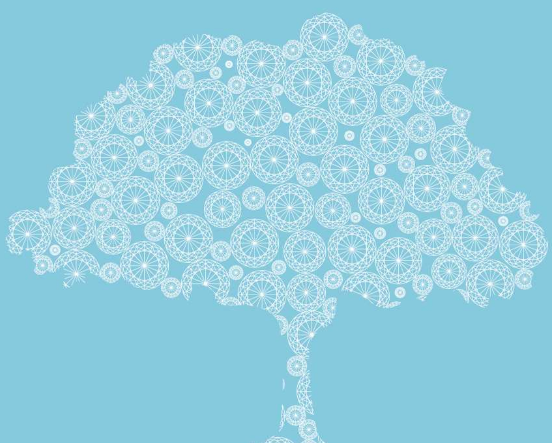
MENA Family Businesses: The Real Power Brokers?

- What’s the role of family-owned businesses in the economic development globally?
- What is their role in MENA economies?
- Have the family businesses performed better than the others?
- How have the MENA family businesses evolved over the years?
- What are the advantages and disadvantages associated with family businesses?
- What are the key challenges to the growth of family businesses in MENA, going forward?
- What if MENA family businesses were to go public?



EXECUTIVE SUMMARY

In an age of Fortune 500 companies, corporate icons like Microsoft, Apple, Coca-Cola and Walt Disney, big banking giants like Citi and JP Morgan, Chinese companies taking over the world, huge marketing budgets and clever advertising campaigns, we tend to believe that this public side of the corporate world defines our global economy. But when we explore further, a subset of the business world, a more private, low profile side turns out to be the main driver: Family businesses. In several countries, family businesses represent more than 70% of the overall businesses and employ a sizeable portion of the population. The family business model has been successful for centuries. Names like Wal-Mart, Ford, Samsung, Hyundai, Siemens, Fiat, and Carrefour are well known and familiar. And they represent true family businesses.

Similarly, the Middle East and North Africa (MENA) region has a host of family businesses that have been operating in the region for many years and form the real backbone of the regional economy. Al Rajhi family (Saudi Arabia), Al Ghurair family (UAE), Al Futtaim family (UAE), Al Kharafi family (Kuwait), Kanoo family (Bahrain) and the Sawiris family (Egypt) are some of the well-known MENA-based families. Most of them are large conglomerates with diversified interests in all major industries. Roughly 5,000 medium to large family firms exist in the Middle East, with net assets totaling USD600 billion. These companies constitute 75% of the private sector economy and employ 70% of the labor force in the GCC region. These family businesses go back generations and are closely intertwined with the development of the region, way before oil was discovered; when the region was a sleepy, trading backwater, it was these families that were putting in place roots that form the bedrock of the current economic environment.

Specific studies have shown a higher dominance of family firms in the MENA region vis-à-vis other regions. Two key factors contributed to their growth and subsequent power in the region: (1) a cultural preference (steeped in deep tribal and Arab tradition) to first pursue business within the family and then consider outsiders; and (2) solid political connections (an important factor for pursuing business in closed economies). 48% of the families account for a little more than 60% of the wealth. Saudi Arabia leads the way followed by the UAE, Kuwait and Egypt. In the list of top 65 families based on wealth the average family net worth in Saudi Arabia stood at USD6.0 billion. The MENA average stood at USD4.5 billion.

While the relative closed economies worked in favor of regional family businesses in the past, they are today facing challenges, especially with active economic liberalization processes being undertaken by governments. Exceptional growth experienced by family-owned businesses took place during the oil boom and liberalization. The next stage of growth would be experienced only by those businesses that are prepared to face the challenges of globalization head-on. Almost three-quarters of family-owned businesses in the Middle East are likely to move from the second generation to the third. Studies conducted in the past indicate that just one of ten family-owned businesses survive to the third generation. In addition, families in the MENA region are large by global standards; the average family size is almost double that in the US and the UK. A large family base could lead to conflicts or disputes that, in turn, could adversely impact the family business. Credit defaults by Saad and Algosaibi have also raised the issue of transparency for several family-owned businesses in the region. As a result, business houses are finding it difficult to avail easy credit. When before only the family name was sufficient to open doors, now families realize the need to put in place proper compliance, risk management and accounting platforms.

Yet, there are instances which suggest that a positive change is taking place within family businesses in MENA. They are beginning to focus on streamlining operations, identifying the core sectors for future growth and divesting portfolio firms that no longer fit into their area of interest. Al Muhaidib Group, a Saudi-based family business recently underwent such a restructuring and the example is highlighted in greater detail later on in the report. Some family firms have even formed formal policy frameworks for effective governance like opening up to hiring non-family managers and forming audit committees and independent advisory boards. AlMajdouie Group, another Saudi-based family business, has established corporate governance committees. Most families are also tackling the issue of generational change head on, enlisting the help of global consulting companies to guide them in the right direction when it comes to a very sensitive and in some cases pivotal subject.

A family business model has its own share of advantages as well as disadvantages. A strong support network of family members, ability to take a long-term perspective, quick decision making, and loyalty/commitment of family members are some of the key advantages. On the other hand, potential of conflicts between family members, poor corporate governance, improper succession planning, and nepotism are common disadvantages.

Various governments have been trying to alter laws and encourage public listing of more businesses since they have the potential to significantly add to the breadth of capital market if they list on regional stock exchanges. This will have the spill-over effect of attracting more (foreign) investor interest into regional markets and eventually drive liquidity.

In terms of recent regional socio-economic developments, this becomes even more relevant. Infrastructure, education, healthcare and job creation are now the main goals of regional governments as they respond to the demands of a restive population. As the holders of the majority of wealth, commerce and trade, family businesses will fall into a greater spotlight. As they did decades ago, when they stepped up the development of economic activity, family businesses will again play the role of the main player as the region turns a new leaf and faces a new world. While governments create and enact policy, they will turn to the influential families to execute their strategy.

This position of strength makes them the real power brokers.

INTRODUCTION

Family-owned businesses' contribution to the global GDP is nearly 70–90% per year

Family-owned businesses are the backbone of the global economy. They are considered to be the oldest and most prevalent form of business organizations worldwide. According to the Family Firm Institute, family-owned businesses' contribution to the global GDP is nearly 70–90% per year.

In many countries, family-owned businesses represent more than 70% of the overall businesses and employ a sizeable portion of the population[1]. In the US, around 85% of the enterprises are family firms, generating 50% of GDP and 60% of employment as well as creating two-thirds of new jobs. In France and Germany, the figure is more than 50%[2]. Family firms in the UK are believed to contribute over 30% to the GDP and offer employment to nearly 33% of the population[3].

Some of the large family-owned businesses across the globe are listed below.

Exhibit 1: Major Family-Owned Businesses Worldwide

Company	Family Name	Region
Wal-Mart Stores Inc.	Walton	North America
Ford Motor Company	Ford	North America
Carrefour Group	Defforey	Europe
PSA Peugeot Citroën	Peugeot	Europe
The Kharif Group	Al Kharifi	Middle East
Majid Al Futtaim Group	Al Futtaim	Middle East
Toyota Motor Corp.	Toyoda	Asia
Samsung	Lee	Asia

Source: Al Masah Capital

Stages of Growth in a Family Business

Three stages of growth in a family business: Birth and initial expansion; Growth and complexity; and Maturity

- **Phase 1: Birth and initial expansion**—When an entrepreneur conceives an idea, he/she focuses on making it successful. Start-ups could face the biggest hurdles until they attain a stage when business flows-in without much effort and proves profitable for the founder. The success of a business idea then calls for expansion, which is usually funded internally or through family/friends.

- **Phase 2: Growth and complexity**—Having survived the start-up phase, a business grows in scale and complexities. At this point, a business that initially commenced as a small outfit has taken the shape of a much larger enterprise with business interests across various sectors. During this phase, the founder continues to be at the helm of affairs with family members/professionals responsible for different divisions of the group businesses. The founder no longer has the same detailed knowledge about all of his businesses.

[1] *IFC Family Business Governance Handbook*
[2] *INSEAD*
[3] *IFB*

Exhibit 2: Stages of growth in a family business

	Phase 1	Phase 2	Phase 3
Age of Business	0-5 years	5-20 years	20-30 years
Ownership	Founders	Siblings	Cousins
Nature of business	Fast expansion, need to invest time and money	Full development or “fully-grown”	Need for strategic “rethinking” and Reinvestment
Organizational nature	Small, dynamic	Larger, more complex	Stagnation/ Consolidation
Motivation of owner-manager	Concerned with success of business	Seeks control and stability	New interests or is “semi retired”. The next generation seeks growth and change

Source: Scandinavia Journal of Organisational Psychology (Louis Cauffman)

- **Phase 3: Maturity—** During this phase, the founder/patriarch is nearing retirement and the second generation has become deeply involved in the businesses. A family-owned business can be viewed as fully developed with some non-family managers and executives holding high positions.

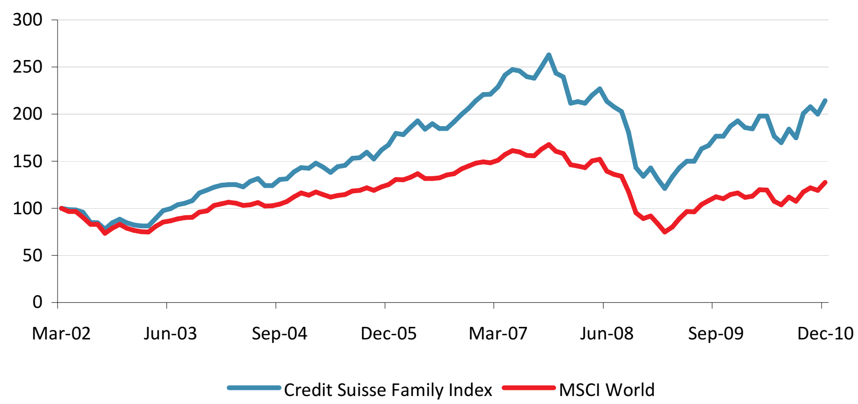
Family firms have outperformed the market

The Credit Suisse family index has outperformed the MSCI world by a wide margin

Several family firms have survived economic downturns, wars, family feuds, and other challenges. Currently, the oldest family-owned business in the world (Houshi Onsen) operates in Japan and is managed by the 46th generation of the founding family[4].

Family-owned businesses have been in existence for many generations and have performed well over the long term. We compared the Credit Suisse Family Index with a broad index of publicly traded firms from January 2005 through October 2008.

Exhibit 3: Performance of Family Businesses (Base - 100)



Source: Bloomberg, Credit Suisse

[4] *Barclays Wealth Insights*

FAMILY-OWNED BUSINESSES IN THE MENA REGION

Background

Most family-owned businesses in the MENA were founded as trading enterprises

Numerous family-owned businesses exist in the MENA region. Most of these were founded as trading enterprises that later diversified into other businesses and thereafter transformed into conglomerates. There are several examples of successful family businesses in the region —the Kharafis of Kuwait for one.

Founded in the 1950s, the Kharafi Group commenced operations as a merchant establishment. The Group's line of businesses now includes engineering, construction, manufacturing, food products, telecom, travel, tourism, hotels and a few others.

Exhibit 4: Tracing the Genesis

	Business Activities	Country of Presence
Before the 1940s	Most family businesses start as small traders	Mainly in Kuwait, the UAE and Bahrain
1940s – 1960s	Startups become more diversified, particularly in constriction and financial services due to oil fueled economic boom	Mainly in Saudi Arabia
1970s onwards	Family businesses startup span various economic sectors, with a focus on retail, eyeing higher disposable income	Largely in Saudi Arabia, but increasing presence in the UAE

Source: Booz & Company

Family-owned businesses capitalized on connections in government

According to a Wharton article[5], some of these family-owned businesses capitalized on the restricted competition practices in their respective countries, and connections in government departments. A study by Faccio and Parsley (2009) indicated that family firms generated more profits through political connections relative to other firms. The benefits comprised preferential treatment from the government, lower tax rates and others.

Exhibit 5: MENA family-owned businesses built on their privileged advantage

Traditional Privileges	Dominant Position
Closed economies with limited competition	Second largest shareholder after the government
Entrenched and influential local / regional networks	Dominant position in key sectors such as retail and wholesale, construction, industrial, real estate, and others
Access to privileged information through networks and position in society	Influential representations on government entities
Privileged access to capital - name and reputation lending - and lack of developed financial institutions	Major shareholders in leading financial institutions

Source: Booz & Company

[5] *Arabic Knowledge@Wharton*

It has been seen that a typical family-owned businesses in the MENA started out as a small traders, shopkeepers or merchants. During the oil fueled economic boom, they slowly diversified their business activities to include traditional industries like manufacturing and construction. The next areas of focus were retailing and financial services, targeting the higher disposable income.

Role in economic development

The family businesses in the MENA play a vital role in the economic development of the region. While it is difficult to quantify their contributions to the nations' GDP, findings of the various studies reveal that the dominance of family firms in the MENA region is on the higher side compared to other regions.

Family-owned businesses in MENA are far more dominant than in other countries

Exhibit 6: Family businesses are dominant in MENA

PricewaterhouseCoopers	Roughly 5,000 medium to large family firms exist in the Middle East, with net assets totaling USD600 billion. These companies constitute 75% of the private sector economy and employ 70% of the labor force in the GCC region
Booz & Company	Family-owned businesses play an extremely important role in the Middle Eastern economies. These firms account for about 40% of the region's non-oil GDP and 50% of private sector employment
CPI Financial	Family-owned businesses contribute significantly to the MENA economy, accounting for more than 80% of the total companies in the region. While the private sector's share in GDP remains relatively small, its contribution to employment is high

Source: PWC, Booz & Company, CPI Financial

Several family-owned businesses in the MENA/GCC region are associated with cultural aspects. According to the Family Firm Institute, there is a strong cultural preference that business opportunities should be pursued, if possible, first within the family, and then outside the family.

Evolution of family businesses over the last decade

These family-owned businesses have evolved over the years and are accepting some of the best practices

Mentioned below are some of the important changes witnessed by family-owned businesses in the MENA/GCC region.

- **Streamlining operations:** Family-owned businesses, transformed into conglomerates, have enhanced their focus on divesting portfolio firms that no longer fit into their area of interest or are underperforming.

- **Recruiting non-family managers:** The MENA region has a significant expatriate workforce managing both family/non-family businesses. However, talented expatriates are usually not offered leadership positions as family owners typically retain these roles. Conversely, there have been changes to this theory due to globalization.

- **Adoption of corporate governance standards:** Family-owned businesses in the MENA region are adopting corporate governance to secure their future. Most of the businesses have taken an initiative to draft a formal policy framework for effective governance.

- **Drafting a formal family governance document/constitution:** The document contains the families' corporate values, including discussions about ethics and other related matters. The Al Muhaidib Group is believed to have introduced a charter, which needs to be ratified by family members upon turning 16 years of age.

- **Introduction of contemporary management structures:** Family-owned businesses are forming audit committees and independent advisory boards to match the standards more often reported among public companies.

- **Succession planning:** A clear succession planning is the most important ingredient for a successful family business. The respondents to an EIU-Barclays survey agreed to this fact. This indicates that family-owned businesses are aware of the issue and are most likely initiating steps to rectify the same.

Evolution of family business – Al Muhaidib Group (Case study 1)

We have considered the case of Al Muhaidib Group to understand the evolution of family-owned businesses in the MENA region.

Al Muhaidib Group has evolved as a highly successful family business in MENA region

Al Muhaidib Group was formed more than 60 years ago by the late Sheikh Abdulkadir Al-Muhaidib. In 1946, the Group established its first company – Abdulatif and Abdulkadir Al-Muhaidib Company – to deal in building materials. In 1959, Al Muhaidib Group entered the food products industry through marketing and distribution of rice. Over the years, the Group expanded into other food products, such as grains, and eventually established a retail outlet chain – Giant Stores. A string of expansions followed; currently, Al Muhaidib Group has over 200 companies/investments in its portfolio with a strong presence in financial and investment services, industrial goods and services, consumer goods and services, real estate, energy and utilities, among others.

However, taking cue from family-owned businesses in the West, Al Muhaidib Group undertook a massive restructuring exercise with support from Booz & Company. Musaab Al- Muhaidib, grandson of the Group's founder, mentioned that the restructuring was an attempt to keep pace with the growing economy with a flexible and unique structure. The new leadership wanted to identify three core sectors for growth and could exit the rest.

In 2008, Al Muhaidib Group merged its Giant Stores with Panda supermarkets, owned by Savola. The Group plans a number of IPOs to add more value to its portfolio companies.

Source: Knowledge @ Wharton, Al Masah Capital

AlMajdouie Group shifted from the managerial methodology of work to a methodology based on systems

Evolution of family business – AlMajdouie Group (Case study 2)

AlMajdouie Group was established in 1965 by Shaikh Ali Ibrahim Almajdouie as a land transportation company. As business evolved over the years, the group diversified into food products, automobile distribution, manufacturing, and real estate activities. As a result, managing a large business became a lot more cumbersome for the AlMajdouie Group.

Realizing this, the group decided to shift from a pure people driven managerial methodology of work to a methodology based on rigorous systems.

The group adopted a transformation strategy and did internal restructuring. It began by forming corporate governance committees and standardizing business orientation. The group also documented all policies, procedures and forms in accordance with the highest internationally accepted quality standards. It also took efforts to introduce an IT system that could link different data within a unified database; this provided the group an automatic control over operations with a minimum error rate.

With five active family members (from the first and second generation) and more than four decades in the business, the AlMajdouie Group remains successful. It is now one of the leading transportation companies in KSA and the Middle East. The group has more than 5,000 employees.

AlMajdouie's third generation comprises about 35 boys and girls. Nearly 12 of these are believed to be attending training in family business practices.

Source: GCCBDI, Tharawat Magazine, Al Masah Capital

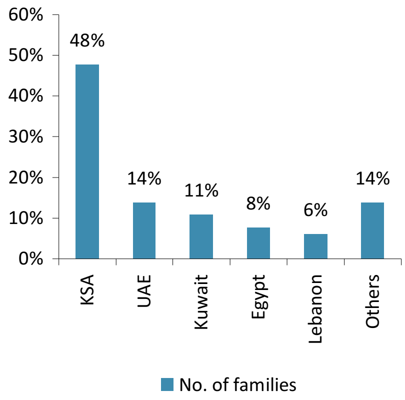
Large family-owned businesses in MENA

There are several large family businesses in the MENA region; most of these have interests in multiple sectors. We have compiled a list of 65 such families in the MENA region.

Our findings (purely based on the sample list of 65 families) indicate that Saudi Arabia dominates the rich list in the MENA region; 48% of the families account for a little more than 60% of the wealth. Saudi Arabia is followed by the UAE, Kuwait and Egypt.

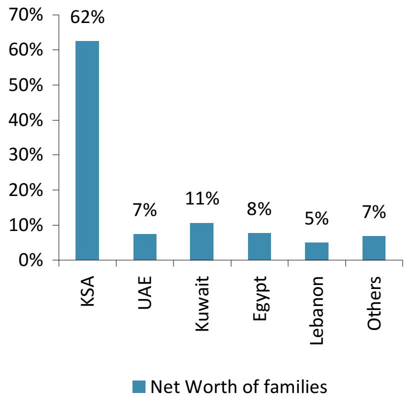
Saudi Arabia has the maximum number of family businesses, followed by the UAE, Kuwait and Egypt

Exhibit 7: Saudi Arabia dominates the rich list with 48% of family businesses



Source: Forbes, Arabian Business, Al Masah

Exhibit 8: Family Businesses in Saudi Arabia hold more than 60% of the wealth

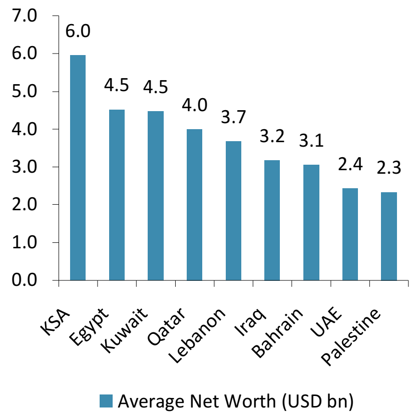


Source: Forbes, Arabian Business, Al Masah

We compared the MENA list on average wealth and found Saudi Arabia on top; the average family net worth in Saudi Arabia stood at USD6.0 billion. Saudi Arabia was followed by Egypt, Kuwait and Qatar. The MENA average stood at USD4.5 billion, approximately 15% less than the GCC average of USD5.2 billion.

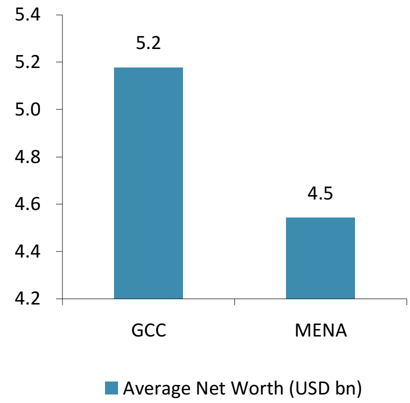
The average net worth of a family business in MENA is 15% less than that of GCC

Exhibit 9: Average wealth held by a family business house – country wise



Source: Forbes, Arabian Business, Al Masah

Exhibit 10: GCC family businesses are richer than the MENA family businesses



Source: Forbes, Arabian Business, Al Masah

Mentioned below are the names/net worth of some of the large families in the MENA region. Please refer to Appendix 1 for the complete list.

Exhibit 11: Some of the Richest Families in MENA

Family Name	Business Interests	Country	Net Worth (est.)
Sawiris family	Telecommunications, Construction, Tourism, Industries. Science & Technology, and others	Egypt	USD 13.4 billion
Olayan family	Transportation, Insurance, Automotive Equipment, Electricity, Food, Consumer Products, and others	Saudi Arabia	USD 12.0 billion
Al Rajhi family	Banking, Cement, Real Estate, Agriculture, Warehousing, Shrimp farming, and others	Saudi Arabia	USD 11.9 billion
Nasser Al-Kharafi family	Hospitality, Construction, Manufacturing, Food Products, Telecom, and others	Kuwait	USD 10.4 billion
Bin Ladin family	Construction, Mining, Petrochemical, Telecommunications, and others	Saudi Arabia	USD 10.0 billion

Source: Forbes, Arabian Business, Al Masah

ARAB FAMILY SUCCESSES AROUND THE WORLD

Mikati family, Lebanon

Lebanon-based Mikatis remain successful and currently run M1 Group

The Mikati family – brothers Najib Mikati and Taha Mikati – made its fortune in the telecom business.

The Mikatis established INVESTCOM LLC, a company which pioneered telephony first in Lebanon and then in markets like Yemen, Ghana and Liberia, in 1982. INVESTCOM LLC partnered with France Telecom to form FTML or France Telecom Mobiles Liban. INVESTCOM LLC experienced unprecedented growth; the company had more than six million subscribers in the Middle East and Africa before it went public. In 2005, INVESTCOM LLC listed its shares on the London Stock Exchange and on the Dubai International Financial Exchange; its IPO was oversubscribed by nearly 18 times. However, the event which provided fame to the Mikatis was the merger/sale of INVESTCOM LLC to MTN Group for USD5.5 billion in 2006.

The Mikatis remain successful and currently run M1 Group, a holding company invested in various sectors such as telecom, real estate, banking, aircraft financing, fashion and energy.

Carlos Slim Helu, Mexico

Carlos Slim – the richest man in the world according to the Forbes 2011 list – is a Mexican national, but was born to a Lebanese father.

Carlos Slim owns more than 200 companies. The businesses are overseen by his sons and sons-in-law

Julián Slim, father of Carlos Slim, migrated to Mexico in 1902. Julián tried his hand at businesses such as printing, retail, real estate, etc., and did well. He fathered six children; Carlos was born in 1940. However, Julián did not live long. He breathed his last in 1953. Carlos completed professional studies and established his company at the age of 25. His initial focus areas were construction, real estate and mining, though he expanded into retail, food and tobacco.

Major breakthrough for Carlos came in 1982, when the Mexican economy crashed due to lower oil prices and high interest rates. The country defaulted on foreign debt payments, and investors fled Mexico. Carlos took advantage of the crisis and went on a buying spree; he acquired a number of struggling companies at very low prices. Carlos was one of the country's most successful businessmen when the Mexican economy recovered in the late 1980s.

Carlos owns more than 200 companies. These range from telecom, infrastructure, banking to retail. Many of the businesses are overseen by his sons and sons-in-law.

Sawiris family, Egypt

The Sawiris' are a well known business family in Egypt. Onsi Sawiris established Orascom in 1950. Onsi started out in agriculture, before shifting to construction and becoming one of the largest contractors in Egypt. However, his success did not last long; his business was taken over by the socialist government of Egypt in early 1960s. Onsi did not accept defeat and left for Libya, where he established a successful contracting business. He returned to Egypt in 1976 and did well due to the construction boom owing to market liberalization.

The Sawiris' remain a successful business family

Having built the business from scratch, Onsi has now retired. He left the day-to-day management of businesses (ranging from construction, hotels, telecom to technology industries) to his three sons – Naguib, Samih and Nassef.

Naguib, the eldest son, joined the family business in 1979. He manages Orascom Telecom Holdings and Orascom Technology. Samih is chairman and Chief Executive of Orascom Hotels and Development, while Nassef is Chief Executive of Orascom Construction Industries.

The Sawiris' remain a successful business family.

ADVISORS/CONSULTANTS TO FAMILY BUSINESSES

Families usually seek help from people who have been associated with it for many years and are trustworthy. However, there are quite a few people who have taken to this as a profession. Apart from these, firms such as PricewaterhouseCoopers and few others have a dedicated family business advisory team in the Middle East. These offer a broad range of advice to family businesses. There are networks such as the Tharwat Family Business Forum, a non-profit organization, which offers a wide range of services to suit the needs of Arab family business members.

People from varied professional backgrounds, including finance, management, economics, law, to even behavioral sciences, operate in the family business advisory market. The reason for this is that apart from the technical issues such as drafting of wills and structuring financial programs, there is the need to identify and address the soft issues affecting the family businesses.

There is no league table for family business advisors/consultants; people from all walks of life are eligible

Here's a checklist one could refer to before appointing a family business advisor/consultant

- What is his/her area of expertise?
- Does the advisor have ample practical experience?
- Will the advisor be confidential enough and not leak sensitive information?
- Does he/she possess the ability to empathize but stay neutral or unbiased?
- Does the advisor possess emotional intelligence?
- Lastly, selection of an advisor should not be done in a hurry. Sufficient time should be taken before choosing the advisor/consultant as their suggestions influence the success or failure of a family business to a large extent.

CHALLENGES FACED BY THE FAMILY BUSINESSES IN MENA

Family-owned businesses in MENA may not be playing the same role as in the past

No country can be devoid of family-owned businesses. Often we come in contact with the products/services of family firms. Family-run businesses account for more than 85% of all companies in the 33 OECD countries. These businesses have strengthened over the years. Saudi-based Al Rajhi Group, which expanded from simple providers of money exchange services to a USD3.1-billion conglomerate with interests in banking, cement, real estate, agriculture and various other fields, is a case in point.

However, there are certain challenges facing these family businesses.

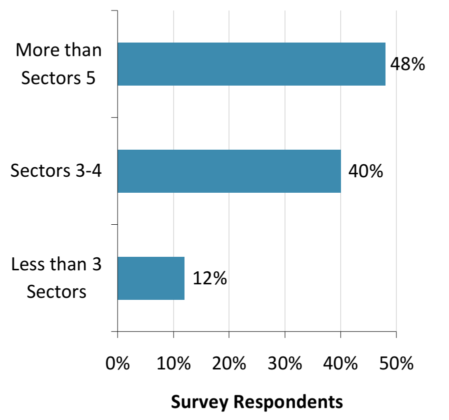
Complex nature of the businesses

Family-owned businesses in the MENA region are far more complex in terms of number of businesses and family size vis-à-vis their western counterparts.

In the MENA region, a large number of family-owned businesses are conglomerates, with interests in more than one industry. While several conglomerates have been quite successful in running numerous business lines, the diversification could, sometimes, have an adverse impact. The family could lose its focus as well as burn cash to support poor business ventures as they are emotionally tied with certain businesses.

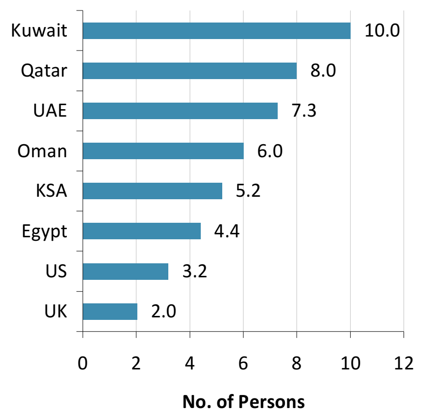
Most family-owned businesses in MENA have taken the shape of a conglomerate

Exhibit 12: MENA family businesses are highly diversified



Source: Booz & Company

Exhibit 13: Average family size is quite large in the MENA



Source: Dow Jones, Ithmar

A survey by Booz & Company in the GCC region indicated that nearly half of the family firms were involved in five or more sectors, with nearly 40% operating in three or four sectors. As per the survey, the most popular sectors for family-owned businesses are: (1) retailing & trading; (2) financial services; (3) real estate; and (4) construction & engineering. In terms of cash-burning companies, an AT Kearney research indicated that, on an average, one-fourth of the family-owned businesses in this region are value destroyers.

Families in the MENA region are large by global standards; the average family size is almost double that in the US and the UK. As a result, the number of family members' involved in/deriving income from the business could grow exponentially; this could be harmful to the family-owned businesses. A study by Booz & Company suggests that a typical family business will need to grow at as much as 18% each year just to maintain the same level of wealth across the future generations.

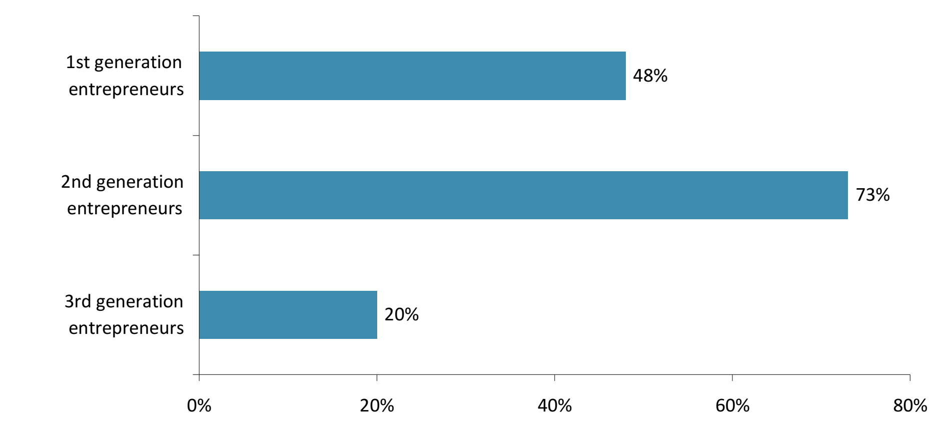
Third generation to take over

According to Family Business Review, seven of ten family-owned businesses fail to make the transition to second generation and just one in ten makes it to the third generation. Simply put, the statistics are against the successful continuation of family businesses over multiple generations, in general.

Most family firms in MENA are managed by the second generation

Most family-owned businesses in the MENA region were founded in the 1950s, or later; as a result, a large number of these establishments are being managed by members of the second generation. Ernst & Young estimates that almost three-quarters of family-owned businesses in the Middle East are being operated by the second generation.

Exhibit 14: Family businesses – survey results



Source: Ernst & Young survey

Since most family firms in MENA are managed by the second generation, which would soon hand over the reins to the third generation, there are likely to be some failures based on the statistics mentioned above. A statement from Booz & Company's report aptly captures the problem, "The transfer of control to a third generation means that a company formerly controlled by siblings with the same mother is now controlled by cousins, with different mothers, and weaker family ties and obligations".

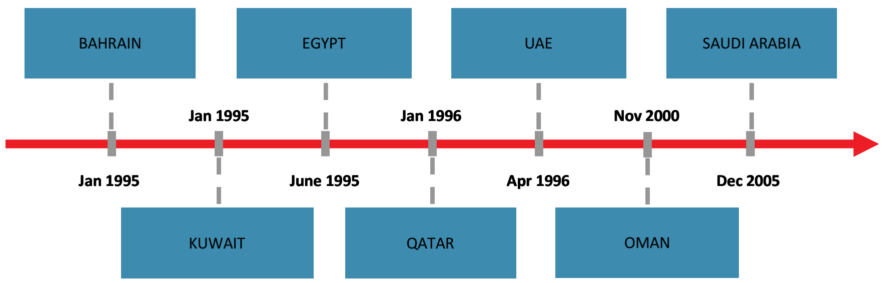
Government policies following liberalization

Family businesses expanded due to restricted competition practices and influential networks

Family-owned businesses in MENA expanded significantly due to restricted competition practices (closed economies) and influential networks (mainly in government departments). However, the business environment for family firms is becoming more competitive. Economic reforms (liberalization) in the MENA region have opened-up various sectors, which previously enjoyed protection. Family firms that have expanded operations overseas are now facing competition from regional and global firms in the domestic market.

Accession to the World Trade Organization (WTO) and its requirements helped in lowering the role of the state, supporting entrepreneurship and encouraging competition as well as confronting vested interests.

Exhibit 15: Membership to the WTO



Source: WTO

Transparency issues

Going forward, family-owned businesses may find it difficult until they enhance their disclosure and transparency levels

Debt defaults[6] by two conglomerates – Saad and Algosaibi in May 2009 – have raised the issue of transparency for several family-owned businesses. Thus, easy access to credit on the basis of "name lending" is no longer favored by banks in the MENA region. Defaults by the two companies mentioned above had a domino effect on the lending practices of banks, most of which have tightened lending to family-owned businesses (privately-owned). A simple loan process, which was the case earlier, has become complicated with banks seeking detailed earnings statements and proof of collateral. Going forward, family-owned businesses in the MENA region may find it difficult to obtain loans until they boost their disclosure and transparency levels.

[6] *The two groups are believed to have borrowed USD20 billion from more than 80 banks*

FAMILY BUSINESSES VIS-À-VIS NON-FAMILY BUSINESSES

The family business model has existed for centuries. Despite being one of the most durable models, there are many cases wherein businesses failed to continue operations over the long term. Some of the most common advantages and disadvantages of large family-owned businesses are mentioned below.

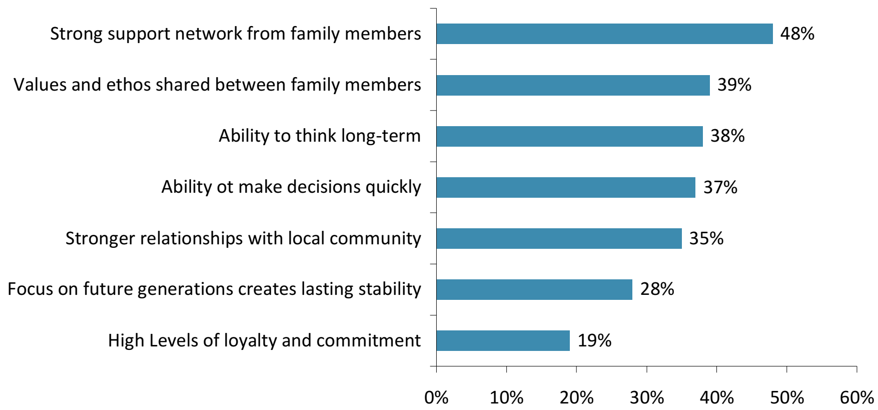
Advantages

Family–owned businesses have a long-term perspective and enjoy the loyally/commitment of family members

- **Far-sightedness:** The most common advantage of a family business model is its long-term perspective. Decisions in a family-owned business are not taken with a myopic view, as in the case of professionally-run public companies where greater emphasis is laid on quarterly numbers and share price movements.
- **Stable leadership:** Family businesses enjoy a stable leadership. The head of a family business is usually an individual with several years of experience. In most cases, it is the founder who handles the business. It is difficult for an outsider to bring in such a perspective.
- **Loyalty and commitment:** Since family wealth is at stake, there is a sense of loyalty and commitment among family members involved in the business. Such qualities are difficult to find/inculcate in non-family firms.
- **Flexible and focused:** The organizational structure of family businesses is simple compared to professional/non-family businesses. This facilitates management to make quick decisions.
- **Stronger customer relationships:** Family-owned businesses tend to build stronger relationships with customers. A listed public company could have a new CEO every few years, but with family firms, the management team is expected to last for several generations.

Exhibit 16: Advantages of family business model – EIU-Barclays survey

The survey places strong support network from family members as the top advantage



Source: Barclays Wealth Insights, Economist Intelligence Unit

Disadvantages

But, the family-business model also suffers from poor corporate governance and succession issues

- **Conflicts between family members/relatives:** Disagreements between two human beings is a natural phenomenon. However, when disagreements (between people running a common business) turn into bitter fights/quarrels, the results are not healthy. The murder of Maurizio Gucci, the third-generation head of a luxury goods business, is a case in point. Conflict among family members is one of the biggest disadvantages for family-owned businesses.

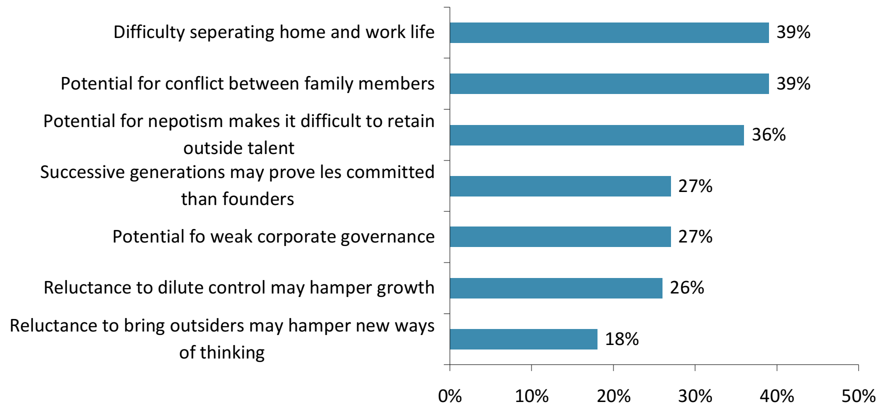
- **Nepotism:** It is a key feature of most family-owned businesses. Traditionally, these firms pass on responsibilities from one generation to the other; therefore, nepotism is likely to occur at the workplace. Nepotism refers to the act of favoring blood relations/relatives as opposed to them being judged on the basis of ability or merit. This affects the performance of other employees (non-family).

- **Succession issues:** Several family-owned businesses do not have proper succession plans in place. This could be ascribed to the founder's unwillingness to appoint a successor following his/her retirement. Succession planning is relatively better in non-family/professional firms.

- **Corporate governance:** Strong governance is an essential element for any business; yet, family-owned businesses are complacent about this characteristic. According to an EIU-Barclays survey conducted in 2008, less than one in five family-owned businesses considered strong governance to be an important characteristic for the success of their business. Frauds discovered in Parmalat, an Italian dairy giant, and Satyam, an Indian IT company, have escalated the issue of poor corporate governance in family firms.

Exhibit 17: Disadvantages of family business model – EIU-Barclays survey

The survey places conflicts between the family members as the main problem area

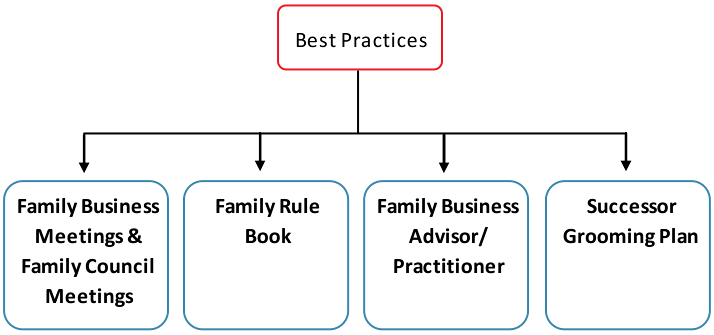


Source: Barclays Wealth Insights, Economist Intelligence Unit

FAMILY BUSINESS: BEST PRACTICES

The success of a family business depends on the family members to remain closely knit and have a common vision. In addition to the close ties between the family members, there are certain best practices a family business can adopt to make it a success. These have proved to be successful for many of the family businesses worldwide.

Exhibit 18: Family Business Best Practices



Source: KPMG

These practices have proved to be successful for many of the family businesses worldwide

Family Business Meetings & Family Council Meetings

Holding of regular family business meetings (for the active family members) and family council meetings (for the broader family members) is recommended in order to apprise the family members of all important matters that concern them and the business.

Family Rule Book

The family business rule book serves as a guide to the family members in their personal, business and family relationships. Establishment of rules helps reduce the chance of conflicts among the family members that could prove fatal to the family business.

Family Business Adviser/Practitioner

Seeking the help of an outside family business adviser/practitioner is advisable. These people are professionals who understand the three circles of ownership, management, and family and their interrelationship. They prove to be a great resource during the succession process.

Successor Grooming Plan

It is important to determine the grooming plan for the future successor. The potential successor must be chosen through a process transparent to the family members. The grooming plan helps bridge the gap between the current skills of the likely successor and the required skills essential for managing the family and business.

WHAT IF THE FAMILY BUSINESSES WERE TO GO PUBLIC?

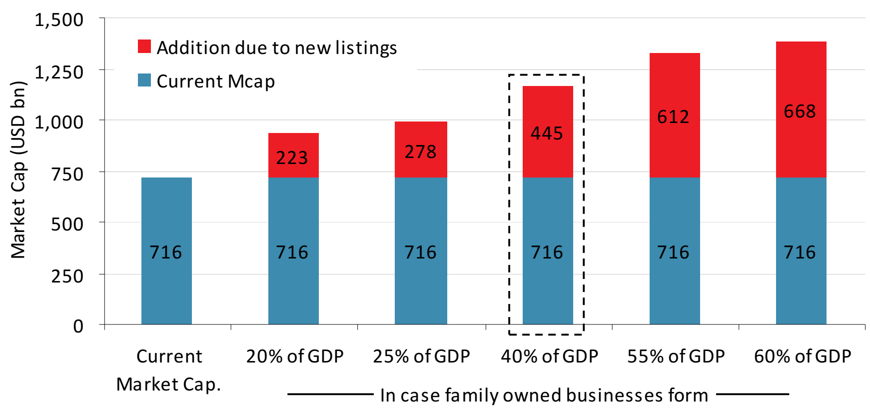
For any privately-held business, going public is one of the ways of raising capital that will help fund its growth plans or allow existing shareholders to monetize the value of the investment.

The laws for being listed on recognized stock exchanges are being eased

Various governments are promulgating laws that will facilitate family businesses to seek public listing since they have the potential to significantly add to the breadth of capital market. For instance, in the UAE, promoter families are allowed to retain as much as 70% of their equity, in case they wish to go public. The earlier limit of 45% (which was changed in August 2007) had discouraged many families from listing on the stock exchanges. Furthermore, the recent plans by Nasdaq Dubai to overhaul the listing rules are expected to appeal to the family enterprises. (Please refer to Appendix 2 for more details on the listing requirements of various stock exchanges in the MENA region).

Assuming that family-owned businesses comprise 40% of the GDP in the MENA region, while only 8% are publicly traded[7] and 92% aim to dilute a 25% stake through IPOs, the total market capitalization of the regional stock exchanges could rise by 62%.

Exhibit 19: MENA market-cap could rise by a wide margin



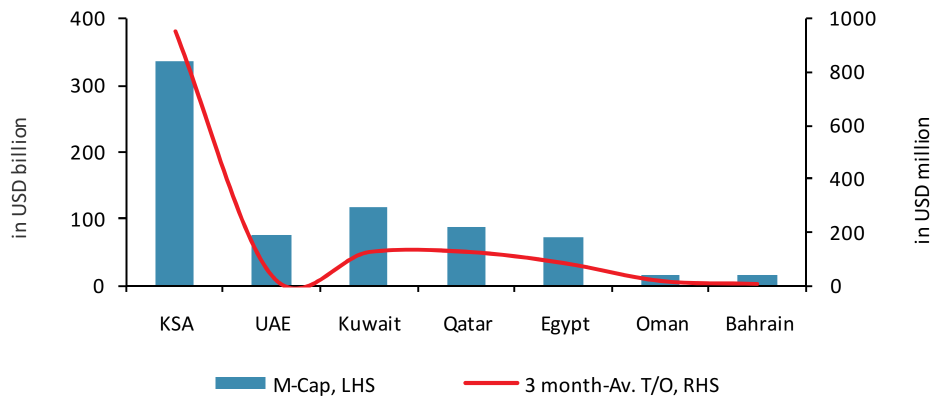
Source: Zawya, Al Masah Capital (Note: MENA defined as GCC + Egypt here); data as of March 15, 2011

The increased number of listings would also add to the liquidity of the bourses. Larger number of companies available for trading would not only encourage domestic participation but also have a spill-over effect of attracting more (foreign) investor interest.

MENA stock markets score low in terms of attractiveness to foreign investors. For instance, Tadawul (Saudi Stock Exchange) – the largest exchange in terms of market capitalization – offers less than 150 companies for trading/investing. Moreover, retail investors happen to be the dominant class of participants here. In February 2011, retail investors accounted for 84% of the value of trades executed on the Saudi Stock Exchange. As a result, the volume/value of shares traded on the MENA bourses is considered low by global standards, making them unattractive to the institutional investors: domestic and foreign.

[7] *Middle east family business survey report (Ernst & Young)*

Exhibit 20: MENA Stock Markets Trade Statistics



Source: Zawya, Thomson Reuters, Al Masah; data as of March 15, 2011

However, these characteristics could definitely undergo a healthy change if the MENA family firms take the initiative of going public.

Benefits of going public

Some of the benefits of being listed on a recognized stock exchange

Taking a company public has several advantages associated with it. In addition to the direct benefits such as access to large pool of capital, indirect benefits such as enhancement of the company's image in the minds of the public are also material. Mentioned below are some of the key benefits of going public:

- **Immediate cash flow:** The cash brought-in via IPOs can be used for growing the business or to make payouts to the family members. In fact, by getting the businesses listed on a stock exchange, the family members get an equal change to exit or even acquire more ownership by selling/buying shares through the stock exchange.

- **Market valuation:** One prime benefit of being listed on the stock exchange is that it provides a clear-cut value for the business. This, in a way, helps avoid future disputes relating to the market value of the business when buying-out a family shareholder. Valuing unlisted businesses usually seeks a third-party (independent) intervention.

- **Pruning the family tree:** In families where the numbers of members are a tad too many for managing the business, the proceeds from IPOs can be used to buy-out the smaller or those family members who wish to tread their own path. The process simplifies the ownership structure, helps make speedy decisions, and proves to be healthy for the family in the long run.

- **Ready access to future capital needs:** Listed entities can usually go for a rights issue or preferential allotment when seeking additional capital to fund the business growth. In fact, their short-term capital needs can also be immediately met through pledging of shares with financial institutions.

- **Discipline:** A listed entity has to mandatorily file its quarterly and annual financial reports, conduct shareholder meetings, board of directors meetings, among others. This helps maintain discipline and transparency, a notable trait that lenders and investors usually seek while making lending/investment decisions.

Countries offering the best framework for doing business

World Bank's 'Ease of Doing Business Index' assesses the business environments prevailing in different countries across the globe. We relied on this index to evaluate the level of business friendly environment in MENA countries.

According to the World Bank report, Saudi Arabia is the country of choice to conduct business in the MENA region. It scores well on most factors conducive to creating the right business environment. Saudi Arabia is followed by Bahrain, the UAE, Qatar and Tunisia. The complete list and ranking on various parameters is available in the table below.

Saudi Arabia is the country of choice to conduct business in the MENA region

A nation's ranking on the index is based on the average of nine sub indices: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

Exhibit 21: Countries offering the best framework for business in MENA

Country	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Registering Property	Obtaining Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Saudi Arabia	1	1	1	1	1	1	3	2	14	7
Bahrain	2	8	2	4	4	4	6	5	9	1
United Arab Emirates	3	4	3	2	2	12	2	1	13	16
Qatar	4	11	4	6	12	8	1	7	5	2
Tunisia	5	5	11	7	4	5	11	4	3	3
Oman	6	7	6	3	10	8	4	10	6	8
Kuwait	7	14	7	10	4	2	5	13	8	6
Egypt	8	2	17	11	2	5	16	3	16	14
Yemen	9	6	5	5	14	15	17	15	1	9
Jordan	10	12	8	13	10	12	8	8	12	11
Lebanon	11	10	15	14	4	8	9	11	10	13
Morocco	12	9	9	15	4	16	15	9	7	5
Iran	13	3	16	17	4	17	14	17	2	12
West Bank and Gaza	14	16	18	8	15	3	7	12	4	17
Algeria	15	15	12	18	12	5	18	16	11	4
Syria	16	13	14	9	15	11	13	14	18	10
Djibouti	17	18	13	16	18	18	12	6	17	15
Iraq	18	17	10	12	15	12	10	18	15	17

Source: World Bank – Doing Business 2011

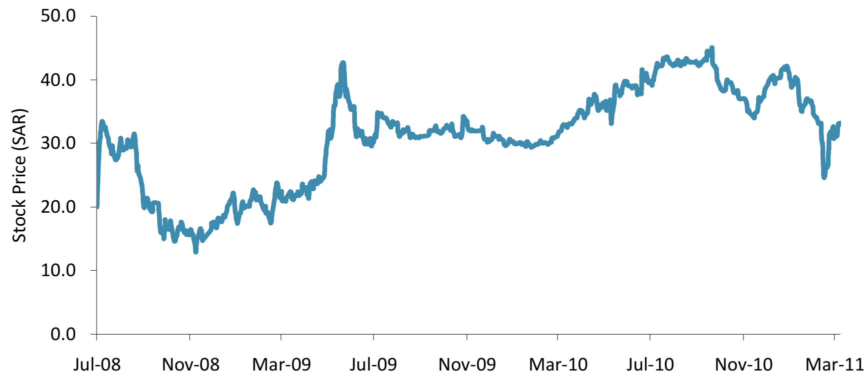
SOME IPO SUCCESSES AND FAILURES

Halwani Brothers

Halwani Brothers Company, a diversified food and retail group in Saudi Arabia, came out with an IPO in 2008. Established in 1952, the company offered 30% of its shares valued at USD45.7 million to the general public. Based on the IPO price, Halwani Brothers was seeking a market capitalization of USD152.3 million. As of March 24, 2011, the market capitalization of the company stood at USD252.9 million, up 66%.

Halwani Brothers stock price has appreciated by 66% since going public

Exhibit 22: Halwani Brothers Stock Performance since IPO



Source: Zawya, Bloomberg

The financials of Halwani Brothers suggest that the company has done well. Over the last two years, net profit increased at CAGR of 49.4% compared to 5.1% in the top line. Halwani Brothers has managed to achieve this due to lower costs of production.

Exhibit 23: Financial Performance (USD million)

	2010	2009	2008
Revenue	195.24	164.56	176.84
Gross Margin	63.47	53.20	46.68
Net Operating Profit	28.70	18.73	13.84
Profit After Tax	21.10	11.15	9.45

Source: Zawya

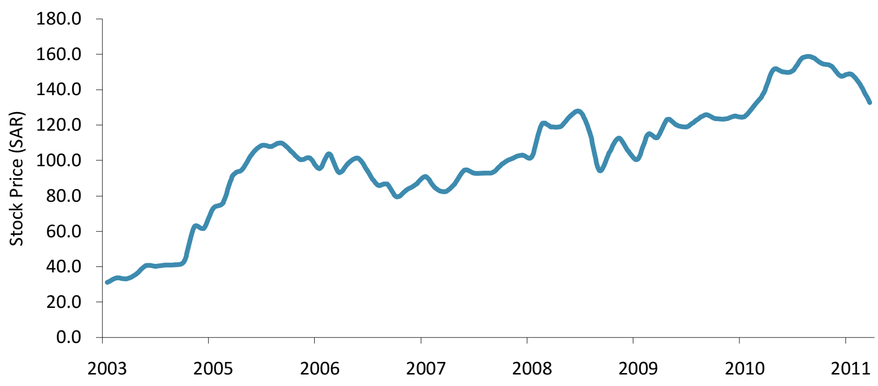
Jarir Marketing

Established in 1979 by the Al Agil brothers, Jarir Marketing Company is another group that offered its shares to the public through an IPO. The company – in the business of retailing books, computers and peripherals, office and school supplies, toys, sports equipment and other items of stationary – launched an IPO in 2003. Based on the IPO price, Jarir was seeking a market capitalization of USD396.8 million.

As of March 24, 2011, the market capitalization of the company stood at USD1.53 billion, up 387%.

Jarir Marketing stock price has appreciated by 387% since going public

Exhibit 24: Jarir Marketing Stock Performance since IPO



Source: Zawya, Bloomberg

Jarir registered strong performance across the board. Over the last six years, Jarir's net profit increased at a CAGR of 22.2%; this is quite close to 24.1% sales growth achieved during 2004–10.

Exhibit 25: Financial Performance (USD million)

	2010	2007	2004
Revenue	804.09	464.45	220.13
Gross Margin	133.79	91.76	45.64
Net Operating Profit	105.54	73.32	31.55
Profit After Tax	106.89	73.69	32.15

Source: Zawya

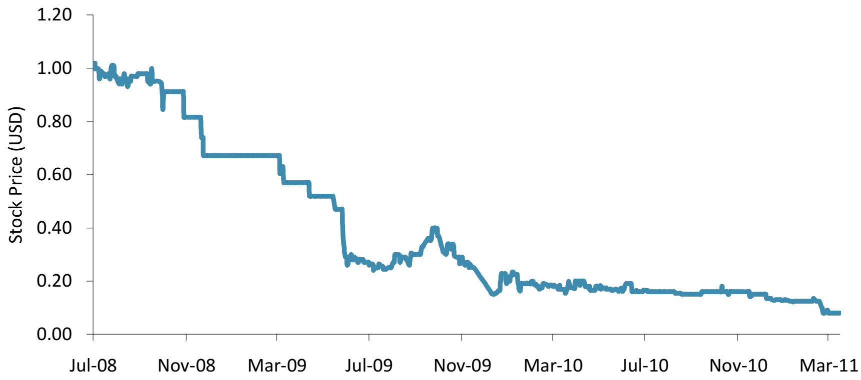
Damas International

Established in 1907 by Mohammed Tawfique Abdullah, Al Abdullah Jewellery Traders (now Damas International Limited) is an international integrated jeweler and watch retailer operating in 14 countries with around 424 stores. Damas launched its IPO in 2008. Based on the public offering, Damas was seeking a market capitalization of USD969.8 million. As of March 24, 2011, the market capitalization of the company stood at USD98.9 million, down nearly 90%.

Apart from poor financial performance, Damas has been accused of faulty corporate governance practices. In March 2010, the Dubai Financial Services Authority (DFSA) fined Damas and its founders (Tawhid Abdullah, Tawfiq Abdullah and Tamjid Abdullah), after it found that the founders had withdrawn funds worth USD165 million for personal use.

Exhibit 26: Damas International Stock Performance since IPO

Damas International stock price has fallen by 90% since going public



Source: Zawya, Bloomberg

It is a little tricky to read into the numbers of Damas for the simple reason that the financials available for 2009 are for a period of 15 months. Additionally, the revenues reported in FY2010 are lower than that in FY2007.

Damas ended the last fiscal with a loss of USD494.16 million.

Exhibit 27: Financial Performance (USD million)

	2010	2009*	2007
Revenue	899.28	1,614.19	967.40
Gross Margin	153.77	288.15	175.09
Net Operating Profit	19.95	116.18	60.21
Profit After Tax	(494.16)	70.05	55.55

Source: Zawya (2009 financials are for 15 months)

CONCLUSION

We feel that MENA family businesses will continue to have a major role in the economy, but may not wield the same level of authority/power, as they enjoyed in the past

We believe family-owned businesses in the MENA region would continue to play a major role in the economy. However, their success going forward depends on their ability to tackle the challenges being faced by them currently.

First, there are challenges of globalization that only few family-owned businesses are capable of handling. Future growth prospects depend on the businesses' ability to counter the world without influential networks and protectionist laws. Family-owned businesses and government enterprises, which were the mainstay of the economy till liberalization, basked in the glory of influential networks and protectionist trade policies. Second, is the succession issue, since three-quarters of family-owned businesses in the Middle East are likely to move from the second generation to the third. Past studies indicate a poor track record of success – nine of the ten family-owned businesses fail to make the transition to third generation. Third, families in MENA are large by global standards, which results in higher number of family members through each successive generation. A large family base could result in future conflicts/disputes that could affect the business. Fourth, defaults by two Saudi conglomerates – Saad and Algosaibi – has raised the issue of transparency for several family-owned businesses. Consequently, credit availability on easy terms has become difficult.

There are instances which suggest that a positive change is taking place with the family businesses in MENA

But, there are instances which suggest that a positive change is taking place with the family businesses in MENA. For instance the Al Muhaidib Group, which has more than 200 companies/ investments in its portfolio, recently underwent a restructuring exercise to streamline operations. It wanted to identify core sectors for future growth and divest portfolio firms that no longer fit into their area of interest or are underperforming. In addition, some family firms (like the AlMajdouie Group) have taken an initiative to draft a formal policy framework for effective governance; some have become open to the idea of hiring non-family managers; some have even gone to the extent of forming audit committees and independent advisory boards, suggesting that the family firms are bracing themselves to face the challenges of globalization, bolt-on.

APPENDIX 1

Exhibit 28: List of some of the Richest Families in MENA		
Family Name	**Country**	**Net Worth (USD bn)**
HRH Prince Alwaleed Bin Talal Al Saud	KSA	19.60
The Sawiris family	Egypt	13.40
Mohammed Al Amoudi	KSA	12.30
Mohamed Bin Issa Al Jaber	KSA	12.00
The Olayan family	KSA	12.00
Al Rajhi family	KSA	11.90
Nasser Al Kharafi family	Kuwait	10.40
Issam Alzahid	KSA	10.00
The Bin Ladin family	KSA	10.00
Hariri family	KSA	9.11
The Bugshan family	KSA	7.00
Said Khoury family	Palestine	7.00
The Al Ghurair family	UAE	6.50
The Al Juffali family	KSA	6.20
The Kanoo family	Bahrain	6.10
Tarek Abdulla Al Qahtani	KSA	6.00
The Alshaya family	Kuwait	6.00
Mubarak Al Suwaiket	KSA	5.20
Abdullah Al Futtaim	UAE	5.10
Mohamed Abdul Latif Jameel	KSA	5.10
The Naghi family	KSA	5.00
Mikati family	Lebanon	5.00
Majid Al Futtaim	UAE	4.90
Abdullah Al Rushaid	KSA	4.55
Mohammed Sharbatly	KSA	4.10
Mohammad Kamal Jamjoom	KSA	4.02
Almana family	Qatar	4.00
The Bukhamseen family	Kuwait	4.00
The Hayek family	Lebanon	3.90
Mansour family	Egypt	3.80
The Gargash family	UAE	3.70
Ahmed Saleh Baeshen	KSA	3.50
Faisal Al Ayyar	Kuwait	3.40

Source: Forbes, Arabian Business, Al Masah

APPENDIX 1 (CONT.)

Exhibit 28: List of some of the Richest Families in MENA (cont.)

Family Name	Country	Net Worth (USD bn)
Hariri family	Lebanon	3.30
Abdullah Bin Saleh Al Othaim	KSA	3.28
Abdullatif Al Fozan	KSA	3.26
The Saedan family	KSA	3.22
Abdulaziz Al Sulaiman	KSA	3.20
Nadhmi Auchi	Iraq	3.18
Hussein Bakry Gazzaz	KSA	3.17
Osama Ismail Ali Abudawood	KSA	3.10
Mohammed Elkhereiji	KSA	3.00
Suad Al Humaidi	Kuwait	3.00
Adel Aujan	KSA	2.90
The Al Zamil family	KSA	2.80
The Alghanim family	Kuwait	2.80
Mansour Ojjey	KSA	2.70
Saleh Kamel	KSA	2.60
Mouawad family	Lebanon	2.50
Shafik Gabr	Egypt	2.10
Abdul Mohsen Bin Abdul Aziz Al Hokair	KSA	2.00
The Heikal family	Egypt	1.78
Al Tayer family	UAE	1.70
Mohammed Alesayi	KSA	1.70
The Boodai family	Kuwait	1.70
Ahmed Ezz family	Egypt	1.50
Al Gurg family	UAE	NA
Sediqqi family	UAE	NA
Mohammed Alabbar	UAE	NA
Sultan Ahmed Bin Sulayem family	UAE	NA
Patrick Chalhoub family	Syria	NA
Riad Kamal	Palestine	NA
Abdel Hamid Shoman	Palestine	NA
Mohsin Haider Darwish family	Oman	NA
Almoayyed family	Bahrain	NA

Source: Forbes, Arabian Business, Al Masah

APPENDIX 2

Exhibit 29: Some of the important listing rules for stock exchanges

Exchange	Important Listing Requirements
DFM/ADX (UAE)	• Foreign ownership of UAE Public Joint Stock Company (PJSC) limited to 49% (possibly higher). GCC ownership of a PJSC in some instances may be 100% • Minimum free float of 55% for PJSCs (the UAE company law requirement) • Minimum number of shareholders is 100 (in case of foreign issuer only for ADX)
Tadawul (KSA)	• Foreign ownership is permitted through 'swap' derivatives transactions. GCC nationals may own or deal in securities on a case-by-case basis • Minimum free float of 30% • Minimum number of shareholders is 200
EGX (Egypt)	• Allows 100% foreign ownership of companies • Minimum free float of 10% • Minimum number of shareholders is 100
BAX (Bahrain)	• Generally 49% maximum cap on foreign ownership for non GCC nationals • Minimum free float as prescribed by the CBB • Minimum number of shareholders is 100
KSE (Kuwait)	• Foreign ownership of banks is limited to 49% (with any stake of 5% or more requiring Central Bank approval). No limits in other industries • Minimum free float of 30% • There is no limit (minimum) on the number of shareholders in the Official Market. However, the minimum limit is 50 in Parallel Market

Source: Gibson, Dunn & Crutcher LLP, General Authority for Investment and Free Zones (Egypt)

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