Stock Exchange (Qatar), Saudi Stock Exchange or Tadawul (Saudi Arabia), Abu Dhabi Securities Exchange, Dubai Financial Market, and NASDAQ Dubai (the UAE)—over the 2009–2015 period: 389 firms and 2,607 observations. N denotes the number of observations and percentage of observations for each year over the country’s sample or GCC region sample.

**Table 3: Study variables**

Variables	Description
<i>Performance variable</i>	
AVALUE	Industry-adjusted market value: firm market value or capitalization plus the book value of debt divided by the book value of total assets minus the industry mean each year.
<i>State and family ownership variables</i>	
FSHSTATE	The voting rights of the largest shareholder when it is the state.
FSHFAM	The voting rights of the largest family shareholder.
EXISTFAM	Dummy variable that takes the value of 1 if the firm has a large family shareholder (i.e., with at least 5 percent of voting rights) in its ownership structure and 0 otherwise.
<i>Control variables</i>	
AGE	Number of years since firm founding.
ASSETS	Natural logarithm of the book value of total assets in thousands of dollars.
LEV	Book value of total debt divided by book value of total assets.

**Table 4: Descriptive statistics and bivariate correlations**

Variables	Descriptive statistics							Bivariate correlations						
	MEAN	FREQ (%)	SD	MIN	MEDIAN	MAX	N	1	2	3	6	7	8	9
1. AVALUE	0.50		0.95	-2.21	0.33	8.09	2,607	1						
2. FSHSTATE	8.87		18.92	0	0	83.61	2,607	0.114*** (0.000)	1					
3. FSHFAM	4.54		11.33	0	0	67.60	2,607	-0.054*** (0.006)	-0.188*** (0.000)	1				
6. EXISTFAM (a)		45.53					2,607	0.022 (0.272)	-0.234*** (0.000)	-0.439*** (0.000)	1			
7. AGE	24.28		16.15	1	21	115	2,607	0.122*** (0.000)	-0.033* (0.090)	0.060*** (0.002)	0.219*** (0.000)	1		
8. ASSETS	19.47		1.86	12.52	19.46	25.28	2,607	-0.154*** (0.000)	0.302*** (0.000)	-0.108*** (0.000)	-0.210*** (0.000)	-0.154*** (0.000)	1	
9. LEV	0.42		0.25	0.001	0.40	2.25	2,607	-0.541*** (0.000)	-0.087*** (0.000)	0.035* (0.072)	-0.004*** (0.837)	-0.122*** (0.000)	0.237*** (0.000)	1

Note. The sample comprises all non-financial firms headquartered in GCC countries that had ownership records and information for four consecutive years, did not merge, and were listed on the GCC stock markets over the 2009–2015 period: 389 firms and 2,607 observations. MEAN, MEDIAN, MIN, MAX, and SD refer, respectively, to the mean, median, minimum, maximum, and standard deviation values of the continuous variables over the period of study for the GCC region. FREQ is the frequency of the defined dummy variables over the period of the study for the GCC region, N denotes the number of observations, AVALUE denotes firms' industry-adjusted market value, FSHSTATE measures the voting rights of the state as the largest shareholder, FSHFAM measures the voting rights of families as the largest shareholders, and EXISTFAM is a dummy variable that equals 1 if the firm has a large family shareholder (i.e., with at least 5 percent of voting rights) in its ownership structure. The control variables include the age of the firm (AGE); its size, measured as the logarithm of the book value of assets (ASSETS); and firm leverage (LEV).

\* p < 0.10, \*\*p < 0.05, \*\*\* p < 0.01

**Table 5: Family and state ownership, their co-existence, and financial firm performance**

<b>Variables</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
FSHSTATE	-0.008*** (-3.02)		-0.007** (-2.35)	-0.005 (-1.39)
FSHFAM		-0.015 (-1.20)		
EXISTFAM			0.015 (0.17)	0.046 (0.53)
FSHSTATE * EXISTFAM				0.020* (1.68)
AGE	-0.139 (-1.49)	-0.131 (-1.44)	-0.144 (-1.42)	-0.162 (-1.53)
ASSETS	-0.723*** (-3.24)	-0.503** (-2.00)	-0.411* (-1.65)	-0.474* (-1.85)
LEV	-1.296*** (-2.68)	-1.202** (-2.44)	-0.946** (-2.16)	-1.199*** (-2.89)
Annual effects	Yes	Yes	Yes	Yes
Wald's $\chi^2$	79.99***	43.97***	53.01***	88.38***
$M^2$	-0.95	-1.15	-1.28	-1.31
Hansen	53.87	41.88	78.77	90.99
N observations	2,218	2,218	2,218	2,218
N firms	389	389	389	389

Models are estimated using generalized method of moments (GMM). AVALUE denotes firms' industry-adjusted market value, FSHSTATE measures the voting rights of the state as the largest shareholder, FSHFAM measures the voting rights of families as the largest shareholders, and EXISTFAM is a dummy variable that equals 1 if the firm has a large family shareholder (i.e., with at least 5 percent of voting rights) in its ownership structure. The control variables include the age of the firm (AGE); its size, measured as the logarithm of the book value of assets (ASSETS); and firm leverage (LEV). Values are unstandardized coefficients with z values in parentheses. Wald's  $\chi^2$  is a Wald test of the joint significance of the reported coefficients of the explanatory variables, which are asymptotically distributed as  $\chi^2$  under the null hypothesis of no relationship for all explanatory variables.  $M^2$  is a second-order serial correlation test using residuals in first differences, which is asymptotically distributed as  $N(0, 1)$  under the null hypothesis of no serial correlation. Hansen is a test of over-identifying restrictions, which is asymptotically distributed as  $\chi^2$  under the null hypothesis of no correlation between the instruments and the error term. Models are estimated with the constant, but it is not reported in the table. \* p < 0.10, \*\*p < 0.05, \*\*\* p < 0.01

**Figure 1: The effect on financial firm performance of having or not having family blockholders at different levels of state ownership**

