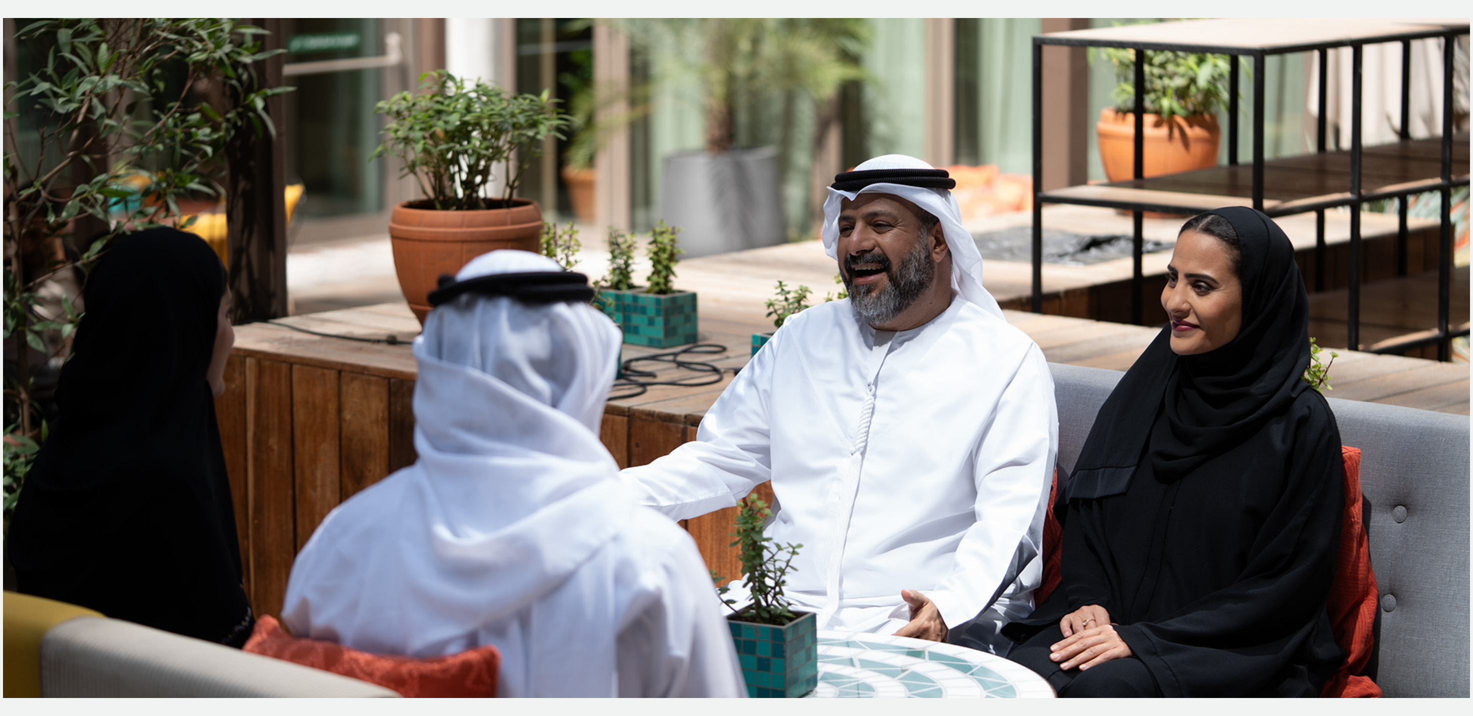
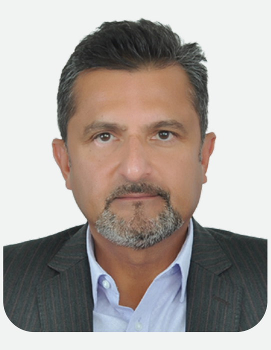


الحوكمة من أرض الواقع
GOVERNANCE IN PRACTICE



Amin Nasser

This edition of the Family Business Digest features Amin Nasser, Partner at PwC Middle East, who shares decades of experience in advising family businesses. He addresses key governance challenges such as succession planning, conflict management, and adapting to the UAE Family Business Law. His insights merge local understanding with global best practices, offering practical tools for sustainable and professional family business governance in Dubai.

Based on your experience in advising family businesses in UAE and the region, what governance structures have proven most effective in the UAE context, particularly given the cultural and legal frameworks unique to Dubai?

Q1

In the UAE, the most effective and widely accepted ownership model among family businesses is the establishment of a holding company structure supported by a formalised shareholders' assembly, and an empowered, professional board with dedicated board committees.

Under this model, each family branch, typically representing second-generation family members, holds its shares through a dedicated Special Purpose Vehicle (SPV), which in turn owns shares in the holding company. This setup offers families a clear and manageable governance framework while allowing them to maintain a sense of control and oversight. Its straightforward nature and transparency have made it particularly reassuring to families navigating the complexities of intergenerational ownership.

While LLCs and SPV holding structures have traditionally been the most widely used vehicles for asset and business ownership in the UAE, there are alternative structures such as trusts and foundations that offer distinct advantages in areas like succession planning and asset protection. However, these fiduciary structures remain underutilized, largely due to limited awareness and understanding of their legal frameworks and strategic benefits. Many families are unfamiliar with the concept of separating legal ownership from beneficial interest, which can lead to misconceptions about a perceived loss of control. As a result, despite their potential to enhance long-term governance and continuity, trusts and foundations are not yet mainstream in the region's family business landscape.

While family governance mechanisms such as Family Offices are gaining traction, their potential remains underutilized. In many cases, Family Offices continue to operate more as concierge-style service providers rather than as strategic governance and wealth management platforms. However, as family businesses in the region continue to mature, and as the legal and tax landscapes evolve, we expect these governance structures to become more sophisticated and play a more central role in long-term family enterprise planning.

Independent directors also play a critical role in strengthening governance within family businesses. By offering an external perspective and objective oversight, they help navigate complex challenges, support informed decision-making, and align the business with its long-term strategic goals. Their presence contributes meaningfully to the sustainability and resilience of the business, particularly as it evolves across generations.

Succession planning can be one of the most sensitive governance challenges how should families approach it to ensure both continuity and fairness across generations?

Q2

Ownership succession, particularly within family businesses in the UAE, requires a nuanced approach that respects cultural norms around preserving family control. As previously noted, there is often limited familiarity with fiduciary ownership structures such as trusts and foundations, especially given the relatively recent introduction of formal legal frameworks governing these entities in the UAE. This unfamiliarity can lead to hesitation in adopting such mechanisms, not out of resistance, but due to a lack of clarity around how they align with traditional values and long-term family objectives. Therefore, succession strategies should be carefully crafted to reflect the family's ethos and vision, while also ensuring that future generations are equipped to take on stewardship roles effectively.

Succession planning should begin well in advance, ideally around ten years prior to the anticipated generational transition. It is essential that families clearly define the goals and objectives of the succession plan, ensuring that it supports both continuity and fairness. Transparent communication is a critical component of this process; by openly sharing the plan with all family members, families can minimise potential conflicts and foster alignment. Moreover, the plan must be perceived as fair and equitable by all members, whether they are actively involved in the business or not, to preserve unity and trust across generations.

Management succession, on the other hand, should be guided by principles of merit and professionalism. There are many approaches to be taken by Family Business, however a leading approach for leadership positions to not be determined solely by lineage or seniority, but rather through transparent, merit-based criteria that are collectively agreed upon by the family. A gradual transition of family members from operational roles to governance or shareholder responsibilities can support the integration of professional management, thereby enhancing business performance while maintaining strategic oversight within the family.

To promote clarity and cohesion, all elements of the succession process should be formally documented in the Family Charter. This serves as a comprehensive framework that supports continuity, accountability, and intergenerational unity.

In your view, what are the critical elements of a well-crafted family charter, and how do you ensure it remains relevant as the family and business evolve?

Q3

To begin with, while there are established leading practices in family governance, it is essential to recognize that each Family Charter must be thoughtfully tailored to the unique dynamics, cultural context, and values of the individual family. The key lies in adopting these practices in a way that complements and respects the family's specific circumstances.

A helpful starting point is the Three Circle Model, developed by Tagiuri and Davis, which serves as the foundational framework for understanding family business. It illustrates the intersection of three key systems: Family, Ownership (shareholders), and Business. Each circle represents a distinct group with its own interests, roles, and dynamics, and some individuals may belong to one, two, or all three circles.

When designing a Family Charter, it is important to address the unique needs of each of these circles. Within the Family circle, the Charter typically outlines expectations for family member involvement, mechanisms for resolving conflicts, and the development of next-generation leaders. From an Ownership/ shareholder perspective, it may define policies on shareholding rights, dividend distribution, and the transfer or sale of ownership interests. Families should agree on a set of rules, often referred to as Shareholders' Protocols, that formalise the relationship between shareholders. These protocols are vital for fostering strong intergenerational relationships and for clearly separating ownership and management matters, helping to balance personal ties with contractual obligations and ensuring the long-term viability of the business.

Regarding the business circle, the Charter should establish clear criteria for leadership roles, succession planning, and the separation of family and professional responsibilities. It is also advisable to clarify the role, composition, and functioning of the Board of Directors, ensuring strong governance and strategic oversight. Together, these elements create a cohesive framework that promotes alignment, accountability, and continuity across generations.

Importantly, the Family Charter should not be viewed as a one-time exercise, but rather as part of a broader governance journey. As the family and business evolve, through generational transitions, changes in ownership structure, or shifts in strategic direction, the Charter must be revisited and refined to remain relevant and effective. This requires a commitment to periodic review and open dialogue among stakeholders across all three circles.

Where possible, the Charter or its associated rules should also be legally enforceable. In this regard, recent legislative developments in the UAE have made significant advancements. Embedding the family's governance framework within a legal structure enhances transparency and clarity, helping to mitigate the potential loss of trust among family members.

What advice would you give to multi generational family businesses in Dubai on creating clear, effective decision-making processes while respecting senior family members' roles and cultural traditions?

Q4

Effective decision-making in multi-generational family businesses requires a thoughtful balance between honouring tradition and enabling future-focused governance. In Dubai, where cultural norms emphasise deep respect for senior family members, this balance begins with leadership by example. Senior family members, particularly founders, play a crucial role in setting a tone that values both tradition and inclusivity. Encouraging younger generations to contribute their perspectives not only fosters engagement but also ensures the business remains dynamic and resilient.

While the cultural emphasis on respecting elders remains a foundational value, creating structured forums, such as board meetings, shareholder assemblies and family councils, can help professionalize decision-making, clarify roles and foster more balanced engagement.

At the same time, implementing practical tools, such as but not limited to a clearly defined delegation of authority matrix, documented board decision rights and reserved shareholder matters helps ensure decisions are made efficiently and transparently. These governance mechanisms provide clarity on who is empowered to make which decisions, at what level, thereby reducing ambiguity, minimizing potential conflicts, and promoting both accountability and transparency.

It is equally important to complement these tools with clear decision-making principles such as adopting the practice of majority rule among family members. Such an approach promotes fairness and shared responsibility. Ultimately, cultivating a culture of mutual respect and openness allows family members to debate constructively. When differing views are expressed without being perceived as personal attacks or signs of disrespect, it strengthens the family's unity and long-term governance.

The family must operate as a cohesive unit, continuously supporting one another. At times, this may require individual members to compromise or make personal sacrifices for the collective benefit of the family. However, such efforts ultimately serve the long-term interests of the entire family. The guiding philosophy should be: "If it's good for the family, then it's good for me."

Conflicts are inevitable in any family enterprise. What governance mechanisms or processes have you found most effective for managing and resolving internal disputes constructively?

Q5

Conflict is an inevitable part of any family enterprise. With family members often serving as shareholders, board members or executives within the business, overlapping roles and differing expectations can lead to tension. The true challenge lies not in preventing conflict, but in managing it constructively to preserve both business continuity and family harmony.

Conflicts typically arise across three dimensions:

- **Family-related conflicts** are often emotional, tied to perceptions of fairness, generational values, or interpersonal history.
- **Business conflicts** may focus on operational decisions, performance concerns, or remuneration.
- **Ownership conflicts** involve matters such as dividend distribution, shareholder exits, or succession planning.

Disagreements often take place around key issues such as the strategic direction and vision of the business, the responsibilities and performance of family members involved in executive management, and succession planning for future leadership. If left unresolved, these tensions can impact trust, stall critical decisions, and ultimately jeopardise both the cohesion of the family and the continuity of the business.

To manage conflict effectively, successful family enterprises implement governance mechanisms that separate these dimensions and provide structured channels for dialogue:

- **Design the Family Constitution:** A formal document outlining the family's shared values, governance principles, and rules of engagement. It serves as a reference point for decision-making and promotes fairness and consistency.
- **Formalise the Shareholders' Assembly:** A governance body focused on ownership issues, ensuring that all shareholders, active or passive, are informed, heard, and aligned.
- **Empower the Board of Directors:** A professional and empowered board which includes independent members provides oversight on strategic and operational matters, and serves as a forum for resolving business-related disputes objectively and in the best interest of the family enterprise.
- **Set up a Family Council:** A dedicated forum for addressing family-related matters, promoting open communication, and fostering unity across generations.
- **Develop a Conflict Resolution Mechanism:** A structured process, often involving third parties who are trusted and well respected by the family and offer their independent and objective views.

Ultimately, governance is not only about structures but about building a culture of trust, transparency, and fairness. When designed thoughtfully, these mechanisms enable families to navigate conflict with resilience and focus on the long-term success and sustainability of the family business.

With the recent introduction of the UAE Family Business Law, how should families in Dubai rethink their succession strategies to align with both legal requirements and family expectations?

Q6

With the introduction of the UAE Family Business Law, families in Dubai must adopt a more structured approach to succession planning that aligns with both legal requirements and family expectations. This means going beyond simply naming a successor to embedding long-term governance and continuity mechanisms. Families should formalize governance through tools such as family constitutions and shareholders' agreements to clarify roles and decision-making processes. Legal structures like holding companies, special purpose vehicles e.g. trusts or foundations can help safeguard ownership and support continuity across generations. Succession should be treated as an evolving process that is focused on identifying and developing capable next-generation leaders through mentorship, role definition, and readiness assessments. Open communication across generations is essential to manage expectations and preserve harmony. By institutionalizing these practices, families not only ensure alignment with the new law but also strengthen the long-term resilience of both their business and family relationships.

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