



Families, Governance and Markets: Building & Sustaining Wealth

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Agenda

Family Owned Enterprises: Characteristics and Dominance

Emerging Markets Wealth

Corporate Governance for Families

DIFC's Infrastructure to Support Families:

- Family Offices
- Trusts and Waqf
- Hawkamah Institute for Corporate Governance
- Mudara Institute of Directors

Families are dominant economic units

- ❑ **Family Business constitutes world's oldest and most dominant form of business organisation**
- ❑ **In many countries, family businesses represent more than 70 percent of the overall businesses and play a key role in economic growth and workforce employment**

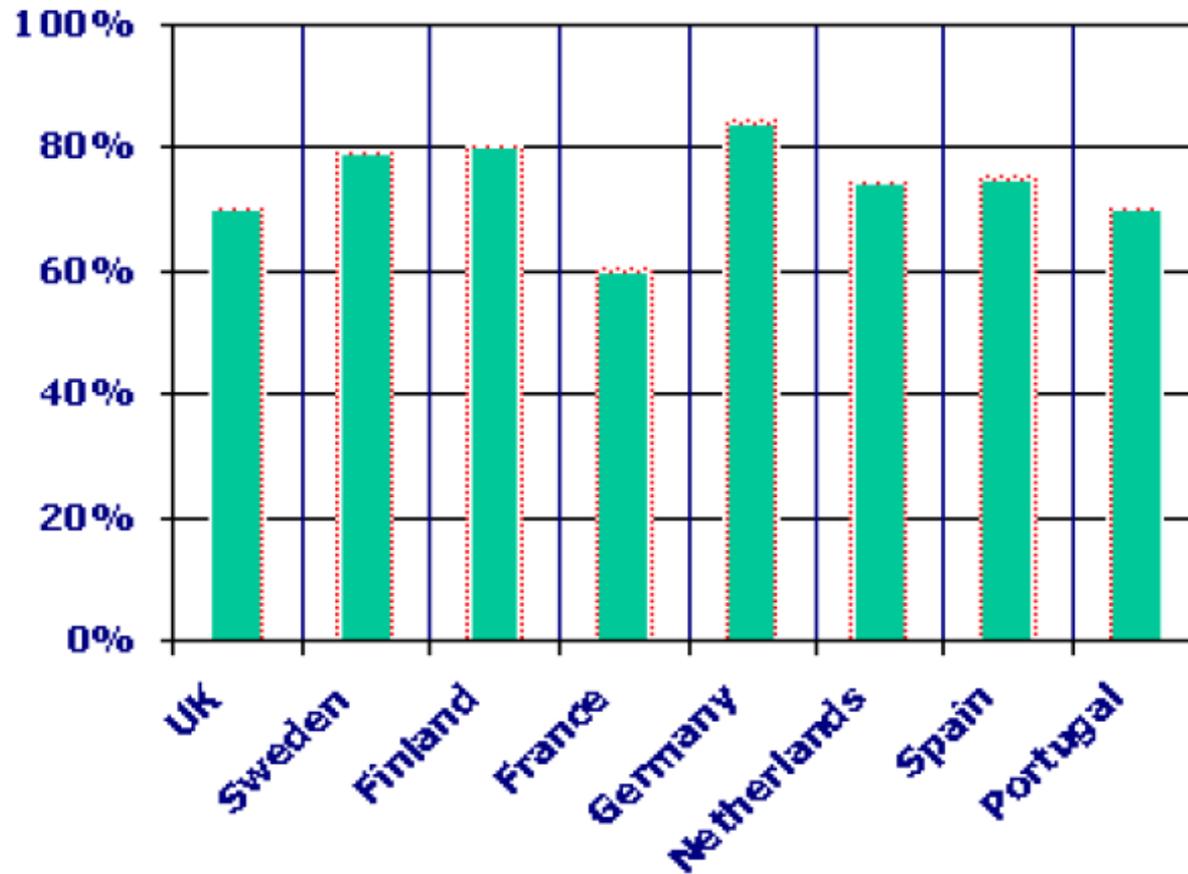
In Spain, for example, about 75 percent of the businesses are family-owned and contribute to 65 percent of the country's GNP on average

- ❑ **Most family businesses have a very short life span beyond their founder's stage and some 95 percent of family businesses do not survive the third generation of ownership!¹**

Entrepreneurial-led Family firms only have an average lifespan of about 24 years ; only 30% survive into the second generation, 10% into the third and a mere 3% into the fourth - David Pistrui of Acumen Dynamics in MEED magazine

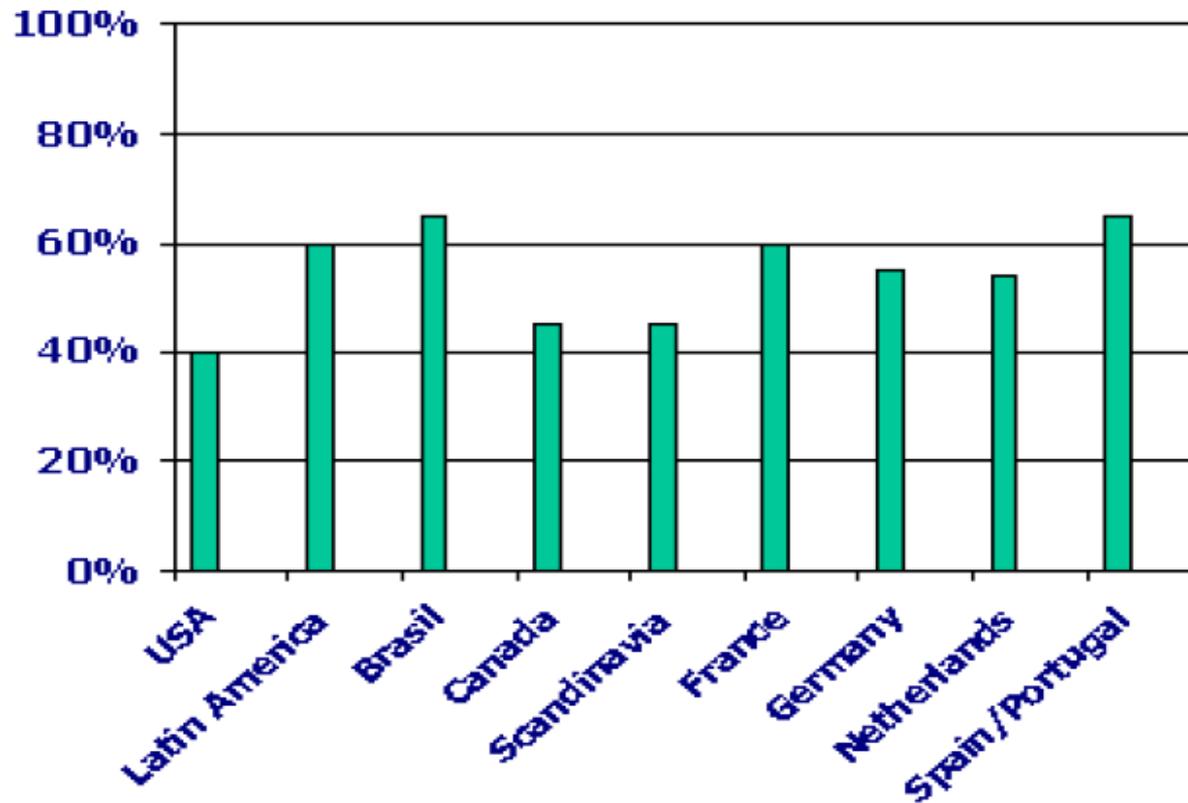
¹Source: The Family Business Network, www.fbn-g/fbn/main.nsf/doclu/facts.

Family Businesses are Dominant: % of all businesses



Source: FBN

Family Businesses are major contributors to GDP

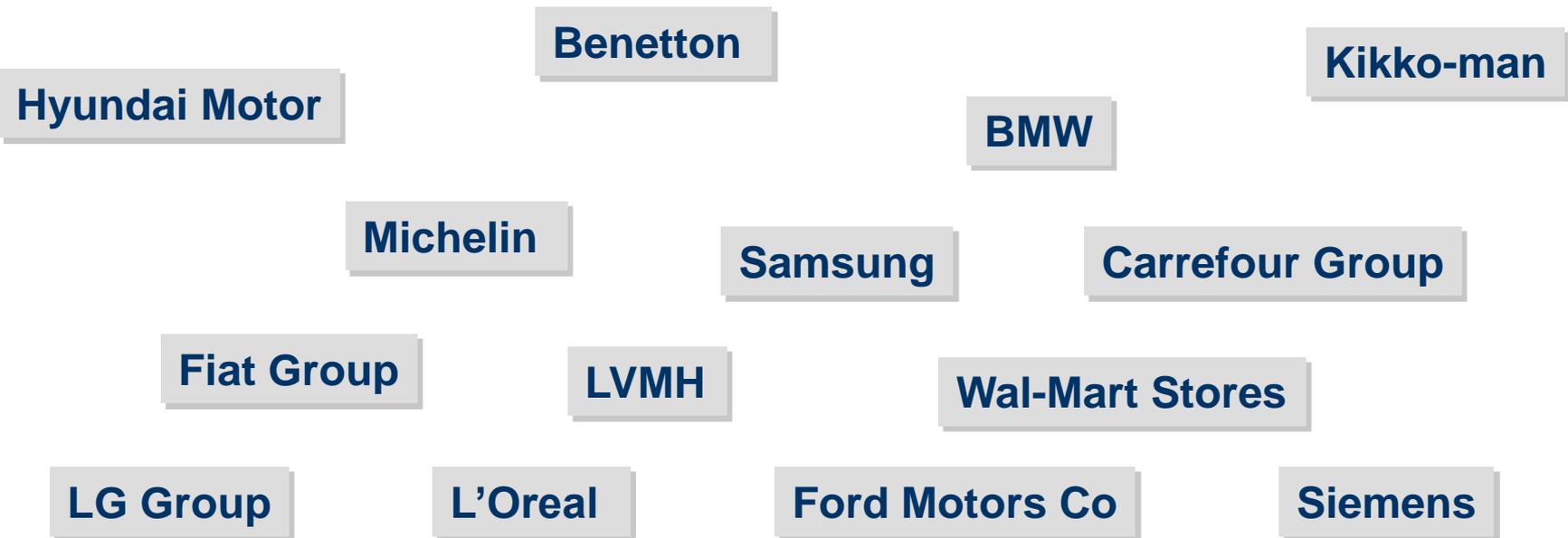


Source: FBN

FOEs are both SMEs and conglomerates

Family Businesses range from small and medium sized companies to large conglomerates that operate in multiple industries and countries

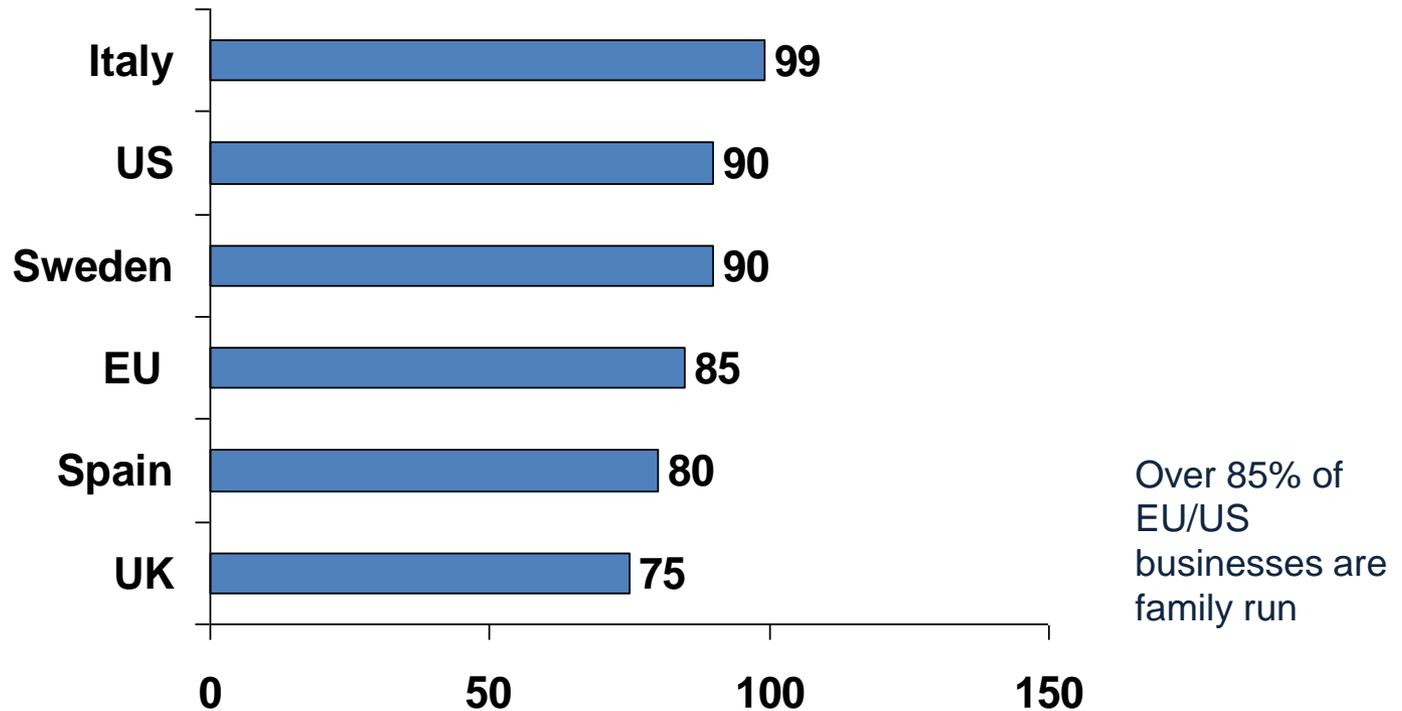
A Few Examples...



Family-run firms predominate in OECD economies

Proportion of OECD Firms That are Family-Run

Percent

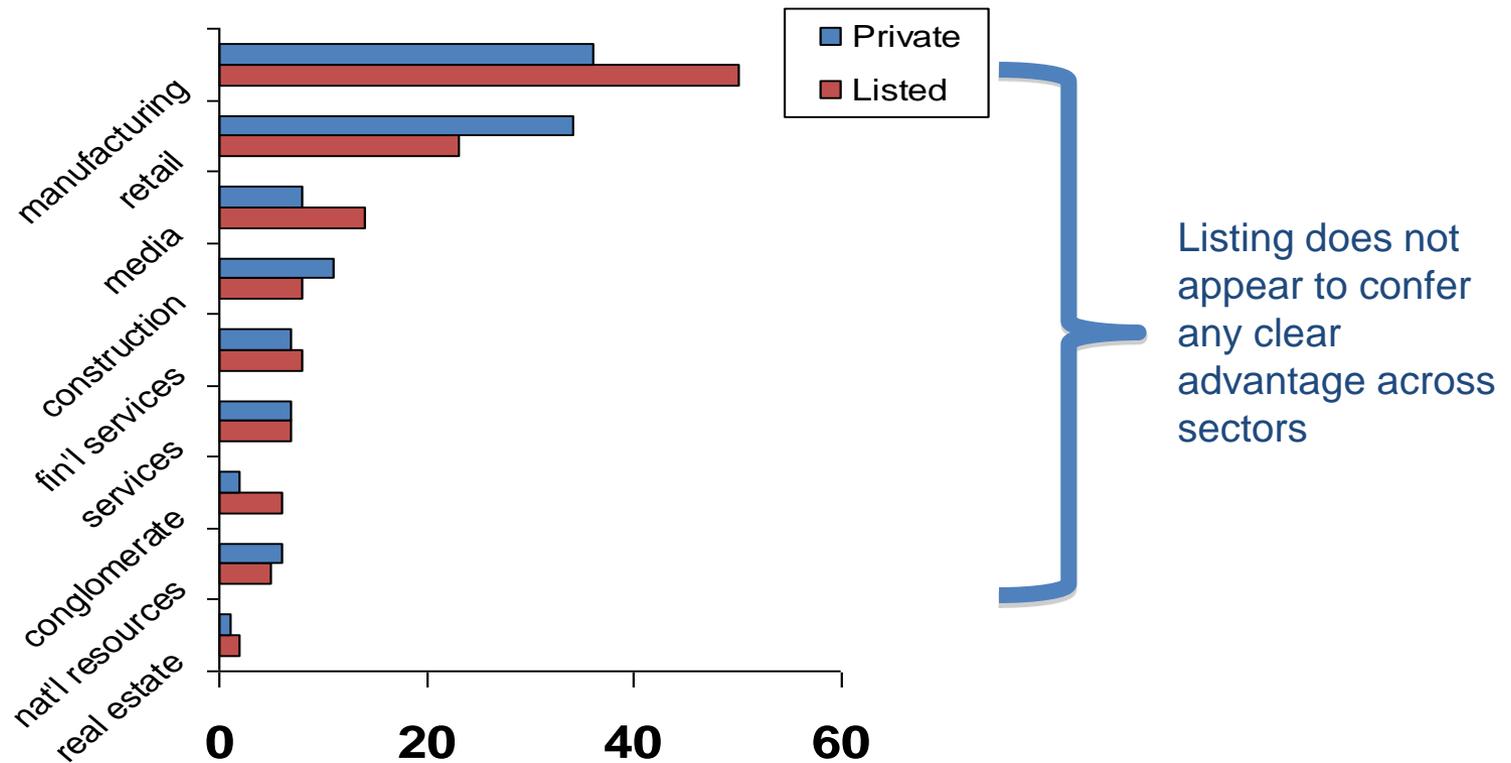


Source: Nancy Upton and William Petty, "Venture Capital Investment in Family Business," *Venture Capital*, 2000, Vol. 2, No. 1, pp. 27-39

FOEs are comparably represented across industry sectors

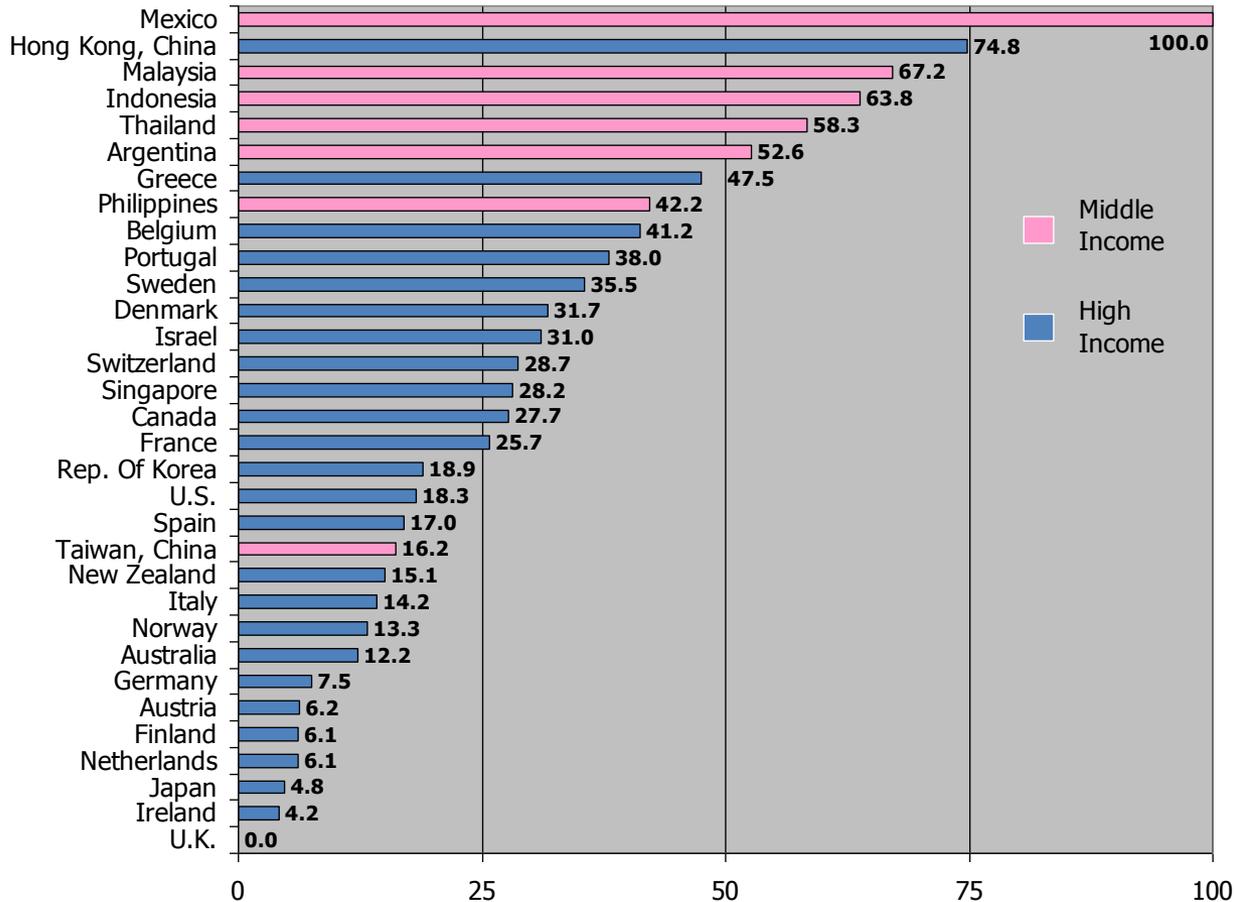
Distribution of Large, Family-Run Firms across Sectors

No. of Firms



Source: Family Business Magazine; OECD Analysis

Family Firms Play an Important Role in Markets



Market value of family-owned firms as a % of the total equity market value of the top 20 firms

Source: OECD Analysis

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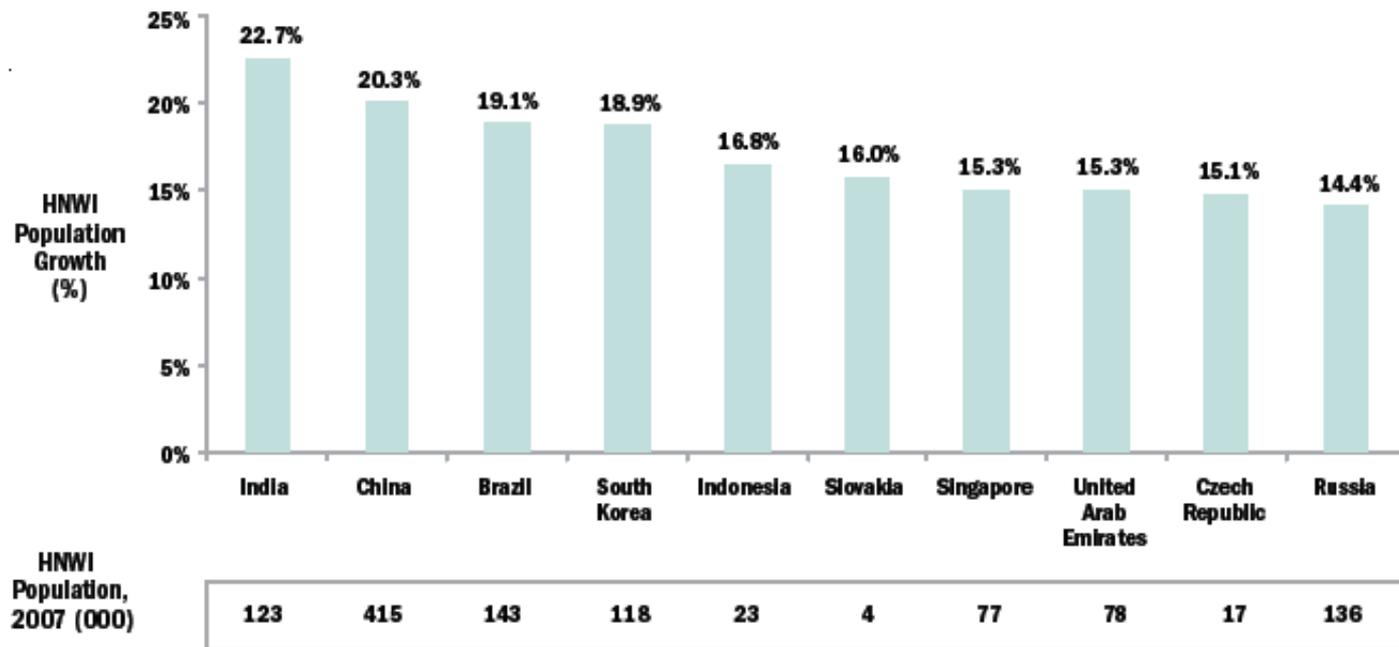
World's Wealth Status (2007)

- **10.1 Million Individuals with at least US\$ 1 Million in Financial Assets**
- **Global HNWI wealth totaled US\$40.7 trillion, a 9.4% gain from 2006, with average HNWI wealth surpassing US\$4 million for the first time**
- **HNWI financial wealth is projected to reach US\$59.1 trillion by 2012, advancing at an annual growth rate of 7.7% (*ceteris paribus*)**
- **The Middle East derived the largest share of their wealth from inheritance* - the highest percentage of any region in the world, highlighting the importance of families and family offices to preserve and grow this source of wealth**

Source: World Wealth Report, 2008.

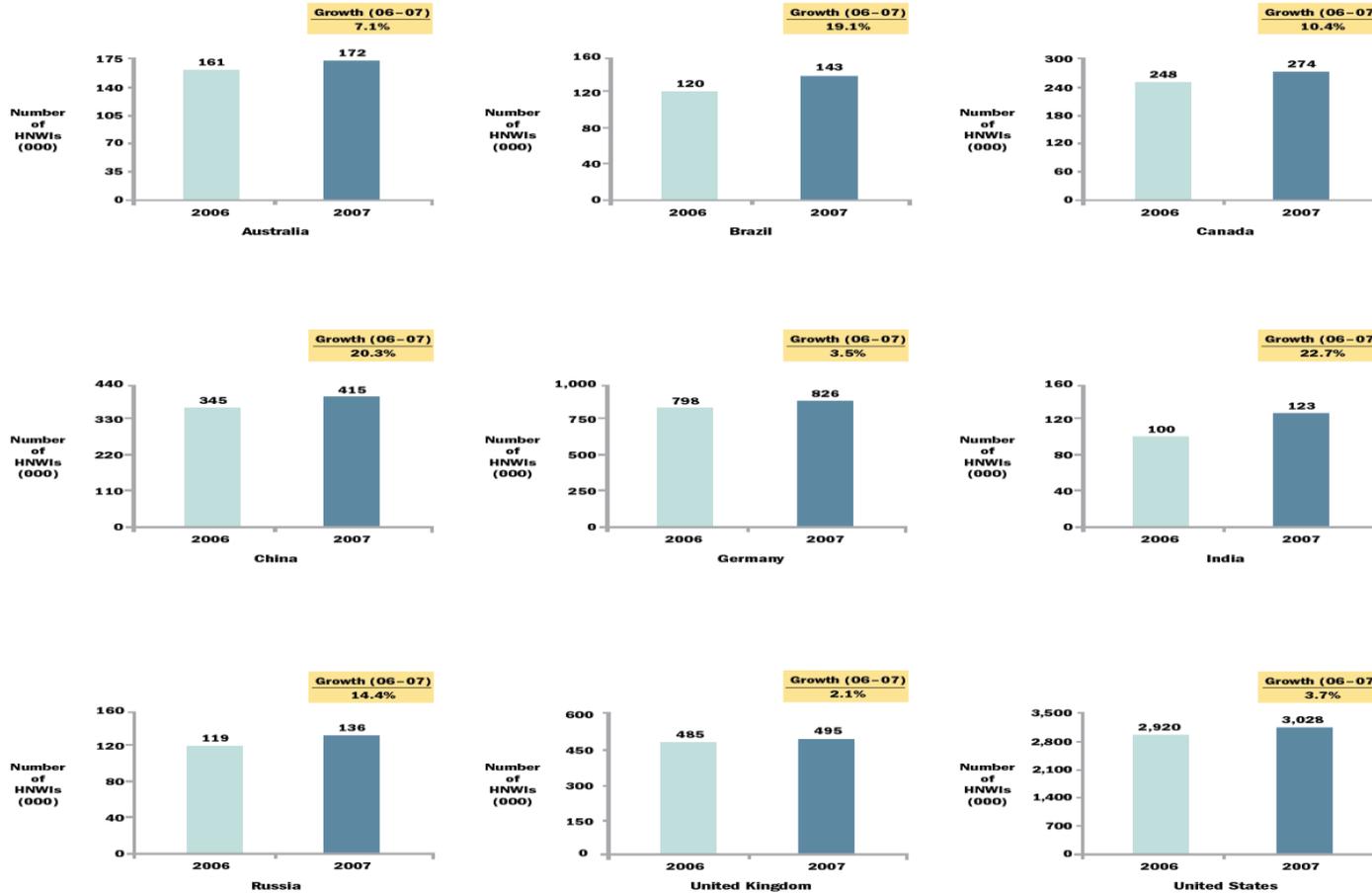
Fast Growing Economies = Fast Growth of HNWI

Figure 5. | HNWI Population Growth, 2006 – 2007 (by Market)



Note: Growth rates and absolute HNWI numbers are rounded
Source: Capgemini Lorenz curve analysis, 2008

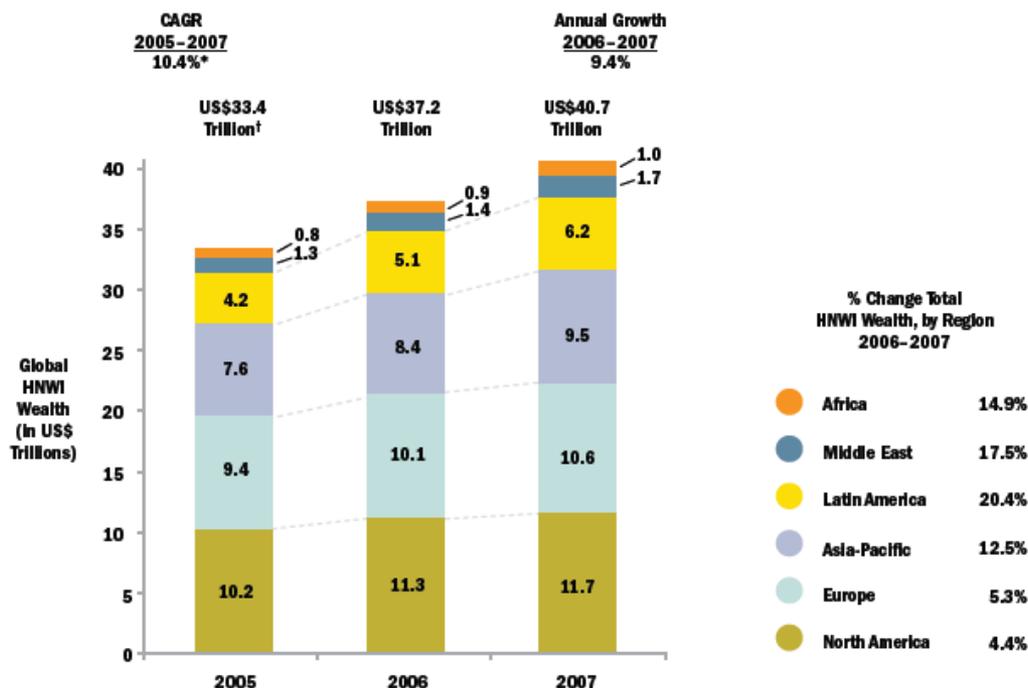
BRICs, Emerging Markets generating highest growth in HNWI's



Source: Capgemini Lorenz curve analysis, 2008

Middle East & HNWI

Figure 2. | **HNWI Wealth Distribution, 2005 – 2007 (by Region)**
(US\$ Trillions)



† Bahrain and Qatar were added to model for years 2005 onward

* These CAGRs have been adjusted to account for the inclusion of Bahrain and Qatar in the model for years 2005 onward

□ Emerging markets, especially those in the Middle East and Latin America, scored the greatest regional HNWI Population gains (17.5% & 20.4%)

□ The total assets of Family Owned Enterprises in Middle East is estimated at US\$ 1.7 trillion.

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Family Business - Strengths

- **They outperform non-family owned companies in sales, profit, and other growth measures**
 - *Thomson Financial study compared family firms to rivals on the six major indexes in Europe and showed that family companies outperformed their rivals on all of these indexes (2003)*

- **Strengths:**
 - Commitment
 - Dedication from family as business owners
 - Family members willingness to work harder and reinvest profits into the business for long term growth
 - Knowledge & Continuity: willingness to pass on knowledge and experience to the next generation
 - Reliability & Pride: Family name, reputation and pride associated with the business

Family Business - Weaknesses

- ❑ **Two-thirds to three-quarters collapse or are sold by the founders during their own tenure**
 - ❑ *Only 5 to 15 percent continue into the third generation in the hands of the descendents of the founder(s)¹*

- ❑ **Weaknesses:**
 - ❑ Informal management structures
 - ❑ Ineffective oversight & control mechanisms
 - ❑ Non-alignment of incentives among family members/Family Conflicts
 - ❑ Lack of discipline

¹Source: Fred Neubauer and Alden G.Lank, *The Family Business: its Governance for Sustainability* (Routledge New York, 1998)

Common Challenges for Family Businesses

Challenge

Issues

Access Capital

- Finance growth
- Balance debt/equity

Diversify wealth

- Manage risk
- Provide liquidity

Manage succession

- Appoint competent directors/managers
- Adjust shareholdings pursuant to inter-generational hand-over
- Finance share transfers
- Balance jobs/compensation for family employees with returns to family shareholders

These challenges and issues exist for all closely controlled firms

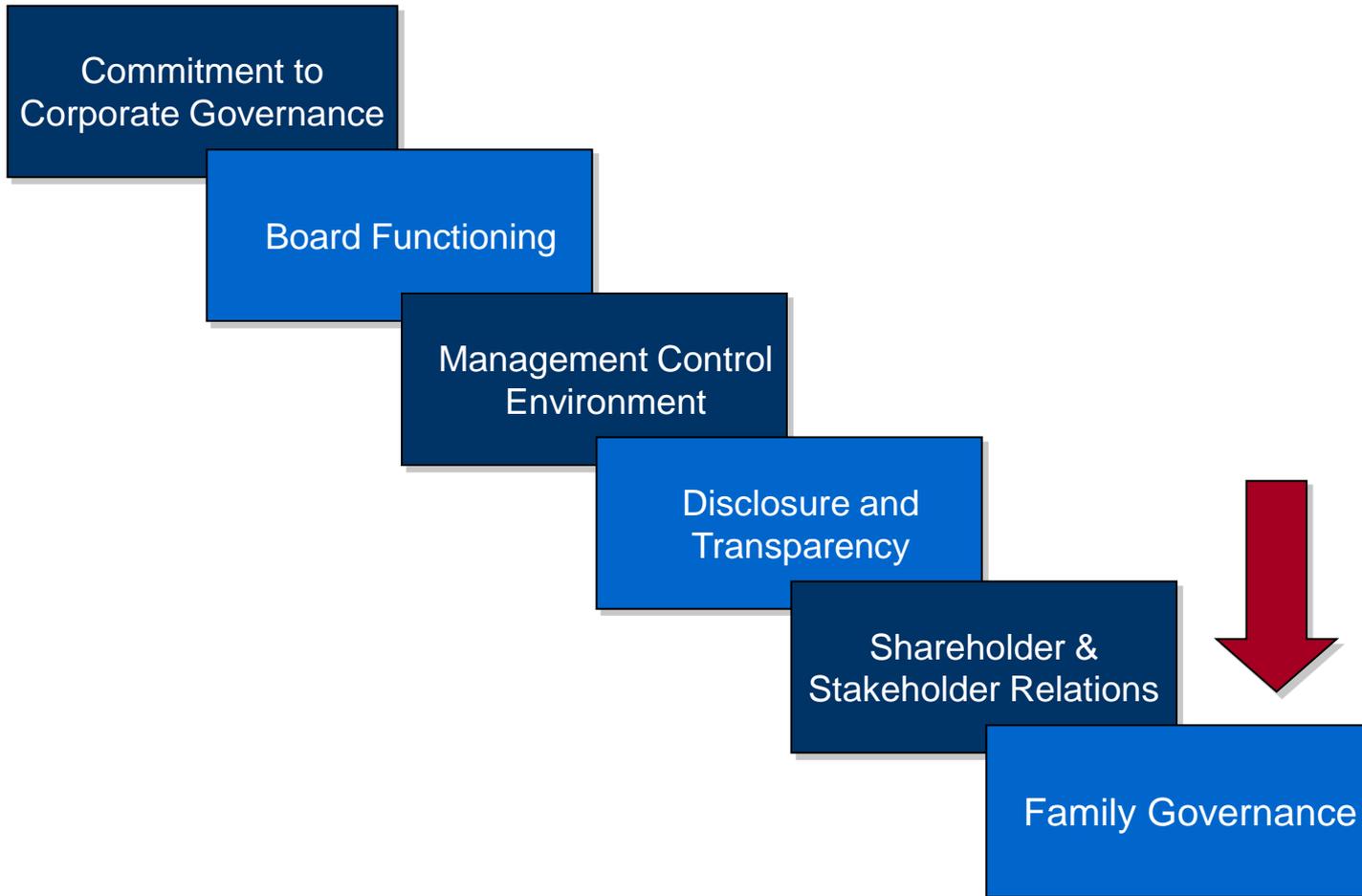
Source: OECD Analysis

Importance of Corporate Governance

- ❑ **“Good” corporate governance is essential for:**
 - ❑ Safeguarding company assets
 - ❑ Maintaining and enhancing investor confidence
 - ❑ Reducing the potential of fraud
 - ❑ Ensuring sustainability

- ❑ **Companies with “poor” corporate governance**
 - ❑ Will find it harder to access external capital
 - ❑ Will face higher financing costs
 - ❑ Will see their credit ratings downgraded
 - ❑ Will have weak investor confidence

Key Dimensions of Corporate Governance for FOEs

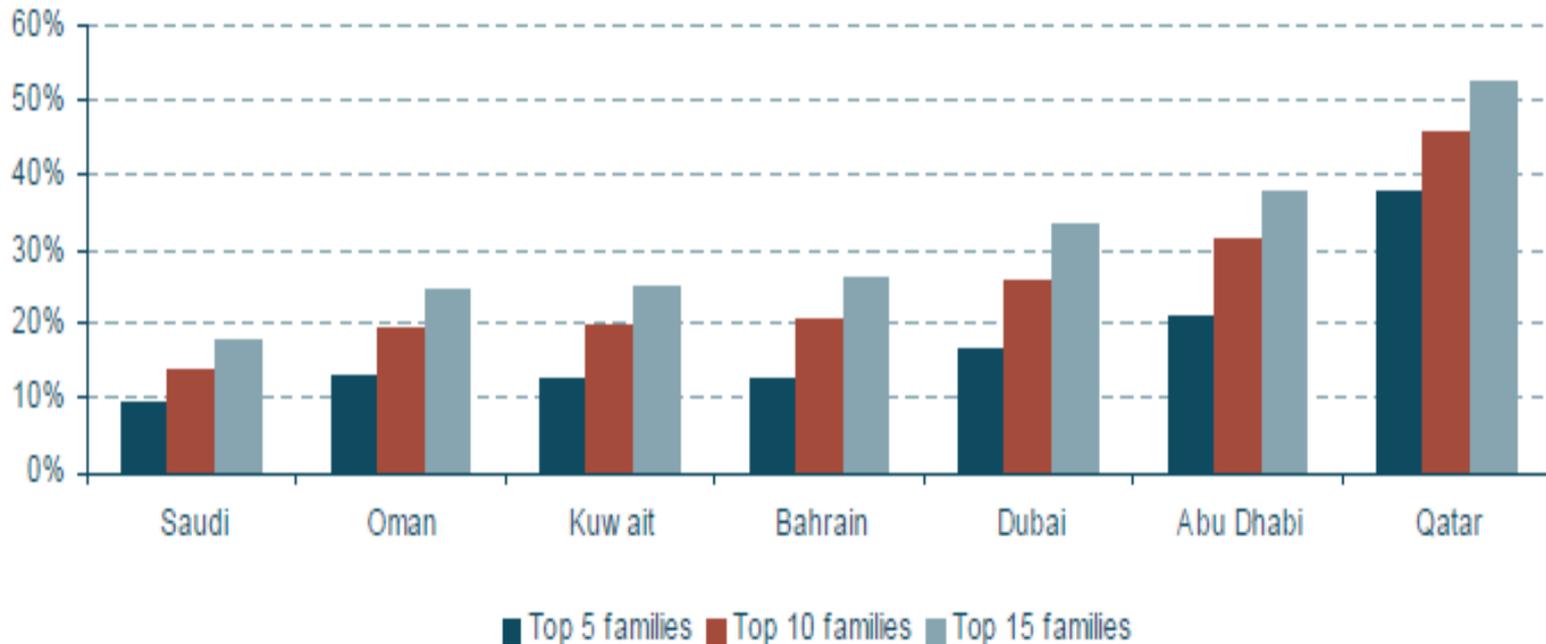


Middle East/GCC: Family Business & Market Exit

- **Recent Ernst & Young Business survey on the state of family business in the ME:**
 - Half the regional family businesses surveyed agreed that going public was important to their survival
 - Only 20% are planning to take their company public while 20% oppose the idea and the remaining 60 per cent are not committed
 - A majority of family businesses surveyed are run by second generation entrepreneurs (73%) followed by first and third generation
- **To overcome hurdles:**
 - Defining appropriate and productive roles and responsibilities for owners, boards, council, managers and other family members
 - Succession Planning to ensure continuity for the Family Business
 - Recruit experienced independent outsiders to take up senior management positions
 - Increased transparency
 - Implement good corporate governance policies

GCC Family Business Power: Family Rules!

100 Concentration of family influence - Proportion of total board seats held by most influential families



Sources: Stock market authorities, TNI Investment Research, Company accounts

The region still has ways to go in building more independence in the region's board rooms...

Families in UAE listed companies

In the UAE listed companies, families are represented on many Boards: 257 total seats or 37% of total

Family name	# of board seats held	% of all board seats	# of seats DFM-listed companies	# of seats ADASM-listed companies
Qassimi	45	6.4%	3	42
Dhahiry	23	3.3%	2	21
Mazrouei	23	3.3%	5	18
Ghurair	16	2.3%	15	1
Suwaidi	15	2.1%	0	15
Shamsi	12	1.7%	1	11
Qubaisi	11	1.6%	0	11
Mansouri	10	1.4%	3	7
Sayegh	9	1.3%	2	7
Muhairi	9	1.3%	0	9
Khoury	8	1.2%	1	7
Yousif	7	1.0%	3	4
Sarri	7	1.0%	5	2
Hosani	6	0.9%	0	6
Badi	6	0.9%	1	5
Essa	6	0.9%	5	1
Jaber	6	0.9%	0	6
Mualla	6	0.9%	0	6
Owais	6	0.9%	4	2
Nahyan	6	0.9%	5	1
Darmaki	5	0.7%	0	5
Lootah	5	0.7%	5	0
Mulla	5	0.7%	5	0
Zaabi	5	0.7%	1	4

Source: ADASM, DFM, TNI Investment Research. Company Accounts

Multiple Family Members on the Board of Same Company

Table 10: Multiple family members on the board of the same company

National	Market	# of companies	0 directors	2 directors	3 directors	4 directors	5 directors
			from same family				
	ADSM	59	44.1%	42.4%	11.9%	1.7%	1.7%
	DFM	34	58.8%	26.5%	14.7%	0.0%	2.9%
	UAE-listed	93	49.5%	36.6%	12.9%	1.1%	2.2%

Table 11: Multiple family members on the board of the same company

Emirate by Emirate	Location	# of companies	0 directors	2 directors	3 directors	4 directors	5 directors
			from same family				
	Abu Dhabi	29	44.8%	51.7%	3.4%	0.0%	0.0%
	Ajman	1	0.0%	100.0%	0.0%	0.0%	0.0%
	Dubai	27	55.6%	25.9%	14.8%	0.0%	3.7%
	Foreign-based	12	66.7%	33.3%	8.3%	0.0%	0.0%
	Fujairah	2	100.0%	0.0%	0.0%	0.0%	0.0%
	RAK	11	45.5%	18.2%	27.3%	9.1%	0.0%
	Sharjah	9	33.3%	33.3%	22.2%	0.0%	11.1%
	Umm Al Qaiwain	2	0.0%	100.0%	50.0%	0.0%	0.0%

Source: IMF, February 2009

Families and Finance in MENA

- ❑ **Within the GCC and MENA over 90 per cent of all commercial activity is estimated to be controlled by family firms**
- ❑ **In GCC FOEs estimated at over 5,000, hold combined assets of more than \$500 billion, and employ 70 per cent of the workforce**
- ❑ **Major source of job creation in coming decade**
- ❑ **Families and FOEs must become ‘institutions’ in order to survive**
- ❑ **Families/entrepreneurs should actively promote development of financial markets:**
 - ❑ Meet challenge of increased economic openness and globalization
 - ❑ Reduce risk through diversification and divestment of family assets
 - ❑ Exit strategy: solution to successor problem and equity in family inheritance

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DIFC Infrastructure to support families

- **DIFC has developed laws and regulations as well as institutions to assist families in addressing the three central challenges of:**
 - Improving Access to Capital
 - Diversifying Wealth
 - Managing Succession
- **DFM and Nasdaq Dubai organised exchanges allowing IPOs and listing of FOEs**
- **DIFC has deep and diverse pool of financial service providers, asset & wealth managers as well as ancillary service providers to support FOEs**
- **Some 750 companies established in DIFC of which 11 accountancy service providers and 38 legal services providers**

DIFC Legal & Regulatory Infrastructure

DIFC Law No.	Law/Regulation	Administrative Authority		
		DIFCA	DFSA	DJA
No. 1 of 2004	Regulatory Law		✓	
No. 2 of 2004	Companies Law	✓		
No. 4 of 2004	Law Relating to the Application of DIFC Laws	✓		
No. 5 of 2004	Limited Liability Partnership Law	✓		
No. 6 of 2004	Contract Law	✓		
No. 7 of 2004	Insolvency Law	✓		
No. 10 of 2004	Courts Law			✓
No. 11 of 2004	General Partnership Law	✓		
No. 12 of 2004	Markets Law		✓	
No. 13 of 2004	Law Regulating Islamic Financial Business		✓	
No. 4 of 2005	Employment Law	✓		
No. 5 of 2005	Law of Obligations	✓		
No. 6 of 2005	Implied Terms in Contracts and Unfair Terms Law	✓		
No. 7 of 2005	Law of Damages and Remedies	✓		
No. 8 of 2005	Law of Security	✓		
No. 9 of 2005	Personal Property Law	✓		
No. 10 of 2005	Law on the Application of Civil and Commercial Laws	✓		
No. 11 of 2005	Trust Law		✓	
No. 1 of 2006	Collective Investment Law		✓	
No. 3 of 2006	Companies Law	✓		
No. 4 of 2006	Limited Partnership Law	✓		
No. 5 of 2006	Investment Trust Law		✓	
No. 1 of 2007	Date Protection Law	✓		
No. 4 of 2007	Real Property Law	✓		
No. 5 of 2007	Strata Title Law	✓		
No. 1 of 2008	Arbitration Law	✓		

DIFC Regulations

Non Financial Anti Money Laundering/Anti Terrorist Financing (AML/CFT) Regulations

Real Property Regulations

Strata Title Regulations

Data Protection Regulations

Limited Partnership Regulations

Security Regulations

Dematerialized Investments Regulations

DIFC Insolvency Regulations

Preferential Creditor Regulations

Companies Regulations

Single Family Office Regulations

General Partnership Regulations

Limited Liability Partnership Regulations

DIFCA Operating Regulations

Special Purpose Company Regulation

Special Purpose Company Fee Regulation

Corporate Governance - DIFC

- The **Hawkamah Institute for Corporate Governance** is an international association of corporate governance practitioners, regulators and institutions whose primary mandate is to develop corporate governance best practices in the Middle East region. By promoting the core values of transparency, accountability, fairness, disclosure and responsibility, Hawkamah assists & provides advisory services to countries, companies and family offices in the region to develop and implement sound and globally integrated corporate governance frameworks. <http://www.hawkamah.org/>
- The **Mudara Institute of Directors** aims to become the region's leading international best practice professional membership organisation for board members and directors. It is an initiative designed to promote excellence at board level and facilitate professional development through education, networking and services to members in the region. Mudara IOD will also offer several courses that address specific needs such as those earmarked exclusively for chairpersons, government entities and family-owned businesses. <http://www.mudara.org/>

Hawkamah Family Business Forum

- Hawkamah, in association with Mudara and Shoora has created a Family Business Forum to provide second and third generation members of regional business families with an interactive forum to share, analyse and discuss key business and governance issues affecting their businesses
- Aim is to promote the long term interests of family businesses in the GCC and MENA regions at family, local, national and regional level
- Seeks to identify challenges faced by the region's family businesses through research, workshops and seminars, and support the development of a regionally-relevant framework to institutionalize families
- Activities include:
 - Commissioning regionally relevant research
 - Facilitating dialogue among regional families to share and learn from experiences of other markets
 - Housing a library on family business issues

Hawkamah - IFC Family Business Initiative

- Provide Corporate Governance Assessments and Corporate Governance Advisory Services for Families in Business and Families going for IPO.
- The initiative is being rolled through a regional road show program aiming at providing families in business in the region to create and manage a family governance system that will work across generations. The road shows also provides family businesses practical solutions for a range of governance, succession and IPO issues.
- The Hawkamah-IFC road shows are held with the support of SHOORA - Family Business Advisors LLC, The Family Office, Waqf Trust Services and The Mudara Institute of Directors (Mudara IOD).

DIFC: Single Family Offices, Trust Services

- The **DIFC Family Office** initiative helps families overcome challenges by promoting the Centre as an ideal location and domicile for family offices
- DIFC's legal and regulatory advantages relevant for family offices:
 - DIFC Trust Law
 - Single Family Office Regulations
- Trust Law allows the creation of Shari'a compliant trusts or Waqf
- The DIFC caters through service providers including wealth and asset managers, private bankers, legal and accounting practitioners , corporate governance experts, succession planning advisors, captive insurers and Islamic finance experts:
- Currently, there are 18 Single Family Offices registered at the DIFC

Single Family Office Regulations

- Created in consultation with the DFSA, the DIFC Single Family Office (SFO) Regulations specifically address the needs of family-run institutions
- It creates a platform for wealthy families to set up holding companies at DIFC to manage private family wealth and family structures anywhere in the world
- Central to the new Regulations are changes to the DIFC Single Family Offices (SFO) platform and consequential amendments to other DIFC and DFSA regulations (such as the DFSA's General Module and Glossary Module)
- The Regulations offer distinct benefits to Single Family Offices (SFOs) as they exclude them from many of the regulatory constraints placed on conventional organizations located at DIFC
- By combining a robust legal and regulatory framework with comprehensive support services, DIFC provides an environment that helps family offices operate successfully

Families, Governance & Markets

- **MENASA/GCC region is living an economic & financial renaissance**
- **Need to protect, sustain and grow wealth of region**
- **Family businesses are dominant and key to long-term economic development, job creation and prosperity**
- **Better corporate governance is an imperative to sustain the growth of our economies and markets**
- **Stronger CG of Family Owned Enterprises is the foundation to address challenges of improving Access to Capital, Diversifying Wealth & Managing Succession**
- **DIFC has created the infrastructure and platform for families to:**
 - **Strengthen governance & build capacity: Hawkamah and Mudara**
 - **Control & Manage wealth: Single, Family Office, Trusts, Waqf**
 - **Access world class banking & financial services and related ancillary legal, governance, regulatory and accounting services**
 - **Access and diversify sources of capital: financial services and market exit through DFM and Nasdaq-Dubai**