

Saudi Family-Owned Businesses Generational Survival

Transforming Saudi Family Businesses for the Future

By

Cesar M. Chalhoub

Saudi Family-Owned Businesses Generational Survival: Transforming
Saudi Family Businesses for the Future

By Cesar M. Chalhoub

This book first published 2025

Ethics International Press Ltd, UK

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

Copyright © 2025 by Cesar M. Chalhoub

All rights for this book reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical photocopying, recording or otherwise, without the prior permission of the copyright owner.

Print Book ISBN: 978-1-83711-127-5

eBook ISBN: 978-1-83711-128-2

Table of Contents

Dedication	vii
Acknowledgments	viii
Chapter 1: Introduction.....	1
Introduction to the Problem	1
Governance Failures in Family-Owned Enterprises: A Saudi Case Study	6
Research Objective.....	13
Chapter 2: Literature Review	18
Governance Structure in the Family-Owned Business	26
Generational Leadership Transfer in the Family-Owned Business.....	46
Family-Owned Business in Saudi Arabia	56
Chapter 3: Conceptual Framework	73
Key Leverages in Family Business Practice Areas.....	73
Family Enterprise	76
Ward and Aronoff's Four Phases of the Succession Process	97
Chapter 4: Research Methodology and Design.....	109
Chapter 5: Results	137
Themes Discovered	140
Chapter 6: Conclusions and Recommendations	155
Chapter 7: Family-Owned Business Institutionalization Transformation Plan.....	162
Chapter 8: Phase One of The Transformation Plan: Preparing the Groundwork.....	168
Chapter 9: Phase Two of The Transformation Plan: Capacity Building and Active Engagement	180

Chapter 10: Phase Three of The Transformation Plan: The Road to Institutionalization199

Chapter 11: Phase Four of The Transformation Plan: The Roadmap to Effective Implementation213

 Step Five of Phase Four: Mastering, Documenting, and Reporting233

Closing Message: The Journey to Enduring Generational Success237

References.....241

Dedication

This work is dedicated to my family, whose steadfast support has been the cornerstone of my academic journey. I extend my heartfelt gratitude to my spouse, whose unwavering encouragement and passion for learning have been an enduring source of inspiration. To my cherished sons, Gebran, Jawad, and Tareq, your constant support and belief in me have been a driving force, especially during challenging times. Thank you for being my pillars of strength and motivation.

Acknowledgments

I extend my deepest gratitude to the esteemed members of my research journey, Dr. Ken Goldsmith and Dr. Dalal Alrubaishi, whose invaluable guidance and steadfast support have been pivotal to the success of this endeavor. Their expertise, mentorship, and unwavering commitment have profoundly shaped the course of my research.

Dr. Ken Goldsmith, your profound insights and comprehensive understanding of the research process have been instrumental in steering my progress. Your constructive feedback and guidance have significantly enriched the quality and depth of my work, and I am sincerely grateful for the time and effort you have dedicated to enhancing my academic experience.

Dr. Dalal Alrubaishi, your deep knowledge and nuanced perspectives within the field have greatly influenced the scope and rigor of my research. I am profoundly appreciative of your patience, and encouragement.

I also extend my heartfelt thanks to Dr. Josiane Fahed-Sreih for her pioneering research on entrepreneurial development and family business dynamics, particularly in Lebanon. Her work has provided invaluable context and insight into the cultural factors shaping family enterprises, contributing significantly to my understanding of this critical area.

To my peers and colleagues, I am deeply grateful for the enriching intellectual exchanges and stimulating discussions that have challenged and inspired me to explore new dimensions in my research.

Finally, I would like to express my sincere appreciation to the research participants whose contributions were essential to the completion of this project. Your support and collaboration were indispensable to its success.

Chapter 1

Introduction

Introduction to the Problem

Family-owned businesses (FOBs) constitute a vital segment of the global economy, contributing significantly to overall GDP and serving as primary employers for a substantial portion of the workforce. According to the Family Business Institute, these enterprises collectively account for over 70% of the global GDP and employ more than 50% of the worldwide workforce. Despite their undeniable economic importance, FOBs face distinctive challenges concerning generational survival, particularly within the context of the Kingdom of Saudi Arabia. In this regard, it is imperative to delve into the intricacies of family-enterprise governance structures to strengthen their long-term viability and continuity.

The work of John L. Ward, a renowned expert in the field of family businesses, underscores the persistent challenges faced by the FOBs in maintaining continuity across multiple generations. Ward's research as articulated in his publications emphasizes the alarmingly low survival rates of FOBs beyond the second and third generations. Citing the Family Firm Institute's study, Ward highlights that only approximately 30% of FOBs survive into the second generation, with a significant decline to 12% in the third generation and a mere 5% or less in the fourth generation and beyond (Ward, 1997). These sobering statistics have reverberated across academic and practitioner communities, calling for a comprehensive examination of the factors contributing to this trend.

Professor John Davis introduced the concept of the "family enterprise" to encapsulate the comprehensive scope of activities that define and perpetuate a family's identity and influence. Recognizing the multidimensionality of family enterprises, Davis emphasizes the need for robust leadership, management, and governance frameworks to mitigate challenges that may affect both the enterprise's operations and the well-being of the family itself. To ensure sustained productivity and alignment with the family's overarching objectives, managing the family enterprise extends beyond

immediate business operations to encompass a holistic approach to the family's collective mission.

The adage “from shirtsleeves to shirtsleeves in three generations” vividly portrays the typical trajectory experienced by many family enterprise systems. It characterizes the common phenomenon wherein wealth accumulates rapidly in the hands of the first-generation founder, remains relatively stable in the second generation, and encounters a significant decline or dissipation by the third generation. However, as various experts underscore, this cycle is not an inevitable fate but rather a consequence of specific choices and strategies adopted within the governance structure of the family enterprise.

To mitigate the challenges posed by the three-generation rule, the Family Enterprise Sustainability Framework has been proposed, emphasizing three pivotal components: Growth of Assets, Family Talent, and Family Unity. Achieving sustained growth of assets involves adopting a diversified portfolio approach and making bold informed decisions to foster continuous growth and maintain financial discipline. Simultaneously, nurturing and harnessing the collective talent within the family, along with fostering a sense of unity, are crucial factors contributing to the successful perpetuation of the family enterprise over multiple generations.

Understanding the multifaceted nature of the term “family” within the context of FOBs is crucial. It encompasses not only blood relations but also extends to in-laws, blended families, adoptive members, and individuals closely associated with the business. This creates a complex network that significantly influences the dynamics of ownership and management. Similarly, the concept of “ownership” within the realm of FOBs is multifaceted, accommodating diverse scenarios, including the involvement of private equity partners, different classes of stock, and the incorporation of trusts, reflecting the intricate web of ownership structures prevalent in FOBs.

The term “business” within the context of FOBs is not limited to a single enterprise but often encompasses multiple businesses, holding companies, joint ventures, or even family offices, signifying a broader spectrum of economic activities managed and influenced by the family. Therefore, understanding the dynamics of the business circle is crucial for compre-

hending the complexities involved in managing diverse economic interests and ensuring their sustainable growth and continuity across generations.

Considering these critical considerations, this book aims to address the existing gaps in understanding the governance strategies within Saudi FOBs, specifically emphasizing the pivotal role of the three-circle model proposed by Professor John Davis. By investigating the intricate interplay between governance structures, succession planning, and the application of the three-circle model, the book endeavors to offer actionable insights and plans that can contribute to the enhanced sustainability and resilience of FOBs amidst generational transitions and evolving business landscapes. Through a multiple-case analysis of the current state of governance practices in Saudi FOBs, this book seeks to provide valuable findings and recommendations for transforming and optimizing the family dynamics and governance frameworks, thereby fostering long-term continuity and prosperity for these crucial economic entities.

The institutionalization transformation plan outlined in this book represents a journey toward enduring generational success for family-owned businesses. This journey reflects the commitment required to ensure the generational survival of family enterprises, an endeavor that extends far beyond daily operations and financial success. It is about preserving legacy, aligning family values with business goals, and ensuring that future generations can build on a foundation of strong governance and leadership. Institutionalization is introduced as the key to enduring across generations, with a plan divided into critical phases, each aimed at methodically transforming family businesses into institutions capable of standing the test of time.

The journey begins with laying the foundation for institutionalization, focused on preparing the groundwork for this transformative process. This phase addresses critical elements such as clarifying the family's vision, values, and mission while identifying potential obstacles to institutionalization. Once the groundwork is laid, the focus shifts to capacity building and engagement, where the family's capacity for governance is strengthened, and members are actively involved in the institutionalization process. This phase emphasizes fostering a shared sense of purpose and unity, which is essential for sustaining the momentum of change.

The subsequent phase, the road to institutionalization, delves into the essence of the family firm and its future. This involves designing and implementing robust governance structures, such as family councils, boards of directors, and succession planning mechanisms, to address the unique challenges faced by FOBs. This phase also highlights the importance of performance metrics and feedback mechanisms in ensuring that governance structures remain effective and aligned with the family's evolving needs.

Finally, the roadmap to effective implementation emphasizes putting all plans and strategies into action. This phase recognizes that institutionalization is not a one-time event but an ongoing process requiring consistent effort and commitment. It involves embedding governance practices into the daily operations of the family enterprise and continuously refining them to adapt to changing circumstances. The book concludes with the path forward, acknowledging that the institutionalization journey does not end here. While the outlined phases provide a roadmap, the true work lies in the consistent, diligent application of these principles over time. Family-owned businesses are living, evolving entities, and their transformation requires ongoing attention, adaptation, and commitment.

Institutionalizing a family business is about far more than creating structures or adhering to best practices. It is about ensuring that the family's values, legacy, and long-term vision endure through generations. It is about equipping current and future leaders with the tools they need to not only survive but thrive in an ever-changing business landscape. By embracing the principles and strategies outlined in this book, family-owned businesses can lay the foundation for enduring success, ensuring their contributions to the global economy remain vital and impactful for future generations.

Problem Statement

The increasing dominance of family-owned companies, representing over 90% of registered businesses in Saudi Arabia, underlines their pivotal role in the nation's economy. These enterprises contribute significantly to the nation's GDP, foster job creation, and play a central role in driving innovation and entrepreneurship. Despite their proven profitability and contributions to the economic landscape, the long-term sustainability of family-owned companies remains a pressing concern. According to the Saudi

Ministry of Commerce and Investment, a disconcerting statistic reveals that merely 15% of family-owned companies successfully transition into the third generation (Sahni et al.). This stark reality underscores the need for immediate and effective strategies to address the underlying challenges threatening their longevity.

The primary issues impeding the sustainability of family-owned businesses are deeply rooted in governance inefficiencies, communication gaps, conflicts of interest, and the absence of comprehensive succession planning. Poorly defined governance structures often exacerbate internal conflicts, hinder decision-making processes, and compromise the alignment of family and business objectives. Additionally, the lack of clear communication channels within the family enterprise creates misunderstandings, which can further escalate into disputes that threaten the business's stability. Conflicts of interest arise when personal and professional roles overlap without clear boundaries, leading to decision-making that prioritizes individual gain over the collective good. Lastly, the absence of a well-structured succession plan creates uncertainty and vulnerability, particularly during generational transitions, leaving businesses ill-prepared to navigate leadership changes effectively.

Recognizing the critical need for solutions, the Saudi Ministry of Commerce and Investment has proposed a corporate governance guide as a proactive measure to address these challenges. This guide emphasizes the importance of instilling robust family and corporate governance systems, rules, and principles. At its core, the framework advocates for a system of checks, balances, and accountability, reinforced by ethical codes, to establish an effective corporate governance model (OECD). By adopting these measures, family-owned companies can build a foundation for sustainable growth and continuity, ensuring resilience in the face of generational shifts.

Several prominent family-owned enterprises in Saudi Arabia, such as the Muhaidib Company and the AlSubeaei family, serve as exemplars of effective governance practices. These companies have embraced corporate governance models that regulate the family, the family council, and the board of directors, striking a balance between family involvement and professional management. The composition of their boards, which include both family members and independent directors, demonstrates

a strategic commitment to fostering transparency, accountability, and long-term success.

However, a significant number of family-owned companies in Saudi Arabia have yet to adopt the corporate governance guide or implement any comprehensive governance framework. This disparity in governance practices has led to divergent outcomes, with some businesses achieving remarkable longevity and growth, while others succumb to internal discord and operational inefficiencies. By examining both failed and successful companies, it becomes possible to discern the critical impact of family and corporate governance practices on business sustainability. The insights gleaned from such analyses can inform the development of tailored strategies to ensure that family-owned companies not only survive but thrive across generations.

Governance Failures in Family-Owned Enterprises: A Saudi Case Study

The collapse of the **International Bank Corporation (TIBC)**, a prominent Saudi family-owned enterprise, in 2010, marked a significant case study that highlighted critical governance and management failures within the company. Founded by the Algosaibi brothers, also known as the Ahmad Hamad Algosaibi & Brothers Company (AHAB), TIBC encountered a tumultuous downfall during its second generation of management, as reported by *The Economist* on February 18, 2010. <https://www.economist.com/business/2010/02/18/a-mystery-in-the-gulf>. Complications arose when the operations of TIBC were entrusted to one of the Algosaibi brother's son-in-law, while the Algosaibi brothers themselves opted for a hands-off approach, refraining from active oversight or intervention in the company's affairs.

The pivotal turning point occurred with the revelation of several fraudulent loans within TIBC, amounting to a staggering US \$2.2 billion, as uncovered by consultants from Deloitte, who were engaged to investigate the company's financial discrepancies. The insidious nature of the financial malfeasance exposed significant weaknesses within the internal control mechanisms and corporate governance structure of TIBC.

Moreover, the Alghosaibi family, alongside their engagement in TIBC, also operated a financial service catering to migrant workers known as the Money Exchange. The collapse of both TIBC and the Money Exchange in May 2009 caught the business community by surprise, shedding light on the scale of the financial mismanagement and subsequent defaults. The Alghosaibi brothers assert that the responsibility lies solely with their son-in-law, who allegedly controlled the finance division of TIBC and orchestrated the fraudulent loans. In contrast, the son-in-law refutes these allegations, claiming that he relinquished control of the company's financial operations in 2005.

The collapse of the Money Exchange, which was exclusively overseen by the same son-in-law, underscored the ramifications of excessive borrowing based on falsified documentation, leading to the depletion of the company's liquidity and overall assets, according to Nicholas Schmidle, *The Kings of the Desert*, April 6, 2015. Notably, the lack of prudent business judgment and corporate due diligence was evident in the actions of one of the co-founding Alghosaibi brothers, who, despite being hospitalized in the Intensive Care Unit, had purportedly authorized certain fraudulent loans issued by TIBC.

This case study emphasizes the critical importance of robust governance structures and ethical practices within family-owned enterprises. It underscores the necessity of implementing stringent oversight mechanisms, including effective internal controls, transparent financial reporting, and active family participation in key decision-making processes. Furthermore, the case serves as a cautionary tale, highlighting the potential consequences of unchecked authority and the imperative for a comprehensive understanding of the roles and responsibilities of family members involved in the management and oversight of critical business operations.

The intricate dynamics of family relationships intertwined with business operations within TIBC underscore the significance of fostering a culture of accountability, transparency, and integrity within the family-owned business context. By examining the factors that contributed to the collapse of TIBC and the subsequent legal disputes within the Alghosaibi family, this case study illuminates the critical nexus between effective governance practices, ethical decision-making, and the sustainable management of

family enterprises. It serves as a stark reminder of the enduring importance of upholding ethical standards and implementing robust governance frameworks to ensure the long-term viability and success of family-owned businesses in Saudi Arabia and beyond.

The Saudi BinLaden Group: A renowned construction company, has faced a series of setbacks, primarily stemming from a tragic incident during the construction at Mecca's Grand Mosque in 2015, according to John Hayward, Saudi Government Bans BinLaden Company after Mecca Crane Disaster available at <https://www.breitbart.com/national-security/2015/09/16/saudi-government-bans-bin-laden-company-mecca-crane-disaster>. The collapse of a crane resulted in significant casualties, attributed to factors such as high winds, lightning, and a lack of adherence to safety standards. Consequently, the company faced legal ramifications, with hundreds of lawsuits from victims. Moreover, the Saudi government banned the group from securing contracts, leading to a comprehensive review of ongoing projects by the Finance Ministry. Executives and board members were also prohibited from traveling abroad.

In the aftermath, the Saudi BinLaden Group initiated mass layoffs, intending to terminate 200,000 workers, according to Matt Smith "Saudi Builder BinLaden to cut about 15,000 jobs" November 24, 2015, available at <https://www.reuters.com/article/us-saudi-construction-binladin-idUSKBN0TD1ZZ20151124>. An indicative of the financial strain experienced by the company. Subsequent developments saw 300 workers striking in 2016, citing non-payment of wages for three months. The group's challenges were exacerbated by a reduction in government spending on infrastructure due to falling oil prices, impacting the company's financial stability.

Alhamrani: Founded by Sheikh Ali Alhamrani in 1960, Alhamrani initially thrived, expanding into various industries, including automotive, petroleum, and investment. However, after the founder died in 1976, conflicts emerged among his children, leading to a decline in the company's performance according to Lynton Tucker's "Alhamrani v Alhamrani. Trusts & Trustees" and Abdulrahman Almutaoha, both available at http://archive.aawsat.com/details.asp?article=11073&issueno=8007#.WvMgmS_MxE4. Family disputes escalated, culminating in intervention by the Crown Prince of Saudi Arabia and the Deputy Minister of Justice to facilitate reconcil-

iation. According to Argaam, Chairman of Alhamrani Group, “I am not a front for anyone and will invest 4 billion riyals within 5 years, August 11, 2009,” available at <http://gulf.argaam.com/article/articledetail/130794>. Ultimately, the stepsiblings decided to sell their shares to a single family member in 2009, who planned substantial investments.

Despite the optimistic plans, Alhamrani faced financial difficulties, struggling to pay employee salaries for over nine months. This downturn underscores the intricate challenges family businesses face, not only in terms of internal conflicts but also external economic pressures.

Records on Why These Family-Owned Companies Failed

The failures of family-owned companies, such as TIBC, the Money Exchange, and Alhamrani, underscore the critical importance of effective corporate governance in ensuring long-term sustainability and success. This case study analyzes the key reasons behind these failures, emphasizing the need for transparency, accountability, and succession planning within family-owned businesses.

- a. Unqualified Family Management:** One common issue identified in these case studies is appointing unqualified family members to managerial positions, based solely on trust rather than merit. This lack of professional evaluation and recommendation from independent directors can lead to “self-control” problems, where family executives act without accountability. Such unbridled control poses a significant risk of “private benefits extraction” and increased bankruptcy risk, contributing to heightened “debt agency costs” according to Tensie Steijvers & Wim Voordeckers, *Private Family Ownership and The Agency Costs of Debt*. Al-Laham and Zamil (2014)
- b. Corporate Governance and Risk Management:** The case study highlights the impact of corporate governance on risk management, using the Saudi BinLadin Group as an example. Despite a successful history, a breach in corporate governance principles, particularly in risk management, has put the company at risk. The lack of adherence to ethical principles and the hiring of unprofessional

employees have intensified the challenges. A robust corporate governance framework with standardized ethical principles plays a crucial role in managing risks.

- c. **Succession Planning and Conflict Resolution:** The failure of the Alhamrani companies highlights the importance of clear succession planning to prevent conflicts among family members. The absence of a well-defined succession plan led to exclusion and disputes within the family, affecting the company's performance.

Conclusion: The case studies of TIBC, the Money Exchange, and Alhamrani companies emphasize the critical role of Family and corporate governance in the success and longevity of family-owned businesses. By implementing transparent processes, ensuring accountability, and addressing issues related to succession planning, family-owned companies can enhance their resilience and preserve their legacy for future generations.

Implementing a corporate governance system with transparency, accountability, and checks and balances can mitigate these issues. Independent audits, both internal and external, should be conducted to uncover inappropriate activities by family members in management roles.

A clear policy for employment set by independent directors can ensure the hiring of qualified professionals, reducing the likelihood of unscrupulous behavior and risky decisions.

Establishing clear succession plans and open communication channels can mitigate conflicts among family members. Emotional engagement through effective communication helps family members understand their roles, fostering harmony and reducing the likelihood of disputes.

Cases of Successful Family-Owned Companies in Saudi Arabia

Family-owned businesses in Saudi Arabia represent a cornerstone of the nation's economy, embodying resilience, innovation, and continuity across generations. Two prominent examples of success stories within this context are the Al Muhaidib Group and Awab Holdings. Both exemplify the crit-

ical importance of effective governance, strategic foresight, and adaptive management in fostering sustainable growth and longevity.

The Al Muhaidib Group: A Legacy of Diversification and Resilience Established in 1946, the Al Muhaidib Group initially concentrated its operations on construction materials, reflecting the Kingdom's developmental priorities during the mid-20th century. As highlighted in McKinsey & Company's Perspectives on Founder- and Family-Owned Businesses (October 2014). The group soon expanded into the food industry by 1959, marking the beginning of its diversification journey. Over subsequent decades, the Al Muhaidib Group evolved into a multifaceted investment company, boasting stakes in prominent entities such as the Savola Group, a leader in Saudi Arabia's sugar and oil supply markets. Additionally, the group formed strategic alliances with financial powerhouses like the Saudi British Bank (SABB) and HSBC Saudi Arabia, further diversifying its economic footprint.

Today, the Al Muhaidib Group oversees operations across a wide array of industries, including insurance, power, real estate, private equity, steel, hardware, and aluminum. This strategic diversification has cemented its reputation as a versatile and resilient player in Saudi Arabia's economic landscape. Employing approximately 15,000 individuals and managing over 200 companies, the group has demonstrated its ability to sustain growth amidst evolving market dynamics.

The group's success is deeply rooted in its governance practices and the visionary leadership of Sulaman Abdulkadir Al-Muhaidib, the founder's son and current chairman. Under his stewardship, the organization has upheld its founding values while embracing modern practices. A notable element of the group's governance strategy is its emphasis on cultivating a culture of career development. The chairman's journey, characterized by hands-on experience and a commitment to higher education serves as a blueprint for merit-based progression within the company. This approach ensures that leadership transitions are seamless and grounded in a deep understanding of the company's core values and operational intricacies.

Furthermore, the Al Muhaidib Group's proactive approach to talent acquisition underscores its commitment to sustaining excellence. By drawing from both the family and the wider labor market, the group fosters a

diverse talent pool equipped to navigate complex challenges. Governance restructuring, including the appointment of independent directors, reflects a strategic commitment to enhancing transparency and accountability. This forward-thinking governance model ensures that the group remains well-positioned to adapt to changing market conditions and sustain its legacy for future generations.

Awab Holdings: A Transformation Journey. Awab Holdings began its journey in 1977 as Awab Trading Establishment, a trading and contracting company. Over the years, the company underwent significant transformations, evolving into a prominent holding company with diversified business interests spanning healthcare, information technology, real estate, and the automotive industry by 2010. As noted by Fida Chaaban in *Entrepreneur* (October 2014), available at <https://www.entrepreneur.com/article/240126>. This transition reflects the company's ability to adapt and thrive amidst shifting economic landscapes.

Under the founder's leadership, Awab Holdings established a strong foundation built on trust, collaboration, and strategic foresight. The founder played a pivotal role in facilitating a smooth leadership transition to the second generation, where his son assumed the role of CEO. This transition was underpinned by a comprehensive understanding of the business's core values and a commitment to fostering innovation and adaptability.

The new CEO embraced a hands-on approach to learning, actively engaging with the management team and immersing himself in the intricacies of the company's operations. This emphasis on continuous learning became a cornerstone of the company's culture, enabling employees at all levels to contribute to the organization's growth. By fostering an environment that encourages knowledge exchange and innovation, the CEO ensured that Awab Holdings remained agile and responsive to market demands.

One of the key elements of Awab Holdings' success is its robust governance framework. The CEO implemented a dual-board structure comprising shareholder representatives and management professionals, ensuring a clear delineation of roles and responsibilities. This system of checks and balances promotes transparency and aligns business strategies with long-term objectives. Furthermore, the company established clear accountabil-

ity mechanisms for all employees, including family members, fostering a culture of mutual respect and shared commitment.

Awab Holdings' proactive approach to governance and strategic planning has positioned the company as a model for family-owned enterprises in Saudi Arabia. By prioritizing professional management practices and emphasizing the importance of clear communication and accountability, the company has created a resilient framework capable of sustaining growth and navigating generational transitions.

Lessons in Success: The journeys of the Al Muhaidib Group and Awab Holdings offer invaluable insights into the factors driving the success of family-owned businesses in Saudi Arabia. Both companies illustrate the importance of robust governance structures, strategic diversification, and a commitment to nurturing talent. By fostering a culture of transparency, accountability, and innovation, these organizations have demonstrated their ability to thrive in a dynamic and competitive business environment.

Moreover, these success stories highlight the critical role of leadership transitions in sustaining family businesses. By investing in the professional development of successors and fostering a culture of continuous learning, both companies have ensured the seamless transfer of leadership across generations. Their experiences underscore the value of balancing family involvement with professional management to achieve long-term sustainability.

In conclusion, the Al Muhaidib Group and Awab Holdings exemplify the potential of family-owned businesses to contribute significantly to Saudi Arabia's economy. Their commitment to governance excellence, strategic foresight, and talent cultivation serves as a blueprint for other family enterprises aspiring to achieve enduring success across generations.

Research Objective

This research aims to critically evaluate the influence of family and corporate governance practices on the sustainability and success of family-owned businesses in Saudi Arabia. By examining the divergent trajectories of both

successful and failed enterprises, this study seeks to uncover the critical risk factors and challenges that impact the effectiveness of governance structures and their implications for long-term business survival. Through an in-depth analysis, it will explore how governance practices shape decision-making, conflict resolution, succession planning, and overall organizational resilience, providing a nuanced understanding of their role in business sustainability.

The study focuses on identifying key governance strategies employed by successful family-owned businesses and contrasts them with the shortcomings observed in less successful entities. This comparative approach highlights actionable insights and practical recommendations for implementing effective governance models tailored to the unique dynamics of family-owned enterprises. By examining governance structures, communication frameworks, conflict management approaches, and succession planning processes, the research endeavors to offer a roadmap for fostering continuity, adaptability, and growth.

Furthermore, the research adopts a multiple case study methodology to provide a comprehensive perspective on the interconnectedness of family and corporate governance practices. It underscores the importance of commitment, accountability, and strategic alignment in ensuring the perpetuation of family-owned businesses across generations. By delving into real-world examples, the study aims to distill best practices and critical lessons that can guide family businesses in navigating challenges and leveraging opportunities within Saudi Arabia's dynamic economic landscape.

Ultimately, this research aspires to serve as a resource for family business leaders, policymakers, and scholars, offering evidence-based recommendations to bolster the resilience, longevity, and prosperity of family-owned companies in Saudi Arabia. Through its findings, the study seeks to contribute meaningfully to the discourse on sustainable business practices in the region.

Research Questions & Methodology

Research Questions

1. What are the implications of familial involvement in the governance and operational strategies of Saudi family-owned **businesses**, and how can the delicate balance between familial relationships and the demands of efficient business management be effectively managed?
2. What are the optimal and effective family and corporate government structures, models, and robust practices that can effectively manage and balance the intricate interplay between family dynamics and business operations?
3. How to transform the family-owned business into an institutionalized family enterprise?

Methodology

Understanding the complexities of family-owned businesses (FOBs) within Saudi Arabia requires a detailed exploration of the unique factors that influence decision-making processes, organizational structures, and strategic direction. The cultural, social, and economic landscape of Saudi Arabia plays a significant role in shaping these enterprises. This research aims to examine family structures and dynamics, governance models, and operational practices to provide actionable insights that mitigate risks and optimize functionality. Ultimately, the findings will contribute to cultivating a transformation plan to enhance the sustainability of Saudi FOBs, ensuring their integral role in the country's economic development and business ecosystem.

A comprehensive multiple-case qualitative research approach will be employed to address the multifaceted dimensions of family-enterprise dynamics and governance practices. This methodology is well-suited for exploring the complex and context-specific challenges inherent in family businesses, enabling an in-depth understanding of the factors shaping their governance and operational strategies. By leveraging qualitative methods,

the research will provide a rich, holistic view of the risks, opportunities, and best practices associated with governance in Saudi FOBs.

A key component of the research will involve conducting in-depth interviews and focus group discussions with various stakeholders. These stakeholders include family members actively involved in the business, senior executives responsible for operational leadership, and external advisors providing strategic guidance. By engaging these diverse perspectives, the study will uncover nuanced insights into the challenges and risks posed by family dynamics, decision-making processes, and governance structures. This approach ensures that the research captures the multifaceted nature of FOB governance, identifying the unique vulnerabilities and strengths that influence long-term sustainability.

In addition to interviews and focus groups, the research will incorporate an extensive review of peer studies and empirical data. This will involve analyzing case studies of Saudi FOBs, governance frameworks, and operational practices to identify patterns and correlations. By examining the interplay between familial involvement, dynamics, and governance models, the study aims to uncover deficiencies, risks, and best practices. This analysis will illuminate how family dynamics impact decision-making, conflict resolution, and the alignment of personal and professional goals within the business.

To achieve a comprehensive understanding, the research will employ qualitative data analysis techniques, including thematic analysis, pattern recognition, and comparative evaluation. This process will enable the identification of key governance and structural risks, offering actionable insights into the factors driving success or failure in Saudi FOBs. The research will also explore the implications of cultural and social norms, providing context-specific recommendations for developing effective governance models tailored to Saudi Arabia's unique environment.

Another critical aspect of the methodology is its focus on best practices for fostering sustainability. By analyzing successful family-owned enterprises that have effectively navigated governance challenges, the research will identify transferable strategies that can be adapted to other FOBs. This analysis will highlight the role of governance structures, accountabil-

ity mechanisms, and strategic planning in mitigating risks and ensuring long-term success. Furthermore, the study will examine the critical role of succession planning in preserving intergenerational wealth and business continuity, emphasizing the importance of structured leadership transitions and professional management practices.

The research will also delve into the implications of governance failures, drawing on real-world examples of businesses that have struggled or collapsed due to inadequate governance structures. By understanding these failures, the study will provide a balanced perspective, identifying both risks to avoid and strategies to adopt. This dual focus on successes and failures will enhance the relevance and applicability of the findings, offering practical solutions for Saudi FOBs.

In conclusion, the research methodology reflects a strategic approach to examining the intricate relationship between family dynamics and business operations within Saudi FOBs. By leveraging qualitative methods, the study seeks to uncover actionable insights into the risks and opportunities inherent in these enterprises. The goal is to develop tailored family transformational governance frameworks that align with Saudi Arabia's cultural, social, and economic realities. By doing so, the research aims to contribute to the sustainability and growth of Saudi FOBs, ensuring their continued role as vital contributors to the nation's economic prosperity.

Chapter 2

Literature Review

Defining Family-Owned Businesses (FOBs)

Family-owned businesses (FOBs) have been a focal point of scholarly inquiry for decades. Despite their significant presence and impact on economies worldwide, a universally accepted definition remains elusive. This lack of consensus has led to conceptual ambiguity and inconsistencies in academic discourse (Aronoff & Ward, 1995; Chrisman et al., 2012). Scholars have proposed various frameworks to characterize FOBs, often highlighting different attributes such as ownership structure, family involvement, and generational continuity (Gómez-Mejía et al., 2007; Miller, 2014). These variations reflect the complexity and diversity inherent in FOBs, underscoring the need for nuanced perspectives to capture their essence.

A common thread in the literature is the emphasis on controlling family ownership and active involvement in managerial decisions as defining traits of FOBs (Gómez-Mejía et al., 2007; Miller, 2014). Some definitions expand on this by considering the number of family members actively participating in the business, the extent of family control, and the presence of intergenerational transfer (Aronoff & Ward, 1995; Chrisman et al., 2012). These criteria highlight the interplay between family influence and business operations, shaping the identity and strategic direction of FOBs.

Beyond structural characteristics, researchers have identified several behavioral and cultural attributes that distinguish FOBs. Emotional attachment to the business, a strong commitment to family unity, and a long-term orientation in decision-making are frequently cited as hallmarks of family firms (Chrisman et al., 2012; Sharma, 2004). These elements not only influence how FOBs operate but also create unique challenges, such as succession planning, governance complexities, and the management of family-based conflicts. Addressing these challenges requires tailored strategies that balance the interests of the family and the business.

Chua, Chrisman, and Sharma have contributed significantly to the discourse by advocating for a behavioral definition of FOBs. They argue that familial behaviors and interactions within the business context are central to understanding the identity and essence of these enterprises. This perspective moves beyond static ownership structures to explore how family dynamics, values, and relationships influence business operations and strategic outcomes. Their work underscores the importance of recognizing FOBs as dynamic entities shaped by both economic and familial considerations.

Another notable contribution to the literature is the concept of "Famili-ness," introduced by Habbershon and Williams, which captures the unique dynamics that define family firms (Astrachan et al., year). Familiness refers to the distinctive resources and capabilities arising from the interplay of family and business systems. It reflects the degree of family influence on ownership, management, and governance, highlighting how familial involvement can be both a strength and a vulnerability. High levels of familiness often indicate a deep integration of family values and practices into the business, shaping its strategic direction and operational ethos.

In Saudi Arabia, the Ministry of Commerce and Investment has offered a localized definition of FOBs through its corporate governance guide for family companies <https://www.mci.gov.sa/LawsRegulations>. This definition emphasizes the central role of family ownership and management, framing FOBs as enterprises whose identity and trajectory are significantly shaped by familial involvement. The Ministry's perspective aligns with global scholarly insights while addressing the specific cultural, social, and economic dimensions of the Saudi business landscape.

Recognizing the pivotal role of FOBs in driving economic growth, researchers have increasingly focused on their defining characteristics and unique challenges. While the absence of a universally agreed definition persists, the literature has converged on several core attributes, including family control, intergenerational leadership transitions, and the integration of familial values into business operations. These features not only differentiate FOBs from other organizational forms but also influence their resilience and adaptability in a rapidly changing business environment.

Despite their strengths, FOBs face a distinct set of challenges that stem from the overlap of family and business systems. Succession planning is often cited as a critical concern, with many FOBs struggling to navigate leadership transitions effectively. Governance issues, such as the lack of formal structures and accountability mechanisms, further complicate their operations. Additionally, conflicts arising from family dynamics can undermine decision-making and jeopardize business stability. These challenges highlight the need for robust governance frameworks and strategic planning to ensure the sustainability of FOBs.

This research aims to navigate the complex terrain of FOBs by exploring their multifaceted nature and the interplay between family dynamics and business operations. Through a comprehensive review of the literature and empirical analysis, the study seeks to provide actionable insights into the defining features, challenges, and opportunities of FOBs, with a particular focus on Saudi Arabia. By addressing the implications of familial involvement in governance and operational strategies, this work aspires to contribute to the broader discourse on FOBs, offering practical recommendations to enhance their sustainability and impact within the global economic fabric.

Family-Owned Business Stages

Family-owned businesses (FOBs) often follow a lifecycle described by the adage: “The first generation builds the business, the second generation ‘milks’ or ‘harvests’ it and the third generation must either auction what is left or start anew.” This widely recognized pattern encapsulates the challenges and transitions these enterprises face over time. To better understand these dynamics, researchers have developed models to describe the stages that FOBs typically undergo throughout their lifespan. These models highlight the unique challenges and governance issues that arise at each phase, emphasizing the need for strategic planning and structured governance to ensure longevity.

FOBs generally evolve from humble entrepreneurial beginnings. In their initial stages, decision-making tends to be centralized, with founders taking on all critical responsibilities. Over time, as the business expands and transitions into new generations, its complexity increases, introducing governance and management challenges. Each generation brings its own

perspectives, goals, and issues, which can either strengthen the business or lead to internal conflict. Several models, including the widely referenced framework by Davis et al. (1997), outline three key stages of family business evolution: (a) the Initial Stage during the founder's tenure, (b) the Middle Stage characterized by sibling partnerships, and (c) the Advanced Stage, often referred to as the cousin's confederate phase. However, not all FOBs progress through all three stages; some falter due to bankruptcy, acquisition, or other external factors before reaching the advanced stage.

- a. Initial Stage (The Founder's Era):** The initial stage of a family business is defined by the presence and influence of the founder(s). During this phase, governance structures are often informal, with decisions reflecting the founder's personality, vision, and leadership style. The founder typically retains full control over the business, making decisions independently without formal input from others. Efforts to establish policies for governance or management are usually limited to articulating a general family vision and mission for the company.

Key challenges in this phase include leadership transition, succession planning, and estate planning. The founder must plan for the future, ensuring that their vision and leadership legacy are effectively passed on to the next generation. However, since the business is still in its early stages of governance development, these issues are often addressed informally or delayed, creating potential risks for future transitions. The lack of formal structures during this stage may work in the short term but can lead to complications as the business grows and becomes more complex.

- b. Middle Stage (Sibling Partnership):** As the business transitions to the second generation, it enters the middle stage, often referred to as the "sibling partnership" phase. At this point, the founder's children or immediate successors take on management and leadership roles. The involvement of multiple family members necessitates the development of formal policies to manage family dynamics and ensure equitable governance.

One critical component during this stage is the establishment of

a family employment policy. This policy defines the terms and conditions for family members working within the business, including entry criteria, roles and responsibilities, retention strategies, and exit protocols. It also addresses how family employees will be treated in comparison to non-family employees, ensuring fairness and professionalism.

In addition to employment policies, this stage requires a focus on fostering teamwork and harmony among siblings. Issues of succession planning remain crucial, as the family must identify and prepare the next generation of leaders. Maintaining the family's ownership of the business while ensuring professional management becomes increasingly challenging as interpersonal dynamics and differing goals come into play.

- c. **Advanced Stage (Cousin's Confederation):** The advanced stage of family business evolution emerges when the enterprise is managed and influenced by multiple branches of the family. This stage typically occurs two or more generations after the founder and is characterized by a significant increase in the number of family members involved. As a result, it is often referred to as the "cousin's confederation."

At this stage, the complexity of governance and management intensifies, requiring robust family governance policies. These policies are formalized in a family constitution, a comprehensive document that outlines the family's vision, mission, values, and roles within the business. The constitution also establishes guidelines for resolving conflicts, allocating resources, and maintaining alignment between the family and the business.

The issues at this stage extend beyond operational concerns to include broader stakeholder interests. These encompass corporate capital allocation, dividend policies, debt management, profit distribution, shareholder liquidity, and family conflict resolution. Clear communication and transparency become essential to manage the expectations of all stakeholders, both within the family and among external partners.

The family's ability to maintain a unified vision while adapting to the evolving needs of the business is critical for sustaining growth and success. Strong governance structures, combined with professional management practices, are essential for ensuring that the business can navigate generational transitions and external market challenges.

Conclusion: The lifecycle of family-owned businesses is marked by distinct stages, each with unique challenges and governance requirements. From the founder's hands-on control in the initial stage to the collaborative efforts of sibling partnerships in the middle stage and the complex governance structures of the cousin's confederation, the journey of a family business requires strategic planning, adaptability, and robust governance frameworks. Understanding and addressing the challenges at each stage are vital to ensuring the longevity and sustainability of family-owned enterprises, particularly in the context of Saudi Arabia's evolving business landscape.

Family-Owned Business Contributions to the Global Economy

Family-owned businesses (FOBs) represent a cornerstone of the global economy, contributing significantly to employment generation, fostering innovation, and driving sustainable economic growth. Their economic, social, and cultural impacts extend beyond measurable contributions, influencing the broader business ecosystem and promoting resilience in times of global uncertainty. This literature review synthesizes pivotal studies, highlighting the critical role of family businesses in shaping the global economic landscape.

The economic impact of family-owned businesses is monumental. According to the Global Family Business Index 2020, the top 750 family-owned businesses worldwide generated a combined revenue of \$9.1 trillion, employing over 30 million individuals. This underscores the enormous economic footprint of these entities, positioning them as essential contributors to global market stability. Supporting this, research by La Porta et al. (1999) and Carney (2005) estimates that family businesses contribute between 70% and 90% of global GDP, reinforcing their status as indispensable to economic sustainability. These businesses often dominate in emerging economies, where they play a crucial role in bridging gaps in

employment and industrial development, and in advanced economies, where they drive innovation and technological advancements.

Distinctive characteristics inherent in family-owned businesses enhance their contributions to the global economy. One such attribute is their long-term orientation. Unlike their non-family counterparts, which often focus on short-term profitability, family businesses prioritize longevity and inter-generational wealth preservation (Hebert et al., 2002). This forward-thinking perspective aligns with their strong emphasis on corporate social responsibility (CSR), which transcends profit-making to include broader societal welfare. Hebert et al. (2002) highlight how many FOBs actively integrate ethical considerations into their strategic objectives, embedding sustainability and community well-being at the core of their operations. This dual focus on profitability and societal impact positions them as key drivers of sustainable development globally.

The localized impact of family businesses is equally profound. By investing in local communities, collaborating with regional suppliers, and creating employment opportunities, FOBs reinforce regional economies and ensure economic stability (Chua et al., 2003). Hiebl (2013) notes that these businesses often act as pillars of their communities, fostering an ecosystem of mutual growth and collaboration. Their strong ties to local economies make them uniquely positioned to address regional challenges, providing solutions that align with community needs while enhancing their competitive edge.

Resilience is another hallmark of family-owned businesses, distinguishing them from non-family enterprises. Research by Miller & Le Breton-Miller (2017) demonstrates that FOBs consistently outperform their peers during economic downturns. Their resilience stems from a conservative financial approach, often characterized by low debt levels and high levels of retained earnings, which buffer them against external shocks. This commitment to reinvesting profits into the business ensures steady growth and adaptability, enabling FOBs to navigate complex economic environments with agility.

The governance structures of family-owned businesses further bolster their stability and effectiveness. Many FOBs adopt governance models that emphasize accountability and transparency, striking a balance between family involvement and professional management. Effective succession