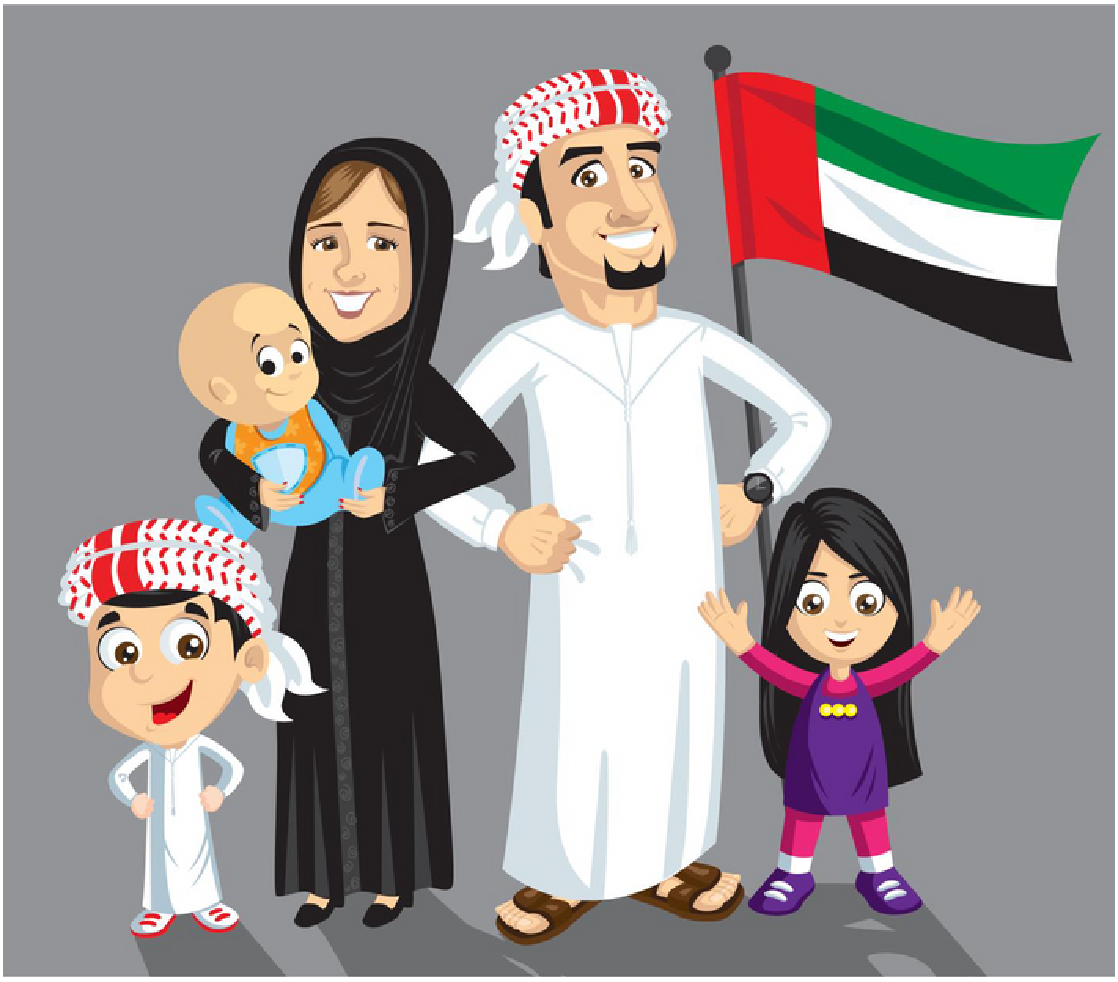
Browne & Mohan
From Vision to Results



Transforming UAE Family Businesses

Dr T R Madan Mohan.

Introduction

Family businesses account for significant part of the UAE economy. Family businesses dominate automotive, retail, fashion, real estate and manufacturing sectors. Family owned enterprises represent 90% of the businesses community in UAE and they contribute about 75-90% of the $500 billion plus trading activity (Ras Al Khaimah Chamber of Commerce, 2015). With over $2 trillion global wealth and employing more than 17 Million associates family businesses are powerful engines of economic growth. Like in other GCC countries, more than 70 percent of these family businesses are managed by founding members. The major challenges UAE based family businesses faces are:

- No Separation of ownership and management
- Challenges on Inheritance and business continuity front
- Professionalization of the group or company
- Blurred roles and responsibilities within family members
- Geographic and segment concentration of their business, no de-risking plans
- Anchorage on few business and cross-subsidization
- Weak succession planning
- Next generation interests not aligned with the family business

In a family ownership the family members don several roles, common ethos, identity and principles transcend multiple-generations, and munificence is a major driver of business. Many entrepreneurial families do not have a clear demarcation between personal and business assets and have lost even their personal fortunes because of business liabilities. Unlike a corporation, family members and their extended relations may have different rights, expectations and responsibilities in the business. This sometime can lead to conflict and jeopardize the sustainability of the business.

Many family businesses in UAE are comfortable in bringing in professionals into their business for maintenance of business and yet limit their involvement in growth and strategic directions of the company or business. In some family businesses, even with the induction of professionals, separations of family and company are incomplete, with the effect that culture and process still remain largely family centred.

A major challenge for UAE family businesses is their major source of revenue comes from one or two business and there is no cash low diversification. Some of their businesses may be cross subsidized by the revenues of one anchor business and in tough economic situations the impact is aggravated. Family businesses also suffer from regional concentration risk. Many of them are leaders in their local markets where they have well established presence, but have limited regional diversification plans, even across GCC and in other regions. While investments in real estate in international markets may have helped support education and shopping requirements, yield in recent times of these investments belies expectation. Even with progressive trust laws proposed by DIFC, many family businesses book their assets abroad in few preferred asset classes. Hence, despite their financial strength, many of the UAE family businesses concentration in few markets and verticals leave them vulnerable to external shocks.

Many family business owners wish to pass their business on to a family member. Preparing for a change of hand in family led business is not just a micro issue that impacts the business involved. It is estimated that more than $1 trillion is set to change hands from one generation to another on this region. According to MEED magazine, just about 30% of the family businesses survive into second generation and only about 10% into third and less than 3% into fourth generation. It is important to not just cast appropriate laws to support the transition, but devise right approach and execution plans without rocking the institutions that have been built over years. Unfortunately, many family businesses are ill prepared for the ownership transition. Most companies change hands in emergency situations such as illness or death of an owner or partner. Consequently, many family businesses (or their heirs) are forced to accept a transaction that is less desirable

> A major challenge for UAE family businesses is their major source of revenue comes from one or two business and there is no cash low diversification.

Transformation agenda for UAE Family business

Based on our experience with planning and implementation of successful family businesses transformation can be attained by focused on governance, and performance management.

1. Establish family and business norms

Family business can thrive when they can successfully demarcate "family" from business. Family business operational conflicts can be easily resolved when there is an understanding of roles and responsibilities. A good starting point is to align the family business relationship with business goals and detail a plan with a clear description of the roles, expectations and performance. Plan can be effective if the family chain of command is clear. Create a hierarchy of the roles and ownership. As far as possible define the command chain of command preserving the social order and the skills required for the function. Clear chain of command makes life easy for nonfamily members to navigate their activities and careers within the family business.

Clear chain of command makes life easy for clients too, they know whom to contact for what. Along with chain of command, to sustain a family business, transparent compensation rules must be set in. Use industry benchmarks for fixed and variable compensation of various family members involved in business. Family businesses must also devise methods and platforms for younger generation to express their needs and concerns. Senior family members must prepare themselves to patiently hear without judgement and consider fairly other opinions and concerns. Finally, family business leaders must clearly separate family time and business time. Mechanisms and process are required to prevent conflicts, thwart small problems mushrooming into major business and family drama.

The adage family that eats its meals together stays together is apt for success of family business too. Create rituals and process for multi-generational bonding. Invest in documenting and advocacy of the family culture that is built by the personalities and interests of each generation. Sustainable family businesses enshrine and celebrate their pride, security, and business continuity by preserving and extending the charisma of culture. The idea is similar to a Bricolage, allowing each generation to add and extend the enterprises and cash-in the relational assets built across generations. Some of them devised simple mechanisms for breakouts or cashing out by next generations and designed appropriate methods to preserve multigenerational legacy and continuity.

2.Adopt governance mechanisms to manage wealth, growth and de-risk

Governance plays two important roles in family businesses. Firstly, it safeguards the interests of all stakeholders and improves transparency. Family business that move from founder to next generation to siblings or cousin consortia can employ following approaches to improve on governance, viz., 1) creation of a family council, and 2) induction of independent directors.

Family council or a family office is a personal operating setup that can act as a single decision making body with various matters on business, but also can add reverse flows to the parent overtime. Measure effectiveness of the family office executives by the spread, growth and de-risk of family business across markets, technologies and customer segments.

3. Induct Independent advisors

Independent advisors offer advice that is professional, unbiased, consistent and appealing to their way of doing business. The introduction of an external player helps in strategically aligning family business growth strategies with the market. Non-executive independent advisors or directors play a significant roles in encouraging divergent thinking, validate management decisions and suggest independently protects the interests of the primary stakeholders in the business, the family itself. Independent director can be either "active" or "passive". Active independent directors not only involve in strategy making and but also participate in deeper reviews on implementation process. Passive directors on the other hand limit themselves to their advisory role. Irrespective of the nature of their role, independent directors are expected to contribute in terms of following

- Provide guidance.
- Improve visibility & network value
- Act as a sounding board and a confidante
- Ensure fiduciary requirements are met

- **Provide guidance.**

Family owned business like independent directors to offer guidance and assistance in finding opportunities for the firm to grow, align with new partners, explore new markets and change the status quo. In some companies, the family ownership may be seeking specific guidance to reduce CEO stress and bringing in professionalism.

- **Improve visibility and network value**

Independent directors participate in firm sponsored events as experts and consultants to showcase talent and provide key networks.

- **Act as a sounding board and a confidante**

In many a first generation family business independent directors are seen as sounding boards where partially defined or tentative plans can be bounced off to obtain feelers. Moreover, they may also be involved to act as a neutral party to minimize "self-seeking behaviour" of the family members and to arrest "private gains over company losses".

- **Ensure fiduciary requirements are met,**

Independent directors act as audit committee members, validate whether the taxes are paid in time and regulatory requirements are complied.

4. Prepare and execute succession

Success of succession depends on the planning and execution. Incumbent management has great wealth of experience and management insights. These have to be transferred and inculcated to the successor. Succession must be done in a very open and transparent manner. While succession plan is rolling, ensure the business is not hurt by the associated changes that may emerge because of the transition. Family elders play a significant role in establishing the business parameters, discussed and communicated the same across multiple interest groups to buy the succession plan well in advance. Once a future leader is identified, successful family businesses start mentoring the person through on-the job exposure and empower him to learn and implement changes. Insights from successful entry and succession of wards into family business show there are some common principles that can be easily adopted. While planning, entry at right level and mentoring are important, setting up wards with the right gamification principles ensures success. Succession plan must detail how family members can enter the business. Do they need prior nonfamily business experience, or international exposure is areas that need to be clearly articulated and documented. Most conflicts happen when a younger generation joins the board and starts involving in running of family business.

Succession plan must detail how the first 3 quarter of induction and transition happen. Do not burden the successor with constant reminder on results, instead focus on outcomes. Obsession with results can induce an undue pressure on the successor and induce her/him to focus on short term gains. Remember succession is an opportunity to rewire your business, and let somebody who is going to own and run the business in future unearths suboptimal approaches, bring fresh perspective and drive down the cobwebs. Undue praise, which happens every day for no significant output, takes the charm out of appreciation. Overusing praise may make the successor believe less of you and less motivated. Encourage them to take risk and experience failures.. Allow successors to fold up their sleeves, trip, and fall and rise up to live with the experience. Encourage them to go to the bottom of events, what happened, why it failed, what they could learn and how they would do it next time.

5.. Initiate Professionalization

Professionalization of a family business is a process that folds over couple of quarters. Smart family businesses traverse the distance pacing the change in short term outputs and long term intended results. Professionalization of the family businesses can happen by bringing outside qualified professionals to run the business, implement best practices across functions to scale the MENA centric organization to global work culture and adopt simple and effective monitoring and review systems.

Induction of professionals into family business moves the bar from optimization to effectiveness. Unlike family members who would like to optimize resources across multiple areas, professionals drive specialization and efficiency in running of the business. They bring systems and process that can hasten the process of globalization of UAE business. They can also bring transparency, drive and divergence to the business and can propel new directions. While certain national cultures have a unique advantage of language and religion, successful family businesses are realizing the need to have diversity of professionals strengthens their managerial orientation. A challenge for most family businesses is not just attracting the right talent, but retaining the top talent too. Many a small businesses have seen 2-3 CEO's changed in a short span. UAE family businesses must look beyond language and cultural affinity of the individual and assess outcome orientation and sustainability dimensions while selecting for top deck. Mid and junior level managers must also be selected for their potential to learn, improve and innovate the business operations.

An important aspect of professionalization is implementing right reporting systems. Given many of the next generation Emirati's are based at London or NY or other international destinations, a comprehensive and robust measurement system is key to effective management of family business. UAE family business need performance measurement system that help in addressing how various units are delivering to mission, whether they are getting the maximum impact they from their expenditures and how effectively they are utilizing their budgets. Results based management is a strategic management tool that can be effectively used by family business embarking upon professionalization program. RBM has various dimensions. Results are realistic, risks are identified and managed and appropriate indicators are used to monitor the progress of the expected results. These indicators help the organization in assessing whether or not the activities are yielding the desired results. RBM helps to bring clarity on the purpose of the programme/change and the desired results from the very beginning. RBM captures the process of change in short, medium and long term. Professionalization results (in terms of formalization of process, reporting mechanisms, performance systems, outcomes management, etc.) are commonly linked together in a result chain. The results are captured at three levels:

- Short term or output
- Medium term or outcome
- Long term or impact

The result at each level aggregate or contributes to the goal or desired impact that needs to be achieved. RBM integrates people, process, resources and measurements to administer the programmes and improve transparency and accountability. RBM clearly defines the activities to be performed at each stage to achieve the desired results. These activities are further segregated into allocation to different groups. Each group is reviewed based on the activities and the outcomes and outputs are consolidated at the programme level to report the impact or the final result in comparison to the objective set.

While adopting RBM for professionalization program, family businesses must use PCC-DIO framework to identify activities and the outcomes. The PCC DIO involves

- Purpose
- Comprehensiveness
- Consistency
- Delivery
- Impact
- Outcome

Many family businesses are identified by their owners and may lack formal leadership engine to drive the growth. Many may lack formal "how to" instruction manuals in place to run the organization like a well-oiled machine. Bring in formal system to engage doers and provide opportunities for improvisers and innovators to drive change in short term. Help them in picking in low hanging improvement programs so that they taste the sweet taste of success of their initiatives and grow in confidence to own and drive more changes. Simultaneously, Identify and put in place a pool of leaders. These leaders need to be in a position to identify goals, customers, and markets and basically address "What is to be done". They also need to work on the execution plans which talks about "How to do it".

Conclusion

UAE family businesses need to plan to de-risk themselves from leadership dependency, market uncertainty by planning for business continuity. Unplanned family business has both microeconomic and macroeconomic impact. The key to UAE family business sustenance is by transform them to build in certain capabilities that will make it stronger in terms of management, process, systems and culture. UAE family business transformation like any change initiative is challenging, but surmountable. Many a times the drawing board may need to be revisited to recoup resources and replay strategy. Some changes have been smooth, while continue to be overwhelming. While it has been easier to change process and systems, most challenging would be the people part. UAE family business need to diversify their product range, significantly de-risked their businesses, professionalize management and immerse next generation in a planned way to emerge stronger. It is an effort worth doing…….

> The key to UAE family business sustenance is by transform them to build in certain capabilities that will make it stronger in terms of management, process, systems and culture.

Browne & Mohan
From Vision to Results

Reference

Barach, J.A. and Ganitsky, J.B. (1995) 'Successful succession in family business', Family Business Review, Vol. 8, No. 2, pp.131–155.
Burlingham, B. Finish Big: How Great Entrepreneurs Exit Their Companies on Top, Penguin, 2014
Chien, C, Work Toward Reward: Building Business Value Today for a Well Deserved Future, iUniverse, 2012.
Collins, J. and Hansen, M.T. (2011) Great by Choice: Uncertainty, Chaos, and Luck – Why Some Thrive Despite Them All, HarperCollins, New York, NY.
Dyer Jr., W.G. (1986) Cultural Change in Family Firms: Anticipating and Managing Business and Family Transitions, Jossey-Bass, San Francisco, CA
Hawkey, J. Exit Strategy Planning: Growing Your Business for Sale or Succession, Gower Publishing, 2002.
Kevin, H.P, Kiel. G.C and Nicholson, G. (2010) "How Boards Strategise: A Strategy as Practice View", Long Range Planning, Vol. 43, 33-56
Miller, D. and Le Breton-Miller, I. (2005) Managing for the Long-Run: Lessons in Competitive Advantage from Great Family Business, Harvard Business Press, Boston, MA
Neubauer, F and Lank, G.A (1998) "The Family Business: it's Governance for Sustainability", Routledge, New York.
Ward, J (1987), Keeping the family business healthy, Jossey Boss, CA