By Barbara R. Hauser

Unconventional Wisdom

Western families can benefit from approaches to business succession similar to those taken by Gulf region families

From an international perspective, family businesses in the Gulf region are taking new approaches to succession. In five areas, some leading Gulf families have decided against "conventional wisdom" and are making new rules that fit their culture and goals. Western family businesses could benefit from similar approaches, that is, thinking more about what fits them and their culture—and making their own rules. Here are five examples of "unconventional wisdom."

Okay to Mix Family and Business

One generally accepted principle in the West is that a family business must be on guard to be sure that family issues are kept separate from business issues. The traditional heuristic model uses three separate but overlapping circles: (1) the family, (2) the owners, and (3) the management. Standard advice is to run the business like a business. On particular issues, the advice is to keep in mind which hat one is wearing: family, owner or management.

For succession planners, this traditional approach means that the focus when planning for the business should be to give management and voting rights to those children (if any) who are most capable of managing the business. The other children are often given other assets, with or without non-voting stock in the business.

My experience with Gulf family businesses has shown not only a failure to make the separation between family and business, but also no real accepted appreciation of the purpose of making that separation. To the contrary, Gulf families have increasingly expressed the view that businesses that have a family presence have noticeable market advantages. As written by one member of a leading Gulf family business, who is studying in London for a Ph.D. in family businesses:

> [W]hen family businesses are discussed, the first things that come to mind, apparently, are the disadvantages and challenges that come with the family's presence, especially if the businesses were large. Separating ownership from management becomes the slogan for many. Others promote replacing family management with professional management. Is the family's presence really that bad?

He goes on to argue that particular features of the embedded "familiness" in the business are actually competitive advantages. These include: family pride in the name of the business, increased loyalty and commitment, willingness to prefer harder work for lesser pay, pooling of vast individual networks of contacts, efficiency of a "family" language and culture that allows quick understanding and a marketplace preference for the goodwill and trustworthiness inherent in a family name.[1]

More than once I've heard a young Gulf family business member explain: "I love this brand. I will do everything I can to make it even stronger. I owe a lot to this brand. I am loyal to this brand."

Outside Experience Not Required

The first time I heard a client bring up the issue of outside work experience, I was surprised. The family was working on creating its own family constitution and raised the question, "What sort of outside work experience should a family member be required to have before joining the family business?" As an estate-planning lawyer with U.S. clients, I've seen this issue come up often, and the variables were commonly agreed upon:

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how many years (two or three), what sort of position (one with promotions) and what sort of company (one related to the industry). This particular Gulf family considered all of those options, had a discussion and concluded that they would prefer to have no requirements and would rather leave it wide open and consider each individual at the time he joined the business. That is, in fact, what got written into their constitution.

In another example, one Gulf family with multiple businesses had been struggling over where to "place" a new cousin. His interests didn't directly relate to any of the business lines. Two uncles decided that one line sounded the closest and put him in charge of a large land development. The cousin explained to me later that although he didn't know much about the subject, he knew that there were a lot of experts who did, so his first step was to hire a good expert as his manager. He elaborated that he selected an expert who had: 1) technical skill, and 2) an ability to easily explain concepts and work alongside him. At the last visit, the land development projects were achieving great success.

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In terms of the common belief requiring outside work experience, a common rejoinder in the Gulf region has been "why?" as in "why should my son waste time inside someone else's business; we need him to be here." I see a Gulf challenge to this advice and a strong preference towards welcoming family members into the business as soon as possible. Sons as young as their early 20s are handed powerful positions—everyone understands that they'll be growing into them, with the support of the senior family and management.

Pay Family Members a Premium

The correct compensation for family members is taken seriously in family business conferences. Before I started working in the Gulf region, all I'd heard was that compensation should be carefully calculated, especially to be in parity with top non-family management. In addition, there's a special concern to pay non-family professionals a market competitive pay. This past year, however, I heard one Gulf patriarch explain that the family members needed to be paid more precisely because they are family members.

The reasoning is that in holding the role as a family member, there are a number of societal expectations: to have a certain lifestyle, to attend certain functions, to make gifts and host celebrations, and so on. These extra expenses are the result of being a member of that family (and family business), so the conclusion is that the business should pay the family member a premium to cover those costs. In one case, the premium was calculated to include the cost of elaborate (and important-for-business) weddings.

Patriarch Exempt from Rules

In the work of creating a family constitution, part of the essence has always seemed to be that the family is agreeing to live under a "rule of law" and not a dictatorship. The beauty of the Magna Carta was that it was the first time the English king had agreed to comply with "the law."

In the Gulf area, I've found the adoption of a "rule of law" to be more flexible. The idea that an elder deserves nearly unqualified respect is a very strong value. (One respected patriarch commented to me that he rules a democracy in his family—he takes care of everyone's problems!)[2]

As part of working on that delicate balance between the two most senior generations, the general goal, as I had understood it, was to have them reach an agreement and then both generations would live by those rules. I learned in one case that two generations just couldn't agree on an issue and that in the end, what they wrote down was that one particular rule just wouldn't apply to the patriarch. Since then, I've seen a group of brothers deliberately grant unilateral power to their oldest brother. Who's to say that this solution won't work well?

Create a Family Venture Fund

As a final example, many Gulf family businesses encourage younger family members to risk the business capital—again, not part of mainstream advice in the Western family business field.

The motivation is in part due to family demographics—the number of Gulf families members can increase quickly. Because it's the business' role to take care of the family, this creates a strain on the business' finances. Also, I've heard younger family members explain that the business has to grow faster, not only to financially take care of so many family members, but also to provide management positions for all of those who come along and want to join.

In the United States, where the surge of public offerings has created so much liquid wealth and resulted in the creation of thousands of family offices, some have commented that the nature of the family office is to be conservative in managing wealth. For example, in a recent *Forbes* article on family wealth, the author observes:

> Ironically, though, many multigenerational families that trace their wealth to a successful venture fail to make family entrepreneurship an ongoing priority. There are many reasons for this conservatism. Family offices, which are often set up after a wealth-creating business is sold, are oriented toward preserving assets and may frown on such risk-taking. Wealth holders, especially patriarchs who are themselves entrepreneurs, often have difficulty handing over the reins and letting the next generation make their mark. And in families that have achieved business success, inheritors may be terrified that they will lose the family fortune. That is hardly a culture which is conducive to healthy entrepreneurial risk-taking.[3]

In the Gulf region, the opposite seems true. The families I've been working with are committed to maintaining their family business (at most to consider a partial public offering, but always to leave the family in control of the business). Realizing that the business must continue to grow, they're busy exploring ways to encourage "internal" entrepreneurship.

One method that seems to be catching on is to create a family venture fund. This is a fund that's offered and maintained within the family. Organizational issues include: How much should be available? Who can request funding? Who approves/denies the requests? What sort of business plan is needed? Is interest charged and at what rate? Is the project supervised and by whom?

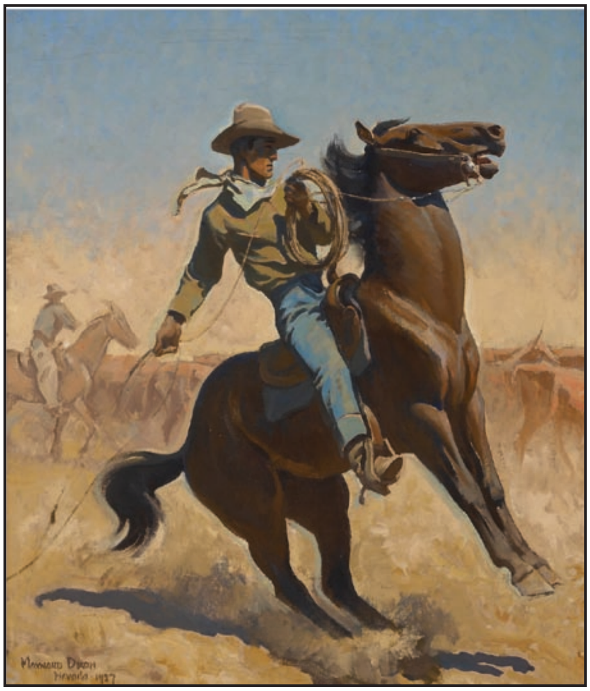
Going a step further, formed for the purpose of helping other Gulf families, not just their own, is a new group who will invest in others' enterprises together with providing close mentoring. The energy and enthusiasm for entrepreneurship is all over the region.

Multi-generational Success

Advisors should continue to offer valuable (traditional) advice in the family business succession field. All family businesses want to know what others do and what seem to be the "best practices." But, we can also learn from the families themselves about what they want and how they want to achieve it. Then we can help them create and tailor rules that fit their own family culture and business. The common global goal is the multi-generational success of the family and of the business.

Endnotes

1. Abdullah Adib Al-Zamil, *Familiness of Family Firms: A Business Competitive Advantage*, Vol. 1, Tharawat (November 2008).
2. At the end of the process, he added that he now had his own "advisory council."
3. Len Costa, "Reviving Horatio Alger," *www.forbes.com/forbes/2011/0314/investing-len-costa-family-fortune-reviving-horatio-alger.html.*



SPOT LIGHT

Rough Rider

"Cowpuncher" (30 in. by 25 in.) by Maynard Dixon, sold for $402,500 at the Jackson Hole Art Auction on Sept. 17, 2011 in Jackson, Wyo. Dixon constantly strived to create "honest art of the west," an obsession that was reflected in both his body of work and his personal dress, as a black Stetson, boots and bolo tie were his ubiquitous companions. He was also married, for a time, to the famous photographer, Dorothea Lange.