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### **Impact Study of Applying Governance Mechanisms on the Sustainability of Family Businesses to achieve the Kingdom of Saudi Arabia's Vision 2030**

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#### **Abstract**

Diversification of income sources is one of the most important goals of the Kingdom of Saudi Arabia's Vision 2030, and family businesses are one of the most important sources of income, representing 60% of the national economy, and statistics of the National Center for Family Business in the Kingdom of Saudi Arabia indicate that more than 90% of private sector companies in KSA are family businesses. The corporate governance underpinned by a set of principles issued by the Organization for Economic Co-operation and Development (OECD) is one of the best mechanisms adopted to ensure the sustainability of family businesses due to governing principles that regulate the relationship between the segments of ownership and management. Given the importance of family businesses and their influential role in the journey of the country's economic growth, the governments, especially the government of KSA, have set rules and controls to be considered to ensure the continuity of these businesses due to their influential role in economic development. The Ministry of Commerce and Industry believes in the importance of family businesses and their contribution to the national economy and their leading role in the business community. The Ministry has issued a Governance Guide for Family Businesses that includes the principles and controls that family companies shall observe to ensure their sustainability and the regular transfer to other generations of the family businesses (Governance Guide for Saudi Arabian Family Businesses, 2013, p. 4). Hence, we set out to do this research in order to study the impact of applying governance mechanisms on the sustainability and continuity of family businesses, and we concluded that there is a relationship between the application of governance mechanisms and the sustainability of family

businesses in a way that ensures a smooth succession of generations.

### **Keywords**

Governance, Family Businesses – Sustainability.

### **Introduction**

Family businesses play an influential role in the economic development of most countries around the world, and the national economy of countries is affected by the collapse of these businesses, so the International Finance Corporation, which is a part of the World Bank, has developed a guide for the governance of family businesses, specifying the controls to be observed by the businesses in addition to defining the concept of family businesses, pros and cons thereof, the reasons that may lead to collapse thereof, and the factors that lead to their sustainability.

The Kingdom of Saudi Arabia is one of the countries that realized the importance of the influential role of family businesses in the growth of the national economy, where it represents 60% of its economy, and the statistics of the National Center for Family Business in the Kingdom of Saudi Arabia indicate that more than 90% of private sector companies in the Kingdom are family businesses, and the Saudi Ministry of Commerce and Industry issued a Governance Guide for Family Businesses that includes the controls that family businesses shall observe to ensure sustainability and generations succession.

The company's successful system helps in building confidence within the family, and the governance of family businesses aims to ensure the continuity of the business by setting a system that determines the family members who will take over the management of the business after the death of the founders, and regulates the relationship between the partners to ensure its continuation, as such procedures promote confidence and assurance among investors and shareholders, which maximizes the value of the company, promotes competition in global capital markets, supports the application of the principles of disclosure and transparency, provides sources of funding for the company, and helps to prevent the spread of corruption.

### **Previous Studies**

The **study by Hamza, Gharbi, et al., 2021**, discussed the contribution of the application of governance principles to the continuity of family businesses and concluded that following the principles of governance by family businesses increases the chances of sustainability thereof.

The **study by Siphon, Firyal, 2021**, discussed the issue of succession sustainability in family businesses between continuity and collapse and concluded with the importance of adopting long-term strategic planning to transfer the succession to subsequent generations and develop the mechanisms required for

the transfer and the necessity of adopting the concept of governance to sustain and protect it from collapse.

The **study by Matali, Lily, et al., 2021**, discussed the role of governance values in facing the challenges of family businesses, presented the experiences of some Arab companies, and concluded that these companies achieved positive results thanks to the application of governance, representing in building solid values focused on transparency and effective communication between various parties, and gaining the investors' trust.

The **study by Al Zahrani, Yousef, 2019**, discussed the importance of the legal transformation of family businesses in the Kingdom of Saudi Arabia into closed joint stock companies and concluded that it is necessary to separate ownership from management and that the best legal form to extend the life of the family businesses is to transform these companies into closed joint stock companies.

The **study by Emara, Nawal, et al., 2013**, discussed the extent of the application of corporate governance in a family-owned transportation group and concluded that the application of corporate governance in that transportation group contributed to the expanded growth of the group and the consolidation of the disclosure and transparency principle therein.

By analyzing previous studies, it is clear that these studies agree that the application of governance mechanisms contributes to the sustainability of family businesses, building solid values that focus on disclosure and transparency, gaining the investors' trust, and the need for strategic planning to ensure the succession of the subsequent generations, which is supported by this research.

### **The Problem of the Research**

The problem of research is to investigate the reason that leads to the collapse of most family businesses, especially in the third generation, where previous research and studies indicate that the third-generation stage of the family businesses growth is the most collapsible stage due to the increase in the number of partners and the difference of opinions on the management of the company, and accordingly we try in this research to answer the following question:

### **Does the implementation of governance mechanisms help in sustaining family businesses?**

### **The Importance of the Study**

The importance of research is that corporate governance is no longer an option, but a necessity, to ensure the sustainability and growth of family businesses due to the role played by governance in promoting the principles of disclosure, transparency and accountability to ensure the protection of the rights of stakeholders and the continuity of family businesses, which are the backbone of the economy in the most countries of the world in general, and in KSA in particular.

## **Research Objectives**

**The research aims to demonstrate the** impact of applying governance principles on the sustainability of family businesses as the main objective and to identify the requirements of governance application as a subgoal.

## **Research Hypotheses**

The research question is addressed through the following hypothesis:

There is a relationship between the application of governance mechanisms and the sustainability of family businesses.

## **The Approach of the Research**

The researcher adopted the analytical descriptive method to answer the research questions.

## **The Research Plan**

Before addressing the study of the impact of applying governance mechanisms for the sustainability of family businesses, the legal logic requires learning about the concept of family businesses and characteristics thereof in an introduction, then we address the definition of governance, its advantages, objectives, dimensions, stakeholders, principles, determinants and mechanism, and then the requirements of applying governance on family businesses in the Kingdom of Saudi Arabia, and presentation of models for Saudi family businesses that have applied the governance.

## **Introduction: Concept and Characteristics of Family Businesses**

### **Concept of Family Businesses**

There is no agreement on a specific definition of family businesses according to the published literature and reports (L. Mezghani 2016), but it was defined in several ways, including:

The World Bank defines a family business as "a company which its majority owned and controlled by a particular family." (IFC, 2011.p.12).

Governance Guide for Saudi Arabian Family Businesses defines a family business as "a company wholly owned or controlled by a particular family." (Governance Guide for Saudi Arabian Family Businesses, 2013, p. 7).

IFC defines a family business as "a company where the voting majority is in the hands of the controlling family." (Al-Doubl, Randa, 2013, p. 129).

Center for International Private Enterprise defines the family business as "a system through which the family's funds are invested and controlled in accordance with the standards of responsibility, integrity and transparency." (Center for International Private Enterprise, 2003, p. 3).

In defining a family business, the European Union relied on a range of controls (Irene Mandl, 2008, p. 10). The majority equity of the company is under the control of the company's founder, family member or any person who acquired it, and the ownership of the family is not less than 25% of the company's shares if the company is listed in the stock market, and that the family controls the decision-making process within the company, whether directly or indirectly, and in case of the presence of at least one family member in the company's board of directors.

By analyzing the previous definitions, it is clear that these definitions are confirmed in terms of the content, which is that the element of capital ownership and control of management is a criterion for being a family business (Dhafra, Fayez Awad, 2018, p. 52).

By analyzing the definition specified in the Governance Guide for Saudi Arabian Family Businesses, it is clear that it focused on the concept of control, but it did not specify the percentage which should be reached to establish the meaning of control because the percentage varies according to the legal form of the company, and then it was mentioned in the same article that control is a result of the ownership of majority shares or equity, which indicates that the control is over the ownership of shares and that the company is owned by more than one family combined by a common family bond, such as the businesses controlled by the second and third generation owners who form, despite the difference of their families, family business under a common bond linking them all to the founder of the company.

However, the description of the family business is not established necessarily for each company that has the elements of family ownership as described above, and the standard that can be followed in the absence of a legal definition of the family business concept is the desire of the concerned company owners to refer to their company as a "family business" when the characteristics of family ownership are available therein and then manage it in light of this classification (Governance Guide for Saudi Arabian Family Businesses, 2013, pp. 8-9, Saudi Capital Market Authority Report, 2021, p. 7).

### **Company Characteristics**

1. The availability of the family element, and this feature is the most important feature that distinguishes the family company from other companies, which is established through the joint ownership and management by the family members.
2. Mutual respect between family members, especially in Arab countries, for the customs and traditions that support the presence of the family head and obeying him and commitment to his opinions (D. Millerr 2006 p. 80.).
3. Mutual trust between family members helps raise the level of company performance and build a good reputation in the labour market because the family's reputation affects the company's reputation within the commercial environment.

4. Dedication, where the founders work extremely hard for the sake of the growth and prosperity of the company ensuring pass it to subsequent generations, and the founders believe that proving the presence of the company in the labour market supports the social status of the family (Al-Ghamdi, Hamdan, 2021, p. 287).
5. Promote loyalty and belonging to the family by strengthening family cohesion.
6. Ease decision-making due to the simplicity of the company's administrative structure, especially at the beginning of the establishment.
7. Continuity of knowledge (Saud, Wesila, et. al, 2018, p. 231), where many family members participate in the company works at early stages of life, which helps them to gain experiences.
8. Lack of formalization in the rules and procedures of the work organization.

### **Definition of Corporate Governance**

There is no standard definition of the corporate governance concept at the global level among economists and lawyers, as confirmed by the Corporate Governance Encyclopedia. This may be due to this term overlapping with many organizational, economic, financial and social matters of companies (Riyadh Chamber, 2010 AD, KSA, p. 20), as definitions vary from a narrow concept of governance from the perspective of one party of the governance parties to a broad concept that includes all parties, where governance may be defined as an economic concept as a mechanism that helps the company to obtain financing, and ensures maximizing the company's value in the long term. Legally, it is defined as a contractual relationship between shareholders and stakeholders on one side and managers on the other side that defines the rights and duties of each party towards the other (Ibrahim, Ahmed, 2010, p. 173).

The definitions specified by some international organizations are as follows:

#### **OECD Definition**

Corporate governance is "the rules that regulate the relations between the management of the company, owners and all parties that have relations with the company".

#### **IFC Definition**

Corporate governance is: "A system under which the company is managed, and its works are controlled."

#### **Advantages of applying Corporate Governance (Talib, Alaa Farhan, et. al, 2011, p. 24, Brahma, Kenza, 2014, p. 6)**

1. Existence of administrative structures that help to determine responsibility.

2. Clarity of work procedures helps to reduce corruption.
3. Transparency and accuracy of financial statements stimulate the attraction of domestic and foreign investments.
4. Reduce financial and administrative disputes.

**Corporate Governance Objectives (Hamza, Gharbi, et. al, 2021, p. 25)**

1. - To improve the company's mental image in the labour market.
2. - To improve decision-making.
3. - To enhance the credibility of the company.
4. - To activate ethical considerations.
5. - To improve the degree of disclosure and transparency.

**Legal and economic dimensions of the corporate governance application (Khalil, Badr al-Din, et. al, 2016, pp. 16-17)**

**Law Dimension**

This dimension is concerned with ensuring trust between shareholders and managers by preserving the rights of shareholders and stakeholders such as lenders, suppliers and employees of the company, without prejudice to the powers and authorities that should be delegated to the board of directors and executive officers to manage the company of the required efficiency.

**Ethical Dimension**

This dimension supports the integrity of companies' competitiveness in the labour market and business community and helps to attract local and global investments, which enhances the company's growth and sustainability. Whereas the application of governance leads to the protection of the company's parties' legal rights, in addition to achieving the economic efficiency of the company's performance, increasing the GDP due to the improvement of the company's products quality, raising the competitiveness of the company and the orientation towards the application of the knowledge economy standards (Khalil, Badr al-Din, et. al, 2016, p. 16).

**The parties concerned with the implementation of corporate governance (Lotfy, Amin, 2005, p. 696)**

1. **Shareholders:** They are the owners of the capital that provide shares in the capital of the company in exchange for profits and have the right to choose the appropriate board members to protect their rights and maximize the value of the company in the long term.
2. **Board of Directors:** It is responsible for the development of the company's

general policies and selects the executives who are entrusted with the day-to-day management of the company's business in addition to supervising their performance.

3. **Management:** It is responsible for the actual management of the company and is concerned with the provision of actual performance reports in addition to its responsibility for the disclosure and transparency of the information published thereby.
4. **Stakeholders:** They are parties that have an interest in the company, such as creditors, suppliers, employees, and their interests may conflict with the interests of the company, such as creditors.

### **Principles of Corporate Governance**

OECD has established: The main principles of corporate governance have been developed to become the main reference at the international level in this field. Since its adoption in 1999, it has become a basic reference for establishing the rules and principles of corporate governance in the member countries of the organization and other countries, especially after what was approved by the Global Stability Forum as one of the twelve standard pillars of sound financial systems and adopted by the World Bank reports in the field of governance.

According to the 2004 edition issued by OECD, the principles of governance are focused on six principles (Khalil, Badr al-Din, et. al, 2016, p. 17):

1. Ensure that an effective corporate governance framework is in place.
2. Protect the shareholders' rights and the main functions of equity holders.
3. Equal treatment of shareholders.
4. Define the role of stakeholders and safeguard their rights.
5. Disclosure and transparency.
6. Determine the responsibilities of the board of directors, and that the board treats all shareholders fairly.

### **Governance Determinants (Emara, Nawal, et. al, 2013, p. 7 et seq.)**

There are internal and external determinants that promote the proper application of corporate governance.

**Internal Determinants** include the development of a management structure that determines the way through which the decision is taken and the appropriate distribution of powers and duties among the parties involved in the implementation of governance, whether the board of directors, executives or stakeholders of the company (Suleiman, Mohammed, 2006, p. 20).

**External Determinants** are laws that regulate economic activity, such as Capital Market laws, laws regulating competition and prohibiting monopoly. The role of regulatory bodies that monitor the companies' data published by it and verify its credibility and accuracy and apply appropriate penalties on companies that do not adhere to the credibility of the data published thereby (Khalil, Badr al-Din and



others, 2016, p. 21).

Governance helps to sustain companies and maintain their competitiveness in the labour market and business community by adopting mechanisms that support the application of transparency, accountability, responsibility and fairness in the company's decision-making structure.

**Corporate Governance Mechanisms (Khalil, Badr al-Din, et al., 2016, pp. 24 et seq.)**

By its nature, family businesses have unique strengths, reinforced by knowledge, visions and values that are passed from one generation to another, but preserving these gains requires family companies to follow a correct approach to ensuring their sustainability by applying governance mechanisms that focus on defining the procedures that the company shall follow to achieve the aims of governance, which are as follows:

**Board of Directors:** The board of directors plays a vital role in corporate governance, as it is responsible for the monitoring of the executive management behaviour through its legal powers to appoint, dismiss and remunerate senior management. It participates actively in the development of the company's strategy.

The clear separation between roles of shareholders, board and management is very important in terms of defining the tasks and responsibilities of each party in a stated and non-confusing manner, there are certain tasks entrusted to the board only, and the others are delegated to the management, and over time and by the establishment of an effective board, the founding owners will become more willing to delegate tasks to the management.

**Audit Committee:** The audit committee promotes trust in -and transparency of- financial information disclosed by companies, as it consists of several non-executive board members who have experience and independence in preparing financial reports and reviewing compliance in addition to the application of corporate governance rules by the company's management.

**Appointment Committee:** It is responsible for identifying the required skills and experience of the member of the board of directors and employees and establishing a clear appointment mechanism that ensures recruiting the best-qualified candidates.

**Internal Audit:** It provides an opportunity for the related parties of the company to hold the company accountable for its actions, which enhances credibility and fairness, and reduces administrative and financial corruption.

**Requirements for Applying Governance in Family Businesses**

Applying the principles and controls of governance in family projects at the proper time of the company life strengthens family relations, provides more effective management, and helps the governance structure to address issues that

occur during the life of the company, as the development of written procedures that are periodically referred to, such as the family constitution, it is one of the main effective pillars in family businesses, and the governance structure in the family businesses goes through several stages as follows (Center for International Private Enterprise, 2011):

**Family Meeting:** It is held at the early age of the company, which is not a formal stage, and during that, the power is concentrated in the hands of the founder(s), where the founder, who often is the one who solely conducts the business, calls and conducts family meetings, and these meetings considered an informal way to share information, reach an agreement and generate new ideas.

**Family Assembly:** The role of the family's second generation becomes more active in managing the work, and the family meets more formally once or twice a year, to communicate information and discuss matters related to the work and allows the family to exchange views related to the development of the company, and at this stage, if no formal policies are established, disputes may arise among the parties.

**Family Council** (Governance Guide for Saudi Arabian Family Businesses, 2013, p. 24): It is a governing entity that represents the interests of the family and is elected by family members from among its members, and they meet mostly from two to six times yearly, and the council deals with any problems that may arise, and it makes the rest of the family aware of these problems and helps to solve thereof, and usually elects the chairman of the board of directors or appointed by the family assembly to be the main liaison officer who directs the operations and activities of the council, and represents a point of contact between the family, the council and the senior management, and nominates candidates to work in the council, reviews and amends the policies of employment and wages, and it is recommended that the family council shall be composed of a small number of members not exceeding six members to ensure its efficiency and effectiveness in the exercise of its competencies (Governance Guide for Saudi Arabian Family Businesses, 2013, p. 16).

**Developing the Family Constitution** (Al Zumea, Fahad, 2016, p. 317 et seq.), which is considered a complete written document that clarifies the principles and policies adopted by the family company and contains the core values of the family and its vision. It also describes the roles and functions of each governance entity, including the owner, members of the board of directors, shareholders, management, and workers, and how family members can be involved in the company. Application of the referred to written procedures prevents disputes and helps to preserve family values and their transfer across generations smoothly.

Among the main elements included in the family constitution are employment policies, conflict resolution, rights of family shareholders, and intergenerational succession in management. It is preferable to develop the constitution at an early stage when the company's situation is stable and before raising any disputes so that any potential problems can be dealt with objectively away from emotions. It is important to formalize the policies and develop the same

in a form of a written document recognized by all family members. The family constitution is a document of a commercial purpose that aims primarily to regulate family ownership of the company, and it should be prepared jointly by all family members and their successors, children, grandchildren and spouses, if any, in full transparency. It may often be required to benefit from the opinion, advice and expertise of specialists when preparing it, whether from among the family members, from the family company or from among other parties outside it, especially in terms of the relevant legal aspects (Governance Guide for Saudi Arabian Family Businesses, 2013, p. 17).

**Preparations for Generations Succession in Management** (Ghalab Fateh, 2019, pp. 256-257): Planning for the next generation is often a complicated process because the majority of family projects rely on a strong founder or CEO. However, the early planning by the founder for the company's future helps to smooth the transition of leadership.

Regulating the transfer of management and strengthening governance mechanisms are emerging as priorities in the family business sector, both of which are critical factors for business success, as well as for the sustainability of economic growth and expansion.

**The foregoing refers to that governance mechanisms require:**

**Establish a regulatory structure for the company based on:**

- Separate ownership from management.
- Add independent members from outside the family to the formation of the board of directors.
- Determine the responsibilities and powers delegated to the members of the board of directors.
- Determine the mechanism of distributing profits among family members.
- Establishing an internal HR regulation that includes the terms of family members' appointments.

**18.2.2. Develop a family charter considered a written document that clarifies the rights and duties of family members, including:**

- The rules of exit from the company.
- Selection rules of family representatives in the board of directors.
- Mechanisms of amicable dispute resolutions in relation to company works.
- Mechanisms of intergenerational transition of management.
- Mechanisms of distributing profits among family members.

**Develop a plan for the qualification and preparation of future generations, including**

- Incorporating the new generation expected to participate in management

- by involving it in administrative work at an early age to gain experience.
- Establishing the value of the company's continuity among the new generations.
- Attention to the transparency of information**, where decisions are made and implemented clearly, as well as giving direct access to information.

### **Family Corporate Governance Models in Saudi Arabia:**

We review realistic examples of the gradual steps taken by companies in the long run towards improving corporate governance. These companies include:

**Abdul Latif Jameel** started as a small trading business in Jeddah, Saudi Arabia. However, after 75 years after its establishment, the company has grown to become a significant global investor, and a worldwide distributor and has diversified into multiple sectors including energy, water, real estate, the future of mobility and financial services amongst others, with over 15,000 employees of more than forty nationalities operating in some 30 countries around the World.

**Abdul Latif Jameel** followed the governance mechanisms, separated between ownership and management, and distinguished general directives and policies from the day-to-day operation and management of the group, as well as formed boards of directors with independent external members, which ensures protection and compliance with best practices in terms of operational, strategic and financial aspects.

**Sons of Abdullah Hussein Holding was established 60 years ago, and** thanks to the intergenerational consensus, it was transformed from a joint-stock company into a closed joint-stock company.

**Zamil:** It started by doing business in the field of selling foodstuffs and fabrics in the Kingdom of Bahrain, and then expanded in the field of real estate investments in the Kingdom of Saudi Arabia and transformed into a holding company. It has maintained its prosperity during the economic and industrial period of the country, and over the decades, it achieved a lot of outstanding achievements and then Zamil Industrial Investment Group became the first family company to be listed in the Saudi Stock Exchange after its transformation into a closed joint stock company, and nowadays it has huge and diverse interests and investments around the world, and it employs more than 12,000 professionals and experts in more than 60 sectors working in manufacturing facilities and various services in 60 countries around the world.

It is clear from the presentation of these experiences that governance enhances the value of the companies brand and builds on trust and the value associated therewith and supports strategic planning that eases their journey towards sustainability and continuity, and 33 percent of Gulf family companies have applied governance accurately according to what was published by the Asharqia Chamber, in Issue 14 on 9/1/2016.

## **Statistical Analysis of Questionnaires**

### **Study Sample**

The **study sample consists of (50) individuals**, including thirty-two male employees in a family company, 8 male employees in a non-family company, 9 female employees in a family company, and 1 female employee in a non-family company.

### **Elements of the Questionnaire**

**Aspects of the Questionnaire: There is an impact of applying governance mechanisms to sustain the family businesses in the Saudi environment, the aspect includes ten questions**

Distribution of the questionnaire forms: The questionnaires were sent electronically to male and female employees, and the number of questionnaires filled by male employees reached 12 questionnaires, while the number of questionnaires filled by female employees reached 38 questionnaires, and 55 questionnaires were analyzed statistically.

### **Statistical Analysis Plan**

- Reordering and coding data: Where the electronically collected data was downloaded and entered into Microsoft Excel.
- Preparing data: By preparing and defining the variables and entering the responses in a form that is compatible with the SPSS software.
- Measuring the reliability and validity of the questionnaire.
- Making frequency tables that include frequencies and percentages of demographic variables.
- Making a set of graphs reflecting demographic variables.
- Calculating the mean and standard deviation for each of the questionnaire questions.
- Calculating the mean and standard deviation for each of the questionnaire aspects.

### **Measuring the reliability and validity of the questionnaire**

After the questionnaire has been formulated in its initial form, it should be subjected to reliability and validity tests.

Measuring the reliability of the questionnaire: The reliability of the questionnaire means that it gives the same result if the questionnaire is redistributed more than once under the same conditions and circumstances, or in other words, that the reliability of the questionnaire means the stability of the questionnaire results, and not to change it significantly, if it is redistributed to the sample members for several times during certain periods,

and the reliability of the study questionnaire has been verified using Cronbach's Alpha coefficient.

			<b>Reliability Statistics</b>
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items	<b>Item</b>
.899	.911	10	The aspect of the Questionnaire

It is clear from the above table that the reliability coefficient (Cronbach's Alpha) for the aspect of the questionnaire and the reliability coefficient (Cronbach's Alpha) for all the questionnaire phrases are high, and this indicates that the study tool has great reliability, which makes us fully confident in the validity of the questionnaire and its ability to analyze and interpret the results of the study.

### **Construct Validity**

Construct validity is one of the measures of the study tool validity, as it measures the extent of achieving goals that the tool seeks to reach, and the construct validity shows the extent to which each of the sub-aspects of the study relates to the main aspect, as well as the extent to which the main aspect of the study tool relates to the total score of the questionnaire combined paragraphs. Accordingly, we calculated the Pearson correlation coefficients between the main aspect score and the total score of the questionnaire.

<b>Aspects of the Questionnaire</b>	<b>Correlation coefficient</b>	<b>Sig</b>
<b>Aspects of the Questionnaire</b>	<b>.915**</b>	<b>&lt;.001</b>

\*\* . Correlation is significant at the 0.01 level (2-tailed).

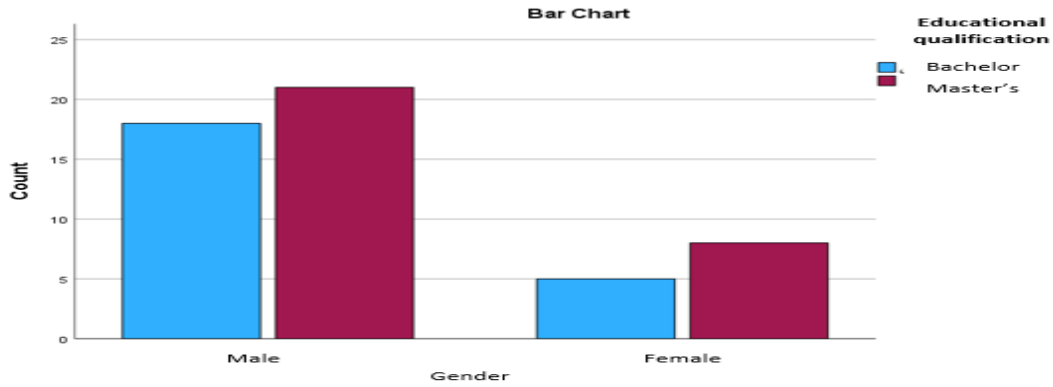
### **Second: Statistical Analysis of Questionnaire**

**First: Descriptive Statistics:** Descriptive statistical methods, which include frequency tables and percentages, were used to describe the characteristics of the study sample.

### **Educational Qualification of the Study Sample**

<b>Crosstabulation</b>				
		Gender		Total
		Male	Female	
Educational Qualification	Bachelor	18	5	23
	Master's	21	8	29
Total		39	13	52

It is clear from the above table that the sample includes 18 male employees having a bachelor's degree, 21 male employees having a master's degree, 5 female employees having a bachelor's degree and 8 female employees having a master's degree. The distribution of male and female employees within the sample in terms of educational qualification can be illustrated through the following chart:

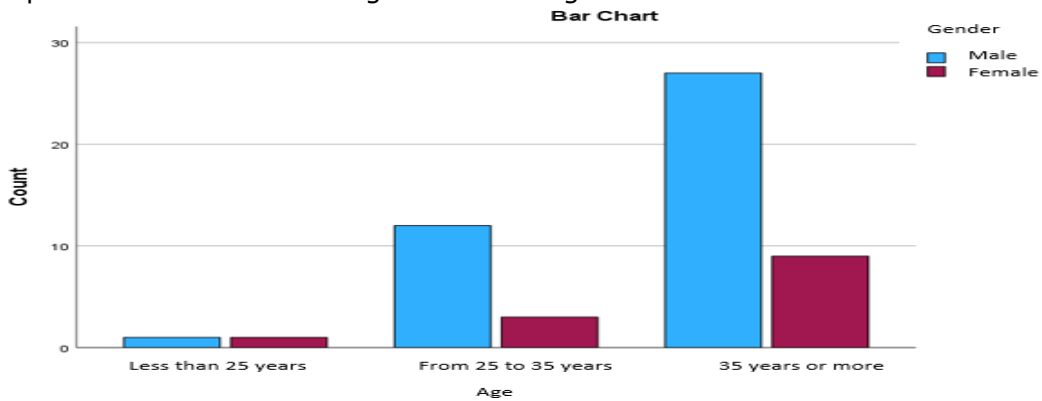


**Age Group of the Study Sample**

		Gender		Total
		Male	Female	
Age	Under 25 years	1	1	2
	From 25 to 35 years	12	3	15
	35 years or more	27	9	36
Total		40	13	53

It is clear from the above table that the sample includes 1 male employee under 25 years old, the ages of 12 male employees between 25 and 35, ages of 27 male employees are 35 or above, while the category of female employees comes as the following: 1 female employee under 25 years old, 3 female employees aged 25-35 years old, 9 female employees aged 35 years old or above.

The distribution of the male and female employees in the sample in terms of age group can be illustrated through the following chart:

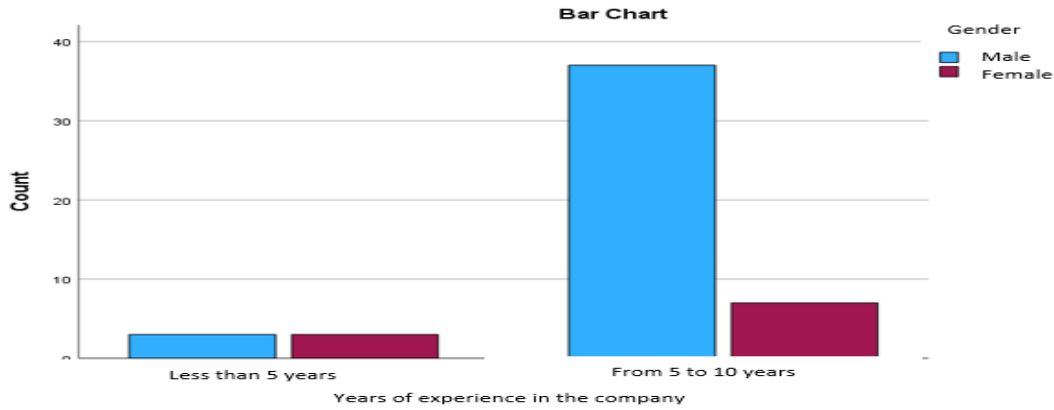


**Years of Experience of the Study Sample**

		Gender		Total
		Male	Female	
Years of Experience in the Company	Under 5 years	3	3	6
	From 5 to 10 years	37	7	44
Total		40	10	50

It is clear from the above table that the sample includes 3 male employees

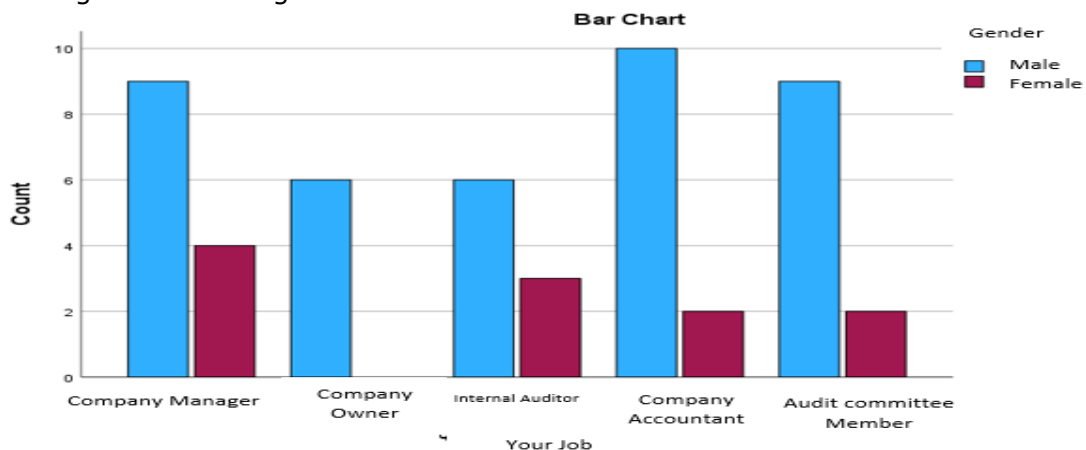
having experience of less than 5 years, 37 male employees having experience from 5 to 10 years, 3 female employees having experience of less than 5 years, and 7 female employees having experience from 5 to 10 years. The distribution of the male and female employees in the sample in terms of the years of experience can be illustrated through the following chart:



**Jobs of the sample individuals**

Job Crosstabulation				
		Gender		Total
		Male	Female	
Job	Company Manager	9	4	13
	Company Owner	6	0	6
	Internal Auditor	6	3	9
	Company Accountant	10	2	12
	A member of the audit committee	9	2	11
Total		40	11	51

It is clear from the above table that the sample includes 9 male employees working as company managers, 6 male employees working as company owners, 6 male employees working as internal auditors, 10 male employees working as company accountants, 9 male employees working as audit committee members, 4 female employees working as company managers, 3 female employees working as internal auditors, 2 female employees working as company accountants, and 2 female employees working as audit committee members. The distribution of the male and female employees in the sample in terms of the job can be illustrated through the following chart:

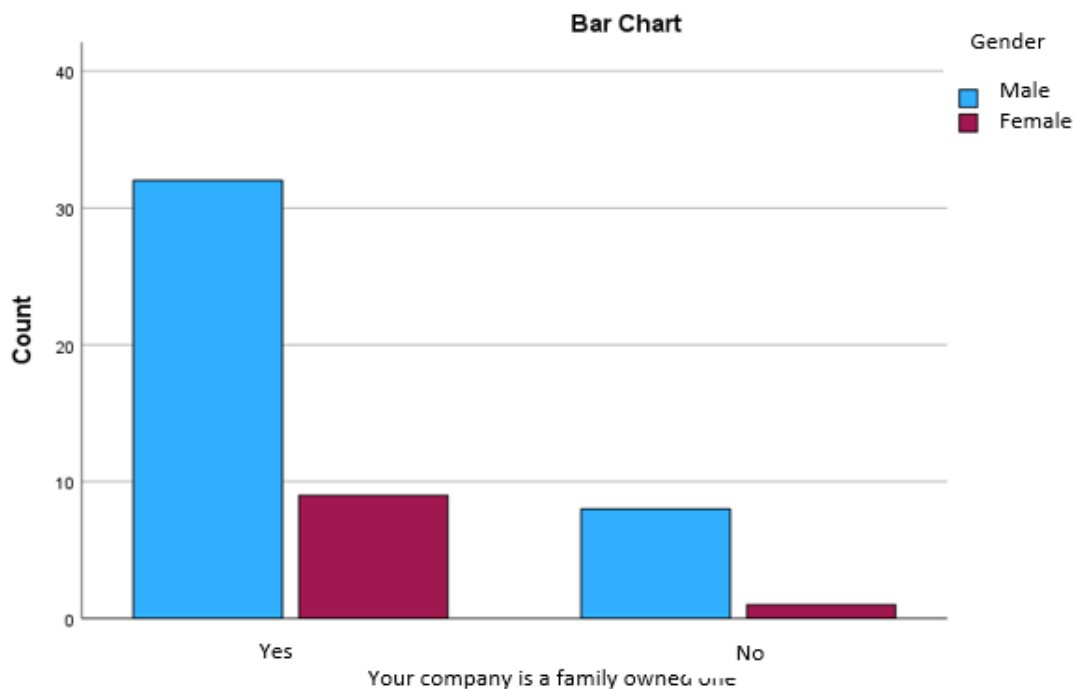




**Company type in terms of being a family business**

<b>The company you work therein is a family business Crosstabulation</b>				
		Gender		Total
		Male	Female	
The company you work therein is a family business	Yes	32	9	41
	No	8	1	9
Total		40	10	50

It is clear from the above table that the sample includes 32 male employees working in family businesses, 8 male employees working in non-family businesses, 9 female employees working in family businesses and 1 female employee working in non-family businesses. The distribution of male and female employees within the sample in terms of company type can be illustrated through the following chart:

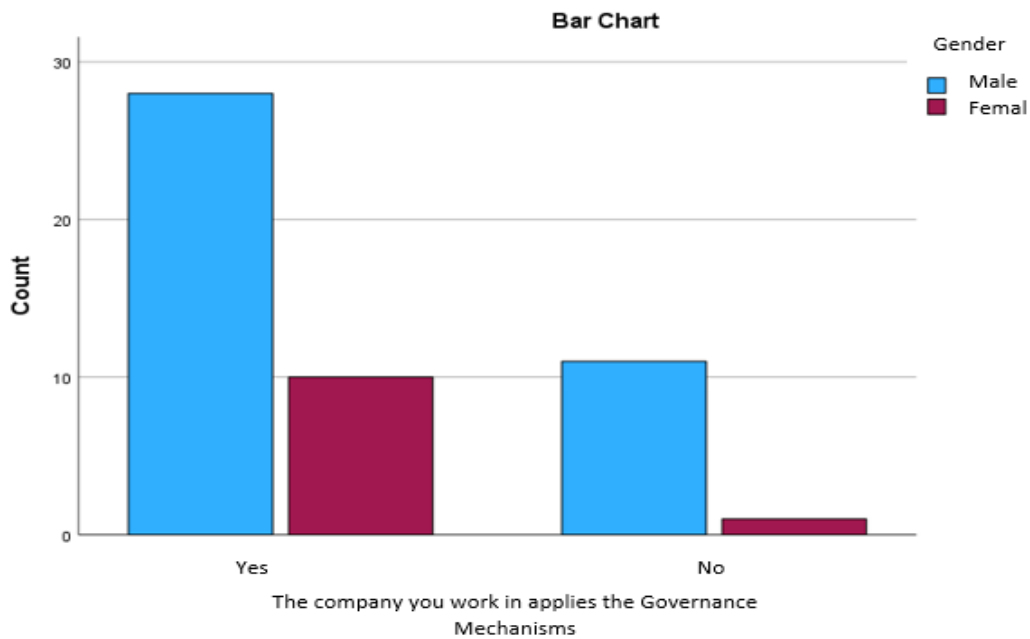


**Mechanism for Applying Governance in the Company**

<b>The company you work therein is applying the governance mechanisms Crosstabulation</b>				
		Gender		Total
		Male	Female	
The company you work therein is applying the governance mechanisms	Yes	28	10	38
	No	11	1	12
Total		39	11	50

It is clear from the above table that the sample includes 28 male employees working in a company applying the governance mechanisms, 11 male employees working in companies that do not apply the governance mechanisms, 10 female employees working in a company applying the governance mechanisms and 1 female employee working in companies that do not apply the governance mechanisms. The distribution of male and female employees within the sample in terms of applying the

governance mechanisms can be illustrated through the following chart:



## Second: Analysis of Questionnaire Elements

### Clarification of the 5-point Likert scale used in the study

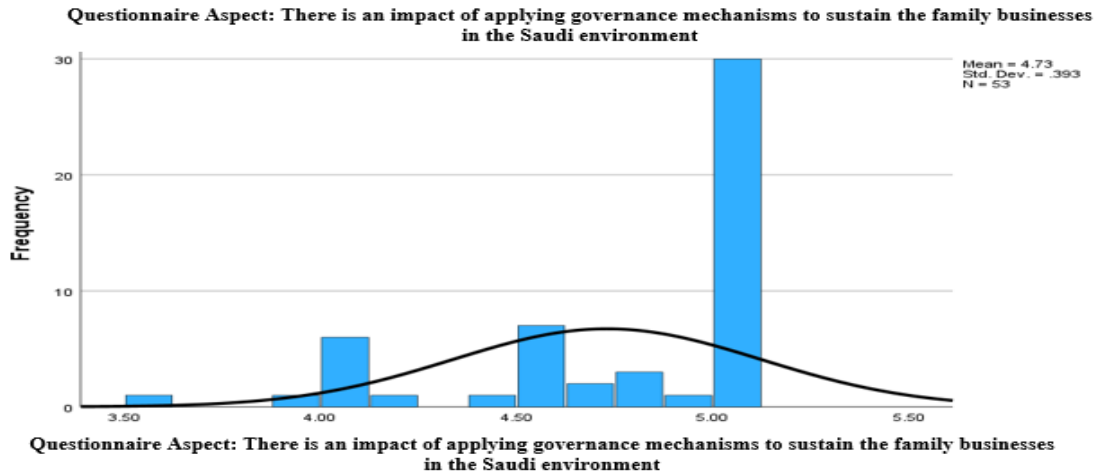
Where the variable that refers to the options (strongly agree, agree, neutral, disagree, strongly disagree) is the ordinal scale and the number entered in the software is ((strongly agree= 5, agree= 4, neutral= 3, etc....), then weights refer to scales, then we calculate the arithmetic mean (weighted mean), which is the result of 4 divided by 5. Where 4 represents the number of spaces (by calculating the period length, as from 1 to 2 is the first space, from 2 to 3 is the second space, from 3 to 4 is the third space, and from 4 to 5 is the fourth space), and 5 refers to the number of choices. When dividing 4 by 5, the period length has resulted, and equal 80.9 and the distribution shall be as the following table:

The Direction of Opinion 5-point Likert scale	
Mean	Direction of Opinion
From 1 to 1.79	Absolutely disagree
From 1.80 to 2.59	Disagree
From 2.60 to 3.39	Neither agree nor disagree
From 3.40 to 4.19	Agree
From 4.20 to 5	Strongly agree

Below are the results of the questionnaire aspects, as there is an impact on the application of governance mechanisms to sustain the family companies in the Saudi environment and all its elements.

Descriptive Statistics								
Item	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree	Mean	Std. Deviation	Opinion
Governance mechanisms are one of the ways that help develop a company's business and enhance its sustainability.	34	18	1			4.62	.527	Strongly Agree
Governance mechanisms are one of the ways that help determine the rights and liabilities of the family members.	43	10				4.81	.395	Strongly Agree
Governance mechanisms are one of the ways that help reduce future disagreements such as disputes on management.	40	11	1			4.75	.480	Strongly Agree
Governance mechanisms are one of the ways that help make a fair balance between the company interests and family interests.	42	10	1			4.77	.466	Strongly Agree
The governance mechanisms eliminate the asymmetry of family business information.	43	8	2			4.77	.505	Strongly Agree
The governance mechanisms promote the company's reputation.	37	12	2		2	4.55	.889	Strongly Agree
The governance mechanisms contribute to building economic entities having the capability to compete in the labour market.	46	6	1			4.81	.622	Strongly Agree
The governance mechanisms contribute to attracting domestic and foreign investments.	43	9	1			4.79	.454	Strongly Agree
Governance mechanisms contribute to the growth of the economy and the diversification of its sources.	41	12				4.77	.423	Strongly Agree
Governance mechanisms increase the opportunities that enable family businesses to obtain bank facilities.	37	14	2			4.66	.553	Strongly Agree
<b>There is an impact of applying governance mechanisms to sustain family businesses in the Saudi environment</b>						4.729	0.39	Strongly Agree

It is clear from the above table that the final result of the questionnaire aspect is the option “strongly agree”, which refers to the satisfaction of male and female employees on the impact of applying the governance mechanisms to sustain the family businesses in the Saudi environment, and the following chart illustrates the frequency distribution of the questionnaire aspects:



### Third: ANOVA Test

ANOVA test shall be used in verifying the significance of differences between the averages of the three groups or more in one dependent variable. It is done in one shot and conducted by adopting paired comparison between all averages using a T-test. This analysis shall be conducted to assess the extent of significant differences in the directions of the questionnaire aspect according to demographic variables as the following:

#### ANOVA Test among the directions of the questionnaire aspect according to the type

The hypotheses shall be formulated as the following:

- Null hypothesis: There are no significant differences among the directions of the questionnaire aspect according to the type.
- Alternative hypothesis: There are significant differences among the directions of the questionnaire aspect according to the type.

ANOVA						
		Sum of Squares	Df	Mean Square	F	Sig.
The aspect of the Questionnaire	Between Groups	.291	1	.291	2.023	.161
	Within Groups	7.196	50	.144		
	Total	7.487	51			

It is clear from the data in the table that there are no significant differences

between the directions of the aspect represented in the impact of applying the governance mechanisms on the family companies in the Saudi environment according to the type at a significance level of 5%.

**ANOVA Test among the directions of the questionnaire aspect according to the education qualification**

The hypotheses shall be formulated as the following:

- Null hypothesis: There are no significant differences among the directions of the questionnaire aspect according to the education qualification.
- Alternative hypothesis: There are significant differences among the directions of the questionnaire aspect according to the education qualification.

<b>ANOVA</b>						
		Sum of Squares	Df	Mean Square	F	Sig.
Variable	Between Groups	.109	1	.109	.693	.409
	Within Groups	7.847	50	.157		
	Total	7.956	51			

It is clear from the data in the table that there are no significant differences between the directions of the aspect represented in the impact of applying the governance mechanisms on the family companies in the Saudi environment according to the education qualification at a significance level of 5%.

**ANOVA Test among the directions of the questionnaire aspect according to the job**

The hypotheses shall be formulated as the following:

- Null hypothesis: There are no significant differences among the directions of the questionnaire aspect according to the job.
- Alternative hypothesis: There are significant differences among the directions of the questionnaire aspect according to the job.

<b>ANOVA</b>						
		Sum of Squares	df	Mean Square	F	Sig.
Variable	Between Groups	.060	1	.060	.442	.509
	Within Groups	6.681	49	.136		
	Total	6.742	50			

It is clear from the data in the table that there are no significant differences between the directions of the aspect represented in the impact of applying the governance mechanisms on the family companies in the Saudi environment

according to the job at a significance level of 5%.

**ANOVA Test among the directions of the questionnaire aspect according to the company type in terms of being a family business or not**

The hypotheses shall be formulated as the following:

- Null hypothesis: There are no significant differences among the directions of the questionnaire aspect according to the company type in terms of being a family business or not.
- Alternative hypothesis: There are significant differences among the directions of the questionnaire aspect according to the company type in terms of being a family business or not.

<b>ANOVA</b>						
		Sum of Squares	df	Mean Square	F	Sig.
Variable	Between Groups	.604	1	.604	4.298	.043
	Within Groups	6.882	49	.140		
	Total	7.485	50			

It is clear from the data in the table that there are significant differences between the directions of the aspect represented in the impact of applying the governance mechanisms on the family companies in the Saudi environment according to the company type in terms of being a family business or not at the level of 5%.

**ANOVA Test among the directions of the questionnaire aspect according to the application of the governance mechanisms you work therein**

**The hypotheses shall be formulated as the following**

- Null hypothesis: There are no significant differences among the directions of the questionnaire aspect according to the application of the governance mechanisms.
- Alternative hypothesis: There are significant differences among the directions of the questionnaire aspect according to the application of the governance mechanisms.

<b>ANOVA</b>						
		Sum of Squares	df	Mean Square	F	Sig.
Variable	Between Groups	.004	1	.004	.030	.863
	Within Groups	6.919	49	.141		
	Total	6.923	50			

It is clear from the data in the table that there are no significant differences between the directions of the aspect represented in the impact of applying the

governance mechanisms on the family companies in the Saudi environment according to applying the governance mechanisms at a significant level of 5%.

**Fourth: Estimation of regression model and its significance test**

The study used the multiple regression analysis methods to estimate three models as the following:

**Questionnaire aspects and elements regression model**

The regression coefficients of the ten elements included in the questionnaire aspects are estimated and the results are as the following:

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-3.331E-16	.000		.	.
Governance mechanisms are one of the ways that help develop a company's business and enhance its sustainability.	.100	.000	.139	.	.
Governance mechanisms are one of the ways that help determine the rights and liabilities of the family members.	.100	.000	.101	.	.
Governance mechanisms are one of the ways that help reduce future disagreements such as disputes on management.	.100	.000	.127	.	.
Governance mechanisms are one of the ways that help make a fair balance between the company interests and family interests.	.100	.000	.121	.	.
The governance mechanisms eliminate the asymmetry of family business information.	.100	.000	.132	.	.
The governance mechanisms promote the company's reputation.	.100	.000	.197	.	.
The governance mechanisms contribute to building economic entities having the capability to compete in the labour market.	.100	.000	.166	.	.
The governance mechanisms contribute to attracting domestic and foreign investments.	.100	.000	.117	.	.
Governance mechanisms contribute to the growth of the economy and the diversification of its sources.	.100	.000	.112	.	.
Governance mechanisms increase the opportunities that enable family businesses to obtain bank facilities.	.100	.000	.145	.	.

a. Dependent Variable: variable2

The above table refers to the significance of each element of the questionnaire

aspect and its significant impact on the questionnaire aspects results.

### Questionnaire aspects regression model

Questionnaire aspects regression model in terms of public opinion was estimated and the results are as the following

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-7.550E-15	.000		.	.
Variable	.500	.000	.518	.	.

a. Dependent Variable: variable

The above table refers to the significance of the questionnaire aspect and its significance impact on the results of public opinion.

Based on the previous analysis, we conclude that the majority of the respondents (77%) believe that the governance mechanisms help to develop and sustain the company's works and that following the governance mechanisms reduces the dispute on management, eliminates the asymmetry of information, achieves a fair balance between the company's interests and the interests of the family, enhances the company's reputation, and contributes to building competitive economic entities in the labour market, which enhances the attraction of local and foreign investments and contributes to the growth of the national economy. Based on the previous results, the study concludes that the hypothesis of the study, which states that the application of governance mechanisms leads to the sustainability of family companies, is correct.

### Conclusions

The study reached a set of results, the most important of which are:

1. There is a relationship between the application of governance mechanisms and the sustainability of family businesses.
2. The success of governance depends on the seriousness of the application and the adoption of a governance culture by those responsible for managing companies, which enhances the achievement of their objectives.
3. The family businesses do not recognize that the best method to deal with the issue of intergenerational succession in management is to develop a long-term strategy and not at a time when the need for a successor to take the control of the company arises.
4. The company's growth and sustainability depend on the formulation of good corporate governance that copes with changes in the family.
5. Family businesses do not recognize that developing a long-term strategic plan leads to increased revenue and ultimate profitability.



6. The need to develop a family charter in order to create a common awareness and systematic understanding among family members about how to manage their business now and in the future.

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