Volume 2 | Issue 2 | 2018

SDSB IMPACT

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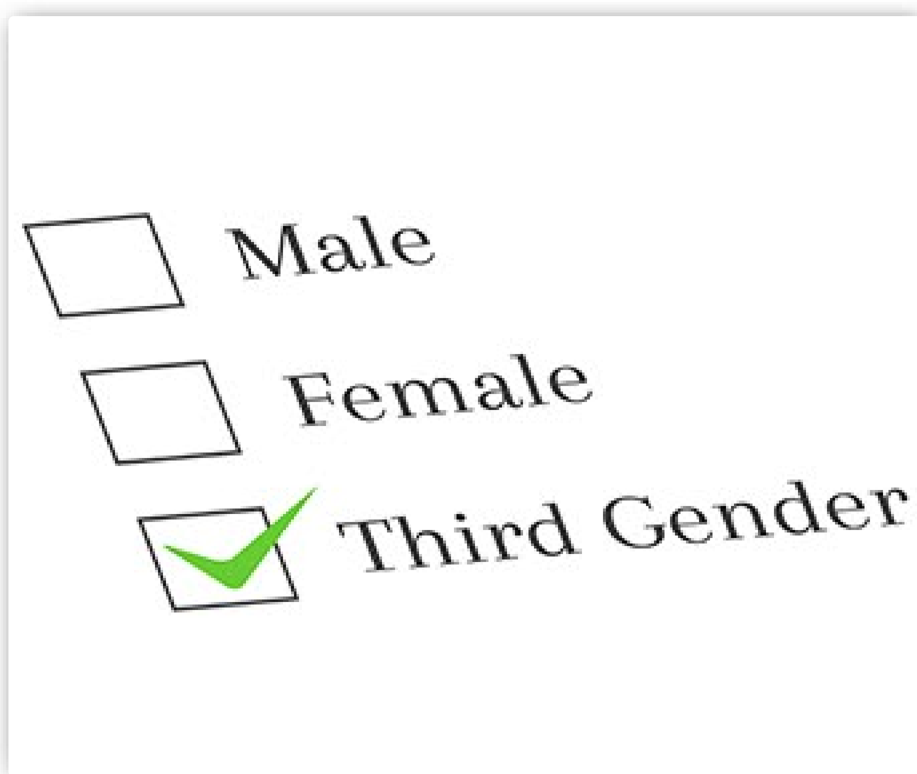

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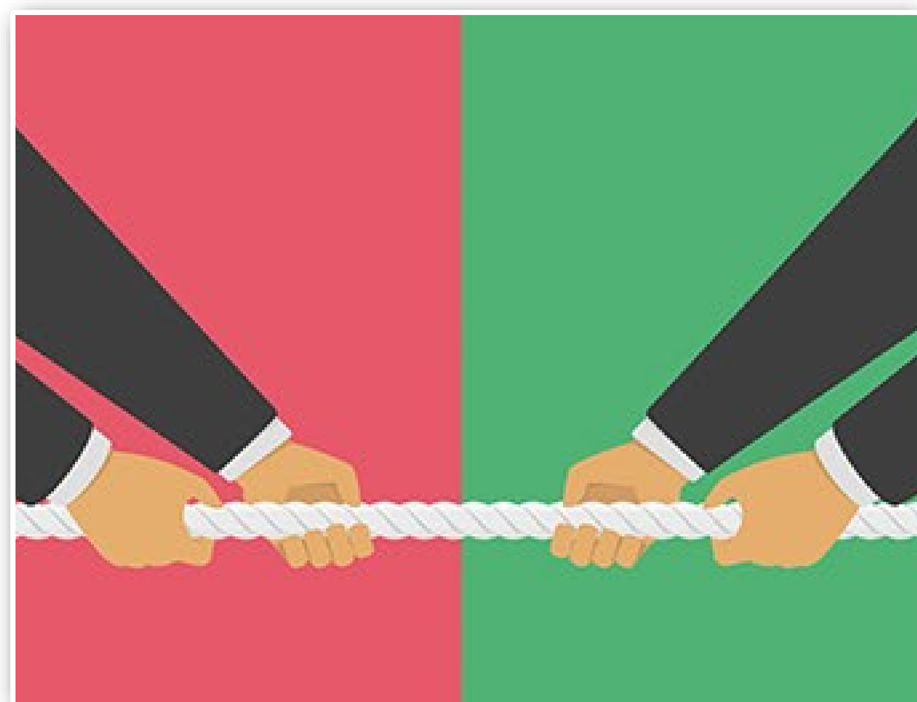

The First Meat Sector IPO: Al Shaheer Corporation

About *SDSB Impact*

***SDSB Impact* is the research newsletter of the LUMS Suleman Dawood School of Business.**

The SDSB faculty engages in cutting-edge research in all major fields of business studies. *SDSB Impact* summarises the findings of the faculty's research for the benefit of the larger public—especially managers, executives, entrepreneurs, and policy-makers. These findings emerge from pioneering research conducted by the SDSB faculty and published in the world's best journals and case hubs. The newsletter attempts to distill the most important or practically relevant lessons from these findings and share them with its readers.

SDSB Impact will facilitate the sharing of knowledge and dialogue between the academia and the industry, thereby bringing LUMS one step closer to its goal of creating synergy between theory and practice.

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Does Clustering of Same-Brand Outlets Generate More Sales?

The 2018 Franchise Business Outlook published by the International Franchise Association shows that the franchise industry is set to grow for the eighth year in a row. As franchise systems expand, the clustering of same-brand outlets, i.e., the geographic concentration of interconnected institutions, becomes an interesting and contentious issue. Should multiple same-brand outlets of a franchise system be situated close to or distant from one another? The research conducted by Moeen Naseer Butt – in collaboration with Kersi D. Anita, Brian R. Murtha, and Vishal Kashyap, attempts to answer this question.

The increased interactions among clustered same-brand outlets may facilitate knowledge sharing, even while inducing intrabrand competition. Prior research has focused on both these possibilities – knowledge sharing or intrabrand competition – in isolation. However, there is limited research which studies both of these possibilities along with clustering. The authors make several key contributions to the understanding of clustering and its performance consequences.

Using data from more than 8,000 observations on the 988 outlets of a large US-based franchise system of automotive services across 41 states, from 1977 through 2012, the authors find that a new franchisee-owned outlet when clustered with mature same-brand outlets will perform better. This may seem counterintuitive. However, this could be because of the efforts of the new franchisee to take advantage of the experience gained and knowledge shared by the clustered mature outlets. On the other hand, mature franchisee-owned outlets clustered with other mature outlets of the same brand will lose sales because of intrabrand competition. Like franchisees, franchisor-owned outlets also experience a mixed bag when clustered with other same-brand outlets. Results suggest that franchisors should avoid establishing these outlets in proximity to other same-brand outlets, whether mature or new. Additionally, across both franchisor- and franchisee-owned outlets, shared ownership appears to help facilitate knowledge sharing and reduce intrabrand competition. In the case of the organisation that was studied, the sales performance gains accruing from shared ownership were clearly significant.

The knowledge gained from this research would positively help many organisations that are considering or re-evaluating their franchise systems.

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Doi: 10.1509/jm.16.0173

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Moeen N. Butt *is* Assistant Professor at the SDSB, LUMS. He teaches brand management and retail management. At the Rausing Executive Development Centre, he teaches in Marketing in the Digital Age, and Sales Force Management executive programs. His research interests include franchising, market development and marketing. His research has been featured in the *Journal of Marketing and Marketing Science*.

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The Third Gender Category in Pakistan: Is there a choice?

Legal recognition of gender non-conforming individuals remains an important unresolved policy issue because there is no singular approach to accommodate the unique identity of such individuals legally. In the last decade, some countries (like Nepal, India, Pakistan, and Bangladesh) have opted to create a third legal gender category to recognise the unique identity of gender non-conforming and/or intersex individuals. However, there is limited research on how these individuals respond to the legal third gender category.

Muhammad Azfar Nisar's research published in Gender & Society is based on ethnographic fieldwork with the Khawaja Sira community in Pakistan. The author attempts to understand their attitude towards the legal third gender category created by the Supreme Court of Pakistan during the proceedings of a landmark case from 2009 to 2011. While the decision to create the legal third gender was accompanied with much fanfare, the response of the Khawaja Sira community to this new gender category has been underwhelming. Nisar's research suggests that a large majority of the Khawaja Sira community continue to legally register as men. This seemingly paradoxical choice problematises the instrumental and symbolic value of the legal third gender.

Practical concerns primarily motivate this paradoxical choice of the Khawaja Sira community about their legal gender. A Khawaja Sira registering as a third gendered individual faces family pressure, religious stigma, and high administrative burden. On the other hand, there are hardly any material benefits associated with the legal third gender category to offset these significant personal and social costs. Hence, for the Khawaja Sira community—most of whom live in extreme poverty—their practical (material and religious) interests are served better by choosing the masculine gender legally. The Khawaja Sira community, therefore, make a purposeful patriarchal bargain by choosing the masculine legal gender to take advantage of the privileges associated with the masculine identity in a patriarchal socio-legal order while giving up the symbolic benefits associated with the legal third gender.

If the legal third gender is to become a more viable option for the social integration of gender non-conforming individuals, governments and policymakers, especially in developing countries, must associate with it tangible material benefits – such as improved job opportunities or dedicated welfare programs – to offset the social costs that individuals must bear by choosing the legal third gender.

Reference

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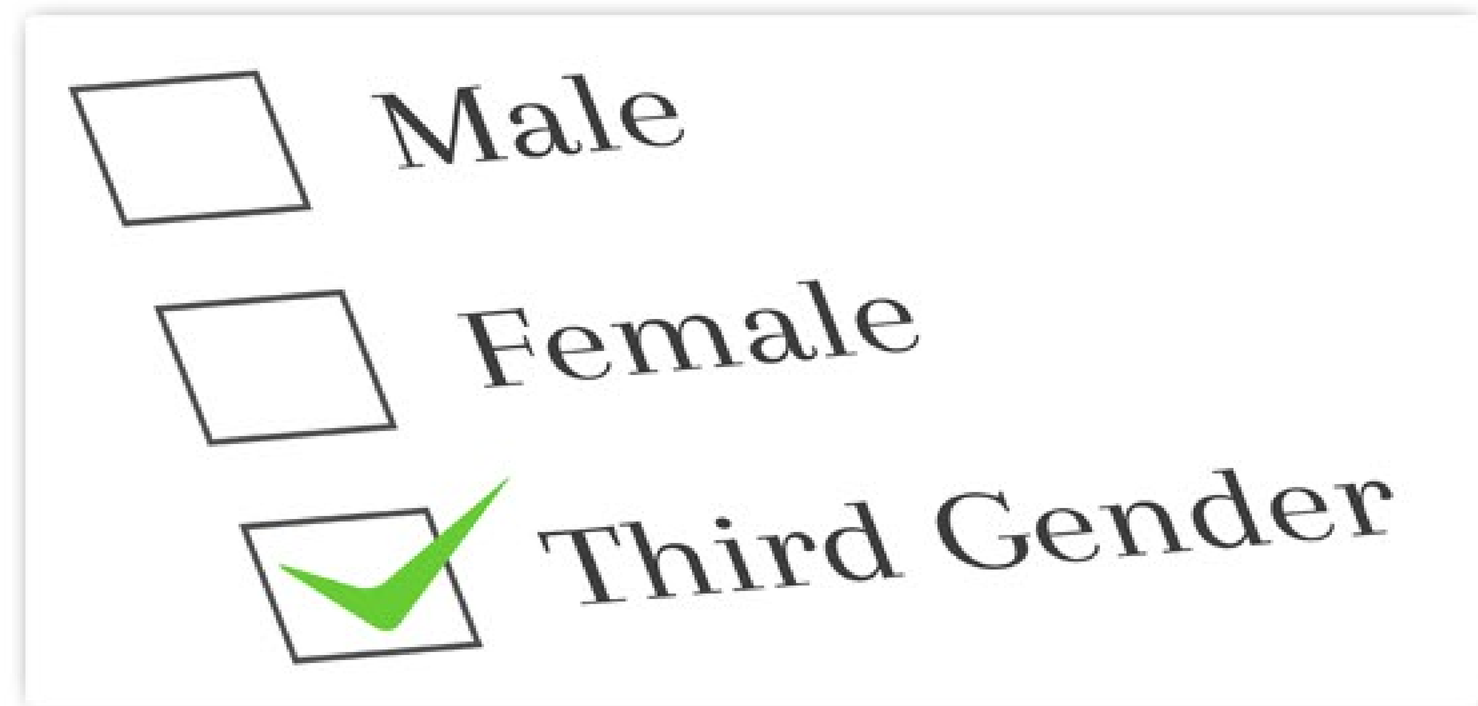

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Muhammad Azfar Nisar is Assistant Professor at the SDSB, LUMS. He teaches business ethics and corporate social responsibility, and philosophy of administrative sciences. His research interests include social policy, critical management studies, and street-level bureaucracy. His research has been featured in *the Journal of Public Administration Research and Theory*, *Public Administration Review*, and *Gender & Society.*

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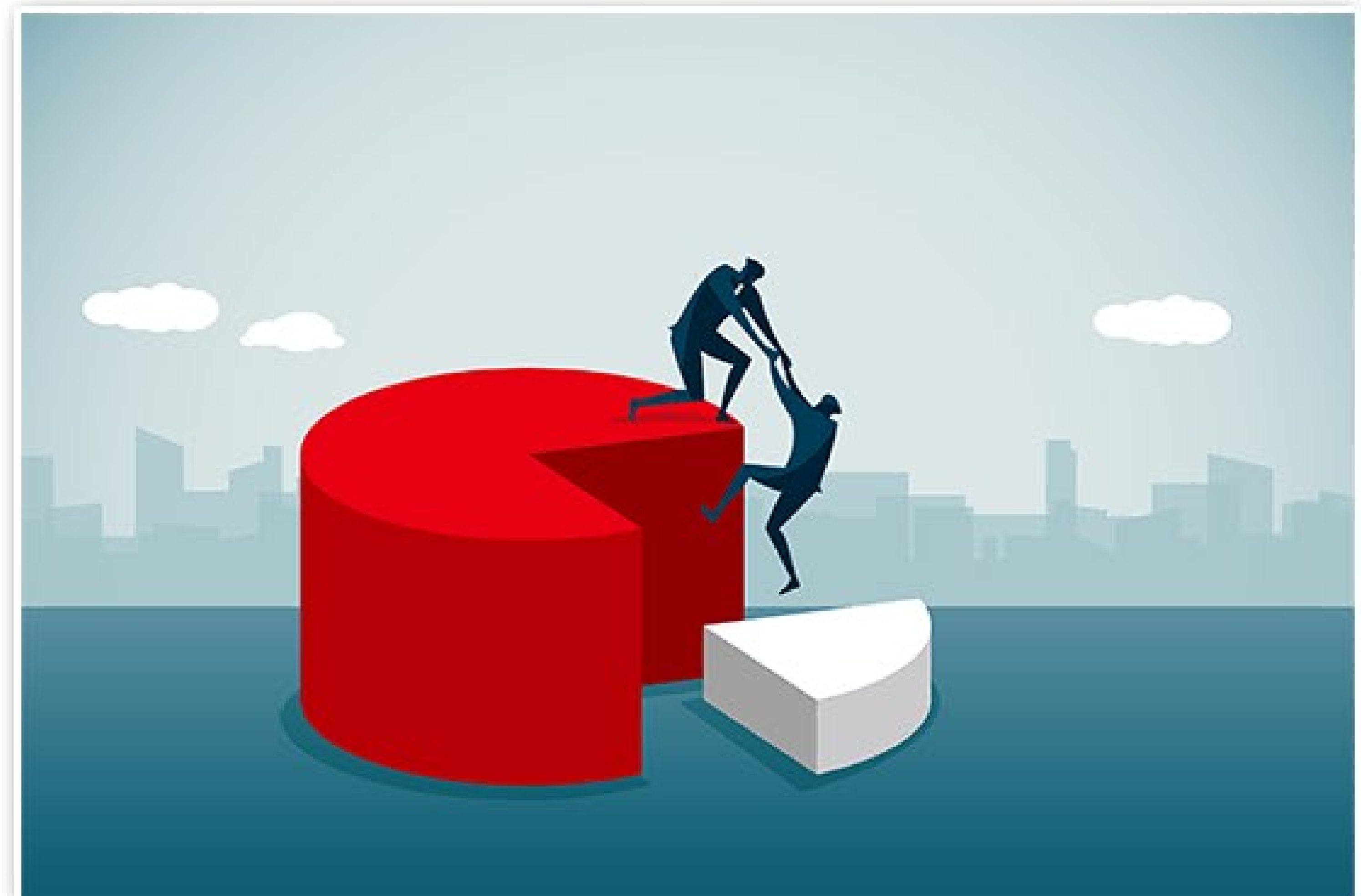
Can Islamic Risk-Sharing Stabilise Economic Growth?

A slowdown in the economic system can create havoc to an indebted economy. Countries affected by economic recession are more likely to experience debt servicing difficulties. Syed Aun Raza Rizvi's and Shaista Arshad's article in The World Economy explores the use of a GDP-linked sovereign paper as an instrument in providing economic stability to developing economies.

The authors explore the theme of Islamic economics and finance, which lies in the risk-sharing principle of economics. Heavily indebted countries can opt to index their sovereign debt payments to real economic variables as a mechanism to reduce financial stress. The authors propose the development of a Shariah-compliant equity contract called GDP-linked sovereign paper that can be used by developing countries to raise financing from the global markets, instead of relying on interest-based loans from multilateral agencies. Empirical data of the stability offered by this instrument in economic growth, for a large sample of developing economies, comprising a bulk of Islamic countries has been studied. Findings indicate the lowest income group countries to be the biggest beneficiary of this instrument, as their average real GDP per capita over a 20-year period of 1992-2012 will be significantly higher than their actual real GDP per capita recorded. Despite the cost disadvantage, there are benefits from cumulative GDP per capita.

The positive results and public benefits this instrument can create should encourage multilateral agencies and regional development banks to play an active role as "market-makers" for this instrument. Their involvement could help address the concerns regarding the liquidity and scale of transactions of these securities. Policymakers might be interested in the long-term benefits through multiple channels provided by this GDP-linked sovereign paper. The instrument would assist in stabilising government spending and limiting the recurrence of fiscal pressures by requiring smaller liability servicing costs during times of slower growth. This would lead to more fiscal space for the implementation of higher spending or lower taxes and vice versa. It is important to mention that this runs counter to the experience of emerging economies, which are often forced to undertake fiscal tightening during periods of slow growth in order to maintain access to international capital markets.

This study is an initial exploration of this topic and has scope for future development. The authors aim to initiate dialogue and deliberation on the concept of GDP-linked securities from an Islamic perspective.



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Syed Aun Raza Rizvi is Assistant Professor at the SDSB, LUMS. He teaches Islamic Banking and Finance, Islamic Capital Markets and Instruments, and Principles of Finance. He is the co-program director for the executive programs on Islamic Finance for Managers, and Islamic Finance for Academicians. His research interests are financial markets, Islamic finance, econophysics, and equity markets in emerging and Islamic countries. His research has been featured in *Emerging Markets Review*, *Economic Modelling*, and *The World Economy*.

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Mediterranean Textile Company: Negotiating For The Release Of Hostages

THE CONTEXT

Mediterranean Textile Company: Negotiating for the Release of Hostages is a unique case study that touches upon multiple dimensions of the operations of a multinational corporation in foreign countries. The case is structured around a specific issue of negotiating for the release of hostages in the wake of political and economic turmoil during Tahrir Square Revolution 2011 in Egypt. The CEO of Mediterranean Textile Company (MTC), Mr Usman Khan, finds himself perplexed and confused about how to resolve the conflict in his company that had divided into two factions due to the political crisis. Some managers, mostly Pakistani expatriates, were being kept as hostages by the Egyptian workers who were asking for more lucrative salaries and working terms. How Usman would handle this situation and negotiate with the union representatives will be consequential for MTC.

THE DECISION

On the cold evening of 11 January 2011, Mr Usman Khan, the Chief Executive Officer (CEO) of Mediterranean Textile Company (MTC), waited anxiously for a crucial meeting with the senior management. He was extremely worried about the recent turn of events that had resulted in members of his management team being held hostage by the labour union at the mills. As the CEO, he had to chart out a course of action immediately to get the hostages released and to decide upon the future strategy for MTC, in the wake of ongoing and unprecedented labour and political crises. Recent political turmoil had not only destabilised the economy and society of Egypt but also adversely affected the operations of MTC. Frequent labour strikes had caused repeated disruptions in production which, in turn, caused several delays in the exports to the most lucrative European markets. The friction between top foreign management and the local workforce had exacerbated during the last few months. During the most recent labour strike that had begun 72 hours ago, workers had taken hostage a number of foreign managers and engineers working in the mills. Out of 650 employees, 250 were participating in the strike and had placed a long list of demands to be met. The outcome of negotiation with labour representatives would have long-term consequences not only for the safety of the hostages but also for the viability of continued operations of MTC.

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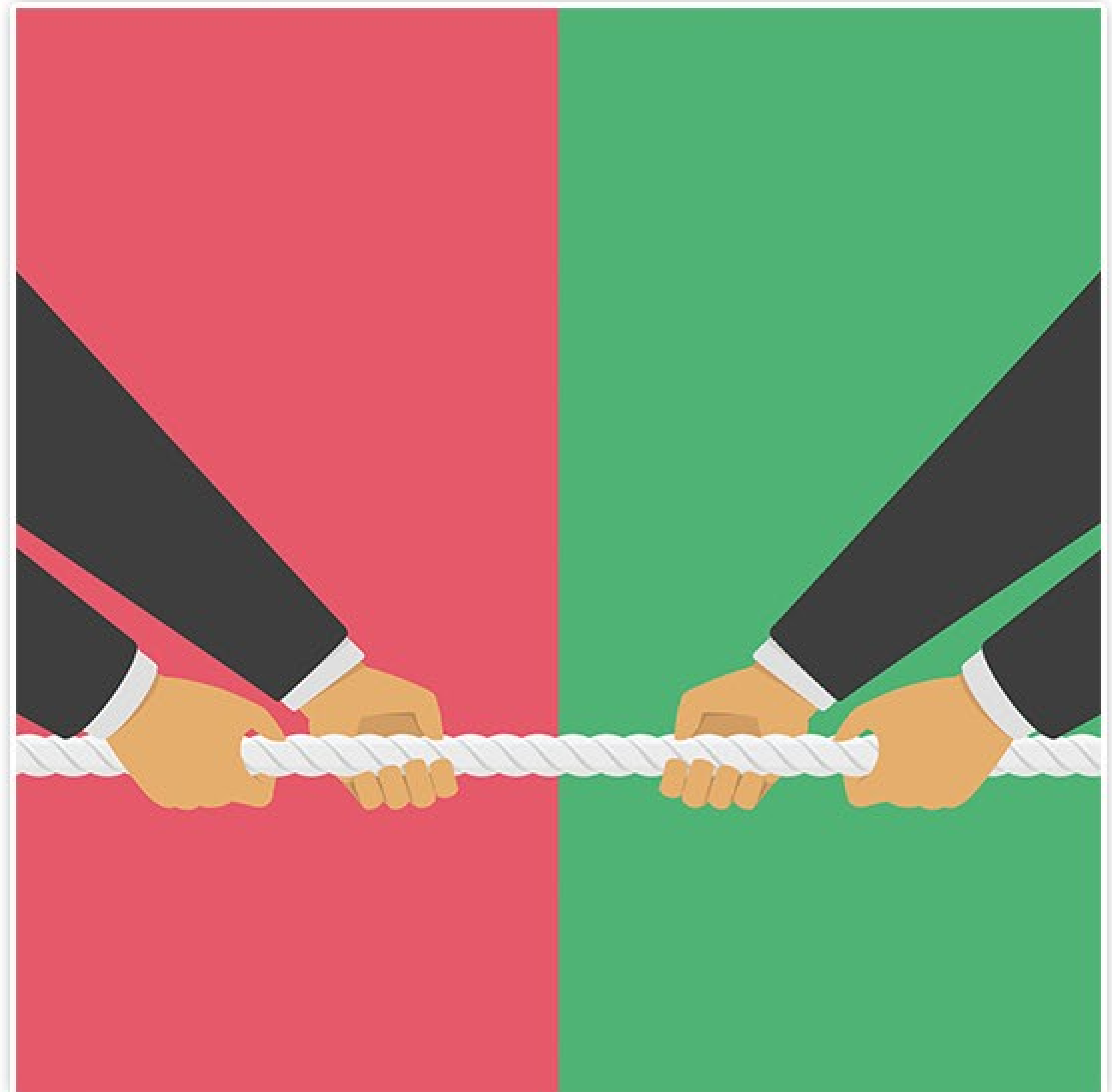

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Ghufran Ahmad is Assistant Professor at the Suleman Dawood School of Business, LUMS. He teaches courses in leadership, change management, negotiation skills, and quantitative research methods. His research interests include leadership, culture, group dynamics, social dilemmas faced by group members, how social preferences influence behaviour and performance of groups. His research has been published in *Organization Science* and the *Journal of Operations Management.*

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The First Meat Sector IPO: Al Shaheer Corporation

THE CONTEXT

This case examines the June 2015 decision of Muhammad Asad, a fund manager at Al Meezan Investment Management Limited, to participate in the Initial Public Offering (IPO) of Al Shaheer Corporation, a leading meat sector company of Pakistan. He was interested in increasing the exposure of the Meezan Islamic Fund (MIF) to the food sector, provided attractive risk-adjusted returns could be achieved. Based on the research team analysis and his own assessment, Asad had to decide whether to participate in the IPO book building process and the number of shares to bid for at each price level. Both Market Multiples and Discounted Cash Flow (DCF) valuation methods had yielded share value higher than the IPO floor price of PKR 43 per share, which encouraged Asad to consider the investment opportunity. He also had to decide on the amount that he could allocate to the IPO on behalf of MIF. Asad had to prepare his recommendations on the IPO for presentation and approval by the investment committee in the upcoming meeting. He has asked you to conduct an independent analysis and valuation of Al Shaheer stock over the weekend and share your findings with him early Monday morning.

THE DECISION

Muhammad Asad, a fund manager at Al Meezan Investment Management Limited, skimmed through an equity valuation report as he reflected on the issues that had come up in a long discussion with the equity research team which concluded on Friday evening, 5 June 2015. The discussion had focused on the upcoming initial public offering (IPO) of Al Shaheer Corporation, a leading meat sector company of Pakistan. The research team was led by Ali Asghar, senior manager research, and an equity analyst, Hassan Khan, who specialised in food sector research. Both Asad and Ali had recently attended the pre-IPO road show and had interesting discussions with Al Shaheer senior managers and the research analysts of the lead underwriters, the AKD Securities Limited (AKDS) and the Next Capital Limited (NCL). The book-building portion of the IPO was scheduled to open for subscription on 10-11 June 2015. Asad, who managed the leading Shariah-compliant equity fund, Meezan Islamic Fund (MIF), was interested in increasing the fund's exposure to the food sector, provided attractive risk-adjusted returns could be achieved. Based on the research team's analysis and his assessment, Asad had to decide whether or not to participate in the IPO, and in the event of participation in the book-building process the number of shares to bid for at each price level. The research team had used the market multiples and discounted cash flow (DCF) methods for IPO valuation. Both methods had yielded share value higher than the IPO floor price of PKR 43 per share, albeit significantly different, which encouraged Asad to consider the investment opportunity. However, since the upper price limit of the offer was not specified, his dilemma was not to bid too low and be priced out or bid too high, giving up the upside potential if the offer price settled at the higher end.

He wondered if he should make a single limit bid or step bids at different price levels in the book-building exercise. In addition, Asad had to decide on the amount that he could allocate to the IPO on behalf of the MIF. Asad just had the weekend to prepare his recommendations on the IPO for presentation and approval by the investment committee in the meeting scheduled for Monday, 8 June 2015.

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Doi: https://doi.org/10.1177/0972820117712305

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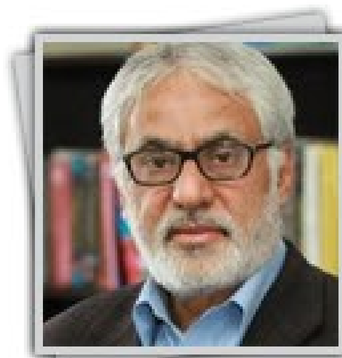

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