

GOVERNMENT OWNERSHIP, BUSINESS RISK, FINANCIAL LEVERAGE AND CORPORATE PERFORMANCE: EVIDENCE FROM GCC COUNTRIES

*Rami Zeitun**, *Duha Al-kawari*

Abstract

This study investigates the effect of government ownership structure, business risk and financial leverage among other variables (size, age and growth) on a company's performance in a panel data, using 191 companies from five GCC countries (Qatar, Saudi Arabia, Oman, Bahrain and Kuwait), during the period 1999- 2006. Our results indicate that government ownership affects the performance and value of GCC firms. Government ownership positively and significantly affects firm's performance ROA. The insignificance of a firm's leverage (LEV) indicates that the firm's performance is irrelevant to its capital structure, and that supports Modigliani and Miller (M&M) (1958) argument. Our finding is that business risk (BETA) significantly and positively affects firm's performance ROE and supports the classic risk trade-off arguments. Furthermore, age was found to have a positive and significant impact on firm's performance ROA and ROE.

Keywords: Firm Performance, Agency Theory, Ownership Structure, Government Ownership, Business Risk, Financial Leverage, GCC Countries

JEL Classification: G30; G31; G32; G34; L25

**Corresponding Author; Department of Finance and Economic, College of Business and Economic, Qatar University
Email: r_zeitun2005@yahoo.com ; rami.zeitun@qu.edu.qa*

1. Introduction

Over decades, ownership structure and its relationship with firm performance has been central to ongoing debate in the literature of corporate finance since Berle and Means (1932) early work in this field. Berle and Means (1932) suggested that an inverse correlation should be observed between the diffuseness (concentration) of shareholdings and firm performance, in which ownership structure affects firm performance. Since Berle and Means (1932) work, several studies in corporate governance have addressed this issue which is generated by the separation of ownership and control, trying to find solutions. For example, Jensen and Meckling (1976) suggested that increasing the managers ownership in the firms may decrease the conflict of interests between shareholders and managers. However, as suggested by Shleifer and Vishny (1997) governance problem may also exist between majority and minority shareholders.

Corporate governance models vary around the world, which could affect the relationship between ownership structure (mix and concentration) and corporate performance (Shleifer and Vishny, 1997). For example, in Europe, firms rely less on elaborate legal protection, but rely more on large investors

(high concentration) while in the US, firms rely on legal protection. So, due to these differences, a different relationship between firm performance and ownership structure is expected. Recent studies of corporate governance suggest that geographical position and industrial development could affect ownership structure, which in turn have impacts on both the firm's performance and its health (Pedersen and Thompson, 1997). Therefore, the findings of studies from developed markets are invalid for developing countries.

GCC countries attempt to merge with global economy. Globalization provided social, cultural, legal, and financial protection to trade and investment internationally. Building corporate governance systems provides an appropriate start for the development of economy, building a competitive market, improving investment climate and to merge with global economy. According to Al-Muharrami et al. (2006) Saudi Arabia, Kuwait and UAE have moderately concentrated markets and banks that operate under conditions of perfect competition (see also Al-Muharrami, 2009). However, Qatar, Oman and Bahrain are highly concentrated Markets operating under conditions of monopolistic competition.

GCC countries concern about corporate governance is relatively new compared to other

countries around the world. Oman was the first GCC country to issue corporate governance code, followed by Saudi Arabia. The Saudi code of corporate governance was issued in 2006. In Bahrain, the work on creating a corporate governance code started in 2006, and in 2008 the code was presented. The final version of a corporate governance code in Bahrain was issued to public in 2009. Qatar is also considered one of the leading GCC countries to issue the corporate governance code in 2009 by the Qatar Financial Markets Authority (QFMA). Despite the important effect that corporate governance may have on a firm's performance and its value, and despite the importance of corporate governance around the world and in MENA region, corporate governance in Kuwait is still underdeveloped; an example of this is the governance code which was issued in Kuwait in 2010. New corporate governance code was issued in the UAE in 2011 and a corporate governance code for SMEs in UAE was also issued in 2011. Therefore, there is a great concern about the importance of corporate governance on firms' performance and value in GCC countries, and proving empirical evidence adds more value. However, foreign ownership in GCC is still quite small and insignificantly affects investment decisions. Therefore, GCC countries are expected to open their market more and encourage foreign investors by liberalizing their economy (Zeitun, 2011).

Studies on the relationship between ownership structure and firm performance in the developed countries are commonplace, and there have been relatively very few studies conducted for the GCC countries using banks data. This paper investigates the effect of government ownership fraction on firms' performance in GCC countries (Oman, Qatar, Saudi Arabia, Bahrian, and Kuwait). To the best of our knowledge, this is the first study that utilises real figures about government ownership to investigate the effect of government ownership on corporate performance for the GCC countries using panel data for 191 companies during the 1999-2006 period. Furthermore, there is no study yet that has examined or investigated the relationship between corporate governance and firm performance for companies in GCC countries. It is worth noting that government ownership data was collected manually, and that vast effort made this research possible.

This paper makes several contributions. It is the first study for the GCC countries that analyses the determinants of firm performance using two measures of performance, ROA and ROE. Also, this paper represents the first attempt to investigate the effect of government ownership on firms' performance in GCC. Furthermore, the current study attempts to investigate the effect of financial leverage and business risk on corporate

performance in GCC countries. Moreover, since this study is relevant to the GCC investment environment, results of this study could be applicable to these countries as they have similar economies.

The rest of the paper has the following structure: Section 2, presents the literature review. Section 3, explains the sample, the sources of data, and the empirical model used in the study. Section 4, reports the empirical results of the study. The final section concludes the study.

2. Literature review

Theoretical and empirical research on the relationship between ownership structure and firm performance was motivated by the agency theory (Jensen and Meckling, 1976). According to Jensen and Meckling (1976) there may be a conflict of interests between outsiders (shareholders) and insiders (managers), as managers may have self-interest to maximize rather than maximising shareholders' wealth. Increasing the managers' ownership in the firms may control the conflict of interest between insiders and outsiders, therefore encouraging managers to work more efficiently to maximise shareholders' wealth. However, it may also work in the opposite direction according to Myers and Majluf (1984), as large shareholders may use their ownership to achieve benefits at the expense of outsiders.

A study by Hill and Snell (1989) confirmed the positive relationship between ownership structure and corporate performance for US firms by taking productivity as a measure of a firm's performance. Xu and Wang (1997) provided evidence from China. They found that firms' profitability is negatively correlated with the fraction of state-owned shares. Wu and Cui (2002) examined the relationship between ownership concentration and corporate performance for a sample consisting of 909 listed companies in mainland China for the year 2000. They found that there is a positive and significant relationship between firm's performance and government (state) ownership and institution ownership. Another evidence from China provided by Wei, Xie, and Zhang (2005) for a sample of 5284 of China's privatized former state-owned firms from 1991-2001, found that both state and institutional ownership are significantly negatively related to Tobin's Q. Zeitun and Tian (2007) examined the impact of ownership structure on Jordanian firms' performance and the default risk of a matched sample of 59 publicly listed firms in Jordan for the period 1989-2002. They found that government shares have a significant and negative impact on firms' performance ROE and on firms' probability of default. They also concluded that reducing government ownership can increase a

firm's performance, but also affects some firms to go bankrupt.

Lizal (2002) finds that government ownership as well as foreign ownership reduces the corporate failure. Anderson, Mansi and Reeb (2004) used different factors to control firm performance, namely firm leverage, risk (volatility), debt liquidity, debt duration, debt credit, rating block holdings, cash flow, and firm size. They found that family firms have a lower agency cost and debt cost which could decrease the default risk.

Another stand of empirical testing has examined the endogeneity relationship between ownership structure and a firm's performance. Several studies provide evidence of the endogeneity of a firm's ownership structure (see e.g. Demsetz (1983), Demsetz and Lehn (1985), Himmelberg et al. (1999), Demsetz and Villalonga (2001), among others).

The conflicting results of the effect of ownership structure on a firm's health point to the possibility of a non-linear relationship between ownership concentration and the firm's health (see Morck, Shleifer and Vishny (1988), Cho (1998), Keasey (1999), Holderness, Kroszner and Sheehan (1999), Miguel and Pindado (2001), among others).

Ownership concentration effect on firms' performance is also another stand of empirical research in this field. Several studies have examined the relationship between ownership concentration and firms' performance and the findings were mixed (see Prowse (1992), Faccio and Lang (2002), Earle, Kucsera, and Telegdy (2005), among others). For example, Kaplan and Minton (1994), and Morck, Nakamura and Shivdasani (2000) results confirmed the relationship between ownership concentration and firms' performance. Opposing evidence is shown in Prowse (1992), whose results indicated that there is no relationship between ownership concentration and profitability.

Financial leverage and its relationship with firm's performance have also been central to ongoing literature in corporate finance. It's considered as an important factor in determining the firm's value. According to Modigliani and Miller (1963), the use of debt can increase the firm's value, as interest payments are tax deductible. Gordon and Kwan (1979) have shown that a firm's value is an increasing function of its leverage rate at zero leverage rate. On the other hand, Modigliani and Miller (M&M) (1958) argued that in a market free of imperfections, the firm value is unaffected by its capital structure, only the future cash flow determine firm value.

However, as a firm increases the use of debt, ownership moves from equity holders to debt holders and the firm's performance decreases and failure increases. According to Myers and Majluf (1984), a firm first relies on its own internal source

of funds (firm's cash flow), then on debt, and finally, on equity according to the pecking order hypothesis. Bevan and Danbolt (2002) stated that more profitable firms should hold less debt in their capital structure, as firms with a high level of profits provide a high level of internal funds and have less default risk.

Krishnan and Moyer (1997) provided evidence from emerging market economies of some Asian countries (Hong Kong, Malaysia, Singapore and Korea) for 81 companies. They found a negative and significant impact of financial leverage on firms' performance ROE. Other studies also found a negative relationship between earning and leverage (see Titman and Wessels (1988), Baskin (1989), Rajan and Zingales (1995), Fama and French (1999), and Zeitun (2008), among others).

Gleason et al. (2000) investigated the effect of capital structure on the firm's performance for 198 retailers in 14 European countries for 1994. They found that the firm's capital structure has a negative and significant impact on the firm's performance return on assets ROA. Zeitun (2008) found that a firm's leverage affects the firm's performance negatively and significantly.

3. Data and Estimation Method

3.1 Data

The data used in this study is derived from publicly traded companies from GCC countries (Qatar, Saudi Arabia, Oman, Bahrain and Kuwait), over the period 1999-2006. Our sample includes pooled cross-sectional and time-series data for 191 companies from five GCC countries. Furthermore, our sample contains no financial companies such as banks or insurance as they have different characteristics from industrial and service firms. The major items of interest are: financial statements (income statements and balance sheets) and ownership structure. The full balance sheets and income statements are usually available from firms as the law requires disclosure. The ownership data was collected manually, as it is not available for all firms and for all years. This vast effort made this research possible.

3.2 Proxies Variables

Two measures of performance were used in this study; return on assets (ROA) and return on equity (ROE). These two measures have been used by many researchers (e.g. Demsetz and Lehn (1985), Gorton and Rosen (1995), Mehran (1995), and Ang, Cole and Line (2000), Williams (2003), Kosmidou (2008), Siddiqui (2008) and Sufian and Habibullah (2009), among others). The explanatory variables are government ownership fraction, firm size, growth rate, financial leverage, business risk, and

business age. The first variable used is the government ownership measured by the fraction owned by government. According to the property rights theory, the private firms will outperform the state-owned if the firm operates in a competitive market (e.g. Alchian and Demsetz, 1972). In this study we argue that government ownership (GOV) to be positively related to a firm's performance as GCC economies are not fully opened to foreign investors. (see Al-Muharrami, 2006). Firm's size (SIZE)²⁸ is measured by the log of assets (see e.g. Morck et al. (1988), McConnell and Servaes (1990) and Zeitun (2009)). Firm size is found to be one of the primary and significant determinants of a firm's performance (e.g., Smirlock (1985), Gleason, Mathur and Mathur (2000), Pasiouras and Kosmidou (2007) and Zeitun (2009), among others). A firm's size is expected to have a positive and significant impact on firm's performance²⁹.

The third variable is growth opportunity (GROW), and it is measured by growth in sales. Firms with high growth rate are expected to have a better performance, as they can generate more profit from investment (e.g., Zeitun, 2009). Firm leverage is defined as total debt to total assets (LEV). According to Modigliani and Miller (M&M) (1958) in a market free of imperfections, the firm value is unaffected by its capital structure, only the future cash flow determined firm value. However, according to Modigliani and Miller (1963) debt financing may increase the firm's value, as interest expenses are tax deductible. On the other hand, increasing debt results in an increase in the probability of default or bankruptcy. Firm leverage (LEV) is expected to influence firm's performance.

The fifth variable is business risk, measured by beta (BETA). According to the classic risk-return trade-off arguments, firms with higher risk are expected to have higher returns. Thus, it is expected to have a positive and significant relationship between business risk and corporate performance. Firm's age (AGE) is the last variable used in this study. It is argued that old firms are more profitable and less risky compared to young ones as they have more experience (e.g. Stanger, (2000), among others). So, we argued that there is a positive relationship between corporate age and its profitability. Dummy variables for industrial and

service sectors were used to control the difference between the two sectors, DUM_i . Furthermore, dummy variables were used to control for country effect (Bahrain, Saudi Arabia, Kuwait, Oman, and Qatar).

3.3 Econometrics and Empirical Model.

The regression model in this study takes the form of the random effects model (REM) for unbalanced panel data (Greene, 2003). The random effects model is more preferable in the case of our data, since we need to control for the effect of sectors and countries and the fixed effect model drops all the time-invariant variables. The Random Effects model for the unbalanced panel would be specified as:

$$y_{it} = X'_{it}\beta + \alpha_i + u_{it} \quad u_{it} \sim N(0, \sigma_u^2) \quad (1)$$

where:

$$\alpha_i = \bar{\alpha} + \mu_i \quad \mu_i \sim N(0, \sigma_\mu^2)$$

So, the model has a single intercept and an unobserved random disturbance, μ_i , that accounts for differences between individuals in the cross-section (see Wooldridge, 2002; Greene, 2003). This model can be written as

$$y_{it} = \bar{\alpha} + X'_{it}\beta + \mu_i + u_{it} \quad (2)$$

y_{it} is the dependent variable for firm i in period t , X_{it} and β are $K \times 1$ where K is the number of right hand side variables, μ_i is the random component.

To assess the determinants of corporate performance and to investigate the effect of government ownership on the firm's performance we estimate the following model:

²⁸ In the previous work, the value of total assets is used to control size effect (see e.g., Morck et al., 1988 and McConnell and Servaes, 1990). Other studies used sales to control for size (see e.g. Xu and Wang, 1997). The logarithm of total sales is used in this research. It has lower explanatory power than assets, and its inclusion in regressions of ROA and ROE makes the results not significant.

²⁹ However, size found to have insignificant effect on firm's size (e.g., Durand and Coeuderoy, (2001) and Tzelepis and Skuras (2004), among others).

$$Y_{it} = \beta_0 + \beta_1 GOV_{it} + \beta_2 SIZE_{it} + \beta_3 GROW_{it} - \beta_4 LEV_{it} - \beta_5 BETA_{it} + \beta_6 AGE_{it} + \mu_i + u_{it} \quad (3)$$

Where Y_{it} denotes alternatively to *ROA* or *ROE*, for firm i as a measure of performance at time t . β_0 is a constant term. *ROA* refers to net income to total assets; *ROE* refers to net income to total equity. The independent variables are: government ownership fraction (*GOVE*), firm's size (*SIZE*), growth rate (*GROW*), firm leverage (*LEV*), business risk (*BETA*), and firm age (*AGE*). μ_i is used to capture the unobserved individual effects (either Fixed Effects model or Random Effects model), and u_{it} is the error term, which represents the measurement errors in the independent variables

and any explanatory variables that have been omitted.

4. Empirical Results

Table 1 reports summary statistics for the variables used in the study. The average return to assets for the sample as a whole is 5.8%, while the average return to equity is about 8.65%. The correlation matrix for the variables is reported in Table 2 in order to examine the correlation between the explanatory variables. The results show there is no multicollinearity problem among the independent variables used in the study. The estimation results of Equation (3) are presented in Tables 3 and 4 using the random-effects model.

Table 1. Description Statistics for the Dependent (s) and Independent Variables

Variable	Mean	Std. Dev.	Min	Max
ROE	8.648	12.558	-91.3	162.2
ROA	5.820	13.581	-37	301
Government ownership (GOV)	10.098	17.513	0	92
Firm Size (SIZE)	10.296	2.733	0	18.510
Growth Rate (GROW)	0.4278	2.722	-2.69	49.2
Financial Leverage (LEV)	204.875	2714.892	0	82183.3
Business Risk (BETA)	0.394	0.476	-1.84	3.8
Firm Age (AGE)	16.899	11.0224	-1	49

Note: *ROA*=the return on assets; *ROE*= return on equity; government ownership (*GOV*)= fraction of ownership owned by government; firm size (*SIZE*) = log of assets; growth (*GROW*)= Growth opportunities measured by growth of sales; financial leverage (*LEV*)= total debt to total assets; business risk (*BETA*)=beta; firm's age= number of years.

Table 2. Correlation Matrix for the Explanatory Variables

	Government ownership	Firm Size	Growth Rate	Financial Leverage	Business Risk	Firm Age
Government ownership	1					
Firm Size	0.2361	1				
Growth Rate	-0.0112	-0.0886	1			
Financial Leverage	-0.0308	-0.0703	0.0084	1		
Business Risk	0.0785	0.4558	-0.0616	-0.0091	1	
Firm Age	0.1785	0.3588	-0.0769	-0.0576	0.2357	1

Note: *ROA*=the return on assets; *ROE*= return on equity; government ownership (*GOV*)= fraction of ownership owned by government; firm size (*SIZE*) = log of assets; growth (*GROW*)= Growth opportunities measured by growth of sales; financial leverage (*LEV*)= total debt to total assets; business risk (*BETA*)=beta; firm's age= number of years.

Table 3 reports the results for estimation of Equation 3 using *ROA* performance measure. Table 4 reports the results using *ROE* performance measure. The results show that government

ownership (*GOV*) has a positive and significant impact on *ROA* only. This finding is consistent with Zeitun (2009) finding that the fraction of equity owned by government has a positive and

significant impact on corporate performance ROA. The impact of corporate ownership (GOV) becomes stronger as industry dummy variables are added to the Model. It shows that government ownership in GCC countries is important determinant for firm's performance as most firms owned by government. Also, foreign ownership in GCC is still quite small and insignificantly affects investment decisions.

Our finding provides support for the agency theory by Jensen and Meckling (1976). Also, this finding of a significant impact of ownership on firm's performance is consistent with prior research including Xu and Wang (1997), Abed Shahid (2003), Wei, Xie, and Zhang (2005) and Zeitun (2009), among others.

Table 3. Estimation Results for Panel Data Model Using ROA as Dependent Variable

Explanatory Variables	Model 1	Model 2	Model 3
	Without Dummies	With countries Dummies	With industry Dummy
Constant	(-4.2509)**	(-7.2963)	(-3.9657)**
Government ownership	(0.0323)***	(-0.00446)	(0.0348)***
Firm Size	(0.7831)*	(1.4019)*	(0.797)*
Growth Rate	(-0.0012)	(-0.0374)****	(-0.0015)
Financial Leverage	(-0.0012)	(-0.001)	(-0.0001)
Business Risk	(-1.2622)***	(-1.3943)***	(-1.2278)
Firm Age	(0.1044)**	(-0.0689)	-0.1022
Bahrain (reference)			
Saudi Arabia		(-6.3525)*	
Kuwait		(-1.3419)	
Oman		(-1.8565)	
Qatar		-6.2374	
Industrial sector (Reference)			
Services Sector			-0.9315
Wald test for Random Effect Model	(89.81)*	(238.53)*	(103.95)*
Observations	929	929	929
R-squared	0.1026	0.2351	0.1061
Breusch and Pagan Lagrangian	(24.55)*	(9.3)*	(24.19)*
Hausman Test	(7.78)*	(3.92)	(4.56)*

Note: ***, **, * indicate significant at a 1%, 5%, and 10% level, respectively. t statistics are in parentheses. Statistical significance t-statistics are determined with White (1980) standard errors to correct for heteroskedasticity.

In all regressions, the firm's size (SIZE) has a positive impact on firm's performance measures, ROA and ROE, and they are significant, at least at 1% level. This finding is consistent with our expectation, and with previous findings including Gleason, Mathur, and Mathur (2000), and Pasiouras and Kosmidou (2007), Zeitun (2009), among others. The significance of firm size indicates that large companies in GCC earn higher returns compared to smaller companies, as large firms can

decrease costs. It provides evidence of economies of scale.

Interestingly, growth (GROW) is found to have a negative but insignificant impact on firm's performance measure ROA. This result is inconsistent with our expectation, that high growth rate is associated with high performance. However, the growth (GROW) is found to have a positive but insignificant effect on the performance measure ROE. Therefore, the positive sign supports our expectation partially.

Table 4. Estimation Results for Panel Data Model Using ROE as Dependent Variable

Explanatory Variables	Model 1	Model 2	Model 3
	Without Dummies	With countries Dummies	With industry Dummy
Constant	(-6.784)**	(-22.112)*	(-6.1024)*
Government ownership	(0.0123)	(-0.040)	(0.018)

Firm Size	(1.1767)*	(2.9711)*	(1.208)*
Growth Rate	(0.1812)	(0.1609)	(0.180)
Financial Leverage	(-0.009)	(-0.007)	(-0.002)
Business Risk	(2.0476)**	(2.111)**	(2.0816)**
Firm Age	(0.1006)**	(0.1091)**	(0.096)**
Bahrain (reference)			
Saudi Arabia		(-12.2378)*	
Kuwait		(-4.0576)***	
Oman		(2.1217)	
Qatar		(-1.3239)	
Industrial sector (Reference)			
Services Sector			(-2.0981)***
Wald test for Random Effect Model	(78.04)*	(158.06)*	(73.92)*
Observations	929	929	929
R-squared	0.0867	0.2867	0.0993
Random Effect vs OLS	(155.84)*	(91.69)*	(151.54)*
Hausam Test	(11.83)**	(2.76)	(12.37)**

Note: ***, **, * indicate significant at a 1%, 5%, and 10% level, respectively. t statistics are in parentheses. Statistical significance t-statistics are determined with White (1980) standard errors to correct for heteroskedasticity.

Firm leverage (LEV) is found to have a negative but insignificant impact on GCC firm's performance measures ROA and ROE. The insignificance of firm's leverage (LEV) indicates that firm's performance in GCC is irrelevant to its capital structure, which supports Modigliani and Miller (M&M) (1958) argument. However, this finding does not support our expectation. Another interesting result is the significant positive coefficient of the business risk (BETA) on the ROE. This finding supports our expectation that there is a positive relationship between risk and corporate performance. Furthermore, this finding is consistent with, and provides evidence to the classic risk trade-off arguments, that firms with higher volatility in income are expected to have higher income. However, business risk (BETA) was found to have a negative and significant effect on firm's performance measure ROA.

As expected a firm's age (AGE) was found to have a positive and significant effect on ROA and ROE. The positive coefficient of firm's age indicates that firm's performance is better for firms with more age, as they have more experience than firms with less age. This result is consistent with our expectation, but inconsistent with Zeitun (2009) finding that firm's age has a negative and significant impact on firm's performance.

Analysis extended to investigate the country effect. Interestingly, the significance of some explanatory variables decreased as country specific dummy variables added to the model. For instance, government ownership (GOV) and firm age (AGE) become insignificant using ROA performance measure. However, the results show that firm's profitability varies slightly by countries. Interestingly, none of the coefficients of country

dummy variables have a significant effect on firm's performance rather than Saudi Arabia and Kuwait. Saudi Bahrain dummy variable found to have a negative and significant impact on ROA and ROE, while Kuwait found to have a negative and significant impact on ROE only, at a low level of significance.

5. Conclusion

This study empirically investigated the effect of government ownership, business risk, financial leverage and other variables (size, growth rate firm's age) on corporate performance from five GCC countries. A cross-sectional and time-series data for 191 companies was used during the period 1999-2006.

Investigating the effect of ownership structure on a firm's performance has been central to ongoing research in corporate governance. However, evidence on the nature of the relationship between ownership structure and firm's performance has been decidedly mixed. Furthermore, most of the studies are conducted in developed countries and in some Asian countries where the characteristics of firms and ownership structure are different from Middle Eastern countries and especially GCC countries. So, implications from the theory may not be applicable to other countries. Therefore, this study provides evidence from Middle Eastern countries (GCC countries) and expands the previous studies.

The empirical evidence in this study shows that government ownership plays an important role in the performance and value of GCC firms. The results show that corporate governance is important in explaining and increasing firm's performance

ROA. The significance of government ownership increased as we control for the industry effect. However, government ownership was not found to have a significant impact on ROE. This finding is important as it shows there are other variables more important than government ownership in explaining and increasing ROE. It may also, provide evidence that companies owned by government in CGG tend to have more protection and more opportunity to make profit, since firms in Qatar, Bahrain, and Oman are operating under conditions of monopolistic competition.

Additionally, size was found to have a positive and significant effect on firm's performance ROA and ROE. It indicates that large companies have more potential to earn more income compared to smaller companies (Gleason, Mathur, and Mathur (2000), and Pasiouras and Kosmidou (2007) and Zeitun (2009), among others). Our findings manifested business risk (BETA) significantly and positively affecting firm's performance ROE, providing evidence to the classic risk trade-off arguments. However, business risk (BETA) was found to have a negative and significant effect on ROA. Firm's age has a positive significant impact on firm's performance ROA and ROE. Our evidence suggests that a firm's age participates in improving the firm's performance in GCC countries. The insignificance of firm's leverage (LEV) indicates that a firm's performance is irrelevant to its capital structure in GCC countries, which supports Modigliani and Miller (M&M) (1958) argument.

References

- Abdel Shahid, S., 2003, Does Ownership Structure Affect Firm Value? Evidence from The Egyptian Stock Market, Working Paper, [online], (www.ssrn.com).
- Ang, J., R. Cole, and J. Lin, 2000, Agency Costs and Ownership Structure, *Journal of Finance*. LV (1), 81-106.
- Alchian, A., and H. Demsetz, 1972, Production information costs and economic organization. *The American Economic Review*, 66 (December) 777-795.
- Al-Muharrami, S., 2009, The competition and market structure in the Saudi Arabia banking, *Journal of Economic Studies* (5) 446 – 460.
- Al-Muharrami, S.; Matthews, K. and Y. Khabari, 2006, Market Structure and Competitive Conditions in the Arab GCC Banking System, *Journal of Banking and Finance*,. 30 (12), pp. 3487-3501.
- Anderson, R. C., S. Mansi, and D. M. Reeb, 2004, Board Characteristics, Accounting Report Integrity, and the Cost of Debt, *Journal of Accounting and Economics* 37, 315-342.
- Baskin, J., 1989, An Empirical Investigation of the Pecking Order Hypothesis, *Journal of Financial Management* 18, 26-36.
- Berle, A., and G. Means, 1932, *The Modern Corporation and Private Property*, Harcourt, Brace, & World, New York.
- Bevan, A., and J. Danbolt, 2002, Capital Structure and Its Determinants in the UK - A decompositional Analysis, *Applied Financial Economics* 12, 159-170.
- Cho, M. H., 1998, Ownership Structure, Investment, and the Corporate Value: An Empirical Analysis, *Journal of Financial Economics* 47, 103-121.
- Demestz, H., 1983, The Structure of Corporate Ownership and the Theory of the Firm, *Journal of Law and Economics* 26, 375-390.
- Demestz, H., and K. Lehn, 1985, The Structure of Corporate Ownership: Causes and Consequences, *Journal of Political Economy* 93, 1155-1177.
- Demsetz, H., and B. Villalonga, 2001, Ownership Structure and Corporate Performance, *Journal of Corporate Finance* 7, 209–233.
- Durand, R., and R. Coeurderoy, 2001, Age, Order of Entry, Strategic Orientation, and Organizational Performance, *Journal of Business Venturing* 16, 471-94.
- Earle, J. S., C. Kucsera, and A. Telegdy, 2005, Ownership Concentration and Corporate Performance on the Budapest Stock Exchange: Do Too Many Cooks Spoil the Goulash?, *Corporate Governance* 13, 254-264.
- Faccio, M., and L. H. Lang, 2002, The Ultimate Ownership of Western European Corporations, *Journal of Financial Economics* 65, 365-395.
- Fama, E. F., and K. R. French, 1999, Testing Trade-off and Pecking Order Predictions about the Dividends and Debt, Working Paper, University of Chicago.
- Gleason, K. C., L. K. Mathur, and I. Mathur, 2000, The Interrelationship between Culture, Capital Structure, and Performance: Evidence from European Retailers. *Journal of Business Research*, 50 (2), 185-191.
- Gordon, M. J., and C. C. Kwan, 1979, Debt Maturity, Default Risk, and Capital Structure, *Journal of Banking and Finance* 3, 313-329.
- Gorton, G., and R. Rosen, 1995, Corporate Control, Portfolio Choice, and the Decline of Banking, *Journal of Finance* 50, 1377-420.
- Greene, W. H., 2003. *Econometrics Analysis* (Prentice Hall, New York).
- Hill, C., and S. Snell, 1989, Effects of Ownership Structure and Control on Corporate Productivity, *Academy of Management Journal* 32, 25-46.
- Himmelberg, C., R. G. Hubbard, and D. Palia, 1999, Understanding the Determinants of Managerial Ownership and the Link Between Ownership and Performance, *Journal of Financial Economics* 53, 353–384.
- Holderness, C., and D. Sheehan, 1988, The Pole of Majority Shareholders in Publicly Held Corporations: An Exploratory Analysis, *Journal of Financial Economics* 20, 317-46.
- Jensen, M., and W. Meckling, 1976, Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3, 305-360.
- Kaplan, S., and B. Minton, 1994, Appointments of Outsiders to Japanese Boards, Determinants and Implications for Managers, *Journal of Financial Economics* 23, 225-258.

27. Kester, V., 1986, Capital and Ownership Structure: A Comparison of United States and Japanese Manufacturing Corporations, *Financial Management* 1, 5-16.
28. Kosmidou, K., 2008, The determinants of banks' profits in Greece during the period of EU financial integration, *Managerial Finance* 34 (3), 146-159.
29. Krishnan, V. S., and R. C. Moyer, 1997, Performance, Capital Structure and Home Country: An Analysis of Asian Corporations. *Global Finance Journal* 8, 129-143.
30. Lizal, L., 2002, Determinants of Financial Distress: What Drives Bankruptcy in A Transition Economy?, The Czech Republic Case, [online], (www.ssrn.com).
31. McConnell, J. J., and H. Servaes, 1990, Additional Evidence on Equity Ownership and Corporate Value, *Journal of Financial Economics* 27, 595-612.
32. Mehran, H., 1995, Executive Compensation Structure, Ownership, and Firm Performance, *Journal of Financial Economics* 38, 163-184.
33. Miguel, A., and J. Pindado, 2001, Determinants of Capital Structure: New Evidence from Spanish Panel Data, *Journal of Corporate Finance* 7, 77-99.
34. Modigliani, F., and M. Miller, 1958, The Cost of Capital, Corporation Finance and the Theory of Investment, *American Economic Review* 48, 261-297.
35. Modigliani, F., and Merton H. Miller, 1963, Corporate Income Taxes and the Cost of Capital: A Correction, *The American Economic Review* 53, 433-443.
36. Morck, R., M. Nakamura, and A. Shivdasani, 2000, Banks, Ownership Structure, and Firm Value in Japan, *Journal of Business* 73, 539-567.
37. Morck, R., A. Shleifer, and R. Vishny, 1988, Management Ownership and Market Valuation: An Empirical Analysis, *Journal of Financial Economics* 20, 293-315.
38. Myers, S., and N. Majluf, 1984, Corporate Financing and Investment Decisions When Firms have Information That Investors Do Not Have, *Journal of Financial Economics* 13, 187-221.
39. Pasiouras, F., and K. Kosmidou, 2007, Factors influencing the profitability of domestic and foreign commercial banks in the European Union, *Research in International Business and Finance* 21 (2), 222-237.
40. Pedersen, T., and T. Thompson, 1997, European Patterns of Corporate Ownership: A Twelve Country Study, *Journal of International Business Studies* 28, 759-778.
41. Prowse, S., 1992, The Structure of Corporate Ownership In Japan, *Journal of Finance* 47, 1121-1141.
42. Rajan, R. G., and L. Zingales, 1995, What Do We Know About Capital Structure? Some Evidence from International Data, *Journal of Finance* 50, 1421-1460.
43. Shleifer, A., and R. Vishny, 1997, A Survey of Corporate Governance, *Journal of Finance*, 52, 737-783.
44. Siddiqui, A., 2008, Financial contracts, risk and performance of Islamic banking, *Managerial Finance*, 34 (10), 680-694.
45. Smirlock, M., 1985, Evidence On The (Non) Relationship Between Concentration and Bank Profitability, *Journal of Money Credit and Banking* 17 (1), 69-83.
46. Stanger, A. M., 2000, Determinants of Home-based Business Sales Performance, School of Commerce Research Paper Series No: 00-18, Adelaide, Australia: Flinders University of South Australia.
47. Sufian, F., and M. S. Habibullah, 2009, Bank Specific and Macroeconomic Determinants of Bank Profitability: Empirical Evidence from the China Banking Sector. *Front. Econ. China* 4 (2), 274-291.
48. Titman, S., and R. Wessels, 1988, The Determinants of Capital Structure Choice, *Journal of Finance* 43, 1-19.
49. Tzelepis, D., and D. Skuras, 2004, The Effects of Regional Capital Subsidies on Firm Performance: An Empirical Study, *Journal of Small Business and Enterprise Development* 11, 121-129.
50. Wei, Z., F. Xie, and S. Zhang, 2005, Ownership Structure and Firm Value in China's Privatized Firms: 1991-2001, *Journal of Financial and Quantitative Analysis* 40, 87-108.
51. Williams, B., 2003, Domestic and International Determinants of Bank Profits: Foreign Banks in Australia, *Journal of Banking and Finance*, 27(6), 1185-1210.
52. Wooldridge, J. M., 2002, *Econometric Analysis of Cross Section and Panel Data* (MIT Press, Cambridge).
53. Wu, S., and H. Cui, 2002, Consequences of the Concentrated Ownership Structure in Mainland China - Evidence of Year 2000, [online], (www.ssrn.com).
54. Xu, X., and Y. Wang, 1997, Ownership Structure, Corporate Governance, and Corporate Performance: The case of Chinese Stock Companies, [online], (www.ssrn.com).
55. Zeitun, R., 2011, Determinants of Islamic and Conventional Banks Performance in GCC Countries Using Panel Data Analysis, World Finance Conference, World Finance Conference, Greece, 26-28 June 2011.
56. Zeitun, R., 2009, Ownership Structure and Corporate Performance and Failure: Evidence from Panel Data of Emerging Market the Case of Jordan, *Corporate Ownership & Control* 6 (4).
57. Zeitun, R., and G. Tian, 2007, Capital Structure, Corporate Performance: Evidence from Jordan, *Australasian Accounting Business and Finance journal*, 1(4).
58. Zeitun, R., and G. Tian, 2008, The Determinants of Capital Structure: The case of inadequate long-term debt access and Regional Risk from Jordanian firms", *Corporate Ownership & Control* 6 (1), 22-37.