

Corporate Leadership in the Middle East: The Impact of CEOs on Firm Performance

by

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Declaration

I declare that this thesis is entirely my original work and has not been submitted for a higher degree at any other university.

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Abstract

The focus in the current thesis will be on identifying the impact that CEOs have on the performance of the publicly traded firms they lead. While much research on CEO impacts have been undertaken in the Western context, there is a dearth of research in the Middle Eastern context. Hence, this thesis explores the impact that CEOs have on corporate performance within this context, thus addressing an identified void in the literature. In particular, the countries of interest are the six member nations of the Gulf Cooperation Council (GCC) namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Data was collected on all publicly traded companies in the GCC from the period of 1997-2019, spanning 50 industries, 645 firms and 1,064 distinct CEOs, and 14,673 firm-year observations for subsequent analysis.

This study relies on a variance decomposition method to assess the relative importance of the CEO. Specifically, it adopts the CEO-in-context methodology advanced by Hambrick and Quigley (2014) to investigate CEO effects, across companies and countries. This is the first study to extend this methodology into the GCC context, and therefore answers calls in the literature for work which considers non-Western contexts. Using the construct of managerial discretion (Crossland and Hambrick, 2011; Haj Youssef and Christodoulou, 2017) at the national and regional levels the results highlight the relationship between the level of managerial discretion and the impact, or effect, the CEO has on firm performance. These results therefore support theoretical positions in the extant literature, which are predominantly documented within a Western context.

As such, this thesis makes a contribution to theory in underscoring the importance of managerial discretion, and the influence of national culture, in moderating the influence CEOs have on the performance of the companies they lead. The findings identify a range of cross-national differences in the CEO effect, with important implications for corporate performance.

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List of Abbreviations

CEO	Chief Executive Officer
CiC	CEO in Context
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
ICT	Information and Communications Technology
KSA	Kingdom of Saudi Arabia
MD	Managerial discretion
MENA	Middle East and North Africa
MLM	Multilevel modelling
OECD	Organization for Economic Cooperation and Development
ROA	Return on Assets
ROE	Return on Equity
ROIC	Return on Invested Capital
SME	Small to medium sized enterprise
TMT	Top Management Team
UAE	United Arab Emirates
UET	Upper Echelons Theory
UNCTAD	United Nations Conference on Trade and Development
UK	United Kingdom

US	United States
VPM	Variance Partitioning Modelling
WEF	World Economic Forum

Chapter One: Introduction

1.1 Introduction

What explains a company's performance? What makes a company the best? How does an organization position itself to compete on the global stage? While there are many factors which explain such outcomes, the focus of this thesis is on the role of the firm's Chief Executive Officer, that is, the company CEO. Strategy requires a powerful human element; the individuals within the organization who create, define and action the strategy are key to a firm's success (Finkelstein, Hambrick and Cannella 2009). The CEO is the most visible and central organizational resource, holding both responsibility and accountability for firm performance, and serves as that nexus between the top management team (TMT) and the board of directors (Carpenter, Sanders and Gregersen 2001; Hunter and O'Shannassy 2007; Finkelstein, Hambrick and Cannella 2009).

Strategic management research identifies the impact of the leadership style and behaviours of the CEO on firm performance (Bass and Avolio 2000; Finkelstein, Hambrick and Cannella 2009; Ng 2017; Peterson et al. 2012), positing that the behavioural traits and leadership styles affect strategy formulation and firm success. Of equal consideration is the knowledge and experience of the leader (Finkelstein, Hambrick and Cannella 2009; Carpenter et al. 2001) as they draw on their formal and contextual learning experiences to navigate change.

Building on variance partitioning research, Hambrick and Quigley (2014) advance the CEO in context (CiC) methodology, an advanced conceptual and statistical approach that isolates the impact that CEOs have on the performance of the

organizations they lead, an approach that yields CEO effects which are significantly larger than previous approaches. These larger CEO effects are confirmed in a 2023 study that applies the CiC methodology to a “more comprehensive U.S. sample, and assess the sensitivity of the model findings to variations in method and data” (Keller et al, 2023).

The CiC approach does not require the use of CEO characteristics such as age, education, or social capital. Rather, using a large panel of firms, that is, data on many firms over many years, the CiC methodology is able to find the average impact that CEOs have on the financial performance of the firm’s they lead.

This current research deploys a variance partitioning methodology (Hambrick and Quigley, 2014; Quigley and Graffin, 2015) in the context of publicly traded corporations in the Gulf Cooperation Council (GCC), namely Bahrain, Kuwait, Oman, Qatar, United Arab Emirates (UAE), and the Kingdom of Saudi Arabia (KSA). As this region positions itself to be an increasingly important competitor on a global scale, it is important to identify the impact CEOs have across this region and determine how these CEO effects compare and contrast to those identified in the Western context.

The intention of this study is therefore not to focus on the desirable leadership behaviours or styles of CEOs, such as servant, distributed, or transformational leadership styles. Nor does this study consider the CEO attributes of age, past experience, gender, education as proxies for abilities, cognition, or mindset of the CEO. Instead, this study explores the CEO effect, as defined and measured by the CiC methodology advanced by Hambrick and Quigley (2014) and Quigley and Graffin (2015). This approach isolates the impact of the CEO on firm performance, stripping out

other influences that may also impact firm performance. As such, the study measures the CEO's role in influencing firm performance, that is, their direct relationship with the performance of the firm using data on all publicly listed firms in the GCC region.

The study also uses existing theory to explain why country context is an important moderator in understanding these relationships. Beyond deploying Hambrick and Quigley's CiC methodology in the GCC context, this study appeals to studies in the extant literature that capture managerial discretion across countries (Crossland and Hambrick, 2011; Hambrick and Finkelstein; 1987; House et al, 2004), and uses this literature to explain why results differ across social and economic systems, such as between Western and GCC contexts, as well as within the GCC region itself. This study also provides a benchmark for future research, allowing replication and extension to other countries and regions. For example, while the Middle East and North Africa (MENA) region has 21 countries (World Bank), the current study only considers the six countries within the GCC. Analysis such as that undertaken in this thesis can be extended to other countries within the MENA region. In addition, the analysis can be extended to other non-Western regions, such as South America, Africa, or more broadly in Asia.

Within the GCC context, this question is even more important given the heavy reliance on expatriate executives, including at the CEO level (AlMazrouei and Zacca, 2015; Mishrif, 2018). Understanding the effectiveness of CEOs will inform whether the strategies deployed across the region in selecting CEOs are effective. At the same time, the study informs the extent to which the influence CEOs can have on the firms they lead is itself a function of managerial discretion, and hence on the national and cultural

context within which the CEO and the firms they lead operate. To understand the effectiveness of CEOs, therefore, it is imperative to also account for the national context within which they operate. This thesis contributes to the extant literature in this respect.

This study therefore aligns with significant research that explores both the direct and indirect influences of the CEO on firm performance, that is, the CEO effect (Crossland and Hambrick 2007; Hambrick and Quigley, 2014; Mackey, 2008; Wasserman et al, 2001), and the impact of managerial discretion on the CEO performance (Crossland and Hambrick, 2011; Haj Youssef and Christodoulou, 2017; Hambrick and Finkelstein; 1987; House et al, 2004). The intent of this study is to investigate these questions and the impact of CEOs on firm performance of all publicly traded companies in the countries of the GCC, an alliance of six Arab nations. This introductory chapter will present an explanation of the background and motivation for this research, describe the research context, and identify the research problems and gaps in the current literature. An outline of the thesis is shared and the contributions of the study are described.

1.2 The Research Problem

Bontis (2004) notes for both public and private institutions in the Arab region to succeed in the new economy, there needs to be a significant restructuring of industrial age organizational structures, processes, and mindsets to utilize the wealth-creating potential of its people. As publicly traded companies within the Arab region seek to attain global status, it is fundamental that CEOs have what it takes to create global success, which manifests in improved financial performance. Visible and charismatic

leadership must be coupled with strong business acumen, a growth mindset and knowledge.

Crossland and Hambrick (2007) note the vital consideration of context as do Olie et al. (2012) who suggest that understanding the context is essential to capturing the effect that leaders have on their environment. Elbanna (2012) posits the actions of a CEO may vary depending on the national context in which a company operates as do Quigley and Hambrick (2015). Crossland and Hambrick (2011) argue that cultural values, such as individualism, uncertainty tolerance and power distance, shape the degree of managerial discretion, and thus the impact of the CEO. As limited studies exist in the Middle Eastern context, this study contributes to filling this void, by first applying the CiC methodology to publicly listed companies across the GCC region, and second, using measures of managerial discretion to put these results into a global context.

To date, CEO effect research has been largely focused on the Western context, particularly the United States. In comparison to CEOs in other countries, CEOs in the US have a greater latitude of action perhaps due to factors such as a high national level of individualism and tolerance for uncertainty (Crossland and Hambrick, 2007). Little research in this field exists that examines the CEO effect in the Middle East and hence little is known about the similarities and differences between Western and Middle Eastern CEOs, and the implications of these differences for the performance of the organizations they lead. By gaining insight into potential similarities and differences in the CEO effect, through lenses of both the CiC and managerial discretion, global

organizations will gain greater knowledge of the impact of the CEO and will be able to then focus on leadership development, recruitment and succession strategies.

The research in this thesis will extend research on modelling and measuring the CEO effect to the context of the GCC, using data on all publicly listed companies in the GCC over the 1997-2019 timeframe. The analysis isolates the impact of the CEO on firm performance using the CiC methodology, aligning with research in the field. To explain the estimated CEO effects within a global context, measures of managerial discretion from the extant literature are adopted. The analysis confirms the hypothesis that cultural contexts which have lower levels of managerial discretion, namely the GCC, have lower CEO effects, relative to higher managerial discretion contexts such as the US.

1.3 The Research Context

The GCC was established in 1981 as an alliance of six countries, namely, Bahrain, Kuwait, Oman, Qatar, the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE).

Driven by their vast reserves of oil and natural gas and extensive global demand, these economies experienced significant economic development and growth. While these countries share many common characteristics in both their formal institutional contexts (e.g. monarchies) as well as the informal institutional contexts (e.g. cultural dimensions, patriarchal culture), there are many differences. Pillai et al (2018) suggests the enduring advantages of this alliance are grounded in cultural commonalities as well as their strategic positioning, constant socio-economic reforms, minimal corporate tax regimes and Sharia-based judiciary systems. Young (2018) finds that GCC countries are examples of state-led capitalism, with real estate markets and financial sectors often linked to state interests. Haneih (2011) notes the economic development of all GCC countries is founded in the exploitation of natural resources, the power of the state and the association between ruling families and their network of local/regional businesses, political and cultural ties.

Despite their vast oil wealth, the countries of the GCC are still classified as emerging or frontier markets¹. There are many challenges these economies face in creating innovative and successful companies, many of which are the direct outcome of the resource curse (Shaffer and Ziyadov, 2011). Heavy reliance on the exploitation of oil and hydrocarbons has resulted in government policies that have inhibited innovation,

¹ MSCI website.

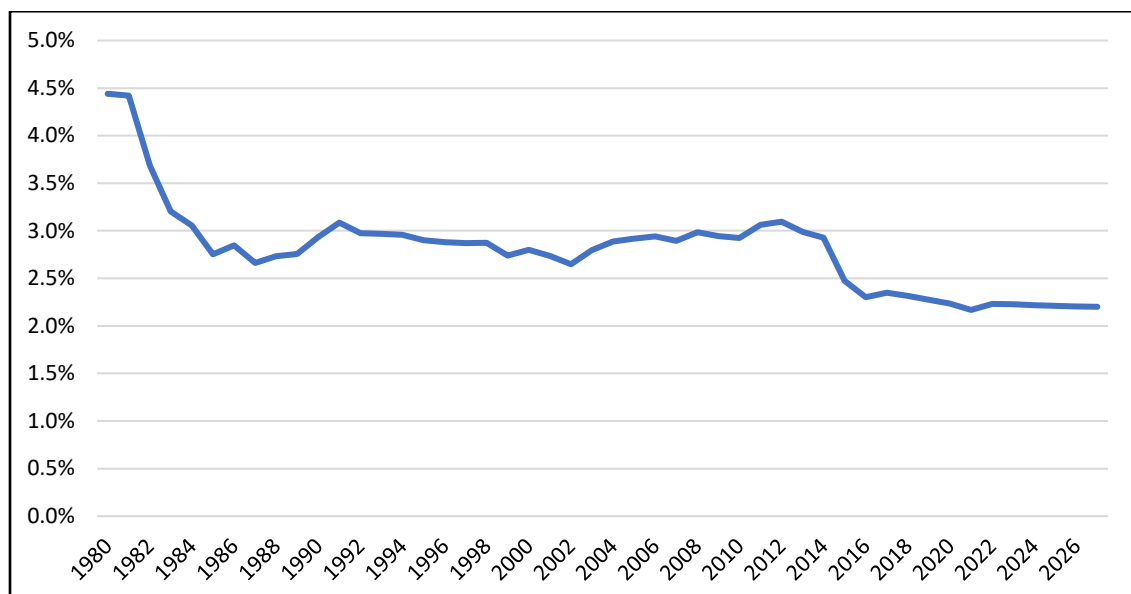
https://www.msci.com/documents/1296102/1360895/8.5x11inch_MSCI_Country_Classification_Standard_FactSheet.pdf/5b95f2f4-4ced-43a2-92ad-218771a2218c

and significant government subsidies to nationals have had implications for productivity. Sabri (2005) notes the challenges of creating a knowledge-based economy in developing economies due to different organizational and managerial problems, and these are endemic in the Arab region, and more specifically within the GCC given their substantial endowments of oil and natural gas. The revenue flows from exploiting these resources has resulted in a significant wealth transfer from the rest of the world to these governments, which has enabled investments in infrastructure. The significant subsidies given to locals has, to a great extent, resulted in implicit contracts between citizens and their government, which to some extent explains the relative lack of protests that characterized other countries in the region during the Arab Spring (Momani, 2015).² Such economic policies and approaches to economic development, however, are not sustainable, given predictions on the future of oil, renewable energy and sustainability (Callen et al, 2014).

The countries of the GCC account for a little over 2% of the global economy, a figure that has been falling since 2012, and only about half it's global share of 4.5% in 1980 (Figure 1.1). These declines in world GDP shares are shown at the country level in Figure 1.2, and is most acute in Saudi Arabia, but also clearly apparent in the UAE, Oman, and Kuwait.

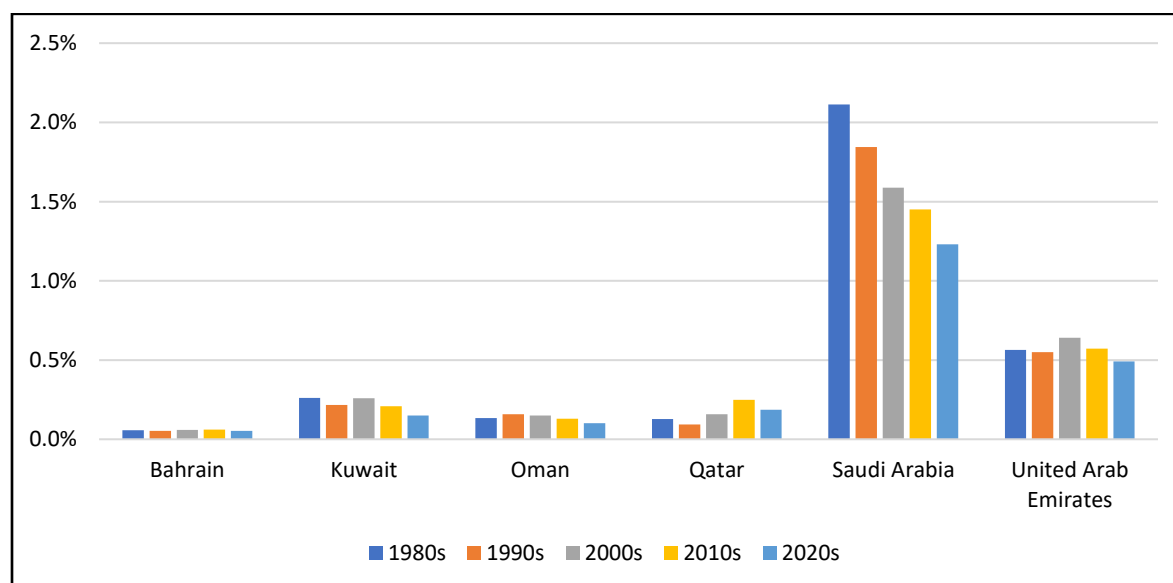
² Arab Dawn: Arab Youth and the Demographic Dividend They Will Bring. Momani (2015).

Figure 1.1 GCC share of the world economy
(Percentage of the World Economy, projections after 2021)



Source: Data retrieved from the IMF World Economic Outlook Database, April 2022

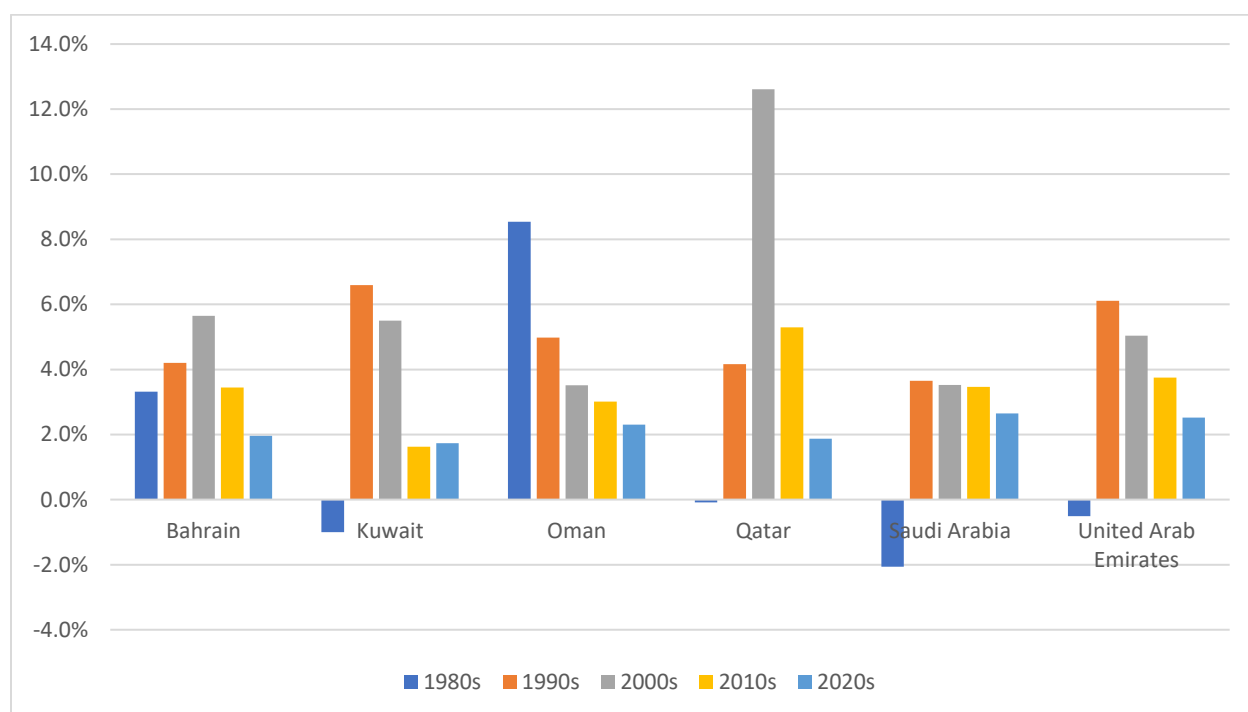
Figure 1.2 Individual GCC country shares of the world economy
(Percentage of the World Economy, projections after 2021)



Source: Data retrieved from the IMF World Economic Outlook Database, April 2022

These declines in global GDP shares are also reflected in reduced real GDP growth rates for each individual country within the GCC, which having been falling since their earlier peaks (Figure 1.3). These declines in the growth experiences have put strains on the traditional economic and social policies across these economies and has increased the urgency to reverse this trend.

Figure 1.3 Individual GCC country Real GDP Growth Rates
(projections after 2021)



Source: Data retrieved from the IMF World Economic Outlook Database, April 2022

These trends underscore the urgency in the need for countries within the GCC to diversify their economies away from oil and hydrocarbons, to enhance their global competitiveness, and to create knowledge-based economies. As these economies diversify and enhance the presence of manufacturing and services industries, including tourism, banking and finance, and as private sector businesses emerge and grow to

take advantage of these enhanced opportunities, the share of the private sector in the overall economy will increase and that of government will fall (Kabbani and Mimoune, 2021). Government policies would enable the growth of these sectors, such as, for example, relaxing visa requirement to enable tourism, and trade and investment policies to enable GCC based companies to be competitive and sufficiently integrated into global value chains. To achieve these goals, governments need to act to enable the creation and implementation of appropriate strategies and policies, and hence make their economies more conducive to the emergence of innovation-based and globally competitive companies. This would also require the ready supply of low-cost and reliable labour to operate these businesses, both high skilled and low skilled, and many other policies.

Further to the policies discussed above, it is also essential that there be a better understanding of the effectiveness of business leaders more generally, and CEOs specifically. The current study seeks to provide insights in this regard and will measure the CEO impacts on firm performance across the GCC region.

The majority of studies that investigate the impact of the CEO on firm performance mainly adopt a quantitative research design and are conducted in the United States context (Carpenter et al. 2004; Finkelstein et al. 2009; Hambrick and Mason 1984; Hambrick and Quigley, 2014; Wang et al 2016). These, and other studies provide key insights and research design choices as well as noted opportunities for comparative research, particularly given the dearth of research in this field in the Middle Eastern context. This study will adopt a similar research design and methodology to

align with the current research in the field. These results can then be compared to those in the extant literature which are undertaken in the Western context.

As discussed, a focus on the CEO effect in this region is timely. With the decline in the GCC's global GDP shares and slowing economic growth rates, the urgency for diversification of the region's economies away from oil has increased. There is a drive to develop and nurture other industries, including manufacturing, finance, tourism and services more broadly (Kabbani and Mimoune, 2021). The realization therefore that the region's oil supplies are dwindling, each country within the GCC have deployed strategies to enable the diversification of their economies and the improvement in their innovative capacities, and to become increasingly competitive, and knowledge based (Kabbani and Mimoune, 2021). A knowledge-based economy is an economy in which knowledge is created, distributed and used to ensure economic growth and ensure the international competitiveness of a country (Hadad, 2017; Huggins, Izushi, Prokop and Thompson, 2014). These efforts are, in part, paying off and are reflected in improved positions on several international rankings, particularly those related to global competitiveness (Callen et al, 2014; Kabbani and Mimoune, 2021).

To achieve these goals, more effective leadership within the CEO ranks is essential, and it is quite unlikely that the region can succeed in these lofty diversification goals without enhanced CEO competencies. Enhanced leadership skills and CEO competencies will increase the likelihood that the GCC will achieve its long-term goals, and hence enhance the long-term prosperity of their citizens. As such, developing a better understanding of the factors that have allowed companies within this region to be

successful will shed light on strategies that enable both higher growth and more effective diversification strategies for these economies.

This thesis will analyze the impact that CEOs have had on the performance of GCC-based publicly traded firms they lead, as listed in the S&P Capital IQ database. The dataset spans 1997-2019 and includes panel data for 639 companies and 1,070 CEOs across the six GCC countries.³

Fainshmidt et al (2016) note that emerging and developing economies such as those within Africa, the Middle East, Eastern Europe and Asia, represent most of the world's population and comprise an increasing share of the world's purchasing power. Within that context, therefore, the GCC represents an important region for CEO research given its global competitiveness rankings and trajectory.

1.4 Differences between the GCC and Major Western Markets

The six countries that constitute the GCC are the focus of this research. As noted above, the results from this research will be put into the context of the extant literature, which has been undertaken mainly in the Western context. In this section, the unique characteristics of the GCC market will be discussed, which may help explain differences in the results documented, but also point to future directions of research. That is, unique characteristics of the GCC markets may themselves warrant further exploration.

Table 1.1 below provides some perspective. The countries of the GCC are relatively young in comparison to the contexts of the countries where much of the CEO effects research has been undertaken. In terms of recognized dates at which they became sovereign independent states, Saudi Arabia is the oldest country within the

³ The starting point for the sample was set at 1997 as data prior to this year is sparse.

GCC, gaining its independence in 1932. This is followed by Oman in 1951, Kuwait in 1961, and Bahrain, Qatar and the United Arab Emirates in 1971 (Hanieh, 2018). This is in contrast to the United States which gained its independence in 1776, Canada in 1867, and England which some date back to the tenth century.⁴

The focus of the research here will be on the impact the CEOs have on the companies they lead. The sample will be all publicly traded firms for which data is available. As such, it is insightful to consider some characteristics of the stock markets in these countries, relative to those in the Western context.

The first stock market established in the United States dates back to 1792 with the establishment of the New York Stock Exchange (NYSE). The London Stock Exchange was established in 1801, and Canada's Toronto Stock Exchange in 1861.⁵ In sharp contrast, the stock exchanges in the GCC countries are quite young: Bahrain in 1987, Kuwait in 1977, Oman in 1988, Qatar in 1995, Saudi in 1964 and the UAE in 2000. In other words, not only are the GCC countries much younger as sovereign states, but so too are their stock markets (Joseph and Fernandez, 2016).

The US stock market listed in Table 1.1. has the most activity, with turnover in trading value at 190% of GDP during the 1997-2007 period, rising to 278.4% during the 2008-2009 financial crisis, but returning to 204.7 of GDP in the 2010 to 2019 period. This is a clear indication of the maturity and liquidity in this market. In the UK, the trading volume relative to its GDP is roughly one half of that in the US. Canada's is lower still, at 77.4% in the 2010-2019 period. Stock market turnover in the GCC

⁴ <https://www.thecanadianencyclopedia.ca/en/article/american-revolution>

⁵ <https://www.investopedia.com/articles/07/stock-exchange-history.asp>

markets are much lower. Bahrain has the lowest at only 1.5% in the 2010 period, followed by Oman at 3.9%, the UAE at 11.8%, Qatar at 13.2%, and Kuwait at 13.2%. Saudi Arabia is significantly higher at 46.7%. On this measure of stock market development, the GCC markets are significantly below that in major Western markets.

Table 1.1. Stock Market Comparisons

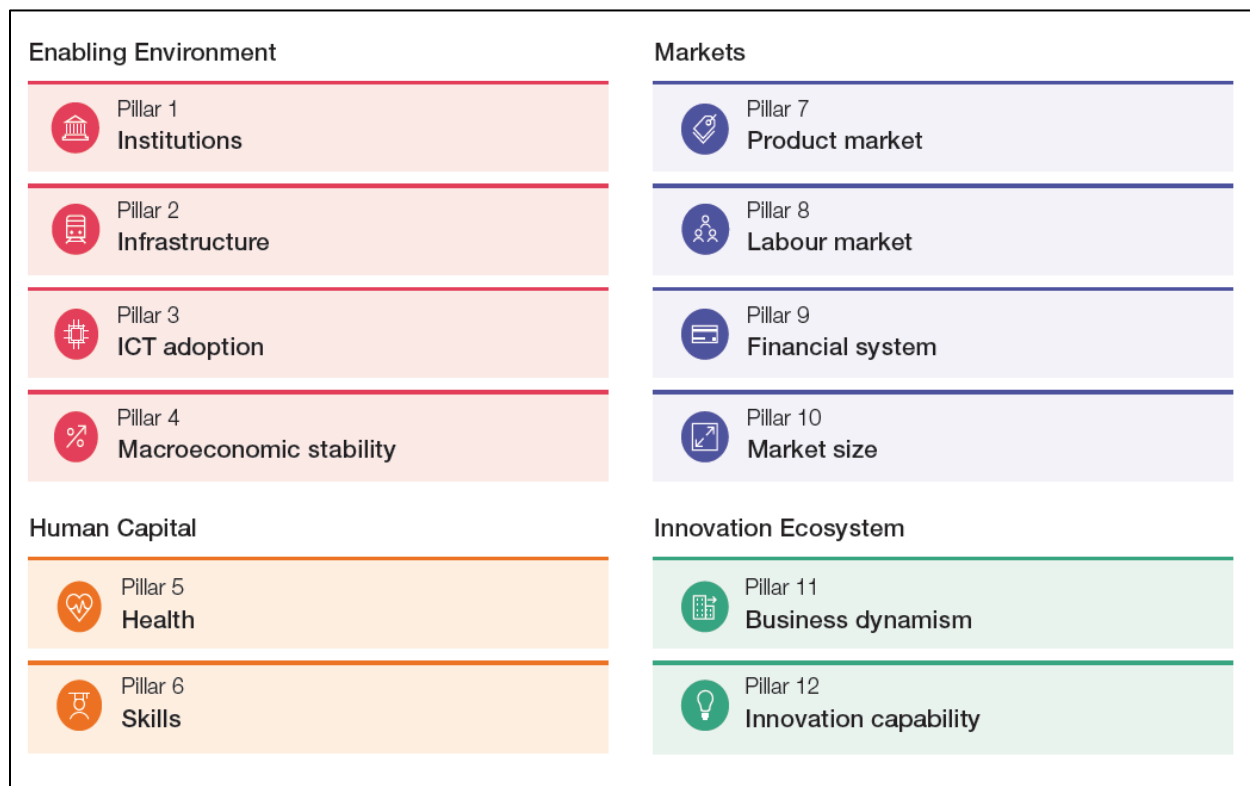
	Independence	Stock markets and year founded	Stock Market Trading Value, Relative to GDP			World Competitiveness Report, 2019	
			1997-2007	2008-2009	2010-2019	Competitiveness Ranking	Ranking on Financial System Pillar
Bahrain	1971	The BSE was established in 1987	4.7	5.1	1.5	45	37
Kuwait	1961	Kuwait Stock Exchange (KSE) 1977	52.2	N/A	15.1	46	34
Oman	1951	Muscat Securities Market (MSM), 1988	9.9	13.3	3.9	53	59
Qatar	1971	1995, Qatar Stock Exchange (QSE)	35.8	33.8	13.2	29	22
Saudi Arabia	1932	Saudi Exchange 1954	165.7	89.4	46.7	36	38
United Arab Emirates	1971	Dubai Financial Market (DFM) 2000	13.8	24.3	11.8	25	31
United States	1776	NYSE 1792	190.4	278.4	204.7	2	3
England / UK	927	London Stock Exchange , 1801	82.7	104.7	94.2	9	7
Canada	1867	Toronto Stock Exchange 1861	71.5	96.9	77.4	14	9

Source: Data on stock market trading values, relative to GDP, were retrieved from the World Bank.

There are of course broader measures of how well developed a country's financial markets are. The World Economic Forum puts out annual rankings for all countries in the world. According the WEF, this index "is an annual yardstick for policy-makers to look beyond short-term and reactionary measures and to instead assess their progress against the full set of factors that determine productivity. These are organized into 12 pillars: Institutions; Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product market; Labour market; Financial system; Market size; Business

dynamism; and Innovation capability.”⁶ These pillars are reproduced in Figure 1.1 below.

Figure 1.4 The Global Competitiveness Index 4.0 Framework



Reproduced from the 2019 World Competitiveness Report.

Most relevant for this discussion, however, is Pillar 9, which focuses on the development of each country’s financial system. Details of this Pillar are shown in Table 1.2. This pillar measures the amount of domestic credit provided to the private sector, relative to GDP, a measure of financing available to SMEs, the availability of venture capital, market capitalization of stock markets relative to GDP, and insurance premiums as a share of GDP.

Table 1.2 The 9th Pillar- Financial System

⁶ https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

9th pillar: Financial system 0-100
Depth 0-100
9.01 Domestic credit to private sector % GDP
9.02 Financing of SMEs 1-7 (best)
9.03 Venture Capital availability 1-7 (best)
9.04 Market capitalization % GDP
9.05 Insurance premium volume to GDP

Source: 2019 World Competitiveness Report

From the countries listed in Table 1.1 above, the U.S. is the most highly ranked, coming in second on the overall ranking on competitiveness, followed by the UK at 9th and Canada at 14. Clearly the GCC countries lag these major Western markets. Among the GCC countries, the most highly ranked on overall competitiveness is the UAE at 25th, and the lowest ranked in Oman at 53rd.

In terms of rankings on the financial system, the US ranks 3rd, followed by the UK at 7th and Canada at 9th. Once again, the GCC countries lag these well developed Western markets. The highest ranked financial system in the GCC is Qatar at 22nd, and the least ranked Saudi Arabia at 38th.

The discussion above underscores the youth not only of the GCC countries as independent and sovereign states, but also the relative youth of their stock markets, and financial systems overall, and how they lag in many respects the very well-developed markets in the West, where the majority of the CEO research has taken place.

There is another major distinction between the context in the GCC and that of the West. The contexts where the extant CEO research has taken place not only have well developed financial markets, but are also well-developed democracies, and are very

much free markets, with far less government involvement in the economy relative to the GCC markets. As noted in Hanieh (2018), the GCC countries are:

“dominated by ruling families who have held power since the pre-oil period, leadership succession in these states is effectively hereditary Elected legislatures exist in only two Gulf states – Bahrain (majlis al-nuwab) and Kuwait (majlis al-umma) – but voting rights are restricted to a small portion of the resident population and the rulers in both states have the power to dissolve the parliament. The kings, princes, emirs, and sheikhs that sit atop each of the Gulf states control the political apparatus and a very large share of economic wealth – they are central actors in the story that follows” (p.18-19).

Since the founding of the GCC in 1981, it has become an increasingly important player in the global economy. Again, quoting from Hanieh (2018),

“The Gulf now boasts the busiest airport in the world for international passengers – Dubai International Airport, which surpassed London’s Heathrow Airport in 2015 (Ulrichsen 2016, p. 151) – as well as Dubai’s Jebel Ali, the fourth largest container port in the world. The speed of the region’s integration into global trade and supply chains – often lauded in business magazines as evidence for the foresight and outward-oriented vision of the Gulf’s rulers – is held up as an exemplary model for other developing countries to follow. Indeed, many of the buzzwords that define the corpus of trade and logistics policy making today – ‘intermodal transport hubs’, ‘logistics cities’, ‘integrated free trade zones’, and the like – find their preeminent examples in the Gulf.” (p. 3).

Another important difference between the GCC and the developed Western markets is the reliance on temporary migrant workers. These migrant workers are paid relatively low wages, have no pathway to citizenship, and lack “virtually all political and social rights.” In sharp contrast to the GCC, constitutions in the West bestow upon individuals many rights, including in most instances pathways to long term residency or even citizenship. It is important to also note developments within the GCC, particularly the UAE, for longer term visa and the ability of some expats for longer term residency.

These structural differences have resulted in the ability of many companies in the GCC to earn profits that are higher than would otherwise be the case.

The reliance on non-nationals and migrant workers in the GCC has led to a strategy for workforce nationalization across the region so as to reduce expatriate employment by bringing more local citizens into the workplace to address the socio-demographic imbalances within the labour market. Elbanna (2022) and Randeree (2012) found that labor nationalization efforts are common across all the GCC states to reduce the reliance on foreign labour, particularly in private sector industries. To achieve these goals requires structural reforms, revised labor and employment policies, a focus on education and human capital development, and the transfer of knowledge from expatriates to citizens.

A key weakness of the GCC region is the quality of local human capital. Elbanna (2022), in a meta-analysis of the research on GCC nationalization, that solely creating a law to employ nationals as a quota, versus based on suitability would likely diminish an organization's performance and damage its competitiveness.

As noted, there is heavy reliance on imported labour. Most local citizens work in highly paid jobs in the public sector, and often lack the qualifications and discipline to move to highly skilled jobs in the private sector. For example, despite strategic efforts, the UAE still has low participation rates of women in the workforce, ranking 109th in 2019 in the GCI. Significant investments in higher education, both post-secondary and tertiary, are required along with strategies to leverage local talent, including that of women. Ewers (2013) used a mixed methods study to explore human capital development in the UAE and other Gulf States. Using a

survey of 300 local and foreign firms, along with 30 interviews, he explored the circulation and absorption of global human capital and knowledge transfer. The results indicate that while the Gulf (GCC) strategies to attract international investment and trade have been successful, they lack the social mechanisms to assimilate knowledge into the local context.

In a longitudinal comparative study of the overall competitiveness and technological competitiveness of developed and developing countries, Mittal, Momaya and Sushil (2013) found that young economies have enormous potential to move up the ladder of competitiveness to address the needs of their populations, if leadership drivers are developed adequately. Momaya (2011) suggests that sustainability demands leadership that helps the shift towards the innovation-driven stage of economic development.

As a segue into the direct topic of this thesis, it is essential that the GCC enhance its human capital if it is to successfully transition to an innovation and knowledge-based economy, particularly in high skilled and leadership positions. The two sources for such talent is either local citizens or expatriates. No where would the need for such talent be more important than in CEO roles, which is the focus of the current research.

This section has explored the economic growth and opportunities for future development related to global competitiveness rankings, particularly through the lens of the competitiveness pillars of finance and human capital. Inherent in this discussion is the interplay of a global and local view, both economically and culturally.

1.5 Overview of Methodology

This research adopts a positivist approach, aligning with the research in the field. Data was gathered to capture organizational performance metrics, CEO names, and tenure to facilitate the quantitative analysis to test the hypotheses and create objective knowledge. Quantitative research methods are used to conduct an objective analysis of the relationship between CEO tenure and firm performance, in the GCC context. Common research methods in existing CEO studies include techniques such as descriptive statistics, analysis of variance (ANOVA), bivariate correlation statistics, multiple and moderated regression analysis, and multi-level modelling (Blettner et al. 2012; Crossland and Hambrick 2011; Hough 2006; Ketchen et al. 2008; Mackey, 2008; Quigley and Graffin, 2017). Following recommendations in the literature in dealing with nested data (Quigley and Graffin, 2017), the approach taken in this current study will be to use Hambrick and Quigley's (2014) CiC modelling methodology.

Along with the CEO effect on firm performance, this study also investigates how contextual conditions, which manifest themselves in managerial discretion, influence the impact that CEOs can have on the organizations they lead. Researchers have argued for, and documented the relevance of contextual conditions in CEO effect research (Fitza, 2017; Quigley and Graffin, 2017; Wasserman et al, 2010). Wasserman et al (2010) note the magnitude of CEO effects across industries while Crossland and Hambrick (2007, 2011) document differences across countries. In the second part of the empirical investigation undertaken in this thesis, we examine how managerial discretion, which is systematically related to national context, moderates the CEO effect. We focus on managerial discretion as there is limited research on this in the context of the Middle East, particularly the GCC region. Since most studies in the extant literature are in the

Western context, the research undertaken in this thesis is addressing a call for future research to fill this gap.

This study replicates and extends the current research in the field. The hypotheses developed and tested in this thesis will identify differences or similarities to research currently available in the extant literature. Following the literature, a nested model is used to analyze firm performance, and to isolate that portion of its variance that is attributed to the CEO. As in the cited research, firm performance can be measured by return on assets (ROA), calculated as net income divided by total assets for each firm-year. To extend the research on managerial discretion, we employ linear regressions to investigate the relationship between the CEO effect and the measures of managerial discretion across the GCC region, thus accounting for national context, and hence aligning with the work of Crossland and Hambrick (2007, 2011).

1.6 Contributions of the Study

This quantitative study makes several contributions to the literature. This research deploys Hambrick and Quigley's (2014) CEO in context methodology (Quigley and Graffin, 2017) to measure the impact that CEOs in the GCC have on the performance of the companies they lead. Extant studies that capture managerial discretion across countries (Crossland and Hambrick, 2011; Hambrick and Finkelstein, 1987; House et al, 2004) are then used to explain why results differ between the GCC region and those within the Western context.

1.7 The Structure of the Thesis

Chapter One, this chapter, provides the introduction to the thesis, identifying the research background, context and motivation for this study, including the importance of investigating the CEO effect on firm performance in the context of the GCC. Chapter Two reviews the key literature related to the CEO and organizational performance, drawing on CEO effect and managerial discretion research. Chapter Three provides the conceptual framework and development of the hypotheses for this study. Chapter Four outlines the methodology, methods, and research design for this thesis along with a description of the data. Chapter Five represents the data analysis and results. Chapter Six provides a discussion of the findings. Chapter Seven addresses the theoretical and managerial contributions of this study, along with the limitations and opportunities for future research.

Chapter Two: Literature Review

2.1 Introduction

The central goal of this chapter is to explore the literature surrounding the impact of the CEO on firm performance, specifically the CEO effect, and how national context moderates this influence. The CEO is recognized as the primary decision maker within organizations and is acknowledged as the most visible and influential leader who sets the vision and strategic direction of the firm (Finkelstein et al, 2009; Hambrick and Quigley, 2014; Porter, 1980). The objective of the current study is to measure the influence CEOs have on the organizations they lead, and in the process identify the extent to which national-level sources of managerial discretion moderate these effects. Building on these theoretical concepts presented in this literature review, three key questions that guide this study emerge, namely: (1) How much influence do CEOs have on firm performance? (2) In what contexts, or settings, do CEOs have the most impact? and (3) what are the differences in performance outcomes from individual CEOs, controlling for the impact of external conditions?

First, this literature review begins with a focus on studies that highlight the top executive, the CEO, and the connection to firm performance. This is followed by research on the CEO effect, and how it is isolated from other variables to determine the impact of the CEO on firm performance. Both methodologies employed and resultant findings will be discussed. Next, research on the concept of managerial discretion is presented and how such discretion may influence the impact CEOs can have on the organizations they lead. Building on the factors related to managerial discretion - particularly the individual and the environmental factors - research related to both

individual factors and national context factors are presented. This involves a discussion of cultural context (Hofstede, 2001; House et al, 2004, 2014), and specifically identifying its moderating role for the impact CEOs can have on their organizations.

The scope of the research reviewed will include seminal works along with other studies, while limited, conducted in the Middle Eastern and GCC context. The final section will provide a conclusion and summary of the literature review to lead into the conceptual framework shared in Chapter Three.

This research is particularly timely given calls in the literature for CEO studies across countries, and the realization that the influence CEOs can have on their organizations can vary across national contexts and cultures. In their seminal study of national cultures and leadership, House et al. (2004, 2013) highlight the amount of influence and constraints given to leaders varies by national culture. Crossland and Hambrick (2007, 2011) posit that this ability of the leader to directly influence firm performance, or their managerial discretion, is significantly influenced by national cultural values. This study builds on the work of Crossland and Hambrick (2011) and others, investigating CEO effects on firm performance, using the CEO in context methodology, incorporating the impact of national cultural dimensions on managerial discretion, and investigating how managerial discretion influence CEO effects.

As noted in Quigley et al. (2021), “a larger CEO effect arises where many individual CEOs deliver distinctive performance by deviating, positively or negatively, from the expectations driven by contextual factors” (Quigley and Graffin, 2017, p.794), such as the general economic environment, including national context, industry trends

and the firm trajectory. These results are therefore additional evidence on the role that CEOs play in the performance of firms they lead.

2.2 The CEO and Firm Performance- An overview

Scholars have explored the impact of the CEO on firm performance for over a century. Since the seminal research of Lieberman and O'Connor (1972), considerable research has attempted to quantify the CEO effect on firm performance. Some theorists argue that senior leadership has a critical impact on firm performance and survival. Barnard (1983) links the CEO to creating the collective purpose of an organization while Schein (1992) argues that top leaders are central to creating the organizational culture. In contrast, others suggest a negligible impact due to the influence of external pressures (DiMaggio and Powell, 1983). There is significant research attention on the connection between CEOs and firm performance (e.g. Hambrick and Quigley 2013, 2014; Ling 2008; Mackey 2008; Wang et al 2016). Powerful CEOs are often the most visible leaders, can draw attention to the organization through their social status, and may have outsized influence over firm performance due to their position in the organizational hierarchy (Finkelstein et al, 2009). Other perspectives consider the interplay and roles of the TMT as equal contributors to firm performance (e.g. Cannella, Park and Lee 2008; Walters, Kroll and Wright 2010; Tien, Chen and Chuang 2013) however this will not be addressed in this thesis.

Despite the debates about the precise magnitude (Fitza, 2014; Hambrick and Quigley, 2014; Mackey, 2008; Quigley and Hambrick, 2015), there is significant evidence of a CEO effect, defined as the variance in firm performance, positive or negative, attributed to CEOs, after accounting for contextual factors (Quigley et al,

2021). The findings demonstrate the CEO effect is (1) meaningfully large (Quigley and Graffin, 2017); (2) aligned with managerial discretion as defined by national settings (Crossland and Hambrick, 2007, 2011); (3) increasing in magnitude over decades (Quigley and Hambrick, 2015); (4) recognized as a critical driver of a firm's share price (Quigley et al, 2017) and (5) contingent on whether CEO succession is internal or external (Helfat and Baily, 2005; Quigley et al, 2015).

The impact of the CEO is investigated in multiple theoretical approaches. Hambrick and Mason (1984), in their upper echelons theory (UET) suggest that the attributes of the CEO and TMT manifest in the strategic actions of the firm and, thus, impact future firm performance. Wang et al (2016), in their synthesis of UET research, focus specifically on CEO characteristics (i.e. age, tenure, formal education, and prior career experience) relative to firm strategic actions and firm performance.

While Hambrick and Mason's (1984) original work focused on the top executives of the firm (i.e. the TMT), Wang et al (2016) and Hermann and Datta (2002) find that much of the research on the top management demography centers on CEO characteristics. Serra et al (2016) suggest that the experience and competence of the CEO is often dominant in a company and, thus, cannot be considered simply as a member of the TMT. Collins and Clark (2003) suggest that CEOs are hired with specific strategic intent, including the hiring of the TMT (Ling et al. 2008).

In their research on managerial discretion, Crossland and Hambrick (2007) recognize that the "CEO matters" in different contexts and situations, including national context. Rather than focus on CEO characteristics, they instead use national context factors, along with sector and industry variables, to identify the impact of the CEO on

firm performance. This thesis contributes findings specific to the GCC, and address this contextual gap noted by Crossland and Hambrick (2007).

In their seminal work, Hambrick and Finkelstein (1987) posit that a CEO's degree of discretion, and influence, is derived from three sets of factors: environmental, organizational, and managerial characteristics. Much of the work in the management literature addressing this question builds on the construct of managerial discretion, the extent to which a CEO possesses a wide range of potential actions that "lie within the zone of acceptance of powerful parties" (Hambrick and Finkelstein 1987, p.378).

Crossland and Hambrick (2011) suggest that the concept of managerial discretion, "provides the theoretical fulcrum for resolving the debate about whether CEOs have much influence over company outcomes" (p.797). Sometimes, CEOs can have a great deal of influence on the strategic direction and performance of their firms (Mackey 2008). It is often the case, however, that executives are heavily constrained in terms of the actions that they can initiate, and, thus, the performance outcomes of such actions are equally constrained. The capacity to make large capital investments, to acquire and divest businesses, to enter or leave product markets, to hire and fire, and to restructure a firm internally, are all a function of the discretion available to a CEO (Hambrick and Abrahamson 1995; Shen and Cho 2005).

Based on the idea that CEOs wield the dominant power and enjoy an exposed position with the board (Finkelstein 1992), considerable research concentrates on CEOs and tries to clarify whether, and under what conditions, they have an impact on organizational outcomes (Bowman and Helfat 2001; Carpenter, Geletkanycz, and Sanders 2004). Researchers focus primarily on U.S. settings to show that CEOs

matter, and that both environmental and individual factors affect the degree to which they matter (Crossland and Hambrick 2007). These researchers find that CEOs influence firm strategies, policies, and structure (e.g., Boeker 1997; Miller and Toulouse 1986; Papadakis and Barwise 2002) and performance (e.g., Chatterjee and Hambrick 2007; Miller and Toulouse 1986). However, researchers have given less attention to the idea that other C-level leaders may also matter, that strategic leaders' impact may be different in national settings other than the U.S., and that their impact may depend on particular organizational factors (Six and Normann 2013).

Crossland and Chen (2013), in their synopsis of the literature surrounding discretion, note how the formal and informal institutional contexts - the national, political, economic, social, legal and cultural - both enable and constrain the extent to which CEOs of public firms in the country take action, and thus the performance outcomes of such actions (p.11). These specific actions may include the capacity to take risks, make large investments, internal restructuring, or to hire and fire, as all are a function of the discretion available to the CEO, as the top leader (Crossland and Chen 2013). Indeed, Crossland and Hambrick (2007, 2011) suggest that CEOs matter more in some countries than others.

Researchers have devoted considerable attention to the question of how corporate elites (i.e., corporate executives and directors) affect corporate strategy. Much of this research has been grounded in one of two dominant theoretical perspectives: upper echelons theory and agency theory (Cannella and Monroe 1997). While both perspectives agree that corporate elites' preferences and dispositions influence corporate strategy, the upper-echelons perspective tend to emphasize the role

of demography-based preferences and dispositions (Hambrick and Mason 1984), whereas the agency theory perspective tends to emphasize the role of position-based preferences and dispositions (Fama and Jensen 1983). Specifically, theorists suggest that there is a close association between corporate elites' demographic attributes, such as age, education, and functional background experiences, and their cognitive biases and values, which in turn determines their strategy preferences and dispositions (Wiersema and Bantel 1992).

2.3 CEO Attributes and Firm Performance

Finkelstein et al (2009) characterize executive decision-making with the “bounded rationality” theory (March, 1978) aligning with the work of others (Child, 1972; Hambrick, 2007) in referring to the human limitations to access, processing, and use of information. Finkelstein et al (2009) identify this individual orientation as the “person’s interwoven set of psychological and observable characteristics” (p.57) that they engage to filter information, yielding strategic choices that impact firm performance. Hambrick and Mason (1984) contend executive cognitive biases, and personality traits, influence the direction of their attention, their perceptions, and interpretations, and thus, their strategic choices.

This view of executive orientation aligns with the seminal work of Hambrick and Mason (1984) on upper echelons theory (UET). They suggest that firm performance is a “reflection of the values and cognitive biases of powerful actors in the organization” (p.87), including the CEO. Since it is difficult to collect executive behavioural data such as psychometric measures, UET instead focuses on observable managerial attributes

that are indicative of experience and psychological constructs that shape the executive's interpretation of both the internal and external situation, then creating appropriate strategic alternatives to address the noted challenges (Sperber and Linder, 2018). UET research typically explores the impact of age, positional tenure (Hambrick and Mason, 1984) and functional background (Hillerand Hambrick 2005; Martelli and Abels 2010; Lewis et al. 2014).

According to UET, these attributes manifest in firm strategic choices and organizational outcomes. UET predicts that firm behaviour reflects the choices its top executives make; the different strategies and the resource allocations are indicators of broader strategic actions, with some level of risk. According to March and Simon (1958), Hambrick and Snow (1977) and Hambrick and Mason (1984), personality and professional features determine the effectiveness and efficiency of the leaders in the performance of their duties. The general construct of these attributes includes both the personality of the subject (personality features) and other features that are more related to the working life of those in the organization's upper echelons. Hambrick and Mason (1984) identified a number of observable attributes, such as age, functional orientation, experiences, formal education, culture, and socio-economic features.

They further position that the CEO as the most powerful actor in the organization, holding considerable influence over strategic choices such as acquisitions, resource allocations and internal restructuring, including the composition of the TMT (Crossland et al 2014; Hambrick and Mason 1984). Others extend this research to focus solely on the CEO, as the most powerful and visible leader of the TMT, to understand how the CEO attributes shape company strategy and performance. Research contends

that CEO perceptions are the predominant basis for organizational action, particularly when environmental uncertainty is high (Finkelstein and Hambrick 1996; Kaplan 2008; von den Driesch 2015).

In a meta-analytic investigation of the empirical findings built from upper echelons theory, Wang et al (2016) find that, generally, the theoretical predictions are supported for both the top executives (TMT) and the CEO. Their study is the first conducted that synthesizes and consolidates the disparate findings of the CEO impact on firm performance. In their analysis of CEO experience, capturing the knowledge and values that CEOs engage when making decisions and judgements that impact strategy, they consider the following key indicators: age, tenure as CEO, formal education, and prior career experience. As previously noted, these are the observable and measurable attributes that are core to UET's predictions about the impacts CEOs can have on firm outcomes, such as performance (Hambrick and Mason, 1984) and, secondly, are amongst the most frequently studied in this research field (Finkelstein et al. 2009; Sperber and Linder, 2018).

Wang et al (2016) acknowledge that the evidence from upper echelons research vis-à-vis these variables has produced mixed empirical findings and thus warrants meta-analytic clarification (p. 778). For example, scholars have found that tenure as CEO is positively (McClelland, Liang, and Barker III, 2010), negatively (Nadkarni and Hermann, 2010), or not related (Balkin, Markman, and Gomez-Mejia, 2000) to firm performance. Likewise, scholars have found positive (Fischer and Pollock, 2004) or negative (Zhang and Rajagopalan, 2010) relationships between CEO age and firm performance. Wang et al. (2016) suggest CEO age, tenure, formal education, and prior

career experience are positively related to firm performance. They posit that the positive impact of age and tenure may be due to the established networks and legitimacy of the CEOs, as well as producing greater organizational commitment. While their findings align with the key research in this literature, they suggest more research is needed, particularly to identify additional mediators, such as national culture, CEO attributes, and the interplay of the CEO variables. Table 2.1 provides a list of studies which address each of these attributes. A brief overview of this research follows, along with limitations.

Table 2.1 CEO Attributes and Associated Research

<i>CEO Attribute</i>	<i>Research</i>
<i>Age</i>	Giachetti, 2012 Hambrick and Mason, 1984 Henderson et al., 2006 Kourtzidis and Tzeremes, 2019 McClelland et al., 2012 Mishra et al., 2000 Nguyen et al., 2018 Moreno and Castillo, 2011
<i>Education</i>	Barker and Mueller, 2002 Cappelli and Hamori, 2005 Cappelli et al., 2014 Finkelstein et al., 2009 Hambrick and Mason, 1984 Sundaramurthy et al. 2014
<i>Tenure</i>	Hambrick and Fukutomi, 1991 Miller and Shamsie, 2001 Simsek, 2007 Zhang and Rajagopalan, 2010
<i>Succession</i>	Bigley and Wiersema, 2002 Shen and Canella, 2002 Westphal and Zajac 1995, Zhang and Rajagopalan, 2010

Source: Author

2.3.1 CEO Age

CEO age is generally considered a proxy for both their level of experience along with their preferences for change and risk-taking (Herrmann and Datta, 2006). In upper echelons and CEO effect research, CEO age is hypothesized to predict effects in opposite directions across a CEO's career (Sibin, Levitas, and Priem, 2005). While young CEOs are assumed to possess less experience and knowledge of the firm, it is assumed they will enhance their managerial and leadership competencies, refine their awareness of their environment, and learn to lead organizational change (Buchholtz, Ribbens, and Houle, 2003; Henderson, Miller, and Hambrick, 2006; Herrmann and Datta, 2006; Sibin et al. 2005). Over time, these CEOs gain market and customer knowledge that are central to market-oriented decisions and develop the acumen to deal with changing business environments.

As the key decision maker, the experience and capability of the CEO is translated directly at the firm level as they shape their organizations through their experiences and capabilities that ultimately foster respective organizational capabilities (Teece, 2012). Foss (2011), along with others, suggests that collective organizational phenomena, such as new value creation, have been shown to begin at the individual level (Adner and Helfat, 2003; Felin and Foss, 2005; Felin and Hesterly, 2007). As such, as a CEO becomes older, it is expected that their actions will yield improved corporate performance.

However, there is an offsetting effect as the CEO ages. Some research suggests that once CEOs pass middle age, a change of their mindset toward increased levels of

conservatism can be observed (Baretto, 2010; Buchholtz et al. 2003; Hambrick and Mason, 1984; Henderson et al. 2006; Herrmann and Datta, 2006). Consequently, they prefer less risky and less pioneering actions because these ensure greater stability and better financial security. Furthermore, this age effect influences the CEO's ability "to sense opportunities and threats, make timely and market-oriented decisions, and to change its resource base" (Barreto, 2010, p. 271). This effect, therefore, predicts that CEO actions yield far more conservative, less risky and hence lower corporate performance. The positive levels of knowledge accumulation, at an earlier age, decreases as the conservative mindset grows and the learning curve bottoms out (von den Driesch et al. 2015).

2.3.2 CEO Education

Formal education is associated with the development of cognitive processes and the ability to deal with complexity (Gottesman and Morey, 2010). This is linked to the cognitive ability and open-mindedness of the CEO (Martelli and Abels, 2010; Lewis et al. 2014) as well as expertise (Puri and Robinson, 2005; Ben-David et al. 2007). Schrand and Zechman (2010) align education with confidence and suggest that more educated CEOs are more inclined to take risks. Cheng, Chan, and Leung (2010) find a positive relationship between top managers' educational levels and overall firm performance measured by earnings per share and ROA. Hiebl (2014), in his meta-analysis of upper echelons research, he found that CEOs with a predominantly business background are positively associated with higher use of financial information, thus adopting a more diagnostic use of systems and a greater emphasis on performance evaluation. Naranjo-Gill et al (2009) found that CEOs with business

education are associated with the use of innovative systems for accounting and benchmarking.

2.3.3 CEO Tenure

CEO tenure refers to how many years an individual has been in the CEO position of the firm (Luo, Kanuri and Andrews, 2014). In their seminal paper, Hambrick and Mason (1984) identify CEO tenure as the observable characteristic that predicts both the “givens and behaviours” of CEOs during their time in office (Darouchi et al, 2021). Sibin et al (2005) posit, like CEO age, that a long tenure is associated with a high level of firm and industry knowledge, which is valued in stable industries, such as banks, but perhaps less important in turbulent, or highly innovative, environments. Simsek (2007) suggests that long tenured CEOs “accumulate a track record, attain a deeper knowledge of the firm’s environment, and acquire firm- and job-specific skills” (p.654). Finkelstein et al (2009) note CEO tenure is often a proxy for an array of personal qualities such as conservatism, rigidity and power. Foundational work by Hambrick and Fukutomi (1991) created a comprehensive model of CEO tenure that consists of 5 phases: (1) response to mandate; (2) experimentation; (3) selection of an enduring theme; (4) convergence; and (5) dysfunction – each with distinct psychological and behavioural patterns.

One body of research argues for an inverted U or curvilinear relationship between CEO tenure and firm performance in terms of average profit and return on sales (Miller and Shamsie, 2001); profitability (Henderson, Miller and Hambrick, 2006); and acquisition performance (Walters, Kroll and Wright, 2007). In contrast, others

suggest a linear relationship between CEO tenure and organisation performance (Coles, McWilliams and Sen, 2001). Waldman, Ramirez, House and Puranam (2001) found a positive correlation between CEO tenure and net profit margin. Barker and Muller (2002) suggest that long-term CEOs tend to be more conservative and risk-averse, avoiding strategies that may cause financial instability. These conservative tendencies may then be transferred to employees (Judge and Kammeyer-Mueller, 2011). It is suggested that long CEO tenure may develop an acceptance of the status quo and a reliance on past strategies. Henderson et al (2006) argue that a long CEO tenure is more insular with regard to a knowledge base and less likely to implement innovation and differentiation strategies.

Zhang et al (2008) argue that long tenured CEOs are motivated by economic gain but are more likely risk averse. Teece (2012) notes that CEO tenure may cause a variance in the deployment of firm-level dynamic capabilities since, as CEO, they are pivotal to strategic change initiatives. Musteen et al (2006) also identifies that CEO tenure has a significant direct and modifying association with strategic change as CEOs become more conservative as their tenure increases.

Keller et al (2023), in their replication and extension of Hambrick and Quigley's (2014) study, found that CEO tenure has a profound influence on the CEO effect estimation results. They find that firms with shorter CEO tenures have a pronounced firm effect. Likewise, as CEO tenure increases, the CEO effect declines i.e. the length of the CEO's tenure may be related to the strength of the CEO effect. Their results find that CEO's "matter" more in the first quartile of their tenure, explaining 36.6% of a standard deviation of ROA compared to the fourth quartile of their tenure, which

explains only 26.34 % of a standard deviation of ROA. They find that year and industry effect estimates increase steadily with longer CEO tenures.

This discussion, therefore, highlights two conflicting predictions on the impact of CEO tenure on firm performance. That is, the net impact of CEO tenure on firm performance is ambiguous, as is the case in the CEO age discussed above. This discussion would therefore predict a U-shaped relationship, that is, the impact of CEO tenure on firm performance would be positive initially and then decline after a certain point in time as CEO tenure increases.

In this research study, we consider changes in CEOs over the panel, excluding CEOs who served for the entire panel for each firm as Hambrick and Quigley (2014) posit their effects would be inseparable from their firm effects. As well, following the research, we exclude CEOs who serve only one year or less from comparison purposes.

2.3.4 CEO Succession

This characteristic captures a change in leadership, or turnover, at the CEO level. Giambatista et al (2005) suggest that a new leadership is expected to better align resources with the environment and implement strategic changes that will positively impact firm performance. The UET literature acknowledges the impact of CEO succession relative to the role of the CEO on firm strategy and performance outcomes (Hambrick and Quigley, 2014; Quigley and Hambrick, 2015).

Recent literature (Berns and Klarner, 2017; Schepker et al. 2017) supports that a change in CEO has a profound impact on an organization's performance. Favaro,

Karlsson and Neilson (2014) posit that CEO succession is considered one of the most critical events in a firm's lifecycle. Schepker et al (2017) suggest that CEO succession provides an opportunity to realign strategy and resources, while cognizant of the internal environment. They align both disruption and adaptation theorists to focus on the performance-based horizons. Ballinger and Marcel (2010) find that CEO change disrupts routines and relationships, both internally and externally. Karaevli (2007) considers how a new CEO must learn the roles and responsibilities, develop understanding of the organizational resources and foster stakeholder relationships.

Shen and Cho (2005) suggest that a new CEO brings novel perspectives and strategic insights, while aligning internal resources with the external environment, with longer term performance in mind. Favaro et al (2014) find that CEO succession is, ultimately, aimed at initiating change. In their meta-analysis of the research on the direct effects of CEO succession, Schepker et al (2017) find that CEO succession is positively related to strategic change. However, relative to firm performance, they find that a new CEO is negatively related to short-term performance.

For this research study, CEO succession is a noted variable since we identify changes in leadership and consider the inherited ROA from the previous CEO in determining CEO effects.

2.4 Criticisms of CEO attributes research

Lawrence (1997), in early criticism of demographic-based executive discretion research, notes that this type of research assumes that that demographic predictors are correlated with an output, while the presumed cognitive processes or transformation, happens in a "black box". Finkelstein et al (2009) as well as others, cite the "black box

problem” (p.59) noting using observable data, such as education, as a proxy for risk aversion, information sources and strategic choices, can lead to biased results.

Hambrick and Mason (1984) also acknowledge this challenge, noting “demographic indicators may contain more noise than purer psychological measures...a person’s educational background may serve as a muddied indicator of socioeconomic background, motivation, cognitive style, risk propensity and other underlying traits” (p.196).

It is clear, given the array of studies using demographic characteristics of top executives, that this will continue to be an area of rich discussion and future research. For the purposes of this research, we employ the CiC methodology which does not use these variables. Nevertheless, the use of the variables discussed in this section, along with others, provide interesting opportunities for future research, including within the GCC context.

2.5 The CEO Effect

Conceptual guidance for predicting the performance implications of CEO-level effects stems from both upper echelons theory (Hambrick, 2007; Hambrick and Mason, 1984) and the strategic choice perspective (Child, 1972, 1997). As noted, strategic leadership theories hold that the information most relevant to the firm converges at the top executive level, led by the CEO, where information and decisions are translated into strategy and action, based on their interpretations of the environment (Hambrick, 2005; Nadkarni and Barr, 2008).

As with CEO attribute studies, CEO effect studies aim to isolate and clarify how much of the variance in firm performance may be attributed to the CEO. Instead of a

focus on “how” CEOs affect performance i.e. how their attributes manifest in firm strategic choices and organizational outcomes they enact, CEO effect research seeks to determine the variance in a firm’s performance results that are attributable to a CEO, during his or her tenure. Starting with the foundational work of Lieberman and O’Connor (1972) on “the leadership effect”, both strategy and leadership researchers have examined the degree to which CEOs matter, in absolute terms.

A long tradition of studies (e.g., Crossland and Hambrick 2007; Fitza, 2017; Hambrick and Quigley, 2014; Mackey, 2008; Thomas, 1998) use variance partition methodologies (VPM) to quantify the proportion of variance in firm performance, generally measured as ROA, explained by CEOs and contextual factors. Typically, the studies use a panel dataset of a dozen or more years, identifying variables in performance across a series of categorical variables to represent calendar years (accounting for economic trends), industries or sectors, firms, and CEOs (e.g., Fitza, 2014; Mackey, 2008; Quigley and Hambrick, 2015). In VPM analysis, researchers use large panel datasets to partition the distinct effects on company performance using a series categorical factors as described above. This methodology has been employed to investigate the performance tendencies that can be attributed to the CEO, considering macroeconomic and industry conditions during their tenure, over the entire data panel, and includes the company’s grand average performance, over the entire data panel (Hambrick and Quigley, 2014). Traditionally, variance composition research methodologies employed include analysis of variance (ANOVA, Mackey, 2008) or other ordinary least square methods to compare a set of models. The performance outcomes most often used is return on assets (ROA), which is modeled, or predicted, with

variables to capture the influence of calendar year, industry, firms, and finally, the CEO. Other research has adopted multi-level modelling (MLM) to segment the variances across these levels (Crossland and Hambrick, 2011; Krause et al, 2019; Quigley and Hambrick, 2015). The findings across these studies indicate that the amount of variance attributed to the tenure of a specific CEO is in the range of 15-20%. This attribution is called “the CEO effect”, suggesting the relevance and influence of CEOs in their ability to impact firm performance, as measured by return on assets (ROA). Table 2.2 identifies some of these CEO effect studies, the methods employed, the dependent variable and the resultant CEO effect estimated.⁷

⁷ The results in Table 2.2 represent studies that vary in terms of country coverage, sample period and methodology used. An interesting analysis would identify the extent to which each of these dimensions influence the estimated CEO effect. Such an analysis is beyond the scope of the current thesis. With respect to the CiC methodology itself, Keller et al (2022) test its sensitivity, and confirm the key result that the CiC methodology does lead to larger CEO effects, but also find “that CiC model findings are sensitive to sample characteristics, namely firm size and CEO tenure” (p. 1).

Table 2.2 Summary of studies using VPM to isolate the CEO effect

Study	Firms	Time period	Years	Analysis	DV	CEO Effect %
Liebersohn and O'Connor (1972)	167	1946 – 1965	20	Sequential ANOVA	ROS	14.5
Weiner (1978) (L&O replication)	193	1956 – 1974	19	Sequential ANOVA	ROS	8.7
Wasserman et al. (2001)	531	1979 – 1997	19	Hierarchical OLS	ROA	14.7
Mackey (2008) (L&O replication)	520	1992 – 2002	11	Sequential ANOVA	ROA	12.9
Mackey (2008) (expanded sample)	520	1992 – 2002	11	Sequential ANOVA	ROA	23.8
Crossland and Hambrick (2007) US sample	108	1988 – 2002	15	Simultaneous ANOVA	ROA	13.4
Crossland and Hambrick (2007) US sample	108	1988 – 2002	15	Simultaneous ANOVA	ROS	14.0
Crossland and Hambrick (2007) US sample	108	1988 – 2002	15	Maximum likelihood estimation	ROA	30.4
Crossland and Hambrick (2007) US Sample	108	1988 – 2002	15	Maximum likelihood estimation	ROS	31.6
Crossland and Hambrick (2011) US Sample	100	1996 – 2005	10	Multilevel modeling	ROA	15.5
Crossland and Hambrick (2011) US Sample	100	1996 – 2005	10	Multilevel modeling	ROS	10.4

Source: Hambrick and Quigley, 2014

Hambrick and Quigley (2014) posit that an examination of the CEO effect “has the benefit of gauging the overall impact of CEOs” and thus “attention to specific CEO attributes...can be thought of as highly symbiotic” (p.475). Quigley and Graffin (2017) note that the CEO effect is estimated after isolating the effects of contextual factors such as macro-economic trends (year), industry and firm trajectory. They suggest that “a large CEO effect arises when many individual CEOs deliver distinctive performance by deviating, positively or negatively, from the expectations driven by contextual factors” (p.5).

Hambrick and Quigley (2014) posit that the use of the full-panel grand average does not consider the “pertinent, proximal conditions in which CEOs are located” (p.474), thus causing blurring of both contextual and CEO effects. Building on the call for the reconsideration of dominant analytic methods (Blettner et al, 2012; Bowman and Helfat, 2001; Mackey, 2008; McGahan and Porter, 1997), they suggest refinements to the methodology to accurately contextualize the CEO effect, and refer to their estimation model as the “CEO in Context” (CiC) technique for determining a CEO’s impact on organizational performance. They do this by examining CEO effects in subsamples of industries, generating different, perhaps logical, estimates.

2.5.1 Industry Effects

Industrial organization economics provides a theoretical foundation for the predicted impact of the industry level. Drawing on Mason's (1939) and Bain's (1956,1968) structure–conduct–performance paradigm, this theory explains differences in firm performance primarily according to the characteristics of the industry environment in which the firm competes (Porter, 1981; Zacharias et al, 2019). As

industry structure determines, in part, a firm's conduct (i.e., strategic actions are reflections of the industry environment), it then plays an important role in determining firm performance. Therefore, industry structure can explain strategic actions (Hoskisson et al., 1999; Porter, 1981). Barney and Hesterly (2006) suggest that the heterogeneities of firms within an industry thus get ignored, so analyses of firm policies, strategic actions and performance often come up short (Zacharias et al, 2019). These arguments indicate that the industry level, and industry health, should have a significant impact on variation in strategic actions.

Hambrick and Quigley (2014) speculate that the previous models employed ignored the realities of industry health, particularly across the panel used in empirical studies. Secondly, they found that the industry average was derived only from firms in the sample and not all firms in the industry, thus introducing a bias in the analysis. As in the case of Crossland and Hambrick's (2007) study with as few as six firms per industry, the variance explained by industry is inflated and, thus, the impact of the CEO is muted. This is often quite noticeable for long-term CEOs, where these outliers can significantly alter full-panel averages. Therefore, in their CiC model, Hambrick and Quigley (2014) replace the grand means derived from sampled firms with an annual industry performance indicator that is based on the performance of all firms in each industry, excluding the focal firm, thus controlling for industry variances, firm heterogeneity, and establishing peer group control. In other words, the CiC methodology corrects the bias in previous studies that do not include all firms in the industry.

2.5.2 Firm and CEO Effects

Again, drawing on industrial organization economic theories, the conceptual logic for firm-level effects comes from the resource-based view (RBV) of the firm, motivated by the inability of industrial organization economics to explain inter-firm (i.e., intra-industry) performance differences (Barney, 1991; Newbert, 2008; Wernerfelt, 1984). According to RBV theory, firms are heterogeneous in their controlled resources. As the firm's resources determine its ability to develop unique value creation strategies (Barney, 1991), inter-firm differences arise not only between industries but also within single industries (Finney, Campbell, and Powell, 2005). Empirical research confirms a relationship between a firm's unique resources and strategic actions. In turn, the firm level should have a fundamental impact on variation in strategic actions.

As with a revised model for industry effects, Hambrick and Quigley employ a revised specification for CEO effects, assessing the CiC effect against the context of their organizations' overall resources, including inherited profitability and inherited company health. The indicator of inherited profitability is the company's mean ROA for the two years prior to the start of the new CEO's tenure. Inherited company health is a ratio of the company's Market to Book value (MTB) divided by the industry mean, excluding the focal firm, at the close of the fiscal year prior to the start of a new CEO. Their new model incorporates these continuous variables for both industry and CEO effects, and generalized estimating equations (GEE) are used in addition to the use of ANOVA and multilevel modelling (MLM), which were the most common methods used previously.

2.5.3 The CEO-in-Context Results

Using a US based sample of CEOs for the years 1992-2011, and excluding those CEOs with only 1 year or less, Hambrick and Quigley (2014), conducted comparative methods to observe the aggregate CEO effects using sequential ANOVA, MLM and GEE. Table 2.3 presents these comparative results from their study. Like the prior sequential models, the GEE models employed cumulatively added year as well as the new indicators for industry performance, firm controls and, finally, indicators to capture each CEO.

Table 2.3 Partitioning of variance in ROA, by model type
(% of variance is explained in each category)

	Year	Industry	Firm	CEO	Unexplained
Sequential ANOVA	2.5	9.2	29.8	16.3	42.2
Multilevel modeling	2.1	3.2	24.2	20.4	50.2
CEO in context (GEE)	2.5	6.9	12.1	38.5	40.0

n = 4,866 firm-years; 44 four-digit SIC industries, 315 firms, and 830 distinct CEOs

Source: Hambrick and Quigley, 2014

Their CiC results suggest a greater overall CEO effect, and hence greater individual CEO contributions. In comparison to earlier studies, which find a CEO effect in the 10-20 percent range (using the same measure of company performance, ROA), the CiC technique results indicate the CEO effect to be greater, at 38.5 percent. They also posit that the CiC technique aligns more with the theoretically anticipated outcomes in relation to managerial discretion. The reason for this larger CEO effect is a more precise delineation of CEO's impact and proximal condition. As noted in Hambrick and Quigley (2014),

Nominal indicators of context do not specify the pertinent, proximal conditions in which individual CEOs are located, which ... causes substantial blurring of contextual effects and CEO effects. The use of nominal predictors is especially

problematic because it treats some of the CEO's own impact as part of the context in which he or she is operating, thus systematically underestimating overall CEO influence. (p. 474).

It should also be noted that the CiC methodology provided estimated CEO effects across industries were more in line with theoretical predictions than the other methods.

The new CiC technique generated results most in line with theoretical expectations, with the CEO effect increasing monotonically across the low- (28.3), medium- (35.0), and high-discretion (42.4) industry subsamples. Although all three techniques generated a larger CEO effect for the high-discretion than for the low-discretion subsample, the difference (by Fisher Z-test) was significant only for the MLM ($p < 0.02$) and CiC ($p < 0.01$) results. However, at odds with expectations, both ANOVA and MLM generated the lowest CEO effect for the medium-discretion subsample. Only the CiC method generated results completely in line with theoretical expectations, providing increased evidence of the new technique's enhanced validity relative to prior techniques. Hambrick and Quigley (2014, p. 484)

Fitza's (2014) criticism of Hambrick and Quigley's (2014) study suggests that CEO effect results are conflated by events outside the CEO's control. While he acknowledges the presence of a CEO effect, he argues that the magnitude of this effect must account for random chance. He suggests that when these random chances are accounted for, the effect CEOs have on company performance, after distinguishing the effect of chance, is more likely between 3.9 and 5.0 percent (Fitza, 2014, p.1847).

To determine the part of the CEO effect that can be explained by randomness, Fitza (2014) replaces ROA with a randomly created variable. Based on multiple analyses, the average CEO effect, accounting for randomness, is 13.3 percent. Hence, Fitza concludes that any CEO effect below 13.3 percent cannot be distinguished from random chance. Similarly, he argues that the longer the tenure of the CEO, the less the

measurement of the CEO effect can be inflated by randomness as compared to a shorter tenured CEO (Fitza, 2014; p. 1845).

Quigley and Graffin (2017) argue that the plurality of results from noted studies suggest a causal link, with estimates of the CEO effect most frequently near 15%. But they go further and refute Fitza's criticism, demonstrating that the use of ANOVA is problematic when the data are nested (Bliese and Hanges, 2004; Crossland and Hambrick, 2011; Misangyi et al., 2006), as they are with the CEO in context methodology. Quigley and Graffin demonstrate that when the data are nested, the use of multi-level-modelling (MLM) is more appropriate. Several studies have in fact demonstrated that MLM remains robust in the presence of nested data (Klein and Kozlowski, 2000; Raudenbush and Bryk, 2002). Replicating Fitza's analysis using the appropriate modelling approach, Quigley and Graffin demonstrate that the use of MLM yields CEO results consistent with the extant literature.

Quigley and Graffin (2017) also replicate Fitza's randomization experiment, but demonstrate that while the application of ANOVA yields results that are indistinguishable from those found previously – which implies the analysis is indistinguishable from chance – this is not the case when the same simulation is replicated within an MLM approach, where the estimated CEO effects essentially zero, which “is to be expected when employing a randomly generated dependent variable” (p. 794). The conclusions of this analysis are twofold: first, it is inappropriate to use ANOVA in the presence of nested data; and second, when the appropriate method is used, CEO effects are indeed distinguishable from random chance – that is, CEOs do have a significant impact on the companies they lead.

Hambrick and Quigley (2014) call for additional research, to explore these effects both by industry and country, building on the work of Crossland and Hambrick (2011). To answer this call, this research study will employ this refined CiC method in the context of the GCC.

2.6 Managerial Discretion

Coupled with the CEO effect research, a central component of the ability of a CEO to have a direct impact on firm performance is linked to their latitude, or discretion, to take preferred strategies and actions. Next, this concept of managerial discretion is explored and aligned with the research on the CEO effect presented in the section above. In the current research, measures of managerial discretion will be used to explain variations in the estimated CEO effects across countries.

Williamson's (1963) early conceptualization of managerial discretion is defined as "the freedom managers have in pursuing personal objects in pay, power, status and prestige" (cited in Shen and Cho, 2005, p.845). Hambrick and Finkelstein (1987) elaborated further to define managerial discretion, or latitude of managerial action, as a way to understand when, where, and to what magnitude CEOs are able to influence strategy and, ultimately, firm performance by using an "array of alternative actions that lie within the zone of acceptance of powerful parties" (p.378). Earlier studies on executive effects (Child, 1972; DiMaggio and Powell, 1983; Hannan and Freeman, 1977), propose the constraints of the executive/CEO are due to environmental, normative and inertial limitations. Subsequent research explored the concept of discretion at three levels: the executive (locus of control), the organization (resources

availability) and the task environment (e.g., industry regulations) which constitute a powerful range of limitations or catalysts for executive actions (e.g. Carpenter and Golden, 1997; Finkelstein and Boyd, 1998; Haj Youssef and Christodoulou, 2018). Hambrick and Finkelstein (1987) propose the theory of managerial discretion to reconcile polar views of organizations and to consider how to predict how CEOs vary in the magnitude of influence, if any. Hambrick (2007, p.335) posits CEOs should have greater managerial discretion, “when there is an absence of constraint where there is a great deal of means-ends ambiguity – that is, when there are multiple, plausible alternatives”. Hambrick and Finkelstein (1987) emphasize both the explicit and implicit nature of discretion, as many may face unspoken limits to their actions.

Crossland and Hambrick (1987) define executive, or managerial, discretion as a function of two broad factors. Foundationally, an executive must have or be aware of a wide array of alternatives that would be considered relatively unobjectionable within the stakeholders’ zone of acceptance. Therefore, discretion is bound by the extent to which potential strategic actions would seem to be risky or a violation of stakeholder expectations. Second, discretion exists relative to the power of stakeholders to block objectionable actions and/or lack the power to sanction executives for taking strategic actions. Thus, discretion is a combination of the open-mindedness of stakeholders coupled with their inability to block strategic actions to which they object (Crossland and Hambrick, 2007).

Prior research has focused on how the external environment and firm-level attributes affects levels of CEO discretion (Crossland and Hambrick, 2007; Finkelstein et al, 2009; Krause et al, 2019; Quigley and Hambrick, 2012; Wangrow et al, 2015). As

discussed in the CEO attributes research, some executives are able to create more alternatives for action due to differences in personal attributes or locus of control. Boyd and Salamin (2001) posit that organizational slack, due to the passivity of the board or firm culture, allows for more managerial discretion.

On net, the studies indicate that some environmental and firm contexts increase CEO discretion by creating means-ends ambiguity in deciding optimal strategic choices (Gupta et al, 2019). In contrast, other environmental/firm factors constrain CEO discretion through relatively rigid models of firm actions, therefore producing inertial forces (Wangrow et al, 2015).

This cited research recognizes the potential for variance in CEO impacts by leaders, firms, and contextual conditions. For example, Crossland and Hambrick (2007, 2011) found that in high discretion settings, like the United States, CEOs are associated with a larger proportion of variance than in firm outcomes of low discretion settings, like Japan and Germany. Mackey (2008) found that CEOs who have led multiple firms have a larger effect than those that have only led a single firm. Quigley and Hambrick (2015), suggest that the magnitude of the CEO effect, as impacted by managerial discretion, has shifted over time. Using their findings from the United States, they argue that there is a significant increase in the CEO effect over the past decades as modern CEOs have (1) more choice in terms of strategic actions; (2) compensation incentives that drive risk taking and strategy; and (3) increased shareholder pressures to pursue novel approaches versus status quo (Quigley et al, 2021).

Early work by Hambrick and Abrahamson (1995) measured discretion for 17 industries, using a panel of experts, and compared them with objective measures of the

task environment. They found that market growth, R&D density and advertising intensity were positively related discretion whereas capital intensity was negatively related. A study by Hambrick and Quigley (2014) found that in industries with greater discretion, CEOs have a greater effect on performance. Sahaym, Trevino and Steensma (2012), using industry exports measured as export intensity as the dependent variable, found higher managerial discretion leads to greater industry exports. They suggest that the relationship between managerial discretion and exports are weakest for industries where levels of innovation and risk taking are low.

Shen and Cho (2005) highlight the extensive latitude of CEOs in publicly traded firms over both objective outcomes and means through which they pursue them, positing that this increases the likelihood of an increased CEO effect. Quigley et al. (2021), in contrast, suggest that publicly traded firms are burdened with governance structures, a regulatory environment and performance metrics of share price, analyst ratings, and other pressures associated with managing shareholder expectations, therefore decreasing their possible effect.

Other work has extended the construct of managerial or CEO discretion to the national level, also referred to as the institutional environment. Makhija and Stewart (2002) used survey results from questions on government control to determine organizational accountability and decision-making orientation for firms in the United States (high discretion) and the Czech Republic (low discretion). They found that managers in more free market-oriented economies, such as the United States, perceive more outcome accountability, are more comfortable with uncertainty and have a

stronger sense of power, leading to greater risk taking, as compared to managers in planned institutional environments.

Krause et al. (2019), in their study of the board chair effect in low and high discretion countries - United States, United Kingdom, Germany and China - also find the importance of context relative to the latitude of actions of the CEO. Consistent with prior research, they investigate the CEO effect on ROA, as an indicator of firm performance, using multilevel modeling. While they do not use the generated scores for managerial discretion, their result for the CEO effect (14.89%) are consistent with Crossland and Hambrick, 2007 (13.4%); Withers and Fitza, 2017 (11.10%); Quigley and Hambrick, 2015 (15.7%) and Wasserman et al, 2010 (14.7%). They find a higher CEO effect aligns with greater latitude of actions, or managerial discretion, while controlling for board chair effect.

Researchers have used multiple variables in empirical studies to measure discretion. At the organizational level, antecedents of discretion include sales, firm size, slack, R&D intensity, company structure, advertising intensity, volatility and strategic orientation (e.g. Boyd and Salamin, 2001; Finkelstein and Boyd, 1998; Kim, 2013; Quigley and Hambrick, 2012; Rajagopalan, 1997). At the industry level, others have used industry variables such as regulatory conditions, demand instability, market growth, product differentiability, attentional homogeneity and industry capital intensity (e.g. Datta and Rajagopalan, 1998; Finkelstein, 2009). As noted earlier, others have focused on individual executive characteristics such as locus of control, perception, commitment to the status quo, tenure, age, education and risk-taking behaviour (e.g. McClelland et al., 2010; Miller et al., 1982; Roth, 1992). Wangrow et al (2015), in their

meta-analysis of the literature, call for additional studies to address the level of discretion at the firm, industry and national level. As national context is a key factor of this study, the research related to managerial discretion and national context is presented next.

2.7 Managerial Discretion and National Context

Crossland and Hambrick (2007, 2011) were first to empirically demonstrate that culture measured through a set of values – namely, individualism, uncertainty avoidance and power distance – plays a crucial role in defining the degree of discretion CEOs have in various countries. In their 2007 comparative study of US, German, and Japanese firms, Crossland and Hambrick, using Hofstede's typologies of individualism, collectivism and uncertainty avoidance, found that performance variance attributed to CEOs, as measured by return on assets (ROA), return on sales (ROS), sales growth and market to book values (MTB), was consistently greater in the US. They suggest that countries with higher individualism, greater risk tolerance, and lower constraints, enables greater discretion of their CEOs, thus increasing their potential effect on performance.

However, the examination was limited to the aggregate conceptualization of culture (cross-country differences) and assumed greater homogeneity within countries. They only focused on the central tendency of country's cultural behaviour.

Extending on their 2007 study, Crossland and Hambrick (2011) hypothesized that a country's informal institutions (e.g., cultural values) and formal institutions (e.g., legal rules) would be associated with the extent to which CEOs of public firms headquartered within that country possessed discretion. Crossland and Hambrick (2011) used an expert-panel to generate scores for managerial discretion in each

country, and find significant links between a country's informal institutions (i.e. cultural values), formal institutions (legal rules) and the ability of a CEO to impact firm performance. In their 15-country study, none of which are from the Middle East or the GCC, they found that national discretion, as measured by their country level rating, was a significant predictor of national-level CEO effects, as measured by the firm performance variables of ROA, ROS, ROIC and MTB.⁸ They suggest that discretion, "exists to the extent that a CEO has an array of alternative actions that all lie within the zone of acceptance of powerful parties" (2011, p.799). They point to the cultural values of individualism, uncertainty tolerance, power distance (Hofstede 2001) and cultural looseness *i.e.*, the extent to which social norms constrain individuals in society (Gelfand et al. 2006). They also find that the formal institutions, or legal rules of a country, provide variances in CEO discretion. Their work provides a validated, country level measure of the extent to which CEOs are responsible for firm level actions and outcomes (Crossland and Chen, 2013).

In their empirical analysis, Crossland and Hambrick (2011) demonstrate significant links between existing measures of national institutions (Estevez-Abe et al. 2001; Gelfand et al. 2006; Hofstede 2001; La Porta et al.1999) and a national-level measure of discretion based on expert panel data. Using their 15-country sample, they derived and validated a rating of CEO discretion for each country and correlated these with the cultural dimensions identified by Hofstede (2001). Expert panels, consisting of academics and management consultants, were asked to rate the degree of discretion of CEOs across fifteen, primarily Western, countries, namely Australia, Austria, Canada,

⁸ ROA represents Return on Assets, ROS Return on Sales, ROIC Return on Invested Capital, and MTB Market to Book ratio.

France, Germany, Italy, Japan, the Netherlands, Singapore, South Korea, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Combined, these countries account for most of the publicly listed companies globally.

Crossland and Hambrick (2011) employ the expert-generated managerial discretion scores to relate national differences in CEO discretion to corresponding differences in CEO effects on firm performance, where return on assets (ROA) is used to measure firm performance. For countries that did not have the national dimension scores, the researchers assigned scores based on geographical-historical proximity. Again, this analysis was completed at the national level, using CEO data. Results were not provided for individual CEOs or firms.

Their findings indicate that 1) countries with high levels of individualism were also characterized by high levels of discretion 2) countries with more tolerance of uncertainty are associated with greater levels of discretion, and 3) cultural looseness is positively associated with discretion. While they hypothesized that countries with greater power distance would have greater discretion, a statistically significant relationship in the opposite direction was found.

Crossland and Hambrick (2011) also showed that national-level discretion was a significant positive predictor of national-level CEO effects (the amount of variance in firm performance attributable to CEO-level factors), and that discretion mediated the relationship between national institutions and CEO effects. In their study, they capture CEO data related to name, firm, industry, succession and year. To test the relationship between CEO effects on firm performance and discretion, the country level CEO discretion measures and the CEO effect measures, by country, were used. A strong,

positive association was found between a country's mean discretion score and a country's CEO effect index.

Overall, Crossland and Hambrick (2011) note that two overarching cultural constructs – a country's autonomy orientation (individualist/collectivist and cultural looseness) and risk orientation – are highly predictive of managerial discretion. In countries that value collective decision making and have homogeneous norms, such as would be the case in the GCC context (Hofstede, 2001), CEOs were rated as having less discretion. Similarly, a country's tolerance for uncertainty, its risk orientation, aligns with the level of managerial discretion. Countries like Japan and South Korea, with similar national dimension scores to the Middle East⁹ demonstrate that CEOs have less leeway to take bold actions as these societies have a lower risk tolerance.

Interestingly, the findings of the cultural value of power distance did not demonstrate the hypothesized relationship with CEO discretion i.e. the greater the power distance, the greater discretion. In fact, the relationship was significantly negative. Crossland and Hambrick (2011) posit that where discretion is low, such as in Singapore and Japan, there is a highly symbolic status placed on leaders, perhaps as a form of "psychological compensation".

To extend the research on managerial discretion, Haj Youssef and Christodoulou (2017) explore the effect of cultural practices on CEO discretion using a sample of six Arab countries. Wangrow et al (2015) undertook a meta analysis of the managerial discretion literature, and recommended the need to extend the research to new cultural contexts. Following this suggestion, Haj Youssef and Christodoulou (2017) measure

⁹ <https://www.hofstede-insights.com/country-comparison/saudi-arabia,south-korea/>

managerial discretion in the Arab context. They both validate previous studies and provide more richness to increase the generalizability of the results. They demonstrate that the national cultural dimensions of power distance, future and performance orientation, as well as gender egalitarianism and assertiveness, based on the work of Hofstede and extended in the GLOBE study, have positive relationships with managerial discretion. The results also suggest that collectivism, uncertainty avoidance and humane orientation have a negative effect on the degree of managerial discretion of the CEO.

Haj Youssef and Christodoulou (2017, 2018) extend the work of Crossland and Hambrick (2011) to include the additional countries of Egypt, Kuwait, Lebanon, Qatar, Saudi Arabia, and the United Arab Emirates. These countries constitute the vast majority of publicly traded firms in the Arab nations (Forbes Middle East, 2014 as cited in Haj Youssef and Christodoulou, 2017). They posit that by investigating this new sample of countries and, using the same methodology as Crossland and Hambrick (2011), they provide construct validity to managerial discretion.

To increase the validity of their scores, Haj Youssef and Christodoulou (2017) employed an expert panel of prominent cross-cultural scholars who had published recent work from 2008-2015 on cross-cultural management in the Arab context in highly ranked business and management journals to assess the level of discretion, as suggested by Wangrow et al (2015). Hambrick and Abrahamson (1995) contend that expert panelists have an advantage for rating discretion directly, as they possess better knowledge in multiple contexts due to their exposure, as well as the relative objectivity of their responses.

Of the 137 panelists identified, 54 (32.4%) provided usable responses. Experts were asked to rate on a 7 point Likert scale, ranging from “*to a very small extent*” to “*a very large extent*”, their perceptions of the degree of discretion of CEOs. This generated 262 expert ratings, with each country receiving between 38 and 50 ratings (overall mean of 43.67 scores per country). The authors undertake an analysis to assess the inter-rater reliability of panel response.

They use the intraclass correlation coefficient (ICC) to measure the reliability across two different raters which seek to measure subjects in a similar fashion. Assessing inter-rater reliability is essential because it ensures that scales used in the research are robust to changes in raters. Calculated scales which score high on inter-rater reliability are therefore less likely to be subject to measurement error, including those errors which could stem from variations in the judgement of panel members (Fisher, 1992; Shrout and Fleiss, 1979, Chen et al., 1993). The ICC (3,k) calculated in the above study was 0.86 indicating high inter-rater reliability, and a result consistent with ratings among scholars (James, 1982 as cited in Haj Youssef et al, 2017).

Further, in extension of their research on these six Arab countries, Haj Youssef and Christodoulou (2018) suggest that research on the degree of managerial discretion at the national level assumes homogeneity within countries, i.e. using the cultural mean, or central tendency of societal members versus the intra-cultural variations within a given culture. They draw on stakeholder theory (Donaldson and Preston, 1995) to conceptually explain that managerial discretion is not solely dependent on the central tendencies of a culture, but also subject to the acceptance of individuals.

Building on their 2017 study, and using the cultural dimensions of individualism, uncertainty tolerance and power distance, Haj Youssef and Christodoulou (2018) hypothesize that greater intra-cultural variation reduces the degree of managerial discretion. They draw on the work of Beugelsdijk et al. (2014) who suggest that intra-cultural variation is best measured through data on the behaviour of societal members or a representative national sample. Prior to their research, the main cross-cultural data such as Hofstede and GLOBE only publish the mean or variations across countries or regions, as is the case for the Middle East region. Haj Youssef and Christodoulou (2018) extended the national level dimension of managerial discretion by discovering new antecedents, but they also assumed greater homogeneity within the Arab countries. Their meta-analysis suggests future research should investigate how the dynamics of the institutional environment shape senior team compositions, cognitions and processes as well as further investigation of the intra-cultural variations, particularly due to the multinational and cosmopolitan nature of the GCC.

This study measures the impact of country level influences on the CEO effect, using the managerial discretion scores that were generated in the studies of Crossland and Hambrick (2011) and extended by Haj Youssef et al (2017) to explain why these CEO effects vary across countries.

While the current study does not independently create managerial discretion scores using a panel of experts, as was done by other researchers (Crossland and Hambrick 2007; 2011; Haj Youssef and Christodoulou, 2017), it adopts the scores from these studies to explain variations in the estimated CEO effects across countries within the GCC. Wangrow et al (2015) suggest the consistent use of these country level

measures in future studies as consistency with previous research is fundamental to the extension and development of the concept of managerial discretion, especially on a national level. Hence, this study will adopt the scores generated by Crossland and Hambrick (2011) along with scores developed by Haj Youssef and Christodoulou (2017) to explain cultural variations across countries, as well as for comparative analysis between the current research and that undertaken for Western countries such as the United States that dominate the research field.

As such, a discussion of research surrounding national culture is shared, with a focus on the GCC region as well as the three cultural dimensions most widely used in the research, namely individualism, uncertainty tolerance and power distance. These dimensions are being discussed here because they are used by Crossland and Hambrick (2011) and Youssef et al. (2017, 2018) to explain variations in the managerial discretion scores that are adopted for this study across countries.

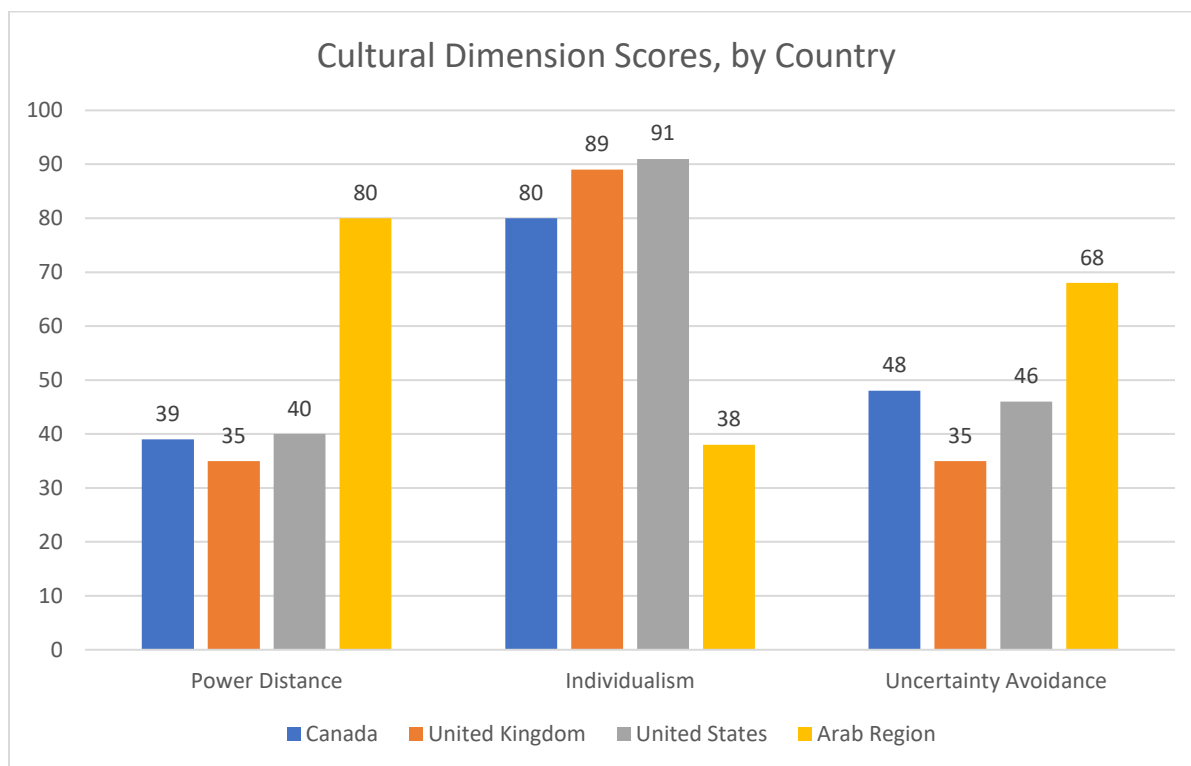
2.8 National Culture Dimensions

Bealer et al (2019, p.7) suggests that national culture has “three times more influence on the shaping of managerial assumptions” compared to profession, level of job, corporate culture, age, gender, education, industry, religion, job, or function.

In research on cultural variations between nations, particularly related to managerial/leadership practices and performance, Hofstede (1980, 1991, 2001) defined national culture as the collective mental programming that distinguishes one group of people from another. He posited that a national culture and its associated values affect the work environment and its management. The analysis and findings were based on his work across 50 countries, and three regions including seven Arab countries: Egypt,

Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, and the UAE. More recently, House et al (2004, 2014), in their GLOBE study of national culture variations and strategic leadership, measure culture based on national scores using similar dimensions to Hofstede. Using this data, a composite score was created for several countries, including several in the Arab region, that was subsequently used by Crossland and Hambrick (2011) and Haj Youssef and Christodoulou (2017, 2018) to in their research on managerial discretion. Likewise, in this study, measures of power distance, individualism-collectivism, and uncertainty avoidance will be used to explain variations in managerial discretion across countries within the GCC.

Figure 2.1 provides a graphic representation of these national dimension scores for the Arab region (Hofstede, 1991) and, for comparative purposes, the scores for Canada, the United Kingdom and United States are shared, followed by an explanation of each dimension.

Figure 2.1 Cultural Dimension Scores

Source: Data to create this figure retrieved from <https://www.hofstede-insights.com/country-comparison>

2.8.1 Power Distance Dimension

This dimension refers to the “the extent to which the less powerful members of institutions and organizations within a country expect and accept that the power is distributed unequally” (Hofstede 2001, p.28). He notes a positive relationship between power distance and paternalism, where decisions are based on favoritism and loyalty, not merit. Arab nations, such as those in the GCC, have a high-power distance dimension, placing emphasis on a dependency relationship between leaders and subordinates (Hofstede, 2001). These results suggest the acceptance of a hierarchy and unequal distribution of power. In comparison, Canada, the UK and United States have low power distance, suggesting that the value placed on egalitarianism with

inequalities between leaders and subordinates is minimized, and hierarchies are established for convenience. Relationships tend to be more informal with opinions and employee input is both valued and expected.

House et al (2004, 2014) also identify similar findings relative to power distance. They find that cultures that score high in power distance, leaders are more likely to be allowed far reaching action and, thus, followers are less likely to question leaders on which action has been followed. That is, the theoretical prediction is that managerial discretion is increasing in power dimension.

Crossland and Hambrick (2011) found a negative relationship between power distance and discretion, which is opposite to what was expected. In contrast, Haj Youssef and Christodoulou (2017) found a positive relationship, positing that this may relate to the context in which discretion is studied. The theory therefore predicts that CEOs in countries with high power distance will have lower managerial discretion, and therefore lower CEO effects.

As such, in this study, it is expected greater power distance noted in the GCC countries will contribute to a lower CEO effect.

2.8.2 Individualism-Collectivism Dimension

This dimension identifies the extent to which individual self-interest is given priority over the concerns of the group, characterized by a dependency on groups and power figures (Hofstede, 1994). Collectivist cultures are high in trust and loyalty, with strong ties and relationships in comparison to individualist cultures. Hofstede (2001) highlights this contrast as the “me” versus the “we” culture. Generally, the Arab nations are considered collectivist societies with loyalty as a core value, overriding most societal

rules and regulations (Hofstede, 2004). Obeidat et al. (2012) find that this loyalty is more evident to groups within an organization, such as friends or family, versus organizational goals and objectives. Hofstede et al (2020) note that this sense of family, or in-group, extends to hiring and promotion decisions. In contrast, the United States is one of the most individualist cultures, with a score of 91. There is a strong emphasis on equality and independence. Initiative and self-direction is expected, and people are expected to look after themselves. Hiring and promotions are often more merit-based, using evidence of one's accomplishments and work, including academic, professional, and personal. The theory therefore predicts that CEOs in countries with high collectivist cultures will have lower managerial discretion, and therefore smaller CEO effects. As such, in this study, it is expected greater collectivism noted in the GCC countries will contribute to a lower CEO effect.

2.8.3 Uncertainty Avoidance Dimension

Hofstede (1991, 2001) defines this dimension as an “intolerance for uncertainty and ambiguity”. Arab countries score high on this dimension, indicative of cultures that tend to encourage dependence on formal structures such as government and rules, compared to low scoring cultures which encourage empowerment and independence (Hofstede 2001). Countries with a high preference of avoiding uncertainty often have rigid belief codes and behaviour, and low tolerance of new ideas. Structures, policies and rules are preferred and security is valued. Social norms allow for the expression of emotions and traditional gender roles are evident. This dimension may be considered reflective of the Islamic value system as noted by Parnell and Hatem (1999), noting how the Muslim faith plays a significant role in people's lives. In contrast, the lower scores

for Canada, the UK and the US, suggest a comfort level with ambiguity and change. There is a willingness and acceptance of new ideas and innovation, coupled with a freedom of expression. The theory therefore predicts that CEOs in countries with high uncertainty avoidance cultures will have lower managerial discretion, and therefore smaller CEO effects. As such, in this study, it is expected greater uncertainty avoidance noted in the GCC countries will contribute to a lower CEO effect.

2.9 Managerial Discretion: Summary

The review of the literature in this section has highlighted the environmental factors that contribute to managerial discretion, as defined by a CEO's latitude of action. Also noted is the impact that national institutions, including cultural dimensions, can have on firm performance and if managerial discretion can moderate the effects of these dimensions (Crossland and Hambrick, 2011; Haj Youssef and Christodoulou, 2017). Haj Youssef and Christodoulou (2018) find that, in relation to all three dimensions, greater heterogeneity, or intra-cultural variation, on the cultural dimension of power distance as well as individualism, negatively affects the degree of managerial discretion. Their findings suggest a consideration of the heterogeneity of a culture, as increased stakeholder groups may constrain managerial discretion. CEOs exposed to fewer stakeholder groups, in a more homogeneous culture, are likely to have greater discretion. In this study, we investigate differences between countries in the GCC region using both the CEO effect results and managerial discretion scores to determine if intra-cultural variations are evidenced.

Regarding national culture theories used in the creation of managerial discretion scores, Haj Youssef et al (2018) and other researchers assert the possibilities of intracultural variations and heterogeneity within a culture. Hofstede (2001) acknowledges the change in homogeneity in the Arab States as well. Almutairi et al (2020) suggest it is imperative to distinguish the various national, and intracultural, similarities and differences between the Arab states. While there are commonalities in social norms, they differ in relation to socioeconomic, ethnic and demographic profiles. For example, they note that while KSA has undergone extensive socioeconomic reforms in recent years, it is still considered more restrictive and homogeneous than neighbouring countries like the UAE and still has the highest market restrictions due to relatively more adherence to Islamic Law and Shari'a (Melewar et al, 2015).

Haj Youssef and Teng (2021) note that the KSA is one of the best-performing countries globally yet is characterized by a rigid institutional environment that constrains foreign businesses. In contrast, the UAE is characterized by a more modern and tolerant lifestyle and considered the business hub of the Arab states, balancing tradition and modernization to create a dynamic and open environment for international and foreign companies. Damyanova and Singer (2005) posit the UAE represents a microcosm of globalization, reflective of more heterogeneity. In their ethnographic study of the UAE and KSA at the city level, Thiollet and Assaf (2021) note that the UAE has framed diversity as a marketable asset, portraying the notion of tolerance and cosmopolitanism, and continue to target highly skilled immigrants by offering "golden visas" or relatively long-term residence to investors, innovators, and businesses, therefore increasing the heterogeneity of the nation relative to stakeholders. These

variances between the region, specifically the UAE and KSA, are of interest for this research study. We posit that intra-cultural variations within the GCC will be evidenced by differences in managerial discretion across countries within the region and, with that, so too will there be variation in the CEO effects.

2.10 Criticisms of CEO Research

Despite the propensity of CEO effect research, and its support in the literature, critics seek more deliberate approaches to increase the confidence in findings and replicability. The majority of the challenges stem from the use of proxy variables (age, tenure, education) to determine the CEO/TMT effect on firm performance (e.g. Hambrick and Mason 1984; Hill et al. 2014, Wang et al. 2016). Recent work suggests that CEO research would benefit from more direct measurement techniques, such as surveys and interviews with CEOs to examine their underlying attributes and strategic actions (e.g. Colbert et al. 2014; Herrmann and Nadkarni, 2014). Crossland et al (2014) provided strong conceptual justification for their inclusion of proxy variables in their study of the CEO effect on firm strategy. Other studies rely on measures previously validated in other studies (Chen, Crossland and Luo, 2015; Hill et al. 2012). Specifically related to CEO attributes used in UET research, based on their meta-analysis, Neely et al (2020) recommend that all UET research should “conceptually and empirically justify measures” (p.9). While Fitza (2014) cautions that it may be challenging to distinguish between the randomness and real CEO effects, as discussed above, subsequent work by Quigley and Graffin (2017) has shown that Fitza’s criticisms are misguided given the inappropriate use of ANOVA in the presence of nested data.

2.11 Purpose of this Study

This study aims to contribute to both theoretical knowledge and managerial practice. This quantitative study aims to make several contributions as it builds on the existing literature related to the CEO effect on firm performance. This research presents literature related to strategic leadership, CEO characteristics and experience, managerial discretion, CEO effects and cross-cultural research to inform the relationship between CEOs and firm performance. Building on the literature related to the CEO effect, including managerial discretion, this study will contribute to an understanding of the impact of the CEO on firm performance in the GCC.

This study aims to identify areas of similarity and differences between the publicly-traded firms within the GCC, the first of its kind, and will develop hypotheses as to the role of the Middle Eastern culture, as measured by managerial discretion and national culture dimensions, in these relationships. It replicates and builds on the work of studies cited in this literature review.

Tsang and Kwan (1999), in their seminal classification of replication studies, note that empirical generalizations may add new dimensions and support for prior findings, yet note the generalizability of theories in one context may not directly apply to another. Dau et al (2021), in their analysis of types of replication studies suggest that fine-tuning studies, that use similar research designs with different populations, can, “stimulate debate, add to our body of knowledge and fine-tune theory” (p.215). They assert that studies that use the same research design as the original studies, but draw data from a different population, test the generalizability of the original work to a different cultural,

geographical or institutional context. They posit such replications may provide different findings to help establish the boundaries of the original theory (Dau et al, 2021). This research contributes to the development of the existing theories and evaluates whether the findings of the current studies, primarily in the Western context, can be generalized to the Middle Eastern context, and the GCC in particular, using the same measurement and analytic techniques.

The approach of this research fits into the category of a comparative perspective with the potential to discover one or more novel, or local, relationships unique to a region. Furthermore, this type of research aims to add to the literature that may revise or supplement Western theories of leadership (Li et al. 2012). The majority of CEO studies use extant Western management and leadership theories derived from the Western context (Leung 2009; Tsui et al 2006). Numerous scholars have claimed that this is problematic since the findings of such studies may not be applicable to non-Western countries (Liden and Antonakis 2009) and may fail to provide insights and understanding of novel contexts or to reveal indigenous aspects of management and leadership (Tsui et al 2006), thus compromising insights regarding country-specific phenomena and the development of management/leadership knowledge.

This research draws on local conditions within a non-Western region. This study adopts a regional/nation comparative study within 6 Arab nations and identifies the managerial discretion construct to consider the relationship between the CEO effect and firm performance, as moderated by national culture dimensions. The current thesis therefore tests the extent to which these Western based theories apply in the GCC context.

2.12 Chapter Summary

This literature review provided an overview of the literature related to the impact of the CEO on firm performance, particularly in the context of the GCC. The scope of this literature review identifies different strands of CEO research, including the relationship between observable attributes, from an UET perspective, such as age, tenure, education and succession of the CEO, on firm performance. A discussion of key research on the influence of national context, and its relationship to managerial discretion, which itself links to firm performance, is explored. Building on the research associated with the CEO effect and managerial discretion, this research study aligns with the work of Hambrick and Quigley (2014) and others which explore the CEO effect, as measured by the CEO impact on the firm's financial performance (ROA) during the CEO's tenure, as well as the research associated with managerial discretion as influenced by national context (Crossland and Chen, 2013; Crossland and Hambrick, 2007; 2011; Datta and Rajagopalan, 1998; Fitza, 2017; Haj Youssef and Christodoulou, 2017, 2018; Hambrick and Quigley, 2014; Quigley and Graffin, 2017).

Bromiley and Rau (2016) suggests the need to consider and control for constructs, such as the institutional and national contexts in which CEOs make decisions. This study controls for the institutional contexts, with a focus on publicly traded firms in the GCC and allowing the exploration of how the CEO influences firm performance within a culture, and to investigate whether differences exist across these GCC countries (Neely et al. 2020; Quigley and Hambrick, 2015). This study also

addresses the gap to address the environmental conditions (e.g. national setting) identified in the research (Hofstede, 2001; Neely et al. 2020; Quigley and Graffin, 2017).

The next chapter, Chapter Three, presents the research conceptual model, research questions, and hypotheses to be investigated in this thesis.

Chapter Three: Research Questions and Hypotheses

3.1 Introduction

This study explores the CEO and the extent to which they impact firm performance. The study addresses the gaps in the literature by considering a new context, the GCC, and undertaking a multi-country analysis, using the CEO in context (CiC) methodology of Hambrick and Quigley (2014). It goes further to also explain how the results obtained in the GCC context compare to those in the Western context by appealing to the moderating role of cultural context and managerial discretion, as measured in the extant literature. In pursuing this research, this thesis therefore fills an identified gap in the literature, as presented in Chapter Two.

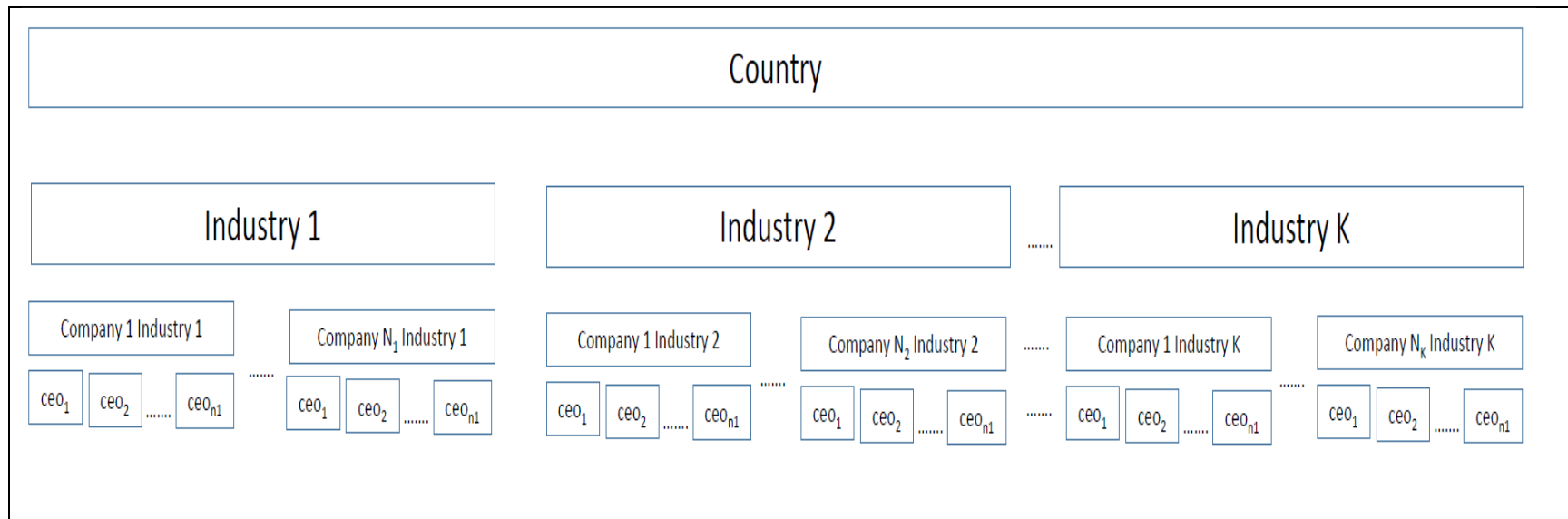
This research aims to answer the following questions that dominate the CEO effect literature using emerging economies in a non-Western context. These research questions include: (1) how much influence do CEOs have on firm performance in non-Western contexts? (2) What role does managerial discretion play in explaining differences in CEO effects in different contexts? and (3) What are the differences in performance outcomes from individual CEOs? (Hambrick and Quigley, 2014).

3.2. Conceptual Framework

Figure 3.1 is a conceptual model that illustrates the structure of the environment being analyzed in this thesis. Within each of the GCC countries, there are several industries. Within each industry, there are several companies. And for each company, there are multiple CEOs. This nested structure of the data being used informs the use of multi-level modelling (Quigley and Graffin, 2017), and will be discussed in more detail in

the empirical chapter below. The figure provides this structure within one country, but this structure is replicated for each of the six GCC countries within the analysis. This chapter develops hypotheses to be tested within this conceptual framework.

Figure 3.1 The Nested Structure of CEO in Context



Source: Author's conceptualization.

How then to identify the influence of each individual CEO? It would be inappropriate to simply take the average performance, say measured by return on assets (ROA), during any particular CEO's tenure and attribute that to the CEO. Such an approach would be simplistic and would not accurately identify the impact that CEOs have on the companies they lead.

To isolate the true impact that a CEO has on the organization during that CEO's tenure, it is imperative to identify other potential influences on a company's performance, and incorporate those other influences into the analysis, as not doing so would conflate the CEO's impact with these other influences. Below, we develop hypotheses that will allow us to identify these CEO effects. Once these CEO effects can be precisely identified, we go further and hypothesize how these CEO effects would be a function of national cultural context, which manifest themselves in managerial discretion. Managerial discretion itself has been shown elsewhere to impact CEO effects (e.g., Crossland and Hambrick, 2007, 2011; Hambrick and Quigley, 2014).

3.3 Isolating the CEO effect

3.3.1 Inherited Performance

When an individual takes on the CEO role in a company, that CEO is inheriting the performance of the company, be it a well performing company or a failing company. Suppose a particular individual becomes the CEO of a company and through his or her leadership, puts the company on a long trajectory of superior performance. Examples of what could yield such positive outcomes include the development of successful new products or services, entry into new markets that yield significant new revenue and

profit streams, or mergers and acquisitions that provide synergies or access to new markets and profit streams. Such transformational strategies initiated by a CEO could put the company on a sustained path of superior returns. Once on such a path, when a new CEO joins a company when experiencing such above average performance, that CEO should not have such performance attributed to his or her tenure, as the superior returns were present upon the CEO's entry into the CEO role. Rather, the CEO effects must measure the impact the CEO has on the company above and beyond what has been inherited.

The example above highlighted how a CEO could take on the role when the firm is doing very well. The opposite can also be true. CEOs could join companies that are doing poorly. Such poor performance could result from unsuccessful versions of the strategies described above, such as the deployment of unsuccessful new products or services, entry into new markets that proved to be ill guided, or mergers and acquisitions that do not yield the anticipated benefits. An individual who takes on the role of CEO when the company is experiencing such below average performance should not have such poor performance attributed to his or her tenure, as the poor financial returns were present upon the CEO's entry into the CEO role. Only the impact the new CEO has on the company above and beyond what has been inherited should be attributed to the new CEOs' tenure.

Once a CEO steps down and a new CEO joins the company, the inertia in financial performance continues into the new CEO's tenure. If such inertia is not accounted for, then the performance attributed to the new CEO would be biased. To isolate the true impact any particular CEO has on a company, this inherited

performance must be taken into account. For this study, inherited performance is considered as the average performance of the firm prior to CEO succession.

Performance is measured by return on assets (ROA), and inherited performance is measured as the average ROA for the two years before a CEO's tenure begins.

It is important to highlight here as well that incorporating inherited performance accounts for the incorporation of lagged effects. Given significant evidence of the persistence in financial performance (Choi and Wang, 2009; McGahan and Porter, 1999), the analysis must ensure that such persistence does not unduly influence the results. By incorporating inherited performance, that is, average performance over the two years prior to each CEO's tenure beginning, the CiC methodology, and hence the analysis undertaken here, has ensured the impact of lagged effects are taken into account.

3.3.2 Industry-Wide Performance and Business Cycle Effects

Company performance is often impacted by industry-wide trends that have nothing to do with any particular CEO. For example, the emergence of new industries which experience significant growth as they mature would result in CEOs leading companies in those industries riding these industry wide waves. Such CEOs would see the performance of their companies grow as the industry expanded. These industry wide trends should not be attributed to the performance impact that any particular CEO has on the firm. It is imperative therefore to ensure that industry wide trends in performance be considered to ensure that each CEO is not being attributed performance gains that are industry wide and not company specific (Hambrick and Quigley, 2104).

Conversely, dying industries experience sustained reductions in performance as they contract and are replaced by new emerging industries. As these industries contract, the financial performance of firms in that industry also deteriorates. Again, these industry-wide patterns are unrelated to any particular CEO and must be taken into account if an unbiased estimate of the CEO effect is to be measured.

While the discussion above related to long term trends of emerging and dying industries, there are also business cycle effects. A CEO that takes on the position in the depths of a recession, such as during the 2008 global financial crisis or at the height of the 2020 Covid-19 pandemic would see very low performance. However, as the economy exits these recessions, the financial performance of these firms generally improved, with variations both across and within industries. These improvements in financial performance are a natural part of the business cycle and are not entirely attributable to any individual CEO. Some CEOs would deploy strategies during such economic recoveries that allow their firms to recover better than other firms in the same industry, and it is that component of the returns that should be attributed to the CEO. Attributing the entire improvement in financial performance to the CEO would be incorrect. Since industries recover at different rates during economic recoveries, the industry dimension must also be taken into account.

An analogous discussion applies to economic downturns. When economies go into downturns during recessions, the decline in financial performance of a company should not be attributed entirely to its CEO. The declines are driven by economic trends that are industry or economy wide, and outside the control of any individual CEO. For example, when the world declared the Covid-19 pandemic and economies around the

world shuttered, financial performance of many (but not all) firms fell dramatically. It would be inappropriate to attribute these declines in financial performance to any particular CEO. If we are to identify the impact of a CEO on the firm he or she leads, these business cycle effects must be accounted for (Hambrick and Quigley, 2014). For the purpose of this study, we follow the literature and consider the comparable industry performance, calculating the industry mean ROA, by year, and excluding the focal firm. We also account for business cycle effects by accounting for the role of years in explaining ROA.

3.3.3 Isolating the CEO Effect

We have conceptualized the approach to isolate the CEO effects in Figure 3.2. For any given CEO, the influences discussed above that can influence the performance of the company above and beyond the impact that any given CEO are displayed. An analysis that simply averages the performance of the company during a CEO's tenure would be conflating the CEO's impact with that of the other influences listed in Figure 3.2. In order to isolate the CEO's impact, therefore, it is necessary to account for these other influences.

Figure 3.2 Identifying the CEO Effect



Source: Author's conceptualization.

This model is based on the specific context for this study, as described in Chapter Two, and is derived from the academic literature discussed (e.g. Crossland and Hambrick, 2011; Hambrick and Quigley, 2014). It identifies the relationships between CEOs and the dependent variable of firm performance. While the focus of the current study is to measure the impact of CEOs on firm performance, in order to isolate this effect, it is necessary to also control for other potential influences on firm performance. This discussion leads to our first two hypotheses.

- H1. CEOs, as the most senior leader within the organization, will impact firm performance.
- H2. CEOs, as the most senior leader within the organization, will impact firm performance, even after accounting for other influences.

3.4 Managerial Discretion and Cultural Context

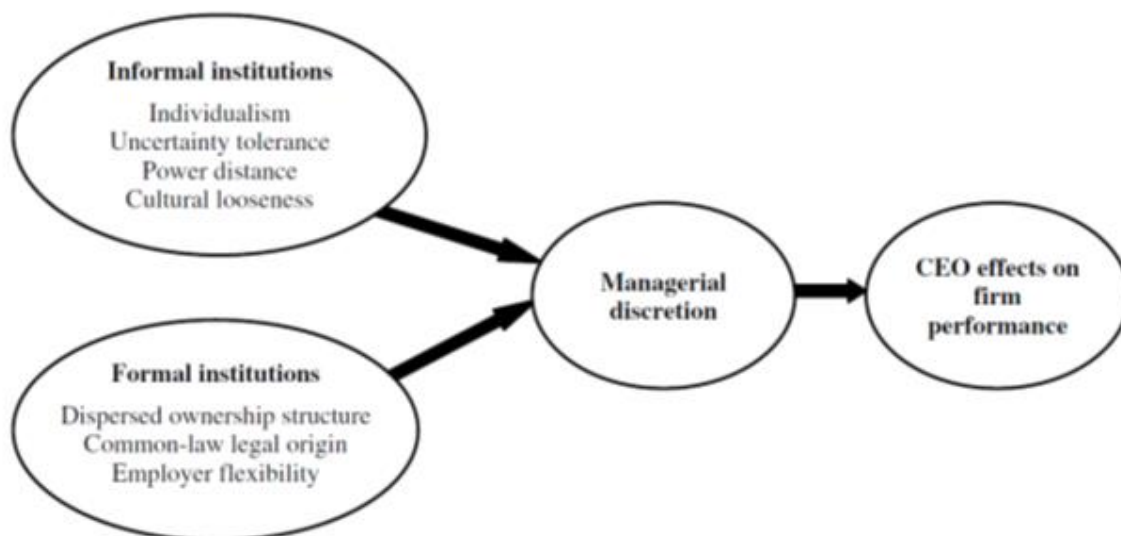
The model reflected in Figure 3.2 is based on the extant literature, namely Hambrick and Quigley (2014). As noted in the literature review in Chapter 2 above,

applications of this model have been undertaken in a Western context. The extension pursued in this thesis is two-fold. First, the analysis is undertaken in the GCC context, and hence fills a call in the literature for such an extension (Hambrick and Quigley, 2014). In order to explain why the results differ across contexts, that is between the Western context and the GCC context, this thesis appeals to the concept of managerial discretion. As such, the second area of extension pursued in this thesis is to use the concept of managerial discretion to understand why the results documented across cultural contexts vary as they do.

Hambrick and Finkelstein (1987) introduced the concept of managerial discretion, or latitude of managerial action, to understand whether, and when, executives have strategic leeway (Child, 1972),” as cited in Crossland and Hambrick, 2011, 788). When CEOs have very little managerial discretion, their ability to make decisions are highly limited, and hence so too is the potential impact they can have on organizational performance. On the other hand, when the CEO has high managerial discretion, meaning “great strategic” leeway, the CEO can have a much greater impact on firm financial performance (Crossland and Hambrick, 2011).

Crossland and Hambrick (2011) go further to demonstrate what explains variations in measures of managerial discretion across countries. That is, they explain why the amount of “leeway” afforded to CEOs varies systematically across countries, or cultural contexts. They demonstrate that the degree of managerial discretion is a function of both formal and informal institutions. Their conceptual framework is reproduced in in Figure 3.3 below.

Figure 3.3 The Relationship between Institutions and Managerial Discretion



Crossland and Hambrick (2011), page 799.

Crossland and Hambrick (2011) capture informal institutions by using measures of individualism, uncertainty tolerance, cultural looseness and power distance. Formal institutions are captured by dispersed ownership structures, common-law legal origins, and employer flexibility. These institutions together predict the degree of managerial discretion, which then influences the extent to which CEOs can impact the performance of the firms they lead. In the current study, and following the work of Haj Youssef et al, (2017), three of the informal institutions are considered, namely individualism, uncertainty tolerance, and power distance. As noted above, these measures of cultural institutions are systematically related to managerial discretion. Using measures of managerial discretion generated by both Crossland and Hambrick (2007, 2011) and Haj Youssef et al (2017), the following hypotheses are proposed:

- H3: The greater the extent of managerial discretion, the greater the influence that CEOs have on their companies.
- H4: Since CEOs in the GCC context have lower levels of managerial discretion, the impact they have on the companies they lead will be lower than is the case in the Western context.
- H5: Given the heterogeneity across countries within the GCC, there will be a positive relationship between managerial discretion and the CEO effects across these countries.

These hypotheses will be tested in Chapter Five.

It is important to note that the conceptual model depicted in Figure 3.2 above highlights the influences that must be taken into account before an unbiased estimate of the CEO effect can be identified. Thereafter, measures of managerial discretion can be used to explain variations in the estimated CEO effects across countries. That is, CEO effects are hypothesized to vary systematically with levels of managerial discretion.

3.5 Conclusion

The theories presented in this thesis hypothesize the relationship between the CEO and firm performance. Research related to managerial discretion, including national context, and the CEO effect, shared in Chapter Two, are foundational to these hypotheses. This chapter has presented the conceptual framework for this thesis that illustrates the CiC methodology, which allows for the isolation of the impact that CEOs have on the companies they lead. We also hypothesize that both the regional and national context will moderate these effects.

The next chapter, Chapter Four, will provide the methodology and research design for this study along with a detailed description of the data.

Chapter Four: Methodology and Data

4.1 Introduction

This chapter presents the research design and methodology of this research, that is appropriate for the research questions and hypotheses posed. An overview of the data is provided, including how it was sourced, collected, prepared and operationalized to test the hypotheses developed in this thesis. Section 4.2 provides a description of the research design selected for this study and why it is appropriate for determining the CEO effect on firm performance. Section 4.3 discusses the data sources. Section 4.4 defines each measure used in the study and descriptive statistics to summarize the data. The chapter concludes with the limitations of the research, ethics approval and closing comments.

4.2 Research Process

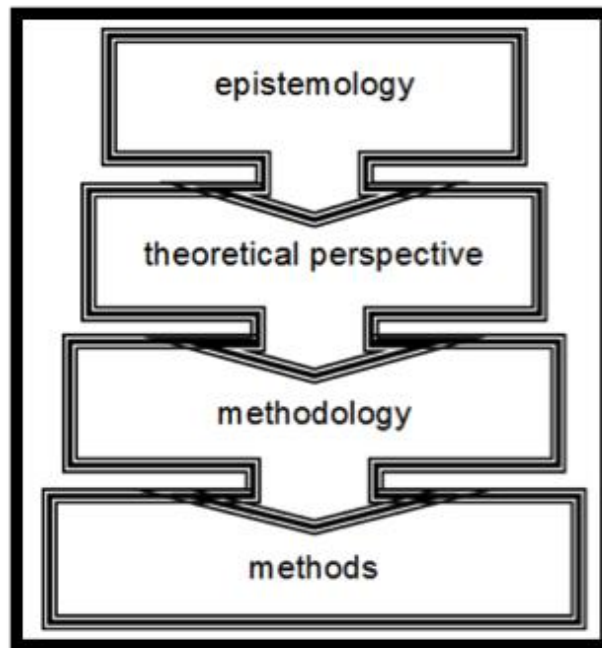
The selection of a research strategy is not a simple decision between quantitative and qualitative but, instead, relates to the beliefs of the researcher as to what counts as reality. It is intricately linked to the philosophical stance of the researcher along with the practicalities of the plan of action including the specific techniques and procedures related to data collection and analysis (Crotty, 2003).

The nature of the research questions determines the selection of the research design, data collection procedures and analysis techniques. The primary question of this study considers the impact of the CEO on firm performance, the CEO effect, and if managerial discretion contributes to the differences in the CEO's impact on firm performance. While the central unit of analysis is the CEO, the data includes financial performance data from all publicly traded companies in the GCC. Thus, careful

consideration must be given to the research process to align with current work, address gaps and contribute to the field.

The research process consists of four elements that inform one another, as identified in Figure 4.1 (Crotty, 2003). Epistemology informs the theoretical perspectives which, in turn, determine research methodology, and then methodology directs the methods of research. Each of these elements will be discussed, relative to the theoretical and philosophical position of this researcher.

Figure 4.1 The Four Elements of Research Process



Source: Crotty, 1998, p.4

Epistemology is concerned with what is accepted as knowledge in the field of study and represents how we know what we know (Crotty, 2003). As one's theoretical perspective, it is how a researcher looks at the world and makes sense of it. Hamlyn (1995) and Maynard (1994) as cited in Crotty (2003, p.8) state that "epistemology is concerned with providing a philosophical grounding for what kinds of knowledge are

possible and how we can ensure they are both adequate and legitimate.” Crotty (2003) identifies the three major types of epistemologies as objectivism, constructionism, and subjectivism. Objectivism means that reality exists apart from the operation of consciousness and that “social entities exist in reality external to social actors” (Saunders et al 2009, p.110). Constructionism, according to Burr (2003), refers to the meaning that knowledge is created via human engagement and social processes, with the subject and object merging as partners in the generation of meaning, and where “truth may be thought of as our current accepted ways of understanding the world” (p.5). In subjectivism, meaning is imposed on the object by the subject, not from the interplay between subject and object. As this research investigates a phenomenon, independent of consciousness and external to social actors, this study leans towards an objectivist epistemology.

The second element, a theoretical perspective, describes the philosophical stance of the researcher and research, that lies behind the chosen methodology. Creswell (2017) suggests the need for the philosophical perspective of the researcher to be clearly understood since it has an influence on both the research purpose, methodological choices, and study design. Saunders et al (2009) posit the research philosophy identifies how the researcher is thinking about the development of knowledge. Creswell (2017) identifies four central perspectives, or paradigms, associated with research, namely: positivism, constructivism, transformative and pragmatism.

Positivism is the paradigm generally associated with quantitative research. It provides unambiguous, accurate knowledge of the world, and applies a scientific

method to the study of society. In this philosophy, positivism is objectivist; it adopts the stance of science, with empirically verifiable knowledge (Crotty, 2003). This paradigm is defined by well-structured methodology, quantifiable observations, and statistical analysis (Remenyi et al, 2005). Bush (2007) asserts positivism is the view that objects have an existence independent of the knower. The role of the researcher is that of objective analyst and interpreter of a measurable, tangible social reality.

Only authentic knowledge is scientific knowledge, and such knowledge can only come from positive affirmation of theories through strict scientific method. It draws on techniques for investigating phenomena based on gathering observable and measurable evidence, subject to specific principles of reasoning. A positivist paradigm is one that is hypothesis based, objective and deductive, proposing that quantitative evidence is more valid, reliable, and rational.

In contrast, a constructivist paradigm seeks to understand the subjective meanings that individuals create to explain the world around them (Creswell, 2014). In this theoretical perspective, a researcher is interactive with the data and participants, becoming part of the lived experience to interpret the findings and generate knowledge from the participants. The constructionist worldview gathers both information and perceptions of participants via inductive methods such as observations, interviews and critical incidents and creates knowledge from the perspective of the participant.

This research adopts a positivistic theoretical perspective, with the researcher in the role of objective analyst, interpreting data that is measurable and tangible, and independent of the analyst. This philosophical stance is hypothesis based, seeking observable and measurable evidence to enable the objective analysis of the relationship

between the CEO and an organization's performance (Creswell, 2014; Crotty, 1998; Easterby-Smith et al. 2012).

This positivist, quantitative strategy of inquiry aligns with the seminal studies of the impact of the CEO on firm performance (e.g., Crossland and Hambrick 2011; Haj Youssef et al, 2017, 2018; Lieberman and O'Connor, 1972; Mackey, 2008; Quigley and Hambrick, 2015). Adopting a similar approach for this study allows for comparison to existing research. Drawing on other studies in the field to replicate, this research seeks to align with these works and generalize the findings of this study to contribute to knowledge. This study seeks to objectively examine the relationships between the variables, and control for alternatives to allow them to predict outcomes (Creswell, 2014; Crotty 1998, 2003).

This research aligns with the dominant worldview of both the researcher and the research in the field. While cognizant of the contextual factors presented in the literature, and that a relativist or critical realist stance may explain the impact of national culture, this study is grounded in realism and objectivity. This theoretical perspective emphasizes that, "the "world is concrete and external, and that science can only progress through observations that have a direct correspondence to the phenomena being investigated" (Easterby-Smith et al., 2008, p.19).

To analyze the relationship between the variables of interest in the study, a deductive approach will be employed to measure the facts of variables quantitatively (Saunders et al, 2009; Creswell, 2017). A quantitative methodology is used to test the hypotheses and identify cause-effect relationships between the variables of interest. Table 4.2 summarizes the researcher's epistemology, philosophy, and methodology for

this study, as defined by Crotty's four elements pertinent to a research process. The next section will expand on the research methods proposed for this study.

Table 4.1 Linking Ontology, Epistemology and Methodology

Ontology	Realist
Epistemology	Positivist
Methodology	Quantitative
Methods	Longitudinal panel using Hambrick and Quigley's (2014) CEO-in-context (CiC) methodology.

Adapted from Crotty (2003)

4.3 Research Methods

A central consideration of research design is the methods to employ for data collection, investigation, and analysis. These inform the data collection, analysis and interpretation that will be used to investigate the research questions and hypotheses. For this analysis, we adopt the CiC method developed by Hambrick and Quigley (2014) as shared in the literature review. This method is deployed to isolate the impact that CEOs have on the firms they lead. Following the model of Hambrick and Quigley (2014), and further developed by Quigley and Graffin (2017), models are clustered at the firm level and are specified to account for repeated measures in the panel.

This research makes use of secondary data collected from publicly available sources. This research uses a sample of publicly listed companies and defines variables that are analyzed in a positivist manner (Easterby-Smith et al. 2012). Adopting a quantitative methodology, this research evaluates the CEO effect on firm performance in the GCC countries, using a design and methodology employed by other researchers in the field, who investigated primarily Western CEOs and firms. Tsang and Kwan (1999) posit empirical generalizations may add new dimensions and support for prior

findings, yet also identify contextual differences relative to generalizability. As suggested by Dau et al (2021), this research aims to test the generalizability of the CEO effect and managerial discretion research using a different cultural, institutional and geographical context, and establish new boundaries for the original theories. This research contributes to the development of the existing theories and evaluates whether the findings of the current studies, primarily in the Western context, can be generalized to the Middle Eastern context, and the GCC more specifically, using the same measurement and analytic techniques.

4.4 Data and Variables

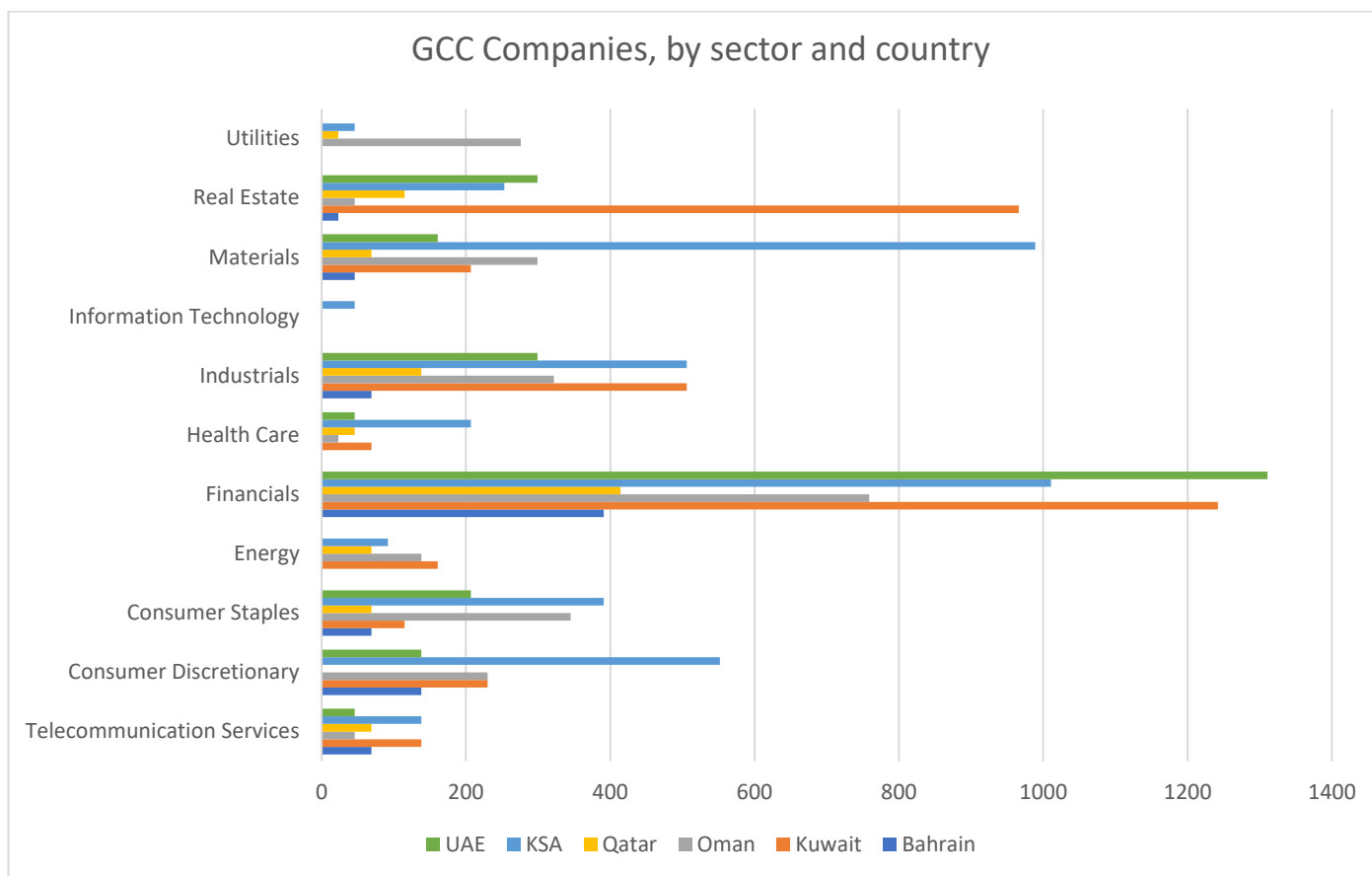
4.4.1 Sample

The Standard and Poor Global (S&P) financial market indices database, Capital IQ, is used to select the sample of publicly traded firms to be used in this study. S&P is recognized as one of the world's largest providers of independent ratings, data and market indices¹⁰. The sample consists of publicly-traded firms for 6 different countries that comprise the Gulf Cooperation Council: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia (KSA) and the United Arab Emirates (UAE). Using the classification of publicly traded companies, lists were generated from the Standard and Poor database, Capital IQ, and data were retrieved for the period 1997-2019, a period for which data exists in the GCC market. Prior to this period, data on publicly traded firms in the GCC was quite sparse. These lists were cross-referenced with corporate websites, Bloomberg, and multiple data sources (news releases, market filings, media accounts,

¹⁰ <https://www.investopedia.com/terms/c/capital-iq.asp>

publicly available databases) to capture missing data related to CEO tenure and to confirm CEO transitions. Figure 4.2 captures the number of companies by country and by sector. The sample frame consisted of the 23 financial years from 1997-2019 inclusive. Not all firms were associated with 23 full years of data as some firms came into existence, exited, merged, or first went public during this period. After applying these filters, the final sample included 50 industries, 645 firms, and 14,673 firm-year observations.

Figure 4.2 Publicly Traded Companies in the GCC (1997-2019)



Source: Compiled by the author.

Each firm was assigned to one of 50 industry groups, as per its designation in the Capital IQ database, as shown in Table 4.2.

Table 4.2 Sample firms, by industry (1997-2019)

Industry	Firm-Year Observations	Number of Firms
Air Freight & Logistics	368	16
Airlines	23	1
Banks	1,472	68
Beverages	92	4
Building Products	161	7
Capital Markets	828	37
Chemicals	460	20
Commercial Services & Supplies	230	10
Construction & Engineering	1,012	44
Consumer Financials	161	7
Containers & Packaging	207	9
Distributors	46	2
Diversified Consumer Services	161	7
Diversified Financial Services	437	19
Diversified Telecomm Services	184	8
Electrical Equipment	138	6
Energy Equipment	161	7
Entertainment	69	3
Equity Real Estate	23	1
Food & Staples Retailing	276	12
Food Products	805	35
Gas Utilities	23	1
Health Care Equip. & Supplies	23	1
Health Care Providers & Services	299	13
Hotels, Restaurants & Leisure	713	31
Household Durables	69	4
Household Products	23	1
Independent Power & Renewables	207	9
Industrial Conglomerates	207	9
Insurance	2,207	96
IT Services	23	1
Machinery	69	3
Marine	23	1
Media	69	3
Metals & Mining	276	12
Multi-Utilities	46	2
Oil, Gas & Consumable Fuels	299	13

Industry	Firm-Year Observations	Number of Firms
Paper & Forest Products	46	2
Pharmaceuticals	69	3
Professional	23	1
Real Estate Management & Development	1,679	74
Road & Rail	92	4
Software	23	1
Specialty Retail	207	9
Textiles, Apparel & Luxury Goods	92	4
Thriffs & Mortgage Finance	23	1
Trading Companies	161	7
Transportation & Infrastructure	115	5
Water Utilities	69	3
Wireless Telecommunications Services	184	8
Total	14,673	645

4.4.2 Financial Performance

This thesis seeks to explain the variation in financial performance of companies, over time, and measure the extent to which this variation is attributable to CEOs. Aligned with the cited research, the financial performance measure used is return on assets (ROA), which is calculated as net income divided by total assets for each firm-year. The use of this measure aligns with previous studies on CEO effects (e.g., Crossland and Hambrick, 2007; Hambrick and Quigley, 2014; Mackey 2008). Table 2.2 in the literature review chapter above lists studies that use this measure. The use of this measure of financial performance also allows for the ability to compare the results to those reported in the extant literature.

It is important at this point to note some limitations in the use of ROA as a measure of performance. One could imagine a company that forgoes current profitability to build capabilities for the future. Such strategies could include an increased focus on R&D or product development, or entering new international markets, and in the pursuit

of these future focused strategies, forgo current profit opportunities (Dunning and Lundan, 2008). That is, rather than focusing on driving sales and profitability, the company's focus may be on the development of the next generation of products, or new markets to enter. Since ROA is a ratio with firm profits in the numerator and assets in the denominator, one must consider how each is impacted by forward looking strategies pursued by a company, and hence its CEO. If, in such scenarios, firm profits fell and firm assets increased because of the development of new technology, and assuming that is measured as a firm asset, then the ROA would fall despite the longer term prospects of improved firm profitability. ROA would fall even if measured assets were unchanged, as long as current profitability fell. That is, ROA would underestimate the firm's true performance because ROA is myopic, in that it only considers current profitability. Further, even if current profits and current assets were unchanged as a result of future focused strategies, ROA would be unchanged even though expected future profitability is higher.

In sharp contrast to ROA, stock market valuations are conceptualized to be a present discounted value of all future cash flows of a company (Booth, Cleary, and Drake, 2014; Sloan, 1996). As such, when a firm deploys a strategy as described above, where a CEO is pursuing strategies that develop promising future profits at the expense of current profitability, financial markets would take this into account in stock market valuations. In a highly cited paper, Hall, Jaffe, and Trajtenberg (2005) provide strong evidence linking patent citations to stock market valuations. They write, "In an efficient market, the stock price impounds the value of a firm's R&D capital (along with other intangible assets), so there is no association between R&D intensity and future

stock returns” (Chan, Lakonishok, Sougiannis, 2001, p. 2432). In other words, all R&D efforts that may impact future profitability becomes embedded in stock prices. This is in sharp contrast to ROA which does not account for future profitability, but rather only takes into account current profitability.

Another important limitation of the use of ROA is that it does not take into account the riskiness associated with the company. Given that ROA is an accounting based measure, defined as profits divided by total assets, it ignores the risk that underlies the company (Hejazi and Santor, 2010). Risk can vary not only across companies within the same industry, but also over time for the same firm (Faff, Hillier, and Hillier, 2000; Baele, and Inghelbrecht, 2009).

In undertaking stock valuations, measures of risk adjusted discount rates are used. In other words, stock market valuations are systematically related to the discounted cash flows which are expected to flow from stock ownership, including those which stem from future growth opportunities. These discounted cash flows have embedded in them a market adjustment for risk (Booth, Cleary, and Drake, 2014).

Still another limitation in using ROA is that it can be impacted by the deployment of accounting strategies, which can then artificially impact reported profitability in ways to minimize a corporation’s tax liabilities. Beer, De Mooij, and Liu (2020) undertake a meta analysis and document the importance of profit shifting, that is, using accounting practices to move profits across jurisdictions in ways that minimize their tax liabilities. They show that “on average, a 1 percentage-point lower corporate tax rate will expand before-tax income by 1%” (p. 660). They also show that this effect is increasing over time. What this means is that tax rates do impact the profits being reported – a result

that would directly impact a company's ROA, but not necessarily its stock market valuation.

Finally, another limitation of using ROA as a measure of performance is that it is not comparable across industries (Booth, Cleary, and Drake, 2014). As is well known, some industries are much more capital or asset intensive than other industries. These systematic difference in capital intensities across industries result in measures of ROA that are not comparable across industries. It is important to note that while the other issues noted above are limitations to the use of ROA as a measure of performance in this analysis, this final challenge is dealt directly within the CiC methodology, as deployed in the current analysis, through formally accounting for industry. That is, in measuring the CEO effect, systematic industry differences are accounted for in the methodology.

Most importantly, sensitivity analyses from studies in the extant literature confirm that the CiC results are not sensitive to the use of ROA or alternative measures of performance, such as return on sales (ROS) or market to book (MTB) ratios. To quote from Hambrick and Quigley (2014), "results for ROS and MTB were highly similar to those shown for ROA" (p.483). In other words, the results documented in this study on the impact that CEOs have on the companies they lead are not expected to change had a market based stock valuation been used.

4.4.3 CEO variables

The key objective of the study is to identify the variation in financial performance attributable to CEOs. The financial performance of firms would reflect both the external

competitiveness of the firm as well as the internal efficiency and utilization of resources over time. That is, both internal and external factors influence the financial performance of the firm. CEOs, in their role as the most senior executive in the organization, are ultimately responsible for decisions that drive these outcomes.

Therefore, for each firm-year in the sample, we gathered data on the CEO and their tenure. CEO names and tenure data were collected from Capital IQ, regulatory filings, press releases, company websites and news media. CEOs who served only one year are dropped in the analysis as well as CEOs who served for the entire 23 years of the panel, as their effects would be inseparable from firm effects (Hambrick and Quigley, 2014). That is, for the CiC methodology to isolate the impact that CEOs have on companies, it is necessary that the CEO be in the sample for at least two years, and also that each company have at least two CEOs serving over the sample. There is also a third requirement for a CEO-firm observation to remain in the sample, namely that there be at least two firms in each industry.

Table 4.3 identifies the CEO count by country, as well as average CEO tenures and the total number of CEO-year observations. The average tenure for CEOs in the GCC is 7.5 years, which is slightly higher than the average of 5.86 years found in Hambrick and Quigley (2014), and on par with the average of 7.48 years found in the Keller et al (2023) study. The question to ask is, what insights might the results from the extant literature regarding CEO tenure have for the estimation of the CEO effects documented here for the GCC?

First, Keller et al (2023) replicates Hambrick and Quigley study (2014) with a longer and updated sample, and finds that average CEO tenures are similar to those

documented in the current study for the GCC, but longer than those documented in the Hambrick and Quigley (2014) study. This “may” imply that, over time, as longer data sets become available for the GCC, the average tenure of CEOs may also increase, as occurred in the US case and documented by Keller et al (2023). Of course, this is just a conjecture, as it would depend on the depth of the market for CEOs across the GCC relative to the US, as well as governance processes in place to replace CEOs. The impact of longer samples on CEO tenures in the case of the GCC is therefore an interesting area of future research. Second, as documented by Keller et al (2023), CEO impacts are largest in the first quartile of their term and fall over time. This would imply that as the CEO tenures in the GCC increase, the estimated CEO effects may fall as well, which would reinforce the findings here that contexts which have lower managerial discretion would also have lower CEO effects. As above, this too would be an interesting area for future research.

Table 4.3 CEO Count, by country and tenure

Country	CEOs (n)	Average Tenure (years)	Total CEO years
GCC	1,064	7.5	7,951
Bahrain	74	7	549
Kuwait	237	8	1,795
Oman	178	8	1,363
Qatar	83	8	664
Saudi Arabia	299	7	2,140
UAE	193	7	1,440

4.4.4 Control Variables

As discussed above, simply taking the average performance of each company during any given CEO’s tenure would not yield an accurate measure of each CEO’s impact. To identify the CEO effect precisely, other influences of each company’s

performance must be taken into account. Like Hambrick and Quigley (2014), this study includes additional indicators that would influence company performance in a given year.

Industry Effects

Following the published literature, for each focal firm, and for each year in the sample, a size-weighted mean ROA is calculated for all other companies within the focal firm's industry. It is necessary to use the size-weighted ROA for two reasons. First, size has been documented as an important determinant of ROA. Second, there may be small companies that may have very large (or very small) ROAs, and these would inflate (or deflate) the industry ROA measures. By size-weighting these ROA measures, it allows for a more comparable measure to the focal firms ROA measure that is the focus on the analysis. As noted in Hambrick and Quigley (2014), "Weighting by size provides a more reliable indication of industry performance, by limiting the influence of relatively small firms and appropriately capturing the greater impact of larger firms" (p. 481). This measure is denoted *comparable ROA* in the current thesis. This measure is constructed within each country, for each focal company. It is important to stress that comparable ROA measure for each focal company does not include the ROA of the focal company itself, and hence captures industry wide financial performance outside the focal company itself. Including this comparable ROA measure ensure that performance effects that can be considered industry wide are not inappropriately attributed to any given CEO.

Inherited Performance

Inherited profitability measures the financial conditions of each company prior to the start of each CEO's tenure at any given company in the sample. For each focal company, inherited profitability is measured as the company's average ROA for each CEO, for the two years prior to the start of each CEO's tenure (Hambrick and Quigley, 2014). Taking this into account ensures that the financial performance a CEO inherits when he or she takes on this role is not attributed to that particular CEO.

Calendar Year

Over time, economies tend to go into periods of sustained expansion or contraction, known as the business cycle (Mishkin, 2007). If the analysis is to accurately attribute the financial performance of a company to any given CEO, these effects must be taken into account. To that end, calendar year dummy variables are included in each of the models estimated in this thesis, which controls for year-specific sources of heterogeneity.

Firm Size

There is significant evidence in literature that firm size influences firm financial performance (Hejazi and Santor, 2010; Hall and Weiss, 1967; Lawrence, Diewert, and Fox, 2006.). To ensure that this influence is not inappropriately attributed to any given CEO, we include firm size, measured as total assets, as an additional control variable. With this additional control, any performance that is directly linked to firm size will not be inappropriately attributed to a CEO.

4.4.5 Managerial Discretion Variables

We hypothesize that CEOs in the sample will impact the financial performance of the firms they lead. At the same time, we hypothesize that these effects will vary relative to those documented in the extant literature, which have been documented primarily within the Western context. The current paper documents these effects within a different context, namely the GCC. To explain variations in the estimated CEO effects in the GCC relative to the Western context, as well as within the GCC itself, we appeal to measures of managerial discretion.

Previously generated measures of national-level managerial discretion from the literature are used in this study (Crossland, 2009; Crossland and Hambrick, 2011; Haj Youssef et al, 2017). These measures were originally constructed by Crossland (2009) and Crossland and Hambrick (2011) using business scholars and expert panelists with international experience, but the sample of countries studied did not include Arab nations. To address this gap, national-level managerial discretion scores were further developed by Youssef et al (2017, 2020) to capture the level of managerial discretion of CEOs in public firms in the Arab world. These scores are an expert mean rating based on the extent to which – in the expert’s estimation – that CEOs in public firms headquartered in each country possess managerial discretion. Table 4.4 reports country-level means for these measures of managerial discretion. No data is available for Oman or Bahrain which is a limitation of this current study. To generate managerial discretion scores for these two countries, we use the average managerial discretion score across the other four countries in the same region (ie. the GCC) for which scores are available. A managerial discretion for the region overall is constructed by averaging the managerial discretion score across all six countries. Such an approach is consistent

with that deployed by Crossland and Hambrick (2011), who assigned scores to countries for which managerial discretion scores were not available by using scores which were available for countries with geographical-historical proximity.

Table 4.4 Managerial Discretion and National Culture Scores

Country	Managerial discretion
Bahrain	4.07 ²
Kuwait	3.30 ¹
Oman	4.07 ²
Qatar	3.73 ¹
Kingdom of Saudi Arabia	4.20 ¹
United Arab Emirates	5.06 ¹
GCC	4.07 ³

Source: ¹Haj Youssef et al, 2015, 2017, 2020
² Average of Kuwait, Qatar, KSA, and the UAE.
³ Average of all six countries.

4.5 Methods and Analytic Procedures

Preliminary analysis was conducted to assess data accuracy, missing data, and outliers. The information gathered from Capital IQ was checked for errors using annual reports and available databases for accuracy.¹¹ For the CEO data, a similar process was followed, using company annual reports and reliable online databases for accuracy.

Prior to employing the CiC methodology shared in the Methods Section (Section 4.3) descriptive statistics were conducted using Stata 17.0 to generate insights about the sample, as reported in this chapter. These descriptive statistics are discussed in the next chapter.

¹¹ Any inaccuracies were validated via further investigation using other sources such as published annual reports.

4.6 Ethics Approval

This research adheres to the University of Reading's policies regarding research practice. Section B of the Ethics Approval Form has been submitted with this thesis. Secondary data from publicly available sources was collected for the purpose of analysis. Data on CEOs and the data on firm performance was extracted from public databases, annual reports and corporate websites.

4.7 Conclusion

This chapter has discussed the methodology and research design of this thesis and adopts a positivist, deductive stance, aligning with the key studies in this field. The sample consists of publicly traded companies in the GCC from 1997-2019. The total sample size is 645 firms, 50 industries and 1,064 CEOs over the sample period, with a total of 14,673 firm-year observations. The data for this study was obtained from publicly available, secondary sources, primarily Capital IQ. Additional sources were used to collate and verify the data. The measures of the variables and the quantitative methods for conducting the analysis are explained in this chapter. The next chapter, Chapter Five, will present the analysis and results of this study.

Chapter Five: Data Analysis and Results

5.1 Introduction

The previous chapter discussed the methodology and research design. The measures of the variables, and descriptive statistics were also shared. This chapter will present the results of the study using the CiC estimation model to investigate the hypotheses presented in Chapter Three, and shared below:

- H1. CEOs, as the most senior leader within the organization, will impact firm performance.
- H2. CEOs, as the most senior leader within the organization, will impact firm performance, even after accounting for other influences.
- H3: The greater the extent of managerial discretion, the greater the influence that CEOs have on their companies.
- H4: Since CEOs in the GCC context have lower levels of managerial discretion, the impact they have on the companies they lead will be lower than is the case in the Western context.
- H5: Given the heterogeneity across countries within the GCC, there will be a positive relationship between managerial discretion and the CEO effects across these countries.

This chapter explains how the data are organized and analyzed. This includes an overview of the conceptual model, the statistical analysis approach, and hypotheses. Descriptive statistics are reported. The CiC methodology is employed to estimate aggregate CEO effects, by region and country, to address the first two hypotheses. Then, individual CEO effects are calculated and presented using two cases from two

different countries, based on CEO ranking by ROA. Following this, the hypotheses for managerial discretion are investigated using a fixed-effects regression analysis and the results are reported. Finally, the chapter concludes with an interpretation of the results and draws conclusions.

5.2 CEO-in-Context Modeling

Following Hambrick and Quigley (2014), Keller et al, (2023), and Quigley and Graffin (2017), we use multilevel modeling (MLM), which allows us to explicitly account for the nested (hierarchical) structure of the data. We specify a nested model, first presented in Chapter 3 (Figure 3.1) in which firm-years of performance are nested within CEOs, which are nested within firms, which themselves are nested within industries. This nested structure repeats for each country within the GCC. The CiC methodology is applied for each country individually, and then again pooled for all six GCC countries.

Prior to running the model, the ROA variable was reviewed to identify outliers or extraordinary items. A review of the ROA data identified several outliers within the sample. Following the literature (Fitza, 2014; Quigley and Graffin, 2017), outliers are defined to be those that are more than three standard deviations away from the mean. Table 5.1 provides an overview of the ROA by country and region, including the mean and standard deviation for each. Also noted are the outliers, which are those measures of ROA which are more than three standard deviations above the mean, and those that are more the three standard deviations below the mean. These observations are removed as outliers for ROA in the modelling below.

Table 5.1 ROA by country and region¹²

	Variable	Obs	Mean	SD	Min	Max	3*std	Plus 3*std	Minus 3*std
Bahrain	ROA	591	2.461	3.895	-33.636	21.773	11.685	14.146	-9.225
Kuwait	ROA	2,283	1.834	4.998	-56.777	28.086	14.993	16.827	-13.158
Oman	ROA	1,687	3.473	5.673	-56.347	32.577	17.020	20.494	-13.547
Qatar	ROA	657	2.749	5.564	-43.416	24.391	16.692	19.440	-13.943
Saudi	ROA	2,465	3.859	5.956	-68.937	32.233	17.867	21.727	-14.008
UAE	ROA	1,520	2.609	4.955	-25.645	93.553	14.864	17.473	-12.255
GCC	ROA	9,203	2.911	5.426	-68.937	93.553	16.277	19.188	-13.366

Figures 5.1- 5.7 display histograms of ROAs for each of the countries in the region, with outliers removed.¹³

¹² The number of observations in Table 5.1 differ from those reported above (Figure 4.2) as financial performance data is not available for all years for all companies.

¹³ Excluding outliers did not qualitatively impact the descriptive statistics in Table 5.1 or the results. They were nevertheless removed to be consistent with the literature. The number of observations removed were as follows: for Bahrain (9); Kuwait (45); Oman (20); Qatar (12); Saudi Arabia (27); and the UAE (21).

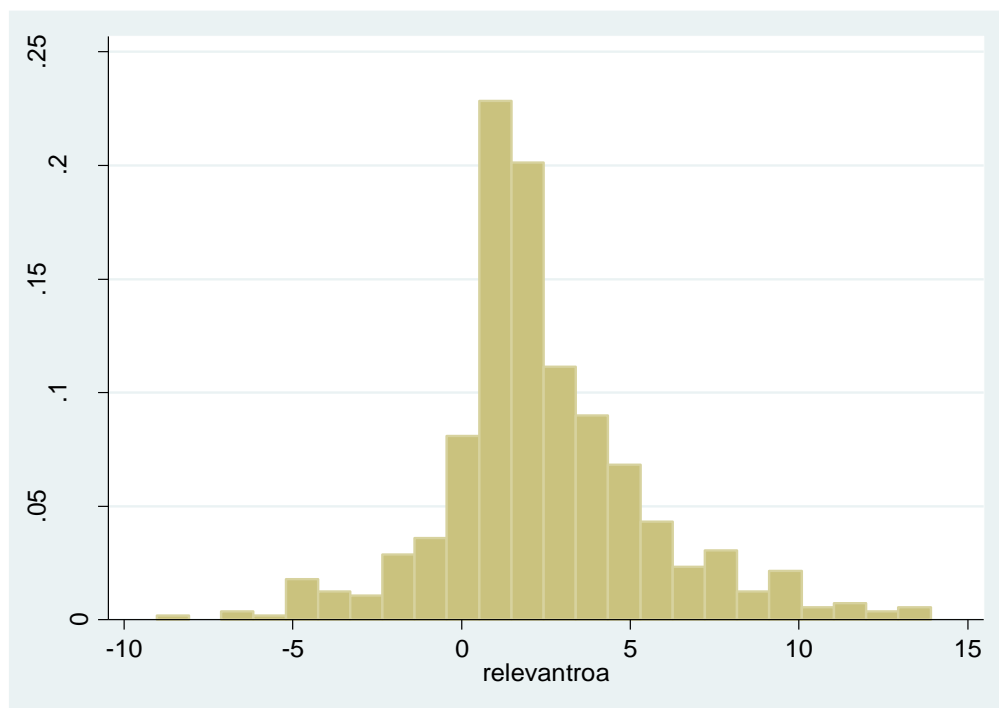
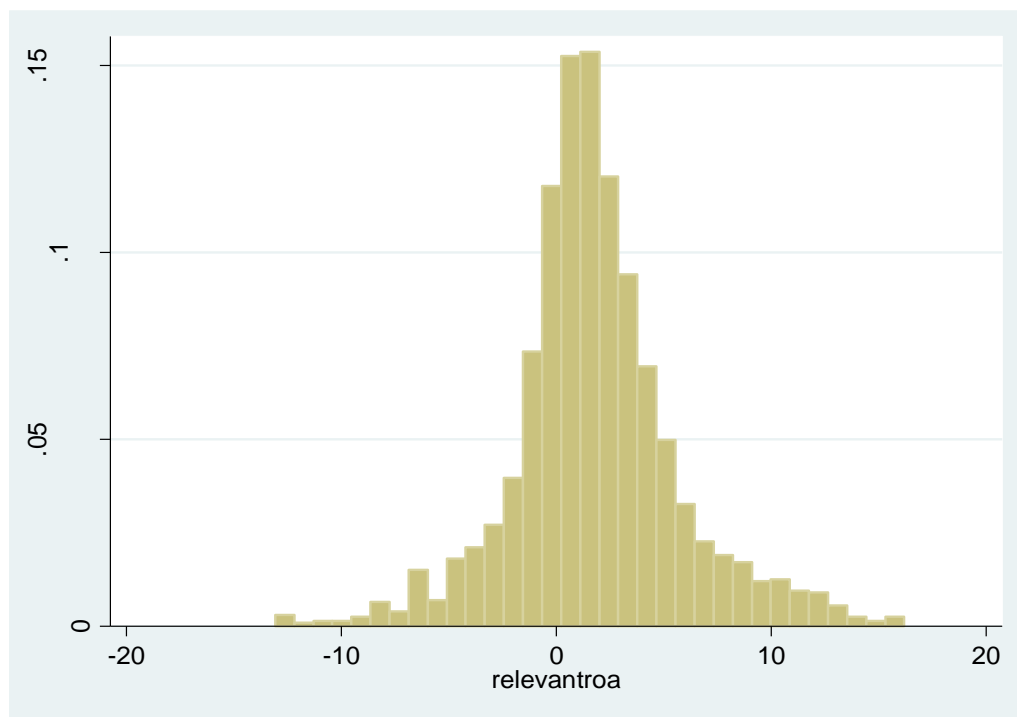
Figure 5.1 ROA, Bahrain**Figure 5.2 ROA, Kuwait**

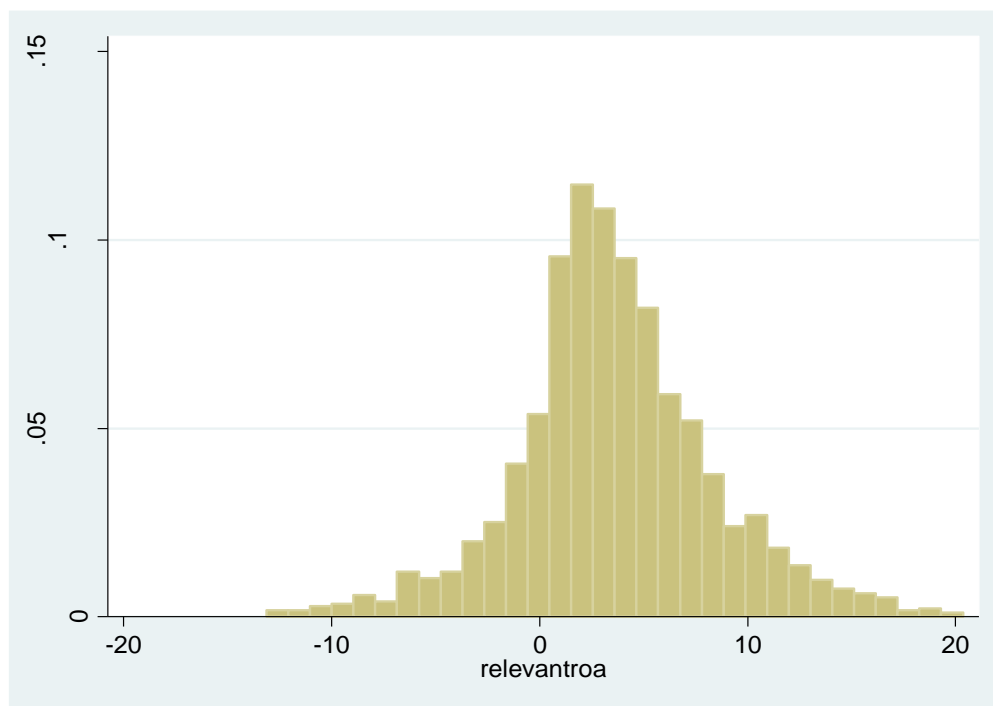
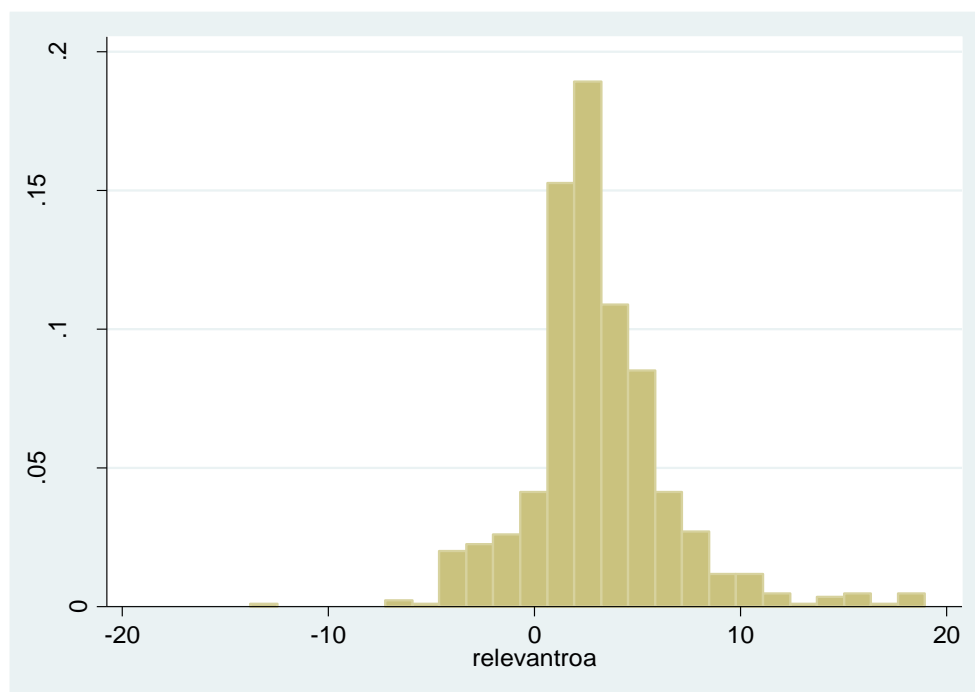
Figure 5.3 ROA, Oman**Figure 5.4 ROA, Qatar**

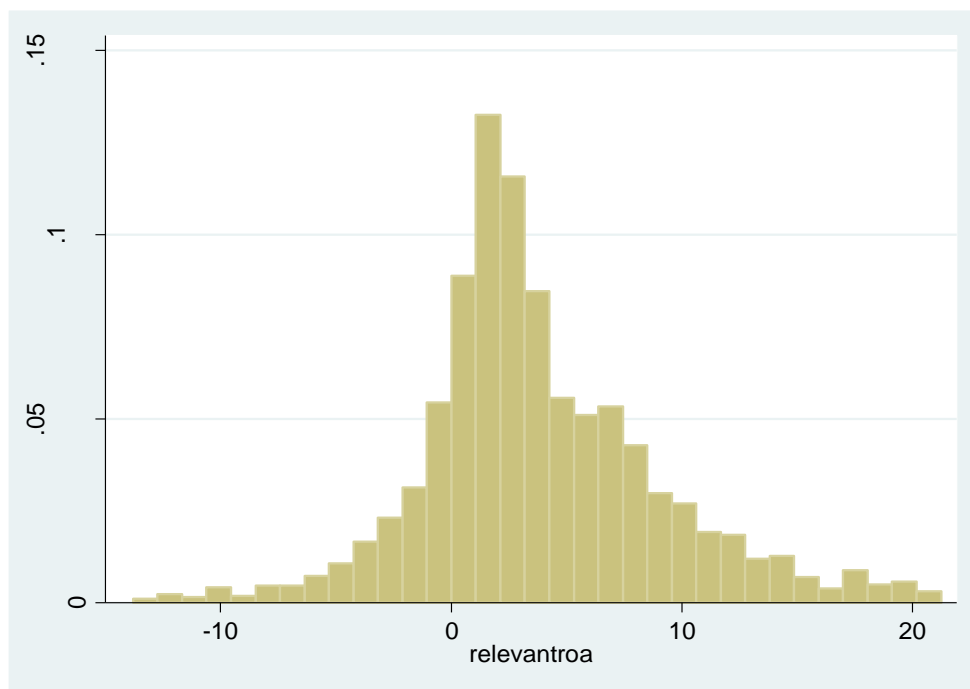
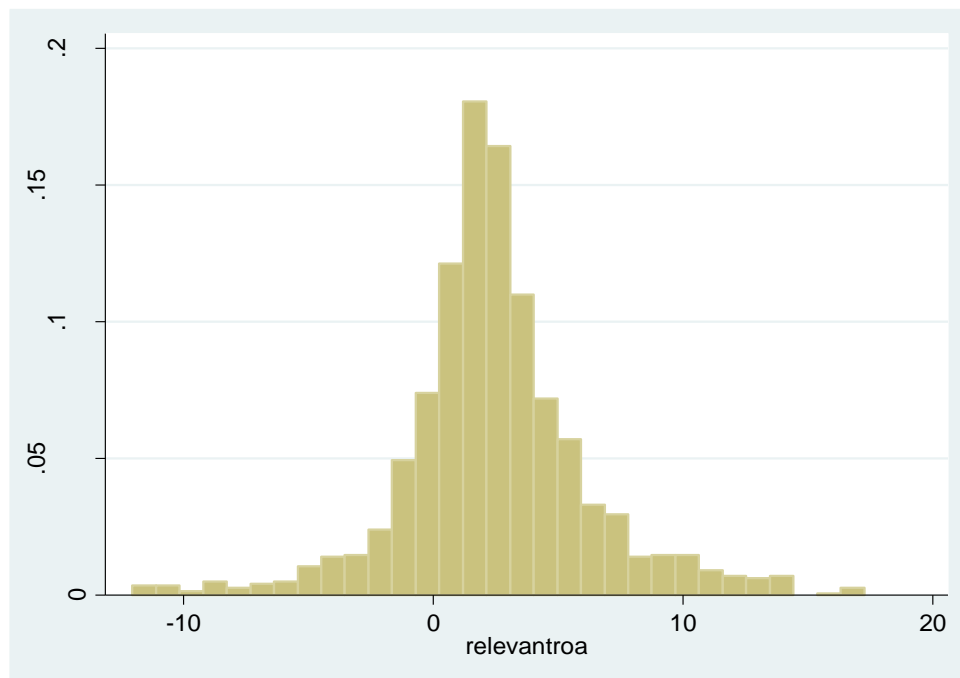
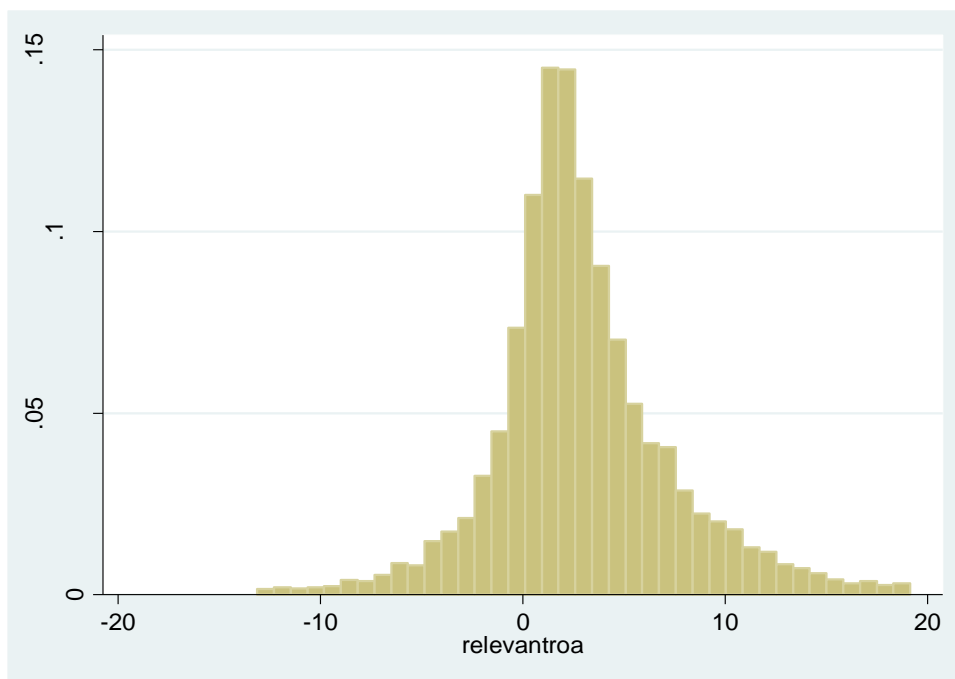
Figure 5.5 ROA, Saudi Arabia**Figure 5.6 ROA, United Arab Emirates**

Figure 5.7 ROA, GCC

5.3 CiC Models

This section presents the results of the CiC analysis. For each country, the amount of variability in company financial performance is attributed to industry, firm, year, and then to the CEO. The remainder of the variability of financial returns is allocated to the residual, or better stated, the variability in financial performance that is unexplained by industry, firm, year and CEO. This unexplained variability in financial performance is attributed to the residual. CEOs who served just one year as well as those that served as CEO for the full panel are dropped in this analysis as a result of the requirements of the CiC methodology. That is, the CiC approach requires that a CEO be in the role for at least two years to remain in the sample, and each company requires at least two CEOs for the company to remain in the sample. Results are reported by country and region, as shown in Table 5.2.

Table 5.2 CiC Results, by country

	Industry Effect	Firm Effect	CEO Effect	Residual	Total
Bahrain	19%	12%	10%	59%	100%
Kuwait	0%	14%	11%	74%	100%
Oman	0%	35%	3%	62%	100%
Qatar	20%	19%	11%	50%	100%
Saudi Arabia	7%	39%	23%	31%	100%
UAE	0%	18%	4%	79%	100%

Before discussing the results of the CiC analysis by country, this thesis undertakes the following additional analysis. The data are pooled across all 6 countries within the sample, and as such, the GCC is treated as one unit for analysis. This is a conceptual exercise and allows us to apply the CiC methodology for the GCC as one unit. These results are presented in table 5.3.

For the analysis which pools all six countries together, there is an additional level that must be taken into account in the CiC analysis, which is the country level. There are currently no studies available in the extant literature that estimates the CiC analysis for a group of countries in the same analysis. The key takeaway from this pooled analysis is that the estimated CEO effect is 9% and can be considered the average effect across the six countries within the GCC.

Table 5.3 CiC Results (GCC)

Factor	Effect
GCC Region	0%
Industry	4%
Firm	28%
CEO	9%
Residual	58%
Total	100%
n=7,933	

5.4 Discussion of CiC results

A summary of the CiC results estimated for each country individually and again for the pooled GCC region are reported in Table 5.4. It is evident that differences exist across the region relative to the effects of industry, firm and the CEO. The results for Saudi Arabia note the strongest CEO effect at 23%, a higher result than the other countries in the sample, and hence the region overall. Oman and the UAE have the smallest CEO effects, at 3% and 4%, respectively. Bahrain falls in between with an estimated CEO effect of 10%, and both Kuwait and Qatar at 11%. The average of CEO effects across the 6 countries in the sample is 10.33%, which aligns with the results obtained for the estimated CEO effect for the pooled GCC sample, which is 9%. While the Saudi Arabia result is much higher than the regional average, the CEO effects in the other five GCC countries is lower than those estimated in the Western context.

Table 5.4 Overview of CiC Results, by region and country

	Country	Industry Effect	Firm Effect	CEO Effect	Residual	Total
	GCC	4%	28%	9%	58%	100%
	Bahrain	19%	12%	10%	59%	100%
	Kuwait	0%	14%	11%	74%	100%
	Oman	0%	35%	3%	62%	100%
	Qatar	20%	19%	11%	50%	100%
	Saudi Arabia	7%	39%	23%	31%	100%
	UAE	0%	18%	4%	79%	100%

There is much more heterogeneity when it comes to both industry and firm effects across the sample countries. The variation in ROA attributed to industry is highest in Qatar and Bahrain, respectively at 20% and 19%. The amount of variability attributed to

industry in Kuwait, Oman and the UAE were insignificantly different from zero. Firm effects, on the other hand, play a much larger role. The variation attributed to the firm effect is highest for Saudi Arabia at 39%, followed by Oman at 35%. It is lowest for Bahrain at 12% and Kuwait at 14%. The variation that is unexplained by the analysis undertaken are quite high. It is highest for the UAE at 79%, followed by Kuwait at 74%. It is lowest for Saudi Arabia at 31%.

The industry effects align with the extant research, notwithstanding some variance across the region. Similar to the work of Keller et al (2023), the industry effect estimates in our sample are either on par or lower than those found by Hambrick and Quigley (2014) who noted an industry effect of 6.9%. Other studies find industry effects ranging between 10% and 20% (e.g. Bowman and Helfat, 2001; MacGahan and Porter, 2002).

The results of this study as shown in Table 5.4, find an overall industry effect of 4% for the GCC region, aligning with the research of Keller et al (2023) who find a smaller industry effect of 0.37%. This may be due to several reasons. Our total sample comprises not only large firms but medium to small size firms across the region, that is, the current study includes all publicly listed firms in the GCC for which data is available. While Hambrick and Quigley (2014) focused solely on the largest US firms, Keller et al (2023) also included medium to smaller firms in their sample and found the within-industry variance becomes larger relative to the between-industry variance, thus rendering the industry effect results less useful. Likewise, Hambrick and Quigley used a size-weighted industry means, appropriate for large firms but not as relevant for small to medium firms, as found by Keller et al (2023).

5.5 Individual CEO Effects

As differences across countries within the region are evidenced, we now focus on the effects of individual CEOs and examine these differences, controlling for all other factors. As per Crossland and Hambrick (2007), we use a fixed-effects regression to isolate the CEO effect of each individual CEO. Table 5.5 lists the top 25 CEOs in each country in the sample. Individual CEO coefficients can be interpreted as differences from zero (i.e. an absence of impact on the firm's performance). Hence, a coefficient of 3.0 (-3.0) for a CEO would indicate that, during their tenure, the annual performance of the firm was 3.0 points higher (or lower) on average than contextual factors controlled for would predict.

Table 5.5 Top 25 CEO Effect Scores, by country

Country	ROA	CEO Name	Company
Bahrain	9.62	Peter Kaliaropoulos	Bahrain Telecommunications Company BSC (BAX:BATELCO)
Bahrain	9.57	Gordon Boyle	BMMI B.S.C. (BAX:BMMI)
Bahrain	8.28	Saad Al Barrak	Zain Bahrain B.S.C. (BAX:ZAINBH)
Bahrain	8.15	Aqeel Raes	Gulf Hotels Group B.S.C. (BAX:GHG)
Bahrain	7.37	Laurent Schmitt	Aluminium Bahrain B.S.C. (BAX:ALBH)
Bahrain	7.13	Anthony C Mallis	SICO BSC(c) (BAX:SICO-C)
Bahrain	6.31	Sheikh Mohamed Bin Isa Al-Khalifa	Bahrain Telecommunications Company BSC (BAX:BATELCO)
Bahrain	6.03	Bassam Al Wardi	Bahrain Duty Free Shop Complex BSC (BAX:DUTYF)
Bahrain	5.68	Mikkel Vinter	Bahrain Telecommunications Company BSC (BAX:BATELCO)
Bahrain	4.61	Tony Hart	Bahrain Telecommunications Company BSC (BAX:BATELCO)
Bahrain	4.59	Marek Sheridan	BMMI B.S.C. (BAX:BMMI)
Bahrain	4.49	Ebrahim H. Ebrahim	Khaleeji Commercial Bank BSC (BAX:KHCB)
Bahrain	4.22	Duncan Howard	Zain Bahrain B.S.C. (BAX:ZAINBH)
Bahrain	3.86	Ahmed Yusuf Abdulla Yusuf	Seef Properties B.S.C. (BAX:SEEF)
Bahrain	3.57	N.E. Saadi	The Bahrain Ship Repairing and Engineering Company BSC (BAX:BASREC)
Bahrain	3.53	Sameer Abdulla Nass	Nass Corporation BSC (BAX:.SS)
Bahrain	3.46	Fawaz Mohammed Matar	Seef Properties B.S.C. (BAX:SEEF)
Bahrain	3.37	Mahmood Al Souf	Bahrain .tio.l Holding Company B.S.C. (BAX:BNH)
Bahrain	3.34	Tim Murray	Aluminium Bahrain B.S.C. (BAX:ALBH)
Bahrain	3.31	A. Rahman AlBastaki Ahmed	Bahrain Cinema Company B.S.C. (BAX:CINECO)
Bahrain	3.19	Scott Gegenheimer	Zain Bahrain B.S.C. (BAX:ZAINBH)
Bahrain	3.16	Tariq Ali Aljowder	Bahrain Car Parks Company B.S.C. (BAX:CPARK)
Bahrain	3.10	Najla Al Shirawi	SICO BSC(c) (BAX:SICO-C)
Bahrain	2.48	Seethapathy Sridhar	Trafco Group B.S.C. (BAX:TRAFCO)
Bahrain	2.41	Ebrahim Mohamed Sharif Alrayes	Bahrain Kuwait Insurance Company B.S.C. (BAX:BKIC)
Kuwait	13.35	Mayank H. Baxi	Humansoft Holding Company K.S.C.P. (KWSE:HUMANSOFT)
Kuwait	10.01	Basil toutoungi	Al Kout Industrial Projects Company K.P.S.C. (KWSE:ALKOUT)
Kuwait	9.56	Marc Jacqmin	Al Kout Industrial Projects Company K.P.S.C. (KWSE:ALKOUT)
Kuwait	9.45	Khaled Hamdan Dahham	National Petroleum Services PESCO

Country	ROA	CEO Name	Company
		Al Saif	
Kuwait	8.20	Sadoun Abdullah Al-Ali	KAMCO Investment Company
Kuwait	8.19	Bader Abdulla al-ali	Gulf Investment House
Kuwait	8.18	Rohit Ramachandran	Jazeera Airways K.S.C.P. (KWSE:JAZEERA)
Kuwait	8.11	Abdullah M.A. Zaman	United Projects Company For Aviation Services K.S.C.P. (KWSE:UPAC)
Kuwait	7.78	Maziad Al Harbi	Kuwait Telecommunications Company K.S.C.P. (KWSE:STC)
Kuwait	7.66	Salman al- Badran	Kuwait Telecommunications Company K.S.C.P. (KWSE:STC)
Kuwait	7.66	Boodai, Jassim Mustafa Jassim	Integrated Holding Company K.S.C.P. (KWSE:INTEGRATED)
Kuwait	7.17	Merza, Khaled Abdullah	Aqar Real Estate Investments Company - K.S.C. (Public) (KWSE:AQAR)
Kuwait	6.92	Bin Salamah, Abeel	Mobile Telecommunications Company K.S.C.P. (KWSE:ZAIN)
Kuwait	6.72	Al-Banwan, Asaad Ahmad Omran	.tio.I Investments Company K.S.C.P. (KWSE:NINV)
Kuwait	6.56	Scott Gegenheimer	.tio.I Mobile Telecommunications Company K.S.C.P. (KWSE:OOREDOO)
Kuwait	6.24	Mohammad Saud Al-Osaimi	Bursa Kuwait Securities Company K.P.S.C. (KWSE:BOURSA)
Kuwait	6.17	Juhail Mohammed Abdul Rahman Al-Juhail	Gulf Cable and Electrical Industries Company KPSC (KWSE:CABLE)
Kuwait	6.16	Al-Saleh, Moayed Hamad Mosaed	The Kuwait Company For Process Plant Construction and Contracting K.S.C.P. (KWSE:KCPC)
Kuwait	5.96	Faisal abdullah al Khazam	Livestock Transport and Trading Company K.P.S.C. (KWSE:CATTL)
Kuwait	5.76	Al-Sa.ousi, Khalid Saud Abdul-Aziz	First Investment Company K.S.C.P. (KWSE:ALOLA)
Kuwait	5.66	Abdulrahman bin hamad Al Harkan	Arkan Al-Kuwait Real Estate Company K.S.C.P. (KWSE:ARKAN)
Kuwait	5.66	Al-Sharian, Waleed Khaled	Mabanee Company K.P.S.C. (KWSE:MABANEE)
Kuwait	5.57	Al-Mutairi, Abdullah Saud	Al Eid Food Company K.S.C. (Public) (KWSE:ALEID)
Kuwait	5.52	Al-Gumar, Ahmed	Educatio.I Holding Group K.S.C.P. (KWSE:EDU)
Kuwait	5.46	Abdallah Saoud Abdulaziz Al-Humaidhi	Commercial Facilities Company S.A.K.P. (KWSE:FACIL)
Oman	14.79	Mohammed Ali Al-Whaibi	Oman Telecommunications Company SAOG (MSM:OTEL)
Oman	13.96	Youssef Ezzikhe	Oman Refreshment Company SAOG (MSM:ORCI)
Oman	13.42	Arvind Bindra	Al Maha Ceramics SAOG (MSM:AMCI)
Oman	12.19	Adil Al-Raisi	Shell Oman Marketing Company SAOG (MSM:SOMS)

Country	ROA	CEO Name	Company
Oman	11.81	Ross Cormack	Omani Qatari Telecommunications Company SAOG (MSM:ORDS)
Oman	11.47	Markus Iseli	Hotels Management Company Inter.tio.l SAOG (MSM:HMCI)
Oman	11.25	Amer Bin Awadh Salim Al-Rawas	Oman Telecommunications Company SAOG (MSM:OTEL)
Oman	10.45	Mohammad M Al Balushi	Shell Oman Marketing Company SAOG (MSM:SOMS)
Oman	10.18	Maha Kobeil	Majan College (University College) SAOG (MSM:BACS)
Oman	9.99	Robin de Klerk	Al Fajar Al Alamia Company SAOG (MSM:AFAI)
Oman	9.46	mohamad Harazallah	Oman Refreshment Company SAOG (MSM:ORCI)
Oman	9.38	York Brandes	Hotels Management Company Inter.tio.l SAOG (MSM:HMCI)
Oman	9.14	Omar Ahmed Salim Qatan Oman Oil	Oman Oil Marketing Company SAOG (MSM:OOMS)
Oman	9.07	Morton Johnston	Hotels Management Company Inter.tio.l SAOG (MSM:HMCI)
Oman	8.76	Gerrit Hendrik Hoefman	Oman Cables Industry SAOG (MSM:OCAI)
Oman	8.71	Nazeer Al Rae	Muscat Gases Company SAOG (MSM:MGMC)
Oman	8.65	Mulham Al Jarf	Oman Oil Marketing Company SAOG (MSM:OOMS)
Oman	8.05	Ahmed Al Rawas	Salalah Mills Company SAOG (MSM:SFMI)
Oman	8.01	Larry Cantrell	ACWA Power Barka SAOG (MSM:APBS)
Oman	7.93	Balakrishna Sukumar	Sweets of Oman SAOG (MSM:OSCI)
Oman	7.85	Abdulmonem I-Murshidi	Oman Chromite Company SAOG (MSM:OCCI)
Oman	7.66	Charles Dench	Omani Qatari Telecommunications Company SAOG (MSM:ORDS)
Oman	7.58	Hussain Jama B Ishaq Ishaqi	Oman Oil Marketing Company SAOG (MSM:OOMS)
Oman	7.47	Walid Ashari	Oman Chlorine S.A.O.G. (MSM:OCHL)
Oman	7.38	Previous CEO/Ahmed Al Muhrami	Gulf International Chemicals
Qatar	10.55	Saud Bin nasser Al Thani,	Ooredoo Q.P.S.C. (DSM:ORDS)
Qatar	10.48	Ibrahim Jaham Al Kuwari,	Qatar Fuel Company Q.P.S.C.("WOQOD") (DSM:QFLS)
Qatar	6.99	Al-Nuaimi, Salem Bin Butti	Qatar National Cement Company (Q.P.S.C.) (DSM:QNCD)
Qatar	6.43	Ali Ibrahim Al Abdul Ghani,	Qatar Islamic Insurance Group Q.P.S.C. (DSM:QISI)
Qatar	6.10	Ghanim Al-Hamadi,	Aljarah Holding (Q.P.S.C.) (DSM:NLCS)
Qatar	6.03	Guy Sauvage	Al Meera Consumer Goods Company Q.P.S.C. (DSM:MERS)

Country	ROA	CEO Name	Company
Qatar	5.60	Salah Mohammed Al Jaidah,	Qatar Islamic Bank (Q.P.S.C.) (DSM:QIBK)
Qatar	5.58	Mohamed Bin Saleh Al Sada	Industries Qatar Q.P.S.C. (DSM:IQCD)
Qatar	5.53	Khalid Mohammed TurkiAl-Subaey	Mesaieed Petrochemical Holding Company Q.P.S.C. (DSM:MPHC)
Qatar	5.34	Stephane Lucas	Al Meera Consumer Goods Company Q.P.S.C. (DSM:MERS)
Qatar	5.25	Mohammad Assad Al-Emadi,	Aljarah Holding (Q.P.S.C.) (DSM:NLCS)
Qatar	5.16	P. E. Alexander	Qatar Insurance Company Q.S.P.C. (DSM:QATI)
Qatar	4.96	Fahad Bin Hamad Al-Mohannadi,	Qatar Electricity & Water Company Q.P.S.C. (DSM:QEWS)
Qatar	4.85	Keith Higley	Man.i Corporation Q.P.S.C. (DSM:MCCS)
Qatar	4.79	Didier Castaing	Al Meera Consumer Goods Company Q.P.S.C. (DSM:MERS)
Qatar	4.68	Cobus Lomard	Al Meera Consumer Goods Company Q.P.S.C. (DSM:MERS)
Qatar	4.32	Meppurath Ranjeev Menon	Gulf Warehousing Company Q.P.S.C. (DSM:GWCS)
Qatar	4.21	Saad Rashid Al-Muhan.di	Qatar Fuel Company Q.P.S.C.("WOQOD") (DSM:QFLS)
Qatar	4.15	Abdulbasit Ahmad Abdulrahman Al-Shaibei,	Qatar Inter.tio.l Islamic Bank (Q.P.S.C) (DSM:QIIK)
Qatar	4.13	Adel Mustafawi	Masraf Al Rayan (Q.P.S.C.) (DSM:MARK)
Qatar	4.12	Bassam Mohammed Sayeed Husain	Doha Insurance Group Q.P.S.C. (DSM:DOHI)
Qatar	3.86	Faisal Bin Abdullah Al Mana	Qatari Investors Group Q.S.C. (DSM:QIGD)
Qatar	3.62	Hamad Bin Ali Al-Hedfa	Mazaya Real Estate Development Q.P.S.C. (DSM:MRDS)
Qatar	3.30	Abdullah Fadhlah Al-Sulaiti	Qatar Gas Transport Company Limited (.kilat) (QPSC) (DSM:QGTS)
Qatar	3.30	Khalid Al Heel	Aljarah Holding (Q.P.S.C.) (DSM:NLCS)
Saudi Arabia	22.73	Gerhard Marschitz	Saudi Airlines Catering Company (SASE:6004)
Saudi Arabia	20.95	Yousef Mohammed Al-Ghafari	Maharah for Human Resources Company (SASE:1831)
Saudi Arabia	18.80	Abdul Kareem Abdul RahmaAl Aqeel	Jarir Marketing Company (SASE:4190)
Saudi Arabia	18.72	Ahmed Saleh Abdullah Al Sultan	Thob Al Aseel Co. (SASE:4012)
Saudi Arabia	18.00	Abdulmajeed Alhokair	Fawaz Abdulaziz Al Hokair & Company (SASE:4240)
Saudi Arabia	17.88	Wajid Mohamed Al-Ghabban	Saudi Airlines Catering Company (SASE:6004)
Saudi Arabia	16.61	Nasser Al Tayyar	Seera Holding Group (SASE:1810)
Saudi Arabia	14.72	Qaid Khalaf Al-Otaibi	Saudi Ground Services Company (SASE:4031)

Country	ROA	CEO Name	Company
Saudi Arabia	14.05	Ahmed Bin Hamad Al-Said	Herfy Food Services Company (SASE:6002)
Saudi Arabia	12.18	Meshal Mohammed Nasser Al Kathiri	Al Kathiri Holding Company (SASE:3008)
Saudi Arabia	11.79	Abdullah bin Nasser aldawood	Seera Holding Group (SASE:1810)
Saudi Arabia	11.66	Simon Marshall	Fawaz Abdulaziz Al Hokair & Company (SASE:4240)
Saudi Arabia	11.66	Al-Shamikh,Abdulkarim Abdullah	United Wire Factories Company (SASE:1301)
Saudi Arabia	10.87	Al-Daweesh, Saud Majed A.	Saudi Telecom Company (SASE:7010)
Saudi Arabia	10.66	Al Khorayef,Mohamed Abdullah	Alkhorayef Water & Power Technologies (SASE:2081)
Saudi Arabia	10.61	Al-Osaimy, Ahmed	Bawan Company (SASE:1302)
Saudi Arabia	10.55	Omar Al Abdullatif	Al Abdullatif Industrial Investment Company (SASE:2340)
Saudi Arabia	10.36	Al-Subaie, Nasser Sultan Al-Hammad	Mouwasat Medical Services Company (SASE:4002)
Saudi Arabia	10.25	Al-Haqbani, Fahad Ali	Leejam Sports Company (SASE:1830)
Saudi Arabia	9.94	Al Fozan, Abdullah Abdul Latif	United Electronics Company (SASE:4003)
Saudi Arabia	9.88	Al Garawi, Abdullah Mogbil Abdullah	Advanced Petrochemical Company (SASE:2330)
Saudi Arabia	9.75	Al-Mady,Mohammed Bin Hamad	Saudi Basic Industries Corporation (SASE:2010)
Saudi Arabia	9.46	Michael S. Layous	Basic Chemical Industries Company (SASE:1210)
Saudi Arabia	9.13	Al-Hamidi, Sameer Mohammed Abdulaziz	Saudi Company for Hardware (SASE:4008)
Saudi Arabia	9.02	George Abdul Moussa	Zahrat Al Waha For Trading Company (SASE:3007)
UAE	16.30	Kayed Khorma	ESG Emirates Stallions Group PJSC (ADX:ESG)
UAE	13.50	Khalid Bin Aamer Alshemeili	Emirates Driving Company P.J.S.C. (ADX:DRIVE)
UAE	10.06	Saeed Mubarak Al Rashdi	Abu Dhabi .tio.l Oil Company for Distribution PJSC (ADX:ADNOCDIST)
UAE	9.72	Bader Saeed Hareb	EmZr Development PJSC (DFM:EMZRDEV)
UAE	9.61	Jamal Ibrahim AlKhadhar	Dubai Fnancial Market (DFM) P.J.S.C (DFM:DFM)
UAE	9.57	Mohamed Khalfan Al Qamzi	Emirates Telecommunications Group Company PJSC (ADX:ETISALAT)
UAE	9.14	Natalie Bogdanova	EmZr Malls PJSC (DFM:EMZRMALLS)
UAE	8.92	Abdulla Mohamed Hasan A.Al Ameeri	Emirates Driving Company P.J.S.C. (ADX:DRIVE)
UAE	8.23	Chris O'Donnell	EmZr Development PJSC (DFM:EMZR)
UAE	8.01	Hussien Hachem	Aramex PJSC (DFM:ARMX)
UAE	7.27	Abdul Muttalib Mustafa	Oman Insurance Company P.S.C. (DFM:OIC)

Country	ROA	CEO Name	Company
UAE	7.17	Saleh Al Abdooli	Emirates Telecommunications Group Company PJSC (ADX:ETISALAT)
UAE	7.09	Fadi Ghandour	Aramex PJSC (DFM:ARMX)
UAE	7.08	Hussain Ali Habib Al Sajwani	Damac Properties Dubai Co. PJSC (DFM:DAMAC)
UAE	6.64	Fazal Ameen	Zee Stores PJSC (ADX:ZS)
UAE	6.53	Ahmed Abdulkarim Mohamed Julfar	Emirates Telecommunications Group Company PJSC (ADX:ETISALAT)
UAE	6.44	Ahmad Al Khayyat	Fujairah Building Industries P.J.S.C. (ADX:FBI)
UAE	6.42	Tarekt Elsakka	Dubai Refreshment (P.J.S.C.) (DFM:DRC)
UAE	6.28	Osman Sultan	Emirates Integrated Telecommunications Company PJSC (DFM:DU)
UAE	5.93	Mohamad Hadi Ahmed Al Husaini	EmZr Malls PJSC (DFM:EMZRMALLS)
UAE	5.85	Iqbal Hamzah	Agthia Group PJSC (ADX:AGTHIA)
UAE	5.61	Mohamed Ali Rashed Alabbar	EmZr Malls PJSC (DFM:EMZRMALLS)
UAE	5.59	Ehab Mohamed Rashad	BHM Capital Financial Services PRJSC (DFM:BHMCAPITAL)
UAE	5.33	Mohammad Al Mortada Al Dandashi	Al Ramz Corporation Investment and Development P.J.S.C. (DFM:ALRAMZ)
UAE	5.27	Zack Shahin	DeyZr Development PJSC (DFM:DEYZR)
UAE	5.12	Craig Shirin	Emirates Driving Company P.J.S.C. (ADX:DRIVE)
UAE	5.12	Low Ping	EmZr Properties PJSC (DFM:EMZR)

Using this data, we generated a ranking across the region, as shown in Table 5.6. Of the 25 CEOs across the GCC ranked by the ROA, 58% are from Saudi Arabia (n=14), followed by 28% from Oman (n=7), 8% from the UAE (n=8) and 4% from Oman (n=1). The Average ROA for these Top 25 CEOs is 14.69 percent.

Table 5.6 Top 25 CEOs from across the GCC Region, ranked by average ROA during their tenure)

<i>Country</i>	<i>ROA</i>	<i>CEO Name</i>	<i>Company</i>	<i>Tenure</i>	<i>Industry</i>
<i>KSA</i>	21.60	Gerhard Marschitz	Saudi Airlines Catering Company	2008-2014	Commercial services and supplies
<i>KSA</i>	20.95	Yousef Al-Ghafari	Maharah for Human Resources Company	2014-2019	Professional services
<i>KSA</i>	18.80	Abdul Al Aqeel	Jarir Marketing Company	2003-2019	Specialty Retail
<i>KSA</i>	18.72	Ahmed Al Sultan	Thob Al Aseel Co.	2013-2019	Textiles, Apparel and Lux. goods
<i>KSA</i>	17.99	Abdulmajeed Alhokair	Fawaz Abdulaziz Al Hokair & Company	2003-2005	Specialty Retail
<i>KSA</i>	17.88	Wajd Al-Ghabban	Saudi Airlines Catering Company	2015-2019	Commercial services and supplies
<i>KSA</i>	16.61	Nasser Al Tayyar	Seera Holding Group	2007-2013	Hotels, Rest. and Leisure
<i>UAE</i>	16.30	Kayed Khorma	ESG Emirates Stallions Group PJSC	2018-2019	Air freight and logistics
<i>Oman</i>	14.79	Mohammed Al- Wahabi	Oman Telecommunications Company	2005-2008	Diversified Telecom Services
<i>KSA</i>	14.72	Qaid Al-Otaibi	Saudi Ground Services	2009-2017	Transportation Infrastructure

Country	ROA	CEO Name	Company	Tenure	Industry
			Company		e
<i>KSA</i>	14.05	Ahmed Al-Said	Herfy Food Services Company	1997-2019	Hotels, Rest. and Leisure
<i>Oman</i>	13.96	Youssef Ezzikhe	Oman Refreshment Company	2010-2019	Beverages
<i>UAE</i>	13.50	Khalid Alshemeili	Emirates Driving Company	2005-2010	Education and Training
<i>Oman</i>	13.42	Arvind Bindra	Al Maha Ceramics	2010- 2016	Building Products
<i>Kuwait</i>	13.35	Mayank H. Baxi	Humansoft Holding Company	2010-2019	Diversified Consumer Services
<i>Oman</i>	12.19	Adil Al-Raisi	Shell Oman Marketing Company	2010-2014	Oil, Gas and Consumable Fuels
<i>KSA</i>	12.18	Meshal Al Kathiri	Al Kathiri Holding Company	2014-2019	Construction Materials
<i>Oman</i>	11.81	Ross Cormack	Omani Qatari Telecommunications Company	2004-2013	Wireless Telecom
<i>KSA</i>	11.79	Abdullah Al Dawood	Seera Holding Group	2014-2015	Hotels, Rest and Leisure
<i>KSA</i>	11.66	Simon Marshall	Fawaz Abdulaziz Al Hokair & Company	2006-2016	Specialty Retail
<i>KSA</i>	11.66	Abdulkarim Al-Shamikh	United Wire Factories Company	2008-2019	Metals and Mining
<i>Oman</i>	11.47	Markus Iseli	Hotels Management Company International	2013-2014	Hotels, Rest. and Leisure
<i>Oman</i>	11.25	Amer B Al-Rawas	Oman Telecommunications Company	2009-2013	Diversified Telecom Services
<i>KSA</i>	10.87	Saud Al-Daweesh	Saudi Telecom Company	1997-2019	Diversified Telecom Services

As noted above, in order for companies and CEOs to remain in the sample, three conditions must be met. First, the company must have had more than one CEO over the

sample. In other words, every company that remains in the sample had at least two CEOs over the sample. Second, each CEO must have a tenure of at least two years to remain in the analysis. Third, there must be at least two companies in each industry in order for the CiC methodology separate the company effect from the industry effect.

Two examples will be provided below to highlight how the ROA during any given CEO's tenure is impacted by contextual factors. The two companies chosen are Saudi Airlines Catering Company and Oman Telecommunications Company. These companies were chosen because one is from the largest economy in the GCC, namely Saudi Arabia, and the other from the amongst the smallest economies in the GCC, namely Oman.¹⁴ The company chosen within each market had the highest ROA during the sample, and also had more than two CEOs during the sample. The highest ROA company was chosen to underscore the key result from the CiC methodology that simply because a company has a high ROA, this does not lead to the conclusion that the CEO for that company has a high CEO effect. That is, it is shown how the ROA of companies is attributed to contextual factors.

¹⁴ As seen in Figure 2.1, Bahrain is the smallest economy in the region.

5.5.1 CEO in Context Effect- Saudi Airlines Catering Company

Saudi Airlines Catering Company¹⁵ was established in 1981 and is allocated to *Commercial Services & Supplies* industry (see Table 5.6 above). Financial statements and CEO history were available from 2009 - 2019 on Capital IQ. Gerhard Marschitz¹⁶ is noted as the CEO from 2012-2014, previously working within the UAE in a similar organization, and bringing significant experience to his role. From 2012-2014, the average ROA of the company was 21.60%. However, the inherited ROA for this company was 22.73. That is, CEO Marschitz inherited a company that was performing very well. During his tenure as CEO, the ROA was lower than the inherited ROA, equal to 21.60%. That is, the performance of the company during CEO Marschitz's tenure was lower by a $(22.73 - 21.60\%)$ 1.13%. That is, just accounting for the inherited performance reduces the ROA attributable to the CEO significantly. The CiC methodology also accounts for trends in the industry – that is, before attributing the fall in the company's performance of 1.13% to the CEO, the industry's performance must be measured.

There are 3 companies in the same industry classification Saudi Airlines Catering Company, but given that the industry classifications used by S&P Capital IQ database are not so narrow, these two additional companies are not in the airline catering business, but rather in the broader industry classification of *Commercial Services and Supplies*. These two other companies are Sadr Logistics Company and Saudi Printing and Packaging Co. The average ROA for Sadr Logistics Company over the sample period is 5.5% and for Saudi Printing and Packaging Co is 1.1%. Given Saudi Airlines

¹⁵ <https://www.saudiacatering.com/en/about-us>

¹⁶ <https://www.linkedin.com/in/gerhard-marschitz-492115b8/?originalSubdomain=de>

Catering Company's privileged position in providing catering services to Saudi Airlines, it's very high profitability (high ROA), which cannot be attributed to the CEO. As can be seen, the other two companies in the same industry categorization have much lower rates of return as they do not have a similarly privileged position.

Table 5.7 Saudi Airlines Catering Company- CEO performance

<i>CEO</i>	<i>Inherited ROA</i>	<i>Year</i>	<i>Industry ROA (Excluding firm)</i>	<i>Firm ROA</i>	<i>Average CEO ROA</i>	<i>CEO Effect (CiC)</i>
<i>Gerhard Marschitz</i>	22.73	2012	1.41	21.25	21.60	-1.13
		2013	1.36	20.98		
		2014	1.36	22.58		
<i>Wajdy Al-Ghabban</i>	21.78	2015	1.21	22.86	17.89	-2.99
		2016	1.61	18.56		
		2017	1.20	17.66		
		2018	0.87	15.76		
		2019	1.13	14.55		

It is now important to consider the industry trends. Over the period 2012 to 2014, the ROA for Saudi Airlines Catering Company fell by 1.34%. To account for the industry effect in the CiC methodology, the returns of other firms in the industry must be weighted by company size, as discussed in the CiC methodology section above. The industry performance, excluding the focal firm (in this case Saudi Airlines Catering Company), weighted by company size, was essentially unchanged: it fell by 0.05% in the 2012 to 2014 period. This would indicate that the fall in the performance of Saudi Airlines Catering Company of 1.13% cannot be attributed to the industry effect, but rather to the CEO. That is, the CEO effect for CEO Marschitz is -1.13%.

A similar analysis can be undertaken for the second CEO for Saudi Airlines Catering Company, namely Wajdy Al-Ghabban, who was CEO over the period 2015 to 2019. His inherited performance was 21.78%, and the ROA over his tenure was 17.89%. That is, the ROA fell by 3.89%. The industry performance over this same period fell by 0.90%. In other words, only 0.90% of the reduction in performance of Saudi Airlines Catering Company can be attributed to industry trends. The CEO effect attributable to CEO Al-Ghabban is therefore $(3.89\% - 0.90\%) = 2.99\%$.

As can be seen in the case of both CEOs, despite the ROA, or performance, of Saudi Airlines Catering Company being so high during the sample period, this does not translate into high estimated CEO effects. In this particular case, the ROA of Saudi Airlines Catering Company is very high, at least in part, given its privileged position is to supply Saudi Airlines. Its performance fell over the sample, despite the industry performance remaining relatively stable. As such, these declines are therefore attributable to the CEO.

5.5.2 CEO in Context Effect- Oman Telecommunications Company

Oman Telecommunications Company was established in 1996 and is the primary provider of internet and telecom services in the country. The average ROA of the firm was 14.79, as shown in Table 5.6 above.

From 2005-2008, Al Wohaibi served as CEO, followed by Amer Al-Rawas.¹⁷ When Al Wohaibi took over the company in 2005. During Al Wohaibi's tenure from 2005 thru 2008, the ROA was 14.79%. The challenge here is that there is no information available for inherited ROA, nor on the industry ROA during his tenure, thus limiting the

¹⁷ <http://comm.ae/al-wohaibi-resigns-as-omantel-ceo-replaced-by-al-rawas-as-acting-ceo/>

ability of the CiC in context methodology from identifying the impact this CEO had on the company.

Table 5.8 Oman Telecommunications Company- CEO performance

CEO	Inherited ROA ¹⁸	Year	Industry ROA (excluding firm)	Firm ROA	Average CEO ROA	CEO Effect (CiC)
Mohammed Al Wohaibi		2005	.	11.19	14.79	N/A
		2006	.	12.99		
		2007	.	16.42		
		2008	9.92	18.58		
Amer Al- Rawas	17.50	2009	16.97	14.02	11.25	3.17%
		2010	15.26	10.86		
		2011	12.11	11.30		
		2013	7.64	10.22		

For CEO Al-Rawas, who took over in 2009, he inherited a company with an ROA of 17.5%. During his tenure, the ROA was 11.25%, that is, the ROA fell by 6.25%. However, during this same period, the ROA of other firms operating in the industry, weighted by their size, fell by 9.33%. With this context, the Oman Telecommunications Company, during the tenure of CEO Al-Rawas actually outperformed the industry by 3.08%. The CEO effect, therefore, for CEO Al-Rawas would be the decline in the ROA during his tenure of 6.25%, plus the 3.08% performance relative to the industry peers, for a net impact of a fall of 3.17%. This would therefore be the CEO impact on this company.

5.5.3 Summary

These two examples demonstrate the importance of considering contextual factors in assessing the impact that CEOs have on the organizations they lead. Simply

¹⁸ Inherited ROA is company's average ROA for two years prior to succession.

because the performance (ROA) associated with a particular CEO is high (or low) during his or her tenure is not in and of itself evidence that the CEO delivered the high (or low) performance. To isolate the CEO's true impact on firm performance, it is imperative to account for contextual factors. As in examples provided in Hambrick and Quigley (2014), it is demonstrated here how careful consideration to these contextual factors provides for a separation of the ROA during the CEO's tenure to that which is attributable to the CEO, and that which is attributable to contextual factors.

5.6 Section Summary

The analysis above has implemented the CiC methodology to estimate the impact that CEOs have had on publicly listed firms across the GCC region. That analysis has allowed us to address the following hypotheses:

- H1. CEOs, as the most senior leader within the organization will impact firm performance.
- H2. CEOs, as the most senior leader within the organization will impact firm performance, even after accounting for other influences.

The results presented provide support for the hypotheses and align with theoretical expectations. CEOs were indeed found to impact firm performance for the firms they lead. Some CEOs were found to have a positive impact on the ROA of the firms they led, and others were found to have a negative impact on the ROA of the firms they led. These results are documented even after accounting for other influences on firm performance, as laid out in Figure 3.2 above.

There was a range of results across the six countries, and an overall CEO effect of 9% was documented for the GCC region. Differences were evidenced between

countries, ranging from 3 percent on average in Oman to 23 percent on average in Saudi Arabia, which is the largest nation and economy in the region. However, economy size does not seem to dictate CEO effect results as the UAE, also a dominant nation regionally had one of the lowest CEO effects, at 4 percent. Building on these results, we next examine the relationship between managerial discretion and CEO effects on firm performance.

5.7 Managerial Discretion and the CEO Effect Analysis

To test the relationship between managerial discretion (MD) and CEO effects on firm performance (Hypotheses 3, 4 and 5), we use fixed-effects regression. A regression of ROA was estimated against managerial discretion (MD), controlling for CEO fixed effects. It is important to highlight that the coefficient estimate on the managerial discretion variable was positive and statistically significant, when the model is estimated with and without the CEO fixed effects.

The independent variable was country-level managerial discretion (Crossland and Hambrick, 2011; Youssef et al, 2021) and the dependent variables were the individual CEO effects, estimated from the CiC analysis above. Table 5.9 presents the results of tests of Hypotheses 3 and 4, which posit that greater levels of discretion would be associated with greater CEO effects, that is, greater variances in firm performance that can be attributed to CEOs. These results are consistent with the hypotheses: higher levels of managerial discretion are associated with larger CEO effects.

Table 5.9 The impact of managerial discretion on CEO Effects: fixed effects regression

Coefficients	ROA
Managerial Discretion	1.04 (5.59)
CEO Fixed Effects	YES
F (1053,8149)	4.73
R ²	0.3793

N= 9203 p <0.05. t statistics in parentheses.

Table 5.10 identifies the differences between the estimated CEO effects found in the literature, and how they correlate with measures of managerial discretion. Across countries listed within the table, without the GCC data, a correlation of $r= 0.564$ is documented, which indicates a highly positive relationship between CEO effect results and measures of managerial discretion. That is, the extant literature finds that countries where there are high levels of managerial discretion, there are also higher CEO effects. In other words, the greater the managerial discretion, the greater the latitude of the CEO and, hence, the larger the CEO effects. When we extend the analysis to include the results in the current research, namely the results from the GCC, the correlation of managerial discretion and CEO effects, the correlation is $r= 0.572$, aligning with the previous research. The results of this research align with the theoretical expectations that there is a relationship between national context, managerial discretion and the CEO effect i.e. the higher the managerial discretion, the larger the CEO effect.

Managerial discretion scores are mean ratings from expert panels, which range from 1 to 7. As noted in Crossland and Hambrick (2011), "Each panelist was then asked to rate, on a 1-7 scale, the degree of discretion available to CEOs" (p. 805). A score of 1 indicates very little managerial discretion and a score of 7 indicates a very high level of managerial discretion. Such ratings are provided by the expert panelists for each of the

countries listed in the studies which generate such managerial discretion scores. As discussed above, this thesis uses managerial discretion scores as reported in the extant literature, more specifically, from the study of Haj Youssef et al (2017).

Table 5.4 Overview of CiC Results, by region and country

	Industry Effect	Firm Effect	CEO Effect	Residual	Total
GCC	4%	28%	9%	58%	100%
Bahrain	19%	12%	10%	59%	100%
Kuwait	0%	14%	11%	74%	100%
Oman	0%	35%	3%	62%	100%
Qatar	20%	19%	11%	50%	100%
Saudi Arabia	7%	39%	23%	31%	100%
UAE	0%	18%	4%	79%	100%

Table 5.10 CEO Effect in the GCC and non-Middle East countries

Research	Country	Managerial Discretion	Industry effect	Firm effect	CEO effect	Residual	
Crossland and Hambrick (2007)	United States	6.6		7.66	6.55	30.44	51.39
	Germany	6.0		5.77	17.7	23.91	50.92
	Japan	3.0		8.02	12.04	10.33	55.73
	United States	6.6				15.46	

Research	Country	Managerial Discretion	Industry effect	Firm effect	CEO effect	Residual	
Crossland and Hambrick (2011) ¹⁹	United Kingdom	6.0			19.45		
	Canada	5.9			6.64		
	Australia	5.7			23.59		
	Netherlands	5.2			12.48		
	Sweden	5.1			9.88		
	Switzerland	5.0			14.41		
	Singapore	4.8			12.53		
	Spain	4.6			1.58		
	Germany	4.1			11.53		
	France	4.0			20.32		
	Austria	3.8			6.74		
	South Korea	3.8			2.6		
	Italy	3.2			10.68		
Japan	3.0			6.35			
Hambrick and Quigley (2014)	United States	6.6		9.2	29.2	16.3	42.2
Quigley and Graffin (2017)	United States	6.6		7.3	33.4	17.7	39.6
Krause et al (2019)	United States	6.6		10.24	40.51	10.36	27.86
	United Kingdom	6.0		9.89	40.9	17.59	24.29
	Germany	4.1		11.53	19.01	7.12	32.41
	China			4.32	7.34	22.39	43.96
This Study (2022)	GCC	4.07		4.00	28.0	9.0	58.00
Mean (across countries)				7.76	23.49	13.59	46.72

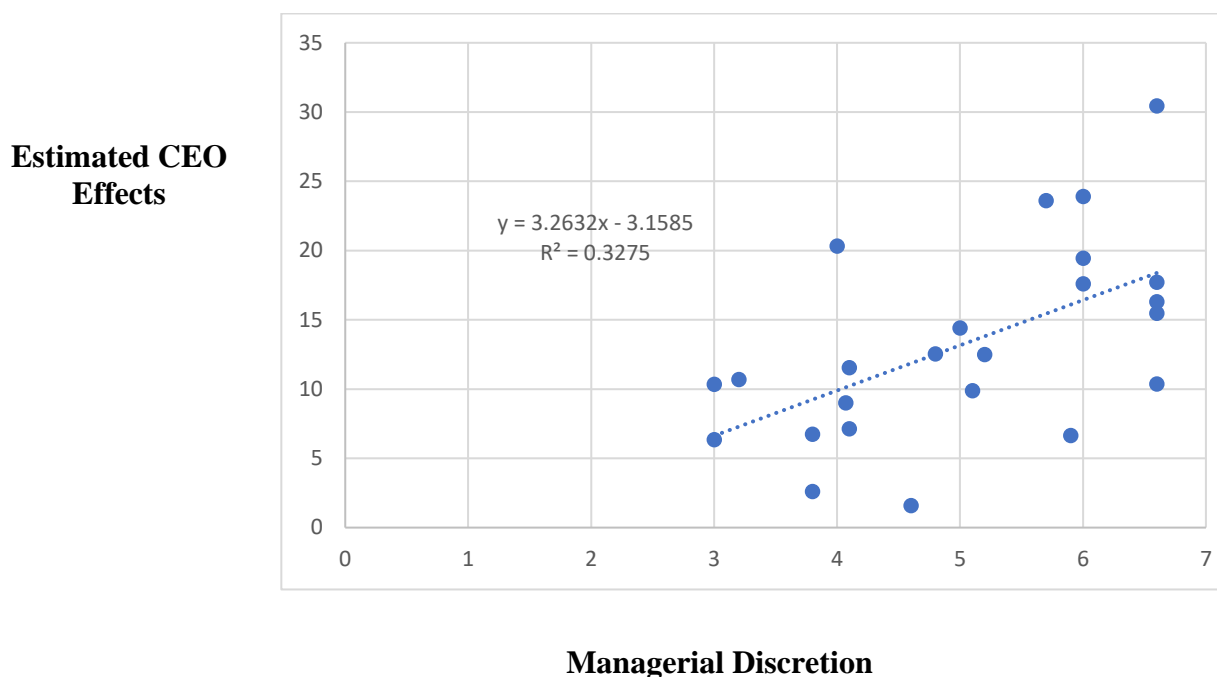
Source: Author's summary of the research

¹⁹ Only the CEO effect results are reported in the Crossland and Hambrick (2011) study.

We can now dig deeper in the relationship between managerial discretion and CEO effects, across countries. When we consider the United States (a high managerial discretion country), using Crossland and Hambrick's (2007,2011) results, in comparison with the GCC (low discretion context), we see significant differences. In the United States, the overall CEO effect was 30.44 percent compared to 9 percent for the GCC. When we calculate the mean result for the firms outside the GCC (as reported in Table 5.10 above), the average score is 13.77 percent. On average, there is a lower level of managerial discretion for CEOs in the GCC compared to the global result. Consistent with the results from Crossland and Hambrick (2011), there is a positive association between a country's mean managerial discretion score and a country's CEO effect for the GCC results. For the results reported in Table 5.10, the correlation between the estimated CEO effects and measures of managerial discretion is 0.57.

While the correlation between the estimated CEO effects and the measures of managerial discretion is strongly positive on average, there are examples where this relationship does not hold. To see this, see Figure 5.8 below. This scatterplot has the estimated CEO effects on the vertical axis and measures of Managerial Discretion on the horizontal axis. The regression line is also provided along with the R square statistic.

Figure 5.8 Estimated CEO Effects and Managerial Discretion



Clearly, there is wide variation in these studies – that is, they fall above and below the regression line. Developing a better understanding of what it is about a specific country study is an opportunity for future research. In the current study, while the focus was on the GCC, the results for the UAE represent a deviation from that positive correlation. As noted in the work of Haj Youssef et al (2018), this may be explained by the intra-cultural variation, and is yet another opportunity for future research.

Next, we consider the differences across the six countries within the GCC region, to address Hypothesis Five, which states:

H5: Given the heterogeneity across countries within the GCC, there will be a positive relationship between managerial discretion and the CEO effects across these countries.

Table 5.11 provides the results. The results are mixed. When we consider all countries but the UAE we find there is a correlation ($r= 0.204$) between MD scores and the CEO effect. However, this correlation turns negative once the UAE is taken into account. This is anomaly that is inconsistent with the hypothesized relationship, and points to an opportunity for future research.

Table 5.11 Managerial Discretion and CEO Effect, by country

	Country	MD Score	Industry Effect	Firm Effect	CEO Effect	Residual	
	GCC	0.00	4.07	4%	28%	9%	58%
	Bahrain		4.07	19%	12%	10%	59%
	Kuwait		3.3	0%	14%	11%	74%
	Oman		4.07	0%	35%	3%	62%
	Qatar		3.73	20%	19%	11%	50%
	Saudi Arabia		4.20	7%	39%	23%	31%
	UAE		5.06	0%	18%	4%	79%

5.8 Support for Research Hypotheses

Overall, the results of the analysis for both the CEO effect and managerial discretion in the GCC align with the theoretical predictions from the literature. Thus, the research findings are now applied to the 5 hypotheses.

H1. CEOs, as the most senior leader within the organization will impact firm performance.

The research findings provide evidence to support H1.

H2. CEOs, as the most senior leader within the organization will impact firm performance, even after accounting for other influences.

The research findings provide evidence to support H2.

H3. The greater the extent of managerial discretion, the greater the influence that CEOs can have on their companies.

The research findings provide evidence to support H3.

H4. Since CEOs in the GCC context have lower levels of managerial discretion, the impact they have on the companies they lead will be lower than is the case in the Western context.

The research findings provide evidence to support H4.

H5: Given the heterogeneity across countries within the GCC, there will be a positive relationship between managerial discretion and the CEO effects across these countries.

The research findings provide evidence to support H5, with mixed results.

5.9 Conclusion

Chapter Five presented the results of the quantitative analyses conducted for this research using the CiC methodology and fixed-effects regressions. The chapter introduced the data collection and procedures used for examination, an overview of the sample and the variables used for analysis. Following the analysis of the CEO effect on firm performance, it was affirmed at the regional and national level, that CEOs influence firm performance in proportion to the amount of discretion they possess, aligning with the research that identifies the relationship between managerial discretion, national institutions, and CEO effects. These hypotheses were assessed using managerial discretion scores provided in the extant literature. This study uses these scores to determine the relationship between managerial discretion, in the context of the GCC, and found empirical evidence to support the theories presented. The next chapter, Chapter Six, provides a discussion of the research findings.

Chapter Six: Discussion

6.1 Introduction

This chapter interprets the results and draws conclusions based on the findings. The chapter begins by reviewing the research purpose. The next section interprets the research findings relative to the research questions and 5 hypotheses advanced in the thesis.

6.2 Review of Research Purpose

The purpose of this research is to identify the impact of the CEO on firm performance in the context of the GCC. It achieves this by examining the relationship between firm performance (ROA) and the CEO, by deploying the CEO in context methodology advanced by Hambrick and Quigley (2014). The analysis therefore isolates the CEO impact on the firms they lead from external influences, particularly firm, industry, and year. Further, this research investigates the impact of context on the latitude of actions of the CEO, as defined by managerial discretion, and how this may impact the CEO effect, in the context of the GCC. The first step of this research was a review of the literature to establish the current knowledge as well as gaps and opportunities across strategic leadership, CEO effect and managerial discretion fields of research. The literature informed the development of a conceptual framework and associated hypotheses. To answer the research questions, longitudinal data were collected and the proposed model and hypotheses were empirically tested with a quantitative analysis approach using the CiC modeling approach and regression analysis. The results of the study were then reported, interpreted and conclusions drawn.

6.3 Discussion of Research Findings and Implications

This section addresses the three research questions and five hypotheses, by discussing the relevant findings, implications, and significance of the results. This research aims to answer the following questions that dominate the CEO effect literature using emerging economies in a non-Western context:

- (1) How much influence do CEOs have on firm performance in non-Western contexts?
- (2) What are the differences in performance outcomes from individual CEOs?
- (3) In what contexts, or settings, do CEOs have the most impact, and what role does managerial discretion play?

6.4 Answering the Research Questions

This research sought to replicate prior studies in order to compare the CEO effect on publicly traded firms, but extends the literature by deploying the analysis in the GCC context. To answer these research questions, a longitudinal panel data set covering the years 1997-2019 was constructed consisting of publicly traded companies across the GCC. For each company in the data set, data on the CEOs that led these companies and their tenure was collected. The CiC methodology was deployed to determine the relationship between the CEO and firm performance. Hambrick and Quigley (2014), in their analysis which estimates the CEO effect on firm performance, note that prior studies have found CEO effects ranging from 8.7 to 31.6 percent. They posit, due to the plurality of studies, a suggestive causal link with most frequent estimates around 15 percent (Quigley and Graffin, 2015). The results from this study align with these previous findings. Within the cited research in Table 6.1, the GCC, nor

individual countries within the region, had been included in these results. Based on the findings of this research, the GCC results are at the lower end of the estimates of the CEO effect. Overall, the CEO effect in the GCC region is 9 percent, ranging from 3 percent in Oman to 23 percent in Saudi Arabia. As per the analysis presented in Sections 5.3 and 5.4, the results confirm the presence of a CEO effect for publicly traded companies in the context of the GCC. The results, as shown in Table 6.1, provide support for these hypotheses, with differences in magnitude across countries in the region.

Table 6.1 highlights the CEO effect from the literature explored, compared to the findings from this study. These findings align with prior research (Crossland and Hambrick 2014; Mackey, 2008; Quigley and Hambrick 2015; Quigley and Graffin, 2015) which support the existence of a CEO effect. To put the findings of this thesis into the perspective to those found in the literature, the magnitude of CEO effects observed for the GCC overall, in comparison to the Western firms in previous studies, are lower and similar to those observed in earlier studies by Mackey (2008) and Crossland and Hambrick (2007) versus Quigley and Graffin's (2015) study. Hambrick and Quigley (2014), in their 60-year study of US firms, noted an increase in the CEO effect in US firms between 1950 and 2009, positing substantial shifts in the nature of the US economy and the strategic role of the CEO.

Perhaps, as the nature of the role and work of the CEO shifts in the GCC, and as the region seeks to position itself economically with its Western counterparts, it is posited that there will be an increase in the CEO effect. As the intent of this research was to affirm the existence of a CEO effect in the GCC region, it now may be timely to

investigate a more comprehensive understanding of when and how leaders impact their organizations, including the factors that drive the differences in the effects CEOs have on their firm (Quigley and Graffin, 2015).

Table 6.1 The CEO Effect

Research	Firms	Years	DV	CEO effect %
Mackey (2008)	520	11	ROA	12.9
Crossland and Hambrick (2007)	108	15	ROA	13.4
Fitza (2014)	1,425	19	ROA	13.3
Leiberson and O'Connor (1972)	167	20	ROS	14.5
Crossland and Hambrick (2011)	100	10	ROA	15.5
Hambrick and Quigley (2014)	4,866	20	ROA	38.5
Quigley and Graffin (2015)	1,399	19	ROA	21.8
<i>This Study (GCC results)</i>	1064	23	ROA	9.0

Source: Author's summary

If we consider the individual country results, as shown in Table 6.2, we find that the CEO effect in Saudi Arabia (23 percent) is on par with the results from the Quigley and Graffin (2015) study and above the results in other studies. As well, the results for smaller countries like Bahrain, Kuwait and Qatar (10 and 11 percent, respectively) are (slightly) higher than the GCC average. The UAE results are quite low, both regionally and in comparison to the previous research. As noted above, the results for the UAE may be explained by its intra-cultural variation. We return to a more in-depth discussion of this below.

Saudi Arabia, the largest country in the region, by both size and number of firms, has the largest CEO effect. Among Arab countries, Saudi Arabia is the largest producer and exporter of oil and has the largest GDP, economy and capital market (Nasser,

2019). The stock market in Saudi Arabia has the highest market capitalization and is the most liquid among the Middle Eastern economies, including in the GCC. As a G20 economy, it has positioned itself amongst Western nations, in comparison to its regional counterparts.

Table 6.2 Effects by region and country

	Country	Industry Effect	Firm Effect	CEO Effect	Residual
GCC	0.00	4%	28%	9%	58%
Bahrain		19%	12%	10%	59%
Kuwait		0%	14%	11%	74%
Oman		0%	35%	3%	62%
Qatar		20%	19%	11%	50%
Saudi Arabia		7%	39%	23%	31%
UAE		0%	18%	4%	79%

This study also investigated the impact of the CEO in context (CiC) model for individual CEOs, which controls for inherited and industry performance. Individual CEO fixed-effect coefficients were generated to identify their CEO effect and create a ranking of top performers in the region. Case examples were provided of two firms, one in Saudi Arabia and the other in Oman to highlight the actual contribution the CEOs had on the performance (i.e. either increase or decrease performance) of these firms. Aligning with the work of Hambrick and Quigley (2014), these results suggest that individual CEOs do have direct influence on the trajectory of their firm in the context of the GCC. These findings add to the field of study on the CEO effect, providing more precision and a new regional perspective on CEO effectiveness in the context of the GCC and aligning with typically Western leader results.

To answer the question related to in which contexts CEOs have the most impact, and if managerial discretion plays a role, the results of the regression analysis of CEO effects against managerial discretion are reviewed. The independent variable was country-level managerial discretion (Crossland and Hambrick, 2011; Youssef et al, 2021) and the dependent variables were the individual CEO effect measures. When estimated with and without the CEO fixed effects, the coefficient estimate on the managerial discretion variable was statistically significant and positive. The findings identify a strong relationship between the low managerial discretion of the GCC region and the countries therein, and smaller estimated CEO effects on firm performance.

This research builds on Hambrick and Finkelstein's (1987) seminal conception of managerial discretion—or the idea that the potential for leader influence varies depending on contextual, firm-level, and within-person factors, as well as extending the CEO effect research on *how much* CEOs matter. It extends prior research that shows differences in managerial discretion across both national settings, and a region, including the impact of managerial discretion on CEO performance in publicly traded firms with substantially different cultures than previous studies undertaken in a Western context (Crossland and Chen, 2013; Crossland and Hambrick, 2007, 2011).

Crossland and Hambrick (2007, 2011) assert that CEOs matter in some countries more than others; the results of this study suggest the same. In their findings, Crossland and Hambrick find that managerial discretion is impacted by a country's autonomy orientation and risk orientation. In countries, such as those in the GCC, that have a low risk tolerance and value collectivism, and in which norms are more homogeneous, CEOs were rated as having less managerial discretion. Crossland and

Hambrick (2011) note, for example, that CEOs in Japan and South Korea have less influence over performance than did CEOs in the US, as is the case for the GCC region. While there are variances evident across nations, the GCC results align with the theoretical expectations from the work of Crossland and Hambrick (2011) and others cited in this study. Evidence from the GCC supports the finding that CEO effects exist in proportion to managerial discretion and extends the concept that managerial discretion is a “prominent conceptual linchpin, converting national institutions into very tangible manifestations of executive leadership” (Crossland and Hambrick, 2011. P. 815).

Building on recent work on managerial discretion, particularly in Arab nations (Haj Youssef et al, 2017, 2018), we extend the use of their managerial discretion scores and find results that support their theoretical expectations that national cultural dimensions impact the ability of the CEO to pursue strategic actions, bound by the cultural practices that allow them to do so.

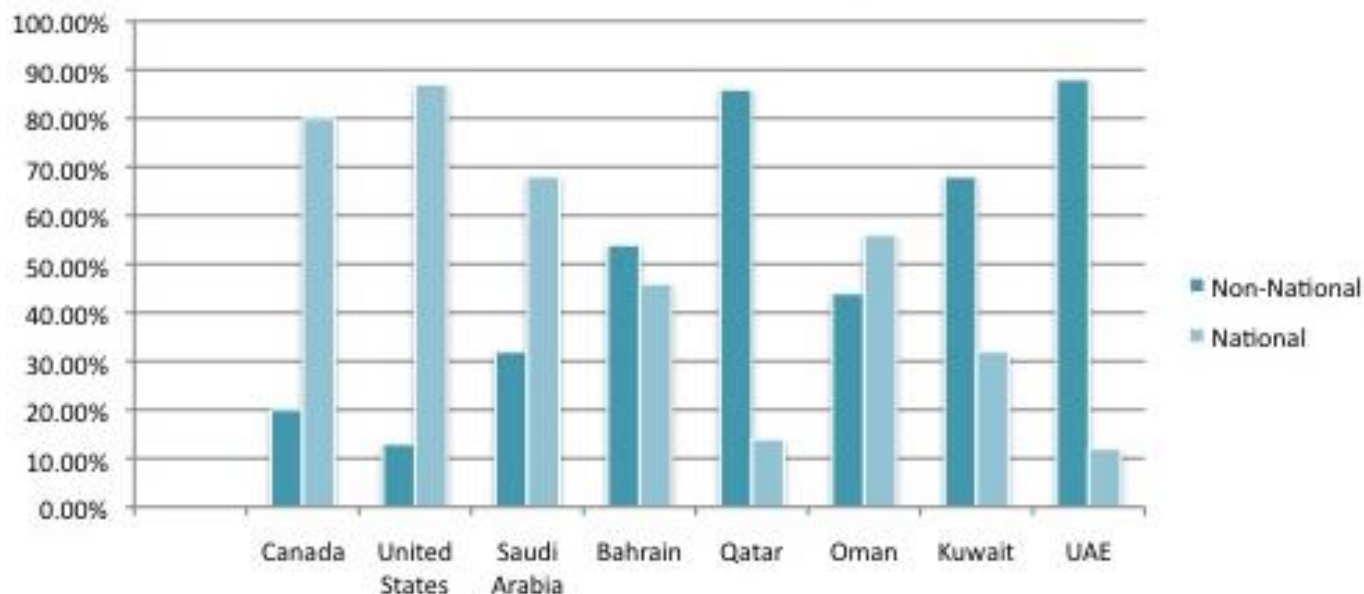
While Crossland and Hambrick (2011) found a negative relationship between power distance and managerial discretion, Haj Youssef et al (2017) note the contrary, positing that societies that have a high-power distance dimension, or inequality amongst it's members, accord CEOs more status and privilege. If we consider the results for Saudi Arabia and the UAE, this may account for the differences in both the managerial discretion scores and the CEO effects. As noted in the literature review, cross-cultural studies (Hofstede et al, 2001; 2004; House et al, 2004, 2014) purport the homogenous assumptions of national culture dimensions. Cross-cultural studies (Crossland and Hambrick 2011; Haj Youssef and Christodoulou, 2017) on discretion treat national cultural constructs as homogenous, as does this study. However, the results of this

study suggest the heterogeneity both across regions, and across countries within the GCC region, suggesting intra-cultural variations. While the managerial discretion literature documents the impact of both internal and external forces on the latitude of action of the CEO, perhaps more attention could be paid to the homogeneity/heterogeneity of the stakeholders that may impose different motives, behaviours, or constraints on CEOs within a country (Bridoux and Stolehorst, 2014; Haj Youssef et al, 2018; Tung and Verbeke. 2010).

One difference noted was the managerial discretion score for the UAE (5.06), which was the highest in the region, yet has a lower CEO effect score. This anomaly is an opportunity for further investigation, particularly related to intracultural variance and the heterogeneity of the culture. As noted in the literature review, the UAE is considered the most open, cosmopolitan and tolerant of the GCC nations, framing its diversity as a marketable asset and aligning with the global race for talent (Thiollet and Assaf, 2018). As it seeks to diversify economically, it is becoming increasingly attractive to highly skilled immigrants, who are being offered “golden visas” and long-term residency. Expatriates outnumber the Emiratis in the UAE, with the expatriate population comprising close to 90 percent and most settling as permanent residents,²⁰ as shown in Figure 6.1.

²⁰ <https://www.globalmediainsight.com/blog/uae-population-statistics/#demographics>

Figure 6.1 Non-National vs. National Populations²¹



With such a high expatriate population, as compared to other nations in the GCC, there is an evident intracultural variance by ethnicity alone and, therefore, a broader, heterogeneous group of stakeholders who impact the CEO's latitude of actions. The contrast in the managerial discretion score, which indicates a higher level of discretion compared to other GCC nations, contrasts with the actual CEO effect. In comparison, the population for Saudi Arabia is more homogeneous, with proportionally fewer expats and, as previously noted, a more conservative, hierarchical culture. Hence, CEOs in a more homogeneous culture, have less stakeholder groups to balance, and therefore likely greater discretion. As noted by Haj Youssef and Christodoulou (2017, 2018), these results provide the impetus for future research to explore the interplay between national culture dimensions and intra-cultural variations, particularly related to managerial discretion and the CEO effect on firm performance.

²¹ <https://natoassociation.ca/wp-content/uploads/2015/05/Non-National-vs.-National-Population.jpg>

6.5 Addressing the Hypotheses

The research findings are now discussed to address the 5 research hypotheses. The following hypotheses guided the research analysis:

- H1. CEOs, as the most senior leader within the organization, will impact firm performance.
- H2. CEOs, as the most senior leader within the organization, will impact firm performance, even after accounting for other influences.
- H3. The greater the extent of managerial discretion, the greater the influence that CEOs can have on their companies.
- H4. Since CEOs in the GCC context have lower levels of managerial discretion, the impact they have on the companies they lead will be lower than is the case in the Western context.
- H5: Given the heterogeneity across countries within the GCC, there will be a positive relationship between managerial discretion and the CEO effects across these countries.

The findings of this study support the prediction of all five hypotheses.

Hypotheses 1 and 2 argued that the CEO, as the most senior leader within the organization, will impact firm performance even accounting for other influences. The results presented provide support for these hypotheses, with differences in magnitude across countries in the region. Overall, the CEO effect in the GCC region is 9 percent, ranging from 3 percent in Oman to 23 percent in Saudi Arabia. This confirms the hypotheses hold in the GCC context.

Hypothesis 3 suggested that the greater the latitude of actions, or extent of managerial discretion of the CEO, the greater the influence they have on firm performance. The results provide support for this hypothesis, identifying a strong relationship between the low managerial discretion of the region and the country, based on national dimensions and generated scores in the literature, relative to the CEO effect on firm performance. One difference noted was the managerial discretion score for the UAE (5.06), which was the highest in the region, despite the UAE having lower estimated CEO effects. This result provides an opportunity for further investigation, particularly related to intracultural variance and the heterogeneity of the culture.

Hypothesis 4 argued since CEOs in the GCC context have lower levels of managerial discretion, and as a result, the impact they can have on the companies they lead will be lower than is the case in the Western context. The results of this study support this hypothesis as we compared the results of this research with the current results for other countries in the literature.

Hypothesis 5 asserted that given the heterogeneity across countries within the GCC, there will be a positive relationship between managerial discretion and firm performance across these countries, as well as differences between country level results. This study supports this hypothesis. A positive relationship exists between managerial discretion and firm performance across countries, with differences in scores and magnitude of results. Thus, this thesis shows support for the heterogeneity of the countries in the GCC relative to managerial discretion, particularly related to the national cultural dimensions, which were embedded in the literature that provided the managerial

discretions scores used in this study (Crossland and Hambrick 2011; Haj Youssef and Christodoulou, 2017, 2018, 2020).

6.6 Conclusion

This study's findings add new evidence to the effect of the CEO on firm performance, and its relationship to managerial discretion, thus increasing the empirical generalizations of the research to both a different cultural and geographical context. The study extends the empirical investigation of the CEO effect between countries, particularly the dearth of research comparing the GCC, the US and other countries. Addressing the contextual gaps noted in CEO effect and managerial discretion research, this study investigates the theoretical predictions of both fields using data from publicly-traded companies in the GCC, both as a region and for individual countries within the GCC to estimate CEO effects.

Additionally, measures of managerial discretion were adopted from the literature to conduct comparative analysis between the GCC region, the six countries within the region, and studies in the extant literature. As limited studies exist in the GCC and Middle East context, this study contributes to filling this void, by analyzing publicly listed companies across the GCC region, adding to both the regional findings and the call by Tsui (2007, p.1354) who states, "knowledge about management in the comparative arena or outside North America is still lacking in both quality and quantity."

This study contributes to the stream of theoretical research on CEO effects (Crossland and Hambrick, 2011; Fitza, 2014; Lieberman and O'Connor, 1972; Mackey, 2008; Quigley and Hambrick, 2015) by documenting the CEO effect on publicly traded firms in the GCC. This study replicates the methods adopted in this field of research using the new context of publicly traded firms in the GCC, where a dearth of research

exists on this theory. It extends the generalizability of the CEO effect research in a new geographic region where current research primarily focused on Western contexts. Previous research (Crossland and Chen, 2013; Crossland and Hambrick 2007, 2011) demonstrated differences across national settings, and over large periods of time (Quigley and Hambrick 2015). The results of this study provide evidence of a CEO effect in the GCC region, as well as within the nations of the region.

This research adds to the literature surrounding the attributes of the CEO, the CEO effect, and CEO discretion. It also links to the research associated with the impact of national context on managerial discretion. Differences are evident in the CEO effect in the GCC region overall, in comparison to the Western context as well as within the GCC itself. This research isolates the CEO effect for each country, the region and positions the results in comparison to primarily Western countries in the extant research.

The research posits the relationship between managerial discretion and the impact of the CEO on firm performance. Differences are isolated for the region and its individual countries with comparisons to predominantly Western countries, demonstrating that higher discretion links to higher CEO impact.

In the tradition of the CEO research presented in the literature review, this study adopts a quantitative design using Hambrick and Quigley's (2014) CiC methodology and multiple regression analysis techniques. Given the dearth of research in this field in the context of this study and noted gaps in comparative analysis between countries outside the Western context, this cross-country study identifies areas of similarity and differences between the CEO effect and managerial discretion both within the countries

in the GCC region and between the GCC and other countries and regions. This is a significant contribution to the research and identifies avenues for future research possibilities across sectors and cross-culturally. This study also provides a benchmark for future research, allowing replication in this research area, both for industries and countries.

The next chapter, Chapter Seven, discusses contributions of this study, managerial implications, limitations, suggestions for future research and concluding remarks.

Chapter 7: Conclusion

7.1 Introduction

This chapter presents the contributions of this study to theoretical knowledge and managerial practice. The limitations of the study are outlined along with possible opportunities for future research. First, the theoretical and methodological contributions are shared, followed by managerial implications. Next, limitations and opportunities for future research are presented. This chapter concludes with a reflection about how this research has impacted me as a researcher, personally and professionally.

7.2 Contributions to Knowledge

A primary goal of scholarly research is to make an original contribution to theoretical knowledge. This thesis makes several theoretical contributions to the research in the field. This study expands on the research literature related to the impact of the CEO on firm performance in a regional-national comparative study, replicating the current theories and research related to the CEO effect and managerial discretion.

The first contribution is to the advancement of the CEO effect on firm performance using a replication of both seminal and recent work (Crossland and Hambrick, 2011; Hambrick and Quigley, 2014; Quigley and Graffin, 2015) in the context of the GCC. Both Tsang and Kwan (1999) and Dau et al (2021) affirm that replication studies, using a different population, add to the body of literature, test the generalizability of theories and establish new boundaries of existing knowledge. This research contributes to the development of the existing theories and evaluates whether

the findings of the current studies, primarily in the Western context, can be generalized to this context, the GCC, using the same measurement and analytic techniques.

This study's findings add new evidence to the effect of the CEO on firm performance, and its relationship to managerial discretion, thus increasing the empirical generalizations of the research to both a different cultural and geographical context. The study extends the empirical investigation of the CEO effect between countries, particularly the dearth of research comparing the GCC, the US and other countries. Addressing the contextual gaps noted in CEO effect and managerial discretion research, this study investigates the theoretical predictions of both fields using data from publicly-traded companies in the GCC, both as a region and for individual countries within the GCC to estimate CEO effects.

Additionally, measures of managerial discretion were adopted from the extant literature to conduct comparative analysis between the GCC, the six countries within the region, and studies in the extant literature. As limited studies exist, this study contributes to filling this void, by bringing in a new contextual lens by analyzing publicly listed companies across the GCC region, adding to both the regional findings and the call by Tsui (2007, p.1354) who states, "knowledge about management in the comparative arena or outside North America is still lacking in both quality and quantity".

This study contributes to the stream of theoretical research on CEO effects (Crossland and Hambrick, 2011; Fitza, 2014; Lieberman and O'Connor, 1972; Mackey, 2008; Quigley and Hambrick, 2015) by demonstrating the CEO effect on publicly traded firms in the GCC. This study replicates the methods adopted in this field of research using the new context of publicly traded firms in the GCC, where a dearth of research

exists on this theory. It extends the generalizability of the CEO effect research in a new geographic region where current research primarily focused on Western contexts. Previous research (Crossland and Chen, 2013; Crossland and Hambrick 2007, 2011) demonstrated differences across national settings, and over large periods of time (Quigley and Hambrick 2015). The results of this study provide evidence of a CEO effect in the GCC region, as well as within the nations of the region.

This research adds to the literature surrounding the the CEO effect, and CEO discretion. It also links to the research associated with the impact of national context on managerial discretion. Differences are evident in the CEO effect in the GCC region overall, in comparison to the Western context as well as within the GCC itself. This research isolates the CEO effect for each country, the region and positions the results in comparison to primarily Western countries in the extant research. As noted in this research, and aligned with the work of Keller et al (2023), another avenue for future research is the impact of longer samples on CEO tenures to determine if, that as the CEO tenures in the GCC increase, the estimated CEO effects may fall as well, which would reinforce the findings here that contexts which have lower managerial discretion would also have lower CEO effects.

The research posits the relationship between managerial discretion and the impact of the CEO on firm performance. Differences are isolated for the region and its individual countries with comparisons to predominantly Western countries, demonstrating that higher discretion links to higher CEO impact.

In the tradition of the CEO research presented in the literature review, this study adopts a quantitative design using the CiC methodology. Given the dearth of research

in this field and noted gaps in comparative analysis between countries outside the Western context, this cross-country study identifies areas of similarity and differences between the CEO effect and managerial discretion both within the GCC states in the and between the GCC region and other countries. This is a significant contribution to the research and identifies avenues for future research possibilities across sectors and cross-culturally. This study also provides a benchmark for future research, allowing replication in this research area, both for industries and countries. Analysis such as that undertaken in this thesis can be extended to other countries within the MENA region. In addition, the analysis can be extended to other non-Western regions, such as South America, Africa, or more broadly in Asia.

7.3 Managerial Implications

The contributions of this thesis provide several considerations for management practice. Overall, it is evident that in countries with more managerial discretion, CEOs have a greater effect on the performance of the firms they lead. The results of this study therefore has implications for CEO succession, market entry, governance and leadership development. Hambrick and Quigley (2014) note the increase in the CEO effect over time. As the region continues to position itself in global markets and move from a family business centric, hierarchical oil dominated economy to one of diversity in both people and economy, it is quite possible the CEO effect will increase as well. Future research could examine how changes in governance and shareholder ideologies impact strategic choices.

From a leadership effectiveness stance, a heightened awareness of both cultural and cross-cultural differences is required for executives. Within the region, an increased interest in globalization and economic diversification speaks to the need to acknowledge

the impact of cultural dimensions and intra-cultural variances (Haj Youssef et al, 2017, 2018, 2020). The research indicates that national differences, which influence managerial discretion, can impact entry modes for new markets, mergers and acquisitions and foreign direct investment. Companies in high discretion countries may be best suited to more dynamic industries such as high technology or software compared to low discretion countries which may excel in industries that value stability and continuous improvement (Crossland and Hambrick 2011). Greater managerial discretion may align with bold strategy and rapid innovation yet may lack stakeholder buy-in and be accompanied by hubris. As the region is, overall, defined by a lower level of CEO discretion, leaders may wish to consider what they need to do differently in terms of stakeholder engagement, strategy and buy-in.

This suggests an opportunity for leadership engagement and development. Building on an awareness of the impact of managerial discretion on firm performance, and the measured impact of the CEO, it is wise for organizations, and nations, to consider developing a broader awareness of both managerial discretion and the CEO effect. Acknowledging the impact of cultural norms is integral to the growth and development of firms. Specific leadership opportunities, such as international assignments or education, would increase the capacity of leaders to ensure bold moves and wise decisions that might step outside the norms expected by society.

Within the region, given the strategic focus on nationalization (i.e. to ensure nationals are employed, both in the public and private sectors) it is imperative to develop the human capital capacity for innovation and change. Current initiatives that support diversity and innovation, higher education and gender equity may also include

strategies to focus on leadership, risk-propensity and cultural intelligence. As noted by Elbanna (2022), while nationalization policies have led to incremental increases in female engagement in the workforce, labor market reforms are still needed to better capitalize on and develop local female talent for leadership roles, as this seems to be a demographic group that is still not evidenced in CEO roles, as was found in this study. Additionally, it is vital to align the education and skills of the national workforce with both the demands of the job market and the needs of various industries, while cognizant of the socio-cultural influences, particularly related to risk avoidance, hierarchy, and social-collectivist practices.

Building on the work of House et al. (2014), the findings from this research also have implications for leadership effectiveness. Noting the central tendencies of a given society, including power-distance, uncertainty avoidance and individualism, speaks to the culturally dependent definition of leadership. For example, in heterogeneous societies, such as the UAE, leaders are faced with a number of stakeholder groups, and may need to adopt a more distributed or participative style of leadership to involve others in decision making and consider the needs of others (House et al, 2004) so as to increase their latitude of actions. The knowledge of an accepted leadership style is also required for more homogeneous cultures where the leader is expected to be more distant and assertive, with fewer stakeholder constraints, such as in countries like Saudi Arabia (House et al, 2014).

At a national level, managerial discretion may have an impact on CEO succession at the board level. As companies position to diversify and expand to global markets, consideration may be given to the choice of CEO to lead the firm. As noted in

the research, CEOs in high discretion countries are afforded the latitude to make bold, strategic decisions. Moving a CEO from a high discretion to a low discretion country would impact these actions, due to cultural norms, and possibly have a negative impact on firm performance. Another implication considers the placement of a high discretion CEO into a low discretion country who, while cognizant of the cultural norms, may take the latitude to be more strategic and competitive. Similarly, a concern in low discretion environments is that CEO discretion might have an important implication on several other strategic decisions. As executives in low discretion environments have fewer sets of strategic actions, there may be high tendency towards discarding significant innovative initiatives.

7.4 Limitations of the Data

While the study adopted methods that align with current research, the study's data has a number of limitations that should be considered when interpreting the findings. The study relied on data collected from secondary sources, such as the Standard and Poor's Capital IQ database, corporate websites, and CEO databases such as Bloomberg. Comprehensive data collection and descriptive analysis procedures were undertaken, as described in Chapter Four. The sample used was restricted to firms in the GCC, omitting companies in other countries across the MENA region, such as Egypt and Jordan which have important financial markets and economies within the region. Future work could broaden the geographical scope of managerial discretion, linked to cultural heterogeneity. Similarly, future work could extend the research on intra-cultural variations as the region seeks more economic diversification.

As noted in the explanation of the data, proxy scores were used for the managerial discretion scores for two individual countries within the GCC. While the results support the theoretical underpinnings, it would be helpful to generate specific managerial discretion scores for these countries and the region overall, extending the work of this research. Given the recency of new GLOBE studies to soon be published, based on research conducted specifically in the GCC region, it may be useful to incorporate these revised findings into additional research for each of the countries and the region.

It was observed, during the data collection phase of this research, that the majority of the companies in the data set had male CEOs. This study could be extended to include other countries within the region where there are more female CEOs in publicly traded companies to see if the results are generalizable.

Blettner et al (2012) highlight that the CEO performance effect is determined in aggregate by a complex set of interdependencies and that a more thorough understanding is required of when and how CEOs impact their organizations, including CEO attributes, which serve as proxies for risk-taking, intelligence and ability, the relationship with the TMT, team composition, gender and ethnicity, functional background and governance, particularly with a focus on diversity, internationalization, human and social capital factors. This could be a fruitful avenue for future research.

This research may be enriched by investigating the attributes of the CEO, such as education, international experience, age, industry experience, social networks and other demographic factors that may contribute to their effect on performance. As this study isolates the CEO effect, value would be added both theoretically and have

managerial implications. For example, determining the impact of education and international experience outside the region, may impact succession planning and leadership development opportunities. Isolating the impact of social networks, if any, would encourage the development of broader relationships outside the current societal, collectivist norms.

While this study uses previous research for comparative analysis, between countries, future studies could expand to include profiles and case studies of CEOs in similar industries across countries to determine differences in attributes and experiences that may lead to differences in their effect, while still considering the managerial discretion dimensions.

A noted challenge of CEO research is direct access to the CEO and the board. Future research could combine interviews and observations with the current data to investigate some of the relational mechanisms of the CEO, such as those between the TMT or the board, or even the cultural dimensions and their influence on discretion. Direct engagements such as these will answer questions related to strategic decision making, innovation adoption, board governance, patterns of interaction, cultural influences and leadership style and may unlock the proverbial “black box” often associated with the CEO mechanisms that impact firm performance.

7.5 Concluding Remarks

Over the course of this research and stemming from my initial interest in CEO leadership in the Middle East from the MSc. phase of this doctoral journey, I would suggest that this work required a reset in how I worked, and my mindset for both research and the research problem. In my own teaching and daily work, I am used to gathering and analyzing data to make decisions. Thus, I thought it would be an easier

road to travel to complete this doctoral research. While I did well in the MSc stage of this program, as I took a deep dive into the doctoral phase of this work, I had to acknowledge both my biases and areas which were in need for growth. I had to see beyond the easy and recognize that rigorous academic research requires diving into the unexplored. I had to develop a stronger understanding of the literature, of data, and research design. I have been lucky to work with the Henley and Rotman faculty to guide me through the journey.

Likewise, I had what I could perhaps now identify as a bias towards how senior leaders impact firm performance and their latitudes of action, or managerial discretion, in the Middle East, specifically the GCC. My initial explorations for this research did draw on the lack of human capital and value placed on education in the Middle East, based on my own experiences and upbringing in the Arab culture both in Lebanon and Canada. As I explored the data and research surrounding my topic, I had to frequently confront what I believed to be true, as my analysis often refuted my initial preconceptions. It was only as the process unfolded, with each paragraph and chapter, with each section of my thesis, that “aha” moments repeatedly appeared.

As I explored the work of Hofstede, House, Crossland and Hambrick and others, I had initially hypothesized that the region would exhibit higher results in managerial discretion and the CEO effect, given what I thought I ‘knew’ about the dominance of social capital, collectivism and hierarchical structures, including the power-distance dimension. Adopting a realist, objectivist stance helped me find a more informed, academic perspective that adds value to how I work, think and the value I place on what counts as knowledge.

I was surprised at the difference in results between the UAE and KSA, at first, but as I began to develop a stronger understanding of heterogeneity, and intracultural variances, the results made sense. I think this region is ripe for future exploration of the CEO effect and managerial discretion and I look forward to continuing that research and contributing to the academic debate. My pilot study explored the CEO typologies that contribute to firm performance, in the UAE, and I hope to find a way to integrate this work in the future.

I still propose the need for a change in leadership styles and actions in the GCC, as per my first research iteration. I see the value in a focus on developing human capital even more as economic prosperity and a nation's growth is strongly correlated and impacted by those who lead. While I still see the region as entrenched in cultural norms that impact the CEO, and stakeholder's, ability to create change, I also view an opportunity for education, engagement and reflection for leaders. Based on the work of Crossland and Hambrick (2011), and now my own, I see how this research can inform and guide future work and prosperity.

To make this journey successful, one needs to unpack these biases and open your mind to feedback, criticism and new beginnings. Each time I presented at a colloquium, tough questions and research challenges were raised, but I was there to learn and apply the feedback to my work. In my work, I present to groups frequently, but to have your work challenged and criticized unlocks a part of your mind that didn't exist before. Now, as I read this completed work, I know the benefit of opening one's work to criticism. It's not just about the final product, the completed document, but more

about adopting the critical mind of a researcher which enriches both the journey, and hence the final product.

The doctoral journey is not for the faint of heart. It has taken a lot of time and dedication. I have been blessed with a supportive family and friends. My supervisors, both at Henley and Rotman, have been there for me with their knowledge, attention to detail, patience, and holding me accountable. I have no regrets and am still passionate about my learning and my subject. I'm already planning my next steps and research since I know this is only the beginning.

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