International Journal of Economic Research

ISSN : 0972-9380

available at http: www.serialsjournal.com

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Volume 14 • Number 8 • 2017

Corporate Governance in Family Business: Evidence from Saudi Arabia

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Abstract: The paper investigates the corporate governance practice in the family owned business in Saudi Arabia. It has two objectives: first, to contribute to the scarce body of literature by exploring the corporate governance of the family firms in Saudi; secondly, to place the corporate governance of Saudi family firms within the international debate of the best practices of corporate governance mechanisms using the OECD principles. This was an exploratory and analytically descriptive study seeking to discover and unravel the process of corporate governance mechanisms in family business. The dominant research strategy and design of the study were largely quantitative. The primary data were collected by questionnaire and interviewing the purposively selected samples; respondents of founders and successors of Saudi-based family businesses which had minimum five years operation when this research was conducted. Moreover company's documentation and extended library research were used as secondary data as well as for validity and reliability checks. The results disclose the potential strengths and weaknesses of the existing corporate governance framework of the family-owned firms in Saudi and may have significant implications for other Gulf Corporation Countries. The Saudi family-owned firms are the backbone of the Saudi economy and are active in traditional family governance but the challenge for them is to move away from conservative, traditional, weak corporate governance mechanisms and become significant players in high value, mixed Islamic and International corporate governance standards and principles. This is an important managerial and public policy concern, given that they are the backbone of the Saudi economy. Although the literature on corporate governance on developed country family-listed companies is rich, only a few studies have examined family owned, non-listed corporate governance in the context of Middle East countries. Moreover, the study integrates the international commended governance principles developed by OECD, which was not done previously on Saudi Arabia.

Keywords: Corporate Governance, OECD Principles, Family Business, Saudi Arabia

I. INTRODUCTION

In recent years, corporate governance has proven to be a prominent academic subject for investigation in family business, not just from a general social point of view, but also from a scholarly perspective, attracting a great deal of attention from the practitioners, as well as in the academic research (Core *et al.,* 1999; Abu-Tapanjeh, 2006, Bebchuk *et al.,* 2009; Samra, 2016; Schmidt & Fahlenbrach, 2017). The subject has been studied and applied in different Industries and Countries as well. For example, Saad and colleagues (2016) investigated the relationship between corporate governance mechanisms with respect to institutional investors and BOD characteristics in Malaysia. Similarly, Kallianiotis (2012), studied the global financial crisis in Greece and suggested a better corporate governance mechanism was needed. The principles of Corporate governance has been adopted as an effective tool to deal with globalization and the cost of capital in the different industries. Shipping Industry is no exception, the findings of the study by Zampeta (2015), suggests that Corporate governance has been adopted to exploit the benefits of international integration of capital markets. Wahyudi *et al.,* (2016), examined the factors that are related to quality of corporate governance in Indonesia. They found that the larger the size of the company will have greater impact on the amount of information that can be disclosed to the public, so as to increase the degree of transparency in corporate governance quality improvement, thus firm size has a positive influence on the quality of corporate governance. A recent study by Ovsiannikov (2017), highlights the reforms and recent transformation in Japanese corporate governance which mainly incorporated key principles of Anglo-Saxon corporate law. Moreover, the financial Institutions have also attracted a great deal of research in the area of Corporate governance examined with Islamic perspective (Grais & Pellegrini, 2006; Hasan, 2008; Safieddine, 2009; Samra, 2016).

Different committees around the world have been formed and renovated again and again by business committees and business leaders to ensure that corporate governance was principle based (OECD, 2004). Hence, the Organization for Economic Co-operation and Development (OECD) principles endorsed by OECD ministers was born in 1999 and since then with its sound corporate governance system became an international benchmark for policy makers, investors, corporations and other stakeholders. This study aims to use the OECD principles (See Appendix 1) to explore corporate governance mechanisms as applied in family business in Saudi. The corporate governance specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spell out the rules and procedures for making decisions on corporate affairs.

Although there is some discrepancy in the figures noted by different studies, the majority of researchers agree that family businesses account for a substantial portion of the Saudi economy and have a significant impact on the economy as a whole (Bowman, 2007; Arabianbusiness.com, 2007; Billing, 2008;White, 2008c). Similar literature is found addressing the impact of family business on the economy of other nations as well. The study by Chau (1991) notes that family companies are influential in multiple industries in Korea, Taiwan, Hong Kong, and Japan. In the Middle East, more than 75 percent of businesses are family-run and they have combined assets of more than $1 trillion (Walid, 2008). In fact, according to regional experts, the majority of family business belongs to the Gulf Corporation Countries' (GCC) private sector economy and account for over 90 percent of all commercial activity in the GCC (Mernin, 2006). Even with the obvious prevalence of family firms in Saudi society, relatively little attention has been devoted to management

research to the family firm's unique and complex issues. This task is a fundamental issue in the quest to understand the dynamics of family-owned companies in the new Saudi developing economy.

It is widely accepted that 30 percent of family firms survive into the second generation of family ownership, with only 15 percent surviving into the third generation (Morris *et al.,* 1996:68). The case may even be worse in Saudi. As the corporate governance practices are directly related to the survivability of the companies, by surfacing out the persistent good corporate governance mechanisms of high performing firms the present study may offer implications for a good way of conduct for family owned business. Ritchie and Brindley, (2005) concludes that the introduction, growth and long-term survival of family businesses depend largely on the entrepreneurial abilities and the corporate good practices of the individuals owning and managing these businesses.

Saudi offers a rich base to undertake empirical research in the areas of corporate governance and family business management. The family stands at the heart of Saudi society with family and other in-group relationships having a significant influence on the lives of Saudi people, which in turn influences the pattern of conducting business in Saudi (Walid, 2008). The dominant non-governmental business structure in Saudi is the family-owned firm (White, 2008). Even the large holding companies are family owned in which important positions are occupied by family members. The diversity of family businesses and their performance make them a subject area worthy of exploration in corporate governance mechanism. Although the literature on corporate governance on developed country family-listed companies is rich, only a few studies have examined family owned, non-listed corporate governance in the context of Middle East countries. Moreover, the study integrates the international commended governance principles developed by OECD, which was not done previously on Saudi Arabia.

The paper is structured as follows: first, an introductory section, then, a literature review sections presents the past studies on corporate governance in the context of; the rights and obligations of shareholders; transparency, disclosure of information and auditing; the board of directors; executive management; and CG commitment, the role of stakeholders and corporate social responsibility in family owned business will be reviewed. Subsequently, a sample of 47 family-owned companies in Saudi is examined with respect to family, ownership, leadership and business issues to determine how the primary owning family can take a stake in the governance system of the firm. This paper highlights the rationale behind the exploration of corporate governance mechanisms in family business in this study. The sampling and methodology are described, and the results of the study explained. Conclusion is presented next with the theoretical and practical contributions of this study. The last section mentions its limitations and leads the way for future research.

II. LITERATURE REVIEW

Exploring the application of corporate governance is vital for the continuity and sustainability of the family owned businesses that support economic growth. According to many of the numerous definitions of family business, one of the unifying characteristics of the world's most common business is the desire to see it flourish into successive generations (Handler, 1990; Ward, 1987). Despite the prominence of this intention, the difficulty of this task and the consequential failure rate is profound and thoroughly documented in family business literature (Lansberg, 1988). However, current literature shows that family owned business with effective governance practices grow faster and live longer, as they are more likely to carry out strategic

and succession planning. The need for change has been brought up even a decade ago when it was pointed out to the need for family businesses to change their strategy, international managerial process, as well as the mindset of the top management (McDonald, 2001).

However, research in family business is challenging because of the overlap between two distinct fields, the business side characterized by objectivity and the family side characterized by emotions. Researchers have chosen different approaches for the exploration of corporate governance in family owned business. According to Huse (1998), the established view is to focus on an individual governance mechanism, such as the board of directors, and to investigate it separately from the other governance structures of the firm. However, when focusing the efforts on isolated mechanisms, one tends to ignore potential substitution effects within the same structure and interactions with the other governance bodies (Coles *et al.,* 2001). Bird *et al.,* (2003) noted that major topics on family business issues that have been covered by researchers are: succession, distinctiveness of family business, conflict, management/ strategy, helping family business, and macro issues. The approach chosen in the present paper combines the above-mentioned structural analyses of family business governance mechanisms using the OECD corporate governance principles.

(1) *The rights and obligations of shareholders*

The literature suggests two perspectives on stakeholder theory: a descriptive and normative view (Donaldson and Preston, 1995; Garriga and Mele, 2004; Lozano, 2005; Ulrich, 2008). The descriptive stakeholder approach identifies and classifies the different constituents of an organization without assigning any value statements regarding the legitimacy of their claims or their power (Lozano, 2005). Whereas Normative stakeholder theory goes further and grants stakeholder claims intrinsic value due to the moral rights of any individual affected by corporate conduct (Donaldson and Preston, 1995; Ulrich, 2008). Therefore, central questions of normative stakeholder theory consider rights and duties of the actors involved and how a just balance of concerns of different stakeholders can be achieved (Lozano, 2005; Fontrodona and Sison, 2006; Sison, 2008; Ulrich, 2008).

In the empirical study conducted by Spitzeck and Hansen (2010), the stakeholder governance practices of 46 companies were explored in a multiple comparative case analysis explaining the stakeholder engagement in decisions at the corporate level. The study also found out some important innovative approaches for providing diverse stakeholders with power to influence core business decisions.

Lately, there has been a debate on the shareholder versus stakeholder perspectives. The shareholder primacy has enabled managers of corporations, and in particular financial corporations, to siphon millions of dollars from companies on the brink of collapse (Bratton and Wachter, 2010). This phenomenon makes "shareholders, the primary bearers of losses incurred, emerge as victims along with the taxpayers" (Bratton and Wachter, 2010, p. 657), and it reinvigorates the debate around the purpose and role of the corporation in society. Mostovicz and Kakabadse, (2011) argues against the axiomatic view that shareholders are the owners of the company, and it questions the way in which managers are assessed based either on the corporate share price (the shareholder view) or on a confusing set of measures which include more stakeholders (the stakeholder view), and shows how such a yardstick can be demotivating and put the corporation in danger.

The rights of stakeholders and their accountability in developing countries were assessed in a study by Wanyama *et al.,* (2013) on Uganda. The important finding suggests that while there appears to be

general agreement that there is a need to be accountable to, and to maintain relationships with, several stakeholders, a substantive problem exists regarding the practical application of this notion. A range of stumbling blocks remains in the path of implementing a robust corporate governance and accountability framework in Uganda. The study advocates the establishment of strong legal mechanism to protect the interest of minority shareholder.

(2) *Transparency, disclosure of information and auditing*

The recent global financial crisis has made the need for transparent governance even more urgent. The review of literature indicates that there is a huge gap in corporate transparency in the Middle East and North Africa (MENA) region (Leigh, 2011). Thus the most common themes in conferences and discussions of business management in the Middle East and North Africa (MENA) region has been the need to advance corporate governance through improvements in financial transparency (Dudley, 2008). Transparency is indeed an important and vital area of corporate governance and its presence is often linked with sound financial infrastructure. Chipalkatti *et al.,* (2007) found that emerging capital markets with better quality accounting standards and good governance attract higher levels of portfolio equity and bond flows. Similarly, in a study of Malaysian firms Ho *et al.,* (2008) emphasize the importance of governance structures; they found that improved governance resulted in significant improvements in corporate voluntary disclosures and those large firms tend to disclose more information.

Study by Akhtaruddin and Haron, (2010) highlighted the impact of board ownership on voluntary disclosure, and also whether proportion of independent non-executive members and expert members on the Audit Committee change the level of voluntary disclosure. The results of their study indicate that board ownership is associated with lower voluntary disclosures, meaning lower managerial ownership can lead to increased disclosure. These findings lend support for firms with a higher level of ownership control by the board to include more independent non-executive members on the audit committee as a means of increasing disclosure levels and reducing information asymmetry levels between firm management and investors/owners.

(3) *The board of directors*

Board of directors being an important internal control mechanism, is a prime participant in determining the direction and performance of an organization. The discussion regarding board of director revolves around three important points; the size of the board, board's expertise and experience, and their time commitment. Claessens and Fan, (2002) argue that in family-owned firms, agency problems arise between the family controlled majority shareholders and the minority shareholders; due to the owner entrenchment effect, the controlling owner can also determine how profits should be distributed and can thus extract wealth from the firm. However, the board's monitoring role can further be improved by establishing oversight board committees that enable the directors' duties to be "rigorously discharged" (Cadbury, 1992; Higgs, 2003, p. 59).

In their study Kula and Tatoglu (2006), attempted to analyze the board process attributes and company performance of family-owned businesses in Turkey. They developed a survey questionnaire and conducted it on a sample of privately held Turkish companies where a total of 386 usable questionnaires were returned. Based on the extant literature, a set of 18 directors' collective attributes and 15 directors' individual attributes were identified as potentially relevant to company performance. Relying on the

perceptions of the respondents, multiple subjective measures of company performance were adopted. Company performance was found to be positively related to the directors' collective and individual attributes, which were associated with access to information, effectiveness of the board, observance of fiduciary responsibility and performance evaluation.

On the contrary, Handler (1990) cited lack of succession planning as the major reason for the high mortality in family firms. A review of the literature on family business succession has identified several factors that influence the succession process. These factors include the structure of the family, interpersonal family relationships, the role of the founders and offspring, life-stage of the founders and offspring, birth order, gender and culture (Ellis and Ibrahim, 1994). Ward (1987) suggested that the succession planning is a long-term process (15- 20 years) and that the founder should prepare the successor gradually through teaching and mentorship. Ibrahim and Ellis, (1994) study has suggested that the succession process involves three important steps. First, the offspring is prepared for leadership roles at an early age before joining the family business, next the offspring is integrated into various positions within the business, and the last step is the transfer of the leadership role in the firm. According to the Chief Economist of the Dubai International Financial Centre, up to 80 percent of the FBs in the region suffer acute risk of failing unless succession planning and corporate governance initiatives are implemented (Kothari, 2006; White, 2008c).

In a recent empirical study by Francisco (2015), the association between board of director characteristics and corporate reputation was analyzed. The results show that companies that appear on top of the reputation ranking tend to have a higher percentage of independent directors and more female directors on their board. The image of the president of a company is also linked to the reputation of the company itself. These findings shed some light on the value of board of directors.

(4) *Executive management*

One of the landmark studies in the area of Corporate governance, particularly in the executive management field was done by Core *et al.,* (1999). The study investigated the board and ownership structure with variation in CEO compensation. They found that CEO earns greater compensation when governance structures are less effective. Another study by Fahed-Sreih, (2008), explored new corporate governance mechanism in family owned business, through a survey of 116 family enterprises in Lebanon. The objective was to describe the alternative mechanisms through which the owning family takes a stake in the governance of the firm. The study integrates family, ownership, leadership and the business itself constituting the four structural elements of a family firm's governance system. The study provided an integrative view which allowed observation of interactions among the different structures, and the establishment of a coordinating governing structure. The author proposed a framework which allows the establishment of a governance structure, for control and co-ordination. According to the study ownership should be integrally separated from the other dimensions in the governance of a family firm to be able to achieve fairly good performance and ensure the survival and longevity of the firm.

(5) *CG commitment, the role of stakeholders and corporate social responsibility*

The government and international institutions expect that all companies operating in a society should be responsible for the environment and society at large (Halme *et al.,* 2009). These additional responsibilities defined as elements of CSR (corporate social responsibility), involve a firm's

simultaneous fulfillment of its economic, legal, ethical and philanthropic responsibilities that they confront in the business environment (Carroll, 1991; Danko *et al.,* 2008). Additionally, CSR has gained prominent status within board-level and senior management-level responsibilities as well as on corporate agenda (Danko *et al.,* 2008; Moon, 2007). The literature on CSR is limited in the developing countries; it is an under-researched especially in the Middle East Africa region. As noted by Ramasamy and Hung (2004) that while CSR has taken its stronghold in developed countries, its awareness and understanding is still minimal in developing countries.

Birch and Moon (2004), highlighted that there is no single formula for CSR as wide array of activities are carried out by organizations' CSR in different parts of the world. The social, political and economic conditions of a country or region influence the initiatives and CSR practices to a great extent. Nevertheless, the adoption of good CSR practices will surely promote a positive image of the organization. CSR is also assumed to play a significant role in the maximization of shareholders wealth through the attraction of investment capital and the increase of share prices on the stock markets (Michael, 2003; Sen *et al.,* 2006). Michael (2003) sums up the business case of CSR succinctly by stating that it promotes positive consumer, employee and investor perceptions of the company while avoiding the risks of negative government intervention, adverse media exposure, stock market declines and consumer boycotts. In their study on CSR, Lindgreen and Swaen (2010) also observe that CSR benefits firms broadly by reducing cost and risk, strengthening legitimacy and reputation, building competitive advantage and creating a win-win situation through synergistic value creation.

III. METHODOLOGY

The literature review provides vast opinions about the definition, conceptual framework of corporate governance mechanism and its application in many developed economies. However, the majority of the research work has been conducted in the non-family owned, listed companies. The implementation issues of corporate governance in non-family owned, stock listed companies have been explored in several Arab countries, but almost no research work has been conducted on Saudi Arabia in this field, in family owned business. Therefore, we believe that this empirical work is worthwhile, and shall shed the light on this area. The difference between this study and the prior research work reviewed here is found in investigating the corporate governance mechanisms using the lense of OECD principles, in family-owned business in Saudi, which could reveal some possible indicators for factors behind the success or failure of CG adoption in family owned business. No attempt is made here to test any hypothesis or to verify any relationships between variables. Our interest in this work is pure explorative.

The present study adopted a combination of quantitative and qualitative approach to data collection. The researchers conducted open-ended interviews with various participants from the firms; chairperson, CEO and members of the Board of Directors. Table 1 depicts a brief profile of persons who were interviewed. To achieve the objective of this research, an instrument was designed to explore the corporate governance mechanisms in Saudi family owned business, based on the points, which were drawn upon the extant literature. An online survey questionnaire (Survey Monkey) was used to collect the data from the family-owned business in Riyadh. The brief profile of participant organizations is given in Table 2. The questionnaire mostly incorporated questions that are of quantitative nature. It also contained basic factual questions related to company profile, date of establishment, its chairmen and directors.

Table 1
Brief profile of participants interviewed

	Position	*Experience (Years)*	*Educational Level*
1	Chairperson	19	Post-Graduate
2	Chief Executive Officer	21	Post-Graduate with Professional Certifications
3	Board of Director	7	Post-Graduate
4	Director	12	Post-Graduate
5	Chairperson	11	Graduate
6	Financial Executive Officer	14	Post-Graduate
7	Director (Human Resources)		Post-Graduate
8	President	26	Graduate with Certifications
9	Board of member	3	Post-Graduate
10	Board of member	4	Graduate

Table 2
Brief profile of firm under study

Age of Firm	*Sample (in percentage)*
0-20 years	14.29
21-40 years	38.10
41-60 years	23.81
More than 60 years	19.05
No. of Employees	*Sample (in percentage)*
1 – 200	23.81
201 – 400	9.52
401 – 600	14.29
601 +	47.62
Type of Industry/Sector of the firm	*Sample (in percentage)*
Service	38
Production	19
Retail	20
Real Estate	14
Construction	09

IV. RESULTS AND DISCUSSION

The literature review shows that the focus of studies done on corporate governance has been more on the large corporations, which are listed in the stock exchange (Aivazian *et al.,* 2005; Bai *et al.,* 2002). The central objective of this study is to identify and assess the best governance practices among the non-listed family owned business of Saudi Arabia. It is important to study the family businesses, which are predominating,

and the backbone of Saudi economy (Billing 2008). The family governance is important as much as the corporate governance. It is a fact that most family business problems are often the consequence of a lack of the right family governance and/or corporate governance structures (Botero *et al.,* 2015). The family values play a crucial role in the governance of the business. Any company or firm has to be accountable, transparent, ethical and responsible in order to adhere to good corporate governance. Corporate governance principles if followed in pure sense offer measures for improving the general business practices and make them more transparent and responsible (Rock and Wachter, 2000) The following findings are based on the data obtained from the self-administered questionnaires and face-to-face interviews conducted with various members and employees of family businesses. The data analysis was carried out to find if the management of family firms directs its affairs in the right way and towards the right direction and therefore assessing the implications of implementing the best governance practices.

The majority of the family owned business interviewed has expanded their business into other various branches related business in the medical, real estate, finance, tourism, and marketing field and few are focused in the field of customer services. From the findings we can conclude that most of the family businesses stand and incorporate the same values of honesty, integrity, and high commitment. This looks like their embedded philosophy of success for the investigated family owned business that they apply on the daily basis in order to maintain the business competitive advantage and survival. The detailed findings of each OECD principle are given below.

(a) The rights and obligations of shareholders: The firms under study portray an encouraging picture of the regulatory and legal framework that can guarantee shareholders' rights and that can ensure equitable treatment of shareholders whether they are in the minority or majority. The firms studied were completely family-owned with no non-family shareholder involved. Although all the shareholders belong to the same family but they do not actively participate in the management and operations of the firm. This was true with almost sixty percent of the companies under study. Therefore, a clear division of management and ownership was found in these firms. Furthermore, the mechanisms applied by most of these firms are set regulations and guidelines developed by firm which are adopted based on the CMA (Capital Market Authority) framework. The CMA is the Saudi Arabian government organization responsible for regulating the Saudi Arabian capital markets. It is interesting to note that the adoption of CMA regulation is completely voluntarily by these firms; however, there are firms which do not believe in any kind of regulations except the regulations by the ministry of commerce which is mandatory to comply. 39 percent of the firms interviewed, argued that the firm is completely family-owned and there are no external shareholders involved, therefore they have a good understanding within the family members and do not require an external body to set these guidelines for them, which is disappointing to know.

Moreover, in majority of the firms studied, it was found that they do not have any organized and autonomous stakeholder department but these companies do consider the long term impact of any decision be it financial or non-financial on the society at large. Although, it was accepted that good corporate governance would encourage the sustainability of sound financial business enterprise. In additions all the firms adhere to the equal treatment of stakeholder in the business. However, shareholder's financial right lacks transparency, as findings suggest 78 percent of firms do not give this right to the shareholder; right to a share in the corporation's assets upon liquidation. The current status calls for an improvement in its voting procedures in the annual general meeting. Overall, 73 percent of the companies adopt an acceptable

mechanism for ensuring the rights of shareholders by having an equal treatment of stakeholder in business, having a mechanism of sufficient and timely information about the dates, place and agenda of the annual general meeting, having a mechanisms through which shareholders are sufficiently and timely informed of the proposals submitted in the agenda of the GSM.

(b) Transparency, disclosure of information and auditing: Being transparent is imperative; a business needs to adhere to the full, accurate and timely disclosure of information. Interestingly, it was found that firms under study had prepared a mechanism to ensure transparency through disclosure of information on both the aspects; financial and non-financial. It was encouraging to note that all the firms under study hold an annual general meeting (AGM) wherein; all shareholders participate, the important decisions regarding the firm are taken, and the members are informed of previous and future activities. The members are given a copy of firm's accounts to review fiscal information for the past year. Even so, many firms hold quarterly meetings with the members in addition to AGM. In addition, 93 percent of the firms have quarterly financial statements audited and shared with all the shareholders but these are not published. In order to increase transparency most of the firms have established dispute committee, they are enhancing the delegation and involving the next generation in the business. Majority of the firms scored better in the 'transparency, disclosure of information and auditing' which includes the availability and publishing of the annual and semiannual financial reports, treating all investors and financial analysts regarding information dissemination equally (fair disclosure) for important corporate events, and having an audit mechanism (internal and external). It was also demonstrated that more than half of the family firms adopt both internal and external auditing mechanism. Internal audit mostly focuses on business audit and the external audit do financial audit and ensure compliance with the global standards. A reputable external auditor was appointed by 67 percent of firms whereas others relied more on a reliable internal audit system. However the announcements of any deviation of earnings or remuneration are not disclosed by the companies.

With the objective to enhance transparency, 67.6 percent of the firms studied adopt a mechanism whereby transparency is ensured and any fraud or manipulation dealings are identified easily. Conversely, 33 percent of the firms interviewed said they rely more on the informal meeting and solve all kinds of issues informally. Moreover, they don't feel the need to have an annual general meeting and therefore ignore the implications of having a governance regulation.

(c) The board of directors: The role of board of directors (BOD) has been and will always be vital to the success of firms (Tatoglu, 2006). They serve as an important internal control mechanism to ensure governance. The underlying key characteristic of good corporate governance is the separation of ownership and management control. The findings reveal that in only 53 percent of the firms there was found to be a complete divorce between the roles played by the owner (shareholders) and the management. The size of the BODs in firms studied ranged between 3 to 10 members. There was found to be a clear composition of board of directors in all the firms, however in only 39 percent of the firms the BODs constituted of an executive, non-executive and independent directors, the percentage of membership on the board were found to be approximately 35%, 45% and 20% respectively. Yet in majority of the firms only family members were included in BODs as non-executive members. The board members adhere to the developed written policy that would regulate conflict of interest and remedy any possible cases of conflict by members of the board of director, executive management and shareholders. Furthermore, the remuneration of the board members in 57 percent of the companies studied is set through bylaws of the company. The frequency

of meetings among BODs was found to be an average of 6 meetings annually. In the board meetings, the BODs also disclose any punishment or penalty imposed on the firm. In addition, the results of the annual review of internal audit effectiveness are discussed in these meetings.

Several studies have focused on the emergent need of succession planning in order to be surviving in the business (Drury, 2016). The family firms of Saudi are in their 3rd or 4th generation stage are in the process of introducing new board members from the family. It was interesting to find that in 33 percent of firms there was a clear written pre-requisite for family members to become a member of the board, including work experience outside the family company; however these firms do not have a written succession plan or training for new board members.

The results portray that only 39 percent of the companies have non-executive board directors' independence, which is an important dimension of corporate governance. Most of the companies studied recognized the importance and value of appointing non-executive directors to the board but not more than one was appointed. It was also noted that companies do not have a clear executive management staff member's remuneration and needs improvement in the training and rotation of the new board members.

(d) Executive management: The executive management in all the companies studied was led by an elected Chief executive officer, CEO. In 77 percent of the firms, there were apparent duties and responsibilities of the CEO written precisely whereas the rest of the firms do not adopt a written job description rather they take on a casual and need based approach towards this. The remuneration of the CEO and other staff was definitely decided in board meetings, but in 46 percent of the companies there was no clear executive management staff member's remuneration disclosed.

In almost half of the companies studied there was a non-existence of position called chief financial officers (CFO). There was existence of executive, investment and risk committees' in only a few companies. These were formed to ensure more independence and transparency in these companies. The size of these committees ranges from 4 to 6 members which are nominated by the board. Most importantly, in 42 percent of firms studied, the CEO was a non-family member with high qualification and rich experience. On an average CEO is a graduate and has experience of 15 years in the companies studied.

According to one of the CEO of an investment company, "We follow the same rules and we are well governed company as any joint stock listed company. The family does not dictate the decisions; the executive committee, risk committee and investment committees have an equal say in any investment decision."

All the interviewed family owned businesses stated that the head owner of the family business does the launch and the changes in the governance structure of the company. The board of directors consists of family members with the role of overseeing the strategic, long term directions of the company. They also have voting rights to choose the executive management and CEO of the company. Some of the companies updated their business manual and new decrees to account for changes in the structure and strategy of the company, some keep this information confidential. These information and documentation include the relationships and responsibilities of operating companies and boards, authority of the holding company on important matters, establishment of new board and executive management committees to facilitate rapid and effective decision making.

(e) CG commitment, the role of stakeholders and corporate social responsibility: The commitment to ethical code of conduct while taking social aspects into consideration is extremely important for any business, be it a

closely held family owned company or a public held company. In the family owned firms it is generally the founder whose personal values and ethics are reflected in the culture and governance practice. CG rules documentation was found in only 59 percent of the family companies studied, whereas the other firms' do not have a written mechanism to ensure CG rules in the firm. The lack of formal processes and procedures in 41 percent of the companies studied reflect a need for change, which requires change in the thinking process of the owner/manager of the family owned companies. Families were reluctant to involve outsider and there was an absence of experienced non-executive directors. It was also disappointing to note that these companies do not have an existence of a CG Committee or individual entrusted with CG compliance issues. The commitment to corporate governance is prevalent in few companies where the Family Constitution is documented and defines the principles that outline family commitment to the core values, vision, and mission of the business. The constitution also defines the roles, compositions, and powers of key governance bodies of the family, it defines a 'Code of Conduct' that the family members adhere to for family and business relations. Moreover, the Corporate Governance manual existed in these companies which provide a framework that defines the rights, roles and responsibilities of different governance bodies that drive and oversee the business. At its core, the corporate governance is the arrangement of checks, balances, and incentives developed to manage the company as a whole.

Considering CSR, in the study it was found that most of the firms are conscious about the environment and society at large. Operating in Saudi Arabia they do have to adhere to "zakat", this is mandatory for all firms. It is customarily 2.5 percent of a Muslim's total savings and wealth above a minimum amount known as Nisab, but Islamic scholars differ on how much Nisab is and other aspects of zakat (Yusuf, 1999). In addition to zakat, 67 percent of the firms were proactive in performing their social responsibility in terms of considering multiple stakeholders before arriving to a decision which might affect the stakeholders adversely, for example avoiding damage to the environment. Highlighting the importance of having a leadership training programme in place to train and prepare the future generation of the family, one of the members of board from 3rd generation of family said "I strongly believe in the philosophy of Enlighten owner; the route or the path for the family members to become enlighten owners for future"

Obligation towards social and ethical conduct could be seen in only in 61 percent of the firms which are actively involved in CSR activities. There was an existence of philanthropic foundation dedicated to support the community in almost 70 percent of the companies. Interestingly, Ministry of Social affairs is also closely linked with one of the family business to train their employees on social responsibility with the company. The director of one of the family owned companies said "we are diversified and having very strong governance is extremely important for us and we cannot survive in future without mechanisms set in place".

Further, there was a consensus on the role and impact of the founder on the governance practice across the companies studied. Strong integrity and ethics of the founder had influenced the application of corporate governance to a large extent. Moreover, the impact of Islamic values serves as a driving factor to implement corporate governance. The Islamic vision of values, nonetheless, consists of a variety of ethics that are underlined in corporate governance in different terms.

V. CONCLUSION

The objective of this paper was to explore the corporate governance of the family firms in Saudi Arabia. The findings indicates the importance of corporate governance in the family owned business and also

describes the sound corporate governance practices that make the sustainability and profitability of the family owned business in Saudi Arabia. According to our empirical results, however, not all the principles of OECD were found to be followed by these companies, as the adoption of these principles was found to be patchy. The least score was for Principle 5: Disclosure and transparency. Which was found to be followed by only 23 percent of companies as the companies did not ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. The highest score was Principle 1, which was followed by 88 percent of the companies. Principle 1: Ensuring the basis for an effective corporate governance framework: was observed as the companies had a corporate governance framework which promoted transparent and efficient business, which were consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. Our findings support contributions to theory, practice and policy.

Family owned businesses should follow a certain governance structure for the stability and growth of the business. On the whole, the family owned companies should have an efficient CG framework taking account the interest of all stakeholders which includes the disclosure (in the GSM and/or in the company's annual report) of share ownership information of the executive management staff members. Besides, there is a strong need to improve the rights and obligations of shareholders which include the existence of organized and autonomous stakeholder department. Although the non-listed Saudi business firms do not have to comply to CMA regulation but these are monitored by the Ministry of Commerce and Industry, therefore the compliance of non- listed firms with national regulations are ensured by the Ministry. In addition the Companies Law issued by Royal Decree in 1965 is considered to be the most important regulation for Saudi companies.

Additionally, research has identified the gaps between the best practices and the current practices among Saudi family owned companies. Therefore, we recommend the non-listed family owned firms to create and follow effective internal and external mechanism of governance. Further it is essential to appoint an independent competent professional as CEO or the Director of the company and hold formal regular meetings that are properly documented. It is also important to engage the non-executive directors due to their experience and knowledge gained through other business activities. Most of the companies use the best practices for governance based on the past experience of independent director or CEO.

To strengthen the human capital and other members of the board, regular trainings and workshop should be organized to build awareness on strategic benefits of having good governance and enhance the competence level as well. In addition, there must be a practice of awarding the companies with an exemplary CG practices in an appreciation ceremony. It will encourage others to follow the best practices and improve the image of the company as well. Further it is also recommended that companies start working and strengthening their social responsibility since it plays a major role in building the company's image, and to strengthen their internal relationship. The formation of a family council where members are voted for by family members to represent them is vital to prevent and pre-empt any conflicts. Importantly, the older generation, the board of directors, or the head owner of the family owned business should implement sharia'a inheritance laws to their younger generations in an ethical and professional standard in order to show good values in the governance structure and to protect the company from future family conflicts. Considering this younger generation, the family business should create a career track for them in order to

gain the needed experience and qualifications to become a part of the Executive Management or the CEO of his/her family business that would take the business to better competitive advantage or even to avoid selling the business to non-family members. This is because the continuity and growth of the business is associated with the family performance and attitude toward their business.

To sum up, having clear roles and responsibilities of board and management is vital for laying a solid foundation of management. As the company grows, the need of independent advice becomes evident and therefore the need to appoint non-executive director arises. Similarly the board should have independent directors and promote ethical practices. Further disclosing the policy concerning trading within the company is important in addition to the written policies and procedures to ensure transparency and accountability. The role of chairperson and the chief executive officer should be exercised by different persons.

Part of this engineering of attitudinal change could be the implementation of public awareness campaigns to encourage the acceptance of Saudi family owned business corporate governance mechanisms by large sectors of the population. Based on the findings, there is a strong and immediate need to spread the awareness through workshops and seminars and educate the people about the importance of corporate governance and its benefits for the national economy. The universities can play a vital role in educating the new generation and organizing conferences and seminars on the same.

(a) Theoretical contributions: We make two theoretical contributions. First, we develop definition of corporate governance to include family governance mechanism, i.e. not just where and when but also how this can be applied. The most imperative finding of this study has been the acknowledgement of the commitment of non-listed firm towards corporate governance in the form of "Mithaq", the doctrine of a Family Constitution formed by one of the family owned non-listed companies in collaboration with Ministry of commerce and industry. This framework includes: the family ownership structure, key definitions of governance association, role of family council, company moral commitment, philanthropy committee, and committee to resolve disputes, secret and obligations of shareholders/code of conduct, code of ethics, investor's rights and family employment conditions. This has important implications: a definition that incorporates family governance to corporate governance mechanism guides the design of practices that address a wide range of needs of family-owned business good corporate governance practices. There is limited research on family and corporate governance in the Middle East context, and we have begun to build an evidence base.

Second, we develop understanding of formality of family governance in family, non-listed firms. Current research emphasizes policy-based corporate governance mechanisms as the OECD principles in listed companies, mostly in developed economies (OECD, 2007). While it is recognized that absence of corporate governance mechanism does not preclude good family governance practices in non-listed family business (Botero *et al.,* 2015), conceptualization of this is limited. We also demonstrate the important role played by ad hoc good family corporate governance practices. Both reflect the importance of a distinctive, individualized approach to good family governance in non-listed companies. While this is particularly relevant to the non-listed family firm context, it may also, as we note below, have wider resonance (Boterro *et al.,* 2015). This again has important implications: the offer of individualized, good family governance practices requires care and thought in design and implementation. We consider now how these theoretical contributions inform practice.

(b) Practical contributions: Our third contribution is to challenge current policy approaches on two fronts. First, policy draws upon a strategic discourse that emphasizes the corporate governance case for listed firms and recommends policy-based practice for family-owned, non-listed firms. We demonstrate, as is typical in family-owned, non-listed firms, a lack of strategy and policy by the government. Alongside low awareness of changing economic patterns and their growth market impact, there was limited recognition of the family governance good practices for non-listed firms. Families have a number of unique attributes that serve to strengthen a family business, including love, care, unconditional acceptance, generational hierarchy, informality, loyalty, commitment, stability, relationships, growth and development, safety, support, and tradition. Underperformance was, however, tolerated within the corporate governance discourse, which again is at odds with a non-listed family firm approach. Policymakers must recognize this policy/practice disconnect and find advice mechanisms for family, non-listed firms relevant to their context that disseminate appropriate practice while helping to avoid inherent short-termism. Greater policy recognition of this is required, and a move beyond promotion of simply temporal and spatial rules and regulations from the Ministry of Commerce will support this. This is now more urgent to achieve the strategies and goals of the Saudi government Vision 2030.

(c) Limitations and Recommendations for further study: The present study has some limitations: first, the data has been collected from limited small number of family owned businesses; second, the time constraint and the disclosure of information related to corporate governance was limited by the companies, this might affect the results of study.

The Saudi family owned firms is the backbone of the Saudi economy and are active in traditional family governance but the challenge is for them to move away from conservative, traditional, weak corporate governance mechanisms and become significant players in high value, mixed Islamic and International corporate governance standards and principles. The literature abounds in such generalities as family owned business need support from the government in this regard, yet the authors found little research devoted to how individual firms manage to secure such support within Middle Eastern contexts. Exploring how some family-owned business succeed in doing this will contribute to corporate governance theory in family owned business and make it possible to provide a model to facilitate aspiring family-owned business to engage in building their own models of family and corporate governance. Case studies documenting firm's demographics, family attitudes, culture and values, educational achievement of the family owners running the firms, and early corporate and family governance activity could be compiled to provide road maps for individual family firms and for more tailored institutional and government support.

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APPENDIX 1

The OECD Principles of corporate governance originally adopted by the 30 member countries of the OECD in 1999 have became a reference tool for policy makers, corporations, institutional and regulatory frameworks and others all over the world.

The following are the main areas of the OECD principles and its annotation:

Principle 1: Ensuring the basis for an effective corporate governance framework.

Annotation: The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

Principle 2: The right of shareholders and key ownership functions.

Annotation: The corporate governance framework should protect and facilitate the exercise of shareholders' rights.

Principle 3: The equitable treatment of shareholders.

Annotation: The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunities to obtain effective redress for violation of their rights.

Principle 4: The role of stakeholders in corporate governance.

Annotation: The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

Principle 5: Disclosure and transparency.

Annotation: The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Principle 6: The responsibilities of the board.

Annotation: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and board's accountability to the company and the shareholders.