

**Effects of chairman Ownership on financing decisions: Empirical  
evidence from GCC**

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## Abstract

**Purpose** – This study aims to examine the impacts of board chairman characteristics on the decision to finance with debts.

**Design/Methodology/Approach** – Based on historical data from 173 active nonfinancial firms listed on Gulf Cooperation Council (GCC) Stock Exchange Markets during 2012–2019, this research uses ordinary least squares and dynamic system-generalized methods of moments to test its hypotheses. The final dataset comprises 1,384 firm-year observations from 10 major nonfinancial industry classifications.

**Finding:** Results indicate a negative impact of board chairman ownership on the decision to finance with retained earnings (RE). Negative effects of the chairman and CEO from the same family on the decision to finance with RE, whereas positive effects of the chairman and CEO from the same family on the decision to finance with debts are observed. In addition, a negative effect of the chairman from a royal family on the decision to invest with debts is found.

**Research limitations/Implications** – Many board chairmen characteristics, such as age, gender, experience, education level, periodic change, and ethnicity, are unaddressed. Financial decisions (FDs) are also limited to two decisions (internal financing with RE and external financing with debts).

**Practical implications** – Findings provide an improved understanding of the role of chairman characteristics in FDs in GCC. Investors and lenders dealing with companies in GCC markets benefit from our results because of the effects of chairman characteristics on FDs when making investment decisions in company stocks.

**Originality/Value** – The study clarifies how each of the three board chairman characteristics (i.e., chairman ownership, chairman and CEO from the same family, and the chairman from the royal family) affects FDs, especially the decisions to finance with debts and RE.

**Keywords:** chairman characteristics, financing decisions, internal financing, external financing, Royal ownership, GCC.

## 1. Introduction

Since the study by Modigliani and Miller (1958), many works have dealt with funding decisions, followed by numerous theories, such as agency, supervision, and independence theories (Bin-Sariman et al., 2015). A company's capital structure (or financial structure) is the specific combination of debt and equity that the company uses to finance its operations. Financing decisions (FDs) occupy an important place in corporate finance literature because of their contributions to maximizing company profits and their impacts on long-term company survival, in addition to their impacts on the ability of the company to deal with its competitive environment (Abor & Biekpe, 2005). The key to successful FDs is for a company to choose a capital structure that maintains its financial sustainability. Generally, companies can choose among several alternative capital structures; for example, a company can issue large or small debts. Claessens et al. (2002) asserted that good institutional frameworks benefit companies

through increased access to finance, decreased capital cost, improved performance, and better stakeholder treatment. For this reason, corporate decisions regarding corporate finance have often been associated with governance structures. Boards of directors (BDs) have long been a subject of corporate finance literature, focusing on their relationship with capital structures. However, previous studies mainly dealt with the corporate governance (CG) effect on FDs through specific BD characteristics (e.g., size, independence, quality, board meeting, and experience) (e.g., Abor, 2007; Saad, 2010; Fields et al., 2012). Other studies have explored the CG impact on FDs or capital structures and its impact on performance (Fakunle, 2021; Abor, 2007; Stefany & Joni, 2020; Berger et al., 1997). Most research published on BD and FD characteristics, financial or operational performance, has focused on developed countries and some on emerging economies, such as Al-Absy (2020), who examined the impact of the chairman board of directors (CBD) on operational performance in emerging economies (Malaysia model). The result revealed the attempts made by CBD to control company decisions. Previous studies ignored distinctive CBD characteristics and their effects on FDs. Therefore, research examining CBD effects on company FDs in developing countries is urgently needed. The CBD position influences boards and their decisions, in addition to administrative oversight (Kakabadse & Kakabadse, 2006). Meanwhile, CBD is a shareholder agent and manages a company on its behalf to achieve good operational performance and ensure stakeholder confidence (Amran et al., 2014) in addition to its contribution to promoting good CG practices and increasing stakeholder confidence levels in company work and performance (Withers & Fitz, 2017). Bin-Sariman (2020) and Matemilola et al. (2013) argue that top managers' characteristics, organizational structure, and managerial quality significantly influence FDs. Therefore, there is a gap that was not covered by previous studies, which is the impact of the characteristics of the board chairman on financial decisions in developing countries. Our study focuses on the following research question: Do CBD characteristics affect FDs in Gulf Cooperation Council (GCC) countries? This question concentrates on a series of objectives. Firstly, the role of CBD in sustaining companies and generating additional wealth, which contributes to enhancing company value, must be defined. Secondly, the study bridges a gap in the literature by studying the effects of the characteristics of CBD on FDs in the GCC countries. The paper specifically addresses the relationship between CBD characteristics and capital structure decisions in GCC from 2012 to 2019. Effective FDs are the main responsibility of BDs (Trinh et al., 2020). BDs are also responsible for implementing strategic decisions, protecting shareholder interests, and maximizing company value (Moullah et al., 2017). To achieve our study objectives, we move away from research that deals with the impacts of company characteristics, CG, and ownership structures on FDs (e.g., Al-Hunnayan, 2020; Almudehki & Zeitun, 2012; Arouri et al., 2017; Ahmed & McMillan, 2021; Shahid, 2018; Al Lawati & Al Hussaniney, 2021) in GCC.

Our study addresses two funding decisions. Starting with the decision to finance with internal resources, we find that changes in internal resources are the driving forces for changes in cash; a company with excess internal funds keeps the cash and uses it to pay off debts. According to the pecking order theory, retained earnings (RE) are the preferred financing option (Frank & Goyal, 2003). Myers (1984) argued that profitable firms are expected to retain profits, the preferred financing source. According to the financing resource hierarchy, firms maximize value by arranging the financing options they use based on the 'cheapest fund source available' option (Myers, 1984). If an inconsistency is found in the information between a company and its potential financiers, great exposure to risks associated with such an inconsistency for various

available external financing alternatives may occur. Managers prefer internally generated funds (RE or current owner contributions) over external financing (Cassar & Holmesb, 2003). RE is considered the first alternative to managers' funding sources, given that they are unaffected by information asymmetry and provide great freedom to use it (but if internally generated funds are less than the available investment opportunities that are difficult to postpone, then the company first withdraws from its available cash balance or its marketable security portfolio (Chen & Chen, 2011). The company resorts to external financing if internal financing is insufficient to repay debts and finance new projects. If external financing is required for investment, the company issues safe or prudent securities (i.e., debt before equity). With the increasing need for external financing, the company works to reduce the arrangement from safe debt to the most dangerous, and perhaps to convertible securities or preferred shares, and the company resorts to issuing new shares as a last resort (Serrasqueiro & Caetano, 2015).

GCC countries are considered unique environments for conducting our study. They consider emerging companies that have specific characteristics which can affect CG implementation. GCC countries provide excellent institutional environments for investigations because all capital markets adopt a policy of attracting foreign investors. In addition, most Gulf countries have developed CG procedures by introducing many strict provisions for CBD and BD members and for audit committees to provide high-quality FC effectively. Therefore, their financial markets are promising and continue to develop.

Our research makes several contributions to existing literature. Firstly, we respond to a recent call by Al Lawati and Hussainy (2021) that future research can also examine the effects of different CG characteristics, such as interlocked directors on corporate FDs. Hence, we provide empirical evidence on the impacts of CBD characteristics in making FDs, especially decisions about financing with debts and decisions on financing with RE. Secondly, we incorporate agency and stewardship theories to explain the impacts of chairman characteristics on financial decision-making. Thirdly, we contribute to the literature by focusing on the 2012–2019 financial period leading up to the Coronavirus disease 2019 (COVID-19) pandemic. Finally, the study draws the attention of researchers in GCC to investigate CBD characteristics further to provide results that help policymakers, investors, creditors, and shareholders. The rest of the paper is organized as follows: Section 2 provides the backgrounds of GCC countries. Section 3 describes the literature review and hypothesis development. Section 4 presents the research design and sample selection. Section 5 discusses analytical data and results, including robustness checks. Section 7 concludes.

## **2. CG Codes in the GCC Region**

Founded in 1981, GCC is made up of six Arab Gulf states: Bahrain, Kuwait, Oman, Qatar, the Kingdom of Saudi Arabia (KSA), and the United Arab Emirates (UAE). These six countries are located along the western side of the Persian Gulf. They form part of the Middle East and North Africa region, which includes 11 countries. The culture of GCC countries is often categorized as Middle Eastern, where the Arabic language and Islam are the main features (Baydoun et al., 2013). Geographical proximity is one of the main factors that has helped establish GCC. Political, economic, social conditions and cultural similarities have also played roles (Bianco & Stansfield, 2018). GCC is a regional, political, and economic cooperation system and can be considered a homogeneous alliance (At-Twairi & Al-Muhaiza, 1996).

Awareness of good governance and improved disclosure became a major and controversial issue in the GCC region only at the beginning of the 21st century (Zeitun, 2014). With encouragement from the International Finance Corporation, the Organisation for Economic Cooperation and Development, and other international and independent bodies, Gulf authorities introduced and implemented a series of CG reforms (Abdallah & Ismail, 2017; Al-Malkawi et al., 2014). As a result, the first wave of CG practices in the GCC region began when Oman released its CG code in 2002, followed by the UAE in 2004, KSA in 2006, Qatar in 2009 and ending with Bahrain in 2010, and Kuwait in 2013 (Salman & Nobanee, 2019; Sheehata, 2015). These reforms aim to strengthen CG and amend the Company Law, the Securities and Exchange Law, and other related regulations. In ascertaining the extent of governance among publicly listed companies in GCC in 2012, Al-Malkawi et al. (2014) provided evidence that GCC companies adhere to only 69% of the attributes addressed in the CG index. They further indicated that the UAE share market exhibits the best adherence to CG attributes, followed by Oman, KSA, Qatar, and Kuwait. The full adoption of governance practices and transparency measures continues to face challenges due to the region's conservative investment culture, which is manifested by poor information disclosure and the unwillingness to give up royalty and control by large bloc owners (Alghamdi, 2012).

Due to the importance of the financing structure, prior academic studies examined the financing decision of firms in the GCC countries. Ahmad (2007) addresses the capital structure of Islamic firms and suggests that Islamic firms follow a slightly revised version of the pecking order theory. Sbeiti (2010) examined the determinants of capital structure in three GCC countries (Oman, Saudi, and Kuwait). The results showed that the leverage ratio is negatively related to liquidity, tangibility, and profitability, while size positively affects leverage. Akinsomi et al. (2015) find general support for Pecking Order Theory. Basnet (2015) studies the capital structure of Nepalese commercial banks. They explored the impact of the determinants of capital structure, such as profitability, assets tangibility, size, collateral, business risk dividends, GDP growth, and inflation. The results show that the standard determinants of banks' capital structure affect the banks' market leverage; such a relationship is explained by the trade-off and pecking order theories. Al-Mutairi and Naser (2015) investigated the determinants of commercial banks' capital structure in the GCC. The findings showed a negative relationship between leverage and profitability, tangibility, and size and a positive relationship with growth and age. Al-Hunnayan, (2017) examined the determinants of the capital structure of Islamic banks in the GCC. The finding showed that the leverage of Islamic banks in the GCC is positively related to the size of the firm and growth opportunity. It is negatively related to profitability, tangibility of the firm's assets, and financial market development. Guizani (2017) provides evidence that trade-off, pecking order, and agency cost theories play important roles in understanding cash holdings in developing countries.

### **3. Theoretical Literature and Hypothesis Development**

According to agency theory, capital structure can be costly when managers pursue their own benefits rather than those of the firm. Jensen and Meckling (1976) argue that managerial (internal) ownership is a remedy for controlling agency conflicts and alleviating agency problems between principal and agent. In this regard, Lee and Kuo (2014) assert that a high proportion of managerial ownership can reduce agency costs by aligning the interests of

shareholders and managers. (Khan et al., 2022) argue that the board of directors and the chairman, in particular, as a mechanism of internal corporate governance, play an essential role in preventing opportunistic behavior of management and defending shareholder rights. Thus, the control of the board of directors is more effective when the chairman of the board is one of the owners. Spong and Sullivan (2007); DeYoung et al. (2001) found that management ownership significantly positively affects banks' performance when managers have a significant financial interest in the bank. In addition, Gulamhussen et al. (2012), Rahman and Reja (2015), and Mnasri (2015) indicate that managerial ownership has a significant impact on the financial performance of banks, especially concerning return on assets.

On the other hand, managers who own many company shares have incentives to use free cash flow, thus avoiding debt through effective management control. According to Brailsford et al. (2002), the distribution of equity between management and external block holders positively affects a company's capital structure. In addition, Al-Fayoumi and Abuzayed (2009); Joher et al. (2006) found that high managerial ownership enhances managerial control and reduces debt financing.

The Chairman and CEO are agents who manage the company on behalf of the shareholders to achieve effective operating performance. Strong corporate governance, led by the Chairman and CEO, contributes significantly to achieving positive operating performance and ensures investor confidence (Amran, 2014). Thus, to achieve sustainability in the company's work and maintain and improve operational performance, the board's chairman needs the support of the managers, including the CEO. In the leadership structure, it is necessary that there be no duality CEO (different individuals occupy positions) (Yasser et al., 2015). Therefore, the rules of governance in many financial markets, including those of the Gulf Cooperation Council states, stipulate the necessity of separating the person of the chairman of the board of directors from the person of the CEO. Many previous studies showed that families directly control most companies traded in the financial markets (Bennedsen et al., 2011; Bennedsen et al., 2007) because families are a privileged class of shareholders with long-term investment horizons, and they often occupy executive positions (Anderson & Reeb, 2003). Appointing the CEO-Chairman from the same family leads to family ownership or control, which helps reduce agency costs through having more effective management and oversight of managers (Benjamin et al., 2016). Kakabadse, et al. (2006) argues that the participatory relationship between the chairman of the board of directors and the CEO has a prominent role in improving governance and achieving effective operating performance.

In the GCC countries, ownership of the royal family or companies controlled by the family is one of the most common types of ownership. Al-Hadi (2017) argues that members of the royal family have power over the economic and political systems of the GCC states. They also argue that members of the royal family on the board of directors play an important role in achieving business results. In addition, Henry and Springborg (2010) find that royal families, as well as wealthy families, own profitable businesses and have connections across state lines. In Saudi Arabia, royal family members are primarily appointed to boards of directors as administrative members. AL Nasser, (2020) argue that the presence of royal family members on boards as owners increases company value and prevents opportunistic profit management. Al-Nasser and Jayasekera, 2016 found that the presence of royal family members on the board of directors increases the quality of profits in Saudi companies because the royal family members can provide the necessary oversight on behalf of the shareholders and can help access the necessary

resources of the company. AL Nasser, (2020) found that companies with many royal family members on the board of directors have better performance. In addition, (Alzahrani & Che-Ahmad, 2015) provided evidence of the role played by royal family members in reducing agency conflicts. The results of the study also showed that the presence of members of the royal family on the board of directors contributes to adding value to the company and provides policymakers with additional evidence of the positive impact of members of the royal family on the performance of the company.

### **3.1 Chairman ownership**

Interest conflicts may occur between managers and shareholders due to ownership separation from management (Ozkan, 2011). Ownership structures are one of the factors affecting company decisions and policies in general, BD composition, CBD selection, and BD function in particular (Yu & Ashton, 2015). Achieving alignment between owner and management interests through company management by owners (appointing one of the owners as the CBD) is possible. Thus, the management works to reduce agency costs and maximize company value (Ozkan, 2011). Managerial ownership combines manager and shareholder incentives or motives and thus reduces agency problems (Chen, 2012). Supervision theory emphasizes pro-regulatory and group behaviors rather than individual self-serving behaviors. Supervision theory emphasizes circumstances in which an agent (management) is unmotivated by personal goals. Instead, he is an agent whose goals and aspirations are aligned with those of the principal (shareholders) (Davis et al., 1997). BD members, led by CBDs, are company asset guardians, so they are expected to do their best to achieve company goals. Koufopoulos et al. (2008) found that the percentage of chairman ownership of company shares positively correlates with company performance. High-level management ownership (MO) may lead to a decrease in company performance, as managers owning large percentages of company shares lead to them having great control over their company; thus, they have further scope to achieve their own interests and not pay attention to the interests of the rest of the owners. Mandacı and Gumus (2010) and Dony et al. (2019) found a negative relationship between MO and company performance. They indicated that the hypothesis of agency theory that MO can reduce agency costs is unsupported. Previous studies dealt with the impact of MO on performance. Therefore, our research attempts to address one of the variables affecting FDs, which is MO. Board chairman ownership can have an impact on FD.

#### **3.1.1 Chairman ownership and external financing**

CBD and executive director ownership (MO) are two tools for resolving agency tendencies. MO increases the degree of convergence and convergence of interests between shareholders and managers, which leads to reducing information asymmetry levels, reducing agency problems, gaining investor confidence levels, and reducing capital costs. Aubert et al. (2017), Huang et al. (2009), and Jensen and Meckling (1976) argued that MO is a panacea for controlling agency conflicts, aligning director and shareholder interests, and minimizing interest conflicts. Lee & Kuo (2014) revealed that a high MO proportion could reduce agency costs by aligning management and shareholder interests. In addition, Rashid (2016) argued that MO is a critical factor for reducing agency costs and improving resource use efficiencies. MO in financial literature is measured by the share proportion owned by BD members, whether they are executive or non-executive directors, to the total issued shares. Shayan-Nia et al. (2017), Le (2015), and De Miguel et al. (2005) found some evidence regarding the negative

relationship between corporate debt and internal ownership (MO). They interpreted this relationship as an administrative risk aversion. They concluded that managers tend to diversify their exposure to additional risks to their company by selling their holdings when debt levels are high. In the same direction, Vo and Hong (2014) revealed a negative relationship between MO and financial leverage by examining a sample of companies listed on the HCM City Stock Exchange. Other studies have reached the same results, such as Ahmed Sheikh and Wang (2012) and Friend and Lang (1988). By contrast, Brailsford et al. (2002) found a nonlinear inverted U-shaped relationship between managerial ownership level and financial leverage through an applied examination of a sample of Australian companies. In the same direction, several studies have found similar findings by Brailsford et al. (2002) and De La Bruslerie and Latrous (2012), whereas Rajan and Zingales (1995) found that high debt levels attract active debt creditor and lender monitoring; controlling company shareholders may choose to have low debt levels to escape this control. Litov (2005) supported the claim that entrenched managers adopt high control levels and low debt levels. Farhangdoust et al. (2020) concluded that no MO effect exists on debt level (insignificant negative relationship) by examining data of 952 during the period from 2011 to 2018 in the Tehran Stock Exchange. Feng et al. (2020) took a sample of companies in China and concluded that a positive, non-statistically significant relationship exists between MO and total debt ratio. Lundstrum (2009) added that under MO, managers attempt to defend their rights and therefore do not have a tendency to issue new shares but rather prefer issuing bonds. They argued that previous results on the relationship between MO and debt were inconclusive. In addition, no direct study has dealt with the impact of board chairman ownership on the debt financing decision. Therefore, the following hypothesis can be derived.

**Hypothesis 1 (H1): An association exists between chairman ownership and external financing decisions.**

### **3.1.2 Chairman ownership and internal financing**

According to the pecking order theory, corporate management prioritizes protecting shareholder interests. Therefore, management adheres to a hierarchy in making FDs. First is self-financing through RE, then safe security issuance, then risky debt issuance (convertible securities or preferred shares), and finally, share issuance. This order of priorities implies a positive relationship between debts and dividends because high dividends reduce free cash flow levels (internal resources). As a result, the need for external debts increases to maintain optimal capital structures (Aggarwal & Kyaw, 2010). Thus, the relationship between the dividend decision and the RE decision is negative. Due to the lack of studies that deal with the decision to keep RE and administrative ownership (chairman and CEO ownership), researchers rely on distribution studies as alternatives. Inverse RE MO measures and dividends may be viewed as alternative mechanisms intended to reduce agency costs related to free cash flows. Many studies indicate that the relationship between distributions and MO is negative. Eckbo and Verma (1994) found a negative relationship between MO and dividend payment. That is, companies with high MO tend to have more internal funds, which they hold at the expense of dividends to fund investments. Rizqia and Sumiati (2013) achieved similar results by examining a sample of companies in Indonesia. Florackis et al. (2015) examined the relationship among dividend policy, MO, and debt financing for a large sample of companies listed on the NYSE, AMEX, and NASDAQ exchanges. They highlighted a negative relationship between MO and dividends when MO is at low levels (relatively less than 10).



Moreover, the negative relationship turns into a positive one at high MO levels (> 60%). In addition, they revealed that the nature of the relationship between MO and profit might be more complex than previously thought and varies widely across companies with different debt/financial constraint levels. Jensen et al. (1992) examined the relationship among internal ownership, debt, and dividend policy and found it to be negative. Several other authors have argued that the relationship between dividends and ownership may not be entirely negative; it turns positive above a certain ownership level due to consolidation. Schooley and Barney (1994) explored the relationship between dividends and CEO stock ownership (CEO) as interrelated mechanisms that can be used to reduce agency costs. They claimed that the relationship is positive at high CEO ownership levels. Vo Due and Hong (2014) revealed a positive relationship between MO and distribution by examining a sample of companies listed on the HCM City Stock Exchange.

Based on the foregoing, we believe that due to the lack of studies that deal with the impact of chairman ownership on the decision to finance through RE and previous studies that dealt with the relationship between MO and distribution policy (as an inverse measure of the decision to retain RE) reaching mixed results, the following hypothesis is proposed.

**Hypothesis 2 (H2): An association exists between chairman ownership and internal financing decisions.**

### **3.2 Chairman and CEO from the same family**

Family businesses are the oldest and most widespread ownership form in the world. Bodnaruk (2017) defined family businesses as companies in which individuals or groups of blood-related individuals (relatively related) own at least 25% of shares. Researchers see family businesses as companies owned or controlled by people who are closely related and who control strategic decisions. Many financial markets, including GCC markets, have issued instructions obligating companies listed in capital markets to separate CBDs from CEOs. The CBD position in a company is important, especially in a family business, as having a CBD from the family is the best position to protect family resources and control company decisions. Two opinions are raised regarding the presence of a CBD from the same family. The first view says that the dominant position of the chairman, who is a family member, may reduce the agency problem of the first type. That is, interest conflicts between shareholders and the director are minimized if the chairman is a family member with easy access to company information (Sacristán-Navarro et al., 2011). The second view is that family owners may control overall management decisions and try to increase their advantages against minority shareholders, especially in developing countries (Al-Absy, 2020).

García-Ramos, R., & García-Olalla, (2011) found that family ownership (FO) plays a critical role in determining who should be CBDs. As family business owners are emotionally attached, they are concerned about their reputation and maintaining the family wealth and prestige. Therefore, many family companies have committed to separating their CBD and CEO by appointing the CBD from the same family, or he may be a former executive director from the same family. Al-Absy et al. (2018) argued that family-controlled companies might consider selecting a family member for the chairman position as the CEO continues to influence his or her views significantly. According to supervision theory, companies with unified leadership structures work efficiently through coordination between CEOs and CBDs, thus dealing with companies' strategic challenges (Ahmadi & Bouri, 2017). Sacristán -Navarro et al. (2011) argued that the

presence of a CBD from the same family positively affects company performance. By contrast, Kowalewski et al. (2010) and Chen et al. (2013) revealed that the presence of CDB from the same family does not affect company performance. We address the impact of having a chairman and a CEO from the same family on three FDs as follows:

### **3.2.1 Chairman and CEO from the same family and external financing**

Bodnaruk et al. (2017) argued that family businesses represent attractive investment opportunities in countries where political connection (PC) value is high. Families benefit from PCs but are vulnerable to the sources of rights of minority shareholders. However, the case depends on the CG level in each country. The interest alignment increases if company directors are from the same family (Baek et al., 2016). Dominant families want continued company control, thereby affecting company capital structures. Families' long investment horizons and interests in long-term survival reduce disputes between creditors and family owners and stimulate family businesses to use additional debts. Financing through share issuance means a decrease in FO proportion. This situation makes family-owned companies prefer debt to financing, which reduces hostile takeover risk (Baek et al., 2016; Stulz, 1988; Anderson et al., 2003). Driffield et al. (2007) investigated the impact of ownership structure on capital structure and company value for East Asian countries (i.e., Korea, Indonesia, Malaysia, and Thailand). They found that family businesses are positively associated with an increase in financial leverage. Thus, the following hypothesis can be derived.

**Hypothesis 3 (H3): An association exists between chairman and CEO from the same family and external financing decisions.**

### **3.2.2 Chairman and CEO from the same family and internal financing**

Due to the lack of studies that deal with the impact of a chairman and a CEO from the same family on the decision to finance through RE, researchers rely on studies that deal with the relationship between FO and dividend policy as a reverse measure for the decision to retain RE. Gugler (2003) claimed that FO has a negative impact on the dividend policy in Australian companies. In the same direction, Hu et al. (2008) found that family firms in the S&P500 index make dividends to shareholders less than other firms. Wei et al. (2011), Setiawan et al. (2016), and Kilincarslan (2021) reached the same conclusions in China, Indonesia, and Turkey, respectively. As long as a negative relationship exists between family control and dividend policy, a positive relationship can be found between family company control and the decision to finance through RE. Many studies have found a positive effect of family control on dividend policy and that companies controlled by families pay more dividends than other companies, such as Setia-Atmaja et al. (2009) in Australia, Yoshikawa and Rasheed (2010) in Japan and Pindado et al. (2012) in European countries. As long as a positive relationship exists between family control and policy distribution, a negative relationship can be observed between family company control and the decision to finance through RE. Researchers believe that no literature has dealt with the impact of a chairman and a CEO from the same family on the decision to finance through RE, that studies dealing with the impact of FO on the financing decision with RE are lacking, and that previous studies on the relationship between FO and policy dividend (as an inverse proxy measure for the decision to retain RE) give different results. Therefore, the following hypothesis can be derived.

**Hypothesis 4 (H4). An association exists between chairman and CEO from the same family and internal financing decisions.**

### **3.3 Chairman from a royal family**

Companies have PCs if one of the major owners or one of the executive or non-executive managers is a Parliament member, a minister, the Prime Minister, a leader in a political party, or if the state owns all or part of the company. Politically connected companies are defined as those owned by the state or politicians and/or managed or jointly managed by politicians or adopting a particular PC. Due to the nature of GCC countries' political, economic, and cultural environments, royal family members are considered politicians. Royal FO is important in these countries. Company ownership in GCC countries has historically been concentrated in the hands of royal families and governments; thus, royal family members are on BDs or in high management positions (Al-Razeen & Karbhari, 2004; Sidani & Al Ariss, 2014; Alzahrani & Che-Ahmad, 2015). Tawfik et al. (2022) and Ding et al. (2014) found that, unlike privately owned companies, government-owned company CEOs can enhance company performance through their political affiliation. Al Nasser (2020) argued that if royal family members own some company shares, then they will also care about company performance. They enjoy prestige, power, and privilege and are concerned with maximizing company performance in their interest and other shareholders interests to protect their reputation. Hence, they are empowered to monitor their company to protect their interest, which leads to improved company performance. The presence of a CBD from the royal family gives the CBD a high social status. According to Flickinger et al. (2016), a CEO with a high social standing will not tolerate a low CEO performance because his status and reputation may be affected. In addition to the presence of royal family members in private companies, they may be present in companies with government ownership. We address the impact of the presence of a CBD from a royal family on two FDs as follows:

#### **3.3.1 Chairman from a royal family and external financing**

Faccio (2006) and Khwaja and Mian (2005) indicate that firms have easy access to debts, especially bank loans. Their results indicated that politically connected firms have significantly higher long-term loans than unconnected firms. Moreover, borrowing rates increase when PCs are strong. Khwaja and Mian (2005) indicated that politically connected Pakistani companies could obtain 45% more loans than their unrelated counterparts. Zhang et al. (2021) revealed that PCs based on organizational relationships significantly positively impact private firms' debt financing. Fraser et al. (2006) found that politically correlated Malaysian firms are associated with high leverage, indicating that these firms are inherently riskier than unrelated firms. Belghitar et al. (2019) found a positive relationship between corporate PC and leverage. Other studies (Xiao, 2009; Feng et al., 2020; Liu et al., 2011) have highlighted that government ownership in China (a form of corporate political linkage) has a negative relationship with total debt. Ahmed and McMillan (2021) showed that PCs negatively affect the capital structures (leverages) of banks in GCC. They indicated that after the 2008 financial crisis, politically connected banks got rid of leverages more than their unrelated counterparts. Tawfik et al. (2022) also found a negative effect of the presence of royal family members in BDs in GCC countries and the decision to finance with short-term or long-term debts. Therefore, the following hypothesis is proposed.

**Hypothesis 5 (H5): An association exists between the chairman from a royal family and external financing decisions.**

### **3.3.2 Chairman from a royal family and internal financing**

According to purchase order theory, firms maximize value by arranging the financing options they use on the basis of the 'cheapest fund source available' (Myers, 1984). Hence, managers prefer internally generated funds (RE or current owner contributions) over external financing (Cassar & Holmesb, 2003). RE is the first alternative to principal financing sources because using such funds offers great flexibility. Jensen (1986) argued that politically connected firms keep high profits rather than pay high profits. Benjamin (2016) found that companies with PCs are associated with paying low dividends. Thus, they keep the most profits in the form of RE and reserves for use in financing their various activities. In addition, Tawfik et al. (2022) revealed positive impacts of the presence of royal family members in BDs in GCC countries and the decision to finance through RE. Hence, the following hypothesis is proposed.

**Hypothesis 6 (H6): A positive association exists between the chairman from a royal family and internal financing decisions.**

## **4. Research Design**

### **4.1 Data and sample selection**

The data used in this study were manually collected from the annual reports. For the research sample to be homogeneous, the researchers set some conditions for choosing the study sample companies: (1) The company is registered in the capital markets in the GCC countries from 2012 to 2019. (2) that the company has not been subjected to operations, Mergers, or restructuring during the study period. (3) Excluding banks, insurance companies, and other financial institutions because special laws and rules are applied to them. (4) The company should have the necessary data to measure the various variables under study during the study period. In light of the previous conditions, the study sample will consist of 173 companies from 2012 to 2019, with a total of 1384 observations. The companies selected in the sample are classified from each country. The following table shows the sample size from each country.

**Table 1: Sample selection**

The state	The number of firms	Number of observations
Saudi Arabia	59	472
UAE	29	232
Oman	31	248
Qatar	22	176
Bahrain	14	112
Kuwait	18	144
Total	173	1384

### **4-2 Measurement of the variables**

Our dependent variables are financing decisions that are measured with internal financing (the retained earnings and reserves ratio), and external financing (Total debt ratio). The independent variable that we are interested in testing is Chairman characteristics, and which consists of chairman ownership, chairman and CEO from the same family, and chairman from the royal

family. We will also use a number of control variables that affect the relationship between Chairman characteristics and financing decisions. The methods for measuring each of the dependent, independent, and control variables can be shown in the following Table 2.

### 4.3 Model construction

In order to empirically test the above, the following regression models were constructed in this paper:

$$EX_{it} = \beta_0 + \beta_1 AGE_{it} + \beta_2 FS_{it} + \beta_3 MTB_{it} + \beta_4 ROA_{it} + \beta_5 NWC_{it} + \beta_6 LIQ_{it} + \beta_7 ROY_{it} + \beta_8 B4_{it} + \beta_9 CHO_{it} + \beta_{10} CHR_{it} + \beta_{11} CHCESF_{it} + \beta_{12} BI_{it} + \beta_{13} CCD_{it} + \beta_{14} BS_{it} + \beta_{15} FCF_{it} + \beta_{16} EPS_{it} + \beta_{17} EG_{it} + \beta_{18} IF_{it} + e_{it} \quad (1)$$

$$IN = \beta_0 + \beta_1 AGE_{it} + \beta_2 FS_{it} + \beta_3 MTB_{it} + \beta_4 ROA_{it} + \beta_5 NWC_{it} + \beta_6 LIQ_{it} + \beta_7 ROY_{it} + \beta_8 B4_{it} + \beta_9 CHO_{it} + \beta_{10} CHR_{it} + \beta_{11} CHCESF_{it} + \beta_{12} BI_{it} + \beta_{13} CCD_{it} + \beta_{14} BS_{it} + \beta_{15} FCF_{it} + \beta_{16} EPS_{it} + \beta_{17} EG_{it} + \beta_{18} IF_{it} + e_{it} \quad (2)$$

Model 1 is used to test hypotheses (H1, H3, and H5) in order to measure the relationship between Chairman characteristics and external financing (Total debt ratio). Similarly, model 2 is utilized to test hypotheses (H2, H4, and H6) in order to measure the relationship between Chairman characteristics and internal financing.

### 4-4 Methodology

The present study uses a panel data approach to test the research hypotheses; Panel Models include three types of models: Pooled (ordinary least squares OLS) Regression Model (PM), Fixed Effects Model (FEM), and Random Effects Model, REM. Therefore, it is required to select the best estimator between the Pooled Regression model, fixed effects, and random effects for this model follows:

The first stage: Using the Breusch-Pagan test to compare the Pooled Regression model and each of the fixed effects model or random effects model, where accepting the null hypothesis means that the combined or combined regression model is the best, where the Pooled Regression model assumes the stability of the variance of random error while accepting the alternative hypothesis means that the effects model Fixed or random effects are preferable or appropriate (Al-Matari,2019).

**Table 2: Methods for measuring different research variables**

variables	symbol	Measurement	Previous studies
Dependent variables			
Internal financing	IN	(Retained earnings + provisions)/total assets	<u>Tawfik et al. (2022)</u>
External debt financing	EX	total debt / total assets	<u>Tawfik et al. (2022)</u>
Independent variables			
chairman ownership	CHO	Percentage of shares held by chairman	Chandren et al. (2021)
Chairman from a royal family	CHR	A dummy variable, which is equal to one if the chairman from the royal family and 0 otherwise	The variable scale was developed by researchers
Chairman and CEO from the same family	CHCESF	A dummy variable, which is equal to one if the chairman and CEO are from the same family and 0 otherwise	The variable scale was developed by researchers

Control variables			
Board size	BS	Total number of directors on the board	<u>Thompson&amp; Adasi Manu (2021)</u>
chairman/ CEO duality	CCD	A dummy variable that equals 1 if the CEO is also the chairman and 0 otherwise	Bilel (2020) and Fu et al. (2020)
Big four auditor	B4	A binary variable that takes 0 if the auditor does not belong to a BIG4	Habib et al. (2017) and Jonia et al. (2020)
Board independence	BI	Fraction of independent directors to board size	<u>Thompson and Adasi Manu (2021)</u>
firm size	FS	The natural logarithm of total assets	AL Nasser (2020)
Net working capital	NWC	(Current assets – current liabilities - cash and cash equivalents)/ total assets	<u>Guizani, and Abdalkrim, (2021)</u>
Firm profitability	ROA	Net income / total assets	Jonia et al. (2020)
Market-to-book ratio	MTB	The market value of equity /Total assets	<u>Guizani, and Abdalkrim, (2021)</u>
Liquidity	LIQ	Current assets / current liabilities	<u>Jabbouri, and Almustafa, (2020)</u>
Earnings Per Share	EPS	Net profit per share	<u>Putri et al. (2021)</u>
Cash flow from operations	CFO	Cash flow from operating activities / total assets	Guizani and Abdalkrim, (2021)
Age	AGE	The years since the establishment of the firm	Tawfik et al. (2022)
Free cash flow	FCf	Net cash flow from operating activities - capital expenditures)/ book value of assets.	Tawfik et al. (2022)
Economic growth	EG	Growth in nominal Gross Domestic Product (GDP)	Tawfik et al. (2022)
Inflation	IF	Annual inflation rate, Growth in Consumer Price Index (CPI).	Tawfik et al. (2022)

The second stage: If the results of the Breusch-Pagan test indicate that the fixed-effects or random-effects model is preferable, then there will be a need to select the best estimator between fixed effects and random effects for this model. In this regard, we use the Hausman test to choose the appropriate estimator (Birindelli et al., 2020; Pareek & Sahu, 2022); we choose the Fixed Effects Model as the desirable estimator for estimating the regression model. The results of the Breusch-Pagan test and Hausman test are shown in Table 3.

**Table 3: Breusch-Pagan test and Hausman test results**

Regression model	Prob.	Result	Regression model	Prob.	Result
The first stage: the Breusch-Pagan			The second stage: Hausman Test		
Model 1(EX)	0.000	Not relying on the pooled regression model	Model 1(EX)	0.000	The null hypothesis is rejected; hence, the Fixed effects Model, FEM the best
Model 2 (IN)	0.000		Model 2 (IN)	0.0027	

## 5. Empirical results

## 5.1 Descriptive statistics

Table 4 provides a summary of descriptive statistics. The results indicate that the mean chairman ownership (CHO) in the sample is 0.039709. The maximum total ownership of the chairman has reached 80%, which indicates a high percentage of ownership by some chairmen; also, the mean chairman and CEO from the same family (CHCESF) in the sample is 0.144508. The results reveal that 25 companies in the sample contained a chairman and CEO from the same family, noting that this chairman and CEO from the same family did not last in all the years of study from 2012 to 2019. And the mean chairman from the royal family (CHR) in the sample was 0.17919.

**Table 4: Descriptive statistics**

Variables	Mean	Median	Maximum	Minimum	Std. Dev	Skewness	Kurtosis
EX	0.20	0.15	0.79	0.000	0.17	0.69	2.87
FS	5.80	5.87	10.93	1.17	1.89	0.12	2.91
ROA	0.06	0.05	0.31	-0.3811	0.08	-0.15	5.72
MTB	1.12	0.49	25.51	0.001	2.10	4.08	34.31
IN	0.15	0.16	0.70	-2.65	0.28	-1.10	7.33
B4	0.71	1	1	0	0.45	-1.02	2.04
EPS	0.43	0.17	3.80	-1.74	0.70	1.77	6.88
NWC	0.09	0.08	0.70	-0.30	0.13	0.45	3.44
LIQ	2.08	1.545	21.28	0.01	1.83	4.10	32.78
BI	0.67	0.67	1	0	0.26	-0.20	2.09
BS	7.93	8	15	3	1.79	0.76	5.02
CCD	0.08	0	1	0	0.23	4.53	21.61
FCF	0.03	0.03	0.59	-0.40	0.09	-0.10	5.74
CHO	0.04	0	0.80	0	0.10	4.59	28.27
CHR	0.18	0	1	0	0.41	1.43	3.06
CHCESF	0.14	0	1	0	0.32	2.39	6.70
AGE	23.56	21	66	1	12.99	0.86	3.58
CFO	0.08	0.08	0.60	-0.39	0.09	0.48	5.23
IF	0.025	0.03	0.06	-0.04	0.03	-0.38	4.69
EG	0.041	0.04	0.20	-0.13	0.04	0.03	7

Notes: See Table I for variables definitions

The results indicate that 31 companies in the sample contain a chairman from the royal family. In addition, the Mean chairman/ CEO duality (CCD) in the sample is 0.075144. The results indicate that 13 companies in the sample contained a chairman and CEO from the same family, noting that this chairman/ CEO duality did not last in all the years of study from 2012 to 2019.

## 5.2 Correlations analysis

Table 5 provide correlation analysis among the variables of the study. There is a positive correlation between internal financing and the chairman from the royal family, while there is a negative correlation between internal financing and each chairman's ownership and the chairman and CEO from the same family. In addition, there is a positive correlation between external financing and each chairman's ownership and chairman and CEO from the same family, while there is a negative correlation between external financing and the chairman from the royal family.

**Table 5: Correlation matrix**

Variabales	CHO	CHR	CHCESF	CCD	BS	B4	BI	BS	NWC	ROA	MTB	LIQ	EPS	AGE	FCF	CFO	EX	IN	EG	IF
CHO	1																			
CHR	0.09**	1																		
CHCESF	0.20***	-0.08**	1																	
CCD	0.19***	-0.01	0.24***	1																
BOS	-0.08**	0.21***	-0.13***	-0.04 *	1															
BIG4	0.03	0.07**	-0.03	-0.07**	0.19***	1														
BI	-0.26***	-0.13***	-0.12***	-0.06**	-0.09**	-0.06**	1													
BS	0.06**	0.21***	0.02	0.11***	0.39***	0.34***	-0.26***	1												
NWC	0.05**	-0.05*	0.08**	-0.05*	-0.07**	-0.04	0.02	-0.30***	1											
ROA	0.02	0.04*	0.03	-0.04*	0.02	0.14***	-0.032	0.043 *	0.029	1										
MTB	-0.11***	-0.11***	-0.07**	-0.09**	-0.07**	-0.03	0.19***	-0.21***	0.071**	-0.12***	1									
LIQ	-0.08**	0.062**	0.0013	-0.05*	0.02	-0.03	-0.001	-0.12***	0.14***	0.18***	-0.07**	1								
EPS	0.06**	0.17***	0.03	0.11***	0.10***	0.10***	-0.17***	0.16***	-0.06**	0.59**	-0.14***	0.052 *	1							
AGE	0.02	0.15***	0.08**	0.008	0.15***	-0.10***	-0.07**	-0.04*	0.12***	0.10***	-0.055**	0.05*	0.18***	1						
FCF	-0.05 *	0.05**	-0.05*	0.004*	0.05*	0.01	0.05*	-0.026	-0.006	0.44***	-0.0091	0.13***	0.28***	0.11***	1					
CFO	-0.0034*	0.03*	-0.02	-0.03	0.039*	0.08**	0.01	0.043*	-0.10***	0.66***	-0.077**	0.089**	0.44***	0.12***	0.61***	1				
EX	0.06**	-0.12***	0.08**	0.11**	-0.05*	0.15***	0.004	0.21***	-0.002	-0.23***	0.09**	-0.42***	-0.10***	-0.21***	-0.18***	-0.13***	1			
IN	-0.10***	0.06**	-0.07**	0.03*	0.09 **	0.18***	0.004	0.12***	-0.004	0.58***	-0.067**	0.19***	0.39***	0.20***	0.28***	0.39***	-0.32***	1		
EG	0.02	-0.02	-0.03	-0.18***	-0.03	-0.18***	-0.04*	0.05*	0.017	-0.054**	-0.031*	0.044*	0.042*	-0.052**	-0.021	-0.11***	0.075**	0.0270	1	
IF	0.08**	0.01	0.12***	0.015	0.12***	0.015	0.002	-0.03	-0.11***	-0.007	0.022	0.082**	-0.10***	0.10***	0.06**	-0.003	0.07**	0.063**	-0.10***	1

The variables are as reported in \*, \*\*, and \*\*\*Significant at 10, 5, and 1 percent levels, respectively.



### 5.3 Regression analysis result

Table 6 demonstrates regression analysis for the two formulated models. FDs are reported in Models 1 and 2 and Table 6. The results indicate that chairman characteristics significantly impact firm FDs. Firstly, a negative non-statistically significant relationship between chairman ownership and external financing is presented in Model 1 (coefficient =  $-0.005466$ , significance =  $0.8996 > 10\%$ ), thus rejecting H1: An association exists between chairman ownership and external financing. This result is contrary to our initial predictions and previous studies that demonstrated the existence of an MO effect on the debt financing decision (e.g., Lundstrum, 2009; Vo & Nguyen, 2014; De Miguel et al., 2005). Previous results agree with those of Farhangdoust and Molavi (2020), Moon and Tandon (2007), and Feng et al. (2020), who found no MO effect on total debt (insignificant negative relationship). Researchers can interpret previous results as due to the business environments in GCC countries, which are dominated by FO, government ownership, and royal ownership. These parties have significant impacts on executive director and CBD appointments and dismissals. They also have a role in the decision to determine or modify capital structure options.

**Table 6. Regression analysis results**

Variables	Model1(EX)		Model2(IN)	
	Coefficient	t-Statistic	Coefficient	t-Statistic
C	0.305***	10.437	-0.019	-0.675
CHO	-0.006	-0.130	-0.084**	-2.048
CHR	-0.0487***	-4.603	-0.011	-1.031
CHCESF	0.026**	1.993	-0.033**	-2.472
CCD	0.064***	2.968	0.063***	2.971
BS	-0.011***	-4.073	-0.007	-0.298
B4	0.0346***	3.617	0.039***	4.132
BI	0.033**	1.955	0.025	1.512
BS	0.029***	10.528	0.010***	3.653
NWC	0.229***	6.494	-0.027	-0.785
ROA	-0.733***	-8.740	1.286***	15.630
MTB	0.007***	3.322	0.009	0.459
LIQ	-0.037***	-15.839	0.014***	5.941
EPS	0.018**	2.389	0.014*	1.772
AGE	-0.00***	-4.236	0.003***	7.618
FCF	-0.172***	-2.582	0.049	0.742
CFO	0.231***	3.029	-0.021	-0.276
EG	0.363***	2.731	-0.235*	-1.807
IF	0.553**	2.040	-1.872***	-7.046
R-squared		0.479		0.428
Adjusted R squared		0.468		0.417
F-statistic		34.607		42.427
Prob(F-statistic)		0.000		0.000

Secondly, a statistically significant negative relationship between chairman ownership and internal financing is displayed in Model 2 (coefficient =  $-0.084661$ , significance =  $0.0407 < 5\%$ ), thereby supporting H2: An association exists between chairman ownership and internal financing. Previous results agree with those of Vo Due and Nguyen (2014) and Scholey and Barney (1994), who found a positive relationship between MO and policy distribution, which means an inverse relationship is found between MO and RE.

Thirdly, a statistically significant positive relationship between chairman and CEO from the same family and external financing is presented in Model 1 (coefficient =  $0.026217$ , significance =  $0.0410 < 5\%$ ), thus accepting H3: A positive association exists between chairman and CEO from the same family and external financing. Previous results indicated that a family firm might commit to separating its CBD from its CEO, with the appointment of the CBD from the same family. Thus, the family continues to control the company and control management decisions, including FDs. This control pushes the management to resort to debt financing instead of share issuance so that the FO percentage does not decrease. This result is consistent with those of Shyu and Lee (2009), Singh et al. (2018), and Driffield et al. (2007).

Fourthly, a statistically significant negative relationship between chairman and CEO from the same family and internal financing is displayed in Model 2 (coefficient =  $-0.032549$ , significance =  $0.0136 < 5\%$ ), thereby supporting H4: An association exists between chairman and CEO from the same family and internal financing. Previous results suggested that family-controlled companies appoint CEOs and CBDs who belong to the same family and seek to fulfill their desire to continue to control firms. Relying on debts for financing and paying high dividends compared with other firms (Setia-Atmaja et al., 2009; Yoshikawa & Rasheed, 2010; Pindado et al., 2012), minority owners are happy with high dividends, whereas families increase their control over firms, albeit at the expense of low RE.

Fifthly, a statistically significant negative relationship between the chairman from the royal family and external financing is demonstrated in Model 1 (coefficient =  $-0.048768$ , significance =  $0.0000 < 1\%$ ), thus accepting H5: A negative association exists between the chairman from a royal family and external financing. This finding differs from those of Bliss and Gul (2012) and Belghitar et al. (2019), who found a positive relationship between PC and total debt ratio. Our results are consistent with those of Liu et al. (2011) and Feng et al. (2020), who revealed that government ownership has a negative relationship with the total debt ratio. Tawfik et al. (2022) found negative impacts of the presence of royal family members in BDs and debt financing.

Lastly, a negative non-statistically significant relationship between the chairman from a royal family and internal financing is displayed in Model 2 (coefficient =  $-0.010710$ , significance =  $0.3029 > 10\%$ ), thus rejecting H6: A negative association exists between the chairman from a royal family and internal financing. This result provides inconsistent evidence and is in contrast to our initial predictions and previous studies, such as Tawfik et al. (2022), who observed that the presence of royal family members in BDs and the decision to finance through profit retention have positive effects. At the same time, RE is linked to the decision on the dividend distributions of different dimensions. Kusnadi (2019) found that company PCs are alternatives to financial leverages because the stronger the company PCs, the lower the firm views of cash holdings to face risks.

#### **5-4 Additional Tests**

The researchers recalculated the two study models based on the sample of companies selected in the study but based on the time period from 2012 to 2016 instead of the time period from 2012 to 2019. This is due to the fact that in late 2017, the largest country (Kingdom of Saudi Arabia) in the GCC took judicial and political measures. It targeted senior businessmen who

own the shares of many companies in the sample; some of them are executive directors, and others are chairmen of the board of directors, which affected the performance and profits of these companies, and, consequently, the decisions of financial companies. Table 7 shows agreement with the results of the OLS panel data (Table 6) even when the time period under study is different.

**Table 7: Regression result- fixed effect models (FEM)**

Variables	Model1(EX)		Model2(IN)	
	Coefficient	t-Statistic	Coefficient	t-Statistic
C	0.338***	12.376	-0.078***	-2.863
CHO	0.005	0.126	-0.103**	-2.459
CHR	-0.049***	-4.652	-0.007	-0.704
CHCESF	0.030**	2.236	-0.042***	-3.176
CCD	0.050**	2.378	0.077***	3.676
BS	-0.011***	-4.059	-0.001	-0.321
B4	0.033***	3.472	0.044***	4.588
BI	0.031*	1.836	0.035**	2.114
BS	0.029***	10.491	0.009***	3.344
NWC	0.225***	6.348	-0.028	-0.781
ROA	-0.747***	-8.913	1.318***	15.822
MTB	0.007***	3.212	0.002	0.904
LIQ	-0.037***	-15.773	0.012***	5.261
EPS	0.019**	2.445	0.010	1.392
AGE	-0.002***	-4.515	0.002***	7.427
FCF	-0.183**	-2.748	0.065	0.991
CFO	0.257***	3.417	-0.049	-0.652
EG	0.214*	1.807	-0.241*	-1.888
IF	0.447*	1.935	-1.451**	-2.112
R-squared		0.375		0.408
Adjusted R squared		0.365		0.398
F-statistic		37.079		42.581
Prob(F-statistic)		0.000		0.000

#### 4.5 Endogeneity problems

OLS Panel data models do not account for the endogeneity problem caused by measurement errors, time-invariant endogenous variables, and reverse causality that often takes place in finance and accounting research (Wooldridge, 2002; Tawfik et al., 2022; Yamani & Rakowski, 2019). To remedy this, we performed additional tests using the dynamic system GMM estimation technique for robustness checks. The GMM has a superior ability to address potential endogeneity and serial correlation issues (Bond, 2002; Tawfik et al., 2022). Table 8 displays the results of Models 1 and 2. Table 8 shows an agreement in the results between the OLS panel data and the method GMM.

**Table 8: Endogeneity analysis**

Variables	Model 1(EX)		Model 2(IN)	
	Coefficient	t-Statistic	Coefficient	t-Statistic
C	14.582***	3.994	36.436***	6.464
CHO	-3.826***	-2.885	-6.978***	-5.961
CHR	-3.228***	-3.440	9.039***	6.440
CHCESF	4.056***	3.077	-11.665***	-6.183
CCD	-5.785***	-3.204	-16.228***	-6.045
BS	-0.449***	-3.690	-1.384***	-6.440
B4	3.324***	3.732	8.975***	6.783
BI	-3.068***	-3.983	-7.362***	-6.560
BS	-1.193***	-3.874	-2.969***	-6.624
NWC	-22.220***	-4.062	-59.275***	-6.710
ROA	-12.120**	-2.561	-28.789***	-5.535
MTB	-0.393***	-4.392	-0.856***	-6.683
LIQ	0.246**	2.474	0.554***	5.638
EPS	-0.726***	-6.061	-2.096***	-7.935
AGE	-0.022**	-2.309	-0.024	-1.090
FCF	-36.371***	-3.514	-89.006***	-6.354
CFO	7.270**	3.137	16.966***	6.293
EG	-1.789***	-4.853	-4.146***	-6.141
IF	-39.992***	-3.520	-105.83***	-6.456
AR (1) in first differences (p-value)		0.0031***		0.0064***
AR (2) in first differences (p-value)		0.411		0.299
Hansen-J test (p-value)		0.611		0.541
Sargan test (p-value)		0.310		0.456
Notes: The variables are as reported in Table 1. *, **, and ***Significant at 10, 5, and 1 percent levels, respectively.				

## 6. Conclusions

The importance of studying CBD characteristics is due to the essential role that CBDs can play in assisting enterprises in achieving their goals and control plan implementation effectiveness by directing BD members to strongly emphasize shareholder interests and engage in fruitful discussions by facilitating participatory environments. In addition to reducing various stakeholder interests (Banerjee et al., 2021), Withers and Fitza (2017) argued that the impact of CBD on company performance depends on the mission environment of the chairman and the circumstances faced by companies at certain periods; therefore, paying attention to the importance of studying CBD characteristics is necessary, especially in emerging economies, such as GCC countries where CBDs have attempted to control firm decisions (Al-Absy, 2020). Our study contributes to the literature in different ways. Bridging the gap in the literature by providing an empirical study on the influences of chairman characteristics on FDs, we examine the relationship among three chairman characteristics, such as ownership, chairman and CEO from the same family and chairman from a royal family, in making FDs, especially debt FDs,

RE FDs and cash retention decisions. This study is based on historical data of 173 nonfinancial companies listed in the financial markets of the six GCC countries during the 2012–2019 period, with a total of 1,384 firm-year observations. It also uses ordinary least squares and dynamic system-generalized methods of moments to test the research hypotheses.

Our research shows that CBD ownership has a negative impact on the decision to finance with RE but has no significant influence on the decision to finance with debts. The chairman and CEO from the same family have a negative effect on the decision to finance with RE and to keep cash, but the chairman and CEO from the same family have a positive effect on the decision to finance with debts. Moreover, the chairman of a royal family has a positive impact on cash retention. However, it has a negative impact on the decision to finance with debts and has no substantial effect on the decision to finance with RE.d

This study examined three characteristics of CBD, which are the chairman, ownership, chairman, and CEO from the same family, and chairman from a royal family in GCC countries characterized by family-dominated firms and the significant role of members of royal families in the economy. Therefore, CBDs, who are characterized by these characteristics, is expected to be key decision-makers. Our findings may help investors, policymakers, and regulators understand the roles that CBDs can play and their impacts on the making of FDs. With regard to investors and shareholders, the results of the research help in selecting and appointing CBDs. They also contribute to understanding the impact of the behavior of the current CBD in GCC on making financial decisions, especially the debt financing decisions and the financing decision with RE. Therefore, the decisions of investors, shareholders, and current and potential lenders who deal with companies will be affected by the characteristics of CBD, especially with regard to their expectation of the capital structure, as well as the decision to finance with RE and, thus the expected future dividend policy. In addition, our findings recommend that policymakers and regulators should oblige companies listed in the financial markets to disclose the characteristics of the chairman of the board of directors, such as the ownership of CBD and PC of CBD.

Our study has some limitations. However, these limitations will certainly point to potential research directions. Firstly, the research was limited to the time period from 2012 to 2019 for a sample of 173 companies. Thus, future studies can extend our study by increasing the sample size and covering a longer period of time (i.e., before and after the COVID-19 pandemic). Secondly, the researchers did not address many of the characteristics of CBD, such as age, gender, experience, education level, periodic change, and ethnicity. As a result, future research may address the impact of past characteristics on financial decisions. Thirdly, researchers can examine the impact of the characteristics of CBD on the performance of the company, the quality of financial reports, and the quality of cash flows. Furthermore, future research may study the impact of CBD characteristics on other decisions.

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