SUCCESSION AND BUSINESS EVOLUTION

THE CONCEALED POTENTIAL
Can family business in Egypt reach full bloom?

THE FAMILY BUSINESS SURVIVAL GUIDE
Balancing personal needs with business goals

Strategic Partner: International Business Associates Group (IBAG) IBA-Media

Corporate Founding Partner: arab african international bank
For a taste of an oriental haven come to Nokoush - Moqtanayat’s retail showroom in Egypt and delve into a world of authentic orientalism.
Finance can no longer be disconnected from the environment & the society.

MOSTADAM... Towards Sustainable Finance

MOSTADAM is a progressive platform that started in EGYPT in 2014 to advance sustainable finance through capacity building and policy advocacy.

For inquiries: mostadam@aaib.com or visit us on: aaib.com
Business Solutions
Customized Curriculum Design
Tailored Learning Experience

Customized Programs

Context Building
ROI Analysis and Assessment
Program Development
Program Delivery
Debriefing and Follow Up

execed@aucegypt.edu
aucegypt.edu/business/execed
Magic is... experiencing divine perfection at Ruen Thai

This chic and elegant modern Thai restaurant features an open-style kitchen sure to awaken the senses. A culinary live show presented by Dusit’s team of Thai chefs. Ruen Thai is now open for lunch from 1:00 pm to 3:30 pm every day except Fridays.

For reservations and more information kindly call 16198  www.Dusit.com
Contents
Fall 2016/ Vol 2/ Number 2

Feature
62 Family Business Education
Thoughts on peer and researched-based learning, structured programs and online delivery

Spotlight
20 Addressing the Conflict Within
Towards the development of a concrete family business strategy

24 Turning Your Family Business Around: A Survival Guide
Finding essential alignments between personal and business

AUC Business Review is a quarterly trade magazine produced by the School of Business at the American University in Cairo (AUC) in partnership with International Business Associates Group-IBA Media LTD (IBAG-IBA Media). A business and management magazine, the publication features in-depth research, analysis and international trends, with a special emphasis on Egypt and the Middle East. The American University in Cairo and the School of Business bear no responsibility for the editorial content. The views expressed in the articles are those of the authors. No part of this publication may be reproduced in any form without permission in writing from AUC.
Contents

SWOT Nation
40 The Regional Potential of Family Business
An economic driving force that can grow further

44 Managing Succession
Surviving beyond the third generation

Opinion
28 The Concealed Potential and the Present Hazard
How can family businesses in Egypt reach their full potential?

Economic Sense
32 Questioning Egypt’s Foreign Exchange Policies
Are the policies missing their mark?

38 Achieving Growth
A guide to accessing capital and the role of finance in developing the family business

Mindset
66 Family + Business = Great Family Business
How to make the combination work well?

70 Governance, Succession and the Next Generations
The importance of planning and effective communication

Business Highlights
72 School of Business Highlights

Theory in Practice
54 Diwan: The Business of Culture
Answering a long-ignored demand

58 Over a Century of Evolution
Arafa Holding, a journey from the Delta to global fashion

Behind the Face
48 An Egyptian Story of Business and Values
Armanious Group through the generations

Fall 2016
Our Contributors

**Alaa Hashim** is the Chairman of Transcendium Limited, an advisory firm working with large companies in the Middle East in the field of business transformation. He serves as a board member of MAC Carpet, B-Tech and on the advisory board of regional conglomerate Energya Group. He is also an active angel investor who invests in startups inside and outside the Middle East region. He is the co-chair of the Strategic Advisory Board (SAB) of the School of Business at the American University of Cairo (AUC). He serves on the board of Egypt’s leading think tanks: Egyptian Center for Economic Studies (ECES) and the Egyptian National Competitive Council (ENCC). He is a member of the Egypt-US Business Council (EUSBC) and Chairs the Entrepreneurship and Innovation Committee at the American Chamber of Commerce in Egypt (AMCHAM). He is a founding member of the Egypt Vision 2030 initiative and is a member of the board of trustees of the Egypt Vision Foundation (EVF). He is also a member of the Egyptian Junior Business Association (EJB). He earned his BSc in mathematics from AUC in 1997.

**Alia Bassiouny,** PhD, is an Assistant Professor of Finance and Chair of the Department of Management at AUC. She holds a BBA and an MBA, both with a specialization in finance, from AUC. She earned her Master in Research (MRes), and PhD from ESADE Business School in Spain. She teaches undergraduate and graduate courses in business finance, international finance, investment analysis, portfolio management, financial modeling and financial econometrics. She is a qualified trainer of various executive financial training programs in analysis, planning and management for startups, valuation and financial modeling. She has an extensive research agenda on financial markets and investments in emerging countries. She has also been involved in a number of strategic consultancies for various entities in the area of financial services, real estate and venture capital.

**Amr Kais,** PhD, is the Founder and Managing Director of Ipsos Egypt, the largest research company in Egypt and Middle East. He is a participating faculty member at AUC, a designated lecturer at various institutions and a Certified Management Consultant and Coach. He is a member of various professional institutions and associations and has served as non-executive board member in Banque du Caire, Egytrans and B-Tech. He is also an active contributor to a number of academic publications, journals and newspapers including a weekly column in AlAlam El Youm.

**Hakim Meshreki,** PhD, is a visiting Assistant Professor of marketing at the AUC. He completed his PhD degree in marketing from Nottingham University Business School in the United Kingdom in 2012. His main research interests include international marketing, consumer behavior and branding with special emphasis on country of origin research, value research and brand equity. Since 1999, he has been a Partner and Commercial Director of Mena Company for Adhesives Technology “Menatec”, a family business, and has led the company through a turnaround phase and other key milestones. He is also a co-founder of Orange International Company which specializes in the food and beverage business. Its aim is to create and manage high-quality food brands for consumers all over the world starting from Egypt and growing through the MENA region.

**Hischam El-Agamy,** PhD, studied at the University of Fribourg in Switzerland where he obtained a Master of Applied Geology. He received a Master’s degree in Applied Geophysics from the University of Lausanne and a PhD in the same subject from the University of Pierre and Marie Curie in Paris. After more than 14 years of executive assignments at a Swiss multinational in Zurich, he set up Target Developments LLC in Switzerland, a consulting company for executive development and
Our Contributors

Our Contributors

governance in 1993. He founded the Tharawat Family Business Forum in 2006 and two years later Tharawat magazine, an international publication on family business. He is also associated with the Institute of Management Development (IMD), the leading global business school based in Switzerland since 1999. He has published various pieces on leadership and family business transformation and held teaching assignments at a number of universities.

Judy Green, PhD, is President of the Family Firm Institute (FFI), a worldwide association of individuals and organizations whose mission is to be the most influential global network of thought-leaders in the field of family enterprise. FFI provides research-based learning and relevant tools for advisors and consultants, academic and family enterprise members to drive success. A frequent commentator on the field, she is co-author of Family Enterprise: Understanding Families in Business and Families of Wealth, a member of the Research Applied Board for Family Business Review and the Academic Advisory Board of the Instituto de la Empresa Familiar in Spain. She is also the recipient of the FFI Barbara Hollander award.

Karim Ragab is a Certified Business Coach with Gazelles International. He assists business leaders across the Middle East in building great enterprises for the benefit of the region as a whole. He has previously worked for Procter & Gamble, Booz Allen Hamilton, and Citadel Capital. He is also the Founder of Tabibi 24/7 and Kompass Education, two Egyptian start-ups specialized in healthcare and education, respectively. He is an AUC alumnus with an MBA from INSEAD in France.

Khaled Noseir has over 26 years of diversified experience in providing Internal Audit, Risk and Compliance Services as well as Audit and Assurance Services in international professional firms including KPMG. Furthermore, Khaled has worked as Chief Audit Executive and Head of Internal Audit for leading companies and groups in Middle East. He has experience in Financial Services, Industrial Manufacturing, Construction, Real Estate, Maritime Transport and Logistics, Retail and Food, Drink and Consumer Goods, Telecommunications and Technology, Family Business, Small and Medium Enterprises (SMEs), as well as Government and Public Sector. He is a Certified Internal Auditor (CIA) and Member of the Institute of Internal Auditors (IIA) and the Egyptian Society of Accountants & Auditors (ESAA).

Mohamed Farid, is Chairman and CEO of Dcode Economic & Financial Consulting (Dcode EFC) and member of the Capital Market Advisory Committee at the Egyptian Financial Supervisory Authority (EFSA). He served as the Vice Chairman of the Egyptian Stock Exchange during the period 2010-2011, and served as Senior Financial Economist & Head of the Capital Markets Unit at the Ministry of Investment during the period 2004-2010.

Nathalie Berzi is a Senior Consultant at Price-waterhouseCoopers (PwC). She was based in Egypt for two years before moving to the United Arab Emirates where she is part of PwC’s Family and Corporate Governance team in Dubai. She has extensive experience in corporate governance working with private companies as well as governmental entities in Egypt, KSA, Qatar, Algeria and Dubai. She holds a Master’s degree with Distinction in Corporate Governance from a university in the United Kingdom. She is also a Certified Director with the Egyptian Institute of Directors. She has previously collaborated with the AUC as Project Manager of the 2015 Board Games, a nationwide corporate governance competition for students across universities in Egypt.
Editor’s Note

Focused Research and Policies Needed

It is my pleasure to introduce this new issue of the AUC Business Review (ABR) that focuses on “Family Business.” This is the first issue to address this critical topic to Egypt and the Arab Region. ABR aims to continue offering relevant and thought-provoking articles to the business communities in the Arab region.

A significant percentage of businesses in our region are family-based. While governments tend to focus on developing Small & Medium Enterprises (SMEs), there is a scarcity of information and case studies on the challenges facing family businesses. Interestingly, large family businesses in the region employ thousands of people; and supporting their growth and sustainability should be a strategic priority for countries.

While start-ups are primarily challenged with financing, market data and business modeling, family businesses - particularly the large ones - face issues related to sustainability, international expansion, governance and succession planning. Such challenges require better understanding of the DNA of such businesses.

In this issue, the usual blend of conceptual and practical articles and cases cover a wide spectrum of topics on family business, including the role of family businesses in the region, family business education, family business strategy development and growth, turnaround for survival, governance and succession planning. I believe this is a rich and comprehensive list of topics that I hope will enrich your understanding and attract your attention to such critical issues. I would like to thank everyone who contributed to this issue. I hope you will find this issue a valuable resource! ABR

Ahmed Tolba, Ph.D.
Editor-in-Chief
ahmedtolba@aucegypt.edu
Gender Equality Improves Business

In depth understanding of family businesses in the MENA region is essential for their continuity, improvement, and growth. As contributors to this issue point out over and over, there is lack of research in this field and more needs to be done to learn from successful experiences, and acknowledge the problems and how best to manage them, within the specific regional framework. This is where the importance of this issue lies. The articles presented here give an overall picture of what family businesses struggle with and how they manage them.

Perhaps one of the research areas that is mostly neglected in the region is ‘family business and gender’. Given the gender disparity in the region, if compared to more advanced nations, there is no doubt that women have a harder time within the family business dynamics compared to men, especially when it comes to succession. The difficulty is not only cultural but also legal and economical. There is a relative amount of research on how women are discriminated legally and financially in the region, for example on matters of inheritance and starting new businesses. It is not difficult to imagine that in a culture where the older son is expected to lead after his father, daughters or wives will be marginalized from leadership. Studying gender dynamics tends to highlight problems that often are beyond the gender sphere: succession, conflict management, balancing personal and business life, etc.

Of course, there are many exceptions, and ABR offers positive examples in this sense, Diwan is a successful business story that was started by three women (two of them sisters). On Arafa Group’s board, women are represented not only by virtue of lineage, but also by virtue of merit.

I hope this issue will be of assistance to the families that are running a great part of our economy. Also, I would like to thank the AUC School of Business for the pleasurable collaboration that we have had together. All of us at IBA Media wish them the best of luck in making ABR a digital success. ABR

Sincerely,

Lamis Shejni
Co-Editor-in-Chief
shejni@ibaegypt.com
As the years pass by, communities all over the world continue to change and adapt to new trends and ways of living, in order to remain relevant. These adaptations affect them socially, politically and very importantly, economically. One trend, however, which has managed to remain alive is the concept of “Family-owned Business”.

Across the globe, family businesses are found in basically every sector of the economic sphere and are amongst the most common business models. This is because they count as “economic powerhouses” which create jobs and join communities while promoting solidarity and hard work ethics. Around two-thirds of global businesses are family-run, creating an estimated 70-90 percent of the annual global GDP. Around 85 percent of start-up companies are initially supported with family money and around 35 percent of today’s Fortune 500 companies are family-operated.

If you were to look at the economic and business landscape of the Arab Region, you would find that over 80 percent of its businesses outside the oil sector are family-run, most in the fields of retail and trade, financial services, real estate, construction and engineering. This is because the Arab Region is historically deeply rooted around the concept of the family.

When we look at the contributions family businesses have, it is very clear why they can become so successful. Family entities tend to show higher long-term profitability rates, are less likely to lay off employees, are more motivated for success and therefore show longer-term strategic outlooks, and often have higher participation rates in philanthropic and charitable community activities – making them all the more attractive.

Unfortunately, just as there are opportunities, there are also challenges when it comes to running a family business. Professionalizing remains a key challenge, as it also means professionalizing the family, which in the Arab Region is not as sought after as in Western and European countries. Succession and governance are crucial to the survival of any family-run entity. According to PwC’s 2014 Family Business Survey, only 16 percent of family entities have a set succession plan, only 12 percent of family-owned businesses survive into the third generation and about 32 percent think only about passing company ownership, rather than management, leaving most owners to continue their involvement after stepping down which causes ripples in the company’s sustainability.
Family businesses are complex in structure, and require specific knowledge in order to be properly understood and guided. The AUC School of Business focuses heavily on promoting this model and ensuring their survival through its expertise and three themes: Entrepreneurship, Responsible Business and Economic Development. The family business model falls directly under each of the three themes, making them an integral part of our strategic priorities.

We offer our undergraduate and graduate students the opportunity to put what they learn in the classroom into real-life experiences by consulting many local and regional family businesses on how to move past their challenges and improve through our Executive Education programs. The school aims to teach students the importance of preserving a culture of family ties. In fact, it can be much more sustainable and socially responsible to build a family enterprise and create an umbrella under-which you have the power to make a positive change in your community!

Our responsibility is to bridge the gap between elder and younger generations to better improve the strategies of family businesses in the Arab Region. It is our role as academic institutions to help our communities and family entities to not only survive, but also to thrive. After all, we cannot ignore the fact that over 80 percent of our businesses are family-oriented. We must teach our students to support and promote this business model not just as an economic model, but as a social model which helps keep our communities together and spread a culture of strong familial relations.

During the Arab Spring, many topics were debated on the social platform; however, family business was not given the attention it deserved, even though it is a huge part of the Arab region’s social and economic culture. We should not miss another opportunity to promote this model, so let us come together to teach and learn new ways to make family businesses more impactful and sustainable.

I would like to thank the authors, reviewers and editors of this issue for taking the time to contribute their knowledge and thoughts on this vital topic. We hope the business leaders, scholars, students, entrepreneurs and family business owners of the Arab Region and other international communities find it insightful and beneficial to their causes.

I would also like to take this opportunity to share some exciting news about the AUC Business Review. This issue will be the last print issue of ABR. During the previous two years we have produced six issues of ABR, two on Entrepreneurship, and one each on Innovation, Leadership, Responsible Business and Family Business. We would now like to take ABR to the next level to be available digitally on a dynamic and interactive platform that engages our alumni and friends. Watch this space in Fall 2016 for the new online edition. ABR

Karim Seghir, PhD
Dean, School of Business
What's New

RESOURCES FOR THE FAMILY BUSINESS PROFESSIONAL

Families are tough. They may involve extreme emotional frustration, rivalries and insecurities. On the other hand, they may also be a source of strength, empowerment and fulfillment. Both aspects are true when families become involved in business. Family dynamics can make a business or inadvertently break it. For this special issue, ABR has compiled a list of resources for family business professionals which include international and regional family business centers, publications, and professional networks.

INTERNATIONAL FAMILY BUSINESS CENTERS

CENTRE FOR FAMILY BUSINESS, LANCASTER UNIVERSITY MANAGEMENT SCHOOL (LUMS)
This internationally recognized unit is based in the Department of Entrepreneurship, Strategy and Innovation. The center aims to develop research-based resources and practices for small and medium-sized family firms.
http://www.lancaster.ac.uk/lums/esi/familybusiness/

ERASMUS CENTRE FOR FAMILY BUSINESS
The Erasmus Centre for Family Business is under the umbrella of the Rotterdam School of Management (RSM). Since 2013, the center has provided family-business focused educational programs in addition to supporting postgraduate students writing on the topic. The center also organizes outreach activities whereby connecting business practitioners with academia.
http://www.erim.eur.nl/erim-centres/family-business/

FAMILY BUSINESS INSTITUTE
The Family Business Institute was founded in the 1990s by a father and son-in-law team. It provides professional services to family firms including support on financial, operations and management aspects of the businesses.
http://www.familybusinessinstitute.com/

FAMILY FIRM INSTITUTE (FFI)
Established in 1986, FFI has over 1,600 global members in more than 88 countries. The institute is concerned with educating and connecting family business professionals, academics and advisors. FFI offers a number of directories, publications and other resources to its members. The institute also launched the Family Business Review (FBR), a scholarly publication dedicated to family enterprises.
http://www.ffi.org/

ENTREPRENEURIAL FAMILY BUSINESS CENTRE, IMPERIAL COLLEGE BUSINESS SCHOOL
This research-focused center is under the Innovation and Entrepreneurship Division of Imperial College London. Key areas of focus include succession, governance, growth and innovation in family business. The center works alongside other institutions including the Rajiv Gandhi Centre and The Centre for Management Buyout Research.
http://wwwf.imperial.ac.uk/business-school/research/entrepreneurial-family-business-centre/

IMD GLOBAL FAMILY BUSINESS CENTER (GFBS)
The International Institute for Management Development (IMD) established its Global Family Business Center in 1988. The center is concerned with research and education in family business with a focus on succession, family conflicts and offering best practices. The center offers open enrollment and customized programs in addition to books, articles and case studies on family business.
http://www.imd.org/research-knowledge/global-centers/family-business/

CENTER FOR FAMILY BUSINESS, NORTHEASTERN UNIVERSITY
The Northeastern University Center for Family Business was
created in 1991 with the purpose of providing networking opportunities, education and counseling to family firms. A useful resource for family business executives is FAMBIZ, a database providing the latest news and research articles from a variety of sources including professional and academic publications.

http://www.damore-mckim.northeastern.edu/faculty-and-research/research-centers-and-institutes/the-center-for-family-business
http://fambiz.com/

WENDEL INTERNATIONAL CENTRE FOR FAMILY ENTERPRISE, INSEAD
A Center of Excellence at INSEAD, Wendel International Centre for Family Enterprise is a platform for knowledge exchange. The center supports sustainable growth and healthy relationships in family business. The educational services provided by the center include Executive Education Programs, an MBA in Family Business Management, Company-Specific Programs and the Family Business Bootcamp.

http://centres.insead.edu/family-enterprise/about/

FAMILY BUSINESS CENTERS IN THE MIDDLE EAST
ABU DHABI UNIVERSITY KNOWLEDGE GROUP (ADUKG) FAMILY BUSINESS ADVISORY
ADUKG provides executive coaching and consulting services to family businesses whether undergoing major changes or needing support to fuel growth.

http://adukg.ae/family-business.html

AL TAMIMI & CO. FAMILY BUSINESS PRACTICE
This division provides legal advice to protect family and business assets from external threats and internal disagreements between family members. It supports family businesses in building solid legal structures compliant with Sharia law that assure smooth inter-generational transition.


FAMILY BUSINESS NETWORK (FBN), GULF COOPERATION COUNCIL (GCC)
FBN is a regional association of Family Business Network International. It is based in Dubai with a regional scope encompassing Bahrain, Kuwait, Qatar, Oman, the Kingdom of Saudi Arabia and the United Arab Emirates.

http://Fbngcc.org/

INSTITUTE OF FAMILY AND ENTREPRENEURIAL BUSINESS (IFEB), LEBANESE AMERICAN UNIVERSITY
IFEB was initiated by the School of Business at the Lebanese American University. This institute aims to serve family businesses in Lebanon and the Middle East through networking, education and disseminating research-based information.

http://www.lau.edu.lb/centers-institutes/ifeb/about.html

THARAWAT FAMILY BUSINESS FORUM
Created in 2006, this forum is a non-profit membership-based network in the Middle East. Its aim is to provide a platform for dialogue between family business owners, governments and academia. Two initiatives launched by the forum include Tharawat Magazine and Women in Family Business.

www.tharawat.org
www.tharawat-magazine.com
http://www.womeninfamilybusiness.org/about-us/meet-the-team

FAMILY BUSINESS JOURNALS
FAMILY BUSINESS REVIEW (FBR)
Editor: Pramodita Sharma
Publisher: SAGE
Impact Factor: 5.528
FBR is a refereed quarterly journal dedicated to family enterprises of all sizes published since 1988.

http://Fbr.sagepub.com

JOURNAL OF FAMILY BUSINESS STRATEGY
Co-Editors-in-Chief: J.H. Astrachan, T.M. Pieper
4 issues per year
Publisher: Elsevier
Impact Factor: 1.318
This is an open-access journal with an international scope addressing family business performance, strategies, survival and resource allocation.

http://www.journals.elsevier.com/journal-of-family-business-strategy/

JOURNAL OF FAMILY BUSINESS MANAGEMENT (JFBM)
Editor-in-Chief: Lorna Collins
2 issues per year
Publisher: Emerald Group Publishing
This refereed journal has published regularly since 2011. It covers all aspects of family business including generational differences, gender issues and best practices among other topics.

http://www.emeraldgrouppublishing.com/products/journals/journals.htm?id=jfbm
NEW BUZZWORDS IN THE BUSINESS WORLD

This special issue on Family Business would not be complete without the latest jargon making a buzz in the business world. Here are a few buzzwords that may come in handy during your next business meeting or for some comic relief.

**Buzzword Compliant**
Does your smartphone have a Super LCD, retina display or AMOLED screen? Rest assured, as in all three cases your phone will surely be buzzword compliant. Companies began to realize the marketing potential of buzzwords since the early days of the internet boom. These glossy catchphrases provide consumers with the much needed wow factor that differentiates one product over its competitors.

**One-Man Show**
The literal meaning of a one-man show is a solo theatrical performance. Similarly, in the business world, it may refer to a company with a single proprietor. In this case, a single person may be the owner, manager and executive of the company with all operations depending on him/her.

**Family Brand**
Oftentimes, marketers capitalize on the success of an established brand by introducing a line of products under the same name. This is referred to as family branding or umbrella branding whereby the name-recognition and credibility of one brand is used to market related products.

**Chief Experience Officer (CXO)**
Some companies are taking customer service to a new level by creating the position of the Chief Experience Officer (CXO). This executive is responsible for overseeing the quality of customer experience with the products or services that the organization is offering. Positive customer experience translates into greater market share as well as a lifelong relationship between the brand and the client. Therefore, CXOs are integral for an array of companies whether amusement parks or mobile device manufacturers.
Fat Finger Syndrome
A fat finger error is a typo caused by pressing the wrong button on the keyboard. Since our fingers have not evolved as gracefully as our personal computers and mobile devices, we are continuously making fat finger errors. In its simplest form, the fat finger error may cause a miscommunication between friends. On the other hand, it may result in serious financial repercussions if the mistake is made in price figures of shares on the stock market. The latter case would be referred to as fat finger syndrome because its consequences are more severe.

Baby Boomer Compatibility
The baby boomer generation is prominent not only because it makes up a large and easily identifiable demographic, but also due to its significant purchasing power. Unsurprisingly, baby boomers are not as tech-savvy as their successors since they were born in the post-World War II period. Growing up before the spread of personal computers, cellphones and the internet, baby boomers have a hard time adapting to technology. This has added the extra burden— and opportunity—for technology companies to create products that are easy-to-use and understandable for this demographic. Thus, these products are baby boomer compatible.

Touch Base
This baseball-inspired buzzword means to connect or get in touch with someone.

Fat Finger Syndrome

Touch Base

Friends and Family Offering
When an entrepreneur is starting a business, the first people he/she usually turns to are family members and friends. Personal acquaintances are a great source of moral and financial support. The friends and family offering allows a startup to collect seed money before selling shares to institutional investors through the Initial Public Offering (IPO). Therefore, the friends and family offering is considered a pre-IPO.

Zombie Project
Much like their undead human counterparts, zombie projects do not seem to go away. These once-ambitious projects fail to meet their mark, instead draining valuable company resources. Reluctant to admit failure, those involved in these projects opt to keep them afloat rather than killing them off. ABR

Compiled by Arpi Khatcherian from businessdictionary.com, hbr.org, investorwords.com, theofficelife.com and www.techopedia.com
The family business model is one of the oldest in existence. It has seen its fair share of ups and downs. A major challenge of this type of business is its reliance on future family members. Another obstacle is its tendency to become a one-man show. This means that the business may end up being managed, controlled and completely dependent on one or two members of the family. For this special issue, ABR has selected five must-reads for family business professionals. These titles outline how these businesses can survive, succeed and flourish with the help of future generations in an ever-changing ecosystem.

**Generation to Generation: Life Cycles of the Family Business**

*By John A. Davis, Kelin E. Gersick, Marion McCol- lorn Hampton and Ivan Lansberg*

*Published in 1997 by Harvard Business School Press*

This publication will soon be celebrating its twentieth anniversary; however, that does not mean that it is less relevant to today’s family business professionals. The authors provide a comprehensive overview of a specific organizational form they developed through their work for a family-business turned global conglomerate, Caterpillar, Inc. They also cover the challenge of succession from one generation to next in addition to the four types of family businesses, the unique challenges faced by each type as well as possible solutions. They address management issues in family business and the importance of consultancy in providing helpful insight to business owners.

The book begins by introducing the developmental model of family business. In this section, the authors attempt to define family firms and contrast between them and entrepreneurial startups. They explain their conceptual framework by linking ownership, family and business, while building a model that ensures survival. Growth and evolution of family businesses as well as the complex family enterprise are also addressed. These include the success stories of family businesses which were able to flourish for more than one generation. Finally, the authors discuss the aspirations of family business owners and how different ambitions could contribute to the survival or failure of the enterprise.

**Understanding Family Businesses: Undiscovered Approaches, Unique Perspectives and Neglected Topics**

*By Alan L. Carsrud, Malin Brännback*

*Published in 2012 by Springer-Verlag*

Emotions and feelings could either kill a family business or propel it towards success. Whether it is love, hate, or desire – manifested through marriage or divorce – this book warns us about the unexpected effects emotions may have on the vitality of family companies. It goes further in exploring the importance of rearing the future generations who will carry the responsibility of continuing the business in a chapter aptly titled The Bad Seed’s Poisonous Harvest: How Offspring Sow and Reap Deviant and Dysfunctional Behavior in the Family Business. The authors express concern about the effectiveness of family councils and encourage empirical approaches to challenging conventional wisdom.

This unique publication combines the works and perspectives of leading academics and experts in family business. It covers diverse yet highly relevant topics such as research, family norms, emotions, succession and capital tracking. It begins with a synthesis of the state of research in family business, its development and where it should be heading to. In two separate chapters it focuses on entrepreneurial dynamics and leadership in family business, emphasizing their interrelationships, divergences and development over time.
FAMILY BUSINESS: A SURVIVAL GUIDE
BY KIERAN MCCARthy
PUBLISHED IN 2004 BY CHARTERED ACCOUNTANTS IRELAND
Any discussion about family businesses would be incomplete without mentioning the issue of survival. Although the question of survival or continuity is a universal concern, McCarthy focuses her study on the Irish family business model. According to the Sunday Independent, family-owned businesses make up over three quarters of business in Ireland; however, less than a third of them survive through to the second generation. McCarthy offers readers ways to ensure continuity and sustenance of family businesses. The book delves into the problems experienced by Irish family firms and how they spillover, not only affecting the continuity of the business, but also the livelihood of the current owners, their families, employees and the community as a whole. McCarthy offers some quick fixes and other long-term solutions to evade these hardships. Potential areas of development include focusing on emotional aspects within the family, the importance of having future and strategic plans, as well as integrating non-family members with family members – whether employees, owners or managers. Finally, the author presents succession planning and some of the issues that arise in this phase, in addition to tips on how to relinquish control. This is a great survival guide for family business owners and managers.

THE LITTLE RED BOOK OF FAMILY BUSINESS
BY DAVID BORK
PUBLISHED IN 2008 BY SAMPSON PRESS
In this pocket-sized publication the author offers concise pieces of wisdom from his 40 years of experience as a family business counselor. Interestingly, he decides not to focus on helping owners manage their family business, rather how to manage their families. This stems from his observation that the most dangerous aspects in any family enterprise are constant interferences in business decisions, double standards in employment as well as succession wars. Bork suggests that the latter can make the families themselves the “worst enemies of their own business”. The Little Red Book of Family Business provides solutions to some pressing problems experienced by those involved in family business. It offers plenty of advice, which may seem rather obvious. However, it serves as a good reminder when family business owners begin to lose focus. Bork stresses that the prosperity of the family is dependent on the business and if the family legacy is employed for marketing purposes, then all members should behave according to the values the family claims to have. He also encourages family business owners to use money as a tool for growing the business.

WHEN FAMILY BUSINESSES ARE BEST: THE PARALLEL PLANNING PROCESS FOR FAMILY HARMONY AND BUSINESS SUCCESS
BY RANDEL S. CARLOCK AND JOHN L. WARD
PUBLISHED IN 2010 BY PALGRAVE MACMILLAN
Carlock and Ward’s seminal model, the Parallel Planning Process (PPP), is the key focus of this publication. The authors explore the basics of strategizing for success for family firms while including all family members in the planning process. They begin by analyzing the reasons Why Family Businesses Struggle, and how this could negatively affect business. Then, they explain the intricacies of parallel family and business planning. Next, they cover Family Values and Business Culture and how both areas affect each other positively or negatively. Moreover, the authors highlight the importance of aligning the family and business vision and assessing how strongly the family is committed to the business.

When Family Businesses Are Best goes on to present some of the main concepts in family business. The authors discuss how to invest for success, the role of the board of directors in family business governance as well as family meetings and agreements. The book concludes by taking on parenthood and how the ‘men and women who plant trees’ strongly affect the continuity of the business through future generations. ABR

Compiled by George Habash from palgrave.com, aspenfamilybusiness.com, books.google.com and springer.com
ADDRESSING THE CONFLICT WITHIN
Towards the development of a concrete family business strategy
On my way to an industrial area in Western Germany, namely Munich, I had this conversation with the managing director of an old German company founded in 1921. He had been appointed to this job following the acquisition of a private equity firm to an old adhesive company which was once a family business. One can never forget his words: “The first generation builds, the second generation maintains, and the third one destroys.” This small quote summarizes a reality that businesses – family owned or otherwise – are challenged with: How to continue long-term?

The opening case is an example of the predominant story of family businesses which have either been sold, acquired or have witnessed sales slide significantly across generations or as years progressed. Family business researchers have pinpointed many reasons underlying this phenomenon: Businesses mature; markets and technology change, eliminating the need for various products and services; suppliers and customers alter the rule of the game; or competitors quickly copy successful strategies. Any of these changes can represent a substantial surprise to a company and bring about a decline in its sales and profits. In other cases, industry consolidation can increase the actual value of a company attracting a strategic buyer willing to pay a premium. The senior generation facing old age, retirement or other life events may be unable to resist the lure of money and decides to sell.

Having spent eighteen years in family business, I can say that its most unique feature is the continuous friction between loved ones and business interests. How can one separate the relationship between a boss at work and a father/mother at home? In reality, within a family enterprise, the family and business are concerned about completely different goals. Families are all about emotion; they focus inward and, generally, resist change. Business systems, on the other hand, must take an opposite approach if they are to survive. Businesses accomplish tasks with a focus on the external environment and look for ways to exploit change.

Nevertheless, this article proposes that trying to separate family from business might not be the right avenue to take. Rather, achieving harmonization and balance in this relationship may be a better solution. Family members can be a source of great strength or a potential vulnerability for the business. If owners are able to equalize both systems, they will earn the potential of creating a positive environment where the family thrives and the business outperforms. This balanced approach of addressing these two subsystems will be the foundation of the discussion within this article using the Parallel Planning Process (PPP) suggested by Randel S. Carlock and John L. Ward.

THE PARALLEL PLANNING PROCESS (PPP)
The Parallel Planning Process is a proposition that expands on the traditional model of family business with the development of a viable business strategy shaped by the concerns of the family. Hence, it becomes a tool for integrating and balancing the family and the business in thought and action. In my experience in family business, a huge challenge I faced – and still face – is the unjustified resistance to a strong business plan that would serve as a guide in the long term. Before stumbling upon the Parallel Planning Process, I was not able to understand why the family resisted the strategic plan I tried to forge in collaboration with other family members and employees within our firm.

This approach is founded on four premises:
1. Family values and business philosophy are the foundation for the planning process.
2. Strategic thinking has implications for the family as well as for the management team.
3. Successful families and businesses are driven by a shared future vision.
4. Long-term family businesses require formulating family and business plans.
As demonstrated, the goal of the Parallel Planning Process is to identify family and business plans which are mutually supportive of each other’s needs and aspirations. This is accomplished by considering business strategies in both the context of family and business expectations. The ultimate goal of the business plan remains the development of strategies to create long-term economic value for stakeholders.

In this sense the Parallel Planning Process uses a series of planning and programming activities which produce a business strategy that matches the family’s interests and the business potential. Strategic thinking by the family and management leads to a mutual agreement on a shared vision. Based on this vision, both systems begin their respective planning activities and the development of the family enterprise continuity plan and the business strategy plan.

COMPONENTS OF THE PARALLEL PLANNING PROCESS

Possible strategy alternatives are subject to three decision filters that the Parallel Planning Process creates. These include:

1-The Vision Fit reflects the interaction of family commitment and management strategic commitment.
2-The Strategic Fit is based on the business strategy plan and the family enterprise continuity plan.
3-The Family Fit reflects the family’s reinvestment decisions.

These three screens ensure that the business strat-
egy is aligned with the overall goals of the family. The first screen focuses on the shared vision. It ensures that the business strategy supports both the family’s and management’s shared future vision. This screen filters out many discrepancies between the two parties. The second filter focuses on the strategic fit between the possible alternatives based on family and business planning. The family enterprise continuity plan outlines participation, management, leadership, development and ownership amongst family members. The business strategy plan considers the internal and external environments and the firm’s strategic potential. It attempts to find the best match between the outlined strategies and the firm’s potential. Only a few alternatives will pass through this filter. The third screen ensures that the final strategy fits the family.

OPPORTUNITIES AND CHALLENGES

The Parallel Planning model provides family members and management with procedures to simultaneously explore family and business systems. This form of collaboration will definitely yield new ideas as well as establish a shared understanding of the family business values, goals, strengths, weaknesses, opportunities and potential threats. The real value of this exercise lies not in the piles of resultant documents but rather in the rich and open group discussions that emerge.

It’s important to understand that the Parallel Planning Process is not always rosy; obstacles can get in the way. These can be related to senior generations or exist in the minds of successors. Some challenges may arise from spouses and other stakeholders within the family. For instance, formal or even informal attempts at planning can be perceived as a threat to senior generations of family leaders. These individuals may be reluctant to share power and even information which they would rather keep to themselves. They might object to planning because they perceive it is time and effort consuming. Furthermore, they may have some doubts about the younger generation’s capabilities.

As for the successors, they may lack the knowledge of what the family expects from them and can be overwhelmed with self-doubt about their capability to lead the business in coming phases. Indeed one cannot ignore the role of spouses in the family. Often, the wife (especially if not part of the family business ownership) may raise issues about her and her children’s financial security. In addition to these factors, employees outside the family and other stakeholders such as professional service providers may have a personal interest in maintaining the status quo.

Given all these obstacles, identifying them will enable the family to explore what planning means to various stakeholders. This process will stimulate the generation of ideas to help overcome them. Some possible solutions may be to create meaningful career opportunities for family members within the business and identify clear roles through which they can contribute to the firm. In addition, family members must show commitment and support for familial meetings which honestly explore ways to move the enterprise forward. Moreover, there is a serious need to establish family and business governance structures. These steps diminish conflicts and support the development of lifestyle and financial plans which could then be communicated to various family members.

Ultimately, at the base of all previous suggestions and propositions, openness, honesty and integrity should be the pillars for proper family business planning. Family business is made up of two inseparable words, family and business. Hence, effective planning must assure the proper union of both worlds and words. ABR

FORMAL OR EVEN INFORMAL ATTEMPTS AT PLANNING CAN BE PERCEIVED AS A THREAT TO SENIOR GENERATIONS OF FAMILY LEADERS. THESE INDIVIDUALS MAY BE RELUCTANT TO SHARE POWER AND EVEN INFORMATION WHICH THEY WOULD RATHER KEEP TO THEMSELVES.
By Alaa Hashim

Every business is prone to making an incorrect decision at some point in time. Family businesses are at a greater risk due to the consolidated control their owners have over the company. Therefore, the question is how can family business owners reduce the occurrences and consequences of unwise decisions? The answer lies in good governance which involves procedures and people validating the decision-making process.

Most businesses start off as family businesses. Somebody starts a company and enlists the help of family to help raise the initial capital or manage the business. As the business grows, some companies manage to institutionalize predominantly around the governance model. Institutionalization does not mean that family members cannot work in the business, it just means that proper balance is maintained between shareholders and managers. This ensures good governance, unbiased accountability, and most importantly, sustainability.

Family businesses are more sustainable once they are institutionalized and the right governance frameworks are implemented. This is a tricky step because there are many dynamics involved in family enterprises. Unlike other businesses, family-owned and operated companies are not just subjected to management and shareholders dynamics but also to family dynamics. The interaction between these three forces is what creates the uniqueness of family businesses.

It is common that in traditional family businesses members assume the roles of both managers and shareholders. Hence, when implementing governance frameworks, it is crucial to address concerns and sensitivities that arise as companies take a step towards institutionalization.

COMMON CHALLENGES OF FAMILY BUSINESSES

Demarcation of the different authorities and boundaries within family business is relatively difficult. This is due to the involvement of familial dynamics. The idea that the family has the right to be involved in management is misguided and often the reason behind accusations of nepotism. Moreover, it creates issues of accountability. Who is the owner-manager accountable to? Who does he/she answer to if they take the business in the wrong direction? Therefore, while ownership applies to the laws of inheritance, management must not. Management must apply to the laws of merit.

On the other hand, if the family decides to bring in professional managers, they have the ability to keep them in check. If management is unable to deliver results, they can be duly replaced without any complications as in the case of having to distance members of the family. Bringing in professional management has the added benefit of reducing hostility between members of the family and avoiding accusations of power-grabbing by one family member over the other. When proper management is instated, even if an owner decides to be involved in management, he/she is scrutinized according to the strict set of criteria which define the selection and evaluation of external management.

Family business owners must do what is best for business even if that conflicts with their personal desire to manage. The idea that succeeding generations
are under obligation and/or have a birthright to join the family business is problematic. Unless the successors are willing, able and capable they should not be invited into the family business.

**THE NEED FOR GOVERNANCE**

Each family business is different and thus each case requires a unique approach to governance. Furthermore, the stage during which the need arises for a reevaluation entails a different set of challenges. An issue may arise if a patron decides to retire or he/she passes away. The succession from first generation to second may go smoothly if the successors are able to demark the lines of the business and sustain a positive dynamic between them. The challenge may arise with the third generation as the grandchildren must decide whether – and how far – to be involved in the business. Alternatively, the need may arise at any other successive stage.

In my line of work, we offer large-scale transformation advisory to a clientele predominantly made up of family business owners. Most family businesses seek advice at three critical stages. First is when the company is at a turnaround situation where it is suffering or in distress. The second type is when companies need to institutionalize to manage rapid growth which is beyond their capacity. The third stage is when companies are going through succession challenges, meaning they need to efficiently manage seamless passage from one generation to the next. These companies may be performing well but are apprehensive due to mixed family dynamics which they worry might affect the business. On the other hand, they may be going through succession challenges coupled with underperformance.

**STEPS TO INSTITUTIONALIZATION**

1. **Identify the personal objectives of shareholders**

   The first question we ask all individuals involved in the family business is to identify their personal objectives.
goals – whether immediate or long-term. It is indeed surprising to realize that many find it increasingly difficult to answer this fundamental question. The answer may be as diverse as wanting to make bigger profits, retiring, making sure successors stay in the business, or ensuring that family members do not fight over succession after the departure of the patriarch/matriarch. Another important point to factor in is making sure the objectives of clients are sensible and not emotional. “I want to preserve the family name” may underlie deeper desires that must be linked to company objectives in the following steps.

2. Outline the company objectives
Here, we ask clients to outline legitimate company objectives both in the short-term and the far future. We also try to make sure that both personal and company objectives stem out of the same origin. This provides assurance that when company objectives are achieved personal goals are also fulfilled.

3. Dig deeper to ensure company objectives are aligned with personal goals
Answering fundamental questions to ensure such an alignment involves tackling a great deal of ambitions and insecurities. This means that goals are driven out of a need for “wanting” certain outcomes and “avoiding” others. Initially, what is voiced by clients rarely amounts to the whole truth, especially when it involves insecurities. This deeper realization may lead to a completely different direction.

4. Understand where the business stands today
This not only involves a detailed knowledge of where the business stands in financial terms but also the market performance, cultural dynamics and organizational structure. Once we know where we stand, we can begin charting the course of where we want to be in the future.

5. Create the transformation roadmap
The roadmap consists of three major areas. First, the strategic initiatives that are going to transform the company from point A to B. Second, the operational initiatives which have immediate impact ensuring smooth continuity of operations as the company strives to fulfill the long-term oriented strategies. Third, the reporting and control mechanisms, the key performance indicators (KPIs), and milestones which assure the effectiveness of operations. These are implemented at the unit, department, and company level.

6. Enhance governance structures
In parallel to creating the transformation roadmap, we begin working on the company’s governance model. For example, shareholder group committees would be created and independent advisors would be brought in. The purpose of these committees is to collectively make decisions, approve objectives and plans. This could also take the form of a steering committee which is a more flexible set up with key stakeholders and independent advisors. Once the transformation plan is completed, the roles are formalized in terms of hiring board members. Many members of the steering committee may roll into the board. During this implementation phase, top management positions are also filled according to the transformation roadmap.

THINGS TO BE AWARE OF DURING IMPLEMENTATION
Change management is a key area of focus during the implementation of the transformation plan. Effective change management involves the 3Cs: Compensation, Capabilities and Communication. Compensation means providing stakeholders with the right incentives to make the change. It must be assured that the people with the right capabilities are being hired from outside the organization or trained from inside the organization. Finally, stakeholders must understand the need for change and be able to voice their concerns to the business owners and managers. This entails communication in all directions.

Communicating top to bottom ensures that employees at all levels buy into the company vision, get excited about it and understand what they need to do to achieve it. However, communication is a two-way stream. Hence, top management must also listen to
the challenges faced by the company’s foot soldiers to know whether or not they are properly equipped to achieve the outlined objectives. Having good horizontal and vertical communication is an excellent troubleshooting mechanism for companies. It ensures that as trouble arises, management will be aware of it and can deal with it in a timely manner. It must be noted that hierarchical communication is often easier to achieve compared to lateral communication where lines of authority are not as clearly outlined.

**THE FAMILY BUSINESS VERSUS THE CORPORATE MODEL**

The traditional family business model does have its advantages. When total control over the business is in one or a few hands, it allows the company to be extremely nimble. Unlike family-owned and operated businesses, publicly-owned companies have fragmented ownership, bound by compliance. Consequently, they tend to be slower, more bureaucratic and relatively risk averse. The consolidated control over the family business allows for taking riskier decisions more quickly. On the other hand, if this ability is not constrained through proper governance, it may be the cause of ultimate downfall. The biggest pitfall is the lack of accountability of family business owners who do not have to answer to anyone.

Even if family business owners do not desire to fully restructure their company as a corporation, there are several measures they can put in place to overcome the aforementioned disadvantages. They can invite non-family partners by offering part of their stake; a step that can help the family partially monetize. If the family dynamics are highly disruptive, family councils and constitutions are a good way to resolve issues. Another step is to enforce strict hiring policies and criteria for selection and compensation, regardless for family members or outsiders. A final recommendation is to nominate independent non-family committee members at the board level. These professionals would be impartial to family dynamics and would serve a similar purpose as the independent investors as a catalyst for change.

**LESSON LEARNED**

Owners need to develop their knowledge and skills to enforce better business models rather than trying to find ways to manage. Instead of learning how to manage better, improving governance models allows owners to recruit and retain the best management talent and ensure managers are kept at check, deliver performance and create shareholder value. ABR
THE CONCEALED POTENTIAL AND THE PRESENT HAZARD

How can family businesses in Egypt reach their full potential?

By Amr Kais

Family businesses are often confused with entrepreneurial startups. This belittled association understates the weight and neglects the importance of family business to the economy. In reality, more than 35 percent of Fortune 500 companies are family businesses, contributing to more than 50 percent of US GDP and over 78 percent of newly created jobs. In the Middle East, 90 percent of companies are family businesses, making up more than 80 percent of the GDP and creating more than 70 percent of jobs.

The differences between family businesses and entrepreneurial ventures are substantial. A family business is an organizational set-up, managed and controlled by one family, cascading down from one generation to the next. The key differentiator is the high impact and influence of multi-generations across all areas and aspects of the business operations, in contrast to startups which are solely directed by the entrepreneur’s approach.

A SNAPSHOT OF FAMILY BUSINESS IN EGYPT

Despite the fact that family business is deeply rooted in Egyptian history, the term itself is strongly associated with the one-man operation and correlates with management in a basic and primitive way. We owe praise to the role of some Egyptian family businesses which have contributed with their professional management, social responsibil-
ity, growth and success to changing this cliché. Examples include, but are not limited to the Sawiris, Mansour and Ghabbour families. Nevertheless, the “one-man show” perception still holds. Few realize that well-known and familiar global giants such as Wal-Mart, Ford, Samsung, Hyundai, Siemens, Fiat and Carrefour are family business descendants.

The undermined attention given to this vital economic sector in Egypt is unfortunately shared by all stakeholders: Government, business associations, schools and scholars. Family business is dealt with as a typical and solely private sector entity, ignoring the family heritage and legacy impact. This disregard does not stand without serious implications on Egypt’s economy. Despite their huge significance, 70 percent of family businesses disappear after the death of their founder and only 3 percent manage to survive for a third or fourth generation. In other words, as crucial as family businesses are for the economy, they may be highly vulnerable.

**THE FAMILY: A BLESSING OR A CURSE?**

Family heritage and legacy afford these businesses their uniqueness. They influence organizational purpose, selection of success indicators and emergence of growth and decline learnings. Alternatively, they may even be the reason for downfall. Therefore, the family aspect in these firms is double edged. The following are some of the advantages of these strategic firms:
1. Vision and Long-Term Perspective:
The utmost weight which owners of family businesses afford tends to be for the best interest of the firm in the long-run. On the other hand, executives of publicly traded companies focus more on short-term objectives due to the pressure to achieve quick and immediate wins which are directly related to share prices.

2. Leadership Stability:
The personal motivations of family business owners are derived directly from growing the business. Thus, the business is their primary drive. On the other hand, employed executives are less fixated and always have the option of seeking other job opportunities.

3. Loyalty:
The degree of loyalty and engagement family members involved in the business display is remarkable. Unlike typical employed executives, the astounding commitment and devotion is a prized value rare to find in organizations nowadays.

4. Simple Organizational Structure:
Because of the very nature of familial relationships and ties, separation of functions and creation of silos is seldom found. This streamlines the decision making process and ensures speed and swiftness when needed.

5. Strong Business Networks:
Due to long-term stability and low turnover of senior management positions, stronger and numerous business relations and networks are developed. These networks are strengthened over time and benefit the business on various fronts.

Nevertheless, family business does not come without kick-ups and disadvantages. These include:

1. Effect of Family Conflict:
Conflict between family members can have a disadvantageous effect on the business especially when it boils to severe personal clashes leading to favoritism towards certain family members or divorce. Natural problems such as old age, sickness and death become even more troublesome when addressing compensation allocation among family members.

2. Generational Gap Struggle:
This becomes a pressing issue when a new generation joins the business and starts getting involved. Conflicts arise when the young generation tries to push for a new perspective by challenging traditional experience. Power and control struggles further amplify the tension between the generations and contribute to widening the conflict.

3. Informal Strategies, Policies and Procedures:
A family business is run according to the strategies and actions formulated by its respective owners. In many cases, policies and procedures are not shared and are limited within the boundaries of the owner’s mind. When strategies and policies are not documented or communicated effectively to other members of the organization, this results in a widening gap on expectations and subsequent internal conflict.

4. Unclear Job Responsibilities and Reporting Structure among Owners:
These businesses come with a bundle of sensitivities due to familial ties and relations. Reporting levels are obscured and undefined. Appraisals and reward systems are loose to avoid potential hitches.

CHALLENGES SPECIFIC TO FAMILY BUSINESSES
As demonstrated, the family stake in organizations can have a positive or negative effect on the business. Notwithstanding, there are four key challenges that are strongly prevalent and directly affect the success and prosperity of the family-run operation. These are:

a) Access to finance:
The primary source of finance for family business investment and growth is mostly limited to familial resources. Access to other financial resources neces-
sstitutes the highest levels of solid structure and corporate governance to meet the requirements of banks or to be listed in the stock market. In this regard, family businesses are far behind due to their less sophisticated structures.

b) Governance:
Family businesses score very low in governance. Less than one in five family business owners consider strong governance an important factor to their success. This, in turn, makes access to finance all the more challenging.

c) Access to Talents:
Family business is not attractive to talent due to prevailing negative perceptions. These businesses do not meet the aspirations of the right talents compared to larger corporations due to the stereotypical images of family businesses. Additionally, fear of instability and concerns about future growth in the presence of family members creates concerns about promotion, compensation, training and growth opportunities, regardless of qualifications and expertise. Centralization and loose organizational structure also contribute towards driving away talents. However, the challenge of business continuity and survival cannot be limited to family members.

d) Succession Planning:
Strongly embedded management centralization among the leading family members usually neglects putting in place clear succession plans for leadership. This makes family businesses highly vulnerable and prone to severe conflicts among family members, especially in the sudden absence of its leader. The same applies in the case of retirement or long term illness of the patriarch/matriarch.

THE FUTURE OF FAMILY BUSINESSES IN EGYPT
Given the crucial role family businesses play in the economy, as responsible academics and professionals we are obliged to save these firms from going down the route to disappearance, one after the other. We need and must give this vital sector utmost attention and focus. It is no longer an option, particularly in Egypt, where information on this sector is limited and basic. This makes the road even bumpier, in light of the absence of possible interventions, proposed policies, or evidence-based support. All attempts are based on guesswork and intuition rather than facts and evidence. Thus, to be able to provide family businesses with effective support, the following questions and more, should be posed and answered:

• Given the special nature of family relations and ties in Egypt, what effect – positive or negative – do they have on family business?
• How similar/different are the challenges faced by Egyptian businesses compared to family businesses in other countries with comparable conditions?
• What are the main reasons causing Egyptian family businesses to fail when passing from one generation to the next?
• What barriers do Egyptian family businesses face in accessing capital, talents and technology? How strong and how severe are these barriers?
• What are the legal and legislative barriers faced by Egyptian family firms?
• What is the level of corporate governance needed in Egyptian family businesses?
• How are family businesses in Egypt structured and what is the extent of delegation?
• Which is better for a single family business, to focus on one industry or to diversify?
• When is a good time for family businesses to decide to keep the status quo or to transform into a public company?
• Which types of companies are performing better in the stock market: family businesses or public companies? And why?
• Would top university graduates aspire to work in Egyptian family owned businesses?

Once we obtain honest answers to these questions and others, we will be better equipped to reach the right interventions to making Egyptian family businesses survive and grow... Hopefully, one day we will witness the renaissance of these companies and have our own versions of global giants such as Samsung, Hyundai or Carrefour. ABR

1) Institute for Family-Owned Business, University of Southern Maine.
3) Al Masah Capital
QUESTIONING EGYPT’S FOREIGN EXCHANGE POLICIES

Are the policies missing their mark?

By Mohamed Farid

THE IMPOSSIBLE TRINITY

It is common for countries adopting a fixed (pegged) exchange rate or a managed float regime to face the eminent dilemma of the impossible trinity. This predicament is well-documented in international economics literature. The impossible trinity maintains that the following three variables cannot be controlled simultaneously: (1) An independent monetary policy, (2) free capital flows and (3) a fixed exchange rate.

What is this notorious impossible trinity?

Economists argue that in case monetary authorities - i.e. central banks - decide to maintain lower real rates of return - meaning real interest rates - it will be inevitable to devalue the domestic currency. In this case real interest rates are lower than the main country you are pegging your domestic currency with. The main reason for pressures to devalue the domestic currency is the increased demand on the foreign currency traded in the local economy for outflows. In this case, unless the monetary authorities impose capital controls, the domestic currency is bound to depreciate vis-à-vis the foreign currency. As a result, the monetary authorities will not be able to adopt independent and sovereign monetary policies. Unfortunately, the impossible trinity only presents a few options for any monetary authority. These options are as follows:

Option One: To adopt a stable exchange rate and free capital flow, while limiting any monetary policy intervention from the central bank’s side. In other words, monetary authorities will have to limit their policy intervention to stabilizing the exchange rate rather than address economic growth and other macroeconomic variables.

Option Two: To adopt an independent monetary policy and free capital flow while floating the exchange rate. In this case, the exchange rate would keep fluctuating significantly over time reflecting the economic fundamentals.

Option Three: To adopt a stable exchange rate and independent monetary policy while imposing capital controls.

EGYPT’S FOREIGN EXCHANGE POLICY

Egypt’s monetary authorities have always strived to maintain a fixed exchange rate regime and/
or a managed float system with tight and unannounced predetermined boundaries. Through the years, Egypt’s monetary authorities have alternated between success and failure in achieving this target. In periods of success, the Central Bank of Egypt (CBE) pursued a monetary policy that was consistent with the fixed exchange rate policy. During unsuccessful times, the CBE pursued, for the wrong or right reasons, inconsistent policies along with foreign exchange fixing.

The previous chart adopted from a Dcode Economic and Financial Consulting report shows the fluctuation of the exchange rate of the Egyptian Pound (EGP) versus the U.S. Dollar (USD) from 1987 to 2013. It links the change in the EGP/USD exchange rates to the level of net-international-reserves [NIRs]. In general, it is evident that the EGP/USD exchange has been witnessing episodes of tranquility and stability, followed by episodes of depreciation. This could be attributed to the composition of money stock (supply) that we will explain hereunder. We will breakdown the entire period of analysis (1993-2016) into four main periods covering times of stability and volatility of the Foreign Exchange (FX) market and rate.

**FIRST PERIOD: 1991-1998**

Prior to this period, the Egyptian economy was in a dire situation and was on the brink of failing on international obligations. This was partially mitigated by Egypt’s participation in the Gulf War in 1991 and was only resolved by the implementation of the Economic Reform and Structural Adjustment Program (ERSAP) in co-ordination with the IMF and World Bank together with the debt relief granted by the Paris Club. With a handful of monetary and fiscal reforms in place, implemented under the ERSAP program, the 1993-1998 period witnessed an episode of stability in the FX market. More importantly, the money supply composition witnessed a growth in Net Foreign Assets (NFA) more than the growth in reserve money M(0), which supported the stability of the currency in the years 1991 and 1992. From 1993 onwards the money supply composition witnessed significant stability and the CBE balance sheet began to show positive and growing NFAs.

In the simplest form, foreign exchange policies and theories dictate that the composition of money supply in the local economy should be stable. In other words, the difference between M(0) and NFA should be steady with no fluctuations. Accordingly,
the monetary authorities should not be inclined towards increasing M(0) by more than the increase in NFAs. Indeed, this was almost the case until 1997. From 1998 onwards, some evidence of divergence from this pattern started to take place.

**Conclusion:** The CBE pursued policies that were consistent with the fixed exchange rate policy adopted during this period.

**SECOND PERIOD: 1998-2004**

In mid-1997, the Asian crisis led to a significant devaluation of most East Asian currencies versus almost all currencies worldwide. Moreover, the crisis led to major capital outflows from Egypt (no capital controls) and a substantial balance of trade deficit. Paradoxically, the CBE attempted to defend the prevailing EGP/USD exchange rate instead of devaluing the EGP versus the USD. Furthermore, the CBE was inclined to increase the money supply significantly in order to maintain the economic growth rate and also finance the budget deficit at that time. This was done irrespective of the levels of NFAs which started to decline from 1998 onwards. Thus, the composition of money supply in the economy reversed the previous period’s stable composition. Accordingly, the foreign exchange market in Egypt witnessed continuous pressures that led to the successive devaluation of the EGP by the end of that period.

**Conclusion:** Because the CBE pursued policies that were inconsistent with the fixed exchange rate policy adopted during that period, fundamentals prevailed and the EGP/USD exchange rate depreciated several times. This was due to increasing M(0) while disregarding the level of NFAs. The result was a reflection of market forces, the level of NFAs and money supply composition.

**THIRD PERIOD: 2004 - 2010**

During this period Egypt witnessed unprecedented levels of economic growth. USD balances at the CBE were replenished on the backdrop of unparalleled current and capital inflows, hence the CBE intervened to ease the pressure on the currency and lower the FX rate. In addition, the composition of money supply in the economy witnessed a reshuffle in favor of the EGP, which was reflected in a slight appreciation of the EGP versus the USD during the period. In June 2008, just before the international financial crisis, NFAs had a bigger component (EGP 180.3 billion) in money supply than M(0) (EGP 169.9 billion). Furthermore, the CBE adopted a managed float system for the FX rate, allowing the currency to fluctuate within tight undisclosed boundaries. This policy was juxtaposed with the activation of the interbank foreign exchange market where the CBE played the role of the market maker altering the level of demand and supply as a means to control erratic volatility.

**Conclusion:** During this period, the CBE pursued policies that were consistent with the managed float exchange rate policy. Increasing M(0) by a lower rate than the increase in NFAs led to a
slight appreciation of the EGP versus the USD, due to the change in money supply composition in favor of the EGP.

**FOURTH PERIOD: 2010 – 2015**

With two successive uprisings in January 2011 and July 2013, Egypt witnessed one of the most turbulent periods in its recent history on both the political and the economic fronts. The CBE faced a monetary policy impasse with a noticeable decline in NFAs juxtaposed with an augmenting budget deficit due to the rising socioeconomic demands from all strata of society. The CBE opted to fix the problem with a gradual devaluation of the EGP versus the USD, on the other hand it had to increase the M(0). For instance, the reserve money increased from EGP 203 billion to a maximum of EGP 458.9 billion in June 2015. This was accompanied with a decline in NFAs from EGP 190.2 billion in June 2010 to only EGP 25.3 billion in June 2015. Should the NFAs increase rather than decrease by the same rates of M(0) keeping the same composition of money supply, we could have expected the foreign exchange rate to remain steady. But this was far-fetched during those years.

To make matters worse, Egypt’s monetary problems deepened further when NFAs turned negative starting September 2015 with a value of EGP -4,493 and continued its negative trend to reach EGP -13,633 billion by December 2015 (latest published data). Nevertheless, the CBE opted to decrease M(0) and indeed during November and December 2015, M(0) declined to reach EGP 431.6 billion and EGP 420.6 billion from a high of EGP 485.8 billion in June 2015.

**RECENT EGP/USD DEVALUATION**

From Figure (6) it was evident that the current situation regarding the FX rate and market in Egypt was not sustainable. Not only was the EGP overvalued significantly, as evidenced by economic fundamentals and money supply composition, but also the manufacturing sector witnessed a significant decline in activity. The recession in the manufacturing sector was a result of the measures taken by the CBE in February 2015 to put caps on USD deposits at banks. Hence, importers of intermediary and final goods, could not access the parallel market to finance their imports which adversely affected the economic activity.

On March 14, 2016, the CBE devalued the EGP against the USD by more than 14 percent. This devaluation was accompanied by a series of measures implemented by the CBE to limit M(0) growth, ease the pressure on the FX market and potentially attract new foreign direct as well as portfolio investments to replenish the NFAs, as follows:

1-Implementing several non-standard FX auctions with a magnitude of USD 400 million followed by another one on March 16 with USD 1.5 billion to cover part of the outstanding debt on importing companies.

2-Instructed the National Bank of Egypt (NBE) to structure and sell call options to foreign investors on the EGP/USD which would allow foreign investors to hedge their currency risk. This was accompanied by several meetings between the CBE governor and international portfolio management firms to re-attract portfolio investments, especially in treasury bills and bonds. Prior to the international financial crises in September 2008, portfolio investments (treasury bills and bonds) exceeded USD 13 billion which was over and above the official NIRs of USD 34 billion.

3-Induced two state banks, namely the NBE and Banque Misr (BM) to introduce a new saving instrument that offers an interest rate of 15 percent for 3-year investment certificates with quarterly interest payout. The new certificates
are sold only to individuals willing to pay in foreign currencies.

4-Prior to the devaluation, the CBE encouraged the NBE and BM to introduce investment certificates on the EGP with 12.5 percent interest rates to decrease money rotation in the economy, combat inflation and limit M(0) growth.

5-The CBE also lifted foreign currency deposit limits for individuals and importers of basic and strategic commodities as well as a number of state banks.

6-Offered USD-denominated investment certificates with higher interest rates (5.75 percent for 7-year certificates).

7-Issued an official statement mentioning explicitly - for the first time - its adoption of a more flexible exchange rate policy (peg) to reflect demand and supply of foreign currency.

While Egyptians are experiencing lots of anguish over the devaluation of their beloved EGP, indeed the policies adopted are coming slightly short of successfully correcting the impact of years of economic underperformance. For many years the deterioration in foreign currency generating activities was augmenting together with a significant shift in the composition of money supply of the EGP. The shadow exchange rate calculated based on the rate of growth of M(0), after adjusting for Egypt’s real economic growth rate, would have suggested a dire need for more devaluation. However, this analysis should be taken with extreme caution given that the shadow exchange rate reflects past and current situations, and not the expected one. In other words, should the CBE continue pursuing the average growth rate of M(0), then the shadow exchange rate should have been the new clearing exchange rate to prevail in the economy.

The official exchange rate has been lagging behind the shadow exchange rate. The CBE adopted a stepwise gradual devaluation of the EGP versus the USD. For instance, in June 2014, the official exchange rate was EGP 7.17 while the shadow exchange rate - based on the M(0) growth rate adjusted for real economic growth at that time - would have been EGP 9.43.

The highest increase in the shadow exchange rate was witnessed in June 2015 due to the significant increase in M(0) during that period. However, starting June 2015, M(0) receded witnessing negative growth rates. This had a positive impact on the shadow exchange rate resulting in its decline from a high of EGP 12.2 to EGP 10.33 per USD.

While the recent devaluation represents the biggest one-time devaluation undertaken by the CBE in the last five years, its success would largely depend on the foreign currency influx in the upcoming months, as well as the capacity of the CBE to reduce M(0) growth significantly to alter the money supply composition. Economists argue that this devaluation came relatively late as the Egyptian economy has already lost its competitiveness against peer countries and trading partners due to a comparatively overvalued currency. This problem was exacerbated by significant devaluation in most currencies against the USD over the last few years while the EGP has only depreciated at relatively lower rates.

Here, we must ask, is the CBE missing it’s mark by pursuing policies inconsistent with fixed exchange rates regime during recurrent periods of economic volatility?

Certainly it would be an oversimplification of facts to answer this question without addressing all the economic variables and constraints that would face any central bank trying to solve such an economic predicament. In other words, for the CBE to have followed consistent policies, the M(0) should have always been on the decline in order to maintain the money supply composition. To achieve this target, the CBE would not have had an option but to increase interest rates significantly and refrain from printing any banknotes during those periods. However, following this policy would have had significant impact on the capacity of the Government of Egypt (GoE) to finance its budget deficit. To complicate matters further,
this would have significantly increased the budget deficit, due to the structural rigidity of Egypt’s budget with more than 25 percent of the country’s expenditure directed to the repayment of interests on government debt. Hence, the CBE adopting a policy of appreciating interest rates would not have enabled the GoE to finance its growing budget deficit.

Moreover, reducing M(0) would have led to lower economic activity and hence complicating potential problems such as unemployment and lower budget revenues. Those problems are usually witnessed during periods of economic volatility. All of this would have also increased the budget deficit.

The CBE is trying to adopt an independent and sovereign monetary policy by allowing money supply composition to change significantly to support economic growth and finance budget deficit. At the same time, it strives to maintain a fixed (or at least stable) exchange rate, while imposing minimal capital controls. As mentioned earlier, achieving these three targets collectively is impossible, and accordingly, increasing M(0) while changing the composition of money supply, should have been accompanied with an abrupt and significant devaluation in the exchange rate. This should have been repeated as long as the trend of changing money supply composition is persistent.

It is worth mentioning that the CBE tried to impose capital controls after the 2011 uprising with no significant currency devaluation. As a result, this only led to further capital outflows and a widening Balance of Trade (BOT) deficit exacerbating the pressures on the currency.

Accordingly, the CBE is guilty of altering the money supply composition as it could not have followed another route but to increase M(0) growth to support economic growth and finance budget deficit. Consequently, the exchange rate would eventually reflect the money supply composition and foreign exchange dealers would increase their speculative attacks on the currency to achieve short term gains at the expense of the official exchange rate.

The above analysis, provided a partial answer on why the CBE always opts to alter money supply composition, but the real reasons behind the CBE’s hesitancy to change the foreign exchange rate remains a mystery. It could be the fear of inflation spikes, public discontent or the lack of vision towards the magnitude and time money supply composition would change.

Analysts argue that the exchange rate is still the main transmitting channel of monetary policy. However, this tool must be used with great caution as currency depreciation is always associated with one-time inflationary hikes that could potentially lead to an inflation spiral if not properly contained.

**LESSONS LEARNED**

Since economic fundamentals will inevitably prevail, pursuing monetary policies that are inconsistent with a fixed foreign exchange policy will ultimately lead to devaluing in the local currency. The current levels of budget deficit and low economic activity witnessed in Egypt will certainly prevent the CBE from following a persistent and consistent policy to maintain the foreign exchange rate at the current levels.

Unfortunately, Egypt, as many developing economies, is characterized by downward price rigidities whereby it is easy for prices to increase while they are almost certain not to decrease.

For that reason, significant restructuring to internal trade markets should take place as a large share of the consumer good basket used in inflation calculation is tradable. The CBE also needs to adopt a more flexible foreign exchange policy and train market agents on exchange rate volatility to be mitigated with other financial instruments to be introduced in the local market such as futures, options and swaps. ABR
Economic Sense

ACHIEVING GROWTH

A guide to accessing capital and the role of finance in developing the family business

By Aliaa Bassiouny

Understanding the dynamics of how family businesses operate, grow and succeed is critical as they are one of the main drivers of value to their respective economies. Family-owned businesses have a large and powerful presence in the region with a dominating share of approximately 70 percent of large companies in the Middle East. However, with growth comes the pertinent question of financing and access to capital.

In an environment where family businesses are predominant, making the right financing decision is important in shaping the future of a company. This decision usually goes through phases. In the first phase, the decision related to sources and structure of financing is carried out with a mindset geared towards preservation. Seeking investments from non-family investors or through long-term debt is frowned upon. Family members see this as a threat to the continuity of the family business legacy.

Alternatively, the second phase is fueled by a vision for expansion or growth. In this phase, family businesses attempt to leave their comfort zone and tap into external sources of financing.

**PHASE I: KEEPING IT WITHIN THE FAMILY**

During this phase, controlling family members still remember the time when they first started, a time when they had to rely on each other to raise funds, when lenders and investors were scarce and skeptical. Family-run firms that succeed and move from being startups into established small or medium sized businesses operate as such for a long period of time. This is due to their predisposition to accessing capital. Their growth strategies are limited by a conservative view that focuses on preference for organic capital using equity either through additional family investments or internally generated sources of financing. Moreover, it is an attempt by family members to conserve control and prevent passing on management challenges to the next generation.

**PHASE II: LEAVING YOUR COMFORT ZONE**

In periods of economic growth, some businesses realize that they are restrained by internally generated capital. Thus, their only way to capture the bullish business cycle is through accessing external capital that can fund and boost their expansion plans. On the other hand, firms may be inclined to consider external financing when faced with challenges in the downturn of the economic cycle. Alternatively, family businesses may consider capital injection from outside sources to achieve strategic purposes. Bringing on investors with management and business experience provides the impetus to move the business from a traditionally run firm into a corporation. Instating better systems and corporate governance structures can be the main driver for growth and value.

**BENEFITS TO SEEKING EXTERNAL SOURCES OF FINANCING**

Once a family-run business goes through this internal change of heart and aligns the different family members around a common goal for growth and expansion, the firm enters the second phase of the financing decision. In addition to funding growth, overcoming the stigma of financing can create value to how family businesses operate and enhance their corporate governance structure. As objectives of shareholders and management align, any potential agency costs are reduced thus benefitting the family-run management. Furthermore, bringing in outside sources of financing assists the family in truly separating between any overlapping business and family finances which can cause inefficiency. The firm now is able to tap into the numerous and sometimes eager external sources of financing waiting to contribute to the growing successful family business and adding value to the various parties.

**SOURCES OF EXTERNAL FINANCING**

There are various sources of external financing for family businesses. Choosing between sources depends on the current state and objectives of the business. Firms seeking external financing to overcome op-
erational challenges during the current business cycle and limited cash flow can access funds through asset-backed financing, divesting or working capital financing. In case of asset-backed financing the firm can lease part of its assets to generate much needed cash flow. Alternatively, the firm can divest unprofitable or least efficient business lines. It can rely on working capital financing by re-negotiating with suppliers and customers for more favorable payment and receivable terms.

On the other hand, if the firm is seeking external financing to fund large promising expansion projects then raising debt through bank loans is the most logical way to go. Successful family businesses that have low debt in their capital structure can confidently shop around for eager lenders and can negotiate favorable terms. Moreover, firms that are expanding through export can access funds provided by regional export-import banks that promote and support global trade with emerging markets.

Family businesses that do not just target expansion but have a long-term vision for growth attract foreign and strategic investors which can help transfer the business into a professionally-run organization. Starting in the late 1990s and up until before the global financial crisis, the Middle East had witnessed a growing presence of foreign and private equity investors eyeing acquisition of family businesses. An example is that of El Rashidi El Mizan, the Egyptian halva producer and confectioner that was established in 1889 and continued to be a purely family-run and owned business up until the late 1990s. The firm was the subject of a series of foreign and private equity acquisitions for a whole decade. While the nature of the family business is now lost, the firm is much larger with a strong, diversified product range and regional presence.

Some family businesses opt for such private transactions as first steps to restructuring and growth before directly seeking public external funds through an initial public offering (IPO). The latter can become a vehicle to access large external equity financing while retaining ownership, control and sometimes also management. The decision to go public is a complex and lengthy process. It requires due diligence to ensure the business is ready to transform into a publicly-listed corporation and to meet various regulatory and legal compliance requirements. As a result, the family business becomes completely transformed and open to develop a shared vision and strategy with its public shareholders.

A FEW EXAMPLES OF EGYPTIAN FAMILY BUSINESSES GOING PUBLIC INCLUDE:

Orascom: The Sawiris clan set the mark for family businesses’ access to capital through the Egyptian Stock Exchange (EGX) in the late 1990s/early 2000s with IPOs of Orascom Projects and Touristic Developments (OPTD) in 1996, which was later renamed to Orascom Hotels & Development (OHD); Orascom Construction Industries in 1999 which at the time was the largest IPO on the EGX at USD 600 million; and the USD 320 million IPO of Orascom Telecom in 2000.


Juhayna: Safwan Thabet’s IPO of Juhayna in 2010 raised USD 176 million.

FINANCING YOUR FAMILY BUSINESS GROWTH: ONE SIZE DOES NOT FIT ALL

The choice of the type and source of financing of a family business is a very dynamic and challenging decision. It depends on the family business’s vision and future strategy, its priorities, size and finally, the business and economic cycle. The financing decision therefore goes hand in hand with a company’s expansion and growth strategy moving the company from one phase to another. One size does not fit all. Making the right financing decision is critical in shaping the future success and continuity of the family business. ABR

THE REGIONAL POTENTIAL OF FAMILY BUSINESS

An economic driving force that can grow further

By Hischam El Agamy

Why should we consider family businesses when we speak about the future? Because family-owned enterprises teach us to think in generations rather than years. By looking beyond the immediate present benefit and return on investment, the family business’s multi-generational perspective can cultivate an economic mentality that is essential in times of high pressure and scarcity of resources. In order to unlock the potential of family businesses in the Arab world, we first need to understand the real economic impact they have, how they differentiate from non-family companies, and what kind of support systems they require.

Decried for nepotism and allegedly symbolizing everything that is wrong with our economies, family businesses have had a hard time overcoming stereotypes. These include such negative examples as non-merit based intra-family succession. Consequently, family businesses have seldom been recognized for driving the economy and for the potential innovation hubs that they can be. The largest part of employment depends on family firms. Family businesses are not only crucial to the future of our region because of their numbers, but also because of what they inherently represent: an outlook towards the next generation.

The inflection point that we are facing now is arguably unprecedented in known human history. With technology developing at an extraordinary speed, problems such as overpopulation and scarcity of resources are taking center stage. The private sector around the world is faced with a whole different set of challenges. In the Arab world, we additionally face a complex multi-layered geopolitical situation that brings with it distinct kinds of instabilities. Yet, we are also uniquely positioned to permanently change how we operate within the global sphere. Within this context, family businesses play a crucial role in defining what these changes will be.

Given these points we can argue that there is an immense need for more information on family business in the Middle East. Current best-practice procedures are largely based on data collected from the West that does not necessarily apply as a whole or in part to the complexities faced by our economies. The lack of data can be explained by two arguments. In the Middle East and North Africa (MENA) region there are very few academic or governmental agencies that focus on family businesses enough to conduct qualitative or quantitative research. Quantitative research or comparative studies have also been hindered by the difficulty of defining and identifying family businesses. In the Arab world, we can find family businesses of all sizes in all industries – from the bakery shop around the corner to the multinational, multi-industry conglomerate. Therefore, in order to analyze the economic impact of the family ownership model, a lot of preliminary work has to be done to select the right segments.
To get a better picture of the impact of family business, we can start by taking a global overview. Family-owned businesses are the economic drivers of growth and job creation in most countries in the world. It is estimated that the total contribution of businesses owned by single families to global GDP is over 70 percent. Studies have found that approximately 85 percent of all business start-ups are funded with family money. Moreover, the majority of the global private sector is family-owned.

When the European Union (EU) conducted in-depth research studies on the strengths of family-owned businesses, it found that they tended to be highly efficient, effective, and long-term oriented organizations. The EU report showed:

- Family businesses show higher profitability in the long run.
- Family businesses are less likely to lay off employees and more likely to hire – despite economic downturns.
- Family businesses are more likely to give charitably to their respective communities and engage in extensive philanthropic activities.
- Family businesses have a long-term strategic outlook due to their motivation in creating a legacy for generations to come.

The instinctive draw to join the family business, to help strengthen the family’s position and grow its wealth. At the same time, the key strength of the family business is also its major weakness. Collaboration between family members can lead to unparalleled competitive advantage while being a potential source of conflict. To make a family business successful, the two pillars – family and business – need to be managed. Members of the owning family, however much involved in the actual business, need to be aware of their role, their impact and responsibilities. The common internal challenges we found in family businesses across the region are the following:

1. Dealing with succession planning
2. Managing family dynamics and inter-generational communication
3. Managing the relationship between family members who are employed and those who are not employed in the business
4. Organizing the influence of family members on the business
5. Understanding the role of “good owners”

FAMILY BUSINESSES ARE NOT ONLY CRUCIAL TO THE FUTURE OF OUR REGION BECAUSE OF THEIR NUMBERS, BUT ALSO BECAUSE OF WHAT THEY INHERENTLY REPRESENT: AN OUTLOOK TOWARDS THE NEXT GENERATION.
6. Maintaining growth and innovation in a fast-paced technology-driven economy

FUTURE OUTLOOK – REALIZING THE POTENTIAL
The current state of the economy in the region dictates that the potential which lies within family businesses is realized to the fullest. As demonstrated, family businesses are known to outperform other ownership models in the long-run. They also have the ability to transform and adapt quickly to rapidly changing environments. Quick decision-making can be a great advantage against competitors. Additionally, the mutual trust among family members creates a unique atmosphere open to innovation and growth opportunities. However, family-owned companies will only be able to build on their potential if they address a number of critical elements. These include both internal and external challenges such as:

THE CASE OF GOVERNANCE
The view that governance systems are heavy, complex, and difficult to implement is wrong and misses the point. Governance is a tool for improvement and not a stumbling block that should be avoided. A harmonious combination of family governance, ownership governance, and corporate governance is the basis of a sustainable and successful company.

EMBRACING RESEARCH, DEVELOPMENT AND TECHNOLOGY
In general, spending on Research and Development (R&D) in MENA family businesses is relatively low. This can be a contributing factor to slow innovation and lack of response to economic shifts. Using the latest technological and scientific advances can help family businesses to better compete and instil a culture of “intrapreneurship” in the company.

TALENT MANAGEMENT
Retention and development of talented individuals in the company is often overlooked. Both family talent as well as non-family employees should be included in an integrated system of assessment and career development. This should be coupled with incentive and reward schemes.

SUPPORTING THE ENTREPRENEURIAL ECOSYSTEM
Family businesses should play a more effective role in supporting start-ups in the region to foster a strong entrepreneurial ecosystem. Such a role could be to the advantage of family business too as it opens new investment opportunities and gives access to new markets and technologies.

We can conclude by emphasizing that the global data clearly points to the importance of monitoring family businesses within any region or country. This allows us to understand the factors that lead to the sustainability and growth of family businesses which, in turn, positively affect national, regional, and global economies. In the MENA region, by supporting the sustenance of family-owned companies we have a unique opportunity to create durable change in the Arab economy. ABR

How can family businesses reach their potential in the MENA region?
1. Good governance
2. Embracing R&D
3. Talent management
4. Supporting the entrepreneurial ecosystem

MONITORING CORPORATE GOVERNANCE IMPLEMENTATION BY REGULATORY BODIES SHOULD STILL BE FIRMER.

THE AMERICAN UNIVERSITY IN CAIRO
SCHOOL OF BUSINESS
EXECUTIVE EDUCATION

Open Enrollment Programs

- Professional Post Graduate Diplomas
- Certification Programs
- Licensed Programs
- Attendance Programs
- Alliance Programs
- Examination Review and Preparation Programs
- Professional Certificates

Advanced Management
Crisis Management
Executive Management
Healthcare Management
Human Resources Management
MBA
Sales and Marketing
Total Quality Management
Lean Six Sigma
Supply Chain Management

Accredited by the
Egyptian Supreme Council of Universities

Ranked by the Financial Times

execed@aucegypt.edu
aucegypt.edu/business/exced
MANAGING SUCCESSION
Surviving beyond the third generation
While, statistically, odds are not in favor of family businesses surviving past the third generation, proper governance and succession planning can change the course and support the continuity of any business. In essence, third generation family business owners are more likely to have received formal business education and have enjoyed largely diverse life experiences compared to their elders. The privilege and wealth provided by the business can serve them well if they have the right balance and support. Family businesses can improve their chances of survival by setting the right governance structures in their business. They must also discuss the expectations of family members and make sure all stakeholders understand where the business stands and which direction it is headed.

Interest in family business and its governance is gaining momentum in the Middle East. One of the reasons is the growth of families and their businesses well into the second and third generations, especially in the Gulf region. These companies have grown into large and diversified conglomerates that inevitably demand sound structures and governance to be able to survive. In Egypt, family businesses have always been a strong engine of growth for the national economy. Despite facing a downturn during the period of nationalization, family businesses in Egypt have picked up and continued to grow since.

**BEATING THE ODDS**

The family firm is the backbone of the entire global economy. This type of ownership accounts for two-thirds of businesses worldwide. Similarly, these firms dominate the MENA landscape with 80 percent of organizations being owned by families. Research shows that only about 30 percent of family-owned businesses make it to the second generation. A mere 12 percent endure into the third generation while barely 3 percent are able to survive into the fourth generation and beyond. Even the companies that do survive into future generations see their value decline drastically over the years. What is it that family businesses are doing wrong?

What are the reasons behind the short-lived family tenure?

The success and long-term viability of family businesses depends on their willingness to adapt. Change can be challenging and often overwhelming. This is because family firms tend to be more deeply rooted in culture and heritage. They may remain stuck in the same routines since their founding. Therefore, a vital change factor for the survival of family businesses is not only to professionalize operations but also the way family members interact with the business and each other.

Long-term survival is not an impossible feat for family firms. For example, the average company on the Family 500 Index has been in business for 88 years. This means that against the statistical odds many families have found a way to get along and have done so for a very long time. Hence, family businesses, if properly governed, actually have the tools and advantages to outlive their counterparts. This includes their outlook towards the future and providing security to the coming generations – rather than making profit in the upcoming quarter. Add to that their tendency to foster employee commitment and engagement.

**HARMONY VERSUS FAMILY FEUDS**

Family businesses are unique; however, their nature may be detrimental. Working for these companies, whether a family member or outsider, can generate rich experiences. Family firms offer the human touch and a sense of belonging that may be harder to find in other types of organizations. Working in your own family business generally creates higher levels of trust and commitment to the success of the organization. Nevertheless, working with family can also cause tension and conflict which may spill over into harsh legal battles. These result in the ultimate fragmentation of the family. This means that in the absence of proper governance, business issues transform into family conflicts and vice versa.

Examples of infamous family feuds are numerous. The sportswear brands Adidas and Puma were founded and owned by two German siblings who had initially started a shoe factory together. Following
a bitter disagreement the brothers founded the two rival brands. Disagreements in family businesses can also escalate towards devastating consequences. The Gucci family are well-known for their luxury leather goods and infamous for their numerous and public legal disputes over power and control of the company. These include lawsuits filed by one of the sons against the founder of the business, his father. Infighting led the Gucci family members to eventually sell nearly 50 percent of shares to a Middle Eastern investment bank in 1988.

The complex relationship between family and business is one of the main reasons why these firms are often short-lived. Nonetheless, creating a harmonious governance model, for the business and for the family, can improve stability in both areas. This is done through professionalizing both the business and the family. Professionalization or formalization means putting processes in place to govern how the family interacts with the business. For the family members this includes clear and documented succession planning, establishing shareholder agreements, family councils and family protocols or a constitution. The protocols for example will cover matters such as entry and exit provisions for family members wanting to join or sell their share of the business. Although, at first, these documented procedures may seem unnecessary amongst family members, they provide a platform for stakeholders to openly talk about vital issues. Thus, family members are able to deal with concerns head-on before they escalate into problems. These documented procedures are extremely helpful during times of tension and conflict.

Family governance is usually facilitated with the help of an outside advisor that acts as a mediator. The role of this mediator is to incorporate the views and opinions of all family members into structures and documents that are legally binding. Unfortunately, many families in the Middle East are reluctant to bring in outsiders into their personal affairs. Hence, they put off professionalizing the family firm. In contrast, others do take that step and witness firsthand the immense benefits of having all these rules documented. This is because as families grow and more generations come into the business, there is greater potential for conflicts and possibly diverging visions for the future of the organization.

**SUCCESSION PLANNING: NEEDS VERSUS CHALLENGES**

Succession planning is a critical and inevitable topic in the MENA region since most family businesses in this part of the world were established in the 1960s and 1970s. Therefore, many of them are currently transitioning into their second and third generations. Despite that, only 14 percent of family firms in the Middle East have a succession plan that is discussed and documented. This is a troublesome phenomenon because succession is a major cause for distress for family business owners. It leaves them with a critical question of who will take over the leading position in the company.

In family businesses the task of succession most commonly involves a generational change. It can be an uneasy situation which combines family tensions with the strains of business. Even though the issue of succession is tough and critical, many family businesses ignore to formally think about and plan for this inevitable transition. Succession planning, as it is most commonly referred to, involves not only knowing who will assume leadership position, but also actual planning and implementation of this change one step at a time. This would mean training and formally preparing the potential successor. Succession discussions can cause conflicts in a family if the pool of potential candidates is large. On the

---

THE SUCCESS AND LONG-TERM VIABILITY OF FAMILY BUSINESSES DEPENDS ON THEIR WILLINGNESS TO ADAPT. CHANGE CAN BE CHALLENGING AND OFTEN OVERWHELMING. THIS IS BECAUSE FAMILY FIRMS TEND TO BE MORE DEEPLY ROOTED IN CULTURE AND HERITAGE.

---

46 Fall 2016
other hand, if neglected, they can greatly hinder the sustainability of the business.

Spending time and money on succession planning means investing in the future shareholders of the business as well as preparing and training family members for the task of ownership. Research studies show that the most successful family firms find their future leaders and invest in them early on.\(^1\) On the other hand, the transition from one generation to the other and the lack of preparation for such transition is too often the end of the family business. Succession in family firms is harder because unlike other types of business where the position of Chief Executive Officer (CEO) is shifted on average every six years, leadership roles can be rather static. Family businesses may be run by the same person for 20 to 25 years. This makes the task of transition daunting and tough for the entire organization.

In some instances, the CEO, who usually is the founder of the company, may be reluctant to give up his/her position for younger members to take over. This may push some family members to exit the business altogether and start their own ventures. Indeed, some individuals may choose to retain the position of CEO until their eventual demise. At the other end of the spectrum, owners may be willing to pass control to future generations; however, the latter may show no interest in taking over the family business. One such example is the IT giant Oracle, founded by Larry Ellison. When Ellison stepped down as CEO in 2014, none of his children had any involvement in the business, preferring to remain in their careers as film producers.

Another common misstep is treating the family business as a royal dynasty. Succession planning should not be based on age or gender. Rather, the successor should be the most qualified and suitable candidate. There is a common practice where the oldest male child usually takes on the position of CEO regardless of his capabilities, aptitude or enthusiasm. A more disciplined approach, which takes into account actual interest in managing the business as well as suitable skills, is advisable. The common caveat, however, is that planning for succession should start many years before the actual need for a successor. Moreover, it should be regarded as a process and not a one-time event.

Our understanding of family governance is still in its bloom. The importance and inevitability of succession must be properly appreciated for any real sustainable changes to occur. Family businesses also need to let outside mediators guide and help them through governance and succession planning. They must trust that it is in the best interest of the company to get an outsider’s view rather than being too afraid to open up to individuals beyond the family. ABR

---

AN EGYPTIAN STORY OF BUSINESS AND VALUES

Armanious Group through the generations
According to McKinsey & Company, the key to long-term success of a family business is professional management. However, for the truly charismatic Chief Executive Officer of Eva Pharma, Riad Armanious, the key ingredient for his family business success is sustaining the initial values the venture was founded upon.

Undoubtedly, Riad Armanious is a mystery. He has the aura and the attraction of a rock star while simultaneously having the confidence and the authority of a key public figure. Of course he is neither. He is a young entrepreneur who refers to himself as a “second-third generation” family business member who followed the footsteps of his grandfather, the founder of Droguerie Riad Armanious. The grandfather, who was also an entrepreneur, started the second pharmaceutical company in Egypt in 1935. Yet, after the sweeping nationalization policies of Gamal Abdel Nasser, Riad’s father, Mounir Armanious had no option but to start all over again, building a new business, with only one pharmacy. “We are part of the third generation, but after we were wiped out my father started almost from scratch and hence I’m saying second generation,” explained Armanious.

Growing up, the values of Armanious Group and the love of the family business were instilled in Armanious’s mind and heart. Accordingly, when the time came for him to choose a university in which he would pursue his higher education, he opted for the place where all his future colleagues, customers and industry regulators would graduate from. Thus, his choice landed on the Faculty of Pharmacy, Cairo University, from which he graduated in 2002 with highest honors.

As confident as he has always been, Armanious endeavored early on in his career to build his experience outside of Armanious Group. He pursued his early professional experience in Germany and the United Kingdom, both of which have a mature pharmaceutical industry. He came back to Egypt in 2004 and worked at Eva Pharma for two years. This gave him unparalleled knowledge on how the market operates, how customers evaluate quality and what exactly the role is of pharmaceutical companies when it comes to medical services.

Once again he left Egypt in 2006 to pursue his MBA at Harvard Business School in Massachusetts, USA. Coming back to Armanious Group in July 2008, he took over a few departments and by October 2009 he became the CEO of Eva Pharma.

With family business accounting for approximately 80 percent of companies in the MENA region, (1) Armanious believes that it is the most successful business model in the Middle East. He says family members have a natural advantage in running the business they own because they carry the family name. The name gives the impression “like father like son,” the second or third generation will continue to run the business with the same value systems of their predecessors.
Behind the Face

While not necessarily true, for an entrepreneur who took a risk, built a company and worked long hours to make it grow, having children to handover the reigns to is a long-awaited dream. However, for Armanious, an entrepreneur should be focused on running the business, creating value for customers and optimizing shareholder return rather than creating a career for his/her children. He says: “You bring up kids to have their individuality, you give them a good education, lots of love and confidence and then you support them to find their career.” Indeed, Armanious advocates having children work in competing companies and getting different exposure before contributing to the family business. He believes that getting relevant experience and skill sets, which are not necessarily aligned with the core functions of one’s family business, provides a unique outlook that can potentially enrich one’s own enterprise.

Armanious explains some of the obstacles which face second and third generation family members. He says: “You’re placed on a pedestal from a very young age and you get very little feedback.” Furthermore, in a culture where age is congruent with the ability to make decisions, a young person going into the business will be faced with cynicism from older generations. This stems out of fear that the newcomer will be teaching them how to do their jobs.

While a family business model has several advantages such as sharing common values and an unmatched loyalty to the success of the business, Armanious points out a number of disadvantages. These include potential conflicts that could lead to poor corporate governance. He says: “Family relations go into peaks and drops and you do not want that volatility in a business environment, you want a professional, simple environment that is conducive to a meritocratic progression.”

With that in mind, Armanious and his sisters, Linda and Yasmine, are very cautious. They are adament about continuing the success of the business while maintaining family harmony. Armanious is the Chairman of Armanious Group; however, each business is autonomously run by a family member or the regional CEO. He explains that balancing harmony and success necessitates having clear guidelines on how to run the business. Everything has to be structured according to established rules. He says: “There is no “Well, I have to ask my brother before I tell you about your raise.””

In reality, statistical data reveal that the successful transition of family businesses from one generation to another is a hard endeavor. According to the Family Business Review, seven out of ten family-owned businesses fail to make the transition to second generation and just one in ten makes it to the third generation. Indeed, Armanious admits that the intergenerational handover of business leadership is a painful matter. He says: “Introducing a son or a daughter to lead a business might be a point of tension for certain managers.” According to him, some managers may find it difficult to deal with the successors of the business. Oftentimes, they may not be open about the heirs’ incompetence.

In order to overcome this obstacle, Armanious suggests that the new family member should get a degree from a renowned school together with a well-proven business track record elsewhere. He says: “If you succeeded in the business world outside [the family business] and graduate from a good school, I will respect you and when you prove yourself I will respect you more and accept that you lead me.”

Armanious presents a unique model to ensure the success of this handover. He suggests that the new family member should be given the opportunity to excel in a confined unit of the business. This individual would be working under the supervision of the older generation, with minimal advertisement about the future role this family member would undertake. Upon proving that he/she is qualified to take the lead, the patriarch or matriarch of the business should then provide them with the opportunity. According to Armanious, this is a better strategy rather than thrusting family members into the business expecting others to treat them politely and appreciate their ideas. He explains that many
family business successors fail because they did not earn the positions they were given.

Armanious is counting his blessings. He is grateful to his late father for his continuous support of him and his sisters. He also appreciates his father’s role in introducing them to the world of business and competition. He says: “My father made it clear how things operated at Armanious Group, that maintaining strong values and social fabric are what keeps a business sustainable.”

In a male-dominated culture as Egypt, there is the misconception that a male offspring is the one who will be able to sustain the family business. However, Armanious Group is defying this notion with Linda and Yasmine Armanious. A strong believer in equality and women empowerment, Mounir Armanious instilled this value in the company.

Eva Pharma challenges prevailing notions of corporate culture which are not supportive of women who wish to balance their career and family life. The company cares for its women employees by providing support and encouraging women to become the future leaders of the company. “We have to enable our own family members as well as our women employees to get back to the work environment and not have to sacrifice the relationship with a young child,” explains Armanious. Therefore, the company took active measures in adjusting the workplace to the needs of women, in general, and mothers, in particular.

Armanious says: “My sister Yasmine, really pushed to having a nursery in every place where we have a significant body of women employees many of whom will become or are mothers.” The consistent efforts of Yasmine Armanious yielded its fruits. Currently, the main factory for Eva Cosmetics and Eva Pharma in Haram district houses a nursery with approximately 130 children following the Montessori curriculum. When Eva Cosmetics moved to Sixth of October City they established another nursery which now has 30 children.

Theorists like Maslow suggest that as we go up the hierarchy of needs, the primary motivation for people to work becomes self-actualization. This is reflected in the business world with executives climbing the echelons of corporate hierarchy with eyes set on the next promotion. For the leader of a family business the next promotion is not the goal. Rather, his/her goal is the growth of the family business. The success of the enterprise is what satisfies the need for self-actualization for a business owner.

Armanious explains: “An employee is an employee anywhere, however in a family business you have a bigger obligation because if you mess up you don’t only lose a job, you lose family respect.” However, on the upside, he points out that in a family business there is more freedom. In the world of Armanious, he has no investors to answer to with only short-term goals in mind. He is responsible in front of family members. This makes his experience all the more rewarding, enjoyable and worthwhile.

For the father of two sons, work provides challenges and fulfillment as well as many hours away from family. Armanious tries to spend as much time as possible with his children. However, for the three-year-old Mounir and one-year-old Mark, it is often difficult to comprehend why their father might be missing at certain family functions. It is particularly challenging to explain to children why their father is spending all this time at work and get them to accept this. Armanious says: “I love being in health care. It is what I am good at and if I don’t give it my maximum I will not be satisfied.” Therefore, as Armanious puts it, it is his responsibility with the business opportunities he was born entitled to and his given education and skills to try to make a difference in the world. ABR
Are Family Businesses All Cut from the Same Cloth?

By Iman Seoudi

Scholars of strategic management have long tried to explain the heterogeneity of firms and their strategies. Successful family businesses are no exception in this respect. While governance, professionalization and family succession form a set of common issues that all family businesses will face as they strive to grow and flourish over generations of successors, different families may approach these common issues in very different ways. This variety provides a rich array of successful practices that scholars and practitioners may draw on to inform their recommendations and decisions in leading families and their businesses.

In this issue we present case studies on two family businesses at very different stages of their life cycle. Diwan, a relatively young first generation bookstore chain in Cairo, has transformed the traditional book retail industry in Egypt with its modern bookstore concept. After a decade of uninterrupted growth, the success of Diwan has stimulated imitative competition, and the coming years will tell whether Diwan will continue to grow ahead of the curve and preserve its distinctiveness in the market despite fierce competition. The two founding sisters, Hind and Nadia along with their partner Nihal have not yet faced the questions of succession or involvement of a second generation from the family. The trio is currently grappling with the uncertainty of digital convergence and how long it will take until digitization dominates the retail book market in Egypt.

The second case highlights the Arafa Group of companies, a family business that is over a hundred years old and in its third generation leadership. Starting as a modest fabric retailer in the early twentieth century, the family business grew significantly only to be nationalized during Nasser’s rule. The Arafa family regained control of the company under the open door policies of Sadat in the seventies and started its expansion to become a fully vertically integrated group of companies, starting from fabric manufacture to apparel retailing. The turn of the century saw Arafa group go public and diversify internationally to acquire controlling shares in distinct global apparel brands. The case highlights the governance model of Arafa Group as a fully professionalized and institutionalized family business. Although the family owns 60 percent of the group shares, only one family member holds an executive position as Chairman and CEO of the holding company, while other family members have seats on boards of the subsidiary companies. Arafa Group has clearly separated family control of ownership from the group’s management, and does not consider the group’s companies to be a source of employment opportunities for the Arafa family members.

The Diwan and Arafa Group cases emphasize the salience of family business in the country’s economy and illustrate some of the challenges they face as they strive to grow and sustain their viability over time. Woven deeply within the fabric of the society, family businesses continue to play a key role in the lives of many stakeholders, including the founding families, employees, customers and many others. ABR’s Theory in Practice section is produced by El-Khazindar Business Research and Case Center (KCC), School of Business, AUC.
RECEIVE MONEY AROUND THE WORLD WITH WESTERN UNION

Call 19190
Customer Service Center 24/7

Authorized Western Union agent

Funds may be delayed or services unavailable based on certain transaction conditions, including amount sent, destination country, currency availability, regulatory issues, identification requirements, Agent location hours, differences in time zones, or selection of delayed options. Additional Restrictions may apply.
DIWAN: THE BUSINESS OF CULTURE

Answering a long-ignored demand

By Mohamed Gameel

Diwan came as a rescue for many knowledge seekers who could not find their needs in traditional Cairene bookstores. Such démodé bookstores did not echo readers’ interests; neither were they adequate for the tastes of certain bookworms living in Egypt. This insufficiency of an accessible bookstore was the major incentive for a group of entrepreneurs to start and develop an entirely new concept of a bookstore. The idea materialized in what we now know as Diwan.

READING AND THE PURSUIT OF KNOWLEDGE

The pursuit of personal research outside the formal structure of academic institutions is undoubtedly both fulfilling and inspiring. This idea was vehemently encouraged by many philosophers and theorists. Richard Feynman, American theoretical physicist and Nobel Prize winner, said: “Study hard what interests you the most in the most undisciplined, irreverent and original manner possible.”

In order to be successful in this pursuit of knowledge, first, you must have a strong personal interest in the subject matter. Second, you must have access to resources for learning such as encyclopedias, the internet, magazines and most importantly, books. In this sense, the role of bookstores like Diwan is fundamental.

Diwan differs from conventional booksellers in many ways, traditional bookstores are usually located in Downtown Cairo with a few display titles. For years, they mostly provided Arabic language publi-
cations and very limited foreign language material. Judging from the number of Diwan’s regular customers, we can deduce that it has certainly become an integral part of contemporary Egyptian culture.

**DIWAN: A NEW CONCEPT IN EGYPT**

The word diwan is derived from the Persian word dêwân or dîvân. It entered into the Arabic language through a long transformational cultural development. Initially, the Seljuk Turks, who later formed the Ottoman Empire, borrowed it from Persia and used it to refer to collections of poems. Subsequently, with the bureaucratic advancement of the Ottoman state, the word was adjusted to have other meanings. For instance, during Ottoman rule, the word diwan was used to refer to the Empire’s Council Chamber of Deputies. Through Ottoman-Arab relations, diwan transitioned into the Arabic language. (1)

Diwan, as a business, was founded 14 years ago. It came to life when a group of ambitious young entrepreneurs from diverse backgrounds thought of launching a modern, inviting bookstore. Part of their idea was to imitate the immense bookstores located in other countries, such as Barnes and Noble in the United States, and Waterstones in the United Kingdom. Thus, in 2002, Hind and Nadia Wassef as the main shareholders, together with Nihal Schawky, founded the first Diwan branch in Zamalek. They had a passion, a vision and a dream to make Diwan a cultural brand providing a variety of services to the community.

**DIWAN AS A CULTURAL BRAND**

Diwan provides a diverse selection of books in multiple languages including Arabic, English, German and French, in addition to a large collection of music CDs and movie DVDs. As part of their cultural activities, Diwan organizes various workshops in creative writing, art classes, painting and most importantly, regular book signing events which attract a large number of fans from all over the city.

Nadia Wassef explains that the concept of the cultural brand was a product of both market observation and surveys conducted with prominent writers and intellectuals. The founders decided not to limit the store to selling books, but rather convert it into a place where one could live a comprehensive cultural experience. This entailed taking care of minute details such as the atmosphere, the interior design, the service and the diversity of their product and service offering.

**THE CHALLENGE OF STARTING DIWAN**

As they say, beginnings are never easy. Nadia describes the early days as both tough and fun at the same time. She says, “We worked incredibly hard, we fought and we laughed, and it was all so worth it. Shares didn’t matter for us.” She states that their major hurdle was the absence of a blueprint. There was no precedent they could refer to. Therefore, they had to come up with an entire brand identity from scratch. Another critical problem they faced was staffing the store. They needed young people with good customer service skills in addition to being knowledgeable, well-read and tech savvy.

One unexpected challenge for the founders was the lag time between the appearance of books, music albums and films in their home market and their actual delivery to Diwan stores in Cairo. Apart from the time it took to place the order and ship publications to Egypt, getting clearance from customs and censorship offices proved difficult. Therefore, to meet customer demands, a controlled and planned method of dealing with suppliers and governmental agencies was necessary. The good news is that day by day experience alleviates such obstacles and administrating such logistics becomes much easier.

**THE EGYPTIAN MARKET**

For many entrepreneurs Egypt represents an ideal market as compared to other countries in the region.
due to its huge population size. According to Noha Barakat, the current CEO of Diwan, there is a large number of readers in Egypt. She considers the Egyptian book market one of the biggest in the Middle East. She says: “People still read and their reading behavior is diverse. Look how many people go to book fairs in Egypt. The purchasing records are enormous.” Thus, it is logical for Diwan to exist in Egypt.

Indeed, data indicate that Egypt is a promising book market since its large population compensates for the small percentage of its readers. Recent statistical data published by the Northwestern University in Qatar (2015) support this assumption. The numbers show that people who read books in Egypt are approximately 17 percent of the population. In a large population of 95 million (including Egyptians living abroad), this translates to nearly 16 million readers.

**CULTURE, COMMUNITY AND BUSINESS MIXTURE**

Noha believes that interacting with society can take the brand to new horizons. She says “Diwan has to be part of the society’s culture, it is hard to have a business without that.” This means that since Diwan is part of the societal fabric, it must have an integral role in giving back to the community. Diwan with a Cause is a charitable initiative designed for that reason. It helps publishers and authors who wish to donate the revenues of their books to philanthropy.

**DIWAN AND DIGITAL CONVERGENCE**

The term “convergence culture” was first introduced by communications scholar Henry Jenkins (2006). Convergence indicates “the flow of content across multiple media platforms, the cooperation between multiple media industries and the migratory behavior of media audiences who would go almost anywhere in search of the kinds of entertainment experiences they wanted.” Accordingly, convergence is an inevitable fate and books are no exception. Therefore, it is only a matter of time for e-books to dominate the market.

Here, we must ask, are Egyptian readers ready for digital convergence? The answer to this question is multifaceted. First, statistics drawn by Northwestern University in Qatar show that only 1 percent of the population in Egypt uses e-readers. Indeed, that number could provoke skepticism about the future of e-book in Egypt. Noha admits that Diwan’s e-book project was not very successful. She says “I think we were a little bit early, and maybe people [in Egypt] are not ready to use tablets or e-readers to read books.”

On the other hand, it may be too premature to reach a conclusive decision about the future of e-books in Egypt. This is because internet users in Egypt are tremendously increasing by the day. The latest statistics by the Ministry of Communication and Information Technology show that internet users in Egypt reached 49.4 million. This significant number indicates a promising digital market in Egypt. The delay of adopting e-books could be due to individual reading habits which might change over time. Thus, the coming years might witness an inevitable convergence from print to digital books.

**DIWAN AND FUTURE GENERATIONS**

Since children are Diwan’s potential future customers, Nadia says that it is important to build a strong relationship with them. The motto of Diwan Kids says: “If play is a child’s work, then toys, games and books are the tools.” In each Diwan store, an area is specially dedicated to children’s books, products and activities. Storytelling events are commonplace in all Diwan stores. Moreover, Diwan conducts outreach activities in Egyptian schools through book fairs and exhibits. Thus, Diwan further reinforces the relationship between children and their books. When this relationship is stronger in the early years, children become increasingly attached to these great tools of learning which contribute to their long-term benefit. Thus, children are always a primary segment of Diwan’s customers.
MARKET COMPETITION AND FUTURE DIRECTIONS

A few years after its creation, Diwan witnessed a great expansion in terms of the number of branches. However, after the uprising of January 25, 2011, due to changes in the nature of the book market, it became difficult to maintain that expansion. Noha explains that sales figures demonstrated that certain branches were not performing well. Therefore, they had to make some hard choices and close underperforming branches. Although this affects the overall brand image, Noha says: “In the end we have a business to run.” Currently Diwan is resolute about preserving its brand identity. It is carefully planning its future expansion in such a way as to distinguish itself from competitors.

Unlike fourteen years ago when Diwan was taking its first steps, now competition in the Egyptian book market has increased exponentially. Therefore, it is critical to determine Diwan’s core competency. Despite the brutal competition, Diwan is still a unique bookstore. It is hard to find other bookstores that match Diwan’s provision of foreign books as well as the diversity of book genres. While some bookstores focus on bestselling titles or retailing their publishing houses’ products, Diwan is the place where you can find books you cannot find elsewhere in Egypt.

For Hind, Nadia and Nihal, the dream has come true. There is such a place in Cairo where you can find what you need to fulfill your personal research. Moreover, Diwan bookstore is a place where you can enjoy a cozy atmosphere, drink coffee and delve into the world of knowledge. ABR

1) Merriam-Webster online dictionary
2) http://www.sis.gov.eg/En/Templates/Articles/TmpArticles. aspx?ArtID=b41.06629b2c3c
3) http://www.mideastmedia.org/survey/2015/question/key-indicators- of-media-use/offline-media-use.html
5) http://henryjenkins.org/2006/06/welcome_to_convergence_culture. html#sthash.VhxL1G7V.dpuf
7) http://www.mcit.gov.eg/
8) Diwan Business Brochure
Arafa Holding is a leading name in fashion and apparel manufacturing and retail. The company is associated with global fashion giants such as Pal Zileri, Ermenegildo Zegna and Massimo Dutti. Arafa represents 10 percent of Egypt’s garment exports. Its local retail brand, Concrete, is a market leader in luxury menswear in Egypt.

**How did it start?**
The story of Arafa Holding goes back almost a century. Abdel Ma’assoud Arafa established a small fabric retail business in the Nile Delta region in 1907. Eventually, the business grew and moved to Cairo. The capital city provided Arafa with access to a larger and more affluent market as well as greater visibility. However, tides turned in the fifties with the ouster of King Farouk and the consolidation of power under Nasser. Like many of the large businesses of the time, the Arafa family lost control of the company due to nationalization. For the ensuing two decades, they did not have a say in their family’s business.

Fortunately, the years following the 1973 October War saw the family regaining ownership of the business. The enterprise blossomed under Ahmed Arafa’s leadership, aided by the economic liberalization policies embraced by Sadat, including the establishment of a duty free zone in Port Said. In 1977, Arafa founded a retail store in the port city selling fabric and imported garments. However, Arafa set his sight on developing other aspects of the fabric industry value chain. Thus, the Arafa family ventured into fabric manufacturing.

The company expanded into the realm of fabric manufacturing with the establishment of Golden-Tex Wool in 1984. The high-quality wool and wool-blended fabric manufacturing facility became the first in subsequent horizontal and vertical market and value chain expansions. The family delved into the prêt-à-porter or ready-to-wear sector by founding the Swiss Garments Company in 1989. By acquiring a local smart casual menswear retailer, Concrete, the Arafa family had completed their vertical integration. The company controlled all three levels of the apparel industry supply chain: Textile manufacturing, apparel and tailoring, and retail.

**New Millennium, International Markets**
Under the leadership of Alaa Arafa, the son of Ahmed Arafa, two major changes took place in the family business. In 2004, the company began its international expansion with the acquisition of stakes in the UK-based Baird Group. Currently, Arafa Holding controls 98.5 percent of stakes in one of Britain’s largest menswear wholesalers. In fact, Baird Group accounts for 14 percent of the market share in the UK men’s suits sector. Another substantial acquisition took place in 2008 with Arafa Holding buying 35 percent shares in Italy’s Forall Group which owns such luxury brands as Pal Zileri.

Concurrent with international expansions, Alaa Arafa took the critical decision of going public in 2006. Today, the family owns 60 percent of the company with minimal involvement in executive decisions. Alaa Arafa is the Chairman and Chief Executive Officer (CEO) of the holding company. He is the only family member who is involved in the business. Other family members are represented on the board.
of directors; however, their positions are non-executive. The business is fully institutionalized with a strict governance model.

**GOING PUBLIC**

According to Mohamed T. Khalifa, Chief Investment Officer of Al Arafa for Investments and Consultancies, the decision to float the company came from a desire to achieve sustainability. It was a means for the company to exist beyond the family and independent of it. “The only way to achieve sustainability is either to be sold to an institution or become one,” says Khalifa. Arafa chose to do the latter. In this case, the goal was not only the survival of the holding company but also the endurance of subsidiaries.

The aim of creating a good governance model for family businesses is to cease being dependent on one person or a limited group of individuals. As individuals become replaceable, companies get more sustainable. The governance model implemented by the company ensures that subsidiaries can exist independent of the holding company. The board of directors is made up of one local and one international independent expert, two executives from local subsidiaries and two representatives of the family in addition to the Chairman/CEO.

While their strategies are coordinated with and aligned to that of the holding company, subsidiaries have their own vision, management and short-term plans. The holding company follows up the work of subsidiaries through monthly performance reports. An additional level of reporting is achieved by having the executives of some subsidiaries serve as board members of the holding company. The only executive board member is the Chairman and CEO of Arafa Holding, Alaa Arafa. All other board members, as mentioned, are non-executive, although they may be holding executive roles on the subsidiaries level. This ensures good communication while dissuading involvement of family members in the daily operations of subsidiaries.

Another important aspect of governance, which Khalifa points out, is hiring professional competences. He says: “You need to make sure that the CEOs, executives and board members are coming with independence and a professional track record.” He explains that Arafa Holding is adamant about limiting family involvement in the business as outlined by the company's governance model. Therefore, there are no positions reserved for family members – be they first degree or even third degree relatives.
Arafa Holding has a unique organizational model. It operates in three market segments: Luxury, formal and casual wear. Across these three segments, the company is engaged in retail, tailoring as well as textile manufacturing. The company has extensive experience in the formal wear sector which is fully integrated. GoldenTex, a fabric manufacturing plant located in the Tenth of Ramadan City, exports high quality wool-based fabric to European clients. Additionally, it provides textiles to the garment-making plants within the group such as Swiss Cotton Garments, also located in the Tenth of Ramadan area. The latter, in turn, produces formal wear which is distributed through the company’s UK subsidiary, Baird Group.

The casualwear sector's apparel and tailoring section, Swiss Cotton Garments and Cristall use outsourced cotton-based fabrics manufactured in Asia and Turkey. Through their plants located in the Beni Sweif Industrial Complex, they produce affordable men's casualwear. Cristall, the shirt making factory is a joint venture with an Italian company. Garments produced through these two factories are exported to Europe and the United States where they are sold through retailers such as Banana Republic and JC Penny.

High quality fabric for luxury garments is outsourced via high end Italian manufacturers. Garment production is undertaken at the Egyptian Fashion Garments facility in the Tenth of Ramadan City. Skilled Egyptian workers produce suits, trousers, coats and waistcoats under the direction of Italian experts. Camegit, another joint venture with Ermenegildo Zegna, produces high-quality shirts in Beni Sweif. On the international luxury retail side, Pal Zileri, Ermenegildo Zegna and Massimo Dutti are part of Arafa’s global distribution networks in addition to Concrete, their local retailer.

Concrete operates a large network of 47 stores around Egypt, meanwhile, discount Brands for Less stores have 10 branches. The formal wear retailer Baird group distributes Egyptian-manufactured luxury garments through its retail stores, concessions and wholesale networks in Britain. Its retail stores include Jeff Banks, Suit Direct and Racing Green. Baird Group is a retail concessionaire for leading UK department stores such as Debenhams and House of Fraser. It also includes an exclusive network of brands including Ben Sherman and Pierre Cardin.

By taking a horizontal look at the company’s organizational structure it becomes evident that the garment manufacturing platform is mainly based in Egypt. Conversely, retailers are spread out internationally through Pal Zileri’s network and Baird Group’s partners and brands, in addition to Concrete in Egypt. “You cannot run such a model without proper governance,” says Khalifa, adding “there is no single person who can ensure that all companies are working aligned.”
STAFFING

Overall, Arafa employs more than 13,000 individuals. The head count in each facility depends on operations. The subsidiaries, especially the manufacturing facilities, employ thousands of highly skilled workers and a few executives with technical and managerial skills. For example, the Swiss Garmets Company employs 4,000 skilled workers and Egyptian Fashion Garments employs 3,600. Italian experts provide training regularly and oversee production in these facilities.

On the other hand, only a handful of specialized individuals are employed by the holding company. The CEO of one of the local subsidiaries has many years of experience working for a multinational company, the CEO of one of the international subsidiaries has long experience in the garment business in the UK and also in Italy. Khalifa as Chief Investment Officer has worked in the field of investment banking and private equity. Therefore, by providing the opportunity for independent parties to step in, Khalifa says families have a better chance in sustaining businesses generation after generation.

COMPETITION

Competition for Arafa Holding is complex due to the very nature of the company. The business runs three operations in three market segments across the globe, each with a different set of competitors. Competition for some subsidiaries may be highly aggressive, depending on their respective markets. For instance, Baird Group boasts 15 percent of the UK suits market. This is a substantial achievement for such a mature market. Khalifa explains that the company has been steadily gaining market share from competitors like Next and Marks & Spencer during the past three years.

The introduction of international brands such as Zara and Massimo Dutti has boosted competition in the Egyptian market. Despite the additional competitors, Concrete remains in the lead with 20 percent market share in the formal sector. Alternatively, GoldenTex faces competition from Turkish and Chinese fabric manufacturers. Arafa Holding avoids getting into the fierce low price competition. Instead of seeking low prices as a competitive advantage, the company is developing its expertise and know-how to provide high-quality products. “We decide who we are competing with,” says Khalifa. Therefore, shareholders and executives do not hesitate jeopardizing quick wins for the sake of investing in people and facilities.

IS GARMENT MANUFACTURING THE ANSWER FOR EGYPT’S ECONOMY?

Egypt has a huge population, says Khalifa, which makes it a good host for labor-intensive industries such as garment and apparel manufacturing. These industries create jobs at low investment and bring in much-needed foreign currency. Garment manufacturing also has the added benefit of creating job opportunities for women workers. Khalifa explains that this model has worked across the globe for many countries with similar demographics and predicaments – such as India, Vietnam, China, Cambodia and Turkey.

Egypt has many of the prerequisites for such industries apart from its demographics, namely, its central location and free-trade agreements with the US, Eurozone, and Gulf countries. Khalifa says “Egypt has all that it takes to become the backyard hub for [garment and apparel] manufacturing with the aim of exporting to Europe.” It must be noted that Arafa Holding is working towards acquiring knowledge and technical skills rather than going into price battles. Thus, making Egyptian factories viable alternatives for made in EU production.

In the near future, Arafa Holding sees itself going into new ventures with international partners to bring know-how to Egyptian workers. At the same time, the company will maintain its exposure to foreign markets through more acquisitions in the UK and Italy. The latter provides the company with access to international networks of fashion experts, suppliers, architects and designers. In a nutshell, Arafa will continue developing its core strategies through refining its manufacturing facilities and workforce in Egypt, introducing new concepts to Concrete stores as well as maintaining and expanding its international presence. ABR
Thoughts on peer and researched-based learning, structured programs and online delivery
Depending on how you are counting, the family business field, now typically called the family enterprise field, is 30 years old – still relatively young. It is also a field that has experimented with a variety of educational and pedagogical approaches to creating and disseminating knowledge. This article will categorize and comment on some of the main approaches used and offer some opinions on what the future holds.

PEER LEARNING

When the family business field began to differentiate itself from entrepreneurship in the early to mid ‘80s, there was really no choice but peer learning as a forum for exchanging ideas and creating knowledge. This was true in the advisory as well as the family enterprise community.

The first conference of the Family Firm Institute (FFI) was held in 1988. It featured individuals well known in the field, including John Ward, John Davis and Ivan Lansberg. The conference addressed topics such as succession planning and cross-disciplinary education – both of which are still on the educational agendas of many family business organizations.

In a parallel world, the Family Business Network (FBN), created by some of the same people who founded FFI, held its first conference in 1989. The speakers and topics featured were more or less the same as in the 1988 FFI conference. Thirty years later, both of these organizations and many others continue to use the peer learning pedagogical approach on various occasions.

RESEARCH-BASED LEARNING

When FFI was founded in 1986, one of its first goals was to initiate academic research for the field. This goal was accomplished by finding a first rate publisher (Jossey-Bass) and establishing the Family Business Review (FBR). Today, research in family business abounds with several journals completely devoted to the topic, in addition to journals from other fields regularly featuring special issues on family enterprises.

This approach has enabled advisors, consultants, family business members and academics to move beyond peer learning. It has allowed them to embrace a variety of conceptual models and analyze broad-based, cross-cultural data to better understand the family business phenomenon and its impact on the world’s economies.

Ironically, in the early days when research into family business was being formalized, researchers were often dispersed in diverse academic disciplines as far-off as agricultural schools. Today, they are part of the mainstream in many management and business schools. Since the 1990s, more than 150 university-based programs have been established for family enterprise members around the world. Interestingly enough, however, these programs are more organized around peer learning than they are rooted in academic research.

STRUCTURED PROGRAMS

Despite the plethora of studies and the increase in the number of individuals who can provide peer learning or expert opinion, there are almost no structured programs on family enterprise in business schools around the world. In fact, it is possible to graduate from most business schools without being required to take a single course in family business – albeit research studies show that family enterprise is the dominant form of business worldwide. Notable exceptions are the few schools which
have inaugurated a global Master of Business Administration in family business, such as Kennesaw State University in the United States, and Ecole des Hautes Etudes Commerciales du Nord (EDHEC) Business School in France.

The same situation exists in the family enterprise programs and forums established in extension schools or continuing education programs of universities and colleges. Typically these programs host a variety of events, lectures or seminars annually, some of which might be repeated in subsequent years, but for the most part, these educational sessions do not constitute an organized curriculum.

On the other hand, the situation with advisors is somewhat different. In 2000, FFI inaugurated the first structured program leading to a certificate in family business advising. In 2006 this was followed by a structured set of courses in family wealth advising. Advanced certificates were offered in both courses in 2012. Accompanying the certificate program was the conveying of “letters” to recognize successful completion of the requirements. Individuals who have completed advanced certificates and who have been FFI members for 10 years, written for FBR or the new publication, The Practitioner, are eligible for Fellow Status in FFI.

**ONLINE DELIVERY**

If research has taught us anything about the world of family business, it is that the phenomenon is global. Those who own, run and inherit family companies live, work and are educated around the world. Therefore, any educational program that is not globally based will encounter difficulties which will be aggravated in the advisor community.

Given the size of the market and the need for structured learning in the field, the FFI board of directors decided to take its educational programs online by creating the FFI Global Edu-
cation Network (GEN) in 2012. This decision was in line with its core values of creating and disseminating interdisciplinary education on a global basis.

After several years of offering its structured programs in cities across the United States, Europe and Latin America, the FFI board realized that the next generation of advisors was more technologically proficient. They possessed more fluent and flexible communication skills and learning styles compared to the generation of advisors who created FFI. The new generation was also more at ease in operating cross-culturally.

Since the launch of the online program in 2012 more than 700 students from over 20 countries have completed the basic and advanced courses offered by FFI. This feat could never have been accomplished if the site-specific model had been maintained. Technical sophistication, global awareness and shorthand communication styles are optimal characteristics for online learning. FFI’s GEN program couples the required course work, which is asynchronous, with first-rate synchronous learning led by experienced faculty members.

**FUTURE OUTLOOK**

So where do we stand and what is the best way forward pedagogically? The answers are several:

Peer learning will undoubtedly continue in all three areas: Family enterprise member education, academic research and continuing professional education for advisors. While often a good thing, peer learning has its limitations and can lead to what is, at best, conversational wisdom being internalized and acted upon without having been duly vetted by others in the field.

Research-based learning which was predominantly conceptual 30 years ago has focused on narrow pieces of data from discrete fields that miss the complexities of family enterprise dynamics. New models for understanding family business phenomena and for evaluating the work of advisors need to be created. Conventional wisdom protocols developed by peer learning, such as the family council, need to be studied and critiqued.

Structured programs should be established, particularly within business schools, so that students cannot graduate without broad-based exposure to the phenomenon of the multi-generational family company. Right now the situation is a bit like having a degree in music and never having heard of Bach or Beethoven. Similarly for family enterprise consultants and advisors, continuing professional education, whether created by a university or a professional association, needs to take into account 30 years worth of research and practice so that there are more certificates with increasingly higher standards.

Far beyond the field of family business, online educational programs are the wave of the future for a global society. It is a mistake to think of these programs as a replacement for traditional education programs or a variation on a theme. Advisors, academics and family business members alike would do well to embrace this pedagogy. To the extent possible, they must jump start the learning, promote the discussions, improve the critique and enhance the future of a true change agent in the years (months, more likely) ahead. ABR

---

**FOR FAMILY ENTERPRISE CONSULTANTS AND ADVISORS, CONTINUING PROFESSIONAL EDUCATION, WHETHER CREATED BY A UNIVERSITY OR A PROFESSIONAL ASSOCIATION, NEEDS TO TAKE INTO ACCOUNT 30 YEARS WORTH OF RESEARCH AND PRACTICE SO THAT THERE ARE MORE CERTIFICATES WITH INCREASINGLY HIGHER STANDARDS.**
nesses win when considering a range of measures such as R&D spending efficiency, ability to focus on core activities and dealing more smoothly with business cycles. On the other hand, the report notes that while co-investing with founders, meaning first-generation owners, provides very good return on investment, outperformance decreases over subsequent generations.

**SPOTLIGHT ON THE MIDDLE EAST**

In the United States, family businesses account for 90 percent of companies, contribute to 57 percent of the GDP and are responsible for 66 percent of employment. Figures are even higher in the Middle East, with 90 percent of companies being family businesses, contributing to 80 percent of the GDP and 70 percent of employment. Therefore, family businesses are more significant contributors to the economy in our region. The question then is; do they also outperform their publicly-listed peers?
A few years ago A.T. Kearney published the GCC Family Conglomerate Index and compared it to Bloomberg’s GCC 200 Index to try and figure out if family businesses were indeed better performers. The results were not as promising as the Credit Suisse global report, showing family businesses struggling in the region. However, these findings need to be taken with a grain of salt due to the limited availability of data in our region. In the end, the question remains. What drives family business to success?

WHAT IS IT THAT SETS GREAT BUSINESSES APART?

At the core, a great family business also needs to be a great business. There is no way around this. If we are privy to a company’s financial and operational information we can determine, with some accuracy, whether it has the makings of a great business. Analyzing the following four factors can ensure the viability of a business and its potential success. If your answer is yes, rest assured, you have a great family business.

1. STRATEGY:

Can company management simply express their corporate strategy? A company’s strategy does not need to be simple. On the contrary, the underlying concepts will most likely be highly sophisticated. As Jack Welch, the legendary former CEO of General Electric (GE) once said: “Strategy was not a lengthy action plan. It was the evolution of a central idea through continually changing circumstances.” GE’s strategy was fairly simple: “First or second in every market or we are out.” However, it emphasized the company’s strive to assume leadership in markets it was serving, or else it would exit the competition.

Many ingredients make for a great strategy. A focus on winning markets, addressing clear customer needs through product or service offerings and building on established core competencies are among them. Other factors include clear decisions on what to do and what to avoid, in addition to having a unique means of managing the business that makes life very difficult for competition.

2. PEOPLE:

Would you enthusiastically rehire every person in the company? While the question may be somewhat provocative, it illustrates the health of a company’s core asset, its people. There are three sub-categories that need to be addressed before attempting to answer this question:

a. The company culture, including its values, purpose and long-term vision, needs to be top priority for every person in the organization. These values must dictate the everyday decisions of employees. The real test for the company is if management is willing to lose money or fire an – otherwise well-performing – offender against these values.

b. The strengths of the company’s leaders, the CEO and top management, must be assessed individually and collectively. It must be ensured that accountability is shared and each stakeholder carries a well-defined and appropriate part of the overall load?

c. The company’s ability to recruit, develop and retain top talent must be scrutinized. Top firms are talent magnets while weaker companies fail to attract and retain the very best. This, in turn, deprives underperforming firms from a fundamental differentiator between top companies and mediocre companies.

3. EXECUTION:

Is the company able to execute its strategy as planned and promised? The ability to execute well is the ultimate test for any company. Without it, the best strategies and the most capable people remain ineffective.

FAMILY BUSINESSES WIN WHEN CONSIDERING A RANGE OF MEASURES SUCH AS R&D SPENDING EFFICIENCY, ABILITY TO FOCUS ON CORE ACTIVITIES AND DEALING MORE SMOOTHLY WITH BUSINESS CYCLES.
Weak managers have a predisposition to grand promises and creative excuses. On the other hand, reliable organizations walk the talk and can deliver consistently. They are clear on their long-term and immediate plans and priorities. They monitor their progress regularly via well-selected metrics.

4. CASH:
Is the company able to generate cash internally to fuel its growth? Healthy firms should be able to self-finance. They should only rely on outside financing in very limited situations, for instance in case of a significant investment or acquisition. With this in mind, it must be noted that growth usually sucks cash resources from the company. Therefore, it is important for management to make available necessary funds for business operations and working capital while keeping smaller investments aside for future growth. A thorough understanding of the company’s cash conversion cycle, innovative cash preservation and generation methods, as well as prudent management of reserves are three important enablers of good financial management.

WHAT MAKES A GREAT FAMILY BUSINESS?
It is not without reason that well-run family businesses outperform their peers. Is it not true that every business attempts to instill a sense of ownership in its stakeholders, whether top managers or foot soldiers? Advantages include a long-term outlook coupled with a commitment to the business, its reputation and legacy. The sense of trust suppliers, financiers and recruits have in the family name as well as the consistency in decision making keep the ship steady.

On the other hand, there are reasons why some family firms cannot leverage these strengths and why superior performance often decreases with successive handovers from generation to generation. It is common to find these shortcomings within the family and not within the business. As families grow and the number of stakeholders increases, this issue becomes even more prominent.

To address this concern, it is essential to manage the business less like a family and the family more like a business. This includes:

1. Setting a family constitution which regulates the relationship between family members and the business. The constitution defines the roles of members, their family values and how they translate into business values. It also outlines the company’s governance model and the mechanisms which ensure familial cohesion and productive relationships within and beyond the enterprise.

2. Regulating and channeling the input of family members in business affairs either through a family advisory board or directly at the board level of the firm. These mechanisms must be made clear to non-family management, so they know what to expect and can work accordingly.

3. Outlining a shareholder agreement between owning family members which specifies, for example, how shares will be valued in the absence of a public market price or sold to outsiders.

4. Establishing merit-based recruitment and career progression policies. If not entirely merit-based, an explicit policy must regulate the employment of family members within the business.

By reviewing the largest and most successful family-owned companies in the world, we come across many familiar names which we may have assumed to be publicly traded companies. However, these companies retain qualities that only family businesses can have and that stakeholders can attest to. Therefore, it would be safe to conclude that top family businesses manage to get the best of both worlds. They combine the efficiency of corporations with the deep seated strengths of their owner families, finely calibrated by sound governance and effective management approaches. ABR


2) GCC Family Conglomerate Index, A.T. Kearney, 2008 https://www.atkearney.com/documents/10190/4313236/GCC_Family_Businesses.pdf/2193d1ebc-3bc6-47b9-b037-0ac75782df6c
AABS Connect Annual Conference 2017

May 14 - 16, 2017

AUC’s School of Business

For more Information:
Office of Internationalization and Partnerships
Tel.: 02-2615-3320
email: int.office@aucegypt.edu

Event Link: http://www.aabschools.com/events/detail/62.html
GOVERNANCE, SUCCESSION AND THE NEXT GENERATIONS

The importance of planning and effective communication

By Khaled Noseir

Succession and integrating the next generations into the business are among the toughest and most critical challenges facing family firms. Even the most well-intentioned and talented business owners can fail at succession if the family, ownership and business systems have not been sufficiently prepared for transition. Too often family business leaders adopt the approach of doing nothing and hoping that the problem will solve itself. Rarely will this happen. Every decision, including inaction has a consequence.

Let’s take the following case study as an example. Two siblings build a highly successful business from scratch. They own and manage the business; dividing the roles of Chief Executive Officer (CEO) and Chief Operating Officer (COO) between them. Each sibling has one child who joins the business full-time after receiving a university education. The founders are pleased that the younger generation is interested in the company. They secretly hope that in due time, each child would automatically step into their parent’s position. Suddenly, the older generation becomes incapacitated or falls ill, leaving the business completely in the children’s hands. Unfortunately, the children cannot work well together. Furthermore, they keep fighting over the position of CEO.

This story is not uncommon. While the majority of family business owners would like to see their firms transferred to the next generation, only very few actually survive. The Family Firm Institute (FFI) reports that only 30 percent of firms survive into the second generation while less than 10 percent make it to the third. So what makes family businesses struggle with the transition process?

In the case study presented earlier, the founders of the business failed to communicate their future aspirations to the next generation. They assumed that each child would undertake the parent’s role in the company. Thus, they did not foresee that the young generation’s vision may be different. Moreover, they did not take due precautions against emergency, illness or untimely demise.

Had the family communicated clearly their expectations of potential successors well before it was too late, the business could have survived. Therefore, an important factor boosting the survival of family businesses is governance. Family governance involves structures, processes and tools which are put in place by family members. These factors allow family members to engage in regular and meaningful conversations as well as make decisions with short and long-term orientations.

The unique characteristic of family business is, in reality, the family component. However, it is also a source of trouble if left unmanaged. In worst cases, these challenges may be responsible for complete business failures. Governance structures keep the family component in check through family communications, management processes, leadership succession strategies, and dispute resolution procedures. By implementing the right governance structures, these businesses can fully integrate family members in informed decision-making and raise comfort levels.

THE THREE CIRCLE MODEL OF FAMILY BUSINESS

The Three Circle Model \(^{(1)}\) illustrates how each of the integral components of a family business interacts with the other. The three circles are: family, ownership and management. The model demonstrates how all
three realms meet in the center, indicating that at a certain stage family, ownership and management are all mixed together. This also indicates that succession in family business is two-pronged. Succession planning involves setting procedures for not only management succession but also ownership.

**IMPACT OF THE FAMILY COMPONENT ON THE BUSINESS**

The Three Circle Model provides an apt visualization of the interaction and intersection between family, ownership and business. Section (1) represents the family members only. An owner who is not a family member is represented by section (6) while section (5) represents a non-family member employed in the business. The three intersections represent: family members working in the business (2), family members owning but not working in the business (4) and owners who are not part of the family, but work in the business (7). The point of intersection where all three circles meet provides an illustration of the family member who owns and works in the business.

Keeping the Three Circle Model in mind is helpful in paving the road map for success. Succession calls for the smooth transition of both management and ownership. The two processes can take place simultaneously or successively.

**FAMILY COMMUNICATION**

Involving all family members in strategic planning has several advantages. It ensures that family members are well-informed. It also helps them feel at ease about decisions affecting their individual and collective future in managing and owning the business. The decision-making process must support both the business and the family objectives. Therefore, it is essential to include key non-family managers and other stakeholders in the discussion along with family members. This is done to get a thorough outlook about all aspects of the business.

These discussions are useful in determining the aspirations of family members, whether they are actively or non-actively involved in the business. They gauge the values, beliefs and vision of family members. Moreover, they help in understanding the family’s view on succession as well as outlining the rules with regards to integrating the next generations.

**LEADERSHIP SUCCESSION STRATEGIES**

Upon obtaining a holistic understanding, family business owners can work with outside advisors to nominate the next leader of the company and mentor the future generations. In this phase they would also release the succession plan for the company as well as develop retirement funds for the older generations while outlining the tax implications of the transition.

**SUCCESSFUL OUTCOMES**

Transition is a highly emotional phase for any company. Letting go is no easy task. Taking over the reins can also have its challenges. In reality, some conflict is inevitable. That is why it is also important to have legal documents in place such as shareholder agreements, wills and power of attorney, to guide the resolution of disputes if things break down. Simply put, family members need to clearly understand what the business can do for them and what it expects of them. ABR

---

1 Family Business Succession: Managing the All-Important Family Component, KPMG Enterprise, 2011
AUC School of Business Executive Education launched the GoGlobal Executive Development Program designed for corporate executives, board chairs and members, managing directors and country managers. GoGlobal is orchestrated by international experts who are leading authorities in their areas of specialization.

Considering domestic market limitations and challenges, going global could help organizations and leaders overcome the volatile economy and the increasingly complex business environment. Business leaders need to be able to expand their horizon to consider different ways of doing business; realize factors and values affecting their expansion across borders as well as visualize the financial and economic dynamics that affect such endeavors.

The program is designed as a business forum with the aim to offer senior executives and business owners a valuable opportunity to network, interact and reflect with peers and experts from different industries and fields. It builds on the knowledge and skills of executives and offers them the opportunity to interact using relevant theories, international cases and experiences that will serve as a medium for contemplation and study.

The Goldman Sachs 10,000 Women Program launches new program, curriculum in collaboration with Babson College

The Goldman Sachs 10,000 Women Program launched its sixth year of training in the Arab region end of February 2016 at AUC. The program is adopting a new paradigm; targeting high
growth potential entrepreneurs with a new global curriculum developed in collaboration with Babson College, a world leader in entrepreneurship education, in partnership with 10,000 Women. This new cohort of the program included 40 ambitious women-owned small and medium businesses who will be graduated in June 2016 to join the newly established Goldman Sachs 10,000 Women Program Alumni Association.

**AUC VENTURE LAB AAIB CYCLE 6**
The AUC Venture Lab (V-Lab) wrapped up its sixth cycle with its Demo Day on Wednesday May 11, 2016. As mentors, investors, partners and fellow entrepreneurs assembled in Moatez El-Alfi Hall, nine startups pitched their business ideas on stage highlighting the journey that took them from motivated amateurs to refined business founders by V-Lab.

The AUC Venture Lab focuses on developing its training programs on a per cycle basis to be more dynamic and responsive to the entrepreneurs’ needs. It also focuses on continuously updating its curriculums with the latest concepts and tools. The online application of AUC Venture Lab’s seventh cycle was opened in July and the cycle began in September.

**SCHOOL OF BUSINESS HOSTED THE FIFTH EUROPEAN FOUNDATION FOR MANAGEMENT DEVELOPMENT MENA CONFERENCE: BUSINESS EDUCATION FOR INCLUSIVE ECONOMY**
The School of Business hosted the fifth MENA Conference of The European Foundation for Management Development (EFMD) which took place April 11-13, 2016. The event discussed “Business Education for Inclusive Economy.” Since there is no one-size-fits-all recipe for success when it comes to inclusive growth, the conference addressed how MENA countries have performed on the global landscape and what role can management education play in fostering inclusive growth.

The conference brought together 49 CEOs and Business School deans from 16 different countries across the globe including Morocco, Lebanon, France, Belgium, Germany, Thailand, India, Pakistan, Jordan, Egypt, Portugal, UAE, Kuwait, Canada, United States and Tunisia to deliberate how business education can support an inclusive economy.

**SCHOOL OF BUSINESS HOSTED THE SIXTH PRME-MENA REGIONAL FORUM: ACTION FOR PRME AND SDGS**
PRME (The Principles for Responsible Management Education initiative) serves as a framework for the gradual, systemic change in business schools to inspire and champion responsible management education.

The School of Business hosted The Sixth PRME-MENA Regional Forum during the period of April 13-14, 2016 with the theme of the Forum being Action for PRME and SDGs. The event brought together 25 faculty members from 8 different countries and was designed as a hands-on series of workshops led by international PRME working group members together with MENA PRME members and focused on further embedding sustainability and corporate responsibility into management education.

**EL-KHAZINDAR BUSINESS RESEARCH AND CASE CENTER PUBLISHES ITS NEW CASEBOOK “ENTREPRENEURSHIP IN THE ARAB WORLD – TEN CASE STUDIES”**

In collaboration with AUC Press, El-Khazindar Business Research and Case Center, School of Business, AUC released the new book “Entrepreneurship in the Arab World – Ten Case Studies.”

The collection showcases the experiences of ten intriguing entrepreneurial ventures from emerging markets in the Arab world (Egypt, UAE, Morocco, and Saudi Arabia). These case studies aim at offering an in-depth insight on a variety of localized strategic, managerial, marketing, and innovative approaches and practices, which create unique challenges and opportunities in a region undergoing rapid political, social and economic transformations. The unique case studies address different stages within the exciting entrepreneurial cycle, from start-up to growth, sustainability and international expansion. This casebook is a valuable resource for anyone wanting to know more about launching and sustaining a business within developing Arab economies, as well as being an effective teaching tool for disciplines related to new venture management and entrepreneurship. ABR
would like to thank the Arab African International Bank for its support

Corporate Founding Partner
Local hospitality. World-class catering standards.

At Semiramis InterContinental, we share our local knowledge and outside catering expertise to make your event an impeccable one. Whether it’s a small lunch or an extravagant engagement party, we take care of all details to help you enjoy truly authentic experiences.

Visit intercontinental.com
Call +202 2798 8000

Live the InterContinental life.
The Pharaohs mastered pertinent sciences to precisely align a flux of sunlight to perfectly irradiate king Ramses face twice a year - King's coronation day and birthday - in his chamber located 65 meters from Abu Simbel temple gateway.

Arab African International Bank harnesses the expertise of half a century of corporate services and the synergies of a dynamic financial group to spell distinction in investment services.

AAIB... YOUR INVESTMENT GATEWAY INTO THE REGION

EGYPT | DUBAI | ABU DHABI | BEIRUT

Call 19555 | aaib.com