DOES FAMILY INVOLVEMENT ON BOARD OF THE DIRECTORS CONTRIBUTE TO FIRM PROFITABILITY? AN EMPIRICAL EVIDENCE FROM SAUDI ARABIA

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Abstract

Literatures view board of the directors as the cornerstone of firm's success. Therefore, family involvement on the board and its impact on firm profitability is an issue of interest and need to be addressed. The purpose of this paper lies in the fact that it extracts new empirical evidence from a promising area in the world. The study proceeds with a cross-sectional time-series analysis based on a data of 75 Saudi non-financial public listed firms from 2007-2011(375 firm-year observations) to examine family representing on board of the directors, family chairman, and founder chairman and its impact on firm performance (ROA). The study concludes the outperformance of firms in which family represents heavily on the board. In addition, the results suggest that not all family members are good stewards. Strictly speaking, founder chairman only found to be beneficial to the firm profitability rather than others. However, the results confirmed its robustness against different indicator (EPS) and when family firms only being selected.

Keywords: Family Involvement, Board of the Directors, Family Chairman, Firm Profitability, Saudi Arabia

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1 Introduction

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

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

The contrary view of stewardship theory holds that managers are stewards that better protect the resources and act in the firm's best interest as opposed to their own interests (Donaldson & Davis, 1991). Hence, theorists

claim that there is no issue with the motivation of the managers and the board's main role is to work with the CEO, support their decision-making process and offer suitable and effective counsel and advice.

In family firms, the family attempts to involve heavily on the board of the directors to maintain firm control within the family, either by occupying more seats on the board (Voordeckers, Van Gils, & Van den Heuvel, 2007) or by confining the chairman positions to family members (Poza, 2010). Along this line, the stewardship theory considers family directors (family chairman) more effective advisors of top management as the latter is prevented from employing tactics that are adverse to the family shareholders' interest. Eventually, the interest of the firm is balanced with those family owners' interests.

In corporate governance literature, the board of directors has received considerable attention, however, research regarding the involvement of the family on the board has not received extensive examination (Collin & Ahlberg, 2012) and the findings regarding the impact of such involvement upon firm performance are mixed (Coles et al., 2008). Thus, this ambiguity has urged the researchers to provide new evidence from different context (i.e. Arab World) on the matter.

There are several ways in which this study contributes to the existing literature on the topic. First, this study provide empirical results on one of the main issues faces by families (i.e., board of the directors) when forming their businesses. So, extending research in the area may find answers to questions in modifying a formal governance structure to help guarantee the long-term success of family businesses and welfare of the family. Second, we contribute to the existing controversy about the impact of family involvement on the board by considering the role of firm's founder. Third, instead of relying on cross-sectional data as previous studies related to ours, we use cross-sectional time-series data from unique context (i.e., Saudi Arabia) including five consecutive years that is difficult to obtain especially with absence of any related governmental or private sources. And fourth, we not only rely on ROA as a measure for firm profitability, but we checked the robustness of our results by using another measurement that is EPS.

By testing our hypotheses, we provide empirical evidences support our first and third hypotheses that are family representing in board of the directors and founder chairman are positively impact performance of the firm. However, the findings detect negative relationship between family chairman and firm performance. This indicate that founders play unique role in their firms in that they are more stewards and can successfully alleviate any possible agency costs that might arise between management of the firm and its shareholders. The results are robust when different profitability measure is used (i.e., EPS) and when only family firms being examined.

The rest of the paper proceeds as follows. In the following section, we review the preceding literature and develop our hypotheses. This is followed by a discussion of the research methodology and results of cross-sectional time-series analyses are presented. Finally, a conclusion constitutes the last section.

2 Literature review and hypotheses development

2.1 Family representation on board of the directors

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

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

Hence, the most ideal structure of the board of directors recommended by agency scholars is the inclusion of both inside and outside directors (Hermalin & Weisbach, 2003) where inside directors are those who are related to the family through blood or marriage or those who actively work or retired as executives of the firm (Anderson & Reeb, 2004), while the outside ones are those members who are not employees of the company and are neither subordinates, relatives nor managers of the subsidiaries of the firm (Pearce & Zahra, 1991). It is generally believed that the greater the number of external board members, the more the board will be

independent from management and the more favourable outcomes will be achieved in favour of shareholders, such as better quality financial reporting, minimized agency cost, effective internal control and greater firm profitability and market value (El-Mahdy & Norman, 2010).

As for the board independence, a board with a greater number of independent directors is considered as a good internal monitoring tool that can be used by the organization owners (Jensen & Meckling, 1976). This is because agency theory postulates that external directors are more professional in terms of monitoring managers relative to their inside counterparts (Fama & Jensen, 1983). In addition, they are better advisors (Coles et al., 2008) and they play a role in minimizing conflict between the majority and minority shareholders (Anderson & Reeb, 2004). This is also owing to the owner's perception of managers; according to the agency theory, managers of organizations cannot be trusted (Ramachandran & Jha, 2007). Based on this argument, managers may not act in the principal's best interests but in their own at the expense of the former. A contrasting view from the stewardship theory implies the opposite whereby agents are considered to be trustworthy stewards, and, therefore, their goals are primarily aligned with those of the principal (Davis, Schoorman, & Donaldson, 1997; Donaldson & Davis, 1991). In other words, the stewardship theory postulates that the board should comprise a majority of inside members as opposed to outside ones to guarantee effective and efficient decision making as the former is privy to the business goals and they act in the interests of the firm and must be more competent in achieving higher profits compared to their external counterparts (Donaldson & Davis, 1991).

In the context of Finland, Maury and Pajuste (2005) revealed that family firms are always represented in the management or board of directors while Klein (2000) reported that in Germany, two-thirds of the family boards have insider members in the form of owners who prefer to maintain the control of the business in the family and who largely ignore external control. Navarro, Anson, and Garcia (2009) found a consistent result in Spanish public listed companies where the percentage of independent directors is equal in proportion to non-family directors. Their findings revealed that a large proportion of the insider directors are members of the family. In addition, in Spain, no significant difference was found between family and non-family firms in the composition of the board (Arosa, Iturralde, & Maseda, 2010). Mixed results were revealed in the context of the Asian region. For instance, in Malaysia, 55% of the board members are independent non-executive directors (Amran & Ahmad, 2009). As for family and non-family businesses, they revealed that the former registered a lower mean for board independence compared to the latter.

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

In a related study, Anderson and Reeb (2004) made use of the framework of the agency theory for their examination of 403 non-utility/non-banking firms in the S&P 500 from 1992-1999. They found that independent directors reduce the possibility of conflicts between the majority and minority shareholders, and, more precisely, independent directors positively affect the founding-family firm's performance where the firm balances between family and non-family shareholders. This finding is consistent with Fama and Jensen's (1983) argument that argued that outside directors could strengthen a firm's value with their experience and monitoring skills.

In Malaysia, while Amran and Ahmad (2009) and Haniffa and Hudaib (2006) indicate the absence of any significant relationship between the proportion of independent directors and the value of a firm, Ibrahim, Abdul Samad and Amir (2009) find that outside directors negatively impact family firms' ROA and ROE. Related literature also finds insignificant relationship in the U.S. (Villalonga & Amit, 2006) and Italy (Sciascia & Mazzola, 2009). The hypothesis is therefore postulated as follows:

H1: There is a positive relationship between family representation on boards of directors and firm performance.

2.2 Family chairman

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

In addition, Maury (2006) revealed that family controlled firms in Western Europe, outperform their non-family rivals although their report regarding the impact of family control upon market-based valuation and accounting-

based performance resulted in different outcomes. Through a dummy variable, he assigned a value of one if the controlling shareholder is a family member or family member holds the position of CEO, Honorary Chairman, Chairman or Vice Chairman. Otherwise, a zero was assigned. He concluded that family-controlled firms presented higher performance compared to other firms. The positive relationship between accounting profit and family control was in fact tied to hold at least one position of CEO or chairman by a family member. In Taiwan, Filatotchev, Lien, and Piesse (2005) study the relationship between the independent chairman (has no relation with the family owners) and firm performance measured by five indicators: market-to-book value, return on capital employed, return on assets, sales revenue and earning per share. They found that family chairman has a significant positive effect on the performance measured by sales-to-issued capital ratio only.

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

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

Note that, some other works confirmed the absence of any statistical significant relationship between family chairman and firm performance. For example, Kowalewski, Talavera, and Stetsyuk (2010) in their study on Poland revealed that family chairman has no influence on all the three performance measures that are employed, i.e. ROE, ROA, and OROA. Similarly, Miller, Le Breton-Miller, Lester, and Cannella (2007) obtained the same results for US public companies, they fail to find any relation between the two variables by employing OLS regressions, 4 out of 5 regressions produce insignificant relationship which implies that family chairman is playing no value-enhancing for the company. Hence, from the above discussion of studies in the literature, the following is hypothesized:

H2: Firms controlled by family chairmen outperform firms not controlled by family chairmen.

2.3 Founder chairman

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

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

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

Ehrlich, & Singh, 2007). The short-term views of the descendant chairmen make them more susceptible to difficulties and risks while forming networks (De Massis, Chua, & Chrisman, 2008). Consequently, employees show greater productivity in family firms managed by founders (McConaughy & Phillips, 1999).

Miller et al. (2007), however, comprehensively examined the impact of family involvement in management and control upon market-based performance. They revealed that family firms in which the founder holds the chairman and CEO positions outperform other firms of the same calibre with external CEO and founder-chairman. They also revealed that family firms with founder-chairman but descendant-CEO registered the lowest mean Tobin's Q. These findings are consistent with Miller et al. (2007) who revealed that as the founder effect dissipates, the family-ownership's outperformance dissipates with it. From the above discussion, it is hypothesized that:

H3: Firms controlled by founder chairmen display higher performance than those controlled by non-founder chairmen.

3 Research methodology

As the purpose of this study is to extract new evidence on family control and its effect on firm performance in Arab context, our data set has been chosen purposively. The companies must be non-financial, publicly traded in Saudi Stock Exchange (*Tadawul*), and have available annual reports for five consecutive years (2007-2011). Due to the irrationality of the comparison between financial and non-financial firms (Martinez, Stohr, & Quiroga, 2007), any financial institutions were dropped. This is because government regulations, terms of annual report characteristics, and accounting standards in terms of income and profit for financial and non-financial firms are different (Alsaeed, 2006; Claessens & Djankov, 1999; Isakov & Weisskopf, 2009; Lemmon & Lins, 2003). After omitting such financial firms, our data set includes 375 firm-year observations. For purpose of this study, we adopted the same method of Al-Dubai, Ku Ismail, and Amran (2014) in categorizing our sample firms into family or non-family. The advantage of adopting such method is that, it takes into account the unique characteristics of the Arab families in the business whereby they mainly intended to be involved in firm's ownership, management, and board of the directors.

3.1 Research models and measurements

The empirical model of this study to be employed is of the form:

$$Firm\ performance = \alpha_0 + \beta_1(\text{Famchair})_{it} + \beta_2\ (\text{Foundchair})_{it} + \beta_3(\text{Fambod})_{it} + \beta_4(\text{Bodsize})_{it} + \beta_5(\text{Fage})_{it} + \beta_6(\text{Fsize})_{it} + \beta_7(\text{Fdebt})_{it} + \mu_i + \varepsilon_{it}$$

Where Firm performance is the dependent variable and measured by Return on Assets, α_0 = the constant, Famchair= family chairman, Foundchair= founder chairman, Fambod= family representation on board of the directors, Bodsize= board size, Fage= firm age, Fsize= firm size, Fdebt= firm's debt, μ_i = unobserved firm-level random effect, ε_{it} = idiosyncratic error.

In order to determine the impact of family control and to ensure that our empirical model is fully specified, three independent variables were included in the analysis: family chairman, founder chairman, and family representation on board of the directors. However, following previous suggestions, we control for board size, firm age, firm size, and firm debt. All operational definitions of the included variables are presented in Table 1.

4 Results and discussion

4.1 Descriptive findings

As can be seen from Table 2, majority of our sample are firms with non-family chairmen (60%) where families occupied only 40% of the total chairman positions in Saudi public listed companies as a whole. However, the scenario is different if only family firms have been taken into analysis. Family firms with family chairman account for around 71% of all family firms while 29% of the family firms have non-family members as chairmen. This indicates that Saudi families are more likely to acquire chairman positions. They are in favor of keeping the power in the hands of the family members to overrule board decisions, minimize CEO's

entrenchment and expropriation behaviour, which in turn will protect family agendas. In addition, Table 2 shows the summary statistics for family firms with founder and non-founder chairmen. It shows that 59% and 41% of family firms have founder and non-founder chairmen, respectively. It seems the majority of Saudi family PLCs are governed significantly by non-founder chairmen.

Table 3 shows the t-statistics for difference in means for all type of firms. The results show that the mean of ROA for our sample is 7% as a whole. Although the mean of ROA for firms with family chairmen is bigger than that of firms with non-family ones, the difference between the means is not significant. However, means of ROA for firms with founder and non-founder chairmen are 9% and 6% respectively and significant at 5% level. Such results may indicate to the vital role of founders in enhancing their firms' profit.

Table 3 also expresses the mean of family involvement percentage in board of directors which is 9%. The percentage becomes smaller when non-family or non-founder acts as chairman. However, the family involvement in board of directors at highest degree (19%) when chairmen of the firms are founders. Furthermore, these results are in contrast to the findings of Amran and Ahmad (2009) in Malaysia, Her and Williams (2002) in Taiwan and Navarro and Anson (2009) in Spain which report that the majority of the board members are family. However, the above findings support the results of Al-Abbas' (2009) study, whereby the Saudi boards of directors consist mainly of independent directors.In terms of board size, the results show that 8.16% is the mean of board size in all Saudi PLCs. Firms with non-family chairmen have significantly lower board size (7.99) than firms with family chairmen (8.41).

4.2 Regression results and discussions

Table 4 shows the coefficient of correlation among the variables. It shows positive correlation coefficients for all the independent variables with ROA but only significant for founder chairman and family involvement in the board of the directors' variables. Correlation coefficients were 0.120 and 0.231 and significant at 5% and 1% level of significance for Foundchair and Fambod respectively. However, control variables: Bodsize, Fage, and Fsize were positively correlated with ROA and significant at 1% level. Further, Table 4 shows that multi-collinearity is not a serious problem in our estimated regression model and would not jeopardise the results as the highest observed variance inflation index (VIF) is 2.02, which is far below the value of concern that suggested by Hair, Black, Babin, and Anderson (2010) (i.e., 10).

Table 5 provides results of regressing firm performance on family control's variables, namely family representation on board of the directors (Fambod), family chairman (Famchair), and founder chairman (Foundchair). First, in Panel A where ROA is the dependent variable in all the regression models, the coefficients of family representation on the board of directors (Fambod) were positive (β= 0.092, β= 0.117) and both are significant at the 1% level of significance when it regressed separately and altogether with the other independent variables in the full model respectively. As stewardship theory postulates superior performance of family directors on the board; the results confirm this superiority in terms of accounting performance (i.e. ROA) of Saudi PLCs. The finding is consistent with past work of Sciascia and Mazzola (2009) which implies that firm's performance is associated with greater family representation on the board of directors. The reasons behind these findings may be that family directors appear to have well-built trustful relations with their relatives that equip them with a unique advantage and incentive to effectively monitor and avoid any possible opportunistic and exploitative behavior of management. Bearing in mind the strong ancient tribal system in Saudi Arabia, family directors are believed to be more knowledgeable of the firm due to flow of information from various sources. This provides their motivation to work in the best interests of the controlling family shareholders, in terms of achieving family objectives, protecting family legacy, longevity and maintaining business survival, in order to pass it on to subsequent generations. Hence, family directors contribute to firm performance positively. These findings shed light on the inappropriateness of some corporate governance regulations in Saudi Arabia. While the Capital Market Authority (CMA) in Saudi Arabia imposes a particular percentage of the board seats that must not be exceeded by non-independent members, that is two-thirds of the total board members. The evidence of this study suggests that such regulation might be a problematic and may adversely affect the performance of Saudi listed companies, more specifically, family firms, which in turn, restrains the intention of many family firms to go public. Therefore, in order to expand the efficiency of Saudi code, the code should deal with family businesses as a special case or different codes should be set up distinct from those that apply to non-family ones.

Unexpectedly, while we hypothesized a positive impact of family chairman (i.e. H2), the results of the current study confirmed the opposite direction. Although majority (71%) of family public listed firms in Saudi Arabia have a family members as chairmen, they seem to be lower performer as compared to their non-family

counterparts. As can be noticed in Panel A of Table 5, the coefficient estimate for Famchair was positive but not significant, and turned to be significantly negative ($p < 0.01$) in our full model. The findings are in contrast to the argument made by Burkart et al. (2003) and line with the results provided by Sacristan-Navarro et al.'s (2011) study which revealed the underperformance of family chairmen in Spanish PLCs. Hence, depends on the previous findings, family chairman can not be seen as steward any longer. When family chairman controls the day-to-day activities he might utilize the business money of the group for his personal private benefits, thereby harming firm performance (Sacristan-Navarro et al., 2011).

With regards to the role of founder chairman, we found a strong significant positive effect of family chairman on the ROA ($p<0.10$) in both separated and full models. The results support the findings of Villalonga and Amit (2006) and Miller et al. (2007) for a lone family business. These results indicate that founders seem to contribute unique and value-added skills to the firm, thereby explaining the superior performance. Hypothesis H3 is thus supported. The reasoning is similar to that of the previous literature, which states that the founder is often the one person who knows much about his business and has experienced most of the firm's day-to-day events, starting from its establishment. Such long tenure of the founder and his accumulated knowledge equip him with a good enough experience to efficiently maintain firm's culture, vision and long-term survival. Therefore, it can be noted that in Saudi Arabia, the founder occupies a unique position in the firm and management members always consult the founder before most of the decisions are made. Another possible justification behind the result is that, most family businesses in Saudi Arabia have a priority to protect their reputation in the market against any damage - this motivates them to effectively monitor the management and strive for long-run profit creation and firm sustainability, by aligning the interests of the family owners and those of management. In addition, the ambitions and leadership of the founder, coupled with the various internal and external resources available, can serve as a platform of opportunity to the founder to exert considerable influence on the performance of his firm.

In terms of control variables, the coefficient estimates were consistent in all regression models. We found that big and older firms with larger board size are doing better than small, young firms with small board size in terms of company profitability. However, the coefficient estimate of firm debt was negative but not significant.

4.3 Robustness checks

To prove the robustness of our results and improve its reliability, we reexamine the effects of our independent variables with another backward accounting-based ratio as dependent variable, namely Earning Per Share (EPS). As it is clearly seen from the results of Panel C from Table 5, all our interested variables, even control variables have similar effects to the EPS consistently. The variables explain 11% of the variance in firm performance as measured by ROA ($R^2 = 0.11$), while they explain around 19% of the variance in EPS indicator. The *Wald chi²* tests for goodness-of-fit for both indicators (i.e. ROA and EPS) are highly significant ($p < 0.001$). As such, we can conclude that our findings are robust and can be assumed that similar results can be obtained with any other accounting-based ratios of performance.

Further, given the special characteristics of family firms, we decided to eliminate non-family firms from our sample and regress again all the variables of this study but on family firms only. Panels B and D from Table 5 illustrate the results of such analyses. The two models produced similar results as the two full models of Panels A and C with the exception of the family representation on board of the directors (Fambod) in terms of statistical significance when EPS was the dependent variable. In general we can conclude that the results of this study are robust with respect to accounting performance measures and firm identity.

5 Conclusions

Boards of directors play a critical role in shaping the objective of businesses and maintaining effective control on the management which in turn affect their profitability. In family business, families, generally, tend to restrict the seats of the board and even chairman position to members who are related to them. Thus, it would be of particular interest to examine family involvement and its impact on the firm profitability.

In the spirit of stewardship theory, we develop two hypotheses regarding the outperformance of a firm in which family has a great representation on its board and the chairman being family member. Moreover, it will be important to investigate the role of firms' founders. Hence, the third hypothesis was developed to examine such role. Using a longitudinal data on 75 Saudi non-financial public listed companies from 2007 to 2011, our findings support the stewardship predictions on the positive impact of family presenting on the board of the directors and founder chairman. Unexpectedly, our results show that there are different consequences for assigning chairman position to family members. While having a family chairman is found to be detrimental to

firm profitability, have a founder chairman is beneficial. The results imply that founders among other family members maintain a distinctive role in their firms, which result in greater efficiency and higher profitability. Further, the results are robust to different profitability ratio and sample (only family businesses).

Due to data limitation, our findings are confined to family involvement on board of the directors. The question of whether family involvement on management also improves the relative performance should be a promising avenue for future research. Moreover, we suggest future researchers to conduct a cross-country study in Arab region or cross-institutional research with different countries out of the region. How chairman position moderates the relationship between family ownership and firm performance is also another useful direction for future study.

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Table1. Variables' Operational Definitions

Acronym	Operational definition	Sources
ROA	Return on Assets: Net income divided by book value of total assets	Anderson & Reeb, 2003; Perez-Gonzalez, 2006
Famchair	Family chairman: dummy variable that takes the value of 1 if the chairman of the board of the directors in a family firm is a family member, 0 otherwise.	Miller et al., 2007; Kowalewski *et al.*, 2010; Sacristan-Navarro *et al.*, 2011
Foundchair	Founder chairman: dummy variable that takes the value of 1 if the chairman of the board of the directors is a family member and he is also the founder, 0 otherwise.	Isakov & Weisskopf, 2009
Fambod	Family representation on board of the directors: ratio of family directors to the total board membership.	Sciascia & Mazzola, 2009
Bodsize	Board size: total number of directors on the board of the firm.	Al-Abbas (2009); Amran & Ahmad, 2009; Arosa et al., 2010
Fage	Firm age: the natural log of the number of years since the firm's inception.	Anderson & Reeb, 2003; Isakov & Weisskopf, 2009; Arosa et al., 2010; Sacristan-Navarro et al., 2011
Fsize	Firm size: the natural log of the book value of total assets.	Anderson & Reeb, 2003; Arosa et al., 2010; Sacristan-Navarro et al., 2011
Fdebt	Firm debt: book value of long-term debt divided by total assets.	Anderson & Reeb, 2003

Table 2. Firm Characteristics

	All Firms (n=375)				Family Firms (n=212)			
	Family chairman	Non-Family chairman	Founder chairman	Non-Founder chairman	Family chairman	Non-Family chairman	Founder chairman	Non-Founder chairman
Number	150	225	87	288	150	62	87	125
Percent	40.00	60.00	23.20	76.80	70.75	29.25	41.04	58.96

Table 3. t-Statistics for Difference in Means

	Mean for all firms (n=375)	Mean for family chairman firms (n= 150)	Mean for non-family chairman firms (n= 225)	t-test	Mean for founder chairman firms (n= 87)	Mean for non-founder chairman firms (n= 288)	t-test
ROA	0.07	0.07	0.06	-0.91	0.09	0.06	-2.33**
Fambod	0.09	0.16	0.04	-8.91***	0.19	0.06	-8.65***
Bodsize	8.16	8.41	7.99	-2.52**	8.09	8.18	0.43
Fage	24.41	25.84	23.46	-1.81*	25.38	24.12	-0.82
Fsize	10,300	3,460	14,900	2.80***	3,350	12,400	1.90*
Fdebt	0.14	0.15	0.13	-1.74*	0.13	0.14	0.87

Note: ***significant at 1% level (2 tailed), **significant at 5% level (2 tailed), *significant at 10% level (2 tailed), Firm size is total assets expressed in millions of Saudi Riyals. ROA= Return on Assets, Fambod= family representation on board of the directors, Bodsize= board size, Fage= firm age, Fsize= firm size, Fdebt= firm debt

Table 4. Correlations Among Variables

	ROA	**Famchair**	**Foundchair**	**Fambod**	**Bodsize**	**Fage**	**Fsize**	**Fdebt**	**VIF**
ROA	1.000								
Famchair	0.047	1.000							2.02
Foundchair	0.120**	0.673***	1.000						1.99
Fambod	0.231***	0.419***	0.409***	1.000					1.45
Bodsize	0.156***	0.130**	-0.022	0.087*	1.000				1.22
Fage	0.230***	-0.007	0.004	0.286***	0.010	1.000			1.14
Fsize	0.151***	0.055	-0.025	-0.005	0.375***	-0.134***	1.000		1.44
Fdebt	0.049	0.114**	-0.004	0.155***	0.092*	-0.007	0.410***	1.000	1.27

Note: ***significant at 1% level (2 tailed), **significant at 5% level (2 tailed), *significant at 10% level (2 tailed). ROA= Return on Assets, Famchair= family chairman, Foundchair= founder chairman, Fambod= family representation on board of the directors, Bodsize= board size, Fage= firm age, Fsize= firm size, Fdebt= firm debt

Table 5 Results of Cross-Sectional Time-Series Analyses

Variables	ROA				EPS					
	Panel A : All sample				Panel B: FBs	Panel C : All sample				Panel D: FBs
Constant	-0.160***	-0.151***	-0.143***	-0.129***	0.235***	-11.48***	-11.29***	-11.47***	-11.23***	-5.486***
	(-3.77)	(-3.70)	(-3.51)	(-3.15)	(3.29)	(-14.52)	(-15.81)	(-15.91)	(-15.25)	(-3.26)
Famchair	0.005			-0.027***	-0.037***	-0.036			-0.813***	-0.997***
	(1.13)			(-4.38)	(-3.86)	(-0.34)			(-6.15)	(-4.48)
Foundchair		0.029***		0.033***	0.025***		0.390***		0.880***	0.626***
		(5.77)		(5.29)	(2.61)		(4.05)		(6.79)	(3.05)
Fambod			0.092***	0.117***	0.080***			0.765*	1.375***	0.760
			(5.51)	(5.95)	(2.84)			(1.77)	(3.44)	(1.30)
Bodsize	0.005***	0.005***	0.005***	0.005***	0.004	0.011	0.012	0.003	0.048*	0.106**
	(3.95)	(3.36)	(3.95)	(3.63)	(1.57)	(0.38)	(0.44)	(0.11)	(1.71)	(2.01)
Fage	0.032***	0.028***	0.024***	0.022***	0.006	1.207***	1.138***	1.174***	1.000***	0.670***
	(9.21)	(8.56)	(6.73)	(6.25)	(0.83)	(18.82)	(17.89)	(17.43)	(10.89)	(4.71)
Fsize	0.004**	0.004**	0.004**	0.004**	-0.010***	0.451***	0.441***	0.451***	0.451***	0.218**
	(2.31)	(2.20)	(2.37)	(2.09)	(-2.82)	(13.41)	(14.53)	(14.65)	(14.79)	(2.53)
Fdebt	0.001	-0.001	-0.001	-0.001	-0.006**	0.046	0.012	0.019	0.030	-0.056
	(0.35)	(-0.99)	(-0.93)	(-0.55)	(-2.03)	(1.21)	(0.36)	(0.54)	(0.86)	(-1.00)
N	375	375	375	375	208	375	375	375	375	208
R^2	0.066	0.084	0.100	0.110	0.144	0.172	0.173	0.177	0.194	0.160
Wald chi^2	109.91	145.13	127.74	155.12	57.05	603.13	728.38	764.30	651.95	62.71
Prob > F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Note: Figure in the parenthesis is z value, ***significant at 1% level (2 tailed), **significant at 5% level (2 tailed), *significant at 10% level (2 tailed), ROA= Return on Assets, EPS = Earning Per Share, Famchair= family chairman, Foundchair= founder chairman, Fambod= family representation on board of the directors, Bodsize= board size, Fage= firm age, Fsize= firm size, Fdebt= firm debt.