Contributions to Management Science

Sami Basly *Editor*

Family Businesses in the Arab World

Governance, Strategy, and Financing

Contributions to Management Science

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Editor

Family Businesses in the Arab World

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To my wife, to Elyes
and to my parents

Sami BASLY

Foreword

Family firms are the most common type of business organizations around the globe. The Arab world is no different. Perhaps the strong importance of family, clan and community in these countries anchored in Muslim values and ethos makes family enterprises even more central in this region. From the Maghreb to the Middle East, family firms of all sizes and ages are the backbone of all economies and societies. Yet, there is a dearth of scientific knowledge on Arab family businesses. The significant heterogeneity within the Arab cultures makes generalizability of findings across the region problematic. Nevertheless, a good starting point to build knowledge is to view Arab family enterprises using insights and theories developed in other parts of the world, to better understand what applies and where more scholarly attention is needed.

Family Businesses in the Arab World is a pioneering book that draws attention to family enterprises in Egypt, Lebanon, Palestine, Morocco, Saudi Arabia and Tunisia. Topics of focus range from organizational resilience, internationalization and learning, to financial behaviours, capital and investments, to legacy and succession issues. The 17 researchers whose work is showcased in this book are active in the global networks of family business scholars. Given the penchant for privacy and the interconnections between family and business, gaining access to data is challenging in any context and even more so in the Arab world that is in its infancy for such research endeavours. It is only because of their privileged access to family businesses in several Arab countries that these authors are able to deftly interweave insights from family businesses around the world and understand the uniqueness of those in the Arab world. The editor made sure to challenge each author using a rigorous peer review process. The outcomes are well-crafted and thought-provoking chapters.

Entrepreneurship has long been a conduit to changing mindsets and lifestyles, and family businesses have been the context that nurtures entrepreneurs. Amidst the political and social turmoil of our world today, with some countries facing economic difficulties and high unemployment, might the ideas presented in this book provide viable solutions to bring new positive energy into the Arab world? Might

senior generation leaders find inspiration of how to govern their enterprises and prepare *Entrepreneurs in Every Generation* as they manage leadership transition in their family enterprises? Might the younger generation that is struggling to balance the forces of globalization captured in thought-provoking books like Thomas Friedman's *Lexus and the Olive Tree* be inspired from this book? Might we all learn something from the experiences of the women and men featured in these chapters?

Leaders of Arab family firms are likely to find themselves in a self-reflective mode as they read how others are managing their enterprises and its governance. They may find some usable ideas in their firms and countries. Family business scholars and students from around the world are indebted to Professor Sami Basly for bringing the dynamic and unique world of the Arab Family Business into scholarly conversations.

Pramodita Sharma
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This book was made possible through the support and contributions of many people. I would like to thank the contributors for their dedication, knowledge and passion. Thanks to the reviewers without whom this work would not have been possible. My deepest thanks goes to my colleague and friend Paul-Laurent Saunier for his full and unwavering support.

I am very grateful to Rodrigo Basco for his help and involvement in this book project. My warmest thanks go to Pramodita Sharma for her support and the appreciated foreword of the book.

Thanks to the editor from Springer, Prashanth Mahagaonkar, to Ravanan Sivachandran and BaghyaLakshmi Jagannathan for their continuous support and relevant suggestions during the writing and preparation of the book.

Finally, my profound gratitude goes to my wife for her kindness and comprehension.

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About the Editor

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Abbreviations

AMF	Arab Monetary Fund
BRICS	Brazil, Russia, India, China and South Africa
CAPMAS	Central Agency for Public Mobilization and Statistics
CEO	Chief Executive Officer
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IFB	Institute for Family Business
ILO	International Labour Organization
IMF	International Monetary Fund
MENA	Middle East and North Africa Area
MNE	Multinational Enterprise
PWC	PriceWaterhouseCoopers
R&D	Research and Development
SME	Small and Medium Enterprise
UNCTAD	United Nations Conference on Trade and Development
WGI	Worldwide Governance Indicators
WTO	World Trade Organization

Introduction to "Family Businesses in the Arab World"

Sami Basly

There is scarce knowledge about family businesses in the Arab world region as scant research effort has been directed towards studying this specific context. Although this may be explained by the limited number of family business researchers originating from this region and choosing it as a field of study, this gap remains surprising. Indeed, during the 30-year history of family business research, important research has been directed to studying family businesses in various non-western settings such as South America or Asia.

Interviews done with researchers originating from countries of this region show that researching firms and particularly family businesses in this context are mostly inhibited by practical considerations. Mainly, access to relevant and reliable data when public family firms are targeted is highly problematic. Moreover, people in Arab private family businesses give importance to confidentiality and secrecy thus preventing researchers from obtaining valuable and relevant observations and data. It is sometimes hard to convince some family business leaders or members to adhere to research projects. Especially when dealing with a specific culture, older managers might be more conservative and reluctant to discuss with researchers.

This gap in the family business research literature is all the more surprising as Arab countries form an important region in the world's demography and economy. Officially, 22 countries[1] forming the area known as the Arab world are members of the Arab League organization. Available statistics show that families control 95% of the businesses in Asia and the Middle East (De Vries and Carlock 2010). A recent survey by the PWC firm reveals that family businesses are especially

[1]Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

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important in Middle Eastern economies, contributing 60% to GDP and employing over 80% of the workforce (PricewaterHouseCoopers 2016). According to Ernst and Young, almost three-quarters of family businesses in the Middle East are owned and managed by the second generation, and one-fifth are managed by the third generation (Knowledge@wharton 2010).

Are Arab family businesses different from others? How do these firms operate, compete, and grow in societies characterized by high collectivism, high uncertainty avoidance, and high masculinity (Hofstede 1991)? Does the investigation of Arab family businesses allow for underscoring a fourth paradigm of management in Arab countries besides the three most well-known paradigms (American, European, and Japanese cultural paradigms) (Obeidat et al. 2012). Particularly, what are the role of religion, "familism" (Sidani and Thornberry 2009) and tradition in shaping governance, strategy, finance and succession in these firms?

This book fills this gap by providing a pioneering picture of family businesses located in Arab and Muslim-majority countries. In addition to two pieces of original theoretical research describing key characteristics of Arab family businesses, it delivers empirical research in eight chapters dealing with various key topics in family business research: organization and strategic management, finance and governance, and succession. The book is the fruit of a multinational research effort carried out by emerging and recognized scholars originating from Chile, France, Greece, Lebanon, Morocco, Palestine, Saudi Arabia, Tunisia, and the United Kingdom.

The second chapter contributed by Marouane Alaya, Paul-Laurent Saunier, and Sami Basly discusses the "Context of Arab Family Businesses." This chapter presents a review of key economic variables shaping the context in which Arab family businesses operate. Arab family businesses are strongly influenced by the economic challenges facing their countries and must therefore actively contribute to their resolution. The Arab countries constitute a regional bloc with some similar characteristics and also others that are more specific. While many of them have advantageous natural endowments, others are a little less fortunate. Moreover, high unemployment and low diversification of some of these economies require necessary reforms. The authors provide a general overview of the economic situation of the Arab countries and show that family businesses have a decisive role to play and show that this is also beneficial to them.

Georgios Palaiologos contributed the chapter "Theorizing Arab Family Businesses." The author calls up the concepts of knowledge reservoir, social networking, and emotional and symbolic capital before applying them to family businesses in the Arab world. For the author, the management of Arab family businesses significantly differs from that in other contexts. Furthermore, the author explains that the differentiating factors of Arab clans provide competitive advantages and security from competitive pressures. Consequently, the distinct characteristics of family businesses in the Arab world such as *Namus*, *Wasta*, *Diwan*, and *Asabiyyah* are vital to distinguish between Arab family businesses and family businesses in other parts of the world. The chapter's contribution is a set of propositions as a way

to clarify the key constructs (*Namus*, *Wasta*, *Diwan*, and *Asabiyyah*) and provides an original stimulating definition of Arab family businesses.

The chapter authored by Imen Mzid and entitled "Family Capital and Organizational Resilience of the Family Firm in Tunisia" focuses on family capital (human, social, financial, and survivability capitals) as a determinant of the resilience of family firms in the specific context of the political change resulting from the 2011 Tunisian revolution. The researcher carried out semi-directive interviews with owner-managers of five family businesses and concluded that the financial support provided by families during the crisis has been acting as an accelerator for the development of some assets, including the share capital. In addition, the social capital of family firms appears to be a key factor for the firm to absorb shocks, implement collaborative strategies, and internalize practices, allowing them to cope with disturbances in similar future situations. The author also found that human, financial, and survivability capitals strongly contribute to the resilience of the firms and interact with the social capital in order to strengthen this resilience.

Sara Bentebbaa, author of the chapter "Moroccan Family Businesses: Specific Attributes, Logics of Action and Organizational Learning Dynamics," investigates the influence of the specific attributes of Moroccan family businesses on their individual and organizational learning dynamics. As explained by the author, limited attention has been directed towards organizational learning processes in family firms. Highlighting the prominence of family businesses in Morocco and the role and characteristics of families, Sara Bentebbaa describes her empirical qualitative research based on 30 interviews conducted in four Moroccan family firms. It is found that the Moroccan family business is characterized by a dominant logic of action that can be based either on spirituality and emotions or on rationality and professional relationships. For the author, these logics are the result of traditions, religion, and family culture, and because of their bivalence, their impact on individual and organizational learning dynamics can vary from one family business to another.

Drawing on the Uppsala model of firm's internationalization and through multiple case studies, Nidal Darwish investigates to what extent the firm's internationalization process differs between family and nonfamily firms in a developing country: Palestine. In his chapter entitled "A Developing Country's Perspective on the Internationalization Process of Family and Nonfamily Firms: The Case of Palestine," he found insignificant differences between family and nonfamily firms concerning their internationalization process. More precisely, the perceived psychic distance and the choice of foreign entry modes and networking behaviour are similar in family and nonfamily firms. However, family firms seem to face more difficulties in overcoming liability of outsidership and transitioning from being an outsider to an insider for its internationalization-relevant network. In addition, the performance and speed of internationalization are found to be higher in nonfamily firms in the short run. The author derives useful insights about the specific behaviour of emerging Palestinian internationalizing firms. His contribution provides practitioners with interesting counsel about the role of professional networks. For their part, policy-makers are enticed to facilitate the internationalization of local

firms through the simplification of procedures and helping these firms in obtaining valuable resources.

The purpose of the chapter entitled "Socioemotional Approach: Exploring Women's Guilt in An All-Female Egyptian Family Business" is to examine the dynamics of emotions, in particular the guilt experienced or expressed by a mother and her two daughters involved in an all-female family business in Egypt. Through narrative enquiry, Rebecca Fakoussa and Lorna Collins describe and analyse the process of family and business roles' definition and separation carried out by the family business members. In a difficult near-bankruptcy situation, this family had to change ownership structure and professionalize the business while trying to manage emotions of love and guilt. The chapter provides a very profound insight on the role of guilt as a driving force whose consequences might as well be favourable or unfavourable to the family and the business. Immediate working managerial and policy recommendations are provided at the end of this chapter.

In the specific context of Lebanon, Hani El-Chaarani and Zouhour El-Abiad investigate the impact of internal and external political troubles on financial performance, capital structure, and investment strategy of Lebanese family firms. Before the Arab Spring countries (Tunisia, Egypt, Libya, Yemen, Syria), Lebanon has experienced acute internal crises following the assassination of P.M. Rafic Hariri in 2005. Afterwards, an external wave of political crises began in 2011 due to the Syrian civil war. In the chapter entitled "Financial Behaviour of Lebanese Family Firms During Political Crises," the authors found that family firms are more financially resistant than nonfamily firms during periods of crisis. Notably, they outperform their nonfamily counterparts and are not reluctant to take on long-term debts in order to maintain their control over the business and preserve a dynamic investment strategy. These findings substantiate previous research about the better resilience of family firms who have the capacity to take difficulties in their stride, to renew and sustain their businesses.

In their chapter entitled "Impact of Institutional Environment on the Capital Structure of Tunisian Family Firms," Fayrouz Ben Cheick and Faten Chibani analyse the influence of the institutional setting, namely, investment regulation and corruption level on the financing of Tunisian family firms. Through a panel study of a sample of 41 listed and unlisted Tunisian family firms, the authors found that family firms belonging to State-regulated sectors are less indebted during prior and post-revolution periods. In addition to the protection and other benefits achieved through the regulation imposed on their industries, these family firms seem to gain other advantages from the collusion of their owners with high spheres of power. Interestingly, the authors also found that both the involvement of a family member as a CEO and the involvement of institutional investors in capital play a positive role in improving debt level.

Amira Hammouda, author of the chapter "How Can Family Firms Attract Foreign Investors? The Role of Governance Mechanisms in Tunisia," investigates the role of governance quality in attracting foreign investors in the capital of Tunisian quoted family firms. The author argues and evidences that family involvement in ownership and management, in addition to CEO and chairman functions

overlapping, may act as inhibitors of foreign investors’ choice to invest in these firms. Unexpectedly, the board of directors’ characteristics, as well as the presence of a second major nonfamily shareholder, do not seem to influence foreign investor’s choice.

In the chapter “Founder Legacy in Arab Dynastic Entrepreneurship,” Josiane Fahed-Sreih describes some key features of Arab family business dynasties such as patriarchy, gender inequality, and the dominance of family members. Based on various countries’ examples (Gulf Cooperation Council countries and Lebanon), the author provides thought-provoking insights as for the role of women in Arab family businesses and more generally about the peculiarities of succession in such a context.

The chapter “Succession Planning in Family SMEs in Saudi Arabia: A Descriptive Study,” authored by Dalal A. Al Rubaishi, provides a pioneering study of succession planning in a sample of Saudi family-owned small and medium businesses (SMEs). While comparing her results with previous family business research conducted in other countries, the author describes succession planning practices in Saudi Arabia and identifies the successor’s most desirable attributes in the different settings studied. In the chapter’s conclusion, she derives very useful implications for family business literature, policy, and practice.

The editor and contributors hope that these chapters provide added value to readers whether academic, practitioners, or policy-makers who have an interest in learning more about Arab family businesses. Hopefully:

- This set of chapters brings a modest contribution to the family business research field and adds to the extant knowledge about Arab family firms.
- Business and management researchers conducting international or regional comparative studies find in this book knowledge about the distinctiveness of Arab family businesses and more generally on management practice in these countries.
- Arab family firms’ owners and other stakeholders learn to know these firms better and assess their strengths and weaknesses while identifying the best governance and/or managerial practices they need to establish in order to improve their operations and contribute to the economies of their countries.

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Family Businesses in the Arab Economic Context

Marouane Alaya, Sami Basly, and Paul-Laurent Saunier

Abstract This chapter offers a review of key economic factors and challenges shaping the economic context in which Arab family businesses operate. Growth, exports, foreign direct investment (FDI), unemployment and countries' governance are the main aspects analysed in this chapter. In a second step, the major economic opportunities and threats that Arab family business faces will be exposed.

Keywords Growth • Foreign direct investment • Exports • Unemployment • Governance • Family business

1 Introduction

In the beginning of 2011, Tunisia sparked the "Arab Spring". This popular uprising ended 24 years of a repressive regime. The Tunisian revolution (internationally known as "Jasmine revolution") was fuelled by young citizens who had the courage to break the barrier of fear and silence. The red line was well known by Tunisian people, and no formal criticism was allowed against the President Ben Ali and his party. The Tunisian revolution for justice and dignity has inspired many Arab nations (especially nonoil countries). A series of popular demonstrations and uprisings was spilled over the region, particularly in Algeria, Egypt, Morocco, Libya, Yemen and Syria. The same claims of justice and dignity were displayed in the streets. While in some countries the debate and promises of a better life had attenuated the anger of the people (e.g. in Morocco and Algeria), in other cases (Libya, Egypt, Syria and Yemen), a repressive machine was directed towards the popular claims, engendering the dramatic consequences we see today. Except for Oman, where some demonstrations took place and were quickly wrapped with

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immediate governmental actions[1] and Bahrain which had really experienced popular uprisings, the other GCC[2] countries had not experienced such events. Interestingly, no experts or analysts had anticipated such events; even international organisations (such as the World Bank or the IMF) did not see this coming. Certainly, the economic situation in Middle Eastern and North African (MENA) countries was not so distressing, such as to generate a tsunami. Furthermore, MENA countries were to some extent resilient to the 2008 global financial crisis, and economic indicators were not unusually alarming.

The Arab region is especially well covered by media, focusing mainly on political instability and social turmoil (Demirbag et al. 2011; Mellahi et al. 2011). Unfortunately, the most recent and older events could explain the reason behind. In fact, despite the fact that Arab countries are well endowed with natural resources and real potential exists, they are still failing and unable to resolve their chronic problems. The curse of being endowed with too many resources is sometimes cited to justify the enduring political turbulence and the disappointing economic situation of the Arab oil countries. Also, the geopolitical game and governance issues in the region are usually claimed to be the reasons behind the recent and past confusing events. Whatever the arguments provided, the main observation that should be retained is that the economic results and the socio-political situation are by far below expectations (at least, in the point of view of local populations), given the important potential of the region. Since the postcolonialism period, bridging the gap with other emerging and developed countries is the main common goal of Arab countries. The structural and unresolved problems in the region make this optimist target both unreachable and unrealistic, at least in the nearest future. The societal and economic shortcomings and deficiencies are too deep to be merely overcome by populist speeches or by the willingness of some elites.

This chapter offers a review of key economic factors and challenges shaping the economic context in which Arab family businesses operate. In the second step, some ideas concerning the question “Running a Family Business in the Arab World: Chance or Curse?” will be provided.

2 An Overview of the Economic Situation in Arab Countries

Arab countries are usually considered by international organisations and researchers as a homogeneous entity. However, this does not fairly reflect the significant social, economic, cultural and political disparities within the region. Indeed, the degree of uniformity expected in defining a region may not be

[1]Salaries were significantly increased by Royal decree.

[2]The Cooperation Council for the Arab States of the Gulf (GCC) is a regional intergovernmental political and economic union where Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates are member states.

reproduced in the wide diversities between the Middle East and North Africa on one hand and between individual Arab countries (regardless of their geographic location) on the other. Arab countries are not alike as they are often believed to be. In fact, from the economic point of view, the Arab regions can be classified into two distinct groups: well endowed in natural resource economies, i.e. oil countries (Algeria, Iraq, Libya and the member States of the GCC) and resource-poor countries (nonoil countries such as the North African ones, Syria and Jordan).

2.1 Some Stylised Facts About the Economic Growth in Arab Countries

Despite their differences, Arab countries are roughly following the same development path, adopting a relatively similar export-led growth strategy to reach comparable results in growth. For example, over the 2000–2014 period, the average rate of economic growth in the Arab region (annual growth rate of GDP) was equal to 4.78%,[3] compared to the growth rate of advanced economies (equal to 1.8%), that of the emerging markets and developing economies (6.01%) and the world at large (3.91%). Apart from Qatar which reached an annual economic growth of 11.57%, the growth rate values in the other Arab countries range between 3.5% and 5.5% and are quite similar (Fig. 1).

Even if these statistics about economic growth are not outstanding, the sustainability of the regional long-run economic growth should be emphasised. However, the high volatility of economic growth, particularly for oil countries, is one of the issues that should be seriously considered by policy makers.[4] More critical is that growth in the Arab world is neither inclusive nor pro-poor. In a study including 14 Arab countries and 2 non-Arab countries for the sake of comparison (Iran and Venezuela), Arezki and Nabli (2012) found out that Arab countries well endowed with natural resources have experienced a weak and noninclusive growth. Undoubtedly, significant progress in health and education has been achieved, but the quality of provision of public utilities and services remains a significant issue.

Stylised facts show that growth rates recorded in the last two decades were unable to create enough jobs, reduce inequality and cut back poverty. For example, the latest statistics from the World Bank—for the countries with available data—indicate that inequality measured by the Gini index[5] is equal to 40.7 in Morocco (2006) against

[3]Unless specifically stated otherwise and given the available data, throughout this chapter, we consider only 15 Arab countries, namely, Algeria, Bahrain Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syrian, Arab Republic, Tunisia and the United Arab Emirates (UAE).

[4]For example, growth volatility (measured by the variance along the period 2000–2014) in Libya and Iraq was, respectively, equal to the dramatic values of 1267 and 333 and seems to be the consequence not only of deep correlation with oil prices but also linked to political turbulence and instability.

[5]A Gini coefficient of 100% expresses maximal inequality, and perfect equality distribution is reached when it is equal to zero.

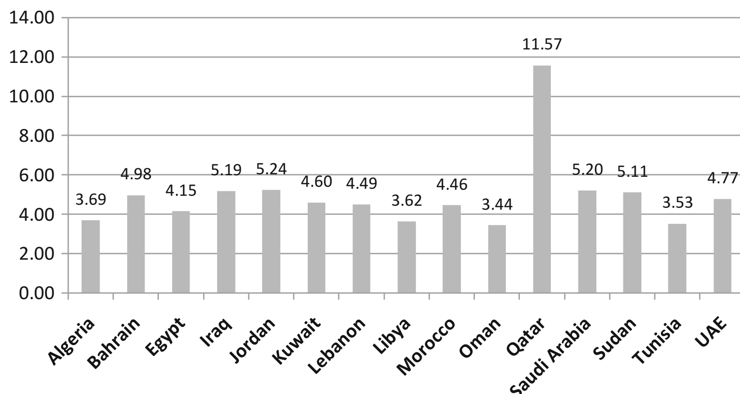

Fig. 1 Growth rate of GDP in Arab countries (Average, 2000–2014). Source: Authors (World Bank data, World Development Indicators Database Online 2016. http://data.worldbank.org/indicator)

35.8 in Tunisia (2010). The Gini index is also high in Sudan, equalling to 35.4 (2009). Even with the lack of data for the other Arab countries, it is likely that the same statement (if not worse) could be made, since in most all Arab countries, powerful and influential oligarchies have a significant control on wealth and its distribution.

2.2 *Exports: The Economic Pillar for Arab Countries' Economies*

The experience of Arab countries in export-led growth strategy is not new but dates back to the 1970s. World Bank (2016) data shows that the average percentage of goods and services exported in GDP for Arab countries (2000–2014) is equal to 46%, noticeably above world average (around 42.5%). It is well acknowledged that the economies of Arab countries are export driven, particularly for those that are well endowed with natural resources. Over the 2000–2015 period, the Arab region countries had an average growth in exports of around 11%, proving positive export dynamism despite the series of crisis and the difficult global situation. As expected in resource-abundant Arab countries, the ratio is relatively higher than in resource-poor countries.[6] However, the statement of the World Bank about export competitiveness in five Middle Eastern and North African countries (Egypt, Jordan, Lebanon, Morocco and Tunisia) is somehow alarmist, as "MENA countries find themselves squeezed between low-wage competitors in poor countries who

[6]For example, in the same period, Bahrain and the United Arab Emirates recorded, respectively, a value of 76% and 75%, followed by Qatar (65%), Kuwait (62%), Libya and Oman (58%), Iraq (53%), Saudi Arabia (52%) and Algeria (40%). In nonoil Arab countries, Jordan and Tunisia achieved the highest values (respectively, 48% and 46%), and Sudan represents the minimum ratio of 15% (exports in Morocco, Lebanon, Egypt and Syria account for 31% of the GDP).

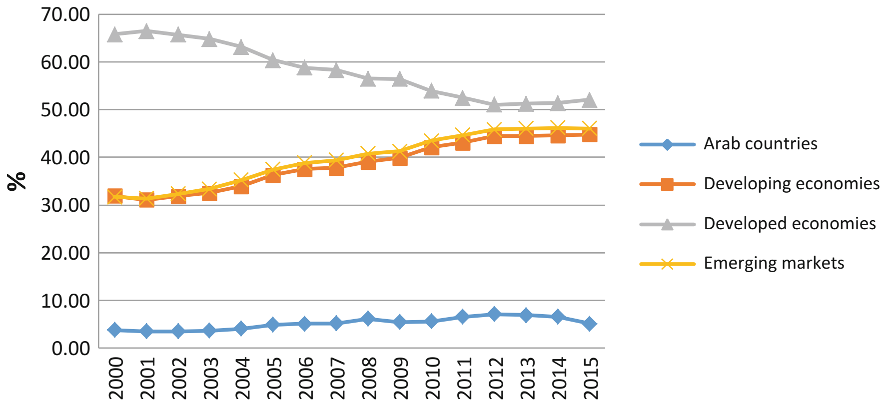

Fig. 2 Share of exports of Arab countries and selected country groups (% of world total). Source: Authors (Based on UNCTAD data available online at http://www.unctad.org)

dominate mature industries and innovators in rich countries, who dominate industries undergoing rapid technological change. Exploiting unused export potential for growth and finding new export opportunities, are therefore critical for MENA countries to reposition themselves on the world markets in areas in which they can build up comparative advantages" (World Bank 2007, p. 5). Indeed, Arabic countries' export performance (approximated by the share of world trade) is by far lower than in developed economies, developing countries and emerging markets (Fig. 2). Between 2000 and 2015, the average ratio of Arab countries' exports was equal to 5.23% to the total world trade. A peak of 7.12% was reached in 2012 before declining in the years that followed, probably because of the international oil price drop. Arab countries' trade performance over time is mixed. Further, a study performed by Miniesy and Nugent (2002) on Arab countries including Iran and Turkey shows that intra-Arab trade is extremely below what it should be.

Another important fact is that Arab countries' exports are concentrated on a few products—often commodities and/or labour and unsophisticated labour-intensive products. For example, on average the sample of Arab countries' high technological exports accounts for 2.26% of total manufactured exports, and this percentage does not exceed 3% in almost all cases (except for Morocco, 8.46%, and Tunisia, 4.62%). Similarly, the latest data provided by the UNCTAD database about the Herfindahl-Hirschman Index (HHI)[7] of export concentration shows a high level of export concentration in Arab countries. The sample average value spanning the period 2000–2015 is equal to 0.45, which is significantly above the worldwide average of 0.07, the developed economies' (0.06) and the developing countries' (0.12) indexes. Nonoil Arab countries like

[7]The Herfindahl-Hirschman Index (HHI) is a measure of the degree of concentration. It has been normalised to have values ranking between 0 and 1. When the index value approaches 1, it means that a country has a greater reliance on a limited group of exports, while a value closer to zero represents a higher degree of export diversification.

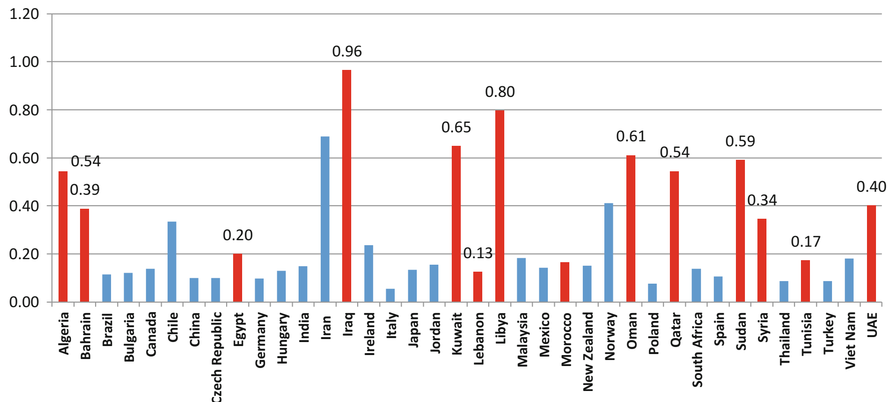

Fig. 3 Herfindahl-Hirschman Index: Arab economies vs. selected countries (Average, 2000–2015). Source: Authors (UNCTAD database 2017)

Lebanon (0.13), Jordan (0.16) and Tunisia (0.17) are in an intermediate position. Extreme concentrations are recorded by oil-abundant countries like Algeria, Saudi Arabia, Kuwait, Iraq, Libya and Qatar.[8] In summary, export concentration in Arab economies is higher than in any other region in the world (Fig. 3).

The reliance on a limited number of goods which are subject to major price and volume fluctuations (agriculture, oil, minerals, etc.) exposes the Arab economies to possible economic turmoils, including a drop of their exports and a decline in the terms of trade. This implies high-income instability, which in turn leads to high growth volatility. In other words, the risk of the economic slump is to some extent outside of the control of the Arab countries themselves. To sum it all up, if we take into account the weak diversification of exports and the weak intra-Arab[9] exports, it appears that Arab economies are trading below their potential.

2.3 A Snapshot Picture of Foreign Direct Investment in Arab Countries

Like many other developing countries, Arab economies have made a remarkable transformation from being hostile to foreign direct investment[10] in the 1970s to

[8]The index values range from 0.54 (Algeria and Qatar) to 0.96 (Iraq).

[9]The average share of intra-Arab exports concerning 20 Arab countries is estimated to be around 21.38%. For more details, see AMF (2016, p. 148).

[10]Kumar and Pradhan (2002, p. 3) noted that "FDI usually flows as a bundle of resources including, besides capital, production technology, organizational and managerial skills, marketing know-how, and even market access through the marketing networks of multinational enterprises (MNEs) who undertake FDI. These skills tend to spill over to domestic enterprises in the host country thanks to a package of capital stock, know-how and technology that could be transferred by a transnational firm to the host economy".

willingly attracting multinational firms. Even the most nationalistic countries (Algeria, Egypt, Libya, Sudan and Syria) have definitely adopted foreign direct investment (FDI) as a panacea for their chronic and most critical development problems. FDI is considered as an important tool for economic development. Despite the potential of Arab countries (endowment with human and natural resources, geographic localisation, market size, favourable tax system, etc.), the region is excluded from the surge of FDI towards emerging countries. For example, over the 2000–2014 period, the inward of FDI in the Arab region represented only a weak value of 1.89% of the total FDI in the world, which far differs from other economic groups or world regions.[11] The IMF (2016) states that in terms of private investment, especially FDI, Arab countries have "underperformed significantly" despite the fact that it was increasing over the past couple of decades and the fact that "policymakers throughout the region have taken steps towards creating an environment more conducive for the development of the private sector and economic diversification" (IMF 2016, p. 5).

In Arab countries, both vertical and horizontal multinational firms[12] coexist, and their presence in the domestic Arab economy could be explained by a wide range of pull factors. It is interesting to underline the unequal distribution of inbound FDI in the region of Arab countries, as the top three countries (Egypt, Saudi Arabia and the United Arab Emirates) capture more than two-thirds of the amount of accumulated FDI in the region within the period spanning from 2000 to 2015.

In terms of sectoral distribution, FDI inflows in Arab countries are highly concentrated in energy (gas and oil), and this is true for both oil and nonoil countries. According to the IMF (2016, p. 8), petroleum consisted 29.2% and 28.7% of FDI in oil exporters and importers, respectively, of the cumulative inbound FDI between 2003 and 2015. The sectoral distribution of FDI in the Arab world is a real issue, as the strong presence of foreign firms in capital-intensive activities like extractive industries generates low backward and forward linkages with local firms. With all things being equal, this will lead to low positive spillover effects. Also, given the intensive nature of these FDI, a weak effect on job creation is expected. In contrast, a foreign firm operating in labour-intensive industries is unlikely to transfer the required knowledge and technology simply because it lacks of it too.

Whatever be the strategy adopted and the motivations of investing in Arab economies, foreign firms are exposed to different kinds of entry barriers (mainly economic, political, administrative and cultural). This is especially true for the Middle East, where transnational firms have to look for a local partner (joint

[11]Developing economies (43.4%), developed economies (56.62%), middle-income developing economies (6.41%) and BRICS (14.53%).

[12]A vertical multinational is a firm with several stages of production located in different countries, where different stages are connected by intermediate product flows, and the majority of finished products are sold in the parent country. A horizontal multinational is a firm with two or more sets of production facilities which are located in different countries to produce the same product or service for local markets (Markusen et al. 1996; Zhang 2000).

venture) to cope with entry barriers, mainly administrative ones. As observed by Mellahi et al. (2011, p. 408), “Affiliation with powerful business groups or political actors is a determinant for successful operations in the region”. The authors point out that joint ventures prevail more in the oil extraction industries and manufacturing and banking sectors, while franchising is the preferred entry mode in the food, retail and hospitality industries.

2.4 The Unresolved and Tenacious Unemployment Problem

To date, growth in Arab economies has not been generating enough employment opportunities, particularly for educated young people (the most affected category by joblessness). High unemployment is one of the biggest challenges facing Arab countries and the main source of social and economic troubles. Data from the World Bank indicate that the average unemployment rates within the 2000–2014 period were estimated to be around 15% in Algeria and 14% in both Tunisia and Jordan. In Egypt, Morocco and Syria, the ratio is approximately equal to 10%. It is worthwhile to note that Qatar and Kuwait recorded the lowest rates (respectively, 0.97% and 1.68%). Moreover, the few data available for the other GCC countries show that the unemployment rate in Bahrain and the United Arab Emirates is less than 4% and equal to 5% in Saudi Arabia.[13] GCC countries perform well and better than nonoil Arab countries which are supposed to be more industrialised and more employment creating.[14] However, the good performance of GCC countries should be a nuance, as oil rent allows the public sector to cope with labour demand even if that comes sometimes at the expense of its absorption capacity. In nonoil Arab countries, the employability degree of freedom and flexibility in the public sector are much more restrained. As a consequence and given the lack of radical solutions, exogenous factors, namely, foreign direct investment and immigration (both legal and illegal), have become key factors to lessen unemployment and absorb to an extent the related social pressure.

In a study on four Arab countries (Egypt, Jordan, Lebanon and occupied Palestinian territory), Dimova et al. (2016) considered that “limited job creation

[13]Young people are the most affected by the lack of job opportunities, and this is true for the whole Arab region. For example, in Bahrain and the United Arab Emirates, the unemployment of young people (% of total labour force aged 15–24) is, respectively, equal to 10.90% and 10%. In the other countries, the values are distressingly high particularly in Egypt with the highest value of 42% in the region. In Tunisia (31.8%), Syria (30.10%), Saudi Arabia (29.50%) and Jordan (28.80%), the youth unemployment is also important. For Algeria, Kuwait, Lebanon, Morocco and Oman, the value of the youth unemployment is lower but around the critical value of 20% (International Labour Organization, ILO: www.ilo.org).

[14]According to Bonaglia and Fukasaku Kiichiro (2003, p. 12), “natural resource-abundant countries would have a weaker incentive to industrialize, since they can easily earn the foreign exchange needed to finance their imports without industrializing”.

results in missed opportunities; educational investments are not fully translated into the productive utilization of human capital. Youth unemployment rates in the region highlight a clear absorption problem". The authors highlighted also that "youth unemployment is not simply a problem of volume but also one of duration" (Dimova et al. 2016). For example, to look for a job, two-thirds of Egyptian unemployed youths and nearly half of Lebanese unemployed youths have to spend 1 year or longer searching for a job (they're regarded as long-term unemployed). Still, Dimova et al. (2016) found out that around half of the youths in the sample countries would like to work in the public sector. Another interesting result revealed by the study is that youth unemployment rates tend to rise with increasing level of education, reflecting an overeducation issue (11.4% of young workers occupy a position where the required skills are under their level of education or training). The authors conclude that among the reasons explaining the high degree of youth unemployment in the selected countries are political and economic volatility, bad recruitment and job search processes. In fact in the Arab world, information about employment opportunities are not easy to find or obtain and are often available exclusively through informal networks and connections (*Wasta* in the Arabic language). The lack of information and transparency is underlined by the International Labour Organization (ILO) as the main factors behind the inefficiency of the labour market. For instance, "marginalised or disadvantaged groups that are likely to lack access to reliable information about employment and training opportunities; have limited capacity to engage in effective job search; are excluded from informal "insider" networks; have few options for acquiring formally recognised skills, or are victims of systematic discrimination" (ILO 2015, p. 18). In several occasions, the *Hogra* (a deep feeling of discrimination in the Maghreb dialect) fuelled youth protestations in Maghreb countries particularly in poor and marginalised regions. Given the structural and deep shortcomings in the Arab labour market, it is not surprising that the region holds the lowest employment-to-population ratios in the world. The ILO (2015) considers that the concrete advance in employment boosted by the liberalisation of most Arab economies in the 1990s "have proven to be short-lived" and have been slowed down by demographic factors and the absence of consistent macroeconomic policy planning to enhance the quality of employment being created. The direct consequence on the private sector is a lack of competitiveness and productivity. The low wages and high rates of adult and youth unemployment in the private sector are also the results of inadequate policy and the absence of a long-term strategic vision. In addition, the high value of unemployment (especially regarding the youth) is a proof of a deficient education system and of the inadequacy of its labour market output.

2.5 Governance: The Achilles' Heel of Arab Nations

The waves of political change that have spread throughout the region are to be considered as the natural result of a growing general malaise and frustration

explained by bad governance and the pervasion of corruption, especially in the last decade. According to the Worldwide Governance Indicators (WGI) database,[15] the rule of law index [ranging from −2.5 (weak governance) to 2.5 (strong governance)] in Arab countries is either negative or too close to zero. In 2015, the highest values were achieved by Qatar (0.81) and the United Arab Emirates (0.71), followed by Bahrain, Jordan and Oman (index of 0.46). Saudi Arabia and Kuwait both recorded an index of 0.03. In the other Arab countries, the indexes were negative and ranged between −1.69 (Libya) and −0.05 (Tunisia). Regarding the corruption index (which may range between −2.5 and 2.5), few countries had an index above zero [the United Arab Emirates (1.12), Qatar (0.98), Oman (0.20) and Saudi Arabia (0.06)], and the other Arab countries showed negative index values varying between −1.53 (Syria) and −0.11 (Tunisia).

Given the recent events, i.e. the "Arab Spring" and its aftermath, the most urgent challenge now is to normalise the current fragile situation. Regarding governance quality, fighting corruption first and adopting the rule of law as a governance principle are a prerequisite to the struggle in the proliferation of unproductive regulation, target economic recovery and social climate stabilisation.[16] Undergoing drastic reforms should be the next delicate and risky step to planning for a more inclusive and sustainable growth, able to increase employment opportunities and improve people's well-being. Hence, a coherent social and development approach should be implemented with the populations and not imposed on them. Already, popular movements have called for structural reforms to make governments more transparent and accountable, expand social and economic freedom and create more jobs. Freedom is both the break and critical point to transit from a repressive system to an egalitarian one, where decisions are shared and taken consensually instead of being unpopular and tacitly discarded.

2.6 Challenges Facing Arab Countries' Economies

The failure and dysfunction of the economic and social model in the Arab world where the State provides jobs, health and education in addition to food and fuel subsidies (along with political repression, on the other hand) are no longer sustainable even if relatively good results were recorded in terms of education enrolment rates, basic health improvement and extreme poverty reduction. The recent events in nonoil countries and the shrink of the oil revenues in GCC countries because of oil price drops are obviously constraining, but they could create a good opportunity

[15]Produced by Daniel Kaufmann (Natural Resource Governance Institute—NRGI—and Brookings Institution and Aart Kraay (World Bank Development Research Group). For more details: http://info.worldbank.org/governance/wgi/index.aspx#home

[16]For example, according to the World Bank (2014), corruption costs Tunisia close to 2% of GDP per year.

to renew the social contract. Affording high-quality health service and education with international standards quality, creating jobs, reducing poverty and inequality and bridging the gap with the citizens will be the principal agenda for this new social contract.

The general system of subsidies could not solve these problems, because if corruption and bad governance are not eradicated, poor and unemployed people are likely to be out of the equation. This system cannot be sustainable as the crash of oil revenues will impact negatively both the flexibility and sustainability of the current fiscal policy in some oil Arab countries.[17] The gloomy economic growth prospects in the forthcoming years are another variable to take into consideration. Mottaghi (2016) estimated that the situation may be worsening if the drop of oil price is prolonged in the coming years. Obviously, the fiscal space in oil Arab countries will be critically threatened (Mottaghi 2016). The same point of view is shared by the Saudi asset management and investment banking firm Alkhabeer Capital (2016, pp. 2–3) in its report dealing with the GCC countries' budgets in light of oil price slump and restriction in public spending:

> GCC countries which were accustomed to large fiscal surpluses are now adapting to the new normal in oil prices (. . .). These nations have shown a clear intent of moving away from expansionary budgets that were a key feature of their economies during the past decade (. . .). Besides, overall spending levels being reduced, the GCC nations have made cutback in subsidies as well. Traditionally, countries in the Middle East region have for a number of years relied heavily on energy subsidies to maintain social stability.

Moreover, despite the drop in international oil prices, Arab oil countries have to deal with their capacity to create the required massive investments and projects to sustain and expand their production and export capacities, especially since it is expected from these countries to meet the bulk of the increase in global oil demand for the next decades (AMF 2016). The Arab Monetary Fund (2016) estimates that the required investments to sustain production from existing fields and add potential new production capacities in the most important exporting Arab oil countries are equal to 800 billion dollars over the next 5 years, which may be difficult to be supplied in the event of a continued decline in global oil prices.

Although Arab oil-importing countries have benefited from the decline of oil prices, allowing them to some extent to gain additional financial resources or at least to alleviate the budget deficits (since oil pump prices are subsidised), they will still be affected by internal political turbulence and instability and/or those prevailing in the neighbouring countries. As mainly export growth-driven economies, Arab oil-importing countries will continue to undergo the repercussions resulting from weak external demand conditions (due to the slowdown in the world economy). Meanwhile, given the fragile and uncertain economic situation in most Arab countries, the potential decrease in inbound FDI (due to the high-risk

[17] According to the data available on the statistics report of the Arab Monetary Fund (AMF 2016, p. 117), the average share of Hydrocarbon in public revenues in Arab countries over the period 2010–2014 is equal to 72.52%.

aversion of multinational firms) and divestment decisions by both local and foreign investors should be included in their economic agenda for the next coming years.

3 Running a Family Business in the Arab World: Chance or Curse?

As the economic context where Arab family businesses operate is quite heterogeneous, various challenges are calling them to mind. Even if some well-known family groups have built their operations around oil and other natural resource extractions, family businesses make up over 85% of the whole Arab world's nonoil GDP (Emirates 24/7 2016). Arab family firms are deeply rooted in their societies and have great influence in shaping the economies of their countries. They are the key to the development of the country region, as they could help provide solutions to the current crisis and political turmoil mainly originating from unemployment and lack of freedom. While the current political instability is undoubtedly inhibiting the development of family businesses (some firms belonging to the clans of fallen rulers were confiscated by the post-revolutionary authorities, others have lost their clienteles and markets and others have simply disappeared as a result of looting and destruction), the fact remains that, in the medium and long term, these turbulences could favour the growth of businesses by creating new economic conditions which will hopefully benefit the populations, the States and the businesses.

Firms in Arab oil-abundant countries, particularly in the public sector, derive a guaranteed rent from extractive industries, even if this rent tends to decrease because of oil price drop. Family-owned businesses, especially large ones, are close to the ruling class of these countries and dominate the entire sectors of the economy. Despite the wind of change and economic liberalisation that has blown on several countries, many of these family groups enjoy exceptionally advantageous situations, due especially to privileged relations with the countries' rulers. They are in some ways protected by the countries' governments. Many of these large family groups are structurally fragile, and only captive customers and public subsidies help them to be sustainable. As a result, the challenges of global competition are concealed, and these firms are not immune to vital threats to their continuity. In Arab nonoil countries, though, for several decades, the economic fabric has been relatively diversified, and entrepreneurial initiative has been liberated. Despite structural difficulties associated with corruption and collusion between business owners and dictatorial powers in the majority of these countries, a number of them show a more diversified economic fabric, and more firms are able to compete in the international arena. The adversity faced by family businesses in these open economies gradually prompted them to modernise, to professionalise and to level up to their international counterparts.

The growth of the Arab countries' economies go through ups and downs and have not reached a cruising pace as high potentials remain unexploited. Within the

economies of the Arab world, family businesses have the potential to address a huge quasi-homogeneous region whose language is Arabic and where culture has major convergences. Despite the lack of an Arab single market today, there is a considerable potential for development that must be exploited. There are regional integration experiences, one of which being the Arab Maghreb Union. While some countries in the region such as Tunisia and Lebanon are small markets, others are more significant, which can be an essential instigator for the regional or international growth of family businesses to these countries. However, the informal sector and underground economy pose a serious competitive threat to family businesses in many Arab countries. On a positive note, their in-depth knowledge of markets, their close proximity to customers and embedding in their local areas are incontestable success factors, allowing them to compete efficiently. What is more is that, in pursuit of economic diversification, policy makers are willing to help family businesses in their internationalisation effort. Governments of numerous Arab countries offer incentives of various kinds in order to encourage domestic firms to export and internationalise. Undoubtedly, family businesses can take advantage of these opportunities to explore growth prospects overseas.

Largely, Arab economies remain fragile, and local firms are inadequately armed to compete with their foreign counterparts in a global context. Arab businesses, particularly family businesses, lag behind international competition predominantly because of technological and innovation disadvantages. Despite notable exceptions in some countries, family businesses in the Arab world have simple, low-innovative business models and weak global competitive advantage. Many of them are subcontractors to foreign firms, and others operate in relatively stable and weakly innovative industries. Another hindrance of internationalisation is a severe lack of resources, especially for small and medium family businesses. If larger firms are more likely to be involved in the global competition as they have human and financial resources as well as socio-economic networks essential to internationalisation, small-sized firms generally face a shortage of strategic resources. Apart from few examples of large conglomerates from the Middle East and the Gulf, few Arab family businesses go multinational or global. Yet Arab family businesses have many assets to help them succeed. They can rely on their long-term vision so as to overcome inherent internal hindrances. In fact, for the entrepreneurial family, the firm is not a mere investment whose goal is only to engender an economic return, but long-term commitment and firm's continuity are focal missions of the family business owners. Arab family firms need to establish strategic alliances to offset the lack of resources. They should learn to tolerate outside involvement in their capital and management so as to attract valuable financial and human resources.

Family businesses can benefit from the availability of skilled labour and, in many Arabic countries, from high-level talents. Some nonoil countries such as Tunisia, Jordan, Lebanon or Egypt have the specificity of housing a significant number of high-qualified graduates who are valuable resources for these

countries.[18] This human endowment is a definite asset for family businesses belonging to these countries. In fact, family businesses are called upon by policy makers to contribute to resolving the mass unemployment problem. Given the gradual disengagement of the State in many of these countries and the scarcity of jobs in the public sector, the private sector is expected to take part in creating jobs in these economies. A major restructuring that family businesses need to implement is a transparent and equitable human resource management. As a matter of fact, outside talents are reluctant to join family businesses as they fear to be stopped in their career by a glass ceiling because of familial management succession and also because of probable nepotism. Family businesses can also act as significant stakeholders in the design of training courses and university diplomas, as part of policy makers' effort to match the future skill needs of the Arab economies with their education offer.

Furthermore, Arab family businesses can play a key role in attracting foreign direct investment. They have usually acted as privileged partners of international and multinational firms exporting to these countries or choosing to set up subsidiaries. They can continue to play this role as facilitators of FDI as long as they implement efficient control and governance mechanisms and protect foreign investors' interests. An effort to professionalise their management practices is also needed. Undoubtedly, family businesses can tap into the pool of qualified talents available in this region. This does not necessarily mean that family owners will be disengaged from decision-making. As a matter of fact, a fair balance of decision-making and control functions can be sought: while allowing the owning family to supervise and get involved in business operations, the interests of other stakeholders (including foreign investors) must be protected. More generally, cooperation between family businesses and foreign investors can be achieved through joint venture creation in national markets or by other noncapitalistic partnerships such as strategic alliances. In addition, the disengagement of the State on certain sectors and public firms' privatisation may constitute an attractive investment opportunity for business families in certain countries. While this choice can, of course, imply positive financial outcomes, it also allows family businesses in developing their reputation in their countries.

Family businesses might also contribute in handling the problem of corruption in their countries. This plague leads to unfair competition, markets confiscated in favour of relatives to the regimes in place and financial losses. Clearly, in some countries, family businesses are sometimes seriously involved in corruption, which gangrenes the economy. Their proven capacity for social networking allows them to extend their web of relationships to the political and economic spheres. In many cases, family business groups are even perceived as objective allies of dictatorial powers. Now, they have to distance themselves from the circles of power. Their credibility and reputation will be improved among the Arab populations. Further,

[18]This is evidenced by the willingness of certain countries in the North to favour "chosen immigration" from the countries of the South and by the plague of brain migration.

this will give assurances and guarantees to foreign partners and investors. In a word, they must gain their independence. Yet this orientation could be difficult to achieve without the opening of their capital to domestic or foreign investors, in order to dilute the participation of the State or public investors and, in many countries, governing families and their relatives.

Obviously, the challenge of passing family ownership and management to the next generation is the most enduring. Succession difficulties are particularly exacerbated by the lack of capable and motivated successors as well as the lack of succession planning. Governments in Arab world countries have an evident interest in fostering the stability and sustainability of family businesses as they constitute the backbone of their economies. Therefore, intergenerational family succession should be facilitated especially through tax incentives (in some countries, there are no estate taxes) thus encouraging new generations to take over the patrimonial and managerial succession.

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Theorising on Arab Family Businesses

Georgios T. Palaiologos

Abstract The article identifies the distinct characteristics of family businesses in the Arab world and argues that management practice of *Arab family businesses (AFB)* differs significantly from previous testaments of international family business practices. It is also explained that constructs like *Namus*, *Wasta*, *Diwan* and *Asabiyyah* are vital to distinguish between international understanding of family businesses and Arab family businesses.

The differentiating factors of Arab clans are precisely the ones that provide competitive advantages and security from competitive pressures. Concepts of knowledge reservoir, social networking and emotional and symbolic capital have significant influence on family business practice in the Arab world. The main contribution of this article is to develop propositions as a way to both simplify and clarify the key constructs (*Namus*, *Wasta*, *Diwan and Asabiyyah*) in a middle range theory (Arab family business) with the approach of modelling-as-theorising and to define *Arab family business*.

Keywords Family business • Arab culture • Networking • Namus • Wasta • Diwan • Asabiyyah

1 Introduction

Family business studies have been a fruitful extravaganza in the last 20 years. The majority of the businesses operating globally resemble the family business type (Debicki et al. 2009; La Porta et al. 1999). The family business sector is dominant in the Arab world and MENA (Middle East and North Africa). According to Ernst and Young (2015) studies, more than 90% of businesses in MENA are family businesses, 65% are first and second generation, but less than 20% have established formal rules like a family constitution, and less than 30% have a formal family council. There are roughly 5000 family firms in the Middle East owned by medium to large families, with net assets up to USD 600 billion. These companies constitute

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75% of the private sector economy and employ 70% of the labour force, while 48% of the families account for more than 60% of the wealth in Arab Gulf region (Pearl Initiative and PwC 2012).

There is a higher dominance of family firms in the MENA region vis-à-vis other regions. Two key factors contribute to their growth and subsequent power in the region: (1) a cultural preference and (2) solid political connections (Al Masah 2011). The latest trends, though, suggest that there is a decline in the influence of family businesses in the region, and in addition there is a shift from 100% family ownership to mixed modes and IPOs. Competition, globalisation, the World Trade Organization and cyclicality in economy are the main reasons for the change. In fact, this could lead to changes in the traditional family business governance (Arabic Knowledge@Wharton 2010).

There used to be a lack of family business studies in the Arab world, but in recent years, with the emergence of Perle Institute, Tharawat Family Business Forum, Hawkamah Institute, Family Business Associations (Dubai and Bahrain), intense participation of Global Consulting Agents (Ernst & Young and KPMG) and Wharton Global Family Alliance (University of Pennsylvania, USA), there has been a growing body of knowledge on family business and Arab culture. Additionally, contributions like Weir and Hutchings (2005) on cultural embeddedness, Hutchings and Weir (2006a, b) on *Wasta* and networking, respectively, Weir (2005, 2008) on *Diwan* and Mohamed and Hamdy (2008) and Cunningham and Sarayrah (1993) on *Wasta* and reflections on cultural studies with characteristics of the Arab and Islamic thought (Metcalfe 2006; Ali 1995, 1999, 2005; Dodd 1973; Izraeli 1997; Lalonde 2013; Kabasakal and Bodur 2002) are of great importance.

There is a widespread "popular" understanding on what a family business is. It is commonly assumed family businesses are only composed of family members. However, Tagiuri and Davis (1996) define it in a very detailed and a different way. They refer to family business as comprised of:

- Ownership
- Business
- Family

They state that before this three circles model, business owners, thinkers and members of a family thought that the most important factor of family businesses was the business itself, but Tagiuri and Davis (1996) proposed an extended explanation to family businesses, and it is not only limited to family members as family businesses also comprise nonfamily members. The ownership and family factors were usually ignored before this three circle model. There has been academic controversy about the definition of family businesses, but the publishing of the three circles model emphasised the strengths and weaknesses of the three systems.

This diffusion on the definitional side of family business is studied by Chua et al. (1999), who reviewed 250 papers in the family business literature. They identified three qualifying combinations of ownership and management: (A) *family owned and family managed*, (B) *family owned but not family managed* and (C) *family*

managed but not family owned. There is a general consensus on qualifying the type A combination as a family business, but there are pending disputes with regard to the other two. They argue that theoretical definitions have to follow an "inclusive" rather than "exclusive" rationale. Conclusively, they suggest the following definition adopted here: "The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by the dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families".

Management in the Arab world has been criticised as being autocratic, informal and favouring family members. It is very common in the Anglo-Saxon community to view the world from the westernised perspective, impairing the ability to understand the structures in different religions and cultures. Needless to say, there is a growing pressure on Arab corporations and family businesses to adapt to westernised models. Henceforth, our claim is that the differentiating factors of Arab clans are precisely the ones that provide competitive advantages and security from competitive pressures and make family businesses in the region long-lasting and prosperous.

This study identifies the distinct characteristics of family businesses in the Arab world and argues that the management practices of Arab family businesses differ significantly from previous testaments of international family business practices. It is also explained that concepts like *Namus*, *Wasta*, *Diwan* and *Asabiyyah* are vital to distinguish between international understanding of family business and Arab family business.

In this article we conceptualise and define the Arab family business based on the following suppositions:

- *Namus* is the heritage and organisational identity of unique familiness in Arab family businesses.
- *Wasta* is the immediate network for influencing business decisions and preserving family business unity.
- *Diwan* is the unique governance and knowledge transfer process in Arab family businesses.
- *Asabiyyah* is the bonding power among the members of Arab family business and the cause of solidarity.

2 Literature Review: Theories Reflecting on Family Business and Arab World

There are some interesting notions in the Arab culture that are associated with family and family businesses, but there is no universal recognition of such terms in business life and family business literature. Arab family businesses need further conceptualisation and operationalisation towards a unified paradigm.

Hutchings and Weir (2006b) recognise a strong association between Arab culture and Islam, and they suggest three (3) factors that are core components in Arab countries' business and society: (1) global philosophy of Islam, (2) assumption of good practice of Islam and (3) that Muslim society is networked. Welsch and Raven (2004, 2006) identify four Arab derivatives (influences) common in Arab societies: (a) influence of religion, (b) influence of family, (c) influence of nationality and (d) influence of culture.

To the present day, the peoples of the Middle East remain famous for their loyal attachment to their families, distinctive rituals of hospitality and conflict mediation and effective and flexible kin-based communities, such as the lineage and the tribe. According to Lalonde (2013), there are three main roots of Arab culture. Firstly, a strong family orientation with inclination to patriarchy and loyalty to family members is of cardinal importance. Secondly, the Bedouin ethos that advocates group solidarity, generosity and hospitality proves to be essential as well. Thirdly, it is an absolute necessity to possess a strong sense of family relations and loyalty, coupled with clan honour.

Introducing social constructs like *Namus*, *Wasta*, *Diwan* and *Asabiyyah*, that are central to the organisation of Arab family business, can help us to understand the Arab family business better.

2.1 Family Identity, Familiness and the Namus Context (Family Essence)

Habbershon and Williams (1999) describe family business resources as the *familiness* of the firm. It is the bundle of resources and capabilities that are distinctive to a firm as a result of family involvement. Cabrera-Suarez et al. (2001) consider that a high degree of family members' commitment, dedication, common family responsibility, customers' trust and perceptions of quality, a special technology or commercial know-how can lead to a competitive advantage.

Habbershon et al. (2003) identify family business as a family business social system that is comprised of three subsystems: (A) the *controlling family unit* representing the history, traditions and life cycle of the family, (B) *the business entity* representing the strategies and structures utilised to generate wealth, and (C) *the individual family members* representing the interests, skills and life stage of the family owners/managers. The system must have a function that is identifiable and positive and cannot be generated by the subsystems; systemic interaction must create synergy and "unsystemic aggregation". Therefore, *familiness* is a characteristic that evolves in family firms due to the confluence of the three subsystems, and it can lead to competitive advantage, if it is "unique, inseparable and synergistic" and becomes a hard-to-duplicate capability (Nordqvist 2005; Habbershon et al. 2003).

According to Zahra et al. (2004), it is the multiplicity of the variables that influence the family business culture and makes it distinct and difficult to imitate. The family firm's culture is an important strategic resource and can give a strategic advantage which is difficult for rivals to imitate. Another variable that is also unique and difficult to copy or imitate is the *family identity*. This concept includes both internal and external benefits and is assumed to be one of the three dimensions of familiarity (organisational identity, essence, components). "Many family firms also realise that capitalising on their family firm status may be a way to build a distinct corporate brand" (Zellweger et al. 2010a). Organisation identity sheds light on interesting concepts for our study including family firm image, family pride, community social ties and long-term orientation of family businesses (Zellweger et al. 2010b).

2.1.1 Namus Context and Arab Family Business Identity

Namus is the Arabic word for a concept of an ethical category, a virtue, in Middle Eastern patriarchal character. *Namus* in Arabic may mean "law", "custom" or "honour" and in Greek "nómos" (νόμος) means "law, custom". Literally translated as "virtue", it is now more popularly used in a strong gender-specific context of relations within a family described in terms of honour, attention, respect/respectability and modesty (Sevan 2010). We treat *Namus* as an extension of the English word Name, but we incorporate the full essence of the name. Although almost always translated as "honour" when rendered in English, Meeker (1976) considers it a "sexual honour" and a "symbolic attribute" of a patrilineage. For King (2008) *Namus* can be "a symbolic attribute of a larger group as well, but in such instances patriliny is retained conceptually and metaphorically".

Ird can be translated as honour, good repute or heritage process, which is a "controlling value, legitimating the family structure and the "modesty code" required for both men and women". *Ird* has the following characteristics: (1) It is a secular value and not a religious one. (2) It is related to both individuals and groups. (3) There is an enforcement system of *Ird* within the family. (4) Once lost, it is difficult to regain. (5) *Ird* of a family can be raised or lowered. (6) *Ird* is a matter of reputation even more than of fact (Dodd 1973).

The other term that is used for honour is *Sharaf* which represents a collective attribute that can be gained or lost, but represents family and tribal honour. *Sharaf* is central in Arab culture and is closely related to dignity (*karama*) which "precludes submission to others" (Lalonde 2013). Also, this is connected to a social unit such as tribe or family and signifies social status characterised by pride and dignity that comes along with good reputation. In reference to the tribe or family, the group acts within a mind-set of responsibility or co-liability (Cinthio and Ericsson 2006).

We delineate *Namus* as a common sense link of family values and heritage, and it can be recognised not only as a *distinct familiness* (Habbershon and Williams 1999) concept but as a *family image concept* (Zellweger et al. 2010b) as well. An individual's identity, decision and social reputation are profoundly influenced by his or her kin group. *Namus* (*Ird* and *Sharaf*, total influence) constitutes the symbolic capital of Arab family business that must be preserved and increased, horizontally (keeping family and kin ties) and vertically (within family generations). The identity of the family firm's owner is inextricably tied to the organisation that usually carries the family's name. Due to this strong association of family business with family name and due to possible public condemnation that could be emotionally devastating for family members, family businesses take particular care of their positive family image and reputation. This inadvertently causes the lines between family and corporation to be rather blurred, inevitably causing emotions to permeate the organisational structures (Berrone et al. 2012).

Proposition 1 *Namus is the unique and distinct family image and organisation identity construct of Arab family business.*

Proposition 2 *Namus is the unique and distinct symbolic and emotional capital of Arab family business.*

2.2 Networking: Social Capital and Wasta Context (Nexus of Strong and Weak Ties)

According to Johannisson (1998), all human beings are social animals, which means that everyone has a personal and social network. A person's self-image determines which connections are established, and the person's identity is shaped by her/his network. Jarillo (1988) recognises four types of networks and organising activities: classic market, bureaucracy, clan and strategic networks. This is an extension of the ideas of Williamson (1975) that recognises three such modes of networks and/or governance: markets, hybrids and hierarchies. Hybrids in the world of family business can be seen as kinships alternative.

Anchrol (1997) summarises five forms of business organisations: vertical integrated functional organisation, multidivisional form, matrix, network organisation and collateral organisation. He states that "all organizations are internal networks, and all organizations participate in external exchange networks" and suggests four types of such networks: internal market networks, vertical market networks, intermarket and opportunity networks. In such social exchange process, key characteristics of particular importance are *trust* and *social norms* (solidarity, mutuality, flexibility, role integrity, harmonisation of conflict).

Borgatti and Foster (2003) posit that "a network is a set of actors connected by a set of ties". The actors can be persons, teams, organisations, concepts, etc. Hence, they recognise the importance of the networks as social capital and view it as "value of connections".

Kogut and Zander (2000) view networks as "capabilities of coordination among firms". It is exactly those capabilities that can be considered the knowledge of the firm and are of certain economic value and a source of competitive advantage. Chell and Baines (2000) suggest that "networking theory when linked with 'social embeddedness' creates a 'glue' -named 'trust'- that without it, networking activity would not be possible". Companies will network with *strong tie* (family and friends) or *weak tie* (socioeconomic hierarchy) partners in search for support (Granovetter 1985). Social embeddedness refers to the relationship between the actor's economic behaviour and the social context in which it occurs (Le Breton-Miller and Miller 2009). According to Hoang and Antoncic (2003), in order to work with such networks, we need to understand further (A) the network content, (B) the network governance and (C) the network structure.

2.2.1 Wasta Context and Arab Family Businesses

Wasta is an Arabic word that means "the use of social connections to obtain benefits that otherwise would not be provided" (Mohamed and Hamdy 2008). *Wasta* is also a form of networking which translates to "connections (or pull)" force. Doing business in the Arab world "is to establish relationship first, build connections, and only then actually come to the heart of the intended business at a later meeting" (Hutchings and Weir 2006b).

The *Wasta* social network—that includes family and kin—is central to the transmission of knowledge and the creation of opportunity (Weir and Hutchings 2005). The power of *Wasta* overrides "established laws and traditions", and this creates conflicts and challenges for established international business practices (Hutchings and Weir 2006a). *Wasta* can also be viewed as a mediation and consultative power and refers to both the act and the person who mediates or intercedes (Hutchings and Weir 2006b). *Wasta* is an institution and has been a part of Arab society since its creation. Its tribal origins focused its intermediary role that was associated with prevention of retaliation on interpersonal or intergroup conflict (Al-Ramahi 2008). According to Cunningham and Sarayrah (1993:190), "the *Wasta* paradox includes a psychic haven amidst the chaos of social change, providing individuals a sense of belonging to a social entity that provides unconditional acceptance, and assistance to the novice in solving problems that are commonplace to someone more experienced".

Preexisting "bonds of trust" facilitate cooperative ventures among family members by attenuating problems of common ownership supervision and profit-sharing kinship substitutes for markets, also with regard to insurance and credit (Kuran 2011:48). Whiteoak et al. (2006) introduce a variable called the "utility of *Wasta*", defined as the degree to which an individual perceives a person's success as being

related to its ability to utilise connections with people, who are both able and prepared to change the course of natural events on that person's behalf. For Izraeli (1997) family, loyalty is the foundation of *Wasta*.

Proposition 3 *Wasta is the unique and distinct social and family network of Arab family business.*

2.3 Knowledge Reservoir, Decision Governance and the Diwan Context (Locus of Knowledge)

According to Nonaka et al. (2000), knowledge is "a dynamic human process of justifying personal belief toward the 'truth'". There are two types of knowledge: explicit and implicit (tacit). Explicit can be expressed in formal and systematic language and shared in the form of data, scientific formula, specifications and manuals. Tacit knowledge is highly personal and hard to formalise. It is also context specific. Argote et al. (2003) suggest that knowledge creation occurs when new knowledge is generated in organisations. Knowledge retention involves embedding knowledge in a repository so that it exhibits some persistence over time. Knowledge transfer is evident when experience acquired in one unit affects another; these outcomes are related. Walsh and Ungson (1991) argue that the context of knowledge retention within an organisation includes individuals, structures, organisational culture and the physical structure of the workplace, and by extension these also mediate knowledge transfer.

Argote and Ingram (2000) conceptualise the "knowledge reservoir" that is embedded in the three basic elements of organisations—members, tools and tasks—and the various subnetworks formed by combining or crossing the basic elements. The "human components" of organisations are the members. Tools, including both hardware and software, are the technological components. Tasks reflect the organisation's goals, intentions and purposes. "Embedding knowledge in the sub-networks that involve people minimizes the likelihood of transfer to external organizations because knowledge in these reservoirs is least likely to fit other contexts" (*ibid*).

According to Zander and Kogut (1995), firms are social communities which use their relational structure and shared coding schemes to enhance the transfer and communication of new skills and capabilities. To replicate new knowledge in the absence of a social community is difficult. Argote and Ingram (2000) agree with that and suggest that social relationships matter for knowledge creation, retention and transfer.

The difficulty on the transfer of tacit knowledge has been recognised. Knowledge that is tacit has broad implications for understanding the difficulty of imitating and diffusing individual skills (Kogut and Zander 1992). Cabrera-Suarez et al. (2001), however, suggest that tacit knowledge embedded in the founder is a strategic asset that a family firm can develop and transfer more effectively than a

nonfamily firm. The reason is that in the case of a family business, there is a special relationship between successor and predecessor that reaches beyond enterprise and includes personal and family matters. On the other hand, *Ba* (context-knowledge place) as a shared context of knowledge creation needs a physical context (Nonaka et al. 2000).

2.3.1 Diwan (Majlis) Context and Arab Family Businesses

Diwan is the room, group of rooms or area which mediates between the household and the community. Therefore it is both a locus and medium of the communication of the occupant's status and character (Nagy 1998). Family meetings—which often include not only family but friends—mostly take place in the *Diwan*. The *Diwan* is a social gathering place organised for accommodating family meetings with the leadership of the Shaykh (head of family). The *Diwan* can thus signify a couch, a room, the holder of an office of state, a place, an organisation and a style of decision-making. It can also be a historical account or a mode of literacy production. Its multiplicities and connotations are understood by practically everyone in the Arab and Islamic worlds and by practically no one outside of this milieu (Weir 2008).

"The Diwan is a place of decision as well as of social intercourse. In the *Diwan*, decisions are the outcome of processes of information exchange, practiced listening, questioning and the interpretation and confirmation of informal as well as formal meanings. Decisions of the *Diwan* are enacted by the senior people, but they are owned by all" (Weir 2005). The formalities of social, family and political life are strictly preserved even in managerial settings. Thus, it is impossible to undertake any kind of meeting in an Arab organisation without the ubiquitous coffee or tea rituals, but the most significant cultural practices are those associated with the *Diwan*. To understand *Diwan* is to penetrate to the heart of why decision-making is fundamentally a different social process from that which occurs in Western organisations (Weir 2008). We assume that most of the knowledge preserved in the family is created, exchanged and transferred within the formal and informal gatherings of *Diwan*.

Al-Naser (2001) considers *Diwan* as central to family life and communication, a court for the exchange of ideas and information and a centre for knowledge. The *diwaniah* served as the centre of social discourse and as a centre for entertainment and recreation for young and old alike. The gathering of the men (or the women) bonded the individual, the family and society as one. Sharing and imparting knowledge to younger members of the *diwaniah* and passing on the understanding of the social order were all responsibilities of the learned and experienced elders.

The mobility of the *knowledge reservoir*, as vertical (within generations) and horizontal (among family and kin) vehicles of knowledge, should be the main root of sustainable competitive advantage. *Diwan* should be central in such a process in Arab clans. The retention of the *knowledge reservoir* should be

explained due to accumulation and multiplication over generations, vertically and horizontally.

Proposition 4 *Diwan is the unique and distinct knowledge reservoir construct of Arab family business.*

2.4 Altruism, Kinship and the Asabiyyah Context (Collective Conscience)

Kinships play an important role in family businesses either as networks or social bonds. Peredo (2003) argues that in family firms, those networks are primarily recognised as kinships. There are three types of kin-based networked enterprises: (A) *blood and marriage* kin-based business, (B) *spiritual* kin-based business and (C) *community*-based enterprises. Each one of these kinship networks operates under two economic logics: the markets and the kinships. Keesing (1975) defines kinships as “biological relationships, culturally defined”. Karra et al. (2006) suggest that “the logic of the family can be transferred beyond family and near kin in order to build a quasi-family based on distant kinship and ethnic ties”. Moreover, they suggest that altruistic behaviour need not be confined to family and close kin but may extend through networks of distant kin and ethnic ties. The assumption of these authors is that individuals, households and firms are rational actors seeking to maximise their economic utility. More specifically, a key assumption in the family business literature is that in addition to economic goals, families may have non-economic goals such as providing employment for family members and building family cohesion.

Gierer (2001) has identified three levels of altruistic behaviour: the kinship, the reciprocal and the empathic. Kinship altruism surges for cooperation that extends towards individuals sharing, whether they are genetically related or not. Reciprocal altruism’s cooperation is reducing one’s fitness, but compensated by reciprocal cooperation with the partner leading to an increase of one’s fitness later.

It is obvious that altruism among relatives and cooperation based on expectations of reciprocity are strong motives in human society. Empathic altruism is the capability of feeling vicariously the needs of others and of sharing emotions of suffering and joy and anxiety and hope.

2.4.1 Asabiyyah Context and Arab Family Businesses

Gierer (2001) identifies in the work of Arab-Muslim historian Ibn Khaldun the basis of altruistic behaviour in the means of *Asabiyyah*, as group solidarity. According to

Ibn Khaldun, it arises naturally in groups of common ancestry, but is extendable to groups with social ties beyond common descent, including clients and allies in larger political units. The word *Asabiyyah* is a derivative from the Arabic root *asab* which means “to bind” people in groups. *Usbatun* and *Isabatun* are also derivatives of the same root, which means a group (*majmuah*). The term *Asabiyyah* being an Arabic word cannot be exactly and adequately translated into English, but the closest connotations for the term used are mainly “solidarity”, “group cohesion” and “group feeling” (Qadir 2013).

Baali (1988) recognises *Asabiyyah* as one of the most significant concepts in Ibn Khaldun’s work and as the most important factor in the development of society. It is derived from the Arabic root *asab* (to bind), i.e. to bind the individuals into a group (*asabtun*, *usbatun* or *isabatun*). The term *Asabiyyah* has been translated as “esprit de corps”, “partisanship”, “famille”, “parti”, “tribal consciousness”, “blood relationship”, “tribal spirit”, “tribal loyalty”, “vitality”, “feeling of unity”, “group adhesion”, “groupdom”, “sense of solidarity”, “group mind”, “collective consciousness”, “group feeling”, “group solidarity”, “feeling of solidarity” and “social solidarity”.

Baali (1988) in Ibn Khaldun’s social system finds two types of social life: the nomadic (*badawa* or Bedouin) and sedentary (*hadara* or urban dwellers). Hourani (2013) understands Ibn Khaldun’s concept of *Asabiyyah*, as “a corporate spirit oriented towards obtaining and keeping power”. *Asabiyyah* or clannism is a force that informs the patriarchal family order that still underpins the structure of power in many Arab societies. Despite the overlay of modern systems of government and administration, *Asabiyyah* has proved a remarkably persistent phenomenon.

Rosenthal (1967) in the translation of Ibn Khaldun work at Al Muqaddimah signifies *Asabiyyah* as a “group feeling”. However, in Ibn Khaldun’s mind, the term appears to have been associated with the related words *isbah* and “Qur’anic *’usbah”*, both meaning “group” in a more general sense. The group with which a human being feels most closely connected is primarily that of his relatives, the people with whom he shares a common descent. But as a feeling and a state of mind, the *Asabiyyah* can also be shared by people not related to each other by blood ties but by long and close contact as members of a group.

Baali (1988) finds that *Asabiyyah* is identical with Durkheim’s *collective conscience*. Durkheim (1965) believed that religion provided a social solidarity, a cohesion, a “oneness”; it unites members of society together, hence maintaining the society itself. Malesevic (2015) recognised two forms of solidarity: the mechanical and the organic.

Proposition 5 *Asabiyyah is the distinct bonding power among the members of Arab family business and the cause of solidarity.*

3 An Arab Family Business Conceptualization

Being familiarised with the constructs of *Namus*, *Wasta*, *Diwan and Asabiyyah*, it is rather safe to suggest a hypothesis on the definition of Arab family businesses. The main contribution of this definition is to differentiate from the family business ownership triad and set the cultural context that is in operation. Additionally, the definition provides conceptual clarity, inclusiveness, but still requires some evolution in order to be fully operational. There are no common grounds of Arab culture. Our study has focused in the Gulf Cooperation Region, since the Arab profile shows greater similarities, but our assumption is that it could work and extend further on to the majority of Arab population.

Arab family business is the nexus of kin-based relationships and entrepreneurial images or networks. Its raison d'être is to create value for the family embedded in the social context, preserve family loyalty, spread the sense of belongingness to all and enhance the family image in the social setting. The value could be monetary or non-monetary or both. Its governance is communicated within the traditional setting of *Diwan*, decisions are enacted by senior people but they are owned by all and knowledge is implicitly transferred horizontally and vertically over the generations. The structure of Arab family business is shaped from the hierarchical traditions and the influence of *Wasta* (networks) and *Asabiyyah* (social solidarity). Family members have to contribute to the added value of *Namus* (family essence) and the unique family identity (Fig. 1).

Palaiologos and Al-Ajimi (2017) examined this definition in the MENA societies. The outcome supports our definitional constituency. Along with other research of same authors, the last 3 years confirm that family business members feel more confident with the Arab family business definition above, when it is compared to the definition of Chua et al. (1999). Additionally, *Namus*, *Wasta*, *Diwan* and *Asabiyyah* have been identified as critical in the process of Arab family business (Table 1).

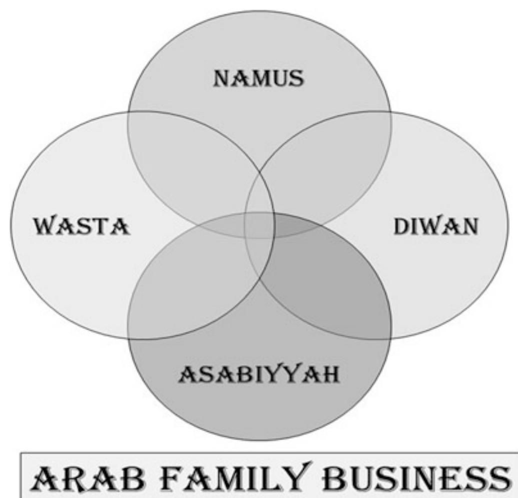

Fig. 1 Arab family business conceptualization

Table 1 The functions of Arab family business

Namus		Wasta		Diwan		Asabiyyah	
Function	Reference	Function	Reference	Function	Reference	Function	Reference
Family identity (essence)	Zellweger et al. (2010a), Micelotta and Raynard (2011)	Networking	Hutchings and Weir (2006a), Weir (2008), Granovetter (1983)	Knowledge reservoir	Argote and Ingram (2000), Al-Naser (2001)	Tribal group cohesion	Barakat (1993:52), Baali (1988:45)
Family image	Zellweger et al. (2010b)	Social embeddedness	Weir (2005), Granovetter (1985)	Knowledge transfer	Weir and Hutchings (2005)	Social solidarity	Baali (1988:43), Rosenthal (1967:851), Malesevic (2015)
Prestige—competitive honour	Stewart (1994:59)	Cultural distinctiveness	Smith et al. (2012)	Hierarchy	Weir (2008)	Altruism	Karra et al. (2006), Gierer (2001)
Worth—subjectified honour	Stewart (1994:15)	Trust	Kuran (2011:48)	Decision	Weir (2008)	Collective consciousness	Durkheim (1965:97)
Personal honour	Stewart (1994:145), King (2008)	Mediation	Cunningham and Sarayrah (1993), Al-Ramahi (2008)	Information exchange	Weir (2005)	Group feeling	Rosenthal (1967:851)
Sharaf (dignity)—vertical honour	Stewart (1994:148), Lalonde (2013)	Intercession	Cunningham and Sarayrah (1993)	Locus of communication	Nagy (1998)	Kinship	Peredo (2003), King-Irani (2004)
Ird—horizontal honour	Stewart (1994:148), Meeker (1976)	Social-emotional capital	Berrone et al. (2012)	Socialisation—social institution	Al-Naser (2001), Redman (2014)	Clannism	Hourani (2013)
Honour	Dodd (1973), Stewart (1994)	Informal institution	Brandstaetter (2011)	Consultation	Weir (2008)	Altruism	Gierer (2001), Karra et al. (2006)

4 Conclusion

Familiness is a useful concept, which explains the distinctiveness of a family business. It can only be recognised as a valuable resource that under some certain environmental conditions can lead to optimal family business performance but could not a priori be seen as creating competitive advantage. In this project we explained it along with *Namus* but in light of more organisational, emotional and symbolic constituencies.

Furthermore, the accumulated knowledge of business family matters within the family network (internal and external) is a potential variable of competitive advantage. Context specific and spatial dimensions of knowledge are shared from all in *Diwan*. Family businesses seize their impact in society and enforce their power via a nexus of kinships and preferential networks—the *Wasta*—and social bonds based on altruism, the *Asabiyyah*.

There are other societies, though, that have similar social processes to *Wasta* like that of *Guanxi* in China (Hutchings and Weir 2006a), *Blat* in Russia (Peng and Luo 2000); to *Asabiyyah* for Persians, Jews, Assyrians, Greeks, Romans, Turks and Berbers (Baali 1988); to *Majlis* in India and Kurdistan (Meeker 1976); to *Namus* like *Ubuntu* in Africa (Hearn et al. 2016); and *Teme* in Greece (Stewart 1994:58). But we cannot identify a single situation in which all our four constructs fit. It is the multiplicity of the variables that influences the family business culture and makes it distinct and difficult to imitate (Zahra et al. 2004). The viability of family businesses across generations is secured, when *Namus*, *Wasta*, *Diwan and Asabiyyah* constructs are optimised.

The main contribution of this article is to develop propositions as a way to both simplify and clarify the key constructs (*Namus*, *Wasta*, *Diwan*, *Asabiyyah*) in a middle range theory (Arab family business) with the approach of modelling-as-theorising (Reay and Whetten 2011) and to define *Arab family business*. Further research is recommended to identify the functions of the constructs and relevant measurements. Moreover, it will be interesting to see how those traditional constructs respond in the eyes of modernity, globalisation and its analogy in small and medium enterprises (SMEs), multinationals (MNEs) and public companies.

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Family Capital and Organizational Resilience of the Family Firm in Tunisia

Imen Mzid

Abstract This chapter focuses on the contribution of family capital (human, social, financial, and survivability capitals) to the resilience of the family firm along three dimensions: the absorptive capacity, the renewal capacity, and the appropriation capacity. Our objective is to show that the family capital is a strong determinant of the survivability of family firms that are claimed to be inherently resistant to change, particularly when facing environmental disruption.

We have adopted a qualitative approach based on five case studies with owner-managers of family firms in a North African country (Tunisia). The period of the survey (2011–2014) is characterized by a political revolution which led to unprecedented cuts in the Tunisian economy. This context provided an additional stimulus for greater organizational resilience.

The information was collected through semi-directive interviews with owner-managers of five family businesses. We concluded that the financial help provided by the family during the crisis has been acting as an accelerator for the development of some assets, including the share capital. By an increase of the share capital, the company can mobilize more financial capital. Our results show that the family firms' social capital (relationships with external partners) is a key factor for the firm to absorb shocks, implement collaborative strategies, and internalize practices allowing them to cope with disturbances in similar future situations. The human, financial, and survivability capitals have also important contributions to the resilience of the firm and interact with the social capital in order to strengthen this resilience.

Keywords Organizational resilience • Family capital • Qualitative methods • Family business

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1 Introduction

Economic recessions have created challenges for small- and medium-sized enterprises (SMEs) all around the world and contributed to disruptions requiring them to be resilient. The ability to successfully manage crises has likewise assumed an instrumental role in determining the future success of organizations, as well as their survival. Analyzing the continuity of family firms in such a context seems, therefore, particularly interesting.

Family businesses are claimed to be inherently resistant to change (Brown 1998; Strike 2012) because of the conflict between the family objective of maintaining control and the organizational objectives of adaptation to external environment. However, family business scholars believe that the sustainability of the family firm is tightly linked to the nature of family resources and emphasize, above all, the impact of the family capital on the continuity of family-controlled businesses. Consequently, an important question arises: How do family firms mobilize their family capital to overcome external environmental turbulence? We aim to understand whether there are idiosyncrasies that family-controlled enterprises develop, making them more resilient than nonfamily firms.

Extensive literature shows that the capacity of family firms to access owning family capital (e.g., human, social, and financial resources) is positively linked to their sustainability (e.g., Danes et al. 2009). Sirmon and Hitt (2003) were interested in the resources owned by family members that are not directly involved in the business and call these resources "the survivability capital." Emotional relationships are also considered to play an important role in managing the firm's need for continuity through critical incidents (Glover 2011). While the effect of the family capital on business continuity is largely recognized (e.g., Sharma 2008), the resilience issue is left in the dark, and empirical arguments are lacking.

In order to fill this gap, we empirically investigate five Tunisian family firms in the context of a political revolution between 2011 and 2014, wrenching economic instability and business discontinuities that require organizational agility and organizational resilience. A series of interviews with five family firm owners was conducted. The results provide insight on how the responding firms considered their financial resources, relational networks, and human resources to be key enablers of resilience, mostly through collectiveness and trusting relationships that allowed them to access strategic resources and improve their reactivity. While respondents emphasized the critical role played by the social, financial, and human resources, little attention was paid to the survivability capital, i.e., the resources brought by external family members. Also, additional initiatives, mainly a clear communication of the firm's objectives to all the generations in the family, were an emergent pattern to properly develop organizational resilience. Managerial implications are suggested in order to help family firm owners to develop resilient business models.

In the following section, we set out the dimensions of organizational resilience within family firms, as well as its inherent challenges. We also describe the family

capital through four dimensions as suggested by previous research. In Sect. 3, we expose the methodological issues used to conduct our study. The result of data analysis and the discussion of results are presented in Sects. 4 and 5, respectively. We conclude this research in a final section.

2 Theoretical Background

Organizational resilience is the ability to overcome a clear danger (Lengnick-Hall et al. 2011). More precisely, resilience is an organization's ability to maintain or regain dynamic stability, enabling it to continue its operations during and after a major incident or in the presence of ongoing stress and to regain stability after being threatened (Hollnagel 2006).

The resilience of the family firm refers to the pool of individual and family resources that protect it from a disruption which is referred to as "transient disturbances whose occurrence is difficult to predict and whose effects undermine the organization" (Altintas and Royer 2009, p. 269). The resilience of family firms is characterized by individual and collective creativity used to solve problems and get the job done (Danes 1999, 2006).

2.1 Dimensions and Challenges of Organizational Resilience

Although it is difficult to measure a priori organizational resilience capacity, the study of the actions and reactions of firms that have survived unexpected events highlights the mechanisms underlying the resilience capacity (Bégin and Chabaud 2010). We consider factors and processes enabling the firm to endure challenges and to discover ways in which the organization builds and maintains its resilience capacity over time.

2.1.1 The Challenges of the Resilient Firm

In the long run, strong resilience entails changes requiring the monitoring of information and experimentations (Altintas and Royer 2009). Resilient firms, according to Hamel and Välikangas (2003), face four challenges:

- A cognitive challenge, since one must be realistic about change, in which a manager has to be humble and aware that disruptions will affect the organization and its success.
- A strategic challenge that involves imagining new strategic maneuvers and alternatives to a failing strategy.

- A political challenge that consists of reallocating resources in order to support promising activities and new programs for the future.
- An ideological challenge characterized by a proactive attitude and based on an ongoing search for new opportunities.

Consequently, the resilient firm combines a defensive approach in weathering shocks when they occur with a proactive approach to envision new solutions in order to regenerate itself (Bégin and Chabaud 2010).

2.1.2 The Dimensions of Organizational Resilience of Family Firms

In order to withstand shocks, the firm mobilizes specific resources to protect itself from disruptions in the environment. Firms can also foster innovation particularly by redeploying existing resources (De Carolis et al. 2009). In this context, resilient firms are likely to learn lessons after experiencing crises in order to avoid setbacks caused by possible future disruptions.

Accordingly, the Lengnick-Hall and Beck (2009) definition of organizational resilience as “a firm’s ability to absorb, respond to, and capitalize on disruptions caused by changes in the environment” provides a good starting point to illustrate the different dimensions underlying the organizational resilience concept. Here, the resilience is characterized by three overlapping dimensions. The absorptive capacity assumes that the firm can absorb shocks and weather crises, which requires not only the existence of dedicated resources but also a desire for continuity among managers. Resources can be immediately or potentially available (e.g., reputation and financial support), and their availability is critical to protect the business from environmental disruptions and to ensure its continuity. The strategic renewal refers to the firm’s ability to envision the future. Beyond their ability to absorb external shocks, family firms have to be innovative through considering new solutions, new activities, or by rethinking their management practices. Innovation can be fostered through the redeployment of existing resources according to the assigned objectives. The appropriation capacity means that firms leverage their past experience and perform a “post-crisis learning” allowing them to better prepare the future (Altinas and Royer 2009). Consequently, firms undermine their routines and practices in order to handle future disturbances (Christianson et al. 2009). Accordingly, in resilient firms, an organizational memory is built over time, with an interval gap between the crisis occurring and learning taking place. The specificity of family firms lies, here, in their ability to pass on the benefits of this learning from one generation to the next.

How do family firms leverage their capital in order to overcome environmental discontinuities?

2.2 *The Family Capital*

The family capital consists of the resources within the family that can be made available to the business (Sorenson and Bierman 2009; Dyer et al. 2014; Danes and Brewton 2012). The resource-based view of the firm considers that firms' success largely depends on their available resources and the way they use them. Particularly, the family resources constitute a unique capacity that could be at the root of the firm's competitive advantage. However, the RBV considers only the resources lying inside the firm, as opposed to the Sustainable Family Business Theory (SFBT) which also looks at the family members that are not involved in the management of the family business (Danes et al. 2008).

Accordingly, Sirmon and Hitt (2003) distinguish between members of the family who work in the firm and other members who are not directly involved and define the survivability capital by the human, financial, and social capital of family members that are outside the firm. One major theoretical premise of SFBT is that the configuration of the resources used during times of stability creates adaptive capacity for challenges during times of planned change or unexpected disruptions (Danes 2006). The SFBT defines family capital as a combination of human, social, and financial capitals that are likely to create an organizational resilience by facilitating resource transfer across porous boundaries separating the family and the firm (Brewton et al. 2010; Danes 2014).

Below, we define the different types of family capital in order to identify their relative impact on the resilience of the family firm.

2.2.1 Human Capital

Human capital refers to the skills, expertise, attitudes, and values of family members (Danes et al. 2008). Human capital is considered as an essential component of family capital that positively influences its success through the experience, ethics, education, time, and energy devoted by each family member working in the firm.

Sirmon and Hitt (2003) believe that the human capital in family firms largely contributes to warm, friendly, and strong relationships and is implicit and specific to the firm (a tacit knowledge). Accordingly, the family firm places its human capital at its heart and aims to uphold its values by prioritizing the firm's succession to the future generations of the family.

The human capital also encompasses the knowledge, emotional support, and technical and intellectual skills of the family members involved in the firm's activities. The emotional force constitutes an intrinsic resource which is useful to any personal and organizational development. We argue that human capital is made more complexed by this dual relationship (personal versus organizational development), which creates a unique context for human capital and leads us to consider its impact on the resilience of family firms in a harsh context (Stafford et al. 2013).

We suggest that the firm's capacity for developing organizational resilience is achieved through strategically managing its human capital, making it possible for organizations to effectively absorb uncertainty, develop situation-specific responses to threats, and ultimately engage in transformative activities so that they can capitalize on disruptive surprises that potentially threaten their survival.

2.2.2 Social Capital

Social capital is a distinctive asset of family firms that may explain their strength (Arrègle et al. 2007). This asset is based on the frequency of communication, high level of trust, and shared vision between family members (Lwango and Coeurderoy 2011). Social capital is built through relationships between stakeholders, whether individuals or groups. It represents the interpersonal resources that can be mobilized by individual stakeholders through their social relational networks (particularly volunteer networks).

The social capital of family firms is defined by Pearson et al. (2008) along three dimensions: The structural dimension covers the social relationships between the family members who form an internal network. The cognitive dimension is made up of the different visions of the family and the firm, which are often rooted in the family history. These two dimensions (structural and cognitive) influence the relational dimension, which is based on trust, norms, obligations, and identity.

The social capital theory argues that relational networks constitute a valuable resource for conducting business by facilitating any economic activity through information sharing, collaboration, and the discovery of new methods that provide the firm with a competitive advantage (Burt 1992; Nahapiet and Ghoshal 1998; Dyer et al. 2014). Accordingly, social capital, in the form of trust between stakeholders, is likely to facilitate the exchange, creation, and development of strategic partnerships. In this paper, social capital is viewed as a set of relational networks, governed by the norms of trust and reciprocity, which can be mobilized for any social benefit.

Family businesses have specific advantages in the development and use of social capital (Gedajlovic and Carney 2010). Sharma and Salvato (2011) explain how social capital leads to governance systems that create advantages in the processes associated with the search, identification, and exploitation of opportunities. So, social capital enables an organization to build bridges that cross conventional internal and external boundaries and forge a network of support and resources.

We argue that the more people share common values and develop effective relationships through both family ties and business ties, the more they trust each other and share reciprocity that ease cooperation and information exchange that are necessary to overcome any crisis.

2.2.3 Financial Capital

The organizational resilience requires considerable financial resources. A firm that has a superior financial capacity would have a greater ability to absorb any crisis and take new opportunities in order to cope with the new environment characteristics (Haynes et al. 2011). Historically, greater attention has been paid to the financial capital of the family firm. This is made up of financial and physical resources, whether tangible or intangible, that can be used as a means of payment. The family firm has effective structures that enable better financial management. Firstly, it has a long-term vision, and secondly, it is not accountable for short-term results (Dreux 1990). In addition, the wish to pass on the firm to future generations further encourages effective capital management (Gallo and Vilaseca 1996). This long-term perspective of the family firm pushed authors to qualify its capital as "patient financial capital" (Sirmon and Hitt 2003). Family shareholders can therefore be extremely patient with regard to their firm, which means that the latter is not subject to immediate and maximum profitability. Accordingly, we propose that financial capital is likely to have a significant impact on the resilience of the family firm.

2.2.4 Survivability Capital

Sirmon and Hitt (2003) add another type of capital, namely, survivability capital, which refers to the pooled personal resources that family members who are not involved in the business are willing to share for the benefit of the family firm. These personal resources can take the form of free labor, loaned labor, additional equity investments, monetary loans, etc. The availability of these resources is a result of the duality of the family members' relationships (with the family and with the firm) characterized by strong attachment and commitment. We believe that survivability capital contributes to enhance the resilience capacity of the firm.

In the following section, we discuss the methodological choices made in order to explain the relationship between the different types of family capital outlined above and the resilience of the Tunisian family firm.

3 Methods

3.1 Research Design

In order to refine our thoughts about the relationship between family capital and organizational resilience, we use a qualitative and inductive multiple-case study approach. Given the lack of rigorous academic research on family business resilience, we follow an exploratory approach.

3.2 Data Collection

Data were collected from five owner-managers of family firms in Tunisia through semi-structured, face-to-face interviews. The survey was conducted between February and April 2013, in a context characterized by the reconfiguration of both the public and private sectors, making firms particularly vulnerable and providing them with additional stimulus for greater organizational resilience. In Tunisia, there is no recognized legal status for family firms. So, the sampled firms were identified through personal connections. This approach to selecting respondents is the same followed by Zahra (2011) who underlines the particular difficulties to access family firms in Maghreb and Mashrek countries.

The case studies selected are presented in Table 1.

Interviews were conducted on the basis of a predefined guide, listing the topics that should be discussed over the course of the interview. The topics discussed provided answers to the following lines of questioning: presentation of the firm, the impact of the political transition on firm's operations (positive and negative effects, severity and duration, etc.), human capital (experience, training, etc.), social capital (networks, trust, nature of relationships, etc.), financial capital, survivability capital (involvement of family members who do not work in the firm), and the actions taken in times of crisis.

3.3 Data Analysis

We used the NVivo software to process the data collected from our interviews following the thematic content analysis method, which allowed us to extract raw data by topic and according to the importance of those topics (Evrard et al. 1997). The data are therefore coded into units of meaning (Allard-Poesi 2003). We checked whether the political transition had any impact on the firms' activity. We identified this impact by studying turnovers and volumes of activity. Resilience was measured by the time taken to return to pre-crisis activity levels and stability (Altintas and Royer 2009).

Table 1 Presentation of the studied firms

	Date of creation	Number of employees	Area of business	Number of units	Manager
Case 1	1993	400	Textiles	6	Founder
Case 2	2008 (1976)	25	Food processing	2	Founder
Case 3	1969	34	Plastics	4	Successor
Case 4	1983	32	Catering	1	Successor
Case 5	1972	43	Fishing	5	Successor

As recommended by Miles and Huberman (2003), we defined a precise coding scheme, which is a list of codes that we attributed to selected text segments. Rather than a purely descriptive approach, we opted for an inductive coding in order to identify trends likely to explain the strategic behavior of family firms. With a view to preserving the anonymity of our respondents and their firms, we allocated numbers to the case studies.

4 Results

Below, we present the problems encountered during the political transition and the actions undertaken to weather the disruptions. We then set out the contribution of each type of capital to the resilience of the family firm.

4.1 The Impact of the Political Transition

The managers interviewed claimed that the political transition has seriously affected the operations of their firms. "People were afraid to spend," as emphasized by the manager in the first case study. This fear was caused by the instability throughout the country and constant price increases, meaning that consumers spent money on basic needs such as food rather than clothing or anything else. Thus, for some sectors, in particular the food processing industry (the second case study), the transition represented an unprecedented opportunity to sell all their stocks profiting from the family's reputation and skills in the food processing industry. This was especially true since the transition did not only affect Tunisia but also Libya, with which some Tunisian firms carried out most of their trading. However, these firms increased their turnover without much investment because of the instability, environment uncertainty, and political risks.

Moreover, the sectors relying on imports (e.g., clothing and plastics) suffered from the customs barriers that were tightened by the successive post-revolution governments in an attempt to fight off the corruption in the sectors previously dominated and manipulated by family members of the former president. The government became more demanding with regard to standards and checks, which slowed down administrative procedures, caused delays in delivery, thus creating dysfunctions within firms and causing considerable financial losses. Some firms suffered from social tension (threat of strikes and even sabotage), which impeded work (lack of responsiveness, laxity, etc.). There was no obvious management of this social tension, which often caused blockages as trade unions exercised extraordinary influence on employees.

The most intriguing thing, according to the managers in the first and fifth case studies, is the following: "There was a labour shortage on the market even though the revolution originally started because of unemployment...." According to the

firm's manager in the fourth case study (a restaurant), the restaurant was able to benefit from the social tension in large firms because their cafeterias and employees were always on strike. Although there was a relative fall in activity volumes after 2 years, the revolution presented an opportunity for some firms (e.g., the fourth case study), while it was a threat for others (e.g., case studies 1, 2, 3, and 5).

4.2 The Resilience of the Family Firm

The managers were asked about key actions and reactions that they undertook to overcome the crisis. A first interesting result was that renewal and appropriation emerge as the two key elements of resilience: "My resilience capacity comes from my capacity to innovate, to develop new businesses and to learn from past experiences" (first case study). These managers explained that they had become more proactive thanks to their increasing ability to identify disruptions associated with the transition period, which in turn enabled them to take advantage of the opportunities that this period represented or, conversely, foresee the inherent risks. The respondents also insisted on the importance of strategic monitoring and resource reallocation: "Strategic change, implemented during times of disruption and chaos, are critical to help differentiate a firm from its competitors and enhance its image in the market" (second case study). They were aware that the ensuing change in strategy could destabilize their firms, at the beginning, but they were confident that they would quickly get back on their feet.

Accordingly, four managers claimed to have weathered the crisis thanks to an offensive strategy based on seizing market opportunities, coupled with a product diversification. This policy development enabled their firms to enhance their positions and to differentiate them from their main competitors.

In order to weather the crisis, some firms also restructured and reduced their workforce by granting particular importance to the skills of the organization members. As the manager in the third case study said: "The moral of this democratic transition is that firms that were the most affected by the recession were those that were fairly large" because of heavy fixed costs and lack of flexibility, preventing them from adapting quickly to new circumstances.

Furthermore, although the revolution was a new experience for Tunisian firms, it served as a lesson on how to detect disruptions in the environment: "We learned lessons from this revolution; we have learned how to identify disruptions and to anticipate the consequences of a political change" (third case study). Also, while the manager of the fourth case study has profited from the revolution, he also argues that his firm is trying to leverage the difficulties that the other firms are facing in order to anticipate the difficulties that his own firm may encounter. Table 2 synthesizes the salient dimensions of resilience as manifested by the firms' managers in our sample.

In the following sections, we set out the relative contribution of the family capital in coping with the business environment of the sampled firms.

Table 2 Dimensions of organizational resilience in Tunisian family firms

Organizational resilience	Cases
Absorptive capacity	– Valuing human resources: the social support allows some firms to cope with the crisis (all five cases) – Accepting heavy losses without reducing or ceasing the activity through the focused use of financial capital (all cases) – Acknowledging that the firm's reputation is a guarantee and a source of trustworthiness (all cases)
Strategic renewal	– Offensive strategy (all cases) Seizing market opportunities Product diversification Innovation – Activity diversification through acquisitions (case 2) – Activity reengineering (case 1, 3, 5)
Appropriation capacity	– Firms capitalize on the crisis by being more proactive in the identification of disruptions and changes that are likely to take place in the business environment (all cases) – Firms create space for common reflection in order to prepare the future (all cases)

4.3 Human Capital and the Family Business Resilience

Owner-managers of family firms meet more often to discuss possible solutions and adapt the firm's strategy to changing circumstances. Each person, according to his/her experience, tries to bring the required elements for decision-making. According to our interviewees, strategic changes led, not to new recruitments, but to the redistribution of tasks, a new organization of work, and a better selectivity of human resources. Only the manager in the fourth case study claims to have hired new employees. The manager in the first case study, wishing to refocus the activities of his large firm, encouraged spin-offs in order to avoid laying off staff which could have had a negative impact on the social environment.

The owner-manager in the first case study agreed to sell one unit of the group to his shop foreman. He encouraged him to start his own firm because he was qualified in his field and highly trustworthy. This move reduced the group's management burden and complexity. The family firm thereby controlled the consequences of redundancy on the financial, moral, social, administrative, and legal levels. It also gained a partner to expand its social network.

We support the first proposition of this research that the human capital of family firms largely influences their organizational resilience.

4.4 Social Capital and the Family Business Resilience

The social capital, in the form of trust between stakeholders, facilitates the exchange, creation, and development of strategic partnerships. Extended relational

networks help to weather any crisis on all levels (credit, payment deadlines, protection from vandalism, etc.). In fact, the managers of all the family firms studied explained that, thanks to the quality of the relationships that they were able to maintain with their partners during normal operating periods and before the revolution, they had been able to survive the crisis.

For example, the manager in the first case study explained that his partners had even given the firm more credit and extended payment deadlines to help keep it afloat. As for the manager in the second case study, he claimed that he would not have been able to get help from partners if he had not been a member of the family that the partners trusted. The social capital and networks developed to overcome the crisis then allowed him to penetrate the market, attract important clients, and get to know his competitors better. According to the manager in the third case study, the firm was able to maintain good and trusting relationships with its partners, thanks to its great reputation and recognized creditworthiness. Cooperations allow the firm to consolidate procurement and to control the cost of supplies.

Social relationships helped save some of the family firms (case studies 1, 4, and 5). The sudden loss following the riots was nowhere near as catastrophic as it could have been. The managers, seeking an end to the vandalism and other difficult situations, appealed to their knowledge and relational networks. Indeed, friends, employees, and members of other firms confronted demonstrators who were smashing things up, burning things down, and stealing.

In summary, the time of crisis allowed all the managers of these firms to get to know new people in all fields. Their social networks grew, leading to more rapid solutions to financial and/or human problems. In addition, since a lot of firms fell on hard times, it was easier to find partnerships and to benefit from cooperations.

These results corroborate the second proposition of this research that the social capital of family firms plays a critical role in their organizational resilience.

4.5 Financial Capital and Family Business Resilience

According to the manager in the second case study, when a strategy is well built, relationships are of no use. The most important thing for survival is financial capital. The more the family can help the firm financially, the better it can produce, develop, overcome more difficulties, and progress fairly quickly. When the resilient family firm has a significant financial capital, it can weather any crisis, keep operating, and, above all, find the necessary resources to adapt to circumstances and changes in strategy. All these case studies reflect the porosity between the personal accounts of the owner-managers and the accounts of their firms. Owner-managers do not hesitate to bail out the family firm when necessary and even go as far as delaying their personal projects for the benefit of its survival and development.

The financial capital was essential over the short term for the firms to protect themselves from the riots and ensure employees were paid even though the firm was almost out of action and without funds for several weeks. Over the long term, this financial capital influenced, to a large extent, the strategic operations that could be taken. Indeed, significant financial capital is necessary for the reorganization of work. Furthermore, the strategic changes that were imminent in the context of the transition required new investments.

According to the manager in the fifth case study: "There is a large discrepancy between political promises and reality, but the advantage of the family firm is that it can find the necessary capital compared to other types of firms by turning to the family members who are willing to wait for a return on their investment."

We support our third proposition that the financial capital of family firms strongly influences their resilience capacity.

4.6 Survivability Capital and Family Business Resilience

Our study reveals that survivability capital mostly takes the form of the financial capital of family members who are not involved in managing the firm. According to the majority of the managers interviewed, when financial resources are needed, the family always comes to the firm's rescue. Family members are conscious of the firm's image, which can harm that of the family. Consequently, the more the family helps the firm financially, the better it can produce, develop, overcome more difficulties, and progress fairly quickly.

Apart from the financial aspect, only two managers (case studies 2 and 4) emphasized the critical role of survivability capital. In the fourth case study, the respondent explained that the political revolution concurrently occurred with the death of the firm's founder which allowed the successor to have the support of all the members of the family in order to take critical decisions about both internal and external changes. First, as all the members had inherited, they granted him more financial resources. What is more, they mobilized not only their human capital but also their social capital to help the firm overcome the external crisis and absorb the shock. The respondent adds that the successor managed to bring about the necessary strategic changes and innovation imposed by environmental threats by recruiting the most competent members of the family, which have a great reputation in the catering industry.

Similarly, in the second case study, our interviewee underlines the importance of the support of family members and the mutual trust necessary for controlling the activity of the firm. He argues that the fear of the loss of the firm's image, which will in its turn harms that of the family, makes the family members provide different types of capital, mainly financial, social, and human. Our proposition that the survivability capital contributes to enhance the resilience capacity of the firm is partially supported.

Table 3 Linking family capital to the organizational resilience of family firms

	Absorptive capacity	Strategic renewal	Appropriation capacity
Human capital	Continued presence of family members in the firm in order to quickly manage arising problems (all five cases)	Spin-offs (case 1) Reallocating tasks (cases 1, 2, and 5)	Implementation of explicit planning practices (all five cases)
Social capital	Thanks to the quality of the relationships, they were able to remain with their partners during normal operating periods (all five cases) Access to financial resources (all five cases)	Acquisition (case 2) Cooperation and strategic partnerships (cases 1, 4, 5)	Strengthening personal networks in order to overcome future crises (all five cases)
Financial capital	The advantage of the family firm is that it can find the necessary capital compared to other types of firms by turning to the family members (Case 5)	Financing investments that are inherent to strategic change (all five cases)	A diversified portfolio of activities given different levels of financial needs (cases 1, 2, and 5) Reserve maintenance (all five cases)
Survivability capital	Additional financial and social capital (case 2 and 4)	Acquisition of new distinctive competencies within the family (case 4)	The recruitment of external family members allowed firms to sustain their competitive capacity during the period of the crisis (cases 2 and 4)

Table 3 synthesizes how Tunisian family firms mobilize their human, social, and financial capital in order to cope with environmental disturbances in the context of the political crisis between 2011 and 2014.

5 Discussion

In this paper, we aim to develop our knowledge of complexities and key success factors of family firm sustainability. Although previous research has explored the continuity of family firms, in different contexts, i.e., successional transfer, founder's retirement, marriage, etc., there is little research on family business resilience. We try to give some possible responses to the unanswered question of how family firms use their family capital in order to be resilient in a time of crisis. In order to answer this question, we examined the impact of four types of family capital: human, social, financial, and survivability.

The results of our case studies show that in order to be resilient, family firms rely on their family capital not only to overcome shocks (absorptive capacity) but also to exploit new opportunities (renewal capacity) and to capitalize on past experiences

by being more proactive in order to cope with future environmental disturbances (appropriation capacity).

Surprisingly, our results suggest that because of the specificity of their capital, family firms are likely to be more resilient than nonfamily businesses. It is a counterintuitive result since it is generally known that family businesses have more resistance to change than nonfamily firms (Brown 1998; Strike 2012). Organizational resilience in our sample originates from a real awareness among the family business managers who see the change as an emerging process triggered by environmental threats and motivated by a desire for survival and sustainability.

5.1 Family Capital and Absorptive Capacity

Our interviews suggest that family businesses have specific means to absorb external shocks. At the financial level, we find that because of the porosity between the company's accounts and the personal accounts of the family members, the family firm facing difficulties is more reactive in the mobilization of financial capital.

At the social level, family businesses show a greater ability to develop links with external partners. Family businesses build a social capital that is based essentially on relational ties and the trust that they can establish with internal and external stakeholders of the family. The support of external partners (suppliers and clients essentially) is manifested through the trust that they can grant to the firm, allowing them to extend payment deadlines or to endure passing problems faced by the firm.

Also, in order to weather the crisis, family firms enjoy a strong sense of solidarity thanks to the importance given to their human resources. The management team and all the employees are often mobilized so that the activity can continue. Consequently, faced with a crisis, some family firms strive to preserve their relationships with their employees and maintain their loyalty instead of opting for redundancies or cancelling benefit plans. We also observed that managers of family firms devote their life and their capital to the firm, making the collective progression at the heart of their values: Challenges and successes are always shared. Accordingly, the human capital of family firms constitutes a strong lever allowing them to absorb external shocks.

5.2 Family Capital and Renewal Capacity

Strategic renewal represents the second dimension of the organizational resilience of family firms. We find, in this research, that family businesses may make strategic responses (innovation, diversification, focusing, partnerships...) similar to nonfamily businesses. According to all the managers interviewed, adapting to the environment requires greater foresight and innovation.

We find that the renewal capacity of family businesses relies heavily on their social capital and, especially, on their relationships with external partners. The network of relationships that family firms establish with external partners allows them to take advantage of some synergies with other family companies that are in a similar situation. Indeed, we found that family businesses in the context of a crisis show a supportive behavior even if they are competing (e.g., some of them build partnerships to avoid the bankruptcy of all parties). Hence, firm sustainability takes precedence over many other considerations, and direct competition is prevented by strategic maneuvers that could not be observed in nonfamily businesses in similar situations.

In addition to a firm's social capital, the renewal capacity largely depends on the skills of managers who rely on their networks to seize opportunities that are likely to ensure the survivability of their firm. The renewal capacity requires ingenuity, innovation, and curiosity. It also requires having new and accurate information, for example, on conditions in local markets or on companies that may be repurchased, etc. Human skills combined with personnel networks can provide family firms with advantages in developing knowledge structures and systematic search processes that are necessary for successful opportunity identification (Stafford et al. 2013). As highlighted by Patel and Fiet (2011), the noneconomic goals of family firms make their knowledge structures more difficult to copy.

Finally, financial capital and creativity in problem solving can be more easily and quickly discovered to respond to new business situations. Financial capital of family businesses can facilitate long-term investments in search routines that lead to new opportunity identification, contributing to the renewal capacity of family firms.

5.3 Family Capital and Appropriation Capacity

Our results also underline some specificity of family firms in mobilizing their human, financial, social, and survival resources that are likely to contribute to their appropriation capacity. On the human side, family firms try to promote the development of several skills among their employees and adapt them to different roles. Organizational resilience is possible thanks to the creation of individual skills that are combined at an organizational level to weather uncertainty, respond to threats, and survive. In the case of family firms, the sharing of a culture, communication, and interpersonal relationships increase resilience capacity by enabling it to respond more quickly to changes in the environment. Nevertheless, as highlighted by a respondent, in order for the human capital to contribute to organizational resilience, organizational objectives have to be clearly defined and shared within the firm.

In addition, respondents underlined that change and surprise can be sources of opportunity, but also a sign of potential threat. Capitalizing on these opportunities often requires organizational transformation that contributes to the building up of

an organizational memory, enhancing the resilience of the family firm. Thus, the resilient firm offers a collective space for reflection so that learning can take place and the firm can be passed down through the generations.

Moreover, social capital helps to develop a sense of trust based on shared values, behavior patterns, and implicit rules which can be drawn upon when needed and enhance a family firm's appropriation capacity. As suggested by Brewton et al. (2010), if families have built social capital, the accumulated trust and creativity in problem solving can be more easily and quickly adapted to new situations. Social capital creates a feeling of trust that promotes cooperation and team collaboration. It creates a great flexibility, allowing the family business to better address internal or external disruptions that it might face. Also, social capital attracts other family human and financial capital resources to the business.

This is in line with Danes and Stafford's (2011) suggestions and supports the third proposition of our research that the appropriation capacity of family firms is shaped by the family capital.

In summary, our research shows that family firms' social capital is the most important resource that helps them overcome any crisis. This result is supported by Brewton et al. (2010) who focus on the resilience of rural and urban family firms, indicating that the sets of social capital and disruption variables were significantly and negatively related to firm resilience for rural firms, while perceiving the business as a way of life was significantly and positively related to firm resilience for urban firms.

According to our interviewees, family social capital arises from the families' past history, trust, respect, and altruism between family members and employees. Social capital enables family firms to access information, technological skills, markets, and additional resources. Also, social capital in the form of trust between stakeholders facilitates the creation and development of strategic partnerships. It affects the flow of other resources and contributes more than any other type of capital to the resilience of the family firm.

In addition to social capital, family firms need significant financial strength in order to weather shocks. In this context, a family's financial capital acts as a guarantee in situations of crisis and enables the firm to bear losses, even if it must reduce or cease activity (Haynes et al. 2011). Often disposing of patient financial capital to finance their operations, family firms are perhaps better placed than nonfamily firms to cope with external difficulties (Sirmon and Hitt 2003). Managers can rely on family members who are motivated by the need to secure the sustainability of the firm. They give their trust and, where necessary, renounce their dividends. Consequently, human capital may constitute a significant competitive advantage for family firms, strengthening their independence with regard to capital markets and enabling them to concentrate on innovation and the development of their strategic skills. Compared to nonfamily firms, which are likely to have difficulties to access financing in difficult periods, family firms can more easily overcome financial constraints through family support.

Finally, we have underlined above that family businesses appear to have unique advantages in the development and utilization of their survivability capital.

Unfortunately, we still have only an incomplete understanding of this type of capital in family firms, owing to a paucity of measures and limited attention to the nuances of how survivability capital is formed. This was confirmed by our study since only two managers emphasized the critical role of external family members in the resilience, and consequently the survival, of their businesses. Survivability capital is likely to extend the range of feasible actions and promote an assortment of alternative applications of external resources by including the human, financial, and social capitals of "outsider" family members. This, in turn, stimulates innovation and challenges prevailing assumptions in ways that can cultivate wisdom. Survivability capital ensures that bonds with various environmental agents are maintained.

We can also notice that the three types of family capital studies are closely intertwined. As mentioned by some of our respondents, in the absence of financial capital, human capital is not enough to ensure the resilience of the family firm. This finding supports the argument of Stafford et al. (2010), in which financial capital alone is not enough to ensure the resilience of the family firm. This resilience is only possible when financial capital is accompanied by a high level of human or social capital. It was also emphasized that social capital facilitates access to financial resources that are essential at a time of crisis. Paradoxically, a crisis is likely to strengthen the social capital of family firms since it becomes easier to make partnerships with external firms that face similar difficulties.

We contribute to the literature on family business by focusing on the impact of the family capital on a quite ignored area: the resilience of family firms. While scholars focused on family capital, empirical arguments for the impact of family capital on organizational resilience are lacking. Given the high uncertainty that characterizes the majority of business environments nowadays, the resilience of family firms issue becomes paramount. We show that family firms have their own resilience model while taking their strength from family-controlled resources.

Also, our research should provide some assurance to the managers of family firms that family support (either human, relational, or financial) could enhance their combinative capabilities to survive and to cope with environmental turbulence.

Particularly, managers have to build enduring trust with their external partners which constitutes an important source of strategic renewal and absorption of shocks. In addition, a clear definition and communication of organizational objectives should reinforce solidarity within the firm and the contribution of human resources to the absorption of the crisis. So, family capital has to be managed just like any governance structure or business strategy. Family resources could allow firms not only to resist to external shocks but also to create a distinctive competitive advantage compared to nonfamily firms.

This research should be followed by comparative studies of family and nonfamily firms in order to empirically understand the extent to which the family character underpins the resilience of the family firm. Also, longitudinal research will be necessary in order to understand the process in times of stability and change and to assess the extent of appropriation capacity, since learning these details contributes to building this resilience capacity, but this will undoubtedly take

time (Hollnagel et al. 2009). The resilience of the family firm is not therefore a stable trait but often an emergent process (Patterson 2002).

6 Conclusion

Based on the sustainable family business theory, our research question emerges from the interactions between two subsystems: the family and the firm, while recognizing the specific characteristics of each system. Sharma (2008) argues that this interaction results from the combination of existing reserves of social, human, financial, and physical capital and calls it "familiness." We talk about distinctive "familiness" when there is a balanced flow of capital between the family and the firm, enabling each subsystem to grow its capital reserves on a regular basis. Inversely, when there is a failure in one of the subsystems, the other must come to its rescue in order to preserve the integrity and continuity of the system as a whole. Accordingly, our work confirms the existence of links between the two subsystems as follows: If family capital helps to overcome the crisis, the crisis acts as an accelerator for development of some assets, mainly the social capital (ties with external actors). In addition, we find that social capital is the most critical resource for the resilience of the family firm. Social interactions of family members affect the way in which resources are combined in the firm to discover opportunities, absorb shocks, and capitalize on past experiences. We can notice that social capital is an idiosyncratic resource since human and financial resources can be imported externally, while social capital exists as a result of family relationships and cannot be imported nor duplicated by competing firms. Also, we show that social, human, and financial family capitals interact to influence the organizational resilience and, consequently, the sustainability of the firm. Particularly, when positive social relationships are maintained, family members develop human and financial capitals that contribute to the firm's survival. We can conclude, as did theoretically Arrègle et al. (2007), that social capital plays a key role in the economic health of the family and contributes to its resilience in times of crisis.

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Moroccan Family Businesses: Specific Attributes, Logics of Action and Organizational Learning Dynamics

Sara Bentebbaa

Abstract In spite of the significant role of family firms in most countries' economies, researchers have paid a limited attention to organizational learning in these companies. In this chapter, we will focus on Moroccan family businesses trying to answer a central research question that is: "How do the specific attributes of Moroccan family businesses impact their individual and organizational learning dynamics?" To have a deep understanding of how these interactions occur, we conducted 30 semi-structured interviews in four Moroccan family firms. The results of the case studies show that every Moroccan family business is characterized by a dominant logic of action that can be either based on spirituality and emotions or on rationality and professional relationships. These logics are the result of traditions, religion and family culture, and because of their bivalence, their impact on individual and organizational learning dynamics can vary from one family business to another.

Keywords Family business • Logic of action • Individual learning • Organizational learning • Value system

1 Introduction

In family businesses, the family and the business are fundamentally interlinked. So, as the concept of family varies from one country to another and through the evolution of history (Colli and Rose 2008), how can we expect family businesses to be homogeneous all over the world? Family businesses are, in fact, cultural artefacts. They are the result of their specific context: *In different contexts, family firms play different roles and have different values. To study family firms thus means to undertake a serious comparative effort* (Colli 2011).

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If the extended family of the early years of industrial Europe has much in common with that of Africa or the Middle East today, it has very little resemblance with the present Western nuclear family (Colli and Rose 2008). In the MENA (Middle East and North Africa) region, families are large by global standards; the average family size is almost double of that in the United States and the United Kingdom (Al Masah Capital Limited 2011).

Looking back at the historical aspect, most family businesses of the MENA region were founded in the 1950s, or later. As a result, a large number of these companies are now being managed by members of the second generation. In this region, some studies show that there is a higher dominance of family firms in comparison with other regions and that it is mainly due to two key factors (Al Masah Capital 2011):

- A cultural preference (Arab tradition) to first pursue business within the family and then consider outsiders
- Solid political connections (an important factor for pursuing business in closed economies)

In today's fast-paced and competitive environment, these companies need to be highly adaptable to different stakeholders' expectations, which implies acquiring and developing new knowledge, skills and capabilities. Recognizing enablers of dynamic organizational adaptation is vital to sustain and strengthen the competitive advantage. Companies, family-owned or not, need to acquire new knowledge and competences or to use new combinations of what they already know.

Over the last two decades, organizational learning has received growing interest both from researchers and practitioners (Schilling and Kluge 2009). Still, articles addressing the issue of organizational learning in family businesses are very few in spite of the significant role of these companies in most countries' economies. Organizational learning, as a process and as a result, is generally assumed to be the same in family and nonfamily firms even if the identification, combination and deployment of resources are different in these two systems. Moreover, "Family firms are emotional arenas" (Fineman 1993) and those emotional dynamics have an impact on the learning and evolution processes of these organizations.

This chapter addresses this central question: *How do the specific attributes of Moroccan family businesses impact their individual and organizational learning dynamics?*

To explore this question, we conducted 30 semi-structured interviews in four Moroccan family firms. The results of the case studies show that each Moroccan family business has a dominant logic of action that can be either based on spirituality and emotions or on rationality and professional relationships. These logics are the result of traditions, religion and family culture, and because of their bivalence, their impact on individual and organizational learning can vary from one family business to another.

2 Family Businesses in Morocco: Some Key Points

Even if the Moroccan business history has been the object of few attempts and that there is a lack of solidly built monographs (Labari 2011), it is known that between 1956 and 1973, the independent Morocco has seen the emergence of a social class made up of businessmen who have invested in different economic areas (Affaya and Guerraoui 2009).

"Moroccanization" is a key element to understand this emergence because this policy sets up the rule that foreign capitals could not own more than half of the capital of a company operating in Morocco. This policy has enabled a class of Moroccan entrepreneurs to break into areas they previously didn't have access to, such as industry, finance, insurance and services. According to Saadi (1989): *The Moroccanization of management seems to have been implemented by and benefited a minority of Moroccan capitalist families, about 36, who gained control over roughly 220 million dirhams, representing 64% of the capital involved in the process*. More than 50 years later, some 20 family holdings contribute nowadays from 25% to 30% of the Moroccan GDP (Aguizoul 2010). On the other hand, more than 90% of the Moroccan economic fabric is made of small- and medium-sized enterprises with a dominance of family-managed businesses.

In order to define what can be called a family business according to the Moroccan business history, Bentebbaa (2014) did a literature review and conducted semi-structured interviews with experts from different fields. She came out with the following definition: *is considered as a family business in Morocco any company where the capital is mostly owned by the same family, with the active participation of the family members in the management (2nd generation at least) and the explicit desire of the current owner-manager to pass on the business to the next generation*.

According to Allali (2008), in these Moroccan companies, family considerations are prior to the interest of the company goals. Whereas the company is considered to be at the service of the family, the opposite is not true. Potential internal conflicts are managed by the most respected family authority, and family decisions are taken without recourse. Also, the ties of allegiance are very strong between the owning family and the nonfamily member employees. The concept of allegiance (loyalty) is rooted in Islam. The early Muslims had to swear allegiance to the Prophet. Before his death, the Prophet recommended Muslims to pledge allegiance to the pious caliphs who succeeded him. Since the accession to power of the dynasty of Idrissides in Morocco, these ties of allegiance have been taken up and reinforced by the monarchy. Thus, in these firms, we encounter the least contestation among employees, whether they are members of the family or not. However, when the cultural values and principles (dignity) of the employees are not respected, they may have some negative behaviour through passive or active resistance (Allali 2008).

3 Characteristics of the Moroccan Family

Understanding the Moroccan family is a key factor to understanding Moroccan family businesses. Within Moroccan society, the father's authority derives its legitimacy not only from cultural practices of the society but also from the religion of Islam that gives to the father a great moral responsibility to provide an exemplary education to his children. This despotic authority of the father and the fact that he is the only economic agent within the family has been questioned in the last few years as a result of advanced education, the entry of women into the labour market, etc. (Bargach 2005).

Religion, custom, tradition and customary rights are the main source of moral values that govern the assessment of individuals, social relations and relations with the community. In terms of ethics, the sources are religion, beliefs and social practices (Bourqia 2010). Because the State's religion is Islam and the Moroccan society is predominantly Muslim, religion has shaped the worldview and lifestyle. Islam continues to be the source of moral values in that it is the guarantor of the moral order of society. It defines the moral framework and dictates the values to be respected in relation to oneself, to others and to the community.

At the level of the family institution, the values that govern relations are obeying the parents and seniors and respecting and seeking parental blessing. The blessing of the parents is established as a fundamental value in Islam (Bourqia 2006). Indeed, references to parents have been made several times in the Quran,[1] and there are numerous traditions of the Prophet Muhammad on this subject. Some Moroccan family businesses' owner-managers even think that the success and longevity of their companies can somehow be explained by their good attitudes and behaviour (*Birr al walidayn* in Arabic) towards their parents (Bentebbaa et al. 2014).

In Moroccan society, values that govern relations are the word of honour, righteousness, justice and trust. Trust operates as a principle of social cohesion which regulates relationships between individuals. Justice is essential to the operation of the community. However, the evolution of Moroccan society has been accompanied by changes in its values, and the emergence of new values is now the subject of negotiations and tensions within society (Bourqia 2010).

4 Organizational Learning in Family Businesses

If we refer to the systems theories, resources are the means by which systems meet needs and adapt to changing environments and stressors (Bubolz and Sontag 1993). Although organizational learning seems to be a relevant topic to study in family

[1] "Your Lord has commanded that you worship none but Him alone and do well to your (both) parents. If either of both of them reach old age in your life time say not even UFF (Fie) to them, say not to them a word of disrespect nor shout at them but address them in terms of honor". (Quran, 15:23)

businesses, whose specific threats to transgenerational success and survival have long been discerned (Chirico and Salvato 2008), researchers have paid limited attention to it.

Taguiri and Davis (1996) were the first to label the unique characteristics and attributes of family businesses as "bivalent", which means that these attributes may bring benefits as well as drawbacks to the family firm. *Simultaneity of roles* is one of these attributes. It is the result of the overlapping membership of family members involved in the family business. These individuals have up to three simultaneous roles: as managers, as relatives and as owners. According to Bentebbaa et al. (2012), *recognizing the potential positive and negative consequences of its bivalent attributes is a challenge for any family business; its sustainability and success depends on it (...) This may help family businesses develop learning conditions*. Moreover, Distelberg and Sorenson (2009) have highlighted that the family business literature identified some resources that are specific to family businesses, such as tacit-embedded knowledge (Cabrera-Suárez et al. 2001), networks and social capital (Hoffman et al. 2006; Steier 2001), passion (Andersson et al. 2002), innovative spirit (Litz and Kleysen 2001) and integrity and commitment to the business (Chrisman et al. 1998; Sharma and Rao 2000; Sonfield et al. 2005). These specific resources have an effect on the breadth, depth and speed of organizational learning (Zahra 2012).

Also, according to the idea that organizational learning is shaped by individual learning (Kim 1993; Nonaka 1991; Senge 1990) and that organizations learn through their members, it seems coherent that organizational learning is likely to be different in family businesses because, unlike nonfamily businesses, several groups of individuals from three subsystems (Taguiri and Davis 1996) are coexisting in one supra-system: the family business system (FBS), which is defined by the family, ownership and business subsystems and the interactions among them (Distelberg and Sorenson 2009). Each individual in the family business has a logic of action which means that there is a certain continuity between all his/her actions, a sort of constant or thread (Karpik 1972). Due to the fact that they are part of the larger system to varying degrees, the individuals and their logics of action have an effect on the larger system and thus on organizational learning.

Given the above research findings, it appears that individual and organizational learning in family businesses (in general) are shaped by their specific resources and attributes. However, the question that remains unanswered is if the effect of these specific characteristics differs from one country to another due to different backgrounds (social, cultural, religious, etc.). Based on the literature review related to the Moroccan context, we formulate the two following propositions:

Proposition 1 *The value system of the Moroccan family reflects on the logic of action of individuals involved in family businesses (owners, managers, employees).*

Proposition 2 *The individual and organizational learning dynamics of a Moroccan family business are influenced by the logic of action of its owner-manager and employees (family and nonfamily members).*

5 Methods

To answer our central question, we opted for a qualitative methodology based on multi-case studies.

Our research question required a flexible research programme. We chose the case study approach, which is "an empirical inquiry that investigates a contemporary phenomenon within its real-life context" (Yin 2003, p. 13). The case study research is relevant to answer *how* and *why* questions. The objective of this type of study is to develop theory, not to test it (Eisenhardt and Graebner 2007). Researchers look for critical cases to prove their main findings. These cases may be confirming cases, disconfirming cases, extreme cases or typical cases. Case studies illustrate particular points and are used for persuasion (Siggelkow 2007).

To choose our cases, we adopted the method of theoretical sampling by answering its five criteria (Hlady-Rispal 2002), namely: theoretical representation, variety, balance, potential for discovery and, obviously, the inclusion of the research objective. The cases are not to understand as a statistical sample.

We had no connection or involvement in the family businesses we studied. We contacted 12 prospective firms to ascertain whether the companies met the requirements and four accepted to take part in our research. Of the eight firms that did not participate to the study, five met our requirements but were unwilling to take part in the project, two did not have multigenerational involvement and one had to be sold to a big company by the owner-manager.

To conduct our research, we followed clear steps. First, we ascertained if the family firm met the requirements of the study through a personal research and an exploratory interview with the CEO to determine willingness and compatibility for the study. When this phase was satisfactory, we determined a schedule for interviews. The interviews were qualitative, with open-ended questions. The primary data collection method involved qualitative interviews. We assured all participants of confidentiality and anonymity. We used three interview guides for each category of interviewees (founder/CEO, other family member employees, nonfamily member employees). The main shared topics were history of the company, vision of the founder and the owning family, experience and individual learning and organizational changes.

To sum up, through theoretical sampling, we selected four leading medium-sized family businesses[2] in Morocco, operating in sectors that have witnessed important incremental and/or radical changes:

– *PRINTEX*, a printing company that has existed for 57 years.
– *ENERGICS*, a company making the distribution and repair of equipment in the field of energy and petrochemicals. It has existed for 63 years.
– *TEXTILA*, a company that operates in the textile sector and which has existed for 29 years;

[2]To respect anonymity, the names of the companies were changed.

– *ELECTRICS*, a company which makes the distribution of electrical supplies, installation and rural electrification and maintenance of programmable controllers. It was created 39 years ago.

To interact with our empirical material, we used three types of devices: secondary data, direct observation during interviews and visits to the company and semi-structured interviews with the CEOs, the management team and some nonfamily member employees.

The choice of interviewees was done in line with our research question, with a systemic vision that seeks to build a global view of organizational learning by collecting as much information as possible from various stakeholders. Although semi-structured interviews were our main source of data collection, observation has allowed us access to some relevant information.

The interviews lasted between 40 min and 3 h. They were fully transcribed and coded to organize the voluminous amount of information collected and allow us to move to the analysis phase. After a careful reading and rereading of the transcribed interviews, we coded (open coding, axial coding) and analysed the data. We began the process using manual cut-and-paste methods. After coding, we first identified the logics of action of Moroccan family businesses based on their sociocultural and religious beliefs, and then we analysed the impact of these logics on the individual and organizational learning process.

6 Main Results: The Logics of Action of Moroccan Family Businesses and Their Impact on the Individual and Organizational Learning Dynamics

The analysis of the collected data allowed us to identify logics of action (Karpik 1972) of Moroccan family firms and their impact on their individual and organizational learning process in particular. There seem to be two logics that influence the behaviours, attitudes and choices of family firms' members (executive, family members involved in the business and nonfamily member employees) and thus their organizational learning trajectory: an emotional and spiritual logic and a rational logic.

Depending on whether the individuals are more or less guided by one or the other of these logics, it will impact the individual and organizational learning dynamics (Fig. 1).

6.1 Emotions and Spirituality as a Logic of Action

In Moroccan family businesses where the dominant logic is that of emotions and spirituality, the relationships between the actors are governed by *simultaneity of*

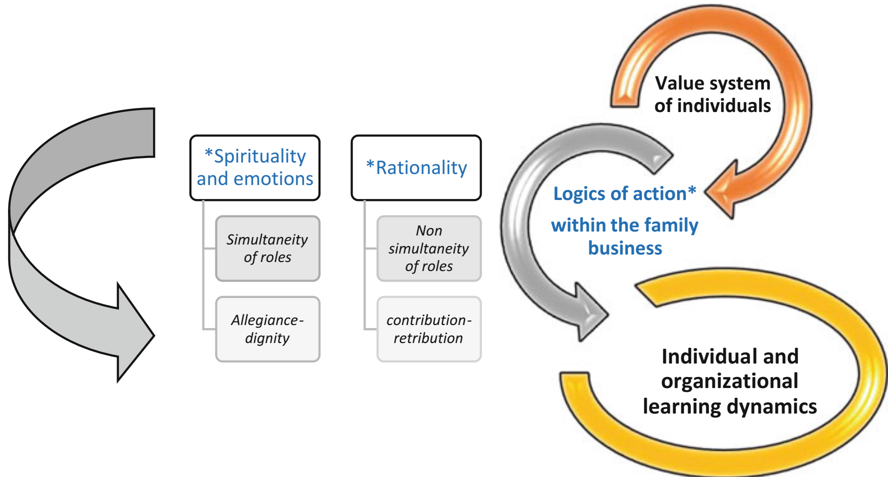

Fig. 1 From logics of action to organizational learning dynamics in family businesses

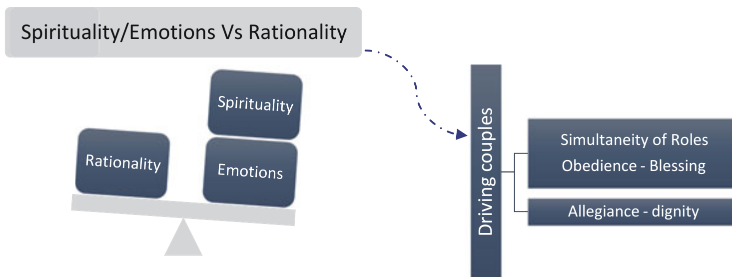

Fig. 2 First type logic of action in Moroccan family businesses

roles (SR), *obedience-blessing* (parental) couple (O-B) and *allegiance-dignity* couple (A-D). In this case, values, beliefs and traditions influence the way individuals act in terms of learning. SR and O-B couple concern family member employees, and A-D couple relates to nonfamily member employees (Fig. 2).

6.1.1 The Simultaneity of Roles and the Obedience-Blessing Couple

Although most of the interviewees seem satisfied to work for the family business, none told us about the "dream of joining the company when younger" or "the impatient waiting to be part of the management team". If many evoke joining the company as a natural fact because they were used to spend the school holidays at the family business, others refer to it as an SOS call from the family and to which

they had to answer. It was their destiny (*Mektoub* in Arabic, which literally means: it was written).

A large majority of interviewees told us that it was not possible for them to say no to the call of the family, especially that of the father. These individuals were aware that their refusal would have serious consequences on family cohesion. This kind of refusal is interpreted by society (and family) as a lack of appreciation of all sacrifices that parents have done for their children. They would then be considered as "unworthy" children. Disobedience to parents (*Ouqouq-alwalidayn* in Arabic) is among the greatest sins in Islam. As a consequence, to the fear of causing unhappiness of parents is added the ultimate fear: attracting the curse of God. Indeed, the blessing (satisfaction) of the parents (*Birr al walidayn* in Arabic) is established as a fundamental value in Islam (Bourqia 2006, 2010). The fear of being cursed and/or unbalancing the family order are often determinants (consciously or not) of the choice of joining the family business. Obedience (filial piety) is often the only choice for people who have these beliefs.

How does this unconditional obedience to the will of the father or parents influence the learning dynamics in this type of organization?

The lack of choice is not a neutral element in the construction of the learning trajectory of Moroccan family firms. The arrival of a new person in the company means the arrival of new resources (knowledge and/or training and/or skills). Whether these resources are useful, appropriate, complementary or not with the company's operations, an interaction will occur.

If the authority of the father/mother CEO has as much legitimacy, it is basically because in the collective representations (Bourqia 2006), disobedience to the father/mother is considered as a sin. The son or daughter can be then forced to take some responsibilities. However, they might have very little leeway in management and might not be able to challenge decisions of the father-owner-manager or his management practices.

This is particularly the case in PRINTEX where one of the sons thinks that the company should recruit experienced employees so that it can follow the market trends and learn from their experience and know-how, while the philosophy of the CEO (the father) is absolutely against recruiting people with professional backgrounds. As long as the founder is alive, this idea cannot be practiced or tested. Questioning the philosophy of the father could be considered as disrespect.

If the couple obedience-blessing or any other personal family relationships continue to operate at work, it will direct hierarchical relationships. This is one illustration of what Taguiri and Davis (1996) call the simultaneity of roles.[3] The family pattern is transposed to the company despite the change of context. Individuals are not considered for their positions in the company but for their family or blood relationships (son, uncle, sister, etc.).

[3]Indeed, the couple obedience-blessing is a particular case of simultaneity of roles in children-parents' relationships. It means that even at work, the CEO "father" behaves with the employee "son" as a father, and he expects him to act as a "son".

In ENERGICS, after the death of the former CEO, the successor was the daughter (S). Less than 2 years later, her brother B. was appointed as the new CEO because she had to travel for family reasons. It was planned that during the first semester, she would come every month and then less frequently to let him lead the company on his own. Unfortunately, things didn't go as planned. B. testifies: *When I ask the salesman to do something in a certain way and he does not like it, he calls my sister. Sometimes she stands by my side and other times she says that I am wrong. The process itself is not good. She came every month and then she started coming every 15 days knowing that she lives in Abu Dhabi. That was unbearable.* The sister did not have any position in the company, but she considered herself as legitimate because it was the family business and she was the former CEO.

Is SR all the time harmful to individual and organizational learning occurring in family firms?

As highlighted by Taguiri and Davis (1996), it is a bivalent attribute of family businesses. On the one hand, because of the supremacy of the opinion of the owner-manager, conservatism can negatively influence organizational learning (Miller et al. 2003; Basly 2005). The phase shift that can be seen between the "family" system and the "enterprise" system makes rapid adaptation to environment changes difficult for these companies (Moloktos 1991). By focusing on his/her methods and his/her vision, the owner-manager dismisses any form of new learning. Security is privileged by being confined to what the company can do. On the other hand, in this pursuit of the family or parental blessing, the family members involved in the business do their best to meet the leader's expectations (and the family's in general); they work "body and soul" for the common goal, most often the sustainability of the family business. Their level of involvement is such that their ability and willingness to learn are stimulated and they become on the lookout for any relevant internal or external information that can be useful for the company.

6.1.2 The Allegiance-Dignity Couple

Nonfamily member employees are subject to few empirical studies in the research field on the family business (Chua et al. 2003; Sharma 2004; Sonfield and Lussier 2009). According to the cases we studied, the quality of relationships between the management team and nonfamily member employees seems to be very dependent on the balance *allegiance-dignity*, confirming the work of Allali (2008) that emphasized this trend in Moroccan companies in general.

In Moroccan society, people are, consciously or not, induced to respect and obey other people who embody in their eyes righteousness and integrity. Thus, as long as these "leaders" act in a way seen as "fair" by their "followers", they have their obedience and loyalty (Allali 2008). This is the case in PRINTEX and ELECTRICS. The words used by nonfamily member employees reflect an admiration for the founder, mainly for his honesty, integrity, fairness, kindness, generosity, etc. We noted a strong emotional involvement of these employees despite sometimes lower salaries than those applied on the market.

To understand how and why, we will use the second component of the allegiance-dignity couple to find answers. In PRINTEX and ELECTRICS, nonfamily member employees listed with gratitude all charitable acts that the management team (headed by the founder) has bestowed on them. They have a lot of gratitude to the CEO who has agreed to recruit them even if some of them had no diploma or training or professional experience. They are proud to say they are treated the same way as the family members and that they are respected. They also told us about all the charitable actions the company did for them, including financial aid in case of health problems, paying for their children's education, pilgrimage, etc.

When they are respected and valued, Moroccan workers do everything to show gratitude and devotion (Allali 2008) which is expressed by a particular form of allegiance as it is the case in PRINTEX and ELECTRICS.

However, a break in the allegiance-dignity couple can sometimes result in some employees' harmful attitudes or practices for the company, as was the case in ENERGICS. After the departure of the CEO of ENERGICS (illness and death), his successor came with a very different management style that riled employees and then (unconsciously) broke allegiance. The attitude of the new leader was seen by them as a non-respect to their dignity. To express their dissatisfaction, employees showed resistance in various ways. This can range from passive resistance to a resistance that borders on sabotage. Some fell into verbal disputes with the new leadership; others did not follow the guidelines...The schedule established with customers was not respected, appointments were forgotten deliberately and maintenance problems, if any, were never communicated to management. The information was completely manipulated by employees. Indeed, the success of the succession process is heavily influenced by the levels of acceptance and credibility of the successor. This is what will form the basis of its legitimacy within the family business (Plante and Grisé 2005; Dumas 1989; Cadieux and Lorrain 2002).

How does the couple allegiance-dignity have an impact on individual and organizational learning of Moroccan family businesses?

Nonfamily member employees have two main sources of power: their knowledge/know-how and the interactions (information exchange) they have with the external stakeholders of the company. When they feel that their dignity is respected, their level of commitment to the organization becomes very high and their willingness to learn and share even higher. However, when they are not satisfied, nonfamily member employees resist, consciously or not, in order to restore their dignity. They can then withhold information and conceal some sources of feedback learning (Huysman 1996), including proposals or complaints from customers and suppliers. With such behaviour, they deprive the company of information that can enable it to improve its service, to develop its offer, to take advantage of some opportunities, to correct what caused customer dissatisfaction and so on. When this type of act is isolated, its impact will obviously not be significant on the company's business; however, a combination of these behaviours can lead to crisis situations where all types of learning (internal, external, for

feedback or creative) are controlled by the employees who are experiencing a lack of recognition.

In Moroccan family firms whose logic of action is dominated by emotions and spirituality, the simultaneity of roles and the allegiance-dignity form the premise of teleological engines that guide organizational learning trajectories (Van de Ven and Poole 1995). The dynamic of learning is then characterized by the existence of a strong goal (business continuity) that will direct decisions and actions. Everyone is supposed to act towards this end state.

6.2 *Rationality as a Logic of Action*

In family businesses that have a rational logic, relations between actors are based on: the *non-simultaneity* of roles (NSR) and the *contribution-retribution (C-R)* couple. NSR concerns family member employees, and the couple (C-R) relates to nonfamily member employees (Fig. 3).

6.2.1 The Non-simultaneity of Roles

In contrast to the simultaneity of roles (Taguiri and Davis 1996), we mean by the *non-simultaneity of roles* the situation where family members have predominantly professional relationships. Kinships dissolve in functional and strategic relationships. The TEXTILA case is a good illustration. The actors embody their full responsibilities in the company. Members of the management team can challenge the decisions of the CEO; they can make alternative proposals; the son of the CEO is free to express his opinions; and he may say no to his uncle (industrial manager) if he does not agree or is not satisfied with some issues. We are far from the model based on strict obedience to parents and elders. Indeed, family patterns are not

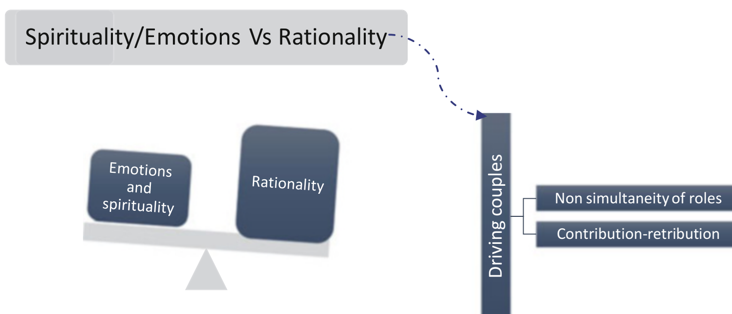

Fig. 3 Second type logic of action in Moroccan family businesses

uniform and that is why Todd (1990) suggested introducing the criterion of authority as a discriminating factor in family businesses.

In family firms where personal relationships are adapting to become professional ones, one might wonder if this does not characterize families governed (at home) by the emerging values including dialogue and consultation against obedience (Bourqia 2010) or if they are double identity families. In the case of TEXTILA, it is the first scenario, but what if the expectations of a CEO are not the same at home and within the company?

Double bind situations are *not just a social phenomenon between two or more participants, but can become a characteristic of organizational systems. Double bind implies that the possibility of clarifying the situation and establishing known and/or changes premises for the interrelationship is rendered impossible (...) This is a crucial point because it implies that the organization has lost or seriously damaged its ability to learn from experience and correct errors* [Hennestad (1990)].

In organizations, double binds could strongly affect the individuals' ability to communicate and learn from the situation. As a result, it could *freeze the horizon of meaning in the organization* (Hennestad 1990), members would be resistant to management attempts to change its direction, the organization may lose its capacity of achieving higher-level learning and it could become incapable of intervening in their own learning system.

The end result of double binds is an organization frozen in time. It becomes impossible to find out *what is really going on, thereby making it impossible to learn to discriminate between messages in the future* (Hennestad 1990). As developed by Litz (2012), conflicting demands, for example, asking the son to be obedient at home and authoritarian at work, cause organizational schizophrenia that negatively affect the learning environment of individuals (Bateson et al. 1956).

How does the non-simultaneity of roles affect the dynamics of organizational learning?

Based on the TEXTILA case study, we can say that the scope of the non-simultaneity of roles is effective at many levels of the organizational learning process. First, family members have relationships that favour information exchange: they express their opinions and proposals; they do not hesitate to say to the CEO or to an older relative that they made a wrong decision; and the leader is, in turn, open to new ideas. Under these conditions, sources of ideas and proposals are multiplying and can promote creative learning (Huysman 1996).

However, this non-simultaneity of roles could become a denaturing factor in family businesses (Torrès and Julien 2005). It might deprive family businesses from assets related to the strong emotional involvement of the company's members: commitment to continuous improvement to sustain the business, willingness to share knowledge and know-how with others, altruism, etc.

6.2.2 The Contribution-Retribution Couple

In Moroccan family firms having a rational logic, employees tend to evaluate the benefits they receive from the company compared to what they give. Skills, extra time, management responsibilities or additional tasks are some of the factors that have been cited by employees as examples of contributions. In response to these contributions, nonfamily member employees anticipate primarily extrinsic rewards (promotion, salary increase and better working conditions, etc.), while, as we have seen, in the emotional and spiritual logic, the expected compensation is mainly intrinsic (recognition).

In Moroccan family firms having a rational logic, outside employees are constantly assessing the level of contribution-retribution because it characterizes for them their exchange relationship with their employer (Peretti 2004), as to be sure not to be unfavourably treated.

It is important to highlight the fact that nonfamily member employees are not a homogeneous group. In some family businesses, both logics can be cohabiting. For example, in PRINTEX, if the old employees express strong ties of allegiance to the company, the new recruits have a much more rational discourse. For them, for example, if the management team is conciliatory with the staff, that is because the staff is also flexible to their demands. The caring attitude of management is seen as a component of the couple “win-win”. This is also the case in TEXTILA. One of the old employees told us that with the evolution of the size of the company, relationships between management and employees have fundamentally changed. While he carries respect and admiration for the CEO and a strong commitment to the company whose sustainability has become for him a personal goal, he believes that most employees recruited more recently do not share the same feelings towards the company. They aren’t, for the most part, willing to make further efforts if there is no retribution.

However, even guided by a rational logic, nonfamily member employees in the family business are an additional source of learning (Adler and Kwon 2002; Arrègle et al. 2007; Nahapiet and Ghoshal 1998). They point to the company’s financial goals, they develop routines related to certain functions and are therefore better able to identify malfunctions or suggest areas for improvement and at the same time, their network can be a source of learning for the company (Sanchez-Famoso et al. 2014).

About the potential negative effects of this rationality of nonfamily member employees, we can ask the same question as for family members: Is their emotional involvement weaker? Does it affect their level of involvement in the workplace? In general, whether the family business is guided by an emotional/spiritual logic or a more rational one, a breach of the psychological contract will affect the involvement of individuals (Ward and Cowman 2007).

7 Discussion and Conclusion

In this chapter, our central research question was: *How do the specific attributes of Moroccan family businesses have an impact on their individual and organizational learning dynamics?* We stated two propositions:

Proposition 1 *The value system of the Moroccan family reflects on the logic of action of individuals involved in family businesses (owners, managers, employees).*

Proposition 2 *The individual and organizational learning dynamics of a Moroccan family business are influenced by the logic of action of its owner-manager and employees (family and nonfamily members).*

To answer our research question, we conducted 30 semi-structured interviews with CEOs, family member employees and nonfamily member employees of four medium-sized Moroccan family businesses. Our main results show that the socio-cultural and religious values of the owner-manager and the employees do have an effect on their attitudes and behaviours inside the company (Proposition 1). This leads to a specific logic of action that can be more or less driven by spirituality and emotions or by rationality. This logic of action has, in turn, an impact on the individual and organizational learning dynamics occurring in these family businesses (Proposition 2).

The spiritual/emotional logic of action is characterized by the *simultaneity of roles* among family member employees and *allegiance-dignity* couple among nonfamily member employees. When the logic of action is mainly based on rationality, it is reflected on the nature of relationships between the family business employees: *non-simultaneity of roles* for family members and *contribution-retribution* couple for nonfamily members. The results of our qualitative study highlight the bivalence of those logics of action since they can lead to positive and/or negative impacts on the individual and organizational learning dynamics in family businesses.

The main limitations of our research are related to the number of studied companies (four), the differences in ages and life cycle stages and the geographical coverage (west and south of Morocco only).

As a managerial contribution, we would like to highlight some situations that have to be avoided by Moroccan family businesses if they don't want their organizational learning system to become "frozen in time", especially after passing the baton to the next generation. The ENERGICS case study illustrates how unplanned succession can have devastating consequences on a family business' learning capabilities. The breach of the psychological contract between ENERGICS and its employees demonstrates a failure in the *transmission of the company's culture*. This failure is at two levels:

- The attitude of B. (CEO and son of the former CEO), who started very quickly to implement modern "Western" methods from its consultant engineer experience in France, shows that he had not taken the time to build strong relationships with employees. In his desire to improve things, instead of co-building a new

corporate culture with members of the organization, he destroyed the existing culture and was not able to make employees accept his vision. His lack of knowledge of "the Moroccan way of management" was a real obstacle to his integration and to building his legitimacy. We can say that learning related to corporate culture and knowledge had not been anticipated and therefore *the internal social capital was not properly transmitted to B*.

Nowadays, in most medium-sized and big Moroccan family firms, it became a trend to encourage the next generation to study abroad in prestigious universities or business schools. That can be a real factor for renewal and development for the business, but it is important to keep in mind that the Moroccan employee's expectations (intrinsic) remain fundamentally linked to his Moroccan culture.

– The resistant and sometimes bad-intentioned behaviours of nonfamily member employees are the signal that there is a fundamental problem somewhere. In ENERGICS, the attachment of employees (nonfamily) to the company was linked to the person of the former CEO, and after his death they felt like strangers. This reflects a *failure in the transmission of values and corporate culture to employees*. This destructive force of the social capital also expresses itself among external stakeholders of ENERGICS who became enemies instead of allies; *the transmission of the external capital failed too*.

To prevent its individual and organizational learning system from dysfunction, any family business needs to be attentive to some warning signals and indicators:

– Loss of trust between key (internal and external) stakeholders (family and nonfamily members)
– Transformation of the social capital (internal and external) that becomes a destructive resource instead of a distinctive resource for the organizational learning dynamics
– A tear of the organizational cohesion that creates a feeling of insecurity among employees that weakens motivation and emotional attachment to the company

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A Developing Country's Perspective on the Internationalization Process of Family and Nonfamily Firms: The Case of Palestine

Nidal Darwish

Abstract The last decades have been characterized by increasing attention to the internationalization of family firms. Investigations at the individual, team and organizational levels have been done with scarce attention to the context. Especially, the difference between developed and developing countries has been an under-researched topic. Drawing on the Uppsala model and through multiple case studies, this study investigates to what extent internationalization processes differ between family and nonfamily firms in developing countries. The findings suggest that the differences between family and nonfamily firms regarding the internationalization process are minimal, whereas there are a plethora of similarities in this process. The study found that there are no significant differences between family and nonfamily firms regarding psychic distance, foreign entry modes and networking behaviour. However, the study shows that liability of outsidership is higher in family firms than in nonfamily ones and that the performance and speed of internationalization are higher in nonfamily firms exclusively in the short run. Also, the findings show that the internationalization process of firms in developing economies has some unique characteristics which take different forms. For example, psychic distance does not play a significant role in foreign market selection; exports are the primary foreign market entry mode both in the short and long run; the selection and expansion in new international markets are an unstructured and random process; the learning process about international markets is slow; and finally the liability of outsidership is more robust in developing countries' firms.

Keywords Internationalization • Middle Eastern countries • Family firms • Developing countries • Uppsala model

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1 Introduction

Family firms play a significant role in leading economic development and growth throughout the world. Family firms can be defined as "a firm where the family owns the majority of stock and exercises full managerial control" (Gallo and Sveen 1991, p. 182). Although family businesses have traditionally focused on domestic markets, they increasingly find themselves obliged to go international to survive in a market that is becoming more globally competitive. Even though the internationalization is considered as the most complex strategy that any firm can adopt, it has many advantages for the long-term competitiveness of family firms (Claver et al. 2008). For instance, it allows the organization to have access to a larger market, achieve economies of scale, diversify risk or avoid competitive disadvantages (Gallo and Sveen 1991). Beamish (1990, p. 77) defines internationalization as the "process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with firms in other countries". However, family firms are usually at a disadvantage when accessing resources and capabilities. For example, they have financial difficulties (Chittenden et al. 1996; Friedman and Friedman 1994; James 1999); they tend to have a conservative attitude towards risk (Ward 1998); they lack managerial capabilities (Graves and Thomas 2006, 2008); and finally they have a lack of bridging network ties (Graves and Thomas 2004). The internationalization of a family firm is developing into a significant research area (e.g. Sciascia et al. 2010).

There are several differences between the internationalization of family and nonfamily firms; one may be in the selection of target foreign market (see, e.g. Davidson 1983; Ojala and Tyrvainen 2007). Generally, family firms start their internationalization with exporting activities into countries with low psychic distance and then incrementally, as knowledge and resources accumulate, expand into more distant markets (Claver et al. 2007; Kontinen and Ojala 2010b; Olivares-Mesa and Cabrera-Suárez 2006). Furthermore, Gallo and Estapè (1992) found that family firms tend to be slower in the internationalization process in the short run compared to nonfamily firms, but in the long run to a similar degree. That can be expounded according to Pukall and Calabrò (2014) by the reluctance of family managers to build up relationships in foreign networks and the higher levels of knowledge that are necessary for family firms before committing to international markets. However, family firms tend to choose foreign market entry modes that do not threaten their independence and maintain control over the firm. Therefore, export is the most popular form, whereas strategic alliances and joint ventures seem to be avoided. This aloofness is turned around when the involved partner is another family firm, because of shared values concerning trust, loyalty and continuity (Pukall and Calabrò 2014). As for networking, family firms do not form networks as easily as nonfamily firms (Kontinen and Ojala 2010a). What is more, prior research on family businesses has found that family firms, compared to nonfamily ones, exhibit lower levels of international diversification (Gomez-Mejia et al. 2010) and have fewer capabilities

for internationalization (Fernandez and Nieto 2006; Graves and Thomas 2006, 2008). However, Pukall and Calabrò (2014) suggest that the influences of family ownership on different aspects of internationalization such as the type of market entry, internationalization speed or degree of international sales are highly inconsistent. Till now there is no agreement on the effects of family ownership on the internationalization process. For example, Zahra (2003) supports a positive impact, while Fernandez and Nieto (2005, 2006) suggest an adverse effect on internationalization of family firms; other scholars find no difference between family and nonfamily firms (e.g. Cerrato and Piva 2010; Pinho 2007). Given that, the first goal of this study is to explore whether and to what extent the internationalization characteristics and processes of family firms are different from nonfamily firms in the context of developing countries and in particular Middle Eastern countries such as Palestine.

This study makes an attempt to explore and investigate the internationalization of family and nonfamily firms in the context of Middle Eastern countries where the firms often lack sufficient resources, including financial, managerial and technological resources in comparison with developed countries (Zhu et al. 2007). In fact, the contexts of Middle Eastern economies vary from those of developed economies in a number of dimensions including the fact that markets are less stable and efficient due to less transparency, more extensive information asymmetries and risks and uncertainty that are high (Xu and Meyer 2013). Therefore, such features imply that some of the assumptions of existing theories may be less appropriate for Middle Eastern economies. However, Middle Eastern countries have received little attention from researchers, and to date, only limited research has been conducted directly in this context. The main benefits to academia of studying Middle Eastern economies are not only in the better understanding of such economies (Bruton et al. 2008) but also because the inclusion of Middle Eastern economies as unique environments offers the potential to expand and revise our theoretical understanding of family firms and international management (Bruton et al. 2008; Kiss et al. 2012). Consequently, the current study is an attempt to answer the following research question:

How, whether and to what extent the internationalization characteristics and processes of family firms are different from their nonfamily counterpart in the context of Middle Eastern countries?

To address this research question, we need an appropriate theory to explore the distinct features and processes of the internationalization of the firms in Middle Eastern countries. Hence, we chose the traditional Uppsala model (Johanson and Vahlne 1977) and the revised 2009 Uppsala model (Johanson and Vahlne 2009) as the main theoretical framework. According to Kontinen and Ojala (2010a), the studies that examined the internationalization of family firms' process indicated that the internationalization of family firms is an incremental process and mainly follows the Uppsala model. However, this model (Johanson and Vahlne 1977, 2009) is considered as a dynamic model and has implications on iterative and cumulative processes of learning, trust and commitment building, as well as knowledge, recognition of opportunities and network position. The original Uppsala model (Johanson and Vahlne 1977) explains firms' internationalization as a

sequential and incremental process through which firms internationalize their operations. According to this model, firms first internationalize in countries where the psychic distance[1] is low by using exports as the main entry mode. When a firm gains more international experiences, it increases its international involvement by using higher commitment modes as well as exports to countries that are at a greater psychic distance. Johanson and Vahlne revised and developed their traditional Uppsala model (1977) into a new model in 2009 with some major changes in the framework. The main revision when compared with the old model version is the specific focus on network and network relationships as the main drivers of firm internationalization (Johanson and Vahlne 2009). Kontinen and Ojala (2010a), as well as Holt (2012), suggest that there is a significant research gap concerning family firms' networks in the process of internationalization, and they call for further investigation. The core argument of the current study is that family firms in developing economies and more specifically in Middle Eastern countries do not always follow the Uppsala model of internationalization (original and revised, 1977, 2009) or at least have some different features and characteristics. Indeed, we challenge the main assumptions of the Uppsala model of internationalization process (1977, 2009) with empirical evidence from the cases in the current study to understand whether and to what the firms studied in our cases follow the Uppsala model during their internationalization.

The contribution of this study is twofold: First, it contributes to the family business research by understanding how family firms' internationalization processes differ from that of nonfamily firms. Second, it attempts to enrich the original and the revised internationalization process model (Johanson and Vahlne 1977, 2009) by exploring the validity of such a model in the context of Middle Eastern economies, that is to say whether and to what extent the internationalization process of family firms follow this model. Moreover, the study contributes to a stronger integration of the theoretical knowledge from the field of international management into family business research. According to Pukall and Calabrò (2014), the Uppsala model provides many links between international management, entrepreneurship and family business research.

The argument of the study is developed using empirical evidence gathered through a multiple case study approach to capture a deeper investigation of the phenomenon and to identify the similarities and differences between family and nonfamily firms within several cases (Eisenhardt 1989; Yin 1994). Moreover, case studies have been the most used in qualitative methodology in family business research to date (De Massis et al. 2012). Hence, we chose six Palestinian firms, three of which are family and three nonfamily firms for conducting the current study.

[1]Johanson and Wiedersheim-Paul (1975: 308) defined psychic distance as those "factors preventing or disturbing flows of information between firm and market".

2 Literature Review

2.1 *The Internationalization of Family Versus Nonfamily Firms*

Some studies have argued that family firm's internationalization process is different from that of nonfamily firms (Fernandez and Nieto 2005; Graves and Thomas 2006; Kontinen and Ojala 2010a). Recent empirical findings by Sciascia et al. (2010) indicate that different levels of family ownership affect the internationalization of these firms. This may arise from the fact that family firms are less likely to internationalize than nonfamily firms (Fernandez and Nieto 2005; Graves and Thomas 2006), or as Gallo and Estapè (1992) put it, family firms are less prone and slower to internationalize than nonfamily firms. In fact, until now, there is no consensus on internationalization outcome; for example, Zahra (2003) supports a positive influence, while Fernandez and Nieto (2005, 2006) suggest a negative effect, whereas some other scholars find no difference between family and nonfamily firms (e.g. Cerrato and Piva 2010; Pinho 2007).

In fact, the strategic differences between family and nonfamily firms take several forms. For example, one may be in the selection of a target foreign market (see, e.g. Davidson 1983; Ojala and Tyrvainen 2007). In the same vein, since family firms generally take risk-avoidance strategies, one may argue that they favour countries that are culturally and geographically close and may select low commitment operation modes (see, e.g. Johanson and Vahlne 1977; Kumar and Subramaniam 1997) in order to protect their independence and maintain control over the firm. Therefore, export is the most popular form, while strategic alliances and joint ventures seem to be avoided (Pukall and Calabrò 2014). Moreover, family firms tend to be slower in the internationalization process in the short run compared to nonfamily firms. But in the long run, they are to a similar degree. This matter can be explained according to Pukall and Calabrò's (2014) idea that family businesses do not regularly monitor the international market and that the reluctance of family firms to build up relationships in foreign networks is due to the potential loss of socioemotional wealth. The family members usually have their specific objectives, not merely to make a profit but also to preserve socioemotional wealth and the nonfinancial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence and the perpetuation of the family dynasty (Gomez-Mejia et al. 2007, 2010). Another difference, as Graves and Thomas (2008) indicated in their study, seems to be that family firms may be more reactive rather than proactive when they recognize international opportunities. Tsang (2002) also found that family firms have unstructured internationalization process, whereas nonfamily ones had strategic internationalization process. Moreover, prior research on family firms has indicated that when compared to nonfamily ones, they exhibit lower levels of international diversification (Gomez-Mejia et al. 2010). Therefore, investigating the internationalization process of family firms as distinct entities and identifying their specific features and characteristics are crucial for developing the research field. Consequently, the current study

sheds useful light on the specificities of family firms' internationalization processes in comparison with nonfamily firms that are missing in comparative studies. In fact, the internationalization processes of family firms are under-researched, particularly, within the context of the developing economies.

2.2 *The Internationalization of Business Firms in Developing Countries*

The current study makes an attempt to explore and investigate the internationalization of family and nonfamily firms in the context of developing countries where the firms often lack sufficient resources such as financial, managerial and technological resources (Zhu et al. 2007). Developing economies and in particular Middle Eastern economies differ from developed economies in some dimensions, including the fact that markets are less stable and efficient due to less transparency, larger information asymmetries and risks and uncertainty that are high (Xu and Meyer 2013). Such distinct features imply that some of the assumptions of existing theories may be less appropriate for Middle Eastern economies. Indeed, Middle Eastern countries have received little attention from the academic investigation, so that, to date, only limited research has been conducted directly in this area.

As a matter of fact, many recent studies have extended the horizons of existing theories, but most of them are still based on existing theories from the mature Western economies (Kiss et al. 2012). On this basis, there is a need to pay more attention to the context of developing Middle Eastern economies to develop new theories, as well as to expand, modify and reassess existing theories in the field of family business and international business (Bruton et al. 2008).

To conclude, the vast majority of research to date in developing economies has focused on China, the former Soviet Union and Eastern Europe. However, there is an absence of studies that focused on Africa, Latin America and the Middle East. Hence, focusing on Palestine as one of the Middle Eastern countries in the current study will provide new insights into the internationalization of family firms and entrepreneurship literature which have not been investigated so far within this context.

2.3 *The Uppsala Model of Internationalization (1977, 2009)*

The current study draws on the internationalization process model known as the Uppsala model with both versions: the original Uppsala model (Johanson and Vahlne 1977) and the revised Uppsala model of internationalization (Johanson and Vahlne 2009). It is noteworthy to mention here that the Uppsala model framework directly considers processes, networks and capabilities of the focal firm and provides the strongest process orientation compared with other

internationalization theories. Therefore, the internationalization process model is considered as a dynamic model and has implications on iterative and cumulative processes of learning, trust and commitment building, as well as knowledge, opportunity recognition and network position. The original Uppsala model (Johanson and Vahlne 1977) introduces firms' internationalization as a sequential and incremental process through which firms internationalize their operations. Thus, firms first internationalize in countries where the psychic distance is low by using exports as an entry mode. When a firm gains more international experiences, it not only increases its international involvement by using more commitment modes but also exports to countries that are at a greater psychic distance.

Almost more than 30 years later, the authors revisited their model, making some significant changes in the framework (Johanson and Vahlne 2009). The main revision of this model (2009) compared to the original one is its specific focus on networks and network relationships as the main drivers for firm internationalization. However, ever since the original Uppsala model was presented (Johanson and Vahlne 1977), a number of studies have confirmed the important role of networks in the internationalization of firms (Loane and Bell 2006; Chen and Chen 1998; Chetty and Blankenburg Holm 2000; Coviello and Munro 1995, 1997; Elango and Pattnaik 2007; Welch and Welch 1996). Such studies prompted Johanson and Vahlne to revisit their original model which had been introduced in 1977. Realizing that their original model needed to be developed further, thanks to clear evidence of the importance of networks in the internationalization process of firms, they put forward their new 2009 model (Johanson and Vahlne 2009). Johanson and Vahlne (2009) clarified that the difficulties and rewards associated with foreign market entry are very much the same as those related to domestic market entry. As they pointed: "Markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. Hence, insidership liability in relevant network(s) is necessary for successful internationalization" (Johanson and Vahlne 2009, p. 1411). They also indicated that relationships offer firms an opportunity for learning, building trust and commitment, which are essential prerequisites for internationalization. Additionally, some studies have shown the importance of relationships in the internationalization process (Bonaccorsi 1992; Erramilli and Rao 1990; Majkgard and Sharma 1998; Sharma and Johanson 1987). These relationships seem to develop through social exchange processes in which the firms involved enact the relationship interactively and sequentially (Kelley and Thibaut 1978).

2.4 The Business Network Model of the Internationalization Process

As our work in the current study is essentially based on the revised Uppsala model of internationalization (Johanson and Vahlne 2009), it is worth having a glance at

the model which is called the business network model of internationalization process. The model suggests that there are two sets of variables, state and change, each of which consists of two categories. The first state variable category is knowledge, in particular recognition of opportunities as a subset of knowledge, which is considered by Johanson and Vahlne as the most important element of the body of knowledge that drives the process. The additional essential components of knowledge include needs, capabilities, strategies and networks. The more knowledge firms have about each other, the closer their relationship will be. The second state variable category is the network position. A focal firm with a good network position enjoys a beneficial exchange with its partners. Johanson and Vahlne (2009) assume in their model that the internationalization process is pursued within a network and that the relationships are characterized by particular levels of knowledge, trust and commitment. Therefore, their model is based on the network view of internationalization, including aspects of social capital and international entrepreneurship. Additionally, they suggest that the internationalization process is seen as the result of opportunity-seeking efforts made by the focal firm to improve or defend its position in a network or networks.

Concerning the change variables, the first change variable is composed of learning, creating, and trust building. According to Johanson and Vahlne (2009, p. 1424) "the speed, intensity, and efficiency of the processes of learning, creating knowledge, and building trust depend mainly on the knowledge, trust, and commitment, and particularly on the extent to which the both sides of a relationship find given opportunities appealing." The other change variable is the relationship commitment decisions: the decision to increase or decrease the level of commitment in a particular relationship. A change in commitment will either strengthen or weaken the relationship and will be visible through changes in entry modes, size of investments, organizational changes and the level of dependence. Therefore, international commitments enable the firms to gain knowledge and experience about foreign markets. From a network point of view, the commitment decisions about relationships revolve around developing new relationships including building bridges to new networks and filling structural holes on the one hand (Burt 1992) and protecting or supporting the firm's existing network of strategic relationships on the other hand.

The variables in this model have an effect on each other, the current state having an impact on change and vice versa. For example, the state variables such as "existing knowledge and opportunities" and "network position" are the basis for the focal firms' commitment decisions that lead to processes of learning, creating opportunities and building trust (as change variables), which eventually change a firm's network position and modify the state variables, usually to a higher level (Johanson and Vahlne 2009). Therefore, the model is considered dynamic and consists of cumulative processes of learning, trust and commitment building.

3 Research Design

3.1 Method

Since the present research follows the objectives of understanding how the internationalization process of the family firm differs from a nonfamily one, it seems that a qualitative research approach would be the most proper for the study at hand. Therefore, we adopted a qualitative approach to address the objectives of the present study. The basic ideas of grounded theory (Glaser and Strauss 1967) were taken in the study because of its specific purpose of building theory from qualitative data and interpretation. Moreover, it is appropriate for achieving a new understanding of the intricate details of a specific phenomenon under investigation (Strauss and Corbin 1998, 19). More specifically, our most important aim is to build a theory in the area of the family business and international business and to broaden the existing theories by extending and refining the categories and relationships that have been left out of the literature (Locke 2001). However, as noted by De Massis and Kotlar (2014), there is a need in the field of family firms of qualitative research which both draws on and generates theory, because family businesses are characterized by complex relationships and interactions (De Massis et al. 2012). Furthermore, this is consistent with recent family written studies based on qualitative methods (De Massis et al. 2013, 2014; De Massis and Kotlar 2014). That is why we adopted an exploratory approach in our empirical analysis. Hence, we applied a multiple case study method, similar to approaches introduced by Eisenhardt (1989) and Yin (2003) as the present study aims at answering the "how" questions regarding a contemporary set of events over which the researcher has no control. Indeed, a multiple case study can be seen as a preferred research strategy, due to the explanatory nature of the research questions and also because it allows both an in-depth examination and explanation of cause-and-effect relationships as well as the identification of contingent variables that distinguish each case from the other. The case study method has been used in several areas of international business research. For instance, the Uppsala model of internationalization is based on four case studies. In addition, the case study method can be applied in small countries and new research areas, for studying complex phenomena and incremental processes (Vissak 2010). Finally, case examples can help bridge the gap between academia and industry (Simon et al. 1996). The case firms were selected for theoretical reasons rather than random sampling. It should further be noted that the selection of the firms for investigation was based on an overall theoretical perspective as recommended in Eisenhardt's study (1989). Hence, we followed Yin (1994) in selecting cases in which the phenomenon under study is transparently observable. Eisenhardt (1989) recommends that researchers choose between four and ten cases, as it may be difficult to generate complex theory with less than four, while greater than ten can result in "death by data asphyxiation" (Pettigrew 1990, p. 281). For this study, six internationally active Palestinian firms from manufacturing industries were selected, three of which are family and the other three

nonfamily firms. These firms were chosen to be the representative cases to study the phenomenon due to their success and unique experiences in the international markets. To be eligible as a case firm, the following criteria were taken into account: (1) the firm should be Palestinian, (2) the firm should belong to manufacturing industry, and (3) three of the firms would be family-owned firms and three would be nonfamily firms. Consistent with the earlier literature, for instance, Graves and Thomas (2008) and De Massis et al. (2014), we adopted three criteria to distinguish family from nonfamily firms. In order for a firm to be termed as a family firm, a family (1) has to control the largest block of shares or votes and (2) should have one or more of its members in the major management positions (Zahra 2003) and (3) the firm is perceived by the entrepreneur to be a family business (Westhead et al. 2001). This definition is based on two criteria of ownership and management presented, for instance, by Graves and Thomas (2008) and on the notion of continuity presented, e.g. by Zahra (2003).

In the present study, some of the sampling strategies were used to select the six case firms that met the criteria outlined above. These included opportunistic, convenience, snowballing and theoretical selection methods (Miles and Huberman 1994).

3.2 Sample and Data Collection

Multiple information sources were used to gather data for each case firm. The primary method of data collection was a semi-structured interview, guided by a list of topics. In the interview process, semi-structured, open-ended interviews were conducted. The approach made it possible to raise the "leading" questions and then to pose further, more detailed questions (Yin 1994).

Palestine was chosen as the location of the study cases because the business environment in Palestine differs significantly from that of developed economies. In countries where the domestic market size is small, internationalization is an important growth strategy, forming efforts to guarantee long-term survival (Autio et al. 2000). The choice of the Palestine market as the context made it possible to investigate the internationalization of family firm in a particular environment, which would be an example of developing countries and in particular Middle Eastern countries due to the similarity of economic conditions in the area where the family firms run their businesses.

We identified a set of business firms that could potentially have been included in the study through preliminary interviews with professionals collaborating with the Federation of Palestinian Chambers of Commerce, Industry, and Agriculture and also the Palestinian Trade Center (PALTRADE), which provided an initial list and references for family and nonfamily firms that have developed export activities by the way of professional networks. To build and elaborate on theory, we searched for a purposeful sample of family and nonfamily firms. We selected a subsample of firms that met the above conditions. Among these, six firms were chosen to

Table 1 Information on the case firms

The firm	Establishment year	Family/ nonfamily	Number of employees	Industry segment	The start year of exporting
Verona (A)	2007	Nonfamily	50	Stone and marble	2007
Beit Jala Pharmaceutical Co. (B)	1969	Nonfamily	160	Pharmaceutical products	2010
Al-Reef Co. (C)	1993	Nonfamily	80	Agricultural products	1994
Bethlehem Star Olive (D)	1971	Family	20	Olivewood handcrafts	1994
Sinokrot Food Company (E)	1982	Family	300	Food	1990
Nassar Stone Investment Co. (F)	1984	Family	600	Stone and marble	1990

participate in the interviews, three of which are family firms and the other three are nonfamily firms as shown in Table 1. The final sample included different manufacturing industries, with a firm size ranging between 20 and 600 employees with an average of 202 and a firm's age ranging between 7 and 45 years. The fieldwork was carried out over a 2-month period in July and August of 2014 in Palestine, specifically in the West Bank. It was impossible to include Gaza Strip due to its complicated political situation.

The steps taken are:

- At the outset of each case, a rapport and mutual trust were established with the selected interviewee who was mainly in charge of international affairs. This interviewee was briefed about the research project through a written project summary and a telephone call.
- We undertook a semi-structured interview with each respondent (each lasting on average between 60 and 90 min). The direct semi-structured open-ended interviews also were conducted, and the interviewer followed the guidelines developed by Yin (1994), to minimize the risk of providing inaccurate or biased data.
- Secondary information (such as websites, annual reports and project documentation) was collected for each firm. In particular, we gathered and analysed all the available company documents, catalogues and reports regarding internationalization activities.
- All interviews were tape-recorded and transcribed verbatim. A second listening was conducted to ensure correspondence between the recorded and transcribed data. Also, at this stage, a telephone follow-up and e-mail communication were carried out with the respondents to collect further information and to clarify any ambiguous issues.

- The interviews at each firm followed a similar procedure. The interviewees were first asked to describe and present some information about their businesses including demographic (e.g. age, size) and historical information and then to explain their firm's internationalization history. They also provided descriptive details about each foreign market entry (the date and mode of entry, proportion of export sales, business networks, etc.).
- When the main issues of the interview were touched on, short questions such as "could you describe this? How? Why?" were given as prompts to go deeper into the issue.
- Before being analysed, information gathered through the case studies were manipulated by applying data categorization and contextualization techniques (Miles and Huberman 1994). Then a structured process was followed for data analysis, consisting of a preliminary within-case study and an explanation-building investigation, followed up by a cross-case comparison. These structured procedures for data collection and analysis, as well as the use of the semi-structured interview guide, helped enhance the reliability of the research (Yin 2003).
- In the data-ordering phase, a detailed history of each firm was drawn up, based on interviews and written documents, because as Pettigrew (1990) has noted, organizing incoherent aspects in a sequential manner is a major step in understanding the causal links between events.

Finally, in the data analysis phase, cross-case pattern searching was used. The unique patterns of each case were identified, and similar patterns were categorized under themes related to the research questions in this study. Also, checklists and event listings were used to identify critical factors related to determinants that could contribute to internationalization process (Miles and Huberman 1994).

4 Findings and Discussion

The present exploratory study is meant to shed light on how the internationalization process of family firms is different from that of nonfamily ones and also to understand the particularity of the internationalization process in Middle Eastern economies. To this end, the present study shows several important results in two sections. In the first section, the results of the case study analysis are used to illustrate the unique characteristics and features of the internationalization process of business firms in Middle Eastern countries, while in the second section, the way internationalization process of family firms differs from that of nonfamily counterparts will be explored. What follows is showing the differences between the emerging evidence and the previous literature. It goes without saying that the discussion of the results is based on the Uppsala model of internationalization (Johanson and Vahlne 1977, 2009) as it's the theoretical background of this research. Therefore, the process of internationalization has been adopted as our unit of analysis.

4.1 Internationalization Process in Developing Countries: The Case of Palestine

The empirical evidence collected suggests that the internationalization process of business firms in developing economies and specifically Middle Eastern has some unique features and processes and that these features and processes take different forms as Fig. 1 shows. Firstly, the findings suggest that internationalized businesses in Middle Eastern economies are less likely to adopt sophisticated strategies that require high commitment of resources; therefore, the primary foreign market entry mode exports both in short and long run. The tendency to use exports as a major foreign market entry mode in the short term is not new, but this is compatible with prior literature. However, the fact that firms continue to rely on exports, in the long run, was unexpected and is not consistent with the Uppsala model which posits that when the firm gains more international experience, it increases international involvement by using higher commitment modes (Johanson and Vahlne 1977, 2009). The following statements made by three interviewees in the course of the interviews were directed towards understanding the level of commitment in the international markets:

Interviewee 1: "Our investments in the international markets are on-going and still continuing, and we are committed to maintaining and to increasing the level of investments incessantly. Our current production capacities can meet our ambitious plans for exporting to new and existing international markets in the short and in the long run".

Interviewee 2: "We are targeting the international markets via exports, and we will continue doing so as we did not reach sufficient levels of exports, and we still have untapped capabilities. However, at present, we do not have an intention to

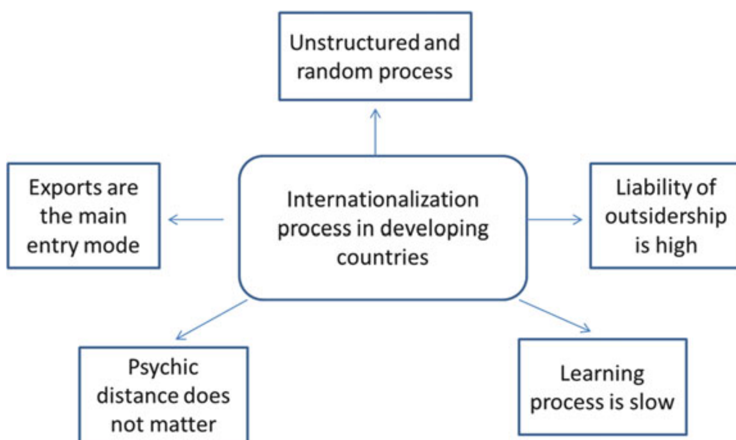

Fig. 1 The unique characteristics of the internationalization process for businesses in developing countries

shift to more commitment operational modes that may require affording more risks".

Interviewee 3: "We will continue exporting to the international markets since our plan in the short and the long run is to enter into new foreign markets and to increase our share in existing markets. However, we don't have enough financial resources or even human resources capabilities that are necessary for managing high commitment entry modes".

Drawing on the above statements, we can conclude that when international businesses do not achieve a sufficient level of exports as frequently seen in developing countries, most probably, they will not move to higher commitment modes. Additionally, firms in this area lack financial and managerial resources that are necessary for managing high commitment foreign entry modes. Finally, most firms in emerging economies are reluctant to tolerate the risks related to high commitment modes like a joint venture.

Proposition 1 *Exports are considered as the main foreign market entry mode both in the short and long run.*

Second, the results show that psychic distance does not play a significant role in the foreign market selection for business firms, whether family or nonfamily, in developing economies. Indeed, four out of six cases in the current study have started their internationalization process with exporting activities into high-psychic distance countries. Hence, whether the markets are at a low or high psychological and geographical distance, it is becoming less important. For example, the entrepreneur of firm D pointed out: "Our products are in demand only in countries like Europe, the USA and Australia, since we produce olivewood handcrafts for Christians in high-income countries". Likewise, the international sales manager of firm F mentioned: "the initial step in the international markets started with the USA market because we are in the belief that there is sufficient demand for our products there".

In fact, this statement runs counter to the Uppsala model of internationalization suggesting that firms first internationalize to countries for which the psychic distance is low and that when international experience increases, they will start to export to countries that are at a greater psychic distance (Johanson and Vahlne 1977).

We conclude with the following proposition:

Proposition 2 *Psychic distance does not play a major role in the foreign market selection for business firms in developing countries such as Palestine.*

Third, selection and expansion in new international markets are an unstructured and random process in developing economies' businesses, as this process is coincidental in many cases with means such as the existing relationships with intermediaries and suppliers as well as the participation in international trade fairs. For example, the international marketing manager of firm E mentioned: "we entered the USA market by chance via the relationship that we had established with our partner

in the USA market during the participation in an international exhibition for food in Dubai". Another example is offered by the executive manager of firm A, who remarked: "we entered into several markets by using our partner who works as an agent for us in the European markets. He is selling our products in several markets that even we did not plan to target. However, our philosophy is based on partner selection rather than market selection". Another example is provided by firm D: "we entered into some markets that we did not plan to target, and that happened during the participation in international trade exhibitions where we could connect with some business people from around of the world. Then, we followed up and have developed these connections to the point that we managed to export".

Proposition 3 *Selection and expansion in new international markets are an unstructured and random process for developing countries' firms such as Palestine.*

Fourth, the emerging evidence indicates that the learning process regarding the international markets for business firms in developing economies is slow. This matter is most probably due to the lack of sufficient resources, experiences and management capabilities for businesses in developing countries. So, the process of learning about international markets for developing countries' businesses is characterized by trial and error as current case firms showed. However, the learning process requires a long time and immense efforts as businesses go through moments of success and failure till they can construct solid knowledge and sufficient experiences. For instance, the owner of firm D remarked: "during the initial stages of our expertise in the international markets, we encountered numerous difficulties and adverse experiences, such as losing our customers and even markets. I think we did not have adequate knowledge and skills required for exporting to the international markets". In the same vein, the marketing manager in firm B mentioned: "we started the exporting experience 7 years ago. Although we failed in some markets, we made breakthroughs in several markets. However, it was not an easy job, and we are still in the first stage of the learning process". Another example is offered from firm E: "we maintain that the preparation and building the internal capabilities before going to international markets is crucial to succeed in the internationalization process. Indeed, since we had started, we lost long time and high investments learning from our mistakes, while we were not internally ready for internationalization".

Proposition 4 *The learning process about international markets in case of developing economies' firms such as Palestine is slow.*

Finally, outsidership liability seems more robust in developing countries as most firms suffer from the lack of network ties. Moreover, it is harder, time- and resources-consuming to join or build network ties in the international markets for firms from developing economies. Also, the managerial capabilities and international competitiveness are limited. However, emerging economies' firms attempt to overcome the outsidership liability by becoming involved in international networking activities such as direct visits to target markets, business missions and, above all, participation in international trade fairs. All cases at hand whether family or nonfamily firms use the international trade fairs as a major networking means to create and develop their relationships and networks to overcome the outsidership

liability. They also carry out business missions and establish social and business ties for international networking. It should be noted here that the Uppsala model of internationalization does not say anything about how firms create and develop their relationships and networks nor does it say how they learn about international markets while our study provides answers to such questions. The following statements concerning this issue were made by three interviewees from firms A, B and F, respectively:

Firm A: "Building our networks and relationships was not an easy job because we had to make strenuous efforts to achieve what we have now. However, after 7 years of experience in the international markets, we have 15 strategic partners, and we export on a constant basis. We could not have built these partnerships without participating to specialized international fairs in addition to our personal ties with some suppliers".

Firm B: "The major tools which we used to build our relationships with our distributing agents in the international markets were the participation in medical exhibitions mainly running on the sidelines of medical conferences, searching on the internet and making direct visits to some markets. However, building relationships vary from one partner to another, but in most cases, it requires time and high investment".

Firm F: "Our firm has been exporting to international markets for 20 years during which we participated to several international trade exhibitions around the world that required high investments. In the last few years, we have been keen to participate vigorously in most important international fairs every single year".

Proposition 5 *Liability of outsidership seems more robust in the case of developing countries such as Palestine.*

It is noteworthy to mention here that the majority of business firms in developing countries start their internationalization experience although they are not ready for this step, and their ability to compete in the international markets is limited. Therefore, they go through lots of difficulties and failure cases. However, after they start to gain some experience, they begin to build and improve their internal capabilities, which require high allocation of resources, to meet internationalization requirements. Indeed, this might explain why the business firms in developing countries and particularly Middle Eastern countries experience a slow learning process and short-term relationships in addition to the high liability of outsidership and a tendency to avoid strong commitment operational modes.

4.2 Internationalization Process of Family Versus Nonfamily Firms

This section illustrates how the internationalization process of family firms differs from that of nonfamily ones by employing our empirical evidence from our case

studies. The findings of the present study indicate that the differences between family and nonfamily firms regarding the internationalization process are minimal, whereas there are a plethora of similarities in this process. This fact can be due to the convergence in the conditions, capabilities and resources between family and nonfamily firms. For instance, this study found that there is no impact of the ownership on the market entry mode choice, as all firms in developing economies start their internationalization process by relying on the exports as foreign market entry mode. This result is consistent with a prior study for Pinho (2007). Moreover, there is no impact of ownership on psychic distance when choosing which markets to enter as four out of six firms (two family and two nonfamily firms) started their internationalization activities in high-psychic distance countries. This finding is inconsistent with some prior studies which suggested that family firms generally start their internationalization process with exporting activities into countries with low psychic distance and then incrementally, as knowledge and resources accumulate, expanding into more remote markets (Claver et al. 2007; Kontinen and Ojala 2010b; Olivares-Mesa and Cabrera-Suárez 2006). Furthermore, both family and nonfamily firms have to some extent the same features and processes in networking and creating their relationships by using the same means ranging from supplier relations, business missions and international trade fairs. Essentially, the fundamental differences in the internationalization process between family and nonfamily firms are related to three variables as Table 2 shows. First, liability of outsidership is higher in family firms than in nonfamily ones especially in the short run as owner-managers of all nonfamily firms under study had prior connections and relationships in the international markets even before founding the business, while family firms did not. However, these connections were mainly related to some partners' previous relationships and affiliates. For example, exporting manager of firm A made the remark: "we started our internationalization experience in China since one of the firm's partners had relationships with some suppliers in China before establishing the firm".

Table 2 The differences between family and nonfamily firms

Variable	Family firms	Nonfamily firms
The influence of psychic distance on market selection	Not important	Not important
The main foreign entry mode in short run and long run	Export	Export
Liability of outsidership	Higher in family firms	Lower in nonfamily firms
Internationalization speed and performance in short run	Lower in family firms	Higher in nonfamily firms
Internationalization speed and performance in long run	The same	The same
Networking and relationship building	Entrepreneur's responsibility	Joint effort by several players

Also, the marketing manager in firm B stated: “the first market, we targeted, was Algeria because one of our affiliates was already exporting into that market. Therefore, we benefited from his relationships to start our exporting activities”. The last nonfamily firm C also went in the same direction as the general director clarified: “our first step in the international markets started with Scotland since one member of the board of directors had some personal ties which allowed us to export to that marke”.

Second, the speed to the international markets as well as the internationalization’s performance is higher in nonfamily firms compared to family firms in the short run, but in the long run, they move to a similar degree. That can be explained by the fact that nonfamily firms have higher levels of knowledge, network positions and management capabilities (and therefore more opportunities) which are necessary for internationalization before committing to international markets, while family firms do not. To well understand this issue, we cite two case scenarios from the current study, one from a family firm and one from a nonfamily firm. First, the marketing manager in firm A which is a nonfamily firm remarked: “Basically, our firm was founded by a group of businessmen most of who had experience in the sector and the international markets, in addition to their existing international relationships. Hence, our firm was able to progress faster in the international markets by achieving good outcomes”. In contrast, the international marketing manager of firm E, which is a family firm, mentioned: “I remember that our first steps in the international markets were unstable and slow as we have succeeded in some markets and failed in others. I think that this was due to the lack of competitiveness in the international markets. Also, our managerial staff was not qualified enough to work internationally. However, later we were able to overcome all these barriers by building our internal capabilities and learning from our experiences”. This result is partially consistent with Gallo and Sveen (1991) who suggested that family firms are slower in the internationalization process than nonfamily ones, as they accumulate knowledge more slowly, but they need to accelerate this process to take the first or next step of internationalization.

Finally, we found that the decisions to create and develop networks and relationships, as well as learning, commitment and trust building, in family firms are related to the entrepreneur’s vision and strategies, while in nonfamily firms, they are the result of joint efforts by several players such as board of directors, managers, employees and affiliates. For example, the international sales manager in family firm D pointed out: “the status that we have achieved thanks to our reputation as the most successful international firm in the country with large volumes of international sales to more than 74 countries originates from the owner’s vision and talents, and his enormous international network”. Given the above arguments, we can conclude this section with the following propositions:

Proposition 6 *There are no significant differences between family firms and nonfamily firms in terms of psychic distance, foreign entry modes and networking behaviour.*

Proposition 7 *Liability of outsidership is higher in family firms than in nonfamily ones.*

Proposition 8 *The performance and speed of internationalization are higher in nonfamily firms in the short run and to a similar degree in the long run.*

5 Conclusions, Limitations and Suggestions for Future Research

Internationalization is considered both as a complex and a rewarding strategy for the family firms, and it leaves an impact on their competitiveness, especially in the long term. Based on this argumentation, the current study makes a contribution to the fields of *international business* and *family firms* in some respects. First, it answers to the calls for further research into family business networks in the process of internationalization as well as the internationalization processes of family firms to deepen the understanding of these processes (Kontinen and Ojala 2010a; Holt 2012). Secondly, it sheds light on specificities of family firms' internationalization processes in comparison with nonfamily firms. In fact, the internationalization processes of family firms seem to be under-researched, particularly, within developing economies. Thirdly, it makes an attempt to enrich the original and the revised internationalization process model (Johanson and Vahlne 1977, 2009) through exploring whether and to what extent the internationalization of family firms follow this model. Finally, it also makes an attempt to confirm the validity of such a model in the context of developing economies.

Drawing upon the Uppsala model of internationalization, both original and revised versions (Johanson and Vahlne 1977, 2009), and using an exploratory multiple case study as an empirical research strategy, the findings of our study are suggestive of the fact that family firms are partially different from nonfamily ones in terms of the internationalization process, whereas there are a plethora of similarities in this process for businesses in developing countries. These similarities seem to stem from a convergence of the conditions, capabilities and resources between family and nonfamily firms within the context of emerging economies. Precisely, the study found that there are no significant differences between family and nonfamily firms regarding psychic distance, foreign entry modes and networking behaviour. However, the study shows that liability of outsidership is higher in family firms than in nonfamily ones and that the performance and speed of internationalization are higher in nonfamily firms in the short run and to a similar degree in the long run. Furthermore, the study indicates that the internationalization process of business firms in developing economies has some unique features and that these features take different forms (see Fig. 1). These differences are as follows: psychic distance does not play a significant role in foreign market selection for business firms in developing countries; exports are considered as the primary foreign market entry mode both in the short and long run; the selection and

expansion into new foreign markets are an unstructured and random process for firms in the developing countries. Also, the learning process concerning foreign markets by developing economies' firms is a slow process. Finally, the liability of outsidership seems to be more robust in firms within developing countries.

It is clear that the main limitation of our study descends from its exploratory nature. Since our objective is to obtain a theoretical understanding as to how internationalization process in family firms is different from nonfamily ones, our findings should not be generalized to any populations of companies due to the methodological circumstances. However, our study offers seven propositions for further quantitative analysis, hoping that they will encourage family business and international business scholars to examine whether the results of our analysis can be statistically generalized. This process would require random sampling of family and nonfamily firms and testing for the existence of any differences and similarities in the characteristics of the internationalization process as revealed by our analysis. Moreover, our data were collected exclusively in Palestine, and that may introduce a potential bias regarding the effects of family ownership on the internationalization process, because Palestine has unique political and economic circumstances as a country under occupation which has no control over its borders, and as a consequence, the possibility to generalize our findings to other developing countries is limited.

Despite our attempt to fill the gap of theory integration and extension to understand behaviours of internationalizing family firms, we believe that much more needs to be done to deepen our knowledge about this topic. Future research should also theoretically and empirically study the question if our findings apply to some other environmental and cultural contexts as well as to other countries in the region. Given that the economy and cultural history of Palestine have commonalities with that of other Middle Eastern countries, such a study could cast more light on the effect of the cultural context on the issue.

Theoretically, the current study draws on the internationalization process model known as the Uppsala model with both versions: the original Uppsala model (Johanson and Vahlne 1977) and the revised Uppsala model of internationalization (Johanson and Vahlne 2009). By this translation of theory into practice, we encourage scholars to replicate such a study using other internationalization theories and models including the international new venture theory (Oviatt and McDougall 1994) in a bid to elaborate on the behaviour of born global and "born-again global" (Bell et al. 2001; Graves and Thomas 2008) family firms. However, this could also lead to a better understanding of the speed of internationalization, given that some family firms internationalize very quickly after operating for a long time in the domestic market (see, e.g. Bell et al. 2001; Graves and Thomas 2008). Furthermore, some interesting research directions need to be further explored in order to have a better grasp on the processes of learning and trust-building relationships, as well as network position and knowledge and their importance in the internationalization process of family firms. In the same vein, we believe that further investigations into the role played by incoming generations regarding the international behaviour of family firms might broaden the horizons of the research domain of family

businesses' internationalization. Finally, future research should investigate the growth path of family firms and their timing of internationalization about other strategic alternatives.

Internationalization of business firms and its advantages in the developing economies are among the most paradigmatic issues on the agendas of politicians, business leaders, economists and academicians. We hope our thought-provoking study will stimulate future research on this complex, yet important topic in international business, family business, entrepreneurship and management research.

From a managerial point of view, family entrepreneurs, owners and managers with limited international networks are expected to concentrate on actively looking for new networks and relationships, which can provide them with novel and valuable information on international opportunities. At the same time, family firms in developing countries may face some unique difficulties and barriers in their internationalization process which are not shared by the businesses in the advanced economies. Such difficulties such as negative country-of-origin image or lack of competitiveness could be exceeded by participating in several networking activities (e.g. trade fairs, business missions and international conventions).

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Socioemotional Approach: Exploring Women's Guilt in an All-Female Egyptian Family Business

Rebecca Fakoussa and Lorna Collins

Abstract The role of women in family businesses is still an under-researched area, with existing research focusing on issues such as women's roles, work-life balance and equality in terms of pay or careers. This paper seeks to understand the close interpersonal relationships of a small family business. It uses a case study approach to examine the dynamics and emotions at play within the firm and then develops a thought-provoking model of guilt to explain these dynamics. The case study examines an all-female family business in Egypt (Sharm-el-Sheikh). It is a small women's wear business started and managed by the mother with both daughters employed. Using narrative inquiry, the research explores this family at a crucial turning point, following the business through near bankruptcy to 'seeing light at the end of the tunnel' before finally closing. The business achieved its recovery by professionalizing and changing ownership structures, aided by open communication and the recognition of roles and responsibilities. The research, conducted over a 2-year period starting in 2010 and ending in 2012, provides initial insights into the process through which family businesses are bound by guilt and love—emotions which exist simultaneously and which are reflected in the indviduals, the businesses and the family members' lives. Suggestions for future research are also given. These include replication of the study in developed countries and other cultural contexts as well as development of a deeper understanding of the emotions of love and guilt in the context of working within and entering into family firms.

Keywords Family business • Case study • Egypt • Women • Socioemotional • Guilt

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1 Introduction

Family businesses are especially important in Middle Eastern economies, contributing significantly to GDP, employment and local areas (PWC 2016). While some multigenerational and wealthy families are well known—such as the 125 years of the El Rashidi family (El Rashidi el Mizan Confection) based in Cairo—smaller family businesses are of key interest as they may employ local people, contribute taxes and be seen as pillars of the community through their charity work. Hassan (2015) suggests that family businesses are the locomotive of development in Egypt and the Middle East, as international reports indicate that 90% of companies in the Middle East are family businesses that contribute 80% of the national income, account for 75% of the private sector and employ 70% of the private sector workforce. Hassan (2015) states that family businesses are strong in Egypt (except during the time of the nationalization) and can now help Egypt achieve an economic growth rate of 8% within a few years, provided that the founders—not just the sons—plan for the business to continue for generations to come. Therefore, family businesses are of significant importance to the world and to the Egyptian economy.

Internationally, family business has been defined in academic literature in several ways, with Sharma et al. (1996) identifying 34 different definitions for family business. Family business definitions vary in terms of degrees of ownership, overall input through governance or management by the family and the ability to transfer the business from one generation to the next. While these definitional differences may be problematic within the academic field, it should be noted that family businesses also define themselves as family businesses, irrespective of the views of academics.

Women have sometimes been described as 'invisible' and without influence in decision-making. Women's efforts are not always properly recognized and rewarded in terms of job titles and salaries (Cesaroni and Sentuti 2014). Barriers for women in companies include the 'glass ceiling' (Burke 1997), 'queen bee syndrome' (Cooper 1997; Mavin 2006), 'old boy networks' (Burke 1997) and various forms of discrimination which women may encounter, such as diminished work-life balance or lack of career opportunities (Catalyst 2008; Mateos de Cabo et al. 2009). Cheung and Halpern (2010: 193) introduce the concept of the 'motherhood wage penalty', a term that describes the consistent finding that mothers earn less than comparable women without children and less than men in general. By contrast, married men appear to enjoy a marriage premium—an economic advantage that fathers enjoy in the workplace (Hersch and Stratton 2000).

Due to this inequality, many women leave the 'corporate rat race' disillusioned and start up their own companies (Wajcman 2004). However, surprisingly little research has been conducted which considers the circumstances in which these women work and how they run their firms (Díaz-García and Jiménez-Moreno 2010)

This research looks at a family business which is owned, managed and run by females. Although there is an assumption that love promotes commitment (Gonzaga et al. 2001), this exploratory case study identified not love but guilt as the primary bond between family members, their business and customers.

2 Background

Responding to a recent call from researchers to investigate 'family'-level phenomena (Chua et al. 1999), this study examines emotions within a family-owned business, taking the 'family' as the unit of study and exploring the underlying systems relative to the family firm—the family system and the business system, together with their overlap/interaction—more fully. Emotions in family businesses have sometimes been considered from a somewhat negative perspective. The starting point for the researchers in this case study was to consider how emotions might manifest and interplay within an all-female family firm—in this case, a small retail shop founded in 2003.

The overarching preconception of the research is that emotions may exert influence on family businesses, and the aim is to identify the extent of these emotions and explore how this dynamic may present itself in a family business setting. Understanding emotions in the workplace has been of interest to management scholars for more than a decade (Daus and Ashkanasy 2005). Emotion has been hailed as the missing ingredient in understanding organizational life (Fineman 2004). Hochschild (1979) suggests that emotion is embedded in the fabric of social practices. As she and others have indicated, extracting emotion—situationalizing it—is problematic and 'what we do, think and feel can be regarded as interpenetrative, context-bound and fluid' (found in Fineman 2004: 720). From a social constructionist perspective:

> ...emotions are not all our own, although we like to think they are. They are borrowed from our national and organizational culture, and we return them in sometimes modified form. This is how the norms of appropriate feelings and emotions change over time. The culture of the organization helps create and reinforce the dominant emotions of control in the workplace, such as guilt, fear, shame, anxiety or 'looking happy'. We have to learn what emotional 'face' is appropriate, and when. (Fineman 2003: 23)

The expression of emotions within the family business has been explored by Nicholson (2008) and in the context of family wars (Gordon and Nicholson 2010). However, family business research appears to have focused primarily on the study of negative expressions and manifestations of emotions in the family business. Emotions such as anger, hatred, mistrust and conflict have been explored within three main themes: first relationships; second, expression of emotions, and third, emotions. These can influence succession, transferring power and decision-making. Cosier and Harvey (1998) suggested there is functional conflict in family businesses, which is helpful and encourages improved decisions.

The expression of emotions in terms of relationships has been examined in the following circumstances: boards of directors (Lane et al. 2006), father/son relationships (Davis and Tagiuri 1989), father/daughter emotional triangles (Grote 2003), emotional kinship group and divided families (Ainsworth and Wolfram-Cox 2003; Gabriel 2003) and mentoring (Boyd et al. 1999). Women have been examined as 'invisible' women in the contexts of husband/wife co-entrepreneurial couples and prenuptial agreements (Danes and Olson 2003), as siblings (Keyt and Cole 2001;

Friedman 1991) and in terms of sustaining trust (Sundaramurthy 2008; Cesinger et al. 2016). However, little research appears to have been conducted on all-female family businesses where women have founded, owned, operated and managed the family firm, especially in the context of Egypt.

Academics have considered the impact of emotions and change in the context of succession, transferring power, and decision-making (Chirico and Salvato 2008; Dyer 1986), in terms of loss and continuity of the family business (Herz Brown 1993) and in terms of the death of the family business (Goldberg 1997). Socioemotional development is a process that consists of variations that occur in an individual's personality, emotions and relationships with others during the individual's lifetime (Santrock 2007). Socioemotional team members devote their time and energy to support the emotional needs of others and seek to maintain the team as a social unit. This paper seeks to broaden our understanding of emotions and bonds within the family business and specifically to understand the socioemotional processes of working in an all-female family business. The paper also seeks to address calls by academics to consider intractable family-level issues within family businesses and to consider the 'family' as the unit of study. Recognizing the issues that family businesses face, understanding how to develop strategies to address them and creating family stories that explain the emotional dimension of these issues to family members are of prime importance to business success (de Vries et al. 2007). However, in Egypt and the Middle East—even though family businesses are seen as the locomotive of development—only 3% are capable of continuing until the fourth and fifth generations, dampening their chances of becoming large multinational companies. Furthermore, 70% of those companies are limited in duration to the lifespan of their founders, as 30 out of 100 businesses continue after the death of the founder (Hassan 2015).

De Vries et al. (2007: xix) suggest that 'the most intractable family business issues are not the business problems the organization faces, but the emotional issues that compound them'. This idea can be extended to exploring gendered processes in family business operations and dynamics, adding to the 'international evidence of the changes in men's and women's roles, positioning and leadership within family businesses' (Baines and Wheelock 2000; Cappuyns 2007; Danes et al. 2005).

Guilt is an emotion, an internal state and one of the 'sad' emotions (Fischer et al. 1990). Cognitive theory suggests that people who experience guilt on a chronic basis mistakenly suffer under the illusion that they have caused other people harm. Guilt occurs when a person realizes that they have violated a moral standard and undertakes an inner reflection on personal wrongdoing (Hoffman 1994). Therefore, this research was guided by the overarching research question: how do socioemotional processes, in particular guilt, manifest within an all-female-owned and all-female-operated family business?

This chapter is structured as follows. First, a literature review highlights previous relevant research. Second, the collected data from observations, interviews and field notes is discussed. Finally, the family business guilt model and its policy implications for Egypt are discussed.

2.1 The Role of Women in Family Businesses

Annino and Davidow (2009) have identified various roles that women play: wife, mother, stepmother, daughter, daughter-in-law, sister and sister-in law. However, these can be extended to include other roles such as grandmother, step-grandmother, stepsister, guardian, cousin and step-cousin. Women can be actively or passively involved in a family business, mostly moving along this spectrum at different stages. Case studies have highlighted that women can play an active role in initiating or funding a business before taking more of a passive role when looking after the family while the business grows (Cappuyns 2007; Aronoff 1998). Women who are not active in the family business are more likely to be educated, active and impassioned owners whose insights and inputs are encouraged and honoured rather than relegated to pillow talk (Aronoff 1998). 'Common wisdom' now suggests inclusion rather than exclusion of spouses at family ownership meetings (Aronoff 1998). Some authors use the terms 'emotional leadership' or 'chief emotional officer' to describe women's roles (Lyman 1988; Salganicoff 1990; Ward 1987). Ward (1987) considered that women carry out their task of emotional leadership in the family firm and that they frequently do so in an unrecognized capacity, they interpret the behaviour of one family member to another, they keep the communication channels open, they ensure that feelings are considered and they plan special family functions.

Research identifies women as increasingly represented in managerial positions and considered as potential successors within family businesses. However, there is still occupational segregation and women often occupy stereotypical roles. Women also often have subtle roles, and there is still an issue with non-recognition of the contribution of women (Cromie and O'Sullivan 1999; Curimbaba 2002; Dumas 1989; Frishkoff and Brown 1993; Brush 1992; Cadieux et al. 2002; Cole 1997; Vera and Dean 2005). There are a number of gaps in the research, including the role of women in family firm genesis (Fakoussa and Collins 2012), women on boards (IFB 2011) and women as founders of family businesses (Dumas 1989). This research addresses this neglected area of study.

Past research on the role of women in family businesses has been related to the following topics: women integrating into the family business in order to help (accidental involvement); opportunities to access traditionally masculine industries; women's secretarial, pay clerk or billing clerk functions; women's differing pay and unpaid tasks; women's work in and/or outside the family business while being in charge of the sound functioning of the family; women being more likely to take part in a business founded by their husband (Rowe and Hong 2000; Cappuyns 2007; Lee et al. 2006). Further, Janjuha-Jivraj (2004) describes mothers as a 'buffer', ascribing to women the role of acting as a buffer between different generations. This reinforces ideas about the hidden nature of maternal involvement in familial dynamics. The authors conclude that this status is often unrecognized by family members.

Further relevant research by Tagiuri and Davis (1992) has highlighted the role conflicts between family, business running and business ownership, with Otten (2012) extending this to include the role of the individual. Family business writers use the term 'role' in discussing the issue of having multiple roles to perform—such multiple roles can result in 'role conflict' (Salganicoff 1990), 'role carryover' (Rosenblatt et al. 1985) and 'role confusion' (Freudenberger et al. 1989). These terms all refer to the two incompatible roles (business and family) contained in family business relationships.

Despite the relevance of the above research, the topic of women founders and owners of family businesses is still under-researched. Research can be found on second-generation women in family businesses. Curimbaba (2002) distinguishes three typical roles for daughters ('heiresses') in family businesses: 'invisible', 'professional' and 'anchor'. These roles are greatly influenced by the woman's birth position and the number of men in the same generation. While historically, Egyptian culture favoured first-born sons, this is gradually changing; more women are being educated, graduating from universities, starting their own businesses as entrepreneurs and taking over family businesses (ENID 2012).

Research conducted in the USA by Dumas (1989) involved in-depth interviews with 40 family members in 18 family-owned businesses in the Southern California area. Participants included 20 daughters and 15 fathers in first-generation family firms. Dumas concluded there were four categories of problems that affected daughters as managers in the family firm: untapped resources, identity conflict and ambiguity, family/managerial conflict and interdependence.

A similar study conducted by Cole (1997) involving nine case studies (with 23 research participants, 12 females and 11 males) identified similar themes: invisibility (women treating other women as invisible), women not accepting traditional roles, men and women playing the same roles, women taking longer to make decisions and women advancing as fast as men.

Research on women by Barrett and Moores (2006) involved interviewing different generations of women (16 participants were drawn from 15 firms) from family firms in Australia. They concluded that women faced different styles of learning leadership within the family firm. They categorized these as learning journeys to leadership in which they progressively learnt about business, learnt their business, learnt to lead their business and learnt to let go of their business. They tentatively labelled the women according to their experiences: long march, short journey, swimming against the tide, high road and low road and travelling companions.

Dumas (1989: 43) highlighted women's need for intimacy or affiliation, identifying this as the key difference between women and men and their behaviour in family businesses. She suggests that man-man relationships, the tradition in family firms, have been based upon a need for independent behaviour which, in Dumas's opinion, may not work for women. Women, by nature, may expect more 'collaboration, cooperation, and interaction' (1989: 43). This is disputed by Aronoff (1998: 184), who suggests that the gender issue is becoming a non-issue as it relates to leadership,

ownership and participation. Therefore, this research seeks to identify more depth in woman-woman relationships.

Furthermore, relationships within families are dynamic and shift constantly during the life cycle of a family—and women are socialized to protect and nurture the family. Given the ability of women to perform several roles simultaneously, they can provide the pliable adhesiveness that holds changing families together (Salganicoff 1990). Therefore, this case study adds to the literature by examining women and founder roles in an all-female family business in Egypt.

2.2 Emotional Ownership and the Role of Guilt

Zahn-Waxler (2000) linked the development of empathy to guilt and ultimately to distress, highlighting the differences between genders in dealing with problems and showing that women tended to internalize problems more. Following on from this theme, guilt is found in many areas, including business, psychology and sociology (i.e. Weiner et al. 1982; McBarnet 2010). Stanford (2012) identified guilt as a motivator which leads to stronger commitment. Such commitment is found throughout family businesses: in long-term goals, involvement in the local community and high staff commitment (Ward 1987).

In family businesses, 'financial commitment' is not enough; a deeper commitment is needed (Gallo et al. 2007), as the survival of the family and the family business may depend on it. Álvarez (2003) suggested that psychological ownership encourages emotional commitment. Sherwood and Glidewell (1972) suggested that in relationships, there are implicit contracts, which after a while may work against the relationship unless they are made explicit by negotiating a 'new' contract. They further identified that relationships can continue productively until another challenge requires the contract to be re-evaluated and renegotiated. This is often called a 'psychological contract'—a term used to define these unwritten expectations between individuals, the family and the family business.

Wodak (1981) created an 'interdisciplinary framework (selecting categories from linguistics, psychology and sociology)' (found in Wodak and Schulz 1986) to identify guilt in families, specifically focusing on mother-daughter relationships. Miceli and Castelfranchi's (1998) framework focused on interpersonal guilt in people giving charitable donations. They proposed three components of guilt: (a) one will not feel guilty about something for which one does not feel in some way responsible. Responsibility may stem from causing something to occur or from failing to avoid the onset of some occurrence; (b) action or lack thereof causes harm; (c) one's personal moral standards are violated. Using this as an example, in a family business, not 'helping out' in the business may cause the business to fail. The person may (a) feel 'connected to' the business, as it has been part of their family; (b) feel that their lack of action has caused harm; and (c) feel they ought to help their family and that it is immoral not to help someone in need. Marshack (1994)

Table 1 Types of commitment

Group I	People who devote effort and enthusiasm but expect compensation
Group II	[As a company evolves] people who believe: 'The company should compensate me while I owe nothing to the company'
Group III	People who believe: 'While the company lasts, I should help it without any strong commitment'
Group IV	People who ask: 'Are we a family business?'

describes the family business as a 'closed system' which reinforces the roles women play in the family and in the workforce.

Miceli and Castelfranchi's framework (1998) has been used in different fields. For example, Ward and Styles (2012) used the framework to look at migration, using development theory to investigate relationships between mothers and daughters. Using this as a guideline, each individual's narrative was taken and used to answer the following questions: (a) Did guilt exist? (b) If yes, towards whom or what? (c) Was it openly spoken about or merely implied?

Gallo and Cappuyns (2004) identified four different behavioural groups linked to levels of commitment to the family business. These appear to reflect the natural evolution between the family and the family business (Table 1).

One could also draw links with the life cycle of businesses as well as with each individual's development as their own person (in terms of their role in the family business, the development of their own career and their life choices—such as having their own children).

In summary, limited research is currently available on Egypt and female-run businesses. This research seeks to develop understanding about guilt while following the business through its different levels of commitment and its dynamics in the context of family business in Egypt.

3 Research Design

3.1 Method

Narrative is a powerful tool which can help communicate meaning (Bruner 1990). While there are many definitions of narrative inquiry, the definition offered by Connelly and Clandinin (2006)—which emphasizes the importance of 'storied lives'—has been used for this study. They suggest that:

> ... arguments for the development and use of narrative inquiry come out of a view of human experience in which humans, individually and socially, lead storied lives. People shape their daily lives by stories of who they and others are, and they interpret their past in terms of these stories. Story, in the current idiom, is a portal through which a person enters

> the world and by which their experience of the world is interpreted and made personally meaningful.
>
> Narrative inquiry as a methodology entails a view of the phenomenon. To use narrative inquiry methodology is to adopt a particular narrative view of experience as phenomena under study. (Connelly and Clandinin 2006: 477)

Narrative inquiry has been used broadly in studies of community (Huber and Whelan 2001), psychology, sociology, medicine, literature and cultural studies (Riessman 1993; Mishler 1995).

Fineman (2003: 9) introduces four different emotional perspectives: biological (genetic), early childhood (psychoanalytic), cognitive appraisal (behavioural) and social (social constructivist) as ways of offering insights into the emotional dynamics at play in an organization. The two particular forms that influenced and directed the analysis of the all-female family business were the social perspective and the psychoanalytic perspective. A social perspective emphasizes the importance of context and the cultural settings in which emotions are learnt and expressed, which can be gendered. Social learning can overwrite and transform biological impulses and early childhood experiences and interpretations.

Narrative methods assume that knowledge of any social phenomena may be held in stories which can be relayed, stored and retrieved. This method is ideally suited to investigations which seek to understand the 'why' behind human action, as it allows the investigator to put data into their own words. Hence, in this exploratory study of the subjective and emotional life of one family business, it was deemed useful as a way of seeking to understand this phenomenon, enabling it to be explored through the meanings that each member assigned to it. To derive meaning from stories, the personal background of the individual should be known and understood—this involves understanding the meaning of situations to the individual and the cultural and organizational context that shapes the way emotion is expressed and controlled (Fineman 2003). Therefore, this research is also a case study. Case studies can be used to answer 'why' and 'how' questions (Eisenhardt 1989; Yin 2003; Eisenhardt and Graebner 2007). Further, Suddaby (2006) suggests that case studies help researchers to gain new understanding of different relationships between social actors, outlining how these relationships and interactions actively construct reality.

The case study and resulting model are based on research conducted over a 2-year period between 2010 and 2012. This involved several visits to the shop together with detailed interviews, observations and field notes. The key data collection points were unstructured interviews covering general family business topics as well as exploring emotions with the case study business. Further informal conversations which informed the research also took place over the 2 years. These informal conversations have not been listed (Table 2).

Notes were taken during and after the interviews, and these notes, with observations and interview transcripts, were manually coded into themes. This case study was selected because the researcher was able to gather very detailed data over an extended period of time—this was rich data from each individual as well as from

Table 2 Key interview times

Date	Interviews	Time	Method
Spring 2010	All women	2 h	Face to face (in shop with some disturbances)
Spring 2010	Mother Mother and Daughter A Mother and Daughter B	20 min 20 min 20 min	Face to face (in shop with some disturbances)
Autumn 2010	Mother Daughter A Daughter B	20 min 20 min 15 min	Skype (individual interviews, but each person could be overheard)
Spring 2011	All women	1 h	Face to face (in shop with some disturbances)
Spring 2011	Mother alone Daughters A and B Mother and Daughter A Mother and Daughter B	30 min 40 min 20 min 20 min	Face to face (in shop without disturbances)
Autumn 2011	Mother Daughter A Daughter B	20 min 20 min 15 min	Skype (individual interviews, but each person could be overheard)
Spring 2012	Mother Daughter A Daughter B	30 min 30 min 30 min	Face to face (in shop with some disturbances)

different combinations of the three women, such as the mother and daughter(s) or both daughters together in a range of circumstances.

3.2 Context

The small boutique was located centrally in the tourist town of Sharm-el-Sheikh. Based on one of the busy main streets, it had a small window as a shop front. This opened up into a dressing area, which was hidden from view. The shop stocked wedding dresses, groom suits, accessories such as veils and shoes and other things needed for weddings. It carried about 150 different dress styles, each valued at between $180 and $2000 [In 2011, Egyptian workers were paid an average weekly salary of LE534, by 2012 LE641 ($89.60) (CAPMAS 2012).][1]

[1]Minimum wage (lowest nominal wage per month) for permanent government workers was set at 35 Egyptian pounds in 1984 and remained unchanged at that level until 2010. Minimum wages in Egypt were then increased to 700 EGP/month in 2012 and to 1200 EGP/month in 2014 (Trading Economics 2016). Egypt's inflation rate averaged 8.6% in 2012.

While its main trade was related to weddings, the shop also carried a selection of materials suitable for other occasions. There were several shops (and the open market) selling patterns and cloth in Sharm, but this was one of the only shops in the town to sell 'Western'-style wedding dresses, and it targeted predominantly 'Western' tastes, mostly through word of mouth.

The business was started by the mother in 2003, at which time she was a sole trader and the sole owner of the business. From 2011 onwards, all three women had equal shares in the business. The business had existed for 7 years when the research started, and at that time, trade was declining. The business closed in 2015.

After its initial success, the business struggled (during the data collection period) before finally closing due to external factors beyond its control. In recent years, Egypt has undergone several economic and political changes. In brief, key political changes have included the 'Arab Spring' in 2011—known as the January 25 Revolution—which led to the ousting of the 40-year leader, Hosni Mubarak. Political turmoil followed, with Islamist Morsi elected as president in 2012 and the current president—General Abdel Fattah El-Sisi—elected in 2014. A major concern over economic stability developed, and this caused unrest and uncertainty for many businesses and entrepreneurs (Hattab 2012). While initially this turmoil had little effect on the tourist industry, the socio-economic climate made trading more difficult, especially in terms of sourcing materials and receiving deliveries. Further, since the air crash on 31 October 2015, there have been no tourist flights directly to Sharm, and it has become a virtual ghost town (Calder 2016). This has meant hotels, shops and other venues have been forced to close and let their staff go.

4 Findings

The mother's description of how she started the business centred around the fact that in Egypt, businesses have to contend with official requirements involving high volumes of paperwork and many processes. The mother stated: *'…instead of having a digital database, it's all physical in Egypt, which in return slows anything you have to do to get paperwork done'*.

She continued with examples of inefficiencies around starting up:

It was in Ramadan and I was fasting. I went at 9am. I thought at that time of day, when everyone is fasting, I'll get things done quickly—only to find out that there was a queue in front of the building that went all the way up the stairs to the seventh floor. People were there from 2am in Ramadan to get their paperwork done.

She explained that after she had waited in the queue for 5 h, the office closed at 2 p.m., leaving many people waiting. She further described the frequent difficulties faced in obtaining stock:

Corruption plays a big part here in Egypt. Bribery appears to be the only way to work. I remember in the early stages of my start-up I refused to bribe an employee to finish the custom papers for me. They locked up the goods in the port for over 11 days. I was worried that late delivery would ruin my reputation amongst clients. Since then I have admitted that bribery in Egypt is part of the business.

Table 3 Family business members

	Mother	Daughter A	Daughter B
Personality description	Feels trapped and frustrated. Feels the business is all hers and she is not able to delegate responsibility	Strong headed and strong willed; feels she is letting down her husband and family	Not as confident as her sister; thinks her sister is better and stronger
Status	Widowed	Married, two children	Not married
Employment	Works 6 days per week (works Saturdays alone—the busiest day)	Works part-time while taking care of a family	Works 5 days per week
Roles pre-2011	Sewing and customer service	Customer service	Customer service
Roles post-2011	Sewing and customer service	Marketing	Finances
Education	Secondary school	Educated to 18 years of age	Educated to 18 years of age; completed some extra courses

After getting over the initial hurdles of corruption and bribery, the business initially grew and became profitable. However, profits had been declining over the 3 years preceding the start of the research, and by 2010 the shop had reduced its staff numbers from seven to three (mother, Daughter A and Daughter B). The sisters entered the business straight from school. The mother did not pay herself a wage, and both daughters took a reduced wage. The mother had also remortgaged her house in order to keep the business going. In 2010, profit was around 3%, roughly $1000, with around 80 unsold dresses in stock (estimated value $80,000). Table 3 describes the three family members and their contributions to the business.

4.1 Family Roles and Guilt

The family identified that the roles within the business seemed very unclear. There was no clear delegation or hierarchy. The mother saw herself very much in her maternal role, referring to herself in the third person as ‘Mum’ (e.g. ‘Mum works Saturdays’). In both private and business settings, both daughters referred to her as ‘Mum’.

There was little indication of the family members being able to distinguish between their personal and professional lives. This was reflected in the lack of system and organization within the business. During the course of the research, one strategy which the family discussed was leaving the ‘sister’ and ‘mother’ roles at the door as they came into the shop, as all felt they would work better together as colleagues than as family members. Daughter B stated: *‘Yes, of course I can work with [Daughter A]. There are only three of us. We don’t always get on, but that is*

the sisters in us, not the colleagues in us'. This shows willingness to attempt to be more professional.

Due to the lack of clear roles, there was persistent conflict between the women—especially between the two siblings—which appeared to erupt frequently.

4.2 Guilt and Changes

In 2010, the business had hit a critical stage. It could not afford to re-employ any staff, buy new stock, redecorate or invest. The mother stated: '*I don't know how to pay the girls or the bills*'.

Guilt was explained in different ways. Below are some examples.

Based on the comments in Tables 4 and 5, it appears that the realization about the potential closing of the shop due to lack of money caused the family members to examine themselves more deeply and to accept that things could not continue as they were. The mother realized that she had a deep attachment to the business, *'her baby'*. To her, closure would not just mean the loss of ownership and monetary value but would have deeper psychological implications (Ucbasaran et al. 2012). The mother suggested: '*I am going to look upon my daughters as young women—independent and both very competent. They can both actually do the job. And one of the first things... is making a formal partnership between the three of us*'.

In light of this, in 2011 the family decided to implement large changes: dividing ownership between all three women equally and consciously separating 'family

Table 4 Guilt and changes (1)

	Mother	Daughter A	Daughter B
Realization of a possible need to close the business (2010)	'The very very very worst thing would be to end up in bankruptcy court' 'Also, it is kind of tradition to handover the business to your children—to ensure that they have the opportunity to continue the legacy of the family and maintain their status'	'I have never seen the actual numbers. I guess deep down we knew how it was, but after nine years of putting so much in and putting in so much financially, we need change'	'I have never seen the numbers rot the business before. Seeing the figures makes it all so much more real. We have been burying our heads in the sand'
Why carry on working?	'I have put my life, my money, my house into this. I can't leave it. What about the customers? The girls? I can't, I can't—it has to work'	'After investing years in the business, I grew up with it. I can't have wasted years and just give up? Give up on my mum, my family, my community?'	'I don't know. I don't know if it's the love for mum or the love for the business. Or the guilt of failing? Letting her fail at her dream? It's hard, but there is no way I could leave or close it'

Table 5 Guilt and changes (2)

	Mother	Daughter A	Daughter B
General exhaustion and guilt	'I have to have everyone else's shifts. Everyone has Saturdays off. Mum hasn't had one off apart from that one wedding in January' 'If I have a stroke, at least I'll have a rest in bed' 'I would like to have a little bit of time to enjoy and a little bit of money to enjoy it with' 'I feel guilty that I cannot offer the family better'	'I feel guilty about having children' 'I feel guilty about feeling guilty about the children' 'I feel guilty for not having enough for the business' 'I feel like I let everyone down'	'I feel I have to live mum's dream—I can't leave her alone. She has no one but us' 'I feel so guilty that I can't even dare to dream my own dreams' 'I feel guilty for blaming mum and guilty for feeling guilty. I love her so much'
Different bonding guilt examples	*Guilt about selfishness:* '[Daughter B] said to me: everything that you said you wanted to do was all to help me—nothing was about you. I want you to get something out of this as well. It hasn't got to be about saving mum. You have to be part of the team'	*Guilt about uncertainty:* 'I have not been focused in the past. I know that I've wanted to leave, do other things. But I believe now I can see clearly the path before me. I want to work alongside my family, in harmony. I feel now the shop is my chosen career path'	*Guilt about not being 'enough':* 'Even though other people could probably do the job much better than me, I can bring love to the business. It is a family business; I can give what no other person can'

mode' from 'business mode'. This professionalization of the family business meant they would work collaboratively as opposed to within family roles (mother, daughters and sisters).

Each of the women had clear areas of responsibility: Daughter B looked after the finances, Daughter A worked on marketing to attract customers and the mother trusted, tried not to interfere and focused on sewing and helping customers. (See Table 3 for pre- and post-2011 roles.)

Identifying as equals was illustrated in one exchange, in which the mother asked: '*Where are the sisters*' *(roles) going to be left from now on*?' Daughter B replied: '*At the door before we come in*', with Daughter A adding '*But so does the mum!*'

Distributing ownership also had a major impact on Daughter A, who stated: '*Previously, when clients asked, it was "mum's shop"*, and I said things to my family like, "*I help mum out on three days a week"*. *However, now (with one third ownership), I feel like I am a viable member of the team and we are all partners*'. This demonstrates that feelings of belonging seemed to increase with the changes, while feelings of guilt seemed to lessen—guilt was not being expressed as frequently. The diagrams below suggest that guilt in a family business increases or decreases with the sense of connectedness within the business.

Through exploring and crystallizing the feelings of all the parties, it became clear that the business and all the relationships were struggling and that there was a central theme of guilt running between these women:

- Within the 'old' family:
  - Guilt about not being able to pull their weight and letting everyone down
  - Guilt about not being able to give enough attention to the business
- Within the 'new' family:
  - Guilt about not being able to give enough attention to the children
  - Guilt about not being able to give enough attention to the family
- Within the family business:
  - Guilt about having children, as this detracts from time available to spend in the business
  - Guilt about not doing a proper job (Fig. 1)

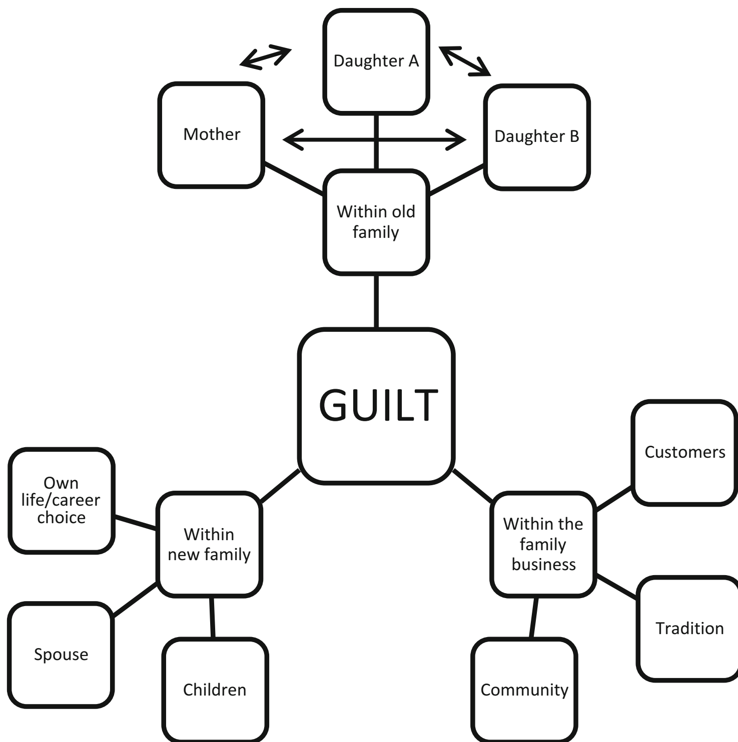

Fig. 1 Guilt in an Egyptian family business

This simplified model shows how guilt bonds all the elements together and demonstrates that the closer the individual is to the business, the higher the levels of guilt experienced (Figs. 2 and 3).

The deep bond that exists seems to be built on love but also on guilt within each separate section of each individual's life. This model helps to explain the burden that is often described as being part of family businesses. Though research has shown that love promotes commitment (Gonzaga et al. 2001), in this case, the guilt related to the surrounding family, the community, each other and the business appears a stronger cause.

Parrott (2001) argues that there is no social psychology that does not involve emotions. Emotions distinguish themselves from sensations, feelings and moods. Researchers have described 'trees' of emotions (Parrott 2001) with six primary emotions and 'wheels' of emotions (Plutchik 1980) with eight basic emotions, showing interplay and connectivity between emotions. Emotions might be linked to culture and to cultural or local expectations as well as to socio-economic expectations (see Sect. 5). Culturally listening and sharing the community customs

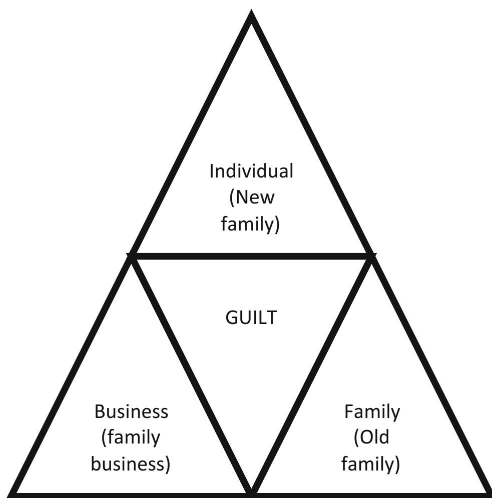

Fig. 2 Triangle of guilt

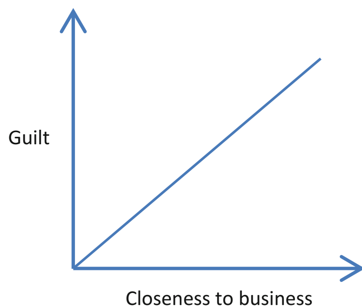

Fig. 3 Simplified graph of guilt

leads to *Baraka* (which means blessings) that a future leader must constantly search for their own success and that of their family. Further, local factors—such as it being a matter of honour to preserve the social status of the family, the importance of community structure or a duty to the community—also influence the intergenerational knowledge transfer process. These factors all add further to feelings of guilt in terms of letting down direct or indirect family or the community. These in the context of family and family businesses need to be explored.

Using this study as a basis, a model can be identified where a balance can exist between the connection a woman feels to the business and the connection she feels to her family. Many studies in work-life balance report the feeling of being torn, but to date, this has not been identified in this context of women in family businesses.

4.3 Family Business Guilt Model

Using this study as a basis, it is suggested that there is a balance for women between closeness to business and family where they are able to fulfil all their roles: those to the business as well as their 'old' and 'new' family (Fig. 4).

The family business guilt model suggests that there is an optimum zone between the closeness/connection to the family and to the business. Guilt becomes apparent if you are too close to either the business or the family. As discussed, neither family nor business is static, and therefore constant realignment and awareness are needed to identify the connection/closeness to the business or family and make adjustments if needed in order to avoid feelings of guilt towards either.

5 Limitations

This paper has several limitations. First, the research was conducted in a specific part of Egypt, Sharm-el-Sheikh. This tourist city grew rapidly from a portside village to a multicultural complex based on tourists and their values and culture.

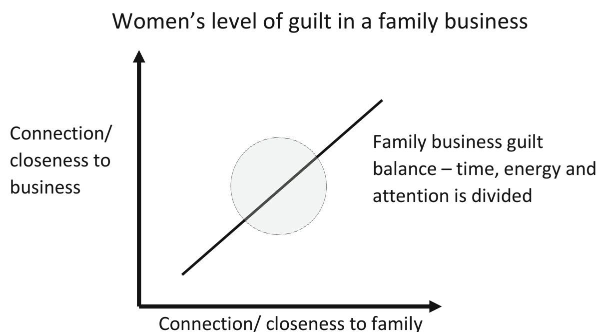

Fig. 4 Optimum zone of guilt in a family business

Sharm, like many tourist cities in Egypt (including tourist areas along the Nile River such as Luxor, Qina, Aswan and the Valley of the Kings and Red Sea resorts such as Hurghada), appears to have more opportunities for women and fewer restrictions due to the differing culture. These areas are not representative of either the capital, Cairo, or other less tourist-focused cities.

A second limitation is that the research relies on a single case study. The particular business upon which the study was based was selected through a convenience sampling method due to the staff speaking a good level of English. Over a period of 2 years between 2010 and 2012, the researcher was able to observe and get to know the family. This could have exposed the research to researcher bias (i.e. through the researcher seeing what they wanted to see or not asking certain questions) or to participant bias (i.e. the participants telling the researcher what they 'think' the researcher wants to hear or portraying themselves in an artificial light). Furthermore, as Alvesson and Sköldberg (2009) noted: 'Interpretation does not take place in a neutral, apolitical, ideology-free space, nor is an autonomous, value-free researcher responsible for it' (2009: 9). The 'object of study' can usefully be regarded as a social construction; after all, people construct their social reality. Yet it must be noted that this also applies to researchers. Von Glasersfeld (1991) spoke of trivial construction, when researchers reserve the social construction for the object of study while implying that they themselves remain outside such constructing and are able—in some sense objectively—to portray the social constructions. This objection, that researchers' own 'constructing' is ignored in most qualitative research and appears to apply to much mainstream qualitative research (Alvesson and Sköldberg 2009). The research has the benefit of acknowledging social construction, thus trying throughout this research not to fall into the trap noted by these authors.

The researchers used this family business not only to capture a unique and in-depth case study but also to identify a new model—the 'family business guilt model'. This was possible due to the longitudinal aspect of the research. This longitudinal study covers various stages of the business cycle, following it from start-up to ultimate failure. While socio-economic changes in Sharm had an impact, it is important to note that social class plays a factor in determining power and authority, which are sometimes determinants of success in Egypt (Elsaid and Elsaid 2012). The family had no one to draw on for social standing or support, as neither their family name nor their economic status was influential. The research was not able to pinpoint the business at a particular stage (start-up, growth, maturity or decline) which may influence the level of guilt experienced or expressed by the family business members as increased or decreased external pressures caused by business, human and life cycle. As there are different systems interacting—the family, the family business and the life stages of the individuals—closer attention should be paid to the nuances of life, which is, by definition, never stagnant. Therefore, this research uses the case study not to examine its context but to identify that the phenomenon of guilt which has so far been under-researched in the family business field.

6 Further Research

The identification of a family business guilt balance assumes that the underlying feelings towards the family, the business and other individuals are actually based on guilt. This model is currently based on one in-depth case study of an all-female, owner-managed family business in Egypt. While the case study shows that the daughters and mother felt happier in their roles once they had clarified them, further in-depth interviews are needed to see what happens to guilt. Relevant interview questions include: does guilt lessen because other elements have taken priority? Is the guilt in relation to one's own family/customers/environment increased or reduced when fear of closure is less of a factor? What is the impact on guilt of balance in family businesses? The model needs to be explored alongside further data, including data on differently gendered and generationally diverse family businesses. This data needs to be both in the form of qualitative research (to refine the model and add nuances) and quantitative research (to identify possible generalizations and cultural differences).

Furthermore, many models of family businesses are based on research conducted in the USA and developed countries. Therefore, they lack description of how entrepreneurship is carried out in developing markets (ENID 2012; Lingelbach et al. 2005; Sonfield and Lussier 2009). This model has been created based on a developing country and needs to be critically evaluated in developed countries where culture and background are different.

7 (Policy) Implications

The topic of business and emotions is a research area which is attracting growing interest, especially in relation to family businesses, where emotion and business are found in close proximity. For policymakers, understanding the underlying dynamics of business is important, particularly given that family businesses make up 90% of the economy. Most family businesses are small, employing less than ten people, making this research highly valuable to policymakers in terms of helping them to support businesses—especially small family businesses. Policymakers need to be aware of the underlying dynamics within small and medium enterprises (SMEs) in order to legislate and support effectively (ENID 2012). Giving targeted and accurate support means family businesses receive the care they need in order to increase productivity, be sustainable and grow. In Egypt, with its culture and current socio-economic issues, this can be considered key. One possible implication of this research for policymakers is that they could decrease the 'red tape' around small businesses, thus making starting and running a business easier. Further, education creating an increased awareness for small businesses, family and business roles, family dynamics and family business structure could support the success of these businesses.

For management practitioners, this is of critical importance. Gaining an understanding of family members' motivations, dreams, what they feel is expected of them, and how they view their own individuality (particularly when working within parent-owned businesses) is vital. Helping family businesses identify responsibilities and communication lines and offering support for the different environments where multiple roles overlap (i.e. sister, daughter and wife) is also crucial.

This research has also highlighted the issue of verbalizing guilt within the family, the family business and the extended family. This is important because being tied to the family business due to love and guilt can cause resentment and anger. While guilt as a motivator may lead to stronger commitment, it can become overbearing and results in negativity. These emotions can have negative effects on the individual, the family and the family business. Raising awareness and creating a safe space where these emotions can be discussed may support family businesses and their emotional health. Developing a healthy balance between closeness and distance within both the business and the family, while being aware of the long-term commitment to both the business and the family, is likely to benefit everyone.

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Financial Behaviour of Lebanese Family Firms During Political Crises

Hani El Chaarani and Zouhour El Abiad

Abstract During the last decade, Lebanese family firms have been experiencing many challenges related to two waves of political crises. The internal wave was after the assassination of PM Rafic Hariri and dated from 2005 till 2010. The external one began in 2011 due to the tension of the Syrian civil war. Based on 154 pairs of family and nonfamily firms, this study has the aim to explore the impact of both internal and external political troubles on financial dimensions (financial performance, capital structure and investment strategy) of Lebanese family firms.

The results reveal that Lebanese family firms have a higher financial resistance than their counterparts. They outperform their nonfamily counterparts during internal and external political crises. They use debts, with more preference for long-term loans, to maintain their control over their business and preserve a dynamic investment strategy even in periods of internal and external political troubles.

Keywords Family firms • Political crisis • Performance • Financial behaviour • Financial structure

1 Introduction

Before the 1970s, the Lebanese economic situation was similar to that of Southern Europe (Plamondon 2004), and the country was the principal trading centre for the Middle East region until the civil war which lasted 15 years and seriously damaged Lebanon's infrastructure. By the end of the war, Lebanon's economic growth was relying on tourism and banking sectors. After September 11, 2001, Lebanon was also regarded as a safe place for bank deposits among other countries in the Arab region due to its banking prosperity and secrecy. Unfortunately, this positive atmosphere was not able to be maintained for very long.

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Since 2005, in the year of PM Rafic Hariri's assassination, Lebanon has been experiencing its worst political crisis due to both internal and external factors. Internally, Lebanon is suffering from a high division level due to the existence of 18 religions and ethnics in which each religion has a specific vision concerning the future of the country. Considering the external factors, they can be explained by Lebanon's location in the centre of several interconnected regional and international conflict configurations, particularly between Syrian and Israeli borders. For this reason, Lebanon remains critically exposed to the vicissitudes of much larger developments and interests which it cannot control. During and after this long period of crisis, the family firms in Lebanon have survived by relying on their family unit. They have been presenting better performance and potentially superior governance structure compared to their nonfamily counterparts (El-Chaarani 2014).[1] Due to their continuous activities, and despite the unsuitable framework, researchers have an exclusive opportunity to identify, understand and analyse how Lebanese family firms were able to absorb all these political shocks.

Therefore, the objective of the study is to explore a new dimension of family firms during crisis by addressing the following question: How and in what ways were the Lebanese family firms able to leverage their "familiness" and/or manage their distinctive resources and capabilities, to enhance stability and organizational performance during Lebanese political crises experienced in the last decade?

This research makes significant contributions to scholarship and professionals by addressing important aspects associated with family firms during political crises period. It provides knowledge that can be applied and implemented by founders, family and nonfamily managers in family firms and by experts or consultants. Also, it aims to respond to the call for more in-depth research into institutions behind family ownership and control (Peng et al. 2008), and it gives more comprehension about family firms working during government political crisis. To attempt the study objective, the following research will be divided into five principal parts, an overview of the different Lebanese political crises during the last decade: (1), the Lebanese family firm challenges during political crises (2), the financial specificities of the family firms (3), the research design and data description (4) and finally the empirical findings (5).

[1]They constitute 75% of the private sector in Lebanon, provide 85% of jobs and are the principal engine that drives the socioeconomic growth and wealth creation (El-Chaarani 2014). Many examples can be provided to explore the family firm contributions: "Gemayel Frères S.A.L", established in 1929, is actually one of the pioneered Lebanese family firms in the cardboard industry. The company restarted its activity after being twice bombed in 1978 and 1984. "Hayek Group S.A.R.L", established as a family business in 1951, survived through the ongoing domestic political conflict and regional instability and continued its activity in providing professional engineering and construction services for 64 years.

2 Overview of the Lebanese Political Crises During the Last Decade

Political unpredictability is regarded by economists as the most serious problem for economic growth in Lebanon. It leads to an increase in the volatility of the financial situation, and it decreases the investment level and can thus negatively affect the operational activity of all Lebanese firms, including Lebanese family firms. After the Lebanese civil war (1975–1990), the Lebanese financial situation was stable until mid-February 2005, the day of PM Rafic Hariri's assassination.

2.1 The Development of the Lebanese Situation: A Mid-place Between Internal and External Crises

In 2005, after the murder of former PM Rafic Hariri, the Lebanese situation quickly deteriorated and triggered other assassinations and car bombs. From that moment on, Lebanon's political actors and population were divided into two blocs, those opposed to Syrian stewardship "14th March" and those in favour of it "8th March".[2] In 2006, the "July war", between Israel and Hezbollah,[3] increased tensions and caused a huge blow to the Lebanese economy.[4] Between 2007 and 2008, Lebanon experienced another wave of violence. The political crisis deepened and the violence took on communal overtones. In 2007, heavy fighting broke out between the Lebanese Army and a new militia group calling itself "Fatah al-Islam" based in "Nahr el-Bared", a Palestinian refugee camp in the north of Lebanon. In the same year, car bombs killed two members of the Lebanese Parliament. Since 2009, the internal tensions between political Lebanese counterparties have decreased, with the absence of a clear consensus and continuous waves of political assassinations,

[2]The impact of PM Hariri's murder was very heavy on Beirut Stock Exchange "BSE". The Market Stock Capitalization Index (MSCI)—Lebanon index—dropped 25%. The investors' confidence over the Lebanese market was reduced. An economic slowdown was detected. Fears from a second civil war led to significant conversions from Lebanese pound deposits to foreign currency deposits followed by a decline of foreign currency reserves (Report of Ministry of Finance 2010). Hence, it is not surprising to know that Lebanon GDP growth was zero in the first quarter of 2005 and attained only 2.7% by the end of the year (*The Daily Star*2005).

[3]Hezbollah is a powerful political and military Shiite Muslim organization, founded in 1982, in opposition to Israel's occupation of South Lebanon. It is directly linked to Iran in its origins, ideology and financial resources.

[4]After 33 days of war, Lebanon suffered a devastating blow to its infrastructure, lost more than 1200 civilians (Harbom and Wallensteen 2007) and recorded more than 15,000 destroyed homes. The war had cost the Lebanese economy approximately 12 billion dollars (*The Economist* 2006). The GDP growth dropped to 1.6%. The inflation increased from 2% in 2005 to approximately 5% in 2006 ("Poverty reduction and Economic Management Unit - Middle East and North Africa Region", World Bank Report, 2014).

terrorist attacks and car bombs. The GDP growth revealed the volatility of the economic situation between 2009 and 2011. Its value had shown a continuous decrease, from 10.3% in 2009, to 8% in 2010, till to 2% in 2011. During 2012, the Lebanese business environment had been affected again, with a registered high demand for the dollar and an increasing in the mid-price of exchange rate of the Lebanese pound against the American dollar.

The principal external factor that has influenced the Lebanese political crisis is the Syrian civil war. Lebanon was dancing on a volcano and was considered one of the riskiest countries in the Middle East and North Africa (AMB Country Risk Report 2013). The Syrian civil war results have been catastrophic on the economic, social and political levels. In 2014, the United Nations High Commissioner for Refugees registered that the number of Syrian refugees was over 1.4 million. Due to this huge number, Lebanon is currently suffering from the increasing unemployment rate—particularly among the youth (34%).[5] It is shown that Lebanese pure internal conflicts are still considered to be the principal hindrance to reform plans, and instability is still dominant. It appears that Lebanon is still stuck in the midst of a daunting political crisis.

2.2 Quantitative Analyses of the Lebanese Political Crises

Ever since the assassination of the Lebanese PM Rafic Hariri on February 14, 2005, Lebanon has been facing many political crises (see Appendix) varying between three types of classification: the first one is bombings, assassinations and violence; the second one is war; and the third one is governance crisis (Table 1).

In total, Lebanon had 114 troubles based on 84 bombings, assassinations and violence, 2 wars and 28 governance crises. Regarding the source of these political incidents, whether it is related to internal or external factors, the instability of the Lebanese political situation was derived from 66 internal political troubles and 48 external (Table 2). From 2005 till 2010, 53 internal political incidents were detected. After 2010, the tension of the internal political troubles decreased with a maximum of four incidents per year (Table 2, Fig. 1).

Between 2011 and 2015, the tension of external factors has increased with the spill over of Syrian civil war on the Lebanese stability. During these 5 years, Lebanon has supported 47 political troubles rising from external factors (Table 2, Fig. 2), especially the Syrian civil war. Based on this analysis, the Lebanese political crisis over the last decade has been characterized by two different phases with a cut-off in year 2010[6] (Fig. 3).

[5]In 2013, the real GDP growth was estimated to have grown only 0.9%. This rate was lower than the 1.6% recorded in 2006, the "July war" year and the worst performance since 1999.

[6]Before 2010, the Lebanese political crisis was not influenced by any external factor. The total number was zero. After 2010, the external factors appeared and the number of factors became six during 2011.

Table 1 Statistics about political crises in Lebanon (2005–2015)

	Bombings, assassinations and violence	War	Governance crisis	Total
2005	14	0	2	16
2006	4	1	2	7
2007	10	1	3	14
2008	8	0	3	11
2009	2	0	0	2
2010	3	0	1	4
2011	6	0	4	10
2012	2	0	5	7
2013	8	0	4	12
2014	19	0	3	22
2015	8	0	1	9
Total	84	2	28	114

Table 2 Internal and external crises per year (2005–2015)

Internal	Year	External
16	2005	0
6	2006	1
14	2007	0
11	2008	0
2	2009	0
4	2010	0
4	2011	6
1	2012	6
3	2013	9
4	2014	18
1	2015	8
66	Total	48

During the first phase, which extends from 2005 till 2010, Lebanon was mainly influenced by internal political crises. While during the second phase, which ranges from 2011 till 2015, the Lebanese political instability was triggered by external crises.

3 Lebanese Family Firms Challenges During Political Crises

Crisis is "a turning point in the course of anything, uncertain time or state of affairs; moment of great danger or difficulty" (Longman 1978), which cannot be analysed and evaluated by economic analyses alone (Bodmer and Vaughan 2009). Financial or political crisis may give rise to a low-probability situation with significant

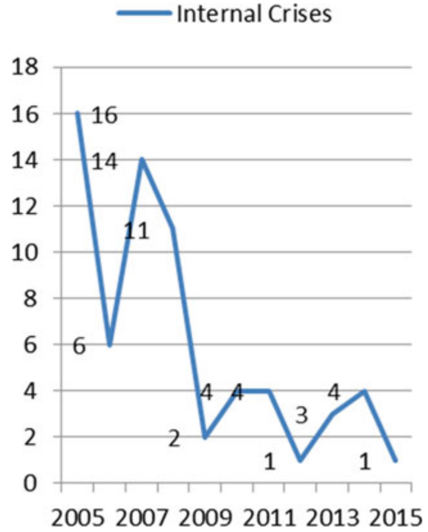

Fig. 1 Number of internal crises between 2005–2015

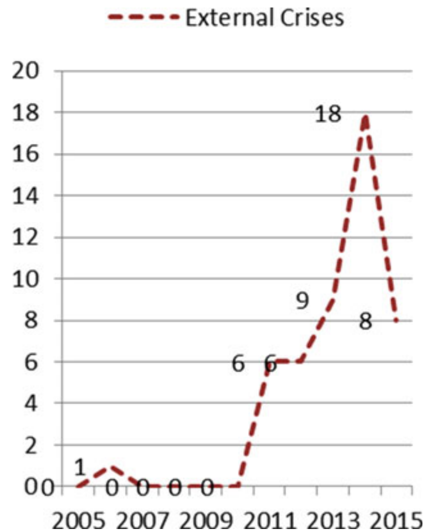

Fig. 2 Number of external crises between 2005–2015

consequences for the organization, a high degree of uncertainty and a sense of decision-making urgency (Pearson and Clair 1998).[7] It is believed that Lebanese family businesses, rather than being a money-generating activity or market-driven

[7]According to literature, the process of crisis management is characterized by three stages: crisis prevention, response and recovery (Hale et al. 2005; Elliott et al. 2005). If prevention crisis failed, managers seek to minimize its negative impact by putting more effort to develop decision-making capabilities and strategies (Kash and Darling 1998).

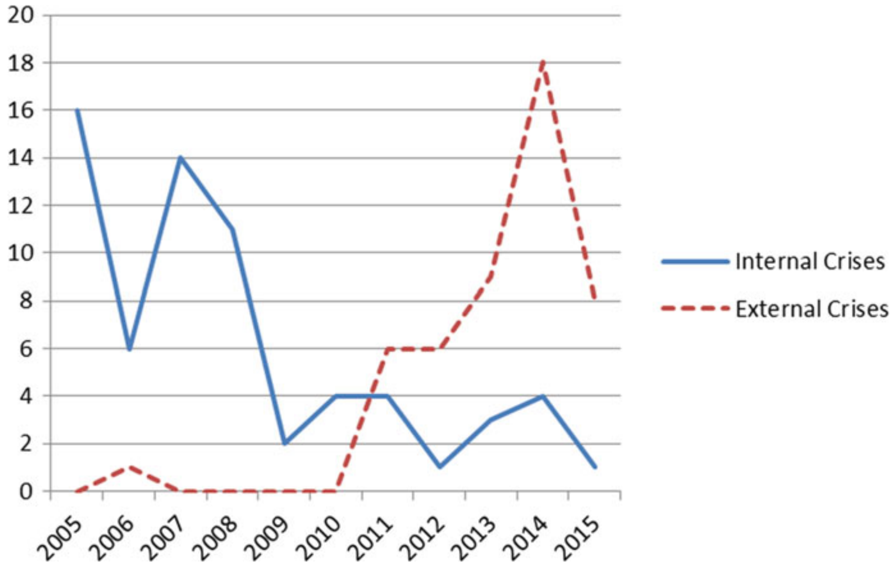

Fig. 3 Number of internal and external crises between 2005–2015

pursuit, are a way to increase a family's social standing (Fahed-Sreih and Djoundourian 2006, p. 206). They tend to exhibit perseverance despite the turmoil of any political crisis. They can survive in a crisis period, but they should have a detailed plan of action for the types of crisis that may occur because crisis recognition and management are not routine activities for family firms (Bodmer and Vaughan 2009). Consequently, thinking about how pioneer Lebanese family firms are managing the political crisis and the instability of the country can be considered an important contribution to literature.

3.1 The Bright Side of Family Firms

Family firms can survive during crises if the entrepreneur's decision-making has been improved by considering the interests of the family and other stakeholders at the early stage of a crisis (Bodmer and Vaughan 2009). With the power of family control, regulating committees like supervisory boards has an important role because it helps to mitigate crises by increasing the communication level with different stakeholders. During a period of environmental uncertainty, the family and business systems reinforce each other and strengthen the business for the benefit of all parties involved (Sirmon et al. 2008; Corbetta and Salvato 2004a; Anderson and Reeb 2003). Family firms can achieve their success due to their long-term orientation and their "familiness" (Habbershon and Williams 1999; Chrisman et al. 2003). They "invest for the future or undertake initiatives with significant

short-term costs", even during crisis (Miller and Le Breton-Miller 2006, p. 78). The absolute leadership and decision-making control afforded to a CEO-chair in family firms help to favourably position the business and ease its course during times of economic difficulties, particularly in recession time. What is good for the family may also be good for other stakeholders (Braun and Latham 2009).

Family firms place more weight on family and social ties, loyalty, trust and stability, which can increase goal congruence in crisis period (Corbetta and Salvato 2004b). However, the presence of a large block-holder in family firm can reduce opportunistic behaviours and enhance family firm's performance. Bloch et al. (2012) revealed that founding-family firms outperform during financial and economic shocks. Focusing on the Japanese case, Amann and Jaussaud (2012) argued that family firms achieve stronger resilience both during and after an economic crisis compared with nonfamily firms.[8] Relying on the Belgian case, Bauweraerts and Colot (2013) shed a new light on the performance of 108 pairs of large family and nonfamily firms during global crisis in 2008. They showed that family firms developed idiosyncrasies that made them more resilient than nonfamily firms.[9] Recently, Cater and Beal (2014) have validated the potential utility of a ripple effect model in providing evidence that family firms overcome external induced crisis using one or more of five strategic initiatives: strong networking relationships, idiosyncratic local knowledge, flexibility, rapid response and exercising trust with caution.

By referring to the Lebanese case, family firms had faced very critical moments over the last decade. However, and despite all the negative consequences driven from internal and external political crises, Lebanese family firms have demonstrated the ability to adapt to unstable environment. They have continued playing their economic role, by reducing the unemployment, and thus, influencing the diminution of the poverty level, reducing the Lebanese importations and increasing the Lebanese exportations. Family firms in Lebanon exhibit characteristics that bode well not only for their longevity and growth but also for the wealth and stability of the country (Fahed-Sreih et al. 2010). These findings were also

[8]Based on a sample of 98 pairs of family and nonfamily Japanese companies, they found that family firms resist the downturn better, recover faster and continue exhibiting higher performance and stronger financial structures during and after an economic crisis. Therefore, family businesses were able to recover better or more easily during economic downturn and persisted in their stronger performance.

[9]Their results suggest that family firms had strong indicators of resilience that took place when a firm showed absorption and renewal capacities. "Absorption capacity" implies that family firms have higher levels of self-funding. They accumulate more resources than their peers, and thus they have a stronger capacity to absorb shocks such as a financial downturn. "Renewal capacity" indicates that innovativeness makes the family firm more able to deal with changes induced by a crisis by having higher investment rates and adopting a proactive strategy regarding their innovation process. However, authors could not conclude that large family firms under- or outperformed their nonfamily peers during crisis due to insignificant outperformance of family firms.

supported by the study of Pistrui et al. (2006), which showed that the family plays a central role in venture development within severe socioeconomic chaos.[10]

3.2 The Dark Side of Family Firms

While several arguments from stewardship, agency or resource-based theories indicate that family firms outperform nonfamily firms in crisis period, some evidence showed different logic of thought. Lins et al. (2013) were the first to discover that family firms underperform significantly during crisis.[11] Young et al. (2008) also revealed that tension of conflict in family firms may heighten during economic crisis.[12] Recently, Huang et al. (2014) focused on family firms during political crisis. Their study showed that family firms or firms with high growth opportunities experienced larger declines in their stock prices and a longer sequential period of decline. Some empirical evidence about the Lebanese family firms supported those undesirable consequences. During 2012, the activity of Lebanese family firms was negatively affected especially in the real estate sector. According to Bank Audi Research, the activities in the Lebanese real estate sector slowed down in 2012 due to the ongoing domestic political trouble and regional instability.[13] Moreover, the violent spill over from neighbouring Syria led to a decline of the medical tourism in Lebanon.[14] Finally, all the Lebanese trading operations supported the consequences of Syrian security problems. Until 2015, the disruptions had impeded and delayed the implementation of economic and administrative reform strategies.

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[10]This positive role was valorized in 2013 by *Forbes* magazine with 17 Lebanese family firms placed between the 100 top companies that were making an impact in the Arab world. Lebanon had the third highest number of companies on the list behind the United Arab Emirates with 41 firms and Saudi Arabia with 23 companies.

[11]Based on a sample of more than 8500 firms from 35 countries, they found that investment cuts decisions in family firms are more frequent relative to other firms and are associated with greater underperformance. For the authors, family firms act more conservatively during crisis.

[12]They focused on the severity of principal-principal conflicts, which referred to conflicts between controlling shareholders and minority shareholders. Indeed, in public family firms where the founder is no longer involved, minority shareholders were expropriated by family shareholders who intended to maximize their personal wealth during disturbances period. The principal-principal conflict is thus more likely to occur in these situations and lead to an underperformance of family firms (Lemmon and Lins 2003; Lins et al. 2013).

[13]For the CEO of the family firm “Hayek Group”, “... the total value of real estate transactions growth decreased in January–April period, from 6.7% in 2011 to 4% in 2012. These percentages were very low in comparison with the 32% annual growth which has been recorded since 2005”.

[14]For Dr. Cherfan, General Manager of the family group “Beirut Eye Specialist Hospital”, “the situation is not very good and the figures are dropping. If tourists are not spending money and there is less money moving around the country, even the locals are going to begin spending less money. If potential patients can postpone their treatment, they will do so unless it is a serious problem”. For more information about the interview with Dr. Cherfan: http://www.macropolis.net/lebanon-interviews/page-5.htm

4 Financial Specificities of Family Firms

According to Allouche et al. (2008, p. 2), “in most countries in the world, family businesses account for a major share of business, employ a significant portion of total employees and record significant amounts of turnover, added value, investments, and accumulated capital”.

Numerous research revealed differences between family and nonfamily firms in terms of financial performance, investment strategies and capital structure (Kurashina 2003; Anderson and Reeb 2003; Allouche et al. 2008; El-Abiad 2009; El-Chaarani 2009, 2013; Gomez-Mejia et al. 2010). However, only a few research have explored these differences between family and nonfamily firms in critical situations. In the next development, we provide an overview of the broadly international accepted results that tend to illustrate the financial tendency of family firms during stability (Sect. 4.1) and throughout crises such as political ones (Sect. 4.2).

4.1 Financial Behaviour During Stability

Relying on agency theory (Berle and Means 1932; Jensen and Meckling 1976; Fama and Jensen 1983), family firms outperform nonfamily firms because they support less agency costs by minimizing the separation between management and ownership (El-Abiad 2009; El-Chaarani 2009, 2013). Many international empirical investigations have generally confirmed the superior performance of family firms (Monsen et al. 1968; Gallo and Vilaseca 1996; Anderson and Reeb 2003; Lee 2006; Maury 2006; Miller and Le Breton-Miller 2006; Villalonga and Amit 2006; Allouche et al. 2008; El-Abiad 2009; El-Chaarani 2009, 2013).

Based on stewardship theory (Davis et al. 1997; Miller and Le Breton-Miller 2009), the outperformance of family firms is due to the long-term orientation of family members.[15] Another explanation is provided by the neo-institutional perspective, where the performance of a family firm is viewed as a result of a set of values such as altruism (Van den Berghe and Carchon 2003) and trust (Chami 2001). Finally, family firms can find additional resources based on the “familiness” concept (Habbershon and Williams 1999). The intricate connections in family businesses can lead to increase efficiency and strengthen the potential competitive advantage of the firm.

[15]For Miller and Le Breton-Miller (2009), there are three types of stewardships. Firstly, they explained the stewardship over continuity by the desire of family members to guarantee the longevity of the company. Secondly, they considered that stewardship over employees means that family firms are interested in having a long-term relation with their employees. Thirdly, they regarded stewardship over customers as a main factor for the survival and the prosperous relation between family firms and their customers.

For other financial researchers, the outperformance of family firms is due to their investment strategies. For Abdellatif et al. (2010), the family firm's owners search to preserve their socioeconomic emotional wealth by avoiding diversification strategies, even if it confers some risk protection. Gomez-Mejia et al. (2010) suggest that on average family firms prefer to a lesser degree than nonfamily firms both domestic and international diversification. When diversification arises, family firms tend to opt for domestic rather than international diversification.

Alternatively, many findings suggest that the capital structure idiosyncrasy and especially a low debt ratio is one of the most valuable elements for family firm performance (Abdellatif et al. 2010; Ampenberger et al. 2011). For example, Abdul Hamid et al. (2015) have shown the tendency of family firms towards a low debt level during a stable environment. Moreover, they have demonstrated that debt ratio is negatively and significantly related to the profitability of family firms. Blanco-Mazagatos et al. (2007) revealed that family firms are considered different from nonfamily firms in terms of retained profits. For the authors, family firms have a low level of dividend payout, which can lead to an increase in the general financial performance.

4.2 Family Firms Alignment with Crises

The discussed literature confirms a privileged situation for family firms. Indeed, family ownership, control and involvement are supposed to enhance the consensus of better financial dimensions for family firms in a normal situation. But, in a particular situation, such as a period of crisis, the financial superiority of family firms still needs more analysis. According to the concept of organizational resilience (Horne and Orr 1998) and the resilient organizations characteristics (Coutu 2002), family firms are likely to be more resilient than other organizational forms. They are able to take transformative actions in the presence of unexpected events in order to secure their potential long-term survival (Lengnick-Hall and Beck 2009).

In previous literature, many developments treated the informal, the centralized and the quick decision-making processes (Morris et al. 1997; Ward 1997) as sources of competitive advantage of family firms. When changes in environment occur, family firms' leaders are free to make decisions more quickly as family firms are often less bureaucratic than nonfamily firms (Dreux 1990). Consequently, family firms are able to adopt fast alignment, by changing their classical behaviour in terms of diversification and capital structure decisions during crisis period. Motivated by their long-term orientations (Miller and Le Breton-Miller 2006) and their willingness to conserve the firm's future (Amann and Jaussaud 2012), the family firms have the courage to seek for new opportunities abroad and to conduct more research and development (Jorissen et al. 2005), even in a critical situation as

a political crisis period. In the case of Lebanon, many family firms have applied the development strategies during crises.[16]

Furthermore, family firms can adjust their classical attitude towards debt, from caution to acceptance during downturns (Amann and Jaussaud 2012), or political crises. Family firms are flexible enough to accept these changes in their traditional debt behaviour. In addition, they have more chance to increase the confidence of creditors in crisis period for two reasons: their long relationships (Menéndez-Requejo 2006) and their interests which are likely to be more aligned with the firm's objectives (Vaknin 2010).[17]

5 Research Design and Data Description

In order to capture the financial behaviour of the Lebanese family firms during political crises, the settings of the empirical study are defined in the methodology (Sect. 5.1), and the initial results are explored in the descriptive analyses (Sect. 5.2)

5.1 Methodology

The objective of this study is to explore the impact of political crises on the financial resistance and capacity of the Lebanese family firms. The design presented in Fig. 4 indicates the consideration of three main variables: financial performance, investment strategy and capital structure during two waves of internal (from 2005 till 2010) and external political crises (from 2011 till 2015).

The pairs' methodology has been used in this study to highlight the sensibility of different financial indicators for both family and nonfamily firms. The idea behind this approach is to match comparable pairs of family and nonfamily firms.[18] However, collecting data in developing countries such as Lebanon is one of the

[16]As Jacques SARRAF, CEO of Malia Group, said "[. . .] the situation in Lebanon is precarious at the moment [. . .]. The government institutions are not functioning properly [. . .], adding to this is the spillover from the Syrian situation, [. . .], whereby Lebanon is taking a hit [. . .]. To ensure our stability, we are trying to diversify our presence in countries not affected by the turmoil in the region".

[17]The CEO of Globex Logistics, Tarik Menhem, confirmed the importance of debts in critical situations. He said that, "[. . .] Lebanese banks have always been the principal supporter of our activities during bad time. [. . .] With their trust, we were able to continue to invest and to achieve our goals [. . .] even when the Lebanese political situation was turning more and more problematic". More information is provided by the following link: http://www.macropolis.net/Globex-logistics-in-business.htm

[18]This method was used by Allouche and Amann (2000), Allouche et al. (2008), El-Abiad (2009), El-Chaarani (2009) and Abdellatif et al. (2010).

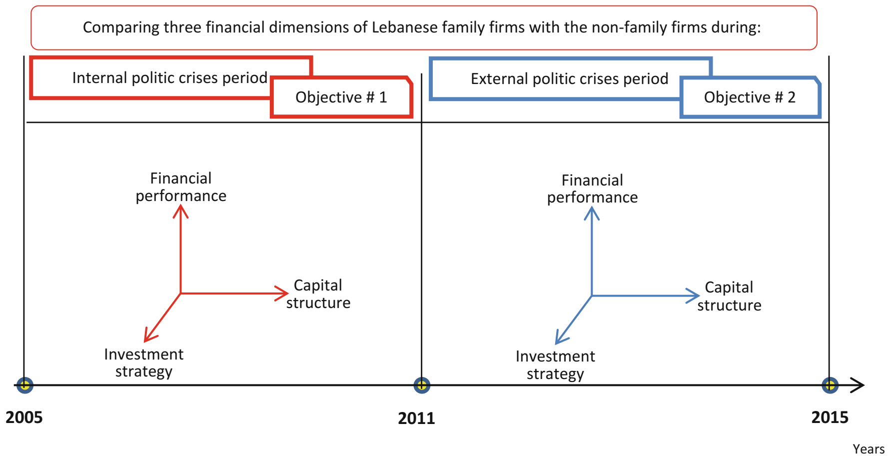

Fig. 4 Research goals

most important challenges to academic research. Unfortunately, Lebanon suffers from a massive lack of financial information related to Lebanese companies.

After many failed trials and accesses to secondary data, a collection of primary data began through 348 websites of Lebanese family firms. It was clear at this level that the Lebanese family firms are hesitant to reveal any details of their financial structures and their investment strategies.

To overcome this obstacle, 2656 e-mails were sent to Lebanese companies registered with identification number (IN) and electronic address at the chamber of commerce. Only 710 companies accepted to collaborate by sending their financial data and answering 12 questions concerning their business identity. From 710 Lebanese firms, 122 have been eliminated due to their specificities.[19] The sample is composed from the following sectors: construction, manufacturing, wineries, retails, pharmaceutical, IT, logistics and oil and gas companies (Table 3).

From Table 3, it is clear that Lebanese companies were strongly represented in retail (21.94%), construction (18.88%) and IT (17.63%) sectors. On the basis of the used definition of family firms,[20] 382 (65%) firms are considered as family firms, while 206 (35%) are considered as nonfamily firms. From 382 family firms, only

[19]Banks, insurance and other financial companies were discarded from the study due to their financial specificities.

[20]A Lebanese company is considered as a family firm when family members hold top management positions, such as chief executive officer, or sit on the board of directors and are among the main shareholders. This definition has already been used by Amann and Jaussaud (2012). It simplifies the selection of family firms by relying on the family member's involvement in top management position criteria.

Table 3 Industry types of sample firms

Economic sector	Number	%
Construction	111	18.88%
Manufacturing	62	10.54%
Wineries	5	0.85%
Retails	129	21.94%
Pharmaceutical	4	0.68%
IT	102	17.35%
Logistic	86	14.63%
Oil and gas	89	15.13%
Total	588	100%

Table 4 Number of pairs per industry

Economic sector	Number of pairs	%
Construction	43	27.92%
Manufacturing	7	4.55%
Wineries	1	0.65%
Retails	66	42.86%
Pharmaceutical	2	1.30%
IT	15	9.74%
Logistic	11	7.14%
Oil and gas	9	5.84%
Total	154	100%

154 companies were designated as pairs with nonfamily firms based on their industry and size[21] (Table 4).

It appears from Table 4 that the final studied sample is dominated by family and nonfamily firms operating in retails (42.86%) and construction (27.92%) sectors. Other sectors represent only 29.22%.

To achieve the objectives of this study, financial performance, capital structure and investment strategy variables were selected on the basis of several previous studies. The financial performance of family and nonfamily firms was measured by referring to three performance indicators: the return on equity (ROE), the return on assets (ROA) and the return on investments (ROI). The capital structure was tested by three variables: total debt (TD),[22] short-term debt (STD) and long-term debt

[21]The companies in the same sector were considered as similar in size if their sales were within 20% of each other. The economic sector was measured by the type of activity, and firm size was identified by the natural logarithm of a firm's sales.

[22]The total debt ratio used to measure the firm's capital structure was not enough to represent it sufficiently (Abor 2005). By using only total debt ratio, conclusions about capital structure could be incorrect (Shubita and Alsawalhah 2012; Abdul Hamid et al. 2015).

Table 5 Research variables

	Variables	Formulas
Performance	Return on equity (ROE)	= Net income/equity
	Return on assets (ROA)	= Net income/total assets
	Return on investment (ROI)	= Operating income/capital employed
Capital structure	Total debt ratio (TD)	= Total debt/total assets
	Short-term debt (STD)	= Short term/total assets
	Long-term debt (LTD)	= Long term/total assets
Investment strategy	Capital expenditure to fixed assets (CEFA)	= Capital expenditure/fixed assets
	Capital expenditure to total assets (CETA)	= Capital expenditure/total assets
	International diversification (ID)	= Volume of foreign sales/total sales

(LTD) ratios.[23] Finally, the potential willingness of Lebanese family firm to adopt diversification strategies was measured by two ratios: capital expenditure to fixed assets (CEFA) and capital expenditure to total assets (CETA). The type of diversification, whether it is national or international, was tested by a third ratio (international diversification: ID), which was the foreign sales volume ratio. In total, nine variables were selected for the empirical study (Table 5).

5.2 *Descriptive Analyses*

To understand the nature of the relation between the study variables, the Pearson correlation test was used to detect any significant correlation between performance, capital structure and investment strategy variables for family firms during internal and external political crises (Tables 6 and 7).

The results reflect that the capital structure of family firms has a significant correlation with their performance. During internal and external political crises, the total debt (TD) and the long-term debt (LTD) ratios are positively and significantly correlated with ROE, ROA and ROI.

The short-term debt (STD) ratio is significantly and negatively correlated with the performance variables [for internal crises, ROE ($r = -0.068$), ROA ($r = -0.041$), ROI ($r = -0.005$); for external crises, ROE ($r = -0.166$), ROA ($r = -0.153$), ROI ($r = -0.099$)]. Long-term debts present more advantage for family firms than short-term debts.

[23]The combination of the three capital structure variables was applied in Serrasqueiro et al. (2011), Shubita and Alsawalhah (2012) and Abdul Hamid et al. (2015) research.

Table 6 Correlation matrix (internal political crises)

	ROE (return on equity)	ROA (return on assets)	ROI (return on investment)	TD (total debt)	STD (short-term debt)	LTD (long-term debt)	CEFA (capital expenditure to fixed assets)	CETA (capital expenditure to total assets)	ID (international diversification)
ROE	1								
ROA	0.117 0.001 ***	1							
ROI	0.189 0.000 ***	0.165 0.000 ***	1						
TD	0.023 0.093 *	0.107 0.036 **	0.099 0.022 **	1					
STD	−0.068 0.081 *	−0.041 0.079 *	−0.005 0.064 *	0.214 0.000 ***	1				
LTD	0.109 0.000 ***	0.152 0.001 ***	0.101 0.000 ***	0.298 0.000 ***	0.022 0.059 *	1			
CEFA	0.164 0.001 ***	0.192 0.000 ***	0.213 0.000 ***	0.162 0.000 ***	0.039 0.114	0.345 0.000 ***	1		
CETA	0.105 0.000 ***	0.184 0.000 ***	0.206 0.000 ***	0.136 0.000 ***	0.044 0.158	0.312 0.000 ***	0.236 0.000 ***	1	
ID	0.144 0.001 ***	0.096 0.045 **	0.111 0.020 **	0.116 0.067 *	0.042 0.058 *	0.190 0.073 *	0.094 0.006 **	0.085 0.035 **	1

P values: ***, **, * statistical significance, respectively, at 1%, 5% and 10%

Table 7 Correlation matrix (external political crises)

	ROE (return on equity)	ROA (return on assets)	ROI (return on investment)	TD (total debt)	STD (short-term debt)	LTD (long-term debt)	CEFA (capital expenditure to fixed assets)	CETA (capital expenditure to total assets)	ID (international diversification)
ROE	1								
ROA	0.123 0.000 ***	1							
ROI	0.146 0.000 ***	0.138 0.000 ***	1						
TD	0.066 0.041 **	0.135 0.036 **	0.102 0.045 **	1					
STD	−0.166 0.001 ***	−0.153 0.009 **	−0.099 0.031 **	0.062 0.020 **	1				
LTD	0.124 0.000 ***	0.183 0.001 ***	0.133 0.000 ***	0.338 0.000 ***	−0.099 0.003 **	1			
CEFA	0.188 0.001 ***	0.235 0.000 ***	0.373 0.000 ***	0.202 0.000 ***	0.003 0.128	0.442 0.000 ***	1		
CETA	0.174 0.000 ***	0.229 0.000 ***	0.287 0.000 ***	0.211 0.000 ***	0.011 0.181	0.432 0.000 ***	0.260 0.000 ***	1	
ID	0.256 0.000 ***	0.116 0.001 ***	0.207 0.000 ***	0.189 0.000 ***	0.025 0.060 *	0.202 0.045 **	0.103 0.001 ***	0.121 0.005 **	1

P values: ***, **, * statistical significance, respectively, at 1%, 5% and 10%

The investment strategy presents a significant positive correlation with the performance of family firms and their long-term debt ratio. CEFA, CETA and ID ratios are significantly and positively correlated with ROE, ROA, ROI and LTD. Family firms depend on long-term debt to finance their investment activities and consequently increase firm performance. The intensity of the correlation becomes stronger in Table 7 (CEFA: $r_{\text{internal}} = 0.345$, $r_{\text{external}} = 0.442$; CETA: $r_{\text{internal}} = 0.312$, $r_{\text{external}} = 0.432$), which indicates that family firms rely deeply on debt to overcome the economic situation during external crisis. However, the contribution of short-term debt to the investment strategy is mitigated. During internal and external political crises, positive correlations between short-term debt (STD) and capital expenditure to fixed assets (CEFA) and between short-term debt (STD) and capital expenditure to total assets (CETA) are both non-significant. But, the correlation between short-term debt (STD) and international diversification (ID) is significant at 10% threshold.

6 Empirical Findings

The research findings and analysis cover two periods representing the internal (dated from 2005 till 2010) and the external political crises (dated from 2011 till 2015). The average of each variable was calculated separately during each type of crisis for the pairs of family and nonfamily firms. T-test was used to examine the different significance of averages between pairs, consecutively at 1%, 5% and 10% threshold.

6.1 Results During Internal Crises

The performance metrics (ROE, ROA and ROI) results indicate that family firms had a greater performance than nonfamily firms during internal political crises period (Table 8).

The performance differences between family and nonfamily firms are significant at 1% threshold. However, only the ROA is significantly different at 5%. This result reveals that family owners use all the potential sources of competitive advantages (Habbershon and Williams 1999) to secure and improve the performance of their

Table 8 Performance of family and nonfamily firms during internal crises

From 2005 till 2010 (average)						
Indicators	Number of pairs	Nonfamily firms	Family firms	Diff.	Sig.	% of pairs in favour of family firms
ROA (return on assets)	870	0.968	1.196	0.228	0.024**	64.67%
ROE (return on equity)	852	0.893	2.187	1.294	0.000***	69.86%
ROI (return on investment)	846	0.915	1.893	0.978	0.000***	59.31%

P values: ***, **, * statistical significance, respectively, at 1%, 5% and 10%

company during internal political crises. They use their particularly strong connections with external stakeholders (Miller and Le Breton-Miller 2006), and they think more creatively than nonfamily managers because they are more identified to their business (Pervin 1997). Also, they benefit from the blending of management and ownership to make quick decision when required (Ward 1997).

Family firms are able to take advantage of new opportunities due to centralized and informal decision-making processes (Morris et al. 1997) to resolve problems more quickly than nonfamily firms (Intihar and Pollack 2012). These results were confirmed by Bjuggren and Sund (2004) who revealed that family firms develop idiosyncratic knowledge that improves their performance in critical periods. Facing a crisis, family firms are pragmatic and optimistic. Those which survive have potentially the ability to use any tools or materials to create a solution (Amann and Jaussaud 2012). Their long-term goal orientation helps them to favourably position the firm for eventual crisis recovery (Michael and Lathman 2009, 2011). Richardson et al. (1998, p. 46) also explained that, "In times of economic hardship [. . .] families will be particularly vulnerable to clashes between business and family goals". Based on agency theory applied in time of political crises, family firms will search to preserve their wealth and security in businesses in such difficult times. The principal-principal conflicts tension between controlling and minority shareholders may heighten during times of crises in nonfamily firms compared to family firms (Young et al. 2008). In result, family firms outperform during periods of crises because they support less agency costs from such conflicts.

For the capital structure dimension, the results in Table 9 demonstrate that family firms rely on debt as a principal financial resource approximately as much as nonfamily firms.

The averages of debt ratios (TD, STD and LTD), shown above in Table 9, indicate that family firms are flexible enough to change their traditional conservative attitudes towards debt. The Lebanese family firms renounce their classical debt-related behaviour and accept having the same total debt level as nonfamily firms. At this level, their public relation capital with bank managers and owners is used as a tool to facilitate the credits acceptance. The Lebanese family firms are considered flexible enough to capture the creditor's confidence during period of internal political crises due to their objectives of stability and good reputation. The

Table 9 Capital structure of family and nonfamily firms during internal crises

From 2005 till 2010 (average)						
Indicators	Number of pairs	Nonfamily firms	Family firms	Diff.	Sig.	% of pairs in favour of family firms
TD (total debt)	870	66.931	67.029	0.098	0.015**	50.73%
STD (short-term debt)	852	50.659	40.973	9.686	0.061*	37.22%
LTD (long-term debt)	846	16.272	26.056	9.784	0.000***	61.67%

P values: ***, **, * statistical significance, respectively, at 1%, 5% and 10%

flexibility of family firms was revealed in two previous studies. Menéndez-Requejo (2006) considered that Spanish family firms had used their flexibility to maintain their strong relationship with creditors. Amann and Jaussaud (2012) explained that Japanese family firms had been able to switch from caution to preference attitude towards debt in presence of crises.

The comparison between (STD) and (LTD) ratios illustrates that family firms have a greater average of long-term debt and a lower average of short-term debt during internal political crises period. This result has been confirmed by Colot and Croquet (2006), who indicated that family firms easily obtain long-term debt. In contrast to nonfamily firms, these results indicate that family firms are more able to use the long-term debt. For Serrasqueiro et al. (2011), the information asymmetry between creditors and nonfamily firms' managers is the main purpose that leads to minimizing the term of debt ratio. Blanco-Mazagatos et al. (2007) have confirmed these findings during the internal political conflict in Spain, when they revealed that the ratio of long-term to short-term debts was at a higher level for family firms compared to nonfamily firms. Finally, Table 10 presents the ability of Lebanese family firms to invest during internal political crises compared with nonfamily firms. Based on three main ratios (CEFA), (CETA) and (ID), the results show that family firms preserve a dynamic investment strategy even in periods of internal troubles.

The capital expenditure to fixed assets (CEFA) and the capital expenditure to total assets (CETA) ratios reflect a higher mobilization of funds to acquire more assets in family firms. The differences, which are all significant at the 5% level, indicate the determination of Lebanese family firms to maintain the exploration of new opportunities. The Lebanese family firms have a strong willingness to secure their financial stability. Their overinvestment level explains their needs for more long-term debt, which can be seen by the positive and significant correlation at the 1% threshold between (LTD,CEFA) and (LTD,CETA) ratios in Table 6 [$corr_{(LTD,CEFA)} = 0.345$; $corr_{(LTD,CETA)} = 0.312$]. LTD ratio, which has also provided a positive and significant correlation at the 1% threshold with performance ratios in Table 6 [$corr_{(LTD,ROE)} = 0.109$; $corr_{(LTD,ROA)} = 0.152$;

Table 10 Investment strategies of family and nonfamily firms during internal crises

From 2005 till 2010 (average)						
Indicators	Number of pairs	Nonfamily firms	Family firms	Diff.	Sig.	% of pairs in favour of family firms
CEFA (capital expenditure to fixed assets)	864	3.491	6.272	2.781	0.044**	60.12%
CETA (capital expenditure to total assets)	864	1.956	3.638	1.682	0.036**	59.45%
ID (international diversification)	816	8.701	12.816	4.115	0.000***	58.67%

P values: ***, **, * statistical significance, respectively, at 1%, 5% and 10%

$corr_{(LTD,ROI)} = 0.101$)], indicates that long-term debts used to finance profitable investment project have contributed to the performance of family firms. The average of international diversification (ID) ratio differs significantly at the 1% threshold. It indicates that family firms take the lead in overseas markets more than nonfamily firms. In response with the internal political uncertainty, they undertake initiatives to guarantee their total sales level by seeking for foreign opportunities.

Previous academic research has illustrated similar results. Amann and Jaussaud (2012) found that family firms adopt long-term orientations during crises. Gomez-Mejia et al. (2010) demonstrated that family firms diversified their activities with an increase in business risk. Bauweraerts and Colot (2013) detected a higher investment rates for family firms during crises periods. Jorissen et al. (2005) reflected the courage of family firms to conduct more development strategies in critical situations.

6.2 Alternative Results During External Crises

To accomplish this goal of considering the impact of external political crises on the financial behaviour of Lebanese family firms, the differences in performance (Table 11), capital structure (Table 12) and investment strategy (Table 13) are again calculated and tested for 5 years (from 2011 till 2015).

Table 11 Performance of family and nonfamily firms during external crises

From 2011 till 2015 (average)						
Indicators	Number of pairs	Nonfamily firms	Family firms	Diff.	Sig.	% of pairs in favour of family firms
ROA (return on assets)	715	0.657	1.105	0.448	0.044**	69.96%
ROE (return on equity)	710	0.555	1.994	1.439	0.009***	66.56%
ROI (return on investment)	720	0.404	1.439	1.035	0.002***	74.88%

P values: ***, **, * statistical significance at 1%, 5% and 10%

Table 12 Capital structure of family and nonfamily firms during external crises

From 2011 till 2015 (average)						
Indicators	Number of pairs	Nonfamily firms	Family firms	Diff.	Sig.	% of pairs in favour of family firms
TD (total debt)	725	68.163	70.254	2.091	0.026**	52.89%
STD (short-term debt)	720	55.759	38.693	17.066	0.041**	33.75%
LTD (long-term debt)	710	12.404	31.561	19.157	0.000***	68.42%

P values: ***, **, * statistical significance at 1%, 5% and 10%

Table 13 Investment strategies of family and nonfamily firms during external crises

From 2011 till 2015 (average)						
Indicators	Number of pairs	Nonfamily firms	Family firms	Diff.	Sig.	% of pairs in favour of family firms
CEFA (capital expenditure to fixed assets)	715	2.829	8.681	5.852	0.033**	64.88%
CETA (capital expenditure to total assets)	715	0.974	5.337	4.363	0.079*	60.17%
ID (international diversification)	670	8.408	16.552	8.144	0.025**	59.46%

P values: ***, **, * statistical significance at 1%, 5% and 10%

From 2011 till 2015, the Lebanese family firms outperform the nonfamily firms. Based on a sufficient number of pairs, all the performance measures (ROA, ROE and ROI) indicate that family firms have the needed capacity to manage their continuity during external political crises. In family firms, leaders are personally identified with the company. Their principal objective is to ensure the continuity of their businesses for their entire lives. The failure of their firms is rejected, because it implies serious personal as well as career implications. Family firms' owners are primarily accountable to themselves and their families, while nonfamily managers are accountable to the stockholders of the corporation (Cater and Justis 2009).

In line with these results, Braun and Latham (2009) considered that the absolute leadership and decision-making control in family firms help to favourably position the business and facilitate management's reaction in difficult time. They suggest that the CEO duality in family firms speeds their performance recovery in economic recession. However, for managers in charge of nonfamily firms experiencing the same difficulties, appeasing different stakeholder demands can be an increasingly hard task. Cater and Beal (2014) confirmed that an externally induced crisis leads to generate a competitive advantage that enhances the family firm's performance. It reflects the ability of family firms to mobilize their resources to absorb external political crises and ensure their long-term stability. The reason, as previously stated during the internal political crises, is related to family firms' investment and financial strategies.[24]

The comparison between the observed data in Tables 8 and 11 shows that the performance differences between family and nonfamily firms grow up with the spill

[24]These results are supported in Table 7. ROE, ROA and ROI are significantly and positively correlated with total debt ratio ($corr_{(ROE,TD)} = 0.066$, $corr_{(ROA,TD)} = 0.135$, $corr_{(ROI,TD)} = 0.102$) and long-term debt ratio ($corr_{(ROE,LTD)} = 0.124$, $corr_{(ROA,LTD)} = 0.183$, $corr_{(ROI,LTD)} = 0.133$).

They show also positive and significant correlations with investment strategy variables ($corr_{(ROE,CEFA)} = 0.188$, $corr_{(ROA,CEFA)} = 0.235$, $corr_{(ROI,CEFA)} = 0.373$, $corr_{(ROE,CETA)} = 0.174$, $corr_{(ROA,CETA)} = 0.229$, $corr_{(ROI,CETA)} = 0.287$ and $corr_{(ROE,ID)} = 0.256$, $corr_{(ROA,ID)} = 0.116$, $corr_{(ROI,ID)} = 0.207$).

over of external political crises. ROA, ROE and ROI difference values are, respectively, 0.448, 1.439 and 1.035 with a stronger significance threshold level during external political crises, while these values were, respectively, 0.228, 1.294 and 0.978 during internal political crises.

As for the capital structure dimension during external political crises, the findings of Table 12 show that the family firms are still relying on debts ($TD_{F.F} = 70.254$), and they are more able to use long-term debts ($LTD_{F.F} = 31.561$) than their counterparts ($LTD_{N.F.F} = 12.404$).

By using their public relations with banks and financial institutions, family business owners are more capable than nonfamily firms' managers to reach their long-term debt ratio (Serrasqueiro et al. 2011) in order to mitigate their corporate financing needs with lower liquidity risk. In the Lebanese family firm case, the long-term debt shows a positive and significant correlation with investment strategy ratios during external political crises [Table 7, $corr_{(LTD,CEFA)} = 0.442$; $corr_{(LTD,CETA)} = 0.432$; $corr_{(LTD,ID)} = 0.202$]. It reflects that family firms prefer to finance long-term investments and maintain firm control instead of opening their family capital to external investors during external crises. This result is confirmed by Setia-Atmaja et al. (2009)[25] and Setia-Atmaja (2010) who found that Australian family-controlled firms employ higher debt levels, compared to nonfamily firms. According to Romano et al. (2000),[26] the pecking order theory (Myers and Majluf 1984) provides useful explanations for family firms' financing preferences. By applying this approach during the context of external political crises, family firms are seen as following a hierarchical sequence while selecting their financial resources to minimize the costs of financing. Initially, they prefer the internal financing, leaving the use of new debt in case of lack in internal funds. At this level, family firms start by using debt and keep issuing new shares as a final choice.

Table 12 results also show that nonfamily firms have more tendencies to use short-term debts ($STD = 55.759$) than family firms ($STD = 38.693$). Indeed, family firms avoid choosing short-term debt while they benefit from the opportunity to have long-term debt in case of financial needs.[27] In nonfamily owned firms, a short-term vision may explain why managers use short-term debts with high-interest rate during emergency situation as a contingency plan. At this level, banks also are not capable of taking a high risk, and they prefer to provide short-term loans for nonfamily firms.

Finally, the implications of external political crisis on family firm's investment strategy are tested in Table 13. According to the observed results, Lebanese family

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[25]Sampling Australian firms between 2000 and 2005, Setia-Atmaja et al. (2009) showed that family firms used their higher dividend payout and debts ratios as substitutes for independent directors.

[26]The results of Romano et al. (2000) revealed that debts in small family firms are related with firm size, family control, business planning and objectives.

[27]The positive correlations between short-term debt and investment strategy ratios in Table 7 are non-significant [$corr_{(STD,CEFA)} = 0.003$; $corr_{(STD,CETA)} = 0.011$; $corr_{(STD,ID)} = 0.025$].

firms invest more than their counterparts and maintain a greater determination to explore new investments during external political crises.

The differences of CEFA and CETA ratios between family and nonfamily firms are significant, respectively, at the 5% and 10% threshold. The difference in ID ratio between family firms and their counterparts is also significant at 5%. In opposition to their counterparts, family firms are more willing to diversify as business risk increases (Gomez-Mejia et al. 2010), by selecting long-term investment horizons (Amann and Jaussaud 2012). In the same line, Svalland and Vangstein (2009) found that family firm managers use the economies of the agency costs to increase their long-term investment. Amann and Jaussaud (2012) illustrated that family firms are keen to explore opportunities abroad more than nonfamily firms in a crisis period. The comparison between Tables 10 and 13 indicates that family firms overinvest during external political crises more than during internal political crises. The differences in CEFA, CETA and ID ratios between family and nonfamily firms have increased, respectively, from 2.781, 1.682 and 4.115 during internal political crises to 5.852, 4.363 and 8.114 during external political crises. It seems that managers in nonfamily firms have financial barriers because they have fears from long-term investment during external political crises,[28] and they are also afraid to seek for international investment opportunities.[29]

7 Conclusion

Over the last decade, the Lebanese economic and political situation has faced many challenges related to internal and external political crises. Since February 14, 2005, the day of PM R. Hariri's assassination until the spill over of the Syrian civil war on Lebanese stability in 2010, Lebanon was mainly influenced by internal political crises. From 2011 till 2015, the country was under the tension of external political crises triggered by the Syrian civil war.

During this critical period, the Lebanese family firms have been able to survive due to their continuous activities despite the unsuitable context. For this reason, the purpose of this study is to discover, understand and analyse the impact of internal and external political crises on the financial resistance and capacity of the Lebanese family firms measured by three main variables: financial performance, capital structure and investment strategy.

By relying on 154 pairs of family and nonfamily firms to highlight the sensibility of different financial indicators with internal and external political crises, the results indicate that family firms have a higher financial resistance than their counterparts.

[28] $CEFA_{(N.F.F)Int} = 3.491$ while $CEFA_{(N.F.F)Ext} = 2.829$ and $CETA_{(N.F.F)Int} = 1.956$ while $CETA_{(N.F.F)Ext} = 0.974$.

[29] The ID ratio for family firms has increased from 12.816 during internal political crises to 16.552, while its value has remained approximately unchanged for nonfamily firms.

Lebanese family firms outperform their nonfamily counterparts during internal and external political crises. They mobilize all the potential sources of competitive advantages by using their strong connections with external stakeholders and taking advantage of the blending of management and ownership to make a quick decision. In the presence of external political crises, family firms think more creatively to secure and improve their situation. The differences between their performance and the performance of nonfamily firms increase with the spill over of external political crises. These results have been confirmed by Bjuggren and Sund (2004), Braun and Latham (2009) and Cater and Beal (2014).

The financial behaviour and the capital structure tendency of family firms are the same during internal and external political crises. They use debts with more preference for long-term loans, to maintain their control over their business. This result comes in line with Pindado and Torre (2008), Setia-Atmaja et al. (2009) and Setia-Atmaja (2010) findings, in which family firms had shown higher debt levels, compared to nonfamily firms. However, it comes in contradiction with Sonnenfeld and Spence (1989), Gallo and Vilaseca (1996) and Mishra and McConaughy (1999) results, which revealed that family firms use less debt, because they are afraid of losing their family's reputation and personal guarantees in case of loan failure.

The results show that Lebanese family firms preserve a dynamic investment strategy even in periods of internal and external political troubles. They demonstrate the strong will of Lebanese family firms to maintain the exploration of new opportunities to secure their stability during a period of political crisis. They also make evident that family firms take the lead in overseas markets more than nonfamily firms, and they overinvest during external political crises more than internal political crises. A similar investment strategy adopted by family firms during crises was also illustrated by Jorissen et al. (2005), Gomez-Mejia et al. (2010), Amann and Jaussaud (2012) and Bauweraerts and Colot (2013).

The current results are exploratory due to the limitations of this research. The first limitation is associated with the choice of the sample, which is composed of small- and medium-sized companies. It is therefore necessary to think about this limitation while considering the generalization of the explored results to other family firms during political crises. The second limitation is related to the applied methodology, which is based only on a quantitative approach. A qualitative approach based on interviews with managers would provide a better understanding of family firms' behaviours during crises. The third limitation is linked to the concentration of this research on Lebanese family firms. Our findings are important, but they could be developed in other contexts, within and outside the Arab region.

Appendix

Table of Lebanese political troubles from 2005 till 2015

Year	Incidents	Classifications
2005	Assassination of Prime Minister Rafic Hariri, with the former Minister of the Economy Bassel Fleihan (Beirut)	Bombings, assassinations and violence
	Assassination of Samir Kassir, an anti-Syrian journalist (Beirut)	Bombings, assassinations and violence
	Assassination of George Hawi, the former Lebanese Communist Party leader (Beirut)	Bombings, assassinations and violence
	Assassination of Gebran Tueni, an anti-Syrian journalist and lawmaker (Mkalles, Beirut)	Bombings, assassinations and violence
	Assassination attempt on Elias Murr, the outgoing Lebanese Defence Minister (Antelias, Beirut)	Bombings, assassinations and violence
	Assassination attempt on May Chidiac, an anti-Syrian journalist (Jounieh)	Bombings, assassinations and violence
	Bombing in New Jdeideh (commercial/residential area in Beirut)	Bombings, assassinations and violence
	Bombing in Kaslik (commercial area in Jounieh)	Bombings, assassinations and violence
	Bombing in Sad el-Bauchrieh (industrial area in Beirut)	Bombings, assassinations and violence
	Bombing in Broummana (touristic area in east of Beirut)	Bombings, assassinations and violence
	Bombing in Jounieh (residential area between Sawt-al Mahaba radio station and Mar Yuhanna church in Jounieh)	Bombings, assassinations and violence
	Bombing in Monot (touristic area in Beirut)	Bombings, assassinations and violence
	Bombing in Zalka (commercial area in Beirut)	Bombings, assassinations and violence
	Bombing in Geitawi (residential area in Ashrafieh, Beirut)	Bombings, assassinations and violence
	Resignation of Prime Minister Omar Karami's cabinet	Governance crisis
	Cedar Revolution (withdrawal of Syrian armed forces from Lebanon)	Governance crisis
2006	Assassination of Mahmoud al-Majzoub, the leader of the Palestinian Islamic Jihad in Sidon (South Lebanon)	Bombings, assassinations and violence
	Assassination of Pierre Gemayel, an anti-Syrian member of parliament and Minister of Industry (Beirut)	Bombings, assassinations and violence
	Assassination attempt on Samir Shehadeh, officer internal security forces (Beirut)	Bombings, assassinations and violence
	Protests outside the Danish embassy turn violent	Bombings, assassinations and violence
	July War	War
	Political crisis triggered by disagreements over the establishment of the Special Tribunal for Lebanon	Governance crisis
	Six Ministers from the Hezbollah-led opposition resigned from the Cabinet, over plans to set up the tribunal	Governance crisis

(continued)

Year	Incidents	Classifications
2007	Assassination of Walid Eido, an anti-Syrian member of parliament (Beirut)	Bombings, assassinations and violence
	Assassination of Antoine Ghanem, an anti-Syrian member of parliament (Beirut)	Bombings, assassinations and violence
	Assassination of François al-Hajj, the Brigadier General in Baabda (Beirut)	Bombings, assassinations and violence
	Bombing in Ain Alaq (Mont-Liban)	Bombings, assassinations and violence
	Bombing against UNIFIL troops in Marjayoun (South Lebanon)	Bombings, assassinations and violence
	Bombing in Aley (touristic area, Mont-Liban)	Bombings, assassinations and violence
	Bombing in Bikfaya (touristic area, Mont-Liban)	Bombings, assassinations and violence
	Bombing in near the ABC mall in Ashrafieh (Beirut)	Bombings, assassinations and violence
	Bombing in Verdun (residential area, Beirut)	Bombings, assassinations and violence
	Clashes in Beirut Arab University (Beirut)	Bombings, assassinations and violence
	Nahr al-Bared War (Fatah al Islam)	War
	Lebanese politicians were unable to agree on a successor to President Emile Lahoud, presidential vacuum	Governance crisis
	The parliament remained closed. Hundreds of opposition demonstrators camped out in central Beirut	Governance crisis
	President Lahoud's term ends without a successor	Governance crisis
2008	Assassination of Wissam Eid, Lebanese Internal Security Forces senior terrorism investigator (Beirut)	Bombings, assassinations and violence
	Assassination of Saleh Aridi, a pro-Syrian Druze politician of the Lebanese Democratic Party (Aley, Mont-Liban)	Bombings, assassinations and violence
	Bombing in US diplomatic vehicle (Beirut)	Bombings, assassinations and violence
	Bombing targeting Lebanese soldiers in a civilian bus in Tripoli (North Lebanon)	Bombings, assassinations and violence
	Second bombing targeting Lebanese soldiers in a civilian bus in Tripoli (North Lebanon)	Bombings, assassinations and violence
	Armed clashes in Beirut	Bombings, assassinations and violence
	Armed clashes in Tripoli (North Lebanon)	Bombings, assassinations and violence
	West Beirut May 2008 violence	Bombings, assassinations and violence
	Lebanese politicians were unable to agree on a successor to President Emile Lahoud	Governance crisis
	Tensions were further increased by assassination of the Hezbollah's second in command, Imad Mugniyah, in a car bomb in Damascus	Governance crisis

(continued)

Year	Incidents	Classifications
	Political paralysis between the "Cedar Revolution" government and the parliamentary majority with the Hezbollah-led opposition culminates in May violence	Governance crisis
2009	Assassination of Kamal Naji, the deputy representative of the Palestinian Liberation Organization (PLO) in Lebanon and a former Fatah intelligence chief (Sidon, South Lebanon)	Bombings, assassinations and violence
	Fighting in Beirut between Amal and Future supporters	Bombings, assassinations and violence
2010	Bombing in a building in Shehabiyeh (South Lebanon)	Bombings, assassinations and violence
	Clashes between Lebanese civilian and UNIFIL troops (South Lebanon)	Bombings, assassinations and violence
	Clashes in Bourj Abi Haidar (Beirut)	Bombings, assassinations and violence
	Political bickering over the Special Tribunal for Lebanon	Governance crisis
2011	A bomb went off in north Beirut suburb, killing two people and damaging several cars	Bombings, assassinations and violence
	Tension in the heavily guarded Roumieh prison in the east of Beirut	Bombings, assassinations and violence
	A police intelligence officer and a main suspect in Estonian cyclists were killed in a shootout in Majdal Anjar	Bombings, assassinations and violence
	Bombing against UNIFUL (South Lebanon)	Bombings, assassinations and violence
	Second bombing against UNIFUL (South Lebanon)	Bombings, assassinations and violence
	Third bombing against UNIFUL (South Lebanon)	Bombings, assassinations and violence
	March 8 and March 14 were deadlocked over the issue of the Special Tribunal for Lebanon. Media reports have indicated the tribunal would indict the role of Hezbollah members. Saad Hariri's government fell on Wednesday January 12, when 11 ministers, most from Hezbollah, resigned.	Governance crisis
	Interpol issued its highest level international alerts against Hezbollah	Governance crisis
	The UN called on Damascus to end its incursions into Lebanon	Governance crisis
	Lebanon's Prime Minister Najib Mikati threatened to resign because of the tension with Hezbollah after his involvement in the Syrian civil war	Governance crisis
2012	Assassination of Wissam al-Hassan, head of the intelligence branch of the Internal Security Forces (ISF) in Ashrafieh (Beirut)	Bombings, assassinations and violence
	The spill of the Syrian's civil war to Lebanon with deadly clashes between Sunni Muslims and Alawites in Tripoli and Beirut	Bombings, assassinations and violence

(continued)

Year	Incidents	Classifications
	March 14 alliance accused the March 8 alliance of trying to drag Lebanon into the Syrian civil war	Governance crisis
	Members of March 14 parties demand the expulsion of the Syrian Ambassador	Governance crisis
	Tension between parliament members regarding the spill over effects of the Syrian civil war and allegations of arms smuggling	Governance crisis
	The Syrian refugees problem increases the tension between March 14 and March 8 parties	Governance crisis
	Hezbollah was accused of dragging Lebanon into the Syrian civil war	Governance crisis
2013	Bombing in Bir el-Abed, a popular Beirut street associated with Hezbollah (South Beirut)	Bombings, assassinations and violence
	Bombing in Roueiss, a Hezbollah stronghold (South Beirut)	Bombings, assassinations and violence
	Dual bombings targeting Al-Taqwa and Al-Salam mosques in Tripoli (North Lebanon)	Bombings, assassinations and violence
	Bombing in Bir Hassan near an Iranian cultural centre (South Beirut)	Bombings, assassinations and violence
	Assassination of Hassan Laqqis, a senior Hezbollah commander (Beirut)	Bombings, assassinations and violence
	Assassination of Mohamad Chatah, a former Lebanese Minister of Finance and member of the Future Movement (Beirut)	Bombings, assassinations and violence
	Clashes in Tripoli, where at least ten people die in further sectarian clashes between supporters and opponents of the Syrian regime (North Lebanon)	Bombings, assassinations and violence
	Syrian warplanes and helicopters fire rockets into Northern Lebanon, days after Damascus warns Beirut to stop militants crossing the border to fight Syrian government forces	Bombings, assassinations and violence
	Lebanon's Parliament voted May 31 to postpone the elections because of security concerns over the conflict in Syria	Governance crisis
	Lebanese Parliament extends its mandate	Governance crisis
	The resignation of Prime Minister Najib Mikati, after a dispute over the electoral law and an extension to the term of a top security official	Governance crisis
	Hezbollah's announcement of its military involvement in Syria on behalf of the Syrian government	Governance crisis
2014	Bombing in front of the political office of Hezbollah in Haret Hreik (South Beirut)	Bombings, assassinations and violence
	Bombing in a bustling neighbourhood in Hermel (Beqaa)	Bombings, assassinations and violence
	Second bombing in Haret Hreik (South Beirut)	Bombings, assassinations and violence
	Second bombing in Hermel (Beqaa)	Bombings, assassinations and violence

(continued)

Year	Incidents	Classifications
	Bombing in a van (South Beirut)	Bombings, assassinations and violence
	Bombing in Iranian cultural centre (Beirut)	Bombings, assassinations and violence
	Third bombing in Hermel targeting an army post (Beqaa)	Bombings, assassinations and violence
	Bombing in Arsal (Baalbek, Beqaa)	Bombings, assassinations and violence
	Bombing in Dahr al-Baidar (Mont Liban)	Bombings, assassinations and violence
	Bombing in Beirut Café (Beirut)	Bombings, assassinations and violence
	Bombing in a Beirut Hotel (Beirut)	Bombings, assassinations and violence
	Bombing near an army checkpoint in Tripoli (North Lebanon)	Bombings, assassinations and violence
	Second bombing in Arsal (Baalbek, Beqaa)	Bombings, assassinations and violence
	Bombing targeted a Hezbollah checkpoint in Eastern Lebanon	Bombings, assassinations and violence
	Third bombing in Arsal (Baalbek, Beqaa)	Bombings, assassinations and violence
	Fourth bombing in Arsal (Baalbek, Beqaa)	Bombings, assassinations and violence
	Syrian rebels overrun border town of Arsal. They withdraw after being challenged by the military but take 30 soldiers and police captive	Bombings, assassinations and violence
	Clashes in Tripoli between the army and Islamist gunmen, in a spill over of violence from the Syrian conflict	Bombings, assassinations and violence
	Protesters blocked roads to Lebanon's Parliament in a last-ditch attempt to halt the session	Bombings, assassinations and violence
	Skipping scheduled elections for the second consecutive time	Governance crisis
	Extension of the Lebanese Parliament mandate	Governance crisis
	The parliament convene 35 times without electing either candidate as president, presidential vacuum	Governance crisis
2015	Assassination of the intelligence officer Ghassan Ajaj by a gunman in Mina (North Lebanon)	Bombings, assassinations and violence
	Assassination of Bader Eid, the brother of the Alawite leader Ali Eid (North Lebanon)	Bombings, assassinations and violence
	Bombing in Jabal Mohsen café (North Lebanon)	Bombings, assassinations and violence
	Bombing targeted a bus transporting Hezbollah fighters to Syria	Bombings, assassinations and violence
	Bombing in Arsal (Baalbek, Beqaa)	Bombings, assassinations and violence

(continued)

Year	Incidents	Classifications
	Second bombing in Arsal (Baalbek, Beqaa)	Bombings, assassinations and violence
	Bombing in Bourj el-Barajneh, a Hezbollah stronghold in South Beirut	Bombings, assassinations and violence
	Bombing in Deir Ammar during an army raid (North Lebanon)	Bombings, assassinations and violence
	Parliament failed on 17 occasions to reach a two-thirds vote to name a successor	Governance crisis

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Impact of Institutional Environment on the Capital Structure of Tunisian Family Firms

Fayrouz Bencheikh and Faten Chibani

Abstract The aim of the chapter is to analyse the effect of the institutional environment on the financing of Tunisian family firms. Two factors are considered. The first consists of the regulation of investments and the economic initiative. The second considers the level of corruption. This effect is highlighted using a sample of 41 listed and unlisted Tunisian family firms over the period 2007–2012.

The results show that regulated sectors are negatively associated with debt access. This is further confirmed in the post- and prior revolution periods for family firms. The corruption index does not give significant results, although the negative coefficients demonstrate reluctance regarding debt. On the other hand, the ownership structure adopted by family CEOs and institutional investors improves debt. A possible explanation for the paradox is that the advantages taken from regulation substitute the debt requirement. In the other case, the relational advantage prevails.

Keywords Family firm • Regulation • Corruption • Capital structure • Revolution

1 Introduction

Family firms are prevalent in the Tunisian economic structure. As any family firm, their greatest concern is the preservation of control by the family unit. This is the reason for their risk aversion and their incentive to make compromises concerning their financing (Anderson et al. 2003; González et al. 2013). Thus, most Tunisian family firms rely on debts to meet their financing needs: a source that is hardly accessible. In this respect, reports published by the World Bank and the International Monetary Fund in 2014 provide many explanations. These explanations mainly lie in the opacity and information asymmetry, the lack of collateral and the inability to comprehend the inherent risk in their activity. In addition, there are challenges associated with the banking sector. Thus, Tunisian family firms face either the credit-rationing strategies applied voluntarily by banks or the credit supply retractions imposed by the lack of liquidity in the money market following

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the 2011 political revolution. Tunisian family firms face serious problems of financing. Self-financing by the owners does not satisfy the entire financing need. Faced with the obligation to raise the required funds, Tunisian family firms have to acquire privileges either from the relationship established with their creditors or from their activities.

Family firms take advantage of their ownership structure. Thus, they build relationships with creditors through the family CEOs (Antoniou et al. 2008; Céspedes et al. 2010). They also benefit from the participation of institutional investors to show good governance. Indeed, these investors defend their interests and minimise the risk of failure. Such a situation encourages creditors to approve credit (Almazan et al. 2005; Hartzell and Starks 2003). These firms could acquire another privilege from belonging to a regulated sector. The influence of such a privilege is reflected primarily in the dominance of regulations (Bessler et al. 2011; Graham et al. 2015). These are established by the State to impose restrictions on economic participation. Thus, some firms have the right to engage in lucrative activities protected by investment regulations as well as economic initiatives. As a result, they grow richer by seizing opportunities and extracting returns (Bortolotti and Faccio 2009; Boubakri and Cosset 1998; Boubakri et al. 2004). Regulating certain sectors is synonymous with the privilege and corruption affecting the performance of the private sector and the whole economy (Shleifer and Vishny 1993, 1994). In fact, it is one of the manifestations of crony capitalism that promotes the firms owned by the former regime's closest families.[1] Financing the regulated firms is the crux of the matter. Since most of these firms are family firms, they resort primarily to their internal resources. The family members thus proceed to self-financing their firms, since their lucrative activities pave the way for such an initiative.

The dilemma of family firms is how to maintain their control, which leads to risk aversion regarding external financing. Family firms often need financing to maintain their activity and stimulate their growth. They thus consider debt as the best solution. Unfortunately, they may be faced with economic difficulties that prevent them from accessing it. In the Tunisian context, these firms often resort to relational privileges through the family manager. They also benefit from the presence of institutional investors to reduce the information asymmetry between the shareholders and the creditors. Additionally, they can gain privileges from their membership in State-regulated sectors. This advantage, associated with corruption, increases the benefits of the crony capitalism businesses.

The goal of this chapter is to assess the probable influence of the institutional context of Tunisian family firms on their capital structure. The chapter is organised as follows: Sect. 2 provides a literature review on the capital structure of family firms through the use of two approaches. The first considers the specificities of family firms' ownership structure. The second highlights the impact of regulation

[1]Before the 2011 Tunisian revolution, the former President Ben Ali's family and his allies owned and controlled a considerable portion of Tunisian listed and unlisted firms in various industries.

and corruption. Section 3 presents the sample and the variables studied. Section 4 focuses on the adopted methodology. Section 5 contains the results and discussion. The chapter ends with a conclusion in Sect. 6.

2 Literature Review

2.1 Capital Structure and the Effect of the Family Ownership Structure

The capital structure of family firms depends to a large extent on their ownership structure. Ownership concentration in the hands of the members of the same family is a factor that leads to limited opportunism and information asymmetry between shareholders and managers (Bhaumik and Gregoriou 2010; Villalonga and Amit 2006). The presence of a family CEO reinforces this fact. Similarly, it improves the relationships between the company and the creditors. In this context, the socio-emotional wealth theory developed by Gomez-Mejia et al. (2007) provides explanations for family CEOs' intentions. This theory focuses on the emotional needs that will be fulfilled by succession (maintaining control) and sustainability (survival of the firm). Family CEOs are supposed to be concerned with the growth and upkeep of the business activity. This behaviour compels these managers to obtain the necessary funds. In the absence of self-financing, their risk aversion pushes them to borrow from the financial market or face the capital risk. Moreover, in an economy based on bank financing and affected by the consequences of a lingering recession, family CEOs need to build relationships with creditors. These relationships depend on the situation of the family business. In this context, Antoniou et al. (2008) recognise the influence of the institutional environment, corporate governance, the development of capital markets and the bank-business relationship on financial decisions. According to Céspedes et al. (2010), the more the firm is owned by family shareholders, the more it is associated with high levels of debt. Thus, we formulate the first hypothesis:

H1: The presence of family CEOs leads to higher debt levels.

The capital structure also depends on the ownership by the institutional investors. These investors contribute to the capital of family firms to realise expansions for which financing is inaccessible to the main founders (Bennett et al. 2003). The previous literature emphasises the agency costs that characterise the relationship between institutional investors and family owners. Indeed, as institutional investors are a minority, they are subjected to expropriation by the family owners who represent the majority of control (Bertrand et al. 2002; Bhaumik and Gregoriou 2010; Gao and Kling 2008; Villalonga and Amit 2006). Moreover, the previous literature focuses on the role of the institutional investors in decision making and corporate control. Their involvement in decision making is explicit at several levels: results management (Chung and Wang 2014; Chung and Zhang 2011), excessive risk behaviours (Chan et al. 2013), different risk-hedging policies (Tai et al. 2014), mergers and acquisitions (Ferreira et al. 2010), dividend distribution

policy (Grinstein and Michaely 2005), manager's compensation (Hartzell and Starks 2003) and their substitutions (Parrino et al. 2003). The involvement of institutional investors instils confidence for the creditors. In addition, family firms in which institutional investors participate can have greater access to debt. This view is summarised in the following hypothesis:

H2: The presence of institutional investors in the family ownership leads to higher debt levels.

2.2 Capital Structure and the Effect of the Institutional Environment

The institutional environment exerts an influence on firms' access to debt. In the context of Tunisia, two components are exceptionally interesting. These are the regulation of investments and economic initiative and corruption. Regulation should protect the most deficient sectors. Thus, the State intervenes to grant them privileges in the form of tax reductions or subsidies. In this respect, regulation is meant to serve the public interest. However, it is most often interpreted as an undue protection against national or international competition. According to Shleifer and Vishny (1993, 1994), the State intervention in the implementation of the economic policy is really a step towards crony capitalism. In one of his discussions on economic policy, Rodrik (1996) points out that some economic reforms have a devastating effect on the economy as a whole, especially when they exclusively serve the interests of certain actors. While they allow the latter to overcome difficulties, they slow down and hinder the operation of others.

The research conducted in the American context and, more recently, in the English context shows that most regulated firms are privatised and their regulation is set by independent organisations (Dasgupta and Nanda 1993; Spiegel and Spulber 1994, Spiegel 1997; Taggart 1981, 1985). Regarding these firms' financing, Bessler et al. (2011) consider that regulated firms are more leveraged, which justifies the stability of their cash flows and their low cost of financial failure. The study by Graham et al. (2015) shows that American firms that belonged to the nonregulated sectors during the last decade have significantly increased their indebtedness. Before 1945, these firms had regular leverage that did not exceed 11%. Between 1945 and 1970, the leverage tripled to reach a threshold of 47% in early 1990. Increased leverage is general and affects all firms, regardless of their size. The authors explain that the causes of this effect are the changes affecting the Government's borrowings, the macroeconomic uncertainty and the financial sector development. However, the firms belonging to the regulated sectors have maintained regular debt due to the benefits conferred by the regulation.

In the emerging countries, the regulated firms are public or semipublic. These firms enjoy all sorts of privileges, including access to debt (Bortolotti and Faccio 2009; Boubakri and Cosset 1998; Boubakri et al. 2004). In Tunisia, for example, many sectors benefit from the regulation of investments and economic initiative. Among these firms, we can cite the ones owned by the former regime's closest

families. The regulations are then involved in a context of crony capitalism. There are 25 decrees, signed by Ben Ali himself, introducing new applications for licences in 45 different business sectors, new restrictions on foreign direct investment (FDI) in 28 sectors and new tax benefits in 23 other sectors. The targeted sectors are mainly air and maritime transport, telecommunications, retail and distribution, real estate, hotels, restaurants and financial services. These sectors took advantage of the real protectionism offered by the authorities. Even the lucrative sectors, which are not concerned with the regulations, benefited from the radical changes, especially in terms of the restrictions on foreign direct investment (FDI) and tax benefits. Considering these arguments, we formulate this hypothesis:

H3: Family firms belonging to regulated sectors lead to lower debt levels.

3 Data

3.1 Sample Construction

The sample comprises 41 listed and unlisted Tunisian companies, 28 of which are family firms. Data are extracted from the websites of the Tunis Stock Exchange and the Financial Market Council. The studied sectors are manufacturing, food industry, trade, transport, tourism and communication. The study period spans 6 years from 2007 to 2012.

Among the firms in the sample, we identified those that are family firms. Various definitions of family businesses exist. Most of them retain the criterion of ownership. In this context, Faccio and Lang (2002) and La Porta et al. (1999) consider that a business is a family business if 25% of the ownership rights return to a single family. Conversely, Cromie et al. (1995), Reynolds (1995) and Smyrnios and Romano (1994) require 50% of the total of ownership to be in the hands of the same family. We retained the second definition because of the high ownership concentration of Tunisian family firms. The criterion allowed us to retain 28 family firms, amounting to about 70% of the sample. This percentage reflects the predominance of family businesses in the case of Tunisia. It is also consistent with several international references. According to the Institute of the Family Business, the percentage of family enterprises is 60% for France, 70% for Great Britain and 75% for Spain.

3.2 Variable Definitions

The aim of this research is to study the capital structure through factors related to the institutional environment and other aspects specific to the ownership structure. The independent variables are the total debt ratio (DT), the long-term debt ratio (LTD) and the short-term debt ratio (STD) (Rajan and Zingales 1995; Titman and Wessels 1988). The dependent variables are related to the companies' ownership

Table 1 Variable definitions

Variables	Definitions
Dependent variable	
Total debt (TD)	Total debt to total assets ratio
Long-term debt (LTD)	Long-term debt to total assets ratio
Short-term debt (STD)	Short-term debt to total assets ratio
Firm ownership variables	
Family ownership (*family*)	Binary variable equals 1 if the family ownership is greater than 50% and 0 otherwise
Managerial ownership (*management*)	Binary variable equals 1 if any of the managers or members of the board of directors is an owner and 0 otherwise
Institutional ownership (*institutional*)	Binary variable equals 1 if one of the owners is an institutional investor and 0 otherwise
Institutional environment variables	
Regulated sectors (*regulated*)	Binary variable equals 1 for State-regulated sectors and 0 otherwise
Corruption index (*corruption*)	The Tunisian corruption index[a]
Firm characteristics variables	
Collateral (*fixed assets*)	Fixed assets to total assets ratio
Growth opportunity (*growth*)	Natural logarithm of the rate of growth in assets
Size (*size*)	Natural logarithm of total assets
Profitability (*ROA*)	Earnings before interest and tax on total assets
Age (*age*)	Natural logarithm of age
Volatility (*volatility*)	Volatility of the profitability
Listed firms (*listed*)	Binary variable equals 1 for listed firms and 0 otherwise

[a]The Tunisian corruption index is published by Transparency International

structure, institutional factors and control variables. The first category contains the following variables: *family* is a binary variable equal to 1 if the family shareholding is greater than 50%, *management* is a binary variable equal to 1 if any of one of the managers or the members of the board of directors is also an owner and *institutional* is a binary variable equal to 1 if one of the owners is an institutional investor. The second category includes the following variables: *regulated* is a binary variable equal to 1 if the firm belongs to a State-regulated sector and *corruption* is a variable equal to the corruption index mentioned by Transparency International. The control variables are *fixed assets*, *growth*, *size*, *ROA*, *age*, *volatility* and *listed* (Table 1).

3.3 Summary Statistics and Univariate Analysis

Table 2 presents the descriptive statistics. First, it is important to present the results of the whole sample. Then, the results are split between family businesses and

Table 2 Summary statistics

Variables	Mean	SD	Min	Max
DT	0.233	0.205	0	0.927
DLT	0.098	0.107	0	0.502
DCT	0.134	0.143	0	0.752
Family	0.683	0.483	0	1
Management	0.451	0.499	0	1
Institutional	0.277	0.449	0	1
Regulated	0.833	0.373	0	1
Corruption	1.424	0.049	1.335	1.481
Fixed assets	0.300	0.193	0	0.837
Growth	−1.034	0.508	−2.213	0.117
Size	4.478	0.581	3.176	5.806
ROA	0.0623	0.077	−0.2418	0.339
Age	3.272	0.937	0	4.465
Volatility	1.649	0.376	0	7.818
Listed	0.625	0.485	0	1
Variables	Nonfamily firms (A)	Family firms (B)	Difference (A−B)	*t*-value
DT	0.238	0.199	0.039	1.236
DLT	0.099	0.091	0.008	0.437
DCT	0.139	0.128	0.010	0.464
Fixed assets	0.387	0.271	0.116	3.948***
Growth	−0.980	−1.073	0.092	1.076
Size	4.419	4.512	−0.92	−1.077
ROA	0.047	0.043	0.003	0.236
Age	3.290	3.177	0.113	0.795
Volatility	1.019	1.011	0.007	0.038

***Statistically significant at the 1% level

nonfamily businesses. The Student's *t*-test allows us to compare the subsample means.

The descriptive statistics confirm that the proportion of family firms is around 70%. This percentage is in agreement with the national statistics.[2] The latest statistics recognise that not less than two-thirds of the firms in Tunisia are family firms. In the same context, the involvement of one of the owners in the management of the firm is observed in 45% of the cases. This is to say that founders and majority shareholders continue to hold the functions of managers, confirming that an important number of Tunisian firms are private firms. In a bank-oriented economy, this fact enhances the relationship between managers and debtholders. Institutional investors are present in the capital of firms to the order of 27% of sample firms. This result reflects the small contribution of venture capital to the share capital of

[2]The national statistics are produced by the National Institute of Statistics (INS).

Tunisian firms. On the other hand, 83% of businesses belong to the regulated sectors. This percentage is relatively important. The explanation lies in the characteristics of the sample as the latter is formed by listed firms or unlisted firms which are proceeding with a public offering. However, the recourse to the financial market in Tunisia is restricted to the most strategic sectors. The latter sectors benefit in their majority from different kinds of privileges, including regulations. In addition, the natural logarithm of the index of corruption is 1.42. The level of corruption is ahead of 2.75, the figure displayed in the euro area.

The analysis of the quantitative variables is carried out through a comparison between family and nonfamily firms. The obtained results show first that the mean of debt for family firms is 0.238 for total debt, 0.099 for long-term debt and 0.139 for short-term debt. Thus, family firms are less leveraged than other firms. This result, although it is not significant, reflects the reality of Tunisian family firms. On one hand, they are reluctant to take on debt because it matters to the contribution of the family shareholders. On the other hand, these firms present information asymmetry, more risk related to their business activities and less collateral. This fact is justified in part by the significant result related to fixed assets considered as the main collateral. In addition, the comparison between the two groups of firms shows that nonfamily firms have more growth opportunities, make more profit, are older and present higher profits' volatility. In contrast, family businesses are larger.

The correlation matrix allows us to detect the correlation between explanatory variables. Correlation analysis is performed between quantitative variables. With regard to a set of Pearson coefficients, their values are between -1 and 1. The absolute values of these coefficients should be lower than 0.7 to avoid correlation problems (Kennedy 1998). The matrix obtained (Table 3) detects the presence of any problem of autocorrelation. Similarly, it allows the detection of negative and significant relationships between debt and corruption on the one hand and debt and profitability on the other hand. In addition, it highlights the positive and significant relationship between debt and the variables: fixed assets, growth, size and volatility.

4 Methodology

The aim of this research is to determine the effect of institutional factors and ownership structure on the debt of Tunisian family firms. Linear regression models apply only to a single data set. It would therefore be necessary to divide the sample into family and nonfamily firms. However, it is important to determine the difference between the two categories of firms. This allows us to verify whether the results associated with family firms distinguish them from other firms or are only due to the context. In this regard, the method of double differences allows us to take two subsamples into consideration. This method also enables us to make the comparison without too many difficulties. Family businesses will be considered

Table 3 Correlation matrix

	DT	*Corruption*	*Fixed assets*	*Growth*	*Size*	*ROA*	*Age*	*Volatility*
DT	1.0000							
Corruption	−0.0197	1.0000						
Fixed assets	0.1839*	0.0039	1.0000					
Growth	0.2052*	−0.0568	0.0246	1.0000				
Size	0.1782*	−0.0262	−0.1334*	0.1511*	1.0000			
ROA	−0.2051*	0.0164	−0.1735*	−0.0137	0.2509*	1.0000		
Age	0.0786	−0.0434	−0.0788	−0.0795	0.3399*	0.1463*	1.0000	
Volatility	0.1362*	−0.0011	0.0658	0.0169	−0.0184	−0.1291*	−0.0501	1.0000

*Statistically significant at the 10% level

as the group of interest. Nonfamily businesses will represent the control group. The model to estimate is the following:

$$D_{it} = \beta_0 + \beta_1 family + \sum_{j=1}^{q} \beta_j X_{it} * family + \delta_i + \mu_t + \varepsilon_{it}, \quad (1)$$

where (i) signifies the studied firms and (t) refers to the analysis period. D_{it} is one of the retained values of the debt ratio, which are the total debt ratio (DT), the long-term debt ratio (LTD) and the short-term debt ratio (STD), β_0 is the constant vectors, β_1 is the *family* variable coefficient, β_j is the vector of the coefficients to estimate, X_{it} is the independent variable matrix, $\delta_t\delta_i$ is the individual fixed effect, μ_t is the time fixed effect u_i and ε_{it} is an error term.

5 Results

5.1 *Capital Structure of Family Firms and the Effect of Ownership Structure and Institutional Environment*

Family CEOs have a positive impact on debt (Cf. Table 4). Indeed, the specific capital structure of their firm does not prevent them from stimulating its growth. Their risk aversion makes them favour debt and resort less to capital risk or to financial markets (González et al. 2013). They avoid control dilution and minimise the agency costs between the family-controlled shareholders and the minority shareholders. In addition, this result confirms the trust relationship between family CEOs and creditors (Miller and Breton-Miller 2006). This is consistent with the research by Koropp et al. (2013, 2014) who show that family CEOs frequently resort to debt. However, this result disagrees with that of Ampenberger et al. (2013), who find a negative relationship between the presence of family CEOs and debt. In addition, the participation of institutional investors is positively and significantly related to the level of debt. Such a relationship is predictable, since these investors are involved in ensuring control of decisions and good governance in family firms. These conditions promote the extension of credit by the creditors (Almazan et al. 2005, Hartzell and Starks 2003).

Family firms operating in State-regulated sectors are less reliant on debt. Indeed, the regulation allows them to access lucrative activities. Such a privilege is ensured by limiting competition, by tax exemptions and by obtaining subsidies. Family firms belonging to such sectors benefit from these advantages to increase their self-financing and reduce the risk of debt. These explanations are part of the logic of Graham et al. (2015), who state that the benefit of regulatory advantages allows companies to keep constant debt despite the diversions to which they are exposed. The risk aversion of family firms is confirmed by referring to nonfamily firms (González et al. 2013). These latter combine the privileges granted by their

Table 4 Impact of the institutional environment and ownership structure on family and nonfamily firms' capital structure

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variables	TD	LTD	STD	TD	LTD	STD	TD	LTD	STD
Firm ownership measures									
*Management*family*	0.0624*	0.0118	0.0515*	0.0626	0.0135	0.0518*			
	(0.0375)	(0.0179)	(0.0276)	(0.0382)	(0.0183)	(0.0281)			
*Institutional*family*	0.184***	0.0521**	0.129***	0.185***	0.0521**	0.130***			
	(0.0477)	(0.0228)	(0.0351)	(0.0489)	(0.0234)	(0.0359)			
Institutional environment									
Family firms									
*Regulated*family*	0.0274	−0.0602*	0.0536				0.0270	−0.0601*	0.0531
	(0.0677)	(0.0324)	(0.0497)				(0.0727)	(0.0332)	(0.0533)
*Corruption*family*	−0.109	−0.0516	−0.0919				−0.134	−0.0556	−0.113
	(0.0981)	(0.0469)	(0.0720)				(0.105)	(0.0478)	(0.0769)
Nonfamily firms									
Regulated	0.165**	0.0572	0.108*				0.163*	0.0494	0.114*
	(0.0807)	(0.0386)	(0.0593)				(0.0837)	(0.0382)	(0.0615)
Corruption	−0.177	−0.0564	−0.125				−0.174	−0.0513	−0.127
	(0.116)	(0.0556)	(0.0855)				(0.124)	(0.0566)	(0.0911)
Firm characteristics									
Family firms									
*Fixed assets*family*	0.382***	0.230***	0.228***	0.391***	0.220***	0.241***	0.379***	0.229***	0.226***
	(0.0962)	(0.0460)	(0.0706)	(0.0976)	(0.0467)	(0.0717)	(0.103)	(0.0471)	(0.0758)
*Growth*family*	−0.0245	0.0107	−0.0276	−0.0194	0.0145	−0.0246	0.0126	0.0210	−0.00118
	(0.0333)	(0.0159)	(0.0245)	(0.0339)	(0.0162)	(0.0249)	(0.0347)	(0.0158)	(0.0254)
*Size*family*	0.141***	0.0894***	0.0581**	0.141***	0.0817***	0.0621**	0.154***	0.0931***	0.0680**
	(0.0338)	(0.0161)	(0.0248)	(0.0337)	(0.0161)	(0.0248)	(0.0361)	(0.0165)	(0.0265)

(continued)

Table 4 (continued)

Variables	(1) TD	(2) LTD	(3) STD	(4) TD	(5) LTD	(6) STD	(7) TD	(8) LTD	(9) STD
*ROA*family*	−0.486**	−0.323***	−0.0157	−0.484**	−0.274***	−0.0387	−0.806***	−0.414***	−0.240
	(0.220)	(0.105)	(0.162)	(0.219)	(0.105)	(0.161)	(0.217)	(0.0990)	(0.159)
*Age*family*	0.0458**	0.0103	0.0277*	0.0476**	0.00334	0.0324**	0.0167	0.00255	0.00663
	(0.0211)	(0.0101)	(0.0155)	(0.0203)	(0.00971)	(0.0149)	(0.0216)	(0.00988)	(0.0159)
*Volatility*family*	0.00874**	0.00134	0.00807***	0.00819**	0.000965	0.00768***	0.00880**	0.00137	0.00809***
	(0.00360)	(0.00172)	(0.00264)	(0.00366)	(0.00175)	(0.00269)	(0.00386)	(0.00176)	(0.00283)
*Listed*family*	−0.07358	−0.02560	−0.05918	−0.06164	−0.04988**	−0.03620	−0.04924	−0.01697	−0.04432
	(0.05048)	(0.02413)	(0.03708)	(0.04286)	(0.02052)	(0.03150)	(0.0508)	(0.02323)	(0.03735)
Nonfamily firms									
Fixed assets	0.147	0.255***	0.402***	0.259**	0.216***	0.475***	0.148	0.249***	0.397***
	(0.120)	(0.0571)	(0.0878)	(0.104)	(0.0499)	(0.0767)	(0.127)	(0.0580)	(0.0932)
Growth	0.0133	0.0317	−0.0187	0.0563	0.0465*	0.00977	0.0138	0.0335	−0.0199
	(0.0521)	(0.0249)	(0.0383)	(0.0499)	(0.0239)	(0.0367)	(0.0557)	(0.0254)	(0.0409)
Size	−0.101	−0.00599	−0.0951*	−9.46e−05	0.0298	−0.0292	−0.0983	0.00488	−0.104**
	(0.0697)	(0.0333)	(0.0512)	(0.0490)	(0.0235)	(0.0360)	(0.0683)	(0.0312)	(0.0501)
ROA	−1.057**	−0.825***	−0.234	−1.656***	−1.024***	−0.624**	−1.072**	−0.911***	−0.165
	(0.477)	(0.228)	(0.350)	(0.394)	(0.188)	(0.289)	(0.451)	(0.206)	(0.331)
Age	−0.00313	−0.00353	0.000409	−0.0290	−0.0124	−0.0165	−0.00388	−0.00762	0.00368
	(0.0286)	(0.0137)	(0.0210)	(0.0262)	(0.0125)	(0.0192)	(0.0285)	(0.0130)	(0.0209)
Volatility	0.00214	0.00103	0.00110	0.00350	0.00153	0.00199	0.00217	0.00112	0.00104
	(0.00325)	(0.00155)	(0.00239)	(0.00325)	(0.00156)	(0.00239)	(0.00348)	(0.00159)	(0.00256)
Listed	0.1732**	0.09956***	0.07516	0.1003	0.07165**	0.02621	0.1687***	0.07881***	0.09098**
	(0.07910)	(0.03781)	(0.05810)	(0.07251)	(0.03472)	(0.05330)	(0.06143)	(0.02805)	(0.04510)

Constant	45.54*	16.26	31.59*	18.16	3.861	11.01	44.28*	15.53	30.97
	(25.19)	(12.04)	(18.51)	(19.29)	(9.236)	(14.18)	(26.87)	(12.27)	(19.73)
Observations	144	144	144	144	144	144	144	144	144
Number of firms	41	41	41	41	41	41	41	41	41
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: TD, LTD and STD are, respectively, the total, long- and short-term debt ratios; *family* is a binary variable that equals 1 if family ownership exceeds 50%, *management* is a binary variable that equals 1 if one of the managers or the members of the board is an owner, *institutional* is a binary variable that equals 1 if one of the owners is an institutional investor, *regulated* is a binary variable that equals 1 if the firm belongs to a regulated sector, *corruption* is the Tunisian corruption index, *fixed assets* = fixed assets/total asset, *growth* = log ((total asset$_t$ − total asset$_{t-1}$)/total asset$_t$), *size* = log (total asset), *ROA* = net income/total assets, *age* = log (number of years since the inception), $volatility = \left| \frac{(ROA_{it} - ROA_{it-1})}{ROA_{it-1}} - \frac{1}{T} \sum_{t=1}^{T} \frac{(ROA_{it} - ROA_{it-1})}{ROA_{it-1}} \right|$ and *listed* is a binary variable that equals 1 if the firm is listed

Standard errors are in parentheses

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

membership of a regulated sector with an increase in their debt level. The same results are obtained by Bortolotti and Faccio (2009).

The corruption index does not give significant results, although the relationship between the two variables is negative. This substantiates the assertion that regulations protect the sectors possessed by the relatives of the Government under the aegis of crony capitalism. It is one of the manifestations of the characteristic corruption of emerging countries (Shleifer and Vishny 1993, 1994). In these conditions, family firms that manage to take advantage of the regulation and corruption are guaranteed financial autonomy that is liable to ensure their independence from any other source of funds. Family firms show a positive and significant relationship between the level of debt and fixed assets (Ampenberger et al. 2013; Degryse et al. 2012). This relationship confirms the importance of collateral in the access to debt, as suggested by theories focusing on adverse selection and moral hazard. A similar result is perceived on the side of nonfamily firms.

The relationship between growth opportunities and debt is not significant for family firms. However, for the nonfamily firms, this relationship is positively significant (Bessler et al. 2011). The size of family firms is positively and significantly affected by the debt level. Accordingly, large family firms have lower bankruptcy risk and, therefore, lower bankruptcy costs (Degryse et al. 2012). As they are less diversified, their debt capacity can increase. This result is in line with those of Serrasqueiro et al. (2011) and Vieira (2013). Nonfamily firms yield different results from family firms. Myers and Majluf (1984) believe that size should be negatively related to debt, because large companies have more asymmetric information problems between the shareholders and the creditors.

The most profitable family firms are less dependent on debt. This result confirms the risk aversion of these companies, which avoid debt in the presence of the necessary financial resources. Indeed, Fama and Jensen (1983) and Romano et al. (2001) suggest that, as a result of information asymmetry, family firms with sufficient internal resources primarily use internal financing to minimise the agency costs, hold control and avoid debt. In contrast, firms that are short of internal financing enter into debt to avoid issuing new shares, because this would reduce the potential benefits going to the owning family and limit the manager's control. Our findings are similar to those already obtained by many authors who are interested in studying samples of family firms (Koropp et al. 2014; López-Gracia and Sogorb-Mira 2008; Serrasqueiro et al. 2012). A similar result is obtained for nonfamily firms.

The age of family firms is positively and significantly related to their debt level. Like size, the family firms' age means that the risk of bankruptcy is less important (Heshmati 2002; Ramalho and Da-Silva 2009). The results related to nonfamily firms are not significant. The profit volatility variable shows a positive and significant sign. Hence, one can say that family firms resort to debt if their profit is unstable. This conclusion is in line with previous empirical results (Antoniou et al. 2008; Kremp and Stöss 2001). The results of nonfamily firms are not significant but inconclusive.

Finally, Tunisian listed family firms are among the most profitable companies. This explains the obtained negative relationship between family ownership and the debt level. The opposite is true for nonfamily firms. This difference highlights the risk aversion of family firms. They do not use their position to improve their financing capacity, but are satisfied with their situation and reject the new commitments.

5.2 *Capital Structure of the Family Firm Before and After the Tunisian Revolution*

The effect of institutional factors and ownership structure on the Tunisian family firms' capital structure can be influenced by the prevailing economic conditions. Accordingly, we suggest using the effect changes that occur during two periods separated by a crucial event (Faulkender and Petersen 2006; Leary 2009), specifically the 2011 Tunisian revolution. Particular attention is paid to the post-revolution period, which is characterised by shrinking credit availability and greater creditors' selectivity. This period is designated by the variable post-revolution (PR), which is a binary variable equal to 1 for observations corresponding to the years 2011 and 2012. The adopted methodology consists of applying the difference-in-difference model to distinguish between pre- and post-revolution family firms. The results are shown in Table 5.

The relationship between family manager's shareholding and the debt levels is positive before the revolution but not significant after the revolution. According to this result, Tunisian family firms can no longer benefit from the relational advantages. This is because of the restrictions imposed by banks, which suffer from a lack of liquidity on the money market (Leary 2009).

The institutional participation positively and significantly influences firms to resort to debt pre- and post-revolution. In fact, the institutional investors play a disciplinary role within the companies. The decisions made about debt instil confidence of the creditors (Almazan et al. 2005; Hartzell and Starks 2003).

The membership of a regulated sector negatively and significantly affects the use of debt after the revolution. This result shows that regulated family firms rely on their internal resources, especially after the revolution, since the access to debt becomes more difficult. Nonetheless, the corruption index lacks significance pre- and post-revolution.[3]

The fixed assets of family firms are positively and significantly related to the pre- and post-revolution debt. Thus, the role of collateral in the access to debt is substantiated.

In addition, growth opportunities of the family firms have a significant and negative relationship with the debt level pre- and post-revolution. This result boosts

[3]This is due to the limited measure, which did not record large fluctuations during the study period.

Table 5 Impact of institutional environment and ownership structure on the family firms' capital structure prior to and after the revolution

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variables	TD	LTD	STD	TD	LTD	STD	TD	LTD	STD
Ownership structure									
Management	0.0887**	0.0331*	0.0599*	0.0861**	0.0344*	0.0572*			
	(0.0427)	(0.0189)	(0.0308)	(0.0439)	(0.0197)	(0.0317)			
*Management*PR*	0.0581	−0.00726	0.0760	0.0480	−0.0124	0.0687			
	(0.0755)	(0.0333)	(0.0544)	(0.0772)	(0.0346)	(0.0557)			
Institutional	0.147***	0.0172	0.114***	0.148***	0.0157	0.115***			
	(0.0556)	(0.0246)	(0.0401)	(0.0572)	(0.0257)	(0.0413)			
*Institutional*PR*	0.217***	0.0977***	0.135**	0.225***	0.102***	0.141**			
	(0.0773)	(0.0341)	(0.0558)	(0.0794)	(0.0356)	(0.0573)			
Institutional environment									
Regulated	0.0844	−0.00766	0.0660				0.0749	−0.0121	0.0601
	(0.0781)	(0.0345)	(0.0563)				(0.0856)	(0.0368)	(0.0614)
*Regulated*PR*	−0.129	−0.125***	−0.0388				−0.136	−0.132***	−0.0393
	(0.108)	(0.0479)	(0.0782)				(0.119)	(0.0511)	(0.0852)
Corruption	0.138	0.148	0.0147				0.112	0.142	−0.000915
	(0.248)	(0.109)	(0.179)				(0.272)	(0.117)	(0.195)
*Corruption*PR*	0.0551	−0.0736	0.140				0.0714	−0.0578	0.140
	(0.185)	(0.0816)	(0.133)				(0.202)	(0.0870)	(0.145)
Firm characteristics									
Fixed assets	0.373***	0.127**	0.263***	0.412***	0.134**	0.288***	0.401***	0.142**	0.280***
	(0.122)	(0.0540)	(0.0881)	(0.122)	(0.0545)	(0.0877)	(0.132)	(0.0568)	(0.0946)
*Fixed assets*PR*	0.345**	0.221***	0.226*	0.309*	0.202**	0.201	0.366*	0.239***	0.228*
	(0.176)	(0.0775)	(0.127)	(0.178)	(0.0798)	(0.128)	(0.191)	(0.0820)	(0.137)

Growth	−0.0456	0.0348*	−0.0707**	−0.0542	0.0340*	−0.0761**	−0.0203	0.0386**	−0.0513
	(0.0415)	(0.0183)	(0.0299)	(0.0420)	(0.0189)	(0.0303)	(0.0448)	(0.0193)	(0.0321)
*Growth*PR*	0.0615	0.0319	0.0609	0.0503	0.0382	0.0420	0.117	−0.0571*	−0.0952*
	(0.0680)	(0.0300)	(0.0490)	(0.0657)	(0.0295)	(0.0474)	(0.0714)	(0.0307)	(0.0512)
Size	0.166***	0.0708***	0.106***	0.179***	0.0702***	0.116***	0.172***	0.0702***	0.112***
	(0.0440)	(0.0194)	(0.0317)	(0.0434)	(0.0195)	(0.0313)	(0.0478)	(0.0206)	(0.0343)
*Size*PR*	0.125**	0.119***	0.0152	0.118**	0.114***	0.0128	0.154***	0.126***	0.0414
	(0.0548)	(0.0242)	(0.0395)	(0.0562)	(0.0252)	(0.0406)	(0.0583)	(0.0251)	(0.0418)
ROA	−0.849**	−0.805***	−0.0716	−0.849**	−0.787***	−0.0812	−1.003***	−0.778***	−0.208
	(0.382)	(0.169)	(0.276)	(0.392)	(0.176)	(0.283)	(0.377)	(0.162)	(0.271)
*ROA*PR*	−0.266	−0.123	0.145	−0.174	0.00158	0.140	−0.662**	−0.287**	−0.119
	(0.294)	(0.130)	(0.212)	(0.283)	(0.127)	(0.204)	(0.292)	(0.126)	(0.210)
Age	0.0518**	0.0118	0.0277	0.0597**	0.00899	0.0351**	0.0357	0.00858	0.0158
	(0.0257)	(0.0113)	(0.0185)	(0.0245)	(0.0110)	(0.0177)	(0.0279)	(0.0120)	(0.0200)
*Age*PR*	0.0559*	0.0224	0.0390	0.0467	0.0110	0.0383	0.00916	0.00443	0.00617
	(0.0339)	(0.0150)	(0.0244)	(0.0336)	(0.0151)	(0.0242)	(0.0340)	(0.0146)	(0.0244)
Volatility	0.00542	−0.00214	0.00750**	0.00640	−0.00185	0.00799**	0.00818	−0.00135	0.00944**
	(0.00475)	(0.00210)	(0.00342)	(0.00482)	(0.00216)	(0.00348)	(0.00515)	(0.00222)	(0.00369)
*Volatility*PR*	0.0151***	0.00322	0.0130***	0.0152***	0.00295	0.0133***	0.0128**	0.00316	0.0103**
	(0.00567)	(0.00250)	(0.00409)	(0.00582)	(0.00261)	(0.00420)	(0.00576)	(0.00248)	(0.00413)
Listed	−0.1199**	−0.02460	−0.09503**	−0.09042*	−0.02798	−0.07126**	−0.1100**	−0.02993	0.08485**
	(0.05488)	(0.02423)	(0.03956)	(0.04883)	(0.02190)	(0.03523)	(0.05607)	(0.02413)	(0.04022)
*Listed*PR*	0.02368	−0.04386	0.02247	−0.04385	−0.1138***	−0.006124	0.05319	−0.01679	0.02440
	(0.1089)	(0.04808)	(0.07851)	(0.09424)	(0.04227)	(0.06800)	(0.1105)	(0.04759)	(0.07931)
Constant	55.91	−2.984	68.06**	71.55**	18.38	61.48**	60.26	0.534	68.78**
	(42.59)	(18.80)	(30.71)	(34.56)	(15.50)	(24.94)	(46.66)	(20.08)	(33.47)

(continued)

Table 5 (continued)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variables	TD	LTD	STD	TD	LTD	STD	TD	LTD	STD
Observations	144	144	144	144	144	144	144	144	144
Number of firms	41	41	41	41	41	41	41	41	41
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: $D_{it} = \beta_0 + \beta_1 \, family^{*}PR + \sum_{j=1}^{q} \beta_j X_{it}{}^{*} family^{*}PR + \delta_i + \mu_t + \varepsilon_{it}$

Standard errors are in parentheses
$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Myers's (1977) assumption of underinvestment when growth opportunities and debt levels are negatively correlated. Family firms renounce growth opportunities when debt level is high. Due to nonfinancial goals, such as risk aversion and sustainability, family firms prefer to forego growth by minimising their financial leverage (González et al. 2013).

Finally, the size of family firms facilitates debt access pre- and post-revolution. The profitability of family firms saves them from resorting to debt pre- and post-revolution. In contrast, family firms benefit from their seniority to improve their access to debt pre- and post-revolution. The positive and significant relationship between profit volatility and debt remains the same pre- and post-revolution. Moreover, listed Tunisian companies operate in the most strategic sectors thus ensuring good profitability. By respecting the principle of risk aversion, family firms renounce debt pre- and post-revolution.

In general, family firms did not change their financial behaviour during the two periods. With the turmoil that it generated, the post-revolution period had no significant impact on the financing choices of family firms. These firms upheld and protected their principles even in the most difficult circumstances.

6 Conclusion

Family firms have a special ownership structure. This characteristic encourages family shareholders to maintain control. They also become averse to means of financing that can lead to capital dilution or the emergence of agency conflicts with the new minority shareholders (Anderson et al. 2003; González et al. 2013). In this respect, debt is the most appropriate choice for these companies. However, in an economy based on bank financing, access to financing is not always easy. Indeed, the World Bank report (2014) shows that these banks are reluctant to give credit, especially to small- and medium-sized firms. Tunisian family firms are thus obliged to overcome this bottleneck. This research first focuses on the role of family CEOs considering that he/she can build relationships with creditors to obtain the funds necessary for the growth and sustainability of the firm's activities (Antoniou et al. 2008; Céspedes et al. 2010). Although the participation of institutional investors is not well appreciated by family businesses, it may be a feasible solution. Through this work, we can confirm the positive impact of these shareholders on firms' choice to resort to debt. Indeed, their presence is synonymous with good governance (Almazan et al. 2005) thus increasing the confidence of creditors. Moreover, family firms can face other issues. The companies that belong to State-regulated sectors are likely to have many privileges, such as restrictions imposed on their competitors, tax exemptions and subsidies (Bortolotti and Faccio 2009). These privileges are granted as part of the crony capitalism that tolerates the corrupt relationship between the Government and its closest members (Shleifer and Vishny 1993, 1994). This research highlights the extent to which family firms operating in such

sectors are less indebted. Indeed, they benefit from their lucrative business and ensure their self-financing.

This research has provided explanations concerning the financing of Tunisian family firms. The emphasis has been placed on the impact of the institutional environment and some aspects of the ownership structure. However, there are other factors in relation to family firms that are important to study, such as the concentration of managers' ownership and ownership succession. These factors should have an impact on the financial decisions of financing.

On the other hand, the subject may be extended to another perspective. Indeed, a new code of investments was proposed in October 2016. The completion of this regulatory source will represent new opportunities for Tunisian firms. It will also be important to consider again the family businesses belonging to the regulated sectors. A comparison of the financial behaviours of these firms before and after the new regulation will contribute to the evaluation of the changes made by the Government.

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How Can Family Firms Attract Foreign Investors? The Role of Governance Mechanisms in Tunisia

Amira Hammouda

Abstract This chapter examines the role of governance as a determining factor of foreign investors' decisions as for investing in Tunisian listed family firms. To achieve this goal, first, two distinct forms of family involvement in firms are studied: family ownership and family management. In addition, this research assesses the role of various indicators of family firm governance on foreign investors' decision to invest in Tunisian listed family firms: board of directors' independence, the presence of a second major nonfamily shareholder and CEO duality. A sample of 27 firms listed in the Tunis stock exchange from 2007 to 2014 has been used. It is found, on the one hand, that foreign investors seem to avoid investing in firms with high family ownership as well as in those where the family is involved in management; on the other hand, the board of directors' characteristics as well as the presence of a second major nonfamily shareholder do not affect the decisions of foreign investors in Tunisia.

Keywords Family involvement • Quality of governance • Foreign investment • Domestic bias

1 Introduction

Although many studies have analysed the advantages and disadvantages of family involvement in firms, how external stakeholders consider this participation and the way in which the characteristics of family businesses shape decisions of these stakeholders, particularly investors, remain unexplored (Fernando et al. 2013). In particular, the quality of family businesses' governance should be in relation to the appeal that foreign investors may have for these businesses. Indeed, the literature shows that the level of corporate governance is an important determinant in reducing the risk of foreign investors (Klapper and Love 2004) and affects the decisions of these investors as well as the decisions of local investors as to the decision whether to purchase shares of some businesses or not (McKinsey and

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company 2003a, b). This study expands the efforts of previous literature on foreign investment (e.g. Dahlquist and Robertsson 2001; Leuz et al. 2009; Ertuna and Tukel 2013) by separately analyzing the effect of family involvement in the capital and management on foreign investors' investment preferences. In addition, while researchers have shown that the level of governance within businesses is an important determinant in reducing the risk of foreign investors (Klapper and Love 2004), previous work did not distinguish between family businesses and nonfamily businesses in their analyses. This chapter then tries to examine the influence of the governance practices of family businesses on the choice of foreign investors in their investments in Tunisia.

This study examines the Tunisian context which is an ideal empirical framework for various reasons. First, the choice of the Tunisian context is mainly dictated by the importance of family businesses in the economic fabric of this country (World Bank report 2000; Ellouze-Karray 2008) and by the scarcity of studies of this type of business in this context (Madani 2010; Benmostefa 2015). In addition, it should be noted that despite the Tunisian Government's efforts on liberalization of the financial market, the relative attractiveness of the Tunisian financial market to foreign investors remains low as compared with other emerging markets such as that of Turkey or even that of Morocco. Thus, the results of this study could provide practical implications for Tunisian businesses in attraction of foreign funds, and these implications would be useful for the development of the capital markets in Tunisia. Finally, in regard of the economic opening and the creation of a Mediterranean free trade zone in Tunisia, Tunisian businesses should make more efforts to attract foreign investors who base their assessments on standardized corporate governance criteria. Thus, analysis of the preferences of foreign investors for the governance practices of businesses in this study can direct regulators to efficient use of these practices in Tunisia.

Empirically, five research hypotheses were developed in this study. The first two examine the effect of family involvement on the participation of foreign investors in the capital of businesses. In order to test these hypotheses, two variables identifying the nature of family involvement (family ownership and management) have been used. The effect of the level of governance of family businesses on the ownership of foreign investors was also tested. In this step, we relied on various indicators of family business governance: the independence of the board of directors, the presence of a second major nonfamily shareholder and CEO duality. In order to test these hypotheses, a sample of 27 businesses listed in the Tunis stock market from 2007 to 2014 has been used.

The main results of this study show that foreign investors avoid investment in Tunisian firms where the family holds more than half of the capital as well as in those where the family is involved in management. In addition, when they invest in Tunisia those investors seem to be indifferent about the characteristics of the boards (independence of the board and CEO duality) as well as the existence of a countervailing power to the family in the capital of family businesses.

In its first part, this chapter provides a literature review on foreign investors, domestic bias and family businesses, then offers a development of the research hypotheses. The second part is dedicated to the presentation of the research design and method and to the descriptive statistics. The results of the multivariate analyses are presented in the third section. Finally, the last part offers a results discussion and concludes the chapter.

2 Literature Review and Hypotheses

2.1 Family Stake in the Business and Foreign Investment

In order to face the many strategic issues which are vital to it (growth, succession, etc.), the family business must be able to mobilize substantial financial resources. Particularly, this may imply the opening of its capital to nonfamily investors and, to the extreme, market quotation. Of course, these businesses must overcome their natural protectionism and adopt an "open mind" which constitutes a sort of paradigm shift for many family businesses. Attracting national and international investors in order to develop its capital is a bold financial and strategic choice permitting many family businesses to succeed in their transformation and renew their business models. In particular, the entry of foreign investors in the capital of these businesses can promote a new strategic development such as the internationalization of activities. However, because these investors are experiencing a domestic bias, it is clear that businesses of a given country must redouble effort to attract foreign investors. Indeed, the literature on foreign investment has highlighted a national preference phenomenon (Tesar and Werner 1995; Kang and Stulz 1997; Dahlquist et al. 2003) shown by investors who perceive higher risks in investing abroad while they are more optimistic towards domestic assets (Shiller et al. 1996; Strong and Xu 2003). If a set of explicit and implicit barriers (Kang and Stulz 1997; Dahlquist and Robertsson 2001) helps explain this bias, recent research (e.g. Giannetti and Simonov 2006; Leuz et al. 2009; Bowman and Min 2012) considers that corporate governance is an important determinant influencing the decisions of foreign investors.

Literature on foreign investment in businesses suggests that family businesses attract less foreign investors compared to nonfamily businesses (Croci et al. 2012; Davidov and Yordanova 2014). For example, Croci et al. (2012) in their study of 754 businesses in 14 countries during the period from 2001 to 2008, found that foreign investors' ownership is lower in family businesses compared to nonfamily businesses. They found that the average foreign ownership is about 6.1% in family businesses against 10.4% in nonfamily businesses. In their study of family businesses in Bulgaria, Davidov and Yordanova (2014) argue that these firms exhibit fewer individuals or foreign businesses in their capital compared to nonfamily businesses. These authors explain low foreign ownership in Bulgarian family

businesses by their low visibility to foreign investors due to their small scale local commercial orientation.

Given the willingness of families to keep control of their businesses, foreign investors who want to take part in a firm's management may well avoid family businesses (Dahlquist and Robertsson 2001). Analyzing the equity detained by American firms in a sample of 4409 businesses in 29 countries, Leuz et al. (2009) observed that US investors invest less in businesses with a high level of family control and management, especially if these firms are located in countries with a low level of disclosure requirements, protection of external investors or in civil law countries. These results are consistent with those of Doidge et al. (2007) who showed that American institutions invest less in businesses where insiders are major owners, like families, because they consider that the governance of these businesses is low. The negative relationship between insiders' ownership and foreign investors' ownership is more pronounced in countries showing weak disclosure rules and where the protection of shareholders is low.

Another explanation for the reluctance of foreign investors to invest in family-owned businesses pertains to the benefits sought by them in their investment decisions. Since these investors don't usually have close relationships with the businesses in which they invest, they then seek high returns of investment (Jackson and Moerke 2005). Thus, foreign investors want to have high dividend payments. In a study of manufacturing industries in Japan pertaining to the impact of the ownership structure on financial performance, Gedajlovic et al. (2005) showed that the level of ownership of foreign investors is positively and significantly associated with dividend payments. However, several authors (e.g. Calvi-Reveyron 2000; Charlier and Du Boys 2011; Gomez and Guedri 2013) show that family businesses distribute less dividends compared to nonfamily businesses. In fact, the weakness of agency problems between managers and shareholders in family businesses does not encourage the latter to use dividend distributions to alleviate these agency conflicts (Setia-Atmaja et al. 2009). As a result, foreign investors could avoid investing their wealth in family businesses since these firms lack generosity when it comes to dividend payments.

Nevertheless, foreign investors may have an interest for family businesses because of their unique features. Previous research showed that what differentiates family owners from other types of owners is that they have economic goals but also non-economic goals such as maintaining control of the business as well as the desire of family business succession to the next generation, or also the preservation of socio-emotional wealth (Gomez-Mejia et al. 2011). Gomez-Mejia et al. (2007) define socio-emotional wealth as all the benefits that families derive from the non-economic aspects of the business. Maintaining ownership, control and influence over the firm's operations, ensuring the family dynasty and succession of the family business in future generations as well as maintaining the image and good reputation of the family are the main goals demonstrating the preservation of socio-emotional wealth in family businesses (Sener 2014). These non-economic goals might arouse the interest of foreign investors in family businesses. First, family involvement in ownership and management brings a long term perspective for the

business (Anderson and Reeb 2003; Allouche et al. 2008). As family members often aim to transfer the business to the next generation, they are more interested in long-term control and sustainability of the business rather than short term profitability (James 1999; Le Breton Miller and Miller, Le Breton-Miller and Miller 2006; Allouche et al. 2008). James (1999) argues that family businesses are less likely to invest in unprofitable projects if the owner wants to pass his business on to the next generation. Therefore, this long-term orientation exhibited by family businesses could attract foreign investors wishing to invest in the shares of a business on a long run (Sener 2014). In addition, several researchers showed that good reputation is an important objective sought out by family businesses and of a high emotional value to the family members (Dyer and Whetten 2006; Berrone et al. 2010; Zellweger et al. 2011). Since the family members' identity is closely related to the business (Gomez-Mejia et al. 2011; Gedajlovic et al. 2012; Deephouse and Jaskiewicz 2013), family businesses engage in activities improving their reputation and image thus becoming more visible in their markets (Stavrou et al. 2007). They are more willing to adopt any social practice which helps to improve their image and their legitimacy in their external environment (Cennamo et al. 2012). Thus, they avoid adopting measures that drive the external stakeholders to treat them as irresponsible entities (Deephouse and Jaskiewicz 2013). Family businesses can therefore become more visible to foreign investors because of their socially responsible image (Sener 2014). They could thus have more preferences for family businesses because they prefer to invest in the shares of a business they know (Merton 1987; Huberman 2001).

2.2 Tunisian Institutional Context and Research Hypotheses

The attractiveness of the Tunisian financial market to foreign investors is low as compared to that of other emerging countries, and despite the efforts made by the Tunisian Government towards the liberalization of the financial market since 1985. This can be partly explained by the existence of an exchange control still excessive for foreign investors in securities on the stock market and also by the low rate of subscription allowed for these investors on the bond exchange market. Indeed, it was not until 1995 that portfolio investment began to be liberalized. Foreign investors could freely acquire up to 10% of equity in listed businesses in Tunisia and 30% of equity in unlisted businesses. In order to go beyond these limits, investors had to get permission from the Tunisian Government. The subscription rate allowed for foreign investors increased to 49.99% during the late 1996 thus allowing for the attraction of a first flow of foreign investment. Tunisian legislature continues to make efforts in this area since it promulgated a new decree, on 18 September 2014, which exempts foreign investors from the obligation to obtain approval for the purchase of shares exceeding 50% in free areas for investment, such as manufacturing and certain service activities, but this approval is still required in non-free areas beyond a new level of 66.66% of equity. However,

such measures do not prevent foreign investors wishing to invest in Tunisia from benefiting from several advantages. For example: "…the freedom of repatriation of profits and actual net revenues generated from the transfer of capital invested in foreign currency, even if the amount is greater than that of the invested capital. Likewise, interests, dividends, percentages, compensations, founder shares and capital gains realized by non-resident investors are not taxed and their repatriation is not restricted" (Guide for the foreign investor in Tunisia, 2013, p. 8). Moreover, the low attractiveness of the Tunisian financial market is probably due to the quality of the country's governance as perceived by investors. In fact, literature teaches us that investors prefer to invest in countries showing strong protection of investor rights (Leuz et al. 2009; Aggarwal et al. 2011). For example, Aggarwal et al. (2005) showed in their study of 30 emerging markets after the financial crisis of 1990, that U.S. institutional investors invest less in emerging markets where the protection of investors is low, and avoid the markets that lack accounting transparency.

Given this economic opening and the creation of a Mediterranean free-trade area, Tunisian firms should make more efforts to attract foreign investors who place greater emphasis on standardized criteria of corporate governance in investment assessments. Thus, it becomes obvious that local or foreign investors rely not only on the business's profile but also on its governance, on its transparency, as well as on the level of protection of the rights and interests of minority shareholders. This is all the more true given that foreign investors seem to value good corporate governance when the governance at the country level is weak (O'Connor et al. 2014).

The compliance with good governance rules is all more imperative because the majority of firms listed in the Tunis stock exchange are family businesses (Ghazouani 2009). Moreover, the literature on foreign investment often advances that foreign investors are less present in family businesses capital compared to the nonfamily businesses (e.g. Doidge et al. 2007; Leuz et al. 2009; Croci et al. 2012; Davidov and Yordanova 2014). This can be explained by the ownership structure of family businesses. Indeed, family owners seem to be reluctant about sharing control with external investors and tend to keep ownership within the family (Davidov and Yordanova 2014). In addition, since foreign investors don't usually have close relationships with the businesses in which they invest, they require higher returns on investment (Jackson and Moerke 2005). In this vein, Gedajlovic et al. (2005) claim that the level of foreign ownership in businesses is positively associated with dividend payments. However, family businesses distribute less dividends than nonfamily businesses (Calvi-Reveyron 2000; Charlier and Du Boys 2011; Gomez and Guedri 2013). When the level of family ownership is high (more than 50%), the entrenchment effect becomes dominant (Farinha and Lopez-de-Foronda 2009), and the controlling family reduces the dividend payments in order to generate private profit (Shleifer and Vishny 1997; Claessens et al. 2000; Faccio et al. 2001; Gugler and Yurtoglu 2003). Therefore, it can be expected that foreign investors who seek to have large amounts of dividends would avoid investing in Tunisian firms which capital is in majority owned by one or more families. Accordingly, the first hypothesis of the present research is the following:

H1 The level of family ownership negatively influences the participation of foreign investors in the capital of listed firms in Tunisia.

Low distribution of dividends by family businesses is also explained by family involvement in management. For instance, Hu et al. (2008) showed that firms where the family is not involved in management distribute more dividends than those in which the family is involved in management. As a result, we can expect that foreign investors who require payments of dividends (Gedajlovic et al. 2005; Jackson and Moerke 2005) avoid investing in Tunisian firms where the owner-families are highly involved in management. Thus, the second hypothesis is the following:

H2 Family involvement in firm's management reduces the participation of foreign investors in the capital of listed firms in Tunisia.

In the countries of code law such as Tunisia, the protection of minority shareholders turns lower unlike countries of common law (La Porta et al. 2000). In the Tunisian context, characterized by a strong ownership concentration (in hands of families or the state), minority shareholders are dominated by the majority shareholders and may be expropriated. The low level of corporate governance may also explain the weak protection of the investors in Tunisia. The majority of Tunisian firms have a monistic leadership structure, where power is concentrated in the hands of the chief executive, which gives him/her a high entrenchment power (Omri 2003). This explains the lack of external control mechanism practices and shows the low level of firms' governance in Tunisia. Since foreign investors tend to avoid firms with a weak level of governance (Croci et al. 2012), we can then expect that they may be reluctant to invest in Tunisian family businesses.

In Tunisia, Article 189 of the commercial businesses code requires firms, specifically limited companies, to have a board of directors. However, the Tunisian legislator has neither specified the composition of the board of directors nor the nature of directors (internal/external, affiliates/independent), leaving to firms some freedom to choose the composition of their board of directors (Madani 2010). Although the guide of good governance practices of Tunisian firms (2012) recommends that at least one third of the board of directors' members should be independent, this practice remains narrowly spread in Tunisian firms. If the appointment of outside directors is required in France and timidly in Morocco, this is not the case in Tunisia (Ebondo Wa Mandzila 2006). Because of this, the board of directors in Tunisian family firms is "...either formal, i.e. set in place to comply with law or participatory through the integration of internal directors" (Madani 2010, p. 166). Since foreign investors value the existence of independent directors on boards of firms where they choose to invest (Bowman and Min 2012), it's likely that the sporadic appointment of independent members in the boards of directors of Tunisian family businesses could well discourage them. Accordingly, the following hypothesis is formulated:

H3 The existence of independent directors has a positive influence on foreign participation in the capital of listed firms in Tunisia.

Another important issue in corporate governance is the existence of a second major nonfamily shareholder in the capital. This might as well encourage foreign

investors to invest in this type of firms since a second nonfamily shareholder would allow limiting the power of the family and pushing the firm to distribute more dividends (Charlier and Du Boys 2011; Pindado et al. 2012), which is one of the main motivations of foreign investors (Gedajlovic et al. 2005; Jackson and Moerke 2005). The following hypothesis is stated:

H4 The existence of a second major nonfamily shareholder positively influences the participation of foreign investors in the capital of listed firms in Tunisia.

Another important indicator of the level of corporate governance is the CEO duality. When the CEO also serves as a president of the board of directors, there is no separation between management decisions and control decisions (Fama and Jensen 1983). Consequently, this dual role of the CEO and the chairman of the board comes to diminish the independence and effectiveness of the board while increasing the power of the CEO (Jensen 1993; Boyd 1994) as well as the risks of his entrenchment (Finkelstein and D'Aveni 1994). This practice is very common in Tunisia since Tunisian firms are often characterized by a monistic leadership structure, where power is concentrated in the hands of the chief executive, which gives him a high entrenchment power (Omri 2003). The CEO duality in family firms promotes more willingness and opportunities to expropriate minority shareholders (Lam and Lee 2008). Thus, as they tend to avoid investing in firms with a weak level of governance and protection of investors (Leuz et al. 2009), foreign investors may well avoid investing in family firms where the CEO also serves as chairman of the board. This leads to the last research hypothesis:

H5 CEO duality negatively influences the participation of foreign investors in the capital of listed firms in Tunisia.

3 Research Design and Method

3.1 Sample and Data Sources

The sample is composed of firms listed in the Tunis stock exchange (BVMT). There were 77 firms in December 2014. In this research, banking, insurance and financial firms were excluded from the sample due to the specificity of their accounting rules. Firms with missing data during the period of the study were also excluded. Therefore, the sample is built on the basis of 27 firms from 2007 to 2014, which yields 216 observations.

Financial data have been collected from the individual financial statements published on the BVMT website. Other data on ownership, management and the characteristics of board of directors have been collected from the corporate

financial statements published yearly. Foreign participation in the capital of firms has been obtained from the annual reports of the Tunis stock exchange.

3.2 Variables

3.2.1 Foreign Investment

Referring to the study of Lee (2008), the percentage of shares held by foreign investors in the capital of firms was used as a measure of foreign ownership.

3.2.2 Family Ownership and Management

In order to measure family involvement in the business, a dummy variable was used to identify the family firms in our sample. This variable takes the value of 1 if the firm is a family one and 0 otherwise. In order to identify family firms, the definition of Villalonga and Amit (2006) was used. According to this definition, a firm is recognized as a family firm if one or several family members hold more than 20% of the equity of a firm in which they hold management positions. In addition, involvement of the family in the capital and management of firms was measured with two variables. Family ownership was measured through a variable that takes the value 1 if the share owned by the family as a percentage of equity is greater or equal to 50% and 0 otherwise. As for family involvement in management, a dummy variable takes the value of 1 if the position of CEO, chairman of the board or chairman and CEO is occupied by a physical or legal person representative or belonging to the family of the controlling shareholder and 0 otherwise (Maury 2006). The family names of the individuals occupying these positions were examined to check whether they belong to the owning family (Chu 2009). In addition, some firms have been directly contacted to verify the relationship of people whose family name differs from that of the owning family.

3.2.3 Governance Variables

To measure the controlling shareholder's ability to expropriate external investors, three governance measures were selected: the existence of independent directors, the presence of a second major shareholder and CEO duality. To measure the board of directors' independence, the number of independent directors was divided by the total size of the board. An independent director is a board member who "has no privileged blood or financial connection with the firm" (Viénot 2007, p 59). Also, the research used an indicator variable taking the value of 1 when the controlling shareholder is a family, and there is a second major nonfamily shareholder holding more than 5% of the voting rights and 0 if otherwise. Regarding the CEO duality, a

last indicator variable taking the value of 1 if the CEO acts also as the chairman of the board and 0 otherwise was used.

3.2.4 Control Variables

The main variables in the analysis are those measuring family ownership and management and variables measuring the quality of corporate governance. Before assessing the effect of these variables on foreign investment, it is necessary to control for other variables such as the size of the firm, the level of debt and growth prospects as literature showed that these factors are related to the level of portfolio investment (Leuz et al. 2009). The firm's size was measured by the logarithm of total assets (Leuz et al. 2009). Foreign investors in Japan and Sweden seem to avoid smaller and heavily indebted firms (Kang and Stulz 1997; Dahlquist and Robertsson 2001). The level of debt is measured by dividing total debt by total assets. Highly indebted firms are more financially vulnerable which can discourage foreign investors (Leuz et al. 2009). The current ratio is used as an indicator of the firm's short-term financial health and is calculated by dividing current assets by current liabilities (Kang and Stulz 1997). The book-to-market ratio and the dividend yields are used as two indicators of the firm's growth. The book-to-market ratio is measured using the ratio between the book value of equity and the firm's market capitalization (Kang and Stulz 1997). Dividend yields are calculated by dividing dividends per share by the share's market value. This variable is controlled for because low dividend payments may reflect governance problems within the firm (Kalcheva and Lins 2007; Leuz et al. 2009). Return on assets is used as a measure of firm's performance. This variable is calculated using the ratio between net income and total assets. According to Kim et al. (2010), ownership of foreign investors in a firm's capital increases when the latter's performance as measured by the ROA is high. Table 1 synthesizes the measures of all variables used in this study.

3.3 Method

In order to test the research hypotheses, an exploratory analysis was carried on in order to determine the regression method to be chosen and to verify the conditions of application of this method. The residuals analysis showed that they do not conform to the regression hypotheses. For this reason, a robust linear regression was adopted so that problems of heteroscedasticity and normality of residuals were dealt with (Morineau 1978; Charlier and Du Boys 2011). The Huber-White sandwich estimator was used to estimate the standard deviations of coefficients in the presence of residual problems (normality and heteroscedasticity) (Charlier and Du Boys 2011).

Table 1 Definition of variables

Variables	Measures	Variable name
Ownership of foreign investors	The percentage of shares held by foreign investors in the firm's capital	Foreign equity
Family firm	A dummy variable that takes the value of 1 if the firm is a family firm, 0 otherwise	FF
Family ownership	An indicator variable that takes the value of 1 if the share owned by the family as a percentage of equity is greater or equal to 50% and 0 otherwise	Family ownership
Family management	An indicator variable taking the value of 1 if the position of CEO, chairman of the board or chairman and CEO is occupied by a physical or legal person representative or belonging to the family of the controlling shareholder and 0 otherwise	Family management
Independence of the board	The number of independent directors/size of the board	BoardInd
The presence of a second major nonfamily shareholder	A dummy variable taking the value of 1 when the controlling shareholder is a family, and there is a second major nonfamily shareholder holding more than 5% of the voting rights and 0 if otherwise	Second shareholder
Simultaneous exercise of the functions of CEO and chairman of the board	A dummy variable taking the value of 1 if the CEO acts also as the chairman of the board and 0 otherwise was used	Duality
Dividend yield ratio	Dividends by share/share market value	Dividend yield
Size of the firm	Log of total assets	Size
Debt	Total debts/total assets	Debt
Current ratio	Current assets/current liabilities	Current ratio
Book to market	Book value of equity/market capitalization	Book to market
Return on assets	Net result/total assets	ROA

The estimated model is:

$$\text{Foreign equity} = \beta 0 + \beta 1\,(\text{family involvement}) + \beta 2\,(\text{governance variables}) + \beta 3\,(\text{control variables}) + \varepsilon$$

With:

- Foreign equity = the percentage of shares held by foreign investors in the capital of the firm
- Family involvement = {FF, family ownership, family management}

Table 2 VIF values

Variable	VIF	1/VIF
FF	4.17	0.239565
FF*BoardInd	2.62	0.382042
FF*Duality	2.49	0.402127
Debt	2.34	0.426713
Current ratio	2.07	0.482857
ROA	1.79	0.557377
Book to market	1.78	0.562445
Dividend yield	1.71	0.584152
Size	1.45	0.689834
Second shareholder	1.20	0.832581
Average VIF	2.16	

– Governance variables = {percentage of independent directors in the board, CEO duality, presence of a second significant nonfamily shareholder}
– Control variables = {firm size, ROA, debt, Current ratio, book to market ratio, dividend yield}
– ε: indicates the error term.

The collinearity problems between the explanatory variables were analysed by computing the variable inflation factor (VIF) of each variable. Table 2 shows that the model does not suffer from multicollinearity since the VIF values are less than 10.

3.4 Descriptive Statistics

Table 3 shows the descriptive statistics of the variables for the entire sample. The average foreign investment in the capital of the sample's firms is about 11%, and the average ROA is 6.3%. The average current ratio reflecting short-term financial problems is 2.28; the average debt ratio which reflects the long-term financial difficulties is 46.63 and shows a high variance (standard deviation = 21.64). In addition, the average dividend yield is 3.17%. Importantly, 63.72% of sample firms are family firms. The owning family is a controlling shareholder (i.e. holding more than 50% of equity) in 49.53% of sample's family firms. In addition, the owning family is involved in management in 42.05% of the cases. Finally, there is a second significant nonfamily shareholder in 12.15% of the sample's family firms.

Table 4 shows the correlation matrix. While firm size is positively and significantly associated with foreign investment, the correlation between the variable identifying family businesses, family ownership, family management and foreign investment is negative and statistically significant at the level of 1%. In addition, this table shows that there is no significant correlation between the CEO duality, board independence, presence of a second significant nonfamily shareholder and foreign investment. As for the remaining control variables, there is no significant

Table 3 Descriptive statistics

Variable	Average	Standard deviation	Min	Max	Frequency
Foreign equity	0.11	0.16	0	0.59	
Dividend yield	0.03	0.04	0	0.53	
Book to market	0.68	0.56	0.04	4.99	
Debt	46.63	58.53	0.7	97.30	
Size	18.15	0.90	16.64	21.24	
Current ratio	2.28	1.83	0.31	13.05	
ROA	0.06	0.07	−0.2	0.21	
BoardInd	0.23	0.19	0	0.7	
Family ownership					49.53%
Family management					42.05%
Duality					63.08%
Second shareholder					12.15%
FF					63.72%

correlation between them and foreign investment. The table also shows that the correlations between independent variables are relatively small. Bryman and Cramer (1997) argue that the correlation between independent variables is not a problem as long as its value does not exceed 0.80 or 0.90. This confirms that collinearity is not a problem for this model.

4 Multivariate Analysis Results

Table 5 shows the results of the robust linear regression. Model 1 shows that the coefficient of the variable identifying family firms is negative but not significant. On the other hand, column 2 shows that family ownership is negatively and significantly associated with foreign investors ownership ($\beta = -0.08$, p value < 0.05). In other words, when the percentage held by the family in the capital is greater than or equal to 50%, the participation of foreign investors in family firms decreases. Our first hypothesis is therefore supported. The effect of family involvement in management on foreign investment was also assessed. Model 3 shows that family management has a negative and significant influence on the participation of foreign investors in capital ($\beta = -0.06$, value of $p < 0.05$). Hypothesis 2 is also supported. Model 4 in this table refers to the subsample consisting only of family firms. In this step, the products of the variable identifying family firms and two of the three governance indicators retained in this study are used. The results show that the coefficients related to the three family firm governance indicators (board independence, the CEO duality, the presence of a second significant nonfamily shareholder) are not significant. Thus, hypotheses 3, 4 and 5 are rejected. Regarding control variables, the results show that the coefficients of firm size as well as that of ROA are positive and statistically significant in the four tested models. This shows that

Table 4 Correlation matrix of the dependent variables and the explanatory variables

	1	2	3	4	5	6	7	8	9	10	11	12	13
1	1												
2	−0.34[a]	1											
3	−0.22[a]	0.64[a]	1										
4	−0.32[a]	0.75[a]	0.71[a]	1									
5	−0.14	−0.09	−0.05	−0.04	1								
6	−0.07	0.27[a]	−0.08	0.03	−0.01	1							
7	−0.09	−0.07	0.13	0.05	−0.05	−0.11	1						
8	0.08	0.04	0.03	0.08	0.11	0.06	−0.06	1					
9	0.19[a]	−0.04	0.06	0.00	0.12	0.07	0.30[a]	−0.01	1				
10	−0.08	−0.28[a]	−0.20[a]	−0.25[a]	0.19[a]	−0.14	−0.08	0.38[a]	0.06	1			
11	−0.01	−0.11	0.00	−0.01	0.27[a]	−0.11	−0.09	0.19[a]	−0.35[a]	0.03	1		
12	0.14	0.14[a]	0.23[a]	0.23[a]	−0.04	0.04	0.07	0.35[a]	−0.03	−0.22[a]	0.23[a]	1	
13	−0.10	0.13	0.11	0.09	−0.28[a]	0.12	0.34[a]	−0.27[a]	0.28[a]	0.02	−0.65[a]	−0.41[a]	1

1. Foreign equity 2. FF 3. Family management 4. Family ownership 5. Duality 6. Second shareholder 7. Independence of the board 8. Dividend yield 9. Size of the firm 10. Book to market 11. Current ratio 12. ROA 13. Debt

[a]The correlation is significant at 1% level

Table 5 The influence of family involvement on the ownership of foreign investors

	Model 1	Model 2	Model 3	Model 4
FF	−0.06 (−1.44)			
Family ownership		−0.08** (−2.50)		
Family management			−0.06** (−2.14)	
FF*Duality				0.00 (0.18)
Second shareholder				−0.00 (−0.23)
FF*BoardInd				−0.20 (−1.56)
Current ratio	−0.00 (−1.20)	−0.00 (−1.19)	−0.00 (−1.20)	−0.00 (−1.11)
Dividend yields	1.06*** (4.28)	1.07*** (4.39)	1.06*** (4.30)	1.11*** (4.32)
Size	0.04** (2.41)	0.04** (2.40)	0.04** (2.39)	0.04** (2.49)
Book to market	−0.13*** (−5.75)	−0.13*** (−5.76)	−0.13*** (−5.72)	−0.14*** (−5.74)
ROA	0.37* (1.91)	0.38** (1.98)	0.38* (1.95)	0.33* (1.71)
Debt	0.15 (1.19)	0.15 (1.21)	0.15 (1.19)	0.15 (1.22)
Constant	−0.59* (−1.88)	−0.59* (−1.88)	−0.59* (−1.88)	−0.62* (−1.95)
F	8.59***	8.91***	8.56***	8.21**
R^2	0.56	0.57	0.56	0.57
N	216	216	216	136

Note: In addition to the explanatory variables above, the regressions include eight dummy variables representing industries and seven other dummies indicating years
Significance threshold: *** ($p < 0.01$), ** ($p < 0.05$), * ($p < 0.1$); F: Fisher test

foreign investors prefer to invest in large firms (Kang and Stulz 1997) and in more profitable ones (Kim et al. 2011). The results also show that foreign investors prefer to invest more in firms with higher dividend yields. This finding is consistent with that of Gedajlovic et al. (2005) who showed that the level of foreign ownership in firms is positively associated with dividend payments.

However, similarly to the findings of Dahlquist and Robertsson (2001), results show that foreign investment is low in firms with high book-to-market ratios. Foreign investors then seem to prefer high-growth firms in Tunisia. Finally, the results show that the current ratio and the debt ratio do not affect the decisions of foreign investors in Tunisia.

5 Contributions, Implications and Limitations

Despite the abundance of research about the advantages and disadvantages of family involvement in the firm, the way this involvement and family business characteristics shape the decisions of stakeholders, in particular investors, remains unexplored (Fernando et al. 2013). Thus, this chapter focused on the participation of foreign investors in Tunisian-listed firms' capital in order to assess their preference for this type of firm.

Research frequently claimed that foreign investors invest less in family firms compared to nonfamily firms (Doidge et al. 2007; Leuz et al. 2009; Croci et al. 2012; Davidov and Yordanova 2014). In this type of business, the owning family members are reluctant to share control with external investors (Davidov and Yordanova 2014) and have a tendency to extract pecuniary and non-pecuniary private benefits to the detriment of minority shareholders (Claessens et al. 2002; Gomez-Mejia et al. 2007). Therefore, the first research hypothesis predicted the existence of a negative relationship between family ownership and the participation of foreign investors in the capital. The results support this hypothesis and show that foreign investors seem to avoid firms where family ownership exceeds 50% of the capital. A possible explanation for this result pertains to the goal sought by foreign investors by investing in a firm. In effect, these investors require high returns on investment and dividend payments since they generally do not maintain close relationships with the firms in which they invest (Gedajlovic et al. 2005; Jackson and Moerke 2005). This can discourage them to invest in family firms which are generally known for their restrictive dividend policy (Calvi-Reveyron 2000; Charlier and Du Boys 2011; Gomez and Guedri 2013). In this type of firm, when the level of family ownership is high (more than 50%), the entrenchment effect becomes prevailing (Farinha and Lopez-de-Foronda 2009), and the controlling owning family reduces the payment of dividends in order to use the free cash flow to obtain private benefits (Shleifer and Vishny 1997; Claessens et al. 2000; Faccio et al. 2001; Gugler and Yurtoglu 2003). This may therefore explain why foreign investors, who generally require high returns on their investments, avoid investing in Tunisian firms in which the majority of capital is owned by one or more families.

The second hypothesis of the present research assumed that family involvement in management reduces the participation of foreign investors in firm's capital. The results show that the owning family's involvement in the firm's management negatively and significantly influences the participation of foreign investors in a family firms' capital. This may be due to the fact that family involvement in management may imply a reduction in dividend payments (Hu et al. 2008) which is one of the main goals pursued by foreign investors (Jackson and Moerke 2005; Gedajlovic et al. 2005). In addition, when the family members are either executives or board directors, they may have more opportunities to extract private benefits to the detriment of minority shareholders. Therefore, this may discourage foreign investors as they would avoid investing in firms exhibiting a weak level of

governance and protection of investors' rights (Leuz et al. 2009). In sum, this negative relationship between family involvement in Tunisian firms, expressed by the two facets of ownership and management, and foreign investment can be explained by the low legal protection of minority shareholders in Tunisia.

The reluctance of foreign investors to invest in family-owned firms can also be explained by the problem of information disclosure by these firms in Tunisia. Previous research (e.g. Aggarwal et al. 2005; Ferreira and Matos 2008; Leuz et al. 2009) had revealed that foreign investors avoid bad governance, particularly weak shareholders' protection and low information disclosure, either at the country level or at the firm level (Ertuna and Tukel 2013). In the context of Tunisia, Turki and Omri (2008) as well as Dhouibi and Mamoghli (2009) have shown that the level of voluntary disclosure of firms is low. Notably, Turki and Omri (2008) in their study of 35 listed firms in Tunisia found that a highly concentrated firm ownership combined with family involvement in management leads to a negative impact on the voluntary disclosure of information. According to these authors, the direct access of owner-managers to internal information about the firm makes the voluntary information disclosure unnecessary. Therefore, disclosing opaque financial statements would allow these firms to effectively hide their governance deficiencies and their actions that may lead to minority shareholders' expropriation (Fan and Wong 2002; Leuz et al. 2003). This also may lead to an increase in the risk of expropriation of foreign investors and discourages them from investing in these firms.

This chapter also analysed the effect of the quality of the firm's governance on foreign participation in the capital. The effect of the board of directors' independence has been examined as a first indicator of good corporate governance. Independent directors sitting in family firms' boards can reduce the risk of expropriation of external investors by limiting potential owning family opportunism (Anderson and Reeb 2004). Therefore, the third hypothesis predicted that the presence of independent directors in Tunisian family firms' boards would have a positive impact on foreign investment. Unexpectedly, results show that foreign investors do not value family firms with independent directors in Tunisia. Our third hypothesis is therefore rejected. Although this result demonstrates the difference between Tunisia and Korea, for instance, as foreign investors attach importance to the existence of independent directors in Korean firms (Bowman and Min 2012), our results are consistent with those of Sener (2014) pertaining to listed firms in another emerging country: Turkey.

The second indicator of corporate governance used in this study is the presence of a second major nonfamily shareholder. The existence of this type of shareholder in the capital of family firms is expected to encourage foreign investors to invest in this type of firm since this shareholder would allow limiting the power of the main controlling shareholder and would encourage distributing more dividends (Charlier and Du Boys 2011; Pindado et al. 2012). Therefore, this research assumed that the presence of such a shareholder would attract more foreign investors in the capital. The fourth hypothesis was rejected, though, as the results showed that foreign

investors do not give importance to the existence of a countervailing power in Tunisian family firms.

The last indicator used to measure the quality of family firms governance was the overlapping of the CEO and chairman of the board roles. In this situation, there is no longer a separation between management and control decisions (Fama and Jensen 1983) which leads to a diminution in board's independence and effectiveness and increases the power of the CEO (Jensen 1993; Boyd 1994) and its likely entrenchment (Finkelstein and D'Aveni 1994). The fifth hypothesis assuming that the overlapping of the CEO and chairman functions negatively influences the participation of foreign investors in the family firms' capital was rejected. However, foreign investors have preferences for more profitable and larger firms and also for those with a low book-to-market ratio and finally for firms paying more dividends.

The results found in this study contribute to the literature on foreign investment in several ways. First, this study extends the efforts of earlier literature on foreign investment (e.g. Dahlquist and Robertsson 2001; Leuz et al. 2009; Ertuna and Tukel 2013) by analysing separately the effect of family involvement in ownership and management on foreign investors' decisions to invest in family firms. This study also contributes to the debate on the domestic bias phenomenon dealing with the key factors affecting foreign investors' decisions. Indeed, the results show that foreign investors prefer to invest in larger firms in Tunisia as in the case of developed markets. In addition, this research contributes to the literature on corporate governance by showing that foreign investors detect the signals released by firms on the good treatment of minority shareholders through the distribution of dividends.

This study also has practical implications for family firms and legislators in Tunisia. The research results may incite owning families to consider a certain disengagement from firm ownership if they want to attract more foreign investors into their capital, since these investors seem to be avoiding firms whose capital is mostly held by the family. Although this study shows that the existence of independent directors and the overlapping of CEO and chairman positions do not influence foreign investors' decisions, these results do not imply that investors would not appreciate an improvement of corporate governance practices in Tunisia. Currently, the practice of independent directors in Tunisian firms is not widespread, although the guide to good governance practices for Tunisian firms in 2012 recommends that at least one third of the board of directors' members should be independent. Regulators should make mandatory the appointment of independent directors. And if beforehand they specify what an "independent director" is, it could well improve the quality of corporate governance in Tunisia. Family firms should also make efforts to have at least one third of their board members as independent. This could increase the influence of these directors on the mitigation of conflicts between owning families and external investors. Moreover, since institutional investors attach importance to the disclosure of corporate information (Ferreira and Matos 2008; Leuz et al. 2009), Tunisian firms should make more efforts in this sense to gain access to foreign capital financing. Although the Tunisian Financial

Market Council (FMC) provides guidelines for information disclosure, it does not impose any penalties to firms in the event of non-compliance with the annual activity reporting (Chakroun and Matoussi 2010) or in case of non-disclosure of additional information (Diouani and Khlif 2013). Therefore, considering possible penalties for non-compliance with the information disclosure duties would improve information transparency in the market and increase a firms' visibility towards foreign investors.

This study shows some limitations that point to new avenues of research. The first limit is the size of the sample. As the results are based on observations from a relatively small number of firms (the sample is based on 27 firms), this raises uncertainty about the extent to which results are generalizable. In addition, this study is limited by its focus on one category of investors in listed firms, namely, foreign investors. Therefore, a study of the preferences of local individual and institutional investors in family firms constitutes an interesting research issue in the Tunisian context. Finally, this study considers only three variables to measure family firms' quality of governance: board of directors' independence, the presence of a second important nonfamily shareholder and the overlapping of the CEO and chairman functions. Future research could incorporate more refined governance variables, such as audit committees' independence, or the existence of other corporate governance committees.

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Founder Legacy in Arab Dynastic Entrepreneurship

Josiane Fahed-Sreih

Abstract As family businesses in the Arab world in general and the GCC countries, which are part of the Middle East region in particular, present an exceptional situation compared to other countries over the world, this chapter covers family business dynasties and the importance of succession, family business characteristics in the Arab-Middle Eastern context, and succession in dynastic family businesses in the Middle East. This chapter will also focus on some other Middle Eastern countries outside the GCC such as Lebanon and Jordan. It will focus on many aspects distinguishing these types of businesses such as patriarchy, gender inequality, the role of women, succession, Islamic laws, and the dominance of family members in family businesses compared to nonfamily businesses. This chapter will pave the way for further studies to investigate whether this part of the world still experiences any obstacle in those areas or whether it has accomplished equality with the other parts of the world.

Keywords Family businesses • Dynasties • MEA • GCC • Succession • Islamic laws

1 Introduction

Family business scholars have been highly interested in what happens to entrepreneurs towards their retirement; in other words, the succession phenomenon, which is related to the transferring of leadership and ownership to the next generation's family members (Beckhard and Burke 1983), has attracted most of the researchers. This is mainly related to the fact that succession is a critical problem for entrepreneurs. There are several high-profile cases such as the Ford and DuPont families where the succession problem has influenced both the business and the family. Per consequence, the entry to the world of family businesses has mainly occurred as the entrepreneur intends to retire (Dyer and Handler 1994). The term entrepreneur is

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referred to “anyone who undertook a project, and it subsequently grew to mean a merchant, employer, or manager” (Hebert and Link 1988, pp. 45–46); the entrepreneur is considered to be a heroic figure; he tends to create society’s wealth and stimulates economic development (Schumpeter 1934; Baumol 1993). More succinctly, entrepreneurship refers to the creation of new techniques, products, methodologies and sources, or the development of already existing features (Schumpeter 1934). As for family businesses, they represent one of the most prevalent and oldest forms of organizations worldwide, whereby a family business is defined as “one that will be passed on for the family’s next generation to manage and control” (Ward 1987, p. 252). Worldwide, more than 80% of running firms and 77% of all new enterprises are family owned (Chua et al. 2004).

According to Jaffe and Lane (2004), as a family firm moves from the second to the third, fourth, and subsequent generations and aims to sustain shared family control of its financial and business assets, families all over the world tend to create some structures and contracts to control their wealth. If the family is successful, the value of its businesses and investments can grow across the generations. Thus, these multigenerational families, with many branches and effective business portfolios, are called “dynasties”. Many dynasties find themselves reducing their wealth, whereby throughout the world, global family dynasties manage a high part of the world’s wealth and commerce.

In the Arab countries in particular, family businesses are worth investigating. Arab countries include 22 Arabic-speaking countries, seven of which constitute the Gulf Cooperation Council (GCC), which are Kuwait, Bahrain, Iraq, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). It is worth noting that succession issues in Gulf family businesses are critical and not discussed openly. This is mainly due to aspects that are more dominant in those Gulf countries as compared to other countries throughout the world, such as the male dominance and inequality between men and women in family businesses, mainly affected by the religion and some Islamic rules such as “Sharia”. This is also coupled with restricting employment more to family members compared to nonfamily members in family businesses; for instance, when compared to family businesses in the USA, Arab family businesses have less nonfamily members in top management and, hence, have more specific succession plans for future generations. In South America, South Asia, and the Middle East (Lebanon, Egypt, Kuwait, UAE, etc.), the percentage of family businesses having two generations in them is likely to be much greater compared to those in North America and Western Europe (Ward 2004). More significantly, the importance of families is dominant in businesses, whereby almost 98% of commercial activities in the Gulf Cooperation Council (GCC) are family managed, including Kuwait, Saudi Arabia, etc. (Fadhel 2004). Specifically, according to a study conducted by Ernst and Young (2014), 90% of companies in the Middle East are family owned, generating approximately 80% of the region’s GDP, constituting 75% of private sector economic activity, employing 70% of the labour force, and controlling 98% of the oil-producing companies in the Gulf region. In addition, in the Gulf region, there is a high number of family businesses where families tend to transfer the skills and knowledge to their children, reiterating the business ethics

and entrepreneurial spirit that have led Arab entrepreneurs to be highly successful throughout the world (Palliam et al. 2011). In Kuwait, for example, the “Al-Sabah” family has been in power since the eighteenth century (US Library of Congress 2004a).

Consequently, this chapter will discuss the exceptional situation of family businesses in the Arab countries in general while focusing on the GCC countries as a part of the Middle East region, as well as some other Middle Eastern countries outside the GCC such as Lebanon and Jordan. It will cover family business dynasties and the importance of succession, family business characteristics in the Arab-Middle Eastern context, and succession in dynastic family businesses in the Middle East. At the end, a summary of what has been discussed about the situation of family businesses in the Arab world will be provided.

2 Family Business Dynasties and the Importance of Succession

To become a business dynasty, the family firm can develop in two routes. The first route is when the initial family business goes public or becomes a bit larger with some professional management; the family can still manage the business through incorporating a board of directors and other shareholders that involve nonfamily members. The second route for a dynasty to develop is when the family sells its core business and then accumulates a portfolio of investments of different types of assets. Families in such a route might operate several business entities with several different legal and financial structures that the family considers as connected under the control of the family. For instance, a family may manage a public company by a real estate trust, an institution, and other various investments, each of which has its unique governing structure. It is worth noting that both routes illustrate a continuum of types of evolving family firms; in other words, a family usually grows from the first route to the second route as it moves across generations (Jaffe and Lane 2004).

An important economic task for a dynasty is to maintain its business and investment portfolio, vary assets, and reinvest profits to guarantee continuity across generations. However, families in the dynasty stage face some problems due to the increasing number of heirs within the business. In fact, it can be difficult for a family member specifically in a younger generation to become responsible of an investment that may not succeed, due to the personal relationship to other family shareholders. In addition, a family might lead its heirs to areas that are beyond their areas of expertise. Another difficult problem facing a family dynasty can be the decision to sell its stake in its central business, whereby family businesses tend to consider that selling the family business reduces the family’s authority, prominence, position, and employment opportunities for family members in the current and subsequent generations (Jaffe and Lane 2004).

Initially, a family has a cohesive voice with the family business leader, who transmits his vision to the heirs taking over the business. Nevertheless, those heirs might not understand clearly the values and vision of the initial founder of the business. Therefore, maintaining a dynasty together means keeping those different members united as a family and affiliated to the vision, beliefs, and strategy of the family. And so, one of the most popular challenges that family businesses face is succession; whether due to a lack of interested or competent successors, or due to older generations resisting letting go, family businesses in the Gulf, for example, face the same issues with regard to the sustainability of the business (Davis et al. 2004). In fact, according to Murphy (2005), dealing efficiently with the succession planning concern is the most durable gift that one generation can offer to the subsequent one. Succession planning in family businesses is the explicit procedure through which management duties are transmitted across family members. Referring to Ward (2004), planning in family businesses is more complicated than planning in other types of businesses, involving tasks such as selecting the heir to take over, training him/her, communicating the decision, developing the business plan for the business after succession, and identifying the long-term future position of the departing incumbent (Palliam et al. 2011). Particularly, in the Middle East, a dominant priority that reigns in competitive succession is filling vacancies by family members first. In this context, how many shares owned today and by whom is an inappropriate conception. In other words, the family tends to find means of how to take care of the financial needs of the family members regardless of the number of shares they own in the business; specifically, laws and customs in some cultures, particularly in Asia and the Middle East, support this kind of thinking (Ward 2004).

3 Family Businesses Characteristics in the Arab-Middle Eastern Context

The Arab world involves several countries and cultures, whereby even though they share cultural and political ties, they tend to be different, especially on the economic level (Nashashibi et al. 2001). However, one of the most important thoughts to all Arabs is that of family; it is inherent in their history, culture, and religion, and families reign in both society and politics (Welsh and Raven 2006). The Arab culture relies on religion and is characterized by "familism", whereby the loyalty of members is to their families, community, religious sect or to the extended family (Sidani and Thornberry 2009) whereby the family and business are interrelated and based on interpersonal relationships. In addition, there is often a conflict between Western ideologies and Arab culture and religion. For instance, industrialization, while accepted, may cause difficulties to Arab managers who struggle to maintain their traditional values while accomplishing modern results (Welsh and Raven 2006).

3.1 The Dominance of Family Members in Arab Family Businesses

A family firm not only needs skilled and expert family members in the business but also some nonfamily managers that can provide the business with fresh thinking, challenges, and different management styles. Per consequence, smart family firms tend to think about how to develop job opportunities for those knowledgeable nonfamily members (Ward 2004). In the Arab/Islamic context, the idea of nonfamily members to be involved in the family business is much more difficult to welcome than in the American context, whereby family bonds can sometimes be counterweighed by the probability of potentially greater managerial experience and capabilities that nonfamily members might have (Sonfield et al. 2015). Management styles may differ in different Islamic groups. Indeed, an authoritarian style is predominant in large businesses, whereas in other firms, a more consultative method predominates (Welsh and Raven 2006). In addition, the Islamic culture and religion encourage respect of elders in the family and focus on the authority of the father in the family. In most cases, family members hold high management positions within a firm (Abbasi and Hollman 1993) and are often paid regularly without being obliged to work (Ali 1990). The respect that other family members have for the father, who in most cases is the owner of the business, constitutes the factor which explains that when compared to family businesses in the USA, family businesses in the Arab world have less nonfamily members in their high managerial positions (Sonfield et al. 2016). Generally, adopting a corporate governance, which is the system through which the business is controlled (Mahmood 2008), is not common in Jordan, for example, or in the whole Middle East region (Sonfield et al. 2016). This is mainly due to the misunderstanding that implementing corporate governance necessitates high expenses without guaranteeing that some benefits will be generated to the family business (Abou-el-Fatouh 2009). In fact, the extra expenses of applying corporate governance are generated, for example, from employing independent directors and performing external inspections (Sonfield et al. 2016). However, these expenses are balanced by the long-term benefits obtained through corporate governance (Sonfield et al. 2016), knowing that good corporate governance helps the business to attain its objectives through a more effective use of resources (Mahmood 2008). However, in some countries like Jordan, for example, families are normally traditional and family relations are solid to such an extent that business founders are obliged to employ family members even if they are not qualified (Jabr 2013). In a study conducted by Sonfield et al. (2016), there is a significant difference between the American and the Arab/Islamic family firms concerning the degree of employment of nonfamily managers; in other words, American family businesses have a higher percentage of higher-level, nonfamily managers than the Arab/Islamic family businesses; this significant difference can be explained by the cultural differences for family firms in Arab/Islamic countries, as compared to the American context. In fact, while the involvement of nonfamily members in the top-level management team of family businesses

constitutes a problem for family businesses in *all* national and cultural environments, this is a drastically more important concern for Arab/Islamic family businesses than for American family businesses (Sonfield et al. 2016).

3.2 Patriarchy

Patriarchy is an important aspect in the Arab-Middle Eastern context. It is related to the fact of focusing on the importance of the "father" or "male" figure as head of the family. As an example, the Islamic culture and religion in the Arab world impose the respect of elders in the family and emphasize the authority of the father in the family, being called "the Sheikh". Hence, this predominant thinking decreases women's opportunities in public life. For so long, women's main role included household activities with a minimal, if existing, working life. Also, the decision for potential successors is often governed by Islamic laws which are generated according to gender and birth rank, placing the eldest male as first successor (Gupta and Levenburg 2010). In the Arab culture, the patriarchal ideology tends to dominate, stimulated through male-governed social and legal organizations (Palliam et al. 2011). In effect, the more authoritative the position, the more likely it is to be occupied by a male. In the Middle East particularly, the family patriarchy is the ruling principle, and the family business is the employment provider for family members. As an example, many parents start to prepare their children from an early age and send them to universities outside their home country to accumulate important business skills (Nassar 2008). This is in harmony with the custom that heirs must work outside the family business before joining it to accumulate the necessary knowledge, whereby they will be treated as regular employees, which in turn will help them understand how to treat their employees when they join the family business (Halkias et al. 2011).

3.3 Role of Islamic Laws and Gender Inequality

It is worth noting that the limited number of potential heirs in family businesses is mainly associated with birth order and gender biases which are particularly dominant in Gulf family businesses (Davis et al. 2004). Studies have shown that the main disadvantage holding back Eastern societies is the lack of development in Islamic countries on how they treat women. An important point regarding the situation of women in the Arab world is that they are not the ones who are criminally prosecuted by the law. It is their husbands or brothers who are prosecuted in case of bad conduct.

While discussing family businesses in the Arab world, it is worth mentioning that the Arab countries are ruled by Islamic law, in particular the "Sharia" that imposes specific practices on women, specifically in the fields of heritage, divorce,

marriage, etc. (Jamali et al. 2005). Islamic Sharia disfavours women with regard to divorce, marriage, and inheritance in family businesses (Moghadam 2003); hence, all these differences influence succession planning in family businesses. Even in regions of the MENA supporting democracy, there is a failure regarding gender equality (Moghadam 2003). Some argue that the problem resides not with religion itself but rather on how it was interpreted over the years and which might be a deformation of its true meaning. Indeed, it was shown that even in non-Islamic countries of the Middle East and North Africa (MENA) area, the problem of gender inequality also persists. This analysis shows that claiming that the Islamic religion is behind this issue is a misconception. For instance, Tunisia is a region in which many key positions are held by women such as judges, politicians, government officials, and many others. In contrast, in Iran, women are not permitted even to be judges. These differences show that there are different interpretations of Islamic laws (Welsh and Raven 2006); thus, this is mainly related to the history of each country.

4 Succession in Dynastic Family Businesses in the Middle East

In the Middle East, the future successor is usually the oldest son. The selection of the elder son as the heir taking over in the business is considered a non-professional way to identify the successor, as the eldest son might not have the required qualifications and expertise to join the business. One of the issues of succession in the Middle East stems from the fact that the passing of leadership never really happens until the founder dies, and this is never discussed as it is viewed sometimes as a taboo to talk about death or plan for succession while the current owner is still active in the business. Nevertheless, it is highly common for the son to join the family business and act as a leader, whereby he is allowed to take some decisions under the supervision of the initial founders (Fahed-Sreih 2008). In Dubai, for example, in family firms, family members maintain the high leadership positions for themselves, whereby the transfer of power in the business is usually a reaction to natural biological rather than business concerns and is more linked to family, not market issues (Sonfield et al. 2016). In this case, they have the least intent to go public (Rettab et al. 2005). Furthermore, ownership of fully Emirati-owned businesses, in nearly all cases, belongs to only one UAE family, irrespective of the business' size (Rettab et al. 2005). Referring to Joshi and Srivastava (2014), in multigenerational businesses, the subsequent generation must preserve wealth and rituals. Hence, a good example that shows how the family business owners prepare for a good succession in the business in a Middle Eastern environment is that of a prosperous real estate family business in Saudi Arabia, where growth was preserved by a united familial team of 12 brothers. The major options concerning succession involve variations of the following: family succession, employee succession, sale of

business, or business closure. Family succession remains the leading form of transmitting business ownership in the Arab culture. In patriarchal societies like the GCC countries, the father is likely to provide advice and sustain a controlling role as long as he is physically capable of doing so. In particular, Kuwaiti companies were the first to appoint managers based on education rather than only on family relations (Yasin and Stahl 1990). The following section deals with the specific case of Lebanon.

4.1 Succession in Family Businesses in Lebanon

In Lebanon (and the whole Arab world), the family business is considered as a way to enhance the social standing of a family (Fahed-Sreih 2006). In Lebanon, family firms account for 1.05 million of 1.24 million jobs (Fahed-Sreih 2006). Lebanon has also a history of family authority in both business and ruling (US Library of Congress 2004b). According to a study conducted by Fahed-Sreih et al. (2010), more than 80% of Lebanese entrepreneurs surveyed were leading family firms. In other words, preparing an effective succession is an important concern in Lebanese family businesses. Therefore, ensuring that the heirs have the required job skills and knowledge is highly important for the business' growth and sustainability (Le Breton-Miller et al. 2004). Referring to Ward (2004), to attain the objective of becoming a continuing, successful firm, one must think of ways to make the business attractive to the most talented future generation family members, as well as how to make them consider it as a good job opportunity. In addition, young family members must have the opportunity to learn what it means to work hard while providing exciting and attractive opportunities to their children that are planning to join the business.

More importantly, first-generation family members must take some action when the next generation members who will be taking over are still very young. In fact, many families tend to involve their children in the business at a very early age through after-school and summer jobs whereby they're assigned menial tasks—a lawn maintenance job or a job on the shop floor—so that they show their ability to execute what entry-level employees execute.

4.2 The Role of Women During Family Business Succession in Lebanon

Being an Arab country in the Middle East, Lebanon is also highly affected by the culture of this area regarding the social position of women in society. Previously, the selection among the heirs to join the business was not done in a formal, professional way, i.e. the oldest son who may not have experience used to take

over the business, which lead to some financial problems in the firm. However, today, families in Lebanon are facing some changes related to gender and business, whereby the percentage of Lebanese females holding university degrees, with enough exposure to the market due to employment, is increasing, providing women with the full right to start and manage their own venture. Per consequence, the succession in family businesses followed a new direction in this subject (Halkias et al. 2011). As an example, in a study conducted by the Institute of Family and Entrepreneurial Business at the Lebanese American University (LAU) to discover whether women have the right to take over a family business, more than 50% said yes (Fahed-Sreih 2008). More significantly, the values of trust and respect determining the relationships among family members in the business (Stempler 1988) constitute an important aspect behind the success of daughters who join their family business.

5 Conclusion

Muslims in Arab culture consider that Islam gives direction to all features of life involving the law of succession in a way that each qualified person receives their due share. Also, Arab entrepreneurs have a high tendency to save and reinvest the revenues they generate from the business, a universally powerful desire to guarantee a better education for their children who will take over the business.

In all, the good of the business must come first whereby family members should be experts; they should respect owners and managers; and they should prepare themselves if they plan to join the family business. Therefore, long-lasting prosperous family firms do planning on four levels: setting together a business strategy plan, a leadership and ownership succession plan, a personal financial plan for family members, and a family continuity plan (Ward 2004).

This chapter focused mainly on family businesses and entrepreneurship in the Arab world, in particular the GCC, and some Arab-Middle Eastern countries (Lebanon, Jordan). The Arab world tends to be exceptional in such fields as compared to other countries in the world. As highlighted, this is mainly related to Islamic laws which impose certain rules affecting the way of doing business in such parts of the world. Based on such religious laws, males are viewed as superior to females in family businesses in relation to inheritance, ownership, and many other aspects. Despite this view, it is worth mentioning that women in the Arab world are currently being highly empowered and encouraged to launch their own business and take over in their family businesses. Another important aspect in the Arab world as compared to other parts of the world is the importance of the "family" and the support of the family to entrepreneurs in ensuring all types of resources, such as financial and human resources (employees for the business) as well as helping them develop some social contacts. As a consequence, what also makes family businesses unique in the Arab world is the employment of more family members than nonfamily members. However, an important aspect is the sustainability of those

Arab family businesses led by the initial founder "the father" across different generations, "dynasties".

To conclude, future research investigating family businesses and entrepreneurship in the Arab world as well as the situation of Arab women in this regard would be highly encouraged to understand the evolution and empowerment leading to some changes in this area compared to the past. Hence, with further studies, there will be a better understanding of whether this part of the world still experiences any obstacle in those areas or whether it has accomplished equality with the other parts of the world.

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Succession Planning in Family SMEs in Saudi Arabia: A Descriptive Study

Dalal A. Alrubaishi

Abstract This is a descriptive study of succession planning based on 285 questionnaires collected from family-owned small and medium enterprises (SMEs) in Saudi Arabia. This study is the first major descriptive study of family businesses in Saudi Arabia. Our results are compared to previous family business research conducted in other countries. Implications for family business literature, policy and practice are presented.

Keywords Family business • Succession • SMEs • Saudi Arabia • Descriptive study

1 Introduction

Family businesses are the backbone of economies around the world, constituting a crucial source of wealth and employment in both developed and developing countries. In the USA, around 60–70% of all organisations and a third of companies listed in the S&P 500 are family businesses (Kets de Vries et al. 2007; Anderson and Reeb 2003). They occupy an even more important position in the Middle East, where the PricewaterhouseCoopers (PwC) family business survey (2012) found that more than 80% of businesses are either run or controlled by families. This percentage is even greater in Saudi Arabia, where 95% of all companies are family run, contributing approximately 50% of non-oil GDP and providing employment for 80% of total private sector employees (The Council of Saudi Chambers 2014). The majority of these companies are small and medium enterprises (SMEs), supporting the Saudi push to move from an oil-based economy. However, 'despite their ubiquity and economic significance, there is a striking absence of research that explains the prevalence, prominence, or even existence of this economic institution' (Schulze and Gedajlovic 2010, p. 191). This descriptive study is the first attempt to provide insight into family firms in an under-researched area in the Arab world. The

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study is among the first to explore family businesses in Saudi Arabia through two axes: their succession planning and the most desired successor attributes.

Leadership succession is a challenge for all companies but particularly for family businesses (Le Breton-Miller et al. 2004). Despite their importance to the economy, the survival rate of family businesses beyond the third generation is extremely low. This is also true in Saudi Arabia where only 5% of family businesses survive into the third generation (Ghalayini 2010). Succession is a fundamentally important topic in family business literature (Chrisman et al. 2005; Le Breton-Miller et al. 2004; De Massis et al. 2012; Yu et al. 2012). The family business literature has long recognised the importance of succession planning (Handler 1992, 1994; Motwani et al. 2006; Tatoglu et al. 2008) as the most critical determinant of family firms' long-term survival (Morris et al. 1997). 'Succession planning means taking the preparations necessary to ensure the harmony of the family and the continuity of the enterprise through the next generation' (Lansberg 1988). A key factor distinguishing family firms from nonfamily firms is the desire to transfer the business to the next generation (Chua et al. 1999). As such, this study's purpose was to shed light on succession planning of Saudi family SMEs.

Selecting the future successor is one of the most important decisions made by family firms (Le Breton-Miller et al. 2004). The choice of a family successor reinforces the family's power and influence in the firm (Cruz et al. 2012). The desire to keep the business in the family is found to have an impact on successor selection and training (Sharma et al. 2003b). Based on an exhaustive literature review, Chrisman et al. (1998) identified the 30 most desired attributes of successors in family firms. They grouped those attributes into six broad categories: (1) successor's relationship with the incumbent, (2) relationships with other members of the family, (3) family standing, (4) competence, (5) personality traits and (6) current involvement with the family business. Chrisman et al. (1998) ranked the importance of these attributes based on a sample of Canadian family firms. Sharma and Rao (2000) replicated the study on Indian family firms and found that the successor attributes most valued by Indian firms differ from those valued by Canadian firms. This study extends the 30 most desired attributes to a sample of Saudi family firms.

The aim of this chapter is to describe family SMEs in Saudi Arabia, their succession planning and their most desired successor attributes. The gathered Saudi family business data are compared to previous family business literature from other countries; similarities and differences are illustrated, and implications are discussed.

2 Method

2.1 Sample, Data Collection and Respondents

There is no list of family businesses in Saudi Arabia; thus, the list of firms operating in Riyadh area from the Riyadh Chamber of Commerce and Industry (RCCI) was used in order to collect the primary data for this study. Sample quotas across six

industries were applied to obtain the study's sample framework. The six broad industry categories are (1) manufacturing; (2) building and construction; (3) wholesale, retail, hotels and restaurants; (4) transport, storage and communication; (5) import/export; and (6) services. A total of 2646 firms were obtained through a stratified random sample: 2146 firms were sent an electronic questionnaire built using Qualtrics, while 500 were sent a paper questionnaire using a drop and collect method. Before sending out the paper questionnaire, firms were contacted to confirm their industrial activity, business age, family business status, the number of full-time employees and their participation willingness. A group of seven volunteers were recruited for the job of dropping off and collecting the completed questionnaires. The objectives of the survey, as well as each of the questions, were explained to the volunteers during a 2-h training session. Firms were identified as family firms based on the criteria of having at least two family members actively involved in the business and on the CEO's perception of it being a family business (Miller et al. 2008; Westhead and Cowling 1998).

The questionnaire was developed in English, translated to Arabic and then translated back to English by two different bilingual specialists fluent in English and Arabic. This was necessary in order to validate the translation and to guarantee similarity of the two original language versions (Harkness and Schoua-Glusberg 1998). The questionnaire was reviewed by specialised academics and family business owners before piloting it on eight family businesses. After that, questions were revised and length was reduced. The questionnaire was distributed to the key respondent in each business. Follow-up emails and visits were made twice after the questionnaire was sent electronically or dropped off. A total of 385 questionnaires were returned, 100 of which were eliminated as they were incomplete, from too small or too big firms, or because they failed to meet the adopted family business definition. The average sample size of quantitative studies using primarily data published in the Journal of Business Venturing (JBV) was numbered at 351 between 2001 and 2006 (Mullen et al. 2009). The 385 returned questionnaires represent a response rate of 14.55%, compared to the 10% response rate which Fahed-Sreih and Djoundourian (2006) achieved in their study of Lebanese family businesses. Eddleston et al. (2012), Cruz and Nordqvist (2012) and Schepers et al. (2014) achieved response rates of 14.3%, 12% and 9.2%, respectively.

2.2 Sample Representation

A combination of chi-square and Mann–Whitney U tests was performed to test for differences between early and late respondents with regard to entrepreneur gender, entrepreneur age, business age and number of full-time employees. This was performed to investigate non-response bias as suggested by Armstrong and Overton (1977). There was no evidence at the 0.05 level, or better, of response bias against the aforementioned business and entrepreneur characteristics. As such, there is no

concern regarding sample bias, and the sample could be broadly generalised to those in the sampling frame.

2.3 Structure of Instrument

The design of questionnaires has been shown to affect the response rate, as well as the validity and reliability of data (Saunders et al. 2009). As such, the questionnaire for this study was carefully prepared using a clear and informative design. The first section of the questionnaire is used to obtain general demographic information about the CEO/entrepreneur of the firm. This data includes gender, age, education and ownership status.

The second part gathers information concerning the firm, including its age, number of full-time employees, legal status, industry, the existence and number of board of directors, and whether or not the firm has a business plan or is diversified. This section also seeks to gather information on the family members actively involved in the business and the firm's R&D and export activities.

The third section of the questionnaire gathers information about the succession plan in place at the firm, looking in detail at the selection criteria and development plans of the future successor. Succession planning is measured based on the responses of CEOs/entrepreneurs to three (yes/no) items. These include the following: 'Do you have a plan regarding transferring the business to the next generation?' 'Have you selected your successor?' and 'Is there a development plan for the successor?' Also, this section includes questions about the generation managing the business, the anticipated period of succession, number and gender of potential successor(s) and further information about the succession plan. Finally, the most desired successor attributes were measured using the 30 successor attributes adopted from Chrisman et al. (1998). Respondents were asked to indicate the importance of each attribute on a scale from 1 to 5, 1 being 'not important' and 5 being 'critically important'. The six attribute categories are:

1. Successor's relationship with the incumbent: three successors' attributes (compatibility of goals with current CEO, personal relationship with CEO, age of successor)
2. Relationships with other members of the family: four successors' attributes (trusted by family members, respected by actively involved family members, ability to get along with family members, respected by noninvolved family members)
3. Family standing: three successors' attributes (successor gender, blood relation, birth order)
4. Competence: ten successors' attributes (decision-making abilities/experience, interpersonal skills, experience in business, strategic planning skills/experience, financial skills/experience, marketing and sales skills/experience, technical

skills/experience, past performance, educational level, outside management experience)

5. Personality traits: seven successors' attributes (integrity, self-confidence, intelligence, aggressiveness, creativity, independence, willingness to take risk)
6. Current involvement with the family business: three successors' attributes (commitment to the business, respected by employees, current ownership share in the business)

The Statistical Package for the Social Sciences (SPSS) computer software was used to conduct the analysis of data in this study.

3 Results

The descriptive statistics of the sample are presented in this section. Descriptive statistics present the data systematically and meaningfully, as well as enable exploration of trends and characteristics of Saudi family SMEs.

Descriptions of continuous variables, including entrepreneur age, business, age and number of full-time employees, are presented in Table 1. Descriptions of categorical variables, including gender, education and firm size, are listed in Table 2. Multiple response variables are illustrated in Table 3. The most desired successor attributes are ranked in Tables 4 and 5.

Sample description is compared to previous family business studies conducted in a similar country context, as well as in Western countries. First, CEO/entrepreneur demographic characteristics are presented, and then the business characteristics are demonstrated. Next, succession planning taking place in the business is illustrated, and finally the most desired successor attributes are discussed.

3.1 CEO/Entrepreneur Characteristic

The youngest CEO/entrepreneur in the sample is 23 years old, and the oldest CEO/entrepreneur is 74 years old. Figure 1 illustrates the cumulative percentage distribution of the age of the respondents and indicates that 45% of the entrepreneurs are young and between 23 and 39 years old, and 4% of the entrepreneurs are 60 years or older. This compares to Fahed-Sreih and Djoundourian's (2006) study of Lebanese family businesses, in which 78% of their sample was less than 50 years old. The average age of the entrepreneurs who participated in this study is 43.6 years old. This average age is close to those reported by Eddleston et al. (2008) study of privately held US family firms, in which the ages of entrepreneurs ranged from 19 to 70, with an average age of 44.8 years old, and in Cruz et al.'s (2012) study of Dominican Republic small family firms, where the average age was 42.49 years old.

Table 1 Descriptive statistics for continuous variables

	N	Mean	Median	Mode	SD	Variance	Minimum	Maximum
Entrepreneur age	285	43.60	43	40	9.623	92.599	23	74
Business Age	285	10.99	8	7	7.901	62.422	1	46
Number of full-time employee	284	41.78	24	10	49.09	2410.74	3	250
Number of current business	89	3.15	3	2	2.552	6.513	1	19
Number of previous business	88	2.67	2	1	2.563	6.568	0	19
Number of family members working in the business	285	3.49	3	3	1.192	1.420	2	10
Number of family members on the board	51	2.96	2	2	2.04	4.158	0[a]	9
Number nonfamily members on the board	50	1.96	2	0	1.91	3.631	0	6
Percentage of total revenue exported	76	24.17	25	20	18.23	332.19	0	75
Percentage of total revenue spent in R&D	101	9.30	10	10	7.788	60.66	0	35
Percentage of revenue to diversification	82	21.69	20	10	16.76	280.78	0	90
Years to current president retirement	285	13.28	10	10	9.71	94.20	0	50
Number of male potential successor	280	1.53	1	1	.961	.924	0	6
Number of female potential successor	281	.43	0	0	.847	.717	0	5

[a]0 denotes having no board of directors in the family firm

Table 2 illustrates that nine out of the ten respondents are male, meaning that females constituted only 10% of the respondents. While the representation of women in these figures are low in comparison with studies of the USA, such as Eddleston et al.'s (2008) study which found 32% of the entrepreneurs were women, or Marshall et al.'s (2006) study that reported 19% of the entrepreneurs being

Table 2 Descriptive statistics for categorical variables

	Frequency ($N = 285$)	Valid percent	Missing
Entrepreneur demographics			
Gender			0
Male	257	90.2	
Female	28	9.8	
Bachelor degree			3
Yes	166	58.9	
No	116	41.1	
Master's degree			7
Yes	46	16.5	
No	232	83.5	
Professional qualification			0
Yes	51	17.9	
No	234	82.1	
Habitual entrepreneurs			5
Yes	90	32.1	
No	190	67.9	
Entrepreneur type	($N = 90$)		*2*
Serial entrepreneurs	16	18.2	
Portfolio entrepreneurs	72	81.8	
Ownership type			0
Established the business	202	70.9	
Inherited the business	52	18.2	
Purchased the business	24	8.4	
Other	7	2.5	
Business characteristics			
Firm size			**0**
Small	217	76.1	
Medium	68	23.9	
Sector			**0**
Import/export	16	5.6	
Manufacturing	17	6.0	
Building and construction	52	18.2	
Wholesale, retail, hotels and restaurants	147	51.6	
Transportation, storage and communication	11	3.9	
Service	42	14.7	
Legal form			**3**
Sole proprietorship	220	78.0	
Limited partnership	47	16.7	
Private limited company	4	1.4	
Simple partnership	2	.7	
Joint venture	2	.7	
Other	7	2.5	

(continued)

Table 2 (continued)

	Frequency ($N = 285$)	Valid percent	Missing
Formal board of directors			**6**
Yes	52	18.6	
No	227	81.4	
Formal business plan			**0**
Yes	182	63.9	
No	103	36.1	
Exports			**0**
Yes	76	26.7	
No	209	73.3	
R&D			**2**
Yes	101	35.7	
No	182	64.3	
Diversification			**10**
Yes	82	29.8	
No	193	70.2	
Succession			
Generational involvement			**1**
One generation	163	57.4	
Two generations	109	38.4	
Three or more generations	12	4.2	
Entry mode of successor			**3**
Worker	61	21.6	
Low-level manager	58	20.6	
High-level manager	142	50.4	
Other	21	7.4	
Succession planning			**1**
0 (no to all three questions)	115	40.5	
1 (yes to one of three questions)	91	32.0	
2 (yes to two of three questions)	13	4.6	
3 (yes to all three questions)	65	22.9	

women, the figures in the current investigation are nevertheless not surprising in Saudi Arabia. In Saudi Arabia, the official percentage of female ownership of companies is 12% (AlMunajjed 2010), compared to 28% in the USA (US Census Bureau 2007), and 29% in the UK (Carter et al. 2015). This demonstrates that the business world is male dominated in Saudi Arabia, due to cultural and regulatory constraints. Nevertheless, female respondents were 9% in Cruz and Nordqvist's (2012) study of family SMEs in Spain. Other studies in emerging economies, such as Fahed-Sreih and Djoundourian's (2006) study in Lebanon and Venter et al.'s (2005) study in South Africa, reported 10% and 18% female respondents, respectively. While Sharma and Rao's (2000) sample of Indian family businesses was 100% male.

Table 3 Descriptive statistics for multiple responses

	Responses		Percent of cases
	($N = 285$)	Percent	
Entrepreneur position			
Founder	149	29.5	52.3
Owner	190	37.6	66.7
CEO/president	81	16.0	28.4
Manager	77	15.2	27.0
Other	8	1.6	2.8
Total	*505*	*100*	*177.2*
Method of successor selection			
Predecessor's sole decision entirely	37	43.5	45.7
All family members made this decision	40	47.1	49.4
Some of family members made this decision	3	3.5	3.7
Self-nomination	3	3.5	3.7
Other	2	2.4	2.5
Total	*85*	*100.0*	*104.9*
Successor training			
Prior knowledge of the company (summer training)	134	21.2	47.2
Academic	130	20.6	45.8
Experience outside the family business	130	20.6	45.8
Mentoring (on-the-job training)	238	37.7	83.8
Total	*632*	*100.0*	*222.5*

In the sample, 58.9% of respondent entrepreneurs reported holding a bachelor degree, 16.5% hold a master's degree, and 17.9% have acquired professional qualification. Professional qualifications describe specific certification for fields including engineering, accounting, finance, IT and law. In Fahed-Sreih and Djoundourian's (2006) study of Lebanese family businesses, 40% of respondents were university graduates. However, a study of Dominican Republic family businesses by Cruz et al. (2012) reported that owners/managers typically had low levels of formal education. Davis et al.'s (2010) sample of family and nonfamily employees in US family firms found that 52% of their sample had a college degree. In the current study, the high percentage of graduates in the sample seems likely to reflect the importance placed upon education in Saudi Arabia.

Regarding ownership type, the majority of respondents (70.9%) are founders who established the business themselves, 18.2% of respondents inherited the business, 8.4% of respondents purchased the business, and 2.5% of respondents indicate other types of ownership. The other type of ownership is 'partner'. This indicates that most of the firms in the sample are in their first generation of family business.

As indicated in Table 2, 90 respondents (constituting 32.1% of the sample) could be classified as habitual entrepreneurs. Habitual entrepreneurs are those who have prior entrepreneurial experience. Ucbasaran et al. (2006) differentiate between two

Table 4 Mean, standard deviation and comparative attribute rankings in Saudi, Canadian and Indian samples ($N = 269$)

Attributes	Mean	S.D	Attribute rankings		
			Saudi sample	Canadian sample Chrisman et al. (1998)	Indian sample Sharma and Rao (2000)
Commitment to business	4.52	.70	1	2	2
Integrity	4.48	.83	2	1	1
Decision-making abilities/ experience	4.45	.73	3	7	4
Self-confidence	4.43	.78	4	4	3
Interpersonal skills	4.40	.72	5	5	14
Intelligence	4.37	.81	6	6	7
Aggressiveness	4.32	.89	7	17	16
Experience in the business	4.28	.81	8	9	15
Creativity	4.22	.90	9	8	10
Trusted by family members	4.18	.87	10	12	5
Respected by employees	4.14	.77	11	3	6
Respected by actively involved family members	4.09	.90	12	11	9
Strategic planning skills/ experience	4.07	1.02	13	14	8
Ability to get along with family members	4.06	1.05	14	16	13
Marketing/sales skills	4.06	1.00	15	15	19
Financial skills/experience	4.05	1.03	16	13	20
Technical skills/experience	3.92	1.07	17	23	27
Independence	3.91	1.17	18	10	24
Past performance	3.91	1.19	19	20	17
Educational level	3.82	1.03	20	19	21
Respected by noninvolved family members	3.80	.90	21	22	22
Compatibility of goals with current CEO	3.78	.90	22	21	18
Outside management experience	3.69	1.10	23	24	26
Willingness to take risk	3.63	1.29	24	18	12
Personal relationship with CEO	3.55	.98	25	25	21
Gender	3.34	1.22	26	29	25
Current ownership share	3.07	1.37	27	28	30
Age of successor	3.03	.96	28	26	28
Blood relation	2.95	1.25	29	27	11
Birth order	2.59	1.23	30	30	29

Table 5 Mean and comparative attributes category rankings in Saudi, Canadian and Indian samples

Attribute categories	Mean	Category rankings		
		Saudi sample	Canadian sample Chrisman et al. (1998)	Indian sample Sharma and Rao (2000)
Personality traits		**1**	**1**	**1**
• Integrity	4.48			
• Self-confidence	4.45			
• Intelligence	4.37			
• Aggressiveness	4.32			
• Creativity	4.22			
• Independence	3.91			
• Willingness to take risks	3.63			
Category average (total/7)	*4.20*			
Competence		**2**	**3**	**4**
• Decision-making abilities/ experience	4.43			
• Interpersonal skills	4.40			
• Experience in business	4.28			
• Strategic planning skills/ experience	4.06			
• Financial skills/experience	4.06			
• Marketing/sales skills/experience	4.05			
• Technical skills/experience	3.92			
• Past performance	3.91			
• Educational level	3.80			
• Outside management experience	3.69			
Category average (total/10)	*4.06*			
Relationships with other family members		**3**	**2**	**2**
• Trusted by family members	4.18			
• Respected by actively involved family members	4.09			
• Ability to get along with family members	4.07			
• Respected by noninvolved family members	3.78			
Category average (total/4)	*4.03*			
Current involvement with the family business		**4**	**4**	**3**
• Commitment to the business	4.52			
• Respected by employees	4.14			
• Current ownership share in the business	3.07			

(continued)

Table 5 (continued)

Attribute categories	Mean	Category rankings Saudi sample	Canadian sample Chrisman et al. (1998)	Indian sample Sharma and Rao (2000)
Category total average (total/3)	*3.91*			
Successor's relationship with incumbent		**5**	**5**	**5**
• Compatibility of goals with current CEO	3.82			
• Personal relationship with CEO	3.55			
• Age of successor	3.03			
Category total average (total/3)	*3.47*			
Family standing		**6**	**6**	**6**
• Successor gender	3.34			
• Blood relation	2.95			
• Birth order	2.59			
Category total average (total/3)	*2.96*			

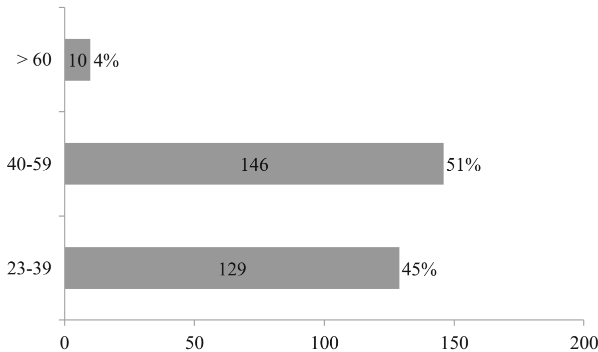


Fig. 1 CEO/entrepreneur age

types of habitual entrepreneurs: serial entrepreneurs and portfolio entrepreneurs. According to this definition, serial entrepreneurs are those businesspeople who have owned or partially owned at least one business in the past, and who currently own or partially own one business. Portfolio entrepreneurs, on the other hand, are entrepreneurs who currently own or partially own more than one business. Out of the 32.1% habitual entrepreneurs in the sample, 18.2% are serial entrepreneurs, and 81.8% are portfolio entrepreneurs. This compares to Westhead et al.'s (2005) study of entrepreneurs in Scotland where 43.5% of the sample were habitual entrepreneurs, of which 42.86% were serial and 57.14% were portfolio entrepreneurs.

3.2 Business Characteristics

The age of the businesses that participated in this study ranges from 1 to 46 years. Figure 2 shows the cumulative percentage distribution of the business age and indicates that a little over half of the sample (52%) are relatively young businesses at between 5 and 10 years old, 12% of the businesses are less than 5 years old and 12% are older than 20 years. The average business age is around 11 years old, which is understandable due to the fact that Saudi Arabia is an emerging economy. The government of Saudi Arabia has only more recently increased the support of SMEs prior to joining the World Trade Organization (WTO) in 2005. This compares to US studies of Chrisman et al. (2012), Chrisman et al. (2004) and Eddleston et al. (2008) where the average business age was 14.72, 17.44 and 22.9 years, respectively.

The number of full-time employees ranges between 3 and 250, reflecting the sample specification of SMEs. Figure 3 shows the cumulative percentage distribution of the number of full-time employees and indicates that small businesses with 3–50 full-time employees comprise 76% of the sample, while the remaining 24% of the sample is comprised of medium-sized businesses of 50–250 full-time employees. The average number of full-time employees is approximately 42. This is comparable to Cruz and Nordqvist's (2012) study of Spanish family

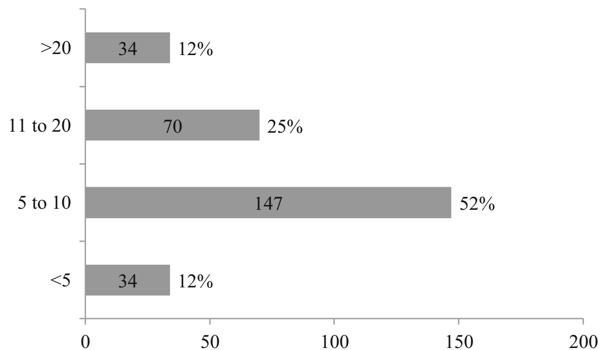


Fig. 2 Business age

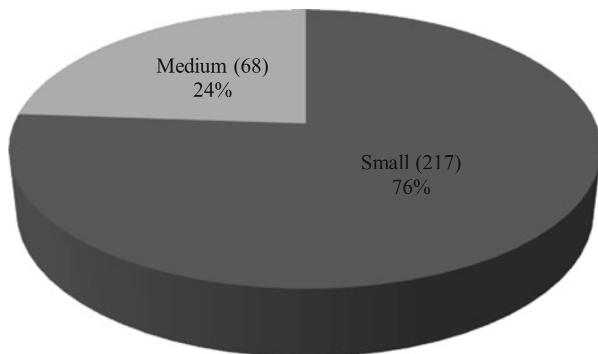


Fig. 3 Number of full-time employees

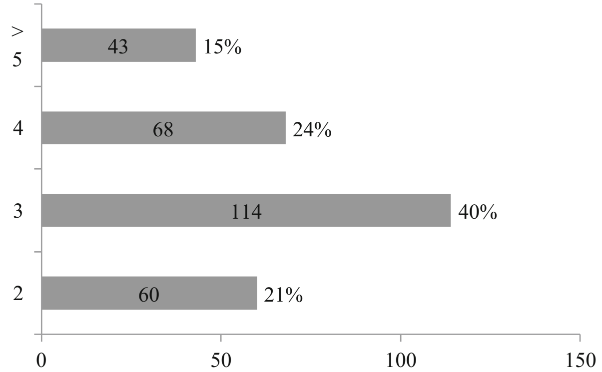


Fig. 4 Number of family members working in the business

SMEs where the average number of full-time employees was 54, as well as Chrisman et al.'s (2004) study of small family and nonfamily US firm, in which the average number of full-time employees was 23.

The minimum number of family members working in the businesses in this study is 2, and the maximum is 19. As shown in Fig. 4, the cumulative percentage distribution of the number of family members actively working in the business indicates that 21% of family firms have two family members working in the business, 40% have three family members, 24% have four family members, and 15% have more than five family members. This means that the average number of family members actively working in sampled businesses is 3.49, which compares to the studies by Motwani et al. (2006) and Zahra et al. (2008), which both found that the average number of family members working in the business was 3.09.

In terms of industries, family businesses in this sample are mainly concentrated in the wholesale, retail, hotels and restaurants sector (51.6%), followed by building and construction (18.2%), then service (14.7%), manufacturing (6.0%) and import/export (5.6%) and, finally, in the transportation, storage and communication sector (3.9%). Those percentages reflect the percentages of firms in each sector, as obtained from the data provided by the Riyadh Chamber of Commerce and Industry (RCCI), as a sample quota was applied in the sample framework. Other studies utilised different sample strategies and industry sectors, some of them reflecting the population of the sample. For example, in Chrisman et al.'s (2012) sample of small family firms in the USA, the sector with the highest level of representation was the service industry (49.1%), followed by retail (20.5%) and then manufacturing (17.2%). Those percentages are compared with the population from where the sample was drawn (Small Business Development Center, SBDC) as well as with the wider population of small businesses in the USA.

When it comes to the legal form of the business, the vast majority (78%) of the sampled firms are sole proprietorships, with 16.7% limited partnerships, 1.4% private limited companies, 0.7% simple partnerships, 0.7% joint ventures and the final 2.5% denoting other legal forms of business. This compares to Marshall et al.'s (2006) study where 55% of their family firms were privately held, 28% were sole

proprietorships, 6% were limited partnerships, 5% were general partnerships, 1% were publicly traded, and 5% were other forms. Unlike Saudi Arabia, sole proprietorship is not a common form of family businesses in the USA and Western Europe, most probably due to the fact that this form of business bears a number of risks related to legal liabilities, divorce issues and inheritance tax. Even in Turkey, Tatoglu et al. (2008) found that 56.1% of family firms were limited liability companies, followed by 23.3% joint stock and then 20.6% sole proprietorship.

As shown in Table 2, only 18.6% of the sample has a board of directors. This compares to 60.6% in Motwani et al.'s (2006) study of US family SMEs and 45% in the study by Marshall et al. (2006). This low percentage of family firms that have a board of directors reflects the relative informality of family businesses in Saudi Arabia. With reference to planning, 63.9% of the sample indicated that they have a business plan, while 36.1% stated otherwise. This percentage compares to Perry's (2001) study of US small businesses where 62.5% of their sample indicated not having any sort of planning. By investigating a sample of SMEs in a developing economy like Ghana, Yusuf and Saffu (2005) showed that 58.2% of firms in their sample have low levels of planning. The high percentage of firms that have a business plan in this study strongly suggests that Saudi businesses owners are aware of the importance of this kind of strategic thinking. Furthermore, a business plan is a prerequisite to obtaining funds from governmental bodies.

Twenty-seven percent of the family firms in the sample export their products/services. This percentage compares to Fernandez and Nieto's (2005) study of family and nonfamily SMEs in Spain where 39% of family firms export their goods and/or services. In the UK, 19% of family SMEs were engaged in exporting in 2010 (Institute for Family Business 2011). The percentage of exporting Saudi family SMEs is encouraging, since oil and petroleum products comprise 90% of Saudi exports. The engagement of Saudi family SMEs in exporting reflects the efforts of the Saudi government to mitigate the potential risks inherent in overreliance on a single sector by encouraging diversification of the current oil-based economy. Furthermore, as indicated in Table 1, the percentage of total revenue exported by family firms in the research sample is 24.17%. While PwC family business survey in 2012 indicates that there are differences between countries regarding exports as a percentage of sales in family businesses with Singapore being the highest (60%) and Australia being the lowest (5%), the 24.17% in this Saudi sample is relatively high, as family businesses in the Middle East export 15% of their sales (PwC 2012).

As indicated in Table 2, 35.7% of family firms engage in R&D activities. This percentage is comparable to Griffith et al.'s (2006) study of SMEs in four European countries France, Germany, Spain and the UK where R&D engagement was 34.8%, 40.2%, 20.7% and 27.2%, respectively. In addition, 41% of Italian SMEs in Hall et al.'s (2009) study engaged in R&D. Table 1 shows that the average percentage of total revenue spent in R&D is 9.3%. This figure is comparable to the findings of Miller et al. (2008), who found that the average R&D spending of the Canadian small firms in their study was 9.76%. Since R&D is considered a source of innovation, Saudi family firms exhibit a similar R&D spending of firms in an

advanced economy. The data show that 29.8% of family firms in the sample are involved in a secondary business activity beside their main business. This reflects the high percent of portfolio entrepreneurs discussed earlier.

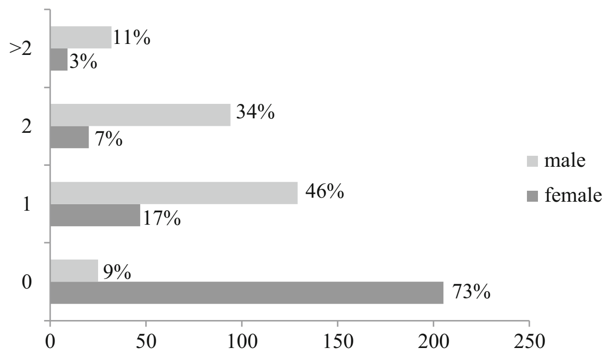
3.3 Succession Planning

When it comes to succession planning, 40.5% of family firms in the sample answered ‘No’ to all three questions regarding a succession plan, 32.2% answered ‘Yes’ to one of the three questions, 4.6% answered ‘Yes’ to two of the three questions, and 22.9% answered ‘Yes’ to all three questions. On a four-point scale, the average extent of succession planning in this research is 2.10. This compares to Sharma et al.’s (2003a) study in which the average extent of succession planning of incumbents was 3.30 on a five-point scale.

In terms of generational involvement, 57.4% of the firms have one generation, 38.4% have two generations, and 4.2% have three or more generations involved in managing the business. The average generational involvement in this study is 1.44. This compares to Kellermanns and Eddleston’s (2006) study where the average generational involvement was 1.75, and Chirico et al.’s (2011) study where the average generational involvement was 1.45.

The number of male potential successors ranges between 0 and 6, whereas the number of female potential successors ranges between 0 and 5. Figure 5 shows the cumulative percentage distribution of the number of male compared to the number of female potential successors. As indicated in Fig. 5, 73% of respondents do not consider a female successor to be a viable option, while only 9% of respondents do not consider a male successor viable. The majority of the 73% are male CEO/entrepreneurs, and the majority of the 9% respondents are female CEO/entrepreneurs running female-related businesses, such as art and design and beauty salons. In Sharma et al.’s (2003a) study of succession in Canadian family businesses, 85% of the sample also involved same gender successions.

Fig. 5 Number of male/female potential successors



As indicated in Table 3, with regard to the method of successor selection, all family members made this decision in 47.1% of cases. In 45.7% of cases, this decision was the sole decision of the predecessor, in 3.5% some of family members made this decision, in another 3.5% it was determined through a process of self-nomination, and 2.4% indicated another method of successor selection. In Tatoglu et al.'s (2008) study of Turkish family firms, 67.9% of firms indicated that this issue was the predecessor's sole decision, followed by that of all family members (18.9%). The high percentage of Saudi family firms in which all family members are involved in decisions on the selected successor suggests that the Saudi society is probably not patriarchal. This view is in contrast to the general assumed idea of social life in Saudi Arabia.

In terms of successor training, 37.7% of respondents agreed that mentoring (on-the-job training) is important in the preparation of the successor, followed by prior knowledge of the company (summer training) (21.2%) and then academic education (20.6%) and experience outside the family business (20.6%). Studies support the idea that using a positive mentoring relationship between the incumbent and successor as a training tool is more likely to enhance the leadership development of the successor and to contribute to the success of succession in family firms (Le Breton-Miller et al. 2004; Cabrera-Suarez 2005).

As shown in Table 3, when asked about the actual or desired entry mode of the successor, half of the respondents (50.4%) answered high-level manager, followed by worker (21.6%), then low-level manager (20.6%) and the remainder (7.4%) indicated another mode of entry. This compares to Tatoglu et al.'s (2008) study where low-level manager comprised the highest entry mode (41.9%), followed by high-level manager (28.2%) and then worker (16.7%).

3.4 Successor Desired Attributes

To discover the most desired characteristics of the future successor, the respondents were asked to indicate the importance of 30 successor attributes adopted from Chrisman et al. (1998) and Sharma and Rao (2000). The ratings of the importance of the successor attributes, both individually and grouped in categories, are ranked along with the correspondence rating of the Canadian and Indian samples in Tables 4 and 5. Similarities and differences among the three samples are observed, providing an insight into the most desired successor attributes in the Saudi context.

The mean ratings of the importance of the successor attributes were ranked along with their standard deviations (Table 4). The mean ranges between 2.59 and 4.52, and the standard deviation ranges between .70 and 1.37. Overall, the standard deviation decreases as the mean rating increases, indicating that there is an agreement among respondents on the importance of highly ranked attributes. Of the 30 attributes, *commitment to the business* was considered the most important attribute for family firms in the sample followed by *integrity*. In Chrisman et al.

(1998) and Sharma and Rao (2000), *commitment to the business* was ranked second after *integrity*.

The attributes were then grouped into six categories based on the literature and previous research. The categories are personality traits, competence, relationships with other family members, current involvement with the family business, relationship between the successor and the incumbent and family standing. Attribute categories were then ranked in a descending order for the whole sample along with a comparative ranking with previous studies (Chrisman et al. 1998; Sharma and Rao 2000) (Table 5). In line with previous studies, 'personality traits' is the most important category.

4 Discussion and Conclusion

This descriptive study provides a systematic exploration of data collected from Saudi family SMEs including demographic description, as well as succession planning and the most desired successor attributes. The most notable results are discussed in this section along with their implications for family business literature, policy and practice.

The degree of succession planning in Saudi family SMEs varies across the sample, with most respondents indicating that they have done little to no succession planning. This result is expected because family business leaders are usually reluctant to plan for succession (Le Breton-Miller et al. 2004; Marshall et al. 2006). Nevertheless, family business owners are advised to place more importance on succession planning in order to successfully transfer the business to the next generation and insure its survival.

The majority (78%) of the family firms in the research sample were sole proprietorships. Although this is the most common form of organisation in Saudi Arabia, it carries greater risks in the context of family businesses: firstly, the private liability of the owner can harm the whole business, and, secondly, in the case of the owner's death (father), brothers may buy their sisters' inheritance shares in the business for fear of dealing with in-laws. The latter strategy is not an unusual one and may even involve female shares being purchased without their full consent. Therefore, policymakers should encourage family business owners to turn the legal status of their companies from sole proprietorships to limited or simple partnerships and to explicitly include all legal owners. In doing so, owners will have a better chance of ensuring the smooth transition of ownership and therefore the continuity of their family business.

Although the board of directors is generally recognised as playing an important role in effective succession planning and devising the strategic direction of family firms, only 18% of the research sample has a board of directors. The lack of formality in Saudi family businesses is potentially alarming and should be taken into consideration by practitioners and policymakers. In 2014, the Ministry of Commerce and Industry piloted a guide for governance of Saudi family business.

The guide emphasises the importance of governance to the continuity of family firms and provides detailed governance practices, such as the development of a family business charter, and suggestions on the role and composition of the board of directors and family council. However, the guide is the first official initiative directed towards family businesses, and more needs to be done to encourage such practices. The guide is also primarily directed towards large family businesses. Given the importance of SMEs to the national economy, further efforts should be undertaken regarding the governance of these smaller organisations, which would potentially play a significant role in improving their overall performance and therefore contribute to the ongoing economic development in the country.

When it comes to the most desired successor attributes, the two top rated attributes (*commitment to business* and *integrity*) are the same across the three samples. However, unlike the Canadian and Indian sample, Saudi family business owners ranked *commitment* more highly than *integrity*. This result confirms the findings of previous studies regarding the importance of successor commitment to the business in his/her decision to pursue career in the family firm (Sharma and Irving 2005), in addition to the success of succession (Cabrera-Suarez and Martin-Santana 2012). In general, and regardless of the family business context, family business owners/CEOs tend to place a higher importance on an honest, hardworking and committed successor across different cultures. Another interesting finding is the agreement among family business owners/CEOs on the lower ranking and therefore less desirable attributes. All three samples agreed that three attributes (*gender*, *age of successor* and *birth order*) are among the least important. While the low rating of *gender* as a consideration is not surprising in the Canadian sample, it comes as a surprise in the Indian sample and is even more surprising in the Saudi context. The literature asserts that females are typically only considered as successors in family firms in special circumstances, such as in a crisis or when there is a lack of a viable male successor (Haberman and Danes 2007; Curimbaba 2002). However, Fahed-Sreih and Djoundourian (2006) found that the majority of Lebanese family businesses favour female CEOs in their firms. This was contradicted by the work of Tatoglu et al. (2008), who found that sons are usually the favoured candidates to take over family businesses in Turkey. Importantly, the culture in both countries is considered far more liberal than Saudi Arabia. The Saudi society is male dominated and generally characterised by gender segregation in the workplace. This is also supported by the results of the demographic description of the sample, where 75% of the respondents did not consider a female potential successor. It is thus expected that respondents are either open minded or seek to appear in a socially desirable manner to a female researcher. Having low rating on *age* and *birth order* in all samples indicates that whether the succession is occurring in the west or the east, the ‘older son’ is in a no more advantageous or superior position than the other children of the family. Another low-ranking attribute in the Saudi and Canadian sample but not in the Indian sample is *blood relation*. It appears that when

it comes to the successor, Saudis do not consider the blood relationship as being especially important, as long as the candidate is a member of the family.

When it comes to noticeable differences between the three samples, Saudis ranked the attributes of *aggressiveness*, *respect by employees* and *willingness to take risk* differently than Canadians and Indians. *Aggressiveness* was ranked higher in the Saudi sample (7th) than in either the Canadian (17th) or the Indian (16th) sample. One explanation for this is linked to the Arabic translation of the word 'aggressiveness'. In Arabic, the meaning and implications of the word are perceived positively and are mostly associated with persistence. On the other hand, *respect by employees* was ranked lower in the Saudi sample. This might be due to the nature of the Saudi culture, in which business owners are respected by employees above all else, perhaps as a legacy of the tribal system in the country. Another attribute that was lower ranked in Saudi Arabia than in the two other samples is *willingness to take risks*. While this attribute was ranked 18th in the Canadian sample and 12th in the Indian sample, it was only ranked 24th in the Saudi sample. This demonstrates that family business owners/CEOs in Saudi generally seem to prefer a risk-averse successor.

When grouping the attributes into six categories following the procedures utilised by both Chrisman et al. (1998) and Sharma and Rao (2000), all three samples were found to agree on 'personality traits' being the most important category. This indicates that despite cultural differences, family business owners/CEOs consider the personality of their successor as being fundamentally more important than the other categories of attributes (competences, relationships with other family members, successor's relationship with the incumbent, current involvement in the business and family standing). This supports the call to include entrepreneurs' personality traits in entrepreneurship research because they are considered predictors of entrepreneurial behaviour and are positively related to business creation and business success (Rauch and Frese 2007). However, the three samples differ in their ranking of the 'competences' category. While this category was ranked third and fourth in the Canadian and Indian sample, respectively, it was ranked second in the Saudi sample, placing it second only to 'personality traits' in importance. This emphasises the importance of the skills and abilities of successors in the Saudi context, especially in regard to *decision-making abilities*, *interpersonal skills*, *experience in business and strategic planning skills*, which were ranked higher in the Saudi sample.

The importance of having a succession plan is well established for all types of organisations and specifically in family businesses. Poor senior management succession planning is attributed as being one of the primary reasons for the volume of family businesses which sharply decrease before they reach their third generation. This descriptive study has shed light on the characteristic of family business and their succession planning in an under-researched country.

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Epilogue: The Multiple Embeddedness of Family Firms in the Arab World

Rodrigo Basco

1 Introduction

Who am I? This question is still echoing in my mind. "Who am I?" was the question that a young, smart, entrepreneurial artist and new-generation Lebanese family firm member asked herself in the play *Hiraeth: Theatrical Journeys* at the First International Theatre Festival (American University of Sharjah). Her voice captivated my attention with its particular combination of sadness, longing, and nostalgia but also hope. Who I am?—that is the question when one's identity is formed of tiny building blocks of forces (cultural, institutional, familial, social, and friendship) that are going to shape the self—yourself, ourselves, and themselves. Performing her character, the performer mirrored the modern version of the horses in "Fatigued Ten Horses Converse with Nothing" painted by Kadhim Hayder.

In the present day, the term "Arab world" could be related to the geographical area occupied by 22 countries that form the Arab League[1] in Africa and the Middle East with a population of 422 million people, more than half of whom are under 30 years old. To be inclusive, beyond the Western stereotype, the Arab world is about Arabs but also about Berbers, Kurds, and Egyptian Coptic Christians, among others. It is about Islam but also about pre-Islam polytheistic religions and other faiths that emerged as monotheist religions in the region. It is about the Arabic language but also about other languages, dialects, and colonial influence across the geography. The Arab world is a mosaic of incredible identities formed by religions,

[1]Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

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cultures, languages, traditions, faiths, political systems, geographies, history, and artistic expressions. It is also about diasporas dispersed around the world. It is unity through diversity. For the individual navigating this amazing context, identity becomes a paradox of conflict and peace, stability and instability and certainty and uncertainty. However, the glue that ties the building blocks of identity is the **family**—the family as a nuclear system that carries the past, the present, and the future of social, relational, emotional, and economic expectations.

Family is the most enduring form of human organization and is basically made up of interactions and ways of communicating among individuals. Family is a group of individuals who are united by love, trust, affection, and respect as well as conflict, tension, and anxiety—characteristics that connect the group's past, present, and future. In this context, survival means the aspirational achievement of individuals' expectations to produce and reproduce their existence (who am I?) and the group existence (who are we?). At the group level of the family as a system, survival is intrinsically connected to family members' emotional ties, economic needs, and social ambitions. Thus, economic activities are embedded in the family. That is, one particular form of interaction that characterizes the family is economic activities. For example, Mohammed A. J. Al Fahim (1995, p. 26) describes this notion in the context of Bedouin hospitality: "Travellers took refuge in the desert through this system of hospitality. In return for protection, they might give Bedouin food or purchase supplies or handcrafts from them". Friendship, family ties, and economic activities were interwoven in a complicated interaction. However, modern society has shaped these three dimensions, giving them a certain kind of formality, and it often appears that family and economic activities have been separated, but their connections remain strong underneath the visible structure that sustains the Arab way of life. It is for this reason that the family firm is the most common form of organization in the world and is particularly important in the Arab world.

The family firm is a phenomenon that can hardly be understood within the context in which it dwells. The family firm field has its origins, and it is, so far, a phenomenologically driven field in which scholars have attempted to generate theories to describe, analyse, interpret, and predict the phenomenon itself (Pérez Rodríguez et al. 2011). To unveil the phenomenon of the family firm and to take a closer look at the whole picture, it may help contextualize the phenomenon beyond its own borders. In this sense, the interaction between context and the family firm may enrich reflections and constructions of the real world to give meaning to them. The aim of this book is to place family firms within a singular context—namely, the Arab world. This exercise of contextualizing the family firm in the Arab world sheds new light on recognized nuances of family firms in terms of phenomenological perspectives and theoretical development.

We can define context as "the surroundings associated with phenomena which help to illuminate that [sic] phenomena, typically factors associated with units of analysis above those expressly under investigation" (Cappelli and Scherer, 1991, p. 56). In other words, context includes the dimensions that surround the phenomena under study at the same level and beyond. Basco (2017b, p. 329) defines context

as "what is beyond the phenomenon itself, and it is composed of both a physical demarcation and a cognitive demarcation". In this book, context is interpreted by contextualizing research in terms of understanding it as the "effective linking of theory and research objectives and sites, where researchers build on the innate qualities of the phenomena they examine". Therefore, extending the faces of context described by Johns (2006) to the family business research arena—that is, contextualizing research—includes the following:

- Context as situational characteristics to describe the embeddedness of family firms
- Context as situational strength that may intensify the particular aspects of family firms
- Context as a cross-level effect in which the micro-, meso-, and macro-levels are interwoven
- Context as stimuli that may facilitate the birth, development, and survival of family firms
- Context as an event in which a punctual happening could change the destiny of family firms
- Context as a shaper of meaning to understand family firms' behaviour

Extending the multiple embeddedness contexts model (Basco 2017b), family firms are embedded in contexts in which different dimensions [e.g. organizational, institutional, social, spatial, and temporal (Welter 2011; Wright et al. 2014)] come into play (see Fig. 1). There are three main characteristics of these multiple

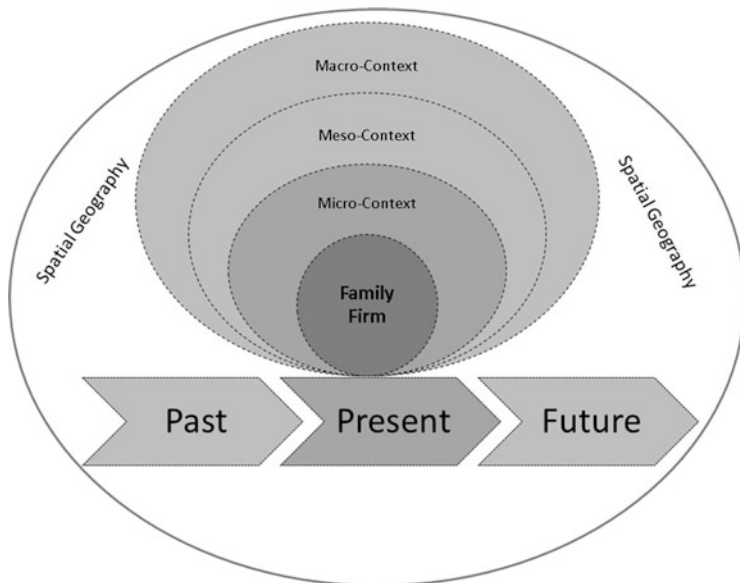

Fig. 1 The multiple embeddedness contexts of family firms

contexts. First, there are blurred boundaries among contexts and the phenomenon of the family firm itself—interdependence. Second, the characteristic of macro-, meso-, and micro-contexts is permeable at both the physical and cognitive level. Finally, the time is a dimension playing a particular and relevant role to put into perspective the phenomenon itself and the multiple contexts in the present time—the present is path dependent of its own past, and, at the same time, it is the projection for the future (i.e. past, present, and future).

2 Multiple Embeddedness of Family Firms in the Arab World

Because of the heterogeneous context within the Arab world, contextualizing family firms requires particular effort to recognize dimensions that are common across time and geographical space in the Arab world and dimensions that are context specific for a particular family firm or business family in time and geographical space.

The macro-context is composed of a broader umbrella under which a phenomenon emerges, occurs, and exits. In the first chapter, Alaya and Basly and Saunier describe the present economic situation of Arab countries by stressing their heterogeneity (particularly oil and non-oil economies) and highlighting the macroeconomic factors rendering this context specific. While unemployment, foreign direct investment, exports, or political problems are crucial challenges for Arab economies, Arab family firms play a vital role in the region in order to overcome the current economic, social, and political turmoil. Dimensions (e.g. economic, political, societal, and cultural) in this context can be related to formal and informal institutions (North 1990). Formal institutions stem from a region's political systems and the type of capitalism created therein, which in turn determines the laws, regulations, and explicitly written codes that frame the market in terms of its economic and social aspects (e.g. the Emiratisation laws in the United Arab Emirates). A region's formal system affects the way family-based economic activities emerge, develop, survive, and end. In chapter "Socioemotional Approach: Exploring Women's Guilt in an All-Female Egyptian Family Business", Chaarani and El Abiad explore the differences and similarities between family firms' and nonfamily firms' financial behaviour by contextualizing the macro-context in Lebanon. Specifically, the authors consider two different scenarios: the internal political crisis caused by the assassination of P. M. Rafic Hariri and the external political crisis with the Syrian civil war, which affected Lebanese firms from 2005 to 2015. Considering the conflicting political situation in Tunisia and its consequences for economic activities, Mzid ("Theorising on Arab Family Businesses") reveals the importance of social capital for family firms' organizational resilience, arguing that such capital helps firms absorb shocks, implement collective strategies,

and internalize practices to cope with external disrupting forces. In this sense, social capital connects formal and informal institutions.

On the other hand, in the macro-context, informal institutions include the soft aspects that are part of traditions and cultures and are embedded in norms, values, and beliefs. In a diverse context, such as the Arab world, family is the first place where individual and group cultures are developed and transmitted. Culture matters for family-based economic activities in terms of initiating firms (entrepreneurship), preserving the legacy of family economic activities, and projecting the family firm as the family identity (in its economic, social, and emotional dimensions). In an excellent exploratory and descriptive study, Alrubaishi ("Founder Legacy in Arab Dynastic Entrepreneurship") contextualizes succession planning in Saudi Arabia. Even more, the author contributes to the existing literature (e.g. Basco and Calabrò 2016) with new evidence about the "desired characteristics of the successor" and puts the ideal successor's main attributes (i.e. personality traits, competence, relationships with other family members, current involvement in the firm, successor's relationship with the incumbent, and family standing) into perspective by comparing individuals in Canadian and Indian samples. Additionally, in a more general essay, Fahed-Sreih ("How Can Family Firms Attract Foreign Investors? The Role of Governance Mechanisms in Tunisia") provides a perspective about family firms in the Arab world by focusing on dimensions like patriarchy, gender inequality, the role of women, succession and Islamic laws.

The meso-context is the environment close to the phenomenon of study and has significant influence, pressure, and impact on the family. For the family firm phenomenon, the meso-context is important because each of the sub-arenas (e.g. social network, industrial sector, and business environment, among others) has its own logics that affect family business behaviour. That is, multiple institutional logics interact to shape family-based economic activities. While some institutional logic forces complement each other, others can contradict. How family firms manage these forces is the source of family firm distinctiveness across contexts. The context heterogeneity across the Arab world provides an opportunity to study how the meso-context affects family firms. In chapter "Financial Behaviour of Lebanese Family Firms During Political Crises", in the context of Tunisia, Bencheikh and Chibani explore how firms operating in state-regulated sectors affect the firm's debt ratio. They found that family firms in regulated sectors have lower debt ratio levels than firms operating in more competitive markets. Additional findings show that there is a positive relationship between family firms having institutional investors and level of debt, showing the importance of logic forces coming from nonfamily investors to bear risk.

Finally, the micro-context for a family firm is the family itself. The family is a context in which economic activities (formal or informal) are developed, and for this reason, the family footprint is the primary distinction for family firms. Family imposes family-oriented and business-oriented objectives (Basco 2017a) that shape the way firms are governed and managed (Basco and Pérez Rodríguez 2011). In this context, the family's institutional logic is directly reflected in the family firm's structure, management, governance, and strategy (Basco 2014). In a very interesting essay format, Palaiologos ("Family Businesses in the Arab Economic Context")

conceptualizes family firms in the Arab world using the unique and specific dimensions of Namus, Wasta, Diwan, and Asabiyya, which come from Arab traditions and tribal clan systems. In addition, after conducting 30 interviews in four family firms in the context of Morocco, Bentebbaa ("Family Capital and Organizational Resilience of the Family Firm in Tunisia") concludes that the value system of the Moroccan family (spirituality/emotionality and rationality as two ends of a continuum) is reflected in individuals' involvement in family firms, which in turn affects organizational learning dynamics. Moreover, using a case study approach, Darwish ("Moroccan Family Businesses: Specific Attributes, Logics of Action and Organizational Learning Dynamics") finds interesting differences in psychic distance, foreign entry modes, and networking behaviour between Palestinian family and nonfamily firms in their process of internationalization. Furthermore, it is in this particular micro-context that the family and firm—both within a more general cultural and institutional context—acquires relevance for woman. Fakoussa and Collins ("A Developing Country's Perspective on the Inter nationalization Process of Family and Nonfamily Firms: The Case of Palestine") use an in-depth female Egyptian family firm case study to define a family business guilt model, which suggests that there is an optimum zone between closeness/ connection to the family and the business for women's work-life balance. While the relationship between family and firm seems to be understood as a root for culture, tradition, and religion within the Arab world, Hammouda ("Impact of Institutional Environment on the Capital Structure of Tunisian Family Firms") shows that foreign investors seem to avoid getting involved in firms with family participation (in ownership and management).

The aforementioned contexts do not have meaning without spatial geography. Family firms are not only economically, socially, institutionally, and familiarly bounded but are also framed by geographical embeddedness, where contextual forces acquire meaning. Geographical embeddedness acts as filter for amplifying or weakening macro- and meso-institutional logics' effects on family firms. Basco (2015) suggests that because family firms are locally embedded and because there are blurred boundaries between the family and firm, family firms both affect and are affected by proximity dimensions, such as geographical proximity, social proximity, organizational proximity, institutional proximity, and cognitive proximity. In this sense, it is important to recognize the geographical context (e.g. tribes, villages, and cities) in which societies emerged and the institutional, cultural, and familial dimensions were shaped. Geographical conditions are likely to form the boundaries to interpret concepts like identity (Namus), networks (Wasta), governance and knowledge transfer (Diwan), and power and solidarity (Asabiyyah) (Palaiologos, "Family Businesses in the Arab Economic Context").

3 What Does This Book Offer?

The ten chapters that form this book put the family firm phenomenon into perspective in the context of the Arab world. The birth, development, growth, and exit of family firms depend on context. The specificities of the family firm phenomenon are shaped by forces—sometimes contradicting forces— stemming from where they dwell. What makes this book worth reading is its application of the contextualization process to understand family firms. I would like to summarize what I learned reading this book by offering a list of takeaway ideas that echo throughout in these pages:

- Context is important in understanding family firms in the Arab world.
- Context heterogeneity (diversity) within the Arab world can be used to identify specificities (e.g. management practices, succession, financial investment, capital structure) in Arab family firms.
- The family business phenomenon is encapsulated in multiple contexts with blurred borders. In this sense, institutional, cultural, and familial forces interact to shape Arab family firms.
- However, the Arab family firm is a societal phenomenon that is also responsible for shaping, transforming, and perpetuating cultural, institutional and economical contexts (inverse effect).
- The contemporary characteristics of Arab family firms are linked with the temporal and historical aspects determining the occurrence, development, and continuity of the family firm phenomenon itself.
- The micro-environment (i.e. family) is key to understanding individuals' interactions as they attempt to conform to social, economic, and emotional forces and—even more—as they adapt traditions within modern technological, cultural, and social conditions.
- The modern manifestation of old traditions is embedded in the family context emerging through the family firm.
- Arab family firms can be viewed as a context reflecting the dynastic entrepreneurship phenomenon.
- The resilience elements of Arab family firms are basically linked to the Namus, Wasta, Diwan, and Asabiyyah concepts.
- Women play both visible and invisible roles in Arab family firms and have unique behaviours to balance personal aspirations as well as social and familial pressure.

The book extends previous efforts to contextualize family firms (e.g. Gupta and Levenburg 2010; Gupta et al. 2011) but uses an almost unexplored context in family firms—namely, the Arab world (with some exceptions, such as Bizri 2016; Bodolica et al. 2015; Fahed-Sreih and Djoundourian 2006; Welsh and Raven 2006). By deepening our knowledge of family firms in the Arab world, we can break down the stereotypes that surround the phenomenon of family firms and the context of the Arab world in order to incorporate nuances into the diversity of the

phenomenon itself. Moreover, it may help extend knowledge beyond the Arab world regarding the best governance, managerial, and cultural practices and change the view that international businesses have when looking at the Arab world to do business.

4 Where Do We Go from Here?

This book contributes to family firms in different ways. First, the editor and the authors attempt to debate the importance of the context for family firms. That is, the authors are contextualizing the phenomenon of family firms in order to explore specifics that could emerge in the context of the Arab world. This represents an important effort in the family firm field to identify heterogeneity in the phenomenon itself (Chua et al. 2012). In this book, heterogeneity comes from the environment that makes family firms respond to contextual forces in different ways. Having said that, the field could benefit from comparative studies of different contexts within the Arab world and of different contexts across the Arab world and other geographical, institutional, social, and cultural areas. Comparatives studies could use qualitative and quantitative methodologies to leverage the diversity of the social, economic, institutional, and familial contexts that shape family firms. This line of research could enable a better understanding of differences among family firms. That is, such efforts could focus on further contextualizing the family firm phenomenon.

Second, because the family business field is a phenomenologically driven academic field, shedding new light by contextualizing the phenomenon could also help contextualize theories coming from mainstream research, such as stewardship theory, a resource-based view approach, and agency theory, among others. In this sense, the family firm phenomenon and its context could challenge current theories by identifying to what extent a theory can be applied to family firms within particular contexts. This line of research could provide evidence of potential contextual effects that create differences in the way family firms emerge, develop, and exit.

Finally, since the family business field has generally assumed that context shapes family firms but has hardly theorized and tested this premise, it is necessary to open new research lines that help clarify the role context plays in family firms. That is, we need more research and theorization on the role context plays in the way family firms are owned, governed, and managed (Whetten 2009).

The three aforementioned lines of research—phenomenon contextualization, theories in context, and theories of context—are important for the family business field and for generating practical knowledge. This book closes geographical and cognitive gaps by showing that family firms in the Arab world are able to contribute to the international business community based on the specific ways Arabs own, govern, and manage firms. The overall goal of this book is to answer what family firms are in the Arab world.

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