



# Family Businesses & Governance: Lessons Learned

DIFC Knowledge Series 8: Setting up a Family Office

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# Agenda

**Importance of Family Businesses**

**Performance/ Challenges for World/ GCC Family Firms**

**Family Businesses & Corporate Governance**

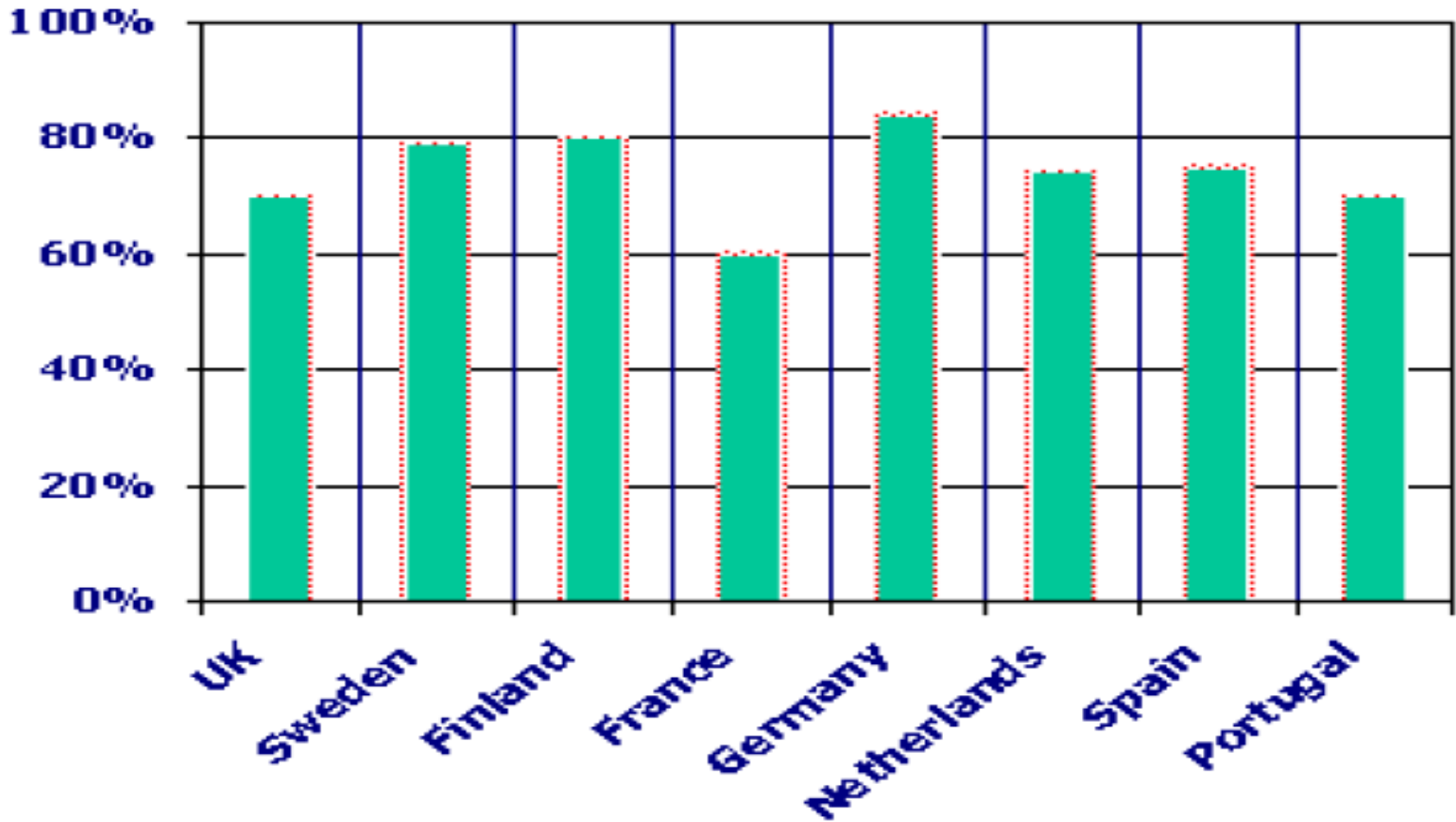
**Hawkamah-Mudara & The 'Family Business Forum'**

## 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 % (MENA  $\geq$  90%) of all 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*
- **One-third of all companies in the S&P 500 index and 40% of the 250 largest companies in France and Germany are family businesses**
- **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!<sup>1</sup>**
- *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*

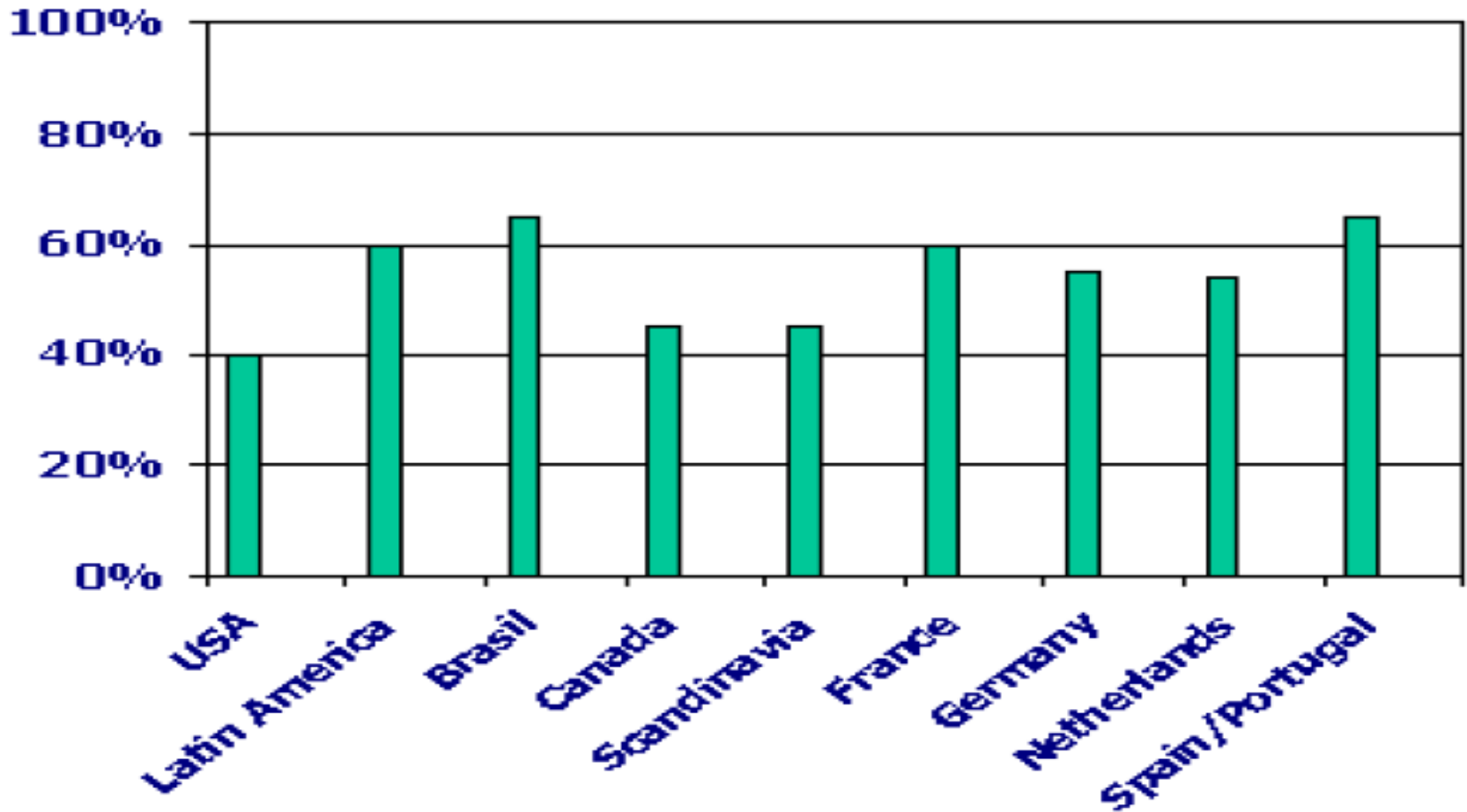
<sup>1</sup>Source: The Family Business Network, [www.fbn-g/fbn/main.nsf/doclu/facts](http://www.fbn-g/fbn/main.nsf/doclu/facts).

## Family Businesses are Dominant: % of all businesses



Source: FBN

## Family Businesses are major contributors to GDP

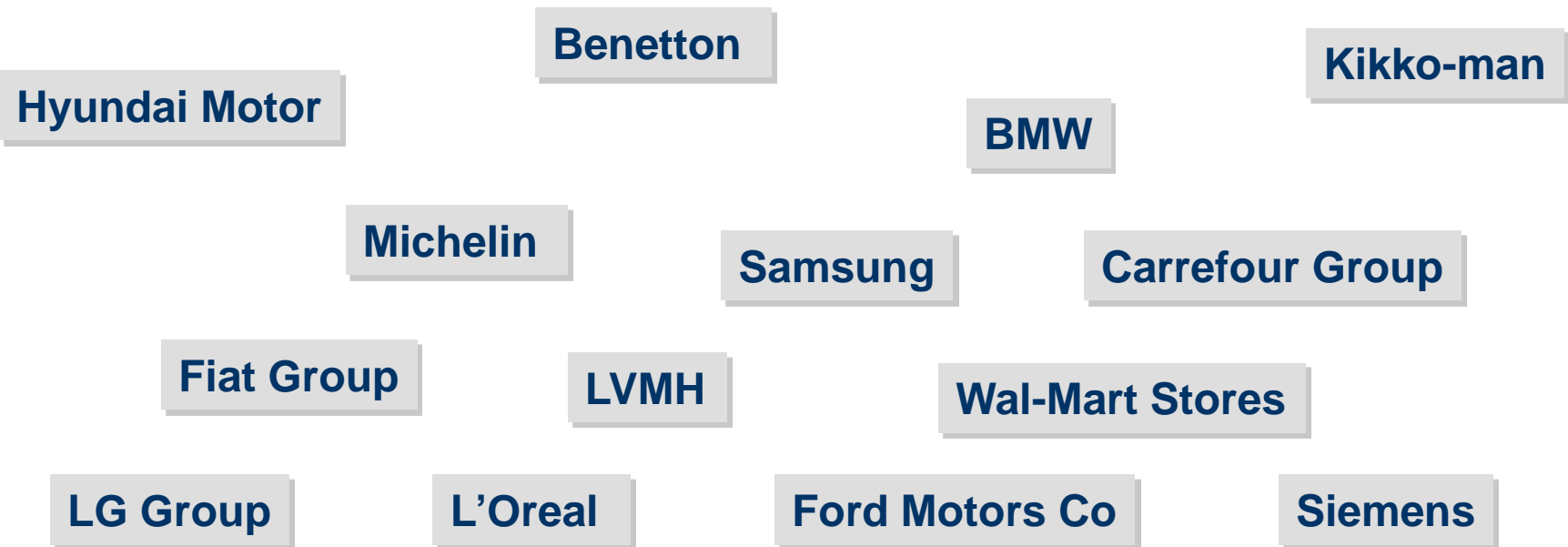


Source: FBN

## FOEs are both SMEs and conglomerates

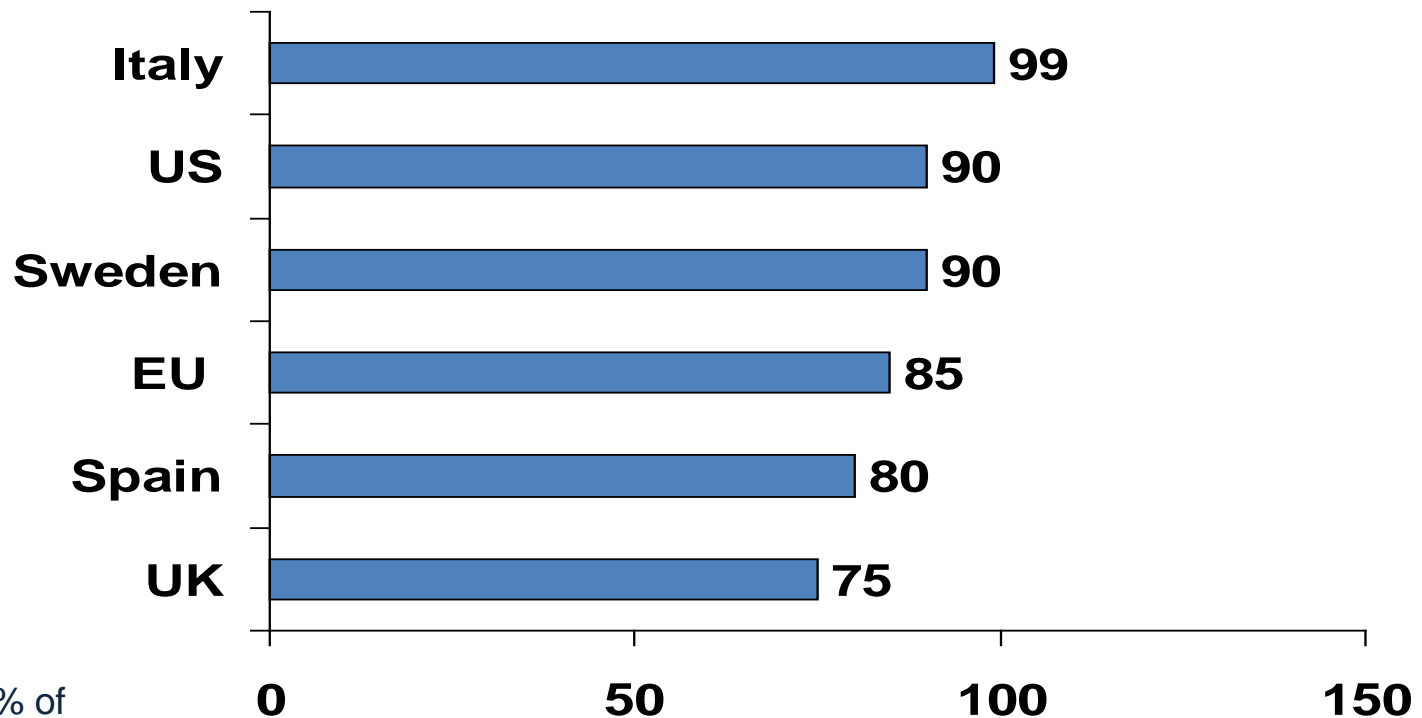
**Family Businesses range from small and medium sized companies to large conglomerates that operate in multiple industries and countries**

A Few Examples...



# Family-run firms predominate in OECD economies

Proportion of OECD Firms That are Family-Run  
Percent



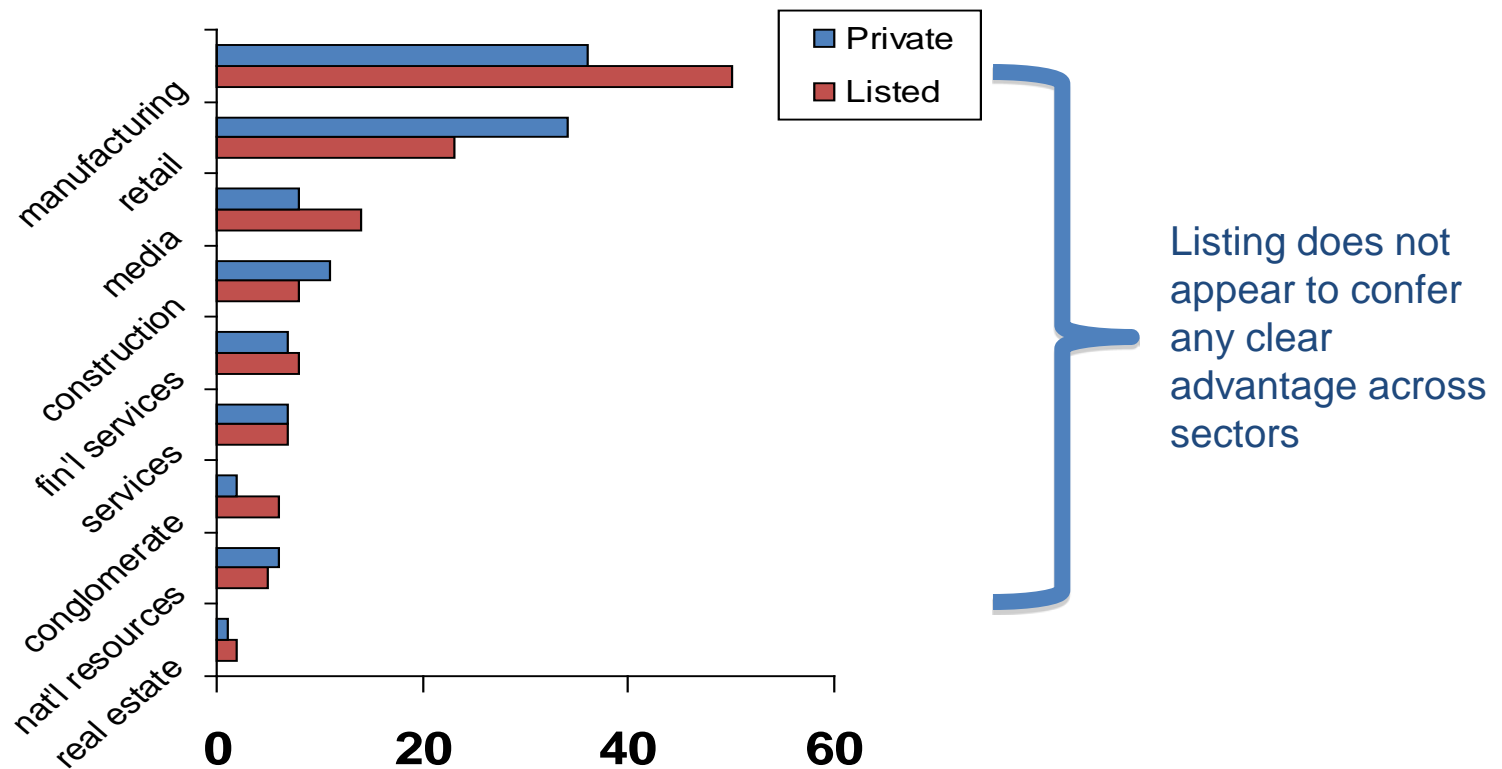
Over 85% of  
EU/US  
businesses are  
family run

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

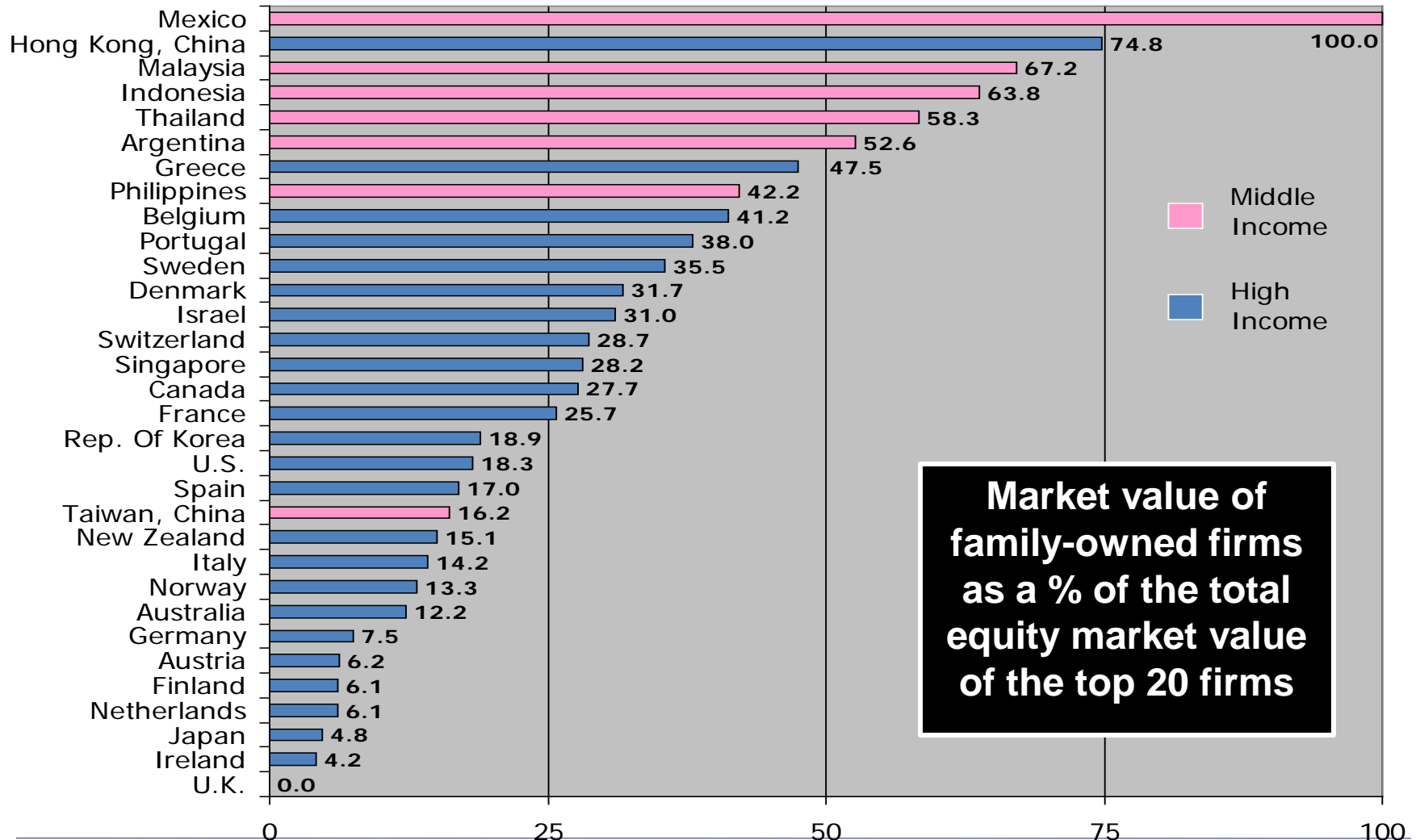
No. of Firms



Source: Family Business Magazine; OECD Analysis



# Family Firms Play an Important Role in Markets (OECD)

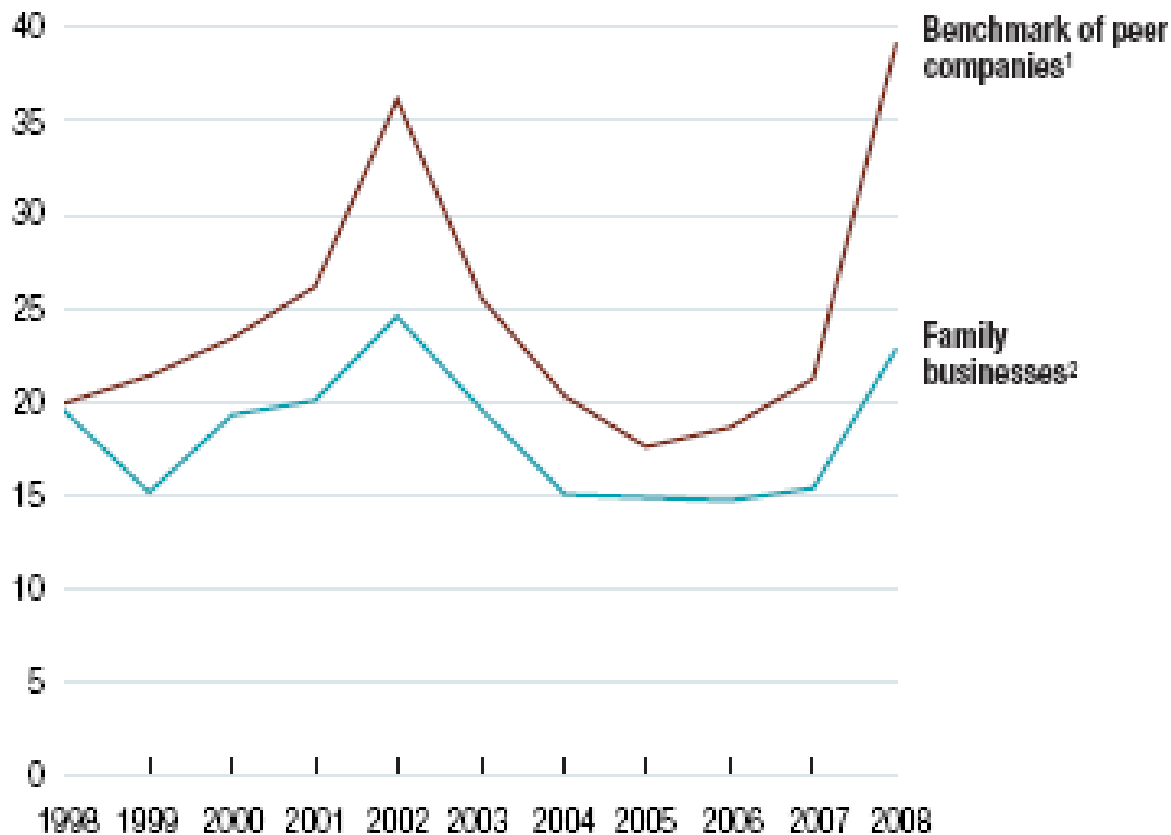


**Market value of family-owned firms as a % of the total equity market value of the top 20 firms**

# Performance of Global Family Businesses (McKinsey)

## Lower levels of financial leverage ...

Median debt-to-equity ratio, %



... and a lower cost of debt

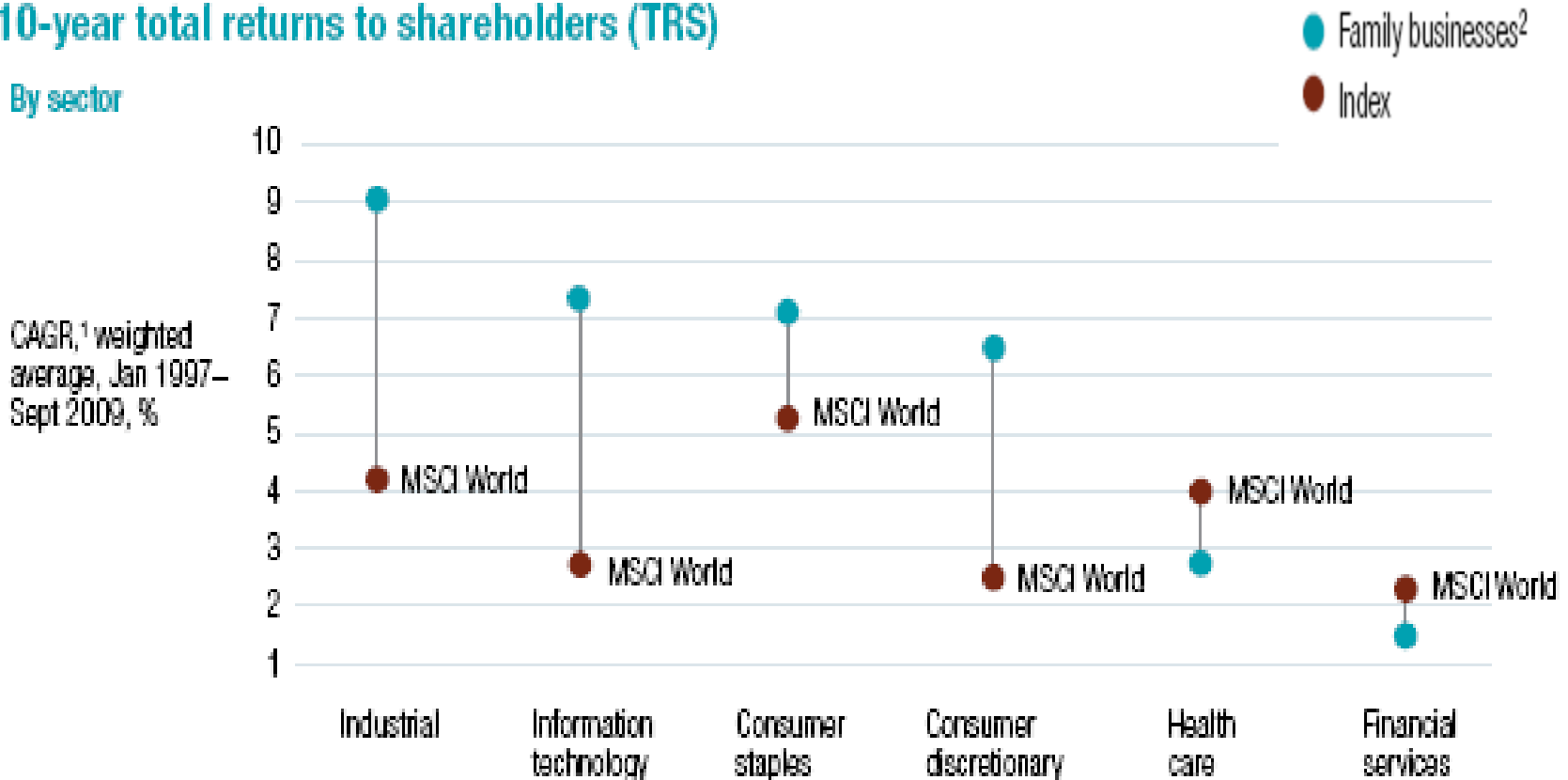
The average yield spread on corporate bonds is 32 basis points lower for family-owned businesses<sup>3</sup>

# Performance of Global Family Businesses II (McKinsey)

## Healthy returns over time

### 10-year total returns to shareholders (TRS)

By sector



## 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 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 descendants of the founder(s)<sup>1</sup>*

## **Weaknesses:**

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

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

# General Challenges to Family Business

## Challenges

*Access Capital*

*Diversify wealth*

*Manage succession*

## Issues

- ✓ Finance growth
- ✓ Balance debt/equity

- ✓ Manage risk
- ✓ Provide liquidity

- ✓ 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

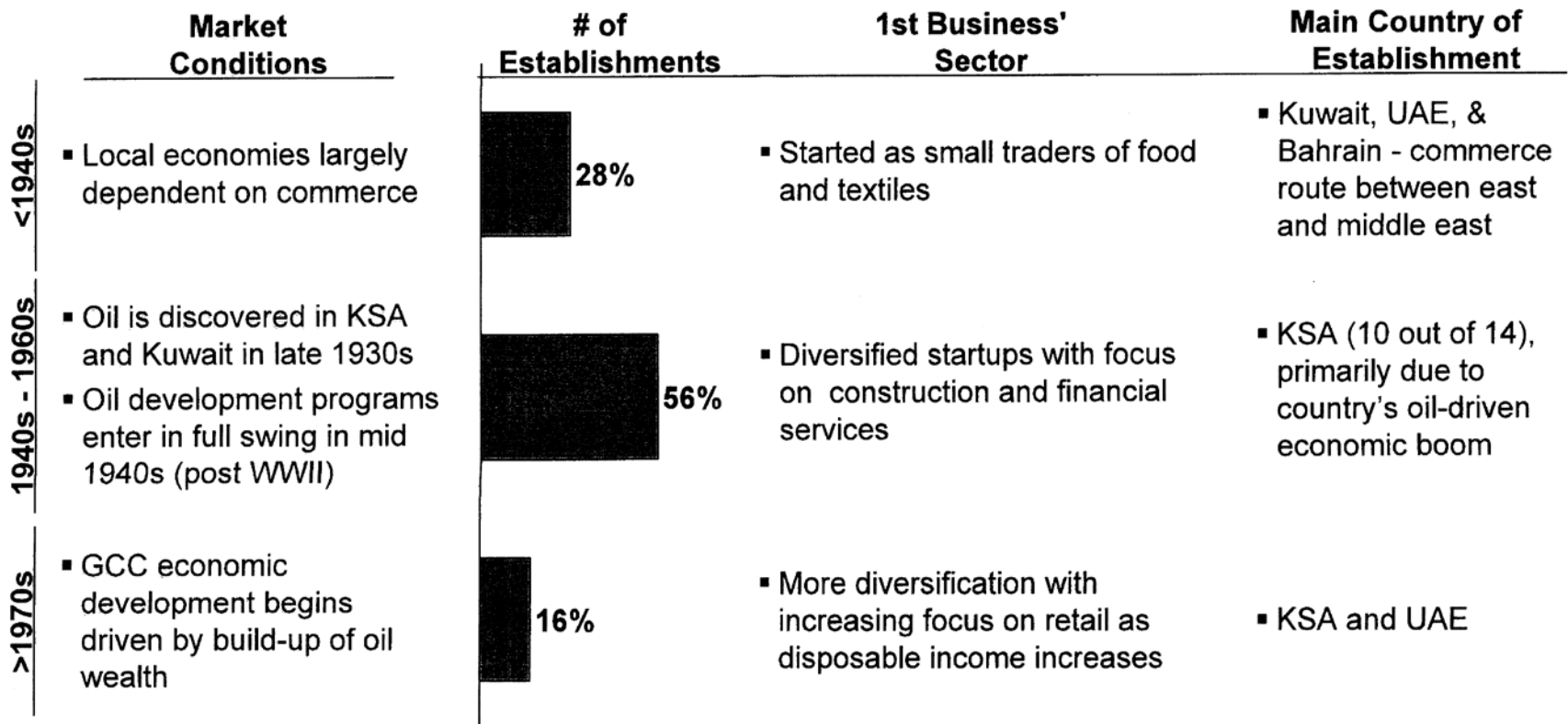
**These challenges and issues exist for all closely controlled firms**

# Family Firms in the GCC

In the GCC, family firms are relatively young...

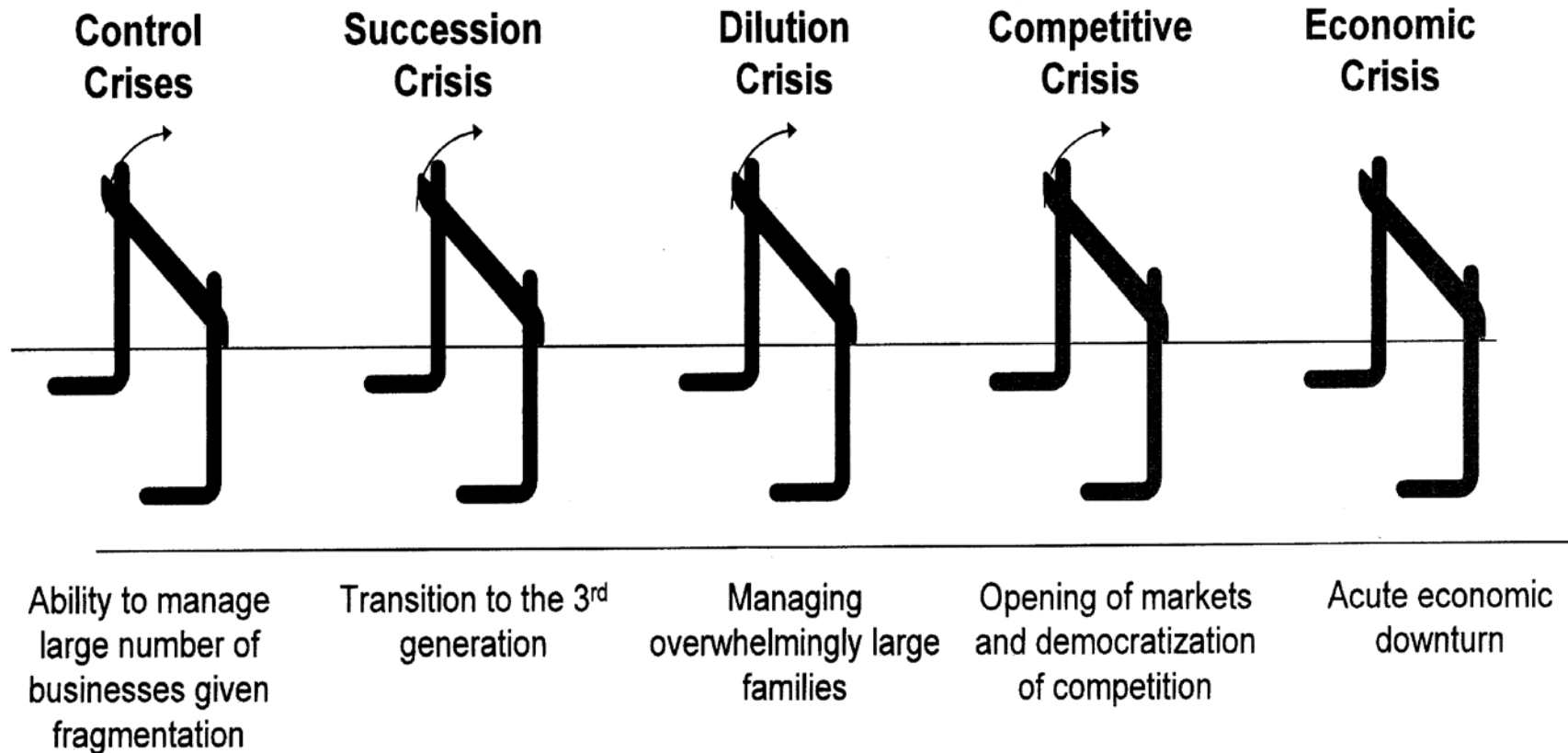
## Main Family Business in the GCC<sup>(1)</sup>

- Dates of Establishment and Initial Sectors-



1) Based on a sample of 25 family businesses spanning the GCC  
Source: Literature search and Booz & Company analysis

# GCC Family Firms Face Five types of “Crises”





# Importance of Corporate Governance

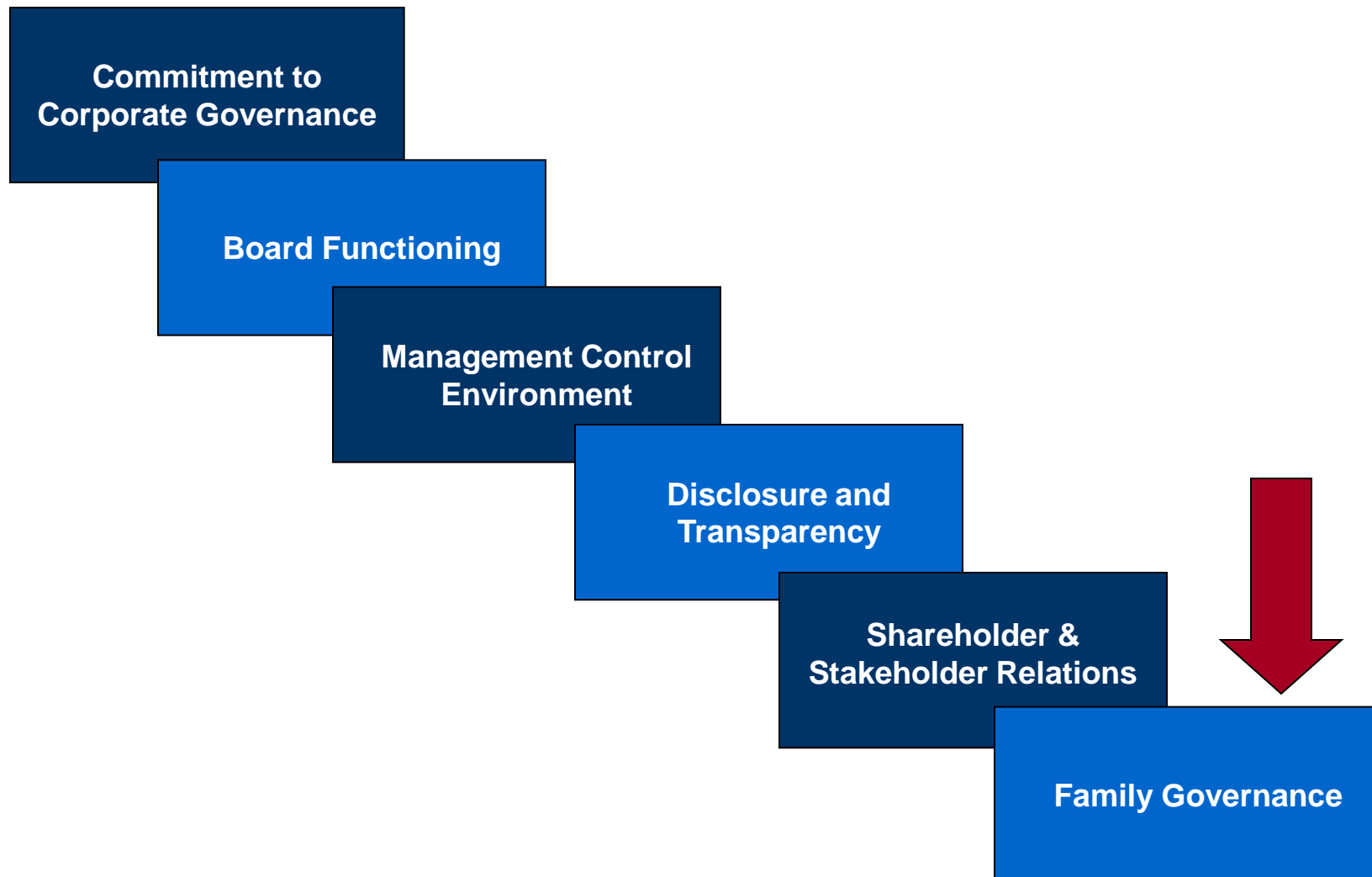
“Good” corporate governance is essential for:

- 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



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## GCC Family Business

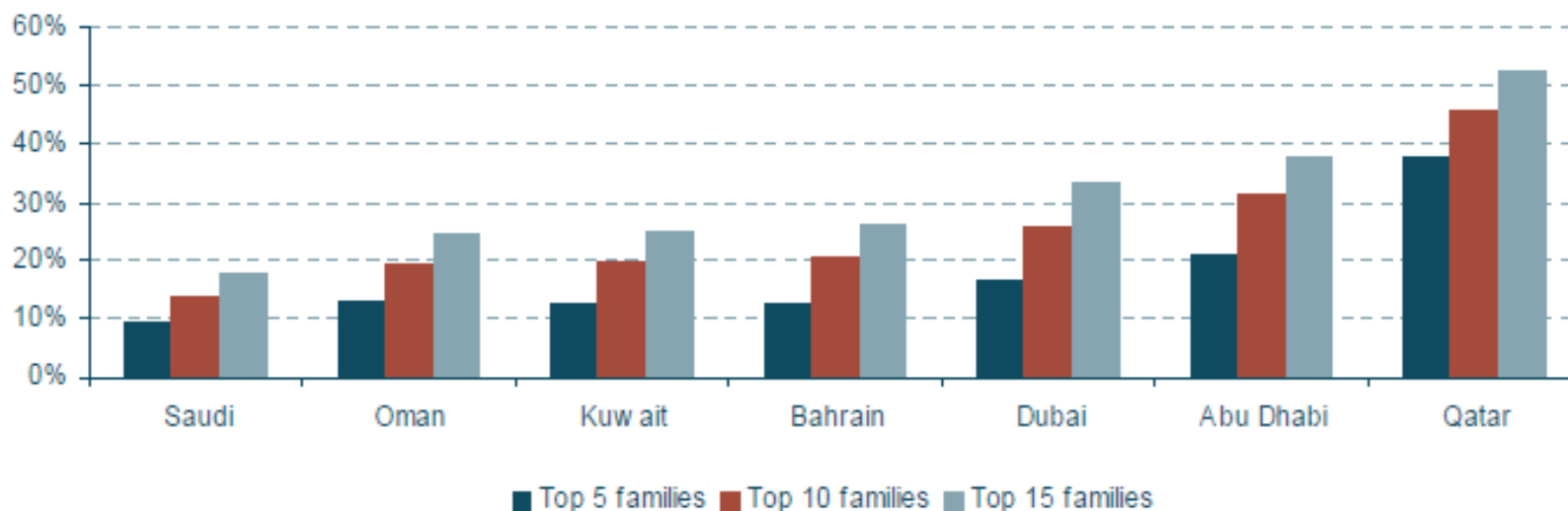
- Within the GCC, **over 90 per cent of all commercial activity** is estimated to be controlled by family firms.
- These firms number **over 5000**, hold combined assets of **more than \$500 billion**, and employ **70 per cent of the workforce**.

*Source: Impact of private Equity on GCC Family Business*

# The Issue: Boards

## Family Business Power: Family Rules!

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...**

## In the UAE listed companies, families are represented on many Boards (257 total seats/37%)

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

Market	# of companies	0 directors from same family	2 directors from same family	3 directors from same family	4 directors from same family	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%
<b>UAE-listed</b>	<b>93</b>	<b>49.5%</b>	<b>36.6%</b>	<b>12.9%</b>	<b>1.1%</b>	<b>2.2%</b>

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

Location	# of companies	0 directors from same family	2 directors from same family	3 directors from same family	4 directors from same family	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%

# Hawkamah – IFC 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.

# 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 will 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.
- The Family Business Forum is a joint initiative between the Hawkamah Institute for Corporate Governance, the Mudara Institute of Directors and SHOORA - Family Business Advisors LLC





*Thank You!*