# 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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