

Challenges and Practices of Family-Owned Businesses: A Case of Family Businesses in Dubai

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I. INTRODUCTION

Family businesses are said to be as old as man. Previous researchers found out that family businesses paved the way to multinational companies. It can be noted that the presence of family businesses are evident in our society and is an essential part of the economy. This is also especially true in the Middle East where historically, family businesses are recognized to be a very important contributor to their fast-growing economy. Heck et al (2001)

For many decades in the UAE, the family businesses were believed to be the only type of business in the country, but the term was never used then. Historical record said that many of the early family businesses are long-standing clients of old banks in the region which, began as a family-owned business. Such companies are a vibrant and vital part of the UAE's economy and are typically much larger and more diversified than their counterparts in Western countries. Across the region, it is noted that more than 80 percent of businesses are family-owned and run, Babu Das Augustine(2019).

Many other family-owned businesses have thrived in the country and its number is still growing up to this time. It will be interesting to know how these family businesses have survived in their industry all these years.

This article then will provide family businesses' information in UAE from what motivated them to start the business and their future plans. Twenty (20) successful family businesses in the UAE have allowed business students to learn from them. This is a rare opportunity since not many of these owners are open to interviews. Among the 100 invited FBL's, only 89 have allowed the students to talk with them in a very informal manner providing the needed input for this research. The objective of this interview is for the students to satisfy their curiosity about how family businesses are operating, to how they have conquered the odds in sustaining their business in the very dynamic economy of UAE and for their responses to be accounted as an important contribution in the study of family-owned firms here in the region.

This research article discussed the answers shared by the successful family-owned business in Dubai about

1. What important challenges family businesses in UAE encountered and overcome?

2. How do they qualify Family-Member Employees?
3. What are their Keys to success?

II. REVIEW OF LITERATURE

How family Business has Evolved

Families have been vital to the humble beginnings of business operations since the olden times Morck (2003). They are the source of business capital which consists of human, social, financial and physical capital. Even to the present time, countries like Mexico, 100% of all firms are family business while 50% of all firms comprise family business in Sweden. Family businesses occupied agricultural and cottage industries to multinational firms (IFERA, 2003)

Family businesses were seen to be the beginnings of managerial capitalism Colli (2003). Family businesses in the GCC regions are highlighted in the region as they are seen everywhere and all year round in the country. These businesses range from small, mid-sized enterprises (SMEs) to popular multinational corporations. Family-owned and managed companies are the bedrock of the region's economy. These businesses have played an important role in securing the region's economic stability, which accounts for a major share of businesses in most industries across the region for many years now. (Anon, 2019)

Family Business Defined

There had been many definitions given to the family business. One most common definition is that family business is a type of business which is owned and operated by families. But, too many experts have said that this definition is too narrow to even be accepted as a general description (Tucker 2011)

In the attempt to provide clarity in defining a family business, Donnelly (1964) listed the characteristics of a family business to make it more specific. He postulated that family business is a business with family relationships as a key factor in succession; there is the presence of family members in the board of directors and the family values are reflected in the business. Moreover, the other characteristics of this type of business are the presence of relatives who are involved and obligated to hold stocks, among others.

Handler (1992) defined the family business by ownership and/or management comprising family member and the involvement of the family whether these are formal or informal involvement and the intention to transfer ownership to successors.

Winter et al. (1998) provided an elaboration of the family business definition as that which describe its ownership by comprising one or more family members. The concept of a family business then is seen as a group of people related by blood, marriage, or adoption, and share a common residence and is participating in the ownership of a business.

Danes (2008) also defined family business as an entrepreneurial venture of a family member in the form of social, human, financial and physical capital. He further described it as a type of business which incorporates a family structure with its roles and rules in the family system

A family business is a business where the ownership control is 15% or higher coming from two or more members of a family or a partnership of families. It is a business where there is a strategic influence by family members on the management of the firm whether by being active in management, by continuing to shape the culture, by serving as advisors or board members, or by being active shareholders Poza (2011). He also added that family business is a business concerned for family relationship and that the dream of continuity across generations inspires this type of business. This type of business has unique characteristics which include a business with the presence of family members and a business that shows an overlap of family, management, and ownership. It is a business that requires more than anything plan for succession and that its source of competitive advantage is the interaction of family and business.

Challenges of Family-Owned Firms

Ding (2007), was quoted to have said that family firms need to manage three group-networks in order to survive and sustain their operations. These networks are the family, the business or organizational network and the environmental network.

Ding (2007) further explained that the family network comprises the family members related either directly or indirectly to the owners of the family firm. The business network includes all the people that work in the family firm and the environmental network involves external stakeholders Treviño-Rodríguez and Bontis, (2007).

It is said that when family members and non-family members interact, different views arise. These unique views can motivate conflict. When daily operations are interrupted via conflicts, family corporations will suffer from a high turnover of the non-family members and it will be disadvantageous to

the business if those who will leave, have the needed skills for the sustainability of the company.

Challenges in operating a family business would include market expansion and extending geographic penetration and/or coverage. With these challenges will also result in another challenge, that is, it will need more financial and human resources. These types of challenges will, however, make the founding owner and other Family Business Leaders (FBL) have a chance to revise policy and to exercise effective control over the business. In the study of Gedajlovic et al. (2004), it was said that growth problems require more professional managers in approaching strategies to convert these challenges into opportunities. In fact, some consultants and researchers also suggest that families that switch early to professional management would find it easier to survive since they put in place at an early stage formal rules to ensure effective family governance, Lubatkin et al., (2005)

Therefore, corporate governance structures should be developed parallel the business strategic plans in order to support the firm's growth strategy. On this respect, previous researchers have found that the three most significant challenges of family business are government policy, legislation, and regulation comprising 42%, skills shortages 35%, and market conditions at 31%. Respondents in the Middle East agree with their global peers about the qualities that characterize a family firm, though there are some factors that have added importance. To elaborate, more respondents in the region believe that family businesses take time in their decision-making. This has been one of the struggles at 61% compared to 55% globally, but they are prepared to take more risks 58% versus 40% globally. However, they also recognize the challenges some family businesses face like attracting and retaining talents 65% versus 48% globally and the finding access to capital 42% versus 32% globally.

It is noteworthy, however, that more than 50% of family businesses in the region believe that there is an alignment between the family and the business, compared to more than 60% globally. In the Middle East, it was found out that this misalignment is caused by a lack of transparency, poor and unsubstantial communication. This means that those running the firm are often reluctant to share with family shareholders, out of fear that more information will only lead to more intrusion to sensitive business strategies. As a result, many family members feel out of touch with the strategic direction of the business.

Other challenges also would be that family businesses encounter conflict among siblings. This is a challenge since if this is not resolved it will be a reason for family businesses to have problems on sustaining its existence.

Contribution of Family Businesses in the UAE

In the Middle East economies, family businesses are contributing up to 60% to GDP and are responsible for employment to about 80%. Family businesses in this region are said to be successful because the founding generation has made a very good and promising entrepreneurial insight and has won over very promising political and financial relationships. The economy of the Middle East has benefited from this form of businesses because these businesses have been enjoying good business to countries experiencing rapid growth, (Businessfamilies.com, 201).

In Dubai alone, it was estimated that at least \$1 trillion in assets will be transferred to the next generation of family-owned companies in the next decade in the Middle East. The bestowal from the first to the second generation, and then, the second to the third generation is expected to have tremendous consequences on the sustainability and growth of these family businesses.

In a report, it was mentioned that family-owned and managed business in the Middle East region will account for a significant percentage in the region's economy and notably contributing in the creation and maintenance of corporate behaviors which are most conducive to business success. However, maintaining these behaviors continue to be a challenge in all businesses in the region.

Many of the family businesses in the region, and that is 80% of family businesses are in the critical transition stage of first to second or second to the third generation. Regarding succession planning, GCC family businesses are large families which present in them at the earlier stage in their evolution complexities typical of families in their third and fourth generation cycles where there is a large number of family shareholders. Family businesses in this region are a good source of employment, especially to next-generation owners. A study revealed that almost 44% of the family business in the GCC have an employment policy in place for the next generation. This even involves succinct roles and responsibilities to do when employed on the firm.

While there is nothing wrong with employing next-generation family members, a study recommends that the "cards" should be clearly laid down for the next generation early on to allow understanding and effective succession planning and transition of leadership. This succession plan will make a clear business integration policy would relieve the challenges in the transition of leadership and set a basis to manage conflict.

Employment in Family Business

Family member employment is a fundamental tradition in family firms (Ward, 1987). This opens for a familial doctrine which refers to the norms and values of a family that ensures the cohesion and integrity of family life continues in

the business. The impact of familial doctrines is seen to affect the decision-making of family businesses and a key determinant to future business growth. Death is indomitable and so this will always pose a crucial challenge to these businesses in terms of employment policies and succession.

From the different pieces of literature, it has been said that there are only 2 ways at which family business employs. It is employing only members of the family, termed as Family Member Employee, (Poza 2011) and hiring a stranger, termed as a none FME. It is also noted that employment in the family business would also include spouses who play some part in the business from either sharing management responsibilities to just doing a part-time job.

There is an advantage in this type of practice, like, the FME would likely to have an emotional and personal relationship to the business that will encourage them to do extra work without expecting any monetary benefits in return. They will know each other enough that they can practically have an idea what things they can and cannot do. They would also share basic rules of behavior that may reduce conflict. It also assures lesser employee turnover since if several family members are there, most of them will continue to stay in the job. This can make the business welcoming and friendly.

The downturn of this type of employment, however, is that family conflicts can come quickly, from the home to the business and will certainly affect business decisions. Jealousy may occur between family members and even to non-family members. It is best that employment should be based always on qualification and that everything should be done in the same manner that it is done to a non-family member and do it consistently to reduce the occurrence of nasty disputes that may disturb the business operations unnecessarily.

III. METHODOLOGY

This research made use of qualitative research where the purpose of it is to understand the phenomena right from the respondent's perspective. An interview with standardized questions was made with the chosen respondents. Their answers were recorded and then later arranged and interpreted to find answers to the questions that this research wishes to answer. There were 89 respondents who were interviewed in separate times.

IV. RESULTS AND ANALYSIS

In the interview, it was found out that both locals and expats compose the successful family businesses in the UAE. Most of the businesses are in the founder's stage. The range of business operations of the family business is in service, retail, and food industries. The businesses are not only locally operating but a few of them are operating globally. Around 50% of the respondents are new to the industry, less than 10 years. For purposes of focus, this article will only dwell in

expounding the areas on what challenges are commonly faced by family businesses, what qualifies an aspiring FME to become part of a family business, compensation packages of family member employees and FBLS, what 3 advises they shared to aspiring family businessmen.

Table 1. The challenges of the Family-Owned Businesses in UAE

Rank	Challenges of the Family-Owned Businesses in UAE	Description
1	Scaling and staffing	Hiring a great team is difficult and making sure the team that they are working is putting the business on the right scale of competition
2	Managing Money	Policies in dividends have been troubling family businesses to make sure that the FM and FBL's continue to have a good relationship
3	Support from Vendors	The loyalty of vendors becomes a problem as the business continues to grow and new competitors with a better agreement to new vendors are there
4	Competition	Just like any other businesses, looking for a competitive advantage in order to compete is always a struggle for the family business. Small family businesses especially those new in the industry would find it hard to compete with bigger companies
5	The high cost of service and credit sales. The introduction of VAT made it more challenging	Family businesses need to continue the same quality service they provide over the years and some loyal customers engage in credit sales which is hard to collect over time.
6	Family Problems	Misunderstanding among family members once not managed can cause to work inefficiency and brittle relationships
7	Formalizing Brand standards	Designing logos, graphics, guidelines and publishing their mission statement on their website to make it attractive and promising
8	Sourcing of Capital	The absence of a professionalized structure hinders the most family business to attract outside investors. Maintaining cash flow. Banks simply do not easily trust the companies' capabilities to pay off loans
9	Growing family	The growth of the family and growth of the business do not much in terms of providing talents needed in the business. Managerial talents from the FMEs are getting rare in the new generations
10	Accountability and responsibility of actions	Family members do not take seriously their jobs and oftentimes washes their hands-on

		doing their responsibilities
11	Working towards quality	Keeping the same quality over the years that has created the reputation of the family business in the community becomes harder as the business continues to struggle over cost and quality
12	Teamwork	Getting people to work toward the goal can be costly
13	Creating a customer loyalty program	Programs to make discounts, offers, and vouchers to those customers who were regular. This reduces anticipated profit and how to compete for head to head to bigger businesses who offer the same
14	Maintaining family value	Communication is the key factor to maintain relationships among family members. If people don't communicate family values, then there will be no unity of direction
15	The use of Technology	Systems to be used in inventory management is found to be costly, and urgently needed
16	Coping with economic challenges	Price fluctuations and increases in the market would create challenges in the smooth operations in the business

It can be observed from the results above that, just like any type of business, a family business requires the right scaling and staffing. Employees, while they are important, continue to pose challenges to family businesses, especially that most of those who are considered employees in a family business are relatives.

As family businesses expand from their entrepreneurial beginnings, they face distinctive performance and governance challenges. This is because the generations that follow the founder, may not be fitted to the task but had to be there by virtue that they are heirs of the business. Most of them as observed are just there for the job but few are working for the business. This means that staffing remains to a challenge especially involving the top management since the commitment to carry on as owners cannot be taken for granted.

It can also be seen from the results that family businesses are also affected by credit sales and since most of the participants are small to medium-sized family businesses, bad credit will always have a negative effect to their profitability and sustainability.

It is evident from the list above that have their own unique challenges, involving not only business and investment decisions but also ownership issues and family relationships. They struggle to survive beyond a single generation. This is a continuing challenge and in fact, it is said that worldwide, only one out of three family businesses make the transition successfully from the one generation to the next. These businesses are susceptible at times of transition in leadership

when there is often a conflict between the desire to maintain and respect tradition and the need to adapt and progress the business in response to its changing environment.

Table 2. Criteria considered by Family Business Leaders (FBL) to qualify a Family Member Employee for a Family Business Job

The participants have the following summary criteria which they have ranked according to priority qualifications:

Rank	Reasons for Hiring
1	Qualifications and experience get them hired
2	They are immediate family members
3	They were recommended to be hired by the Board of Advisors
4	Met job specifications and minimum requirement needed for a job which an FME will not want to get
5	Knowledge about the company and the industry
6	Specific knowledge or skill which none of the FME has

Table 3. Family Businesses Formula to Business Success

The respondents were one in saying that there is no one formula to the success of their businesses. However, they have ranked the following as their potential practices that make the business successful.

Rank	Business Practices
1	Honesty, dedication, and consistency towards the business practices
2	Agreeing to disagree in business decisions
3	Accountability and Responsibilities shared among FME and FBL. Always put business relationships in writing
4	Sticking to the goals. Goals should be written clearly to be understood by all
5	Knowing the business and its risks. Someone must bring in there are of expertise
6	Working hard and never giving up
7	Being updated and flexible to business strategies
8	Sticking together in bad times
9	Being open to corrections and willingness to rectify mistakes
10	Knowing how to handle work and keeping all work-related problems at work and not bring it in the relationship with family members
11	Being professional in all business dealings
12	Documentation of agreement and plans
13	Integrating the young in the workforce
14	Giving importance to any meetings and establishing clear and regular methods of communication which can straighten out family conflicts
15	Nurturing and respecting employees whether they are FMEs or NFME

The table above shows the ranking of business practices that family businesses thought help make a family business successful. The topmost in the rank is the attitude that owners bring in to the business. Family business leaders believe that honesty, dedication, and consistency are the important characteristics to be integrated with business practices. It can be noted that the administration of family businesses is based on trust. Therefore, when business is done with honesty, dedication, and consistency, FBL believes will bring the business to success. It is respecting people in the business that they find important so that all the parties involved are on the equal ground going into business.

It also noteworthy that one of the best practices that should be brought in, which was ranked fifth is the practice of being able to bring in an area of expertise from among the FBL or the FME. The result highlights the need to allow members of the family business to be an expert in his or her own category. This practice creates a balanced business relationship and prevents conflicts when crucial decisions have to be made. This would also entail that the family relationship should not interfere with the decisions and that every family member who also occupies a position on the family business should be treated as one should treat a business partner.

Ranked 16th in the table is the practice of establishing clear and regular methods of communication. This is a necessary practice according to the experts because problems and differences of opinion will always be inevitable. With clear and regular methods of communication, the family business can easily assess progress and air any differences and resolve disputes.

V. CONCLUSIONS

From the results of the study, the following are noted:

1. Family businesses in the UAE region share the same challenges as other normal businesses. However, the challenge is more on scaling and staffing which shows more complexity in dealing with them than normal businesses
2. Environmental opportunities in the UAE makes family businesses thrive
3. Conflicts are inevitable in a family business and this requires that family business leaders must come up with a more structured and formal organization set a more business-like environment.
4. Significant policy changes in the conduct of business and in the economy also have cause challenges to family businesses but they have proven to demonstrate resilience as growth, although minimal, is still observed.

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