



Ownership Concentration, Family Control and Corporate Value

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Abstract:

This paper investigates the link between corporate valuation and ownership structure using a sample of 182 Kuwaiti-listed firms from 2005 to 2008. More specifically, it examines the impact of ownership concentration by major shareholders and family control on corporate value. This impact is addressed based on two different yet related hypotheses. The first hypothesis refers to the monitoring effect which posits that major shareholders have strong incentives to monitor managers, in order to maximize corporate profit. The second hypothesis refers to the entrenchment effect which suggests that major shareholders are more likely to extract corporate resources to their own benefits at the expense of small shareholders.

Overall, the results show that family ownership is positively related to corporate value. Also, ownership concentration by other large controlling shareholders contributes to the corporate valuation, and this contribution is more pronounced in non-family firms. The results reported in this paper indicate that the monitoring effect hypothesis dominates the entrenchment effect hypothesis.

INTRODUCTION

Corporate ownership structure is essential in determining corporate objectives, management discipline and shareholders wealth (Jensen, 2000). Ideally, maximizing corporate value is a common objective that managers and shareholders share. Extant literature presents two hypotheses, a monitoring effect and entrenchment effect, which address the relationship between ownership concentration and corporate valuation. The monitoring effect posits that large shareholders have strong incentives to monitor managers and hence maximizes corporate value. High concentration is beneficial to

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minority shareholders who enjoy the free ride solution to the monitoring problem. On the other hand, the entrenchment effect hypothesizes that large shareholders are more likely to extract corporate resources to their own benefits at the expense of small shareholders.

The purpose of this paper is to explore the relationship between corporate value and the ownership of family and other major shareholders. In other words, do family ownership and ownership of other major shareholders create or destroy corporate value? Two proxies are employed to measure corporate value, Tobins q (TBQ) and the ratio of market to book value of equity (Mkt/Eq). Based on a sample of 182 KSE-listed firms with available financial and ownership data between 2005 and 2008, the results indicate that family ownership is positively related to corporate valuation. Also, ownership concentration by other large controlling shareholders is positively associated with corporate value, and this association is more pronounced in non-family firms than in family firms. Therefore, family ownership and ownership concentration by other powerful shareholders contribute to the corporate value. Overall, the results reported in this paper imply that the monitoring effect hypothesis dominates the entrenchment effect hypothesis.

This study is motivated by two concerns. First, the literature on Kuwaiti firms provides scarce insights on the relationship between ownership structure and corporate valuation. This study extends the growing body of literature that examines the ownership structure outside the U.S. and Europe. (La Porta *et al.*, 2002) point out the importance of investigating the ownership structure among and within countries to address the majority shareholders incentives to extract minority shareholders wealth. Second, the effect of ownership structure on corporate valuation may vary with the legal system and political environment. (Anderson and Reeb, 2003) claim that family firms operating in well regulated and high transparent financial markets enjoy lower agency costs than those operating in less regulated and low transparent capital markets. Politically powerful family firms operating in low transparent markets (e.g., East Asia markets) are

likely to expropriate the rights and interests of minority shareholders (Faccio *et al.*, 2001). Kuwait has a weak regulatory environment and fragile political scenario which discourage foreign investments and diminish investors confidence (Capital Standards, 2010). In 2009, the “Corruption Perception Index,” published by Transparency International, ranked Kuwait as the most corrupt country; while the “Competitiveness Index” and “Ease of Doing Business Index” ranked it as the lowest GCC, Gulf Country Council, countries. Therefore, it would be interesting to see whether major shareholders protect or expropriate minoritys rights and hence affecting corporate value.

The rest of the paper is organized as follows. Section 2 addresses prior literature and hypotheses development. Section 3 portrays sample selection and data sources, and section 4 shows measurement of variables. Empirical results are reported in section 5. Section 6 concludes the paper.

LITERATURE AND HYPOTHESES DEVELOPMENT

In this section, the Kuwait Stock Exchange (KSE) market is briefly described and then two opposite predictions regarding the relationship between ownership concentration and corporate value are developed. Later, hypotheses on the association between family ownership and corporate value are addressed.

2.1 Kuwait stock exchange market (KSE)

Although several share holding firms operated in Kuwait prior to the foundation of KSE, It was not until the end of 1970 that the Kuwaiti government passed a law that organizes the countrys stock exchange market. In 1983, the KSE market was officially operated and regulated by three governmental agencies, the central bank of Kuwait, ministry of finance, and ministry of commerce. The KSE is among the first stock exchanges in the Gulf region, and among the largest stock markets in the Middle East in terms of market capitalization. Over the past twenty years, major reforms took place in the KSE, such as sales of government owned stock shares in local KSE-listed corporations, emergence of mutual funds, increase in ownership concentration, and permission to foreign investors to own shares in KSE-listed firms.

Furthermore, all listed KSE firms adopt the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRS).

KSE-listed firms are required to disclose ownership of investors that own 5 percent or more of outstanding shares. The KSE website updates ownership information on a daily basis. Firms are subject to various penalties (e.g., fines, suspension, delisting) in case they fail to inform the KSE commission with any update on the ownership of large shareholders. Some larger investors, however, conceal their ownership through establishing mutual funds and/or joint venture with other agents and investors (Al-Deehani & Al-Saad, 2007). KSE-listed firms tend to have large share blocks, pyramid ownerships, complicated structures, poor and less transparent disclosures, interlocking directorship, and great power concentrated in few key directors (Capital Standards, 2010).⁽¹⁾

2.2 Ownership concentration and corporate value

The relationship between ownership concentration and corporate valuation can be explained by two different but related hypotheses, the monitoring and the entrenchment. The monitoring hypothesis posits that concentrated ownership provides the conditions for larger shareholders to monitor managers (Shleifer & Vishny, 1986). Because large shareholders have more effective monitoring, firm decisions are better aligned with the interests of shareholders, thereby increasing corporate value (Harada & Nguyen, 2011). Moreover, (Claessens and Djankov, 1999) show evidence of positive association between ownership concentration and corporate value.⁽²⁾ In (Mitton, 2002), corporate value increases when large shareholders participate in setting firm policies. (Clyde, 1997) reports that large shareholders employ takeover policies to discipline corporate managers. In addition, large share-

(1) For more information see www.kse.com.kw.

(2) Farooq and El-Kacemi (2010), however, show no relationship between ownership concentration and firm performance using a large sample of ownership data from the Middle East and North Africa (MENA) region during the period 2004-2008.

holders tend to minimize the decline in corporate value. To emphasize this fact, (Deng and Wang, 2006) show that the financial distress risk of a company declines as ownership concentration increases. Nevertheless, large shareholders support investments in information technology to increase corporate efficiency and effectiveness and hence maximizing corporate value. Evidence of (Barake, 1998) suggests that large shareholders actively lobby against managers decisions to cut back investments in information technology. In addition, (Alfaraih *et al.*, 2012) find a positive link between ownership concentration by institutional ownership and firm performance, proxied by Tobins q and ROA, based on a sample of 134 KSE-listed firms in 2010. Furthermore, (Aljifri and Moustafa, 2007) document a positive association between ownership concentration by UAE (United Arab of Emirates) government and firm performance. Therefore, the interest-alignment hypothesis suggests that the presence of large shareholders improves shareholder right protection through monitoring. Accordingly, minority shareholders can enjoy private benefits alongside with larger shareholders.⁽³⁾

Alternatively, concentrated ownership may create conditions for large shareholders to practice entrenchment. Besides monitoring, large shareholders are likely to extract private benefits at the expense of minority shareholders (Villalonga & Amit, 2006).⁽⁴⁾ The entrenchment or expropriation occurs when large controlling shareholders and managers align for common benefits, regardless the consequences that affect small shareholders rights. In addition, excessive expropriation by large shareholders creates hostile environment to the investments of other shareholders, especially minority. Also, large shareholders may sacrifice their monitoring role to increase their wealth at the expense of the minority shareholders wealth.⁽⁵⁾ In (La Porta *et al.*, 1999) and

(3) Because the costs of monitoring exceed the benefits perceived by monitoring, small shareholders are less inclined to use their limited economic resources for monitoring managers behavior. Instead, minority shareholders enjoy the free ride solution by relying on the large shareholders to monitor managers (Holmstorm, 1982).

(4) E.g., special dividend payouts, related-party activities, and excessive compensation.

(Faccio *et al.*, 2001), the entrenchment effect is more pronounced in countries with weak legal systems that secure the wealth of minority shareholders. In (Alfaraih *et al.*, 2012), Tobins q and ROA, proxies for firm performance, decline as ownership concentration by Kuwait government increases.

Following these two competing arguments, it is possible to say that if ownership concentration is consistent with the monitoring effect of large shareholders, there should be an increase in corporate value. Alternatively, if ownership concentration is consistent with the entrenchment effect of extracting minority's benefits by majority shareholders, there should be a decline in corporate value. Put formally, the following alternative hypotheses are presented:

H1a: Consistent with the monitoring hypothesis, ownership concentration is positively related to corporate value.

H1b: Consistent with the entrenchment hypothesis, ownership concentration is negatively related to corporate value.

2.3 Family ownership and corporate value

The incentives of families to monitor managers exceed the incentives of any other large shareholder (Anderson & Reeb, 2003) since families are less diversified and invest their own wealth in the corporation (Anders, 2008).⁽⁶⁾ In (Du, 2009), agency costs of family-management- association is greater than agency costs of majority-minority shareholder association, a sign of mitigation to family-management agency conflicts and a boost to corporate firm value. Families focus more on short-term profitable projects (Cadbury, 2000), socialize more with their employees (Habersham & Williams,

(5) In addition to entrenchment, concentrated ownership wastes economic resources and discourages corporate takeover, thereby reducing corporate value (Fama & Jensen, 1983).

(6) Tufano (1996) argues that institutions may have less effective monitoring role than families because of their multi-ownership investments in many companies. This may indicate that institutions are not as well focused as families when exercising the monitoring role.

1999), promote better work environment, build greater trust and loyalty among employees, and enjoy lower recruitment costs and employee turnover rates (Ward, 1988). In addition, family firms tend to be more productive (Barbera & Moores, 2011; Martikainen *et al.*, 2009), more efficient (James, 1999), and more motivated by monetary and nonmonetary incentives (e.g., family reputation) (Barbera & Moores, 2011; Davis *et al.*, 1997). (Maury, 2006) employs a sample of 1672 non-financial firms from 13 Western European countries to test the impact of family control on firm performance. His results indicate family firms enjoy higher valuations (i.e., Tobin's q) and higher profitability (i.e., ROA) than non-family firms. For a sample of non-financial KSE-listed firms (Al-Saidi, 2010) documents that firm performance increases when a family has its own members on the board of the directors. Several other studies present similar evidence indicating that family firms outperform non-family firms (see, e.g., Du, 2009; Chu, 2009; Anderson & Reeb, 2003; Burkart *et al.*, 2003; McConaughy *et al.*, 1998).

However, families may misuse their control power to maximize their own interests instead of maximizing corporate value (Du, 2009). (Lease *et al.*, 1984) argues that families wealth is maximized at the expense of minority shareholders through employing control-enhanced systems. For a sample of Spanish firms, (Gomez *et al.*, 2001) show the entrenchment effect to be more pronounced in family-controlled firms than in non-family firms. When family shareholders prefer profit and wealth preservation to other dimensions of firm performance (e.g., cash dividend payout), their interests and incentives tend to overcome non-family shareholders interests and incentives (Carney & Gedajlovic, 2003). In terms of firm performance, several studies (see, e.g., King & Santor, 2008; Gompers *et al.*, 2007; Chahine, 2007) show that non-family firms outperform family firms. (Faccio *et al.*, 2001) attribute the poor performance of family firms to the conflicts arise among family members on who and how to manage the

firm. Nevertheless, evidence indicates that employee effort and productivity tend to decline as families act on their behalf (Burkart *et al.*, 1997).

Thus, according to the monitoring hypothesis, greater family ownership boosts corporate value. In contrast, the entrenchment hypothesis, suggests that greater family ownership diminishes corporate value. Put formally, the following alternative hypotheses are presented:

H2a: Consistent with the monitoring hypothesis, family ownership is positively related to corporate value.

H2a: Consistent with the entrenchment hypothesis, family ownership is negatively related to corporate value.

SAMPLE SELECTION AND DATA SOURCES

The sample of this study covers four years, 2005-2008.⁽⁷⁾ Data on ownership is obtained from the website of Aljoman Consulting Center, which structures the ownership of large shareholders into five groups: institutions, families, government agencies, individuals and others.⁽⁸⁾ All financial data is extracted from the Institute of Banking Studies-Kuwait (ISB) and the Kuwait Stock Exchange (KSE) website. The initial sample of stock ownership is 767 observations.⁽⁹⁾ There are 33 observations that have missing financial and ownership information which yields 643 (i.e. 182 firms) useable observations (see table 1).⁽¹⁰⁾

(7) The reason for choosing this period is that ownership data on individual, government, and other large shareholders is available for the period 2005-2009. No financial data, however, is available for 2009.

(8) Ownership concentration varies across countries (Hamadi, 2010) and from firm to firm (Barrese *et al.*, 2007). Prior studies use a cutoff of 10 to 25 percent to define control as concentration (see, Downs & Sommer, 1999). Other researchers use 5 percent or more (Allen & Panian, 1982; Claessens *et al.*, 2000 Villalonga & Amit, 2006). Due to the smaller size of the KSE market (i.e., number of KSE-listed firms) and lower number of families concentrating in the Kuwait market, a legal minimum of 5% is used to define ownership dominance.

(9) The initial sample did not include foreign companies (i.e., sector #7).

(10) The sample consists of 30 family and 152 non-family firms.

MEASUREMENT OF VARIABLES

This study employs two measures of corporate value, CorValue. First, it uses Tobins q (hereafter, *TBQ*).⁽¹¹⁾ It is calculated as the sum of net assets and market capitalization divided by total assets, where market capitalization is the year end closing price multiplied by the year end shares outstanding. (Morch *et al.*, 1998) advocate the use of *TBQ* in cross-sectional studies on the relationship between corporate value and ownership structure. (Batholomeusz and Tanewski, 2006) argue that *TBQ* captures any deviation from wealth maximization. The second proxy for corporate value is measured as the market value to book value of equity (*Mkt/Eq*) (Navissi & Naiker, 2006). Independent variables include ownership concentration (*OWN*) and family ownership (*FAMILY*). *OWN* is measured using Herdindahl index. It is calculated by summing the squared percentage of shares controlled by the major shareholders identified above.⁽¹²⁾ Similar to (Demsetz and Lehn, 1985), and (Harada and Nguyen, 2011), a logarithmic transformation is applied to the Herdindahl index. The second independent variable, *FAMILY*, is a binary variable that is equal to one if a company has family ownership and zero otherwise.⁽¹³⁾ Following (Wei *et al.*, 2011, p. 34), “a family firm is defined as a firm whose largest ownership stake can be traced back to an individual, a family, or a team of co-founders or their family members.” In addition,

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- (11) This study does not apply ROE or *ROA* as they have revealed mixed results in prior literature. In addition, *ROA* tends to be a “backward-looking” measurement of corporate value and productivity. On the other hand, Tobins q is viewed as a “forward-looking” measurement of corporate value and hence a better proxy for future growth opportunities of corporations (Du, 2009).
- (12) The inclusion or exclusion of family ownership in/from *OWN* has no significant change on the results reported in this paper. The reason of excluding family ownership from the variable *OWN* is to see whether results reported in this paper are driven by the family ownership group.
- (13) Realistically, the level of family ownership may not reflect the level of control power that family members can exercise on a company. While in some companies they need to hold few shares to maintain control, in other companies family members need greater number of shares to control the company (Lee, 2006). Thus, this paper does not measure *FAMILY* as a fraction of shares outstanding to proxy for family control.

one or more of the family members must be on the board of the directors.

Based on the ownership literature and data availability, this study controls the variables (firm size, firm age, leverage, financial health, dividends, financial sector, and year) that can affect the relationship between ownership structure and corporate valuation. Firm size (SIZE) is measured as the natural logarithm of the market value of equity at year end.⁽¹⁴⁾ Corporate value is larger in corporate size. Firm leverage (LEVERAGE) and firm age (AGE) are defined as total liabilities divided by total assets and natural logarithm of the difference in years between year t ($t = 1$ to $t = 4$) and the foundation year, respectively. Lower leveraged and younger firms are more likely to enjoy higher corporate value. (Ward and Price, 2006) and (Sharma, 2006) indicate a positive association between firm leverage and corporate value. (Du, 2009) finds that as firms get older, they tend to experience fewer future growth opportunities. Firm financial health (LOSS) is a binary variable that equals to one if the firm reports a loss in year t and zero otherwise. Evidence suggests that firms with negative earnings are associated with greater level of information asymmetry (Ertimur, 2004) which minimizes the corporate value. Cash dividends (DIV) is calculated as cash dividends scaled by shares outstanding at year t . DIV may reflect the level of information asymmetry between the firm and the market (Fuller & Thakor, 2002). Higher payouts of cash dividends are likely to reduce information gap, thereby maximizing corporate value. Finally, binary variables are constructed for each year (i.e., year dummies represent the four year-period time) and financial sector (i.e., industrial indicators represent the seven industrial categories) to capture the differences among years and industries. The following general model is used:⁽¹⁵⁾

$$\text{CorValue} = f(\text{OWN, FAMILY, SIZE, LEVERAGE, AGE, LOSS, DIV, SECTOR, YEAR})^{(a)}$$

(14) SIZE is also measured as the natural logarithm of total assets.

(15) All model variables are defined in the appendix.

TABLE 1				
Firm-Year Observations				
Sector	Year	All Observations	Excluded Observations	Study Sample
Banking	2005	9	2	7
	2006	9	1	8
	2007	9	1	8
	2008	9	1	8
Investment	2005	42	3	39
	2006	43	0	43
	2007	46	3	43
	2008	42	0	42
Insurance	2005	7	0	7
	2006	7	0	7
	2007	7	0	7
	2008	7	0	7
Real Estate	2005	28	0	28
	2006	28	0	28
	2007	32	0	32
	2008	32	0	32
Industrial	2005	25	3	22
	2006	25	1	24
	2007	28	2	26
	2008	27	0	27
Services	2005	44	12	32
	2006	44	0	44
	2007	54	4	50
	2008	50	0	50
Food	2005	5	0	5
	2006	5	0	5
	2007	6	0	6
	2008	6	0	6
Total		676	33	643

EMPIRICAL RESULTS

Table 2 panel A presents the mean, median, and standard deviation values for dependent, independent, and control variables. The average (median) values for TBQ and Mkt/Eq are approximately 8.56 (7.29) and 1616 (1426), respectively. On average, 16 percent of the firms in the sample are designated as family firms, and around 18 percent of ownership concentration represents family ownership. The mean of ownership concentration for institutions, government, individuals, and others are 0.48, 0.18, 0.19, and 0.23, respectively. The age of firms in the sample ranges from 1 year to 54 years with an average of 21 years. On average, about 16 percent and 19 percent of the firms in the sample reported loss and paid cash dividends in year t . Panels B and C show descriptive statistics for the family group and non-family-group, respectively. On average, family firms tend to be larger in market capitalization and leverage, older in age, and higher in dividend payouts than non-family firms. In addition, the average of

addition, family firms seem to be larger in size, higher in leverage and in cash dividend payouts than non-family firms.

Table 4 displays Person correlations for some variables in model (a). The signs of variables, in general, are consistent with prior expectation. Family ownership (*FAMILY*) is positively associated with corporate value, proxied by Mkt/Eq. No relationship, however, is shown between *FAMILY* and *TBQ*. The sign of *OWN* coefficient is positive and is consistent across the proxies of corporate value.

TABLE 3						
T-test for family and non-family firms						
Variable	Family	N	Mean	Diff. in Mean	t-Value	P-Value
Mkt/Eq	0	540	1545	-445.7	-2.8	0.0053 ^b
	1	103	1990.7			
TBQ	0	540	8.7052	0.8797	1.38	0.1673
	1	103	7.8255			
OWN	0	540	-0.104	-0.028	-2.3	0.0216 ^c
	1	103	-0.077			
SIZE	0	540	7.7346	-0.146	-2.25	0.0246
	1	103	7.8808			
LEVERAGE	0	540	0.4068	-0.086	-3.35	0.0009 ^a
	1	103	0.4923			
AGE	0	540	1.222	-0.022	-0.63	0.5262
	1	103	1.2439			
LOSS	0	540	0.1593	0.0136	0.35	0.7281
	1	103	0.1456			
DIV	0	540	0.177	-0.074	-2.88	0.0041 ^b
	1	103	0.2507			

a, b, c indicate statistical significance at 0.001, 0.01, and 0.05 levels

That is, concentrated ownership by large shareholders maximizes corporate value. Overall, these preliminary results support the monitoring effect regarding the contribution of family ownership and concentrated ownership by other major shareholders to corporate value. In addition, the p-value of *OWN* and *FAMILY* is significant at the 5% level but the correlation between these two variables is weak (*Corr* = 0.091), implying that major shareholders are less inclined to

invest in family firms. Larger firms tend to have higher corporate valuation, as proxied by *Mkt/Eq*, and younger firms enjoy higher corporate valuation, measured by *TBQ*. Mixed results shown for firm leverage (i.e., *LEVERAGE* is positively related to *Mkt/Eq* and negatively to *TBQ*. Different from prior expectation, no association is reported between *DIV* and both proxies of corporate value (*TBQ* and *Mkt/Eq*). The results of the same table also show that loss firms, *LOSS*, have lower corporate valuation, proxied by the *TBQ*.

Table 5 presents the results of regression analysis for the research question, namely, whether ownership concentration by large shareholders and family ownership control maximize or minimize corporate value. In panel A of table 5, *OWN* is positively related to *TBQ* and *Mkt/Eq* (p-value < 0.0001 and < 0.0001, respectively), suggesting that corporate value increases as ownership concentration increases. Family ownership, *FAMILY*, is positive and statistically significant under the corporate value proxy, *Mkt/Eq* (p-value = 0.0052). In terms of *TBQ*, however, *FAMILY* is not statistically significant.⁽¹⁶⁾

Results for most control variables in table 5 panel A are consistent with prior literature. As *SIZE* increases, corporate value increase, and as *AGE* decreases, corporate value declines. The sign of *LEVERAGE* is negative under the *TBQ* proxy but positive under the *Mkt/Eq* proxy. Cash dividends, *DIV*, is statistically significant but with incorrect sign.⁽¹⁷⁾

In sum, the reported results in table 5 panel A show that ownership concentration by large shareholders maximizes corporate value. This result, however, is inconsistent with the findings of (Morck *et al.*, 1988), (McConnell and Servaes, 1990), and (Hamadi, 2010). Also, family firms tend to have higher corporate value, as proxied by *Mkt/Eq* only, than non-family firms, which is in accordance

(16) Also, the natural logarithm of *Mkt/Eq* is used and results are the same.

(17) *DIV* is also measured as binary variable equals to 1 if a firm distributes cash dividends and 0 otherwise. The coefficient of *DIV*, however, is still negative.

TABLE 4								
Pearson Correlation Coefficients for corporate value and control variables								
N = 643								
	TBQ	FAMILY	OWN	SIZE	LEVERAGE	AGE	DIV	LOSS
Mkt/Eq	0.37856 ^a	0.10982	0.09812 ^b	0.32357 ^a	0.22639 ^a	-0.00311	0.01991	-0.022
	<.0001	0.0053	0.0128	<.0001	<.0001	0.9373	0.6144	0.5776
TBQ		-0.05452	0.12549 ^b	0.03363	-0.46564 ^a	-0.16337 ^a	0.01487	-0.13274 ^b
		0.1673	0.0014	0.3946	<.0001	<.0001	0.7067	0.0007
FAMILY			0.0906 ^c	0.08861 ^c	0.13102 ^b	0.02504	0.11298 ^b	-0.01374
			0.0216	0.0246	0.0009	0.5262	0.0041	0.7281
OWN				-0.2077 ^a	-0.03065	-0.14337 ^b	-0.04666	-0.01793
				<.0001	0.4378	0.0003	0.2374	0.6499
SIZE					0.42447 ^a	0.25426 ^a	0.25715 ^a	-0.1319 ^b
					<.0001	<.0001	<.0001	0.0008
LEVERAGE						0.13146 ^b	0.01528	0.03388
						0.0008	0.699	0.391
AGE							0.1204 ^b	0.04225
							0.0022	0.2847
DIV								-0.3208 ^a
								<.0001

a, b, c indicate statistical significance at <.0001, 0.01, and 0.05 levels. Dummy variables for years and sectors are included in the analysis but not tabulated.

with the findings of (Wang, 2006), (Villalonga and Amit, 2006), and (Sraer and Thesmar, 2007). In general, the results support the monitoring hypothesis. Different from the notion that the expropriation effect is dominant in countries with inferior protection of shareholders (Faccio *et al.*, 2001; La Porta *et al.*, 2002), the findings of this paper suggest the opposite. Despite of the less regulated and low transparent KSE market, family control and concentrated ownership by major shareholders can still add value to corporate governance, thereby increasing corporate value.

Further tests (i.e. robustness tests) are run to see whether the interaction between *FAMILY* and *OWN* (*FAMILY*OWN*) contributes to the value of corporation. The results are reported in panel B of table 5. No relationship is found between corporate value proxies and the interaction variable (*FAMILY*OWN*). *OWN* is still positive and statistically significant. Although it is positive, *FAMILY* has a lower level of significance, as identified by the p-value, than the one reported

in panel A of the same table. Results for all control variables seem to be in accordance with those reported in table 5 panel A.

Results of the association between family ownership and ownership concentration (*FAMILY*OWN*) as reported in panel B of table 5 may indicate that ownership concentration by other major shareholders adds no contribution to the valuation of family firms. Each group may have different motivations than the other. To investigate whether this result is related to the type of the firm, the corporate value sample is partitioned into family firms and non-family firms. Panels A and B of table 6 show the regression results for the subsample of family firms. Ownership concentration, *OWN*, by other large shareholders has no relationship with corporate value. On the other hand, the results reported in table 6 panel C and panel D are interesting. *OWN* is positive and highly statistically significant under both corporate value proxies. In addition, the adjusted R^2 for the non-family subsample is higher than that of the family subsample. This result suggests that large controlling shareholders have higher valuation for non-family firms than for family firms. Also, the results suggest that the monitoring effect of large shareholders is more pronounced for non-family firms than for family firms. These results are in line with those reported by (Bartholomeusz and Tanewski, 2006) who show that large blockholders are less likely to invest in family firms.⁽¹⁸⁾

CONCLUSION

Corporate ownership structure is important in determining corporate objectives, management discipline and shareholders wealth (Jensen, 2000). In general, both corporate managers and shareholders share a common objective, namely maximizing corporate value. This study examines the relationship between corporate value and the ownership of family and other large controlling shareholders. Prior

(18) Variable Inflation Factor (VIF) values reported in table 5 and table 6 are all under 10, indicating that multicollinearity among variables is not a major concern (See Gujarati, 1995). In addition, White test is run to check for heteroskedasticity. Results (not tabulated) show no indication of heteroskedasticity.

literature addresses two hypotheses, a monitoring effect and an entrenchment effect, which depict the relationship between ownership structure and corporate value. According to the monitoring hypothesis, ownership concentration motivates large control shareholders to monitor managers, thereby maximizing corporate value. Due to their limited resources and high costs of monitoring, minority shareholders will enjoy the free ride of monitoring exercised by majority shareholders. The entrenchment hypothesis, however, argues that large controlling shareholders tend to extract corporate resources to their own benefits at the expense of small shareholders.

TABLE 5												
Regressions of TBQ and Mkt/Eq on ownership concentration, <i>OWN</i> , and family, <i>FAMILY</i>												
Panel-A							Panel-B					
CorValue = <i>f</i> (FAMILY, OWN, FAMILY*OWN SIZE, LEVERAGE, AGE, LOSS, SECTOR, YEAR)												
Dependent Variable	TBQ			Mkt/Eq			TBQ			Mkt/Eq		
Variable	<i>t</i> -Value	<i>P</i> -Value	VIF	<i>t</i> -Value	<i>P</i> -Value	VIF	<i>t</i> -Value	<i>P</i> -Value	VIF	<i>t</i> -Value	<i>P</i> -Value	VIF
FAMILY	1.42	0.1558	1.0509	2.8 ^b	0.0052	1.051	-0.07	0.9482	3.3802	1.83	0.0681	3.38
OWN	5.5 ^a	<.0001	1.0933	3.7 ^b	0.0002	1.093	5.56 ^a	<.0001	1.1997	3.43 ^b	0.0006	1.199
FAMILY*OWN							-1.03	0.302	3.5513	0.32	0.7497	3.551
SIZE	12.05 ^a	<.0001	1.6516	8.32 ^a	<.0001	1.652	12.07 ^a	<.0001	1.6524	8.31 ^a	<.0001	1.652
LEVERAGE	-15.16 ^a	<.0001	1.3213	3.39 ^b	0.0007	1.321	-15.14 ^a	<.0001	1.3216	3.38 ^b	0.0008	1.321
AGE	-5.31 ^a	<.0001	1.1014	-2.29	0.0225	1.101	-5.32 ^a	<.0001	1.1015	-2.28 ^c	0.0228	1.101
LOSS	1.13	0.2574	1.2445	1.86 ^d	0.0629	1.244	1.15	0.2506	1.2448	1.86 ^d	0.0639	1.244
DIV	-4.78 ^a	<.0001	1.2856	-2.74 ^b	0.0063	1.286	-4.79 ^a	<.0001	1.2858	-2.74 ^b	0.0064	1.285
No. of Obs.	F Value	65.01		F Value	16.64		F Value	58.62		F Value	14.97	
643	Pr > F	<.0001		Pr > F	<.0001		Pr > F	<.0001		Pr > F	<.0001	
	R ²	0.4803		R ²	0.191		R ²	0.4812		R ²	0.1915	
	Adj R ²	0.4729		Adj R ²	0.18		Adj R ²	0.473		Adj R ²	0.1787	

a, b, c, d indicate statistical significance at < .0001, 0.01, 0.05, and 0.10 levels. Dummy variables for years and sectors are included in the analysis but not tabulated.

This study extends literature on ownership structure by exploring insights on corporate structure in Kuwait. It examines the relationship between corporate value and the ownership of family and other major shareholders. Put differently, does the presence of family ownership and other major shareholders create or destroy corporate value? Following other studies, this paper measures corporate value using two

companies. First, future researchers examining corporate valuation should be cognizant of the impact of ownership concentration and family control on corporate value. Second, regulators should be aware that the capital market takes ownership concentration and family control into account when valuing corporations. Major shareholders are indeed controlling-enhancing mechanisms that can add value to the corporation. Last, the governance role of major shareholders (i.e., families, institutions, state etc.) tend to be more significant in weak regulatory environment with fragile political scenario, such as in Kuwait. This role should strengthen the trust of minority shareholders and foreign investors in the KSE market.

Future studies should examine the link between ownership structure and corporate valuation using more powerful tests and analysis. For example, it would be interesting to use other threshold categories of control ownership such as 10 or 20 percent to see any differences in the results reported in this study. Also, increasing sample period may shed more light on this link. Another area that can be explored is identifying factors that motivate major shareholders to increase their ownership in KSE companies. In addition, future studies should explore the association between ownership concentration and earnings management.

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Ownership Concentration, Family Control and Corporate Value

APPENDIX			
Definition of Variables			
Variable	Label	Predicted Sign	Definition and Measurement
Dependent Variables:			
Tobin's q	TBQ		The sum of net assets and market capitalization divided by total assets, where market capitalization is the year end closing price multiplied by the year end shares outstanding
Ratio of Market to Book Value	Mkt/Eq		The market value scaled by the book value of equity.
Independent Variables:			
Ownership Concentration	OWN	+/-	The natural logarithm Herfindahl index, where Herfindahl index is the sum of squared percentage of shares controlled by the major shareholders.
Family Ownership	Family	+/-	A binary variable equals to 1 if a firm has family ownership and 0 otherwise.
Firm Size	SIZE	+	The natural logarithm of the market value of equity at year end.
Firm Leverage	LEVERAGE	-	Total liabilities scaled by total assets.
Firm Age	AGE	-	The natural logarithm of the difference in years between year t (i.e. $t = 1 \dots t = 4$) and the foundation year
Firm Financial Health	LOSS	+	A binary variable equals to 1 if the firm reports a loss in year t and 0 otherwise.
Cash Dividends	DIV	+	Cash dividends scaled by shares outstanding at year t .
Industry Sector	SECTOR	?	A binary variable reflects the seven KSE financial sectors
Years of Study Sample	YEAR	?	A binary variable depicts the four sample years.