Managing a Family Business in a Complex Environment: The Case of Palestine

Dr. Samir Ahmad Abuznaid
Associate Professor of Management and Marketing
Dean of the School of Finance and Management at Hebron University
Hebron, Palestine

Abstract

Family businesses are so predominant worldwide. They are the engine that drives socioeconomic development and wealth creation. A family business is owned and managed by one or more family members who are actively engaged in the daily operations of the business. This research paper discusses the unique dynamics of Palestinian family business. The paper gives a better understanding of Palestinian family firms operating in an environment that is characterized by uncertainty, lack of stability and political risk. It is evident from the paper that there is competition between business and family. Palestinian business owners and or managers are working under internal and external pressures. The paper identifies the types of entrepreneurs in Palestine, pinpoints major characteristics, problems and challenges facing Palestinian entrepreneurs. It also provides Palestinian managers with major recommendations and best practices that are necessary for the success of family businesses and the enhancement of governance in this important sector in Palestine.

Keywords: Entrepreneurs, Family business, SMEs, Complexity, Palestine, Marketing, Culture

1. Introduction

Family businesses are so predominant worldwide. Individuals are attracted to work in family firms more than to careers in corporations (Hodgetts and KuratKu, 2002, P.52). A family business is a company in which two or more members of the same family share ownership or work together in its operation (Longenecker, Moore and Petty, 2003, P.167). It is a business owned and managed by one or more family members who are actively involved in running the company on a day to day basis (Hashash, 2010, p.5). A family business is owned and operated by family members and they account for nearly 50 percent of the GNP and employ approximately half of the private sector workforce (Hodgetts and Kuratku, 2002, P.615). A family firm differs from other types of small businesses in many ways. Its decision making, for example, involves a mixture of family and business values (Longenecker and others, p.168). Family business is composed of both a family and a business. Although the family and the business are separate institutions–each with its own members, goals, and values-they overlap in the family firm. Families and businesses exist for fundamentally different reasons. The family's primary concern is the care and rearing of family members, while the business main concern is the production and marketing of goods and /or services. There is a competition between business and family. Which comes first, the family or the business? Few business owners would knowingly allow the business to destroy their family. Many families are accustomed to making minor sacrifices for the good of their businesses. Families usually tolerate inconveniences and disruptions to family life. Sometimes, the clash between business' interests and family's interests is so persistent or so severe that entrepreneurs must decide which comes first.

Differing interests can complicate the management process by creating tension and sometimes leading to conflict. Relationships among family members in a business are more sensitive than relationships among unrelated employees (Longenecker and others, p.169). A family business offers another doorway to ownership for those whose families are involved in their own business.

It is with this topic in mind that this paper intends to explore the unique dynamics of Palestinian family business, it is therefore hoped that this paper will give a better understanding of Palestinians family firms operating in an environment that is characterized by uncertainty, lack of stability and political risk. Finally, this paper will pinpoint or shed light on major problems and challenges facing family firms in Palestine and will provide Palestinian business owners/managers with some best practices for the success of their businesses which will help them eventually comply with governance and best practices in this private sector.

2. Environmental Analysis

2.1 Political and Historical Background

Palestinian people are now about ten millions, five millions living in Palestine, and the rest of them living abroad as refugees. They are Arabs. They speak Arabic and they are either Muslims or Christians. Palestinians are well educated, motivated and driven people who strive to advance themselves and their country. The literacy rate is 92%, the life expectancy at birth is 73 years for females and 70 years for males and the adjusted real per capita GDP is about 1203 US dollars. The average family size is about six persons in 2004 (Palestine Human Resource Report, 2004). Only recently was Palestine recognized by the United Nations as a nonmember State. This partial recognition did not change much on the ground when it comes to the economy and the daily life of Palestinians.

Since 1967, Israel has maintained various economic and political restrictions on the Palestinian people activities and institutions which have had detrimental effect on the Palestinian economy and quality of life. While Israel justifies its acts by security concerns, the Palestinians view these acts as an obstacle to the Palestinian statehood.

As of 1996, there have been numerous efforts carried out by Arab states and the International community to achieve peace in the region. The Hebron and Wye River agreements were concluded in 1997 and 1998 respectively to facilitate the implementation of the Oslo Accords signed at the White House in 1993 in presence of President Bill Clinton have not produced any result. The 2000 Camp David Peace Summit between the late Palestinian President Yasser Arafat and former Israeli Prime Minister Ehud Barak ended without reaching an agreement and in the following month the Likud Party Ariel Sharon was elected as the Israeli Prime Minister in February 2001. In March 2002, the Beirut Arab summit was held to present plans to defuse the Israeli-Palestinian conflict. Arab leaders put forth an initiative at the summit that offered a comprehensive peace in the region based on the internationally accepted formula of "land for peace", in return to the 4th of 1967 boarders, normalization of relations and a final peace treaty. In response, former Israeli foreign minister Shimon Peres welcomed the initiative. Unfortunately, this internationally recognized formula was not implemented by Israel because the latter was not ready for withdrawing to 1967 boarders and rejected the right of Palestinian refugees of return. *Http://en.wikipedia.org/wiki/MiddleEast-peaceprocesss.*

In July 2002, the "International quartet" made up of the United States, the European Union, the United Nations, and Russia outlined the principles of a “Road Map" for peace including an independent Palestinian state. The plan called for actions by Israel and the Palestinian Authority and putting off the disputed issues until rapport between the two sides could be established. The Palestinian National Authority was asked to take all measures on the ground to arrest, and restrain individuals and groups conducting and planning violent attacks against Israelis and to rebuild the Palestinian National Authority security apparatus to confront all those engaged in violence. Israel was then required to dismantle settlements established after March 2001, freeze all settlement activities, remove its army from Palestinian areas occupied after 28 September 2002, end curfews and ease restrictions on the movement of persons and goods.(http://www.state. gov/r/pa/prs/203/2006.htm) The Palestinian Authority has fully fulfilled its obligations under this plan while Israel dismantled only minor post-March 2001 settlements and has actually expanded others and has evacuated Gaza Strip in August 2005. On November 29, 2012, the United Nations General Assembly voted overwhelmingly to accord Palestine 'Non-Member Observer State' status in United Nations. This partial recognition, however, did not change things on the ground. On the contrary, more settlements, more incursions, and more arrests of Palestinians by Israel have been conducted since then.

The Israeli army however, still regularly carries out incursions into Palestinian controlled areas. More evidently, Israel has launched three wars on Gaza since 2008. These wars have been dubbed different names by Israel. Gaza war 2008-2009 killed 1440 civilians, injured 5380 of whom 1872 were children. This war also damaged schools, hospitals, mosques and buildings belonging to the United Nations (Fayyad, S. 2005). Then the 2012-war and July 8, 2014 war followed respectively. This latest war followed 8 years of blockade that crippled the economy in Gaza and denied Palestinian the access to basic goods and commodity. The Israel launched its war in the Hamas controlled Gaza Strip. The seven weeks of Israeli bombardment ,Palestinian rocket attack and ground fighting have resulted in 2200 Palestinians causalities, of which 75%were civilians ,11,100 were wounded ,66 Israeli soldiers killed,4 Israeli civilians were killed and 450 Israeli soldiers and 80 Israeli civilians were wounded. The Israeli bombardment also resulted in 17,000 Palestinian homes, schools and mosques been reduced to rubble. The New York Times noted that damage in the third war was more severe than in the two proceeding wars. Gaza’s main power plant was destroyed, leaving the Strip with only electric generator power for the next year. Two sewage pumping stations were destroyed, businesses were targeted and destroyed.

A number of tunnels leading to both Israel and Egypt have been destroyed. On the 26th of August, Egypt brokered a ceasefire agreement between Palestinian and Israelis. Palestinian and Israeli leaders signed the agreement promising only limited change to conditions in Gaza and let unresolved the broader issues underpinning the conflict.

2.2 Socio-Economic Factors

In the face of economic and social hardships, Palestinians have developed noble aspirations of living in peace, rearing their children and building their state. These aspirations are constantly being challenged by today's grim prospects which leave little room for hope. Yet hope is vital to counter extreme alternatives that hold no future. (ILO, Geneva, 2009)

For four decades, the Israeli relations with the Occupied Territories have been prescribed by the Israeli Defense Forces (IDF). In 1967, the Israeli civil administration assumed authority for Palestinian economic, political and institutional affairs, some of which have since been transferred to the Palestinian Authority. Such polices directly affected Palestinian economic affairs such as taxation, customs, banking, money, and insurance, agriculture, industry and crafts, land, water, labor and other resources (UNCTAD, 1986). The Palestinian economy is in decline and unemployment is rising at an alarming levels. Unemployment in Palestine, according to ILO standards, stood at 20.6% in the second quarter of 2013(compared to 20.9% in Q2 of the previous year). Adding to those who became frustrated by the labor market, actual unemployment reached 24.55 in Q2 2013(The Government of Palestine, Unlocking Statehood, 2013, p.21). The latest World Bank report has indicated that in the labor force, one out of six Palestinians in the West Bank and nearly every second person in Gaza were unemployed even before the recent conflict, this is unsustainable situation. (The World Bank Press Release, September, 16, 2014). The report went on to add " without immediate action by the Palestinian National Authority, donors and the Government of Israel to re-vitalize the economy and improve the business climate, a return to violence as we have seen in recent years will remain a clear and present danger" (World Bank, Press Release, September 16,2014). The Deterioration of Palestinian economy declined in 2014, particularly in Gaza where the situation was dire even before the recent conflict. The average yearly economic growth exceeded 8% before 2007 and 2011 but declined to 1.9% in 2013, and reached minus 1% for the first quarter of 2014. (World Bank Report, Press Release,September,16.2014).The 2014 war on Gaza will put further stress on an already struggling Palestinian economy with falling income per capita in 2013,projected to contract further by the end of 2014.

The Palestinian economy is affiliated with emerging economies, yet it has its own characteristics: **First,** The Palestinian national economy has no national currency. The absence of national currency has led to the use of four different currencies. The currencies used are New Israeli Shekel (NIS), Jordanian Dinar (JD), US dollar, and the Euro. Having multi-currency circulations reduces the efficiency of the Palestinian economy and denying the benefits which may be accomplished from the revenues associated with the use of national currencies such as the seignior age process (Sabri, p.2). In the West Bank and Gaza there are 17 banks with 235 branches , 239 licensed money changers' shops with 38 branches and 10 licensed insurance companies with 116 branches (Head of Palestine Monetary Fund and Insurance Companies Union, September 23,2014). Insurance sector, however, is supervised by the insurance directorate of Palestine Capital Market Authority (PCMA) to align its regulatory and supervisory frameworks to the best international practices and to assess its supervisory framework against the global insurance core principles promulgated by the International Association of Insurance Supervisor (IAIS), and to develop an action plan to address key issues found by the assessment (Palestine Capital Market Authority, 2013, p.17). **Second,** the service sector dominates the bulk of Palestinian economy with 67% of Palestinians GDP coming from this sector. Family businesses receive financial loans form microfinance institutions like Palestine for Credit and Development(FATEN),Palestinian Agriculture Relief Committee (PARC),Arab Center for Agricultural Development (ACAD), ASALA , Palestine Development Fund(PDF),Young Men Christian Association(YMCA)American Near East Refugee(ANERA,). **Third,** The Palestinian economy suffers from high unemployment rate. Unemployment rate in the West Bank is around 23.1% while it is much higher in Gaza due to the blockade which lasted for more than eight consecutive years and the latest Israeli war on Gaza which lasted for more than fifty days in which many businesses have been targeted and destroyed (Palestine Central Bureau of Statistics, 2014).

Today Palestine is almost 100 percent dependent on Israel for electricity. There is a small generating capacity in Gaza, and almost none in the West Bank.

Electricity is produced in Israel and sold to Palestinians through three Palestinian Electricity companies as main distributors of electricity. They sell electricity to Palestinian inhabitants, businesses and institutions. Palestinian companies are responsible for collection and payment to the Israeli Electricity Company.

The occupation, however, not only influences Palestinian values, but it also shapes the economic life of the average Palestinian (ASALA, October, 2010, p.24). Palestinians have no control over sea, air or borders. The Palestinian economy, consequently**,** suffers a lot from Israeli practices and restrictions such as the lack of freedom of movement for people and goods, as well as transportation problems. Within the West Bank, these restrictions include obstacles or "closures" in the form of checkpoints ,road blocks, metal gates, earth mounds, walls, road barriers and trenches, in addition to the racist separation wall constructed predominantly east of the Green Line inside the West Bank, with Gaza effectively been sealed from the rest of the world. The separation wall has turned the West Bank into a fragmented set of social and economic islands or enclaves cut off from one another. It has surrounded Gaza with a perimeter fence with heavily controlled crossings (ASALA, October, 2010, p.24). Physical barriers are further reinforced by intricate administrative procedures, including a highly restrictive permit requirement system. The total number of closures increased from 558 in December 2007 to reach 630 by September 2008, not including temporary "flying" checkpoints. Moreover, this number represents a 59% increase over the 396 closures that were in place at the time of signing of the Agreement on Movement and Access in November 2005 (OCHA, 2009d).

The Economic Minority Report to the Ad Hoc Liaison Committee has indicated that for the Government of Israel (GOI) sincere efforts are needed to allow better and faster movement of people and goods in, out and among the Palestinian territories, while taking into account legitimate security concerns of the GOI (World Bank, 2014). The potential for a sustainable economy is inextricably linked to political settlement and the realization of the two-state solution. For this reason, the achievement of sovereignty by far will be the single biggest boost for the Palestinian economy (State of Palestine, 2013, p.22). Obstacles like high cost of transport due to closures, and poor infrastructure prevented Palestinian economy from stimulating trade without Israeli participation. The phenomenon of Israeli firms subcontracting work to the Palestinian labor-surplus economy for re-export to Israel and beyond which emerged in the 1980s has since become one of the main features of Israeli-Palestinian trade and economic relations. Such economic relations had minimal spillover effects on the local Palestinian economy and productive capacity, as subcontracting shifted from one branch to another in line with the changing trade dynamism of a liberalized Israeli economy, while technology transfer was minimal (United Nations, 2009). The Israeli strategy throughout the 1980s actively supported and funded by the United States –was conducted under the "theme" of improving the quality of life of Palestinians" which aimed at permitting personal prosperity but forcibly restraining communal development (OCHA, March 2009). Ever since Israeli Palestinian trade relations were dominated by much higher levels of Israeli exports to the occupied Palestinian territories, while Palestinian agriculture and manufacturing remained focused on low value added, uncompetitive, labor intensive production processes.

It is worth mentioning that Israel has divided the West Bank into three different administrative areas:

Area A- under Palestinian administrative and security control. This area includes civil gatherings in major cities.

Area B- under Palestinian and Israeli security control, this area includes the communities around cities and towns.

Area C- under full Israeli control, this area is a state land outside the inhabited areas. Unfortunately Area C comprises 75% of the Palestinian land under which Palestinian Authority have no control. The majority of industries including stone cutting businesses are in area C which is under full Israeli control.

In the West Bank, marketing is usually handled by local agents and representatives. Exhibitions and trade fairs remain the best arena for promoting a product, though there are relatively few of them. Telemarketing and the internet are increasingly popular marketing methods, although the shortage of telephone lines limits this option at present (British Consulate, 26 May 2010). The West Bank and Gaza have few department stores and supermarkets with the majority of retail outlets being in Hebron governorate. About 60% of the total products of the Palestinian industrial products are sold and distributed without any marketing effort, and only 18% of total family firms have exclusive agents to distribute their products. The latest World Bank report has concluded that "within this fragile socio-political context, economic recovery becomes a priority. This will allow continuity in provision of services and jumpstart economic activity, which is conflict affected society (World Bank, Press Release, 2014).

3. Family Businesses in Palestine

The importance of family business stems from the fact that it forms the majority of the private sector in both developing and developed economies. For Palestinians it plays a pioneering role in the Palestinian economic development. It also forms the safety valve against the spread of unemployment as a result of deteriorating political conditions and continuous closure imposed by Israel which prevents thousands of Palestinians employees from crossing the so called green line into Israel (Abuznaid and Doole, 1999, p.1). The number of private national operating establishments is 88,421 in the West Bank and 42,853 in Gaza Strip (PCBS, p.19). In a survey conducted by PCBS it was found that 97%of private business firms in Palestine are classified as small business of which 925 businesses are employing less than 10 employees. The survey also added that Palestinian small businesses employ 65% of the total 1,000,000 employees in Palestine. The number of sole proprietorship in the West bank is 66.4 and 33.6 in Gaza (PCBS, p.21). The Palestinian economy is not an exception. This applies to all business sectors including commercial, industrial, agricultural and service sector. Family business accounts for more than 70% of West Bank businesses. Therefore, we can conclude that the Palestinian private sector is mainly family business and it applies to all sectors including the industrial sector. Establishment Census Atlas of Palestine ,2012 has indicated that sole proprietorship establishment in the West bank comprise 66.4% while in Gaza it is 33.6%.The remaining businesses are in the form of partnership or private corporations (PCBS, p.21).
Family businesses differ in many ways from non-family businesses, and business families function quite differently from non –business families.

A family business is one that is influenced by family or a family relationship, and that perceives itself to be a family business. The family may control business operations because of ownership and in many cases family members fill top management positions. It should be demonstrated that a firm’s operations are affected by family relationship-enterprises in which the relationship of father and son, brother and sister, in –laws, cousins and so on has an important impact on the future of the business. Family business plays a major and constructive role in the Palestinian national economy. In addition, it contributes to the reduction of unemployment. As mentioned earlier Palestinian family businesses comprise almost 70% of the private sector. The number of private businesses in Palestine has reached 107745 firms of which 75080 firms are located in the West Bank while 30665 establishments are in Gaza. Therefore the number of family firms in Palestine reaches 80808 firms. Of those businesses in the West Bank, there are 45 family businesses that employ more than50 employees , 30 family businesses employ 50 -99 employees while 10 businesses employ 100 employees and above(PCBS,2009).

There are several types of entrepreneurs in the West Bank. **First,** entrepreneurs who started their business without previous technical experience and these constitute 26% of family businesses. **Second,** entrepreneurs, who initiated their business with previous experience and they constitute 27%.of the total family entrepreneurs.
Third, entrepreneurs who were working as investors in trade, and have expand their operations in trading, in construction materials, or in clothing and food products. These are the most successful, and they constitute 17% if the total entrepreneurs. **Fourth,** horizontal expansion entrepreneurs who converted their small scale workshops into small scale industries and they constitute 16 % of the total entrepreneurs in the West Bank. **Fifth,** The remaining entrepreneurs are described as “employee entrepreneurs”. These entrepreneurs used to work for other employers and have bought the used machines sold by their employers to initiate their business and thus used family members as employees (Sabri, 2008, pp.1-33). **Sixth,** the last entrepreneurs are known as “Bag entrepreneurs”. They buy their products like underwear from Jordan and neighboring countries like Syria, Egypt, normally cheaper than in Palestinian territories, and sell them through Kiosks outlets in West Bank cities and towns. The majority of those are female entrepreneurs. They cross Allenby Bridge, the bridge connecting West Bank with Jordan, carrying their bags. These entrepreneurs are quite known to Israeli Customs personnel and are normally asked to pay tax to the Israelis customs at the bridge.

In the West Bank 18% of the total family firms have exclusive agents and representatives to distribute their products. Exhibitions and trade fairs remain the best arena for promoting a product, though there are relatively few of them. Telemarketing and the internet are increasingly popular marketing methods, although the shortage of telephone lines limits this option at present (British Consulate, 26May 2010). The West Bank has several department stores and supermarkets with the majority of retail outlets being in Hebron and Ramallah. About 60 % of the total Palestinian industrial products are sold and distributed with little marketing effort.

3.1 Palestinian Family Businesses Strengths

It is naturally evident that family businesses in Palestine have major strengths that contribute to their success. The factors that contribute to the success of the firms vary and all depend on the manager/owner management style. The results of a survey conducted in West Bank to assess the major strengths that lead to the success of Palestinian family businesses have indicated the following factors as major strengths that contribute to the success of firms (Jabari,October,2010, pp.1-47).

1. Owners/managers possess the qualities, experience and skills necessary for the firm's growth and success. Such successes provide the basis for wisdom management. Palestine has the human capital: young, educated and driven people. It has been reported that Palestinians are the most highly educated people throughout the Middle East.
2. Manager /owner commitment. The majority of managers /owners interviewed spend over 80 hours per week working in the business. This unique feature has to do with the importance of family reputation in the West Bank hence the majority of family businesses are named either after the founder or the owner. To these managers and owners the success of the business means success for the family and vice versa. In the Palestinian culture the failure of the business will tarnish the image of the family in the eyes of the public. In fact in Palestine, as part of the Arab world, managers worry more about what others think of them more than that what they thinks is right or wrong. Examples of family firms are. AlJunaidi Dairy, Neiroukh for Steel, Al Jabriny Dairy ,Almasri Company for Cars ,Alhirbawi Mattresses Company, Al Tarifi Company, Al Zatari Company for leather and Tanning, Al Jabari Company for Stone and Marble and etcetera. All of these companies, like many others, are named after a father or member of the family.
3. The success of family firms has to do very much with the relationship between family members and non - family members in the firm. A good relationship between them is a must for the success of the business. Maintaining a healthy family relationship in family business is another issue that the owner-manager must keep in mind. Studies on family business have shown that 3 out of 10 firms survive the next generation, with only 15% persisting to the third generation (Davis and Harveston, 1998, Kets de Varies, 1993, Ward, 1987) (Master p.8). As such, Palestinians are always keen to have good relationships with other members of the society and in many cases they go out of the legal formal system to remedy any damage in relationships. Family chiefs play a major role in mending differences between families. In Palestine any problem that is caused by any members of family business will put the family business at stake. For example, a fight between two kids in or out of school will cause one of the kids to leave that school to another one in order to avoid any further escalation. Or, in cases where death is caused to someone by a member of a family business this will cause the business to close to avoid any revenge or reprisal.
4. Many family businesses are managed and run by non-family members in a show of good governance. This practice of separation between ownership and management can maximize the family business competitive advantage and surely can influence the continuity of the firm. Failure to separate family from business is a great issue that can lead to the stagnation and cessation of the business (Hashash, p.26). In many family firms founders have the money but lack the experience, skills and knowledge. Therefore they resort to hiring qualified managers from outside the family to run the business.
5. Palestinian family business managers and owners embrace customers as the core of their vision. This is one of major strengths of family businesses and has to do with Arab culture which places a great deal of emphasis on relationships and reputation.
6. Patriotic reasons. The Palestinian Authority as well as business persons believe in "peace economy "as opposed to economic peace proposed by Israeli Prime Minister Binyamin Netanyahu. Netanyahu sees economic peace as an alternative to a political solution. In contrast Palestinians argued that peace should always come before anything else. Palestinians strongly believe that economic progress is crucial to the political forces that favor peace. In other words, they view a strong economy as a way to get rid of the occupation.

3.2 Problems Facing Palestinian Family Businesses

The following are causes that contribute to failure of Palestinian family business. These factors have been mentioned by owners /managers surveyed by the writer.

1. Owner making decision himself without consulting with peers or others in the firm either family members or outsiders. In Arab culture as in Palestine almost 90 % of the population is Muslims. In Islamic teaching prophet Muhammad (PBUH) has taught us in Hadith (Noble Prophetic sayings) to be discreet.
2. Lack of management skills and improper management styles. It is evident that the majority of Palestinian owner managers of family firms employ the autocratic management style.
3. Employment and hiring on the basis of kinship and family relations.
4. Tax consideration.
5. Transfer of ownership.
6. Financial arrangements in the transfer of ownership.
7. Marginalizing the role of non-family members in the firm. This leads to high turnover, lack of motivation and commitment in many businesses. However, it is important to mention here that some managers view high turnover as something positive. They believe that turnover will help bring new blood to the establishment. To them, zero turnovers leads to the absence of innovation and creativity.
8. Allowing conflict and family feud to impact the business. In many cases where death is been caused by a relative of the owner of a business firm the business is set on fire or closed as a sign of revenge.
9. Conflict among the owners or management members. This in many occasions may result in the dissolving of the business and the start of other business. In many family businesses confusion exists between family and business goals.
10. The inherent conflict of interest among members of management. Conflict of interest is defined as putting one's interest ahead of those he or she works for. Michael Davis has defined conflict of interest as follows:" a person has a conflict of interest if,(a) he is in relationship of trust with another requiring him to exercise judgment in that other service and(b) he has an interest tending to interfere with the proper exercise of that judgment. Tom Beauchamp has proposed a similar definition. A conflict of interest occurs whenever there exists a conflict between person's private or institutional gain and that same person's official duties in a position trust (Bowie, 2005, pp.3-4).
11. Spoiled kids running the business and lack of confidence in them. Many businesses were dissolved immediately after the father's/manager's death. Clients and more specifically elders believe that they get well better with managers in their age. They believe that they do not get the same respect they normally get from the father or elder.

3.3 Challenges Facing Palestinian Family Businesses

Despite all the successes, Palestinian family businesses face many challenges. The challenges extend from internal and external pressures to legal and survival issues. These challenges must be dealt with seriously before they turn into a threat. Among those challenges:

First: *Political risk.* Political risk is an external pressure and is considered a major risk facing Palestinian family businesses whether they are private or public. Political risk is defined as:

1. Instability risk. Instability risk is the major risk facing Palestinian family businesses, Instability risk is caused by the occupation. Examples of instability risk include curfews, arrests, killing, closure of firms, ransacking of banks, sabotage, kidnapping, firms specific boycotts, invasion of firms and confiscation of equipment, mass labor strikes, the separation wall and rioting.
2. Government risk. Government risk is defined as the one that arises from the action s of government authority whether the authority is used legally or not, discriminatory regulations, expropriation and breach of contract.

Second: *Succession management.* Succession is one of the most important issues facing family businesses (Poe, "the SOB's".) Succession is defined as the passing of a family business from one generation to the next and the change of leadership involves a process that is usually fraught with difficulty. Davis defined succession as the transfer of leadership from one generation to the next to guarantee the stability of family possession (Davis, 1968, p.10). Succession is a biological necessity in which the younger generation succeeds the older one in order to ensure continuity (Churchill, 2010, pp.10-28). The family firm remains stable as long as the founder is the manager. Whenever the founder decides to bring a family member into a senior position then the firm becomes destabilized and conflicts begin. Succession Plan is a written plan that details the transfer of a business ownership and direction the business should take.; It includes the venture type, managers' capabilities, the entrepreneurs' vision, and environmental factors (Hodges's and Kuratku,2002,P.623) .Failing to plan, select and train successors is a fundamental problem facing Palestinian family businesses and the primary cause for discontinuity.

The issue of continuing the family firm under further generations is a major challenge facing family businesses in Palestine. It is known in Palestinian culture that the first born son of the owner is most likely to be the successor. Very few owners select a female successor to lead the business. The succession issues cause clashes within families especially when important decisions are to be made, illogical distribution of properties among members take place, and when an incompetent manager takes control of the business (Ward, 1988, pp.105-117). The succession needs proper planning, selection and training of key human resources personnel. Formal family meetings are essential in order to have smooth and successful transfer of power. Research shows that many privately held firms go out of existence after 10 years; only three out of ten survive into a second generation while only 16 percent of all privately held enterprises make it to third generation (Kuratku and Hodhetts, 2007, P.684). In other studies it was found out that 3 out of 10 firms survive the next generation, with only 15% persisting to the third generation (Davis, 1986, PP.310-53). While Ward found that only 13% made it to the third generation of which only 3% grew significantly (Birley, 1986, pp.36-43). Succession management is not confined only confined to West Bank businesses. In the United Kingdom for example only 24 percent of UK family businesses survive to the second generation, and only 14 percent make it beyond the third (Leach, 1999 P.163). Most family businesses in Palestine do not have succession plans therefore leading to greater conflict and divisions. In Palestine succession means choosing between sons and daughters who until now, have all been harboring their own secret ambitions of succeeding when their father retires or dies, and the father himself is often ambivalent about succession because he is worried about the ability of his children and how he is to approach favoring one at the expense of the other. For Palestinian owner /entrepreneur the successor is usually the eldest son. The point in succession is to maintain successful and sustainable business in the future.

Conflict among partners of the family firm is a common phenomenon in the West Banks. In fact many family businesses have conflict among family partners. This conflict develops to the point of crippling the business and eventually dissolving the firms. The reasons behind conflict between partners of the family business are differences over distribution of profits, the heart burning of sisters –in- law (jealousy between wives of managers and or owners of the family business), conflict over tax issues which terminated many family businesses and dispute over responsibilities like management and management, marketing and human resources issues In many cases firm split into two or three firms. Prophet Mohammad (PBUH) was asked for advice about the dilemma of favoring one child at the expense of another. He replied, “I would favor the youngest until he was older; the one who was absent until he was present; and the one who was sick until he was better” (Hadith). In Islamic cultures, as in Palestine, many business owners, managers and even founders marry more than one wife. This makes the succession management process even more difficult where favoring one son from one wife at the expense of the other son from the other wife and this often leads to emotional hazards of succession. When the owner/entrepreneur may not find a competent and professional manager within the family he may hire a nonfamily outsider to be the successor perhaps only temporarily while waiting for an heir to mature and take over. **Third:** *Professionalizing the business.* Professionalizing the business is another challenge facing Palestinian family businesses. Good management is necessary for the success of any business, and the family firm is no exception. Professionalizing the business is an important step towards being able to manage potential conflicts between family and business values and goals. This issue is concerned with performance and methods and techniques of managing the family business including good governance practice.

Some good management practices for the success of a family business include (Longenecker, and Others. 178):

1. Stimulate new thinking and fresh strategic insights.
2. Develop succession plans.
3. Attract and retain excellent nonfamily outsiders to be the successors at least temporarily.
4. Create a flexible, innovative organization.
5. Create and conserve capital.
6. Prepare successors for leadership.
7. Exploit the unique advantages of family ownership. Another way to professionalize the business is to assign an advisory and legal board to help maintain good corporate governance.

Observing these and other practices of good management will help the business thrive and permit the family to function as a family. Disregarding these will pose a threat to the business and impose strains on family relations. **Fourth:** *Market development.* The West Bank is a small market. Gaza used to consume 40 % of food production in the West Bank.

With the closure of Gaza by Israel following the war on Gaza in 2008, this market share is almost lost. The same goes for East Jerusalem where Israel does not allow the selling of Palestinian goods coming from West Bank like dairy products. Special permits issued by the Israeli government are needed in order to allow the selling of Palestinian products in Gaza and Arab East Jerusalem and to the 1.4 million Palestinians living in Israel. Permits are sometimes denied or rejected. In addition to these Palestinian family businesses, we need to develop new products of potential interest to its current market to allow Palestinian businesses maintain competitive advantage. It is worth mentioning that many family businesses like shoes, textile, and food stuffs are out of business today and many family businesses closed due to the dumping of Israeli products in West Bank open market and the severe competition from China and other countries.

Fifth: *Informality.* Absence of clear policies, especially, human resource, and business norms for family members.

Sixth: *Larger unemployment among younger women.* The women in Palestine are relatively well educated in comparison to other less developed countries and enjoy good status as expressed by literacy rate, education, work opportunities and advanced professions. For example, the literacy rate of Palestinian women is about 87% compared to 96% for men in 2003. They also work in advanced positions. In the West Bank alone 16,566 women work in the public sector, of whom, 5 are ministers and deputy ministers (ASALA, October, 2010, P.47). It should be noted that women still face many restrictions in Palestinian society that severely hamper economic empowerment and participation (ASALA, October, 2010, P. 24). However, since the second Intifada in 2002, the occupation has not only limited people, especially women due to security concerns to move freely between cities for education or business, but also pushed many women, especially those living in rural areas, to enter the labor market. With the increase in unemployment among men and the inability of the market to absorb labor elsewhere, women started to generate coping mechanisms. More women started to engage economically, contributing to the family budget or sometimes even becoming the main source of income for the entire family (ASALA, October, 2010, P.24).

4. Summary and Conclusions

This research has shed light on Palestinian family owned and managed businesses in an environment that is so complex politically and economically. It is evident from the paper that the occupation is a major obstacle in the road of sustainability and development. To achieve real sustainable development in the West Bank and Gaza, it is imperative that the occupation be lifted in order to pave the road to the establishment of a Palestinian state. Besides that, it is essential for Israel to free Palestinian private business and workers from the restrictions on access and movement, as well as access to and use of natural resources and infrastructure in accordance with 2005 Agreement on movement and access in the West Bank and Gaza Strip as determined in the Oslo accords (Oslo Accords, September 13, 1993). It is important that Israel allows the construction of the four industrial terminals in the West Bank. The completion of these terminals will create thousands of jobs, encourage foreign and private sector investment and will strengthen entrepreneurship and productivity for family business and the growth of the private sector at large.

Yet, despite all hardships and because of their cultural and linguistic skills, the Palestinian entrepreneurs have facilitated the access of foreign investors to the local market. The Palestinian entrepreneurs maintain strong social and economic networks both inside and outside the Palestinian territories and achieved major successes in the area of sustainability and entrepreneurship.

To sum up, this paper has outlined major strengths of Palestinian family businesses and challenges that need to be taken seriously by family business founders and /or owners like succession issues and other corporate governance practices. The paper identified, probed and analyzed the types and characteristics of Palestinian entrepreneurs, their enterprises and the impact of family businesses on the Palestinian economy. It highlighted the major strengths and challenges facing Palestinian family businesses and the impact of wars and political instability on the sustainability of Palestinian economy. It is evident from the paper that the key to analyzing problems and identifying successful solutions in this complex situation is to end the occupation, establish a Palestinian state to live in peace and security side by side with its neighbor Israel and for business entrepreneurs to develop a keen ability for viewing the business as entity separate and apart from the family unit.

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