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### **Family Businesses in Dubai: Definition, Structure & Performance**

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## ملخص تنفيذي

تركز الدراسة على معايير تم تبنيها في أبحاث سابقة تهدف إلى توضيح تعريف الشركات العائلية، حيث تختلط فيها، بشكل عام، المهام التنفيذية، والإدارة والملكية. بالإضافة إلى ذلك تطور الدراسة تعريف بسيط وغير مبهم للشركات العائلية في دبي وتبحث في بنيتها وأدائها مقارنة بالشركات غير العائلية.

وتعتمد الدراسة على معلومات تتوفر لدى غرفة تجارة وصناعة دبي من خلال قاعدة بيانات العضوية وقاعدة بيانات شهادات المنشأ. تضم الأولى قائمة بأعضاء الغرفة وخصائص هذه الشركات، وتشمل النشاط الاقتصادي، الموقع، الملكية، العمالة وحجم المبيعات. بينما تشمل الثانية معلومات حول شهادات المنشأ التي تُصدرها الغرفة إلى المصدرين وتشمل هوية شركة التصدير والجهة المستوردة وقيمة شحنة الصادرات.

### تعريف الشركات العائلية في إطار دبي

مع وضع قانون تأسيس الشركات في دولة الإمارات في الحسبان، وبالنظر فقط إلى الشركات التي تبلغ ملكية المواطنين فيها 51% على الأقل، فقد توصلت الدراسة إلى التعريف التالي:

الشركة العائلية في دبي هي الشركة التي:  
◀ تمتلك عائلة إماراتية واحدة ما لا يقل عن 51% من أسهمها  
و  
◀ يضم فريق الإدارة فيها عضواً واحداً على الأقل من أفراد العائلة المالكة للشركة.

وتشمل "العائلة" في التعريف أعلاه الأسرة المكونة من الزوج (رب الأسرة) وزوجته وأولادهما، والدي رب الأسرة، وإخوانه وأخواته وأبناءهم.

### الشركات العائلية مقارنة بالشركات غير العائلية

◀ توجد في دبي 56,374 شركة، منها 30,769 شركة عائلية والبقية 25,605 شركات غير عائلية.

#### حجم الشركات

◀ على مستوى دبي، في المتوسط، نجد أن الشركات العائلية أصغر حجماً من الشركات غير العائلية. تتمثل أكثر الاختلافات بينهما في قطاعات تنقية وإمدادات المياه، واستخراج النفط الخام والغاز الطبيعي.

◀ على مستوى دبي، توظف كل من حوالي 25 ألف شركة عائلية أقل من 10 عمال، في حين أن هناك 3 آلاف شركة عائلية أخرى توظف بين 10 إلى 19 عاملاً.

◀ على مستوى دبي، توظف كل من حوالي 20 ألف شركة غير عائلية أقل من 10 عمال، في حين أن هناك 3 آلاف شركة غير عائلية أخرى توظف بين 10 إلى 19 عاملاً.

#### حجم المبيعات

◀ على مستوى دبي، في المتوسط، تحقق الشركة العائلية التي توظف أقل من 10 عمال، ما يقدر بإجمالي مبيعات بقيمة 2.4 مليون درهم، في حين أن شركة بها بين 10 - 19 عاملاً تحقق إجمالي مبيعات يبلغ 8.1 ملايين درهم، ويبلغ إجمالي مبيعات شركة، توظف أكثر من 20 عاملاً، حوالي 40.7 مليون درهم.

◀ على مستوى دبي، في المتوسط، تحقق الشركة غير العائلية التي توظف أقل من 10 عمال، ما يقدر بإجمالي مبيعات بقيمة 3.6 مليون درهم، بينما الشركة التي بها بين 10 إلى 19 عاملاً يبلغ إجمالي مبيعاتها 8.2 مليون درهم، ويبلغ إجمالي مبيعات الشركة التي يعمل بها أكثر من 20 عاملاً 41.8 مليون درهم.

#### القطاع

◀ على مستوى دبي، يعتبر التوزيع القطاعي متساوياً إلى حد ما بين الشركات العائلية وغير العائلية. وتعتبر حصة الشركات غير العائلية أعلى قليلاً من حصة الشركات العائلية فقط في قطاع التجارة وخدمات الإصلاح (77% مقابل 68%).

◀ على مستوى دبي، قد تحتاج الشركات العائلية، والتي تعتبر أقل تنافسية، إلى تعزيز قدرتها التنافسية في القطاعات التالية:

- أ. الزراعة
- ب. استخراج النفط والغاز الطبيعي والخدمات ذات الصلة
- ت. البناء والتشييد
- ث. التجارة
- ج. الخدمات المالية

◀ على مستوى دبي، القطاعات التي تتمتع فيها الشركات العائلية بقدرة تنافسية جيدة مقارنة بالشركات الغير عائلية، فهي:

- أ. الصناعة
- ب. الفنادق والمطاعم
- ت. النقل والتخزين والاتصالات
- ث. العقارات والتأجير وخدمات الأعمال

#### التصدير

◀ على مستوى دبي، 4.9% فقط من كل الشركات العائلية تنشط في مجال الصادرات وذلك مقارنة بـ 14.7% للشركات غير العائلية.

◀ على مستوى دبي، في المتوسط، تقوم شركات التصدير الغير عائلية بتصدير قيمة سلع أكثر مقارنة بالعائلية.

#### وأخيراً،

◀ هناك حاجة إلى مجموعة من القوانين لتنظيم تحويل الملكية، الإدارة واللوائح، بالإضافة إلى آلية فعالة لمتابعة التحديات التي تواجه الشركات العائلية في دبي والآثار المترتبة عليها.

## Executive Summary

This study focuses on criteria which are adopted in previous research aiming at definitional clarity of a family business, whereby, generally, business control, management and ownership are mixed. Moreover, the study develops a simple but unambiguous definition of a family business in Dubai and examines the structure and performance of Dubai family businesses compared to non-family businesses.

The study builds on information maintained by Dubai Chamber of Commerce and Industry (DCCI) in The Membership Database (MDB), and The Certificate of Origin Database (CODB). The former is a list of DCCI members with their respective characteristics, including economic activity, location, nationality, ownership, employment and turnover; while the latter contains information about the Certificates of Origins that the DCCI issues to exporters including the identity of the exporting firm and the destination and value of the shipment.

### *Family Business in Dubai's Context*

Taking into consideration the UAE economic existence law for a company to be established in the UAE, and considering only businesses bearing at least 51 percent UAE ownership, this paper arrives at the definition below:

A family business in Dubai is a business in which:

- At least 51 percent of the shares are owned by one single UAE family
- AND*
- At least one member of the management team is drawn from the family that owns the business.

In the above definition, “family” includes the household (HH), which consists of the husband (head of HH), his wife and their siblings; the HH parents; his brothers and sisters and their siblings.

### *Family Businesses versus Non-Family Businesses*

- There are **56,374 active firms in Dubai**, of which **30,769 are family businesses**, and the remaining **25,605 are non-family businesses**.

#### *Firm Size*

- On the average, **family businesses are smaller than non-family businesses**. The largest differences are in water purification and supply, and extraction of crude petroleum and natural gas sectors.
- **At Dubai level**, about **25 thousand family businesses** are employing less than 10 workers, while another **3 thousand** are employing 10 – 19 workers.

- **At Dubai level**, about **20 thousand non-family businesses** are employing less than 10 workers, while another **3 thousand** are employing 10 – 19 workers.

#### *Turnover*

- **At Dubai level**, on average, a family business employing less than 10 workers has turnover of AED 2.4 million, while a firm with employment of 10 – 19 has AED 8.1 million and one with employment of more than 20 has AED 40.7 million.
- **At Dubai level**, on average, a non-family business employing less than 10 workers has turnover of AED 3.6 million, while a firm with employment of 10 – 19 has AED 8.2 million and one with employment of more than 20 has AED 41.8 million.

#### *Sector*

- **At Dubai level**, the sectoral distribution is more or less equal for family businesses and non-family businesses. Only in the trading and repairing services sector, the share of non-family businesses is slightly higher (77% versus 68%).
- **At Dubai level**, family businesses that are less competitive would need to enhance their competitiveness in the following sectors:
  - a. Agriculture;
  - b. Extraction of petroleum and natural gas and related services;
  - c. Construction;
  - d. Trading; and
  - e. Financial services.
- **At Dubai level**, sectors in which family businesses are already competitive compared to existing non-family businesses are:
  - f. Manufacturing;
  - g. Hotels and restaurants;
  - h. Transportation, storage and communications; and
  - i. Real estate, renting and business services.

#### *Export*

- There are **5,276 exporting firms in Dubai**, of which **1,521 are family businesses**.
- **At Dubai level**, only 4.9% of all family businesses are active in exports, compared to 14.7% for non-family businesses.
- On the average, exporting non-family businesses export more than family ones.

#### *Finally,*

- There is a need for a set of rules to streamline ownership transfer, management and regulations; as well as, for an efficient monitoring mechanism of transitions.

## **1. Introduction**

Family businesses make a great contribution to economies all over the world, especially in more developed countries where most enterprises are family owned, controlled, and managed. The family business has become the backbone of a significant number of newly industrialized economies, and is still an active element in the "old industrializers" (Colli 2003). According to regional experts, family businesses comprise most of the private sectors of the Gulf economies (Davis, Pitts, and Cormier 1997). They also account for over 90 percent of all commercial activities in the GCC, compared to rates ranging from 65 to 80 percent in other regions of the world.

But due to difficulties in estimating the size of family businesses' incomes and assets, and the lack of relevant published statistics, estimating the number of family businesses in the Gulf region in general, and Dubai in particular is quite difficult. However, defining a family business has, to this day, been a challenging job. There are probably as many definitions as there are researchers working on the subject. Since no widely accepted definition of a family business exists yet, a case-by-case differentiation is made depending on the country in question.

The objective of this study is to distinguish between family and non-family businesses in Dubai, and to examine the structure and performance of Dubai family businesses compared to non-family businesses. The study is the first of several future studies to be undertaken by DCCI. These include the family businesses contribution to Dubai's economy, and the challenges facing family businesses in Dubai and their implications.

In addition to this introductory section, section 2 presents the data and the approach used in carrying out this study. Section 3 reviews definitions of family businesses in international literature while section 4 defines a family business in Dubai's context. Section 5 examines the structure and performance of family businesses versus non-family businesses in Dubai. Section 6 summarizes the findings of the study and section 7 lists its limitations.

## **2. Data and Approach**

### **2.1 Data**

For purposes of examining the structure and performance of UAE family businesses compared to non-family businesses, the two administrative databases that the Dubai Chamber of Commerce and Industry maintains in its regular operations are used:

- a) The Certificate of Origin Database (CODB), and
- b) The Membership Database (MDB).

The CODB contains information about the Certificates of Origins that the DCCI issues to exporters. Information contained in a Certificate of Origin includes the identity of the exporting firm and the destination and value of the shipment. On the other hand, the Membership Database is a list of DCCI members with their respective characteristics, to include their economic activity, location, nationality, ownership, employment and turnover. Characteristics of exporting firms to whom COs had been issued in 2004 are derived from the Membership Database.

### **2.2 Approach**

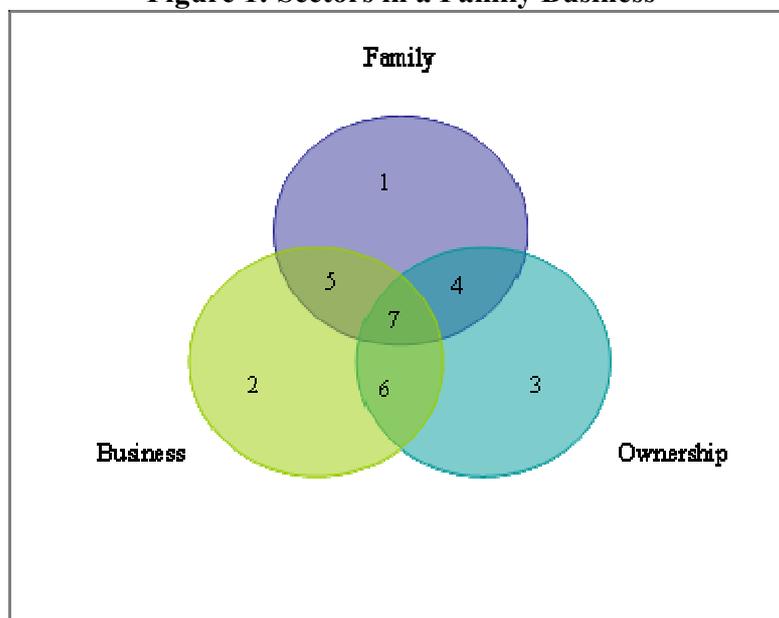
The applied economic existence law determines to a significant extent the settings for family businesses in the UAE. This law is setting the preconditions for a company to be established in the UAE, a requirement of at least 51 percent local ownership. Per definition, this law does not allow for non-local ownership for more than 49 percent. Subsequently, this determines already the scope of the definition for a local family business. Taking this into consideration, further analysis should assess the above settings in depth and sort the several possible combinations of local/non-local ownership and assume weight to the concept of management of these companies before reaching to an acceptable definition.

Businesses with only one owner/manager, which are usually referred to in international literature as “pre-family” businesses, are also included in the scope of this study as they are considered to be the backbone of any economy, and their success would make them grow and become major contributors to economic activity. Moreover, these businesses are of great significance in determining the future outlook of the composition of family/non-family businesses.

### 3. Family Businesses in International Literature

Despite its significance, a functional definition of a family business is still hard to pin down. Nevertheless, most researchers agree that characteristics distinguishing a family business must involve ownership, management, control, and (in some cases) transition to successive generations, by one single family. The disagreement in defining a family business mostly revolves around the degree of involvement of each criterion, and whether the criteria should be linked by an "and" for a narrow definition, or by an "or" for a wider one.

**Figure 1: Sectors in a Family Business**



*Source: Gersick, Davis, McCollom Hampton and Lansberg (1997)*

Figure 1 shows that any individual belonging to a family business system must belong to one of the seven possible positions (sectors) which are centered around three major lines of connection/relationships to the business. Individuals with only one connection to the business would lie in 1, 2, or 3, and those with more than one connection would lie in any of the other sectors. For example, sectors 4, 5, and 7 include the family members who are directly involved in the business and/or its ownership. Sectors 2, 3, and 6 include managers, employees and possible co-owners from outside the family. Finally, sector 1 indicates the family members who are not themselves involved in the business, but somehow relate with it.

### ***Westhead and Cowling***

In their study to define family businesses in the UK, Westhead and Cowling (1998) designed seven definitions which are also well-applicable to other countries:

- 1 → The enterprise is perceived by the chief executive, managing director, or chairman to be a family business
- 2 → More than 50 percent of ordinary voting shares are owned by members of the largest single-family group related by blood or marriage
- 3 → 1 AND 2
- 4 → 3 AND one or more of the management team is drawn from the largest family group that owns the business
- 5 → 3 AND 51 percent or more of the management team is drawn from the largest family group that owns the business
- 6 → 4 AND the enterprise is owned by second-generation or family members
- 7 → 5 AND the enterprise is owned by second-generation or family members

*Source: Westhead and Cowling (1998)*

### ***Hulshoff***

In a study on family businesses in the Dutch SME sector (Hulshoff 2001), two theoretically based and practically workable definitions are arrived at; a broad definition in which also the first generation businesses are included, and a narrow definition. Family ownership and family management were selected as the prime criteria. Family was defined as the extended family, including uncles and aunts, nephews and nieces and other relatives related by blood or marriage.

#### **BROAD definition (generation in business is not looked at)**

A business is a family business if:

- More than 50 percent of the voting shares are owned by one single family
- AND*
- More than 50 percent of the management (team) are drawn from the family that owns the business.

#### **NARROW definition (only second- or later-generation businesses)**

A business is a family business if:

- More than 50 percent of the voting shares are owned by one single family
- AND*
- More than 50 percent of the management (team) are drawn from the family that owns the business
- AND*
- The company is owned by second-generation or later family members.

*Source: Hulshoff (2001)*

#### **4. Family Business in Dubai's Context**

As is the case in the Gulf region in which family businesses control over 90 percent of commercial activity, family businesses in Dubai account for the major share of businesses in the Emirate. However, and in spite of all the existing relevant literature, there does not yet exist a clear and comprehensible definition of a family business in Dubai because of exceptional ownership rules and regulations. This section conceptualizes the literature researched in the previous section in order to realize a functional definition, taking into account the Emirate's particular business environment.

Based on the reviewed literature, there is no question that a workable definition of a family business has to consider ownership and management. In this regard, Hulshoff's broad definition is most interesting and will be altered in a way to make it applicable to Dubai. However, prior to defining a family business in Dubai, it is crucial to define the "family" in Dubai's context.

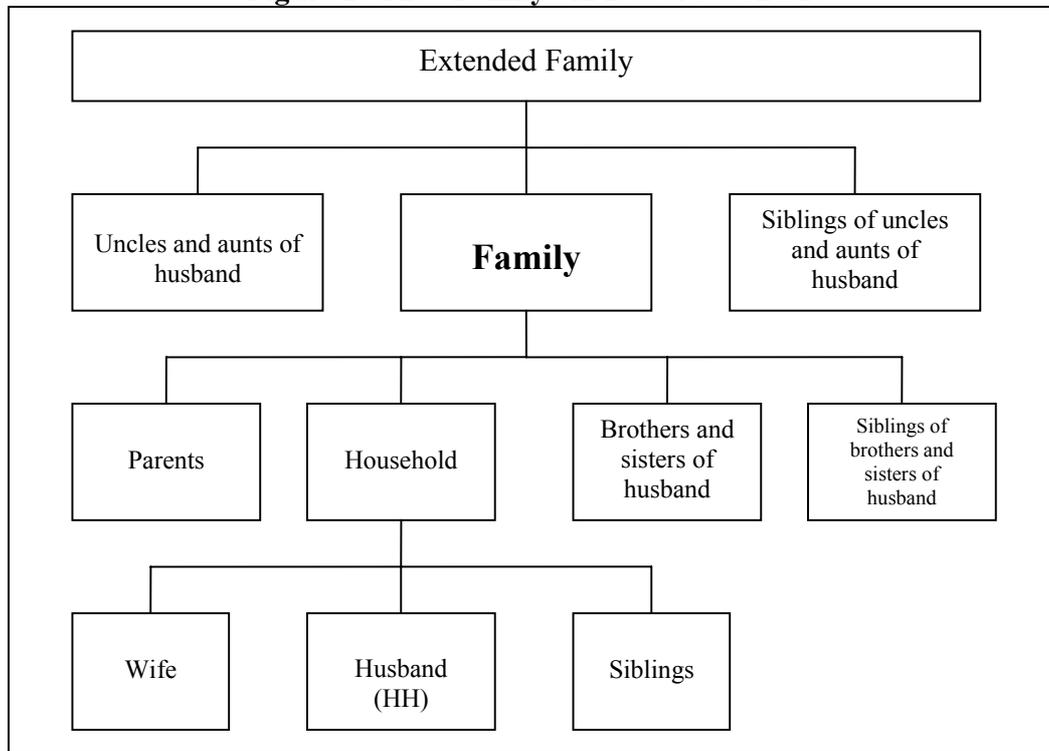
##### **4.1 Defining the "Family" in Dubai's Context**

In order to define a family business in Dubai, it is of relevance first to reach an agreeable definition of the "family" in Dubai in conformity with "Shari'a", as the latter is connecting ownership to family in a most exceptional way. Should the definition of family include only the household (husband, wife and siblings)? Should it also include the husband's parents, his brothers and sisters and their siblings? Or should it even extend to include the husband's uncles and aunts and their siblings?

For simplicity, the husband will be referred to as the head of household (HH). Practically, the household is a very narrow definition of a family as it dismisses the HH parents, brothers and sisters, all of whom have inheritance rights. On the other hand, the extended family is a very broad definition of a family because even when the husband's uncles and aunts and their siblings have the right to inherit, their control power is assumed to be overruled by others enjoying shorter control lines, such as siblings and brothers of the HH.

Therefore, the most relevant “family” definition for Dubai includes the household, the HH parents, his brothers and sisters and their siblings, and is referred to as “**Family**” in Figure 2.

**Figure 2: The “Family” in Dubai’s Context**



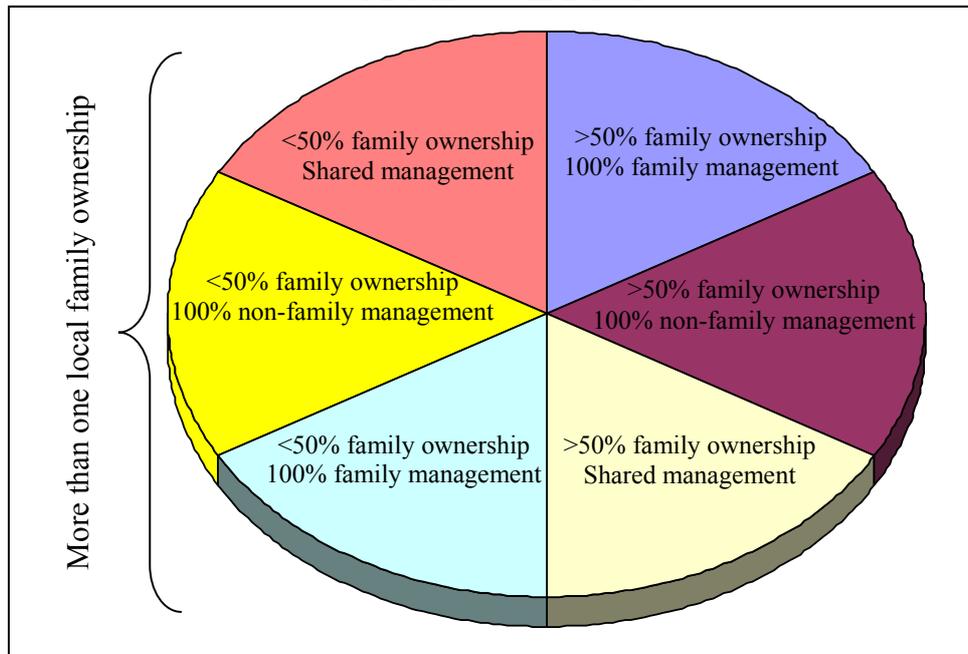
#### 4.2 Conceptualizing the Family Business in Dubai

To start with, it is important to note that Dubai retains restrictions on investment, notably a requirement for foreign investors to own at most 49 percent of a business, with at least 51 percent for a UAE national, unless the business is set up in one of the Emirate’s free zones (e.g. Jebel Ali Free Zone, Dubai Internet City; Dubai Media City; Dubai Medical City, etc.). For the purpose of this study, all businesses set up in free zones with more than 49 percent foreign ownership will be ignored, as they are considered as foreign businesses.

Remaining are all businesses bearing at least 51 percent UAE ownership, and the discussion henceforth only takes those into consideration. These businesses could be of different ownership

and management combinations with regards to family involvement. An illustration of the possible combinations can be seen in Figure 3.

**Figure 3: Possible Ownership and Management Combinations of Businesses in Dubai**



In the above figure, ownership is treated with relevance to Hulshoff's definition; i.e. 50 percent ownership by the same UAE family being the cut-off point. The logic behind such treatment is that since more than one UAE family can own a business, as being the case in the three segments at the left-hand side of figure 6, international literature suggests using 50 percent to distinguish between family and non-family businesses.

On the other hand, some swaying of Hulshoff's definition has been performed with regards to management. The logic here is as follows. The management team of a business can be (i) fully drawn from the owning family (holding more than 50 percent of the shares); (ii) partly drawn from that family; or (iii) fully drawn from outside that family. In other words, the management team may or may not include a member of the owning family.

If the management team partly or fully belongs to the owning family, then it is assumed to have control over the managerial decisions of the business. Hence, cases (i) and (ii) in the preceding paragraph can be combined and treated similarly with regards to management. If, in contrast, all the management team does not belong to the owning family, then the UAE owner(s) have no control over the managerial decisions, and is (are) assumed to be just sponsor(s). This case resembles case (iii) in the preceding paragraph.

The discussed line of reasoning leads to the following definition of a family business in Dubai:

A family business in Dubai is a business in which:	
➤	At least 51 percent of the shares are owned by one single UAE family
<i>AND</i>	
➤	At least one member of the management team is drawn from the family that owns the business.

Based on this definition, the possible ownership and management combinations for a business with more than 51 percent UAE ownership are categorized in Table 1 depending on the number of owners and managers.

**Table 1: Categories of UAE Owned Businesses in Dubai According to Ownership, Management, and Number of Owners and Managers**

#	Number of Owners and Managers	Ownership	Management	Category
3	1	100% Family	100% Family	One-Man Family Business
2	2	>50% Family	100% Family or Shared	Family Business
4	2	>50% Family	100% Non-Family	Non-Family Business (The Sponsorship System)
1	3 or more	>50% Family	100% Family or Shared	1 <sup>st</sup> Category Family Business
5		>50% Family	100% Non-Family	Non-Family Business (The Sponsorship System)
		<50% Family	100% Family or Shared	Non-Family Business
		<50% Family	100% Non-Family	Non-Family Business

Depending on the number of owners and managers, the table shows seven different categories of the possible ownership and management combinations. The first category represents a UAE national who owns and manages his business. This group, which is often referred to as “pre-family business” is categorized as a one-man family business.

A business with two owners/managers can be in one of two categories. The first category is called a two-man family business, and exists in any of the following cases:

- both people own the business, and only one of them is managing it;
- both people are owners and managers of the business.

If, on the other hand, one person owns the business, and the other person is managing it, then the business represents a “sponsorship system” in which the owner acts only as a sponsor.

If a business has 3 or more owners/managers, then it belongs to one of four possible categories:

1. If more than 50 percent of the business shares are owned by one single family and at least one member of the management team is drawn from that family, then the business is a family business of the first category.
2. If more than 50 percent of the business shares are owned by one single family but the whole management team is drawn from outside that family, then the business is a non-family business representing a sponsorship system.
3. If no single family owns more than 50 percent of the business shares and at least one member of the management team is drawn from any of the owning families, then the business is a non-family business, but is the closest to being a family business.
4. If no single family owns more than 50 percent of the business shares and the whole management team is drawn from outside all the owning families, then the business is a non-family business, and is the farthest from being a family business.

The 1<sup>st</sup> category represents what is most often perceived as a family business, and comprises the main interest of this study. In such businesses, it is the family members who typically keep the top leadership roles for themselves, but at the same time, some of them are not resistant to hiring good outside talents. However, the transfer of power within the business is usually a response to natural biological rather than commercial forces, and is more likely to be driven by family, not

market, considerations. These businesses have the least intention of going public. On the other end of the spectrum, the “farthest from becoming FB” category includes businesses which already are, or are the closest to becoming, publicly held and which consider trading on the stock market.

Between the two end points lie non-family businesses of the sponsorship system, in addition to non-family businesses which are “closest to becoming FB”. The latter would become family businesses if any owning and managing family increases its ownership of business shares to more than 50 percent.

Finally, although there are still numerous cases that, to varying degrees, complicate the framework advanced here (such as transition to successive generations), the combinations of structural dimensions of ownership and management offer a thrifty perspective on what constitutes a family business. Therefore, the definition arrived at might bear some degree of arbitrariness, but is hoped to help contribute to further research in the field of family businesses.

## **5. Family Businesses vs. Non-Family Businesses**

### **5.1 Adjusting Definition to Existing Data**

According to international literature and research, and taking into consideration the UAE economic existence law for a company to be established in the UAE, the definition reached in section 4 can be considered the best definition of a family business in Dubai. But due to the non-availability of sufficient data and information, especially on management and family vs. non-family managerial control, this definition cannot be applied literally without some adjustments. Therefore, in such a case, some assumptions need to be made.

It is noticed that ownership of fully UAE owned businesses, in almost all cases, belongs to only one UAE family, regardless the size of the business. Hence, all fully UAE owned businesses are assumed to be family businesses (with ownership being the only condition).

On the other hand, businesses with foreign equity are assumed to be non-family businesses according to the following:

#### ***Sponsorship Business***

In almost all the small<sup>1</sup> businesses with foreign equity, the owner of the license (the so-called sponsor) is different from the owner-entrepreneur who has the property right of the assets of the firm. The probability is high that the UAE national owners are only ‘silent partners’, since the capital is wholly provided by the foreign partners who also attend to all activities and make all the decisions related to the conduct of the business. The declared UAE owners, on the other hand, just receive token amount and are not expected to actively participate in the business, and hence such businesses are assumed to be non-family businesses.

#### ***Medium Non-Family Business***

Although UAE owners of medium-sized businesses with foreign equity are likely to be active partners, their presence in the firm is mostly directed to facilitating dealing with government and

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<sup>1</sup> Small businesses are those employing less than 10 workers; medium businesses, 10 – 19 workers; and large businesses, 20 or more employees.

other local agencies and local employees and clientele. Hence, it is assumed that such businesses are not family-businesses.

### ***Large Non-Family Business***

Large businesses with foreign equity are formally organized and ownership of capital and liabilities of owners are stipulated in legal documents. However, in most such businesses, although the UAE partner is a member of the Board of Directors because of his capital participation, decision-making managers are foreigners. Therefore, large businesses with foreign equity are also assumed to be non-family businesses.

The above reasoning makes it acceptable to define a **family business in Dubai as a business which is fully owned by UAE nationals, and a non-family business as one with a share of foreign equity**. Henceforth, and until new databases which allowing for the literal application of the definition reached in section 4.2 are developed, the rest of this study builds on this definition.

### ***Facts & Figures***

The DCCI Membership database contained 56,374 active members<sup>2</sup> in Dubai, of which, according to the adjusted definition, 54 percent (30,769) are family businesses while the remaining 46 percent (25,605) are non-family businesses.

## **5.2 Firm Size**

Family businesses in Dubai employing less than 10 workers counted about 25 thousand, representing 81 percent of the total family businesses in the Emirate; while those employing 10 – 19 workers were around 2.8 thousand (9%). The remaining 3 thousand (10%) family businesses employed 20 workers or more.

Almost 20 thousand (77%) of the non-family businesses in Dubai had employment of less than 10 workers, while another 3 thousand (12%) employed 10 – 19 workers each. The remaining 2.8 thousand (11%) employed 20 workers or more (Table 2).

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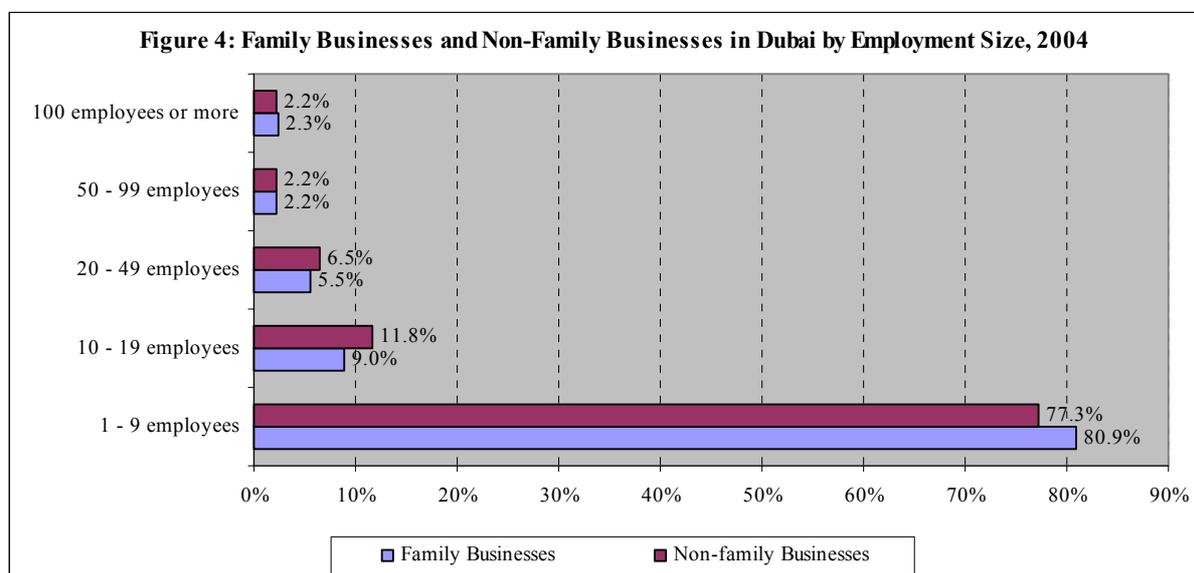
<sup>2</sup> Active members refer to firms with valid license as of 01 January 2004 and whose membership with the DCCI has not been suspended nor cancelled.

**Table 2: Family Businesses and Non-Family Businesses in Dubai by Employment Size, 2004**

Employment Size	Family Businesses		Non-Family Businesses		Total	% of Total
	Total Number of Firms	% of Total	Total Number of Firms	% of Total		
1 - 9 employees	24,897	80.9%	19,789	77.3%	44,686	79.3%
10 - 19 employees	2,759	9.0%	3,009	11.8%	5,768	10.2%
20 or more employees	3,113	10.1%	2,807	11.0%	5,920	10.5%
<b>TOTAL</b>	<b>30,769</b>	<b>100%</b>	<b>25,605</b>	<b>100%</b>	<b>56,374</b>	<b>100%</b>

Source: 2004 DCCI Membership Database

On average, family businesses are smaller than non-family businesses in terms of employment<sup>3</sup> (Figure 4). There are more family businesses (80.9%) than non-family businesses (77.3%) in the employment category of 1 – 9 employees. The opposite is true for the 10 – 19 employment category. While family and non-family businesses are almost equally distributed for categories of more than 50 employees.



Source: 2004 DCCI Membership Database

<sup>3</sup> We assume that size in terms of employment correlated significantly with size in terms of invested capital.

When sector is looked at, it is noticed that the difference is largest for water purification and supply, and extraction of crude petroleum and natural gas sectors. In the trading and repairing services sector, however, family businesses and non-family businesses both have the same average firm size in terms of employment.

**Table 3: Family Businesses and Non-Family Businesses Average Size by Sector, Dubai 2004**

<b>Industry</b>	<b>Family Businesses</b>	<b>Non-Family Businesses</b>
Agriculture & related services	9	38
Extraction of crude petroleum and natural gas	84	143
Manufacturing	54	60
Water purification & supply	14	140
Construction	56	106
Trading and repairing services	8	8
Hotels & restaurants	82	33
Transport, communications and storage	27	14
Financial	51	43
Real estate, renting and business services	24	20
Others	17	52
<b>TOTAL</b>	<b>18</b>	<b>19</b>

*Source: 2004 DCCI Membership Database*

### 5.3 Turnover

The DCCI Membership Database registers a total of 56,374 active members, with 30,769 or 54 percent being family businesses. The adjusted figures<sup>4</sup> presented in Table 4 show that the family businesses absorb 560 thousand workers or 54 percent of the total employment of firms and they contribute AED 208 billion, representing 49 percent of the estimated total turnover of firms in 2004.

On the average, a family business employing less than 10 workers had turnover of AED 2.4 million, while one with employment of 10 – 19 had AED 8.1 million and one with employment of more than 20 had AED 40.7 million.

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<sup>4</sup> Adjusted figures are generated from all active firms using the average value for reporting firms as the value for those that did not report.

Family businesses employing less than 10 workers number to about 25 thousand, employing about 85 thousand employees and reporting an annual turnover of AED 58.8 billion. These figures represent 81 percent of total number, 15 percent of employment and 28 percent of the total turnover of non-family businesses.

Family businesses with employment of 10 – 19 are about 3 thousand. They employ about 45 thousand workers and contribute an annual turnover of AED 22.4 billion, or 11 percent of the total for 2004. Those with employment of more than 20, in turn are about 3 thousand, absorb 430 thousand workers and contribute a turnover of AED 126.8 billion. These figures represent only 10 percent of the total non-family businesses, but they absorb 77 percent of employment and generate 61 percent of total turnover of family businesses.

<b>Table 4: Distribution of Family Businesses in Dubai by Employment Size and the Corresponding Estimated Employment and Annual Turnover, 2004</b>				
<b>Employment</b>	<b>Number (in thousand)</b>	<b>Employment (in thousand)</b>	<b>Annual Turnover (in AED million)</b>	<b>Ave. Annual Turnover (in AED thousand)</b>
1 - 9 employees	24.9	85.2	58,854	2,364
10 - 19 employees	2.8	44.9	22,444	8,135
20 employees and over	3.1	429.9	126,818	40,738
<b>TOTAL</b>	<b>30.8</b>	<b>560.0</b>	<b>208,116</b>	<b>6,764</b>

*Note: Figures have been adjusted for incomplete information provided by DCCI members*

*Included here are all sectors*

*Source: 2004 DCCI Membership Database*

Considering non-family businesses, Table 5 shows that they absorb 477 thousand workers or 46 percent of the total employment of firms and they contribute AED 215 billion, representing 51 percent of the estimated total turnover of firms in 2004.

On the average, a non-family business employing less than 10 workers had turnover of AED 3.6 million, while one with employment of 10 – 19 had AED 8.2 million and one with employment of more than 20 had AED 41.8 million.

Non-family businesses employing less than 10 workers number to about 20 thousand, employing about 72 thousand employees and reporting an annual turnover of AED 72 billion. These figures represent 77 percent of total number, 15 percent of employment and 34 percent of the total turnover of non-family businesses.

Non-family businesses with employment of 10 – 19 are about 3 thousand. They employ about 38 thousand workers and contribute an annual turnover of AED 24.7 billion, or 12 percent of the total for 2004. Those with employment of more than 20, in turn are about 3 thousand, absorb 367 thousand workers and contribute a turnover of AED 118 billion. These figures represent only 11 percent of the total non-family businesses, but they absorb 77 percent of employment and generate 55 percent of total turnover of non-family businesses.

<b>Table 5: Distribution of Non-Family Businesses in Dubai by Employment Size and the Corresponding Estimated Employment and Annual Turnover, 2004</b>				
<b>Employment</b>	<b>Number (in thousand)</b>	<b>Employment (in thousand)</b>	<b>Annual Turnover (in AED million)</b>	<b>Ave. Annual Turnover (in AED thousand)</b>
1 - 9 employees	19.8	72.0	71,990	3,642
10 - 19 employees	3.0	38.0	24,748	8,209
20 employees and over	2.8	367.0	117,930	41,796
<b>TOTAL</b>	<b>25.6</b>	<b>477.0</b>	<b>214,668</b>	<b>8,384</b>

*Note: Figures have been adjusted for incomplete information provided by DCCI members*

*Included here are all sectors*

*Source: 2004 DCCI Membership Database*

It is worth noting that in general, non-family businesses contribute higher turnover than family businesses in all the size categories. This observation points to greater competitiveness of the former. This is expected as foreign entrepreneurs in non-family businesses bring with them from their country the technical know-how's and the skilled manpower and business networks. Therefore, the immediate issue that need addressing would be making the family businesses more competitive.

## 5.4 Sector

Among the nearly 31 thousand family businesses in Dubai, 68 percent are in the trading sector while 10 percent are in construction; 9 percent in transport, storage and communications; 7 percent in real estate, renting and business services; and 2.5 percent in manufacturing. Only 1.5 percent are in the financial services sector. Very few are in the remaining sectors.

Correspondingly, the trading sector accounts for 77 percent of the total number of non-family businesses in Dubai. Construction accounts for 8 percent; transport, storage and communications, 6 percent; real estate, renting and business services, 4 percent; manufacturing, 2 percent; and the financial services sector, percent. Likewise, very few are in the other sectors.

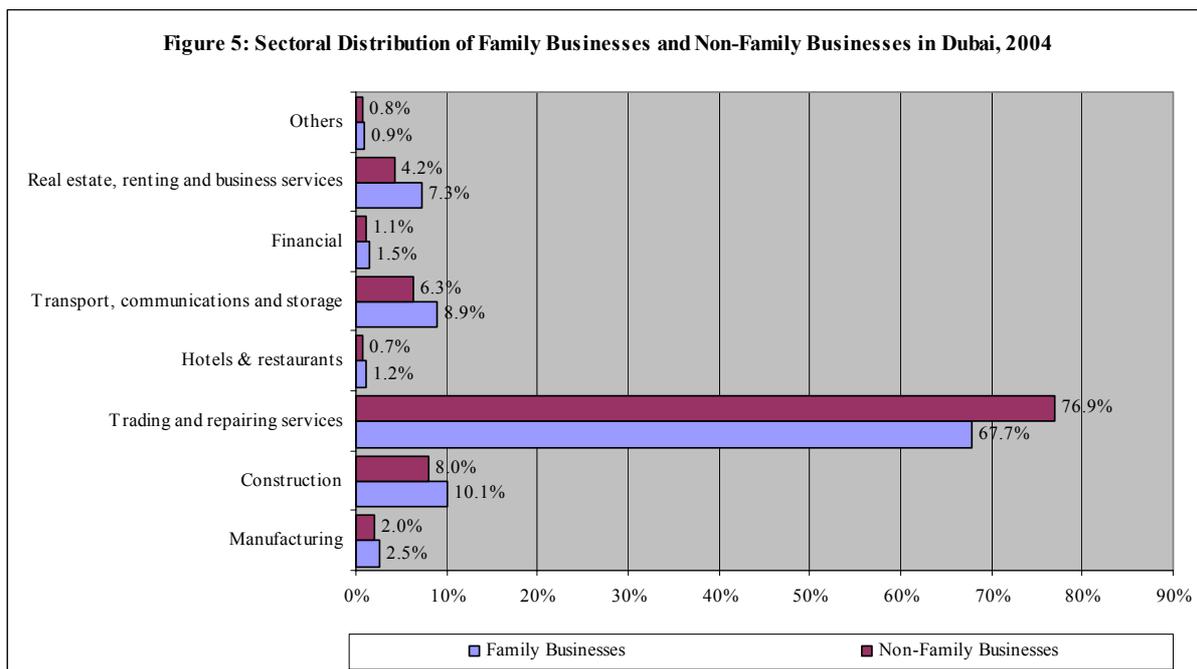
**Table 6: Sectoral Distribution of Family and Non-Family Businesses in Dubai, 2004**

Sector	Family Businesses		Non-Family Businesses		Total
	Number	%	Number	%	
Manufacturing	775	2.5%	520	2.0%	1,295
Construction	3,109	10.1%	2,049	8.0%	5,158
Trading and repairing services	20,844	67.7%	19,701	76.9%	40,545
Hotels & restaurants	368	1.2%	173	0.7%	541
Transport, communications and storage	2,726	8.9%	1,603	6.3%	4,329
Financial	447	1.5%	284	1.1%	731
Real estate, renting and business services	2,238	7.3%	1,078	4.2%	3,316
Others	262	0.9%	197	0.8%	459
<b>ALL SECTORS</b>	<b>30,769</b>	<b>100%</b>	<b>25,605</b>	<b>100%</b>	<b>56,374</b>

*Note: Figures have been adjusted for incomplete information provided by DCCI members*

*Source: 2004 DCCI Membership Database*

Plotting these figures into Figure 5 shows that the sectoral distribution is more or less equal for family businesses and non-family businesses in Dubai. Only in the trading and repairing services sector, the share of non-family businesses is slightly higher (77% versus 68%).



Source: 2004 DCCI Membership Database

The remaining part of this section considers manpower and turnover of businesses. Specifically, indications of labor productivity are used to point out sectors in which family businesses are less competitive and would need to enhance their productivity, and sectors in which family businesses are already competitive compared to existing non-family businesses.

Shares of non-family businesses to the total employment and turnover of all firms in the various economic sectors are presented in Table 6. Higher share in turnover compared to employment suggests higher productivity of these firms. Therefore, family businesses in these sectors are at a disadvantage and require programs for enhancing their productivity. On the other hand, sectors in which non-family businesses have their share to employment greater than their corresponding share to turnover suggest that the family businesses are competitive in these sectors.

The results show that sectors in which family businesses would need to enhance their competitiveness include the agriculture, extraction of petroleum and natural gas and related services, construction, trading, and financial sectors. On the other hand, sectors in which family businesses are competitive are the manufacturing; hotels and restaurants; transport, storage and communications; and real estate, renting and business services.

**Table 7: Share of Non-Family Businesses to Employment and Annual Turnover of All Businesses in Dubai in Each Economic Sector, 2004**

Industry	Family Businesses		Non-Family Businesses			
	Employment (hundred)	Annual turnover (AED million)	Employment		Annual turnover	
			Number (hundred)	% Share to sector total	Value (AED million)	% Share to sector total
Agriculture & related services	4	33	8	68.4	86	72.3
Extraction of crude petroleum and natural gas and related services	15	206	44	74.5	1,516	88.0
Manufacturing	418	10,012	313	42.8	6,797	40.4
Water purification and supply	0	2	7	94.3	99	98.3
Construction	1,745	40,063	2,166	55.4	64,540	61.7
Trading and repairing services	1,563	60,100	1,556	49.9	97,419	61.8
Hotels & restaurants	300	4,634	56	15.8	878	15.9
Transport, communications and storage	744	39,217	217	22.6	6,291	13.8
Financial	226	35,781	122	34.9	30,838	46.3
Real estate, renting & business services	545	17,455	211	27.9	5,893	25.2
Others	35	613	73	67.7	320	34.3
<b>TOTAL</b>	<b>5,597</b>	<b>208,116</b>	<b>4,772</b>	<b>46.0</b>	<b>214,678</b>	<b>50.8</b>

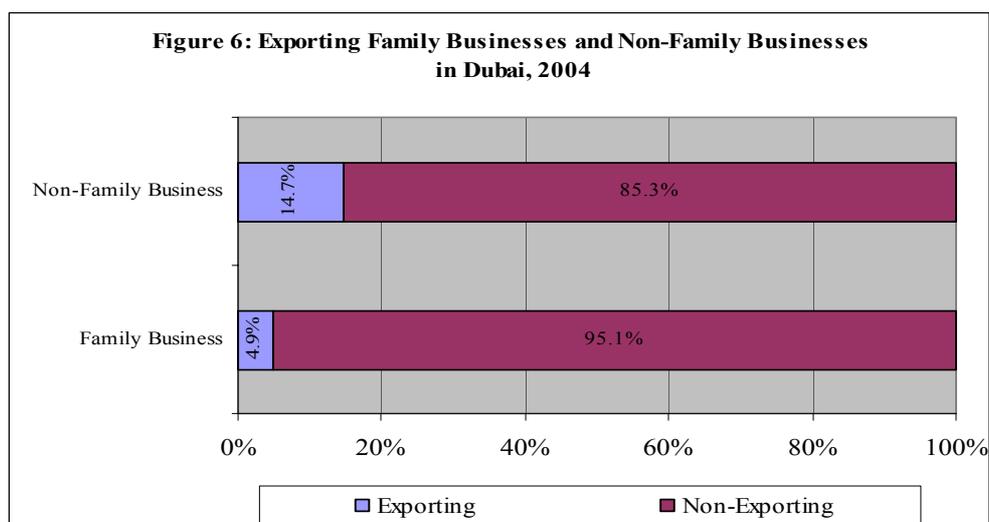
*Note: Figures have been adjusted for incomplete information provided by DCCI members*

*Source: 2004 DCCI Membership Database*

## 5.5 Export

According to DCCI Certificate of Origin Database, there are 5,276 exporting firms in Dubai. About 1,521 (or 29 percent) of the total exporting firms in Dubai are family businesses, and the remaining 3,755 (or 71 percent) are non-family businesses.

Figure 6 illustrates that, among family businesses, fewer firms are active in foreign countries than non-family businesses are. Only 4.9 percent of all family businesses in Dubai are active in exports, compared to 14.7 percent for non-family businesses. This suggests the greater domestic focus of activities of family businesses.



*Source: 2004 DCCI Certificate of Origin Database and 2004 DCCI Membership Database*

By employment size, Table 8 shows that 54 percent of the exporting family businesses are employing less than 10 workers; 16 percent, 10–19 workers; 11 percent, 20-49 workers and 6 percent, 50-99 workers. Exporting family businesses employing at least 100 workers account for 11 percent of the total number of exporting family businesses.

On the other hand, exporting non-family businesses were relatively smaller, with 79 percent employing less than 20 workers and only 3.6 percent had employment of at least 100. Since exporting firms do not require large employment, the above comparative figures suggest the greater tendency of exporting family businesses to be likewise engaged in other activities, while exporting non-family businesses tend to be more focused on exporting alone.

**Table 8: Family and Non-Family Exporting Businesses in Dubai by Employment Size, 2004**

Employment Size	Family Businesses		Non-Family Businesses	
	Number	%	Number	%
1 - 9 employees	828	54.4%	2,174	57.9%
10 - 19 employees	251	16.5%	804	21.4%
20 - 49 employees	172	11.3%	469	12.5%
50 - 99 employees	99	6.5%	173	4.6%
100 employees or more	171	11.2%	135	3.6%
<b>TOTAL NUMBER</b>	<b>1,521</b>	<b>100%</b>	<b>3,755</b>	<b>100%</b>

*Source: 2004 DCCI Certificate of Origin Database and 2004 DCCI Membership Database*

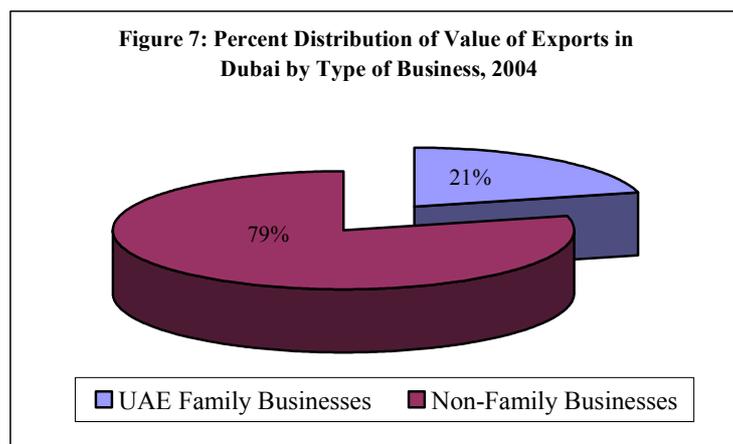
In terms of average value per exporting firm, values for family businesses are generally lower at AED 4.6 million, compared to AED 7.1 million for non-family businesses.

**Table 9: Value of Worldwide Exports of Exporting Family and Non-Family Businesses in Dubai, 2004**

Capital Participation	Worldwide Exports	
	Export Value (AED)	Average
Family Businesses	7,043,506,403	4,630,839
Non-Family Businesses	26,756,196,033	7,125,485
<b>TOTAL</b>	<b>33,799,702,436</b>	<b>6,406,312</b>

*Source: 2004 DCCI Certificate of Origin Database and 2004 DCCI Membership Database*

The share of family businesses to total value of exports is 21 percent. The figure strongly emphasizes the highly lopsided distribution in favor of non-family exporting businesses.



*Sources: 2004 DCCI Certificate of Origin Database and 2004 DCCI Membership Database*

## 6. Summary

Dubai's relatively open policy on infusion of foreign technology, manpower and capital has supported the transition of the Emirate's economy from oil dependency towards economic diversification. Today, foreign workers dominate Dubai's labor force and businesses with foreign equity proliferate, and it becomes more difficult to differentiate between family and non-family businesses.

This report proposes a ground definition for categorizing different degrees of family involvement in a business. Overall, despite some difficulties in reaching a consistent and agreeable definition of a family business in general and one in Dubai in particular, it is of major importance to tackle the issue as family businesses in the region are the chief player in commercial activity.

Taking into consideration the UAE economic existence law for a company to be established in the UAE, the study presents the following results:

- a) There are more family businesses than non-family businesses in Dubai, with the former being, on average, smaller in size than the latter.
- b) In general, non-family businesses contribute higher turnover than family businesses in small, medium and large sized businesses.
- c) Estimates of family businesses by economic sector are as follows:
  - i. Manufacturing - 775
  - ii. Construction - 3,109
  - iii. Trading - 20,844
  - iv. Hotels and restaurants - 368
  - v. Transport, storage  
and communications - 2,726
  - vi. Financial services - 447
  - vii. Real estate, renting  
and business services - 2,238

Data from the DCCI Membership Database on reported employment size and turnover by capital participation and economic activity of firms lead to the following general expectations<sup>5</sup>:

- d) The shares in total employment of non-family businesses in the following sectors are larger or just about the same as their shares to the total turnover, indicating that they are not more productive than family businesses:
- i. Manufacturing;
  - ii. Hotels and restaurants;
  - iii. Transport, storage and communications; and
  - iv. Real estate, renting and business services.
- e) The shares in total employment of non-family businesses in the following sectors are lower than their shares to the total turnover, indicating that they are generally more productive than family businesses:
- i. Agriculture;
  - ii. Extraction of crude petroleum and natural gas and related services;
  - iii. Construction;
  - iv. Trading and repairing services; and
  - v. Financial services

Linking the data of exporting businesses from the CODB to the MDB yields the following:

- f) On the average, exporting non-family businesses export more than family businesses.

In spite of growing interest in the field of family business in the region, empirical research to date is still extremely limited. This is a field that needs to be studied and analyzed further. Hence, after focusing on distinctions between family and non-family businesses per se, further research is needed to examine the structure of family businesses in terms of size, sectoral distribution and concentration, and integration patterns (horizontal vs. vertical). These market structure characteristics are determining conduct of businesses (merging, joint-venturing, etc...), which in turn determines pricing powers and economic performance.

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<sup>5</sup> Expectations by size of firms have not been analyzed due to very small number of firms by employment size in some sectors.

If we want to develop a microeconomic policy that is effective in enhancing performance of family businesses, we need to assess the underlying mechanisms in family businesses (financing, determining new business opportunities, etc...). Having a clear microeconomic policy would effectively tackle and alleviate constraints abtaining family businesses into a better performance.

Such a program could be made effective if made at GCC/Arab levels. One should keep in mind, however, that the ability to conduct such research requires a commitment from family businesses in Dubai and the region to cooperate in providing large-scale quantitative data.

## **7. Limitation of the Study**

Due to lack of adequate information, the definition used in the study was adjusted. Some of the firms classified as non-family businesses because of a share of foreign ownership could instead be family businesses in reality. This is more probable for the larger firms in which the UAE partner might be an active one. The number of family businesses in Dubai cited in the report, therefore, is likely to be underestimated and hence the results should be treated with some caution.

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