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Managerial Weaknesses and Features of Family Businesses in the Eastern Region of Saudi Arabia

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Abstract. This paper aims at filling a gap in the literature by shedding some light on managerial weaknesses and features of family businesses in the eastern region of Saudi Arabia. On the basis of collected data, the main conclusion is that, apart from some positive features, major imperfections do exist regarding planning practices, organizational structures and board of directors. The findings of this study could help in explaining the problems facing the development of such businesses. Concerned Saudi family business managers are hence called to urgently deal with the problems, and public authorities to support them.

Keywords: managerial weaknesses, features, practices, family businesses, eastern region, Saudi Arabia.

1. Introduction

Saudi Arabia is the biggest and richest country in the Middle East, and it is striving to reach highest levels of growth and development, relying on both the public and private sectors**.** Two years ago, 45 out of the top 100 Saudi companies were family-owned entities. Overall, 90% of all Saudi companies are family-owned, 5 percent only survive into the third generation, and most of the successful ones are less than 65 years old. In 2009, the total number of businesses operating in Saudi Arabia reached the figure of 763,589 [1]. Being aware of the prominent impact of such businesses on the nation's economy, the Saudi government has attempted to address the problems that might affect both the family business and consequently the national economy. Key issues are needs to separate businesses and family loyalties, hiring only the most competent family members as managers, and the urgency of making recourse to best managerial practices.

2. Research hypothesises and methodology

2.1. Hypothesises

Planning, organizing, leading and control through regulatory procedures or mechanisms are all basic functions and necessary tools for managing businesses effectively. Accordingly, this study focuses and tests three hypotheses about whether there are statistically significant correlations between a) the size of the family business's capital and the planning activities; b) family businesses' capital size and their organizational structure; and c) family business's capitals and the level of control within them. These three hypothesises reflect the crucial role of managerial functions and practices in helping such businesses to go beyond simple survival to perform competitively.

2.2. Methodology

The study involves description and statistical analysis of the problem of managerial bottlenecks of Saudi family businesses. The research population consists of owners/managers of family businesses with capital size ranging from 100 to 500 thousands Saudi Riyals (1USD=3.7503), located in the eastern region of Saudi Arabia. At the national level, this well known region is ranked 3rd in terms of total number of registered businesses as of 2008, and generating more than 60% of the Saudi gross domestic product. The sample has been selected in a random way, and composed of 41 family businesses from a total population of 130,447 private firms of all types and sizes in this largest region of the kingdom [2].

3. Theoretical framework

A great number of writers have highlighted the significant economic impact of family businesses on domestic economies in terms of investments, job creation, innovation and capital accumulation [3] and [4]. Despite that, there is no agreement on a unique definition of family business. Some writers define it as the participation of more than one individual of one family in the ownership of private capital company, with control mechanisms that help to keep the company active and closely monitored across generations [5]. Reference [6] defined family business as any organization whose operations/management decisions are affected by leadership succession of the family members managing the business.

In brief, researchers use three approaches to define family businesses. The first is based on the ownership of the project: A business is categorized as family if a family owns more than 50% of its shares [7]. The second refers to emotional perception of a group of family members towards a business [8]. The third approach focuses on the management of a business by the members of the family [9].

In the various writings, it can however be noticed that the coverage seems somehow partial, with each work focusing on one or some aspects. A study [10] included 524 participants, representing 86% of the CEOs and with nearly 60% of them founders, found that the most important goals of family firms are: a) to have a company where employees can be happy, productive and proud; b) to provide financial security and benefits for the owner; c) to be developing new and quality products; d) to be a vehicle for personal growth; e) to provide social advancement and autonomy; and f) to provide job security.

Reference [11] found that family-business managers show less reliance on formal written policies; have a more personal orientation; and trust their employees to a greater extent. Another study [12] states that the advantages of working in a family business include warmer relationships, and greater latitude in decision-making when accepted as an insider. The challenges concern lesser professionalization, unclear lines of authority, and no availability of stock options to non-family members. With regard to conflicts, reference [13] found that while mechanisms for resolving interpersonal conflicts within the family business include litigation, arbitration, and mediation, the most effective method is mediation.

Concerning studies, focusing on Arab family businesses context, only few are available. Reference [14], about the compatibility between the characteristics of family businesses and the requirements of successful management of change, concluded that family businesses are better able to manage change in case of equality of conditions compared to companies without it. But this study recommended taking this view with much care, because of the family business general tendency to resist change and not taking much risks.

With regard to Saudi Arabia, a number of questions have been put for discussions in forums, conferences and general debates. The issue of succession has particularly been brought into public discourse following some high-profile cases of family businesses break ups. Some writers have also pinpointed the severe problems faced by such family businesses, and suggested the need to transform them into joint stock companies to enable them to survive the challenges of the new era and the global competition [15].. A fact is that many of those businesses began as trading houses, and have now become diversified conglomerates [16].

The effect of culture in shaping the managerial practices of family businesses in Saudi Arabia is very important. A fact is that, Saudi families not only live together, but tend also to conduct business together. Big families dominate most of the largest private firms within the Kingdom. Consequently, conducting or studying businesses within Saudi Arabia requires awareness about the importance families play in day to day life. Traditionally, old and senior people are well respected, and thus should not be counter argued.

4. Data analysis and interpretations

Data were collected through questionnaires and analyzed using the SPSS program. The analysis aimed at: a) Answering six research questions by observing the data distribution, means and frequencies of certain variables; b) Testing the validity of 3 hypothesises using correlations (Spearman's rho).

4.1 Answering the six research questions

Q-1: Is there appropriate or sufficient attention from management for formal and systematic planning?

Collected data indicate that there is an important weakness in the planning practices of family businesses in the eastern region of Saudi Arabia. Firstly, because 66%, or the majority, of the sample businesses do not have written plans in their organizations. Secondly, with regard to systematic planning, only 20% have medium-term plans of 3-5 years, against 7% having between 1-3 years plans and 54% of them having between 1-12 months. The majority of respondents, who stated that there are plans, mentioned that was only in their minds, but not on paper, therefore indicating the little value and importance of formal planning. Where applicable, the most common area for planning is budgeting, as 66% agreed that they set up annual budgets. Relevant data also indicate that family firms in the eastern region of Saudi Arabia have low interest in preparing feasibility studies, as 83% of the sample answered negatively.

Q-2: What are the main objectives of managers/owners of family businesses in the Eastern Region?

The analysis shows that maximizing profit is given top priority by 56% of business owners, which is of a short term goal in nature. In subsequent order, 20% of them aim at increasing their market share, while 17% to them target to differentiate their products/services from others, while only 7% reported that their first priority is to maintain market share. It is to be noted that the current economic welfare conditions of the Kingdom with the market boom seem to benefit Saudi family businesses in earning large revenues from investment in trade, tourism and some other services, particularly during specific periods such as pilgrim.

Q-3: What are the characteristics of the existing recruitment system and the management structure?

Analyzed data indicate that nearly 65% of respondents agreed that recruitment is based on qualification. The same data also show that assigning responsibility of family members is also based on qualification, besides specialty, as stated by 44% of the respondents. Regarding the existence of boards of directors, available data indicate that more than 64% of the surveyed businesses in the eastern region do not have an official boards for their organizations. Particularly worse is that 71% of them have not formal organizational charts. Needless to stress that such as situation can result in a spread of confusion and ambiguity among the staff regarding roles and responsibilities.

Q-4: What are the characteristics of the communication process in the Saudi family enterprises?

In 53% of the cases, face to face communication is the most frequent reported method used between senior management and subordinates, whereas 29% only use the internet as their primary communication media. This could be explained by the importance of personal relationships in the Saudi culture, as will be further dealt with later. On the other hand, half or 50% of the respondents stated holding meetings periodically for discussing and resolving work problems. Contrary to the general view, this suggests that distance power does not therefore appear clearly applicable to all Saudi companies.

Q-5: What are the characteristics of monitoring and control procedures?

Control is one of the administrative functions needed to make sure that what has been applied is in conformity with what has been planned. Our investigation indicates that there is an agreement between Saudi family businesses regarding punishment system to staff members when they commit any violations, and this is again probably due to the type of family culture in the kingdom. Most of the respondents also agreed that there is a quality control or that an assurance system is being implemented in their organizations.

Q-6: Is lower level management involved in the decision-making process?

The statistical analysis indicated that 73% of decisions made by the sample family businesses are made collectively, and that 61% of strategic decisions are team-based. This fortunately indicates that senior management delegates its authority to lower management levels. The importance of this might be explained by the fact that most of these businesses are being managed by educated managers, as most of them carry a Bs degree or higher, which usually a master. Indeed, educated individuals, with knowledge and skills, are generally more inclined to using modern computer-based devices and systems.

4.1 Testing the hypothesises

H-1: There is a statistically significant correlation between the size of the family business's capital size and the existence of planning practices.

The analysis, as shown in the following Table I, indicates the presence of a significant positive correlation (.562) between the business capital size and the existence of written plans (significance 0.000). This result may seem quite logical, as the greater the size of the capital the higher ability to finance the costs of preparing plans. However, data also show that 54% of the businesses have a capital of less than SR 500,000, which is an indication of the small size of their capital.

Table 1. Correlation between between capital size and formal planning

<table>
<tr><td>Spearman's rho</td><td></td><td>Capital</td><td colspan="2">Formal plans</td></tr>
<tr><td rowspan="6"></td><td rowspan="3">Capital</td><td>Correlation Coefficient</td><td>1.000</td><td>.562**</td></tr>
<tr><td>Sig. (2-tailed)</td><td>.</td><td>.000</td></tr>
<tr><td>N</td><td>41</td><td>41</td></tr>
<tr><td rowspan="3">Formal planning</td><td>Correlation Coefficient</td><td>.562**</td><td>1.000</td></tr>
<tr><td>Sig. (2-tailed)</td><td>.000</td><td>.</td></tr>
<tr><td>N</td><td>41</td><td>41</td></tr>
<tr><td colspan="5">**. Correlation is significant at the 0.01 level (2-tailed).</td></tr>
</table>

H-2: There is a statistically significant correlation between family businesses' capital seize and structure.

Results, in table II below, indicate a) no correlation (0.075) between business capital size and the existence of a formal organizational structure (significance 0.672). Statistical evidence is provided in the following table.

Table 2. Correlation between betqeen capital size and organizational structure

<table>
<tr><td>Spearman's rho</td><td></td><td>Capital</td><td colspan="2">Structure</td></tr>
<tr><td rowspan="6"></td><td rowspan="3">Capital</td><td>Correlation Coefficient</td><td>1.000</td><td>.075</td></tr>
<tr><td>Sig. (2-tailed)</td><td>.</td><td>.672</td></tr>
<tr><td>N</td><td>41</td><td>34</td></tr>
<tr><td rowspan="3">Organizational Structure</td><td>Correlation Coefficient</td><td>.075</td><td>1.000</td></tr>
<tr><td>Sig. (2-tailed)</td><td>.672</td><td>.</td></tr>
<tr><td>N</td><td>34</td><td>34</td></tr>
</table>

H-3: There is a statistically significant correlation between the family business's capital size and the level of control.

Data in the following Table III indicate that there is a low positive correlation (0.155) between the capital size of the business and the existence of punishment system, as a measure of the control system. On the other hand, there is a moderate positive correlation (0.41) between the capital size and the existence of quality control system.

Table 3. Correlation between between capital size and control

<table>
<tr><td></td><td></td><td></td><td>Capital</td><td>Punishment</td></tr>
<tr><td rowspan="6">Spearman's rho</td><td rowspan="3">Capital</td><td>Correlation Coefficient</td><td>1.000</td><td>.155</td></tr>
<tr><td>Sig. (2-tailed)</td><td>.</td><td>.374</td></tr>
<tr><td>N</td><td>41</td><td>35</td></tr>
<tr><td rowspan="3">Punishment and control</td><td>Correlation Coefficient</td><td>.155</td><td>1.000</td></tr>
<tr><td>Sig. (2-tailed)</td><td>.374</td><td>.</td></tr>
<tr><td>N</td><td>35</td><td>35</td></tr>
</table>

5. Some important positive features

Despite all of the shortcomings mentioned above, the study reveals the prevalence of some important positive features, which suggest that Saudi family businesses are evolving in some aspects, namely in sharing the process of decision making and specifying the basis of job assignments. Data in the following Table IV do show, that contrary to the general view, teamwork spirit is prevailing, as decision-making in the family firms in Saudi Arabia is reported to be based on a balance between the granted authority to the employees and their responsibilities. This is a very positive feature and could be explained by the interest of the managers of such businesses to benefit from their employees' experience and skills.

Table 4. Decision Making

		Frequency	Percent	Valid Percent	Cum. %
Valid	Individually	10	24.4	27.0	27.0
	By team	27	65.9	73.0	100.0
	Total	37	90.2	100.0	
Missing	System	4	9.8		
Total		41	100.0		

On the other hand, data in the following Table V show that job assignments in the sample of considered Saudi businesses are based on qualifications, a thing which is again a quite positive feature of such businesses, and perhaps is promising a move towards a better future of management practices in the kingdom. Truly, managing modern businesses cannot be in the hands of illiterates in knowledge or technology.

Table 5. Job Assignments Basis

		Frequency	Percent	Valid Percent	Cum. %
Valid	By specialty	17	41.5	44.7	44.7
	No distribution	12	29.3	31.6	76.3
	Everybody do all tasks	9	22.0	23.7	100.0
	Total	38	92.7	100.0	
Missing	System	3	7.3		
Total		41	100.0		

6. Conclusion

This paper sought to detect the managerial weaknesses of family businesses in Saudi Arabia, in general, and in its eastern region, in particular, as one of the important and dynamic business areas of the Kingdom. The main conclusion is that there are important shortcomings. Specifically, the basic and necessary managerial functions are not effective in the considered sample. To improve their functioning and performance, Saudi family businesses will, therefore, need to introduce many organizational changes.

Nevertheless, it is worth pinpointing two main features characterizing them. One is the balance between authority and responsibility of employees, thus making them more engaged in caring about the businesses. Two is that the method most commonly used between employees and management is verbal communication.

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