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Pragmatic Advisors

The Region's Leading Advisor on Family Business

The Six Challenges Facing Regional Family Businesses



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In economies, emerging or mature, large or small, Family-Owned Businesses generate a great deal of wealth and therefore contribute substantial value. While every business is faced with common challenges, Family-Owned Businesses are further faced with additional unique challenges mainly related to managing the complex interaction between the family, the ownership and the business.

Today, Family-Owned Businesses in the GCC and the Middle East are facing six key challenges that continue to question their survival and dilute their competitiveness.

Those include:

- **Control:** Dilemmas about control in Family-Owned Businesses are either a result of ignoring the minority voice or role confusion. To tackle the control challenge, owners can focus on avoiding decision rights that are typically monopolized to protect minority shareholders. Once that is set, the second focus should revolve around drawing the line between the different family members day-to-day roles and responsibilities in the business
- **Succession:** There will come the time when a key family member has to retire, leave or perhaps pass away. Failing to acknowledge this challenge will setup the Family Business for failure. Accordingly, facing the music in properly planning and executing the transition to the next generation, remain a critical factor to avoid the fatal mismatch between competencies and business requirements
- **Dilution:** While active owners / managers see the need for recurring capital injections to pursue growth strategies, passive owners are more contented by nurturing their personal ventures. Managing a fair split of the business or escaping the dilution of power can help avoid the feeling of unfairness that leads to the rise of competing businesses by furious family members
- **Wealth:** Conflicts in Family Businesses occur frequently and are very natural to occur. Yet, properly acknowledging and managing such conflicts to avoid the snowballing catch, remains key to evade wealth diffusion. Putting in place a conflict resolution mechanism to avoid exhausted capital waiting to buy-out conflicting family members can help discharge those funds towards healthy pooled investments. To that, providing liquidity options, by engaging a yearly business valuation is key to facilitate liquidity exits and avoid conflicts at the outset
- **Competitive Advantage:** The challenge of sustaining the competitive advantage is not only a Family-Owned Business challenge, but further aggravates in Family Businesses that lack discipline and harmony among family members. Following a market-driven learning approach and optimizing resource sharing across all business units, can help alleviate the risks of rivalry that continue to raise the bars exponentially

While following a piecemeal approach in confronting the above challenges can alleviate the underlying risks, such fragmented approach does not institutionalize the longer-term remedy. The key answer is Family Business Governance. Putting in a place a governance framework which explicitly shares policies, principles and rules pertinent to the above challenges is imperative to regulate the relationship of the family with the family, the business and the wider community. Quoting one of our regional clients, the latter confidently stated “Family Business Governance is the best gift we can ever give to our children and their children”.



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