2020

FAMILY BUSINESS ECOSYSTEM IN UNITED ARAB EMIRATES

SURVEY REPORT

DR
RODRIGO BASCO

YASMINE OMARI

LAYAN ABOUCHKAIER

SHEIKH SAOUD BIN KHALID
BIN KHALID AL-QASSIMI
CHAIR IN FAMILY BUSINESS AT AUS

FBAW
OBSERVATORY

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LOCAL PARTNERS

PEARL INITIATIVE

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STEP PROJECT
FOR FAMILY ENTERPRISING

We would like to thank for the support received from the American University of Sharjah

This report is part of the research project supported by the American University of Sharjah / FRG19-MB52

To cite this report: Basco, R., Omari, Y., Abouchkaier, L. (2020). Family Business Ecosystem in United Arab Emirates. Family Business in the Arab World Observatory. American University of Sharjah, Sharjah, UAE

American University of Sharjah
Published in Sharjah

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1. INTRODUCTION

“

IN REALITY, NOTHING CAN PREPARE A YOUNG MAN OR WOMAN FOR THE RESPONSIBILITIES THAT A ROLE IN A FAMILY BUSINESS ENTAILS... [B]EING ARMED WITH AS MUCH KNOWLEDGE AS POSSIBLE OF OTHER CASES IN WHICH DISAGREEMENTS HAD ARISEN CAN SIGNIFICANTLY HELP IN RESOLVING ISSUES OR AVOIDING THEM ALTOGETHER.

”

SHEIKH SULTAN SOOUD AL QASSEMI
MANAGING DIRECTOR OF AL SAUD COMPANY

INTRODUCTION

The past, present, and future of the United Arab Emirates is intrinsically linked to, if not dependent on, the regional family businesses and their entrepreneurial business families.

The future economic and social development of the UAE is reliant on the private sector, which is mainly composed of family firms, to adapt their business models and family models in order to accommodate the national, regional, and international challenges. Family firms have been the main vehicle for the UAE State to participate in the UAE's shift from a natural resource-based economy, anchored to the oil and gas extraction, to the current diversified economic structure dominated by logistic/transport, tourism, real estate, and financial service sectors.

Although the economy of the UAE is prospering, its future depends on the behavior of the youth and their ability to embrace a new diversified model of economic development and to draw upon the entrepreneurial dynamism of local family firms in order to adapt their business models to the future knowledge-based economy. In this sense, the next generations of the family business members are the key economic and social actors to lead sustainable family firms across generations.

1.

INTRODUCTION

In an attempt to explore the demographics of family firms, the Sheikh Saoud bin Khalid bin Khalid Al-Qassimi Chair in Family Business at American University of Sharjah and Pearl Initiative have led and coordinated the STEP project (Successful Transgenerational Entrepreneurship Project) in the UAE. More than 1800 family firms answered the STEP survey around the world. This report aims to reveal the specific patterns of UAE family firms by describing their characteristics and behaviors. Additionally, we compare our UAE family firm sample with their counterparts in other Arab countries and the rest of the world.

We believe that developing a profile of UAE family firms and compare it with their counterparts around the world could put into perspective the UAE family firm's ownership, governance, and management. It could also help firms learn from the best practices around the world and highlight the strengths and weaknesses that would require actions and proactive attitude for upcoming business family generations.

We expect our report to contribute to the process of generating a family entrepreneurial ecosystem in the UAE by mapping family firm behavior, raising the awareness about the importance of the cultural and institutional environments to support entrepreneurial families, and providing policymakers with information that could be useful to tailor strategic public policies to promote and protect family business legacies in the UAE.

> “FAMILY BUSINESSES ACROSS THE GULF REGION AND THE REST OF THE ARAB WORLD HAVE A MAJOR OPPORTUNITY TO POSITIVELY ENGAGE IN DEALING WITH THE SOCIO-ECONOMIC CHALLENGES THAT EXIST IN OUR REGION, INCLUDING THE MASSIVE YOUTH UNEMPLOYMENT, SKILLS DEFICIT, AND INADEQUATE ECOSYSTEM FOR PROMOTING ENTREPRENEURSHIP.”

BADR JAFAR
MANAGING DIRECTOR OF THE CRESCENT GROUP AND CEO OF CRESCENT ENTERPRISES

2. TAKEAWAYS

2. TAKEAWAYS

FAMILY-BUSINESS RELATIONSHIP

UAE family firms display high family ownership concentration and high family participation in management positions.

There are large business families behind UAE family firms.

CORPORATE GOVERNANCE

The use of boards of directors as corporate governance mechanism is still not common practice in UAE family firms.

UAE family firms with boards of directors have low proportion of female directors.

When UAE family firms institutionalize their boards of directors, there is a low representation of external or independent directors in their boardrooms.

FAMILY GOVERNANCE

Most UAE family firms are concerned about the role and relationship of the family with/within the family business.

UAE family firms have rudimentary family governance structures to separate family affairs from business matters.

Most UAE family firms are concerned about how to contribute to society through philanthropy and family wealth investment.

UAE family firms have difficulties in balancing family values and business values (family-oriented goals and business-oriented goals).

CEO CHARACTERISTICS

While the majority of CEOs in UAE family firms are males over 31, a significant percentage of CEOs had fewer than 10 years' experience.

Most CEOs in UAE family firms are not the first-born children and they typically have three or more siblings.

ENTREPRENEURIAL ORIENTATION

The main UAE family firms' concerns, which center around where to invest, are prompted by new products and market opportunities.

The risk appetite for firms in the UAE is higher than that of their international counterparts.

Entrepreneurial autonomy was perceived to be high for the majority of family business respondents across the Gulf region, while innovativeness was perceived to be much lower in contrast.

SUCCESSION

Even though the varied criteria for choosing a successor, UAE family firms mainly use the successor's interest and qualifications criteria.

The majority of UAE family firms do not have a succession plan in place.

Employment strategies -i.e., the case for hiring family members vs. non-family members - is unclear for many UAE family firms.

UAE family firms have a tendency to appoint a family member as a potential successor.

3. FAMILY FIRM DEMOGRAPHIC CHARACTERISTICS

> FAMILY FIRMS IN THE UAE ARE RELATIVELY YOUNG IN COMPARISON TO THEIR COUNTERPARTS IN OTHER ARAB COUNTRIES AND THE REST OF THE WORLD.

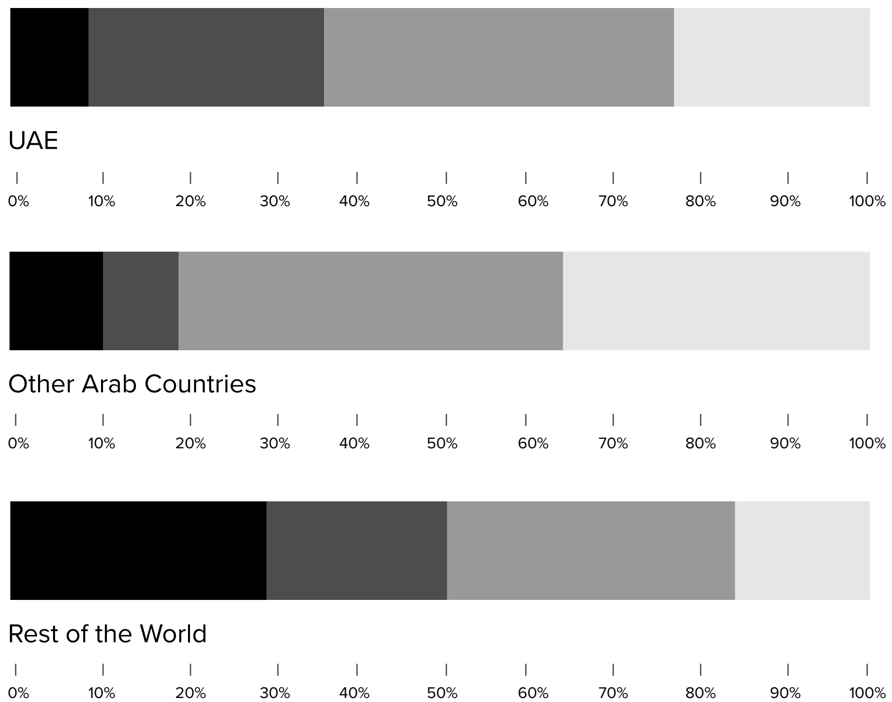
Family firms in the United Arab Emirates have specific characteristics that make them unique when compared to other family firms in the Arab region or the rest of the world. Regarding the firm's age demographic characteristic, family firms in the UAE are relatively young in comparison to those in other Arab countries and the rest of the world (with an average age of 33, 55, 44 years old respectively). The average firm age differences could be attributed to the young age of the UAE because the foundation of the country goes back to 1971. This demographic characteristic has implications in the family generation of who rules the family firm. While almost half of the surveyed sample for family firms in the UAE are in the first generation, this percentage is lower for family firms in the rest of the world (41%) and family firms in other Arab countries (29%).

Regarding the firm's size distribution, most of the family firms surveyed in the UAE and the Arab world are medium or big firms, whereas, the family firms in the rest of the world have a more even distribution across the four categories: micro, small, medium, and big firm size.

In the context of the demographic characteristic of the family's involvement in the firm, we focused on three main involvements: the number of family members that own shares in those companies, the percentage of family shares, and the family members working in the firm. The majority of the family firms in the UAE tend to have five or fewer family owners. This percentage drops for family firms in other Arab countries, indicating that the firm's shares are much more dispersed in the hands of the family. For instance, 37% of the firms have between 6 to 10 family owners and 11% between 11 to 20 family owners. However, family firms in the rest of the world have a much more concentrated ownership in a few family members, where almost 83% of the surveyed firms have fewer than five family owners. The collectivist culture and larger size of families in the Arab world may be the primary reasons why more family members own shares in UAE family firms than in family firms in the rest of the world.

3.

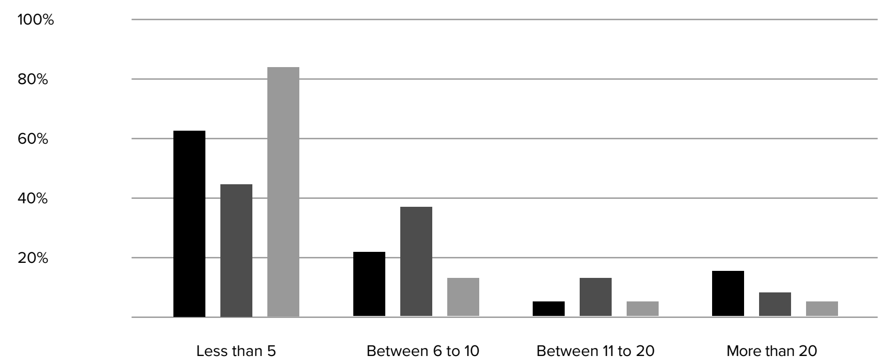
FIGURE 1: FIRM'S SIZE DISTRIBUTION



- Below 20 employees
- Between 21 to 50 employees
- Between 51 to 500 employees
- More than 501 employees

> THE COLLECTIVIST CULTURE AND LARGER SIZE OF FAMILIES IN THE ARAB WORLD MAY BE THE PRIMARY REASONS WHY MORE FAMILY MEMBERS OWN SHARES IN UAE FAMILY FIRMS THAN IN FAMILY FIRMS IN THE REST OF THE WORLD.

FIGURE 2: NUMBER OF FAMILY MEMBERS THAT OWN SHARES



- UAE
- Other Arab Countries
- Rest of the World

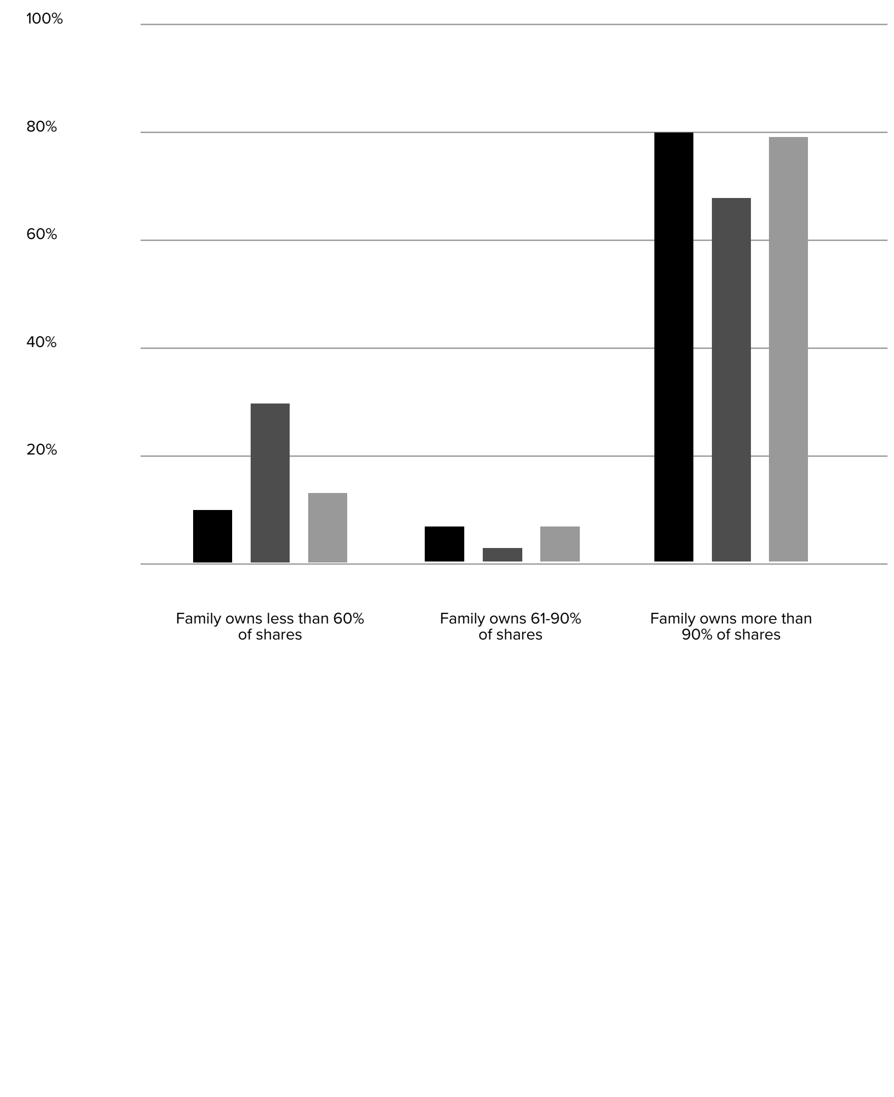
Family Firm Demographic Characteristics

3.

> UAE BUSINESS FAMILIES PREFER TO KEEP THEIR BUSINESSES WITHIN THE FAMILY ITSELF WITH A LOW PERCENTAGE OF SHARES OWNED BY NON-FAMILY MEMBERS.

Even though Arab family firms have higher dispersion among family owners than family firms in the rest of the world, the family ownership concentration is high in all of the three samples (81% for UAE firms, 70% for other Arab countries, and 79% for the rest of the world). This indicates that UAE business families prefer to keep their businesses within the family itself with a low percentage of shares owned by non-family members.

FIGURE 3: PERCENTAGE OF SHARES OWNED BY FAMILY MEMBERS

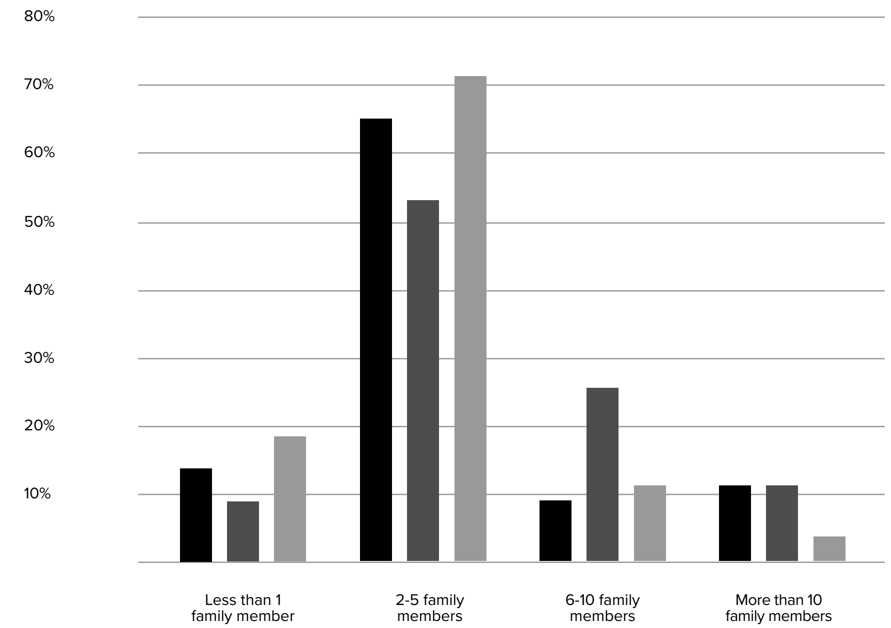


3.

> IN THE UAE, THE NUMBERS OF FAMILY MEMBERS ACTIVELY WORKING IN THE FIRM IS HIGH IN COMPARISON TO THEIR COUNTERPARTS IN THE REST OF THE WORLD.

The specificities of the Arab families can also be visualized in the working involvement of the family members in the firm. That is due to large families in the UAE and the Arab world, the family member's participation in the firm is high in comparison to their counterparts in the rest of the world. The results show that more than 23% of the UAE family firms have more than six family members actively working in the firm. This percentage is even higher for family firms in other Arab countries (almost 37%) but lower than those found in the rest of the world (16%).

FIGURE 4: FAMILY MEMBERS WORKING IN THE FIRM



UAE
Other Arab Countries
Rest of the World

4. CHIEF EXECUTIVE OFFICER CHARACTERISTICS

4. CHIEF EXECUTIVE OFFICER CHARACTERISTICS

In this section of the report, we focus on the Chief Executive Officer (CEO), who is ultimately responsible for making managerial decisions, designing and implementing the strategy to achieve shareholders' goals. We describe six CEO characteristics in family firms: gender, age, years of experience, level of education, number of siblings, and birth order.

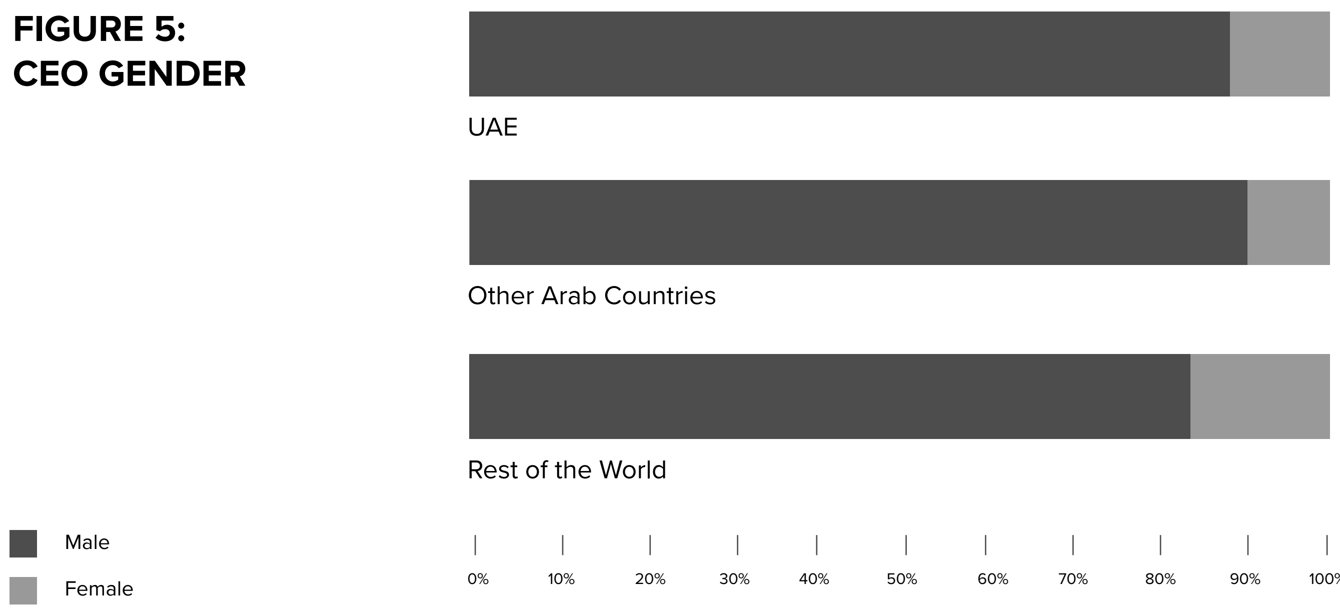
> EVEN THOUGH SURVEY RESULTS EXPOSE THE GENDER GAP IN MANAGERIAL POSITIONS AROUND THE WORLD, THEY REFUTE THE STEREOTYPICAL VIEW THAT THE ARAB COUNTRIES HAVE A MUCH LARGER GENDER GAP THAN IN THE REST OF THE WORLD, THEREBY ILLUSTRATING THE SUCCESSFUL EFFORTS OF THE UAE TO PROMOTE GENDER EQUALITY AND WOMEN'S EMPOWERMENT.

4.1

GENDER

Our findings show that the gender characteristic of CEOs in family firms are similar across our three sub-samples. Male CEOs predominately manage family firms more than female CEOs -88% males and 12% females in the UAE, 90% males and 10% females in other Arab countries, and 82% males and 18% females in the rest of the world. Even though these results expose the gender gap in managerial positions around the world, they refute the stereotypical view that the Arab countries have a much larger gender gap than in the rest of the world, thereby illustrating the successful efforts of the UAE to promote gender equality and women's empowerment.

FIGURE 5: CEO GENDER



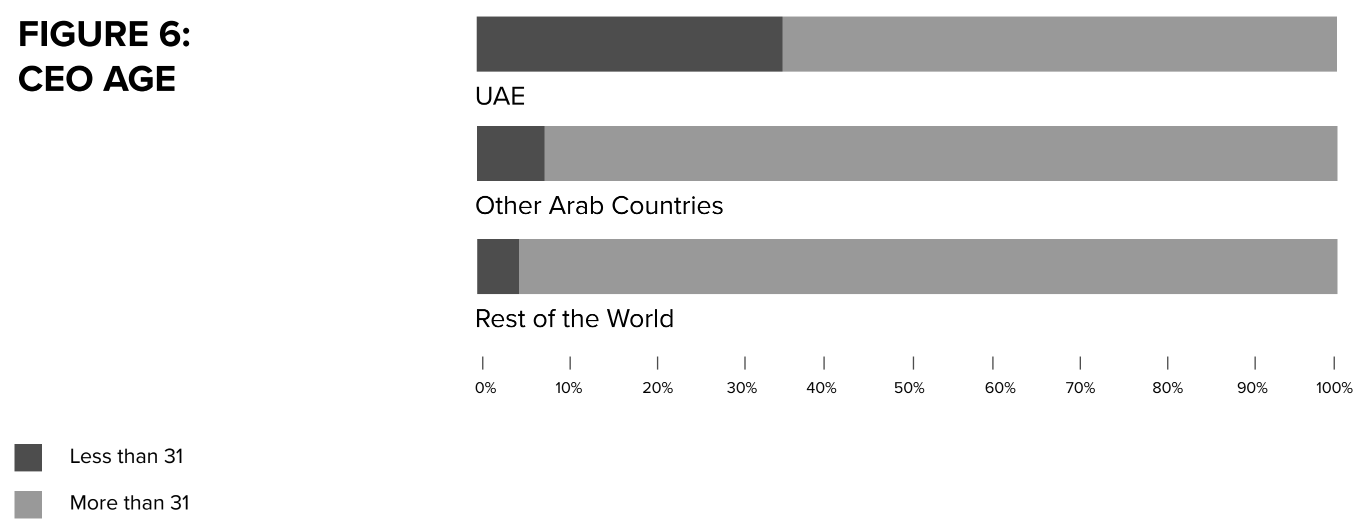
4.2

> SURVEY REVEALS HIGH PRESENCE OF YOUNG CEOs IN THE UAE THAT COULD BE EXPLAINED BY THE SPECIFIC SOCIAL AND ECONOMIC DYNAMICS OF THE UAE'S LABOR MARKET AND THE PUBLIC POLICIES TO ENCOURAGE YOUNG PEOPLE TO UNDERTAKE LEADERSHIP POSITIONS.

AGE

Most surveyed family firms tend to have mature CEOs. However, in the UAE, the gap between CEOs who are less than 31-year-old and older than 31-year-old is not as big as it is for family firms in other Arab countries or in the rest of the world. Our survey shows that 35% of family firm CEOs in the UAE are under the age of 31, while 65% are older than that. This gap becomes bigger in other Arab countries and in the rest of the world where only 7% and 4% of CEOs are less than 31-year-old respectively. The high presence of young CEOs in the UAE could be explained by the specific social and economic changing dynamics of the UAE's labor market such as having a large young population accounting for an important portion of the labor force and the public policies to encourage young people to undertake leadership positions.

FIGURE 6: CEO AGE

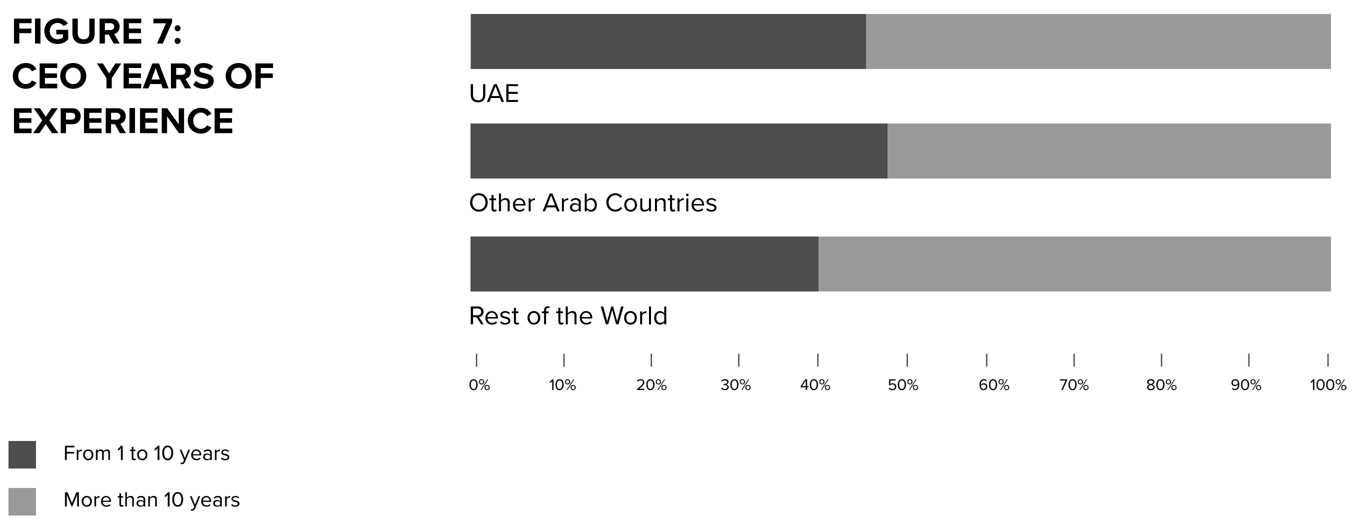


4.3

YEARS OF EXPERIENCE

In line with the previous CEO characteristics, the UAE family firms have the biggest percentage of CEOs with a working experience of fewer than 10 years compared to their counterparts in the rest of the world. While 45% of the UAE family firm's CEOs have fewer than 10 years in their position (a very similar percentage for family firms in other Arab countries), the percentage for family firms in the rest of the world is 40%. This difference could be traced back to the UAE's goal of encouraging the youth to lead the labor market.

FIGURE 7: CEO YEARS OF EXPERIENCE

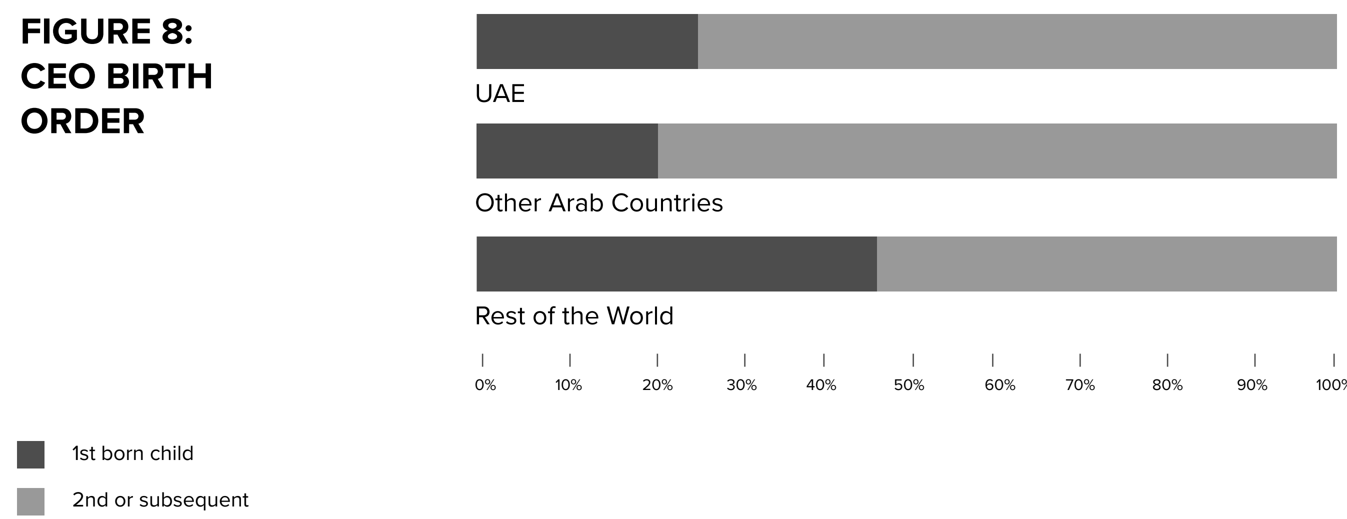


4.4

BIRTH ORDER

Our survey shows that 75% of the UAE family firms' CEOs are not the first-born children of their families. This percentage is close to our results from other Arab countries (80%). In the rest of the world, around 54% of family firm CEOs are the 2nd or sub-second children, while around 46% of them are 1st born children. It appears that the UAE family firms are choosing the CEO according to specific criteria that are not necessarily related to birth order, but to children's education, their interest in the family firm, or others.

FIGURE 8: CEO BIRTH ORDER



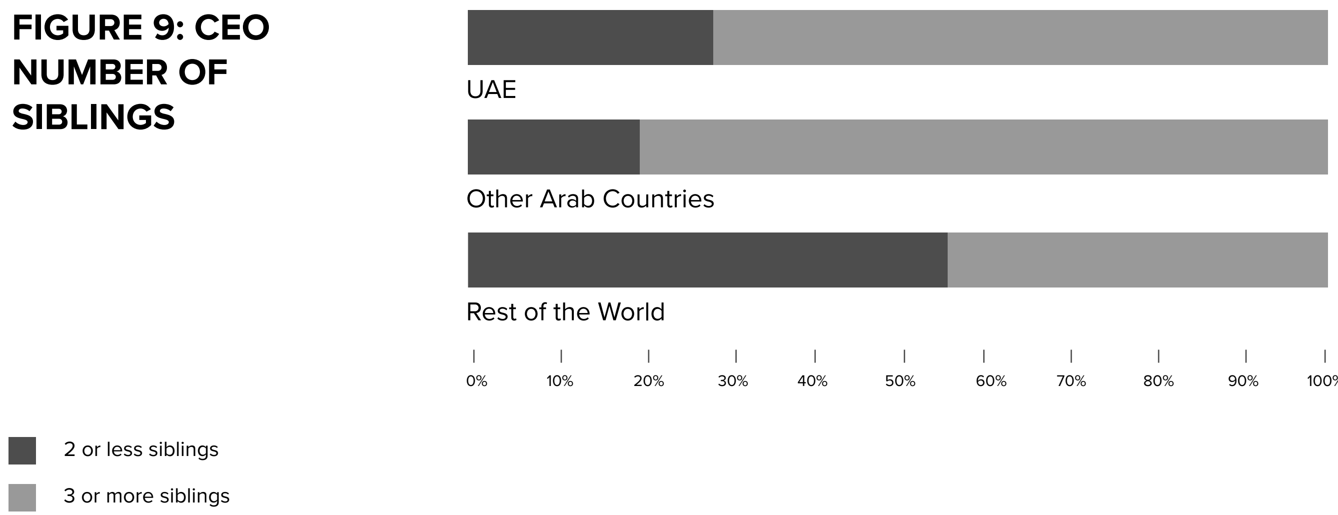
4.5

"THE UAE FAMILY FIRMS' CEOs HAVE MORE SIBLINGS THAN OTHER CEOs IN THE REST OF THE WORLD. IT IMPLIES THAT FAMILY FIRMS IN THE ARAB WORLD HAVE TO DEVELOP BETTER STRUCTURES TO MANAGE THE FAMILY-BUSINESS RELATIONSHIP AND TO MINIMIZE THE CONFLICT BETWEEN BOTH – FAMILY AND BUSINESS."

NUMBER OF SIBLINGS

In general, it is known that families in the Arab region tend to have more children than the other regions of the world. This is evident as the Arab family firms' CEOs have more siblings than other CEOs in the rest of the world. For instance, 73% of the UAE family firms' CEOs have at least three siblings, which is similar to the 80% found in other Arab countries. However, for family firms in the rest of the world, the percentage of having at least three siblings drops to 45%. Bigger families imply more complexity in the way a family firm is governed and managed. With such circumstances, it is evident that family firms in the Arab world have to develop better structures to manage the family-business relationship and to minimize the conflict between both – family and business.

FIGURE 9: CEO NUMBER OF SIBLINGS



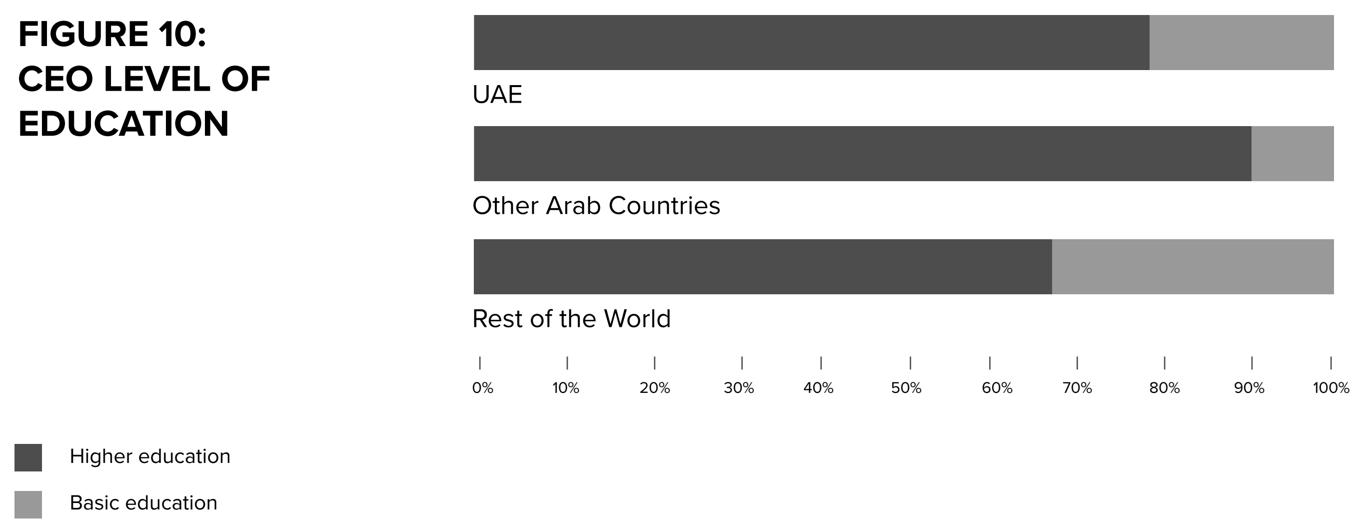
4.6

"THE MAJORITY OF CEOs OF THE UAE FAMILY FIRMS HOLD A HIGHER EDUCATION DEGREE SUGGESTING THAT EDUCATION TRIGGERS ENTREPRENEURIAL BEHAVIOR, AND IT SEEMS TO PLAY AN IMPORTANT ROLE WITHIN THE FAMILY FIRM CONTINUITY."

LEVEL OF EDUCATION

According to our findings, the majority of CEOs of the UAE family firms hold a higher education degree (78%). While this percentage is higher in other Arab countries (close to 90%), it is much lower for CEOs in the rest of the world (67%). These results show that in the context of the Arab world, education triggers entrepreneurial behavior, and it seems to play an important role within the family firm continuity.

FIGURE 10: CEO LEVEL OF EDUCATION



Chief Executive Officer Characteristics

5. CORPORATE GOVERNANCE AND STRATEGY

In this section of the report, we focus on the family firm's corporate governance structure and the firm's strategies. While the corporate governance is the system of rules, practices, and process by which firms are directed and controlled, the strategy captures the practices, managerial positions, and behaviors that a firm uses to compete.

In family firms, there are two types of corporate governance. The first one is the *Family Governance Structure* that consists of rules, practices, and processes that regulate family members' involvement in the business and their relationship with the firm. The second one is the *Business Governance Structure* that consists of rules, practices, and processes that regulate the business itself and balance the many interests of the different stakeholders of the firm.

5.1 FAMILY GOVERNANCE STRUCTURES

FORMAL FAMILY COUNCIL

Our findings show that 32% of family firms in the UAE have a formal family council. While this percentage is similar to the other Arab countries' family firms (29%), it is slightly higher than the rest of the world's family firms (22%). The presence of a formal family council in the Arab region could be directly related to the larger size of Arab families in comparison to the rest of the world, which requires a formal procedure to harmonize the relationship between the family and the firm.

FAMILY PROTOCOL OR CONSTITUTION

The majority of family firms in the UAE do not have a family protocol or constitution. Only 17% of them have implemented a family constitution in their firms. This percentage is similar to the rest of the world sample (19%) and slightly lower compared to other Arab countries' family firms (24%). With that being said, we can assume that while UAE family firms initiate the process of formalizing the family corporate governance structures by creating formal family councils (such as a requirement for regularly scheduled family meetings to discuss the family-business relationship), they are postponing the creation of a protocol or constitution to regulate the relationship between the family and the firm across generations.

FAMILY MISSION OR VISION STATEMENT

The majority of family firms in the UAE do not have a family mission or a vision statement -one-third of the surveyed family firms have implemented a family mission or a vision statement. The situation is also similar to family firms in the rest of the world where 29% of our sample have a family mission or a vision statement. However, almost half of our sample in other Arab countries have such a statement (45%).

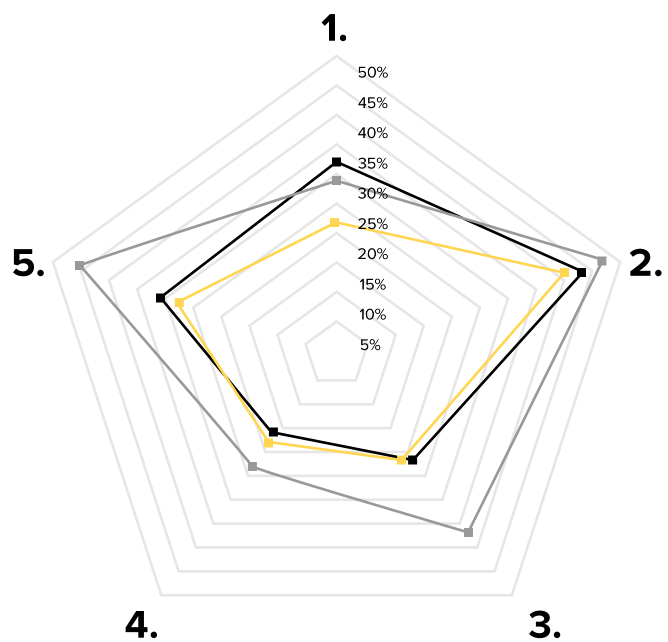
5.1

FAMILY EMPLOYMENT POLICY

As anticipated based on the aforementioned results, only 21% of family firms in the UAE have a family employment policy. While family firms in the rest of the world show a similar percentage, it increases for family firms in other Arab countries up to 37%. Again, family firms in the UAE are less willing to implement formal criteria to define the relationship between the family and the business system.

> ALTHOUGH UAE FAMILY FIRMS INITIATE THE PROCESS OF FORMALIZING THE FAMILY CORPORATE GOVERNANCE STRUCTURES BY CREATING FORMAL FAMILY COUNCILS, THEY ARE POSTPONING THE CREATION OF A PROTOCOL OR CONSTITUTION TO REGULATE THE RELATIONSHIP BETWEEN THE FAMILY AND THE FIRM ACROSS GENERATIONS.

FIGURE 11: FAMILY CORPORATE GOVERNANCE PATTERNS



1. Formal Family Council
2. Formal Family Meetings
3. Family Employment Policy
4. Family Protocol or Constitution
5. Family Mission or Vision Statement

- UAE
- Other Arab Countries
- Rest of the World

5.2 BUSINESS GOVERNANCE STRUCTURES

BOARD OF ADVISORS

The board of advisors is formed by a group of knowledgeable individuals who help and guide the activities of the family firm. Family firms in the UAE tend to look for support and advice outside the firm. In the UAE the percentage of family firms that declare having a board of advisors is high (37%) compared to family firms in other Arab countries (27%) and the rest of the world (26%).

FORMAL BOARD OF DIRECTORS

Less than half of UAE family firms have a formal board of directors (43%). This percentage is slightly higher than the family firms in the rest of the world (40%) and lower than the family firms in other Arab countries (55%). This result demonstrates certain lack of formality in family firms and the importance of having strong family leaders to coordinate and manage their firm.

BOARD COMPOSITION

In terms of board composition, in both the UAE and the rest of the world's sub-samples that have a board of directors, around 8% of the firms have a board of directors composed primarily by external directors. This percentage is higher for family firms in other Arab countries. Moreover, there are external boards of directors in only 22% of family firms in the UAE with a board of directors. While family firms in the rest of the world show similar percentages, in other Arab countries the percentage increases up to 29%. The low numbers of externals in the family firms' board of directors in all the sub-samples indicate that family firms around the world are reluctant to incorporate externals, non-family members, in their board of directors. This result confirms the tendency of UAE families to keep control of the firm.

“LESS THAN HALF OF UAE FAMILY FIRMS HAVE A FORMAL BOARD OF DIRECTORS. THIS RESULT DEMONSTRATES CERTAIN LACK OF FORMALITY IN FAMILY FIRMS AND THE IMPORTANCE OF HAVING STRONG FAMILY LEADERS TO COORDINATE AND MANAGE THEIR FIRM.”

5.2

“ONLY ONE-THIRD OF FAMILY FIRMS IN THE UAE HAVE A FORMAL SUCCESSION PROCESS. THE FAILURE TO ANTICIPATE THE SUCCESSION REFLECTS THE INFORMALITY CHARACTERISTIC OF THE FAMILY-BUSINESS RELATIONSHIP.”

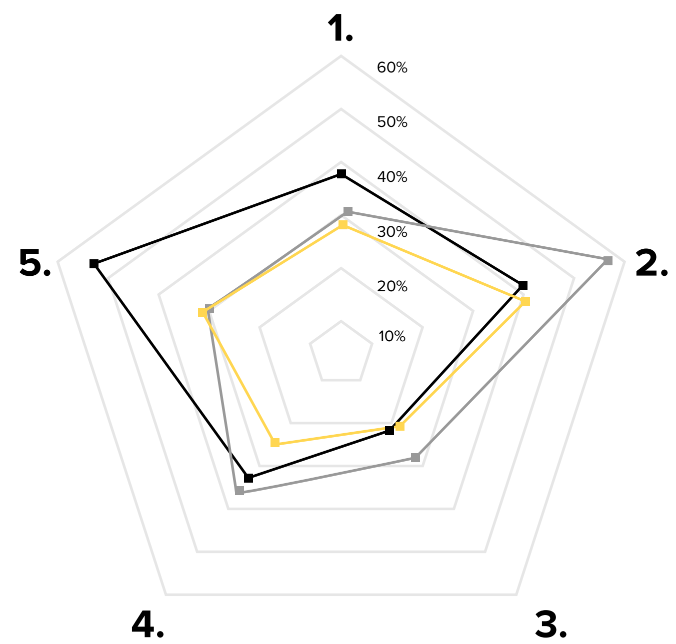
FORMAL SUCCESSION PROCESS

Although succession is the most important event of any family firm, we find that only a low fraction of family firms plan the succession process. Only one-third of family firms in the UAE and in the rest of the world have a formal succession process. This percentage increases for family firms in other Arab countries up to 37%. The failure to anticipate the succession reflects the informality characteristic of the family-business relationship in UAE family firms.

WOMEN ON THE BOARD OF DIRECTORS

UAE family firms' sample reflects the UAE's efforts to strengthen the role of women in society. Fifty-three percent of the surveyed family firms reported the presence of women on their board. This percentage is higher than the one reported by family firms in other Arab countries (29%) and the rest of the world (31%).

FIGURE 12: BUSINESS CORPRATE GOVERNANCE PATTERNS



UAE
Other Arab Countries
Rest of the World

1. Board of Advisors
2. Formal Board of Directors
3. External Directors on the Board
4. Formal Succession Process
5. Women on the Board

6. ENTREPRENEURIAL BEHAVIOR & INNOVATION

6. ENTREPRENEURIAL BEHAVIOR & INNOVATION

The culture that promotes entrepreneurial behavior and innovation hinges upon the active management of innovation. We analyze the entrepreneurial strategic behavior in family firms by considering three important characteristics that make them, to a certain extent, entrepreneurial organizations. Those characteristics are autonomy, innovativeness/proactiveness, and risk behavior.

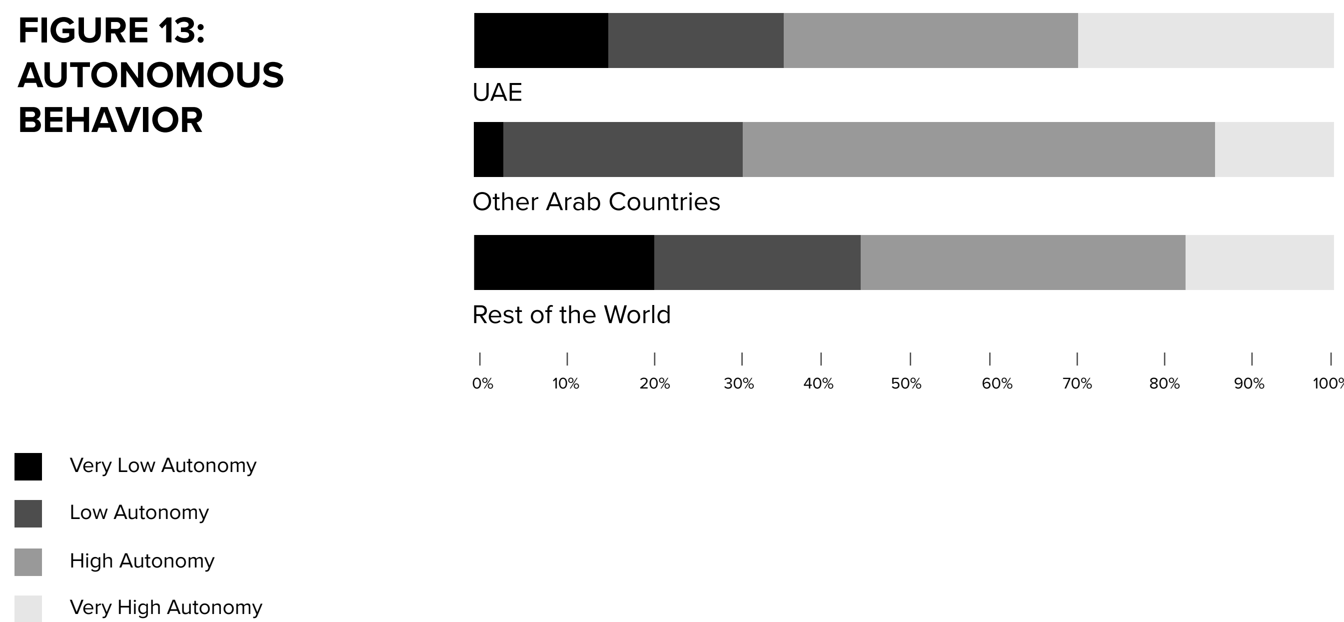
> "WHILE THE FOUNDERS OF THE FIRST UAE FAMILY FIRMS WERE A VERY ENTREPRENEURIAL GENERATION ACCOMPANYING THE RISK DEVELOPMENT OF THE COUNTRY ITSELF, THE SUBSEQUENT GENERATIONS ARE MORE CONCERNED WITH CONSOLIDATING AND PRESERVING THE ECONOMIC, SOCIAL, AND EMOTIONAL WEALTH CREATED BY THE PREVIOUS GENERATION."

6.1

AUTONOMY

Autonomy describes the ability to work independently, make decisions, and adopt a strategy to pursue a business concept and carry it through to completion. Our findings show that 64% of family firms in the UAE have a high level of autonomy, which is higher than the autonomy found in the rest of the world (56%), and lower than the percentage reported by family firms in other Arab countries (71%). This result could be related to the findings that show how family firms in the UAE are led by young CEOs who are more prone to establish less hierarchical structures and give more autonomy to the organization to overcome the competitive challenges.

FIGURE 13: AUTONOMOUS BEHAVIOR

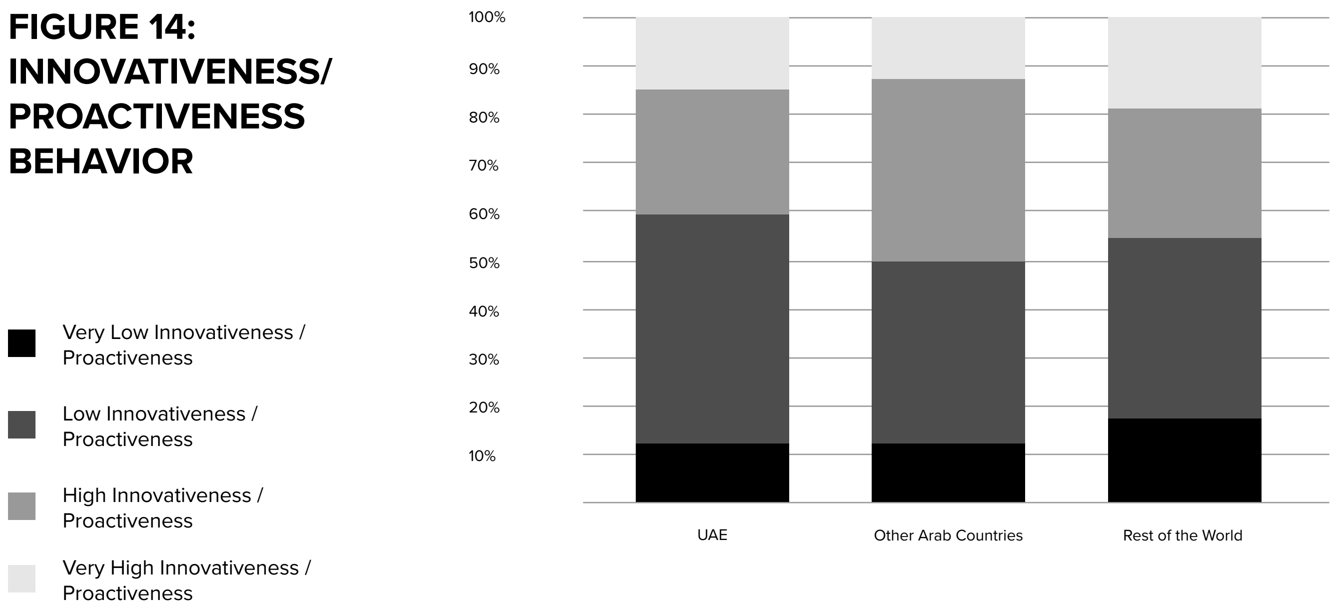


6.2

INNOVATIVENESS/ PROACTIVENESS

Innovativeness / proactiveness examines the levels of creativity and experimentation manifested through the introduction of new products and services as well as through opportunity-seeking behavior. Fewer than half of the UAE's family firms (40%) have attained high levels of innovativeness and proactiveness. These qualities are higher for family firms in other Arab countries (50%) and in the rest of the world (44%). Despite the differences among sub-samples, the evidence shows that family firms have lower levels of innovativeness and proactiveness, which may position them to act in a more conservative way strategically.

FIGURE 14: INNOVATIVENESS/ PROACTIVENESS BEHAVIOR

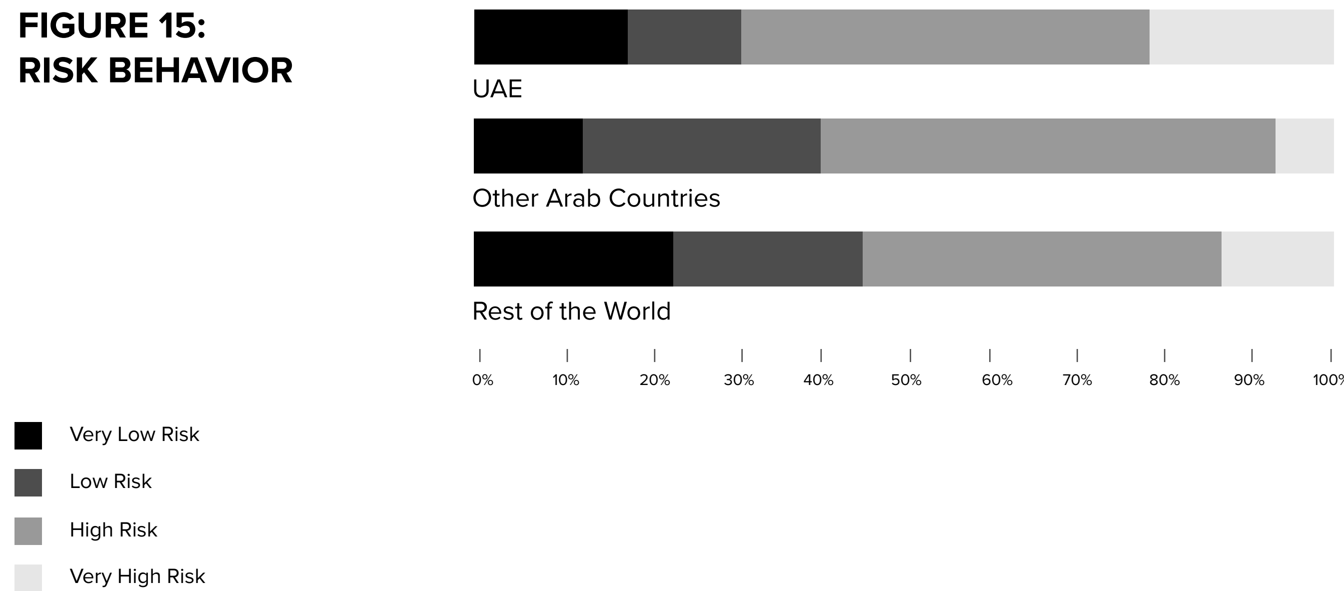


6.3

RISK BEHAVIOR

This dimension examines the willingness of family firms to take bold decisions by venturing and committing resources into unknown environments. UAE family firms have a high level of risk behavior, 70% of the UAE family firms report high (49%) or very high (21%) risk aversion. Whereas their counterparts' risk aversion in the Arab world and the rest of the world is lower (61% and 54% respectively). The high-level risk aversion for UAE family firms could be related to the fact that most of the firms are in the second or third generation. While the first generation was a very entrepreneurial one accompanying the risk development of the country itself, the subsequent generations are more concerned with consolidating and preserving the economic, social, and emotional wealth created by the previous generation.

FIGURE 15: RISK BEHAVIOR



7. SUCCESSION

7. SUCCESSION

In this section, we analyze how family firms prepare themselves for addressing the leadership succession. A succession plan, the most important tool in a family firm, determines who is going to take over the leadership and/or the ownership of the company when the current generation retires or dies, and prepares the future generation to assume the family and business leadership. In this regard, we focus on the following aspects: choosing criteria, preparation plan for leadership, and the importance of being a family member.

> "MORE THAN HALF OF FAMILY FIRMS IN THE UAE DO NOT PLAN THE TRANSFER OF THE BUSINESS LEADERSHIP TO THE NEXT FAMILY GENERATION. THE LACK OF PLANNING LEAVES FAMILY FIRMS AT RISK FOR NOT ADDRESSING THE COMPLEXITY THAT EMERGES DURING AND AFTER THE SUCCESSION EVENT THEREBY JEOPARDIZING FAMILY FIRM SURVIVAL."

7.1 SUCCESSOR SELECTION CRITERIA

BIRTH ORDER (OLDEST CHILD)

This criterion is mostly followed by family firms in the Arab world. While 17% of the family firms in the UAE and 18% in other Arab countries use this criterion, only 12% of family firms in the rest of the world identified it as an important criterion. These results are consistent with the culture in some Arab countries, where the oldest child inherits the legacy of his/her parents.

THE CHILD'S LEVEL OF INTEREST IN THE FIRM

In accordance with the UAE's encouragement for the youth to follow their passion, family firms in the UAE make the potential successors' level of interest in the firm one of their main criteria, with 45% of UAE family firms citing potential successor interest as the most important criterion. The importance of this criterion is similar for family firms in the rest of the world (54%). However, only 29% of family firms in other Arab countries seem to have selected this criterion.

MOST QUALIFIED

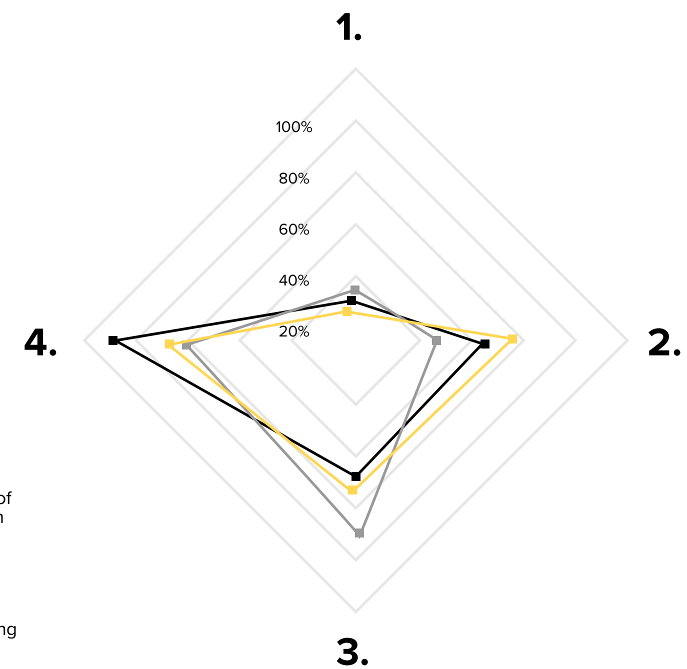
Our findings show that looking for the most qualified successor is the most important criterion for choosing the future CEO for all of our samples, with high percentages being 55% for family firms in UAE, 68% for the family firm in other Arab countries, and 59% for family firms in the rest of the world. Even though the percentage in the UAE is the lowest compared to the other two samples, it conveys the country's efforts towards enhancing the human capital youth.

7.1

IMPORTANCE OF BEING A FAMILY MEMBER

Family firms in the UAE manifest the importance of being a family member to be a successor. This condition is confirmed by 88% of our UAE sample. Being a family member is also important to family firms outside the UAE, but it is not as high as it is in the UAE, with 61% in other Arab countries and 63% in the rest of the world. These percentages confirm, again, the families' determination to maintain control over their businesses and over the managerial identity of their firms.

FIGURE 16: SUCCESSOR SELECTION CRITERIA



- UAE
- Other Arab Countries
- Rest of the World

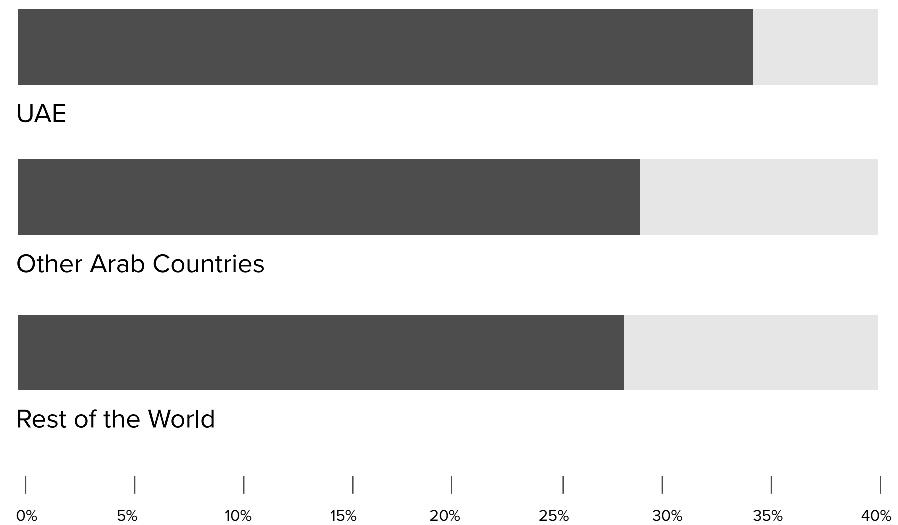
1. Birth Order (Oldest Child)
2. The Child's Level of Interest in the Firm
3. Most Qualified
4. Importance of Being a Family Member

7.2 LEADERSHIP PREPARATION PLAN

LEADERSHIP PREPARATION PLAN

Most family firms do not have any specific preparation plan for transferring the leadership of their business to the next family generation. A preparation plan for leadership is implemented in only 34% of the family firms in the UAE sample. The situation is similar to the other two sub-samples, with 29% in other Arab countries and 27% in the rest of the world. The lack of planning leaves family firms at risk for not addressing the complexity that emerges during and after the succession event thereby jeopardizing family firm survival.

FIGURE 17: FAMILY FIRMS HAVING LEADERSHIP PREPARATION PLAN



8. CONCERNS

In this part of our report, we focus on two kinds of family firm concerns: first, the family business concerns related to family issues –issues that the family has to face while trying to run the firm; and second the concerns of the business itself related to the firm's competitiveness.

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FAMILY FIRMS IN THE UAE HAVE TO ADAPT TO CONSTANT CHANGES IN THE MARKET AND BE FLEXIBLE IN TERMS OF THE VOLUMES OF PRODUCTS AND SERVICES TO BE DELIVERED. MOREOVER, IT IS NOT SOLELY BUSINESS MATTERS AS UAE FAMILY FIRMS TEND TO BALANCE THEIR BUSINESS DECISIONS WITH THEIR OWN VALUES AS A FAMILY.

”

8.1 FAMILY CONCERNS

INVESTMENT FOCUS

Many families have accumulated profits that have to be consumed, re-invested in the firm, or invested elsewhere. The decision regarding the type of investment to focus on seems to be an important concern for most business families, especially in the Arab world. Fifty-four percent of UAE family firms and 58% of their counterparts in other Arab countries are worried about their investment focus. This percentage decreases in the rest of the world by up to 42%.

PHILANTHROPY / CONTRIBUTION TO SOCIETY

UAE family firms display a level of concern about this issue at similarly low levels to those found in the rest of the world, with only around 20% indicating concern in both sets. However, slightly more family firms are worried about their contribution to society in other Arab countries, where the percentage increases to reach 24% of the firms.

FAMILY VALUES VS. BUSINESS VALUES

Almost half of the UAE family firms are concerned about the potential contradictions between their business values and their own values as a family (40%). This percentage is slightly higher in other Arab countries where it reaches 45%. However, fewer family firms in the rest of the world are worried about this possible contradiction, where only 31% show concern about it. These percentages can be traced back to the cultural characteristics of each sample, where values are usually directly linked to the local culture.

8.1

“

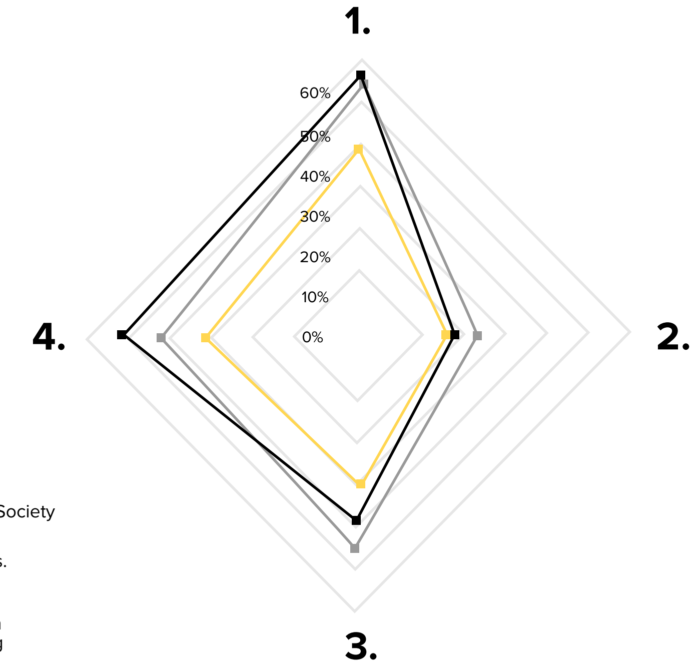
ALMOST HALF OF THE UAE FAMILY FIRMS ARE CONCERNED ABOUT THE POTENTIAL CONTRADICTIONS BETWEEN THEIR BUSINESS VALUES AND THEIR OWN VALUES AS A FAMILY. IT SHOWS THAT VALUES THAT ARE USUALLY DIRECTLY LINKED TO THE LOCAL CULTURE ARE AN IMPORTANT DETERMINANT OF FAMILY FIRM ECONOMIC ACTIVITIES.

”

THE ROLE OF FAMILY IN DECISION MAKING

UAE family firms have the highest level of concern regarding the role of the family in decision making, with 49% indicating concern. As we mentioned before, this can be justified by the families' tendency to keep control of the business. This issue is also a concern for family firms in other Arab countries (42%). Our findings also confirm that family firms in the rest of the world are less worried about keeping their control over the business, where only 33% are concerned about the role of the family in decision-making.

FIGURE 18: FAMILY CONCERNS



- UAE
- Other Arab Countries
- Rest of the World

1. Investment Focus
2. Philanthropy / Contribution to Society
3. Family Values vs. Business Values
4. Role of Family in Decision Making

8.2 FIRM CONCERNS

REMAINING PRIVATE VS. GOING PUBLIC

Becoming a public firm means that shares are freely traded on a stock exchange, which is a difficult decision and a serious concern for some family firms. This issue concerns 21% of UAE family firms, 16% of their counterparts in other Arab countries, and 12% of our sample in the rest of the world.

CONSOLIDATION/ DIVERSIFICATION

While consolidation means to keep focusing on gaining legitimacy and maintaining a competitive position in the current sector that the firm operates in, diversification refers to the intention of the firm to open new markets and expand its economic activities. The UAE family firms are the least worried about whether to go for consolidation or diversification with 37% indicating no concern about whether to consolidate or diversify in comparison to 47% in other Arab countries and 41% in the rest of the world.

EMPLOYMENT STRATEGIES

Our findings show that only 21% of family firms in the UAE are concerned about hiring a family or a non-family talent. This can be linked to their choosing criteria, which usually depends on choosing the most qualified successor. Family firms in the rest of the world and other Arab countries are more worried about employment strategy (25% and 34% respectively).

CHANGES IN THE MARKET

The rapid technological and social changes in the market create problems and challenges for family firms. The majority of family firms in the UAE, 66% of them, have reported that changes in their market are highly intense. Similar importance is given by family firms in the rest of the world (65%). However, market changes for family firms in other Arab countries seem to be even more intense (76%). Furthermore, family firms in our survey report that changes take place continuously in the market: 70% in the UAE, 84% in other Arab countries, and 68% in the rest of the world. This is also confirmed by our findings, which show that in a year, only a small number of our sample firms has reported that nothing has changed in their market.

PRODUCTS AND SERVICES TO BE DELIVERED

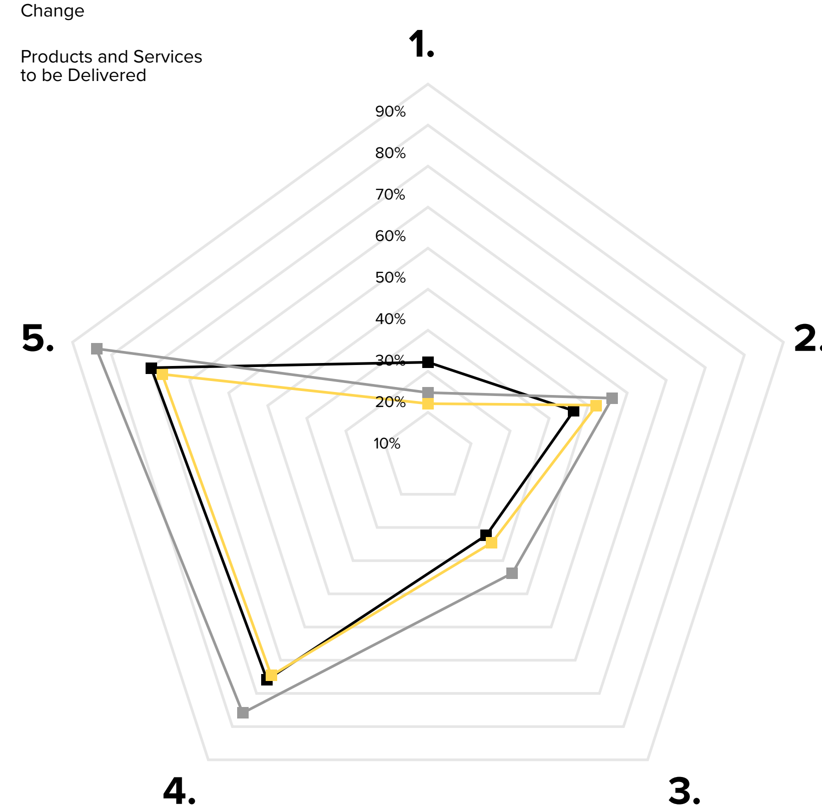
Compared to the other two samples, UAE family firms report that the volumes of products and services to be delivered change fast and often in 62% of the cases. This percentage drops to 53% in other Arab countries and to 47% in the rest of the world.

8.2

"THE RAPID TECHNOLOGICAL AND SOCIAL CHANGES IN THE MARKET CREATE NEW CHALLENGES FOR FAMILY FIRMS. THE MAJORITY OF FAMILY FIRMS IN THE UAE HAVE REPORTED THAT CHANGES IN THEIR MARKET ARE HIGHLY INTENSE."

FIGURE 19: FIRM CONCERN

1. Remaining Private vs. Going Public
2. Consolidation/ Diversification
3. Employment Strategies
4. Continuous Change
5. Products and Services to be Delivered



UAE
Other Arab Countries
Rest of the World

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