Building Family Business Resilience across the Gulf Region

As family firms across the Gulf Region continue to grow and as the busines environment continues to evolve, the urgency to implement corporate governance frameworks and best practices is ever more present. Research has demonstrated that family businesses that embed corporate governance measures as part of their family business DNA outperform their rivals; achieving superior returns, higher profitability and continued sustainability. Trends across the family business ecosystem in the Gulf Region identify a lack of corporate governance to be a key impediment to business continuity and success. This gives rise to other concerns that threaten the viability of the business, such as with succession planning and familial conflict.

Family firms constitute over 80 percent of regionally privately-owned businesses, and they need to better address if not pre-empt these challenges and equip themselves with effective contingency plans. A simply reactive approach may prove to be ineffective and potentially detrimental to the business.

Family businesses have a unique opportunity to equip themselves for long-term resilience through the implementation of governance mechanisms. These measures provide constructive solutions to family ownership challenges, especially when it comes to succeeding generations. The key finding, concerns and recommendations outlined below highlight a few strides that family-owned enterprises can take to mitigate long-term adverse effects to their business operations.

KEY FINDINGS & CONCERNS IDENTIFIED*

44% of family firms surveyed in the region have a board of advisors	Only **one half** of family firms surveyed have a formal board of directors	**52%** of family firms surveyed have formal family council meetings and **19%** of family businesses have a family protocol or constitution in place
21% of family firms base their choice of next generation leader on age and birth order	**88%** of family firms surveyed in the Gulf Region attach great importance to choosing a family member as a successor to the role of CEO	**54%** of respondents indicated that looking for the 'most qualified' successor is the most important criterion for choosing the future CEO
43% of respondents expressed concern about the contradiction or conflict that could arise between their business and family values	**21%** of respondents expressed concern about the benefits of going public (access for investment and growth) versus remaining privately-owned	**54%** of respondents indicated that investment decisions was a matter of concern for their family business

KEY RECOMMENDATIONS*

1. Governance requires **leadership and ownership by numerous stakeholders** and not necessarily one individual member or function of the family business.
2. Family businesses should be cautious not to implement blanket governance policies to their organisations as the mechanisms cannot be used as a "one-size-fits-all", but rather **tailored depending on the unique circumstances and fabric of the family business** itself.
3. Family firms should be **mindful that there are overarching macro-trends** influencing their firms that should be reflected in and shape their governance structures accordingly.
4. Even family firms that have a governance structure in place often do not **maximise the benefits and advantages** they can gain from it. Especially during a crisis, it is vital to think about whether the business is using its defined governance mechanisms to their full extent by addressing and **engaging its board** and other key stakeholders.
5. The family patriarch should take the initiative to **pre-emptively restructure the business with the view of avoiding disputes** and disruptions when the business is transferred to the next generation.
6. **Timely estate planning is needed for the long-term continuity** and sustainability of the family business and family capital in all its forms (financial human, social and intellectual), keeping in mind the nature and location of assets and the various laws and regulations governing them.
7. It is important to **establish a family charter or a 'partnership agreement'**, outlining the roles, responsibilities and duties of each member - this charter is binding amongst its signatories. Additionally, this will paper legacy data and information that will be used to guide conflicts and hurdles that future generations may face in dealing with the business. Establishing this charter requires teamwork, leadership and communication.
8. **Having qualified management in place** will not only allow the business to transition seamlessly to the next generation, but also allow the business to thrive and grow.
9. Family firms should **comply with and implement corporate governance and ethical practices** within their business. Through this, some points of conflict will inherently be addressed – such as a successor being chosen based on merit and capabilities instead of familial hierarchy.

If you're interested in learning more about how the global pandemic is affecting regional family businesses, please view our webinar series here.
If you're interested in reading the full report on the Family Business Ecosystem in the UAE, click here.
To learn more about the Pearl Initiative, visit us at www.pearlinitiative.org or contact us at enquiries@pearlinitiative.org.

**The key findings were gathered as part of a survey conducted by the Pearl Initiative in partnership with the AUS Family Business Chair & STEP. Globally, over 1,800 family businesses took part in the survey. The recommendations have been gathered based on the session outcomes from webinars held as part of the Governance in Family Firms programme.*

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