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Providing a framework for Start-up, growth and transition of a small Arab family business

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Abstract

Freish Al Mahrazi, founder of a grocery stores and herbal medicines in Muscat, started his business career in the early 1950s. He left his village Al-Mudhabi and went to Muscat to start a business in order to be able to feed his small family and to escape from the conflicts that arose between the tribes in those days. Although a father of seven sons and three daughters, Freish worked most closely with his two sons Sulaiman and Abdullah. He used to highlight family values and business culture in occasional discussions with his children. The business has grown from one branch to three branches. The company, after Freish died in 2011 at the age of over 100 years, is now in a new phase of growth and competition. Despite the company's core business being in a niche market of herbal medicines and Ayurvedic treatment, the new generation of successors is trying to diversify.

Keywords: Small business, Arab family business, start-up, growth, succession.

1. Introduction

Freish Sons Ltd. (FSL) is one of the popular and successful family businesses in Muscat that deals primarily in herbals and traditional medicines. Their main business office and store is located at Seeb market, along the corniche road. The routes of their business can be traced back to the early 1950s [1]. The story of FSL began with the founder Freish Salem Al-Mahrazi's (Figure 1) move from his village to the city of Muscat. His dream in doing so was to be independent and rich in order to be able to support his family. He used to live in Al-Mudhabi, a village in the Al-Sharkiya region, where opportunities for business were limited in the 1950s. In order to fulfill this desire Freish moved to Muscat, the capital city of Oman, leaving his village where he was born and raised. His decision to move was influenced by two main reasons: to be able to feed his small family and to escape from conflicts that arose between the tribes in the region in those days. He chose Seeb souq (market) as the location in greater Muscat to open his small shop. He started with selling small things such as crops and traditional grocery items. This small shop is still there in Al-Seeb souq, and the new 4-story modern building beside it is its head office [2].

Occasionally he used to say, "The one who just has the knowledge without wisdom, cannot be successful in his life". He was a humble person who used to gain pleasure by helping people. He used to spend his free time treating people who were sick or who needed advice and spiritual guidance. At the beginning, he started treating them by the teachings of the Holy Quran and then he started to use both the teachings of the Holy Quran and herbals. The idea of using herbal medicine in treating came to him because some patients needed special herbs or medicine to recover. He used some herbals that were made in Oman and India [3].

Online research suggests that the use of herbs to treat disease is almost universal among non-industrialized societies, and is often more affordable than purchasing expensive modern pharmaceuticals [4-9]. The World Health Organization, (WHO) estimates that 80 percent of the population of some Asian and African countries presently use herbal medicine for some aspect of primary health care. Studies in the United States and Europe have shown that their use is less common in clinical settings, but has become increasingly more common in recent years as scientific evidence about the effectiveness of herbal medicine has become more widely available [10-13].

Freish was an open-minded person with regard to business activities. He used to keep all the accounting for himself, without having any relevant education or background. He believed that Allah (God) would help him in his business and would protect him and his family. He also had confidence in his sons' abilities in that they would take active part in his business [14].

2. Literature review

The Freish Family

Freish family consists of seven sons and three daughters. The Freish family tree appears in Figure 3. The eldest son was named Naser and the second one, Suliman. Suliman went to Britain to study and then worked for a while. The third eldest son was named Abdullah who was very close to his father. He was with his father from an early stage of the business. The remaining four sons: Khalid, Salim, Ali and Said did not get involved with his father's business at all. Each of them followed their own careers and pursued their own interests. Eventually, Freish chose Abdullah as a close assistant for his business. Abdullah used to spend most of his time sitting along-side his father and learning from his experience. Freish also realized that Abdullah had both a positive attitude and good work behavior, qualities that were congenial for business success [15].

Abdullah co-managed the business with his father for many years. Eventually his father realised it was time to see if Abdullah was ready to run the business by himself. In order to do so, Freish decided to go to perform the Haj (pilgrimage to the Holy Makkah and Medina in Saudi Arabia). In those days, the Haj journey used to take longer, about one and a half months [16].

During that time, Abdullah faced some challenges like lack of working capital as well as the shortage of merchandise in the shop. To overcome this challenge, he sold his motorcycle for R.O.150 (RO 1=\$2.60) and went to Matrah Souq (main market in those days in Muscat) to purchase the needed products. On his return from Saudi Arabia, his father pleasantly noticed the positive change and the prosperity of the shop under Abdullah's management. At this point, Freish realised that Abdullah was the ideal successor for his family business. In 1980, he left Muscat and returned to his town again [17].

The relation between siblings and owners

Some of the children and grand-children of Freish take interest in family business. Especially Abdullah (intermediate school) and Sulaiman (secondary school), who encourage their children to take part in the business. Abdullah has three sons (Saud, Aiman, Adil) and Suliman has four (Daood, Yousif, Adnan, Qahtan). The most involved Freish's grandsons are Saud (diploma in business), Daood (intermediate school), Yousif, and Adnan, who are cousins. Although the parents and their children had had limited academic achievements, they possessed quite a strong motivation for a career in business.

In general, the relationship between the family members was warm and mutual respect was always there. Although some of Freish's sons lived overseas, their relationship with their siblings is good. None of Freish's daughters were involved in the business prior to their father's death in 2011 at the age of over 100 years. Sometimes, Freish used to have discussions among family members (Figure 4). Freish used to tell his sons and daughter how to treat each other and how to respect each other. They were very close to each other through bonds of love and care. Despite this family atmosphere, some

sort of tensions still occurred between them. That was because of the personality of the oldest brother who was tough and tended to be more dominant, according to Saud, one of the grandsons of Freish. They did not let this disturb and break their family ties, however.

3. Methodology

Growth through Diversification

The business continued to expand as everything was going well. By 2001 the company expanded its business to 12 small shops in greater Muscat area. In 2002, they started to expand beyond Muscat by opening new branches in the Al-Sharqia region and in Al-Buraimi. In the meantime, the company also planned to build their head office and main outlet in Seeb souq. In 2006, they opened their big four-story center in Al-Seeb on the sea coast street. By establishing this center they closed about six of their small shops which were merged in this new large center. In 2008, they continued what the founder Freish started in traditional medical treatment and they opened a clinic in the same filed. For such expansion, Abdullah and his son Saud went to china to search for new products. In an attempt for further growth and diversification, they decided to open a bricks factory in Al-Sharqiya region in 2009. In the same year they also established a new factory in Al-Buraimi to target a new segment of customers by producing and selling hair oil and cosmetic products. Later, they added in their clinic an Ayurvedic center which specializes in traditional medicine.

4. Finding

FSL Branches

As already indicated, the company operations are now performed from its three main branch offices and factories. Brief details are provided here:

1. Al Seeb: Head Office and Main Branch

This office consists of four floors: the ground floor is a super market for selling different types of products including herbal medicine, perfumes, vegetables and fruit, meat, food stuff and others. The first floor is for herbal exhibition. They import the herbs from local and international sources like India, China, Africa, Jordon, Syria, Saudi Arabia and the Jabal Al-Akthar mountain in Oman. The second floor is the traditional medical clinic. Finally, the Ayurvedic center is on the top floor. In an attempt to raise more revenue and profits, in early 2014, the company has added two new businesses: Freish Pharmacy and Freish Travels & Tourism. These two lines of their businesses are located in a small outlet located adjacent to its main building in Seeb.

Al-Sharqiya

It is one of the three main branches of the business. It has become a very profitable branch primarily because of its good location (see map, Figure 5). There are two types of business here: one is a grocery store and the other is brick manufacturing. They added these new lines of business because of its potential in the region. At the time, the brick manufacturing business was highly profitable. They were the only producer of machine-made bricks in the region. While other competitors could produce only about 500 bricks manually, their China-made machine could produce 2000 bricks per day. They were the dominant supplier of bricks in the region.

It is located in Al-Sharqiya North, on the main highway. It services a large number of people who commute to their place of works from Al-Sharqiya to Muscat. The branch has five workers. Saud (the oldest son of Abdullah) was responsible for directing this branch and running it from 2004 to 2007. He was 20 years old, possessed a diploma in business from Al Buraimi College. His father realized his business tendency and passion and appointed him to run business at this branch.

Al Buraimi

Their most recent branch was opened in Al Buraimi, an Omani city adjacent to Al Ain city in United Arab Emirates. In this branch they targeted a new segment of customers by producing and selling hair oil and cosmetic products. Later, they added in their clinic an Ayurvedic center which specializes in traditional medicine.

Before you start a business, you need to be realistic about how much money you'll need to get up and running. Startup costs can include inventory, office space, equipment, anticipated tax costs and employee payroll. Being passionate about something — owning a restaurant, beauty salon, technical service or construction company — is not enough on its own to guarantee success. The length of time it takes to start a business often depends on the type of business and the location. If it is just one person and no loans are required, it could take as little as a month or two to get started. If it is a larger company with employees and startup funding is required, it could take up to a year to get the business off the ground.

During the first stage, it's important to research the market and competitive landscape, write a business plan and secure funding.

First-time business owners will need to understand the essential steps to follow as they launch their new venture.

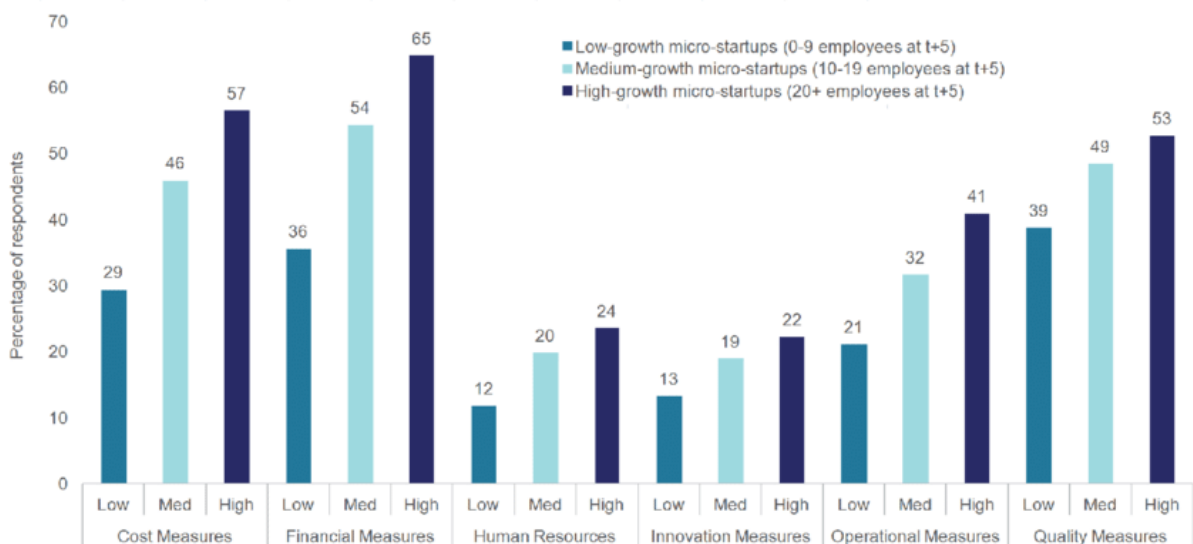
- **Research the market and competitive landscape.** Figure out who your main competitors will be and what your ideal customers look like. You can research this by conducting phone or face-to-face interviews, online surveys or focus groups with potential customers to get their feedback. Consider asking them why they purchase a specific product or service, what they

like or don't like about competitors' products and what price they would be willing to pay for what your company plans to offer.

- **Identify what you'll sell.** Whether you plan to offer a product, service or both, narrow in on what you'll sell and how you'll make it different from your competitors' offerings. Even if you're selling identical products or services, you could distinguish yourself with your location, customer service or shopping experience.
- **Write a business plan.** A business plan is a roadmap for the future of your company and often outlines the goals for the first, third and fifth years in business. If you need outside investors to loan you money in order to get started, they will need to review your business plan and financial statements before investing.
- **Set financial goals.** Get specific about how much money you'll need to invest, borrow, spend and can reasonably make during your first year in business. Some businesses aren't profitable for the first few years while they build their reputation and customer base. You'll need a plan for covering expenses during that time.
- **Consider partnership.** If you don't have the funds or expertise to launch a business on your own, consider partnering with someone who has complementary skills or money to invest. A potential partnership could develop over time and offset your startup costs with additional funding from a partner. Another possibility is that you are hired by an owner of a company who wants to sell the business in the future and offers you the opportunity to buy the business in a phased buying process. Instead of needing to have cash on hand for an upfront sale, the owner might offer you a stake in the business for investing a number of years as an employee. This could be a good solution for an aging owner to transition the business and secure the future of their employees, as well as their own retirement.
- **Secure funding.** From getting small business loans to crowdfunding campaigns, there are many ways you can raise money to start your company.
- **Create your business.** Make it official by choosing a business name and creating your business entity. You could have to register your business; get federal and state tax identification numbers, permits or licenses; and may want to file for trademarks, copyrights or patents. You can also set up a bank account to manage the business's money.
- **Hire employees.** If you hire workers, you'll want to make sure you're following state and federal employment laws and learn about managing employees. The U.S. Department of Labor website is a good resource for learning more about labor laws.
- **Build your customer base.** Once your business is up and running, you'll want to focus on building your customer base. You can do this by providing excellent customer service, special deals and offering incentives to new customers. A marketing campaign can also help, and it

could be as simple as handing out a printed coupon or offering incentives like two-for-one sales.

- **Market your product or service.** It's also important to promote your new business and build awareness of the business, which you can do by creating a website, social media accounts and marketing at community or industry events. If you have the budget, consider starting an advertising campaign. You can do this online, in local newspapers or wherever else you think your ideal customers will see the advertisements.
- **Monitor cash flow.** Keeping an eye on incoming and outgoing cash (i.e., cash flow) is critical to managing a business. Often, unexpected business expenses can put owners into a cash-flow crunch that can impact their ability to pay suppliers and employees.



Growth

If your business has hit major milestones during the startup stage and achieved sales goals, your business can begin to explore opportunities for growth. Once your business has established a customer base and become known for a product or service, you can focus on ways to grow your sales and operations.

During a growth stage, your business may begin to make more money, breaking even, becoming profitable or increasing profitability.

If your product or service is taking off, it could be time to look for more funding from investors so you can expand your business. You may need to invest in equipment, hire more employees to expand your best-performing products or services. It may also be time to discontinue or try to improve the products or services that haven't been selling well.

Throughout the startup stage, most of the burden of running the business might have been on you as the owner. If your business is growing, you may be able to hire and train employees to help manage

day-to-day functions. With this staff in place, you'll have more time to focus on marketing the business and managing others.

This could also be a good time to focus on investing more money into your emergency fund, to help pay for unexpected setbacks or invest in upcoming opportunities.



Maturity

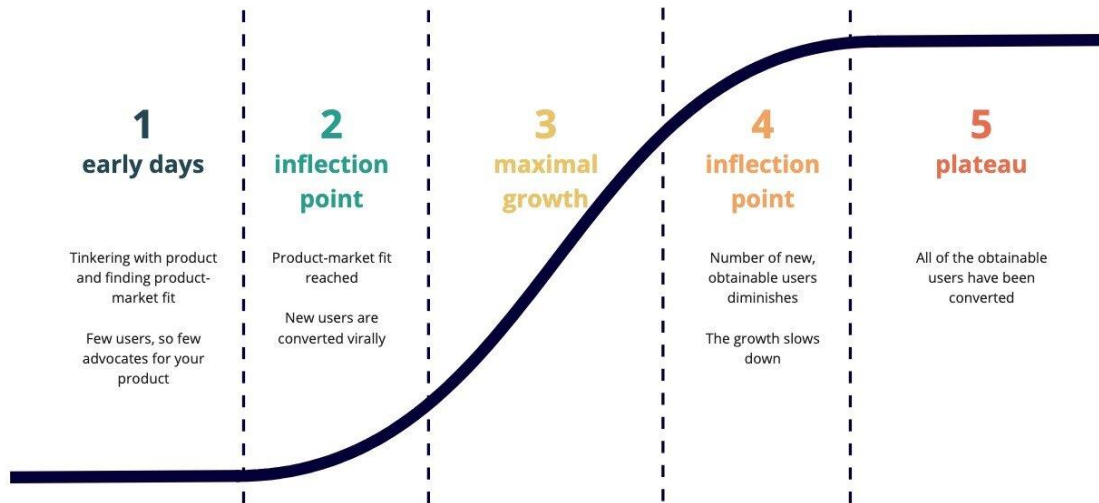
After several years in business, your company may hit a stage of maturity when it's more stable and profitable. This is the third stage in the life cycle of a business.

When you first started your business, you may have taken a limited salary. Now, as an owner, you can most likely start taking a regular salary from the company.

Mature businesses should have strong brand recognition and a secure or growing customer base that allows them to expand product lines into new or existing markets.

At this point, you can count on your employees to manage the day-to-day operations as you focus on long-term goals.

Anatomy of an S-curve



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Transition

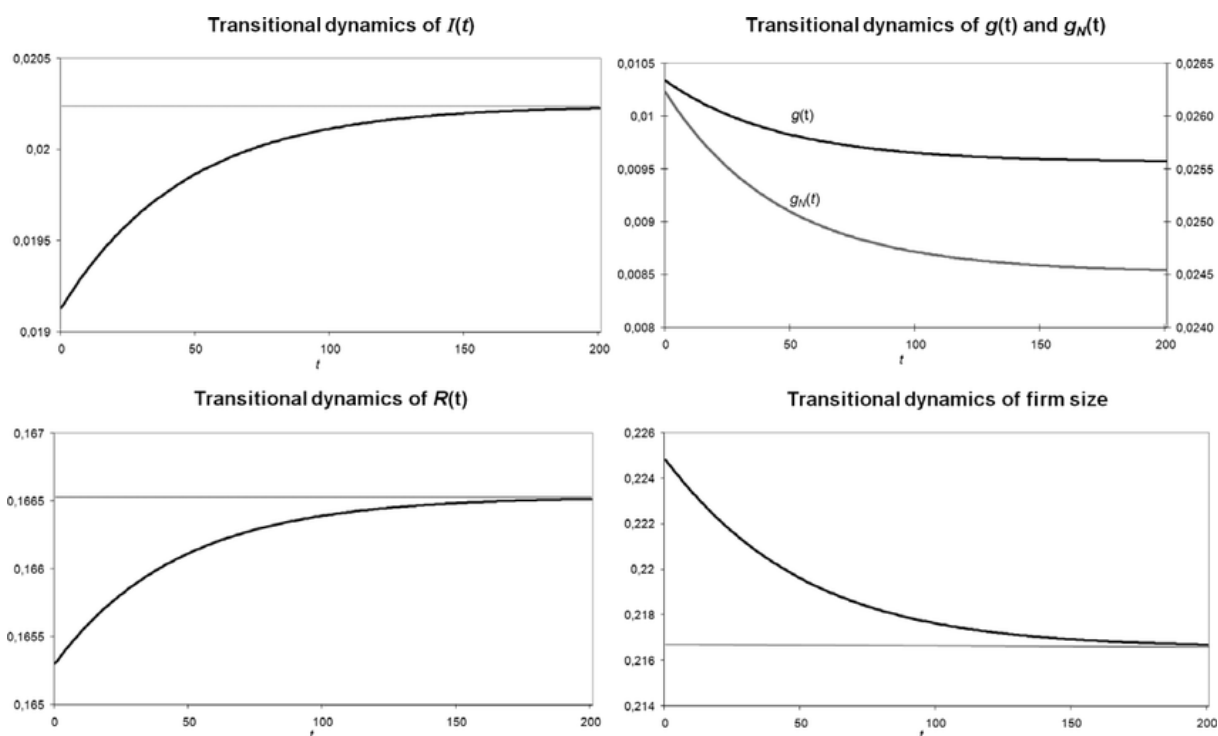
The transition stage represents a period where a company must deal with change. The transition may be positive or negative, and it could be due to many factors, including:

- Declining sales
- Changing market conditions that are impacting the business
- A shift in customers' preferences
- An opportunity for rapid growth
- A personal situation

For some businesses, a larger competitor moving in nearby or a slowing desire for their product or service could result in declining sales. When you're faced with these threats, you need to figure out how to retain and attract customers.

The transition stage can also be a period of immense growth. Once your business becomes well-known, you may have opportunities to partner with much larger companies or groups of customers. Before taking on a large order from a bigger company or national chain store, make sure you can meet the demand in addition to your other orders coming in. When a small company gets a big break by landing a huge order, it can be an opportunity for growth and increase awareness about your company. Conversely, if you are unable to meet the demand, it could damage your reputation and business.

You may need extra funds to invest in production and sales staff, but it could be months before you reap the rewards of the sales. Managing these large outflows and inflows of money can be a challenge that you'll need to address to survive a period of rapid growth.



With your long-term goals in mind, you may want to focus on creating tactical plans to guide your immediate responses during a transition. A tactical plan will take your business's strengths and weaknesses, along with external threats and opportunities, into account; this can help you come up with solutions to problems or opportunities. Each of these solutions can help you achieve those long-term goals.

Succession

The final stage of a business's life cycle is when an owner decides to close, sell or bring in a successor to take over the company.

Owners may decide to move on for a variety of reasons. You might want to try something new, your business may be in decline or you could be dealing with personal or health issues. Or, your business might be doing great, and you think you could get a great price and then retire.

For small business owners, a successor is often a family member, friend or current employee who wants to take over and run the business. However, you could also try to sell your business to someone who you don't already know.

You may also want to sell the entire business to the person, or retain partial ownership and receive income from the business's profits even though you're no longer involved with the day-to-day operations. Some business owners agree to stay on and help train the new owner during the transition. The sale process can vary depending on the type of business and where it's located, but it often involves several steps:

1. **Determine the business's worth.** Evaluate the value of the business based on its assets and sales. A small business may be worth several times its yearly sales, but the value can vary

depending on the specifics of the situation. You can hire a professional or company to help determine the business's value if you're unsure of what to do. Look for someone who has experience evaluating similar businesses and can use that experience to guide the valuation. If you are determining the value on your own, review some of the steps in the process that you will need to complete.

2. **Prepare your financial documents.** Potential buyers will want to review your business's records, financial statements and tax returns to get a better understanding of the business's financial situation and sales history. Make sure all your documents are ready and accurate.
3. **Find prospective buyers.** You may be able to list your business for sale online or in local publications. You could also work with a business broker, a professional who can match sellers with potential buyers in exchange for a cut of the sale price.
4. **Get financing in order.** Many business buyers will need to take out a loan to buy your business. You may also have to lend the buyer money by allowing the buyer to pay you part of the selling price, plus interest, over time. Seller-financing can be important because it shows the buyer, and the other lenders, that you believe in the business's future.
5. **Negotiate the terms of the sale.** As with many transactions, expect the buyer to negotiate the sale price and terms of the agreement. You may want to hire professionals who have managed small business sales before, including an accountant and attorney, to review everything before the final sale.
6. **Close the deal.** Once you come to an agreement, it's time to make the sale official by signing the legal contracts that turn over control and ownership to the buyer. These contracts can be difficult to write and understand, and your attorney should likely be involved in this final step.

Management Structure

The management structure of the firm is not clear. As Figure 6 shows, Suliman and Abdullah are jointly heading the business of FSL. The roles and responsibilities are not clearly identified. Along with them, their sons are also involved in running the business at all three branches. Since the business is gradually growing and a number of cousins are involved in its operations, the business is likely to have a clearer organization structure. Especially, the leadership roles and responsibilities need to be clearly spelled out and the family members need to be made aware of it.

Financial Performance

The company seems to be doing well and it continues to generate good financial results. The family business sales and revenue margin is increasing year after year. The table below shows the sales and profit of the branches in 2012.

Table 1: Financial Performance

Branches	Number of employees	Sales	Profit
Al-Seeb	35	R.O 120000	R.O 35000
Al-Sharqia	5	R.O 35000	R.O 20000
Total	40	R.O 155000	R.O 55000

Riyal Omani (RO) 1= \$2.60 (approximately)

Source: Interview with Saud Abdullah Freish, 3 May 2013.

Figures for the Al Buraimi factory were not available.

5. Conclusion

During the last several years, a number of Ayurvedic clinics have been opened in the greater Muscat area. These are operated primarily by people of Indian origin. They have emerged as the main competitors for FSL's Ayurvedic business. Consequently, the company is facing limited growth opportunity in this niche business. As a result, the company considers that diversification in other products and markets would be necessary.

FSL, as a small family business, is also facing some other difficulties. For example, in 2001 the government launched the Omanization policy, whereby companies have to employ certain percentage of Omani nationals. This was followed by further regulations which require the companies to pay a minimum salary to Omani employees. These are big obstacles for the business, according to Saud. Such regulations force them to replace foreign employees with Omani nationals with much higher salary. As a consequence, they lose expert workers and pay more in wages and salaries. Another important challenge, according to Saud, is that they face difficulties in gaining governmental permission for selling some herbals products. The company has also difficulties related to management and accounting issues. "These problems occur because of lack of consultation and regular meetings among actively participating family members", said Saud. They sometimes also find themselves without liquidity due to the lack of good financial planning.

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