Family Owned-Banks in Jordan: do they perform better?

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ABSTRACT

Purpose: Family ownership is very common for Jordanian businesses, leading to a high level of involvement of family members in company management. There continues to be intense discussion on the pros and cons of family ownership, particularly as it focuses corporate control within a small family group. The purpose of this paper is to examine the performance of family and non-family owned banks appear on the Amman Stock Exchange over the 2016 to 2020 period.

Design/methodology/approach: The research on Jordanian domestic banks is based on data from the annual reports of banks listed on their websites which offers comprehensive data on finances, ownership and the board. Family owned and non-family banks were analysed using multiple regression technique to identify any variations in their performance.

Findings: Using a sample of 16 domestic banks with 75 bank-year observations over the 2016 to 2020 period. The study supports other research in finding that family ownership is negatively related to bank performance. This is true for accounting-based and market-based performance measures, including ROA, ROE and Tobin's Q test results. Additionally, analysis identifies greater negative consequences for performance within family-owned banks by board of directors.

Originality/value: This paper extends previous research on family businesses by investigating the impact of family ownership on the financial performance in the Jordanian bank sector. This research determined that devaluation is a consequence of higher levels of ownership concentration for domestic banks in Jordan.

Paper type: Research paper

Keywords: Family ownership, female directors, financial performance, domestic banks, Jordan

JEL Classification: G30, G32, G39, M19

INTRODUCTION

Families are a major form of businesses ownership, globally (Faccio and Lang, 2002) with family finances being the catalyst for 85% of companies (PWC, 2012), and accounts for between 70% and 90% of all business sectors according to European Family Businesses (2012). Because of this, family businesses attract much research interest (Bhattacharya and Ravikumar, 2001) especially on their fundamental role in the initial stages of a country's economic development and equally have a key role in both developed and developing economies. Family owned corporations make up a majority in firms listed in most Arab nations (OECD, 2003). McKinsey & Company (2013) reported that 60% - 70% of the Middle East businesses are family controlled. Fadhel (2004) looking at the Gulf Cooperation Council activities; Saudi Arabia, Kuwait, and most other Gulf States, found that 98% of commercial are family run. Overall, in Arab countries, it is found that most companies are family firms in terms of founding members and share ownership (Alghamdi and Rhodes, 2015; Saidat et al., 2019). Jordan is no exception and family businesses make up a major part of its economy, with shares concentrated in the hands of large family groups (ROSC Jordan, 2004).

Clearly, the correlation between performance and the family ownership of banks is a pressing research question for many (e.g., San Ong & Gan, 2013; Chazi et al., 2018; Santoso & Santasyacitta, 2020; Habtoor, 2021), however, studies so far have produced quite varied results. Overall, Performance in the banking sector according to ownership type is still an under researched area for Jordan and the Arab world generally. The potential impact of ownership type is profound; concentrated ownership and founding family board domination impacting immensely on the management and performance of company operations.

Ownership structure is crucial to protecting a bank from inefficient or corrupt practices, overseeing both managers and shareholder's practices which can determine both firm performance and firm value (Ozili & Uadiale, 2017). A notable example of this was the 2004 to 2006 banking boom based upon excessive securitisation gains favouring bank insiders (mainly managers and controlling shareholders) who exploited banks for personal gain, thereby increasing the risk of bank failure as seen in the 2008 global financial crisis. Such practices and events make it necessary to distinguish an optimal bank ownership structure which will both improve bank performance and discourage unnecessary risk-taking and profit misappropriation by bank insiders.

Predominantly, the literature on finance and management in Jordan has ignored family business ownership (Abed et al., 2012; Saidat et al., 2019) even though the characteristics and performance of family businesses are significantly different. On the positive side Graafland (2020) identified independence in decision making ability among firms owned and controlled by family members over non-family firms where ownership is usually more dispersed. Further, a concentrated ownership structure, like family ownership, can provide asset-control advantages in scarce environments for social capital use and creating more opportunistic investment processes (Saidat et al, 2019).

Though, this evidence remains open to questions and unconvincing about whether family-owned businesses outperform non-family businesses. The most pronounced contrasting data can be explained by differing family business definitions, variables, study period, samples and methodologies. Generally, studies investigating the performance of family businesses are still under-represented and lacking in knowledge in the context of Jordan. Thus, this is the first of its kind to examine the financial performance of the family business in the banking sectors in Jordan.

Specifically, this paper contributes to the existing literature in several ways. First, it focuses on an emerging yet growing market in the middle east namely the ASE. Significant increase in the number of foreign ownership has been increased in 2021. For example, recent figures reported by the ASE show that the value of stocks purchased by foreigners have been almost doubled in November 2021 compared to the one reported at the same time in 2020. That is, this year the announced number became 9.4 million shares against 5.4 million in the last year ¹. This, in turn, is expected to exert more pressure on the management of the companies listed in the ASE to work better toward increasing the profitability of their companies which they manage. Second, we make our sample restricted to a dynamic and one of the main sectors in the ASE namely the banking sector. This sector is one of the most liquid in the ASE and is found to attract the attention of investors over time. Among all the banks listed in this sector, the Arab bank is taking the lead with the highest stock price compared to its benchmark. Moreover, the bank itself has been always assigned a large weight overall relative to all the companies listed in the ASE. Hence, being more optimistic with regard to the performance of the banking sector should encourage more local and foreign investors to invest in the ASE. Lastly, our sample size has been extended to cover the COVID-19 period. This should make our analysis more beneficial to the stockholders since they already may be more interested in understanding the reasons behind the fluctuations in the performance of their portfolios during the pandemic. To say it differently, the profitability of investors comprising banks equities in Jordan may vary throughout the pandemic during following the changes in the loans and deposit rates. This, however, requires careful consideration by investors to know to what extent the family ownership in the Jordanian banks affect the performance of these banks during the current difficult time in the economy.

Furthermore, this study is then expected to contribute to the limited research conducted in the emerging economies (e.g., Sener, 2014; Wang and Shailer, 2017). Sener (2014) documented different variations in the family ownership-financial performance relationships across different levels of management. More specifically, having a family member in the top management is found to reduce the firm market value. In their study, Wang and Shailer, (2017) conducted a meta-analysis and review the literature concerning the relationship between the family ownership proportion and the financial performance of companies. Interestingly, the study concluded that there is a positive relationship between the family ownership and financial performance. This evidence is, however, found to vary across the countries and over time. These two studies among other, however pre-date the COVID-19 period the time when extraordinary variations in the financial performance of companies working in the emerging economics tend to swings. Small business in emerging countries are also enforced shut down following the pandemic. The resulted impact of the family ownership on the financial performance may then differ during this period.

¹ For more details, see <https://www.ase.com.jo/en/Quotes-Market/Market-Performance/Foreign-Investment-Activity>.

The remainder of this paper is organised as follows. Next section summarises the related literature and identifies the research gap. Section 2 describes the data and methodology. Section 3 describes the resulted findings from the empirical analyses. The last section concludes and provides more details on the implications of the main results.

1. LITERATURE REVIEW

Previously, the most common type of firm ownership was “dispersed” (Berle and Means, 1932), now it is becoming more concentrated (Strivens et al., 2008). World Bank data suggests that countries with “concentrated” ownership structures increased from 20% (1998-2002) to 34% (2013-2015) in global market capitalisation (OECD, 2017, p.11). In terms of agency, Grossman and Hart (1986) found that the more widespread the structure of ownership is, the more unlikely shareholders would be to supervise and manage behaviour and decisions of the firm insiders (agents) who, thus, have little incentive to improve efficiency. Shleifer and Vishny (1986) stated that with concentrated ownership, large shareholders seek to reduce agency problems, as they possess the motivation and ability to manage the managers (which is in the interest of all shareholders, both small and large). Similarly, Shleifer and Vishny (1986) stated that companies having large shareholders will survive over time and demonstrate better performance than their competitors. All this suggests that improved monitoring of managers results in a lowering of agency costs (Chen and Yur-Austin, 2007; Marashdeh et al. 2021) so increasing, and so improving performance with value creation.

Family business ownership has been shown to be as a distinct category of ownership concentration, the literature identifies that its influence is quite different from non-family firm ownership (Ferreira et al. 2021), and many of these studies offer evidence for a positive relation between family business ownership and performance family firms with more significantly correlated to improved long-term non-financial aims as opposed to financial aims which are short-term. In this way family member who is controlling shareholders can more easily make difficult decisions which pursue the company’s greater strategic interests (Aguilera and Jackson, 2003; Bövers & Hoon, 2021) which can generally lead to a more sustainable long-term performance for the company.

Further, families tend to be more preoccupied with reputation, both personally as members and collectively as a group. These concerns lessen the likelihood of self-interested management practices by top management individuals when they are a family member, so, strengthening the chances of survival of the company (Denis and Denis, 1994), improving the resilience of relationships with other stakeholders like suppliers, customers and capital investors (McVey and Draho, 2005). Particularly, family members’ preoccupation with the image of their family intensifies efforts by family owners to achieve debt financing at reduced costs, so, minimising the conflicts of interest such costs can provoke between shareholders and bondholders and (Anderson and Reeb, 2003). Overall, firm performance is improved by concerns over reputation (Zellweger et al., 2012).

Based on the literature, Rutherford et al. (2008) set out a classification system of positive, negative and neutral relationships relating to the influence family ownership and control has in relation to firm performance. A study by Barontini and Caprio (2006) sampled 675 publicly-traded companies within eleven EU countries and identified family control as an improving factor for performance

of operations and the value of the firm. Pendey et al. (2011) studied a 131-firm sample of the major family firms which are listed on the Bombay Stock Exchange (BSE). They examined how family ownership and control influence financial performance (measured by Tobin's Q) and saw a positive relationship between the ownership type in these firms and their performance. Che and Langlis (2015) identified a beneficial association between family ownership and performance of the firm as being more present when the family is the second largest owner, however, the association is stronger when the second largest owner is a non-family member. Their analysis also identified higher firm performance being correlated greater family power.

Several studies have also identified causes of poor performance in family controlled firms, such as conflict between generations, managerial entrenchment, financial constraints, and the confiscation of minority shareholders' assets (Perez-Gonaflez, 2006; Schulze et al., 2003; Morck & Yeung, 2003). In a sample of 178 Cyprus Stock Exchange listed family and non-family firms, Georgiou (2010) found significant evidence that family controlled firms are correlated negatively with firm value. Bhatt and Bhattacharya (2017) carried out a sample study of Indian top-listed firms (2002 to 2012) and identified that management by families had no significant impact on firm performance.

Other studies have considered family control of firms in relation to profitability Arosa et al. (2010) considered profitability (measured by ROA) using a sample of 586 Spanish small and medium size family firms and identified no significant relationship between profitability and family ownership and control. Further, a meta-analysis summarising previous empirical results of 78 articles, with 95 samples and a total sample size of 80,421 found no relationship between corporate profitability and family controlled firms (O'Boyle et al, 2012). O'Boyle et al (2012) concluded that there were high levels of inconsistency across the results and studies which did correlate financial performance and family ownership / control.

Micco, Panizza, and Yanez, (2007) researched a sample of banks in private and public ownership from the period 1995 to 2002. They identified state-owned banks from developing countries as having lesser profitability and greater costs than their privately owned counterparts. For banks in industrial countries, they identified no strong correlation between bank ownership and performance. Lin and Zhang (2009) studied how bank ownership reform had affected Chinese bank performance. In their study of 60 Chinese banks (1997 to 2004) they found that the 'Big Four' commercial banks (under concentrated ownership) exhibit a lesser profitability and efficiency and maintain a portfolio of assets of lower poorer quality when compared to other banks under different ownership types. A study of ownership and performance of 53 Islamic banks (2005 to 2009) found no significant relationship between ownership concentration and firm performance, as measured with return on assets (ROA) (Zouari and Taktak, 2014) and return on equity (ROE), amongst others. Abdul Rahman and Md Reja (2015) found no correlation between family ownership and bank performance in their study of bank performance in Malaysia. Similarly, Mishra and Ramana (2018) found no correlation between bank performance (ROA) and ownership structure in their study of 89 private Indian banks (2008-2013). In contrast a study of banks in China (2007-2014) found improvements to ROA, ROE with greater concentration of family ownership. As well as reduced non-performing loan ratios (Bian and Deng, 2017). Using empirical study of the Tunisian banks listed on the stock market during the period of 2005-2016. Daadaa, (2019) identified no impact on bank performance based on ownership structure or concentration

in a study of Tunisian bank performance (period 2005-2016). In a regional study of 19 countries in the Middle East and North Africa, Mateev and Bachvarov (2021) found that ownership concentration in collaboration with private monitoring has a strong effect on the profitability of banks. Recently, Asmild et al. concluded (2021) that differences in business models and management practices depend on the ownership of the bank, and thus affect the financial performance of the bank.

Overall, reviewing the related literature reveals mixed evidence regarding the relationship between the family ownership and financial performance. Our study then extends this strand of literature by focusing on one of the fastest growing markets in the Arab countries which is Jordan. It also pays the attention to the main industry in the ASE namely the banking industry. Such an important analysis in the sector will benefit the market participants in other sectors and the market in general.

2. DATA AND METHODOLOGY

The research on Jordanian domestic banks is based on data from the annual reports of banks listed on their websites which offers comprehensive data on finances, ownership and the board starting from the period 2016 to 2020. In this way, 24 banks were sampled for 24 banks, including 16 domestic banks (one of which was removed as it was unlisted, so reducing the number to 15). Finally, commercial and non-commercial banks were not specified so that a large bank sample could be gathered. Family owned and non-family banks were analysed using multiple regression technique to identify any variations in their performance.

Defining Family Owned-Business

The definition of a family-owned company (banks included) used for this study is based on La Porta et al. (1999) and Claessens et al. (2000) that if the largest shareholders of the firm are identified as two or more family members owning a 10% or greater equity in the company. Where the largest owner was found to be a single individual, we checked if another individual with the same family name could be found on the board of directors. If this level of family involvement was found to be the case, we could also classify it as family-owned. Using these definitions we identified 6 family-owned and 10 non-family-owned banks to be part of the study.

Bank Performance Measurements

Two accounting measurements were used for this research; Return on Asset (ROA - ratio of net income divided by total assets) and Return on Equity (ROE - ratio of net income divided by total equity). Additionally, other measures related to the market were employed; the Tobin's Q ratio of the market capitalization, as well as total debt to the total assets measurement. This is in line with most of the literature (see, e.g., Anderson and Reeb, 2003; Chazi et al., 2018; Habtoor, 2021).

Control Variables

The composition and size of a board are the most important mechanisms impacting on the performance of a bank as a result of the level of participation and commitment the board has in the activities of the bank. Consequently, it is important to control for these variables in our study. Guest (2009) suggests that boards negatively impact strongly on performance, with this negative correlation being greatest for large firms, inclined to larger board size. Countering this, Bermig & Frick (2010) found evidence of a positive correlation of board size and Tobin's Q. In turn, Gordini (2012) researched what effect independent directors have on financial performance and identified

a positive correlation between such outsiders and firm performance. In terms of female directors, Arfken et al. (2004) identified that they have better knowledge over certain market and types of consumers than male colleagues with female directors having more positive impact on board procedures and working style leading to improved performance (Iii et al. 2021).

Table 1. Variables definitions and explanations

Variables	Symbol	Definition
Return on Assets	<i>ROA</i>	(Net Income / Total Assets) × 100
Return on Equity	<i>ROE</i>	(Net Income / Total Equity) × 100
Tobin's Q	<i>TOBIN'S Q</i>	Market Capitalization + Total Debt / Total Assets
Board Composition	<i>BOCOM</i>	Total number of independent directors/ total number of directors.
Board Size	<i>BOSIZE</i>	The total number of directors that shape the board.
Female Director	<i>FEMDIC</i>	The total number of female directors on the board.

The study also uses pooled regression with panel data in its model. Set out below is the formula for the analysis of the relationship between family and non-family ownership and the performance of banks. Thus, the following model has been adopted:

$$\text{Bank Performance} = f(\text{BOCOM}, \text{BOSIZE}, \text{FEMDIC}).$$

As bank performance is measured by ROA, ROE and Tobin's Q. Three separated equations are formulated as follows:

$$\text{ROA} = \alpha + \beta_1 \text{BOCOM} + \beta_2 \text{BOSIZE} + \beta_3 \text{FEMDIC} + \varepsilon$$

$$\text{ROE} = \alpha + \beta_1 \text{BOCOM} + \beta_2 \text{BOSIZE} + \beta_3 \text{FEMDIC} + \varepsilon$$

$$\text{Tobin's Q} = \alpha + \beta_1 \text{BOCOM} + \beta_2 \text{BOSIZE} + \beta_3 \text{FEMDIC} + \varepsilon$$

3 FINDINGS AND RESULTS

3.1 Descriptive Statistics

This section provides the descriptive statistics for the variables used in this study. The descriptive statistics is divided into two tables: Table (2) reports the sample size for family owned banks represent 40 percent which consists of 30 observations (6 banks) listed in Amman Stock Exchange (ASE). While, non-family owned banks take into account to 45 observations (9 banks) with 60 percent of total sample. As overall, the total frequency of the study contributes 75 observations of sample size. Whereas Table (3) shows the mean, min, max and standard deviation values, for the variables across the five-year sample period after splitting the full sample into two sub-samples namely, family and non-family sample firms.

Table 2. Frequency and percentage for family owned and non-family owned banks

	Frequency	Percentage (%)
Family Owned Banks	6	40%
Non-Family Owned Banks	9	60%

Total	15	100%
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Table 3. Descriptive statistics for family and non-family from year 2016 to 2020

<i>Family Owned-Banks</i>					
Variable	Observations	Mean	Minimum	Maximum	Standard Deviation
ROA	30	0.008	0.002	0.016	0.004
ROE	30	0.068	0.020	0.102	0.023
Tobin's Q	30	0.825	0.797	0.841	0.013
BOCOM	30	3.53	0	6	1.736
BOSIZE	30	11.9	10	14	1.098
FEMDIC	30	1.23	0	3	0.817
<i>Non- Family Owned Banks</i>					
Variable	Observations	Mean	Minimum	Maximum	Standard Deviation
ROA	45	0.009	-0.001	0.018	0.004
ROE	45	0.076	-0.009	0.157	0.036
Tobin's Q	45	0.860	0.796	0.959	0.053
BOCOM	45	4.11	0	7	1.885
BOSIZE	45	11.6	11	14	0.879
FEMDIC	45	0.844	0	3	0.737

Note: Tobin's Q = Market value of common equity plus book value of preferred stocks and total debts divided by book value of the total assets, ROA = Net income divided by total assets, ROE = Net income divided by total equity, BOCOM = Total number of independent non-executive directors divided by total number of directors, BOSIZE = Total number of directors on the board, FEMDIC = The total number of female directors on the board.

The above table gives descriptive statistics of dependent (output) variables for bank performance: ROA and ROE accounting measures and the market-based measure of Tobin's Q. The greater value of measures in this study suggest an enhanced level of bank performance. ROA indicates that family has a lower valuation over non-family counterparts. The average value of ROA in family-owned banks is 0.8 opposed to 0.9 for non-family respectively. Additionally, ROE is a significant performance evaluating accounting measure. The table shows family-owned banks with a lower valuation for ROE average value. The ROE average value for family is 0.068 and for non-family is 0.076. There are corresponding results with the measure Tobin's Q, with a lower valuation for family over non-family counterparts. The Tobin's Q average value is 0.825 for family owned-banks and 0.860 for non-family banks. These findings demonstrate comparable explanations to the literature analysing the relationship between performance and family and non-family firms, such as banks (Amit & Villalonga, 2006; San Ong, & Gan, 2013; Saidat et al., 2019)

Table 2 demonstrates that there is a minor difference in the board size (BOSIZE) mean for non-family (11.6) and family-owned (11.9) banks. This is caused by a preference in family-owned firms for smaller boards as individual commitments tend to disperse in larger boards (Ward, 1991). For board compensation, table 3 shows that, on average, there are four independent directors per family owned-bank board. The level of independent directors fits with Jordan Corporate Governance Code (JCGC) guidelines for one third of directors to be independent. We also see difference in the means of female board members between family (1.23%) and non-family

(0.84%) banks. Founding family members may select their daughters and wives on the boards causing a greater FEMABO in family-owned banks in line with a greater demand for family-centred power (Boubaker et al., 2016).

3.2 Pearson's Correlation Matrix

In this section there is an analysis of variables with the Pearson correlation test (See Tables 4 and 5). Prior to regression analysis, this correlation coefficient analysis was conducted to examine interconnections among dependent and independent variables. Also, it was crucial to test for possible multicollinearity “one-to-one relationship” between bank performance and explanatory variables in empirical models. Table 4 shows the Pearson correlation coefficients of non-family banks, and Table 5 the Pearson correlation coefficients of non-family owned banks sampled.

These tables show correlation matrix among explanatory variables of family and non-family-owned banks. In general, no multicollinearity was identified. Few variables demonstrated relatively higher correlations, which anyway did not correlate over 0.8.

Table 4. Pairwise correlation matrix for family owned-banks

	ROA	ROE	Tobin's Q	Board Composition	Board size	Female Directors
ROA	1 -----					
ROE	0.891 0.0000***	1 -----				
Tobin's Q	0.106 0.576	0.284 0.128	1 -----			
Board Composition	-0.398 0.029**	-0.152 0.422	-0.095 0.616	1 -----		
Board Size	0.029 0.876	-0.152 0.422	-0.338 0.067*	-0.475 0.007***	1 -----	
Female Directors	-0.291 0.117	-0.348 0.059*	-0.516 0.003***	-0.059 0.754	0.430 0.017**	1 -----

***Correlation is significant at the 0.01 level (2-tailed) **Correlation is significant at the 0.05 level (2-tailed)

*Correlation is significant at the 0.10 level (2-tailed)

Table 5. Pairwise correlation matrix for non-family owned banks

	ROA	ROE	Tobin's Q	Board Composition	Board size	Female Directors
ROA	1 -----					
ROE	0.851 0.000***	1 -----				
Tobin's Q	0.414 0.004***	0.318 0.033***	1 -----			
Board Composition	-0.114 0.453	0.218 0.149	0.140 0.357	1 -----		
Board Size	0.022 0.885	-0.075 0.622	0.271 0.071*	-0.133 0.381	1 -----	

Female	-0.295	-0.084	-0.042	0.080	0.092	1
Directors	0.048**	0.582	0.782	0.598	0.546	-----

***Correlation is significant at the 0.01 level (2-tailed) **Correlation is significant at the 0.05 level (2-tailed)

*Correlation is significant at the 0.10 level (2-tailed)

These analyses show that board composition is negatively correlated to ROA, in family and non-family firms, results showing in a significant relationship at the 5% significance level in family owned-banks, which indicates independent directors as negatively influencing performance. For board size, our correlation analysis also denotes a significant positive correlation of board size and Tobin's Q, in banks under both kinds of ownership, 0.067 for those under family ownership and 0.071 for those not family owned. Table 4 and 5 also illustrate a positive correlation in family firms for female directors, ROE and Tobin's Q, denote a greater likelihood for females to be selected to boards due to family ties than for other reasons, appointed to serve as family agents and observers. Importantly, the results identify female directors as a positive influence on financial performance (ROA) within non-family owned-banks.

In terms of profitability, two important accounting measurements were employed for assessing bank performance, ROA and ROE. The results for ROA demonstrate positive and significant associations with ROE for both family and non-family owned-banks. For Tobin's Q, as indicates the movement of market share performance always consistent with maximizing shareholder wealth of the bank. The results also offer positive correlations with Tobin's Q in family and non-family owned-banks.

3.3 Regression Analysis

Table 6. Regression results of family and non-family owned banks and performance by ROA

ROA				
	Family owned banks		Non-family owned banks	
Variables	Coef.	P(Sig)	Coef.	P(Sig)
Board Composition	-0.037	0.294	-0.002	0.570
Board Size	-0.764	0.593	0.057	0.804
Female Directors	-0.008	0.109	0.001	0.057*
Observation	30		40	
R2	0.162		0.097	
Adjusted R2	0.065		0.031	
F statistics	1.676		1.471	
P-Value	0.196		0.236	

***Correlation is significant at the 0.01 level (2-tailed) **Correlation is significant at the 0.05 level (2-tailed)

*Correlation is significant at the 0.10 level (2-tailed).

Table 7. Regression results of family and non-family owned banks and performance by ROE

ROE				
	Family owned banks		Non-family owned banks	
Variables	Coef.	P(Sig)	Coef.	P(Sig)
Board Composition	-0.012	0.016**	0.048	0.156
Board Size	-0.054	0.815	-0.418	0.812
Female Directors	-0.001	0.070*	-0.004	0.522

Observation	30	45
R2	0.260	0.059
Adjusted R2	0.175	-0.009
F statistics	3.056	0.865
P-Value	0.046	0.466

***Correlation is significant at the 0.01 level (2-tailed) **Correlation is significant at the 0.05 level (2-tailed)

*Correlation is significant at the 0.10 level (2-tailed)

Table 8. Regression results of family and non-family owned banks and performance by Tobin's Q

Tobin's Q				
Variables	Family owned banks		Non-family owned banks	
	Coef.	P(Sig)	Coef.	P(Sig)
Board Composition	-0.022	0.147	0.060	0.214
Board Size	-0.925	0.038**	5.099	0.048**
Female Directors	-0.006	0.001*	-0.006	0.567
Observation	30		45	
R2	0.331		0.112	
Adjusted R2	0.254		0.047	
F statistics	4.293		1.730	
P-Value	0.013		0.175	

***Correlation is significant at the 0.01 level (2-tailed) **Correlation is significant at the 0.05 level (2-tailed)

*Correlation is significant at the 0.10 level (2-tailed)

All results in the tables have joint significance at 1%, 5% and 10% of significance. It is important to state that F statistics for Tobin's Q, market measure, has the greatest value, 4.293 and 1.730 respectively, when compared to ROA and ROE for family and non-family owned banks. This demonstrates that Tobin's Q is the best fit as dependent variable for this model. Further the R squared of Tobin's Q also shows greater values, 0.331 and 0.112, between dependent variables of family and non-family owned banks. However, the smaller value of F statistics and R squared value generally account for various possible factors which might shape variation level for bank performance.

Our findings show a negative relationship between board compensation and performance for family owned-banks, based on both the accounting (ROA and ROE) and market measures (Tobin's Q). Additionally, Table 7 well illustrates a clear negatively significant relationship between the existence of independent directors' and ROE. Setia-Atmaja et al. (2009) credits this to the greater presence of family members on the board, who control the selection and dismissal of external directors, reducing effectiveness of monitoring and as a consequence negatively affecting corporate performance. One explanation could be that as selectees are appointed because of a prior relationship with family shareholders they lack relevant skills and experience. There are substantial research findings in the literature of a negative and significant relationship between board compensation and performance (see, e.g., Haniffa and Hudaib, 2006; Tomar & Bino 2012; Rashidn, 2018).

Likewise, the results found no positive relationship between board size, female directors and performance with ROA, ROE and Tobin's Q for banks majority owned by a family. In reality, there is a relatively low (under two) presence of female members of Jordanian family boards compared to male directors, impact on the board is likely to be limited. A plausible explanation for this is presented by Bear et al. (2010), who suggested that a single female in a board setting will face difficulties in having a voice or getting their ideas heard as minority group members are often ignored. Based on this, Joecks et al. (2013) proposed that female directors could initially affect the company negatively, and the impact would be reflected until the board was composed of 30% or more women, only then could it be associated with improved financial performance compared to men-only boards. Regarding board size, a negative relationship shows that the performance of the family owned-banks will decrease when the board size increases. this is in line with much of the research, including Bennedsen, Kongsted & Nielsen (2008) and Haslindar & Fazilah (2011).

For non-family firms, the results identify an insignificant relationship among board compensation and performance (ROA and ROE or Tobin's Q measures). Additionally, figures amply demonstrate a positively significant relationship for the size of the board and performance (as measured by the ROA and Tobin's Q). Yet, female directors' presence on a board is positively and significantly influenced only by ROA. This suggests that the presence of women might increase effectiveness of monitoring and control functions leading to improvements in bank performance.

In summary, our results suggest a strong influence on performance by both board composition and size for family-owned firms. A reduced board size may assist the firm to reach an improved performance as measured by ROA, ROE and Tobin's Q. However, female directors achieve a better performance when measured with ROA, but not with Tobin's Q and ROE.

CONCLUSION

The paper assessed the performance of banks in terms of the influence of family and non-family ownership testing the premise that family owned-banks' achieve a better performance over other banks based on their operations and structure. The results degree with this hypothesis and one explanation may be DeAngelo and DeAngelo (2000) who stated that majority shareholding families seek their own interests over the interests of the firm to the detriment of the other minority shareholders leading to reduced performance. Additionally, concentrated ownership tends to harm performance as it does not improve corporate governance mechanisms. For example, if board size and composition are large with no external directors, family owners have no motivation to improve poor internal controls to reduce their own expropriation of firm resources (Lasfer, 2006). The findings proved that exercising different governance mechanisms in family and non-family ownership is necessary to reach better performance.

In terms of policy, bank regulators interested improving bank performance are recommending to encourage concentrated bank ownership only if controlling benefits are divided between controlling and non-controlling shareholders. This research clearly provides important implications for the different parties in the society. Among these, investors in Jordan can benefit from our significant negative family ownership-financial performance observation in different ways. Specifically, investors can minimize their possible losses, they can underweight their investments in those banks mostly predominated by family ownership. Doing that will enable them to maximize their profits either from selling the stocks in the ASE or receiving more dividends.

That can be clearly occurred if they direct their target investments toward the non-family owned banks. In addition, observing an increase in the stock prices of the non-family owned banks can then be attributed to the reasonable profitability of these institutions relative to that observed in the family owned banks. Finding Adjusted R²s along with the negative coefficients in the non-family-based regressions confirm this argument.

From the policy makers' point of view, our results can be taken as a guidance for reducing the allowed proportion of family ownership in the banks in Jordan. Doing so will make the investment environments more stable once the Jordanian economy faces difficult time. In other words, the dual effect of family ownership and external economic factors might result in a sharp decrease in the profitability of the family owned banks. Henceforth, the overall performance of the ASE will be affected and more investors might then leave the market. Bad consequences can also arise where foreigners who are interested in rational training will then leave the market. An alternative temporary solution to this issue is putting more restrictions and regulations on those family owned banks by enforcing the managers in those companies to fall under the agency cost problem. That is because under this problem more conflict between managers and investors will appear and the former will against the interests of the later.

Nevertheless, studies in family business literature always have limitations and our research is not an exception. The current study does not take into consideration the cross sectional differences in the results between banks due, for example, to the bank market cap and the proportion of foreign ownership. Doing that can produce more meaningful results since large banks can be more organized and profitable than small banks even if the family ownership these banks is higher. Similar argument can also apply to those banks where more foreign ownership is observed. Such an explanation to this later argument is that foreign ownership usually switch their investments to emerging countries and seek for higher profits. Another limitation of our research is that crises dummies could be incorporated in the regressions to examine whether the role of family ownership in profitability varies across the market conditions.

Future research may wish to examine the effect of foreign and institutional ownership on the profitability and performance of banks in developing countries. In such countries, where government has full or part ownership, researchers might investigate if full or part state ownership progresses the operational performance of banks. More research can also extend our work by taking its limitations in into consideration.

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