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# OWNERSHIP CONCENTRATION IN LISTED FIRMS IN THE GULF COOPERATION COUNCIL: IMPLICATIONS FOR CORPORATE GOVERNANCE

STATISTICAL REPORT

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# INTRODUCTION



The Gulf Cooperation Council (GCC) region has witnessed significant economic growth in the last decade with substantial reliance on the public sector to boost economic activities. The maturity of the financial systems and stock markets played a vital role in consolidating economic development by attracting local and international investors. Since the 2008 financial crisis, various structural reforms were introduced to develop the GCC's stock markets by introducing regulatory initiatives, such as new capital market laws in Saudi Arabia, Bahrain, and Qatar; establishing new regulatory bodies, such as those in the United Arab Emirates (UAE), Saudi Arabia, Qatar, and Kuwait; enhancing corporate governance; and easing restrictions on foreign investors (IMF, 2018)[1]. As a result of these reforms, Morgan Stanley Capital International (MSCI) upgraded the UAE, Qatar, Saudi Arabia, and Kuwait to emerging markets status, in 2014, 2014, 2019, and 2020, respectively.

We shed light on the current corporate structures in the GCC region by examining the ownership concentration and ownership identity of listed firms in the region. An ownership structure is important because it may, on the one hand, reduce possible conflicts of interest between managers and shareholders, while, on the other hand, it may increase the likelihood of large shareholders extracting private benefits of control at the expense of minority shareholders. Thus, the level of ownership concentration may encourage or discourage minority and international investors to invest in firms in the region.

[1] IMF. 2018. "Gulf Cooperation Council: How Developed and Inclusive Are Financial Systems in the GCC?" https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/12/04/pp120618gcc-how-developed-and-inclusive-are-financial-systems-in-the-gcc.

In this study, we analyze 692 listed firms in the GCC for a period of seven years (2009–2015). This study provides valuable insights into corporate ownership in the emerging economies of the GCC. First, the findings provide major and minor investors with a comprehensive understanding of the corporate ownership structure in the GCC region, including the ownership concentration and ownership identity of firms in financial and non-financial industries. Second, the findings shed light on the change of ownership concentration in listed firms in the GCC, over seven years (2009–2015), during which, various policies were enacted to encourage investments and promote minority investor protection. Finally, this study prioritizes the public awareness of policy formulation to enhance corporate governance practices and mechanisms in the GCC region.

Despite the abovementioned structural reforms and the improvement in financial market development indices during the last two decades (for most GCC countries), market capitalization in the GCC region remains below pre-global financial crisis levels; debt markets are under-developed; the number of listed companies is relatively small; the number of IPOs remain low; listings are concentrated in a few large companies and a small number of sectors; and foreign investment is still limited, with restrictions on access for foreign investors and foreign listings in four out of the six GCC countries (IMF, 2018). This study finds a high level of ownership concentration in GCC listed firms, which could trigger potential conflicts of interest among shareholders. Among the issues that prevent the further development of GCC countries' stock markets are: weak investor protection, and a corporate governance structure that, although improved, is still an emerging concept (IMF, 2018). Reducing restrictions on foreign ownership in stock markets, enhancing investor protection (through reforms, such as better financial fraud regulation and stronger disclosure requirements), and implementing favorable corporate governance reforms could boost investor confidence, diversify the investor base, and increase financial integration by attracting foreign capital (IMF, 2018).

# TAKEAWAYS

## OWNERSHIP CONCENTRATION

- Listed firms in the GCC have a high degree of ownership concentration.
- The ownership concentration of listed non-financial firms is higher than that of listed financial firms, but cross-country differences exist.
- Financial firms in Qatar, Oman, and Kuwait have a higher degree of ownership concentration than those in Bahrain, Saudi Arabia, and the UAE.
- Since the 2008 financial crisis, ownership concentration increased in Oman, Qatar, and Bahrain, but remained stable in Saudi Arabia, Kuwait, and the UAE.

## OWNERSHIP IDENTITY

- The state is usually the largest shareholder and its presence as a shareholder is positively related to a firm's size.
- The prevalence of families as the largest shareholder varies across GCC countries, with the UAE having the highest proportion and Qatar the lowest.
- GCC countries present a significantly low number of widely held corporations since most listed firms are controlled by large shareholders, such as the state, families, and holding companies.

## CONTROL-ENHANCING MECHANISMS

- Pyramids are more common in Kuwait compared to other GCC countries.
- A single controlling ownership structure is more prevalent in Qatar compared to other GCC countries.
- Cross-holding structures are more prevalent in the UAE compared to other GCC countries.

# 1. OWNERSHIP CONCENTRATION

# 1.1

## OWNERSHIP CONCENTRATION IN LISTED FIRMS

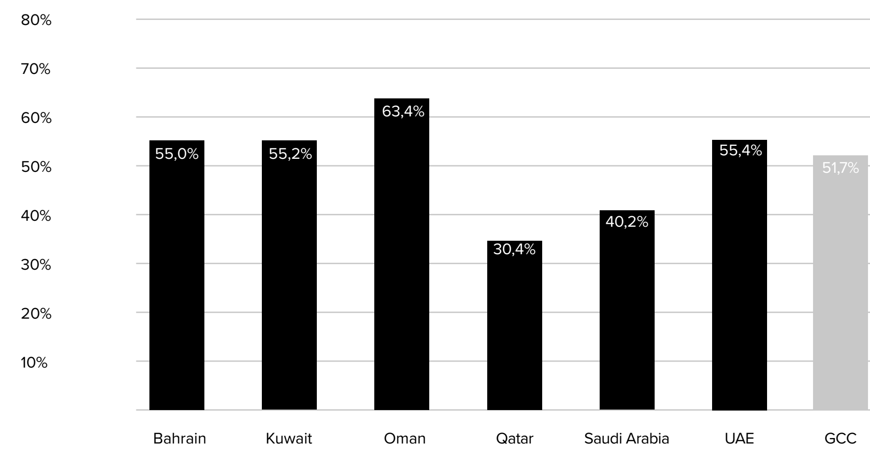
The percentage of shares held by significant shareholders (i.e., shareholders holding more than 5% of a firm's voting rights), is an important measure of a firm's corporate governance structure, which could affect its behavior and, consequently, performance. More than half of GCC listed firms' shares are owned by significant shareholders (Figure 1.1). On average, each firm has 2.7 significant shareholders (Figure 1.2). The high percentage of shares held by significant shareholders translates to a value of 0.34 using the normalized Herfindahl-Hirschman index[2], which measures a firm's ownership concentration with values that range from 0 (when there is an equal distribution of ownership among shareholders) to 1 (when there is a single owner holding 100% of voting rights).

> LISTED FIRMS IN THE GCC ARE CHARACTERIZED BY A HIGH OWNERSHIP CONCENTRATION. MORE THAN HALF OF LISTED FIRMS' SHARES ARE HELD BY SIGNIFICANT SHAREHOLDERS. HOWEVER, THE REGION IS NOT HOMOGENEOUS AND CROSS-COUNTRY DIFFERENCES IN OWNERSHIP CONCENTRATION ARE OBSERVED.

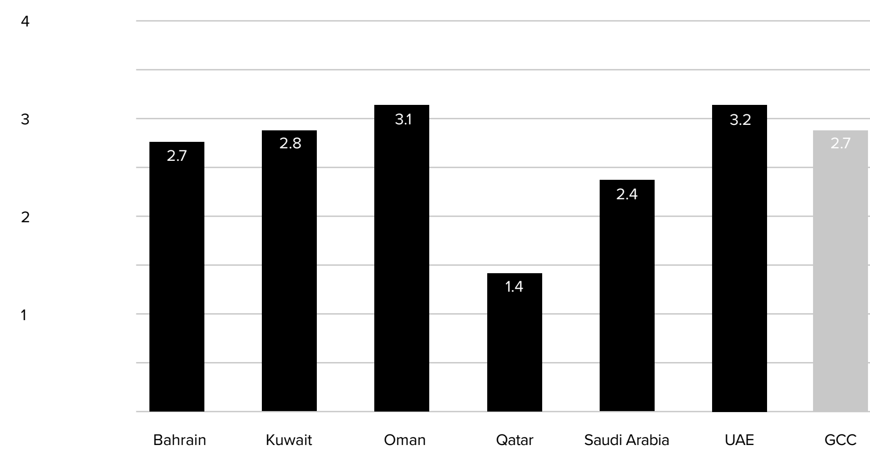
[2]The normalized Herfindahl-Hirschman Index: $HHI_{it} = \dfrac{\sum_{j=1}^{N}\left(\frac{SH_j}{OWNCON}\right)^2 - \frac{1}{N}}{1-\frac{1}{N}}$

for $N > 1$ and $HHI_{it} = 1$ for $N = 1$, where $SH_j$ is the percentage of voting rights of each shareholder $j$, $OWNCON$ is the ownership held by all significant shareholders, and $N$ is the number of significant shareholders.

### FIGURE 1.1. PERCENTAGE OF LISTED FIRMS' SHARES HELD BY SIGNIFICANT SHAREHOLDERS BY COUNTRY



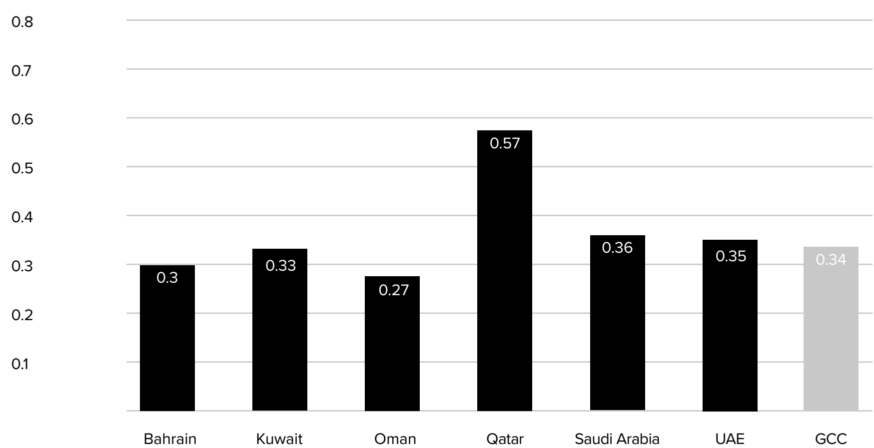

### FIGURE 1.2. AVERAGE NUMBER OF SIGNIFICANT SHAREHOLDERS IN LISTED FIRMS BY COUNTRY



# 1.1.1

Within the GCC region, cross-country differences in percentage of listed firms' shares held by significant shareholders exist with firms in Oman having the highest percentage of shares owned by significant shareholders (63.4%) and firms in Qatar the lowest percentage (30.4%) (Figure 1.1.). Listed firms based in the UAE have the highest number of significant shareholders (3.5) followed by listed firms in Bahrain, Oman, Kuwait, and Saudi Arabia (Figure 1.2). The normalized Herfindahl-Hirschman index is the highest for Qatar (0.57) and the lowest for Oman (0.27) (Figure 1.3).

FIGURE 1.3. HERFINDAHL-HIRSCHMAN INDEX OF OWNERSHIP CONCENTRATION IN LISTED FIRMS BY COUNTRY






## OWNERSHIP CONCENTRATION IN LISTED FINANCIAL FIRMS

Within the GCC region, cross-country differences exist in the ownership concentration of financial firms. In Bahrain, 58.8% of listed financial firms' shares are held by significant shareholders, followed closely by listed firms in the UAE and Oman (more than 50% shares in both), while only 21.9% shares are owned by significant shareholders in Qatar's listed firms (Figure 1.4).

On average, listed financial firms in the UAE have 3.4 significant shareholders per firm, followed by Oman and Saudi Arabia, whereas listed financial firms in Qatar have only 1.5 significant shareholders (Figure 1.5).

> ON AVERAGE, LISTED FINANCIAL FIRMS BASED IN THE UAE HAVE 3.4 SIGNIFICANT SHAREHOLDERS PER FIRM, WHEREAS THEIR COUNTERPARTS IN QATAR HAVE ONLY 1.5.

# 1.1.1

Finally, the normalized Herfindahl-Hirschman index is the highest for Qatar (0.50), followed by Kuwait (0.42), which indicates that the financial firms in these countries have the highest ownership concentration when compared with the financial firms of other GCC countries (Figure 1.6).

Listed financial firms in Saudi Arabia and the UAE have very similar values of ownership concentration expressed in terms of Herfindahl-Hirschman index (around 0.32), while firms in Oman and Bahrain exhibit the lowest values (0.20 and 0.29, respectively), which reflects a low ownership concentration.

**FIGURE 1.4. PERCENTAGE OF LISTED FINANCIAL FIRMS' SHARES HELD BY SIGNIFICANT SHAREHOLDERS BY COUNTRY**

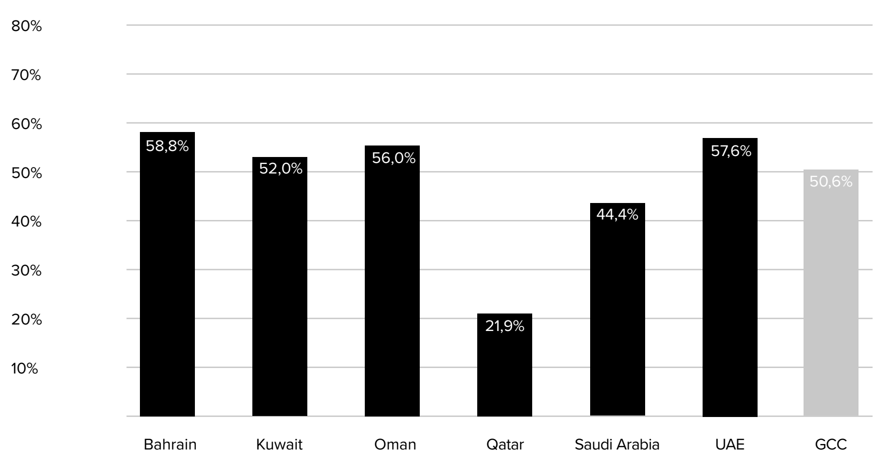



**FIGURE 1.5. AVERAGE NUMBER OF SIGNIFICANT SHAREHOLDERS IN LISTED FINANCIAL FIRMS BY COUNTRY**

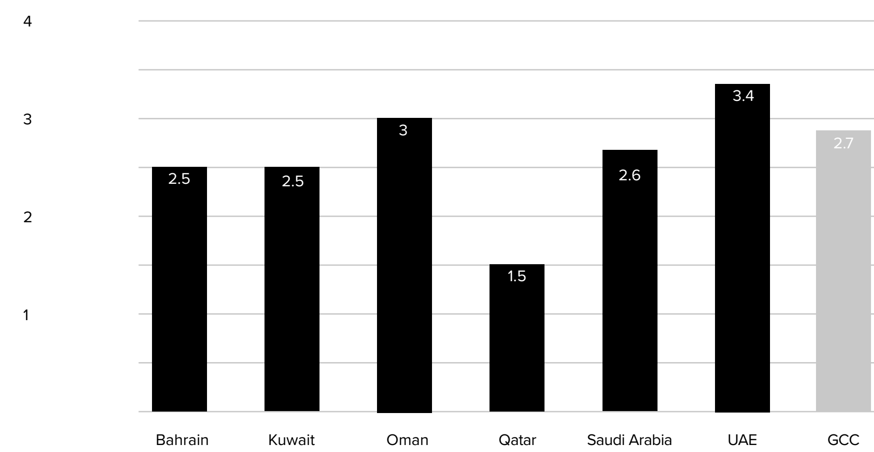
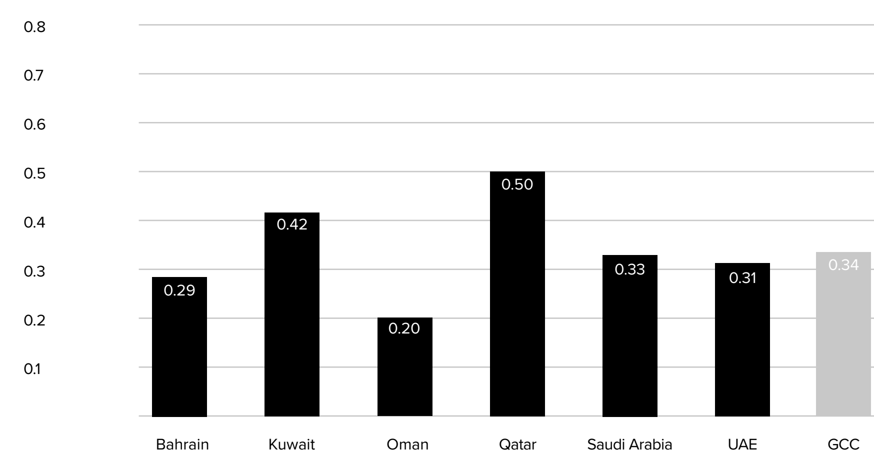



**FIGURE 1.6. HERFINDAHL-HIRSCHMAN INDEX OF OWNERSHIP CONCENTRATION IN LISTED FINANCIAL FIRMS BY COUNTRY**






Ownership Concentration in Listed Financial Firms

# 1.1.2

## OWNERSHIP CONCENTRATION IN LISTED NON-FINANCIAL FIRMS

Oman is the only country in the GCC region where the percentage of shares of listed non-financial firms held by significant shareholders is above 60%; listed non-financial firms in Kuwait, the UAE, and Bahrain follow (50%–60% of shares), while Qatar's and Saudi Arabia's firms have the lowest proportion of shares owned by significant shareholders (less than 40% of shares) (Figure 1.7).

Oman has the highest number of significant shareholders in listed non-financial firms (on average, 3.1 significant shareholders per firm), followed by Kuwait, the UAE, and Bahrain, which listed non-financial firms show similar figures (on average, 2.9 significant shareholders per firm) (Figure 1.8). However, listed non-financial firms in Qatar have only 1.4 significant shareholders on average, which represents the lowest value among the GCC countries.

> "THE HIGHEST OWNERSHIP CONCENTRATION EXPRESSED IN TERMS OF THE NORMALIZED HERFINDAHL-HIRSCHMAN INDEX IS OBSERVED IN QATAR'S LISTED NON-FINANCIAL FIRMS (0.63), WHILE THE LOWEST OWNERSHIP CONCENTRATION WITHIN THE GCC REGION IS FOUND IN FIRMS BASED IN BAHRAIN, KUWAIT, AND OMAN."

FIGURE 1.7. PERCENTAGE OF LISTED NON-FINANCIAL FIRMS' SHARES HELD BY SIGNIFICANT SHAREHOLDERS BY COUNTRY

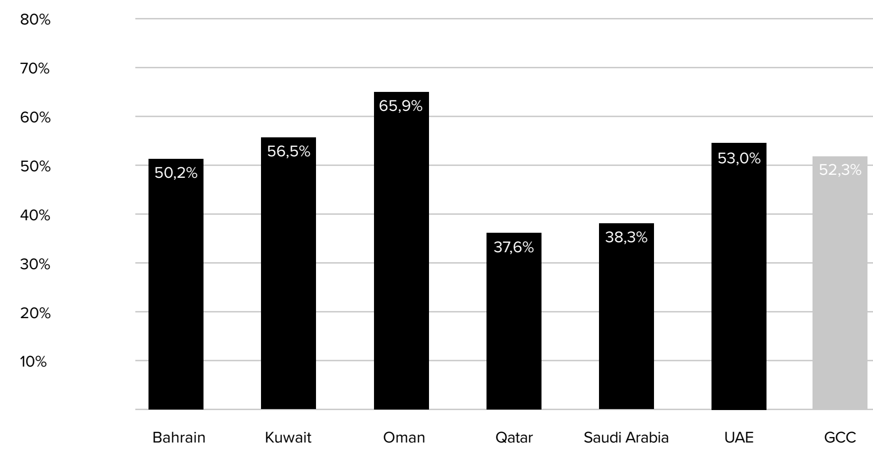
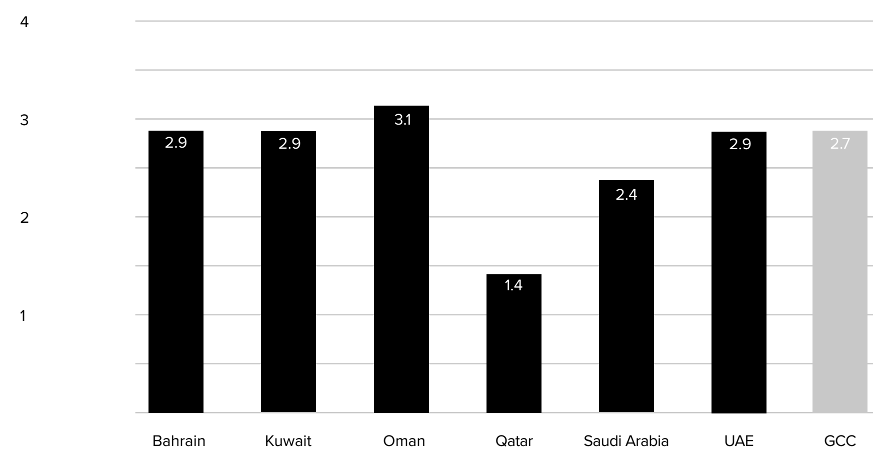



FIGURE 1.8. AVERAGE NUMBER OF SIGNIFICANT SHAREHOLDERS IN LISTED NON-FINANCIAL FIRMS BY COUNTRY



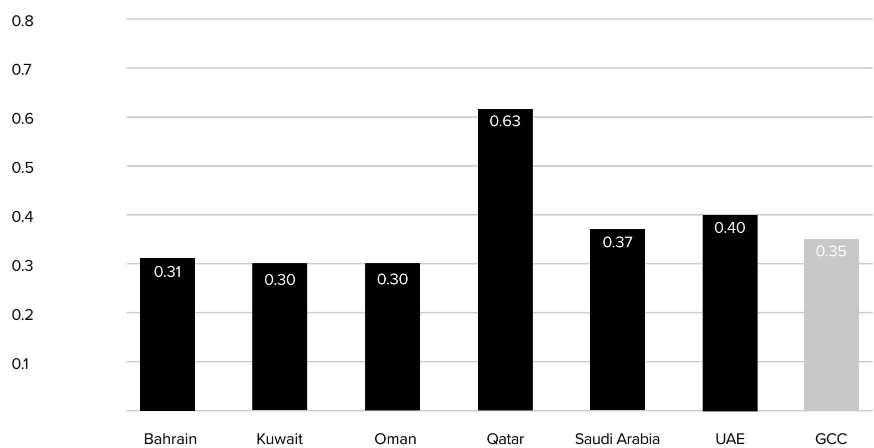


Ownership Concentration in Listed Non-Financial Firms

# 1.1.2

Finally, the normalized Herfindahl-Hirschman index of ownership concentration is the highest for listed non-financial firms based in Qatar (0.63), while their counterparts in the UAE and Saudi Arabia represent lower numbers, 0.40 and 0.37 respectively (Figure 1.9). The lowest ownership concentration expressed in terms of Herfindahl-Hirschman index is observed in Bahrain, Kuwait, and Oman (around 0.3).

FIGURE 1.9. HERFINDAHL-HIRSCHMAN INDEX OF OWNERSHIP CONCENTRATION IN LISTED NON-FINANCIAL FIRMS BY COUNTRY






In summary, in the GCC region, as a whole, ownership concentration is higher for listed non-financial firms than for listed financial firms, however there are differences within each country. Indeed, in listed financial firms based in Bahrain, Saudi Arabia, and the UAE the percentage of shares held by significant shareholders is higher than in listed non-financial firms whereas, it is the opposite in Kuwait, Oman, and Qatar.

There are small differences in the average number of significant shareholders between listed financial and non-financial firms within countries. In Bahrain, Kuwait, and Oman, non-financial firms have more significant shareholders than financial firms and the opposite is true in Qatar, Saudi Arabia, and the UAE.

Finally, small differences are also observed in the values of ownership concentration expressed in terms of normalized Herfindahl-Hirschman index between listed financial and non-financial firms for countries within the GCC region. Generally, the value of Herfindahl Hirschman index is higher for non-financial firms, except for Kuwait, where the index is higher for financial firms.

> “IN THE GCC REGION, AS A WHOLE, OWNERSHIP CONCENTRATION IS HIGHER FOR LISTED NON-FINANCIAL FIRMS THAN FOR LISTED FINANCIAL FIRMS, ALTHOUGH FIRMS BASED IN SOME COUNTRIES (NAMELY BAHRAIN, SAUDI ARABIA, AND THE UAE) SHOW OPPOSITE TRENDS.”

# 1.2

## CHANGE IN OWNERSHIP CONCENTRATION, 2009–2015

During the period 2009–2015, ownership concentration was fairly stable in the GCC region, as a whole (Figure 1.10.). The proportion of shares held by significant shareholders was 50.8% in 2009 and reached its highest rate of 53.2% in 2013. The number of significant shareholders and the normalized Herfindahl-Hirschman index showed negligible changes confirming the stability of ownership concentration in the GCC region over the seven-year period.

FIGURE 1.10. CHANGE IN OWNERSHIP CONCENTRATION IN THE GCC REGION, 2009-2015

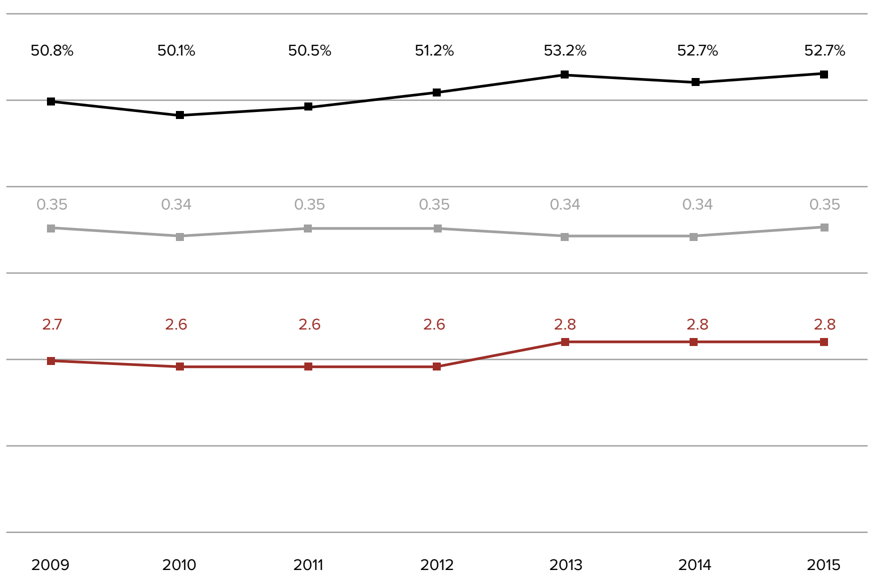
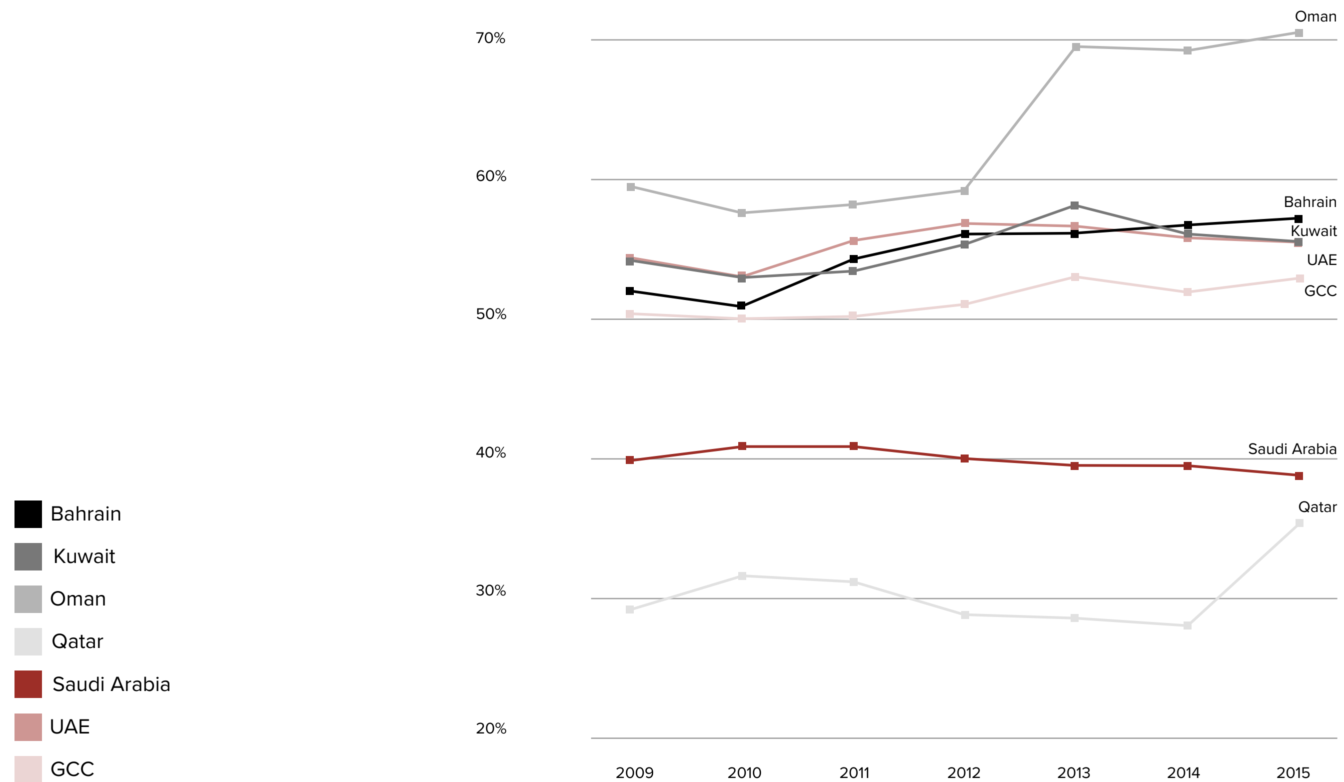



FIGURE 1.11. PERCENTAGE OF LISTED FIRMS' SHARES HELD BY SIGNIFICANT SHAREHOLDERS BY COUNTRY, 2009-2015



# 1.2



We observe that the percentage of listed firms' shares owned by significant shareholders changed minimally during the period 2009–2015 in Kuwait, Saudi Arabia, and UAE (Figure 1.11). However, Oman's listed firms witnessed a substantial and parallel increase in the percentage of shares held by significant shareholders and in the number of significant shareholders (Figure 1.12), which resulted in a decrease of the normalized Herfindahl-Hirschman index (Figure 1.13).

Similar change patterns (even though smoother than in Oman) can be observed for listed firms based in Qatar and Bahrain. A possible explanation for these results could be the differences in minority investor protection. In countries where minority investor protection has not changed over the studied period (Oman, Qatar, and Bahrain), minority shareholders have not invested extensively (they did not seem to have the incentives to do so); while majority shareholders have increased their presence (number of significant shareholders) and ownership rights.

**FIGURE 1.12. CHANGE IN THE AVERAGE NUMBER OF SIGNIFICANT SHAREHOLDERS BY COUNTRY, 2009-2015**

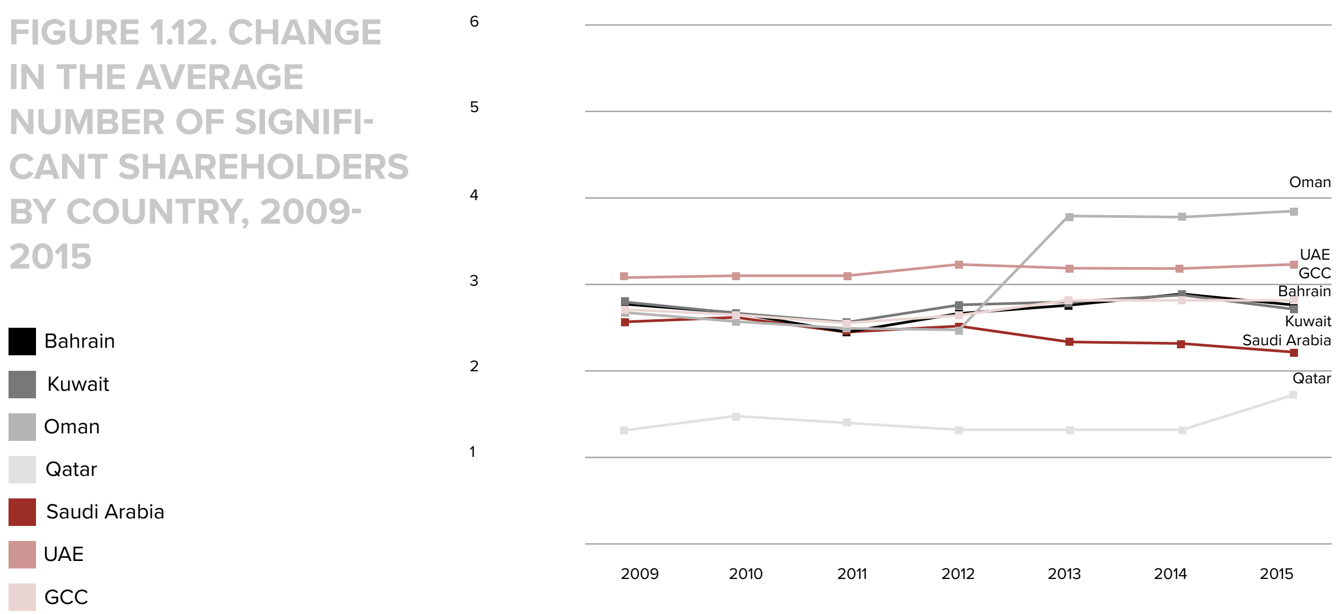
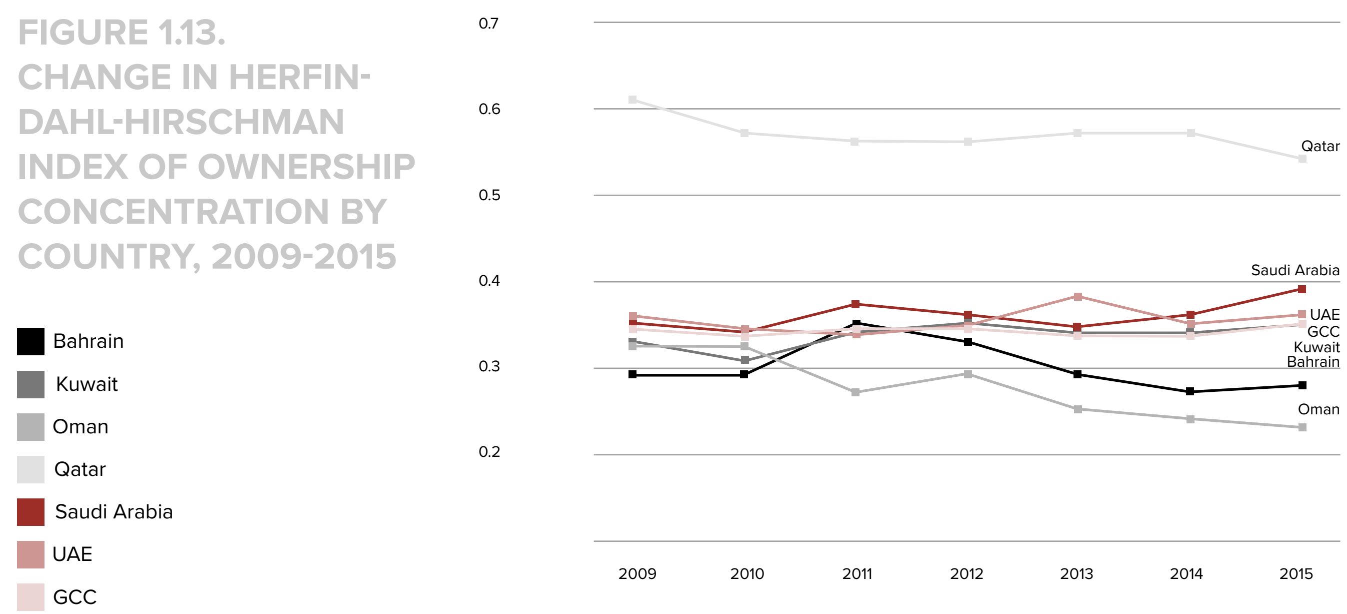



**FIGURE 1.13. CHANGE IN HERFINDAHL-HIRSCHMAN INDEX OF OWNERSHIP CONCENTRATION BY COUNTRY, 2009-2015**






Change in Ownership Concentration, 2009–2015

# 2. OWNERSHIP IDENTITY

Who owns listed firms in the GCC region? The answer to this question lies in the further exploration of ownership concentration by revealing the identity of the largest ultimate owners. The ultimate owners are those who own a listed firm (directly or indirectly through control chains) and can influence a firm's behavior and, consequently, its performance. To analyze the ownership identity of the largest ultimate owner, we focus on the firm's blockholders with more than 10% of a listed firm's voting rights and then selected the largest of them.

**WE CLASSIFY THE LARGEST ULTIMATE SHAREHOLDERS INTO SIX CATEGORIES:**

| | |
|---|---|
| FAMILY | family or an individual |
| STATE | a government of a GCC country, local authority, government agency, or the GCC government sovereign fund |
| INSTITUTIONAL | an institutional investor (e.g., mutual, pension, or hedge fund), investment advisors, or a foreign sovereign fund |
| CORPORATION | a non-financial firm |
| FINANCIAL INSTITUTION | a bank or an insurance company[3] |
| HOLDING | a holding company[3] |
| WIDELY HELD | firm has no controlling shareholders |

[3]It is worth noting that the initial definition of ownership relies on direct ownership, which coincides with the ultimate owner (the last in the control chain) for families, the state, institutional shareholders and widely held firms. However, when the largest shareholder is a corporation, a financial institution or a holding company, the ultimate owner may differ from the direct shareholder (e.g., the ultimate owner may be a family or the state). Therefore, the chains of control are followed to identify the ultimate owner. In most cases, the aforementioned procedure to trace the ultimate owner leads to an unlisted firm since it is not required to disclose its shareholder structure in GCC countries. In similar situations, previous studies have classified such companies as family firms. However, within the GCC context, this approach is not appropriate because families and the state are prevalent. Accordingly, instead of inferring one type of ultimate owner, these shareholders are classified based on their direct shareholdings as corporations, financial institutions, or holdings.

# 2.1

MOST OF THE LISTED FIRMS BASED IN THE GCC REGION ARE CONTROLLED BY LARGE BLOCK-HOLDERS AND ONLY COMPARATIVELY LOW PERCENTAGE OF FIRMS ARE WIDELY HELD.

## OWNERSHIP IDENTITY OF THE LARGEST SHAREHOLDERS IN LISTED FIRMS

The state is the largest ultimate shareholder in the GCC region, controlling 22.5% of listed firms, followed by holding companies (19.9% of firms), families (15.9% of firms), corporations (15.7% of firms), financial institutions (9.1% of firms), then institutional investors (6.9% of firms) (Figure 2.1). The remaining 10.2% of firms have no controlling shareholders, i.e. firms are widely held.

FIGURE 2.1. PERCENTAGE OF LISTED FIRMS BY THE LARGEST INVESTORS IN THE GCC REGION

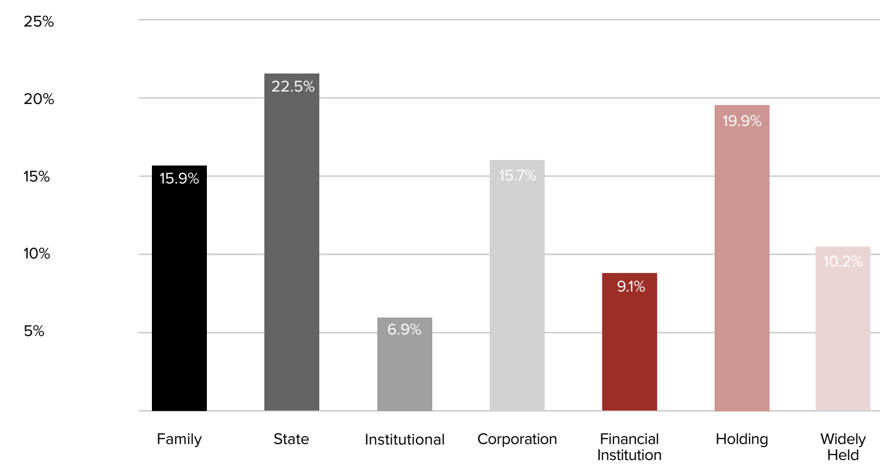



Figure 2.2 shows the identity of the largest ultimate shareholders within GCC countries. The state is the largest ultimate shareholder in Bahrain, Qatar, and the UAE (around 41.5% of firms). The prevalence of state ownership is lower in Saudi Arabia and Oman (22.1% and 17.9% of firms, respectively) and even lower in Kuwait (6.7% of firms).

The largest ultimate shareholders in Oman and Kuwait are holding companies (around 30% of firms) and their presence is also notable in Saudi Arabia and Bahrain (around 14.6% of firms). Regarding family ownership, the UAE has the highest percentage of listed firms controlled by families among GCC countries (23.2% of firms), while in

# 2.1

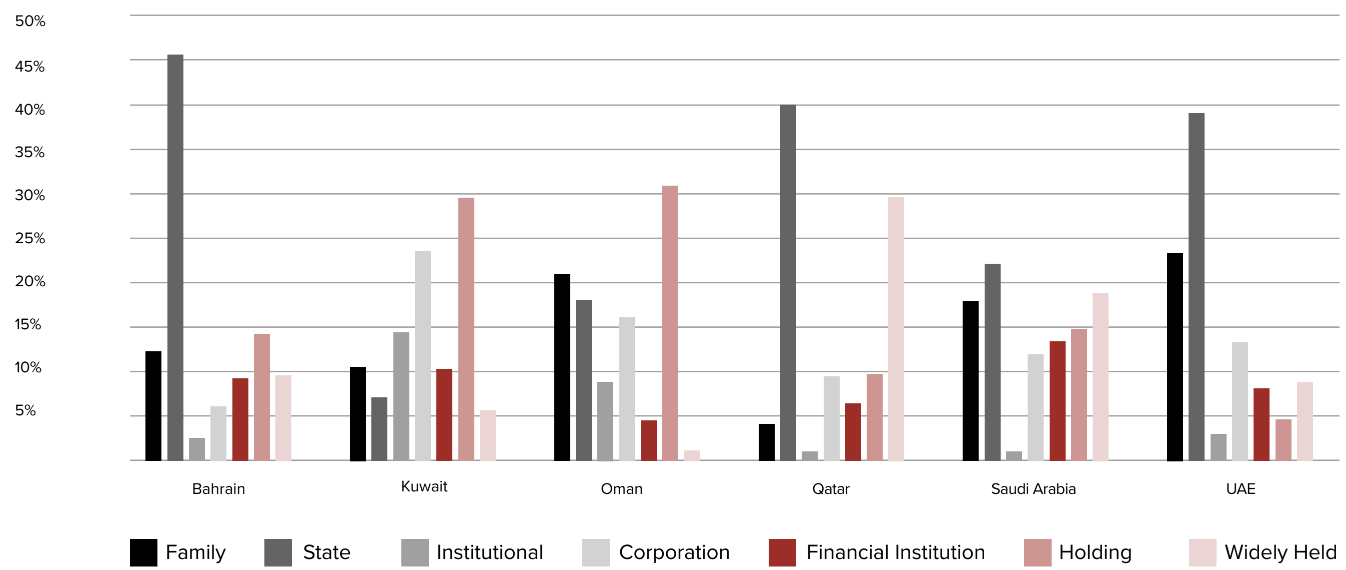
Qatar has much lower percentage of listed firms in which families are among the largest ultimate owners (4.0% of firms).

Listed firms based in Kuwait and Oman have the highest proportion of corporations as largest shareholders (23.2% and 16.4% of firms, respectively) among the GCC countries. Corporations, however, are not that relevant in the rest of the GCC countries with only Saudi Arabia exceeding 10%. Furthermore, financial institutions as largest shareholders do not exceed 15% of listed firms for any GCC country. In addition, institutional investors exhibit extremely low percentages in most of the GCC countries, namely Saudi Arabia, Qatar, the UAE, and Bahrain (not exceeding 3.3% of listed firms). Only Kuwait and Oman show higher proportions of institutional investors as largest shareholders (14.5% and 9.0% of firms, respectively).

> THE STATE IS THE MOST PREVALENT INVESTOR IN BAHRAIN, QATAR, AND THE UAE BEING THE LARGEST ULTIMATE SHAREHOLDER IN AROUND 40% OF LISTED FIRMS. ON THE OTHER HAND, IN KUWAIT AND OMAN THE STATE'S ROLE IS SMALLER AS HOLDING COMPANIES ARE THE LARGEST ULTIMATE SHAREHOLDER IN AROUND 30% OF LISTED FIRMS.

Qatar has the highest percentage of widely held firms (29.8% of listed firms), followed by Saudi Arabia (18.9% of listed firms). The UAE and Bahrain have significantly less widely held listed firms (9.0% and 9.5%, respectively), and only 1.0% of listed firms are widely held in Oman.

**FIGURE 2.2. PERCENTAGE OF LISTED FIRMS BY THE LARGEST INVESTORS BY COUNTRY**





Ownership Identity of the Largest Shareholders in Listed Firms

# 2.1.1

“

FAMILIES ARE THE SECOND MOST COMMON INVESTOR IN LISTED FINANCIAL FIRMS BASED IN THE UAE AND OMAN, IN 28.9% AND 23.5% OF LISTED FINANCIAL FIRMS RESPECTIVELY.

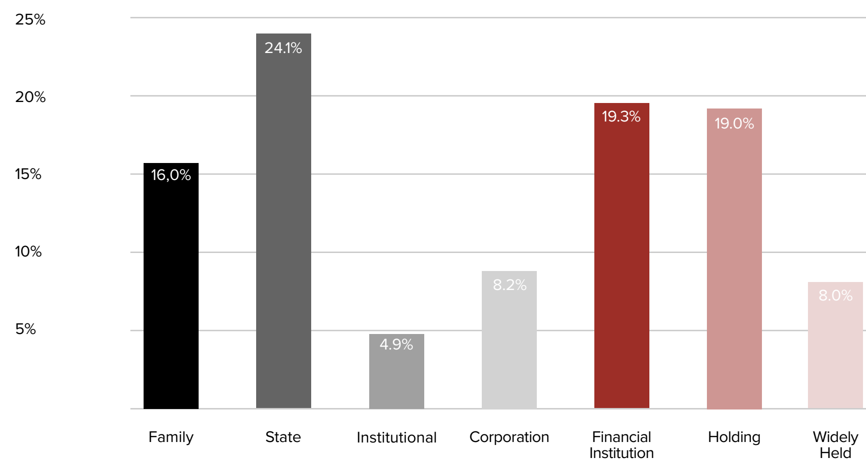
”



## OWNERSHIP IDENTITY OF THE LARGEST SHAREHOLDERS IN LISTED FINANCIAL FIRMS

When examining the identity of the largest shareholders of listed financial firms, we find that the state is the most common largest investor (24.1% of financial firms), followed by financial institutions (19.3% of financial firms) and holding companies (19.0% of financial firms) (Figure 2.3). The next largest category of shareholders is the family (16.0% of financial firms). None of the remaining three categories (institutional investors, corporation, widely held) exceed 10% of financial firms.

FIGURE 2.3. PERCENTAGE OF LISTED FINANCIAL FIRMS BY THE LARGEST INVESTORS IN THE GCC



In the UAE, the state is the largest shareholder in 39.4% of financial listed firms (Figure 2.4). Bahrain and Qatar come next with similar percentages, followed by Oman (17.0% of financial firms), Saudi Arabia (16.6% of financial firms), then Kuwait (10.6% of financial firms).

In terms of holding companies as the largest shareholders of financial listed firms, Kuwait and Oman show the highest percentage among GCC countries (around 33.0% of financial firms), followed by Bahrain and Saudi Arabia. In Qatar and the UAE, holding companies are not common largest investors in financial listed firms (only around 3% of firms).

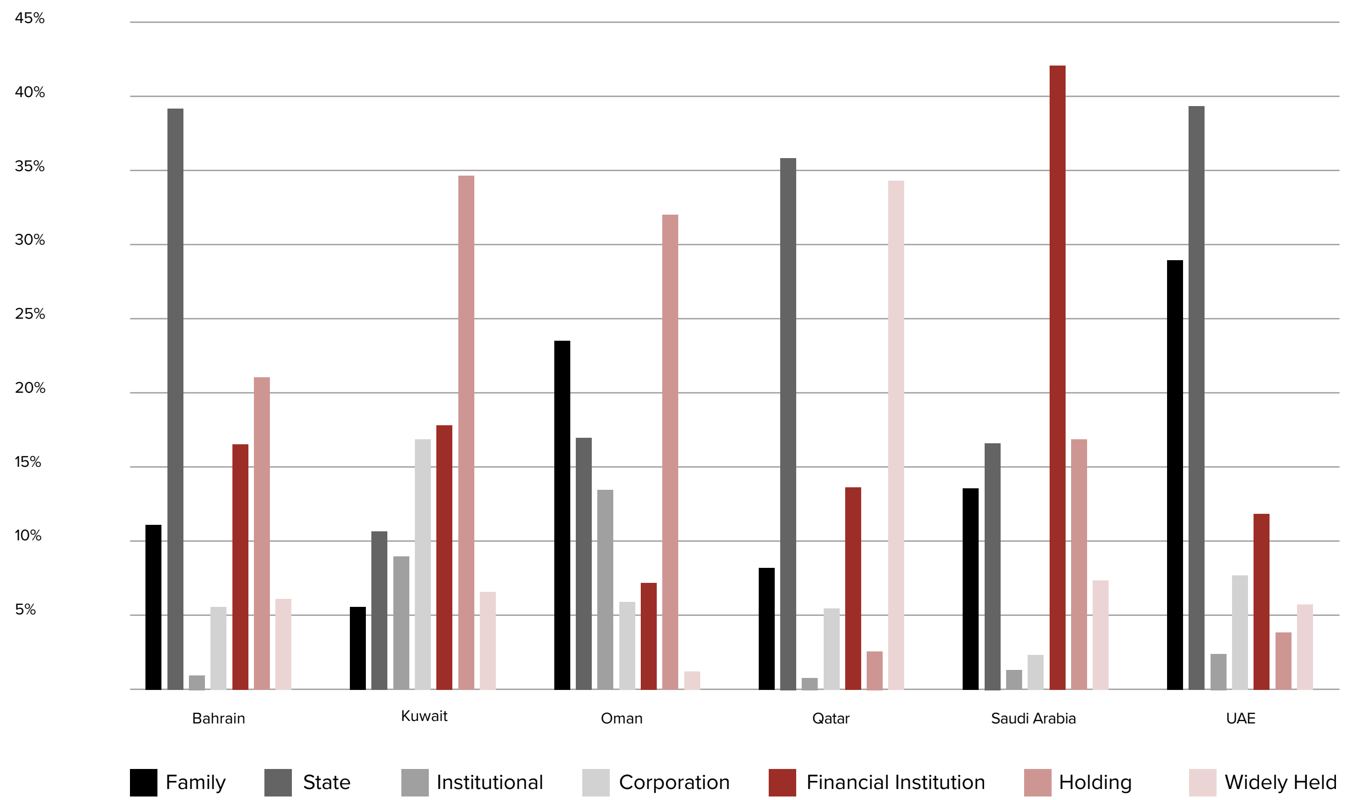
Families are the second most common largest shareholder in the UAE (28.9% of financial firms), followed by Oman (23.5% of financial firms). The lowest participation of families as the largest shareholders of financial listed firms is observed in Qatar (7.9% of financial firms) and Kuwait (5.5% of financial firms).

Corporations have little presence as largest shareholders of listed financial firms in the GCC, with the highest percentage in Kuwait (16.9% of financial firms). On the contrary, financial institutions are much more prevalent as the largest shareholder in the GCC, especially in Saudi Arabia (42.5% of financial firms), followed by Bahrain (16.5% of financial firms) and Kuwait (17.7% of financial firms). Participation of corporations in Qatar's, the UAE's, and Oman's listed financial firms is much lower.

Institutional investors are almost non-existent as largest shareholders in Qatar, Saudi Arabia, Bahrain, and the UAE but are present in 13.5% of listed financial firms in Oman and 9.0% of financial listed firms in Kuwait. Finally, widely held firms are among largest shareholders in Qatar (34.1% of financial firms) whereas widely held listed financial firms are significantly less common in the rest of the GCC countries.



**FIGURE 2.4. PERCENTAGE OF LISTED FINANCIAL FIRMS BY THE LARGEST INVESTORS BY COUNTRY**



# 2.1.2

"

WIDELY HELD NON-FINANCIAL LISTED FIRMS ARE COMMON IN BAHREIN (14.1% OF FIRMS), QATAR (26.2% OF FIRMS), AND SAUDI ARABIA (24.3% OF FIRMS), ALTHOUGH THE STATE REMAINS THE MOST PREVALENT INVESTOR.

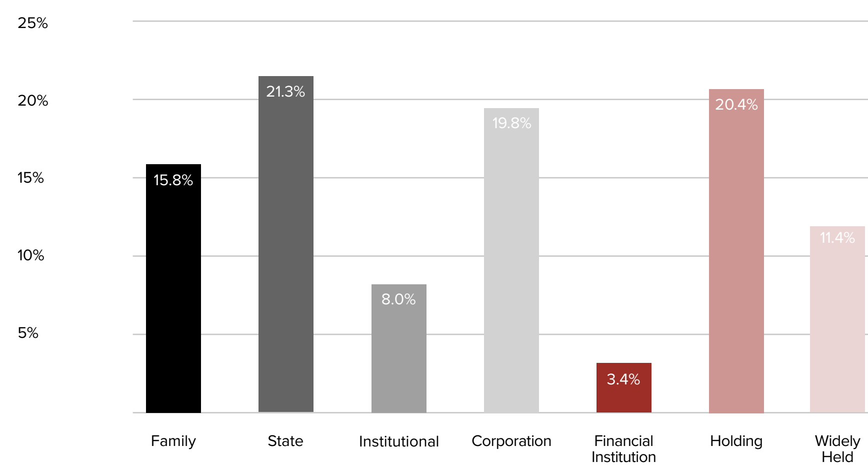
"



## OWNERSHIP IDENTITY OF THE LARGEST SHAREHOLDERS IN LISTED NON-FINANCIAL FIRMS

The findings suggest that the state, holding companies, and corporations are of similar importance (each being the largest shareholder in around 20% of listed non-financial firms) (Figure 2.5). Families as a largest shareholders have a comparatively lower rate (15.8% of non-financial firms). Financial institutions and institutional investors are the least prevalent largest shareholders (less than 8% of non-financial firms) when compared with other categories of shareholders. Lastly, 11.4% of listed non-financial firms in the GCC are widely held.

FIGURE 2.5. PERCENTAGE OF LISTED NON-FINANCIAL FIRMS BY THE LARGEST INVESTORS IN THE GCC

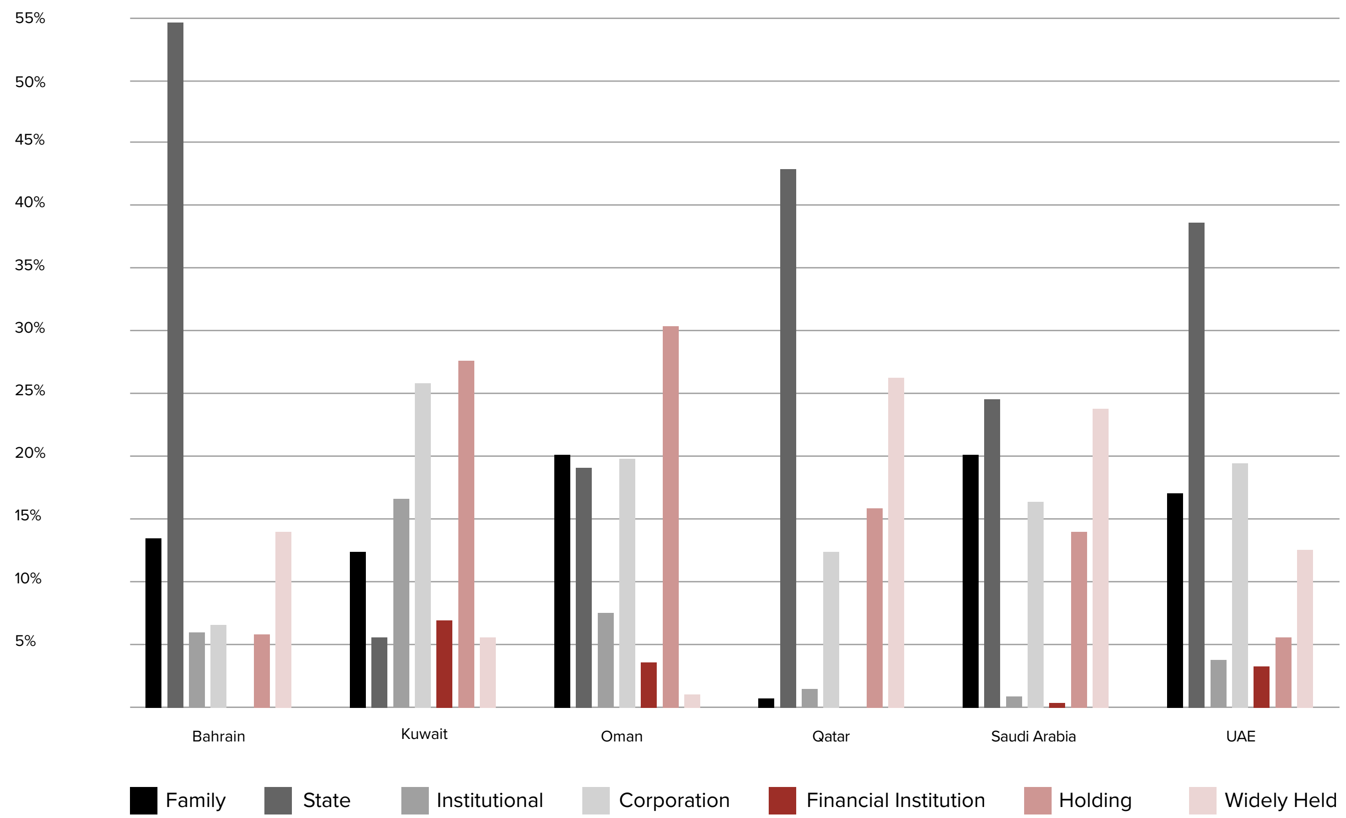



Ownership Identity of the Largest Shareholders in Listed Non-Financial Firms

# 2.1.2

We observe significant differences in ownership identity between listed non-financial firms among GCC countries (Figure 2.6). First, the state is the largest shareholder in 54.5% of non-financial firms in Bahrain, followed by Qatar (43.0% of non-financial firms) and the UAE (38.7% of non-financial firms); the lowest involvement of state as largest investor of listed non-financial firms is in Kuwait (5.5% of firms). Second, holding companies are the largest shareholders of a significant proportion of listed non-financial firms in Oman (30.2% of non-financial firms) and Kuwait (27.5% of non-financial firms). While families are the largest shareholders of listed non-financial firms in Oman (20.0% of non-financial firms) and Saudi Arabia (20.0% of non-financial firms), this proportion in Qatar is only 0.7% of listed non-financial firms. Corporations are the largest shareholder of 25.8% of listed non-financial firms in Kuwait, followed by Oman (19.9% of non-financial firms) and the UAE (19.3% of non-financial firms). Financial institutions are almost never the largest shareholder of listed non-financial firms in Bahrain, Qatar and Saudi Arabia, whereas, in Kuwait, corporations are the largest investor in 7.0% of listed non-financial firms. Institutional investors are the largest shareholder of 16.8% of listed non-financial firms in Kuwait. Lastly, Qatar and Saudi Arabia have a moderate percentage of widely held firms, whereas in Oman widely held listed non-financial firms are almost not present (only 1.0% of non-financial firms).

## FIGURE 2.6. PERCENTAGE OF LISTED NON-FINANCIAL FIRMS BY THE LARGEST INVESTORS BY COUNTRY





Ownership Identity of the Largest Shareholders in Listed Non-Financial Firms

# 3. CONTROL-ENHANCING MECHANISMS

## CONTROL-ENHANCING MECHANISMS

We examine the use of control-enhancing mechanisms that may enable shareholders to exert their power beyond their cash-flow rights. We focus on four control-enhancing mechanisms:

| | |
|---|---|
| PYRAMIDS | the controlling shareholder (direct) is a corporation and the last share-holder in the control chain is a family, an individual, a government institution, an institutional investor, or a private firm with a threshold of over 10%. |
| WIDELY HELD FIRMS | the controlling shareholder (direct) is a corporation and the last share-holder in the control chain is a listed firm, with no controlling shareholder and a threshold of over 10 %. |
| CROSS-HOLDINGS | the firm controls at least 10 % of its own shares through a third corpo-ration. |
| CONTROLLING OWNER ALONE WIDELY HELD | there is a single controlling owner. |

# 3.1

“

PYRAMIDS AND CONTROLLING OWNER ALONE ARE THE TWO MOST COMMON CONTROL-ENHANCING MECHANISMS USED IN BOTH FINANCIAL AND NON-FINANCIAL LISTED FIRMS BASED IN THE GCC.

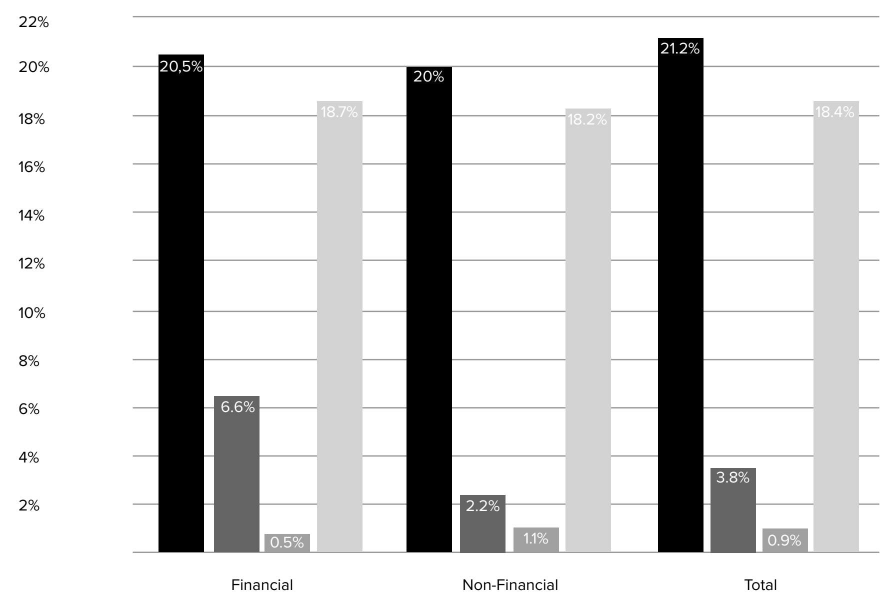
”

## CONTROL-ENHANCING MECHANISMS IN LISTED FIRMS

21.2% of listed firms in the GCC have controlling shareholders that use pyramids, whereas 18.4% of the firms have only one controlling shareholder (figure 3.1). Widely held firms account for only 3.8% of listed firms (6.6% of listed financial firms and 2.2% of listed non-financial firms). Cross-holdings are very uncommon as control enhancing mechanisms in both the financial and non-financial industries in the GCC.

### FIGURE 3.1. PERCENTAGE OF FIRMS BY CONTROL-ENHANCING MECHANISMS IN GCC REGION

- Pyramids
- Widely Held Firms
- Cross-Holdings
- Controling Owner Alone

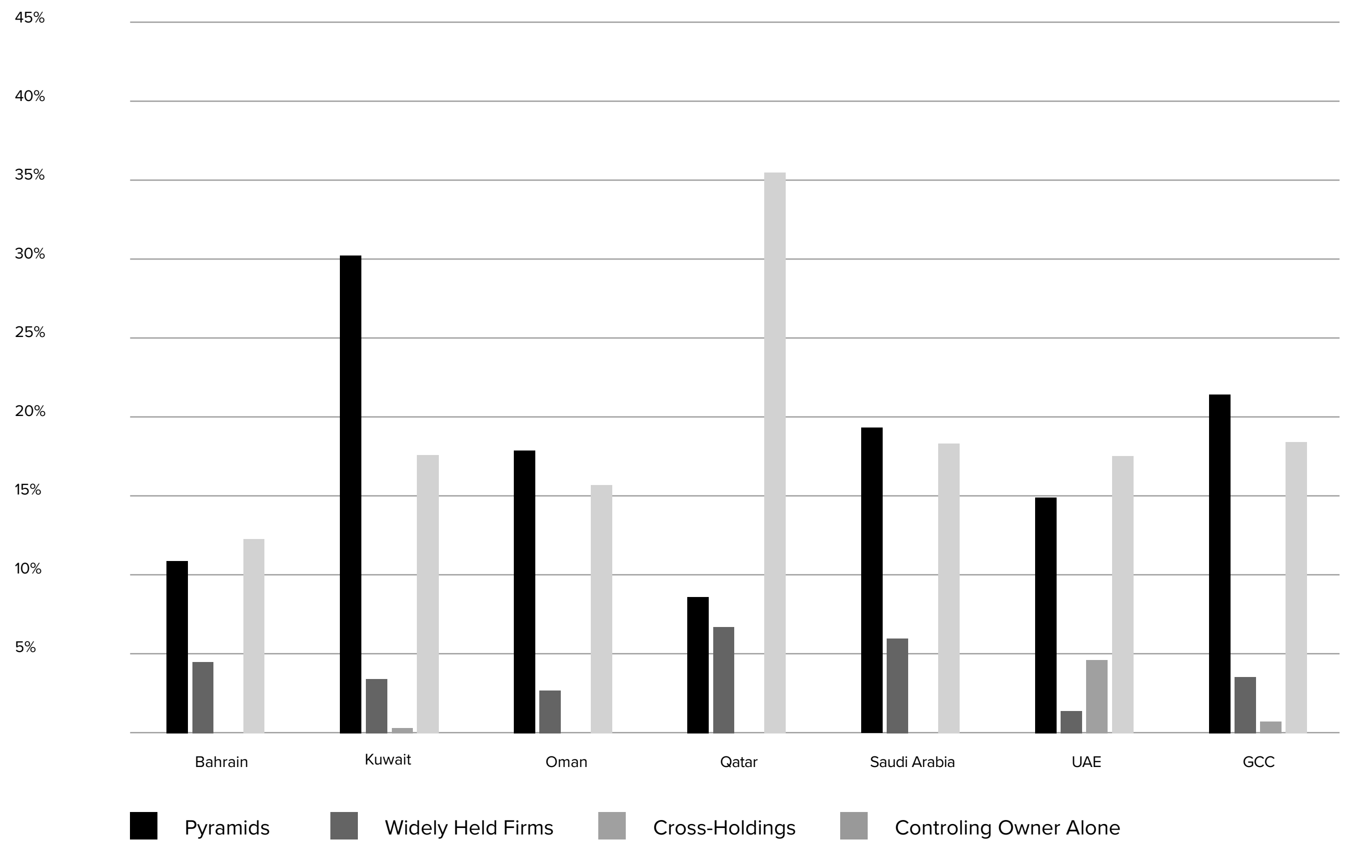


# 3.1

“QATAR HAS SIGNIFICANTLY HIGHER PERCENTAGE OF LISTED FIRMS CONTROLLED BY ALONE OWNER (35.3% OF LISTED FIRMS) IN COMPARISON TO OTHER GCC COUNTRIES (LESS THAN 20% OF LISTED FIRMS).”

Control-enhancing mechanisms are not evenly presented among GCC countries (Figure 3.2). Pyramids are prevalent in Kuwait (30.1% of listed firms) but not in other countries, such as Bahrain (11.0%) and Qatar (8.7%). Cross-holdings are rarely used in the GCC region, except for the UAE (4.8%). There is rarely a single controlling owner (i.e., controlling owner alone) in Bahrain (12.1%) but this is common in Qatar (35.3%). Lastly, widely held firms are uncommon in all GCC countries, with only a small presence in Qatar (6.9% of listed firms) and Saudi Arabia (6.1% of listed firms), and to a lesser degree in Oman (2.8% of listed firms) and the UAE (1.3% of listed firms).

## FIGURE 3.2. PERCENTAGE OF LISTED FIRMS BY CONTROL-ENHANCING MECHANISMS BY COUNTRY





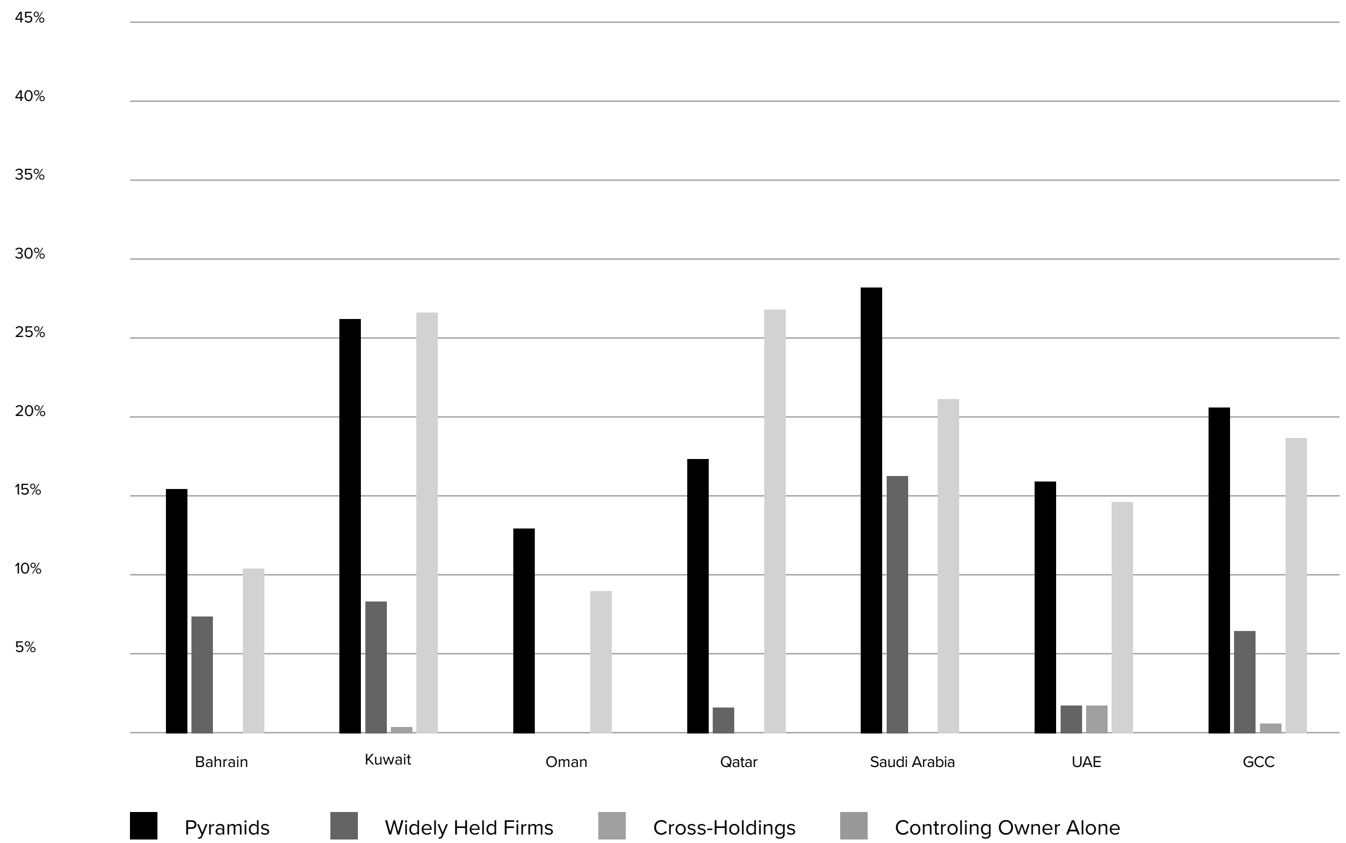
Control-Enhancing Mechanisms in Listed Firms

# 3.1.1

## CONTROL-ENHANCING MECHANISMS IN LISTED FINANCIAL FIRMS

Pyramids are most common control-enhancing mechanism of listed financial firms based in Saudi Arabia (28.3% of financial firms) and Kuwait (26.2% of financial firms) (Figure 3.3). The cross-holdings structure is rare in the financial industry in the GCC region. The presence of a single controlling owner is more commonly observed in Kuwait (26.7% of financial firms) and Qatar (27.0% of financial listed firms) than in Oman (9.0% of financial firms) and Bahrain (10.5% of financial firms). Lastly, widely held firms are most common in Saudi Arabia (16.6% of financial firms) in comparison to other GCC countries.

FIGURE 3.3. PERCENTAGE OF LISTED FINANCIAL FIRMS BY CONTROL-ENHANCING MECHANISMS BY COUNTRY

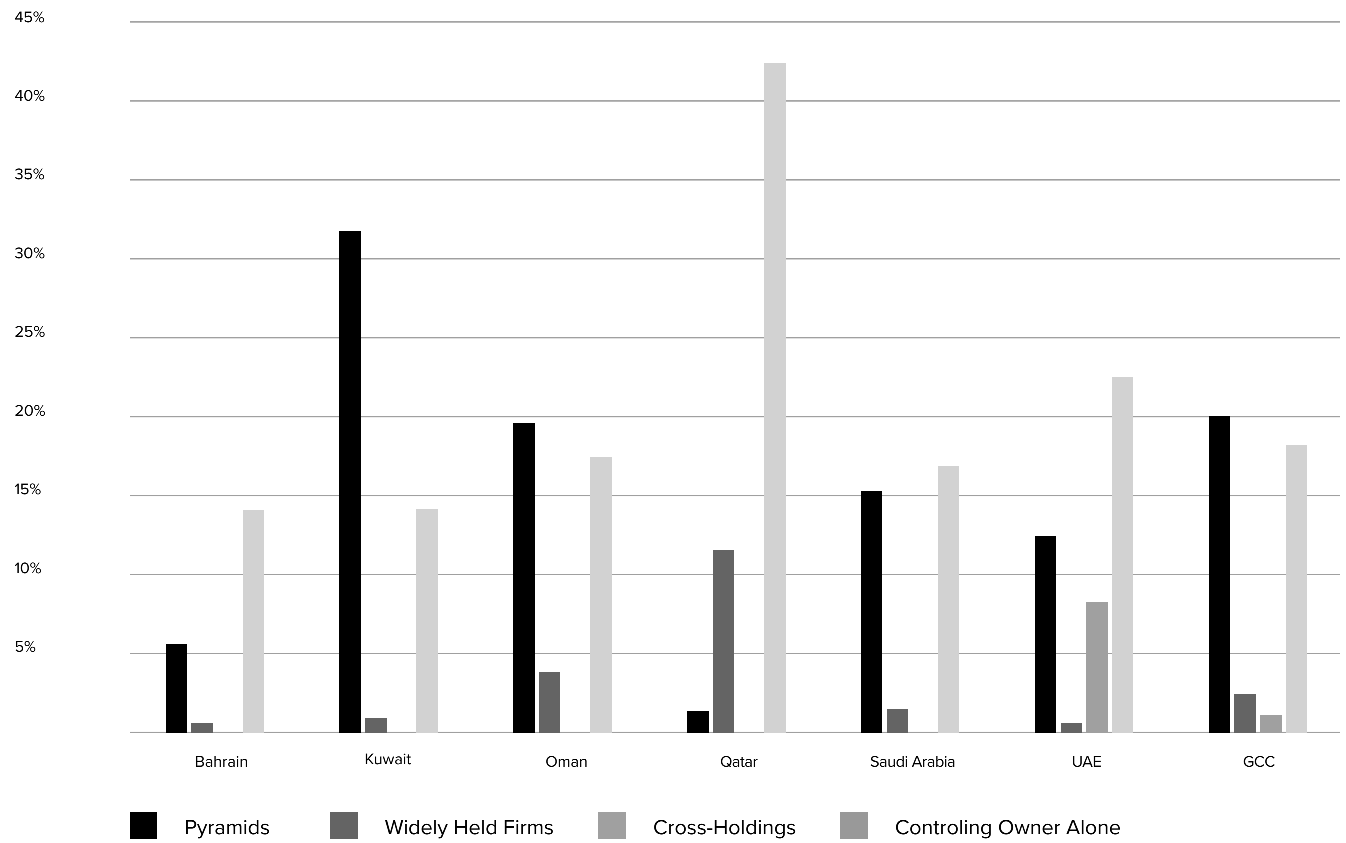


# 3.1.2

## CONTROL-ENHANCING MECHANISMS IN LISTED NON-FINANCIAL FIRMS

The examination of the control-enhancing mechanisms in the non-financial industry in GCC countries reveals that pyramids are prevalent in Kuwait (31.8% of non-financial firms) but are less common in other GCC countries (Figure 3.4). The cross-holdings structure is only present in the UAE (8.1% of non-financial firms). The single controlling owner structure is most common in Qatar (42.3% of non-financial firms), followed by the UAE and Oman, which have relatively lower values of 22.4% and 17.8%, respectively. Bahrain and Kuwait have the lowest percentage of listed non-financial firms (around 14%) controlled by the single controlling owner. Lastly, Qatar has the highest percentage of widely held non-financial firms (11.5%).

FIGURE 3.4. PERCENTAGE OF LISTED NON-FINANCIAL FIRMS BY CONTROL-ENHANCING MECHANISMS BY COUNTRY



# 4 CORPORATE GOVERNANCE AND CONCENTRATED OWNERSHIP STRUCTURE

“

IN ORDER TO ATTRACT MORE FOREIGN DIRECT INVESTMENTS TO THE GCC REGION AND INCREASE FIRM'S EFFICIENCY, INVESTOR PROTECTION SHOULD BE ENHANCED. SO FAR, EXISTING LEGAL PROTECTION DOES NOT PROVIDE ENOUGH CONTROL RIGHTS TO SMALL INVESTORS, THIS RESULTS IN THE DOMINATION OF LARGE INVESTORS.

”

An investor's principal reason for providing financing to firms is to receive control rights in exchange. The most important legal right that the common shareholders hold is the right to vote at the shareholders' meetings as it allows them to elect directors and vote on other matters that may affect the value of the company, such as dividends distribution, new investment projects, mergers and acquisitions, and liquidations. If legal protection is weak and does not provide enough control rights to small investors, this results in large investors having more effective control. Additionally, large shareholders have enough control over the assets of the firm to have their interests respected although their presence may lead to problems between majority and minority investors.

There is evidence of weak investor protection in GCC countries (IMF, 2018). As in other contexts with weak legal protection of control rights, this study confirms that in listed firms in the GCC region large blockholders have a high degree of ownership concentration. Such a structure may reduce problems between shareholders and managers but may lead to situations in which the management and board are disproportionately focused on the interests of the majority blockholders who have the power to influence decision-making not necessarily concentrating on the company's interest in profit maximization. In other words, the likelihood of problems, and their associated costs, is high when majority shareholders can exercise control at the expense of minority shareholders. Such concerns raise the investment risk for potential minority shareholders.

# 4

In order for the GCC region to become more attractive to a wider range of individual and international institutional investors (such as pension funds and companies), regulators must address the governance challenges stemming from weak investor protection and an emerging corporate governance structure. By reducing restrictions on foreign ownership in listed companies and enhancing investor protection, the GCC region could attract more investors; thereby, diversifying the investor base and reducing the aforementioned negative effect of high levels of ownership concentration.

Thus, the GCC's local regulators have an important role to play by ensuring that strong investor protection frameworks are in place, opening stock markets to foreign investment, and overseeing the application of good corporate governance in listed firms. It is critical to increase the social and economic awareness of the importance to implement appropriate corporate governance mechanisms. In this sense, the role to be played by companies is vital. They can adopt a proactive approach, institutionalizing, for instance, corporate governance practices such as effective policies (and transparency) on related party transactions and conflicts of interests, increasing the level of independence in their boards, and improving their companies' transparency and disclosure frameworks. On a company-level, corporate governance mechanisms and practices are likely to increase the company's efficiency, thereby increasing its value, while on the country-level, these practices are likely to result in attracting foreign direct investment and strengthening the region's stock markets.

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