Chapter 7
Succession Challenges Facing Family Businesses in Saudi Arabia

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ABSTRACT

The aim of this study is to examine how succession planning is carried out in family-owned businesses in Saudi Arabia. The study adopts a qualitative methodology which involves semi-structured, face-to-face interviews. The major findings of the research is that most of the family businesses in Saudi Arabia do not have a proper succession plan due mainly to socio-cultural issues such as mistrust and conflict of interest between the older and the younger members of the family and also subservience of women in the society generally. The implications of the study are discussed including a paradigm shift where women are encouraged and given the opportunity to get involved in the running of their family businesses.

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INTRODUCTION

Saudi Arabia is a very rich and big country in the Middle East, and currently the country is striving towards stability and growth which largely depends on public and private sectors. In the recent years the statistics for family business were high where in among the top 100 companies 45 companies were family owned businesses. Generally, 90 per cent of the businesses in Saudi are family-owned while only 5 percent were surviving the third generation and most of the companies which were successful were less than 65 years old. The total number of businesses operating in Saudi Arabia was 763,589 in 2009 (Ministry of Economy and Planning, 2009). The Saudi government is aware of the impact of such businesses to the economy of the country and hence has presented several methods of addressing this challenge that might affect both family and afterwards the economy of the nation. There are important issues that need to be differentiated in order to separate the businesses and the family loyalties, employing only the most competent family members as managers and the need to come up with resource to match with the best managerial practices.

The past decade has been characterized by the adoption of ‘Saudization’ and economic policy of localization that encourages local nationals to take up jobs and embark on running businesses that were owned by foreign nationals (AsadSadi & Henderson, 2007). This has to some extent led to benefits in developing opportunities for Saudi nationals, but also led to problems in having family members to run their family entities, especially those who have secured better jobs elsewhere. On a micro level, however, family businesses are a family property and are expected to benefit the family, thus control rests on family members, most notably the eldest male member, who makes all major decisions, often with little voices on the contrary (Nakauchi & Wiersema, 2014).

The history of family businesses in Saudi Arabia can be viewed from the traditional and cultural orientation of the country, where family bond and unity is highly regarded. The need to retain wealth in the family counts towards ensuring that the profile of the family is raised and this can be of importance even at the time of marriages. This implies that family property is to be entrusted to the most senior members of the family who, may be viewed with awe and assumed to have the experience for the same. This poses two challenges, first, succession issues, which must be shared among old members of the family and secondly, the challenge of having to pass the business to someone who may not be able to run the same (Nakauchi & Wiersema, 2014). Family enterprises are mainly concentrated in the fields of hospitality, services and retail, which tend to have high level of customer contact, thus increasing the importance of the owner (or patriarch), and indirectly poses new potential challenges when the owner is no longer able to remain active in the management of the business.