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### SUCCESSION PLANNING IN SAUDI ARABIA'S FAMILY OWNED BUSINESS: THE CASE OF SEDCO HOLDING AND BINZAGER CO

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#### **ABSTRACT**

This study aimed to explore succession planning and differences of its process in family businesses within Saudi Arabia. The study had used qualitative research method such as a case method approach and interview. The interview analysis and comparison was run to determine differences in family business succession planning between the companies, generation level, industry, ownership type and succession process and application. The primary data was obtained through qualitative methods. A case study method included semi structured interviews were used as instrument. Secondary data was collected the fata from literature review information through previous studies through academic journal articles. The respondents were selected based on certain criteria such as the respondent background from large family business in Saudi Arabia that had surpass first generation which second generation is currently holding the business. The interview found that there were significant differences in family business succession planning between different cases. Therefore, recommendation further study would include multiple measurement as well as triangulation in family business succession planning.

**CCS CONCEPTS** • Insert your first CCS term here • Insert your second CCS term here • Insert your third CCS term here

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## INTRODUCTION

In world economies, families are among most important shareholders in business organizations [1]. Family owned businesses are among most important contribution to the wealth and employment creation in economies around world and ranged from small enterprises service to large conglomerates which operates in multiple industries and countries [2]. The family business is business governed and/ or managed with the intention to shape and pursue the business vision held by a dominant coalition controlled by members of same family or small number of families is potentially sustainable across generations of the family or families [3]. Furthermore, family business is business that have structure which can consists of non-family members [4]. In fact, family businesses re oldest and longest running social unit in the world [5]

In family businesses comprised 70-95% of all business entities and most small medium enterprises (SMEs) are family and form of economy [6]. In Europe, family business possess 70% of GDP and 60% of working manpower [7]. Meanwhile, 80-90% of all business and contributes 64% of US labor in North America [8].

Succession planning is defined as system or structure that assist managers who need to detect a group of high potential candidates, improve leadership competencies and selected leaders from potential groups. Besides, succession also known as a strategic, systematic and measured activity that ensures an organization's future ability to fill different vacancies without have any patronage or favoritism. The studies on succession shows that 1.3 of post-start-up family businesses survive and reach second generation, while 12% are still viable in third generation and 3% of family business operate after fourth generation [9].

Family businesses are facing the succession problem which can not avoid the issue of succession which need the succession planning in the family business [10]. The business succession processes have significant consequences from economic perspective. The succession facilities incumbent to recognize some enterprises capital built up which used to finance the retirement plan. In addition, the succession also offers a career path in company or sector that have limited career advancement opportunities. If succession is successful planned, there could be mutual benefits to the two parties. Thus, succession is an important long-term strategic consideration since self-employment in family firms is common.

The progression in the family business research community is compelled by growing issues of importance that hold the extent of family control governance, varies, dynamics and relationships both internal and external. Manifestations in conflicts at decision making are very common and considered to be due to poor management. There are lots of challenges that

might face the successor or the next generation while aiming to succeed the firm to the families next generations.

There are few studies on succession planning in the Middle East for either family firms or non-family firms. One study found that family succession lingers to be the dominant method of transferring business ownership in the Arab societies. Furthermore, practices of employee succession are nonexistent in Arab countries especially very little established mechanisms for distributing equity or capital within the business to enable the entry and exit of people at the ownership as well as the partnership level. In addition, the level of mobility or turnover of employees in small businesses in these societies is exceptionally high.

Furthermore, Arab societies manifest a patriarchal ideology that's reinforced through legal and social male-governed institutions. Hence, males are more likely to take on powerful positions due to this dominance. The more powerful the position, the more likely it is that a male will hold that position. Incumbents in the Arab family enterprises typically spend a large proportion of their lives building and running their business, leaving little time to develop interests outside the business and family. the continuation and succession planning for retiring directors / family members of these businesses feather out for plenty of reasons, making businesses reach their doom and the family would lose their business. This study aimed to explore succession planning and differences of its process in family businesses within Saudi Arabia

## **METHODOLOGY**

This study used primarily exploratory research which best to gain an understanding of underlying motives, views and reasons. This method was allowed the study to find correlation which overlooked during quantitative method was used. Qualitative method had different techniques and styles that used which known that qualitative methods was in form of semi-structured or structured style interviews.

Quantitative research was provided more control to a study. The questionnaire was clearly showed the study aims. Quantitative methods was best used in studying social phenomena studies and management. This study was used to determine many aspects such as issues, application and process.

The primary and secondary data were used in this study. The primary data was obtained through qualitative methods. A case study method included semi structured interviews were used as instrument. The purpose used interview as instrument and cases because this method provided in-depth information which helped in determined and collected deep and reliable from the resource. In addition, semi-structured interviews allowed the respondents to share the experience and perspective toward certain phenomena. Secondary data was collected the fata from literature review information through previous studies through academic journal articles.

The respondents were selected based on certain criteria such as the respondent background from large family business in Saudi Arabia that had surpass first

generation which second generation is currently holding the business. The reason of small cases number selection was able to have an in-depth at the phenomena being studies and able to understand fully from industry leaders. Moreover, the interview was conducted with family members that were involved in the business as well as top management level or board level. The respondents were Salen Salem Binmahfouz, owner and board member of SEDCO Capital and Dr. Ghazi Binzager, Shura Council member, vice president and board member in Binzager Co. and Rubayeyat and other family businesses. These respondents were carefully selected in order to have strong perspective regarded succession in family business.

The interview were held between 30 minutes and 70 minutes and consisted the question which included these aspects such as current succession application, family and non-family employee succession, importance of succession planning to the business, financial implications and effects on the ownership circle, family involvement in the decision making and issues and challenges faced in the succession planning.

### ***Result And Discussion***

#### ***Result***

SEDCO Holding is one of largest family owned companies in Saudi Arabia which currently in the second generation and closed joint-stock company that included many subsidiary companies such as Al-Nahdi pharmacies, Tarfeeh, Elaf and Red Sea Mall and involved in finance, real estate and direct investment.

Based on succession planning process, Binmahfouz stated that SEDCO Holding currently had formal structure of succession planning that was followed for their employees. There was no formal succession plan made for family members. However, the company had developed succession plan with Banyan group, a family business consultant company from USA. The effects had minimal effect on growth, sales and sustainability which enhanced employee career path. Binmahfouz felt important to have succession planning to obtain continuity, employee loyalty and increased family relationship with company and its growth.

SEDCO had 3000 employees in the company and excluded family members that were within the board of directors, there were 5 family employees distribution in all company levels. Succession planning within its employees was conducted to all family and non-family members within the company. In addition, Binhafouz was mentioned on alternative plan in case of sudden and abrupt stoppage of work by senior management. There were procedures that took place to insure continuation of the business in smooth manner. The insure transfer of information and document to the right person or department and work completed by another person or department until new person heads in and took charges.

Meanwhile, the succession planning did not affected the ownership circle but helped the family to hold company tight. Furthermore, the company to succeed in succession planning for individual inside and outside the company. The company was maintained family members by being transparent, appreciative to everyone, good care of younger generation of family and care on the education.

There were many issues that raised in succession planning which caused by miscommunication between the parties, incumbent, occupier and planner. Three things was suggested included be clear in the relationship by prepared system and process, good people to plan and conduct the process and created awareness of the system from beginning and did not proceed with succession plan.

The time frame was conducted also crucial. The shorter timeframe, more ineffective the succession planning or selection of the person. SEDCO Holding had not faced any resistance by the occupier through the succession phase. The succession planning had minimal effect on the company which the respondent believed that currently did not caused any issues within the company.

Binhafouz had answered that involvement of mothers or wives in the incumbent selection process and this involvement caused a lot disagreement. A specific system was put in place, exams, career path plans and best candidate was selected.

Meanwhile, Binzager group was one of well-known and successful family owned companies in Saudi Arabia which currently in the fourth generation and limited liability company. Based on succession planning process, Binzager stated that the company did not had formal structure of succession planning which more organic approach in selecting and conducting succession. Binzager did believed the effect of a succession plan holds a minimal effect on growth, sales and sustainability. The respondents mentioned important to have mixed approach between succession planning and more innate decision making. This hybrid approach enhanced the chances of business continuity.

Binzager company had 10,000 employees in total 9 family members and two family members were female and holding senior positions. The succession was applied for family and non-family employees and those who truly were valuable people. All considerations in the incumbent selection was regarded as important from checking an individual's profile, age, current involvement level, number of years that the employee had worked, competences and relationship with family and non-family. In additions, both successor with resource, knowledge and experience were important. Moreover, Binzager was mentioned there were ambiguous and unclear plans to stabilize sudden event.

Binzager stated succession planning had an effect on extending ownership circle of the company due to the overlapping roles carried by family members in the business. Binzager had personal experience with succession planning . The micro perspective that the employees want the respondent have hands on

experience and learn from the difficulties. The respondent had worked under family members and less likely to receive any special treatment. Besides, the respondent stated watched the family member worked like other employees and learnt from business work observation and nature business relationship. There was some type of early training for younger family members to hold position in the future but non formal. In addition, the respondent was strongly agreed succession planning plays a role to maintain business within the family.

In addition, trust between family members was key player in preventing succession planning. Binzager claimed there were many communication difficulties that occurred in the succession process between occupier, successor and planner. The occupier might created some resistance on succession planning. There was no comment given for financial implication question. Binzager attributed the continuation of the business until third and fourth year with no formal succession planning or family governance and constitution due to fact the Binzager family was quite small in number. Hence, there was less people involved for position or ownership in the company.

The involvement of other family members in selecting the successor which not involved in the process and best way to avoid problems.

### *Discussion*

In this study, there were significant differences between application and succession plan process in SEDCO and Binzager. SEDCO had written formal succession plan but Binzager did not wrote formal succession plan. SEDCO had specific system and conducted examination, career path plans and specific needed positions and selected best candidate. The board of director were recommended appropriate successor to the stakeholders to finalize the decision. Both companies expressed that succession was taken place for family and non-family members who had right capabilities which succession planning had minimal benefits. Binzager was illustrated that small family size did diminish succession planning efforts since there was less family members that might complicated. Both companies need to apply effective succession planning and methods to enhance its efficiency.

Four framework characteristics such as integration, focus, accountability and consistency with process followed in succession. Both companies agreed that succession planning would benefit the career path of employees and helped continuity and longevity of the family business. The personal traits were considered most relevant while family standing and incumbent-successor relationship were considered least relevant. SEDCO showed stronger relevance to personal attributers and attitude than Binzager who had balanced approach.

Both cases clearly mentioned the challenge faced during conducted succession planning that caused due to miscommunication, not being transparent, not having clear system. However, the resistance challenge was faced by the occupier in Binzager. The resistance by the occupier was one of the main issues faced due to the occupier want to remain in the position, received

question stated previously family business owners in Saudi conducted succession and factors affected their successor selection.

## **CONCLUSION**

In conclusion, there were significant differences in family business succession planning between different cases. The passage in succession was most crucial processes to help a family business survival of long time. The success was based on merit, hence the control of a family business was moved from one generation to next generation impacted the performance and viability of family firms across time

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