

Ownership Concentration and Firm Performance: The Case of Kuwait¹

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Abstract

Using Kuwaiti data, this study examined the relationship between the concentration and composition of ownership and the performance of firms. In the study, we estimated and examined this relationship using ordinary least squares (OLS) for a sample of 130 Kuwaiti firms listed on the Kuwait Stock Exchange (KSE) from 2009 to 2012. The overall concentration of ownership by large shareholders showed no impact on firms' performance. However, when the type of large shareholders was introduced, only the concentrations of government ownership and families' (individuals) ownership influenced firms' performance. Therefore, not all concentrations of ownership among large shareholders are useful to listed Kuwaiti firms.

Keywords: corporate governance, ownership structure, Kuwait stock exchange (KSE)

تركيز الملكيات وأداء الشركات : دليل من الكويت

ملخص الدراسة

باستخدام بيانات الشركات الكويتية تهدف هذه الدراسة إلى اختبار العلاقة بين هيكل الملكية وتركز الملكية في الشركات الكويتية المدرجة في سوق الكويت للأوراق المالية ولتحقيق هذه الأهداف تمّ تقدير العلاقات بين تركيز الملكيات وأداء الشركات باستخدام طريقة تحليل الانحدار لبيانات عينة مكونة من 130 شركة للفترة من 2009 إلى 2012 بالإضافة إلى استخدام العديد من الاختبارات الإحصائية للتأكد من سلامة التحليل الإحصائي حيث أظهرت النتائج عدم وجود أثر لتركز الملكية لكبار الملاك أو تركز الملكية المؤسسية على أداء الشركات الكويتية المدرجة في سوق الكويت للأوراق المالية لكن من جهة أخرى وجدت الدراسة تأثير موجباً على الأداء من تركز الملكية الحكومية وتركز الملكية العائلية (الفردية). مما يدل على أن ليس كل كبار الملاك يؤثرون على الأداء بصورة ايجابية.

1. Introduction

Berle and Means (1932) and Jensen and Meckling (1976) stated that the separation of ownership and control has created conflicts between shareholders (principals) and managers (agents). Shareholders seek to maximize the firm's value, while managers promote their own interests and benefits. To resolve this conflict of interest and reduce the costs associated with it, several mechanisms of corporate governance, such as ownership structure, have been introduced. Shleifer and Vishny (1986) stated that ownership structure is an important component of corporate governance. In this study, we examined the effects of ownership structure on firms' performance in Kuwait and focused on the role of the two main dimensions of ownership structure, ownership concentration (the distribution of shares owned by large shareholders) and ownership composition (institutional investors, government investors, and individual investors).

There are two types of ownership structure: dispersed and concentrated. When ownership is dispersed, as in most UK and US listed firms, agency conflict of interests arise between shareholders and managers (Jensen and Meckling, 1976). However, when ownership is concentrated, as is typical in developing countries, large shareholders own the majority of firm's shares and control the voting rights, the main agency problem in this case is not between managers and shareholders, as in the case of widely listed firms, but is between strong large shareholders and minority shareholders. Thus, it is imperative to study the type of ownership structure to determine the nature of agency problems and identify which parties dominate the conflicts of interests in order to solve the agency problem.

Despite the substantial number of studies on ownership structure, additional empirical evidence of ownership structure and firms' performance from a different environment can still enhance our understanding of the mechanisms of corporate governance. There are substantial differences in the institutional characteristics and legal systems of developed countries and developing countries (La Porta et al, 1997, 1999, and 2002). The major contribution of this study is that it extended the knowledge of the concentration and composition of ownership of listed firms in a developing country, such as Kuwait, which is currently in the process of developing corporate governance. An Empirical study could help in examining the nature of ownership structure and

assist the Kuwaiti government in the developing regulations. Also, this study could help firms listed on the KSE and investors understand the impacts of large groups of shareholders on firms' performance, including those groups that may have positive impacts on firms' performance and those that may have negative impacts on firms' performance.

The rest of the paper proceeds as follows. Section two outlines Kuwait's background. Section three reviews the literature on the relationship between ownership structure and firms' performance, which also includes the theoretical framework of this study, previous studies, and the development of hypotheses. Section four presents the research method used in the study. Section five discusses the results, and section six presents the implication of the findings. Finally, section seven presents our conclusions.

2. Kuwait's Background

In September 1984, the KSE opened a new trading system to investors; it exists independently, with the right to make and pursue rules to maximize its efficiency. The Kuwait Clearing Company is responsible for controlling share prices or speculative activity in the market. A price unit system was introduced to protect the market from sharp movements in share prices. When Iraqi troops invaded Kuwait in 1990, the KSE ceased operations until September 1992, after which it engaged in only limited operations until 1994 as Iraq continued to threaten Kuwait. According to Kuwait Central Bank's report in 2011, the value and volume of transactions increased from 1995 to 2002. After the third Gulf War, trading activities reached record highs of KD16.253 million in 2003 and KD28.422 million in 2005. Table 1 presents the KSE's volume and value of shares, demonstrating that the KSE was responsive to economic and political events elsewhere.

Additional factors affect the KSE and the Kuwaiti economy in general. For example, numerous corporate scandals throughout the world in 2001 (e.g., Enron, World.com), the credit crunch, and the Dubai crisis in 2009 had a negative impact on the markets and the economy. Also, oil prices directly affect Kuwait's revenue resources. When oil prices increase, domestic liquidity also increases, resulting in capital flowing into Kuwait. When oil prices increase, the Kuwaiti government invests in projects that have been delayed by earlier budget deficits, and this led to a significant increase in the share price index, which reached an all-time high of 12,558 in 2007.

Finally, interest rates and the availability of credit have major roles in the movement of the KSE index. When interest rates decline, loans increase and stock prices increase.

Table 1: Number of Shares and Their Value, 2003–2011

Year	Value of shares (KD millions)	Quantity of trade shares (million shares)	KSE index
2003	16253	49565	4790
2005	28422	52246	11545
2007	37009	70437	12558
2009	21828	106331	7005
2011	6059	38342	5814

Source: Kuwait Central Bank's report (2011) and KSE's website

Al-Saidi and Al-Shammari (2012) and Hamdan and Al-Sartawi (2013) studied corporate governance in terms of ownership structure in Kuwait and found that shareholders' interests received more consideration than stakeholders' interests. They also found that Kuwait's listed firms rely heavily on either banks or the government to raise investment funds, representing the lowest quality of law enforcement. Also, Alfaraih et al (2012) found that Kuwaiti firms have different ownership structures and generally is highly concentrated. They stated that the listed firms are owned and controlled by few major shareholders. According to Kuwaiti requirements, large shareholders are required to disclose their names and their extent of ownership if their ownership interest reaches or exceeds 5% of its total shares. Another issue is that Kuwait has weak legal frameworks and enforcement mechanisms to protect minority shareholders (Al-Wasmi, 2011), and this finding was consistent with La Porta et al 's (1999) finding that such a system cannot promote and guarantee shareholders' rights. La Porta et al (1999) stated that the main agency problem in developing countries is the conflict between large shareholders and minority shareholders—a problem that might be more serious in firms that ignore minority shareholders' rights and create corporate governance problems in terms of firms' performance.

Empirically, Omran et al (2008) studied the concentration of ownership in four Arab countries and found that high market uncertainty has resulted in firms having high levels of ownership. Alfaraih et al. (2012) studied the ownership structure in 2010 in Kuwait and found that the concentration of ownership by institutions was 55%, whereas the concentration of the government's ownership was 3%. Also, Al-Shammari and Al-Sultan (2009) reported it to be about

55%. This study identified four major categories of ownership in Kuwait, i.e., institutional investors, government, families (individuals), and large numbers of minority shareholders.

3. Previous studies and the development of hypotheses

Since the studies of Berle and Means (1932) and Jensen and Meckling (1976), who indicated that the separation between control and ownership creates an agency problem and gives the agents (managers) more incentive to pursue activities that benefit themselves at the expense of the principals (shareholders), several studies have suggested the implementation of governance mechanisms to reduce this problem and to encourage managers to ensure that shareholders' interests are protected. However, recent studies have introduced another type of agency problem that has been created by the increasing concentration of ownership, which gives more power to a number of shareholders to expropriate value from minority shareholders (La Porta et al 1997 and 1999). This is true in Kuwait, where the agency problem exists and there is conflict between large shareholders and minority shareholders instead of between owners and management. Thus, compared to minority shareholders, large shareholders might have a disproportionate influence, allowing them to impact firms' performance and their efficiency in both positive and negative ways (Shleifer and Vishny, 1986; Grossman and Hart, 1980).

Table 2 shows that empirical studies have had mixed results. For example, Demsetz and Lehn (1985), Denis and Denis (1994), Demsetz and Villalonga (2001), Holderness and Sheehan (1988), and Prowse (1992) analyzed the interdependence among alternative control mechanisms and found that endogeneity was an important issue in studying the relationship between firms' performance and their ownership structure.² However, McGuire and Matta (2003) and Villalonga and Amit (2006) found a positive and significant relationship between the concentration of ownership and firms' performance. Conversely, researchers in the other developed countries, such as Nickell et al (1997) in the UK, Erhardt et al. (2006) in Germany, Earle et al (2005) in Hungary, Kapopoulos and Lazaretou (2007) in Greece, Claessens and Djankov (1999) in Czech Republic, and Perrini et al. (2008) in Italy, have found a positive impact for external major shareholders, demonstrating that they have an important role in corporate governance. Also, Hu and Izumida (2008) studied the concentration of ownership concentration in Japan and found a similar impact.³

To understand the ownership structure in other countries, La Porta, Lopez-de-Silanes, and Shleifer (2002) studied the pattern of the concentration of ownership in 27 developed countries, and they found that higher cash-flow ownership was related to higher performance of firms. This relationship is greater in countries with weaker shareholder protection. Also, Ng et al (2008) reported similar results in developing countries, such as China. Wellalage and Locke (2012), Abbas et al (2013), and Soliman (2013) demonstrated that large shareholders are efficient monitors who can be used as important mechanisms when protection is weak. However, Al-Shiab and Abu-Tapanjeh (2005) studied the impact of the concentration of ownership on firms' performance for firms listed in Jordan and reported that there was no significant relationship. Such conflicting results are consistent with the findings of La Porta et al 's (1999) study, which demonstrated that concentrated ownership can reduce shareholders' conflicts in countries where legal and institutional frameworks do not offer sufficient protection for external investors (e.g., Kuwait).

Thus, based on the above discussion, consistent with agency theory and Kuwait's institutional environment, the first hypothesis is:

H1: A positive relationship exists between the concentration of ownership and firms' performance

Another important aspect of ownership structure is the nature of the owners or shareholders. Thus, in addition to the concentration of ownership, the composition of ownership is important in understanding differences in firms' performance. In this study, institutional ownership, government ownership, and families (individual) ownership was examined. The following hypotheses are based on Shleifer and Vishny's (1986) argument that having large shareholders would increase the monitoring of a firm, thus having a significant impact on firms' performance.

Agency theory indicates that large shareholders might have greater incentive to monitor managers, while institutions might have the opportunity, resources, and ability to monitor and discipline managers. The role of institutional firms' performance was evaluated empirically by Aljifri and Moustafa (2007), Al-Shiab and Abu-Tapanjeh, (2005), Denis and Denis, (1994), and Omran et al. (2008), and each study concluded that there was no significant impact on firms'

performance. However, Alfaraih et al. (2012), Shleifer and Vishny, (1986), and Xu and Wang (1997) found a positive relationship between firms' value and institutional ownership. Thus, no definitive conclusions can be made about the impact of institutional investors on firms' performance, but, consistent with the theoretical argument, we expected firms that had higher concentrations of institutional investors to perform better.

H2: A positive relationship exists between the concentration of institutional ownership and firms' performance.

La Porta et al. (1998 and 1999) also found that the government's interventions in economics are greater in countries that have weak legal systems and protection. Aljifri and Moustafa (2007) and Omran *et al.* (2008) found a positive relationship between firms' performance and government ownership. One possible reason for this positive relationship is that government is very active in monitoring, which leads to improved performance and decreased agency costs. However, others have argued that the government is less effective than other shareholders because the government's social and political goals outweigh the government's interest in maximizing the value of investments (Shleifer and Vishny, 1997). This is consistent with the results of Alfaraih et al. (2012) and Al-Shiab and Abu-Tapanjeh (2005). The Kuwaiti government is very strong, and it is the only regulatory body in the country. This is consistent with the argument of La Porta et al. (1999) who found that the quality of government firms may largely depend on the quality of the government itself and other factors, such as path dependency, that vary greatly from country to country.

Similarly, Ng et al. (2008) studied the impact of government ownership on firms' performance for firms listed in China and found that government ownership had a positive impact because government always invests in high-performing firms and benefits both from economic and political dimensions. However, Xu and Wang (1997) studied the role of government in China and found that it was effective in improving firms' performance. Government firms are more likely to have greater support from the government and more secure financing from various sources than other firms; also, they operate in a friendly environment and monopolize market with no competitors. Based on the Kuwaiti environment, the following hypothesis is proposed:

H3: A positive relationship exists between the concentration of government ownership and firms' performance

Finally, the third group is dominant families. Family (individuals) ownership is very common in the world. La Porta et al. (1997 and 1999) studied the type of firms that exist around the world, and they found that family (individuals) firms were the most common firms in 27 countries. Fama and Jensen (1983) stated that individuals (families) provide good monitoring in family-controlled firms, resulting in lower agency costs. Erhardt et al (2006), in an empirical study, found a positive effect of family ownership on firms' performance. In both studies, it was concluded that the positive impact occurred because the family members also act as managers and because conflicts of interest were reduced between the shareholders and principal managers. Also, while other shareholders focus only on firms' performance, family shareholders have a long commitment to the firm and are willing to invest and create competitive advantages.

Villalonga and Amit (2006) studied three aspects of family firms, i.e., ownership, control, and management. They found that family (individual) ownership increased firms' performance when the founder was the CEO of the firm. However, when the descendants of the founder became the CEO, the firms' performance declined. This is because they did not have the same level of motivation and experience as the founder, and, thus, the negative impact associated with pursuing self-serving interest increased. In Kuwait, individuals give a lot of consideration to their family's name and reputation. Also, they have a strong, long-term relationship with their firms, so losing their firms means that they also lose their reputation. Thus, given the influence of the family in Kuwait, the Kuwaiti culture, and theoretical perspective, the following hypothesis is stated:

H4: A positive relationship exists between the concentration of families (individuals) ownership and firms' performance.

Table 2: Summary of Previous Studies on the Relationship between Firms' Performance and the Concentration of Ownership

No	Authors	Country	Performance measures	Ownership measures	Relationship with firms' performance
1	Holderness and Sheehan (1988)	USA	Tobin's Q; ROA	Top shareholders	No relationship
2	Denis and Denis (1994)	USA	ROA; ROE; Tobin's Q; market to BV	Institutional; family	No relationship
3	Demsetz and Villalonga(2001)	USA	Tobin's Q	Top shareholders	No relationship
4	McGuire and Matta (2003)	USA	Cumulative stock return/ ROA	Institutional	Positive relationship
5	Villalonga and Amit (2006)	USA	Tobin's Q	Family	Positive when the founder serves as CEO
6	Nickell et al. (1997)	UK	Log of real sales	Top shareholders	Positive relationship
7	Erhardt et al. (2006)	Germany	ROA	Family	Positive relationship
8	Earle et al 2005)	Hungary	ROE; sales to employees	Top shareholders	Positive relationship
9	Prowse (1992)	Japan	Profit rate	Top shareholders	No relationship
10	Hu and Izumida (2008)	Japan	Tobin's Q and ROA	Top shareholders	Positive relationship
11	Kapopoulos and Lazaretou (2007)	Greece	Tobin's Q	Top shareholders	Positive relationship
12	Claessens and Djankov (1999)	Czech	Profitability; productivity	Top shareholders	Positive relationship
13	Muravyev (2002)	Russia	Tobin's	Government	Negative relationship
14	Perrini et al.(2008)	Italy	Tobin's Q	Top shareholders	Positive relationship
15	Ng et al. (2008)	China	Tobin's Q	Top shareholders	Positive relationship
16	Xu and Wang (1997)	China	MV, ROA, ROE	Institutional, government	Positive with institution and no relationship with government
17	Wellalage and Locke (2012)	Sri Lanka	Tobin's Q; ROA	Top shareholders	Positive relationship
18	Abbas et al. (2013)	Pakistan	ROE and ROA	Top shareholders	Positive relationship
19	Al-Shiab and Abu-Tapanjeh(2005)	Jordon	ROA; MV	Institutional; government	No relationship with institutional and government
20	Soliman (2013)	Saudi	ROA and ROE	Top shareholders	Positive relationship
21	Alfaraih et al. (2012)	Kuwait	ROA and Tobin's Q	Institutional; government	Positive with institutional and negative with government
22	Omram et al 2008)	Arab countries	Tobin's Q	Government; families institutional	No relationship with institutional, Negative with individuals, positive with government
23	Aljifri and Moustafa (2007)	UAE	Tobin's Q	Government, institutional	Positive with government, no relationship with institutional

4. Research Methods

For the purposes of this study, all variables were investigated from two different aspects, i.e., among the different firms listed in Kuwait and, then, during the period of 2009 to 2012.⁴ On December 31, 2009, 130 non-financial firms were listed on the KSE. Due to differences in the regulatory requirements and consistent with the majority of previous studies, all financial firms were excluded from the sample. The final sample consisted is 520 observations; Appendix 1 presents the total sample in this study. Information on the research variables was extracted mainly from annual reports and the KSE's website. Table 3 presents the sample used in the study.

Table 3: Study Sample

Sector	Total companies	Excluded companies	Included companies
Banking	9	9	0
Investment	51	51	0
Insurance	7	7	0
Real Estate	38	0	38
Industrial	28	0	28
Service	58	0	58
Food	6	0	6
Total	197	67	130

The dependent variable is firms' performance. Tobin's Q and return on assets (ROA) were used in this study. These indicators have also been used in previous studies, as presented previously in Table 2. Two measures were used for firms' performance since no consensus exists in the literature for measuring firms' performance, and each measure has its own advantages and disadvantages (Haniffa and Hudaib, 2006; Kapopoulos and Lazaretou, 2007). Also, a range of variables related to firms' performance was identified; these variables were selected as control variables in the regressions. First, the firm-size variable was included to control for size differences across firms and to take into account the well-known size effect. Second, firm age was used because firms can be considered reputable based on their knowledge and expertise. Third, debt ratio was used because a significant body of literature has identified it as a strong mechanism for solving the agency problem because it can prevent managers from investing in value-destroying projects (Jensen and Meckling, 1976). Finally, industry dummies were used to account for any impact on the industry by characteristics that might impact firm' performance in

Kuwait, such as growth, capital intensity, and others. Table 4 summarizes the operationalisation of the variables.⁵

Table 4: Definitions of Variables

Variables	Operationalisation
<u>Dependent variables</u>	
Tobin's Q (TQ)	Ratio of market value of a firm's equity (the firm's share price at the end of the year multiplied by the total number of shares outstanding) + total debt/the book value of total assets
Return on Assets (ROA)	This ratio is calculated as earned before interest and taxes divided by total assets
<u>Independent and control variables</u>	
Ownership concentration (OC)	Percentage of shares outstanding held by the largest shareholders who own more than 5% of the total equity
Institutional ownership (IOC)	Percentage of shares outstanding held by institutions that own more than 5% to the total shares
Government ownership (GOC)	Percentage of shares outstanding held by government that owns more than 5% to the total shares
Families (Individuals) ownership (FOC)	Percentage of shares outstanding held by families that own more than 5% to the total shares
Firm's size (FS)	Total assets
Firm's age (FA)	Number of years since the firm was incorporated
Debt ratio (DT)	ratio of total debt to total assets expressed as %
Industry type (IN1, N2, N3, and N4))	All non-financial listed firms (real estate, manufacturing, services, and food)

In this study, we examined the relationship between large shareholders' concentration of ownership and firms' performance. Also, in order to provide a deeper understanding of this relationship, we divided the concentration of ownership into three shareholder groups, i.e., institutional investors, government, and family (individual) investors. Thus, the following regression models were constructed:

Model 1:

$$PM = \alpha + \beta_1 OC + \beta_2 DT + \beta_3 FS + \beta_4 FA + \beta_5 IN1 + \beta_6 IN2 + \beta_7 IN3 + \epsilon$$

Model 2:

$$PM = \alpha + \beta_1 IOC + \beta_2 GOC + \beta_3 FOC + \beta_4 DT + \beta_5 FS + \beta_6 FA + \beta_7 IN1 + \beta_8 IN2 + \beta_9 IN3 + \epsilon,$$

where:

- PM is the firms' performance represented by TQ and ROA.
- OC is all large shareholders that own more than 5%.
- IOC is the institutional ownership that owns more than 5%.
- GOC is the government ownership that owns more than 5%.
- FOC is families (individuals) ownership hat own more than 5%.
- DT is the debt ratio.
- FS is total assets of firm.
- FA is the firm's age.
- IN1 represents the dummy variable for the real estate industry.
- IN2 represents the dummy variable for the manufacturing industry.
- IN3 represents the dummy variable for the services industry.

As multi-regression was used to test the study's hypotheses, and the OLS assumptions, i.e., multicollinearity, heteroskedasticity, linearity, autocorrelation, and normality, also should be tested. Several techniques were used to address the implications of these problems.

5. Results and Discussion

5.1 Descriptive analyses

Table 5 presents the correlations among the independent variables. The highest correlation coefficient was 0.76 (between IOC and OC). Thus, it was not sufficient to impair the regression results since the pair-wise correlation coefficients were less than 0.80 (Gujarati, 2003; Judge et al., 1985). Another method that has been used extensively to detect multicollinearity is the variance inflation factor (VIF), which is reported in Tables 7 and 8. VIF did not exceed 10 for any variable in any model, so collinearity was not a serious problem (Brooks, 2002; Gujarati, 2003). Table 5 also shows that government ownership concentration (GOC) and control variables affected firms' performance based on Tobin's Q, whereas large shareholders' ownership concentration by families (individuals) affected firms' performance, as did debt (DT) based on ROA.

Table 5: Pearson Correlations among Independent Variables

Variables	Tobin	ROA	OC	IOC	GOC	FOC	DT	FS	FA
Tobin	1								

ROA	0.36**	1							
OC	0.08	0.14**	1						
IOC	0.10	0.04	0.76**	1					
GOC	-0.10*	0.07	0.04	-0.22**	1				
FOC	0.05	0.11*	0.07	-0.038**	-0.21*	1			
DT	-0.13**	-0.22**	-0.26**	-0.25**	-0.03	0.10*	1		
FS	-0.17**	-0.08	0.40**	-0.34**	0.20**	-0.08*	0.37**	1	
FA	-0.21**	-0.03	-0.25**	-0.17**	0.18**	-0.19**	0.25**	0.28**	1

The sample includes 130 non financial listed firms on Kuwait Stock Exchange (KSE) over the period from 2009 to 2012 continuously. Tobin: Ratio of market value of a firm's equity (the firm's share price at the end of the year multiplied by the total number of shares outstanding) + total debt/the book value of total assets; ROA= This ratio is calculated as earned before interest and taxes divided by total assets; OC: Percentage of shares outstanding held by the largest shareholders who own more than 5% of the total equity; IOC: Percentage of shares outstanding held by institutions that own more than 5% to the total shares ; GOC: Percentage of shares outstanding held by government that own more than 5% to the total shares ; FOC: Percentage of shares outstanding held by families (individuals) that own more than 5% to the total shares; Control variables: DT: total debt divided by assets; FS: firm's size measured by total assets; FA: firm's age measured by number of years since incorporation

* Correlation is significant at the 0.05 level.

** Correlation is significant at the 0.01 level.

The analysis of the skewness and kurtosis of the tests (Table 6) suggested that the assumptions of normality were not valid.⁶ In addition, the analysis of Q-Q plots, residuals, and plots of the studentised residuals against predicted values indicated that there were issues with heteroskedasticity, autocorrelation and linearity. Thus, to deal with this problem, six variables, i.e., Tobin's Q, ROA, government ownership, family ownership, firm size, and firm age, were transformed using a normal scores transformation.⁷ This approach is consistent with the approaches used by several other studies, including Cooke (1998), Haniffa and Cooke (2002), and Haniffa and Hudaib (2006). Appendix 2 presents the scatterplot of the regression standardized residuals against the predicted values after using normal-score techniques. The scatterplot shows that the residuals appear to be scattered randomly around a horizontal line through zero. Therefore, the graphs revealed that OLS assumptions were not violated.⁸

Table 6 presents the descriptive analysis for all variables. For dependent variables, the Tobin's Q performance measure generated a mean value of 1.3 (minimum = 0.10, maximum = 9.1). Table 6 also demonstrates that the ROA had a huge deviation among Kuwaiti firms, i.e., the mean performance was 4%, with a maximum of 37% and a minimum of -66%. Al-Shammari and Al-Sultan (2009) studied the Kuwaiti situation and found that Tobin's Q and ROA had mean values of 2.11 and 0.10, respectively. Since 2003, Kuwait's economic situation has improved because high oil prices have had a positive effect on the performance of Kuwaiti firms that are listed on the KSE. However, the Dubai crisis in 2009 created a negative effect.

For independent variables, the mean value for ownership concentration in the sample period was 56% (minimum = 0%; maximum = 97%). This was greater than the concentration of ownership in developed countries. This finding was very close to the finding of Alfaraih et al. (2012) in their 2010 study of the ownership structure in Kuwait in which they found that the concentration of ownership by institutions was 55%. Also, Al-Shammari and Al-Sultan (2009) reported this concentration to be about 55%. Omran et al (2008) found that the concentration percentage of the largest shareholders averaged 48% for four Arab countries. However, La Porta et al (1999) found the concentration of ownership to be 10% in the U.S. and 20% in the UK.

Table 6: Descriptive Analysis of All Variables

Variables	N	Mean	Max	Min	SD	Skewness	Kurtosis
Tobin	520	1.3	9.1	0.10	0.99	2.087	8.595
ROA	520	0.04	0.37	-0.66	.10	-2.168	11.595
OC	520	0.56	0.97	0.00	.22	-0.245	-0.555
IOC	520	0.47	0.97	0.00	.25	-0.014	-0.803
GOC	520	0.03	0.69	0.00	.10	4.213	19.342
FOC	520	0.06	0.66	0.00	.14	2.444	5.413
DT	520	0.20	0.76	0.00	.16	0.833	-0.030
FS	520	188468	545423	3000	464348	6.973	59.437
FA	520	10.4	29	0.00	8.00	2.055	-1.638

The sample includes 130 non financial listed firms on Kuwait Stock Exchange (KSE) over the period from 2009 to 2012 continuously. Tobin: Ratio of market value of a firm's equity (the firm's share price at the end of the year multiplied by the total number of shares outstanding) + total debt/the book value of total assets; ROA= This ratio is calculated as earned before interest and taxes divided by total assets; OC: Percentage of shares outstanding held by the largest shareholders who own more than 5% of the total equity; IOC: Percentage of shares outstanding held by institutions that own more than 5% to the total shares ; GOC: Percentage of shares outstanding held by government that own more than 5% to the total shares ; FOC: Percentage of shares outstanding held by families (individuals) that own more than 5% to the total shares; Control variables: DT: total debt divided by assets; FS: firm's size measured by total assets; FA: firm's age measured by number of years since incorporation

Consistent with La Porta et al.'s argument (1997, 1998, 1999), ownership concentration is common among large shareholders (either institutions or individuals). In addition, when the legal system does not provide sufficient protection for investors, owners maintain large positions in firms, creating ownership concentration. Common-law countries, such as the UK and the U.S. have the strongest legal system protections, whereas civil-law countries have the weakest. In addition, the mean percentage of institutional investors was 47%, suggesting that concentrated institutional ownership exists in most firms listed on the KSE. In contrast, the mean percentage of shares held by the government was only 3% and the percentage held by families was 7%. As for control variables, the mean value for debt was 20%, the mean value for firms' size was KD188,486 and the firms' mean age was 10.4 years.

5.2 Results based on market measure (Tobin's Q)

Table 7 (model 1) reports the results from the regression equation that links firms' performance and concentration of ownership by large shareholders; Table 8 (model 2) reports the results from the regression equation that links firms' performance and composition of ownership. The F-value

Table 7: OLS Regressions of Tobin's and ROA on overall Concentration

Variables	Tobin's Q	VIF	ROA	VIF
R-square	0.11		0.11	
Adj-R square	0.10		0.10	
F-value	9.130(p=0.00)		9.325(p=0.00)	
Constant	0.380(1.777)*		-0.437(1.993)**	
OC	-0.056 (-0.265)	1.29	-0.336(-1.597)	1.29
DT	-0.091(-0.325)	1.26	-0.989(-3.455)***	1.26
FS	-0.082 (-1.725)*	1.36	-0.070(-1.437)	1.36
FA	-0.265 (-5.485)***	1.35	-0.056(-1.128)	1.35
IN1	-0.632(3.373)**	4.44	-0.780(-3.910)***	4.44
IN2	-0.107(-0.570)	3.93	-0.115(-0.596)	3.93
IN3	-0.327(-1.680)*	5.22	-0.451(-2.351)**	5.22

The sample includes 130 non financial listed firms on Kuwait Stock Exchange (KSE) over the period from 2009 to 2012 continuously. Tobin: Ratio of market value of a firm's equity (the firm's share price at the end of the year multiplied by the total number of shares outstanding) + total debt/the book value of total assets; ROA= This ratio is calculated as earned before interest and taxes divided by total assets; OC: Percentage of shares outstanding held by the largest shareholders who own more than 5% of the total equity; IOC: Percentage of shares outstanding held by institutions that own more than 5% to the total shares ; GOC: Percentage of shares outstanding held by government that own more than 5% to the total shares ; FOC: Percentage of shares outstanding held by families (individuals) that own more than 5% to the total shares; Control variables: DT: total debt divided by assets; FS: firm's size measured by total assets; FA: firm's age measured by number of years since incorporation. IN1-IN3 are the industry type based on KSE classifications (the excluded dummy variable for industry classification is the food sector).

* Correlation is significant at the 0.10 level.

** Correlation is significant at the 0.05 level.

***Correlation is significant at the 0.01 level.

t-statistics are in parentheses

in both models is significant at the 1% level. In testing the first hypothesis, a negative and insignificant correlation was found between concentration of ownership and Tobin's Q. Thus, the first hypothesis is rejected. This result is consistent with that of Denis and Denis (1994), Demsetz and Villalonga (2001), Holderness and Sheehan (1988), and Omran et al. (2008), all of whom found a number of variables that explained the significant variation in the concentration of ownership concentration, i.e., firms' size, instability profit, legal system, and insider ownership. The concentration of ownership might have no effect on firms' performance due to endogeneity. The researchers in all of these studies concluded that the concentration of ownership and firms'

performance are endogenous and should differ systematically by firm and industry to maximize the firms' performance and value.

In the second model, institutional investors do not impact firms' performance in Kuwait; thus, the second hypothesis is rejected. This result does not support the monitoring hypothesis by Shleifer and Vishny (1986), who stated that they are more capable of monitoring and thus improving firms' performance even when large shareholders are not involved in management. This result can be explained by the absence of a corporate governance code for the firms that are listed on the KSE. In terms of government ownership, the relationship between firms' performance and the government's concentration of ownership was insignificant based on Tobin's Q. This is consistent with the research of Xu and Wang (1997), who found that the government was ineffective in improving firms' performance. Thus, the third hypothesis is rejected. In testing the fourth hypothesis, the OLS regression showed an insignificant relationship between the concentration of ownership by families (individuals) and firms' performance based on Tobin's Q. Hence, hypothesis four is rejected as well. This result is consistent with the finding of Denis and Denis (1994) and Omran et al. (2008).

In terms of control variables, the debt ratio recorded in both models had an insignificant relationship based on Tobin's Q. This result means that the market perceives debt as an ineffective mechanism for controlling managers and improving firms' performance. However, firms' size and firms' age had a significant, negative relationship with firms' performance based on Tobin's Q. The results suggested that the market perceives younger and smaller Kuwaiti firms to be better performers than their older, larger counterparts. Younger, smaller firms might be creative and change more readily to enhance performance than older, larger companies. Moreover, younger, smaller firms face greater competition and thus have incentive to perform better. This is consistent with the results of Hu and Izumida (2008), who found that firms' size was expected to have a negative impact on the concentration of ownership because of wealth limitations and risk diversification. Also, Ng et al. (2008) indicated that large firms are expected to have a negative relationship with firms' performance because they have bigger agency costs and have trouble adapting to the changing political environment.

Finally, firms in the real estate sector seemed to underperform (highest significant negative coefficient) compared to their counterparts in the other sectors in both models. Real estate firms

showed the lowest performance. This could be related to the fact that, given limited land for investment, real estate companies might not have alternative options for investments to enhance their performance.

5.3 Results based on accounting measure (ROA)

Table 7 (model 1) and Table 8 (model 2) also report the results based on accounting measures. The F-value in both models was significant at the 1% level. In testing the first hypothesis, variable concentrations of ownership by large shareholders did not have a significant relationship with ROA. Like market performance, the result showed an insignificant, negative correlation between the concentration of ownership and ROA. Thus, the first hypothesis is rejected. Overall, the results indicated that large shareholders' concentration of ownership could lead to ineffective monitoring due to conflicts of interest and the tunnelling problem, i.e., the transfer of resources from firms for the benefit of the controlling shareholders (La Porta et al, 1999). This problem occurs more often in developing countries, where the shareholders' protection and property rights are weak.

In assessing the second hypothesis, institutional ownership, like market performance, is insignificantly related to ROA. In terms of government ownership, the relationship between firms' performance and the government's concentration of ownership is significant and positive based on ROA. Thus, the third hypothesis is supported. Unlike market performance, government ownership was found to be significantly related to accounting performance in the positive direction. This result is consistent with the results of Aljifri and Moustafa (2007), Ng et al. (2008), and Omran et al. (2008), but it was inconsistent with the results of Alfaraih et al. (2012). One possible reason that our results turned out the way they did is that Kuwaiti investors consider that the Kuwaiti government will provide strong protection for them, and they do not worry about the future because the government guarantees their money. In addition, managers and employees work in a very safe environment, and they know they are not likely to lose their jobs, which has a positive impact on firms' performance.

In testing the fourth hypothesis, the OLS regression showed that the relationship between the concentration of ownership by families (individuals) and firms' performance based on ROA was significant and positive. Hence, hypothesis four is supported based on ROA. Ownership

concentration by individuals (families) means that family members dominate the board of directors, resulting in lower agency costs (Fama and Jensen, 1983). This result is also consistent with Villalonga and Amit (2006) and Erhardt et al.(2006), who found that family-controlled firms had greater value and operated more efficiently.

Table 8: OLS Regression of Tobin's Q and ROA on the Composition of Ownership

Variables	Tobin's Q	VIF	ROA	VIF
R-square	0.11		0.12	
Adj-R square	0.10		0.11	
F-value	7.239		8.327	
Constant	0.335(1.715)*		0.412(2.119)**	
IOC	0.218(1.084)	1.608	0.244 (1.380)	1.608
GOC	-0.004(-0.065)	1.283	0.144(2.041)**	1.283
FOC	0.018(0.242)	1.492	0.210(3.134)***	1.492
DT	-0.068(-0.235)	1.338	-1.085(-3.708)***	1.338
FS	-0.369(-1.713)*	1.413	-0.062(-1.250)	1.413
FA	-0.261(-5.175)***	1.475	-0.036(-0.710)	1.475
IN1	-0.357(-1.801)*	4.608	-0.709(-3.511)***	4.608
IN2	-0.139(-0.732)	4.041	-0.091(-0.471)	4.041
IN3	-0.659(-3.455)***	5.424	-0.411(-2.115)**	5.524

The sample includes 130 non financial listed firms on Kuwait Stock Exchange (KSE) over the period from 2009 to 2012 continuously. Tobin: Ratio of market value of a firm's equity (the firm's share price at the end of the year multiplied by the total number of shares outstanding) + total debt/the book value of total assets; ROA= This ratio is calculated as earned before interest and taxes divided by total assets; OC: Percentage of shares outstanding held by the largest shareholders who own more than 5% of the total equity; IOC: Percentage of shares outstanding held by institutions that own more than 5% to the total shares ; GOC: Percentage of shares outstanding held by government that own more than 5% to the total shares ; FOC: Percentage of shares outstanding held by families (individuals) that own more than 5% to the total shares; Control variables: DT: total debt divided by assets; FS: firm's size measured by total assets; FA: firm's age measured by number of years since incorporation; IN1-IN3 are the industry type based on KSE classifications (the excluded dummy variable for industry classification is the food sector).

* Correlation is significant at the 0.10 level.

** Correlation is significant at the 0.05 level.

*** Correlation is significant at the 0.01 level.

t-statistics are in parentheses.

In terms of control variables, the results also indicated a significant, negative relationship between firms' performance based on ROA and debt. These findings supported the findings of McConnell and Servaes (1995), who indicated that creating debt was an ineffective control mechanism. This is consistent with the finding of Ng et al. (2008) that debt was expected to have a negative association with market performance. Also, Hu and Izumida (2008) and Perrini et al. (2008) found a negative relationship between debt and firms' performance, and they concluded that this relationship resulted from the agency cost of debt resulting from the conflicts of interest between the debtholders and the shareholders. Firms' size was insignificantly associated with ROA in both models. This result was inconsistent with agency theory. Jensen and Meckling

(1976) stated that agency costs are expected to increase as firms' size increases, leading to greater managerial discretion, opportunism, and monitoring. Meanwhile, firms' age was insignificantly associated with ROA in both models. Like market performance, the results found an industry influence on firms' performance, with the real estate sector seeming to underperform (highest significant negative coefficient) other sectors.

6. Implication of findings

The first findings indicate an insignificant, negative relationship between firms' performance and the concentration of ownership by large shareholders. Some studies have stated that the free-rider problems associated with diffused ownership do not occur with concentrated ownership because the large shareholder effectively monitors managers. However, the current study found a different case, even for investors in the financial institutions listed on the KSE. Shares are concentrated among a few investors or one big firm, thereby reducing the tendency for shareholders to monitor and control the firm. This problem is even worse in Kuwait, which has no corporate governance code. The Kuwaiti government has also been criticized for not paying attention to political and social goals, such as employment, controlling prices, and hiring unqualified employees in the top positions in the government firms, so lower performance is expected (Shleifer and Vishny, 1997).

However, this study confirmed that the Kuwaiti government creates a significant, positive relationship between government ownership and firms' performance. In addition, firms that are owned by the Kuwaiti government and that are listed on the KSE are considered by long-term investors; therefore, their managers might face less pressure and work in a friendly environment that has a positive effect on firms' performance. In this study, we also found a positive relationship between the concentration of ownership by individuals (families) and firms' performance. Agency theory studies have concluded that, when individuals (families) own shares and manage their firms, they become more committed to the firms as the agency problems will be eliminated and they have a stake in the residual income of the firm. This behavior translates into higher firms' performance. In summary, the findings have brought a new dimension, i.e., that not all large shareholders provide creativity and monitoring of firms listed on the KSE. This is consistent with the argument that firms with lower concentrations of ownership provide a good

environment for effective decisions and policies and, thus, high firms' performance. The situation in developed countries has increased the trend toward diverse ownership, because it undermines the argument that managers can easily work for their own benefits and interests.

7. Conclusions

This study examined the relationship between the ownership structure (concentration and composition of ownership) and firms' performance on a sample of 130 non-financial firms that were listed on the KSE from 2009 to 2012. The results based on a market measure (Tobin's Q) suggested that the concentration of ownership among large shareholders does not significantly affect firms' performance. It also was indicated that the same was true for three different large shareholders in Kuwait, i.e., institutional, government, and families (individuals) shareholders. Thus, based on the market measure (Tobin's Q), the results do not support the perspective of agency theory that the concentration of ownership influences firms' performance by improving monitoring and reducing conflicts of interest.

However, based on market measures (ROA), the concentration of ownership by all shareholders and by institutional investors does not impact firms' performance, while it was found that concentration of ownership by government and families (individuals) had positive effects on firms' performance. Regarding the control variables, firms' debt had a negative impact on firms' performance based on an accounting measure. Also, firms' size and age had statistically-significant, negative effects on firms' performance based on the market measure. Real estate firms had the highest negative coefficient.

The results of this study provided three important contributions. First, it extended the current literature by investigating the ownership structure in Kuwait, a developing country, by characterizing the high levels of concentration of ownership and the weak legal protections for investors. Second, the study's results have important implications for the Kuwaiti government, as well as academics, investors, and researchers in Kuwait, because it indicated a pressing need for the development and implementation of more effective rules to make the markets safer for all investors. Third, this study provided information that will make the firms that are listed on the

KSE aware of the potential and real impacts of the concentration of ownership concentration and help them understand which large shareholders are likely to enhance firms' performance.

This study had two limitations that might represent opportunities for future research. First, this study applied the OLS regression to study the impact of the concentration of ownership on firms' performance, so it may be beneficial for future studies to use 2SLS regression to address the endogeneity and causality issues. Second, this study was limited to the Kuwaiti ownership structure; comparing this structure with the concentration of ownership in other developing countries could be beneficial.

Appendix 1: The total sample in this study from 2009 to 2012

No	Firms	No	Firms	No	Firms	No	Firms
<u>Estate sector</u>		36	Real estate	70	Market	106	Projects
1	KSE	37	Muna	71	Mobil	107	Abraj
2	United	38	Modon	72	Safat	108	Alafco
3	National	<u>Industrial sector</u>		73	Education	109	Mowasat
4	Salhia	39	Group	74	Petroleum	110	Mashaer
5	Pearl	40	Pipe	75	Cleaning	111	Oula
6	Tamdeen	41	K.cement	76	Sultan	112	Villa
7	Ajial	42	Refrigeration	77	Arabi	113	Future
8	Massaleh	43	Gulf cable	78	City	114	Network
9	Arab Real	44	Heavy	79	N. mobile	115	Hayat
10	Union	45	Contracting	80	Transport	116	Mubarrad
11	Enma'a	46	Portland	81	Cable	117	Resorts

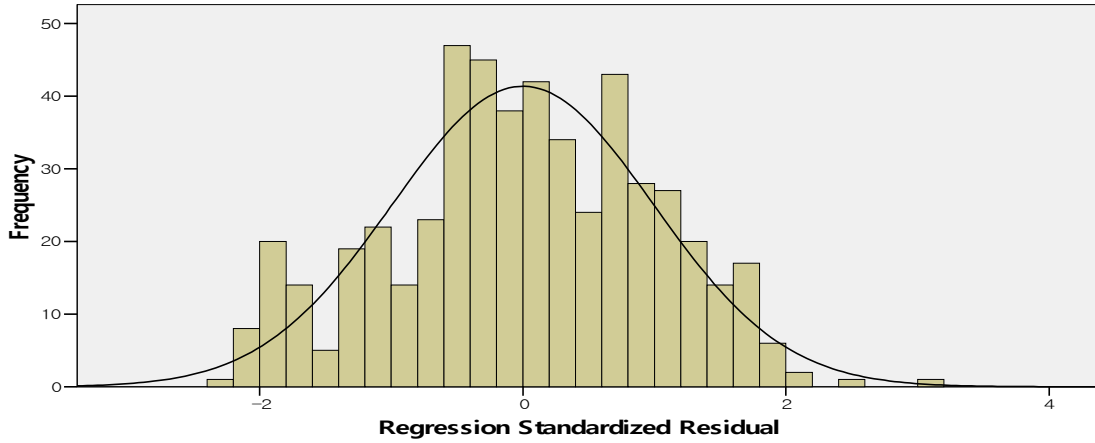
12	Mabanne	47	Shuaiba	82	Systems	118	Technology
13	Injazzat	48	Metal	83	National	119	Yiaco
14	Jeezan	49	Foundry	84	Plant	120	Jazeera
15	Investors	50	Acico	85	Slaughter	121	Soor
16	International	51	Untied	86	Eyas	122	Airways
17	Commercial	52	Boubyan	87	Hits	123	Future
18	Sanam	53	Glass	88	Safwan	124	KGL
19	A'ayan	54	Hilal	89	Humansoft	Food sector	
20	Aqar	55	Kout	90	Private	125	Livestock
21	Kuwait	56	Packing	91	Nafais	126	Danah
22	Mazaya	57	Material	92	National	127	Poultry
23	Dar	58	KSCC	93	Aref	128	Food
24	Themar	59	Rocks	94	Safawan T	129	Foodstuff
25	Grand	60	Equipment	95	Gulf	130	Kout
26	Tijara	61	Mena	96	Franch	The total sample is 130 financial listed firms from 2009 to 2012	
27	Tameer	62	Consumer	97	Credit		
28	Arkan	63	Gypsum	98	Ranges		
29	Safat	64	Qurian	99	Burgan		
30	Alargan	65	Salbookh	100	Ifa		
31	Abyaar	66	Ikarus	101	Group		
32	Munshaat	Service sector		102	Jeraan		
33	Dubai	67	Cinema	103	Palm		
34	Town	68	Hotel	104	Al-safat		
35	Manazel	69	Warehouse	105	Mushrif		

Appendix 2: scatterplot of the regression standardised residual against the predicted value.

Model 1 – based on Tobin's Q

Histogram

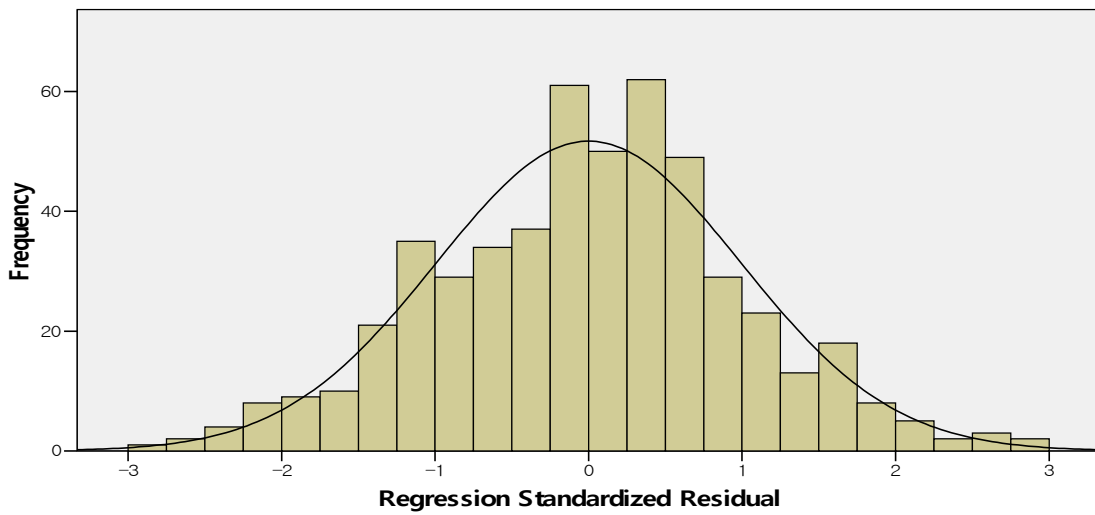
Dependent Variable: Normal Score of Tobin using Blom's Formula



Model 1 – based on ROA

Histogram

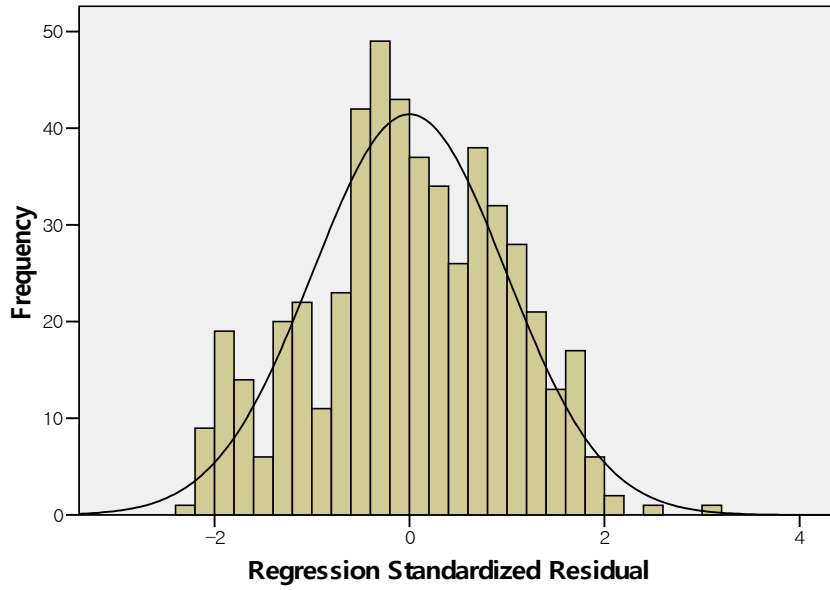
Dependent Variable: Normal Score of ROA using Blom's Formula



Model 2- based on Tobin's Q

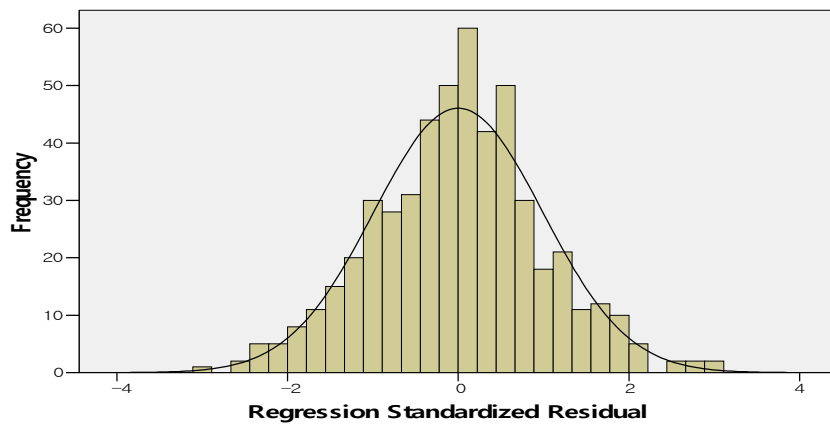
Histogram

Dependent Variable: Normal Score of Tobin using Blom's Formula



Model 2 – based on ROA

Dependent Variable: Normal Score of ROA using Blom's Formula



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² This non-relationship is because of the endogeneity issue. Endogeneity is discussed extensively in the literature of corporate governance. This concept means that there are several unobserved variables that impact the relationship between firms' performance and ownership structure. According to the literature review, there are three main techniques to deal with this problem, namely, fixed effects panel data regression, instrumental variables model, and the system of simultaneous equations. However, this study will not consider this issue and will leave it to further studies.

³ These mixed results suggest the possibility of a non-linear relationship between ownership concentration and firm performance. In other words, more concentration leads to better performance (monitoring effects) until that point when the opposite occurs (expropriation effects).

⁴ As the data used are a combination of time series and cross-sectional data, the regression was run with panel data. Several options in the panel data were used in the literature review (e.g., random effects, fixed effects, and OLS). Since most previous studies focused on OLS regression, this study used the same regression (Gujarati, 2003).

⁵ The researcher also used several variables such as the proportion of non executive directors, board size, role duality, and family directors as control variables. However, they were excluded from the models in the study because they made the results less powerful.

⁶ Brooke (2002) and Gujarati (2003) argued that data are said to be normal if standard kurtosis is within ± 3 and standard skewness is within ± 1.96 .

⁷ The normal score are achieved by dividing the number of observations by the distribution plus one region, on the basis that each region has equal probability. Also, to test normality, the Kolmogorov-Smirnov normality test (K-S Lilliefors) was conducted. K-S (Lilliefors) with significance of > 0.05 indicates normality.

⁸ SPSS 18.0 was used for the statistical analysis and for transforming data into normal scores. The researcher also performed the analysis using natural logarithmic transformation, but the results were less accurate and useful than those of normal scores transformation. The researcher used a book published by Bryman and Cramer (1997).