Succession Planning in Family SMEs in Saudi Arabia: A Descriptive Study

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Abstract This is a descriptive study of succession planning based on 285 questionnaires collected from family-owned small and medium enterprises (SMEs) in Saudi Arabia. This study is the first major descriptive study of family businesses in Saudi Arabia. Our results are compared to previous family business research conducted in other countries. Implications for family business literature, policy and practice are presented.

Keywords Family business • Succession • SMEs • Saudi Arabia • Descriptive study

1 Introduction

Family businesses are the backbone of economies around the world, constituting a crucial source of wealth and employment in both developed and developing countries. In the USA, around 60–70% of all organisations and a third of companies listed in the S&P 500 are family businesses (Kets de Vries et al. 2007; Anderson and Reeb 2003). They occupy an even more important position in the Middle East, where the PricewaterhouseCoopers (PwC) family business survey (2012) found that more than 80% of businesses are either run or controlled by families. This percentage is even greater in Saudi Arabia, where 95% of all companies are family run, contributing approximately 50% of non-oil GDP and providing employment for 80% of total private sector employees (The Council of Saudi Chambers 2014). The majority of these companies are small and medium enterprises (SMEs), supporting the Saudi push to move from an oil-based economy. However, 'despite their ubiquity and economic significance, there is a striking absence of research that explains the prevalence, prominence, or even existence of this economic institution' (Schulze and Gedajlovic 2010, p. 191). This descriptive study is the first attempt to provide insight into family firms in an under-researched area in the Arab world. The

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S. Basly (ed.), *Family Businesses in the Arab World*, Contributions to Management Science, DOI 10.1007/978-3-319-57630-5_12

study is among the first to explore family businesses in Saudi Arabia through two axes: their succession planning and the most desired successor attributes.

Leadership succession is a challenge for all companies but particularly for family businesses (Le Breton-Miller et al. 2004). Despite their importance to the economy, the survival rate of family businesses beyond the third generation is extremely low. This is also true in Saudi Arabia where only 5% of family businesses survive into the third generation (Ghalayini 2010). Succession is a fundamentally important topic in family business literature (Chrisman et al. 2005; Le Breton-Miller et al. 2004; De Massis et al. 2012; Yu et al. 2012). The family business literature has long recognised the importance of succession planning (Handler 1992, 1994; Motwani et al. 2006; Tatoglu et al. 2008) as the most critical determinant of family firms' long-term survival (Morris et al. 1997). 'Succession planning means taking the preparations necessary to ensure the harmony of the family and the continuity of the enterprise through the next generation' (Lansberg 1988). A key factor distinguishing family firms from nonfamily firms is the desire to transfer the business to the next generation (Chua et al. 1999). As such, this study's purpose was to shed light on succession planning of Saudi family SMEs.

Selecting the future successor is one of the most important decisions made by family firms (Le Breton-Miller et al. 2004). The choice of a family successor reinforces the family's power and influence in the firm (Cruz et al. 2012). The desire to keep the business in the family is found to have an impact on successor selection and training (Sharma et al. 2003b). Based on an exhaustive literature review, Chrisman et al. (1998) identified the 30 most desired attributes of successors in family firms. They grouped those attributes into six broad categories: (1) successor's relationship with the incumbent, (2) relationships with other members of the family, (3) family standing, (4) competence, (5) personality traits and (6) current involvement with the family business. Chrisman et al. (1998) ranked the importance of these attributes based on a sample of Canadian family firms. Sharma and Rao (2000) replicated the study on Indian family firms and found that the successor attributes most valued by Indian firms differ from those valued by Canadian firms. This study extends the 30 most desired attributes to a sample of Saudi family firms.

The aim of this chapter is to describe family SMEs in Saudi Arabia, their succession planning and their most desired successor attributes. The gathered Saudi family business data are compared to previous family business literature from other countries; similarities and differences are illustrated, and implications are discussed.

2 Method

2.1 Sample, Data Collection and Respondents

There is no list of family businesses in Saudi Arabia; thus, the list of firms operating in Riyadh area from the Riyadh Chamber of Commerce and Industry (RCCI) was used in order to collect the primary data for this study. Sample quotas across six industries were applied to obtain the study's sample framework. The six broad industry categories are (1) manufacturing; (2) building and construction; (3) wholesale, retail, hotels and restaurants; (4) transport, storage and communication; (5) import/export; and (6) services. A total of 2646 firms were obtained through a stratified random sample: 2146 firms were sent an electronic questionnaire built using Qualtrics, while 500 were sent a paper questionnaire using a drop and collect method. Before sending out the paper questionnaire, firms were contacted to confirm their industrial activity, business age, family business status, the number of full-time employees and their participation willingness. A group of seven volunteers were recruited for the job of dropping off and collecting the completed questionnaires. The objectives of the survey, as well as each of the questions, were explained to the volunteers during a 2-h training session. Firms were identified as family firms based on the criteria of having at least two family members actively involved in the business and on the CEO's perception of it being a family business (Miller et al. 2008; Westhead and Cowling 1998).

The questionnaire was developed in English, translated to Arabic and then translated back to English by two different bilingual specialists fluent in English and Arabic. This was necessary in order to validate the translation and to guarantee similarity of the two original language versions (Harkness and Schoua-Glusberg 1998). The questionnaire was reviewed by specialised academics and family business owners before piloting it on eight family businesses. After that, questions were revised and length was reduced. The questionnaire was distributed to the key respondent in each business. Follow-up emails and visits were made twice after the questionnaire was sent electronically or dropped off. A total of 385 questionnaires were returned, 100 of which were eliminated as they were incomplete, from too small or too big firms, or because they failed to meet the adopted family business definition. The average sample size of quantitative studies using primarily data published in the Journal of Business Venturing (JBV) was numbered at 351 between 2001 and 2006 (Mullen et al. 2009). The 385 returned questionnaires represent a response rate of 14.55%, compared to the 10% response rate which Fahed-Sreih and Djoundourian (2006) achieved in their study of Lebanese family businesses. Eddleston et al. (2012), Cruz and Nordqvist (2012) and Schepers et al. (2014) achieved response rates of 14.3%, 12% and 9.2%, respectively.

2.2 Sample Representation

A combination of chi-square and Mann–Whitney U tests was performed to test for differences between early and late respondents with regard to entrepreneur gender, entrepreneur age, business age and number of full-time employees. This was performed to investigate non-response bias as suggested by Armstrong and Overton (1977). There was no evidence at the 0.05 level, or better, of response bias against the aforementioned business and entrepreneur characteristics. As such, there is no concern regarding sample bias, and the sample could be broadly generalised to those in the sampling frame.

2.3 Structure of Instrument

The design of questionnaires has been shown to affect the response rate, as well as the validity and reliability of data (Saunders et al. 2009). As such, the questionnaire for this study was carefully prepared using a clear and informative design. The first section of the questionnaire is used to obtain general demographic information about the CEO/entrepreneur of the firm. This data includes gender, age, education and ownership status.

The second part gathers information concerning the firm, including its age, number of full-time employees, legal status, industry, the existence and number of board of directors, and whether or not the firm has a business plan or is diversified. This section also seeks to gather information on the family members actively involved in the business and the firm's R&D and export activities.

The third section of the questionnaire gathers information about the succession plan in place at the firm, looking in detail at the selection criteria and development plans of the future successor. Succession planning is measured based on the responses of CEOs/entrepreneurs to three (yes/no) items. These include the following: 'Do you have a plan regarding transferring the business to the next generation?' 'Have you selected your successor?' and 'Is there a development plan for the successor?' Also, this section includes questions about the generation managing the business, the anticipated period of succession, number and gender of potential successor(s) and further information about the succession plan. Finally, the most desired successor attributes were measured using the 30 successor attributes adopted from Chrisman et al. (1998). Respondents were asked to indicate the importance of each attribute on a scale from 1 to 5, 1 being 'not important' and 5 being 'critically important'. The six attribute categories are:

1. Successor's relationship with the incumbent: three successors' attributes (compatibility of goals with current CEO, personal relationship with CEO, age of successor)
2. Relationships with other members of the family: four successors' attributes (trusted by family members, respected by actively involved family members, ability to get along with family members, respected by noninvolved family members)
3. Family standing: three successors' attributes (successor gender, blood relation, birth order)
4. Competence: ten successors' attributes (decision-making abilities/experience, interpersonal skills, experience in business, strategic planning skills/experience, financial skills/experience, marketing and sales skills/experience, technical

skills/experience, past performance, educational level, outside management experience)
5. Personality traits: seven successors' attributes (integrity, self-confidence, intelligence, aggressiveness, creativity, independence, willingness to take risk)
6. Current involvement with the family business: three successors' attributes (commitment to the business, respected by employees, current ownership share in the business)

The Statistical Package for the Social Sciences (SPSS) computer software was used to conduct the analysis of data in this study.

3 Results

The descriptive statistics of the sample are presented in this section. Descriptive statistics present the data systematically and meaningfully, as well as enable exploration of trends and characteristics of Saudi family SMEs.

Descriptions of continuous variables, including entrepreneur age, business, age and number of full-time employees, are presented in Table 1. Descriptions of categorical variables, including gender, education and firm size, are listed in Table 2. Multiple response variables are illustrated in Table 3. The most desired successor attributes are ranked in Tables 4 and 5.

Sample description is compared to previous family business studies conducted in a similar country context, as well as in Western countries. First, CEO/entrepreneur demographic characteristics are presented, and then the business characteristics are demonstrated. Next, succession planning taking place in the business is illustrated, and finally the most desired successor attributes are discussed.

3.1 CEO/Entrepreneur Characteristic

The youngest CEO/entrepreneur in the sample is 23 years old, and the oldest CEO/entrepreneur is 74 years old. Figure 1 illustrates the cumulative percentage distribution of the age of the respondents and indicates that 45% of the entrepreneurs are young and between 23 and 39 years old, and 4% of the entrepreneurs are 60 years or older. This compares to Fahed-Sreih and Djoundourian's (2006) study of Lebanese family businesses, in which 78% of their sample was less than 50 years old. The average age of the entrepreneurs who participated in this study is 43.6 years old. This average age is close to those reported by Eddleston et al. (2008) study of privately held US family firms, in which the ages of entrepreneurs ranged from 19 to 70, with an average age of 44.8 years old, and in Cruz et al.'s (2012) study of Dominican Republic small family firms, where the average age was 42.49 years old.

Table 1 Descriptive statistics for continuous variables

	N	Mean	Median	Mode	SD	Variance	Minimum	Maximum
Entrepreneur age	285	43.60	43	40	9.623	92.599	23	74
Business Age	285	10.99	8	7	7.901	62.422	1	46
Number of full-time employee	284	41.78	24	10	49.09	2410.74	3	250
Number of current business	89	3.15	3	2	2.552	6.513	1	19
Number of previous business	88	2.67	2	1	2.563	6.568	0	19
Number of family members working in the business	285	3.49	3	3	1.192	1.420	2	10
Number of family members on the board	51	2.96	2	2	2.04	4.158	0[a]	9
Number nonfamily members on the board	50	1.96	2	0	1.91	3.631	0	6
Percentage of total revenue exported	76	24.17	25	20	18.23	332.19	0	75
Percentage of total revenue spent in R&D	101	9.30	10	10	7.788	60.66	0	35
Percentage of revenue to diversification	82	21.69	20	10	16.76	280.78	0	90
Years to current president retirement	285	13.28	10	10	9.71	94.20	0	50
Number of male potential successor	280	1.53	1	1	.961	.924	0	6
Number of female potential successor	281	.43	0	0	.847	.717	0	5

[a]0 denotes having no board of directors in the family firm

Table 2 illustrates that nine out of the ten respondents are male, meaning that females constituted only 10% of the respondents. While the representation of women in these figures are low in comparison with studies of the USA, such as Eddleston et al.'s (2008) study which found 32% of the entrepreneurs were women, or Marshall et al.'s (2006) study that reported 19% of the entrepreneurs being

Table 2 Descriptive statistics for categorical variables

	Frequency ($N = 285$)	Valid percent	Missing
Entrepreneur demographics			
Gender			0
Male	257	90.2	
Female	28	9.8	
Bachelor degree			3
Yes	166	58.9	
No	116	41.1	
Master's degree			7
Yes	46	16.5	
No	232	83.5	
Professional qualification			0
Yes	51	17.9	
No	234	82.1	
Habitual entrepreneurs			5
Yes	90	32.1	
No	190	67.9	
Entrepreneur type	($N = 90$)		*2*
Serial entrepreneurs	16	18.2	
Portfolio entrepreneurs	72	81.8	
Ownership type			0
Established the business	202	70.9	
Inherited the business	52	18.2	
Purchased the business	24	8.4	
Other	7	2.5	
Business characteristics			
Firm size			**0**
Small	217	76.1	
Medium	68	23.9	
Sector			**0**
Import/export	16	5.6	
Manufacturing	17	6.0	
Building and construction	52	18.2	
Wholesale, retail, hotels and restaurants	147	51.6	
Transportation, storage and communication	11	3.9	
Service	42	14.7	
Legal form			**3**
Sole proprietorship	220	78.0	
Limited partnership	47	16.7	
Private limited company	4	1.4	
Simple partnership	2	.7	
Joint venture	2	.7	
Other	7	2.5	

(continued)

Table 2 (continued)

	Frequency ($N = 285$)	Valid percent	Missing
Formal board of directors			**6**
Yes	52	18.6	
No	227	81.4	
Formal business plan			**0**
Yes	182	63.9	
No	103	36.1	
Exports			**0**
Yes	76	26.7	
No	209	73.3	
R&D			**2**
Yes	101	35.7	
No	182	64.3	
Diversification			**10**
Yes	82	29.8	
No	193	70.2	
Succession			
Generational involvement			**1**
One generation	163	57.4	
Two generations	109	38.4	
Three or more generations	12	4.2	
Entry mode of successor			**3**
Worker	61	21.6	
Low-level manager	58	20.6	
High-level manager	142	50.4	
Other	21	7.4	
Succession planning			**1**
0 (no to all three questions)	115	40.5	
1 (yes to one of three questions)	91	32.0	
2 (yes to two of three questions)	13	4.6	
3 (yes to all three questions)	65	22.9	

women, the figures in the current investigation are nevertheless not surprising in Saudi Arabia. In Saudi Arabia, the official percentage of female ownership of companies is 12% (AlMunajjed 2010), compared to 28% in the USA (US Census Bureau 2007), and 29% in the UK (Carter et al. 2015). This demonstrates that the business world is male dominated in Saudi Arabia, due to cultural and regulatory constraints. Nevertheless, female respondents were 9% in Cruz and Nordqvist's (2012) study of family SMEs in Spain. Other studies in emerging economies, such as Fahed-Sreih and Djoundourian's (2006) study in Lebanon and Venter et al.'s (2005) study in South Africa, reported 10% and 18% female respondents, respectively. While Sharma and Rao's (2000) sample of Indian family businesses was 100% male.

Table 3 Descriptive statistics for multiple responses

	Responses		Percent of cases
	($N = 285$)	Percent	
Entrepreneur position			
Founder	149	29.5	52.3
Owner	190	37.6	66.7
CEO/president	81	16.0	28.4
Manager	77	15.2	27.0
Other	8	1.6	2.8
Total	*505*	*100*	*177.2*
Method of successor selection			
Predecessor's sole decision entirely	37	43.5	45.7
All family members made this decision	40	47.1	49.4
Some of family members made this decision	3	3.5	3.7
Self-nomination	3	3.5	3.7
Other	2	2.4	2.5
Total	*85*	*100.0*	*104.9*
Successor training			
Prior knowledge of the company (summer training)	134	21.2	47.2
Academic	130	20.6	45.8
Experience outside the family business	130	20.6	45.8
Mentoring (on-the-job training)	238	37.7	83.8
Total	*632*	*100.0*	*222.5*

In the sample, 58.9% of respondent entrepreneurs reported holding a bachelor degree, 16.5% hold a master's degree, and 17.9% have acquired professional qualification. Professional qualifications describe specific certification for fields including engineering, accounting, finance, IT and law. In Fahed-Sreih and Djoundourian's (2006) study of Lebanese family businesses, 40% of respondents were university graduates. However, a study of Dominican Republic family businesses by Cruz et al. (2012) reported that owners/managers typically had low levels of formal education. Davis et al.'s (2010) sample of family and nonfamily employees in US family firms found that 52% of their sample had a college degree. In the current study, the high percentage of graduates in the sample seems likely to reflect the importance placed upon education in Saudi Arabia.

Regarding ownership type, the majority of respondents (70.9%) are founders who established the business themselves, 18.2% of respondents inherited the business, 8.4% of respondents purchased the business, and 2.5% of respondents indicate other types of ownership. The other type of ownership is 'partner'. This indicates that most of the firms in the sample are in their first generation of family business.

As indicated in Table 2, 90 respondents (constituting 32.1% of the sample) could be classified as habitual entrepreneurs. Habitual entrepreneurs are those who have prior entrepreneurial experience. Ucbasaran et al. (2006) differentiate between two

Table 4 Mean, standard deviation and comparative attribute rankings in Saudi, Canadian and Indian samples ($N = 269$)

Attributes	Mean	S.D	Attribute rankings		
			Saudi sample	Canadian sample Chrisman et al. (1998)	Indian sample Sharma and Rao (2000)
Commitment to business	4.52	.70	1	2	2
Integrity	4.48	.83	2	1	1
Decision-making abilities/experience	4.45	.73	3	7	4
Self-confidence	4.43	.78	4	4	3
Interpersonal skills	4.40	.72	5	5	14
Intelligence	4.37	.81	6	6	7
Aggressiveness	4.32	.89	7	17	16
Experience in the business	4.28	.81	8	9	15
Creativity	4.22	.90	9	8	10
Trusted by family members	4.18	.87	10	12	5
Respected by employees	4.14	.77	11	3	6
Respected by actively involved family members	4.09	.90	12	11	9
Strategic planning skills/experience	4.07	1.02	13	14	8
Ability to get along with family members	4.06	1.05	14	16	13
Marketing/sales skills	4.06	1.00	15	15	19
Financial skills/experience	4.05	1.03	16	13	20
Technical skills/experience	3.92	1.07	17	23	27
Independence	3.91	1.17	18	10	24
Past performance	3.91	1.19	19	20	17
Educational level	3.82	1.03	20	19	21
Respected by noninvolved family members	3.80	.90	21	22	22
Compatibility of goals with current CEO	3.78	.90	22	21	18
Outside management experience	3.69	1.10	23	24	26
Willingness to take risk	3.63	1.29	24	18	12
Personal relationship with CEO	3.55	.98	25	25	21
Gender	3.34	1.22	26	29	25
Current ownership share	3.07	1.37	27	28	30
Age of successor	3.03	.96	28	26	28
Blood relation	2.95	1.25	29	27	11
Birth order	2.59	1.23	30	30	29

Table 5 Mean and comparative attributes category rankings in Saudi, Canadian and Indian samples

Attribute categories	Mean	Category rankings		
		Saudi sample	Canadian sample Chrisman et al. (1998)	Indian sample Sharma and Rao (2000)
Personality traits		**1**	**1**	**1**
• Integrity	4.48			
• Self-confidence	4.45			
• Intelligence	4.37			
• Aggressiveness	4.32			
• Creativity	4.22			
• Independence	3.91			
• Willingness to take risks	3.63			
Category average (total/7)	*4.20*			
Competence		**2**	**3**	**4**
• Decision-making abilities/ experience	4.43			
• Interpersonal skills	4.40			
• Experience in business	4.28			
• Strategic planning skills/ experience	4.06			
• Financial skills/experience	4.06			
• Marketing/sales skills/experience	4.05			
• Technical skills/experience	3.92			
• Past performance	3.91			
• Educational level	3.80			
• Outside management experience	3.69			
Category average (total/10)	*4.06*			
Relationships with other family members		**3**	**2**	**2**
• Trusted by family members	4.18			
• Respected by actively involved family members	4.09			
• Ability to get along with family members	4.07			
• Respected by noninvolved family members	3.78			
Category average (total/4)	*4.03*			
Current involvement with the family business		**4**	**4**	**3**
• Commitment to the business	4.52			
• Respected by employees	4.14			
• Current ownership share in the business	3.07			

(continued)

Table 5 (continued)

Attribute categories	Mean	Category rankings		
		Saudi sample	Canadian sample Chrisman et al. (1998)	Indian sample Sharma and Rao (2000)
Category total average (total/3)	*3.91*			
Successor's relationship with incumbent		**5**	**5**	**5**
• Compatibility of goals with current CEO	3.82			
• Personal relationship with CEO	3.55			
• Age of successor	3.03			
Category total average (total/3)	*3.47*			
Family standing		**6**	**6**	**6**
• Successor gender	3.34			
• Blood relation	2.95			
• Birth order	2.59			
Category total average (total/3)	*2.96*			

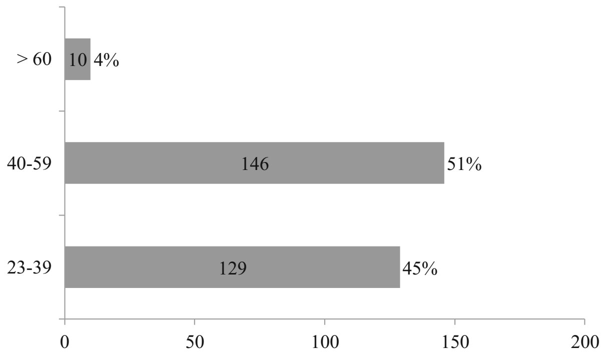


Fig. 1 CEO/entrepreneur age

types of habitual entrepreneurs: serial entrepreneurs and portfolio entrepreneurs. According to this definition, serial entrepreneurs are those businesspeople who have owned or partially owned at least one business in the past, and who currently own or partially own one business. Portfolio entrepreneurs, on the other hand, are entrepreneurs who currently own or partially own more than one business. Out of the 32.1% habitual entrepreneurs in the sample, 18.2% are serial entrepreneurs, and 81.8% are portfolio entrepreneurs. This compares to Westhead et al.'s (2005) study of entrepreneurs in Scotland where 43.5% of the sample were habitual entrepreneurs, of which 42.86% were serial and 57.14% were portfolio entrepreneurs.

3.2 Business Characteristics

The age of the businesses that participated in this study ranges from 1 to 46 years. Figure 2 shows the cumulative percentage distribution of the business age and indicates that a little over half of the sample (52%) are relatively young businesses at between 5 and 10 years old, 12% of the businesses are less than 5 years old and 12% are older than 20 years. The average business age is around 11 years old, which is understandable due to the fact that Saudi Arabia is an emerging economy. The government of Saudi Arabia has only more recently increased the support of SMEs prior to joining the World Trade Organization (WTO) in 2005. This compares to US studies of Chrisman et al. (2012), Chrisman et al. (2004) and Eddleston et al. (2008) where the average business age was 14.72, 17.44 and 22.9 years, respectively.

The number of full-time employees ranges between 3 and 250, reflecting the sample specification of SMEs. Figure 3 shows the cumulative percentage distribution of the number of full-time employees and indicates that small businesses with 3–50 full-time employees comprise 76% of the sample, while the remaining 24% of the sample is comprised of medium-sized businesses of 50–250 full-time employees. The average number of full-time employees is approximately 42. This is comparable to Cruz and Nordqvist's (2012) study of Spanish family

Fig. 2 Business age

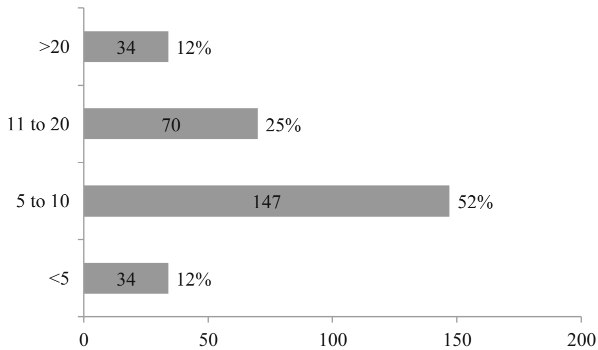


Fig. 3 Number of full-time employees

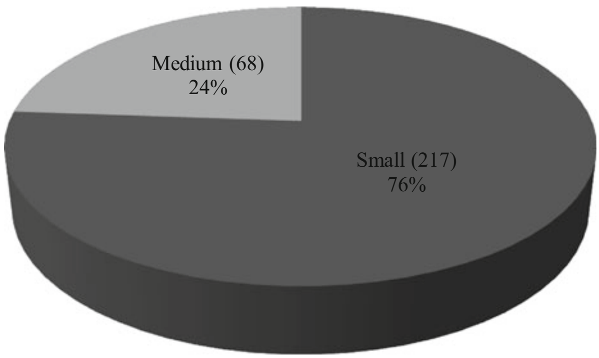
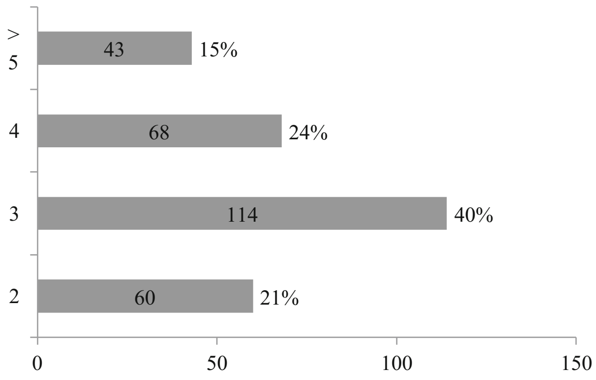


Fig. 4 Number of family members working in the business



SMEs where the average number of full-time employees was 54, as well as Chrisman et al.'s (2004) study of small family and nonfamily US firm, in which the average number of full-time employees was 23.

The minimum number of family members working in the businesses in this study is 2, and the maximum is 19. As shown in Fig. 4, the cumulative percentage distribution of the number of family members actively working in the business indicates that 21% of family firms have two family members working in the business, 40% have three family members, 24% have four family members, and 15% have more than five family members. This means that the average number of family members actively working in sampled businesses is 3.49, which compares to the studies by Motwani et al. (2006) and Zahra et al. (2008), which both found that the average number of family members working in the business was 3.09.

In terms of industries, family businesses in this sample are mainly concentrated in the wholesale, retail, hotels and restaurants sector (51.6%), followed by building and construction (18.2%), then service (14.7%), manufacturing (6.0%) and import/export (5.6%) and, finally, in the transportation, storage and communication sector (3.9%). Those percentages reflect the percentages of firms in each sector, as obtained from the data provided by the Riyadh Chamber of Commerce and Industry (RCCI), as a sample quota was applied in the sample framework. Other studies utilised different sample strategies and industry sectors, some of them reflecting the population of the sample. For example, in Chrisman et al.'s (2012) sample of small family firms in the USA, the sector with the highest level of representation was the service industry (49.1%), followed by retail (20.5%) and then manufacturing (17.2%). Those percentages are compared with the population from where the sample was drawn (Small Business Development Center, SBDC) as well as with the wider population of small businesses in the USA.

When it comes to the legal form of the business, the vast majority (78%) of the sampled firms are sole proprietorships, with 16.7% limited partnerships, 1.4% private limited companies, 0.7% simple partnerships, 0.7% joint ventures and the final 2.5% denoting other legal forms of business. This compares to Marshall et al.'s (2006) study where 55% of their family firms were privately held, 28% were sole proprietorships, 6% were limited partnerships, 5% were general partnerships, 1% were publicly traded, and 5% were other forms. Unlike Saudi Arabia, sole proprietorship is not a common form of family businesses in the USA and Western Europe, most probably due to the fact that this form of business bears a number of risks related to legal liabilities, divorce issues and inheritance tax. Even in Turkey, Tatoglu et al. (2008) found that 56.1% of family firms were limited liability companies, followed by 23.3% joint stock and then 20.6% sole proprietorship.

As shown in Table 2, only 18.6% of the sample has a board of directors. This compares to 60.6% in Motwani et al.'s (2006) study of US family SMEs and 45% in the study by Marshall et al. (2006). This low percentage of family firms that have a board of directors reflects the relative informality of family businesses in Saudi Arabia. With reference to planning, 63.9% of the sample indicated that they have a business plan, while 36.1% stated otherwise. This percentage compares to Perry's (2001) study of US small businesses where 62.5% of their sample indicated not having any sort of planning. By investigating a sample of SMEs in a developing economy like Ghana, Yusuf and Saffu (2005) showed that 58.2% of firms in their sample have low levels of planning. The high percentage of firms that have a business plan in this study strongly suggests that Saudi businesses owners are aware of the importance of this kind of strategic thinking. Furthermore, a business plan is a prerequisite to obtaining funds from governmental bodies.

Twenty-seven percent of the family firms in the sample export their products/services. This percentage compares to Fernandez and Nieto's (2005) study of family and nonfamily SMEs in Spain where 39% of family firms export their goods and/or services. In the UK, 19% of family SMEs were engaged in exporting in 2010 (Institute for Family Business 2011). The percentage of exporting Saudi family SMEs is encouraging, since oil and petroleum products comprise 90% of Saudi exports. The engagement of Saudi family SMEs in exporting reflects the efforts of the Saudi government to mitigate the potential risks inherent in overreliance on a single sector by encouraging diversification of the current oil-based economy. Furthermore, as indicated in Table 1, the percentage of total revenue exported by family firms in the research sample is 24.17%. While PwC family business survey in 2012 indicates that there are differences between countries regarding exports as a percentage of sales in family businesses with Singapore being the highest (60%) and Australia being the lowest (5%), the 24.17% in this Saudi sample is relatively high, as family businesses in the Middle East export 15% of their sales (PwC 2012).

As indicated in Table 2, 35.7% of family firms engage in R&D activities. This percentage is comparable to Griffith et al.'s (2006) study of SMEs in four European countries France, Germany, Spain and the UK where R&D engagement was 34.8%, 40.2%, 20.7% and 27.2%, respectively. In addition, 41% of Italian SMEs in Hall et al.'s (2009) study engaged in R&D. Table 1 shows that the average percentage of total revenue spent in R&D is 9.3%. This figure is comparable to the findings of Miller et al. (2008), who found that the average R&D spending of the Canadian small firms in their study was 9.76%. Since R&D is considered a source of innovation, Saudi family firms exhibit a similar R&D spending of firms in an advanced economy. The data show that 29.8% of family firms in the sample are involved in a secondary business activity beside their main business. This reflects the high percent of portfolio entrepreneurs discussed earlier.

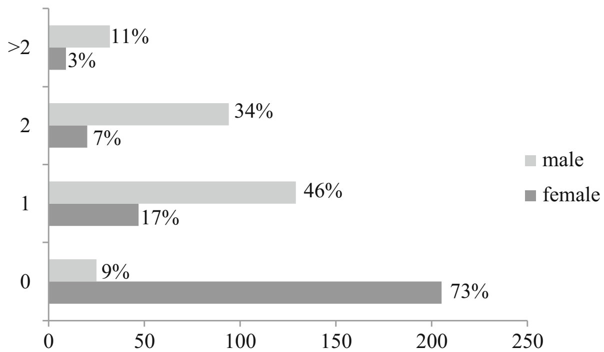
3.3 Succession Planning

When it comes to succession planning, 40.5% of family firms in the sample answered ‘No’ to all three questions regarding a succession plan, 32.2% answered ‘Yes’ to one of the three questions, 4.6% answered ‘Yes’ to two of the three questions, and 22.9% answered ‘Yes’ to all three questions. On a four-point scale, the average extent of succession planning in this research is 2.10. This compares to Sharma et al.’s (2003a) study in which the average extent of succession planning of incumbents was 3.30 on a five-point scale.

In terms of generational involvement, 57.4% of the firms have one generation, 38.4% have two generations, and 4.2% have three or more generations involved in managing the business. The average generational involvement in this study is 1.44. This compares to Kellermanns and Eddleston’s (2006) study where the average generational involvement was 1.75, and Chirico et al.’s (2011) study where the average generational involvement was 1.45.

The number of male potential successors ranges between 0 and 6, whereas the number of female potential successors ranges between 0 and 5. Figure 5 shows the cumulative percentage distribution of the number of male compared to the number of female potential successors. As indicated in Fig. 5, 73% of respondents do not consider a female successor to be a viable option, while only 9% of respondents do not consider a male successor viable. The majority of the 73% are male CEO/entrepreneurs, and the majority of the 9% respondents are female CEO/entrepreneurs running female-related businesses, such as art and design and beauty salons. In Sharma et al.’s (2003a) study of succession in Canadian family businesses, 85% of the sample also involved same gender successions.

Fig. 5 Number of male/ female potential successors



As indicated in Table 3, with regard to the method of successor selection, all family members made this decision in 47.1% of cases. In 45.7% of cases, this decision was the sole decision of the predecessor, in 3.5% some of family members made this decision, in another 3.5% it was determined through a process of self-nomination, and 2.4% indicated another method of successor selection. In Tatoglu et al.'s (2008) study of Turkish family firms, 67.9% of firms indicated that this issue was the predecessor's sole decision, followed by that of all family members (18.9%). The high percentage of Saudi family firms in which all family members are involved in decisions on the selected successor suggests that the Saudi society is probably not patriarchal. This view is in contrast to the general assumed idea of social life in Saudi Arabia.

In terms of successor training, 37.7% of respondents agreed that mentoring (on-the-job training) is important in the preparation of the successor, followed by prior knowledge of the company (summer training) (21.2%) and then academic education (20.6%) and experience outside the family business (20.6%). Studies support the idea that using a positive mentoring relationship between the incumbent and successor as a training tool is more likely to enhance the leadership development of the successor and to contribute to the success of succession in family firms (Le Breton-Miller et al. 2004; Cabrera-Suarez 2005).

As shown in Table 3, when asked about the actual or desired entry mode of the successor, half of the respondents (50.4%) answered high-level manager, followed by worker (21.6%), then low-level manager (20.6%) and the remainder (7.4%) indicated another mode of entry. This compares to Tatoglu et al.'s (2008) study where low-level manager comprised the highest entry mode (41.9%), followed by high-level manager (28.2%) and then worker (16.7%).

3.4 Successor Desired Attributes

To discover the most desired characteristics of the future successor, the respondents were asked to indicate the importance of 30 successor attributes adopted from Chrisman et al. (1998) and Sharma and Rao (2000). The ratings of the importance of the successor attributes, both individually and grouped in categories, are ranked along with the correspondence rating of the Canadian and Indian samples in Tables 4 and 5. Similarities and differences among the three samples are observed, providing an insight into the most desired successor attributes in the Saudi context.

The mean ratings of the importance of the successor attributes were ranked along with their standard deviations (Table 4). The mean ranges between 2.59 and 4.52, and the standard deviation ranges between .70 and 1.37. Overall, the standard deviation decreases as the mean rating increases, indicating that there is an agreement among respondents on the importance of highly ranked attributes. Of the 30 attributes, *commitment to the business* was considered the most important attribute for family firms in the sample followed by *integrity*. In Chrisman et al.

(1998) and Sharma and Rao (2000), *commitment to the business* was ranked second after *integrity*.

The attributes were then grouped into six categories based on the literature and previous research. The categories are personality traits, competence, relationships with other family members, current involvement with the family business, relationship between the successor and the incumbent and family standing. Attribute categories were then ranked in a descending order for the whole sample along with a comparative ranking with previous studies (Chrisman et al. 1998; Sharma and Rao 2000) (Table 5). In line with previous studies, 'personality traits' is the most important category.

4 Discussion and Conclusion

This descriptive study provides a systematic exploration of data collected from Saudi family SMEs including demographic description, as well as succession planning and the most desired successor attributes. The most notable results are discussed in this section along with their implications for family business literature, policy and practice.

The degree of succession planning in Saudi family SMEs varies across the sample, with most respondents indicating that they have done little to no succession planning. This result is expected because family business leaders are usually reluctant to plan for succession (Le Breton-Miller et al. 2004; Marshall et al. 2006). Nevertheless, family business owners are advised to place more importance on succession planning in order to successfully transfer the business to the next generation and insure its survival.

The majority (78%) of the family firms in the research sample were sole proprietorships. Although this is the most common form of organisation in Saudi Arabia, it carries greater risks in the context of family businesses: firstly, the private liability of the owner can harm the whole business, and, secondly, in the case of the owner's death (father), brothers may buy their sisters' inheritance shares in the business for fear of dealing with in-laws. The latter strategy is not an unusual one and may even involve female shares being purchased without their full consent. Therefore, policymakers should encourage family business owners to turn the legal status of their companies from sole proprietorships to limited or simple partnerships and to explicitly include all legal owners. In doing so, owners will have a better chance of ensuring the smooth transition of ownership and therefore the continuity of their family business.

Although the board of directors is generally recognised as playing an important role in effective succession planning and devising the strategic direction of family firms, only 18% of the research sample has a board of directors. The lack of formality in Saudi family businesses is potentially alarming and should be taken into consideration by practitioners and policymakers. In 2014, the Ministry of Commerce and Industry piloted a guide for governance of Saudi family business.

The guide emphasises the importance of governance to the continuity of family firms and provides detailed governance practices, such as the development of a family business charter, and suggestions on the role and composition of the board of directors and family council. However, the guide is the first official initiative directed towards family businesses, and more needs to be done to encourage such practices. The guide is also primarily directed towards large family businesses. Given the importance of SMEs to the national economy, further efforts should be undertaken regarding the governance of these smaller organisations, which would potentially play a significant role in improving their overall performance and therefore contribute to the ongoing economic development in the country.

When it comes to the most desired successor attributes, the two top rated attributes (*commitment to business* and *integrity*) are the same across the three samples. However, unlike the Canadian and Indian sample, Saudi family business owners ranked *commitment* more highly than *integrity*. This result confirms the findings of previous studies regarding the importance of successor commitment to the business in his/her decision to pursue career in the family firm (Sharma and Irving 2005), in addition to the success of succession (Cabrera-Suarez and Martin-Santana 2012). In general, and regardless of the family business context, family business owners/CEOs tend to place a higher importance on an honest, hardworking and committed successor across different cultures. Another interesting finding is the agreement among family business owners/CEOs on the lower ranking and therefore less desirable attributes. All three samples agreed that three attributes (*gender*, *age of successor* and *birth order*) are among the least important. While the low rating of *gender* as a consideration is not surprising in the Canadian sample, it comes as a surprise in the Indian sample and is even more surprising in the Saudi context. The literature asserts that females are typically only considered as successors in family firms in special circumstances, such as in a crisis or when there is a lack of a viable male successor (Haberman and Danes 2007; Curimbaba 2002). However, Fahed-Sreih and Djoundourian (2006) found that the majority of Lebanese family businesses favour female CEOs in their firms. This was contradicted by the work of Tatoglu et al. (2008), who found that sons are usually the favoured candidates to take over family businesses in Turkey. Importantly, the culture in both countries is considered far more liberal than Saudi Arabia. The Saudi society is male dominated and generally characterised by gender segregation in the workplace. This is also supported by the results of the demographic description of the sample, where 75% of the respondents did not consider a female potential successor. It is thus expected that respondents are either open minded or seek to appear in a socially desirable manner to a female researcher. Having low rating on *age* and *birth order* in all samples indicates that whether the succession is occurring in the west or the east, the 'older son' is in a no more advantageous or superior position than the other children of the family. Another low-ranking attribute in the Saudi and Canadian sample but not in the Indian sample is *blood relation*. It appears that when it comes to the successor, Saudis do not consider the blood relationship as being especially important, as long as the candidate is a member of the family.

When it comes to noticeable differences between the three samples, Saudis ranked the attributes of *aggressiveness*, *respect by employees* and *willingness to take risk* differently than Canadians and Indians. *Aggressiveness* was ranked higher in the Saudi sample (7th) than in either the Canadian (17th) or the Indian (16th) sample. One explanation for this is linked to the Arabic translation of the word ‘aggressiveness’. In Arabic, the meaning and implications of the word are perceived positively and are mostly associated with persistence. On the other hand, *respect by employees* was ranked lower in the Saudi sample. This might be due to the nature of the Saudi culture, in which business owners are respected by employees above all else, perhaps as a legacy of the tribal system in the country. Another attribute that was lower ranked in Saudi Arabia than in the two other samples is *willingness to take risks*. While this attribute was ranked 18th in the Canadian sample and 12th in the Indian sample, it was only ranked 24th in the Saudi sample. This demonstrates that family business owners/CEOs in Saudi generally seem to prefer a risk-averse successor.

When grouping the attributes into six categories following the procedures utilised by both Chrisman et al. (1998) and Sharma and Rao (2000), all three samples were found to agree on ‘personality traits’ being the most important category. This indicates that despite cultural differences, family business owners/CEOs consider the personality of their successor as being fundamentally more important than the other categories of attributes (competences, relationships with other family members, successor’s relationship with the incumbent, current involvement in the business and family standing). This supports the call to include entrepreneurs’ personality traits in entrepreneurship research because they are considered predictors of entrepreneurial behaviour and are positively related to business creation and business success (Rauch and Frese 2007). However, the three samples differ in their ranking of the ‘competences’ category. While this category was ranked third and fourth in the Canadian and Indian sample, respectively, it was ranked second in the Saudi sample, placing it second only to ‘personality traits’ in importance. This emphasises the importance of the skills and abilities of successors in the Saudi context, especially in regard to *decision-making abilities*, *interpersonal skills*, *experience in business and strategic planning skills*, which were ranked higher in the Saudi sample.

The importance of having a succession plan is well established for all types of organisations and specifically in family businesses. Poor senior management succession planning is attributed as being one of the primary reasons for the volume of family businesses which sharply decrease before they reach their third generation. This descriptive study has shed light on the characteristic of family business and their succession planning in an under-researched country.

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