The GCC Governance Code

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Governance Guidelines for Family Businesses

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مجلــس الشركــات
العائليــة الخليجيــة
FAMILY BUSINESS COUNCIL-GULF
Member of FBN عضو في

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Governance Guidelines for Family Businesses

Edition 1

This is the first edition of The GCC Governance Code, the document will be reviewed and improved periodically. For feedback and input please get in touch with the Family Business Council via email info@fbc-gulf.org

مجلس الشركات العائلية الخليجية
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CHAIRMAN'S MESSAGE

The Family Business Council is steered and led by a group of GCC family businesses that collectively embarked upon a mission to support the greater community of GCC family businesses in their pursuit of continuity and excellence.

As GCC family businesses we are very proud of our past. Our great grandfathers had to work hard in a land without water and resources to establish the building blocks for today's giant family businesses, which make the backbone of the GCC economy. This pride fuels us to continue this journey. We feel responsible to take the best care of our family businesses and to pass them on to our children in better shape than when we received them.

As families grow in numbers and their businesses expand in scope and reach, both dynamics become more complex and we face major risks and challenges in maintaining direction and unity. Hence, it becomes imperative to set policies and measures to enforce our values and remind us about our purpose.

To equip family businesses in this development, we have formulated a GCC Family Business Governance Code that codifies a set of best practices in family business governance. We have taken best practices from across the world and applied our local GCC wisdom to create a governance code specific for our region. While each family may have different visions and goals, the GCC Governance Code, just like the astrolabe, can serve as a common compass to help family businesses navigate through their own process and reach their true north.

Sincerely,

Abdul Aziz Abdulla Al Ghurair
Chairman, Family Business Council – Gulf (FBCG)

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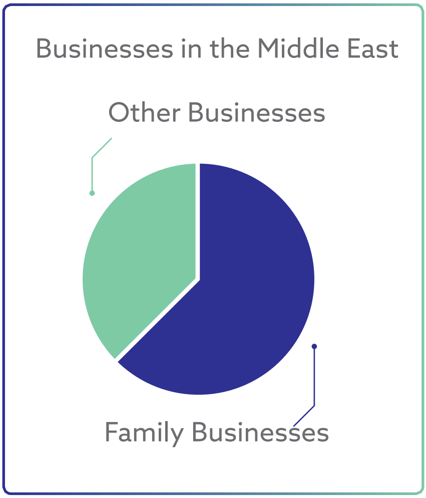
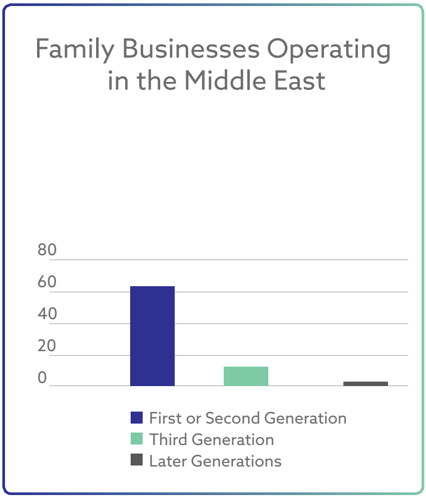
INTRODUCTION

It is well known that many private businesses in the Arab Gulf are family owned and these businesses contribute significantly towards the economy of their respective countries. Many of these family owned businesses are relatively young in age, i.e. between 40-60 years of operation, approaching the critical stage of succession planning or transition from one generation to another.

It is estimated that US$ 1 trillion of assets are to be transferred to the third generation during the next decade.[1] However, what is not common knowledge is that only approximately 30% of all family businesses make it to the second generation with even fewer making it to the third and fourth generation (some estimates are as low as 12% and 3%, respectively).[2]



Source: World Economic Forum on the Middle East and North Africa, 2013



Source: Family Business Institute

Furthermore, in the Arabian Gulf there is a unique dynamic at play. GCC family businesses are predominantly run by very large families, which presents complexities typical of family businesses in their third and fourth generation cycles, at an earlier stage in their evolution. The likelihood of conflict and disputes increases with more family members who may have different views about the management

1 World Economic Forum on the Middle East and North Africa, 2013, Session titled "Family Businesses as an Engine for Growth"
2 Family Business Institute

of the family business, such as its future direction, investment decisions, and who is capable of running the company. There may also be contrasting views on the individuals that should take the other leadership and management positions available to family members in the company.

A large family also puts significant pressure on the family business to grow exponentially in order to maintain the same level of wealth for each family member across generations. A study estimates that the typical GCC family business must grow at a rate of 18% year-on-year to maintain the same level of wealth. In the GCC, this is compounded by the fact that there is a greater overlap between the "family" and "business". Therefore the likelihood that decisions strictly related to the management of the business may be rooted in overlapping objectives such as impact on personal wealth, emotional attachment to businesses and assets, or personal employment opportunities.

Setting governance structures, in the form of rules, policies, and procedures is the key solution to managing the growing complexity of family businesses in the region. Effective governance provides solutions for the challenges that family businesses may encounter.

The purpose and goal of governance is to ensure the achievement of the overall vision and objectives of both the family and the business, hence increasing the degree of economical and emotional success. Governance mechanisms enable and regulate this goal through creating organised accountability and alignment among the different interests of the owners.

Governance not only brings transparency, accountability, and professionalisation; the process of building governance can help create family harmony and unity in the long-term.

The GCC Governance Code has been drafted to offer the needed guidance for family businesses in the GCC and to provide guidelines that can assist a family business in avoiding the risks and hurdles that may lie along the path ahead.

Merely having the listed structures and policies in place does not always guarantee good governance practices, as achieving a positive impact through governance requires an efficient implementation of the structures and policies adopted. To ensure this, the undertaking of governance should stem from the family members' belief in its importance. Such belief is crucial to ensure the respect of policies and procedures and their proper implementation. Belief, respect and proper integration are essential elements in this regard.

Governance comes in the form of a strategy, and this strategy must be continuously updated and adjusted to the extent the family business requires. It is not an exercise that takes place and ceases upon its completion, but an ongoing operation that evolves with the business and adapts to its needs.

This Governance Code Guide covers different aspects that a family business should have a clear strategy towards. This Governance Code Guide encompasses:

1. Family Governance;
2. Ownership Governance;
3. Corporate Governance;
4. Wealth Governance, and
5. Public Engagement

Not all family businesses need to fully consider all five aspects. Each family should prioritise these components based on the challenges currently faced; and those it expects to face in the future.

The Governance Code is distributed as a handbook and includes a checklist at the end for family business' reference and ease of use. The checklist comprises a number of steps pertaining to each specific type of governance that we suggest taking to achieve an adequate governance system.

This Governance Code is drafted in a clear, easy to read, user-friendly format. The guidelines provided in the handbook take into consideration the specifics of family businesses and are general and flexible to respond to the heterogeneity of family enterprises.

FAMILY GOVERNANCE

i. Family Governance: Overview

What is Family Governance?

Family governance is a system that enables joint decision-making and governs the relationship of family owners with the family business and wealth. The system includes frameworks that encourage effective family meetings and communication. It also encourages families to develop policies inspired by a family vision and important family values.

What purpose does family governance serve?

Family businesses state that structure is extremely helpful when it comes time to discuss sensitive issues, such as ownership shares, rights and responsibilities, the competence of family-member managers, and agreeing on a strategy that is best for both the business and the family.[3]

Family governance offers this required structure; it fosters addressing sensitive family issues early on and clarifies the relevant policies and rules the family wishes to adhere to. Hence, it protects the business from arbitrary rules that can be taken by family members with desire for power, preserving the stability required to focus on the business' performance and growth.

ii. Governance Foundation

Family governance is based on three elements: Vision, Values and Goals. When setting the strategy for how control is distributed and managed by the family members, the business must start by looking into the aforementioned elements.

Vision

When undertaking family governance, a family business should begin by discussing and agreeing on what its vision for the family is, i.e. what overall state it would like the family to achieve in the future. Understanding what the family business means to the family and

3 PWC Governance, http://www.pwc.com/gx/en/services/family-business/governance.html

how the family would like to benefit from it is essential to understand the family's vision. Once the family's vision has been identified, it is crucial that families must hold on to this vision.

Some of the questions a family business may ask itself regarding its vision for the family include:

- What exactly is our vision? And what is the core of it?
- How does giving control to a certain family member affect our vision?

Values

Family values are the underlying beliefs and ambitions of the family members involved in the business. Values can touch upon different areas; examples include business approach, stakeholder dealing, family ethics, and family governance policies.[4]

Values must be shared, communicated, and instilled, by family business members and reflected in business governance and policies. Having a consistent perception of family values is essential and a matter that must be maintained across generations throughout the lifetime of the business to ensure harmony. While some values can evolve over time, it is recommended to preserve a constant family legacy identifiable to all stakeholders.

Some of the relevant questions that a family needs to address in this regard include:

- What values make us strong and united as a family?
- What is one value we want all our next generation to embody?

Goals

Setting out the goals that the family shall work towards achieving and ensuring that such goals are aligned is important for cohesion purposes and for the business to continue growing in synergy.[5]

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4 Fostering family value(s) Managing culture and behaviour in the family business. PWC, 2012 https://www.pwc.com/gx/en/family-business-services/publications/assets/pwc-fostering-family-value-2012.pdf
5 A. Koeberle-Schmid, D. Kenyon-Rouvinez, E. Poza, Governance in Family Enterprises – Maximizing Economic and Emotional Success (2014).

A family should ask itself here:

- What is the family business aiming towards? What are its goals? And what is it trying to achieve?
- What are the family's expectations for the business?
- How equipped and ready is the following generation to achieve the goals of the business?

Important Note:
Don't unilaterally hire an external advisor to draft the vision, values, and goals document, without seeking advice of any family member. This can alienate many and represent a bad start to the venture. Involve family members and capitalise on the process of building family governance rules to create family harmony and unity in the long-term.

Practical Illustration

Values Goals Vision

Family members should be highly involved in developing the vision, values, and goals. Each family can choose a format that best suits their family dynamic. But in all cases, follow a collaborative process to ensure the end result is relevant, and to secure future alignment of all family members.

How

- Discussions can take the form of meetings, brainstorming sessions, family retreats etc.
- Follow a seating format that encourages two way dialogue between participants.
- Choose a relaxed setting that is away from daily distractions.

Who

- Select an effective approach to call for the meeting.
- Send an official invite to family members.
- Select the right person to drive and lead the discussion. Consider a family member and/or a trusted external advisor or facilitator. While some resort to hiring facilitators to lead the meeting, the discussion should happen between all or selected family members.
- Involve the next generation in the discussion to receive their input and secure long-term sustainability of the values. This is also a great way to heighten the involvement of the next generation in the business.

iii. Family Communication

Communication is important for any business to attain success, but is key for family businesses in particular. Effective communication is the basis for good family governance that can allow the family to develop a family strategy and foster family unity and trust amongst its members.

Through communication, family members can deal in advance with subjects that are likely to raise potential conflicts. This element is often neglected, but should be paid attention to by any family business that aims at staying in operation for the generations to follow. While honest communication may seem like a challenge between shareholders from different generations, family members should exercise their best efforts to overcome this.

Family members must develop a sincere commitment towards communication and this can be done through a number of different methods. In this regard, a family business needs to try to achieve the following communication goals:

- **Role Definition:** Develop a clear definition of the roles and expectations of members involved in the family and the business.
- **Update and Reporting:** Keep all family members informed through regular reports covering the progress of the family and the business; what they have achieved, what challenges they face, and the overall direction in which they are heading.
- **Transparency and flexibility:** Keep the approach towards communication flexible, encourage transparency and try to be open to new ideas, differing opinions and constructive criticism.
- **Address Difficult Conversations:** Practice having the difficult conversation, it is good to develop a habit to address common issues of concern early on to mitigate conflict.[6]
- **Creative Delivery:** Explore and make benefit of creative communication modes, e.g. family intranets and online groups that capitalise on technologies highly adopted by family members.

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6 Dr. Joseph Astrachan, Business Families Foundation, https://businessfamilies.org/en/education/p-embracing-difficult-conversations-as-a-business-family/

How can a family business reach effective communication?

Effective communication can be achieved through a number of methods, such as:

- **Family Meetings:** Through holding of regular family meetings and setting clear rules for such meetings in terms of frequency, attendance, structure. etc. Some suggested formats will be presented later as part of the governing bodies section. The subject of the meeting may differ depending on what each business is in need of discussing and sharing, and can cover different aspects of the business itself or revolve around the governance journey of the family.
- **Family Groups:** Where family members or personnel are assigned to look after a particular family interest or activity. Such formats are applicable and useful as the number of family members grows and the family branches out. This type of model is useful as it involves family members and allows for their input and contribution in shaping the business and/or family dynamics. Example groups can be: Next Generation Group, Social Activities Group, Family Content Group.

iv. Governing Policies and Bodies:

1. Governing Policies

Family Charter/ Constitution

It is crucial for families in business to consider drafting and implementing a family charter/ constitution.

What is a family charter?

A family charter is a document that clearly states the family vision, mission, values, and policies regulating family members' relationships with the business. It is important to communicate and discuss the charter with the family constantly.

What is the function of a family charter?

A family charter enables present and future shareholders of the family business to understand the main elements of the family and the business, rights and obligations, entitlements, rules, etc.

It sets out the guidelines governing the relationship of family members, shareholders and managers between each other and towards the business. It identifies who can be an owner and sets out eligibility criteria for individuals controlling the business.

The family charter is not a legally binding document with regards to the issues it covers, however it can be supported and implemented to the extent possible through other legal documents such as a memorandum of association, to support the family's intentions as highlighted in the family charter.[7]

What does the family charter cover?

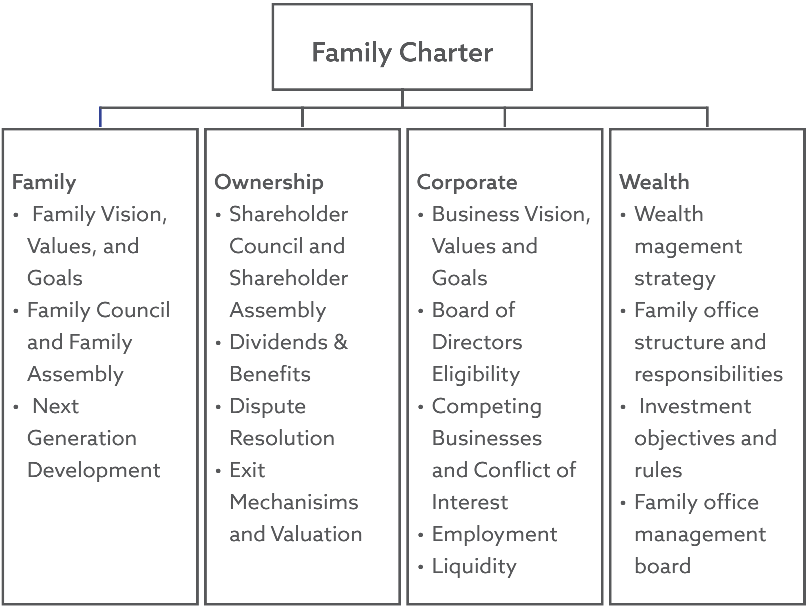
A family charter can be comprehensive and can address all issues under family governance, ownership governance, and corporate governance and wealth governance. It starts with the basic rules and grows, as more family policies are developed to meet the growing needs of the family.

Hence, the contents of the family charter would differ from one family business to another and would depend on the needs of the family business and what it would like to include in this instrument.

7 A. Koeberle-Schmid, D. Kenyon-Rouvinez, E. Poza, Governance in Family Enterprises – Maximizing Economic and Emotional Success (2014).

Illustration Diagram

Family Charter Structure



Discussion and revision of the charter

Once the family charter is drafted and implemented, it should be discussed and communicated with the family members clearly and periodically.

The family charter should also be subject to periodic reviews and should be revised regularly. This is because the family charter is based on elements that can often change, and as such should aim to reflect the true state of the business and the developing vision of the family.

2. Governing Bodies

Depending on the family, its size, objectives and vision, the following governing forums may be considered.

(A) Family Assembly

What is a family assembly?

A family assembly is a meeting that usually takes place annually to which all family members are invited. A family assembly is the highest governing authority of the family.

What is the function of the family assembly?

The family assembly is a vehicle for communication and renewal of family ties amongst the family members. At family assemblies, various subjects are discussed, e.g. family activities, important events, future plans, etc.

By inviting all adult members of the family, the family assembly provides a unique advantage in that it enables all members to be up to date with the activities of the family.

(B) Family Council

What is a family council?

A family council is a governing body comprising a limited number of family members. It represents and acts on behalf of the large family assembly to coordinate family activities and convene family assemblies. To the family assembly, a family council is what a board of directors is to a company. Ideally, each family branch should be represented in the family council.

What is the function of the family council?

The family council's main function is to serve the family. For this purpose, family councils promote interaction, communication and provide a sole platform for the resolution of family conflicts. Tasks of the family council include:

- Developing and implementing the family charter.
- Organising and convening meetings of the family assembly.
- Identifying board members and committee members.
- Overseeing family funds allocated to family services.
- Reviewing and updating family policies.

The responsibilities of the council should be clear and agreed upon from the very beginning for it to operate effectively.

The composition of the family council, its duties, authorities and decision making procedures, eligibility, voting etc. are all matters that are regulated by what is agreed upon and set out in the family charter.

How often should the family council meet?

Meetings of the family council should be periodical. Some choose to convene at the end of every quarter, while others meet biannually. There are no fixed rules as to when a family council meeting should take place, or the regularity of the meetings, and this is left to the discretion of each family and its requirements.

Illustration Table

Major Differences between the Family Assembly and Family Council

Area of Comparison	Family Assembly	Family Council
Membership	Usually open to all family members. Additional membership criteria might be set by the family.	Limited to a specific number of family members elected by the family assembly.
Size	Depends on the size of the family and membership criteria.	Depends on criteria set up for the membership. Ideally 5 - 9 members, to be able carry out its responsibilities.
Number of Meetings	Ideally, 1 - 2 times per year.	Ideally, 2 - 6 times per year.
Main Responsibilities	• Discussion and communication of ideas, disagreements, and vision. • Education of family members on business issues. • Approval of major family related policies and procedures. • Election of family council and other committees' members.	• Family charter. • Development of the major family related policies and procedures. • Planning. • Conflict resolution. • Coordination of the work with the management and the board and balancing the business and the family.

Source: Family Business Governance Handbook, IFC, 2011

(C) Committees

The family council can be assisted by some specialised committees, such as:

- Family Education and Development Committee
- Family Philanthropy Committee

Revision of the committees' roles and the creation of committees are both responsibilities of the family assembly. The set up of such committees can enable the family council to exercise its function with ease and efficiency. Committees are usually made up from members with specific expertise. As a result, they can save family businesses a good deal of time and effort and allow them to have bodies with the necessary experience to look into matters of importance to them.

v. Family Policies and Conflict Resolution

1. Family Policies

Setting a clear policy that showcases the family standing on matters of importance to the family, such as family employment (an example on which can be found below), education, exit of family members, participation in competing businesses, loan policy, etc. and determines the processes pertaining to them is an important step that can be beneficial to the family on many different levels. A step like this can help provide family members with a clear understanding on such topics and can, accordingly, mitigate the risk of conflict between family members.

For instance, it is important that families give consideration to a communication policy. This policy presents a clear set of rules that govern the communication between family members, and can therefore help in dealing with reluctance and encourage healthy continuous communication between family members.

Another example is setting a family employment policy to state the formal, written processes and conditions under which all family members enter and exit the business. A family employment policy helps family businesses make family hiring decisions that strategically align with the company's goals and strategies. It removes any ambiguity. Moreover, it clarifies for family members and non-family constituents (employees, customers, lenders, vendors, board of advisors, etc.) why the family member is working in the business and what he or she is doing to make a valuable and genuine contribution.

Example

A snapshot of provisions from a family employment policy

1. Family members are subject to the same performance review as non-family members.
2. As a general principle, family members will be supervised by non-family members.
3. Family members under the age of 30 are eligible for temporary employment. This temporary employment can be pre or post-college graduation. Under no circumstances will the length of one unit of temporary employment exceed one calendar year. (See #6 for conditions of permanent employment.)
4. No family member may be employed in a permanent, entry-level position (defined as a position that requires no previous experience or training.)
5. Compensation will be at "Fair Market Value" for the positon held.
6. Family members seeking permanent employment must have at least 5 years work experience outside the company. One of those jobs must have been at least 3 years with the same employer, during which time there would have been at least two promotions or similar evidence of rising levels of competence, increased responsibility and trust. It is our view that, if a family member Is not a valued employee else where, then it is likely the family member will be neither happy not useful to The Company.

Source: Aspen Family Business Group

2. Conflict Resolution

In the case of family businesses, disputes may arise either between members of the family due to reasons relating to personal expectations, or between the company and the family due to conflict between family interests and corporate needs. For example, a conflict may arise where the business has the potential to grow rapidly but the family is unwilling to facilitate and finance such growth. Early and regular communication enforces transparency and trust, both are important in risk mitigation.

In addition to mitigation, a prior discussion on the strategy and means of conflict resolution that the family business will follow in the case of any future conflicts is recommended, as it speeds up and simplifies the process of resolving the conflict. The best solution for any conflict would ideally be for the family business to try to resolve it internally and amicably whenever possible. In addition to that, family businesses should also be open to the idea of resorting to other means of conflict resolution, such as constituting a conflict resolution committee within the family or even bringing in external experts to act as mediators.

vi. Family Members

Talent in relation to the business may be hard-wired into some members of the family, including the younger generation. However, an important question for family businesses to address is whether all family members should be given a role to play in the running of the business or if the role of some members should be limited solely to owning a stake in the business. Some family members may not have the expertise, knowledge, aptitude, or motivation necessary to run the business, while others may not be interested in taking part at the start of their careers.

Another matter of relevance that may require discussion is the basis on which such roles are assigned: is there a specific set of qualifications that entitles a family member to seek involvement? Or is this left to the mere discretion of the founders or one of the businesses bodies?

1. The Next Generation

Creating a genuine link between the next generation and the family business where a proper introduction and integration takes place is imperative to ensure the continuity of operations. The below steps represent some important considerations for family businesses.

(A) Development Plan

Preparing the next generation is a journey rather than an event. It can start at a young age when parents model the family's values relating to money, and grow to a full program later on which sets out a development plan for the next generation. Such a plan could include taking a number of courses, working on different projects, working in an internship or summer job and engaging in family philanthropic work. This can ensure that the next generation is adequately equipped with family business management knowledge as well as sector specific knowledge.

Practical Illustration

Techniques for Developing Next-Generation Leaders[8]

- Ensure next-generation leaders have job assignments with real responsibility, accountability and risk either inside or outside the family business: Next-generation leaders need opportunities to make complex decisions and experience the results of those decisions.
- Provide accurate feedback on performance, often from trusted non-family leaders in the business: Next-generation leaders benefit from knowing how others perceive their leadership behavior in order to learn the emotional and so- cial intelligence competencies that account for more than 85 percent of a top leader's performance.
- Create a positive and supportive family climate: Families that work hard to foster open communication, establish effective conflict resolution and governance processes, and create an overall positive family culture enhance the chances that next-generation family members will develop effective leader- ship skills.
- Start early: Learning leadership skills takes time, so wise family business owners encourage next-generation family members to gain leadership experience through activities in which they are personally interested at school and early in their careers.

(B) Integration in the Family Business

Ownership alone doesn't guarantee that the next generation will build the required bond with the family business. This bond, called "Emotional Ownership" by one family business expert, tends to take shape along three axes: the firm, the family and the individual. These axes are distinct yet interdependent. There are three main components that promote and foster Emotional Ownership:

8 Stephen P Miller, Developing Next-Generation Leaders in Family Business, The Family Business Consulting Group, http://www.thefbcg.com/developing-next-generation-leaders-in-family-business/

- Support structures that encourage informal and engaging communication and activities that strengthen the relationship amongst family members and between the family and the business.
- Clear business policies that are inclusive and non-preferential
- Personal work involvement.

Practical Illustration

How to engage the next generation in the business[9]

The following are some examples of activities to engage the next generation and grow their sense of belonging to the business

- **To nurture family pride and values** - Arrange company site visits and create opportunities for the next generation to have work experience in the family business, from a relatively young age. In the very early years, work experience can include simple tasks to provide visible exposure to the business but in later years it is best to devise targeted projects that involve real development tasks.
- **Organise social and educational activities** - For example, organise next generation workshops that revolve around topics such as personality, entrepreneurship, negotiation or financial know-how.
- Help the next generation set up a **philanthropic program** - This will strengthen professional skills such as teamwork, strategic planning, project management and managing finances.
- Encourage the next generation to **get involved in business activities** - For example, establish an entrepreneurship fund where the next generation can apply for grants or loans to start up their own business, possibly drawing upon expertise from within the business.

9 Åsa Björnberg, Nigel Nicholson, Emotional Ownership The Critical Pathway Between the Next Generation and the Family Firm, Institute for Family Business, London business school, 2008

(C) Family Members Performance

Competency of family members is a key factor that must be taken into consideration when issuing decisions as part of the family business governance strategy. An issue that this may entail is how family members who do not perform well are dealt with and how it may be necessary for such members to leave their positions in some instances, if the circumstances so require.

2. Women in the Business

Women Added Value

Women tend to hold various roles in family businesses, some of which are recognised and visible, and others that are more quietly performed; from leading the business, to raising the next generation of leaders, and maintaining harmony in the family business.

According to a GCC study, women's roles in family businesses tend to exist in two spheres: core business activities, such as management and corporate governance, and enabling business activities, such as promoting family values and preparing the next generation to join the business.[10]

10 Fadi Majdalani, Ramy Sfeir, Patrick Nader, Dr. Basmah M. Omair; Leveraging an untapped talent pool: How to advance women›s role in GCC family businesses, Strategy &, 2014

Statistic

Roles that women play in GCC family businesses

Core Business Activities		Enabling Business Activities	
Contributor to daily business operations	**Enforcer of corporate governance**	**Promoter of family culture and values**	**Paragons of philanthropy**
35 percent of interviews believe that a significant increase will occur in women's employment in their family businesses	According to the Pearl Initiative, 32 percent of family-owned firms in the GCC have mixed-gender boards (based on interview with representatives from more than 100 family-owned firms)	55 percent of interviewees believe that there will be a significant increase in women's role in developing a family's culture and disseminating its values	50 percent of interviewees mentioned that women are leading their families' philanthropic activities

Source Leveraging an untapped talent pool Strategy& (Formerly Booz & Company), 2014

Whilst there are many advantages available to family businesses by increasing the percentage of female family members in the business, gender parity still remains an issue in the world and the GCC region in particular. The cause of this gender parity is less associated with having the proper education and is more affected by what comes subsequent to that; the numbers of women enrolling in university courses is usually the same, if not higher than that of men, but when it comes to participation in the workforce, those numbers drop sharply and fall behind those of the male population.

Women Participation

Sound governance stems from the people within the systems that govern; it is important to ensure an inclusive family business environment that enables the participation of women in the family business.

As a first step, family businesses need to open the doors and clarify the rules of female participation in the business. The same question presented earlier regarding who is entitled to participate in the business can apply to females of the next generation. It is also required to clarify the rules for women's spouses, relatives or even in-laws. Some families encourage the employment of such individuals, whereas other families prefer to restrict spouses and in-laws from interfering in the business to avoid conflicts.

Supporting women to develop an official, positive role in the family business is a valuable action that family business can benefit from on many different levels both in the short and long term. International studies have shown that having a gender-balanced board can lead to better corporate social performance and improved business outcomes in various areas such as risk management, reputation, recruitment and retention. Companies that have more women in leadership positions have a higher focus on corporate governance, corporate responsibility, talent dynamics and market acuity.[11]

In addition, governance rules should be developed to support and enable the integration of women in the business and the appointment of excelling women in leadership positions in the business. One example would be to develop women employment policies that consider their family responsibilities as a care-giver, but also support their specific career development needs.

The GCC region is filled with ambitious women, but this ambition on its own cannot produce results. Family businesses need to identify such women within their families and take the necessary actions to try to promote a more gender-balanced ownership and management.

11 Women in leadership: the family business advantage, E&Y, 2015

Practical Illustration

Example actions family businesses can undertake to promote women involvement:

- Acknowledging the importance of establishing gender parity.
- Acknowledging the necessity of integrating women in the business and setting relevant policies to achieve that.
- Building career paths for female members of the family from a young age.
- Investing in the development of talented female members and offering them valuable mentorships.
- Adopting HR policies that are conducive to women needs and lifestyle patterns, including policies on recruitment, personal development, promotions and pay.
- Adopting the same board eligibility requirements and criteria for both females and males.

OWNERSHIP GOVERNANCE

i. Legal Structure

It is important for each business to create a structure that isolates risks arising from a problem for one business spilling over to another. It is also essential to have a structure that minimises dependence on unlimited personal guarantees and facilitates future expansions. Accordingly, family businesses need to review their current legal structure and perhaps, based on their findings and future vision for the business, consider the need for restructuring.

There are several elements to consider when selecting the proper legal structure. Questions that need to be addressed in this regard include:

- Does our legal structure satisfy our objectives?
- How can the eligible owners hold their shares/ equity? Individually or through entities established for this purpose?
- Is there a ceiling on the maximum number of owners?
- Is there a need to consolidate the business under a holding structure?
- In the case of holding companies, who owns shares in the holding company? And who owns shares in the companies underneath it?

ii. Governing Policies and Bodies

1. Governing Policies

Shareholder Agreements

What is a shareholder agreement?

A shareholder agreement is a legal document that summarizes the will of the shareholders of the business, defines how the business should be operated and sets out shareholders' rights and obligations. Additionally, a shareholder agreement regulates shareholders relationships, ownership and privileges, protection of shareholders and management of the business.

What does a shareholder agreement address?

- Shareholders rights and obligations
- Purchase rights and pre-emption right
- Management and operation
- Dispute resolution
- Voting rights
- Exit mechanisms (including valuation)
- Conflict of interest and competition
- Proxy regulations

A shareholder agreement may also comprise of any other terms that the shareholders deem necessary to include.

2. Governing Bodies

The setup of governing bodies is an essential process that a family business must undertake to create a robust governance framework. While bodies such as the family council and family assembly comprise family members in charge of family affairs, targeted at achieving family goals, bodies such as the shareholder council and shareholder assembly comprise family members in their capacity as owners of the business and look into affairs of the business itself. The main governing bodies in this regard are:

(A) Shareholder Council

A shareholder council is comprised of a small number of shareholders, and is established to represent family members with regard to a number of respective business matters and in dealings with the board of directors. It acts as a family board which oversees the board of directors and communicates family priorities and concerns.

A shareholder council may have the following powers:

- Enforcing family policies that relate to the business.
- Overseeing and facilitating the transfer and exchange of shares between shareholders.
- Exercising proxy voting rights for family members.
- Electing members of the Board of Directors, evaluating their performance and approving their compensation.

- Approving any amendments to the articles of association or shareholder agreement.
- Approving annual business valuations.
- Appointing auditors.
- Approving performance and financial statements.

Important Note:
Caution should be given to separating the Board of Directors from the Shareholder Council, given the forum for resolving family issues or related matters, needs to be a family forum which does not involve external management or directors, and does not expose them unnecessarily to issues and concerns within the family circle. Family bodies should deliberate and communicate outcomes to external directors and management but external parties should not be involved in family issues except where this is unavoidable.

(B) Shareholder Assembly

A shareholder assembly includes all shareholders who own a stake in the business. It serves as a forum for communication and plays a role in decision-making on significant business matters.
A shareholder assembly enjoys a number of powers, such as:

- Choosing and electing members of the shareholder council.
- Voting on matters presented by the shareholder council.
- Voting on any conflicts of interest that relate to the shareholder council.
- Dissolving the shareholder council.

CORPORATE GOVERNANCE

i. The Family and Business

Defining the relationship between the family and the business is an essential step that family businesses must take. Questions that a family business can raise to help in this regard include:[12]

- What can the family expect from the business?
- What can the business expect from the family?
- What are the strategic expectations and financial principles?
- What is the risk tolerance level?

ii. Corporate Governance: Overview

What is Corporate Governance?

Corporate governance is a system by which business corporations are controlled, directed and administered. Corporate governance practices provide a mean for ensuring sustained company performance and embedding values of accountability and transparency in organisations.[13]

Additionally, corporate governance refers to the way the Board of Directors oversee the operations of the company, and how board members are accountable to the company and its shareholders.

Some of the main areas corporate governance clarifies are:
- Identifying the rights and obligations of the board, managers and shareholders.
- Distributing the obligations and responsibilities amongst the different participants in the organisation.
- Identifying the rules and procedures of decision-making on corporate affairs.
- Monitoring business performance.
- Setting out the objectives and plans to accomplish them.

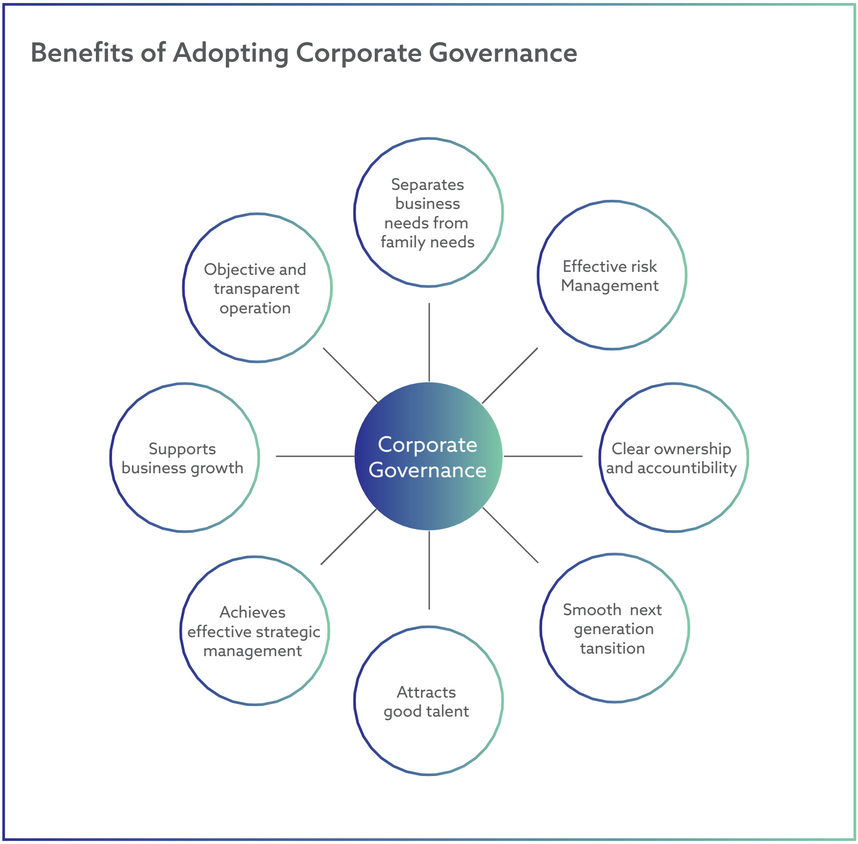
Corporate Vision

The corporate vision outlines the key ethical values and operational principles of the family business. It should provide a set of aspiration,

12 A. Koeberle-Schmid, D. Kenyon-Rouvinez, E. Poza, Governance in Family Enterprises – Maximizing Economic and Emotional Success (2014).
13 Moin Fudda, Corporate Governance in Family-Owned Companies, Center for International Private Enterprise (CIPE), 2014

lay out the most important primary goals of the business, outline the key objectives of the business and communicate the same to owners and employees.

Summary Diagram



iii. Legal Structure and Governing Bodies

In general, companies with sound corporate governance perform better than poorly governed companies. In this regard, family businesses face additional challenges for multiple reasons. As families expand and the number of family members increases, relationships between owners and managers can become more complex.

Proper corporate governance separates ownership from management and regulates roles, reporting lines and rights and responsibilities.

Shareholders

- The shareholders or owners are the foundation of the governance structure.
- Usually, shareholders have control over key strategic decisions.
- In family businesses, the agreement of shareholders is more difficult to reach as it is affected by each of the shareholder's hopes and expectations.
- The role of shareholders may be limited to owning stakes without any involvement in the running or monitoring of the business.

Board of Directors

Board of Directors Responsibilities

The Board of Directors is directly responsible and accountable to the shareholders, as board members should represent the interests of the business. The board mainly monitors business performance to ensure a secure future for the business. It is the supervising body over the business and interface with management. The duties of the board members are chiefly regulated by law and specifically include responsibilities relating to the strategy, structure of the business, information and control systems, organisation of the management and risk assessment. Such duties may include:[14]

- **Business Performance:** Monitoring company performance reports and key data points.
- **Management Review:** Reviewing management evaluation and compensation; and managing succession.
- **Shareholder Communication:** Monitor and ensure effective communication with shareholders on business performance.
- **Policies and Resolutions:** Reviewing and passing resolutions on matters to be submitted to shareholder meetings.

14 Catherine L. Bromilow, V. Elaine Garvey; Board Effectiveness: What Works Best, PWC, 2011

- **Investment Decisions:** Reviewing, approving and overseeing new investments, acquisitions, liquidations, and any other transactions that are material to the business.
- **Risk Management and Mitigation:** Reviewing and approving overall accounting principles, lending and borrowing limits, financial control and planning procedures.
- **Ethics and Values:** Setting and maintaining corporate ethics and family values within the business.

Composition of the Board

Board members are appointed by the shareholder council, with the board then responsible for appointing the senior positions, such as the CEO and CFO.

The composition and size of the board of directors, as well as the basis on which its members are selected, differs and can depend on the complexity and structure of the business at hand. As members of the board of directors do not have to own a stake in the business, appointing individuals from outside the family on the board will not affect its state as a family business. Accordingly, where such individuals have the rich expertise and skills that complement the skill of members of the family, their appointment would be advantageous to the business. It is also important to try to create a balance between executive and non-executive members from within the board in order to maintain harmony and continuity.

Ideally, a board of directors will have well qualified family members, non-family executives and at least a third of the members should be completely independent - provided they have the required expertise and key skills. Additionally, the board can be completely comprised of external directors rather than family members. Such action can be beneficial for family businesses from a number of different perspectives. For example, it would allow the board to be fully comprised of individuals with a high level of expertise who contribute to the growth of the business. Alternatively, the majority of the board can be independent outsiders. A question to be raised is in determining whether family members have the qualifications or skills necessary for the board to duly carry out its duties and for the business to perform well.

Board Committees

Corporate governing bodies can be established to support the board and improve the efficiency of the operation of the company. These bodies may take the form of special committees formed by the board of directors to handle different areas.

The establishment of such committees can vary from one business to another and depends on the size of the company and the complexity of its tasks. The boards of larger organisations often establish committees to deal with complex or specialised issues, allowing more efficient use of the directors' time. Committees make recommendations for action to the board for decision making.

Illustrated Example

Examples of the most common committees in charge of assisting the board in its duties

Audit Committee

The audit committee is formed to assist the board with overseeing internal control over financial matters, such as the business's financial statements, the integrity of such statements, financial reporting processes, systems of internal accounting etc.

Risk Committee

The Risk Committee assists the board in identifying the business's principal risks, overseeing how the company manages such risks, reviewing the management's recommendations and policies with regards to such risks, etc.

Compensation and HR Committee

The Compensation and HR Committee is responsible for reviewing and approving the company's human resources policies, establishing and overseeing compensation programs, measuring compensation competitiveness, etc.

Management and Employees

Management and employees of the business are appointed by the Board of Directors. The management of the company is responsible for a number of duties including:

- Developing and monitoring an operations plan.
- Directing company operations.
- Developing the corporate strategy and sharing it with the board.
- Implementing business policies.

The relationship between the board and management should be based upon guidance and support. The board should be asking management tough questions on the rationale of the strategic direction, and provide effective advice and direction on management issues, especially from sector specialised directors. The directors should also make themselves familiar with the profile of key executives in the company and build with them professional relationships. Having said that, it is advised that directors follow a high level management approach and not interfere in the details of day-to-day operation of the business. Conversely, management should keep the overall policy decisions of the business to the board and actively discuss these areas with the board as required.

iv. Corporate Policies

Corporate governance requires setting and implementing policies and processes regarding:

- Financial management
- Risk management
- Compliance management
- Internal controls and internal audit
- Information procedures
- HR policies of the business
- Treatment of the family vs. non-family members and distinguishing "the family" from "the business"

v. Plans for Non-Family Employees

The management of the family business needs to keep in mind and take into consideration the need for a treatment that is fair to both family and non-family members of the business. Families should set clear rules or policies for employment and clearly determine matters such as qualifications, etc. to portray a positive identity in the eyes of all its employees. Additionally, equality needs to be sought with regards to responsibilities, performance evaluations and compensation (pay, bonuses, raises etc.).

A fair and accurate assessment should be the end-goal for family businesses. To reach such a goal, specific assessment methods need to be set, implemented and applied to the entire organisation. Family businesses should also consider contributing to the personal development of all their employees and not only that of the family members. A family business should always aim to reach a balance through which a neutral environment is offered to family and non-family employees of the business.

WEALTH GOVERNANCE

i. Wealth Governance: Overview

What is Wealth Governance?

This type of governance mainly deals with setting the rules and strategy that a family should continuously follow to ensure adequate management, maintenance, preservation and transfer of wealth.

What purpose does it serve?

Wealth governance is necessary to make sure wealth is preserved for future generations to benefit from and to identify how the wealth will be passed on to the next generation.

ii. Wealth Management Strategy

Setting and implementing a wealth strategy helps in securing family assets and ensuring their survival and growth.

How it works

A family sets a strategy through which it allocates the family assets to different classes of investment, e.g. companies, real estate, securities, etc. and sets a specific policy for each. Additionally, when allocating assets from the wealth, the family wealth should be kept separate from the commercial wealth where feasible.

What should be taken into account?

When setting the wealth management strategy, members of the family business need to consider the following matters:

The direction and destination

A family needs to determine, from the very beginning of its wealth governance journey, the goals and objectives it would like to reach and the route it intends on taking to get there. This, by nature, differs from one family to another. Different strategies may be adopted depending on what each family business hopes to achieve.

The scope

A family also needs to determine the scope of its wealth strategy by identifying what the wealth itself includes and what the strategy set for it shall cover and extend to. Families should consider their investments needs from two simple perspectives—what they want/need for living purposes and what they want to leave for the next generation and any other areas such as, philanthropy.

It is necessary to enforce investment rules for the wealth of the business and to ensure they are aligned with the vision and goals set for the wealth strategy. It is important for the family to be aligned on an investment strategy.

The beneficiaries

A family needs to decide on whether the wealth strategy is targeted at benefiting all members of the family or specific members for any reasons that the family may have. It is also important to take into account in this regard: the personal needs, assets and risk trends of the individuals involved.

Alignment

Ensuring proper and true alignment of all decisions taken by the family in this regard, both at present and in the future, is necessary for the family to achieve its wealth goals. It is also important to ensure that the final wealth strategy a family adopts does not clash with or contravene its values, principles and vision.

iii. Family Offices

A family office is an organisation operating separately from the business, although some of the same individuals may participate in both. This separation in operation offers the confidentiality of family private matters and formalises the wealth management process with an aim to achieve strategic alignment of activities and higher efficiency. Its long-term goal is to preserve and grow the wealth for current and future generations. A family office may manage the wealth of one or multiple families and acts as a coordination centre for private financial investment, advisory services for the family, and administrative planning. Most family offices are dedicated to providing various support services to the family members as well as coordinating with third parties to ensure proper access to family support services.

The duties and responsibilities vary widely from one family to another, and fall within one of the following three broad categories: investment management of family assets, wealth management at the family level and family services for individual family members.

Illustrative Diagram

Specific tasks the family office may cover

i. **Investment Management:**
   - Investment strategy & asset allocation
   - 3rd party investment managers selection
   - Consolidated reporting on all investments (with information on fees and performance)
   - Custody of investment assets
   - Direct investment in private equity, hedge funds, real estate
   - Real estate property management

ii. **Wealth Management:**
   - Estate planning
   - Family philanthropy
   - Family governance
   - Art consulting
   - Security/Risk management
   - Family leadership succession (family council, committees)

iii. **Family Services:**
   - Travel arrangements
   - Bill paying
   - Insurance
   - Medical assistance
   - Personal tax returns and tax planning
   - Managing household staff

Constant Engagement

A family uses a family office to administer and manage its wealth-related affairs, and hence transfer what may in some cases constitute a burden to a more experienced entity. While family members may not need to be involved in the management of the office itself, it is important to create a management board consisting of external advisors and at least one family member who remains engaged in the wealth strategic management and governance process:

- Setting or approving the primary strategic objectives.
- A clear set of investing rules that regulate investments.
- Evaluating the family office performance
- Leading family governance implementation
- Leading succession processes

Moreover, family offices need to secure and maintain relevance as control of the family wealth passes to the next generation. Future leaders from the next generation often have different communication and reporting styles to those of the previous generation; they may also want to dedicate some of the family wealth to Impact Investing, as a force for social good, rather than the traditional investments the family has historically preferred. Hence involving the next generation in the process is key for an effective long standing family office.

Financial Education

While family offices have traditionally operated around the investment component of wealth management, many family offices address broader aspects of family wealth. In particular, greater emphasis being placed on other valuable family resources, namely, human capital, the next generation, family accumulated knowledge, and family social capital.

Family offices can address concerns about the way in which family wealth affects the lives of the next generation. Many family offices focus on the need to create educational programmes for the next generation, giving them the skills required to make independent evaluations regarding the family's wealth. A family office can be put to good use in educating the next generation from an early age about the challenges and responsibilities of wealth, investment and philanthropy – and in offering opportunities to gain hands-on experience in dealing with those responsibilities.[15]

15 Leach, P. Leach, Family businesses: The essentials. 2011

PUBLIC ENGAGEMENT

Sound governance also encompasses the ways in which the family and the business interacts with the general public and those in the business environment. Due to their long-term vision, family businesses tend to actively support the community they operate within. They are active givers as a family and as a business, and the public in return have a higher interest in their overall activities. Family businesses can benefit from a strategic approach toward their activities and communications, and can achieve higher impact through strong governance.

i. Philanthropy

Giving to charity is deeply rooted in Arab culture and in its predominant religion, Islam.

Estimating the scale of philanthropy and the charitable sector in the GCC accurately is challenging. Most philanthropy is private; it is frequently informal and often anonymous. However, it is estimated that every year between $200bn and $1tn is given as zakat or sadaqah – the Islamic practice of giving a percentage of surplus earnings to those in need – across the Muslim world, with GCC philanthropy comprising a significant percentage of this.[16]

There is a long history of family philanthropy and its legacy is significant in the GCC. Philanthropy is an act rooted in the religious beliefs of Islam, and it stems from the culture of the GCC society. Additionally, philanthropy has become a means to perpetuate the legacy and charitable activities of the founders of family businesses.

Family Rewards

A commitment towards philanthropy can be rewarding to family businesses and can lead to numerous positive outcomes as follows:

- **Instil Family Values:** Philanthropy can become a magnifying glass that clearly showcases the family›s core values. It can also demonstrate the personal and spiritual values of the founders and, hence, helps preserve and nurture the family legacy.
- **Strengthen Family Bonds:** Philanthropy can strengthen the bond between different generations in the family business as it can be

16 A Faith-based Aid Revolution in the Muslim World? IRIN, 2012.

a common ground that members from different generations can relate and contribute to, instilling an even greater sense of pride and belonging.

- **Next Generation Engagement:** Philanthropy can assist in engaging members from the next generation in the business as it can provide them with the opportunity to manage assets and understand the value of money.

Common Approaches

Family Businesses typically adopt one or more of the following approaches to their philanthropy, depending on their primary goals:[17]

Family Foundation

Establish a family foundation, managed by the family. In addition to making a difference to the causes the family cares about, the foundation can also help achieve family objectives, such as providing a forum for the family to discuss and live their values, preparing the next generation for the privileges and challenges of being wealthy, to learn to work together in the business and enhancing the family's reputation and legacy.

The family foundation can also provide important roles for family members not working in the business. These foundations are typically funded by dividends received by the family. Some families may feel it would be difficult to get diverse family members to work together on their philanthropy so might prefer to pass on the value of philanthropy and instead leave it to individual family members or branches to pursue it in their own way.

CSR Activities

This approach to philanthropy is typically funded by the business, tending to focus on making a difference to the communities it deems important, enhancing staff morale and helping the firm's workers and their families.

17 Coutts Handbook for Philanthropy

Combined family and corporate CSR activities.

This model, most common in many GCC family businesses, combines both family and business objectives where the promoter family may establish a charitable foundation or trust that is funded by the business. Charitable activities may be led by members of the owning family and managed by staff from the business.

Strategic Family Philanthropy

There is no right or wrong answer as to which approach the family may adopt.

Families may combine both especially if values and interests of family and business overlap, a combined approach also capitalise on opportunities for synergy and complementary strategies; nonetheless it is important to achieve clarity about goals and seek distinctions between the two types of philanthropy. What is important is to be clear about the objectives. It is helpful for families to review these objectives and prioritise them collectively as a group.

Practical Illustration

Setting as a family the philanthropy strategic direction
What do you feel is the purpose of our philanthropy?

	Yes	No
Pass on philanthropic values to next generation		
Bind the family together		
Establish family legacy		
Identify and act on shared family values		
Support individual family interests		
Demonstrate responsible business ownership		
Give back to community where money was made		
Invest in employee welfare – health, quality of life, etc.		
Enhance standing of company in community		
Reinforce business goals – identity, expansion, etc.		
Boost morale of company employees through values, involvement		
Enhance company reputation & brand among customers		

Source: Family Firm Institute Course (Boston, USA), Philanthropy: More than Money, by Jim Coutre and Maya Prabhu

Philanthropic Governance

Whatever the primary purpose of a family's philanthropic work it may be best to set up an independent structure such as a charitable trust or foundation. It is recommended that this structure is supported by a Family Philanthropy Committee that meets on a regular basis to coordinate, oversee and assess philanthropic activities. It also provides a great means for family businesses to be philanthropic and for family members to come together in a space independent from the business.

This committee should ensure the overall governance, cost effective spending and impact assessment of the giving programs in place. Moreover, philanthropic activities may be proposed and coordinated with the family council through the family philanthropy committee. Organising funds can be one of the roles played by the family office.

The funding dedicated to philanthropic activities may come from business funds that are available for distribution. Additionally, a minimum individual contribution from shareholders can be set to ensure the continuity of the family business's charitable actions.

In all cases, a family business should set out policies and processes for:

- Setting philanthropic goals
- Planning of philanthropic activities
- Allocation of funds and setting budgets
- Reporting on funds allocated and projects undertaken
- Maintain accountability and transparency
- Impact assessment indicators

Important Note:
Foundations that have the most impact over time are the ones that rigorously measure the impact of their giving activities, and ensure continuous alignment with the overall mission. There are many innovative ways to measure impact, select a method that fits the scope of your activity.

ii. Sustainability as a mission

Some forward-thinking businesses actively integrate sustainability principles into their businesses. They do so by pursuing goals that go far beyond earlier concern for reputation management — instead aiming to help all aspects of the environment they live in. For example, by saving energy, developing green products, and retaining and motivating employees, they have become companies that care about people and the planet. They have embraced the "Triple Bottom Line": a business model that measures corporate performance against not just economic but also social and ecological yardsticks. These forward-looking organisations have strategically remodelled themselves, and they've gone to great lengths to translate and communicate that position both internally and externally.

Family businesses tend to think of the long term and have a vested interest in the future; hence, sustainability should be at the heart of their interests. The notion of sustainability can encompass actions that don't stop at business operation, but also extend to such areas as education, philanthropy, investments and lifestyle shaped by its own culture and values.

iii. Identity and Business Reputation

Identity

The identity of the business is an important pillar that stems from its core goals and values. It is crucial to establish and maintain a clear identity of the family business. The importance of maintaining a positive identity to achieve good business performance is significant.

Business Reputation

Family Businesses should always aim to maintain a good coherent identity in the eyes of the public. The public usually shows more interest in family businesses than it does in ordinary commercial companies, and accordingly, family businesses always find themselves under the spotlight. While this may be a disadvantage when a conflict occurs, it can also be used by family business to its own advantage. Putting a good set of governance mechanisms into practice can reflect greatly on the state of the business and how the public perceives it. Good governance portrays the family business as a trustworthy corporation that has a high degree of accountability and contributes to the good of society. This can give the business a positive image and assist it in achieving its long-term objectives.

Additionally, public perception of a business is the sum of the ideas channelled to it through the media. The rise in the use of social media is also a double-edged sword that family business should make use of as it can grant them access to a huge audience that information is easily communicated to.

The scope of information the public would find of interest is wide and can range from the company's overall business, social and ecological performance to more detailed subjects such as the integration of people with disabilities, implementation of health and safety measures, professional development of employees and investment made in sponsorships.

SUCCESSION PLANNING

What is Succession Planning?

Succession planning is more of an art than science. It is a necessity that must be handled with a great degree of care and tackled at an early stage to ensure that the family business is prepared for any transition.

Each family businesses' succession plan must be developed taking into consideration factors like the relationship between the founders and the next generation, the relationship of the next generation amongst themselves, the founders' vision for the future of the business, the nature of the business and corporate strategy.

A critical responsibility

Succession planning is a crucial process that family businesses must undertake. It is a process by which the business is prepared for transitioning into the hands of the next generation.

The family charter should assist in succession planning and set out the guidelines and principles of who should become or remain involved in the running of the business, how shareholders' interests and management responsibilities can be combined etc.

An ongoing process

Succession planning is an essential part of doing business, and needs to be an ongoing dynamic process.

Beginning the succession process early and giving it time to develop allows the time necessary to make a choice among multiple candidates. It is crucial to identify potential successors - both on the management and ownership levels, active and non-active roles of family members and required support for the successors - from family members or even external advisors.[18]

Beginning early also allows the time to develop and groom potential successors and give them ample opportunity to demonstrate their abilities. If moving towards passing the business to a sibling

18 Craig E. Aronoff, Stephen L. Mcclure, John L Ward, Family Business succession, 2011

partnership it can give time to help the sibling build and develop a healthy teamwork dynamic.

Why is it important to have a succession plan?

There are many advantages to succession planning, some of which include:

- Succession planning prepares the business and family for any unexpected events as no one is immune to sudden illness or death.
- Succession planning helps guarantee having the right people in place today, as it is considered an eye opener to the current gaps and pitfalls of the business.
- Succession planning helps in achieving transparency and healthy communication between family members, which creates a sense of responsibility throughout the organisation.
- Succession planning encourages and inspires family members to take a positive active role within the family and in the business.
- Succession planning mitigates the risk of conflict in transition.

Challenges for Succession Planning

A number of different challenges may surface and hinder the process of succession planning for family businesses. Some of these challenges may emanate from the present generation, while others may stem from future generations. In all cases, family businesses should exercise their best efforts to overcome these challenges, as succession planning is a crucial step that plays a significant role in ensuring the continuity of family businesses.

Some of the challenges that may be faced by family businesses in this region when undertaking succession planning include:

- The founder generation›s tendency to hold on to the business, its reluctance to handover something it has built from scratch and its struggle with entrusting the following generation with business matters.
- The difference in mind-set between one generation and another.
- Families in the region must comply with the Islamic rules of Sharia and, hence, may not have full control in apportioning their

assets to heirs from the next generation in whichever manner they deem suitable.

- Families in the GCC region are generally larger in size than families from other parts of the world. A larger number of shareholders can bring complexities and can result in a clash of beliefs, as goals, hopes and visions are likely to differ even more in larger families.

It is important to address these challenges via family and corporate governance structures and best practices, and allow ample time to implement and support intended changes.

CONCLUSION

While strengthening governance is an imperative step for family business all over the world, the issue is of a higher significance to GCC family business due to the critical succession phase they are embarking on.

The GCC code is a comprehensive document that covers the key governance areas a family business must acknowledge and clarify. The document introduces governance concepts and common policies that GCC businesses should consider. In addition to the introduction of key governance building blocks, the GCC Governance Code expands on other key factors in family business success, such as communication, next generation development, and succession planning; including practical tips to guide the implementation journey.

Additionally, family businesses need to understand that there will never be a one-size-fits-all governance structure, and that this may be viewed as an advantage that allows them to consider all sorts of governance guidelines but only put in place what they are truly in need of.

Merely having the listed governance structures and policies in place does not always guarantee good governance practices, as reaching a positive impact through governance requires efficient implementation of the structures and policies adopted.

To ensure this, the undertaking of governance should stem from the family members' belief in its importance. Such belief is crucial to ensure the respect of policies and procedures and their proper implementation. Belief, respect and proper integration are essential elements in this regard.

CHECKLIST

The checklist is provided as a guiding tool to assist family businesses in their journey of governance. As previously highlighted, each family business has its own unique properties and requirements, and should, accordingly, identify the specific factors that require its attention and work on implementing the mechanisms necessary. The checklist acknowledges that governance implementation is a journey; it lists the different stages your business might be at, providing you a clear direction on what is left to accomplish.

Governance Type	Not Addressed	Planning Phase	Application Phase	Completed (under testing & revision)
FAMILY GOVERNANCE				
Vision, Values, and Goals				
• Family members are aligned on the vision and core values, values are embedded in goals, governance and policies.	☐	☐	☐	☐
Family Communication				
• Regular family reports to document what was planned, send updates, and report achievements.	☐	☐	☐	☐
• Regular family meetings where family and business issues are discussed.	☐	☐	☐	☐
Governing Bodies				
• A family assembly that acts as a forum for communication between all family members.	☐	☐	☐	☐
• A family council that acts on behalf of the family assembly to manage family affairs.	☐	☐	☐	☐
Family Policies				
• A family charter/ constitution that identifies and enables shareholders to understand the main elements of the family and the business.	☐	☐	☐	☐
• Clear and fair policies that regulate matters of importance to the family and any processes pertaining to them. Ex. family employment and non-compete policies)	☐	☐	☐	☐

Governance Type	Not Addressed	Planning Phase	Application Phase	Completed (under testing & revision)
Conflict Resolution • A clear conflict resolution strategy that sets out the means and processes for resolving conflict among family members, and between family members and the company.	☐	☐	☐	☐
Family Members • Family members with entrepreneurial spirits are identified and roles in the business are assigned.	☐	☐	☐	☐
• Family members' performance is regularly assessed and acted upon by an assigned party.	☐	☐	☐	☐
• Female family members are involved in the business, gender parity is minimized/ overcome.	☐	☐	☐	☐
• The next generation is prepared to join the business, equipped with adequate skills and knowledge.	☐	☐	☐	☐
OWNERSHIP GOVERNANCE				
Legal Structure • A coherent legal structure is in place with the necessary legal firewalls to protect the business and family.	☐	☐	☐	☐
Governing Policy • A shareholder agreement that summarizes the will of the shareholders, and sets forth their rights and responsibilities and regulates family matters.	☐	☐	☐	☐
Governing Bodies • A shareholder assembly that comprises of all shareholders and plays a role in business decisions by governing and assists the shareholder council.	☐	☐	☐	☐
• A shareholder council that comprises of a smaller number of shareholders and represents the shareholder assembly in respective business matters. I	☐	☐	☐	☐

Governance Type	Not Addressed	Planning Phase	Application Phase	Completed (under testing & revision)
CORPORATE GOVERNANCE				
The Family and the Business • The relationship between the family and the business is assessed and properly identified.	☐	☐	☐	☐
Corporate Vision • A corporate vision that outlines the business's key values and sets out its primary goals.	☐	☐	☐	☐
Legal Structure and Governing Bodies • Separation of ownership from management.	☐	☐	☐	☐
• A clear distinction between the roles of shareholders, board members, managers and employees.	☐	☐	☐	☐
• The creation of different committees that assist the board of directors.	☐	☐	☐	☐
Corporate Policies • Clear policies that regulate important business matters and processes pertaining to them.	☐	☐	☐	☐
Plans for Non-Family Employees • A fair treatment to non-family employees in terms of appointment, assessment and development.	☐	☐	☐	☐
WEALTH GOVERNANCE				
Wealth Management Strategy • A robust strategy that allocates wealth to different fields of investment and sets out independent policies for each.	☐	☐	☐	☐
Family Offices • A family Office that supervises and manages the family business's private wealth through a separate operation	☐	☐	☐	☐
• Family engagement in the activity and periodical reporting to the family board on activity and performance	☐	☐	☐	☐

Governance Type	Not Addressed	Planning Phase	Application Phase	Completed (under testing & revision)
Investment Planning and Solutions				
• A clear set of investment objectives aligned with the vision, goals and wealth strategy.	☐	☐	☐	☐
• A clear set of investing rules that regulate family business's investments and ensures that they are	☐	☐	☐	☐
ENGAGING THE PUBLIC				
Philanthropy				
• A commitment towards philanthropy and an engagement in philanthropic activities.	☐	☐	☐	☐
• Setup of family foundations for large charitable causes.	☐	☐	☐	☐
• Creation of a family philanthropy committee to manage philanthropic activities.	☐	☐	☐	☐
Identity and Business Reputation				
• A clear and consistent business identity is established and maintained.	☐	☐	☐	☐
• A positive coherent business image is showcased.	☐	☐	☐	☐
SUCCESSION PLANNING				
Succession Plan				
• A clear carefully designed succession plan to facilitate the transfer of the family business from one generation to another.	☐	☐	☐	☐

About Family Business Council - Gulf (FBCG)

The Family Business Council is a private, non-profit membership organisation that aims to strengthen family business governance and ensure their continuity over generations, while learning from and where applicable adopting international best practices. Through research, education and capacity development, and networking among peers, we seek to identify and address issues that are unique to this region.

The council is governed by a Board of Directors, representing eleven leading GCC family businesses, which steers and builds the organisation. FBCG's board shares a common view that the continuity and prosperity of family businesses is vital not only for their families' legacy but also for the economic sustainability of the region.

FBCG is a member of a worldwide organisation - the Family Business Network International (FBN) - which is the largest global network 'by families, for families' representing leading family businesses all over the world.

For further information on Family Business Council - Gulf log on to www.fbc-gulf.org

About The Family Business Network

The Family Business Network (FBN) is a not-for-profit international network that is run by family businesses, for family businesses, with the aim of strengthening success over generations. FBN's International Network was developed in 1989. Today with over 9,700 individual members from over 3,100 family businesses across 60 countries, it gathers the largest community of business owning families in a safe space to share and learn from each other. FBN is continually increasing its ability to help family businesses grow, succeed and prosper through the exchange of best practices, new ideas and the peer-to-peer learning activities within its network.

For further information on FBN, log on to www.fbn-i.org