The Relationship of Family Ownership with the Integrated Effectiveness of Board and Audit Committee in Gulf Cooperation Council Countries

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ABSTRACT

Recently, there is an increased attention to corporate governance mechanisms and how can family ownership influence the effectiveness degree of these mechanisms? One important context is to examine these issues in the Gulf Cooperation Council (GCC) setting where family-controlled companies dominate the business market. The present study examines the relationship between family ownership and the effectiveness of board and audit committee in GCC listed companies. The study uses a cross-sectional analysis of 492 firm-year observations during the 2006-2010 periods. A pooled OLS regression is used to estimate the association proposed in the hypothesis. The study finds that family ownership is adversely associated with the effectiveness of board and audit committee. The result suggests that family-controlled companies do not have good corporate governance practices in terms of the effectiveness of board of directors and audit committee as internal control and monitoring mechanisms. Further, the result of this study contributes to the existing theory and empirical evidence that the board of directors and audit committee effectiveness of is negatively correlated to concentrated family ownership in a unique corporate ownership and corporate governance setting. The results of this study would be of importance to GCC governments, stock markets, companies, accounting and auditing regulators, banks, investors, and academic community by gaining a deep understanding of this relationship.

Key Words: Audit committee, Board of directors, Effectiveness, Family ownership, GCC, Governance.

INTRODUCTION

The definition of corporate governance most widely used is "the system by which companies are directed and controlled" (Cadbury Committee, 1992). Berle and Means (1932) state that, when management are not monitored by shareholders, the conflict of interests and separation seen as a consequence between management and shareholders in the organization could result in agency problems. An incrementally attention has been paid to corporate governance nowadays by regulators, investors, lenders and other stakeholders throughout financial markets worldwide (Ho and Wong, 2001). Therefore, companies that are practicing good corporate governance can be described as companies having well-defined and protected shareholder rights, a solid control environment, high levels of transparency and disclosure, and an empowered board. More important is that the interest of the company and those of shareholders are well aligned. Board of directors and audit committee are often referred to as mechanisms of the success of corporate governance (Hawkamah and IFC, 2008).

Board of directors is the highest authority at the company level that is responsible to work in the best interest of shareholders, to defend these interests and to fight against nonqualified managers (it joins the roles of control and authorization) (Siala *et al*., 2009). Further, the board of directors is the common apex of the decision control system in public corporations, is a market-induced, low-cost mechanism for monitoring management. Shareholders delegate their decision control rights to boards as a more efficient way of ratifying and monitoring managerial decisions and, thus, monitoring managerial decisions becomes essential for a board of directors to ensure that shareholders' interests are protected (Fama and Jensen, 1983). Audit committee, plays an important role of monitoring and in assuring the quality of financial reports and corporate accountability. The audit committee's role stands in the middle between the board of directors and the external auditor in bridging the information asymmetry, facilitating the monitoring process (Birkett, 1980; Klein, 2002).

Agency theory is commonly adopted

in both economic and financial researches, as noted by various scholars (Eisenhardt, 1989; Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). Agency theory centers on the link between principal, i.e. shareholder, and agent, i.e. decision maker or manager, with the theory submitting that both principal and agent are recognized as making the most of their own capacities and in pursuing their own agenda may have conflicting interests between them (Fama and Jensen, 1983; Jensen and Meckling, 1976). Berle and Means (1932) further state that, when management are not monitored by shareholders, the conflict of interests and separation seen as a consequence between management and shareholders in the organization could result in agency problems; however, upon the maximization of management's self-interests—notably at the cost of firm success and effectiveness—the interests of shareholders may be compromised. Regardless, however, agency theory postulates that a firm comprises a set of contracts between the firms' resource providers or firm owners (principals) and management (agents). The role of management is to ensure the resources are both controlled and utilized in the interests of the owners. Agency costs may be considered as the value loss to owners, arising when management do not act in accordance with the best interests of the owners. For instance, if management pays himself an extreme wage, negotiates deals with other organizations under his supervision, or otherwise capitalizes negative net-present-value projects (Jensen and Meckling, 1976; McConnell and Servaes, 1990). The corporate governance issues resulting from the separation of ownership and control such as the relationship between the establishment of an AC and ownership structure has been the subject of empirical studies (Collier and Gregory, 1999; Menon and Williams, 1994; Pincus *et al.,* 1989; Turpin and DeZoort, 1998). These previous studies have been conducted primarily in countries with Anglo-Saxon legislation, such as the U.S and U.K. there is a concern regarding whether these studies' results are equally applicable to countries with different ownership structure and institutional setting. Therefore, more research has yet to be empirically carried out.

This study examines the association of family ownership with the effectiveness of board and audit committee in GCC setting. GCC countries are referred to as a unique context for investigating these issues. Arab firms still tend to have concentrated ownership, so generational ties and family involvement often impact governance relations and agreements and they are in the core of political and economic influence (INSEAD, The Business School for the World, 2010). Directors are understood to be the most powerful and influential individuals in a company hierarchy because families with most board representation can be thought of as controlling the economy (TNI Market Insight, 2008a). GCC families hold on average between 19% and 30% of company board seats (TNI Market Insight, 2008b). Research shows that only 30% of family-run businesses survive into a second generation, 12% make it to a third, and a mere 3% transition successfully into a fourth generation and beyond (Center For International Private Enterprise Global Corporate Governance Forum, 2011).

Further, GCC governments have intervened heavily in linking legal origins and financial arrangements. GCC countries are still suffering from a lack of equity among investors and a dominance of three groups of shareholders: government and its agencies; family; and institutions. This dominance is a result of the weakness of investor protection, and the absence of well-developed markets for corporate control (Chahine and Tohme, 2009; Harabi, 2007; Hawkamah and IFC, 2008; Omran *et al.,* 2008; Saidi and Kumar, 2007). In addition, Arab companies suffer from the cultural heritage that has been brought into from the history. These inheritances do not encourage the implementation of sound management practices (Ali, 1999). Muna (1986) reports that managers in GCC countries live and work

within a social structure in which family and friendships dominate attitudes. The current corporate governance frameworks of GCC countries do not meet the threshold sought by international investors (AL Majlis, The GCC Board Directors Institute, 2009). Corporate governance reform is often investor-driven in more developed markets, but in the GCC, the burden of corporate governance improvements falls on the regulators. Much of this stems from a combination of facts such as the ownership structures of GCC companies, the ready availability of liquidity and financing from regional banks, and the relatively underdeveloped capital markets. In this case, these concerns have negatively influenced the effectiveness of board and audit committee in the GCC companies, and agency problems are more likely to arise between majority and minority shareholders.

This study empirically investigates how negatively the board and audit committee effectiveness can be influenced by the family ownership using the agency theory framework. This empirically investigation is extended in a number of important ways. First, we used a combined score of the effectiveness of board and audit committee. The reasoning of using the combined score is that the optimal combination of corporate governance mechanisms is considered better in reducing agency cost and protecting the interest of all shareholders, because effectiveness of corporate governance is achieved via different channels, and a particular mechanism's effectiveness depends on the effectiveness of others (Cai *et al.,* 2009). In addition, Ward *et al.* (2009) have argued that it is best to look at corporate mechanisms as a bundle of mechanisms to protect shareholder interests and not in isolation from each other, because these governance mechanisms act in a complementary or substitutable fashion. Agrawal and Knoeber (1996) have also argued that the results of the effect of single mechanisms might be misleading, by showing that the effect of some single mechanisms on firm performance disappeared in the combined model. The measurement effect is stronger when investigating the overall corporate governance mechanisms than examining them individually (O'Sullivan *et al.,* 2008).No study that we are aware of has considered the association between family ownership and the effectiveness of board and audit committee either generally in the international or specifically in the local setting. This analysis of GCC companies allows us to study the subject of board and audit committee effectiveness in a different ownership context from that of the research on US/UK corporations.

Second, we included several important characteristics of board and audit committee into the combined score of the effectiveness of board and audit committee that can explain the monitoring degrees of these mechanisms. These characteristics consist of board of directors' characteristics (independence, size, meetings, CEO duality, financial expertise, nationality, and international experience) and audit committee characteristics (independence, size, meetings, financial expertise, nationality, and international experience).To our awareness, no study has examined this number of characteristics either in combined or individual manner.

The findings of this study should be of interest to policymakers in GCC as well as to those Middle Eastern markets especially GCC countries because of the similarities in the institutional and cultural environments and in the corporate ownership structure of firms (La Porta and Lopezde- silanes, 1999). The results may also be of interest to other researchers who are investigating the characteristics of firms in the board and audit committee effectiveness. In addition, the results of this study will hopefully motivate further inquiries into why the effectiveness of board and audit committee varies among companies.

The remainder of the paper is organized as follows. Section 2 reviews the literature and develops the hypothesis. Section 3 discusses the data collection and research design. The results and discussions are described in section 4. The final section provides conclusions.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESIS

Corporate Governance In Gcc

Corporate governance is defined as the system through which corporations are directed and controlled. The corporate governance structure concerns about distributing rights and responsibilities among different participants in the company such as board of directors, managers, shareholders and other stakeholders, and spelling out the rules and procedures regarding making decisions on company's affairs. In the same line, corporate governance also provides the framework through which the company can be guided to set its objectives, attain those objectives, and monitor performance. Therefore, companies that are practicing good corporate governance can be described as companies having well-defined and protected shareholder rights, a solid control environment, high levels of transparency and disclosure, and an empowered board. More important is that the interest of the company and those of shareholders are well aligned (Hawkamah and IFC, 2008). Corruption practices, such as Enron, Arthur Andersen, WorldCom, and Adelphia scandals have put corporate governance under investigation. Kawaura (2004) finds that the ineffective governance structure is responsible for the crisis of Japanese banks in the 1990s. Corporate governance matters to stakeholders for broadly similar purposes. These stakeholders include investors, companies, the public sector, and other stakeholders such as banks; suppliers; and employees (Hawkamah and IFC, 2008).

The OECD principles of Corporate Governance first endorsed by OECD ministers in 1999 (a reviewed and revised version of them is now available, since 2005), are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries. The World Bank has used OECD principles of CG to assess the state of corporate governance in some of its member countries, including Arab countries. Over the years, several institutions have developed their own set of codes and principles like the Institute of International Finance's Policies of Corporate Governance and Transparency in Emerging Markets, which established a code based on criteria are considered important to international investors (Harabi, 2007; Hawkamah and IFC, 2008).

The increasing openness and integration of GCC countries with the global economy has created push-and-pull factors that are contributing to changing the corporate governance environment. Policy and regulatory reforms in the GCC have been led by international convergence and adoption of prudential and regulatory codes and standards, such as Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF), Basel banking supervision core principles, and international obligations and agreements resulting from entry into WTO, Regional trade Agreements (RTAs) and Free Trade Agreements (FTAs). This has been reinforced by competitive pressure and emulation within the countries of the GCC. Moreover, international institutions, such as the IMF, World Bank, WTO and the BIS have played a role in providing technical assistance and building knowledge and capacity (Harabi, 2007; Saidi and Kumar, 2007; Hawkamah and IFC, 2008). Globalization, liberalization and the interlinking of markets have brought about an increased pressure for change. These are compounded by the regional and international investors such as the increasing presence of international firms in the region and the increasing number of Western expatriates in senior management level positions, who are subject to global corporate standards. All these factors contribute in the creation of a superior corporate structure and offer GCC companies with the encouragement to invest in the adoption of better standards.

It is imperative to acknowledge that the boom in the GCC has been urged by the desire to diversify the economy from oil to a more sustainable business model for the future. As such, the most ideal way to achieve sustainability, prosperity and job creation in

the long term context is through ensuring that firms are capable of providing investors with superior returns in the present and in the future. A framework encapsulating effective internal governance is invaluable in guiding the firms towards the above objectives while simultaneously ensuring corporate flexibility in uncertain times (Hawkamah Newsletter, 2008). Regulatory authorities throughout the region have employed steps to enhance corporate governance mechanisms owing to three factors; the downward correction in regional markets in 2005 followed by the efforts by the authorities to improve standards and protect shareholders particularly during the widespread public participation in equity markets, the inclination of GCC corporations to take part in the global market competition and thus adhere to international standards and finally, attempts to attract foreign direct investments to the Arab region (AL Majlis, The GCC Board Directors Institute, 2009).

Hawkamah's research indicates that there have been significant improvements in corporate governance in GCC region in just a few short years. Although implementation is still patchy, the concept and principles of corporate governance are now well accepted. Regulators and companies have taken substantial steps, albeit from a low base, to improve their practices. Almost all GCC countries now have corporate governance codes or guidelines in place for publicly listed companies (Saidi, 2011). However, corporate governance is still a relatively new concept in the Gulf Cooperation Council (GCC) countries. Baydoun *et al.,* (2012) indicate that corporate governance in GCC is still being developed. The corporate governance frameworks of GCC countries in the present time fail to meet the threshold expected by international investors (AL Majlis, The GCC Board Directors Institute, 2009). This is because corporate governance reform is primarily run in the developed markets by investors but in the GCC, the weight of corporate governance improvements lies on the regulators. This depends on a combination of factors including ownership structures of GCC firms (primarily family or state-owned), the availability of liquidity and financing present in regional banks and the underdeveloped capital markets. Arab firms are still inclined to follow concentrated ownership and hence, other factors such as generational ties and family involvement effect the firms' governance relations and agreements (INSEAD, The Business School for the World, 2010). Consequently, international investors taking corporate governance very seriously steer themselves away from GCC markets (INSEAD, The Business School for the World, 2010). Further, GCC financial markets remain underdeveloped and do not sufficiently protect minority investors. The GCC largely follow a civil-law system, but are still significantly affected by their political regimes (Chahine and Tohme, 2009; Al-Shammari *et al.,* 2008; Al-Hussaini and Al-Sultan, 2008; Bley and Chen, 2006).

Board and Audit Committee Effectiveness

Studies of corporate governance recently concern about the board of directors. Agency theory proposes a divergence in managerial and owners' interests occur when there is a separation of ownership and control (Jensen and Meckling 1976). The board constitutes the supreme authority at the firm level in making decisions. This mechanism is a market-induced and a low-cost monitoring device. It is responsible for representing the shareholders' interests, defending these interests and fighting against nonqualified managers (Fama, 1980; Fama and Jensen, 1983). The board of directors has to fulfill two functions: (1) monitoring management and (2) providing expert advice (Houqe and Zijl, 2008; Kirkos *et al.,* 2008). According to Hawkamah and IFC survey of 2008, around 49% of listed companies in MENA countries (i.e., GCC) consider the responsibility for corporate governance policies to the board—in-line with good practice. But, the role of the board is often misunderstood in the MENA region. According to the survey, 89.9% of MENA banks and listed companies stated that the board, and not management, was responsible for setting corporate

management, which is contrary to the good practice that management develops, and the board reviews and guides corporate strategy.

This study uses a composite score of board and audit committee characteristics. The reasoning behind using a composite measure of corporate governance mechanisms is that the ideal combination of corporate governance mechanisms is considered invaluable in decreasing the agency cost and safeguarding the shareholders' interests owing to the effectiveness of corporate governance achieved through various channels and specific mechanism's effectiveness hinges on the effectiveness of other factors (Cai *et al.,* 2009). Additionally, Ward et al. (2009) claim that it is more optimal to examine the corporate mechanisms as a group of mechanisms protecting shareholders' interests and not as individual entities because they complement each other or are alternates for each other. They added that the previous studies provided inconsistent findings because they examined them individually and how each may contribute in resolving agency problems in isolation; in other words, they overlooked that individual mechanism's hinges on its counterparts. Similarly, Agrawal and Knoeber (1996) stated that the findings of the individual mechanism's impact may be erroneous as the impact of some single mechanisms is diminished in the combined model. Along the same line, the measurement of the combined impact indicates a stronger effect as compared to measurement of individual impacts (O'Sullivan *et al.,* 2008).For example, Cassell *et al.* (2012) have investigated the association of corporate governance index (independence, meetings, and financial expertise of board and audit committee members) with auditor switch from a Big 4 to a non-Big 4. They have concluded that board of directors' effectiveness is related to the auditor-client realignments.

The present study examines the board of directors' characteristics (independence, size, meetings, CEO duality, financial expertise, nationality and international experience) and audit committee characteristics (independence, size, meetings, financial expertise, nationality and international experience) as a whole in a way to capture the aggregate effect of family ownership on these characteristics. It is expected that these characteristics act in a complementary or substitutable fashion as impacted by the family ownership.

Family Ownership

Family ownership or family controlled is defined as a control by a family, an individual, or an unlisted company (Maury, 2006). Family businesses are dominant players in global economies (Sitthipongpanich and Polsiri, 2015). Particularly, empirical researches carried out on this business segment have been few. Despite the dominance of family-owned publicly listed companies in developing economies, prior research has paid relatively little attention to this area and the socio-economic context of these countries has been mostly ignored (Khan *et al.,* 2015). Agency theory suggests the possibility of the development of conflict in family business (Fama and Jensen, 1983). Baydoun *et al.,* (2012) report that the differences in GC models among countries are more usually a response to the nature of different ownership structures. Fama and Jensen (1983) and Shleifer and Vishny (1997) point out that the ownership concentration grows to a point at which an owner has the effective capability of regulating the firm. Their self-interests are satisfied to the maximum via a non-transparent behavior or through benefit transfers, where the minority of shareholders are expropriated (Anderson *et al.,* 2004; La Porta *et al.,* 2002) with the use of earnings management. In this case, the agency problems may be stimulated and this causes reduction in the effectiveness of board and audit committee. Copley and Douthett (2002) support this argument by pointing out that high ownership retention have the tendency of affecting corporate governance adversely. In addition, regulating the individual dealings of owners has not been internally and externally challenged by the boards of

directors and takeover markets, respectively (Chau and Leung, 2006; Claessens *et al.,* 2002). For example, Daily and Dollinger (1992) indicate that conclusions have not been drawn on the studies of the family business as a result of ownership and control which are closely aligned. Chau and Gray (2002) show that firms controlled by family have disclosed considerably low financial information in meeting the requirements set as compared with the broader ownership. Brunninge and Nordqvist (2004) report that companies controlled by family often have strong influences on the responsibility of board of directors. Cai *et al.* (2015) indicate that audit committees in family businesses substitute for inefficient external regulatory environment. By the same token, Chau and Leung (2006) find that at a medium level of family shareholding (between 5% and 25%), the convergence-of-interest effect is dominant and the existence of audit committees decreases. Similarly, Leung *et al.* (2014) report that the proportion of independent directors on the corporate boards of family firms is lower than that of non-family firms. Sitthipongpanich and Polsiri (2015) document that families CEOs reduce firm value, indicating higher potential expropriation of minority shareholders or possible lower competency of family CEOs relative to professionals. Additionally, Khan *et al.* (2015) find that family firms pay significantly lower audit fees and choose lower quality auditors.

Arab firms still tend to have concentrated ownership, so generational ties and family involvement often impact governance relations and agreements and they are in the core of political and economic influence (INSEAD, The Business School for the World, 2010). Over 50% of large family owned businesses in the GCC would like to list in the region's stock exchanges; 20% of those are already planning to issue IPOs and 30% are intending to do so in the near future. The main reasons that drive family business IPOs include: enhancing the company's profile and reputation; providing an exit route for family members by divestment; providing capital to finance expansion; providing acquisition currency in the form of shares; and international recognition (depending on the choice of market) (Hawkamah newsletter, 2009). Directors are understood to be the most powerful and influential individuals in a company hierarchy because families with most board representation can be thought of as controlling the economy (TNI Market Insight, 2008a). GCC families hold on average between 19% and 30% of company board seats (TNI Market Insight, 2008b). Research shows that only 30% of family-run businesses survive into a second generation, 12% make it to a third, and a mere 3% transition successfully into a fourth generation and beyond (Center For International Private Enterprise Global Corporate Governance Forum, 2011).

The above discussion guides the present study to propose a direct association between family ownership and the effectiveness of board and audit committee. The testable hypothesis is identified in a direct form:

H_1: Ceteris paribus, there is a negative association between family ownership and th effectiveness of board and audit committee.

MATERIALS AND METHODS

Sample Selection and Data Collection

The population of interest comprises all non-financial companies listed on the Stock Exchanges of the five members of the Gulf Co-Operation Council (GCC) with auditor switches during the period from 2006 to 2009.[(1)] This selection is the most recent test period for which data were available. Further, the boom of the GCC clearly emerged in early 2005 (Chahine and Tohme, 2009).Collecting data regarding family ownership, auditor change, and board and audit committee effectiveness, a cross-sectional review of audit reports of a sample of companies listed on the stock exchanges of the five member states of the Gulf Co-operation

(1) Since OLS regression is used to test the hypotheses, outliers are detected and handled; assumptions of multicollinearity, heteroscedasticity and autocorrelation are met.

Council countries over periods from 2005 to 2010 was undertaken. Financial data were extracted from Datastream International. The information has been gathered as of three points in time; before, during and after the auditor switch. Samples selected for the three years are depicted in Table 1.

Table 1: Sample Selection

	Total Observation
Total listed companies	172 company
Period of study	3 year
Total observations	516 observations
Missing and Incomplete data	(24 observations)
Total observations selected	492 observations

Regression Model and Definition Of Variables

The economic model is used to develop a model of board and audit committee effectiveness. The variables proposed for inclusion in the model capture differences in the costs of agency relationships. To estimate this model, pooled OLS regression is applied because the dependent variable is a continuous nature. The pooled OLS regression is estimated using cross-sectional data to capture if there is a significant impact of the family ownership on the effectiveness of board and audit committee as follows: BD_AC = β0 + β1 FAMILY_OWN + β2 Control variables + e

Where the dependent variable is:

BD_AC = the combined score of the effectiveness of board and audit committee

Where the hypothesized variable is:

FAMILY_OWN = percentage of 5 or more of the ordinary shares held by a family,

Where the control variables are:

FSIZE = $\log_{10}$ of the total assets,

LEV = total debt to total assets,

ROE = Return on equity

AUD_CHANGE = “1” if an auditor is changed, “0” others,

e = Error term.

The control variables have been widely examined by several empirical studies that investigate the association of audit committee and family control (Beasley *et al.,* 2000; Bradbury, 1990; Chau and Leung, 2006; Chen and Jaggi, 2000; Menon and Williams, 1994; Pincus *et al.,* 1989; Turpin and DeZoort, 1998).

RESULTS AND DISCUSSIONS

Descriptive Statistics and Correlation Analyses

Table 2 predicts the mean, standard deviation, minimum and maximum of each variable in the sample data set.

Table 2: Descriptive statistics (n = 492)

Panel A: Dependent variable	Mean	Std.Deviation	Minimum	Maximum
BD_AC	0.4436	0.1662	0.07	0.86
Panel B: Independent continuous variables	Mean	Std.Deviation	Minimum	Maximum
FSIZE	1937085.763	6995892.130	2097.500	78121395.260
LEV	20.946	22.572	0.000	115.800
ROE	12.707	32.039	-186.220	503.210
Panel C: Independent dichotomous variable	Auditor change (%)		Otherwise (%)	
AUD_CHANGE	300 (61)		192 (39)	

Table 2 shows that there is a significant range of variation among the considered sample of this study. Panel A of Table 2 shows that the range of *BD_AC* is from 0.07 to 0.86 with an average of 0.4436 and a standard deviation of 0.1662. Panel B of Table 2 exhibits that the mean of *FSIZE* is S.R 1937085.763 with a maximum of S.R 78121395.260 and a minimum of S.R 2097.500 and a standard deviation of

6995892.130.The *LEV* ranges from 0.000 to 115.800 with an average of 20.946 and a standard deviation of 22.572.The range of *ROE* is from -186.220 to 503.210 with a mean of 12.707 and standard deviation of 32.039.In addition, as for *AUD_CHANGE*, Panel C of Table 2 illustrates that 300 firms (about 61 percent) in the sample changed their auditors and 192 (about 39 percent) did not change their auditors during the considered period of study.

This study uses the correlation matrix, variance inflation factor (VIF) and tolerance (1/VIF) as examinations identifying the possible existence of multicollinearity.

Table 3 illustrates the correlation among variables. The correlation matrix confirms that no multicollinearity exists between the variables as none of the variables correlates above 0.80 or 0.90. Most of the coefficients of correlation are small and the highest correlation was between *LEV* and *ROE*, indicating that there is a significantly negative association between return on equity and debts.

Table 3: Pearson correlation analysis results (n = 492)

	FAMILY_OWN	FSIZE	LEV	ROE	AUD_CHANGE
FAMILY_OWN	1				
FSIZE	-.107*	1			
LEV	.146**	.129**	1		
ROE	-.006	-.009	-.196**	1	
AUD_CHANGE	-.070	-.051	.061	-.012	1

It is worth mentioning that the correlation matrix has been referred to as a limited analysis because it ignores the interrelationships among the variables. As a result, VIF and Tolerance analyses are conducted as shown in Table 4. It appears that multicollinearity does not present a problem as indicated by the variance inflation factor (VIF) and Tolerance. VIF measures the degree to which each explanatory variable is explained by the other explanatory variables. "Very large VIF values indicate high collinearity. A common cutoff threshold is VIF values above 10."VIF figures for all the independent variables are well below 10, indicating that multicollinearity does not pose a serious problem in the multiple regression models. As for Tolerance, tolerance values are higher than .10, indicating that multicollinearity does not appear as a problem in this study (Hair *et al.,* 2010) Thus, these results suggest that no serious multicollinearity among the independent variables exists.

Table 4: Multicollinearity Statistics of Assessing VIF and Tolerance Values

Independent variables	VIF	Tolerance (1\VIF)
FAMILY_OWN	1.127	.887
FSIZE	1.245	.803
LEV	1.076	.930
ROE	1.042	.959
AUD_CHANGE	1.179	.848

Regression Results and Discussions

Pooled Ordinary-Least Square (*OLS*) was used to evaluate the level of effect of the hypothesized variable, family ownership, on the effectiveness of board and audit committee. Table 5 reports the estimated model coefficients, the associated significant test results, the adjusted R^2 and the *F*-values for the model. The *F*-value for model is statistically significant at the 1% level, indicating that the overall model can be interpreted. The adjusted R^2 is 8 %. The

statistics show that this model has explained 8% of the total variance in the effectiveness of board and audit committee.

As illustrated by Table 5, the regression coefficient for *FAMILY_OWN* is negative (−.147) and statistically significant ($p< 0.001$), suggesting that family ownership is associated negatively with the effectiveness of board and audit committee in GCC.

Table 5: Pooled OLS analysis results (*n* = 492)

Variables	Expected Sign	Coef.	t	P-value
Hypothesized variable FAMILY_OWN	-	-.147	-3.206	.001
Control variables				
FSIZE		-.200	-4.138	.000
LEV		.135	3.012	.003
ROE		.086	1.951	.052
AUD_CHANGE		.101	2.141	.033
Adjusted R^2	8.00			
Model F-stat.	9.490			
P-value	0.000			

Bold = significance at 1%, 5% and 10%

. This result is consistent with the prediction of agency theory and the empirical findings of the instant research, e.g. (Chau and Gray, 2002; Brunninge and Nordqvist, 2004; Cai *et al.,* 2015; Chau and Leung, 2006; Leung *et al.,* 2014; Sitthipongpanich and Polsiri, 2015; Khan *et al.,* 2015). It provides support for hypothesis H_1.This result indicates that GCC companies still tend to have concentrated ownership, so generational ties and family involvement which often impact adversely the effectiveness of board and audit committee as one mechanism of corporate governance. In addition, GCC firms that are controlled by families are often suffering from continuously rising agency problems due to the influence of families on the responsibility of board of directors and audit committee. This environment is, then, characterized as a high level of family ownership that serves as an entrenchment for insiders, causing moral hazards and information asymmetry problems between the owners and outside investors. Investment decisions are likely to be made to maximize the (inside) owners' wealth rather than those of outside shareholders.

CONCLUSIONS

Our study examines the association between family ownership and the effectiveness of board and audit committee in GCC region. The hypothesis of this study is based on the premise that family concentrated ownership affects negatively the effectiveness of board and audit committee. The result shows a support to the agency perspective, which is that, the higher the family ownership the lower the board and audit committee effectiveness. Since this study focuses on the GCC setting which is referred to as a unique corporate ownership and corporate governance structure, it does contribute to the body of literature in providing empirical evidence regarding the board and audit committee effectiveness. It is worth mentioning that GCC family-controlled companies are characterized as having unclear separation of ownership and control as that found in the Western

countries. Therefore, the result of this study can be used as a piece of evidence adding to the current body of literature about Arab countries and similar markets. Our result supports the hypothesis that the relationship of board and audit committee effectiveness with family ownership. One important implication of this finding relates to the issue of board and audit committee effectiveness in GCC. GCC governments, stock markets, companies and accounting and auditing regulators would gain some new insights from this study in terms of the understanding the association of family ownership with the effectiveness of board and audit committee. The results of this study would benefit banks in the way that they can assess the creditworthiness of incorporating companies in GCC. Moreover, credit decisions made by lenders are determined based on audited financial statements. Therefore, board and audit committee effectiveness issues are of the utmost important for any lending institution. Investors and financial analysts may depend on issues of the effectiveness of board and audit committee to interpret decisions related to bonds, bond rating, interest rate, and all other decisions related to investments in GCC markets. Accordingly, increased understanding and prediction of companies' events is important to this user group. Further, 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 family ownership and the effectiveness of board and audit committee and, therefore, this study will provide with substantial information about issues in the markets of GCC to count on, in the future, as premise data. Limitations of the study lie on the other internal corporate governance mechanisms (i.e., board of directors characteristics and ownership structure). Future line of research should put an effort to introduce these mechanisms. Further research should replicate this model to determine its validity in different contexts of Arab countries, in different time periods, and with different sample size. These limitations may motivate more future research in the GCC market.

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العلاقة بين الملكية العائلية وبين الكفاءة المدمجة لمجلس الإدارة ولجنة المراجعة في دول مجلس التعاون الخليجي

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الملخص

هناك اهتمام متزايد في الآونة الأخيرة فيما يتعلق بقضايا آليات حوكمة الشركات، وكيفية تأثر هذه الآليات بدرجة الملكية العائلية. إحدى أهم البيئات المناسبة لاختبار هذه القضايا هي دول مجلس التعاون الخليجي، وذلك بسبب سيطرة الملكية العائلية على بيئة الأعمال. تتناول هذه الدراسة اختبار العلاقة بين الملكية العائلية، وبين كفاءة مجلس الإدارة، ولجنة المراجعة بين الشركات المدرجة في دول مجلس التعاون الخليجي. استخدمت هذه الدراسة التحليل المقطعي لعدد 492 مشاهدة خلال الفترة من 2006 وحتى 2010. تم استخدام تحليل انحدار المربعات الصغرى الاعتيادي المجمع لتقدير العلاقة المفترضة. وجدت هذه الدراسة أنَّ هناك علاقة عكسية ذات دلالة إحصائية بين الملكية العائلية، وبين كفاءة مجلس الإدارة، ولجنة المراجعة. تشير نتائج هذه الدراسة إلى أنَّ الشركات العائلية تتسم بممارسات غير جيدة فيما يتعلق بحوكمة الشركات وخاصة فيما يتعلق بدرجة كفاءة مجلس الإدارة، ولجنة المراجعة كآليات رقابية داخلية. بالإضافة إلى ذلك، فإن نتائج هذه الدراسة تساهم في تقديم دليلين نظري، وعملي في إثراء النظرية الحالية، والأدلة التطبيقية في حقيقة مفادها أنَّ الملكية العائلية ربما تؤثر عكسياً على كفاءة مجلس الإدارة، ولجنة المراجعة في بيئة فريدة فيما يتعلق بملكية الشركات وحوكمتها. نتائج هذه الدراسة ذات أهمية بالغة لحكومات دول مجلس التعاون الخليجي، والأسواق المالية، والشركات، والمشرِّعين، والمحاسبين، والمدققين، والبنوك، والمستثمرين، والبيئة الأكاديمية وذلك من خلال تسليط الضوء على قضايا حوكمة الشركات، والملكية العائلية.

الكلمات المفتاحية: حوكمة الشركات، كفاءة لجنة المراجعة، كفاءة مجلس الإدارة، مجلس التعاون الخليجي، الملكية العائلية.