

## SMALL MEDIUM SIZED ENTERPRISES IN SAUDI ARABIA: CONCEPTUALIZING AN EFFECTIVE SUCCESSION PLANNING

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**Abstract:** *Many studies have been conducted not only to identify but also to scrutinize the underlying significance of succession planning in various organizations as well as various geographical contexts. However, the underlying role of succession planning in Saudi Arabia has been constrained to only family businesses and there is no cohesive research about the importance of succession planning in Small and Medium Sized Enterprises in Saudi Arabia. Although Small Medium Size Enterprises (SMEs) are generally well equipped with expert expatriates, but the lack of experienced and specialized local managers and executives has impeded the progress toward "Saudization". The process of "Saudization" has begun in Saudi public as well as private sectors in order to fill the gap, however, its efficacy in dealing with the challenges of replacing of the expatriate workforces by the skilled local managers remained unknown. To do so, there is a strong need to adopt a comprehensive succession-planning framework in order to engage local executives. It was in this context that the authors have undertaken the study about an effective succession planning in SMEs companies in Saudi Arabia. An in-depth review of the literature has been conducted prior to conceptualization of the findings. The identified components of an effective succession planning have been represented as a conceptual framework followed by a conclusion and a need for further research.*

**Keywords:** *succession planning, leadership, small and medium sized enterprises.*

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### Introduction

The exponential economic and population growth in Saudi Arabia over the past 25 years has resulted in significant benefits, but there are also problems (Al Mallakh & el Mallakh, 2015). Seemingly, there seems to be some issues related to the country's business and economic industry spheres (Ramady, 2010; Rice, 2004). One of the main problems is; while Small

Medium Size Enterprises (SMEs) are generally well equipped with expert supplies and technologies, this is not supported by a local, experienced and specialised executives and managers (Atiyyah, 1993; Jannadi, 1997; Mellahi & Wbod, 2001; Metcalfe, 2008; Rice, 2004). SMEs have been represented over 90% of businesses, and accounted for 50–60% of national employment on an average amongst the developing nations (Devine & Syrett, 2014; UNIDO, 2004). Another problem identified is:, a relatively little attention has been given to the important role that was played by SMEs in the Asia Pacific region, North America, EU and Persian Gulf countries, particularly Saudi Arabia (Al-Somali, Gholami, & Clegg, 2013; BMI, 2016; Looney, 2004).

The issue in regard to succession planning was identified by The Saudi Government as workforce shortage and recruits internationally for SMEs related areas (Al-Somali et al., 2013; Mohammad, 2015). To articulate the problems, a literature review and an analysis of the Saudi government's formal documents show that Saudi Arabia is facing several challenges in its economy system and human resource development (HRD) programmes (Achoui, 2009). The main challenges are high dependence on oil and the petrochemical industry; high dependence on foreign labour; a low rate of female participation in employment; and a weak link between educational system output and the needs of the economic sectors, especially those of the private sector, which requires skilled and professional labour (Achoui, 2009). Recent studies in the private sector especially in small and medium size companies (SMEs) show that there is no systematic Human Resource Development activities, especially Succession planning structurally or functionally (Achoui, 2009). However, the case is different in large government and private companies. A mass exodus of this workforce would precipitate a workforce crisis due to the lack of succession planning at all levels of SMEs sector, particularly in areas such as management and senior positions in executive and CEO areas (Abunar, 2016; Al-Adl, 2016). Recently, Saudi government has engaged in the 'localization' of human resource capital in the Kingdom of Saudi Arabia referred to as the 'Saudization'. It has been examined that the Saudization process initiated in the Saudi public and private sectors and its efficacy in dealing with the challenges of replacement of the expatriate workforce and the skill development strategy (Al-Asfour & Khan, 2014). There is a strong need to adopt a comprehensive succession planning framework to develop engage local employees and aligning it with the demands of the job market. A holistic Saudization policy is needed which can bridge the gap of talent and skills required after the removal of the expatriate workers.

Accordingly, Family businesses make up a biggest portion of all Saudi companies, encompassing a vast range of firms of different sizes and from different sectors (Niblock & Malik, 2007; Pan, Weng, Xu, & Chan, 2018). Most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs (Achoui, 2009; Lukács, 2005; Pan et al., 2018). Moreover, lack of succession planning in family business in Saudi Arabia is stated as a big issue, which may undermine some of the country's foremost economic institutions, SMEs (Beatrice, 2013; Field, 1985; Luciani, 2005). Succession is a problem for family businesses the world over (Pan et al., 2018). The Family Business Institute calculates that only 30% of such businesses survive into the second generation, only 12% into the third generation and only 3% into the fourth (Bjuggren & Sund, 2001). However, the problem may be bigger in the Gulf than anywhere else. Around 80% of the companies in the region, producing more than 90% of its non-oil wealth, are family-owned or controlled. The number of relatives clamouring for a job in these firms is surging, partly because the population is so young (the average age of citizens in the Middle East and north Africa is well below the global average) and partly because governments are desperate to shift workers from the public

to the private sector (in the United Arab Emirates 90% of employed citizens work for the state). These family firms are mostly fairly recent creations—the products of the oil and property booms of the 1970s and 1980s that turned people who were lucky or well-connected enough to own prime bits of land into moguls. Over the next decade up to half the region's business families, controlling assets worth perhaps a trillion dollars, will hand the reins to the next generation. That is a worrying prospect. A proper succession requires good governance. Yet too many of the region's businesses blur the line between what belongs to the firm and what belongs to the family: they spend company money as if it were their own and employ family members without subjecting them to proper vetting. In addition, if disputes occur, the region's courts are not equipped to cope. The World Bank reports that they take an average of 575 days to resolve a commercial dispute. An estimated 70% of Saudi families have at least one succession problem tied up in court (Achoui, 2009; Davis, Pitts, & Cormier, 2000). The two most obvious results of a botched succession are incompetent leaders and feuds. Family tradition often conspires against merit: families routinely favour the eldest son regardless of his ability. Locals say there are examples of incompetents “all around”, though they are reluctant to name names. The scope for feuds is increased by the complexity of family structures, thanks to high fertility rates and occasional polygamy. Abdulaziz Al Ghurair, chairperson of the Family Business Network, a regional body, predicts that more than half the businesses will split over succession. The evidences have shown that no research work has been done in the area of succession planning in SME businesses in Saudi Arabia, majority of them were limited to family business and monarchy family (Alwafi, 2013; Sonfield, Lussier, & Fahed-Sreih, 2015).

Therefore, present research has been undertaken, considering following objectives and questions in next section. The present study has a uniqueness in which it employs several descriptive variables that have not been employed in past research on business succession planning. By examination of the impact of pertinent demographics, including the generation of the firm, presence of a Board of Directors, on succession planning processes, CEO's age and number of family members involved in the business, the study has been extending past research on business succession planning in SMEs with regard to the nature, importance and extension of succession planning in the context of Saudi Arabia. The researcher has found lack of study that has been undertaken such an in-depth examination of succession planning in SMEs in neither gulf area nor Saudi Arabia, which is surprising given that they represent the vast majority of employers worldwide. The aim of the project is investigating the impact of succession planning on SMEs in Saudi Arabia. The specific objectives of the study are:

1. To study the current common practice of succession planning and strategies of SMEs in Saudi Arabia
2. To identify the factors that support the process of adoption of succession planning,
3. To understand the role of decision by the management in the organization in facilitating the succession strategy.
4. To conclude, the main identified problems are; lacking local experts due to inappropriate succession planning, which is related to lack of human resource development plan.

Moreover, the localization strategy which is known as Saudization has not been focusing on developing experts through determining the significance of human resource development plans and succession planning. The sole focus in Saudi is on shifting from globalization to localization forgetting the significant role of GoLocalization concerning preparing the readiness conditions for the SMEs. This research will be conducted in Saudi Arabia SMEs context

necessitating uncovering the determinants of an effective succession planning considering the manifesting and incorporating the role of diffusion of innovation.

## Literature Review

### Saudi Arabia: A Retrospective Look at the SMEs

Currently SMEs accounts for 90% of Saudi Arabia’s businesses and have been providing the valuable opportunities to diversify the economy and improve productivity (Abunar, 2016). SME contribution to GDP has been reported to almost 33%, which has been more than many other GCC economies (Abunar, 2016; JEDDAH-CHAMBER, 2016). Because the importance of SMEs has been increasing in the economy, the government of Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz, has taken initiatives to develop and promote SMEs. The purposes of financial initiative by government is to identify the ways of supporting SMEs in the numerous fiscal and social variables, which is focusing toward the imperative role of SMEs in stimulation and development of economies throughout the world. SMEs have been known as a heterogeneous group (Abunar, 2016; BMI, 2016). These firms are available in different size and nature, which might operate in various markets, including international markets, rural, national, urban or local. SMEs have been operating in a scope of business activities, from a single artisan to a small software firm or engineering (Abunar, 2016). They contains various degrees of growth orientation, skills, sophistication, and capital depending on the sizes and their serving markets (JEDDAH-CHAMBER, 2016). Value of the sales or assets and number of employees, which varies in each country have been the factors that statistically defined SMEs. However, number of employees is the most commonly used parameter. More than one definition of SME has been followed by Saudi Arabia. However, the most adopted definition of SME in Saudi Arabia has been shown in table 1 (Al Saleh, 2016; JEDDAH-CHAMBER, 2016):

**Table 1. SMEs in Saudi Arabia (JEDDAH-CHAMBER, 2016)**

Enterprise category	Number of employees	Annual revenue
Micro	1-2	Less than USD 27,000
Small	3-49	USD 27,000–1.3 million
Medium	50-200	USD 1.3–13.3 million

Source: SIDF, However, there is a need to have a clear Kingdom-wide strategy for SMEs, with only one institution and one definition

Any sustainable and successful economy’s backbone has been SMEs. Even though, roots of them have been local, yet, they can exploit global opportunities with increasing trade and globalization across the world (Al Saleh, 2016). Because of the overall economic strategy of the region for diversifying away from oil sector, SMEs have shown to have a strong footing in Saudi Arabia. Based on the stated numbers in Saudi Arabia, SMEs have constituted almost 90% and 60% of the registered businesses and total employments with a count of 1.97 million, respectively. Nearly, 85% of these SMEs have shown to be single proprietor companies (BMI, 2016; JEDDAH-CHAMBER, 2016). These SMEs have been considered as a key to unlock the Saudi Arabians’ vast potential economy. Table 2 tabulates SMEs distribution by sector.

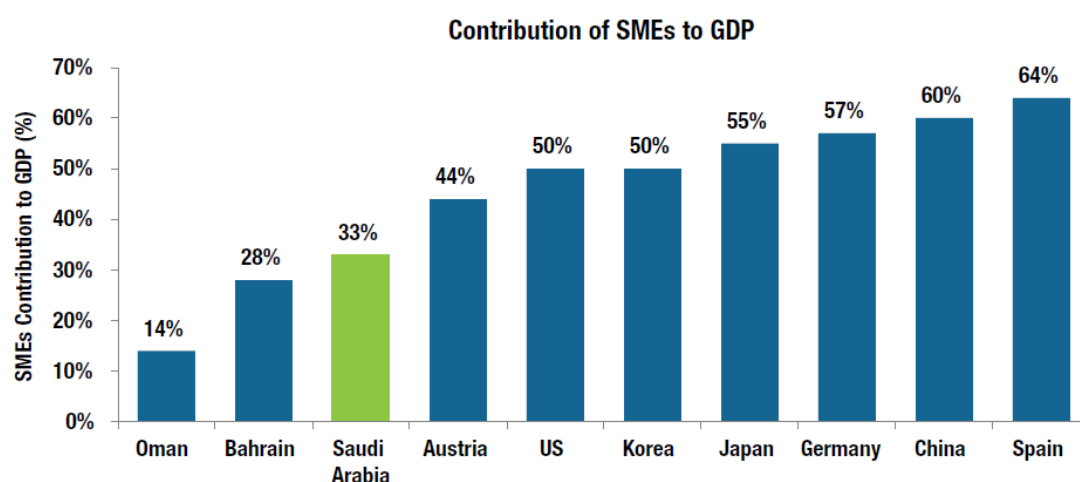
**Table 2. SMEs distribution by sector (JEDDAH-CHAMBER, 2016)**

Sectors	Commercial	Construction	Industrial	Social services	Others
percentage	47	27	12	8	6

Source: Arab news, the report of Small Medium Enterprises in Saudi Arabia, 2016

SMEs have been significantly presented in the private sector. One of the fundamental pillars in the trade field of the private sectors have been represented by SMEs. 12% and 74% of SMEs have been in industrial sector and construction and trade businesses, respectively. Despite the fact that Saudi Arabia has been one of the fastest growing economies in the world, it has been showing a relatively low contribution in terms of employment rate and GDP from the SME sector. SMEs contribution to GDP has been stopped at 33%, which has been considered low in comparison to other most developed economies such as US and Spain SMEs, they had a contribution of 64.3% and 50% to GDP, respectively (Al Saleh, 2016).

However, this number is higher in comparison to most of the GCC countries such as Oman and Bahrain SMEs, which contributed to only 14% and 28% of GDP, respectively. Various initiatives by government have benefited SMEs in KSA and those numbers have been increasing by 28% to 1,497 enterprises in 2014, against 1,173 enterprises during the last year. Consequently, the total value has grown by 31% to SR 1,688 million in comparison to SR 1,286 million in the last year, see figure 1.



**Figure 1. contribution of SMEs to GDP (JEDDAH-CHAMBER, 2016)**

Sources: Union of Arab Bank, SIDF, with over 4.5 million employees, SMEs have been containing close to 25% of the labour force, however since 74% have been in the construction and commercial sectors, they have employed mostly migrant labour. Only around 10% of Saudi Arabians have been an employed labour by SMEs

In developed market, the investment in SME sector has been greatly identified as a successful and effective strategy, where they have been responsible for the new jobs growth and contribution of more than 60–70% of employment and more than 50% of GDP (Al-Adl, 2016). Region of MENA has been required to make some employment opportunities, especially for the younger generation within the age of 15–30 years. Even though, the awareness concerning SME's critical importance sector to economic development has been stated, however cultivating a business environment has been remained relatively less effective in MENA, which has been favourable to sustain growth of SME. Many SMEs have been continuously facing significant barriers to sustainability and growth, such as lack of business management skills, lack of market linkages required to grow and succeed and limited access to finance. For the

region of Mena and Saudi Arabia, the SME lending's average share of total loans has been 8.19%, and 3%, respectively. About, 63% of SMEs have no financial access in the region (Al-Adl, 2016). The overall financing gap of about USD 240 billion for SMEs in MENA has been estimated. Figure 2 depicts average share of SMEs leading of total loans in MENA.

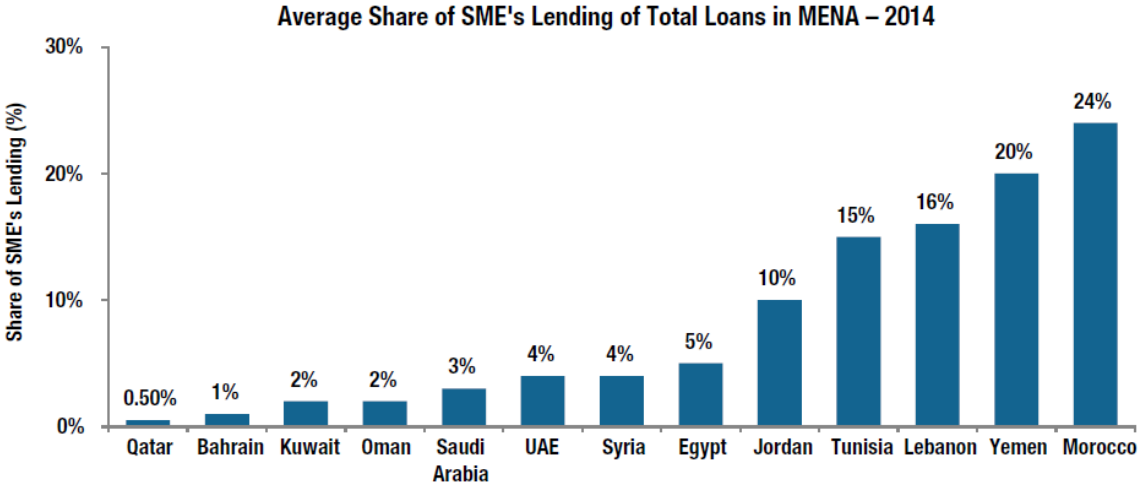


Figure 2 depicts average share of SMEs leading of total loans in MENA.

Sources: Union of Arab Bank, World Bank. It has been shown that nearly four out of five owners in Saudi SME have been pointing to a rigorous procedure of bureaucratic as the key barrier, while most of owners in Jordan have been concerned with high rates of interest upward of 10–14%, in comparison to 4–8% for large businesses.

In the region of Mena, followings have been the key hurdles, which were faced by SMEs (JEDDAH-CHAMBER, 2016):

1. SME have supported organizations suffering from limited and poor co-ordination execution capacity.
2. The sustainability quotient has been lacking in the products and services providing.
3. Lack of growth, effective SME formation's policy environment, and inadequate educational programs have made and unattractive entrepreneurship.

Finding secure funding for ventures has been difficult for almost 92% of SMEs in Saudi Arabia. Despite of the great contribution of sector to overall GDP, about 49% of the SMEs have been sharing their concern regarding the secure funding for their ventures in UAE. SMEs have been facing major hurdles in the GCC, which are as follows:

1. Angel and seed investment has been yet in its initial stages in GCC. In order to get financial aids for SMEs, lot of energy and time has been needed, because of the apprehension of investors.
2. In the banks, specialized skills for catering of the SME segment has been required; however some decline has been seen in the skill set, which has been consequently affecting capability development and innovation.

The shortfall in the performance of SME has been mainly because of the absence of continuous and targeted support services. Accessing to the capital (debt and equity) has been still a key challenge for Saudi Arabia. Even though the size of SME sector has been significantly large,

financiers have been avoiding loaning to the SMEs for a number of reasons (BMI, 2016; JEDDAH-CHAMBER, 2016):

1. Because registries and bureaus cannot give credit scores, there has been a general lack of accessible and reliable information concerning these enterprises.
2. There has been no proven legal environment to allow legal enforcement and collateral registry, in the case of default.
3. Mostly, there is no audited financials in SMEs, which increases the financial institutions requirement for spending more of their resources and time to service them, which leads to increases of operational costs for the financiers , which has been passed on to SMEs in the premium charges form.
4. Because almost 85% of SMEs have been single proprietor companies, the distinction between private assets and company became hazy.

This has been resulting in increasing of lending risk, which made the need for proper policy tools for imparting greater confidence to lenders by controlling their risks better essential. Even in some cases with large number of tools and existing policies or in some cases with programs that have been effective and funded, the lack of strategic co-ordination has been leading to duplication of efforts, which as a result increases the cost and redundancies. Figure 3 depicts most occurring obstacles in SMEs development in Saudi Arabia.

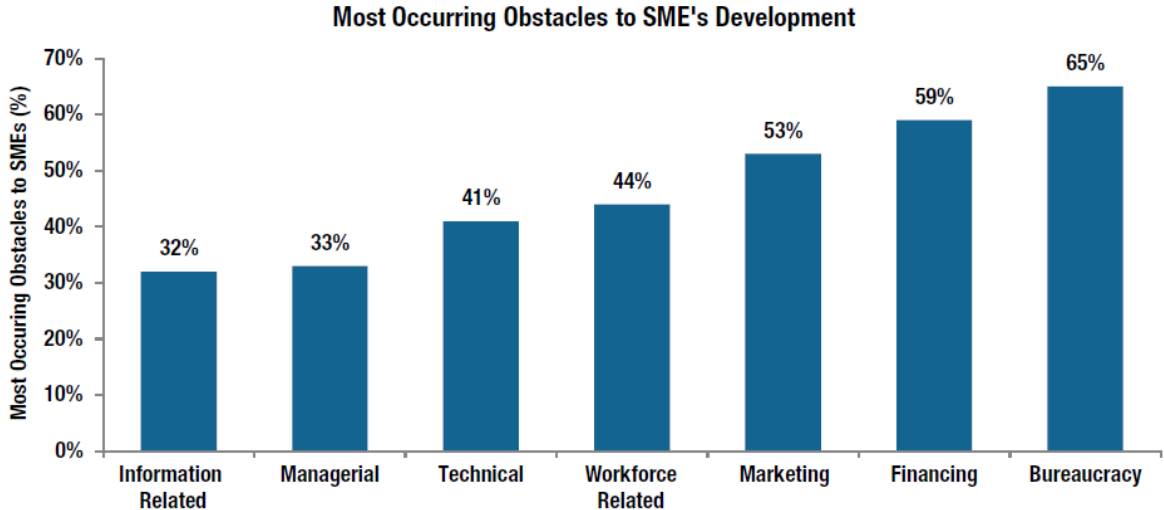


Figure 3 depicts most occurring obstacles in SMEs development in Saudi Arabia.

Source: Riyadh Chamber of Commerce and Industry. Even though reducing the number of procedures have been required in set up a new firm, the government has been striving to make it easy for the SMEs, for the ones that non-availability of adequate financing, licensing and lengthy bureaucratic procedure have been a major issues,

The “Missing Middle” phenomena has been specifically plagued with MENA region, where initial stages of SMEs set up have been passed, however required a further help for growing and maintaining their ventures. In order to meet SMEs’ unique demands, the government needs to be more channelized and customized, in addition to have a programs targeting SME support and plenty of government initiative The banks have been required to go beyond the pre-investment training, as well as provision of limited subsidized loans to efficiently support this Missing Middle throughout their different stages of development. Unfortunately, nearly about

70–80% of businesses have been failing after only an average of 20 months. Strong entrepreneurial bend of the youth, especially in Saudi Arabia, which has been required to be catered in order to meet the employment’s ultimate motive of Saudi youth and subsequently economy diversification has been reflected. Table 3 tabulates challenges faced by SMEs and Government initiatives.

**Table 3. challenges faced by SMEs and Government initiatives (BMI, 2016; JEDDAH-CHAMBER, 2016)**

<b>Challenges faced by SMEs</b>	<b>Government initiatives</b>
<b>Rigorous bureaucratic procedures</b>	Now nine fewer procedures are required to initiate the new business compared to 2005. The government has been aiming to significantly reduce the number of rigorous procedures further.
<b>Access to finances</b>	Government has been increasing the bank participation by reducing their apprehensions in lending to SMEs with the help of Tajeem programs, Kafalah, and initiatives taken by SCSB.
<b>Absence of financial support throughout the lifecycle of SMEs</b>	Banks have been reinforced to provide customized, steady and continuous support. E.g., Saudi Hollandi Bank start the investment in skilled workforce in order to enhance the relationship banking with customers of SME.
<b>Low mentoring support</b>	Tenth Development Plan has been aiming to extend mentoring and training support via different stages of SMEs development.
<b>Low awareness of support programs</b>	The government has been marketing its initiatives and promoting the banks to practice the same, to reach out to the SMEs.
<b>Absence of a single SME management authority</b>	Tenth Development Plan has been aiming to create a integrated system, which can offer a facility of one-stop shop.
<b>Lack of appropriate IT infrastructure</b>	The Centennial Fund, which is The Kingdom’s non-profitable organization, has started the partnership with Microsoft, in order to enhance SMEs’ go-to-market capability and to promote the IT entrepreneurship within its members.

### **Significance of the study**

Many studies have been performed for identification and understanding the need of succession planning in different organizations (Galbraith, Smith, & Walker, 2012; Iqbal, 2015; KiatGan & Almsafir, 2013; Rahman, Yaacob, & Radzi, 2016; Rothwell, 2010; Venter, Boshoff, & Maas, 2005). It has been stated that it is much better to grow out a leader from a company rather than hire one from outside (Pandey & Sharma, 2014). Hiring must be done for lower levels only, however the leaders must be grown out from the organization itself. Moreover, it has been suggested that “succession planning” as a systematic way is required in the organization to make sure employees are competent enough to develop, and following by that replace the strategic roles in organization hierarchy (Haworth, 2005). Over the last 25 years, the significant benefits have been attained because of population and exponential economic growth in Saudi Arabia. Saudi Government has identified workforce shortage, and they recruited internationally for health professionals and other sectors. A mass exodus of workforce, where there is a lack of succession planning can lead to precipitate of a workforce crisis, especially in areas like senior positions and management in SMEs and specialty clinical areas.



For instance, those companies, which have been running as family businesses, would be affected by two contexts of (1) how the family would influence the business and (2) small size of the company. Family-owned businesses have been mostly considered as small and medium-sized enterprises (SMEs) with less than 50-million-euro turnover and 250 employees, or, as a substitution for the turnover standards, their total assets have been carrying a booked value below 43 million euro throughout their entire lifetime, which often extends across generations (Al-Adl, 2016). These companies have been significantly contributed to the economies of many countries. Small and medium enterprises (SMEs) have been known as engine of economic growth, which have been necessary to promote an equitable development (Fresner, Morea, Krenn, Uson, & Tomasi, 2016; Krishnan & Scullion, 2016). The employment potential at low capital cost is the major advantage of the sectors. In comparison to large enterprises, the labour intensity of SME sectors are much higher.

The sector is mostly driven by innovation and individual creativity, thus known as the nursery of entrepreneurship. SME sector has been stated as the main driving force behind wealth creation, job creation, and reduction in income disparities, poverty reduction and income distribution. SME sector has formed the vanguard of the modern enterprise sector, and presented the leading force of growth and economic modernization in the country (Aremu, 2004). Generating more than half the Gross Domestic Product (GDP) of the world and employing half the world's workforces by the owner-managed businesses have been hypothesized. However, often the problems, needs and prospects of SMEs have been ignored. Jasani has identified the need of change in technological innovations and management thinking where small and medium enterprises have been to enhance their competitive edge (Jasani, 2002). It has been also mentioned by Jasani that while large-scale and medium enterprises have been aligning to prepare themselves for the onset of globalisation and technology advancement, the small-scale enterprises have been left behind in these significant areas. The great strength of owner-managed and family businesses is that they have been driven by the qualities and skills of their principals. However, they can create a challenging problems for the business, for instance there are some period of times that owners' aspiration may not be in association with the businesses' needs.

Further, it has identified three key areas of concerns for these business owners, which includes professional management, succession and funding (Jasani, 2002). He has asserted that, irrespective of the size of business, there is a feeling by most of people that there should be only one management successor chosen from the management or family. The other general concern is regarding the loss of control if the business owners involve outsiders to finance growth, especially among the small-scale enterprises. Maintaining a balance sheet and positive cash flow are the ongoing battles of many small business owners, which consumes almost all of their time. Therefore, retirement seems to have no place in their business plan, let alone plans to hand over the business. Studies have been suggesting establishment of a business succession plan as a beneficial factor for business owners.

The Bank has stated "lack of trust" as a major factor, which makes the SME owners do not want to institute succession plans. Consequently, overwhelming majority of SME businesses have been observed to collapse because of this lack of succession planning (Garg & Van Weele, 2012; Rogerson, 2000; Ward, 2011). Small and medium scale enterprise and developing countries importance have led to reconsideration of a role of Small and Medium Scale Enterprises in the economy of nations. In 1998, among the European Union, SMEs had accounted for 99.8 percent out of 19 million enterprises, and two thirds of the jobs in the region

had been created by SMEs. Creation of SMEs have been largely in association with strong performance of the US economy in recent years (Abdullah et al., 2012). Undoubtedly, the small-scale enterprises have existed in economic environment. Small and Medium Scale Enterprises are an all-time necessity. The focus of this study is on succession planning in SMEs in Saudi Arabia. Succession planning has been defined in various ways by different authors. Some of these definitions are as following: •The attempt of planning a right number and quality of managers, hiring a key-skilled employees for covering retirement, promotions or death and serious illness and also planning a new positions that may be required in future organisation plans has been the definition of succession planning (Sambrook, 2005).

•Hills (2009) on the other hand has suggested that succession planning has been more about filling the top spots (Hills, 2009). Based on his statements, succession planning has been a strategy of smart talent management, which can maintain the talents throughout the organisation and ensure that organisation has all the skills it needs in place, or on hand, for being able to respond to today's business environment that has been like a rapidly shifting sands.

•Additionally, succession planning has been also defined by Armstrong & Taylor in 2014, who referred to it as a process where an organisation ensures employees have been hired and continuously developed to fill every key role in the company (Armstrong & Taylor, 2014).

•Furthermore, interestingly, Michelson (2006) has explained succession planning as a plot that requires the right people on board and wrong ones off the board, and placing of the right individuals in the right seats (Michelson, 2006).

•Meanwhile, other authors such as Rothwell (2005), Conger, and Fulmer (2003) have been discussing the fact that succession planning has been simply owning a right people in the right place at the right time (Conger & Fulmer, 2003; Rothwell, 2010).

The empirical evidence has been showing that typical succession plan comprises four phases (Sobol, Harkins, & Conley, 2007): Understanding the vision of the company's future and needs, Analyses and selection of the best candidates, Preparing a progression plan for candidates, and Individuals' transition into new position. It is important to realize that, even though the succession planning has been summarized in these four basic steps, but in order to minimize the impact of transition, plan for each company's will be different in diverse degrees of complexities (Rivolta, 2017). They have referred to succession plan as a fingerprints (no two are alike), which leaves an impression on everything it touch (Tetteh, 2015). Moreover, the effective succession planning requires a full support from management. One of the major challenges of succession planning has been reluctant of top manager in training of junior staffs, since they consider those staff as a threat to senior management's existence. Support of the general staff has been also essential in the activities and efforts of succession planning (Carney, Zhao, & Zhu, 2018). Those staff with no interest of being trained and take up new superior tasks have been known as the endanger of the spirit and efforts of succession planning in the organisation. Many studies have been also developed in order to demonstrate the challenges that a certain organisation has with succession planning, to name a few: intention to stay, in the end effectiveness of the organisation and career development of employees.

Also, succession planning has been known as the proactive attempt to make sure that leadership will be continuous in an organisation, by indicating how these positions would be filled as both unplanned and planned departures occur (Kalra & Gupta, 2014; Schmalzried & Fallon Jr, 2007). Smooth continuation of business has been ensured by process of succession planning (Carney

et al., 2018; Negrea, 2008). The main goal has been discovering and preparing proper individuals in order to fill the key positions in times when people resign, retire, transfer, die or find new opportunities outside of an organisation. Human Resource Management (SHRM) has brought an important point, which says succession planning has not been about pre-selection but preparation (Klein & Salk, 2013). Additionally, it should be understanding that succession planning has been about realizing the fact that a certain individual would not stay with an organisation forever. Thus succession planning studies have focused on three main areas (Ganu & Boateng, 2012):

- First, succession planning has addressed the needs of the entity as senior leadership retires and ages.
- Second, it has helped the entity preparation for an unexpected event such as the death of a person or sudden illness in a key leadership role in the organisation.
- Finally, succession planning has made sure that the organisation has the proper personnel in place for functioning at peak efficiency in both the present and future.

Thus, succession planning was explained to serve as a means to take an organisational inventory of human capital and to identify the existing or future gaps better. Succession planning is a strategic planning tool, which has been addressing the problems created by departure of individuals and bridging the knowledge gap that has been created by that (M. F. Klein & Salk, 2013). According to Rothwell (2005), it has been stated that employee retention and succession planning are parts of HR planning, which is concerned with staffing; they both have direct influence on reducing staff turnover or even better enhancing employee retention. Aim of this study is investigating the subject area of succession planning regarding innovation theory's diffusion within the context country of Saudi Arabia covering the SMEs knowledge sphere. A suitable succession needs good governance. Nevertheless too many of the businesses in the region have been blurring the line between what belongs to the family and what belongs to the firms: spending money like it belongs completely to them or hiring family members without any screening (Pan et al., 2018). Moreover, when the disagreements occur, courts of the region have not been equipped to cope.

## Methodology

Searching keywords have been deployed within the subject-specific databases, this method is extensively popular methodology to conduct review articles (Xue, Shen, & Ren, 2010). To do so, specific keywords encompassing; “succession planning, leadership, talent pool, and SMEs” were sought within the EBSCO and Science Direct databases. High impact factor can be seen as a reliable gauge in this study because mirrors the quality of the journal and its citation frequency (Hendee, Bernstein, & Levine, 2012). The methodical procedure was adopted from Kothari (2004) in which the practical, theoretical, methods and choosing an appropriate topic were articulated (see figure 4).

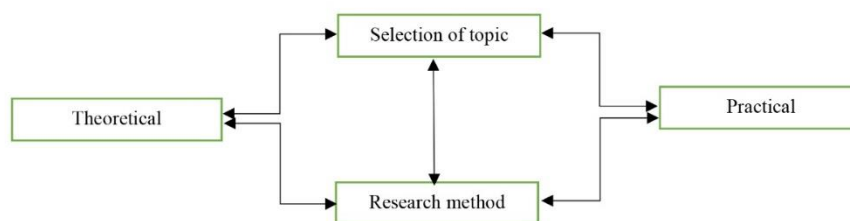


Figure 4. Research design and plan (Kothari, 2004)

## Conceptualization and effective succession planning

### *Knowledge, persuasion and decision*

Management and Succession planning has been also defined as “an organizational systematic and deliberate effort” in order to make sure about the leadership continuity in key positions, retaining and developing knowledge capital and intellectual for the future and encouraging people for development (Rothwell, 2010). Second, the succession planning must also include other possible items in the tested approaches, which have been considered more suitable to expand the knowledge base in the area of succession planning (Huang, 1999; Schiuma, Durst, & Wilhelm, 2012). We hypothesize as follows: succession planning has been explained by Dessler (2000) as a process of ensuring about suitable supplies for current and future successors for main jobs, in order to be able to manage the career of individuals for optimizing the needs of organization and ambition of individuals (Gary, 2010). Succession planning has been defined by Kim in another form of “ongoing process of systematically identifying, assessing, and developing organizational leadership for enhancement of performances (Kim, 2003). Another definition of succession planning as defined by Kim is “the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance (Kim, 2003). A typical board of directors can feature a lot of Type A personalities. It kind of goes with the territory. However, succeeding on a board of directors requires using soft skills, like persuasion and consensus building (Rothwell, 2010). Committees are a great place for future board members to practice using persuasion and building consensus, as well as learning how to put their “association hat” on, rather than representing their individual or company interests. Creating a high-performing association requires having board members who have some experience in the fine art of being a board member, and committees are a great place to gain that experience (Charan, 2005; Zajac, 1990).

We hypothesize as follows: there is an essential question that a board need to ask itself regarding selection of the directors, which is an approach it requires to take; is this decision result of planning? Is it an ad hoc decision? Or is the decision has been driven by a vacancy? (Groves, 2007). This has been likely lead to a higher turnover of directors on boards, and making it more important for them to put more effort on making a decision on the skills, qualifications and attributes that they would like to see in the potential directors. A general observation has been made on the family owned companies in Saudi Arabia, it has been found that majority of them has needed to justify their decision to choose members as a successors, particularly in listed companies (Pan et al., 2018).

### *Organization and its contextual factors*

There has been a request for greater professionalization of the business and a separation between management and ownership. Securing the future and making leadership decision according to the estimated changes to company strategy, the market and economic environment where it operates has been the all what succession planning is about (J. Ward, 2016). It has been important to continually evaluate if the previously designated CEO is still the ‘right’ person for

the job. Succession planning has not been about crowning the next CEO before the right time; it has been about building a systematic process, which involves the board and senior management in the discussion. Moreover, the degree of director's engagement with company must be taken into account as well, which significantly links with decision processes. We hypothesize as follows: one of the challenges that business organizations have been facing these days is developing a leader within the organizational talent pool for the next level of leadership. Succession planning's implementation has been a difficult task (Lansberg, 1988). A time when the person who was identified as a successor has not been live up to expectation or has been resigned unexpectedly, in those cases, it could be said that the plan became invalid. Effective management program and succession planning has been shown to be helpful in boosting the confidence of the employees and their commitments in achieving a organizational goals. According to the Johnson et al. (1994), employment of succession program can help in reducing the firms' turnover rates, placing the most qualified employees in the crucial positions and improving the staff morale (Johnson, Costa, Marshall, Moran, & Henderson, 1994). Wallum (1993, p.44) has conducted an empirical research, which concluded that the succession planning's adoption can contribute to the following positive outcomes (Wallum, 1993):

- 1) Helping organization with internal resourcing.
- 2) Reducing the attrition of high-fliers.
- 3) Allowing for more realistic planning and counselling.
- 4) In advance candidates' preparation for senior appointments.

Huang gas performed a study on Taiwanese firms, according to the result of that research, it has been concluded that no empirical evidence has been present to support the fact that firms with succession management system have better HR outcomes than those who do not (Huang, 1999). Form his collected data in his studies, it has been also concluded that implementing the succession management plan merely, does not make a considerable difference to the outcomes of reported businesses (Huang, 1999). According to Huang (2001), succession planning's success has been depending on many factors such as well-planned design, resource allocation, careful implementation process, credibility of staff and commitment of top-level management. In many organizations, there has been a large gap between the desire for influential succession planning and its actual practices (Hall, 1989). We hypothesize as follows: Organizational readiness for change has been multi-level construct. Readiness has been more or less present at the unit, individual, department, group or organizational level (Weiner, 2009). At any of these analysis levels, readiness can be theorized, evaluated and studied. Even though, organizational readiness for change has not been a homologous multi-level construct (K. J. Klein & Kozlowski, 2000).

### ***Adoption of succession planning***

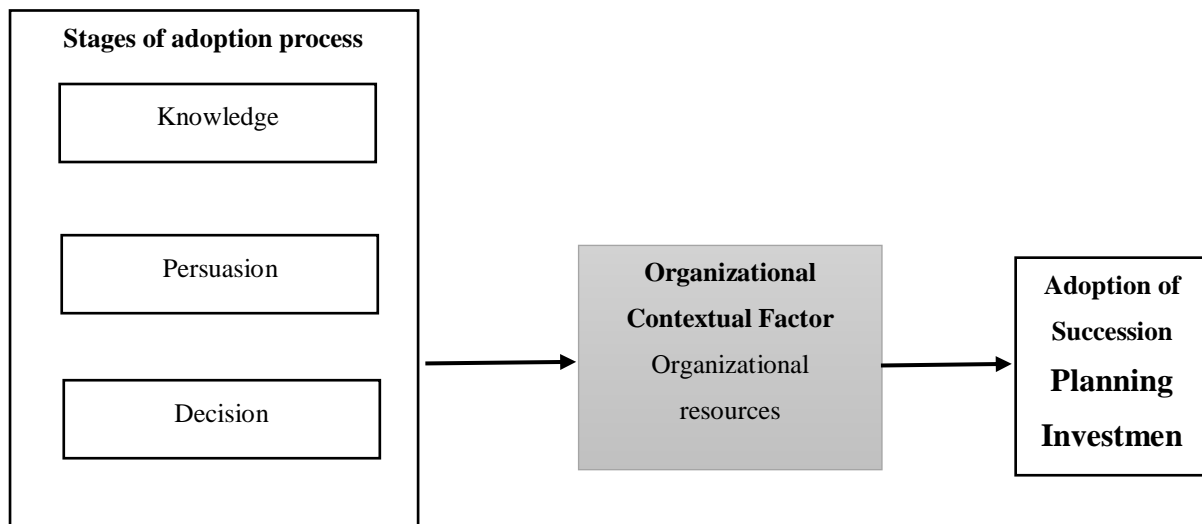
Organizational readiness for change has been both multi-level construct and multi-faceted. Precisely, organizational readiness has been referring to change commitment of organizational members and change value to organizational change implementation (Holt, Armenakis, Feild, & Harris, 2007; Weiner, Amick, & Lee, 2008). This definition has been following the common meaning of the 'readiness,' which implies a state of being both behaviourally and psychologically prepared for taking action (i.e., able and willing). Like Bandura's notion of goal commitment, change commitment to change has been also referring to share resolve of organizational member for pursuing the courses of action involved in change implementation. Since implementation has been usually considered as a team sport, the problems can arise, if some individuals feel committed but the rest do not. It has been observed by Herscovitch and

Meyer (Herscovitch & Meyer, 2002) that organizational change implementation by members can occur for three reasons, (1) because they have to (having little choice), (2) they ought to (feeling obliged) and (3) because they want to (they value the change). Individuals with “want to” motives have been the ones with the highest level of commitment. Same as Bandura's (Bandura, 1997) notion of collective efficacy, change efficacy has been referring to shared beliefs of organizational members in their collective capabilities in order to execute and organize the courses of action involved in change implementation. Some of the good examples of collective (or conjoint) capabilities have been coordinating action across various groups and individuals, and promoting organizational learning. According to Bandura and many other researchers, efficacy judgments have been referring to action capabilities; efficacy judgments have been neither outcome expectancies nor evaluation of resources, skills or knowledge (Bandura, 1986). When individuals share a sense of confidence, change efficacy will be higher, which let them collectively implement a complex organizational change. Several points have been discussed regarding this conceptual of organizational readiness' definition for change merit discussion.

First, organizational readiness for change has been considered here in psychological terms. Others have been describing organizational readiness for change in more structural terms, which underlines the organization's informational, human, material and financial resources (Bloom, Devers, Wallace, & Wilson, 2000). Resource endowments and organizational structures have been shaping readiness perceptions. In another words, organizational members take structural assets of organization and shortfalls in formulating their change efficacy judgments into consideration. Second, organizational readiness for change has been situational; it has not been a general state of affairs. Receptive context for change and innovation has been created by some organizational features (Dopson, FitzGerald, Ferlie, Gabbay, & Locock, 2002). However, receptive context has not been translated directly into readiness. The content of change has been mattered as much as the context of change did. Commitment has been partly change specific; so too have been efficacy judgments. It has been possible that receptive context would be essential however not sufficient condition for readiness. Third, change and commitment efficacy as two aspects of organizational readiness for change have been conceptually correlated. In addition, at some stage, members of the organization could have been very confident regarding their ability to implement the organizational change successfully, yet not showing any motivation about that. The opposite extreme has been also possible, as having all points in between. In a case where members both want to implement an organizational change and they feel confident that they can do that, the organizational readiness has been tending to be highest. What circumstances have been found out to likely generate a shared sense of readiness? Consistent leadership actions and messages, shared experience including experience with past change efforts and information sharing via social interaction, all could enhance cohesion in organizational members' readiness perceptions (M. F. Klein & Salk, 2013).

Wider organizational processes such as socialization, attrition, selection and attraction might as well play a role (K. J. Klein, Dansereau, & Hall, 1994; Sathe, 1985). There have been some cases where members of the organizations would unlikely to hold mutual insights of readiness such as: when intra-organizational unit or groups have limited opportunity to interact and share information, when leaders use inconsistent ways of acting or messaging in communication or when members do not share a common basis of experience. Lower organizational readiness for change has been indicated by Intra-organizational variability in readiness perceptions, which

could signal issues in implementation efforts that claim coordinated action between interdependent actors.



**Figure5. Conceptual Framework**

## **Conclusion**

Vital informational input for daily decision-making in business organizations has been formed by succession planning. Important tool has been required for development of management executives who would implement the business strategy of the organization and try to achieve organizational objectives (Huang, 1999). Succession management can improve staff morale, place the most qualified candidates in key positions and lower the employee turnover rates (Rothwell, Jackson, Ressler, Jones, & Brower, 2015). Those firms, which have been failing to treat their succession plan as a living documents were risking of losing their continuity and their chance to revitalize their organizations. It has been examined that the Saudization process has started in private sectors and Saudi public. Its effectiveness has been also examined in dealing with the challenges of migrated labours' replacement and skill development strategy.

There has been a strong need for adoption of a comprehensive succession planning framework in order to develop engagement in local employees and also to aligning it with the demands of the job market. In order to bridge the gap of required talent and skills after the expatriate workers have been removed, a holistic Saudization policy has been needed to be adopted. Therefore, to ensure about the business continuity, when ageing staffs leave the organization, an effective succession planning would be helpful. This study will contribute to knowledge on succession planning in small and medium enterprises in recommending best succession planning for small and medium enterprises within the Saudi Arabia country context. There is a hope that by this research study, more science based and profound understanding of the subject, solutions and recommendation would be provided to solve one of the key problems that SMEs community facing in Saudi Arabia. Hopefully the recommendations and findings of the study would have a significant impact on SMEs in Saudi Arabia, and move them toward adopting a

systematic succession planning approach. Many owners of SMEs have been either unaware of the existent issues of succession planning or simply have been avoiding speaking about it. This has been making these businesses vulnerable to succumb after the owner or founder have died or during other unpredictable circumstances.

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