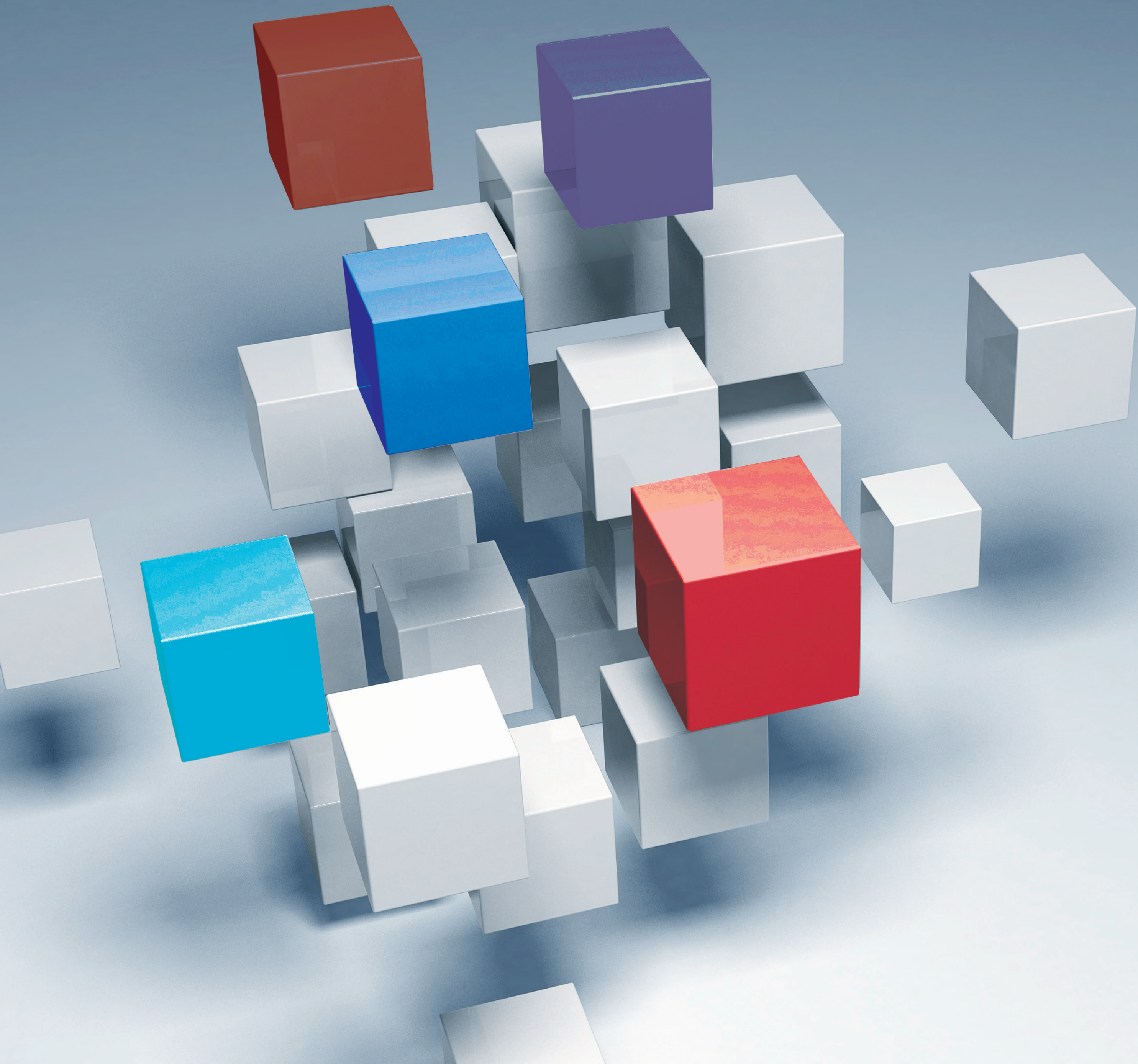
Pearl Initiative

Tharawat Family Business Forum ثروات



GOOD GOVERNANCE IN FAMILY FIRMS

FIVE CASE STUDIES FROM THE MIDDLE EAST

In association with:

Pinsent Masons

Coutts

Case studies researched and written by:
Farida El Agamy, General Manager, Attorney-at-Law, Tharawat Family Business Forum
Céline Schreiber, Programme Manager, Pearl Initiative

Acknowledgements:
We would like to thank WJ Towell, Zamil Group, Alissa Group, SABIS®, Majid Al Futtaim and Coutts, and Pinsent Masons for their support.

Design, illustrations and layout by Louie Alma and Mohammed Issa.
Translation by Mahmoud Shehata.

GOOD GOVERNANCE IN FAMILY FIRMS
FIVE CASE STUDIES FROM THE MIDDLE EAST

We would like to thank the business families who have participated in this research and who have generously shared their experience and knowledge to the benefit of the community.

Dear Reader,

Family firms are the backbone of the Gulf Region's economy, generating an estimated 80% of non-oil GDP. Almost three quarters of the Region's family businesses are currently owned and managed by the second generation. So, it is estimated that a staggering $1 trillion in assets will be handed over to the third generation of the Region's family businesses over the next five to ten years.

The issue is, however, that global statistics suggest that only 15% of family businesses continue to generate value beyond the third generation. The potential for value destruction, without proactive action, is therefore huge. It is clear that ensuring the successful health and continuity of family firms will be a key factor for economic growth in the Region.

Most Gulf family firms have developed some form of governance procedures, but very few have a formalised structure robust enough to weather change including generational transitions. Every family business is unique, and so it is important that governance frameworks are flexible. However there are some intrinsically similar challenges that every business faces, and a strong governance framework is key to ensuring its long-term survival and success.

In research published in 2013 within the report "Family Matters: Governance Practices in GCC Family Firms", the Pearl Initiative found that Gulf family business owners do believe that corporate governance is becoming a key factor that will ensure the long-term health of the company and improve transparency, access to capital and talent. Many believe that improved governance will enhance professionalism and international competitiveness. The critical issue now is in the rigorous implementation of these practices.

Over the past few years, many family firms across the region have not only come to accept, but embrace, the need to adopt best corporate governance practices. As individual companies begin to implement robust models, the next stage in the adoption process is to share best practices with each other. Sharing best practices encourages others to adopt these higher standards, which makes good business sense for all stakeholders in our regional markets. This is particularly important as it means that we can adopt locally-relevant best practices that have a real and practical application within the Region.

Our hope is that this joint work by the Pearl Initiative and the Tharawat Family Business Forum – to research and write five good practice case studies within the Region - will help further the transition of healthy, well-governed and sustainable businesses through the coming generations. We would like to thank the five firms for giving us full access to investigate and write these detailed case studies.

It is our belief that good corporate governance, based on values of accountability and transparency, makes sound business sense and is fundamental to fostering future competitive economic growth, spurring job creation and enhancing sustainable development across the Gulf Region and beyond.

Imelda Dunlop

Executive Director
Pearl Initiative

Dear Reader,

Family businesses are the rule, not the exception. As the most frequently encountered ownership model in the world, family firms contribute between 70 - 90% to global GDP and create over half of the employment in most surveyed countries. While the SME sector generally holds the highest concentration of family ownership, family businesses come in all shapes and sizes from micro firms to globally successful conglomerates such as Walmart, Lego, Samsung, Tata, and many others.

The Middle East is no exception; family businesses are not only the most consistent job creators, but have always played important roles in their communities and in spearheading innovation. Their sustainability and growth is therefore of paramount importance to the whole region.

But running a business with family members can be highly complex affair as the intertwining dimensions of family and business can stir up challenges of a delicate nature. While maintaining a precarious balance between strengthening family relationships and increasing business performance, business families are faced with complex decision-making processes and require thorough structuring to remain successful across generations. However, players in the Middle East still have insufficient access to information with regards to good practice in terms of family business governance. This does not mean that such practices are not in place, however, their shape and success is commonly unknown.

This research project undertaken jointly with the Pearl Initiative focuses on family businesses in Gulf countries and the Levant and gave us the opportunity to delve a little deeper into corporate and family governance structures of successful multi-generational family businesses, explore how they established core structures, what challenges they faced, and how they value the impact of those systems. Selecting five highly successful family businesses for the study, our main aim was to focus on understanding their governance systems that have helped them sustain and grow over decades and to make an important step in disseminating good practice for the benefit of regional family businesses.

During our research we found several topics that seemed to concern all businesses equally in spite of their distinct structures:

- Firstly, managing the transition of ownership and management control from one generation to the next is a strong focus for all.
- Secondly, the development of fair and transparent structures to successfully integrate the young generation into the corporate system seemed of primary concern to all five families.
- Another priority we found in most cases was the balance between the interests of the family and the business.
- Finally, all participants made the experience, that governance systems were not set in stone, but require continuous development and input from all family members, as well as adaptability to the requirements of the business.

At Tharawat we believe in the importance of sharing knowledge in order to build good practice – this implies sharing success as well as challenges. We hope that this report can not only inspire families in business of all sizes to have a second look at their current systems, but also encourages them to carefully share their learning with others.

Our collaboration with the Pearl Initiative was a unique opportunity to combine our respective organisation's know-how and understanding of Corporate and Family Governance and allowed us to explore the synergies and necessary connectivity of the two systems for the benefits of family businesses in the region.

Dr. Hischam El Agamy

Executive Director
Tharawat Family Business Forum

TRIGGERS FOR FAMILY GOVERNANCE

The first instinct of many family enterprise members is to say 'no' to formal family governance. Too challenging, too early, too expensive, too complicated or too Western are some of the many reasons given. For some, informal family governance may be the right approach, but for others, the absence of any kind of formal framework for making family decisions will put the family enterprise (family business, family office or family foundation) at risk. In this article, Mark Evans, Managing Director, Coutts Institute, invites members of family enterprises that don't have any formal governance in place to consider some family governance triggers that could leave the family exposed.

A family enterprise looking to secure the wealth and wellbeing of both the family and the enterprise needs to acknowledge the particular challenges created by family involvement. Appropriate family governance (formal or informal) can help address these challenges.

The more mature and complicated family enterprises become, the more likely it is that their owners will require more formal governance. However, it can often be difficult to know when or where to start. Families need to set aside time to anticipate possible triggers for themselves. This list is designed to help, but is by no means exhaustive.

Ownership Succession

Examples of governance challenges: Do the next generation want to be future owners of the enterprise? How will they be prepared for responsible ownership? They may not admit to not knowing how to be shareholders or what rights and responsibilities this privilege brings.

Example of establishing a governance policy: Developing a bespoke 'next generation' programme to learn about the family's values and vision for the enterprise.

Leadership Succession

Examples of governance challenges: Who should lead the family enterprise? Must the leader always be a family member? Next generation family members are often unclear on how to earn their place in the company.

Example of establishing a governance policy: Specifying the criteria for future leaders and designing an independent assessment process for selecting talent to encourage fairness.

Family Employment

Examples of governance challenges: What are the conditions for entering the family enterprise? Who decides? Who do family members report to? Many family enterprises encounter problems because family members aren't sure what is expected of them or what they can expect. This can lead them to make assumptions based on their own expectations.

Example of establishing a governance policy: Documenting terms of employment for family members to avoid difficulties between family employees and non-family employees.

Appointing Non-Family Managers

Examples of governance challenges: Do non-family members have an equal opportunity to air their views? Do we risk alienating family members who feel they have been 'passed over' in favour of a non-family colleague? Although all family enterprises are different, outside directors are often one of the richest and least used resources.

Example of establishing a governance policy: Deciding the basis on which to motivate and incentivise non-family managers in order to attract the best professionals and ensure the family is properly prepared to back them.

Family Conflicts

Examples of governance challenges: How are conflicts or disagreements in the family handled? How are they resolved? Differences are inevitable and conflict is to be expected but needs to be managed in a spirit of honesty, fairness and mutual respect.

Example of a governance policy: Setting guidelines for holding regular, scheduled face-to-face meetings and appointing a peacemaker, where necessary, to achieve a win-win outcome.

Growing Complexity

Examples of governance challenges: Are there many family members with differing views, beliefs, motives, interests and concerns? A lack of transparent communication will be at best disruptive and at worst destructive. Example of a governance policy: Agreeing who will be involved in discussing and implementing appropriate family structures (a family forum, council or charter, for example) to create a more stable family system.

Contingency Planning

Examples of family governance challenges: What are our biggest weaknesses as a family? Are there subjects that cannot be discussed? Family members often feel uncomfortable talking about family risks such as an unexpected death, accident or illness, but over-reliance on a single family member can be problematic. Example of a family governance policy: Deciding what is under the family's control and how issues will be managed before they arise to ensure that family members focus on prevention rather than cure.

Conclusion

Family governance challenges can be triggered by many predictable events. Deciding what is best for the family versus what is best for the family enterprise can result in completely different conclusions, so it's important for each family to separate the family strategy from the business strategy. Governance policies that have been openly discussed and 'bought-into' can help to manage the issues that will inevitably arise.

IMPLEMENTING CORPORATE GOVERNANCE IN FAMILY FIRMS

Corporate Governance is firmly on the agenda of governments, regulators and CEOs alike, including in the GCC; to varying degrees, each GCC Government has enacted legislation in respect of Corporate Governance. Predictably, the focus of such legislation tends to be public companies, and increasingly financial institutions. However, beyond the businesses being compelled by legislation to review the way in which they conduct their business, Family Firms in the region are actively seeking to implement sound governance as a means of safe-guarding the family businesses for future generations, and managing sustainable growth.

There are many large Family Firms in the region that have grown into multinational enterprises, in some cases with interests spanning the globe. Many Family Firms in the GCC region started out as small trading companies and grew into large diversified conglomerates with interests spanning sectors, markets and geographical boundaries. As the business grows, so too do the challenges associated with managing such large and diverse portfolios, while keeping the family at the heart of the business.

Some of the region's Family Firms have truly made the transition from local trading enterprise to diversified global conglomerate, with developed corporate structures and governance frameworks that successfully separate the ownership of the business from the management, and include, in some cases, the appointment of both executive and non-executive directors from outside the family circle, audit committees and anti-corruption policies and procedures. Studies indicate that Family Firms that commit to good governance enjoy greater longevity, but the benefits don't stop there; good governance is associated with improved efficiency, effective risk management and greater rewards for all stakeholders (shareholders, employees, clients and customers). As these hugely successful Family Firms openly demonstrate their commitment to, and the rewards of, good governance, it is likely that others will follow suit.

Governance in Family Firms

Beyond the ever evolving challenges associated with implementing good governance that affect all businesses, Family Firms face a very specific challenge as they seek to change the way they have conducted their businesses, often over many years; the challenge of balancing the interests of the family with the interests of the business.

For families embarking on the process of implementing corporate governance procedures, open and honest discussion within the family will be crucial as key considerations, such as those below, are addressed.

Key Considerations for Family Firms:

- Keeping the business in the family, and who constitutes family;
- Managing succession;
- Managing the business - family members or appropriately skilled individuals from outside the family;
- Whether family members will enjoy employment opportunities within the business, and how such employment opportunities will be managed;
- Decision making processes - for larger families with multiple branches, it may be appropriate to establish family committees;
- Keeping family members informed about the performance of the business, and how key decisions affecting the business will be taken.

The Family Charter: The Foundation of Corporate Governance in Family Firms

The Family Charter will often be the first stage in implementing governance, and is a key element in addressing the considerations referred to above. The Family Charter should set out:

» The family's vision for the business;
» The family's expectations as to:
» Growth and direction of the company;
» Information sharing;
» Employment by the company of family members;
» Share ownership; and
» Family involvement in the management of the business.

First and foremost, the Family Charter creates a moral obligation on the family members to adhere to its principles, and it's real value is in the willingness of the family members to be bound by it. Going forward, some of the principles contained in the Charter will be entrenched in contractual and constitutional documents, but not all, and so it is important to make sure that all views are heard and considered for the Charter to be meaningful.

The Board of Directors: The Cornerstone of Corporate Governance

Once the Family Charter has been agreed, a suitable legal structure will be decided upon and implemented, giving effect to the family members' interests. The type of legal structure will depend upon a wide variety of factors, but in all cases a key issue to address will be the creation of an effective Board of Directors. The Board will have responsibility for the day-to-day management of a company, and is therefore arguably the cornerstone of the Corporate Governance policy; the Directors will prevent the practice of good governance from becoming a tick-box exercise, and will be charged with formulating the strategy of the business, and be responsible to the shareholders for implementing that strategy.

The composition of the Board of Directors will depend upon the nature and size of the business in question, but consideration should be given to including family members and non-family members to ensure a separation of ownership and management.

Formulating a Corporate Governance Policy

Commencing a governance program will be a challenge, but in our experience, the process can also be a very useful exercise in itself, as it forces an analysis of the business' key aspirations and potential barriers to success. For families about to enter this phase of the business' evolution and development, it will be important to bear in mind the following key principles:

» A corporate governance policy is only as good as the commitment to the implementation, and continued application, of it;
» To be meaningful, the policy should be specific to the aspirations of the family;
» Accept that the policy will evolve – build in the flexibility for future growth.

Pinsent Masons

ABOUT PINSENT MASONS

Pinsent Masons LLP is an international law firm headquartered in London, with offices across Europe, the Middle East and Asia. With multidisciplinary teams comprising specialists in private wealth, corporate and tax structuring, real estate and compliance, Pinsent Masons LLP regularly works with Family Firms to help unlock their potential for future generations.

THE GOVERNANCE OF FAMILY FIRMS: DISCOVERING GOOD PRACTICE

Each of the five profiled family businesses in this research project has a unique history, shaped by families of diverse structure and vision, the industry and country they operate in. In our discussions with the leaders and senior management of the five businesses, we, the authors of this report, gained insight into a great variety of organizational and governance structures, of inspiring solutions and innovative systems. Ranging from multi-industry conglomerates to businesses with very focused and specialised operations the businesses we studied involved family members from the 1st to the 6th generation with between 20 and 150 family members.

Despite the differences, we did find many similarities in the challenges the families faced. One of the main concerns we found across all cases was the continuity of the business, fair involvement of family members from all generations and the translation of the family culture into a long-term corporate vision.

Key Findings

The key findings from the five case studies are outlined below:

- In Governance there is no template: best practice needs to be adapted to each individual, family, each business and situation.
- In each case we found that great efforts were being made to develop corporate governance systems that mirror the family's culture and ensure the continuous implementation of its vision and ethics.
- We found that the human side of governance was an essential factor: without buy-in from the family and clear communication to non-family members the systems would not work.
- Families are greatly concerned with being able to sufficiently ensure transparency and fairness for members of all generations.
- The owners showed great commitment to continuously develop strong management and ownership succession as a means to sustain growth and family ownership.
- Having a clear vision and expectation of the governance structure was a key success factor in all cases.
- In order to achieve efficient systems, empowered decision-making seemed a crucial asset. We found that when persons given a task within the governance structure felt empowered to act, and at the same time knew that there would be performance measures, implementation was much more efficient.
- The successful implementation of governance structures was facilitated when a person or a team was nominated to drive the governance process and especially oversee the implementation of rules in the long run.

Methodology

Tharawat and Pearl Initiative approached family businesses in the MENA region to participate in this research programme. After agreeing on a specific thematic angle for each company, each of the family firms completed a fact sheet on the company and its governance structures. In interviews, family members and senior executives, were questioned about the details of their governance systems, based on an adapted questionnaire drafted by Pearl Initiative and Tharawat. The interviews were recorded and then transcribed. The write-up and editing of the case studies was carried out by Tharawat and Pearl Initiative and the families were able to review the final drafts.

Case Abstracts

A **W.J. Towell Group** Oman	**Five Generations of Success – On how to Manage a Diverse, Multigenerational Organisation** A family-owned conglomerate in its 6th generation, having to manage complexity in both family and business, whilst maintaining growth and capturing opportunities. *Page 14*
B **SABIS®** Lebanon	**Living the Founders' Vision - The Human Side of Governance** To ensure continuity and stability of the business the founders realised that a strong culture and clear core values needed to be instilled within the two families as well as the company. *Page 24*
C **Zamil Group** KSA	**Preparing the Next Generation of Leaders - The Zamil Future Leaders Programme** Focusing on the development of the next generation, the Zamil Group created a tailor-made programme for both family members and high performing non-family employees. *Page 34*
D **Abdullatif Alissa Group** KSA	**The Separation of Family Ownership and Management** A family that removed itself from the daily management to focus on developing sophisticated and strong ownership structures. *Page 42*
E **Majid Al Futtaim Group** UAE	**On Becoming a Regional Benchmark - The Institutionalisation Process at Majid Al Futtaim** Implementing corporate governance structures following highest international standards was an early vision at Majid Al Futtaim and has helped create steady growth for the group. *Page 50*

W.J. TOWELL

OMAN

W.J. Towell & Co.
FIVE GENERATIONS OF SUCCESS
On how to Manage a Diverse, Multigenerational Organisation

Key Findings

Muscat Oman
Headquarters

10,000
Employees

150
(approximately)
Number of family members

Conglomerate
Industry

100%
family owned
Ownership

29
Number of shareholders

1866
Year of establishment

G4 & G5
Current generations

Being successful in a family business comes with sacrifices and family members have to be aware of this.

Hussain Jawad, Chairman

Business Activities

W.J. Towell Group is a diversified conglomerate, headquartered in Muscat. It also has a presence in the UAE and Kuwait, as well as India, where operations have recently started. Employing over 10,000 staff, the company operates various businesses from FMCG, joint ventures with Unilever and Nestlé in Oman, dealerships of Mazda, Geely and Bridgestone, property development, construction, engineering to agencies of several other well-known international and regional brands.

History

W.J. Towell takes its name from its British founder William J. Towell who, while living in Muscat, established the company as a trading business for foodstuffs and shipping in 1866. In 1914, at the beginning of the First World War, the company was sold to one of its employees, Mohammed Fadhel, and today he is considered the real founder of the family business.

Having grown the business in Oman, Mohammed passed it on to his son Sultan, whose name became the family name of following generations. In the late 1920's, W.J. Towell won the distribution rights for Unilever products in Oman, which the company retains to this day.

From the late 1940s W.J. Towell began to expand its operations abroad, first to Kuwait and then shortly after to the UAE and Iraq, becoming one of the region's leading foodstuff trading companies.

Between the 1970s and the 1990s, the business expanded significantly, fuelled by Oman's economic development and new policies promoting growth. The family, then in its third and fourth generations, diversified the business beyond pure trading into the construction, engineering and automotive sectors.

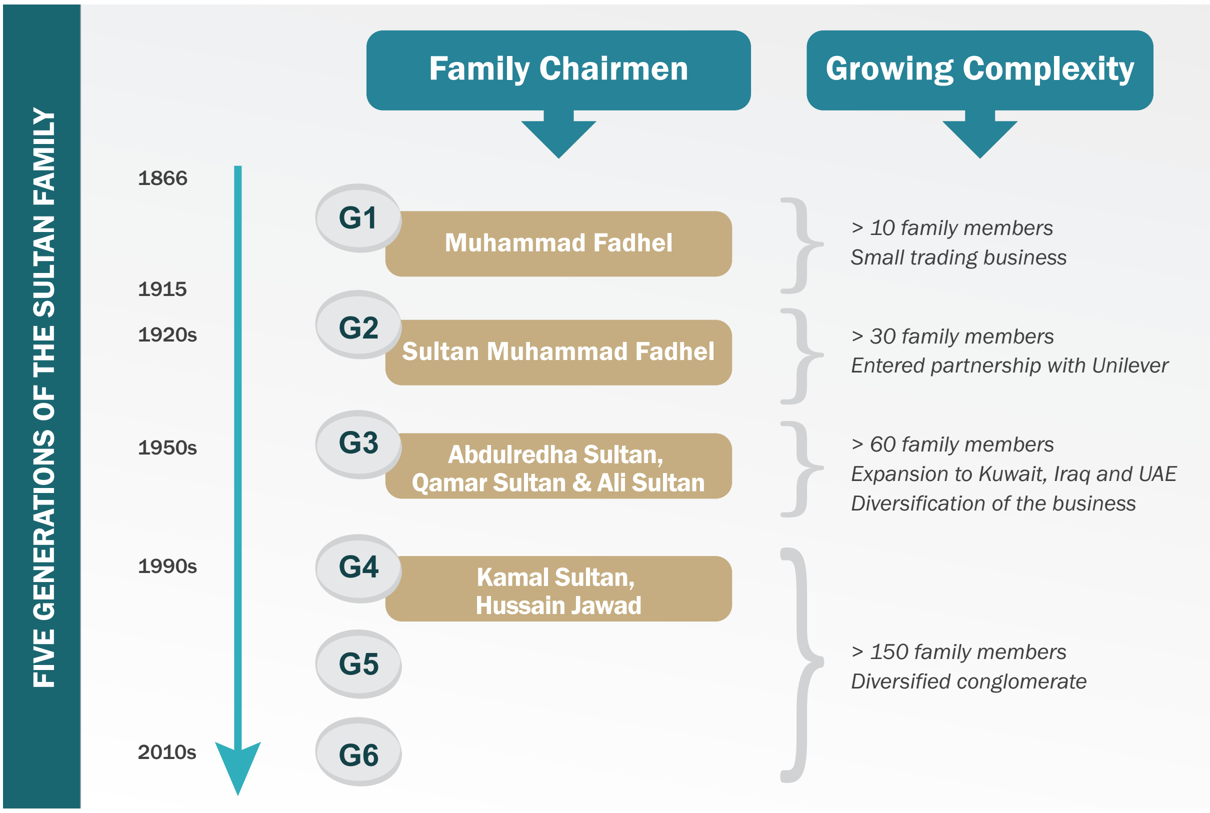


Fig. 1: The five generations of the Sultan family

Challenges

Growing Complexity

During the last century, W.J. Towell grew from a small trading business to one of Oman's largest privately-held companies, active in a wide range of industries.

In parallel to this business expansion, the family grew significantly, increasing from just Mohammed and his direct family in the 1920s to more than 100 family members by the end of the century.

While both the founder and his successors put in place practices to manage the growing business and family, by the 1990s, this historical structure was proving increasingly unsuitable to meet the demands of a more complex organisation. Challenges included:

» an ad hoc and informal corporate governance system, which was not sufficiently equipped to deal with the fast growth of the company.
» unclear decision-making procedures and weak institutions.
» an awareness of the increasing number of next-generation family members who would become owners and possible employees.

The owners recognised that the increased complexity required the introduction of better practices for the business, as well as the family. Over the next two decades new institutions and practices were put in place with the clear goals of fostering corporate growth and sustainability, helping to develop a strong next generation of leaders and mitigating the potential for conflict.

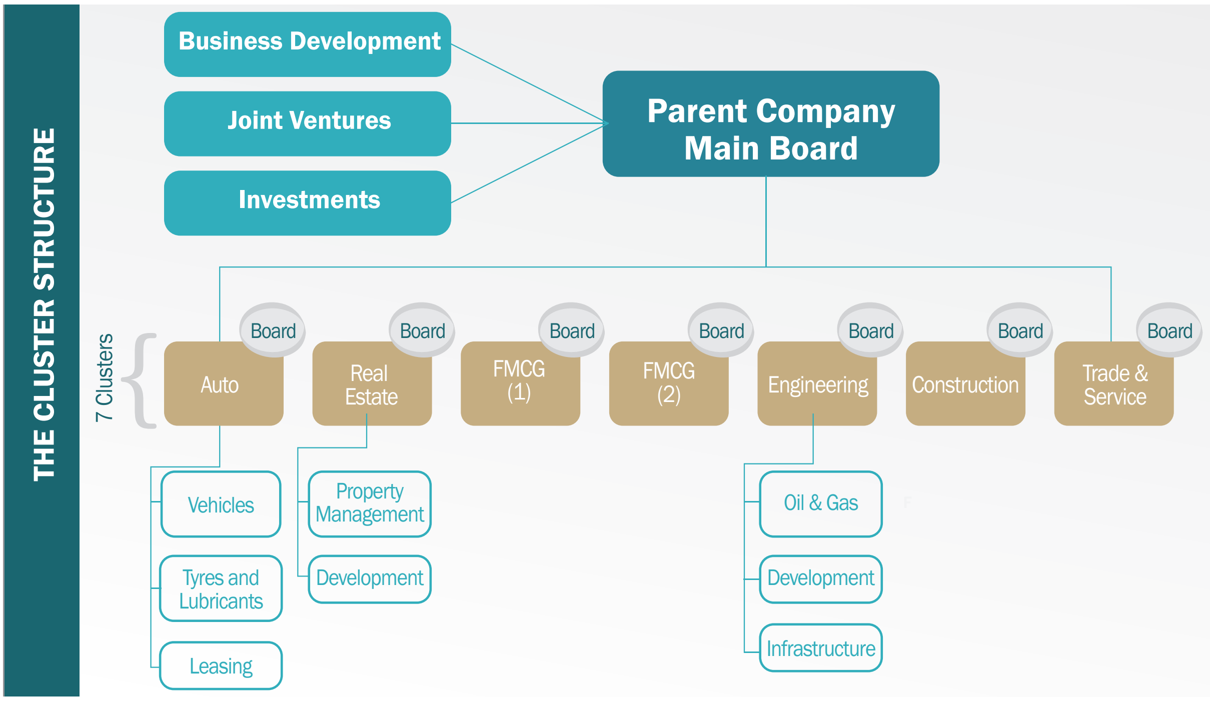


Fig. 2: The cluster structure of W.J. Towell Group

> ***The problem is not the current generation, but finding out how to stay close to the next generation.***
> Maqbool Sultan, Group Advisor

Solutions

Managing Business Complexity

Improved governance
A formal group board of directors was put in place in 1991. Each of the five branches of the family chose two family representatives (usually the eldest males) to represent them. As a result of changes to the shareholder structure, the board currently has nine members and meets regularly four times a year. The roles and responsibilities of the board and its members have been clearly defined.

Four regularly meeting board committees were introduced:

» Audit Committee (four family and two non-family members)
» Investment Committee (four family and two non-family members)
» Human Resources Committee (five family members and one non-family member)
» Finance Committee (three family and two non-family members)

Today, the five branches of the founding Sultan family are represented on the parent company Board of Directors.

Restructuring of the business
Over the years, the group's commercial activities grew in various industries. Despite some positive outcomes to this diversification, in the late 1990s the owners saw that not all companies were performing equally well. This prompted the decision to focus on their core strengths in order to be able to sustain future growth, create synergies and reduce the duplication of resources.

In 2009, the Board, on behalf of the shareholders, decided to separate ownership from management and mandated a consultancy firm to help starting the process.

By end of 2010, the managed entities were divided into seven homogenous verticals or clusters. Each cluster had a board of family directors responsible of the strategic direction and the executive management tasked with the day - to - day operations. Non-core and unprofitable divisions were sold. W.J. Towell hired non-family CEOs for five of the seven clusters and, in order to provide more autonomy, each cluster was given its own board of directors, composed of:

- several directors from the main 'holding board' representing the owners, one of which is the chairman of the cluster board
- the cluster CEO
- the cluster CFO

The full implementation of the new structure took around three years. Today, the boards meet regularly and have the freedom to decide on a wide range of strategic and financial issues regarding their cluster and the companies grouped under it. The boards operate under clearly-defined and strict rules. Issues that cannot be decided at the cluster board level are referred to the holding board.

For this structure to work effectively, it was crucial to empower the non-family CEOs by giving them freedom in their decision-making, while maintaining control through the boards.

According to the owners, this reorganisation was key and led to the businesses being able to take necessary, but "controlled" risks within their area of expertise, without jeopardising the family's assets.

Managing Family Complexity

As W.J. Towell grew, so did the complexity of the relationships between the Sultan family members and the business. With the fifth generation entering the business – and more than 150 family members overall – the family leaders realised the importance of structuring the relationship between family and business to improve transparency and to avoid inequality between the family members and branches.

Some of the main challenges were:

- confusion and disputes regarding the positions and benefits for family members working in the business
- inequality in support of family members' private lifestyles
- group-owned assets used for private use
- overall lack of coordinated communication and flow of information
- ownership dilution due to increased numbers of owners
- 'opting out' of family members

Continuing to implement family policies was seen as a crucial tool in managing the complexity of a large number of stakeholders from different generations and branches, as well as maintaining the communication of family values and strengthening the bonds between family members.

In both the family and the business we strive to create a culture where issues are resolved before they become problems.

Anees Sultan, Head of Supply Division

The main policies implemented were:

Harmonisation of titles: The group introduced new job titles to create more clarity and transparency, and to harmonise the positions of family and non-family employees across business divisions.

Salaries: The salaries for each family member involved in the business were fixed and made transparent.

Monthly family gatherings: The entire family was encouraged to attend monthly family gatherings – referred to as "family assemblies" – at the farm. This informal setting, where the family ate together and the children played, created a relaxed environment to address family issues and concerns.

Informal gatherings: Each branch of the family was encouraged to meet for events such as weekly dinners at the grandparents' house. Multi-branch gatherings were also seen as an effective way of communicating for those members that were active in the business.

Mini-holding structures: To avoid dilution of ownership some branches of the family grouped their shares under a company. This 'holding' company acts as a single shareholder in group shareholder meetings. With this structure, branch ownership issues can be resolved internally instead of being taken to the larger group. For this reason there is a relatively small number of shareholders (29) when the number of 'heirs' is actually much higher.

Communication to shareholders: All shareholders were given full access to information about the company and senior management were available to respond to queries.

Stable dividend policy: To guarantee sustainable revenues for all owners there was a strict policy of distributing stable dividends every year.

Pensions for directors and working family members (general managers): Since 2009, the group approved a post-retirement pension for directors and family members having worked as general managers for a maximum period of 15 years. The pension is payable on a monthly basis linked to the last drawn salary before retirement. The pension seeks to enable the family members to maintain a good standard of living after their retirement.

Life insurance for shareholders: In 2013, the group took another leap forward in securing its shareholding families by implementing to a group life insurance policy which would support family units in the case of the demise of family members.

Corporate Social Responsibility (CSR): The family being strongly connected to the community, the group founded a company dedicated to implementing its strategic CSR vision of supporting the creation of employment through the support of small and medium-sized companies in Oman. The "Future Generations International Co. LLC" is mandated with

1. Fostering the creation of small and medium sized companies in Oman, co-owned by an entrepreneur and "Future Generations International Co. LLC.
2. Creating self-employment opportunities away from the traditional employment schemes.
3. Offering financial, technical, and administrative support for small and medium-sized projects that benefit the national economy.

Impact

With the gradual implementation of the corporate and family policies, the Sultan family noted a marked increase in communication and the mitigation of potential family conflicts. The policies also helped cement the family's culture of equality, which had a positive impact on the business by producing a more stable environment.

This stability also allowed W.J. Towell to maintain good relationships with the multinationals it represents in Oman. Unilever, for example, has been with the group since the 1920s, and Nestlé for more than 50 years.

Looking Ahead

The owners acknowledge that the process of formalisation is only at the beginning and that they will have to push for further institutionalisation of their governance systems. They will address some of the identified challenges in the near future.

Integration of the young generation in the business
The family is looking to establish a system to better involve young family members and to motivate them to take an active role in the business. The development of employment criteria and conditions is currently in the planning stage.

Commitment of all family members
With the growing number of members, it is increasingly difficult to maintain high levels of commitment towards the business, potentially leading to a disconnect in the future. Improved communication should help family members to identify with the business, and to understand its history and the sacrifices previous generations made to get to where the group stands today.

Shareholder meetings and improved communication with shareholders
While today's shareholders have full access to business information if requested and receive regular performance updates, only very few take advantage of this right. A simpler and more systematic way of distributing company information among shareholders, such as regular shareholder meetings at the family gathering place, is currently being considered.

In line with maintaining the commitment of family members in the generations to come, current shareholders also have to find a solution to **prevent the dilution** of shares in future generations. One solution has been to create holding companies at family branch level (outlined above), but this has only been partially implemented as it faces opposition from some family members.

Learning Points

Over its 140 years of existence, the family has learned that unity and equality are key to the sustainable growth of the business and they strive to continue the family's 'no-privilege' culture. Its key learning points are:

- Equality and transparency are critical to managing the family and the business.
- Communication and a strong family culture are necessary to gradually implement good corporate and family governance systems.
- As the business provides the income of many family members, unnecessary risks should not be taken.
- Regular informal meetings of the entire family reinforce ties between family members and provide a relaxed forum for discussion.
- To create sustainability, family and corporate governance must be in place.

At the end of the day, we have to recognise that without good corporate governance, good companies can end up doing the wrong things. Similarly, good and transparent family governance can eliminate family conflicts arising from insufficient and unclear communication strategies.

Imad Sultan, Vice Chairman

SABIS®
LEBANON

SABIS®

LIVING THE FOUNDERS' VISION

The Human Side of Governance

Key Findings

Lebanon, USA, UAE, Egypt
Independent Headquarters & Support Centres

5,500
Employees

19
Number of family members

Education
Industry

SABIS® family and foundation
Ownership

8
(+ SABIS® Foundation as a non-voting shareholder)
Number of shareholders

1886
Year of establishment

G3, G4 & G5
Current generations

We started as a family business in 1886, and we feel that we have been entrusted with a heritage that we need to ensure will live on beyond us.

Carl Bistany, President

Business Activities

SABIS® is a global education network that operates on four continents serviced through independent companies and support centres in Lebanon, the U.S., the U.A.E., and Egypt. The SABIS® School Network is comprised of Pre-K/K-12 schools and one university located in 15 countries across North America, Europe, MENA, and Asia. Collectively, schools in the network currently educate over 63,000 students.

History

In 1886, Louisa Procter and Tanios Saad, opened an all-girls school in Choueifat (now the International School of Choueifat), Lebanon to give girls in rural areas the opportunity to access education. Soon, the school was also opened up to boys and it gained a strong reputation over the next decades.

Tanios's son Charles took over the Choueifat school in 1942. Together with his wife, Leila, and his young business partner, Ralph Bistany, he put a lot of effort into developing the school's curriculum and educational system, which would later become the trademarks of SABIS®.

The SABIS® company was later formally co-founded by Leila Saad and Ralph Bistany. The SABIS® name is derived from the two family names SAad and BIStany.

Spearheaded by the 3rd generation ("G3") – Charles's wife, Leila Saad and business partner Ralph Bistany (referred to today as the co-founders of SABIS®) – the overseas expansion of the company began in the 1970s with the opening of the first school in Sharjah in the United Arab Emirates. After this first international success, SABIS® started its expansion across the Middle East, Europe and the USA.

Today, SABIS®, is fully owned by what is now referred to as the "SABIS® Family", which includes members of the Saad, Bistany and related families, and the SABIS® Foundation as a non-voting shareholder. The company is poised to enter new markets in the near future allowing the expansion of the current reach of schools that are members of the SABIS® School Network beyond its current 63,000 students.

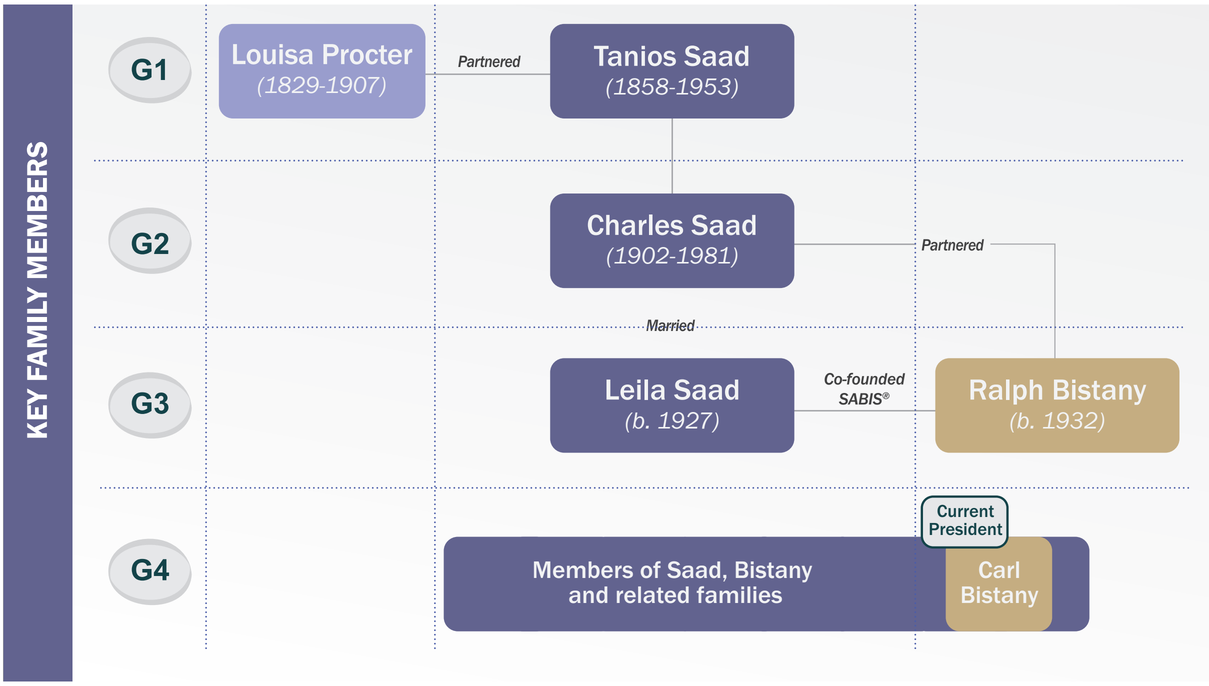


Fig. 1: Key family members

Challenges

In the early 1990s, the SABIS® co-founders felt the need for the next generation to come on board to drive the process of growth and internationalisation, and to ensure the continuity of the business beyond the 3rd generation. Carl Bistany, Ralph's son, was the first of the 4th generation ("G4") to join SABIS®; he did so as President.

Growing from a single school to a global organisation with further expansion plans, the owners of SABIS® understood that they needed to implement strong corporate and family governance along with rigorous management systems.

The company's vision was to:

- Sustain heritage and follow the founders' mission of "changing the world through education"
- Ensure continuity by making the business less people-dependent and strengthening the "glue" between the different G4 SABIS® family members
- Enable further growth - trust, transparency and stable structures facilitate partnerships, joint ventures and access to interesting projects (e.g. being invited by governments to manage schools).

Since SABIS® has been active in the education industry, the founders have known that long-term thinking was a key principle to ensure longevity and transformation.

Solutions

In the following years the founders and new President started the groundwork for the governance process. Then, in the early 2000s, the families were ready to start institutionalising the company.

First Things First: Defining Core Values

The first step was for the company leaders to formally define SABIS®'s vision and core values. These would then work as overarching principles, applicable both to family members and to SABIS® employees. It was important to articulate SABIS®'s values clearly, since they would have to be instilled in future generations to ensure the longevity of the organisation. For SABIS®, it was vital to make sure that these values weren't dependent on certain individuals, but instead reflected the vision and legacy of the founders. The values are strongly embedded in the culture.

We have the very strong feeling that our commitment to the ongoing existence of this organisation is much greater than any personal or professional interest.

Carl Bistany, President

Getting everyone on board

Management was convinced that the successful implementation of good family and corporate governance structures could not be achieved without buy-in from everyone. Not only did all SABIS® G3 and G4 family members need to be mobilised to participate in the process, but key decisions needed to have everyone's buy-in. Even though this process would take more time, this was a conscious choice and management today believes this to be the best way to take the critical governance decisions that will enable the families to stay united and ensure the continuity and growth of the business.

Dedicated corporate governance leader

At the outset of the process, SABIS® hired Joe Achkar as a non-family board member to champion the family and corporate governance efforts. This decision was motivated by two goals:

- To send out a very clear message: "This is important for us and we are assigning a senior person to manage the process."
- To ensure that one person was dedicated to aligning family members and moving the process forward.

Clear plan of action

Once the core values had been defined in writing, management decided to address the following in the process of institutionalisation:

- Corporate governance
- Management processes and controls
- Family governance

Engage trusted consultants

SABIS® appointed the International Financial Corporation (IFC), with which it had worked before, to help it define the structures. The IFC was chosen for its experience in governance work. In 2007, it conducted an assessment and indicated where SABIS® had done well and where it needed to do more. Most of the issues identified were matters of implementation – meaning that often, while the structure had been set up in theory, it had not been put into practice effectively.

Corporate and Family Governance, and Management Processes and Controls

Corporate governance

With the help of the IFC, SABIS® thoroughly restructured its corporate governance systems to include clear rules of responsibility and accountability. After thorough analysis of business needs, the company worked on implementing various corporate governance structures to ensure efficiency, sustainability and management control. The policies included:

Reorganisation of the board of directors

A major milestone in the project was the definition of the roles of the board of directors and senior management. By implementing board composition regulations and detailed procedures, for example concerning meeting frequency, SABIS® was able to improve decision-making structures and executive control. The board currently comprises eight family members (some of whom are non-executive) and one non-family director. The plan is gradually to increase the number of independent board members while maintaining the number of family members at a minimum of 50%.

A matter of separation

By setting down management structures and clarifying the roles of all participants in the governance system, a clear separation of board, management and shareholder responsibilities was achieved. Through the now transparent system, the family ensured that each body was able to act fully within its area of responsibility and have a positive interaction with all other stakeholders.

Committees
In order to implement essential policies in such areas as board composition, corporate budgeting and executive remuneration, various committees were defined.

SABIS® ensured that all policies have embedded safeguards to make sure that decisions are not dependent on key family members but can be taken based on the structures and processes outlined in the governance system.

Family governance
During the development of the corporate governance system, it became evident to the families that a family governance system would help them ensure continuity and stability. When they decided to work in this area, their main goal was to formalise existing practices and develop missing policies to support the SABIS® family and the continuity of the business.

The key factor for the family members was to create an organisation that would keep them close and become the "glue" of their collaboration. The families believe that even though relationships between all family members must grow naturally, a good organisational structure is a crucial tool for the future. To develop such a structure, the buy-in from all family members is essential, and the development of clear policies is important. This process of growing the ties for the future has led to a sort of "new family" being created: the "SA-BIS" family exists with a very distinct set of values.

As a first step, the family governance process started by developing a detailed family employment policy1. This policy remains today a good example of how governance policies mature within: the family employment policy went through more than 10 drafts before all shareholders were in agreement.

The key aspects of the SABIS® family employment policy are:

- The best interests of the organisation, and not those of individual family members, will drive decisions
- Employment for family members is neither a birthright nor an obligation
- Once hired, family members will be treated as employees
- Family employees are expected to set an example
- Leadership roles are not guaranteed for family members; they must be earned
- SABIS®'s goal is to attract the most qualified people – both family and non-family.

Taking it a step further, the owners also developed an ownership policy clarifying shareholding issues. A share valuation policy and share transfer mechanism are currently under development, and will be integrated into the shareholders' agreement to ensure smooth and efficient ownership management in the future.

One of the key issues SABIS® addressed in the family governance system was the question of succession planning. Planning the handover of key positions such as chairperson and President was critical to the continuity of the operations. A clear selection process was therefore defined in the company's governance policies. As a consequence of this first succession policy, management is currently working on regulating succession for roles of key family and non-family executives across the entire organisation.

Management processes and controls
SABIS®'s management knew that it had to put in place rigorous management processes and control systems to support both corporate and family governance systems.

The company reviewed its management structure, revisited the global and regional organisational structures and is working on a detailed management chart of authorities. Another key step is setting up a better financial management structure with separate finance and internal audit functions. These would support decision-making at both the senior management and support levels.

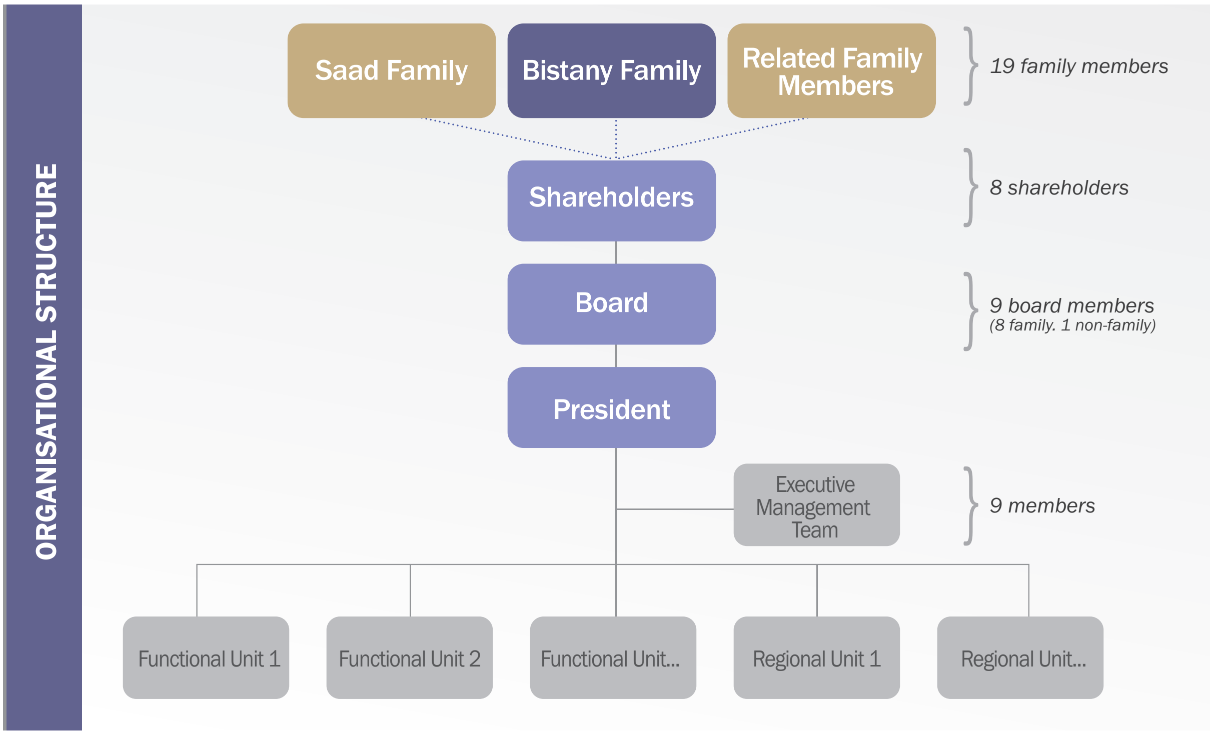


Fig. 2: Organisational structure

Finally, SABIS® revisited the HR systems and is in the process of building a new HR function. In charge of finding and maintaining the right talent for all of the schools' operations, this strategically-important function will not only support the growth of the business but also the high-potential family and non-family employees.

Factors Critical to Success

» The right tone at the top: the founders and senior management showing strong commitment and giving a sense of urgency to the process also avoids critical decisions being postponed
» SABIS® had a person dedicated to driving the process and continuously motivating all parties to participate
» The company leadership defined core values for SABIS® which were subsequently communicated to family members and employees with a view to making everyone understand and live these core values
» Ensuring the buy-in from all family members even if it takes more time
» Strong communication among all parties involved in the process
» A clear plan of action for the process of institutionalisation
» Getting all family members involved to dedicate time – most family members are very busy with their daily tasks and some of them live in different countries, which makes it more difficult to communicate
» Difficulty of getting people to focus on strategic issues rather than managerial issues: by 'wearing different hats' people were meeting and didn't know if it was a board meeting, a shareholder meeting, a family assembly or a management meeting. Many times operational issues were discussed instead of focusing on strategic issues. This was remedied first by splitting meetings into different sub-meetings for each "function", and then by putting in place governance structures for the various bodies (management, board, family, shareholders).

Impact

In the multi-family context of SABIS®, the family members of the various families consider themselves part of the "SABIS®" family, a term deliberately used in internal communications. The governance process the families have embarked upon has even led to a higher degree of **commitment from family members**. Today, all family members work together to solve issues and feel responsible for the longevity of the business. The families understand that the strength of the business comes from "sticking together".

Another impact of the process was that the business became more attractive to the **younger generation**. They saw that it offered them a clear future with many challenging and interesting positions available across the company through the development of the management structure and systems. Every family member joining the organisation has to work as a teacher in one of the schools for some time in order to ensure that they understand the "heart" of the business.

The implementation of strong corporate governance systems has ensured that the family and employees believe in the continuity and sustainability of the business.

The impact of better corporate governance structures was not initially financial but rather **improved efficiency overall**, added to board effectiveness, increased management control and the sustainability of the business. The owners, however, are convinced that the financial impact will emerge in the long run. For them, there is a direct correlation between the company values being in place and the future potential of the business.

Future Plans

The family business has committed to continuing to establish solid foundations that will ensure the continuity of SABIS® beyond its founders:

- On paper, everything is there but the core values, structures and practices have to be embedded in the family and organisational DNA.
- Eliminate the dependency on people with key roles.

Concerning the ownership structure, a share pricing policy was finalised very recently. The new policy states how often the shares will be valued and the valuation methodology that will be used. SABIS® is also in the process of putting in place a share transfer mechanism. Both policies will add transparency and facilitate longevity of the company.

Learning Points

- Culture is key; it "glues" the family together and fosters commitment.
- Clearly articulated core values help drive the governance process.
- A slow rather than a rushed process leads to a higher commitment and more sustainable results.
- Designating a senior executive to take ownership and drive the process is key.
- Getting buy-in is crucial – especially in a multi-family environment.
- Proper succession planning is essential, making positions within the company non-dependent on specific individuals.

We have embarked on a long journey that will never stop. It will never stop and that is the secret behind it.

Carl Bistany, President

ZAMIL GROUP
KSA

Zamil Group

PREPARING THE NEXT GENERATION OF LEADERS

The Zamil Future Leaders Programme

Key Findings

Al Khobar KSA
Headquarters

12,000
Employees

Over 100
Number of family members

Conglomerate
Industry

100%
family owned
Ownership

30
Number of family members in the business

1936
Year of establishment

G2, G3, G4
Current generations

Governance is a never-ending journey. It is our vision to continuously engage our younger generations and improve our systems to achieve the best possible results.
Khalid Al Zamil, President, Zamil Group Holding

Business Activities

Zamil Group is a family-owned conglomerate headquartered in Al Khobar in the Eastern Province of Saudi Arabia. From its beginnings as a trading business in the 1930s it grew rapidly to become one of the largest diversified industrial groups in Saudi Arabia. Today, the group employs over 12,000 people across ten companies, of which four are publicly listed. The Zamil Group is active in seven major industries, including petrochemicals, building materials, chemicals and plastics, trading and real estate.

History

In the 1930s the late Sheikh Abdullah Al-Hamad Al Zamil founded a business focusing on trading food and textiles in Bahrain. Early diversification saw him also move into real estate. In 1961, the founder's eldest son, Mohammad Abdullah Al Zamil, took over the leadership of the company after the sudden loss of his father. The first challenge he faced was to secure the continuity of the business and sustainability of the family's wealth, while at the same time maintaining family unity. A great advocate of education, he encouraged the younger generation to move abroad – to the US, UK and other countries – for their higher education. In the early 1970s Mohammed Abdullah Al Zamil's younger brothers returned from their studies with a fresh outlook on the business and know-how from all over the world. Together they took the decision to diversify the business further and take advantage of the Saudi economic development plans.

In the mid-1980s the brothers started to see the need to introduce governance structures and a professional team to manage the business. In the following decades, the family's venture into industrial and manufacturing branches paid off. In the 1990s the group expanded into petrochemicals and in 1998 it initiated the private placement of Zamil Industrial (the air conditioning and steel businesses) shares, soon followed by an IPO. With the proceeds the family was able to invest in the petrochemical sector and is now a major shareholder of three listed petrochemical companies.

During the same period, the first family members from the third generation started to join the family business. The second generation brothers realised the importance of integrating and developing the next generations in a structured and future-oriented way, and making the group's management structure more professional. Aspects such as independent financial and operational monitoring had become essential tools to help retain control and further grow the business.

In the early 2000s the Zamil Group became a closed joint-stock company and after successfully strengthening its corporate governance systems across the group companies and at the holding level, it moved towards institutionalising family governance. In the first instance, the family established a junior board to start involving the next generation in a more organised way. During these early years of the new millennium the family started developing a family constitution alongside policies for succession and employment of family members.
The chairman's passing in 2009 triggered a first change in leadership in decades. His younger brother Dr. Abdulrahman Abdullah Al Zamil became the next chairman while his other brother Abdulaziz was promoted to group CEO. In 2013 Dr. Abdulrahman retired from the corporation and became chairman of the family council. In his place, Abdulaziz Abdullah Al Zamil became group chairman and Khalid Abdullah Al Zamil took over as group CEO.

Today, the family leadership of the group oversees more than 10 companies, of which four are publicly listed, and has become a leading industrial player in the region and beyond.

Challenges

Triggers for Change

Growth and need for talent
The Zamil Group took strategic advantage of the rapid economic development of the Kingdom and grew significantly in the decades leading up to the 1990s and 2000s. It now had 60 companies in diverse industries. Many divisions required excellent managerial talent, and the family recognised that the group had to become a sought-after employer, attracting and developing the best talent in the country from both within and outside of the family.

External funding
In addition, raising capital from outside investors through private and public placements required the group to professionalise its structures and strengthen its corporate governance systems from a very early stage. This led to an advanced understanding of the importance of a strategic and long-term approach to governance.

Growing family
At the same time the number of family members had grown significantly by the 1990s and the third generation had started to join the business. To ensure the longevity of the business, the family recognised the need for an effective plan to identify and develop talent within future generations of the family.

Leadership Transition: An Evolutionary Process

The Zamil Group has experienced two important stages of transition:

The first, from the founder to his sons, followed a clear principle: the oldest brother became chairman and as his brothers reached adulthood, each was assigned specific responsibilities. The brothers of the second generation have so far worked well as a team. Over the years they were able to exponentially grow the business, and put in place the corporate structures and culture. The second major transition occurred when leadership passed from Mohammed Abdullah Al Zamil, who had been the entrepreneurial beacon of the family, to his brothers in 2009.

Anticipating the inevitable transitions in leadership, when family members of the third generation joined in the early 1990s and 2000s, the brothers decided that succession and talent development policies had to be put in place at an early stage to make future transitions of ownership and management as smooth as possible.

Solutions

Succession Planning Policy

The Zamil succession policy was introduced in 2010 after a three-year development process. The values of the policy are anchored in the Zamil family constitution and follow the following principles:

- The importance of talent recognition and assessment
- Identifying the personal development needs of family members
- Identifying high-potential and high-performing talent
- Develop career paths for family members

The policy also states that:

- Family members are not entitled to occupy certain positions in the group
- Promotions in the group are solely based on merit and achievements.

A meritocracy is not an end, it's a means.
Abdullah Al Zamil, Manager Family Office

A strong succession system is a key success factor in the interests of everybody involved.

Tawfiq Al Zamil, Member of the Board of Directors, Zamil Group Holding

Zamil Future Leaders Programme – Creating a Pipeline of Talent

In 2004 the Tata Consulting Group was mandated to conduct an organisational analysis of the Zamil Group. Following a phase of research and analysis the strategic priorities of the group were set and the importance of strategic talent management and development become even more evident.

Led by the managing directors Khalid Abdullah Al Zamil, Adib Abdullah Al Zamil and Tawfiq Abdullah Al Zamil, the first steps in this direction were quickly taken and in 2007 the Zamil Family Council formed a Talent Committee alongside other governance bodies. The Talent Committee comprised four family members and the group HR director, and was responsible for creating a long-term strategy for the development of family members.

A first programme called Zamil Third Generation (ZTG) was launched. Under ZTG 18 family members took part in a psychometric assessment to evaluate their strengths and personal development needs. Sparking a first wave of personal development plans and seeing the impact of those plans, the family quickly decided to start including non-family members in the talent development strategy.

In 2009 ZTG was transformed into the Zamil Future Leaders Programme (ZFL) and opened its doors to Zamil family members and non-family members equally. The group HR department started playing a major role in structuring the content and processes of ZFL. It reported regularly to the Talent Committee to ensure that not only were the best possible opportunities given to the candidates, but that their development was in line with the company's requirements and corporate goals.

Today, the ZFL is a sophisticated personal development programme focused on offering family members and high-performing employees a support system to best develop their talents and train their skills.

ZFL Today

ZFL offers services to employees (family and non-family) and family members not employed in the family business. Development plans are highly tailored to each individual, taking into account their strengths and development needs, and analysing their current and potential future roles in the company. One of the pillars of all personal development plans is the communication of Zamil core values and culture.

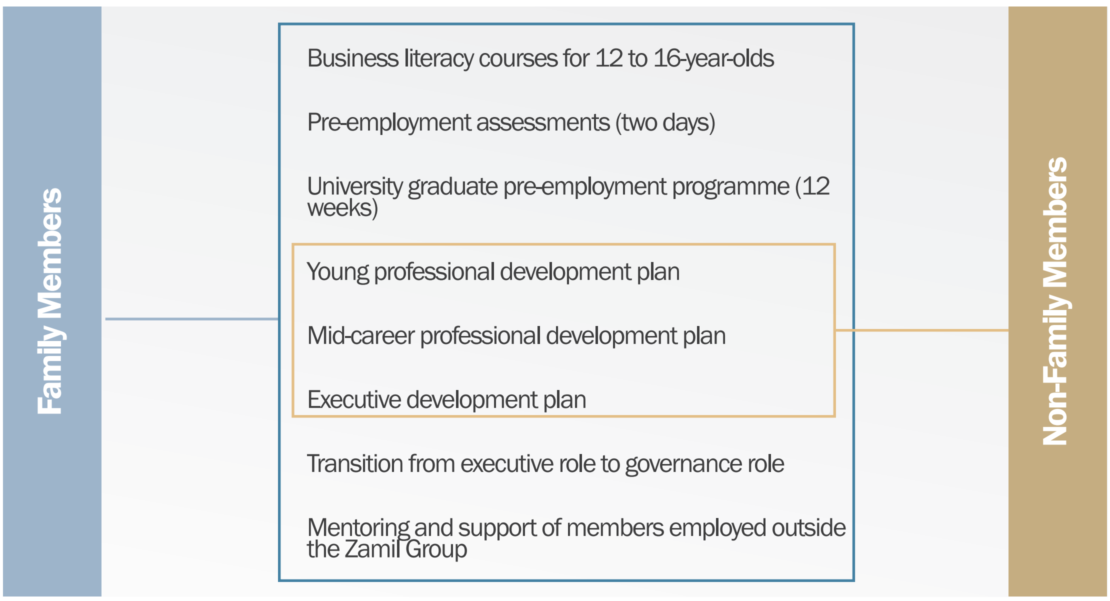


Fig. 1: ZFL Services to family and non-family members

Aims of the Programme

For family members

- Train and develop family members to become both good owners and impactful employees
- Communicate the Zamil culture and vision
- Ensure the core values are passed on to the next generations
- Keep the family united
- Help family members achieve their goals.

For the business

- Ensure that the business has access to the best possible talent, both from within and outside of the family
- Create a pool of talent to address the company's future managerial requirements
- Foster smooth and well-planned succession across the organisation.

How Does it Work?

Each participant in ZFL goes through various in-house and external assessments such as psychometric testing and assessments. This information is then used to compile individual profiles based on which tailor-made programmes are developed for each participant. The programme consists of internal and external training courses, coaching and mentoring, rotations within the group and placements in other companies. ZFL also has an impact by moving participants across group companies to ensure that the best growth potential is reached.

For Whom?

The programme is open to all family members, whether they are working in the business or not. It is also open to high-performing and high-potential non-family employees. The current statistics are displayed in Figure 2.

Activities in 2014

- Active personal development plans for family members with 18 participants.
- Number of courses, from both in-house and external providers with 44 participants.

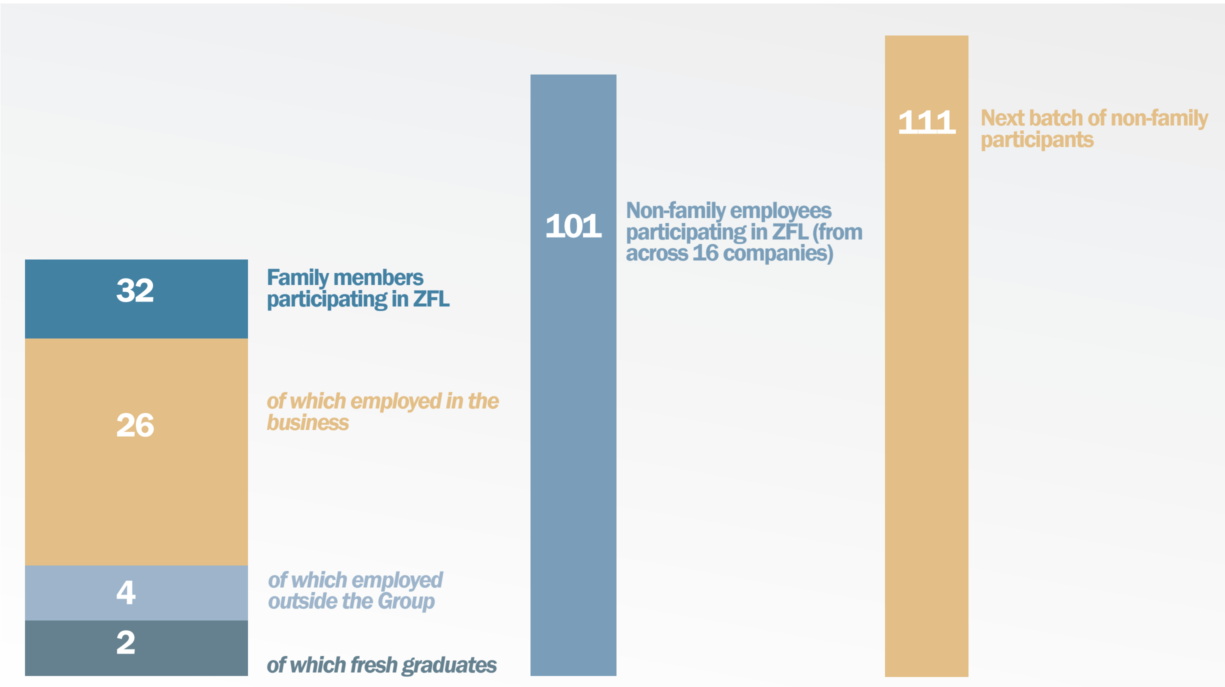


Fig. 2: ZFL Participants in numbers

I am proud to see that our Zamil Future Leader Program has produced enlightened owners and impactful employees.

Osama Al Zamil, Vice President Corporate Business Development, Zamil Group Holding

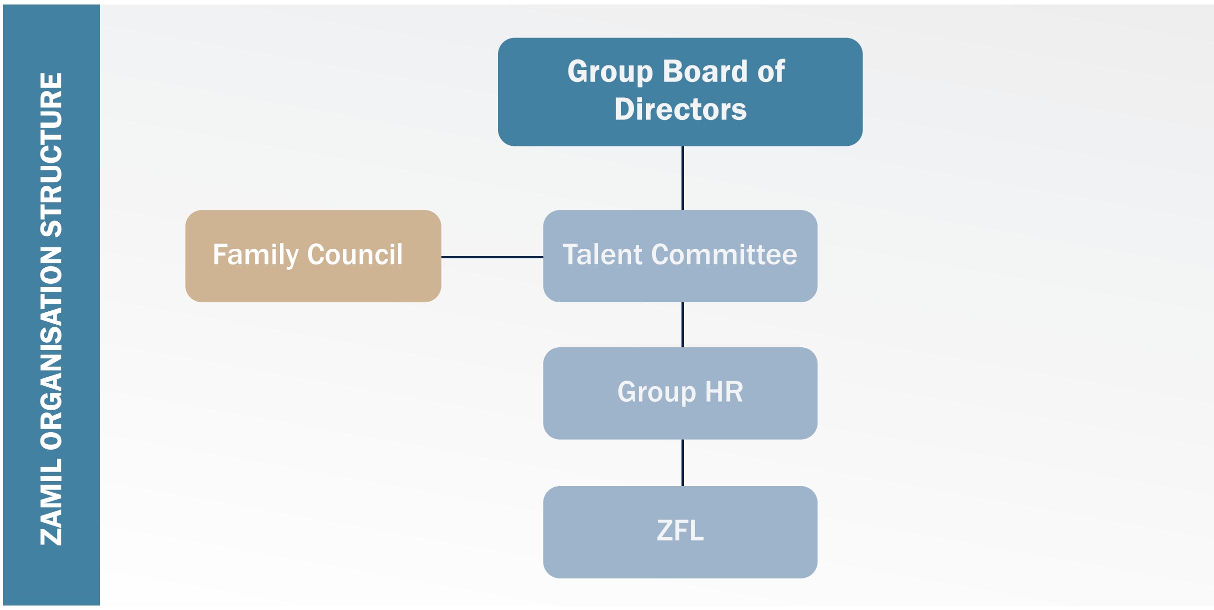


Fig. 3: ZFL is led by the group HR department and is supervised by the Talent Committee of the group board. The Talent Committee comprises three (or four) family members and typically the head of Zamil Group HR department.

Impact

- ZFL has provided smooth transitions from academia to business for family members who joined the business as employees
- ZFL has proved that merit-based growth is valuable and efficient
- A heightened awareness of Zamil core values
- A more focused delivery of training programmes, and improved impact measurement
- An increased level of confidence in the overall succession process and transition management
- Executives are accountable for focusing on talent development.
- The program has helped develop visionary owners and impactful employees.

Future Development

To respond to the ever-changing needs of the growing family and the business, the programmes are continuously adapted and updated.

Learning Points

Key Take-Aways

- Succession and leadership transition should be addressed ahead of time and in a well-structured way
- Developing responsible owners is a key goal for the sustainability of a business.
- It is important to adopt systems that simultaneously bring value to the family and address the needs of the business
- For the sustainability of the business it is equally important to develop family and non-family talent
- Keep the flexibility to continuously change and improve aspects of the governance structure to achieve goals.

ABDULLATIF ALISSA GROUP HOLDING COMPANY

KSA

Abdullatif Alissa Group Holding Company
THE SEPARATION OF FAMILY OWNERSHIP AND MANAGEMENT

Key Findings

Riyadh KSA
Headquarters

3,500
Employees

15
Number of family members

Conglomerate
Industry

100%
family owned
Ownership

15
Number of shareholders

1940
Year of establishment

G2, G3
Current generations

SAR4bn
Annual Revenue

Culture is key.
Sheikh Abdul Mohsen Alissa

Business Activities

Headquartered in Riyadh, KSA, the Abdullatif Alissa Group Holding Company (AAGH) was established in the 1940s, and has evolved from a trading business into a diversified conglomerate active in the automotive sales, service, financing and leasing businesses in Saudi Arabia.

Abdullatif Alissa Group was founded by the late Sheikh Abdullatif Alissa in 1940 as a foodstuffs and textiles trading business, before it diversified into the automotive sector in the 1950s.

History

The business grew organically over the second half of the 20th century and became one of the largest automotive businesses in the Kingdom, with a presence throughout the entire country. Alissa Group became the nationwide distributor for Nissan in 2013 and Riyadh distributor for Isuzu in 1985. The group now operates multi-brand service centres across the country, as well as a rental car business. More recently the family business successfully expanded into car financing.

Today, the group employs over 3,500 people across Saudi Arabia in its four business divisions – automotive sales, service, financing and leasing.

Challenges

Decentralisation and Family Complexity

In 1994, the business was run by its founder Abdullatif Alissa as a sole proprietor. His sons Abdul Mohsen, Najeeb and Ziad were each running independent but similar business units in different regions across the kingdom. With time, the family realised that this structure was not strategically aligned and led to the duplication of resources and lack of communication. Moreover, it didn't create value and impeded future growth. There was no clear succession plan in place, which in time could have threatened the unity of the family and successful continuation of the business.

At the same time, the family was growing with the arrival of its first 3rd generation member. This increasing complexity created an urgent need to manage the expectations and aspirations of each family member.

In the early 1990s the current chairman, Sheikh Abdul Mohsen Alissa, and his brothers recognised the challenges both on the corporate side and in the family structure. He knew that change was required. With their father's blessing they started an in-depth analysis to understand what next steps they should take to ensure the sustainability of the business and the unity of the family.

Solutions

On the Road to Change

After much reflection and internal discussions, Sheikh Abdul Mohsen and his family decided that the best solution for the group would be strict separation between family ownership and the management of the company. Reaching such an agreement was challenging as the brothers had different views on the issue, but they also knew that they had to take a decision as brothers – a relatively small group of decision-makers – rather than leave it to their successors.

Once everybody was aligned the family, and especially the founder of the business and his sons, supported the initiative and agreed upon an action plan for the next phase. The main factors shaping the new corporate structure and ownership system were the family's wish to:

- Capture growth opportunities
- Guarantee proper succession procedures on both the management and ownership levels to ensure sustainability of the business
- Avoid future family disputes.

In 1994, the family initiated the reorganisation. As a first step, the new structure required the replacement of all active family members by professional managers. Second, the legal structure of the business was changed from a sole proprietorship to a holding structure with business divisions, which were then transformed into independent subsidiaries. The holding company and each subsidiary were then equipped with their own boards, executive management and reporting systems.

Despite the family's support and agreement on the overall vision, the transformation process was not always easy. The requirement that family members would have to leave the operational side of the business and see their roles restricted to board positions needed adjustment, both at an individual level and across the family as a whole. The 2nd generation had been raised by their father to actively manage the business and had a "hands on" approach. Moving from an operational role to a strategic one is often challenging as it requires a change in mindset.

Leading the Transformation

At the outset of the transformation project, the brothers mapped out the main goals of the reorganisation and what the journey would entail. The first key element was to have the buy-in of all the brothers. The second was the ability to find the right talent to help the family on the road that lay ahead.

Once the brothers had decided on the separation of management and ownership, they hired an international consulting firm to support the implementation of the new strategy. Together with a team of executives from the group, the consultants designed the new company structure and a step-by-step implementation plan. The whole process took around five years from planning to implementation.

Professional Management

The first step was to reorganize the business from a sole proprietorship with a geography-based structure into a holding company with separate business divisions (see table 2).

Once the business divisions had been established, the family appointed a professional management team for each division. The new management was recruited from both within and outside the organisation. The process of finding the right professionals for the key positions in the group was challenging. The right talent required the right level of trust, and needed to be aligned with the family's values and able to drive the transition of the business.

We knew that we couldn't grow unless we separated business and ownership.
Sheikh Najeeb Alissa

The search for talent required resources and patience, and in certain cases also the reassessment of previous personnel choices. However, the family considers the empowerment of professional managers to be a key contributor to the process, which ultimately led to the exponential growth of the business.

"It was a tough learning process," explains Sheikh Abdul Mohsen. He admits that more funds should have been allocated to hiring the right managers at the outset of the process.

Today, the holding board members are solely involved in selecting the chief executives and executive level general managers of the group's subsidiaries. For all other appointments, there are specialised HR and management units charged with selecting the right candidates with the required skills.

Developing the Boards of Directors

The group initially put in place a single board of directors to oversee all business divisions simultaneously. However, management quickly realised that this board would be overloaded and decided to transform each business division into a subsidiary with a separate board of directors. Given the diversity of the divisions, this structure proved much better suited to the needs of the business. Today, each of the subsidiary boards has non-executives board members that are non-family members, where each brings relevant knowledge and experience to the subsidiaries.

The Alissa Group holding board was also a focal point of the transformation. Today, the election of family members to the holding board or the subsidiary boards happens through the family assembly. Based on the positive experience with non-family, non-executive directors on the subsidiary boards, in 2013 the family appointed one independent director to the board of the holding company. The aim was for this individual to support the Alissa family members with strategic know-how and professional experience. In order to ensure the ownership succession, the family council is planning to implement a program aiming at preparing the young generation for future board duties: each of the boards would have an observer seat for a young family member.

No Family Members

The new structure of the Alissa Group dictates that no family member will have an active management role in the group. Family input will be restricted to the holding and subsidiary boards.

Impact

Unexpected Growth

Even though the family was aware that it was missing out on business opportunities due to a governance structure that was not fit for purpose, they were pleasantly surprised when the re-organisation translated into significant growth across all business divisions of the Alissa Group. This in turn created the next challenge of effectively managing this growth and making it sustainable.

Relationship with Banks and Financing

After the restructuring of the Alissa Group, the subsidiaries were now able to borrow money based on their business rather than relying upon personal guarantees by the owner as they had in the past. According to Sheikh Abdul Mohsen Alissa, the Alissa Group has been able to increase the levels of trust with banks and it has become significantly easier to finance projects.

BEFORE RESTRUCTURING

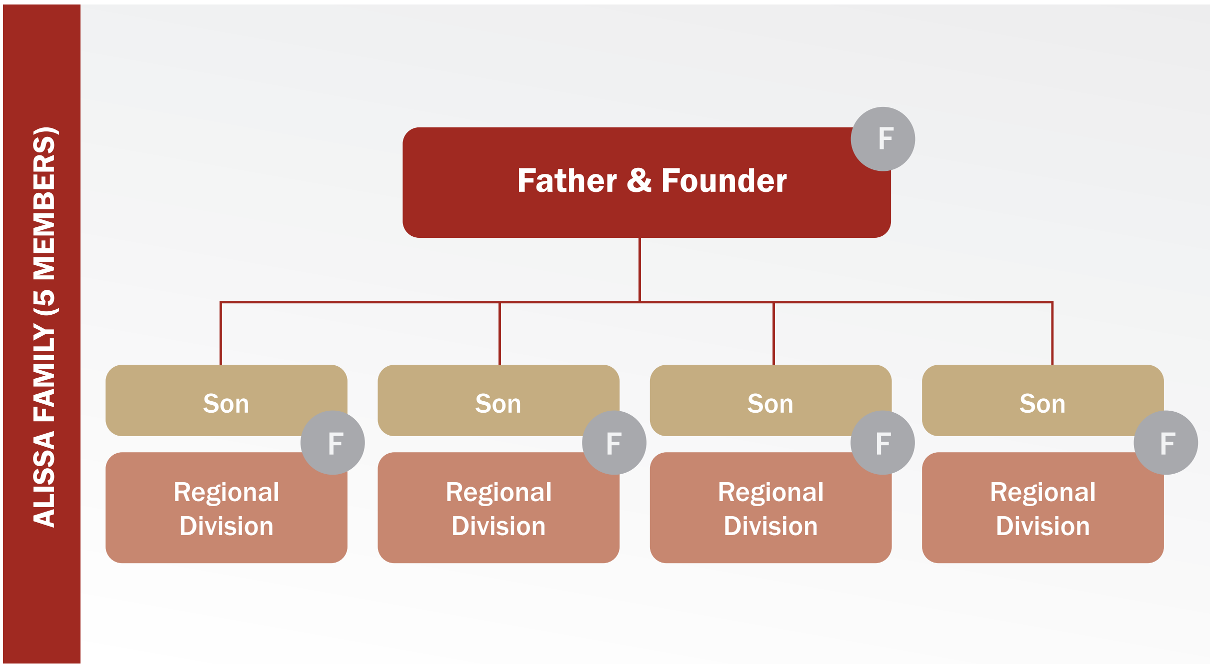


Fig. 1: Organisational structure before the restructuring (approx. 1994); F = family member involved

AFTER RESTRUCTURING

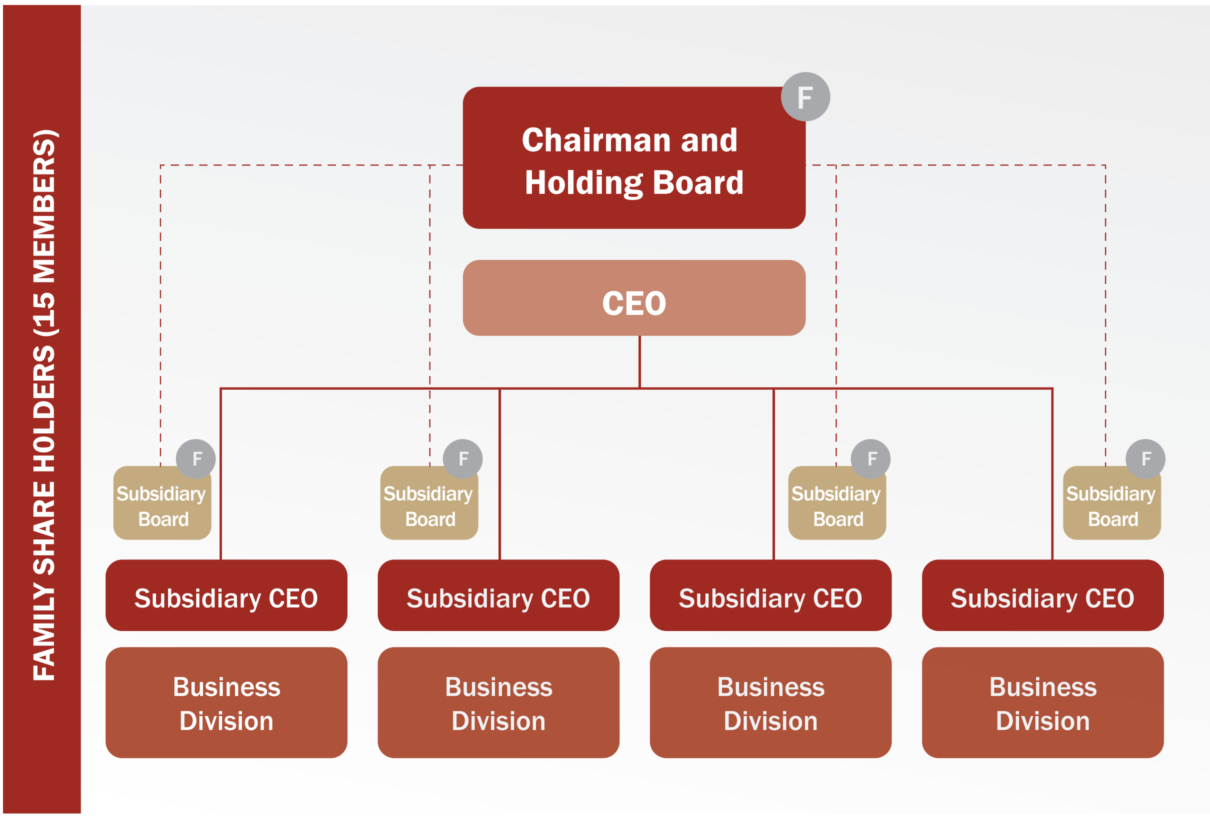


Fig. 2: Organisational structure today; F = family member involved

Impact on the Family

The process of transforming the business required the family to work closely together and resulted in a strengthening of ties. The new structure also allowed family members who wished to exit the family business to do so by selling their shares to other family members. This has allowed for a more open discussion within the family and increased family cohesion.

Future Generations

The family perceives its main challenges today to be managing the expectations of family members, the development of future generations and the definition of their role in the group. On the one hand, some family members need to serve as directors on multiple boards to maintain family influence in the group. On the other hand, the younger generation does not have the opportunity to get to know the business by working there, as their fathers and grandfathers did, due to the new requirement that limits family involvement in business operations. The challenge is, as the chairman puts it, to “get the young generation on board in a constructive way: serving their aspirations and at the same time ensuring they add value to the business”

Learning Points

- Moving from a family-run business to a professionally-managed corporate requires the buy-in of all key family stakeholders
- Finding the right talent to run the business takes a lot of effort and resources; the role profiles have to be clearly defined and adequate means have to be put in place to find and hire the right people
- Managing the transition of family members from an operational role to a purely strategic oversight role can be difficult
- Before hiring consultants to help with a reorganisation and the implementation of family and corporate governance, the family needs to have a vision that outlines exactly where it wants to go and what its goals are.

MAJID
AL FUTTAIM GROUP
UAE

Majid Al Futtaim
ON BECOMING A REGIONAL BENCHMARK

The Institutionalisation Process at Majid Al Futtaim

Key Findings

Dubai, UAE
Headquarters

26,302
(as of 31st December 2013)
Employees

1
Number of family Directors

Conglomerate
(Retail & Real Estate)
Industry

100%
family owned
Ownership

Mr Majid Al Futtaim
Founder

1992
Year of establishment

Majid Al Futtaim Properties, Majid Al Futtaim Retail, and Majid Al Futtaim Ventures
Key Subsidiaries

US$ 6.23 billion
(as of 31st December 2013)
Annual Revenue

Governance is the journey of a mindset.
Iyad Malas, CEO, Majid Al Futtaim Holdings

Business Activities

Majid Al Futtaim owns and operates 17 shopping malls with over one million square meters of GLA (Gross Leasable area), 56 hypermarkets and 53 supermarkets, 11 hotels, 9 cinema locations with 92 screens, 16 family entertainment centres, and 45 fashion stores. With related interests in mixed-use communities, consumer finance and health-care, the business employs over 26,000 people made up of over 70 nationalities.

The business spans the area best described as the MENA and CIS region, which encompasses 12 operating countries – Bahrain, Egypt, Lebanon, Georgia, Jordan, Kuwait, Iraq, Pakistan, Oman, Qatar, Saudi Arabia and the UAE. Over 250 million people experience Majid Al Futtaim each year.

The three pillars of the business are Majid Al Futtaim Properties, Majid Al Futtaim Retail, and Majid Al Futtaim Ventures.

History

Majid Al Futtaim was founded in 1992 and opened its first shopping mall in Dubai in 1995. Today, Majid Al Futtaim has become the leading retail and leisure pioneer in the MENA and Central Asia. Built around the City Centre and Carrefour brands, and the Mall of the Emirates and Ski Dubai, Majid Al Futtaim develops and manages shopping malls and hypermarkets throughout the region, managing also a range of complementary businesses to the malls and hypermarkets.

Challenges

Managing Growth

As the business was growing rapidly in the 1990s and expanding its operations from building and operating shopping malls, to retail and entertainment it required strong management control and governance systems to ensure sustainability and growth.

In a significant step in 2006, the Founder, Mr Majid Al Futtaim, retired from executive management, handing over the leadership of his conglomerate to a professional management team.

Ensuring Growth and Control Through Good Corporate Governance

To ensure the business would be able to sustain the projected growth and at the same time ensure that good risk controls were in place, the Founder opted for the implementation of strong corporate governance and management control systems.

With a clear vision to separate ownership and management from the outset, a proactive and visionary plan was drawn up. In an initial step in the late 1990s a largely decentralised structure was re-focused and centralised to ensure synergies and reduce replication of resources. The Founder and his team decided to follow international best practice, however structure and adapt those suggested systems to the local market.

Governance Leadership

Realising the importance of leadership in structural transformation, the Founder was the driving force behind the development of efficient and transparent governance systems. One of his first decisions was to hire a board and management teams that shared his vision. Demonstrating his personal commitment to the cause helped implement good practice throughout the organisation and motivated employees to take an active role towards seeking the best system for the business.

Adapting International Good Practice

On the journey towards finding the best practice for the businesses, the Founder and his team realised that even though following international best practice was essential, they sometimes fell short in responding to the regional realities. Therefore, they decided to have a flexible approach whereby international good practice would remain the basis of the organisational structure, but at the same time it would be adapted to the regional realties and requirements of the company. This resulted in the business adopting the principles of the UK's Combined Code for Corporate Governance wherever possible.

Adaptability of the Systems

From the beginning, the board and the management team held the view that systems need to remain flexible and needed to be adapted to the evolution of the business environment and the growth of the company. A good example of this is the organisational structure:

In the first years after the inception of the business, the organisational structure was decentralised, with sub-units carrying their own administrative departments and decision-making authorities. In a first shift, after several years, the management decided to centralise the structures in order to save resources, reduce duplication, increase control and decision-making was concentrated at the holding level. After this system helped drive further, exponential growth and diversification of the company, the management felt it was time to return to a decentralised organisational model, in which the now substantially developed subsidiaries would get more room for decision making and have administrative entities closer to their operations. Currently, decentralisation is driven forward as the three main subsidiaries are operating in very different sectors and therefore require industry specific expertise. The Holding company empowers the subsidiaries to take better decisions for their respective businesses to allow them to grow faster and is responsible for the overall interests of the Founder.

Ongoing Process

It has always been clear to the management team that institutionalisation is an ongoing process, which started with the foundation of the business in 1992 and is ongoing until today. There is a strong belief that even if Majid Al Futtaim today has strong corporate governance and management control systems in place, the management team needs to remain vigilant to ensure that the systems function properly and understands that corporate governance requires constant updating and adaptation.

Accountability and Communication

One of the core beliefs of the executive team is that the successful implementation of the governance systems depends on people; especially when moving to a more decentralised structure. For senior management staff governance is part of their performance review with the aim of embedding it in the company's culture as individuals see the benefits of good governance.

Management has also spent a lot of effort in communicating the governance and compliance systems to all employees and ensuring that the importance of such systems for the future of the business is common knowledge. Majid Al Futtaim has developed a system with so-called "super users", employees who are especially selected for their dedication to good governance. "Super user" employees are responsible for communicating the businesses governance efforts to their peers and maintaining constant communication around the most important issues.

Building Blocks

Instead of laying out a full corporate governance system from the outset, the management team opted to introduce the new governance regulations one at a time. This allowed them to focus on details and ensure that any regulation or structure was properly embedded and tested. It also ensured that employees were not overwhelmed with new initiatives and had the time to adapt.

CORPORATE ORGANIGRAM

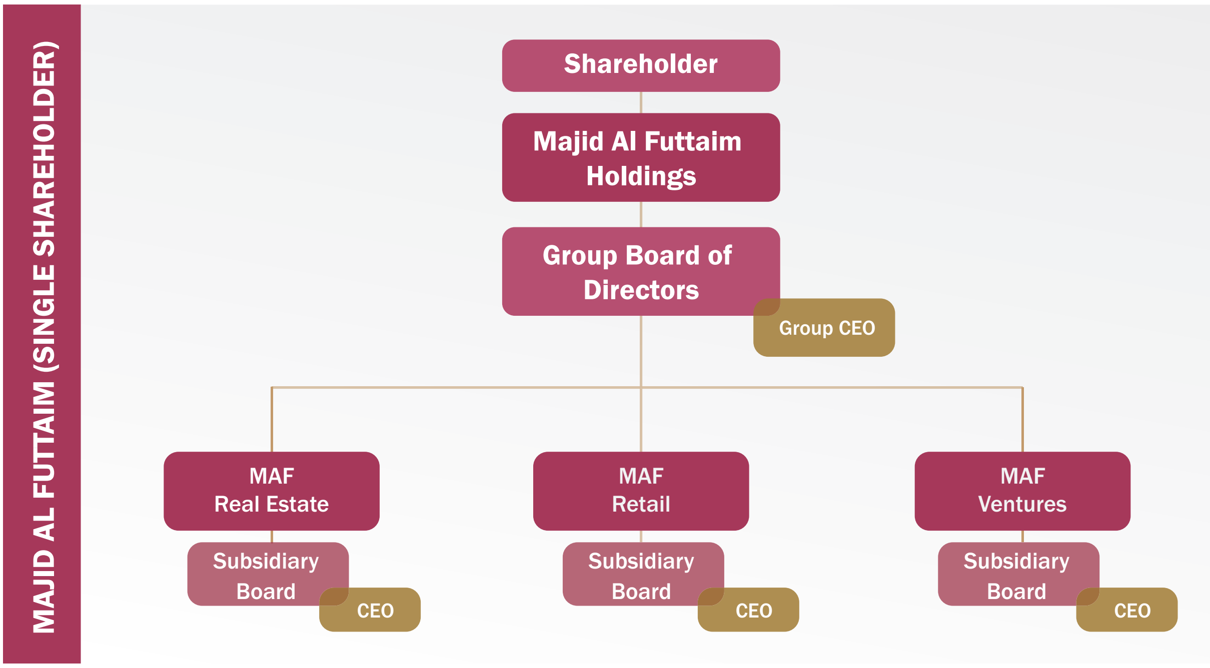


Fig. 1: Organisational structure

Solutions

Key Corporate Functions at Holding Company

In the decentralised model, the subsidiaries operate in a relatively independent way. They have the tools to take the right decisions for their sectors without facing bureaucratic obstacles. The Holding company is the shareholder of the three subsidiaries and retains control over the Treasury Function which is responsible for capital raising and allocation.

Strong Board of Directors

The Directors

The board of directors of the Holding company is composed of four non-executive directors, two executives and one family member. The non-executive directors are senior business leaders from the region and abroad with rich leadership and board experience and industry know-how. They are carefully selected and bring a broad mix of skills and experiences to the table to give the best possible strategic advice.

Board meetings

» The board meets regularly four times per year, has preset agendas and addresses both routine and non-routine matters such as approving strategy, mergers and acquisitions, new developments, budgets and funding among other issues.
» The board members regularly undergo performance assessments and if required training.
» Board meetings are held in English rather than in Arabic to have access to a broad pool of leadership talent both locally and internationally.

Delegation of authority

The roles and responsibilities of the Chairmen of the Board of Directors and CEOs have been clearly defined. Through clear delegation of authority each executive function in the governance system has its power of decision making and accountability outlined.

Information of the Shareholder and Ownership Control

The Founder of the business and single shareholder exercises strategic control of the business through his shareholder rights.

He has and uses the right to access information at all time:

» He has access to all materials (including board meeting minutes).
» The Holding CEO, the Chairmen of each subsidiary and other management brief the Founder as and when required.

Subsidiary Governance

Embedded in the corporate governance structure the three subsidiary companies retain a lot of autonomy and decision making powers. This system was implemented as it is seen as best suited to the diverse industries across Majid Al Futtaim, which often require specific industry knowledge.

Through the organisational system and corporate governance mechanisms, however, the Holding Company retains strategic control over the subsidiaries at all times. Each subsidiary has a dedicated board of directors. In addition, a “CEO Forum” has been established, where the subsidiary CEOs meet each other and the Holding CEO on a regular basis for exchange and to ensure strategic alignment.

A good example of the recent increase in subsidiary autonomy is the HR function: Initially the HR function was centralised at the Holding level. However, in recent times it has moved to the subsidiaries to allow them to make the most appropriate personnel choices for their respective industries.

***It is essential that you have the right people.
Only then, can they be accountable and responsible.***
Andrew Sharp, Company Secretary

Subsidiary boards
The three subsidiary boards of directors consist of 7 to 10 members each. The Holding CEO and the Holding Chief Compliance Officer have seats on each of the boards, and the subsidiary CEOs each have a seat on the boards of their respective company. All other board members are non-executive directors that have been nominated based on their industry expertise to create very focused “expert boards”. This structure allows the board and the management of the Holding company to have oversight on each of the businesses. Similarly to the Holding board, the members of the subsidiary boards are subject to performance evaluations. The subsidiary boards meet regularly and set agendas beforehand. Each subsidiary board has their own audit and remuneration committee.

CEO Forum

The CEO Forum is a regular monthly meeting, where the CEOs of the subsidiaries and Holding CEO gather to discuss managerial issues.

Impact

The continuous governance efforts have benefited Majid Al Futtaim in many ways. The highest impact can be observed on its human capital, financial, partnership and risk management:

Talent

Not only did its sustainable growth and high visibility earn the Majid Al Futtaim a strong reputation, but its corporate governance structures have been widely communicated in the market and have elevated it to become a sought-after employer in the region.

Board of Directors – strong corporate governance systems were instrumental in attracting high caliber board members for the four boards.

Management – similarly corporate governance has had a positive impact on attracting the top local, regional and international leadership talent required to further grow the business.

Financing

Strong governance structures increased the trust from banks and helped the business to have a strong “credit story” in view of listing debt instruments on the local and international stock markets

The business was awarded the highest credit rating (BBB) of privately held entities in the region by both S&P and Fitch Ratings.

Partnerships, Joint Ventures, New Opportunities and More

Its good reputation, solid corporate governance and resulting stable business growth has motivated many international groups to partner with Majid Al Futtaim. Over the years the business has entered into partnerships with global brands such as Carrefour, Abercrombie & Fitch, and Juicy Couture, and is receiving further interest from other companies, who look for a strong, stable and reliable partner to expand to the MENA region.

Risk Management and Control

The transparent governance structure puts the necessary checks and balances in place to take commercially sound decisions while limiting risk exposure. For Majid Al Futtaim strong corporate governance resulted in thorough risk management and increased control.

Key Success Factors

» Having a clear vision of how the company should be structured and at the same time allowing room for adaptation;
» Having strong control and risk assessment mechanisms in place;
» A combination of a clear "tone-at-the-top", communication, and implemented mechanisms ensuring the responsibility and accountability of the staff that has led to a successful implementation of the governance systems across the organisation;
» Using best in class consultants and advisors.

Challenges and Future Development

One of the main challenges is the continuous alignment of the management and employees on the core values and mechanisms of the corporate governance system. Majid Al; Futtaim has put a lot of effort in educating and incentivising employees across the business to implement and "live" corporate governance.

Given the positive experiences with a strong and rigorously implemented corporate governance system, Majid Al Futtaim will continue driving the process towards ever better solutions and mechanisms, ensure strong interactions between a sustainable ownership structure and continued growth.

Majid Al Futtaim's continuing efforts to maintain a strong corporate governance culture will be a legacy for the Founder.

Learning Points

» Positive impact - Transparency and strong corporate governance can have positive impacts on talent acquisition, financing and business opportunities.
» Flexibility – The business has the flexibility to constantly review its systems and structures without losing stability.
» Control - Control is held through a clearly defined system involving the Holding board, the subsidiary boards and certain key corporate functions. The Founder remains in ultimate control of the business through his shareholder rights and functions.
» High calibre boards – The business would have not been able to attract senior business leaders from around the world had it not had strong governance structures functioning at international standards
» Risk Management – Corporate governance has helped the business to effectively manage risk and thus take better commercial decisions.

We have 70 nationalities working in the business and governance means different things to different people. So before anything else, you need to establish a shared company culture.

Andrew Sharp, Company Secretary

THARAWAT FAMILY BUSINESS FORUM

The Tharawat Family Business Forum was founded in 2006 as an independent, non-profit, private sector business network for Arabian family-owned companies. With around 80% of businesses in the Arab world being family-owned, their sustainability and growth is crucial for the region and its economy.

Tharawat supports the family business community by providing educational programs, thought leadership, networking opportunities, and a platform for the inter-generational and inter-regional exchange of knowledge and experience. The Tharawat Family Business Forum is an exclusive membership organisation, with activities both for its members, as well as for the wider business community.

As a membership organisation, it is the members of Tharawat that drive its activities. Our members and friends share the vision to support the community and contribute to the regional economy through education, exchange, and dialogue. Our activities include:

Family Business Thought Leadership and Research

In a region, where around 80% of all businesses are family-owned and family-run, the lack of data, statistics and relevant background information is a true challenge. As part of its mandate, the Tharawat Family Business Forum is committed to developing thought leadership and supporting relevant research in the Middle East and North Africa. Through collaborations with regional and international partners, we aim to contribute to a more transparent business environment with ever growing opportunities for our community.

Tharawat Family Business Services

Family businesses and their lifecycles are unique. At every point in time families are facing demands from within the family, from the business, and from stakeholders and society. As a special support to family business leaders, and their families, the Tharawat Family Business Forum provides public, as well as private, in-house workshops for families to address the following topics:

» Family Governance
» Individual career development and talent management
» Ownership Governance
» Young generation integration and development

Tharawat Events and Education

Tharawat events have the aim to be highly informative, facilitate the exchange of knowledge and experience, as well as be a platform for business networking. The Tharawat Family Business Forum hosts several regional and international events throughout the year. Events might range from exclusive networking dinners, to educational workshops and multiple-day conferences. Attendance to Tharawat events are exclusive for family members of business owning families from the MENA and beyond. Tharawat also hosts an educational program, aimed at regional business families.

NextGen Program

Arabian NextGen is the platform for the next generation of family businesses founded by the Tharawat Family Business Forum. It is the vision of Arabian NexGen to support the next generation of family business leaders in their professional and personal development, and to have a positive impact on the sustainability of family businesses in the Arabian region. Arabian NextGen acts as a knowledge hub and networking platform for young family members from business-owning families through online platforms, events, education and professional development, as well as coaching.

Our Member Companies

Al Fozan Group, KSA
Al Ghurair Investments, UAE
Al Gihaz Holding, KSA
Al Harbi Trading and Contracting Company, KSA
Al Khorayef Group, KSA
Al Majdouie Group, KSA
Al Nahla Group, KSA
The Zubair Corporation, Oman
Automotive & Machinery Trading Center (AMTC), Yemen
Crescent Petroleum, UAE
Dr. Sulaiman Al Habib Medical Group, KSA
Elnefeidi Group Holding Company, Sudan
Fattal Group, Lebanon
Hayel Saeed Annam Group, Yemen
Kadi Group Holding, KSA
Khalid Ali Alturki & Sons, KSA
Nasser bin Abdullatif Al Serkal Est, UAE
Obeikan Investment Group, KSA
Shade, KSA
Wazzan Educational Services, Kuwait
WJ Towell, Oman
Zamil Group, KSA

Tharawat Family Business Forum

For more information on our activities or membership, please visit:
www.tharawat.org
www.tharawatconferences.org
www.tharawat-magazine.com

Or contact us at info@tharawat.org

THE PEARL INITIATIVE

The Pearl Initiative is the leading independent, not-for-profit, by-business for-business, institution working across the Gulf Region of the Middle East to influence and improve corporate accountability and transparency.

Developed in cooperation with the United Nations Office for Partnerships, it is a regionally-focused growing network of business leaders committed to driving joint action, exhibiting positive leadership and sharing knowledge and experience – in order to positively influence the entire regional business and student community towards implementing higher standards in areas such as corporate governance, anti-corruption, codes of conduct, integrity and reporting.

The Pearl Initiative and the United Nations Global Compact drive joint programmes, as part of their Strategic Partnership, in order to advance the adoption of the "Ten Principles" by the private sector within the Gulf region.

The Pearl Initiative Delivers:

1. **Regional research-based insight reports.**
   For example, the first Pearl Initiative Report in the Series on GCC Corporate Good Practices demonstrates good practices in integrity and transparency within companies in the GCC. Eight case studies are included and the report has been freely and widely disseminated across the business community and universities around the region, for use as teaching material.

2. **Conduit for best practices and resources.**
   The Pearl Initiative is the leading regional authority on corporate accountability and transparency, offering comment, expert opinion and a free online resource for information, thought leadership, trends, links, views, insight, ideas exchange, tools, good practices library, examples and contacts.

3. **Business Dialogue Forums.**
   The Pearl Initiative convenes business leaders and multi-stakeholder constituents at the highest level, and at the operational level – in free dialogue forums, experience-sharing sessions and capability-building seminars.

4. **University Programmes.**
   The Pearl Initiative runs interactive, inspiring seminars and programmes, such as the Student Case Study Competitions, to help embed the values of business integrity in our leaders of tomorrow.

PEARL INITIATIVE

For more information on our activities or membership, please visit:
www.pearlinitiative.org

Or contact us at enquiries@pearlinitiative.org

Partners

The Tharawat Family Business Forum
Email | info@tharawat.org
Phone | +971 4 4526578
Website | www.tharawat.org

The Pearl Initiative
Email | enquiries@pearlinitiative.org
Phone | +971 6 5154605
Website | www.pearlinitiative.org