

Wealth generation

Family businesses are the key to unlocking the full potential of the region's emerging economies, says David Pistrui of Acumen Dynamics

The family and its kinship network are the central elements powering the socio-economic system in the Middle East. The family business is the engine that drives economic development and wealth creation around the world, and the ability to foster an entrepreneurial mindset across generations is a major element of their continuity and longevity.

Although they are the backbone of all market and most developing economies, family businesses are delicate beings. Entrepreneurial-led family firms only have an average lifespan of about 24 years. Only 30 per cent survive into the second generation, 10 per cent into the third and a mere 3 per cent into the fourth. Over the next decade, approximately 43 per cent of all family firms will change hands, representing the largest intergenerational transfer of wealth in recent economic history. Given the prominent socio-economic role that these businesses play, it is no wonder that they are gaining the attention and admiration of service providers, academics and the media.

Throughout the Middle East, family-held companies dominate the private sector. The majority of these enterprises, as in most developing economies, are young, emerging small and medium-sized companies (SMEs) in the first and second generations. In SMEs the family plays a leading role, often serving as the primary source of start-up capital, not to mention low-cost labour and know-how. The tradition of involving younger brothers in the start-up of a business suggests that there are probably a large number of sibling partnerships across the region. As in other developing economies, SMEs are now being called on by local governments to create jobs and foster social stability in an effort to promote socio-economic growth. For example, in Bahrain and the UAE – especially Dubai – entrepreneurial family-centric start-ups, including businesses owned by women, are being encouraged.

In the Middle East, extended family networks own and operate most large private sector companies as well. Many of these companies have evolved into diversified global corporations with business units in a variety of different activities, including light manufacturing, shipping, transporta-



■ **FAMILY FIRMS:** Key development role

tion, travel, importing, retail, automobiles and construction. Examples include: Al-Zayani Investments, a third-generation Bahraini company; the Almajdouie Group, established in 1965 as a transport company in Saudi Arabia; and the Jashanmal National Company, which opened its first retail store in Iraq in 1919 and has subsequently expanded across the region. Challenged by the size of their home markets, many of these larger companies are branching out across the region, and in some instances to other parts of the globe.

Unique

There are a number of factors which make Middle East family businesses unique. The first is the emerging business climate. Governments are placing greater emphasis on building and supporting private sector development. This includes the privatisation of some state enterprises.

The second factor is the unique ownership and governance practices of the region. This includes the availability of external capital in combination with the reform of accounting and compliance systems. These changes are impacting ownership and control as a growing number of family businesses go public to secure external funds for expansion and growth.

The third factor is the leadership and mindset associated with multigenerational continuity and business succession. This can be seen in the development and professionalisation of family and non-family management practices.

Today there is a new-found respect for family businesses in the Middle East. They are a deeply rooted tradition in the

region and although they were largely overshadowed by the discovery of oil, the renewed call for the development of the private sector is encouraging the revival of entrepreneurial companies within the family group. The availability of large pools of capital in combination with the need for business growth and regional development are encouraging new venture creation, business continuity and succession strategies, and the development of more professional managerial practices.

Several support institutions and specialised programmes are being established throughout the region to help family businesses with their many unique challenges. This includes the Family Business Academy, a Saudi Arabian not-for-profit organisation that provides education and assistance, the Bahrain Development Bank's Bahrain Business Incubator Centre and the UAE's Indus Entrepreneurs Organisation. Academic institutions are also playing a leading role. One example is the Lebanese American University's Institute of Family & Entrepreneurial Business. MEED has also recognised the needs of the region's family enterprises with the establishment of an annual Family Business Conference, which brings together family businesses and global experts for dialogue and learning.

Entrepreneurial family businesses are the key to unlocking the region's potential. Family firms tend to be more oriented towards long-term development, with an emphasis on long-term relationships and investment strategies. They also take a keen interest in their employees and tend to be community-minded, often supporting local philanthropic causes. Family firms typically create unique loyalties and traditions that can both support and inhibit business growth and change. Given the unique opportunities and profound challenges the region faces, both entrepreneurial and family business development need to become an even greater focal point of governments, service providers, academics and the media.

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