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CONFLICT RESOLUTION CHALLENGES IN FAMILY OWNED BUSINESS IN SAUDI ARABIA

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ABSTRACT

A family-owned business is defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family. Family-owned businesses might the oldest form of business organization. In urban settings, family-owned business was once normal for a shopkeeper or doctor to live in the same building in which worked and family members often helped with the business as needed. This study is intended to find out the conflict resolution challenges in family owned business in Saudi Arabia. A survey has been administered on 100 respondents who work for family owned business. The study concluded that the challenges for conflict resolution in family business are numerous and includes mostly decision-making power, conflict of interests, emotional conflict, qualifications, salaries and compensation and succession.

1 INTRODUCTION

The businesses cover up over 90% of businesses both in developed and developing countries [1]. Family owned businesses are an engine of a healthy economy and hold significant position in world trade [2]. The family businesses can be small, medium enterprises (SMEs) or large [3]. Family owned business is defined as a business whether public or private in which family controls entire of shares or votes and one or more of family members in management position [4]. The family owned business has some characteristics that combine demographic perspectives such as dominant family coalition and behavioral perspectives such as intrinsic materialization of family influence [5].

Family owned businesses generate most of job vacancy in developed countries included the USA which contributes 64% of GDP and offers 62% of workforces and account for 78% of all new jobs [6]. In Europe, 70%-80% of enterprises are family businesses and contributes for 40%-50% of employment [7]. In Spain, there are 1.1 million family businesses which contribute 57% of GNP and 67% of total employment [6].

Business conflicts can tear apart a family owned business. Conflicts are not only in family owned business but still a main problem for this type of company due to family relationship [8]. Family business conflicts arise because family and business have different goals. A family is protective and loyal, with strong emotional ties that tend to resist or minimize change. However, a business must be productive which values competency and honesty in order to embrace change and create success. Alderson, K. [9] had discussed the prevalence of conflicts in family firms and approaches to prevent and manage the conflict. The findings showed conflict is common problem in family owned business which impacts business and family. The effective governance help in reducing and manage the conflict [9].

Internal conflicts can shatter a family business more than all competitors combined. In today's world a business is not likely to be around for long when family members spend more time fighting and blaming each other than working together and coming out with creative ideas.

In addition to several giant government companies such as ARAMCO and SABIC, they are deal mainly with oil and petrochemical industries. There are thousands of small, medium and large family companies created in Saudi Arabia. Small and medium enterprises that are mainly owned by families constitute about 90% of the total Saudi companies. Most of Saudi pioneer entrepreneurs are retiring and rendering their business to the family members (mainly to their sons and grandsons 2nd and 3rd generation).

Saudi Arabia's economy has witnessed great development in the last sixty years since it was united by King Abdulaziz bin Abdulrahman Al-Saud (God bless his soul) in 1351H and the most important characteristics of this development that was comprehensive, strong and fast. This covered all economic activities and industrial, agricultural and service, and ensures that all the resources of the natural, human and manufactured, were in all directions quantity and quality. As has been strong so that lifting the Saudi economy from the ranks of nations and for the highest income in the world and was fast in a relatively short period of time.

This kind of companies developed in Saudi Arabia through the years and passed from generation to another starting from the first owner who had a piratical mentality and adventure and had an idea in the formation of business interests and worked hard to achieve the goal.

In family owned business, the business has passes from one generation to next with younger generation given training to lead the business and responsible to different duties from their parent over time [10].The second generation of family business life cycle begins when children partnership phase after the death of company founder or full inability to work or having to compromise on the administrative powers. For the second generation who is usually the eldest son who takes the role of the father and thus work will continue in the company less than the previous phase. In the evolution of the family firm, some appearance of family dispute over determining who will lead the company's third-generation. Each of the partners wants to be the leader which leads to some of the administrative complexities and difficulties in making strategic decisions necessary for the development and continuity and the survival of the company due this dispute for the most part to the absence of the unity of thought and orientation at the local level or the outside with similar companies. This study was aimed to find out the conflict resolution challenges in family owned business in Saudi Arabia.

2 METHODOLOGY

The scope of the study was the family owned businesses in Saudi Arabia. The main challenge would be extracting information from family members to talk about their issues sincerely.

The methodology was included quantitative and qualitative methods to test the collected the data. The survey was using to collect the data. In addition, the business owners in different positions are included in the interview. Meanwhile, secondary data was collected through academic journals.

The data also collected using an online survey due to cost saving and time consumption. Besides, online survey also easy to understand and the respondents could contact the researcher for further explanation.

The sample would be 100 employees from major family owned businesses in Jeddah. The employees combined both management and normal staff for variation of answer.

3 RESULT AND DISCUSSION

Figure 1 shows that 36 respondents (36%) aged between 40 years and 50 years old and 28 respondents aged between 30 years and 40 years old. Meanwhile, 17 respondents aged between 20 years and 30 years old and 19 respondents aged between 50 years and 60 years old.

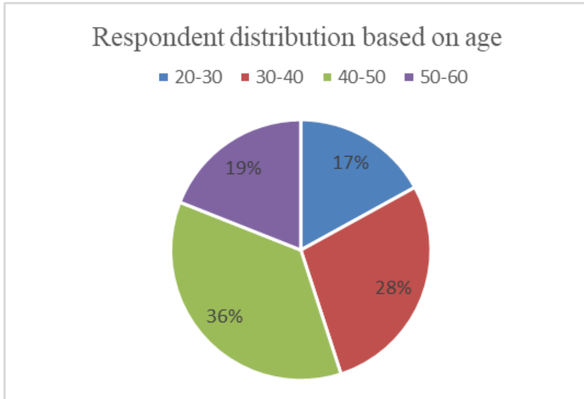

Figure 1: Respondent distribution based on age

Figure 2 shows that most respondents were management types which total of 85 respondents. This result indicated family owned business is mostly managed by family members. Meanwhile, remaining 15 respondents are young age and still gain experience. The management meant the control and indicated that family owned business is controlled and managed through the family members.

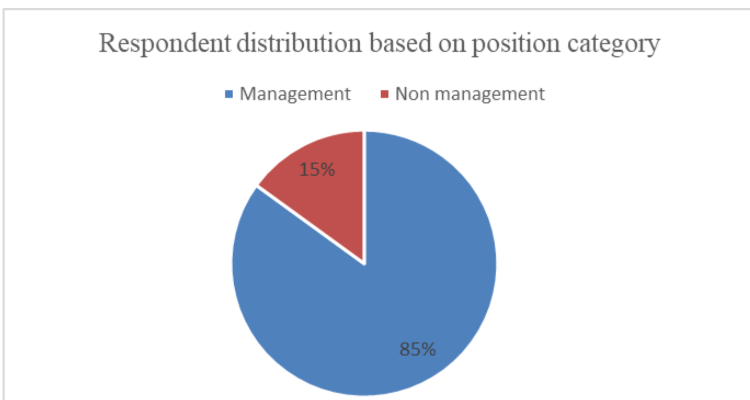

Figure 2: Respondent distribution based on position category

Figure 3 shows that 55 respondents stated the decision-making depend on the specialty in the work field. This brings professionalism to the company and eliminates risks of conflict. Meanwhile, 42 respondents who agreed that decision-making depends on position title because the position supports the specialty. Therefore, the person has decision-making power in the company depends on the specialty and position title.

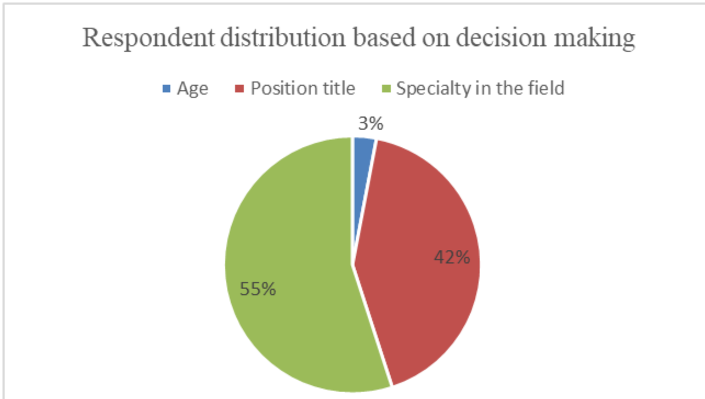

Figure 3: Respondent distribution based on decision making

Figure 4 shows that 87 respondents stated that the respondents will take the decision based on family interest rather than for personal gains. Furthermore, 2 respondents who chose their own interests and believed that not getting fair compensation based on their qualifications. Anyway, the interests of a family member may not be aligned with the interest of the business. For example, if a family member wants to be president but is not as competent as a non-family member, the personal interest of the family member and the well-being of the business may be in conflict. On the other hand, the interests of the entire family may not be balanced with the interests of their business. For example, if a family needs its business to distribute funds for living expenses and retirement but the business requires those to stay competitive, the interests of the entire family and the business are not aligned.

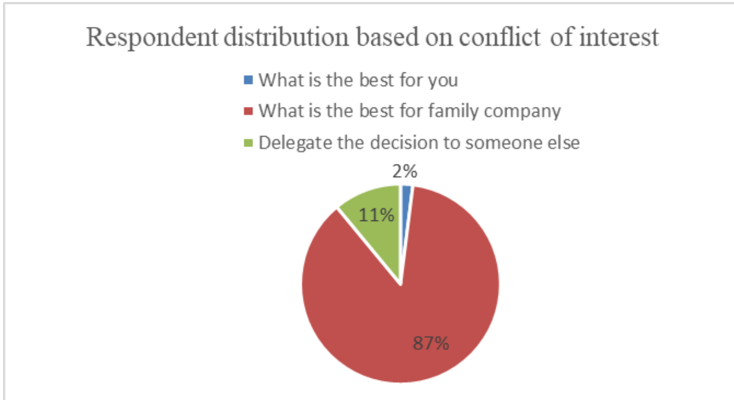

Figure 4: Respondent distribution based on conflict of interest

Finally, the interest of one family member may not be aligned with another family member. For example, a family member who is an owner may want to sell the business to maximize their return, but a family member who is an owner and a manager may want to keep the company because it represents their career and they want their children to have the opportunity to work in the company.

Figure 5 shows that 36 respondents had emotional conflict and 19 respondents had emotional conflict sometimes. Meanwhile, 45 respondents did not have emotional conflicts. The challenge faced by family businesses and their stakeholders was to recognize the issues that they face, understand how to develop strategies to address them and more importantly, to create narratives or family stories that explain the emotional dimension of the issues to the family.

The most intractable family business issues were not the business problems the organization faces but the emotional issues that compound them. Many years of achievement through generations can be destroyed by the next, if the family fails to address the psychological issues they face.

The psychodynamic concepts will help to explain behavior and will enable the family to prepare for life cycle transitions and other issues that may arise. Family-run organizations need a new understanding and a broader perspective on the human dynamics of family firms with two complementary frameworks, psychodynamic and family systematic.

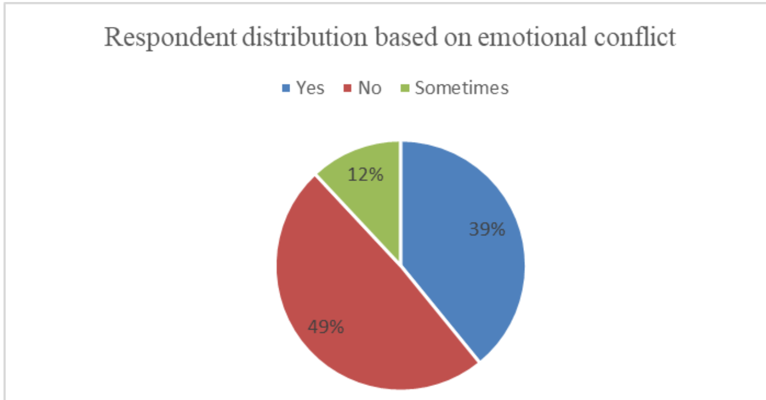

Figure 5: Respondent distribution based on emotional conflict

Figure 6 shows that 55 respondents would prefer hiring family members and 38 respondents would prefer new hiring with competency and skills. Meanwhile, 7 respondents preferred give HR authority in hiring new position.

There are a number of common issues that most family businesses face at one time or another. Attracting and retaining non-family employees can be problematic because such employees may find it difficult to deal with family conflicts on the job, limited opportunities for advancement, and the special treatment sometimes accorded family members.

In addition, some family members may resent outsiders being brought into the firm and purposely make things unpleasant for non-family employees. But outsiders can provide a stabilizing force in a family business by offering a fair and impartial perspective on business issues.

Family business leaders can conduct exit interviews with departing non-family employees to determine the cause of turnover and develop a course of action to prevent more resignation.

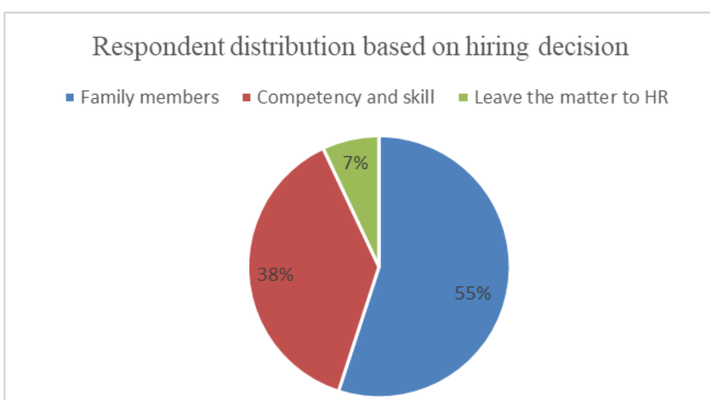

Figure 6: Respondent distribution based on hiring decision

Figure 7 shows that 82 respondents would like to hire new employee to help the company and 18 respondents preferred transferred to another position. Many family businesses also have trouble determining guidelines and qualifications for family members hoping to participate in the business. Some companies try to limit the participation of people with certain relationships to the family, such as in-laws, in order to minimize the potential for conflicts. Family businesses often face pressure to hire relatives or close friends who may lack the talent or skill to make a useful contribution to the business. A strict policy of hiring only legally qualified personnel to fill existing vacancies can help companies avoid such problems, but only if the policy must be implemented without exception. If a company is forced to hire a less-than-desirable employee, analysts suggest providing special training to develop a useful talent, enlisting the help of a non-family employee in training and supervising, and assigning special projects that minimize negative contact with other employees.

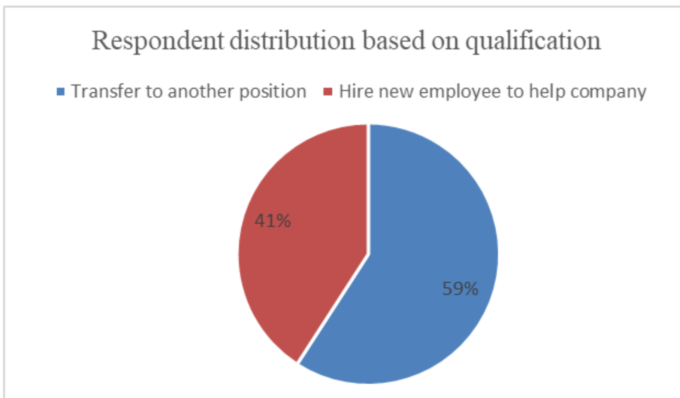

Figure 7: Respondent distribution based on qualification

Figure 8 shows that 58 respondents stated the salary was paid based on company salary scale and 23 respondents stated the salary was paid based on family member position. Meanwhile, 19 respondents stated salary payment based on decision making.

Another challenge frequently encountered by family businesses involves paying salaries and dividing the profits among the family members who participate in the firm. A small business is able to use a relatively large percentage of profits for expansion. Nevertheless, some family members especially those who are owners but not employees of the company may not see the value of expenditures that reduce the amount of current dividends they receive.

This is a source of conflict for many family firms and an added level of difficulty in making the necessary investments into the business for continued success.

The salaries are distributed fairly among family and non-family employees, business leaders should match the employee to industry guidelines for each job description. When additional compensation is needed to reward certain employees for their contributions to the company, fringe benefits or equity distributions can be used.

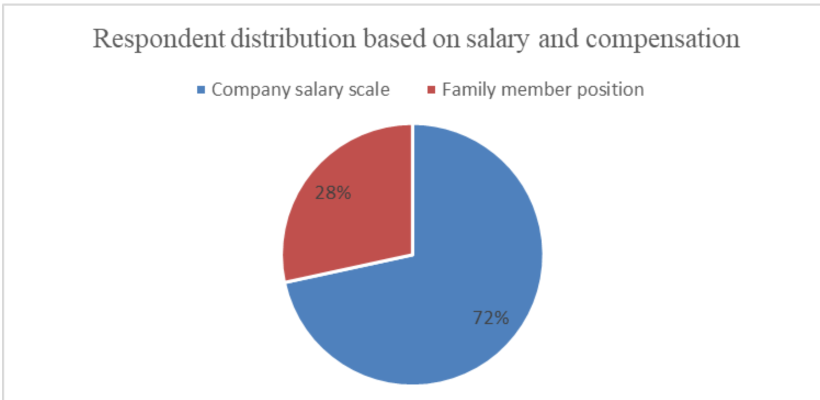

Figure 8: Respondent distribution based on salary and compensation

Figure 9 shows that 56% of respondents said that the company has written guidelines for the succession process. This happens mostly in large companies where Corporate Governance is prevailing. Other categories of 26% and 18% respectively were mainly the procedure in smaller companies which culture was the dominant feature.

Another important issue relating to family businesses is succession in determining who will take over leadership and ownership of the company when the current generation retires or dies. The key to avoiding conflicts about who will take over a business is having a well-defined plan in place. A family retreat, or a meeting on neutral ground without distractions or interruptions, can be an ideal setting to open discussions on family goals and future plans, the timing of expected transitions, and the preparation of the current generation for stepping down and the future generation for taking over.

When succession is postponed, older relatives who remain involved in the family firm may develop a preference for maintaining the status quo. These people may resist change and refuse to take risks, even though such an attitude can inhibit business growth.

The business leaders should take steps to gradually remove these relatives from the daily operations of the firm including encouraging their involvement in outside activities, arranging for selling some of their stock or convert become preferred shares or possibly restructuring the company to dilute their influence.

There are many steps that family business leaders can take to avoid falling into these common traps. Having a clear statement of goals, an organized plan to accomplish the goals, a defined hierarchy for decision-making, an established plan for succession, and strong lines of communication will help to prevent many possible problems from arising.

All family members involved in the business must understand that their rights and responsibilities are different at home and at work. While family relationships and goals take precedence at home, the success of the business comes first at work.

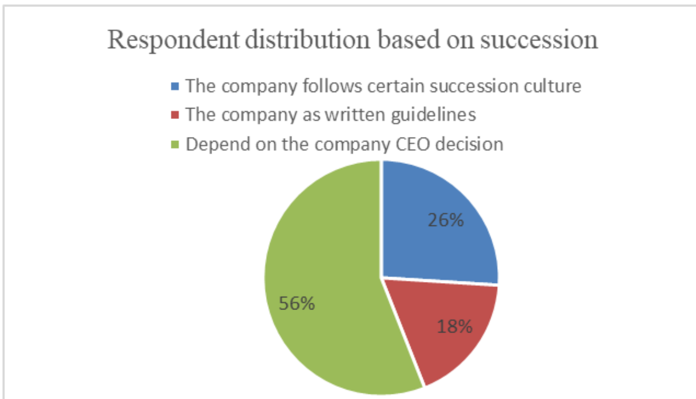

Figure 9: Respondent distribution based on succession

4 CONCLUSION

In conclusion, the findings showed challenges for conflict resolution in family business are numerous and includes mostly decision-making power, conflict of interests, emotional conflict, qualifications, salaries and compensation and succession. The recommendation to eliminate the challenges included initiate dialogues, negotiate disagreements and solidify agreement.

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