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Growing the Arab Family Business (1): Hybrid Organizational Arrangements

Georgios Palaiologos

Assistant Professor, College of Business & Financial Sciences

Royal University for Women

Kingdom of Bahrain

Email: gpalaiologos@ruw.edu.bh; gpaleol@yahoo.com

Zainab Al Khunaizi

Graduate of College of Business & Financial Sciences

Royal University for Women

Kingdom of Bahrain

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Abstract

Purpose: In this research the classical Growth Models have been used to explore the chosen strategies of Family Businesses in Bahrain and GCC. Moreover, various models of Franchising, Product/Market development and diversification, have been tested as means of growth.

The purpose of this paper is to provide a perspective on family businesses that are operating business format franchising in Bahrain through examining their share in comparison with other family businesses who are involved in the industry of franchising in Bahrain. The research focuses on studying the management actions or aspects that have contributed to build the structure and governance of those family businesses. There are three main objectives of this paper:

a. To detect justifications for the reasons that encourage franchisors to expand their operations through franchising agreements,

b. To recognize the extent of agreement of those family businesses on the obligations of the franchisor and franchisee.

c. To identify diversification options and other hybrid forms of growth in GCC.

Unit of Analysis: The participating members are in all levels of the family business community. The research is focusing on Family business as perceived and declared from the principles matching our definitional assumption. The operational definition used in this research is that "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 family members of the same family or small number of families in a manner that is potentially sustainable across generations of family or families"

Methods: A deductive approach is used, to test theories and concepts of franchising and other hybrid modes. Additionally, a quantitative research methodology has been adopted for collecting the primary data; the data was collected through questionnaire which has been distributed on 24 family businesses operating in the industry of franchising, and has been analyzed statistically. The sample is mainly part of a population of 360 members of Bahrain Family Business Association and we distributed questionnaires with 3 layers of questions: a. control and demographics, b. franchising and c. context specific to Arab family business issues of growth.

Findings: The Hybrid forms of arrangements on growth justified in the GCC region. Growth strategies are implemented in multiple directions. Franchising is meaningful option of growth and is also supported in our data. Finally, the observable fact or result was that family businesses operating business format franchising are dominating only small portion of the market share when compared to other family businesses that are operating product franchising in the industry of franchising in Bahrain.

Originality/Values: The paper raises interesting issues on Arab Family Business Growth literature, an understudied topic in the field. Additionally, there is a contribution of significance of Ansoff's and Penrose's Models that explored as growth options. A framework therefore is proposed on the growth directions of Arab Family Business.

Limitations: There are no common grounds of Arab Culture. Our study is limited to the Gulf Cooperation Region, since the Arab profile shows greater similarities, but our assumption is that could work and extent further on the majority of Arab population.

Keywords: Family Business, Growth, Arab Culture, Franchising, Diversification

JEL Classification: D1, D92, L25, L26, M55

1. Introduction

Family businesses play a significant role in developing and strengthening the economies in countries all over the world. They are considered as the backbone of the economy as they have vast potential for generating wealth, employment and welfare to the country and its citizens. A family business can be defined as "a business where its ownership controlled by a single family, in which the family members control the direction of the business through their ownership rights and management roles" (Ernst & Young, 2011).

A family business can be described as an interaction between separate and connected systems at the same time which are the family and the business, in which both of them are governed with uncertain boundaries and different rules. Also, the family business may include a numerous combinations of family members who may play various business roles (Collins & O'Regan, 2011). Not only family businesses are contributing to the prosperity of the economy but also, the franchising opportunities adopted by those businesses, which is the core ides of this study.

Franchising is an important mean for doing a business for the entrepreneurs as franchisees, and also good way for expanding the business as it is less risky from the franchisor's perspective. Franchising can be considered as a network of interdependent business relationships that allows a number of people to share brand identification, a successful method of doing a business and a proven marketing and distribution system (Elango & Fried, 1997). So those notions (Family business and Franchising) are becoming more common in the business structures of the kingdom of Bahrain, which in turn has contributed to the stability and economic growth of the private sector in Bahrain. In 2007 family businesses in Bahrain were around 95% with tradition and cultural values. However, at the GCC dimension, Family businesses have long roots account for 75% private-sector economy and functions in wide range of segments worldwide (Alzayani, 2015). Al-Barghouti(2016) recognises the role of women in family businesses of Bahrain, and states that have a high involvement in top, executive and business(including franchising businesses) levels and ownership.

1.1 Definition of Growth and Hybrid Forms of Organizational Arrangements

The available literature on venture growth falls into two categories: the population level studies and the individual venture growth studies. In both cases metaphors borrowed from the natural sciences dominate current thinking. On the population level a number of researchers applied a biological analogy of natural selection to the study of venture growth to suggest that the firms which survive are those that have adopted themselves to the environment (Ardichvili, Cardozo & Ray, 2003). The studies of growth processes in individual firms are dominated by two metaphors drawn from biology: *cell division* and *metamorphosis*. The first metaphor draws a parallel between organizational growth and the growth of an organism through cell division. According to this perspective, organizations must alter their shapes as their mass expands (eg. more staff personnel). The *metamorphosis* models use a metaphor of the development of living organisms, and propose a life-cycle model of emergence, growth, maturity, decline, and death (*ibid*).

In general, studies have inherently assumed internal (organic) growth, whereas many firms do not grow organically. The diversification literature holds that different modes of growth (internal, acquisitive, or mixed) may be related to the product market strategy of the firm or diversify their activities into unrelated fields (McKelvie & Wiklund, 2010). Additionally, they identify as most important measures of growth; sales levels, profitability, number of employees, and market share. Gupta, Guha and Krishnaswami(2013) suggest that growth can be defined in terms of revenue generation, value addition, and expansion in terms of volume of the business. Alternatively, can be measured in the form of qualitative features like market position, quality of product, and goodwill of the customers. Kruger(2004) separates growth into Quantitative that can be characterised by the company size (turnover, added value, volume), the profitability of the company and the value of the company (shareholder value) and Qualitative that seeks for competitive position, product quality and customer service. Gilbert, McDougall, Audretsch (2006) suggest that *how* question to grow internally or externally and *where* to grow question in domestic vs international markets are the critical decision of the entrepreneur.

Williamson (1991) identifies three layers of organisational form – Hierarchies, Markets & Hybrid that defer based on authority, ownership and incentives. He claims that Franchising but also Family business is a kind of mixed modes (hybrid) of organizational arrangement. Borys and Jemison(1989) hybrids as organizational arrangements that use resources and/or governance structures from more than one existing organization. This definition encompasses a broad range of organizational combinations of various sizes, shapes, and purposes, some of which are formal organizations (e.g., mergers), whereas others are formalized relationships that are not properly organizations (e.g., license agreements).

Although the institutional dimension of markets is much more important than what economic theory suggests, there is a sense of common knowledge about the concept of “market,” with the mechanics of supply and demand at the core, and the role of prices as the key to adaptation. Similarly, notwithstanding challenges regarding their main characteristics and their blurred boundaries, firms represent a familiar object, with the central role of hierarchy in making decisions and adjusting them. Intermediate arrangements and mixed modes referred as Hybrids, but can be found in literature as clusters, networks, symbiotic arrangements, supply-chain systems, administered channels, nonstandard contracts, and so forth. Further on in existing literature there are some forms recurrently identified as distinct from markets and hierarchies: *a. subcontracting, b. networks of firms, c. franchising, d. collective trademarks, e. partnership, f. cooperatives, and g. alliances.* The list could include also, different modes adopted for networking autonomous entities like the development of “virtual firms” systematically built on networks, or the clusters of venture capitalists (Menard, 2004).

1.2 Definition of Family Business

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

- Ownership
- Business
- Family

They state that before this circle model people, business owners, thinkers and members of a family thought that the most important factor of family businesses is the business itself, but Taguiri and Davis(*ibid*) have an extended explanation to family businesses and that it is not only limited to family member. Family businesses also comprise of non-family members. The ownership factor was usually ignored before this circle model and also the family factor. There are many arguments of the definition of family businesses, however today after the publishing of the circle model many things have changed and it allowed people to think more clearly about the strengths and weaknesses of the systems. Another definition of wide use is of Chua, Chrisman and Sharma(1999) that view Family Business as: “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 family members of the same family or small number of families in a manner that is potentially sustainable across generations of family or families”

Palaiologos (2015) define Arab Family Business as “the nexus of kin-based relationships and entrepreneurial images or networks. The 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 of *Diwan* and the influence of *Wasta* (Networks) & *Assabiya* (Social Solidarity). Family members have to contribute to the added value of *Namus* (family name) and the unique family identity”.

1.3 Research Significance (Why)

Firm growth constitutes one of the central topics of entrepreneurship research. Despite substantial interest and massive empirical research, theoretical development in the field has been notably slow (Delmar, Davidsson, & Gartner, 2003). A telling illustration is that the most comprehensive, adequate, and popular theory on growth was developed some 50 years ago with Penrose’s (2009) publication of *The Theory of the Growth of the Firm*.

Additionally, there is a limited contribution on specific hybrid modes of growth (franchising) in relation to Family Business. In the academic literature, there are many articles and researches that have studied the field of family business such as ‘’Family Business Explained by field Theory’’ by Kejellman, “The Evolving Field of Family Business’’ by Collins & O’Regan and, “ An Insight into Family Business Enterprises in Bahrain’’ by Bahrain Family Business Association. There are also various articles that have studied the field of franchising such as ‘’Franchising Research: A Literature Review and Synthesis’’ by Elango & Fried and “Franchising in the Middle East’’ by Martin, but there isn’t so many that combines both which is about Family businesses that represent Franchising in Bahrain, or in other words, about families that adopt the franchising opportunities through opening a franchise in Bahrain. This type of business (Family Business) has become widely spread especially after the recent economic downturn which has led to collapse many businesses and companies, thus many individuals and families tend to start their own businesses or open a franchise. The research in this field is still considered in its infancy. Hence, we would like to bring more knowledge in the hybrid organisations and growth of Family Business studies in GCC and Bahrain.

1.4 Research Objectives and Questions (What)

Our research would mainly study the widespread phenomenon which is the family businesses who represent a franchise in Bahrain specifically a business format franchise in which the franchisor provides the franchisees with all of the elements necessary to operate the business, the study would specifically concentrate on the family businesses owned by Bahraini families who operates business format franchises (specifically fast food restaurants) in Bahrain.

This research is addressing the following objectives regarding Business Format Franchising for Family Businesses in Bahrain:

- To examine the condition of these businesses for the purpose of recognizing the percentage of their market share in the Bahraini market.
- To understand how these businesses are functioning through identifying the fundamental factors that contributed to build the family business structure and governance.
- To recognize the reasons that encourages the franchisors to expand their operations through franchising.
- To find out the obligations of the franchisor and franchisee under business format franchising.

Also, is addressing the following questions regarding Business Format Franchising for Family Businesses in Bahrain:

- How much their market share in the franchising industry in Bahrain?
- On which basis the structure and governance of those family businesses are built?
- What are the reasons to franchise from the perspective of the franchisor?
- To what extent the family business agree on the obligations of the franchisor and the franchisee under business format franchising?

2. Literature Review

2.1 Background on Business Growth

Over the last 60 years period only 15% of family businesses survived as independent business owners. Among the ones that survived, two-thirds did not survive at all (Ward, 1997). Generally, there are six challenges of growth(*ibid*): 1. Maturing business life cycles and increasing competition, 2. Limited capital to fund both family needs and business growth needs, 3. Weak next-generation business leadership, 4. Entrepreneurial leadership's inflexibility and resistance to change, 5. Conflicts among sibling successors and 6. Disparate family goals, values and needs. Apparently, the most dangerous to the survival and potential growth are the last two challenges that are not external to the business but are reflecting the status of family relationships. Ward (1997) also identifies several 'best practices' for growth.

One that is the most significant for our study calls for ‘encouragement global experience for next generation business leaders’.

Global expansion according to Patel, Pieper, and Hair (2012) is often an overlooked opportunity. When it comes to Family Business global growth they identify two factors that influence decisions: a. Push (pressures to expand-strategic drivers, competitive forces, and family demands) b. Pull (opportunities-desirable locations, networks, alliances and preemptive positions)

2.2 Business Cycles, Stages and Growth

There are several views that argue on the Business cycles, mostly deriving from the general product life cycle model. Not all agree on the reasons behind the shifts in different cycles. Greiner (1972) for example argues that we don’t have a growth cycle *per se*, many small growths that can occur at any stage of the life cycle and within an indefinite period of time. He calls those moments of crisis, ‘revolutions’ and under certain circumstances could lead to stage company growth. Scott (1987) proposes a 5 stage growth model for small businesses (introduction, Survival, Growth, Expansion, Maturity) we can add a 6^{th} stage that of decline. In the growth stage they recognize two Greinerian crises: a. the entry of larger competitors in the market and b. the expansion into new markets or products. This leads us to the classic choices of Ansoff (1957; 1987) that generates four directions of growth as a combination of products and market.

Life cycles of the generations is debated from Churchill, and Hatten (1997) that identify two differences between family businesses and those that are owner managed: involvement of family members in the business and non-market-based transfers of power between family members. Additionally, they posit that there are four sequential stages in family business life cycles: a. owner-managed business, b. training and development of new generation, c. partnership between the generations and d. transfer of power.

2.3 Overview on Family Business

Collins and O’Regan (2011) stated that "family business is an evolving research field". The involvement of the family in managing the business is considered as the key defining subject that differentiates family business from non-family business. There are many definitions of a family business. The idea of defining family business focuses on the concept of how to differentiate family business from non-family business. Therefore, Handler(1989) suggests “three important variables that could differentiate family from non-family business which are: a. *Ownership (Control)-Management*; b. *Family Involvement* and c. *Next Generation in line for generational transfer*”.

The European Commission Expert on Family Business has recognized more than 90 definitions for family business, and stated that diverse definitions can be used regardless being in the same country. The definitions take into consideration many aspects, such as "family ownership, involvement of the management, strategic control, business as the main source of income for the family and intergenerational transfers" (Collins & O’Regan, 2011).

From an academic perspective, family business has been defined in many ways. Chua et al. (1999) defined family business as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant union 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". From a specialist perspective, Astrachan et al. (2002) suggest that ‘’family business vary in their "familiness" and that it is the degree to which the family determines the behavior and direction of the business that matters’’. While others have defined it as "one that will be passed on for the family's next generation to manage and control" (Ward, 1987).

The literature indicates that family businesses differ from non-family businesses due to the unique involvement of the family members (Chua et al., 1999). Many authors suggest that "researchers in family businesses consider the key topics as ownership, governance, management and succession". However, the recent papers states that "many authors have now categorized family business into four key areas: strategic process, governance, human resources and succession, thus the only commonality being succession and governance". So, this indicates that succession and governance are solid fundamentals of the family business theory. Therefore there are only few academic researches that focus on the family as a unit of the study (Collins & O’Regan, 2011). Family business is increasingly seen as one of the main drivers for national competitiveness and a key driver for economic achievement. Family businesses make up the backbone of most economies throughout the world and make enormous contributions in terms of employment and economic output (*ibid*).

Family Businesses are considered as an essential aspect of the world economy which provides an effective business model in order to compete in the world market. According to the estimates, the contribution of the family-owned businesses to the global GDP stands between 70 percent and 90 percent. Despite the widely spread perception about those businesses as they are outdated and dysfunctional, they are in fact the world’s most prevalent organizational forms. In addition, some of the most successful companies in the world are controlled by, or have involvement of, the member from the original founding family (Ernst & Young, 2011).

There is no definition for the family business that is universally-agreed upon from the literature. A family business is commonly defined by the characteristics of its operational activities in the ownership, management or succession plan. Davis (2007) defines a family business as a "business whereby its ownership is controlled by a single family, in which two or more family members significantly influence the direction of the business through their ownership rights, management roles or family ties".

According to Farida Algamy, the General Manager of Tharawat Family Business Forum and Attorney at Law, it seems difficult for some family businesses to maintain harmony in the family while running a successful business which needs much of hard work and disciplines, therefore Farida suggest that in order to make balance between the family harmony and business challenges, the family harmony should be maintained in way that has a positive impact on the business and lead to efficient decision making mechanisms. And that can be

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achieved through setting down a set of rules that regulate the way the family interact with each other as well as with their business for the greater good of the family sustainability and growth of the business and that is what is called the ‘’Family constitution’’. This constitution reflects the family culture and way of life and what the current requirements for it are, and gives the family many ways to implement it (Tharawat Magazine, 2013).

2.4 Review of Franchising

Franchising can be defined as "a legal business arrangement in which the owner of a product, process, or service (the franchisor) licenses another party (the franchisee) to use it in exchange for some sort of payment" (Watson et al, 2005). Franchising systems can be broadly divided in to two types, Product or Trade Name. According to Elango and Fried(1997) franchising is a relationship between the supplier and the dealer in which the dealer agrees to acquire some of the identity of the supplier in order to become the preferred source of the supplier’s goods. Business format franchising is "an ongoing relationship between the franchisor and the franchisee that not only includes product, service, and trademark, but also the entire concept of the business".

Most authors have defined the concept of franchising in similar ways, and this proves that franchising is viewed as a retailing phenomenon in which product franchising predominates in the market, and therefore that phenomenon was called the ‘’Business Format Franchising’’ which has become a unique mode that differentiates franchising from other distribution models (Lindblom & Tikkanen, 2010).

The distinctive feature of such business format franchising is that the franchisor is expected to provide the franchisee with all of the elements necessary to operate the business (Watson et al., 2005). "Under business format franchising, franchisees not only sell the franchisor’s products or services (with the franchisor’s trademark), but also run the business according to a system provided by the franchisor, The franchisees thus obtain the use of a system and support (including training and mentoring) provided by the franchisor, but the franchisees are usually required to follow the franchisor’s operating norms (or obtain approval for any modification) " (Lindblom & Tikkanen, 2010).

Also, the distinguishing feature of Business Format franchising is that it involves a more integrated relationship between the franchisor and the franchisee compared with other forms of licensing. "The business format franchising has been increasingly utilized as an alternative method of distribution and of business expansion over the last 40 years" (Fulop & Forward, 1997). This type of franchising were established in 140 countries where it is in varying stages of development depending of the economic, cultural and legislative environments (*ibid*).

Franchising is considered as an important mean of doing a business especially for entrepreneurs. It is usually suitable for the environments that are characterized with intense competition and where the consumer tastes are rapidly changing as well as having a trend toward localized market segments. Franchising also brings a lot of advantages to the company (franchisor) as well as the entrepreneurs such as the advantage of economies of scale in the production and marketing (Elango & Fried, 1997). There are many possible entry strategies for franchises trying to enter the East Asian market such as the master franchising, joint venture, direct investment, and governmental agreements (Chan & Justis, 1990).

The literature indicates that the most debated topic in franchising is the reasons that justify why the firm chooses to expand through franchising rather than expanding through company owned units. The first reason can be explained through the case of a small company with limited supply of capital which as a result becomes franchisor for the purpose of using the franchisee capital in order to expand, this is known as ‘’Resource scarcity’’. Other opinions support the justification that says that the company owned-units require high amount of capital investment which drives the owners to be franchisors (Elango & Fried, 1997).

The existence of franchising can be also explained by the ‘’agency theory’’ which holds that the franchising would lead to high employee monitoring costs in order to insure that the franchisee or the agent is acting in the firm’s best interest, but at the same time it needs low initial investment cost and results in high frequency of repeat customers which is the main goal of the franchising (Brikcley & Dark, 1987). Another researcher argues that the main reasons to franchise are; capital needs, market competition, monitoring costs and the need to reach minimum efficient scale (Martin, 1988). In addition, Lafontaine (1992) argued that firms use franchising to grow faster in which the brand can quickly be expanded nationwide, this in turn would increase the sales volume of the company.

In Business Format Franchising, the franchisee is required to pay initial fee to the franchisor, take responsibility of the primary investment in the business and pay ongoing royalties. So "the franchisees not only bring financial capital to the franchise arrangement, but also knowledge capital, as it has been noted that one of the key benefits for franchisors of business format franchising is that they gain access to local market knowledge that the franchisees provide"(Lindblom & Tikkanen, 2010). In addition to that, franchisees bring other forms of human capital to the franchising arrangement such as risk-taking, motivation and the ability to resolve crises (Lindblom & Tikkanen, 2010).

Under Business Format Franchising, there are some obligations that has to be fulfilled by both parties; the franchisor has to provide the franchisee with a complete business plan and assistance that includes training for the staff working in the franchised business, knowhow, the use of the business trademarks and signs, operation manuals and advertising and marketing support. So the franchisee can take advantage of the access to the franchisor’s experience, use a well-known brand name that is supported by the franchisor’s advertising and promotion, as well as the guidelines and training manuals for staff training, and purchasing the equipment, supplies and services used in the business directly from the franchisor at reduced rates, in addition to the availability of the operations manuals and the marketing support from the franchisor. Conversely, the franchisee has to pay the initial franchise fee, the ongoing royalty fee, and the cost of the equipment, supplies and products to the franchisor (Elango & Fried, 1997).

Another interesting version of Franchising is Master Franchising that is an exclusive master license or franchise (“Exclusive Master License”) is the most traditional method used by franchisors to expand their businesses internationally. In a typical structure, the master franchisee ("Master Franchisee") is vested with the right to sub-franchise the business in a designated geographic area (Lee, Jarvis, Kundra, Mihoubi, & Grueneberg, 2012).

Trends on Family Businesses with franchising operations in Bahrain/GCC

Family companies play an essential role in the economies of the Gulf Cooperation Council (GCC) states, which include Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates (UAE). The family, with its extended affinity network, is probably considered as the central element of the socioeconomic system in the Gulf. Family businesses dominate the economies of the Gulf; approximately 98 per cent of commercial activities in the GCC are family run. Many family firms in the Gulf are managed by members of the first or second generation, with few seeing involvement from third generation members yet. In the Gulf, there is a strong persistent preference in the whole region which is regarding the business opportunities as they should be pursued first within the family before giving consideration to the other allied families (Bahrain Family Business Association).

Many franchisors have entered the GCC countries through a bottom-line decision, that is because GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) contain all the key attracting factors that the foreign franchisors are looking for: a middle-class consumer market with high demand for their products or services, a favorable trade and investment regime and local investors who are willing to open a franchise (Martin, 1999).

Experts believe that franchising opportunities tend to grow for both consumers and business-to-business ventures, because the economies of GCC countries mature and the governments are forced to give the entrepreneurs in the private sector the freedom to expand. Also, many experts believe that franchising is considered as one of the safest ways for a company to expand or globalize, especially in regions like the Middle East (GCC). Arthur Andersen's Swartz states that ''Franchising limits risk exposure in overseas markets while extending and expanding the parent company's market''. In addition, most franchisors have reported that their operations in the Gulf regions are successful and functions at levels comparable to the operations in the parent company. This is true when comparing the prices of franchises, royalty payments, prices of goods and services, and profits (Martin, 1999).

The Gulf Cooperation Council which was founded in 1981 as a military alliance linking Bahrain, Kuwait, Oman. Qatar, Saudi Arabia and the United Arab Emirates, such alliance has been increasingly engaged with economic issues. At that time, the GCC alliance has created a common market among the countries which has attracted the franchising opportunities in the region especially for the American Franchisors. The legal reforms in GCC have also encouraged the foreign franchisors to come in, through simplifying applications of doing a business and offering improved trademark, logo and intellectual property protection (Martin, 1999).

There are many families in GCC that have their history with franchising such as Al-Futaims and Al-Tayers, they called the commercial families as they have a lot of financial resources as well as having political clout. Those families have dominated the commerce in the Gulf irrespective of the national boundaries. The challenge now for other franchise operations to make their mark, especially those involved in the industry of business-to-business goods and services. As Gulf economies develop, the demand for franchise operations is expected to grow exponentially. "The concept exists and is understood," says DeBolt. "You just need to fine-tune it to meet local conditions" (Martin, 1999).

One of the famous Family businesses who have achieved the formation of a business conglomerate with diverse activates representing different franchisors in the kingdom of Bahrain, is Jawad Business Group. The group has been established and managed by Jawad family members, it is headquartered in Bahrain and it operates over 600 stores in GCC, the group has transformed itself into a multi-cultural organization with business interests across GCC states, including convenience stores, distribution of FMCG goods, fashion and footwear, restaurants and coffee shops. The group emphasizing on promoting its product brands, while protecting the equity of the global brands (Jawad Business Group, 2015).

3. Methodology

A deductive approach is used, to test theories and concepts of franchising and other hybrid modes. Additionally, a quantitative research methodology has been adopted for collecting the primary data; the data was collected through questionnaire which has been distributed on 24 family businesses operating in the industry of franchising, and has been analyzed through statistical charts. The sample is mainly part of a population of 360 members of Bahrain Family Business Association and we distributed questionnaires with 3 layers of questions: a. control and demographics, b. franchising and c. context specific to Arab family business issues of growth.

The research methodology of this project would be constructed based on ‘’The Research Onion’’ from the work of Saunders, et al (2012). The research onion represents various steps that can be used during the process of writing the methodology; it is an effective way for and organizing the ideas and helps in choosing between the strategies or approaches. The steps included are the philosophies, approaches, strategies, choices, time horizons, techniques and procedures

3.1 Philosophies-Approaches

Positivism is based on collecting data about an observable reality and searching for casual relationships in the data to create law like those produced by the scientists; while realism is basically derived from the concept of what we sense is reality and that concept have an existence independent of the human mind. The most suitable philosophy for this research is the positivism because the data to be collected would be about an observable reality.

There are two approaches to design the research project either Deductive or Inductive. When the research starts with theory or hypotheses that are often developed through the reading of the academic literature, and the research strategy is designed to test the theory, this is called the Deductive approach. While, if the research starts by collecting data to explore a phenomenon, and then concluded by building a theory as a result of the data analysis, that what is called Inductive approach. This research would follow the deductive approach because it is mainly focuses on using the data to test the theories.

3.2 Strategies–Choices–Time horizon

When designing the research, the researcher can choose between different strategies. A research strategy is a plan of how the researcher will go about answering the research questions. As the data in this research would be collected using quantitative method, the best strategy to follow would be the survey, because the survey is commonly used in business and management research.

There are 3 methodological choices to design the research (quantitative, qualitative and multiple methods). Differentiating between quantitative and qualitative could be through distinguishing between numeric data (numbers) and non-numeric data (words, images). Quantitative method is used when collecting data through questionnaires or surveys and analyzing data in graphs or statistics that generates numeric data. So, as the research would follow the survey strategy in collecting the data, therefore, the optimum method to be used is the quantitative method.

Two choices are available when it comes to the time horizon of the research (Cross-sectional and Longitudinal). The Cross-sectional used for studying a particular phenomenon at a particular time (the research is time constraint), and is applicable in this study.

3.3 Techniques and Procedures for Data Collection and Analysis

In this project, a lot of articles and academic papers have been reviewed and analyzed to obtain the secondary data which have been used to construct the literature review for this research. However, as this research is based on the quantitative method, the primary data have been collected through a questionnaire. In quantitative studies, investigators use quantitative research questions and hypotheses, and sometimes objectives, to shape and specifically focus the purpose of the study. Quantitative research questions inquire about the relationships among variables that the investigator seeks to know. 'The most rigorous form of quantitative research follows from a test of a theory and the specification of research questions or hypotheses that are included in the theory' (Creswell, 2014) .Hence we develop our questions based on the franchising literature & growth previously analyzed, while questionnaire was created using Google Forms, that is convenient when address questions online questionnaire. The questionnaire was distributed on 24 family businesses operating in the industry of franchising, the distribution method was either through email or WhatsApp broadcasts, the surveyed participates were reached through relatives friends, and university students. Then the collected primary data have been analyzed using some statistical techniques like graphs and charts which were also created by Google Forms.

4. Results and Discussion

4.1 Family Business Profile

The questionnaire got 24 responses from companies operating in various industries, but the majority responses (62%) were from the retail and consumer products sector. Most of the responses were from employees either in the upper or lower management positions; and when it comes to their status in the family, the majority of the respondents were non-family members because it was not easy to reach the family members who are in the board of directors. This indicates that the family members are not necessarily involved in guiding every single function of the business in order to be considered or called ‘’family business’’. The crucial factor in that issue is that the business should be governed by family members whom usually take their positions in the board of directors, and this was the case in most companies who responded.

The succession issue is also an important factor in the family businesses in Bahrain as 50% of companies who have responded were governed by family members from the second generation and that is because such companies or groups were founded from a long time and still operating in the market. Succession is also mentioned in the Holy Quran and considered very essential in Islam; therefore most companies who are governed by Bahraini families take the succession issue into account. So the succession and management of the business (governance) are key factors in differentiating the family business from non-family business in Bahrain.

4.2 Family Business Structure

The structure of the respondent family businesses is based on the strategic planning along with business plan which indicates that the strategic planning is considered to be fundamental requirement in almost all family businesses in Bahrain. However, there are diverse responses with regard to the issue of sharing the mission, vision and objectives with the company units, some of them find it as low or medium priority while the other think it is essential or high priority. On the other hand, the majority of the respondents (66%) stated that the management decisions in the family business are highly centralized.

4.3 Family Business Governance

The responses on the family business governance shows that the majority of the family business (75%) are having effective family governance structure by which the family business is directed and controlled through the board of directors who have clearly defined roles and responsibilities to direct and govern the family business. As well as that, most of them are having clearly defined processes for electing and evaluating board members for the purpose of having good and fair governance structure. However, responses with regard to the family council were between having an effective family council (42%) and not having knowledge about the council (46%) that is because large number of responses was done by non-family members which indicate that they do not know about the family council meetings.

4.4 Type of Family Business Growth Strategies

Most of the surveyed companies or family businesses (around 77%) have chosen franchising as their business entry strategy to the Bahraini market, but the type of franchising that was mostly used by those family businesses was the ‘’Product Franchising’’ and only a number of them are using business format franchising, that indicates that there are few family businesses in Bahrain who are operating such type of franchising because each family hold the franchise of wide range of businesses which make such franchises (restaurants and cafes) constrained under the control of a specific families. So, the observable fact with regard to the issue of franchising is that there are the majority of the family businesses in Bahrain are operating product franchising perhaps because it is less complicated than the business format franchising or because they can have the freedom to franchise wide range of products like motors, electronics or any other products.

4.5 Reasons to Franchise from the Perspective of the Franchisor

As for the reasons of franchisors to conduct their business as a franchise, most participants agreed to the fact that limited supply of capital makes the franchisor dealing with a franchisee an attractive method to expand the business. Franchisors are eager to expand their presence and reach consumers, and thus franchisees are ready to provide capital as well to expand their market share in the local market. This is not to forget that the franchisor company will also provide their expertise and knowledge of the market, thus giving family businesses a sense of comfort in terms of the probability of success and a smooth launch and inauguration. Only few participants showed their “neither agree nor disagree” opinion in resource scarcity being a reason to franchise a business.

The question of a franchise requiring low initial investment cost and results in high frequency of repeated customers resulted in a disperse feedback for the respondents. Most of them however didn’t agree nor disagree on the need and result of franchising. The reason being is that different franchisees differ in terms of initial investment cost, with some requiring high initial investment such as restaurants for decoration and set-up, and others requiring low investment such as the display of electronic products for example. The results also imply that participants see high frequency of repeat customers for their business, with few noting that it is the effort of the marketing strategy being done by the family business itself and not the franchisor only.

With family businesses targeting growth as a major requirement to remain competitive and maintain market share, all survey participants agreed to the fact that franchising give businesses the opportunity to grow faster and promote the brand quickly nationwide, and this is in essence an golden opportunity for franchisors. Also, almost all participants have strongly agree on the fact that franchising enable companies to penetrate new markets and compete with competitors, as the franchisee will offer full support and dedication to expand the brand’s reach and image. This is not to forget the fact the successful franchise companies already have a strong base of operations, marketing, and client base, making it easy to expand and duplicate the process of initiations to new places as new branches.

The essence of establishing a business from scratch is a difficult task that requires numerous research and involvement. Market research showed franchising as a suitable method to open a business for young talents as the franchisor will assist in providing the plan, clear defined requirements, and targets. When asking participants of franchising being suitable for younger members of the family business and gives responsibility up to their ability, respondents were more inclined to being agreed as a method to test the management talent of the younger

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members.

4.6 Obligations of the Franchisor and Franchisee under Business Format Franchising

Even though the franchisor has the experience of establishing a branch of its brand in a new location, it is usually a requirement by the franchisor to present a complete business plan to the franchisee on the method and approach of establishing the business. The franchisee on his end has more knowledge of the local market and its requirements in terms of laws and regulation. All participants showed the full agreement with regards to this requirement, being the minimum standard obligation of the franchisor towards the franchisee at the initiation.

The training support for the employees is also one of the obligations of the franchisor toward the franchisee under business format franchising agreement, this obligation has to be fulfilled by the franchisor in order to ensure that the operations of the franchised business is the same as in the main branch, and even to ensure that the business is established successfully under the hands of the well-trained staff. However, the responses showed different statements of agreement with regard to this obligation which were mostly presented with ’’neither agree nor disagree’’, that is because a lot of the surveyed family businesses was not operating under the business format franchising and therefore they are not aware about the requirements under such agreement, while the businesses who are involved in that agreement have agreed on this obligation.

The family businesses who are involved in the business format franchising have stated that they strongly agree on the obligations of the franchisor regarding the use of business trademarks and signs by the franchisee as well as providing the franchisee with the operation manual, because all the researches have definite that such requirements are standard and cannot be dismissed under such agreement. When it comes to the obligation of advertising and marketing support being provided by the franchisor, the majority of the respondents (around 63%) stated their agreement on it, which indicates that it is an essential requirement that is actually applied by the franchisor, definitely for the purpose of supporting their brand name especially at the stages of initiating the franchised business.

Paying the initial franchise fee and paying the ongoing royalty fee are definitely required by the franchisee, which is the cost of being the agent of establishing the brand in another locations or the cost of purchasing the brand name. Responses of the participants who are involved in business format franchising were strongly going with this requirement approximately 88%.

On the other hand, there are other commitments that has to be met by the franchisee toward the franchisor, these are taking the responsibility of the primary investment being the agent who represent the brand in the local market therefore being responsible of the investment in the business, in addition to the payment of the cost of equipment and supplies that are purchased from the franchisor, these obligations are absolutely have to be fulfilled because the agreement cannot be concluded if some of the above obligations are missed or breached. Therefore, the family businesses who have responded on those obligations stated that they agree on the application of such requirements by the franchisee, as they are sure applicable in the franchising agreements.

5. Conclusion and Recommendations

5.1 Conclusion

After completing this research, it has been realized that the concept of family business already exists in Bahrain since long decades when many families have established their own businesses which have been transferred to the control of the next generations, and when looking to the history of those family businesses, their main purpose was to grow their wealth as well as contributing to the prosperity of the country and its economy. Those family businesses have started their businesses within small scale in the country, and then they started to expand their businesses through some growth strategies like franchising, mergers and acquisitions or starting up new business.

After analyzing and interpreting the results of the questionnaire, it has been also realized that family businesses who operate a business format franchising dominate only small portion of the market share in the industry of franchising in Bahrain, as from all the responses only 28% was operating business format franchising, while the others are operating other types of franchising. That is because each family business is controlling a group of franchised restaurants or cafes, for instance Jawad Business Group is the franchisee of Papa Johns, Dairy Queen, Costa Coffee, Burger King, and many others, while Bahrain and Kuwait Restaurants Company is the franchisee of Pizza Hut, KFC, Hardee's.

However, the observable fact was that the majority of the surveyed participants, were operating product franchising especially the family businesses that franchise the motors. For example Ebrahim Khalil Kanoo is the agent of Toyota motors, AlHaddad Motors is the agent of Mercedes Benz, and Behbehani Brothers is the agent of (Porsche, Audi, Volkswagen and many other motors). While the other family businesses are operating their own businesses along with having their own local brands.

Most of the family businesses are having effective structure which has been built on the basis of strategic planning which is considered as the main driver for the success and growth of such businesses, and even the governance of such family business could be described as being effective and fair by which the board of directors have clearly defined roles and responsibilities. The effectiveness of the family governance and structure leads to the harmony between family members and drives the business to the efficient decision making mechanisms.

The results of the survey has proved that the reasons of franchising from the perspective of the franchisor are positively support the opinions of the researchers in their theoretical studies that are mentioned in the literature review, those reasons are the resource scarcity, market competition, expanding the brand name nationwide and increasing the sales volume of the company.

Moreover, almost all the responses on the subject of the obligations of the franchisor and franchisee under the business format franchising agreement have also being in favor with the theories in the literature, which indicates that the obligations of the franchisor is to provide the franchisee with a complete business plan, training support for the employees working in the franchised business, advertising and marketing support, enable him to use business trademarks and signs as well as giving him the operations manual which demonstrates clearly the overall operation of the franchise. Conversely, the franchisee is required to pay the initial franchisee fee and the ongoing royalty fee, in addition to the cost of the equipment and supplies that are purchased from the franchisor.

5.2 Recommendations

As a final recommendation, with business format franchising being a small fraction of the franchises compared to product franchising, it is suggested that family businesses with business format franchising expand their presence and conduct aggressive marketing campaign to maintain their competitiveness and market share. For example, franchised restaurants in Bahrain are facing a big threat from local restaurants that have a similar concept and experience to well-known franchised restaurants. To mention some, fast food restaurants like Three Guys, Grub Shack, Route 66, and Burger Lounge are strong local competitors that definitely impose a risk on McDonald’s, Burger King, Elevation Burger, and other franchised fast food restaurants. The case is also similar to cafes for example, with Costa Coffee and Starbucks being competed by a café like Lilo’s and Decorating Memories Café among others.

Family businesses operating product franchising businesses in Bahrain on the other hand don’t have the risk of alternatives that can be introduced locally. Toyota vehicles and Japanese manufacturing equipment for example do not have a local substitute. Thus their competitiveness and necessity will remain for the foreseeable future.

It is thus recommended that business format franchising business continue their approach of expanding the franchise to more branches, maintain product awareness through continuous marketing campaigns, and coordinate with franchisors to invent and introduce new products to keep the ball rolling, just like the introduction of new Pizza flavors by Pizza Hut, and new coffee specials for Christmas time by Starbucks and Costa Coffee. A rewarding scheme is also an effective method to keep clients and consumers attached to constantly buy and consume, giving the customer a sense of loyalty and preference.

Some family businesses in Bahrain with business format franchising are purely focused on the food and beverage franchising sector. Even though it is an effective method for the family business to focus on its core competency and knowledge of this specific sector, it is always better to diversify the business in order to absorb unexpected market shocks. For example, it is apparent that Kanoo family business is well-diversified from its main car business, by having a regional travel agency, shipping services, logistics, IT services, and other areas of business.

To sum the findings with the best course of action, family businesses operating business format franchising businesses in Bahrain should pursue further and ongoing expansion and marketing to maintain market share, in light of aggressive opening of local substitutes. Diversification to other areas of business or sectors is also recommended to protect those businesses from concentrated risk and to diversify their sources of income in case a specific sector faces a slowdown or abrupt market condition.

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