Chapter 1

The Internationalization Decision–Making of United Arab Emirates Family Businesses

Fauzia Jabeen
Abu Dhabi University, UAE

Syed Zamberi Ahmad
Abu Dhabi University, UAE

Saeed Alkaabi
ASCORP Holding Psc, UAE

ABSTRACT

International expansion epitomizes a vital strategic decision that family firms must go through to grow. However, limited research has been conducted on internationalization decision making in family businesses (FBs). Various disparities have been observed in the previous researches concerning the factors that affects and stimulate a FBs’ decision making to internationalize. The purpose of this study is to analyze the internationalization pattern of FBs in the United Arab Emirates (UAE), a dynamic emerging economy in the Middle East region. A qualitative research approach was selected, and after a thorough review of the relevant literatures, the major factors affecting international decision making in FBs were identified. It was concluded that there are some common factors regarding international decision making in FBs in the UAE and the rest of the world, and some of the factors are unique to a specific country, industry, or product. Suggestions on how to move this field of study forward are also presented.

INTRODUCTION

Internationalization is considered as one of the most imperative plans for firms’ progression and expansion (Ahmad, 2014; Graves & Thomas, 2008). Internationalization has many advantages, including mitigating risk by diversifying, obtaining economies of scale and scope, and increasing the competitive advantage of a company by targeting new markets (Gallo & Sveen, 1991). Several researchers in the past have examined the internationalizing behavior of large and small
The Internationalization Decision-Making of UAE Family Businesses

The Internationalization Decision-Making of UAE Family Businesses

firms (Ahmad, 2013; Tavares, 2012; Wang, 2010; Senik, 2010; Cerrato & Piva, 2007; Fernandez & Nieto, 2006; Sirmon & Hitt, 2003). Nonetheless, limited number of researches have examined factors affecting decision making to internationalize within family businesses (Zain & Kassim, 2012; Zahra, 2003).

FAMILY BUSINESS (FB) IN THE UNITED ARAB EMIRATES

Family business (FB) has been academically defined in the literature in different ways. Scholars have used operational components of family firms to define them, such as ownership, management, and succession (Chrisman et al., 2003). As more research was conducted on FB, the determinants of the definition became more unified. Sirmon and Hitt (2003, p. 341) stated that a firm “may be considered a family business to the extent that its ownership and management are concentrated within a family unit and to the extent its members strive to achieve and/or maintain intra-organizational family-based relatedness”. According to Trevinyo-Rodríguez (2009) defined FB as “when two or more key individuals are linked by kinship and hold sufficient ownership or board control to allow them to make important management decisions and set overall business goals.” Even though there is somewhat unified definition of FB, what determines the definition is the controlling ownership and effective control over strategic decisions (Pounder, 2015; Patel et al., 2012).

According to United Arab Emirates (UAE) trade and industry law, a company should be at least 51 per cent locally owned to be established and registered in the UAE. On the basis of this regulation, Rettab et al., (2005) defined FBs in the UAE as “a business in which at least 51 per cent of the shares are owned by one single UAE family, and at least one member of the management team is drawn from the family members that owns the business”. Family firms are an important consideration because FBs have a major effect on the UAE economy (Zain and Kassim, 2012). In the UAE, key industries for example such as automotive, real estate, fashion, and retailing are dominated and owned by family businesses (Khansaheb, 2008). Rettab et al., (2005) reported that approximately 90 percent of the businesses in the UAE are owned by families. However, the UAE firms are quite young in nature and are controlled by one or two family members who tend to be the founders in most cases. The reason can be attributed to the history and culture of the UAE federation (Saddi et al., 2009). The size of the family businesses in the UAE ranges from small to very large. Most family firms in the UAE were established in the 1950s or 1960s by family members with no formal education and are still in operation (Swan, 2013; Khansaheb, 2008). Nonetheless, as the newly educated blood got involved in the FB operations, they introduced novel aspects such as corporate governance, which is now considered vital for a company’s continuity and expanding operations locally and internationally (Swan, 2013). Expanding across national borders is one of the major challenges UAE family businesses face. Due to the intense competition in the UAE market and relatively small market size, currently most family firms are facing high pressure. These issues will drive UAE family firms to expand globally (Ghose, 2014; Horne, 2013; Khansaheb, 2008).

Internationalization of a FB

Internationalization is considered an important strategy for expansion in family firms. Different companies have different reasons for the need to expand (Graves & Thomas, 2008). Owners of businesses can grow their firms in many ways, such as opening new locations, diversifying, and expanding internationally (Spaeder, 2004). Such expansion may open doors for a family firm to enter into new markets opportunity in which customers have different needs, and their new competitors may offer a variety of different products (Gallo