

ROYAL FAMILY MEMBERS AND FIRM PERFORMANCE: EVIDENCE FROM KINGDOM OF SAUDI ARABIA

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ABSTRACT

This study examines the relationship between Royal family members on the board of directors and firm performance of 573 publicly listed in the Saudi Stock Exchange (Tadawul) during 2007-2011 periods. This study utilizes two measurements of the firm performance: (1) Tobin's Q and (2) ROE. Using the WLS, the result of this study shows that the existence of Royal family members on the board of Saudi-listed companies is significantly associated with firm performance. This study provides evidence on the role played by Royal family members in reducing agency conflicts and information asymmetries in Saudi Arabia where firms may be influenced by the cultural issues related to political ties and family involvement. The result of this study contributes to the existing theory and empirical evidence of how Royal family members add value to the firm. It offers policy-makers additional evidence on the positive impact of Royal family members on firm performance.

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KEYWORDS: Tobin's Q, ROE, Royal Family Members on the Board, Saudi Arabia

INTRODUCTION

The board of directors is assigned a number of key responsibilities and obligations, including establishing aims and goals, and overseeing and controlling the activities and operations of the organization, which is pivotal to the decision making process within the organization. In line with the agency theory, the key responsibilities of the board of directors are centered on management monitoring in increasing the value of the firms (Fama & Jensen, 1983). Moreover, a critical role is normally adopted by the board of directors with a focus directed towards protecting the shareholders' interests; thus, the controlling role is essential and therefore, needs to be followed by the service role. Despite the fact that the majority of management related decisions are assigned to managers, the board of directors is still considered as the main point of control through carrying out the ratification and monitoring of significant managerial decisions (Fama & Jensen, 1983). Accordingly, agency theory explains that the directors represent shareholders and the monitoring activities focus onto the decision making process in an attempt to circumvent issues between shareholders and management.

In order to improve the motivation of the board to supervise management, agency theory implies management ownership through aligning shareholder and manager interests, non-dual leadership and a higher proportion of external directors of the board in order to improve board independence (Muth & Donaldson, 1998). As advocated by the resource dependence theory, the main objective of an organization's board of directors is to act as a co-optation instrument for identifying access to external resources in order to achieve improvements in terms of business performance (Johnson, Daily & Ellstrand, 1996; Pfeffer, 1972, 1973). This theory further implies that the board's role needs to ensure involvement in corporate strategy

(Zahra & Pearce, 1989); thus, the board is recognized as being a strategy formulation/implementation facilitator (Baysinger & Butler, 1985). Moreover, the theory postulates that directors who have a link with outsiders are more likely to achieve access to other sources and means (Muth & Donaldson, 1998). The board's characteristics and the firm's performance are increasingly subjected to ongoing review, especially when there is a major legislative change or when codes of best practice are proposed or issued. Cicero, Wintoki and Yang (2010) showed evidence that U.S firms allowed target board panel of changes to the board. They found that as the economic and contracting environment change, firms are relatively quick to adapt their boards in response to these changes. Their results strongly support the idea that board structure is considered important to firm value by all parties in the firm's nexus of contracts. To make sure that firms are performing well, certain characteristics of the board of directors that influence its ability to function effectively should be taken into consideration by different codes of conduct and guidelines that would reflect compliance and accountability. Due to the unique setting of Kingdom of Saudi Arabia, this study argues that the existence of Royal family members on the board of directors apply more monitoring role to the best interest of shareholders. Al-Ghamdi (2012) indicates that many members of the Royal family are appointed as directors of boards and serve on boards as managerial members; therefore, they may monitor the management closely, thereby, decreasing possible mismanagement and wrongdoing. As a result, this may influence positively the firm value in the marketplace.

There is increasing openness and integration of Saudi Arabia with the global economy, which, in turn, has created push-and-pull factors that, contributes to the changing in the institutional framework environment, which, consequently, enhances companies' values in the Saudi marketplace. As a result from these recent developments, Saudi Arabia is found to be a profitable business environment for local, regional, and foreign investors (Bley & Chen, 2006; Al-Hussaini & Al-Sultan, 2008; Al-Shammari, Brown & Tarca, 2008; Gulf Base, 2009). There has been a surge of interest in Saudi Arabia about the firm performance issues. Several studies have been conducted in different contexts other than Saudi Arabia (Han, Lee & Suk, 1999; Kang & Zardkoohi, 2005; Haniffa & Hudaib, 2006; Aljifri & Moustafa, 2007). Therefore, the conflicting and inconclusive results evidenced by the prior studies on firm performance, the paucity of firm performance research in Kingdom of Saudi Arabia, and the recent incremental developments that have been coming to Saudi market provide the motivation for investigating the firm performance in the setting of Kingdom of Saudi Arabia. In particular, little is known and many questions remain unanswered about firm performance in Kingdom of Saudi Arabia. In line with the Hawkamah and IFC survey of 2008, almost half of all of the organizations listed in Middle East and North-African (MENA) countries, such as that of Saudi Arabia, view corporate governance policy responsibilities to be in line with the good practice of the board. However, the board's role is commonly misinterpreted within the Middle East and North-African (MENA) region.

As established through the survey, almost 90 percent of MENA banks and listed organizations highlight that the board, not management, was assigned the responsibility for establishing corporate management; this stands in contrast to the good practice developed by management, and the fact that the board guides and reviews corporate strategy. However, to the best of the researchers' knowledge, no empirical evidence using longitudinal data exists that allows more conclusive evidence about how companies incorporating in Kingdom of Saudi Arabia perform. Furthermore, this study contributes to the firm performance literature by addressing new evidence regarding the association of Royal family members on the board with firm performance. Therefore, the objective of this study is to provide empirical evidence on the determinants of companies' performance in the Kingdom of Saudi Arabia with specific reference to the role of Royal family members on the board. The remainder of the paper is organized as follows: Section 2 discusses the literature review and the hypotheses development while Section 3 describes the research methodology. The results and discussions have been highlighted in section 4. The final section provides conclusions and implications.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In specific regards to the agency theory, both agents and principals (i.e. managers or decision-makers and shareholders) are recognized as optimizing their own utilities (Jensen and Meckling, 1976 and Fama and Jensen, 1983). In the Saudi context, Board Royal family members (as decision-makers and owners) closely oversee management, which are likely to help and enhance firm performance. Previous studies provided evidence that a group encompasses particular characteristics plays a key role in much of the country's political and socio-economic environment. For example, Che-Ahmad, Houghton and Yusof, (2006) examined the effect of the major ethnicity groups in Malaysia on the choice of auditor among Malaysian publicly-listed companies and found that the ethnic groups have a substantial influence on the auditor selection process. Similarly, Richard (2000) examined the links between cultural (racial) diversity, firm performance and business strategy within the banking sector. In an attempt to measure firm performance, he found that cultural diversity has positive links with performance. In addition, Richard, Kirby and Chadwick (2013) found that participative strategy-making positively mediates the association between racial diversity in management and firm performance, as measured through ROA. The view has been postulated by a study by Abdul Rahman and Mohamed Ali (2006) and provides support validating the belief that disclosure and accounting practices are a function of the nation's cultural heritage and values, which influence attitudes towards business-related fraud. On the other hand, no impacts were recognized in line with Malay directors' characteristics on earnings management, with the view put forward that the presence of Malay directors on the board of the firm and on the auditing committee could hinder opportunistic earnings management.

In the Middle East region, one of the most common types of firm organization is that of Royal family ownership or Royal family controlled companies. According to paper documents by Thomson Reuters, all Arab states have made investments in publicly listed companies amounting to approximately US\$319 billion. The Royal families within the Arabian domain directly control in excess of US\$240 billion of investments in publicly listed firms, therefore, bettering sovereign wealth funds and government institutions (Zawya, 2013). In the context of Saudi Arabia, Royal families are known to have control of approximately 10 percent of all board seats amongst Saudi-listed companies. This research poses the view that there may be circumstances where a number of individuals are seen to be more powerful than others, meaning that some individuals with a greater degree of power affect the actions and views of others in such a way that it gets things done (Clark, 2004). A number of the Royal family members are assigned positions on the board and act as managerial associates, allowing them to oversee management very carefully, which helps to reduce the potential of wrongdoing and poor management (Al-Ghamdi, 2012). Consequently, there would be an increase in the value of the firm. Therefore, using the complementary suggestions by agency theory (monitoring) and resource dependence theory (a link with the external environment), this study argues that the existence of Royal family members on the boards of Saudi-listed companies would positively affect firm performance. The testable hypothesis is expressed in the following statement:

H₁: there is a positive relationship between board Royal family members on the board of directors and firm performance.

RESEARCH DESIGN AND METHODOLOGY

Sample and Data

This study used panel data to all publicly listed companies in Tadawul from 2007 to 2011. By using a panel data of five consecutive years, where the same companies served on the panel over five years, gives advantage to measurement of the changes that take place between points in time (Cavana, Delahaye & Sekaran, 2001). Choosing years between 2007 and 2011 encompasses many important events such as financial crisis (either locally or internationally) and introducing the Saudi CG code in 2006. The initial

sample in this study was 622 observations and the final sample was 573 observations, after 49 outlier observations were discarded. Furthermore, the results produced are more robust, consistent, and more stable to make a generalization to the population so that it is more representative and meaningful. For the other control variables, data are retrieved from annual reports and DATASTREAM. Table 1 shows the number of Saudi-listed companies in the Tadawul between years 2007- 2011.

Table 1: Sample Selection

Number of Observations Per Years	2007	2008	2009	2010	2011
Total observations	90	120	128	139	145
Observations discarded (outliers)					(49)
Final sample					573

This table shows the number of publicly listed companies per years in Tadawul from 2007 to 2011 and the outliers and the final sample. Outliers as a result of some observations have extreme value with Tobin's Q or ROE. Some observations have one variable or more contains extreme value such as leverage and company size

Model Specification and Variables Measurement

The economic model is used to develop a model of a firm performance. The variable proposed for inclusion in the model captures the differences in the costs of agency relationships. The dependent variables are continuous measurements. To estimate this model, *WLS* is used to capture if there is a significant association of the Royal family existence on the board and firm performance (Tobin's Q and ROE). The functional equation is expressed as following:

Model 1:

$$Tobin's\ Q_{it} = \beta_0 + \beta_1 BD_RFAMILY_{it} + \beta_2 BD_SIZE_{it} + \beta_3 BD_INDE_{it} + \beta_4 AC_SIZE_{it} + \beta_5 AC_INDE_{it} + \beta_6 FSIZE_{it} + \beta_7 LEV_{it} + \beta_8 FAGE_{it} + e_i + u_{it}$$

Model 2:

$$ROE_{it} = \beta_0 + \beta_1 BD_RFAMILY_{it} + \beta_2 BD_SIZE_{it} + \beta_3 BD_INDE_{it} + \beta_4 AC_SIZE_{it} + \beta_5 AC_INDE_{it} + \beta_6 FSIZE_{it} + \beta_7 LEV_{it} + \beta_8 FAGE_{it} + e_i + u_{it}$$

Where:

- Tobin's Q = the market value of equity plus the book value of the debt divided by the book value of the total assets
- ROE = return on equity,
- BD_RFAMILY = the number of Royal family members on the board of directors,
- BD_SIZE = total number of directors sitting on the board who are not on the audit committee,
- BD_INDE = the proportion of non-executive directors on the board who are not on the audit committee,
- AC_SIZE = total number of audit committee members sitting on the audit committee
- AC_INDE = the proportion of non-executive members on the audit committee
- FSIZE = log₁₀ of the total assets,
- LEV = total debt to total assets,
- FAGE = the number of years since the company was established,
- e = error term.
- u = composite error for the estimation.
- i = indicating data for the i firm
- t = time indicator

We also control for the effect of seven explanatory variables found in the literature for their potential confounding effects on firm performance. The results would be confused if their effects were not controlled

(Sharma, 2004; Aljifri & Moustafa, 2007). These controlled variables include board of director's size, board of director's independence, audit committee size, audit committee independence, firm size, leverage and firm age. As for board of director's size (*BD_SIZE*), it refers to the number of directors on the board. The Saudi Code (2006) Part 4, Article 12 Paragraph (a), requires that "*articles of association of the company shall specify the number of the board of Directors members, provided that such number shall not be less than three and not more than eleven.*" Thus, the size of the board of directors is recognized as an essential aspect of efficient governance (Pearce & Zahra, 1992). The board's size influences its ability to function effectively. Larger boards have generally been considered to be more effective in extracting critical resources from an environment such as the amount of budget, external funding and leverages (Pfeffer, 1972, 1973; Alexander, Fennell, & Halpern, 1993; Goodstein, Gautam & Boeker 1994). This view is consistent with Birnbaum (1984)'s report, which states that environmental uncertainty (lack of information and volatility) can lead to increased board size. In this case, the board size may be a measure of an organization's ability to form environmental links to secure critical resources. This will be associated with higher levels of firm performance (Alexander et al., 1993; Goodstein et al., 1994).

The resource dependence theory supports the view that firms normally establish links with the outside environment. According to this theory, larger board of director's size shows diversity in term of members' backgrounds, expertise, and skills, which can generate greater ideas that can provide higher levels of performance (Brown, Beekes & Verhoeven, 2011). Pearce and Zahra (1992) explain that larger boards provide counsel and advice regarding the strategic options of the firm. In addition, larger boards have more abilities to solve obstacles especially with large firms. The board's capacity for monitoring increases as more expert directors offer effective oversight duties on CEOs. Director independence (*BD_INDE*) is widely considered to be a key dimension of good corporate governance because it allows the board to properly fulfill its legal duty to oversee management and to protect the interests of other parties, primarily the shareholders. The agency theory posits that greater board independence allows restrictive monitoring of self-interest pursuits and thereby, minimizes opportunities for fraud and other opportunistic activities (Fama & Jensen, 1983). The degree of board independence is closely related to its composition. The board is presumed to be more independent as the number of non-executive independent directors increases proportionately (Hillman & Dalziel, 2003). Guidance is provided in governance codes for determining who is and who is not an independent director.

The definition of an independent director has become stricter over time and takes into account the background, experience and length of tenure of the individual. The Saudi Code (2006) Part 4, Article 12, Paragraphs (C) and (E) center on the board independence, with Paragraph (C) stating that "*The majority of the members of the board of Directors shall be non-executive members.*" Furthermore, paragraph (E) also notes that, "*The independent members of the board of Directors shall not be less than two members, or one-third of the members, whichever is greater.*" Zainal Abidin, Mustaffa Kamal and Jusoff (2009) found that a higher proportion of independent non-executive directors on the board have a positive impact on firm performance. This is because independent directors possess a diverse background, attributes, characteristics and expertise, which may improve board processes and decision-makings, and consequently firm performance. Uadiale (2010) found a strong positive correlation between board independence and performance. In the context of the USA, Byrd and Hickman (1992) have established that, the larger percentage of outside directors, the greater the response of the stock market to the firm's tenders offers for other firms. Furthermore, additional support is garnered by Rosenstein and Wyatt (1997) in regards to stock prices, which are seen to increase by approximately 0.2 percent upon the appointment of an additional non-executive director by the firm.

Those entities that significantly enlarged the number of independent directors have above-average stock price returns. In the context of India, Jackling and Johl (2009) highlighted that a large number of external directors present on the company board were linked with greater firm performance. As for the audit committee size (*AC_SIZE*), the Saudi-listed companies have been required to adopt an audit committee made

up of at least three individuals. The audit committee size has a proxy for efficiency, as noted by Kalbers & Fogarty (1993) owing to the fact that the audit committee size is taken as the authority on the company's financial and internal control system. According to Kiger and Scheiner (1997), a larger numbers of people involved with a particular activity significantly decrease the potential for committing conspiracy due to difficulties and potential errors in execution. Moreover, it has been acknowledged that audit committees that are larger in size improve financial reporting quality (Yatim, Kent & Clarkson, 2006) and further reduce debt-financing costs (Anderson, Mansi & Reeb, 2004).

Regarding audit committee independence (*AC_INDE*), in line with the agency theory, audit committees are recognized as one of the fundamental monitoring tools, where the board, its representatives or other principals, are willing to fund the use of financial reports in order to assess the performance of management (Jensen & Meckling, 1976; Goddard, & Masters, 2000). Previous studies have focused on independence of audit committee since establishing audit committees provide better financial reporting and ensure continual improvement in management performance and this is generally confirmed by previous empirical studies (Rickard, 1993; Klein, 2002; Krishnan, 2005; Byard, Li & Weintrop, 2006; Donoher, Reed & Storrud-Barnes, 2007; Raghunandan & Rama, 2007; Rainsbury, Bradbury & Cahan, 2009).

It is generally considered imperative that the audit committee be confined to non-executive independent directors if it is to carry out its duties effectively. The independence of the audit committee members is important as the monitoring they provide affects audit quality (Abbott & Parker, 2000) and auditor independence (Abbott, Parker, Peters & Raghunandan, 2003). Independent audit committees are associated with higher disclosure quality (Karamanou & Vafeas, 2005) and a lower cost of debt finance (Anderson et al., 2004). Bronson, Carcello, Hollingsworth and Neal (2009) found the benefits of audit committees are limited unless the committee comprises non-executive independent directors only. Markedly, a research was carried out by Hawkamah & IFC in 2008, which suggests a significant presence of audit committees (77.8 percent) in MENA countries; however, notably, only 26.4 percent of these committees are made up of a number of independent directors, in line with good CG. Furthermore, a report was published by AL Majlis, The GCC Board Directors Institute in 2011, which implies that as much as 67 percent of GCC companies encompass an audit committee, which is a percentage that has increased from 20 percent in just a two-year period. Regardless the fact that literature on the independence of the audit committee has delivered a number of reasons justifying the independence of the audit committee, inconclusive and mixed findings have been found across different sectors.

With respect to firm size (*F_SIZE*), the variable has been adopted as a control variable impacting the performance of the firm (Aljifri & Moustafa, 2007; Alzahrani, Che-Ahmad & Aljaaidi, 2011). Ghosh (2001) suggested that larger firms perform better than smaller ones owing to their capacity to achieve risk diversification. Helmich (1977) and Kumar (2004) both share the same view in that larger entities are more effective than smaller ones due to skills of staff, economies of scale, and market power. Moreover, Haniffa and Hudaib (2006) further noted that larger organizations have more analysts available who are centered on the performance of the firm and, as such, are under greater pressure to perform well. Similarly, a positive link between firm performance and firm size is empirically reported by Aljifri and Moustafa (2007). Furthermore, Pfeffer and Salancik (1978) suggest that larger firms are more influential over their environments in comparison to smaller ones, and are concurrently more likely to recruit the assistance of larger resources and fundamental constituencies in order to involve outside consultants for support in enabling the succession planning. As such, in the present study, firm size (*F_SIZE*) is measured as Log_{10} of the total assets, and is hypothesised to positively affect firm performance.

As for leverage (*LEV*), leverage or debt is the utilization of borrowed funds in an attempt to enhance firm performance. This could decrease agency costs by lessening the cash flows available for the expropriation of negative net present value projects and opening the business to greater supervision by the market especially the banks and other creditors. This could increase management pressure in terms of enhancing

firm performance as it decreases the moral risk through lessening free cash flow at the disposal of management (Alzahrani et al., 2011; Jensen, 1986; Harris & Raviv, 1991; Myers & Majluf, 1984). For instance, Grossman and Hart (1982) detailed the fact that debt financing means management is more aware of consuming fewer perks, and ultimately become more effective in circumventing bankruptcy, and thus, the loss of reputation and control. Moreover, the risks are apparent as a result of failure to pay off debts acts as an efficient motivational force and means firms are more effective (Bhandari & Weiss, 1996). Nickell, Nicolitsas and Dryden (1997) noted a positive association between productivity development and financial pressure. Moreover, a positive link between leverage and firm performance is detailed by Hurdle (1974). In this study, leverage *LEV*, which is measured as total debt to total assets, has a positive link with the performance of the firm. In terms of firm age (*FAGE*), it is argued that the age of the firm is a critical factor in firm development, firm dissolution likelihood, and the variability of business growth (Evans, 1987a). The link between firm performance and firm age has been detailed well, with some research utilizing age as a proxy for the experience a firm has gained through its business (Geroski, 1995). With the increase of firm age, management garners much more insight into their abilities and skills over time (Stinchcombe, 1965; Evans, 1987b). Younger firms are more vulnerable with firm age expected to last only between five and 10 years, as noted by Ward and Mendoza (1996). However, there is a competing view that suggests that older firm is negatively associated with firm performance. The main point to be made in this regard is that established approaches, organizational norms, and routines in older firms restrict the translation of entrepreneurial actions and activities into positive performance outcomes. This implies that longer-established entities may experience problems in overcoming age-related contextual factors, regardless of their implementation of a strategy-making approach that is otherwise encouraging in fulfilling positive firm development. The present study, therefore, predicts that there is a significant link between firm performance and firm age (*FAGE*), as measured as the number of years since the establishment of the company. However, the expected sign of the results could not be determined.

EMPIRICAL RESULTS AND DISCUSSIONS

Table 2 depicts the mean, standard deviation, minimum and maximum of each variable in the sample data set. There is a significant range of variation among the considered variables of this study. The results reveal that the range of *Tobin's Q* is from 0.002 to 6.309 with a mean of 1.50 and standard deviation of 0.96. The range of *ROE* is from -41.250 to 41.640 with a mean of 9.18 and a standard deviation of 13.04. In addition, Table 2 indicates that the maximum number of Royal family members *BD_RFAMILY* is 4 and the minimum is 0 with a standard deviation of 0.641.

Table 2: Descriptive Statistics of Continuous Variables

Variables	N	Mean	Std. Deviation	Minimum	Maximum
TOBINS_Q	573	1.497	0.959	0.002	6.309
ROE	573	9.178	13.035	-41.250	41.640
BD_RFAMILY	573	0.257	0.641	0	4
BD_SIZE	573	6.580	1.838	2	11
BD_INDE	573	0.433	0.241	0	1
AC_SIZE	573	3.161	0.927	0	6
AC_INDE	573	0.408	0.336	0	1
FSIZE (S.R Mil)	573	18.2212	46.1683	0.065319	332.784
LEV	573	16.085	18.159	0.000	69.170
FAGE	573	21.239	14.139	0.553	56.986

This table shows summary statistics: mean, standard deviation, minimum and maximum of each variable in the sample data set.

The mean number of board size *BD_SIZE* is 6.58 ranging from 2.000 to 11.000. The mean of board independence *BD_INDE* is 0.43, ranging from 0.000 to 1.000. In addition, audit committee size *AC_SIZE* ranges from 0 to 6 with a mean of 3.16. The range of the audit committee independence *AC_INDE* is from 0 to 1 with a mean of 0.41. Firm size *FSIZE* of firms in the sample ranges from S.R 65.319 to S.R 33.278.4000 with a mean of S.R 18.221.200 leverage *LEV* has a range from 0.000 to 69.170 with a mean

of 16.09. Moreover, firm age *FAGE* ranges from 0.553 to 56.986 with a mean of 21.24. In addition, to examine the correlation between independent variables, a Pearson product correlation (*r*) was computed as shown in Table 3.

Table 3: Pearson Correlation Analysis of Variables on 573 Observations for 2007-2011

	Tobin's Q	ROE	BD_RFAMILY	BD_SIZE	BD_INDE	AC_SIZE	AC_INDE	FSIZE	LEV	FAGE
Tobin's Q	1.000									
ROE	0.090*	1.000								
BD_RFAMILY	0.179**	0.106*	1.000							
BD_SIZE	-0.110**	0.019	0.004	1.000						
BD_INDE	0.003	-0.012	0.047	0.075	1.000					
AC_SIZE	-0.226**	-0.005	-0.040	0.195**	0.032	1.000				
AC_INDE	-0.165**	0.044	0.026	-0.175**	0.160**	0.163**	1.000			
FSIZE	-0.491**	0.275**	-0.054	0.244**	-0.047	0.218**	0.153**	1.000		
LEV	-0.117**	0.132**	-0.028	-0.130**	-0.113**	0.047	-0.040	0.404*	1.000	
FAGE	0.021	0.434**	0.197**	-0.124**	0.114**	0.066	0.248**	0.129*	-0.004	1.000

Correlation Matrix Was Employed to Examine the Existence of Multicollinearity Among the Variables. ** Significant at 1 Percent Level (2-tailed) and *Significant at 5 Percent Level (2-tailed).

Table 3 illustrates that the existence of Royal family members (*BD_RFAMILY*) on the board is associated positively with firm performance. This association is greater for the *Tobin's Q* more than that with the *ROE* at 1% and 5% levels, respectively. This result gives support to the association of Saudi Royal family power on firm's monitoring process and how this can positively influence the firm's value in the marketplace. Furthermore, the result suggests a negative association of board size (*BD_SIZE*) with *Tobin's Q* at 1% level and an insignificant association of board size with *ROE*. In addition, board independence (*BD_INDE*) is not associated with firm performance. Surprisingly, audit committee size *AC_SIZE* and audit committee independence *AC_INDE* are negatively associated with *Tobin's Q* and it has no association with *ROE*. Interestingly, firm size (*FSIZE*) and leverage (*LEV*) are negatively associated with *Tobin's Q* at 1% level and they are positively associated with *ROE* at 1% level. As for firm age (*FAGE*), an insignificant association has been revealed between firm age and *Tobin's Q* and a significantly positive association is documented between firm age and *ROE*.

With respect to the correlation among variables, the correlation matrix confirms that no multicollinearity exists between the independent variables as none of the variables correlates above 0.80 or 0.90. In fact, all variables have a correlation of less than 0.491 (Myers & Majluf, 1984). It is worth mentioning that the correlation matrix has been considered as a limited analysis because it ignores the interrelationships among the variables. Table 4 provides the results of the hypothesis testing. It shows that the coefficient of determination (*R*²) for *Tobin's Q* and *ROE* are equal to 43.60 and 48.10 percent respectively. The adjusted *R*² are equal to 42.80 and 47.40 percent, respectively, which are quite comparable with the previous studies such as Aljifri and Moustafa (2007). Table 4 also depicts that the *Tobin's Q* and *ROE* models are statistically significant where the *F*-test statistics are 54.52 and 65.43, respectively with a *p*-value < 0.001 for both estimations. The table also shows that the beta coefficients for the independent variables.

The largest *t*-statistics for the *Tobin's Q* is -14.12 (*p*-value < 0.001) which is for the controlled variable namely firm size (*FSIZE*). The largest *t*-statistics for the *ROE* model is 17.77 (*p*-value < 0.001) which is the controlled variable for firm age (*FAGE*). This indicates to a degree that *FSIZE* is importance in the model 1 in term of explaining the variation in firm performance (*Tobin's Q*) model. On the other hand, *FAGE* has a degree of importance in the model 2 in term of explaining the variation in firm performance (*ROE*) model. More importantly, the *WLS* estimations in Table 4 reveals that consistent with the

expectation, the existence of Royal family members on the board (*BD_RFAMILY*) is significantly related to firm performance (*Tobin's Q*: p -value = 0.001; *ROE*: p -value = 0.001, one-tailed significance). This result provides support to the prediction of agency theory, suggesting that both decision-makers (agents) and shareholders (principals) are thought to maximize their own utilities. Royal family members (as decision-makers and owners) monitor the management closely, thereby, increasing the firm performance. Furthermore, this result suggests that the Royal family members on the board of Saudi companies practice more power than others.

Table 4: The Results of the Regression of Models 1 and 2

Model 1 (Tobin's Q)				
Variables	Expected sign	Coefficient	t-ratio	p-value
(Constant)		4.697	24.764	0.001***
BD_RFAMILY	+	0.221	5.961	0.001***
Control Variables				
BD_SIZE		-0.011	-0.828	0.408
BD_INDE		-0.005	-0.057	0.955
AC_SIZE		-0.109	-3.687	0.001***
AC_INDE		-0.215	-3.006	0.001***
FSIZE		-0.005	-14.118	0.001***
LEV		0.005	3.552	0.001***
FAGE		0.001	0.856	0.392
R^2	0.436			
Adjusted R^2	0.428			
Model F -stat.	54.524			
p -value	0.001			
No. of Observations	573			
Model 2 (ROE)				
Variables	Expected sign	Coefficient	t-ratio	p-value
(Constant)		-15.647	-5.395	0.001***
BD_RFAMILY	+	1.502	3.219	0.001***
Control Variables				
BD_SIZE		0.285	1.500	0.134
BD_INDE		-2.022	-1.505	0.133
AC_SIZE		-0.808	-2.210	0.028**
AC_INDE		-1.993	-1.958	0.051*
FSIZE		2.876	7.066	0.001***
LEV		0.023	1.176	0.240
FAGE		0.3.84	17.767	0.001***
R^2	0.481			
Adjusted R^2	0.474			
Model F -stat.	65.426			
p -value	0.001			
No. of Observations	573			

This table shows mean difference analysis. Model 1 (Tobin's Q) and model 2 (ROE) show results for Royal family members on the board is significantly related to firm performance. *** significant at 1%, **significant at 5% and *significant at 10%. One-tailed test where direction is predicted, otherwise two-tail.

According to Clark (2004), their greater powers have strong influence on the behavior of others in getting things done. Since the Royal family serve on Saudi boards as managerial members, they may monitor the management closely, hence, decreasing possible mismanagement and wrongdoing which, consequently, influence positively the Saudi' companies' performance. Therefore, hypothesis H_1 is strongly supported.

CONCLUSIONS AND IMPLICATIONS

The main objective of this study is to examine the relationship between the existence of Royal family members on the boards of Saudi firms and firm performance, using two proxies of company performance (Tobin's Q and ROE). A sample of 573 publicly listed companies on Tadawual for the period expanding from 2007 to 2011 is used. Using *WLS*, this study finds that the existence of Royal family members on the board of Saudi firms is associated with firm performance. Limitations of the present study lie on the firm

performance models which is based on market and accounting measures of firm performance (Tobin's Q and ROE) in the setting of Saudi Arabia. There are several other firm performance measurements that have been used in previous studies. It would be good if we can also use other alternative measurements to test for any sensitivity of the results to different measurement. In addition, there are several unique issues in Saudi Arabia to be addressed by future research in the context of firm performance such as the family power using the CEO position. Future line of research should be put towards an effort to introduce a number of other independent variables particularly the inclusion of other corporate governance mechanisms. Further research should also replicate this model to determine its validity in different contexts of GCC countries, in different periods, and with different sample sizes. These limitations may motivate more future research in the GCC market.

One important implication of these findings is related to the issue of firm performance in of Saudi Arabia. Saudi government, stock market, companies and accounting and auditing regulators would gain some new insights from the present study in terms of the understanding the determinants influencing companies' performance. The results of this study would benefit banks in the way that they can assess the creditworthiness of incorporating companies in Kingdom of Saudi Arabia through annual reports. As firm value are of the utmost important for any lending institution, they may asses the firm's future performance by regressing the data from audited financial statements. Investors and financial analysts also depend on audited financial statements to make decisions related to bonds, bond rating, interest rate, and all other decisions related to investments in Kingdom of Saudi Arabia market. Accordingly, increased understanding and prediction of companies' events is important to this user group. Furthermore, the results of this study will be of interest to the researchers and academic community due to a lack of formal research body addressing the issues of firm performance in Kingdom of Saudi Arabia.

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