



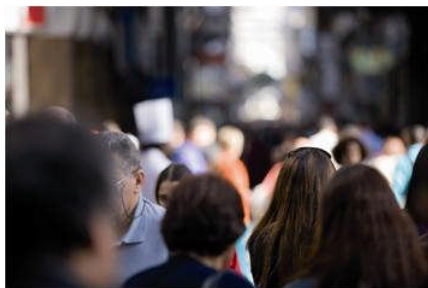
Kin in the game
PwC Family Business Survey
2010/11

Corporate Governance in
Family Owned Businesses
Forum

Dammam, 10 May 2011

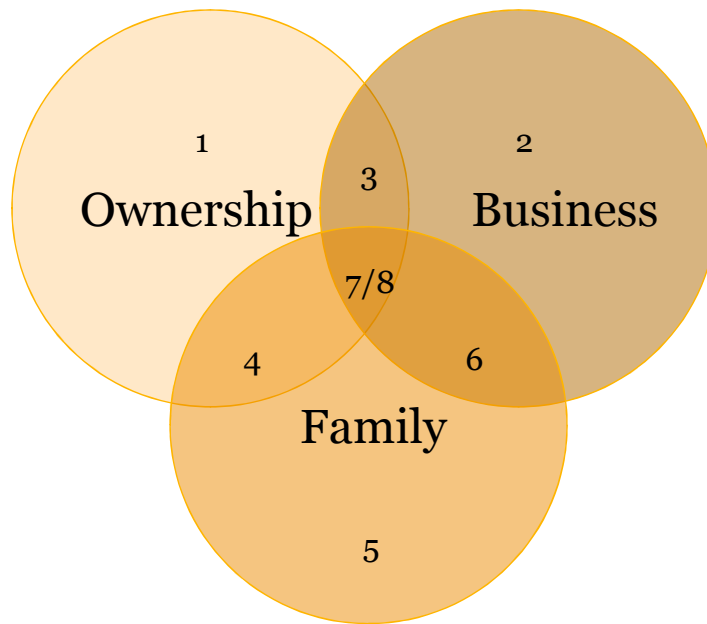
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Family firms are often depicted as a set of three intersecting circles



Key

1. External investors
2. Management and employees
3. Owner managers
4. Inactive or passive owners
5. Family
6. Family employees
7. Working family owners
8. Family, owner and business leader(s)/
“controlling owner”

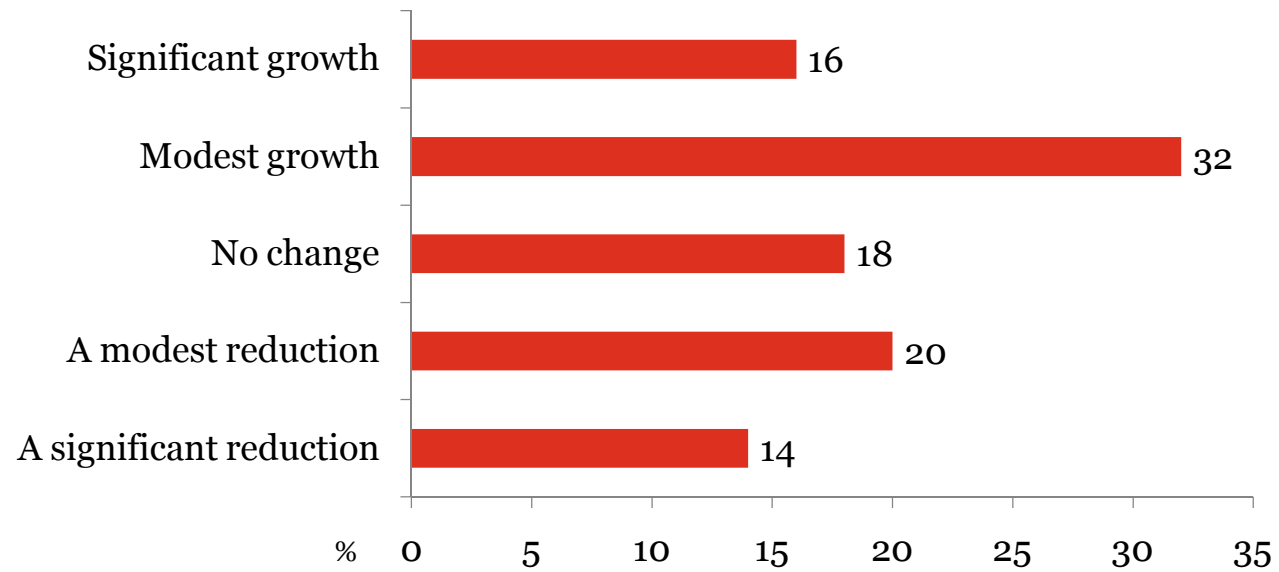
What is a family business?

A family business is an enterprise in which the majority of the votes are held by the person who established or acquired the firm (or by his or her spouse, parents, children or children's direct heirs); at least one representative of the family is involved in the management or administration of the firm; and, where the company is listed, the person who established or acquired the firm (or his or her family) possesses 25% of the voting rights through his or her share capital and at least one family member sits on the board.

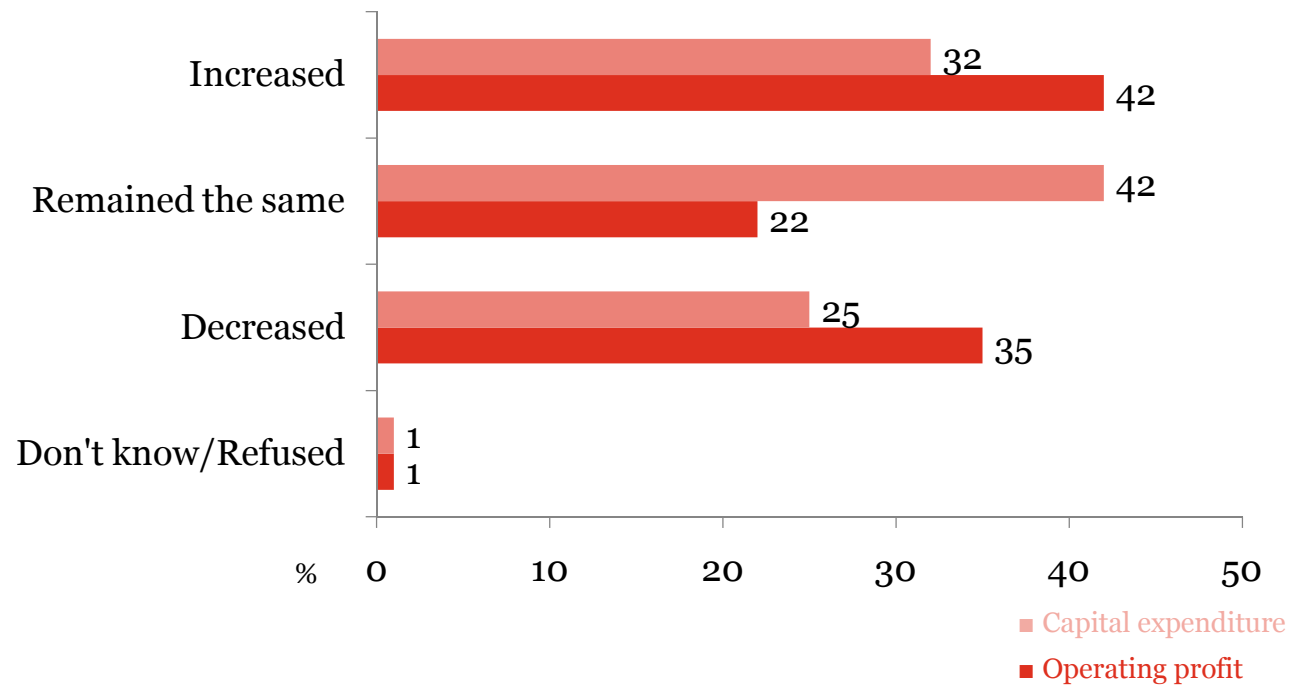
*Fending off challenges and
investing in the future*



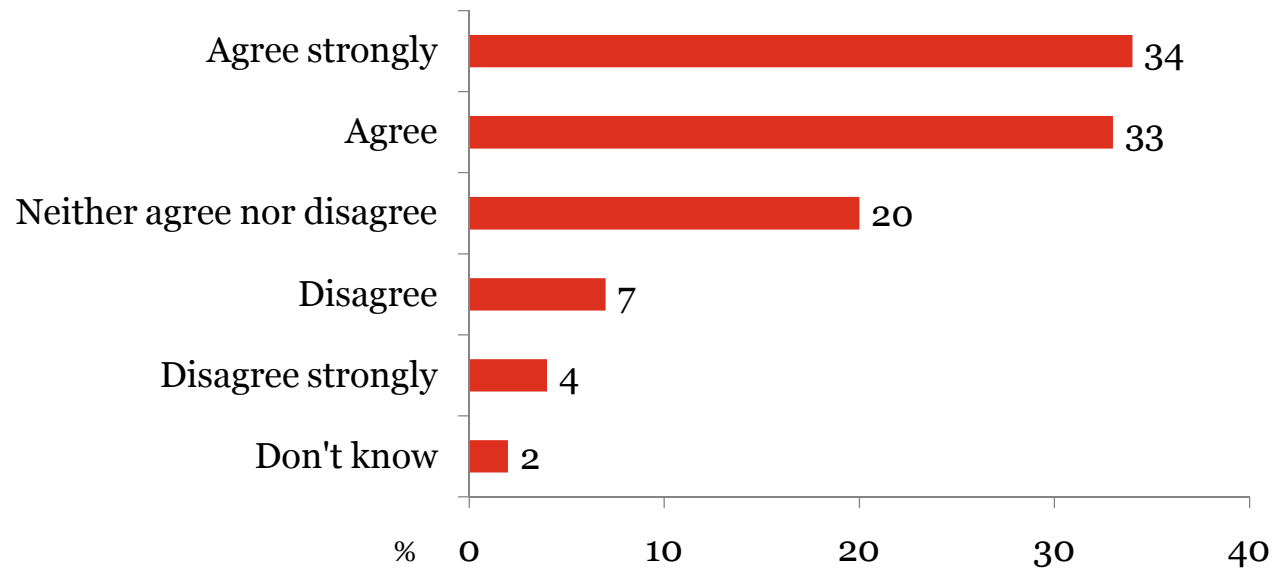
A surprisingly large number of companies have seen demand for their offerings increase during the past 12 months



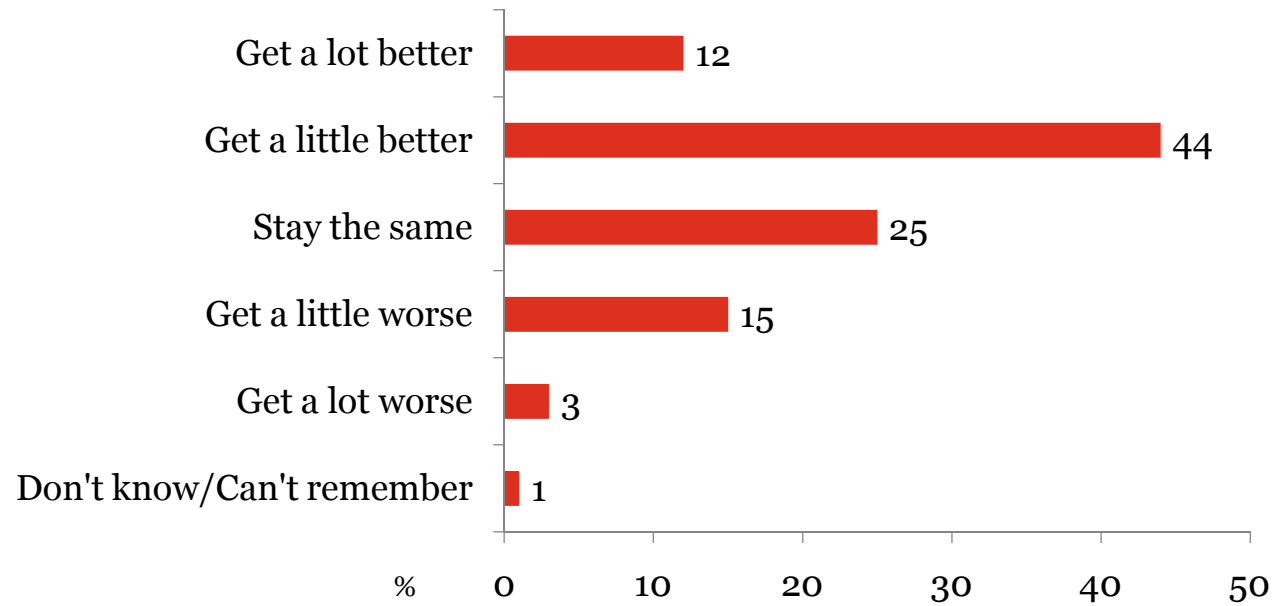
Operating profits and capital expenditure are down from earlier levels



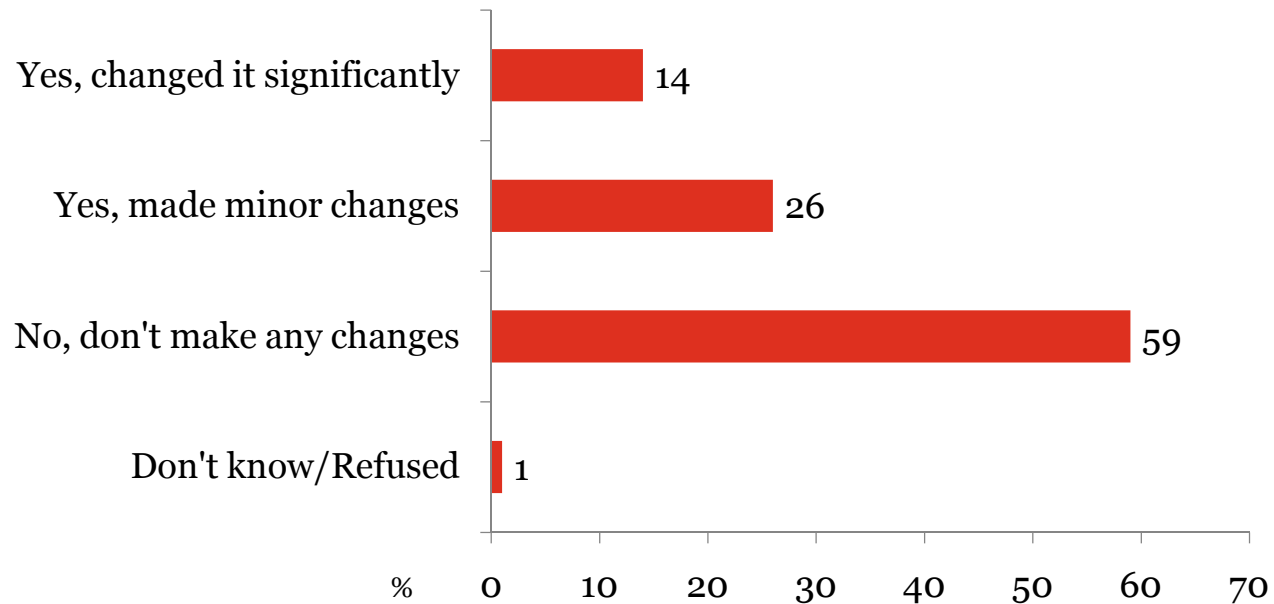
Most executives think being part of a family business has helped them cope with the economic slump



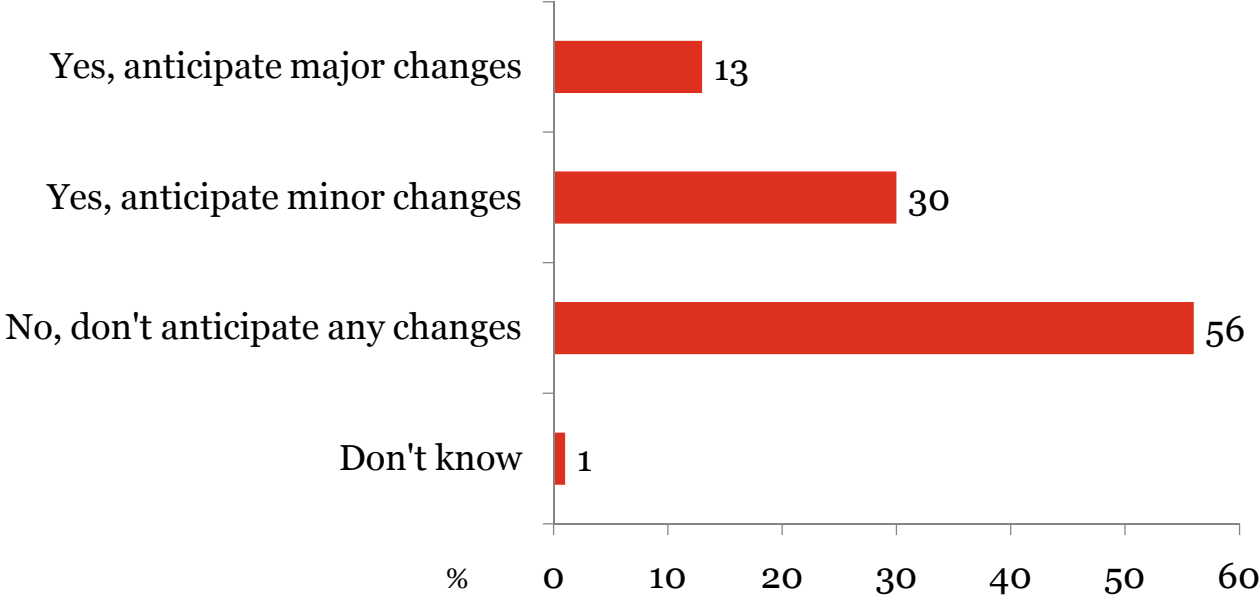
Many people are positive about the immediate outlook



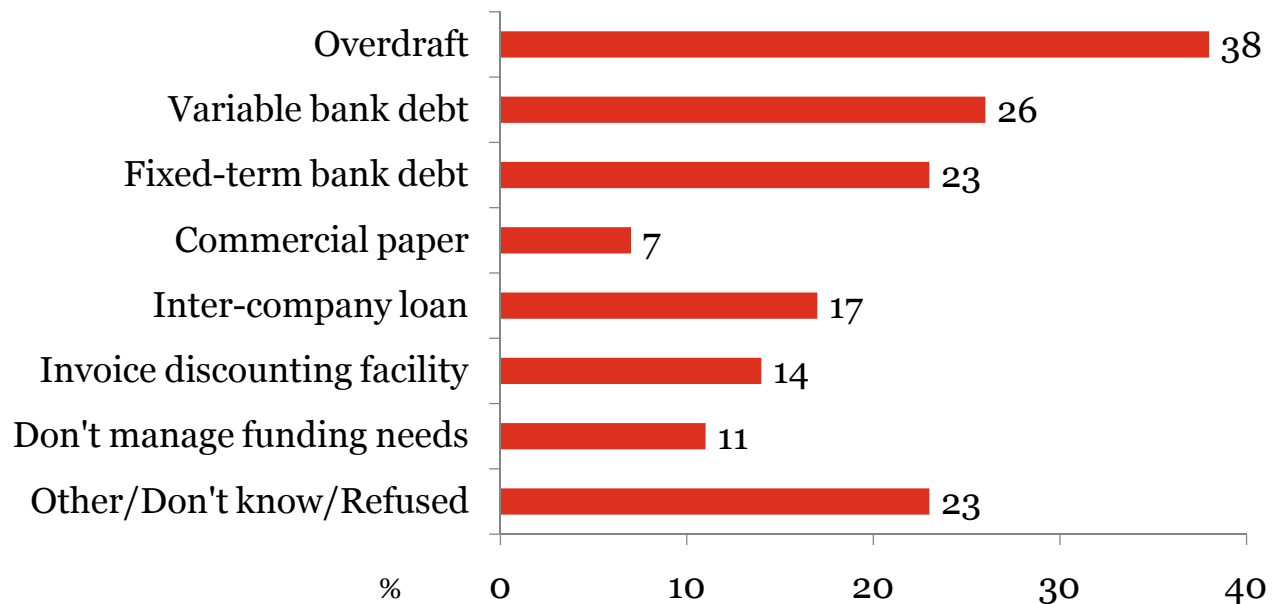
Most companies haven't changed their business models



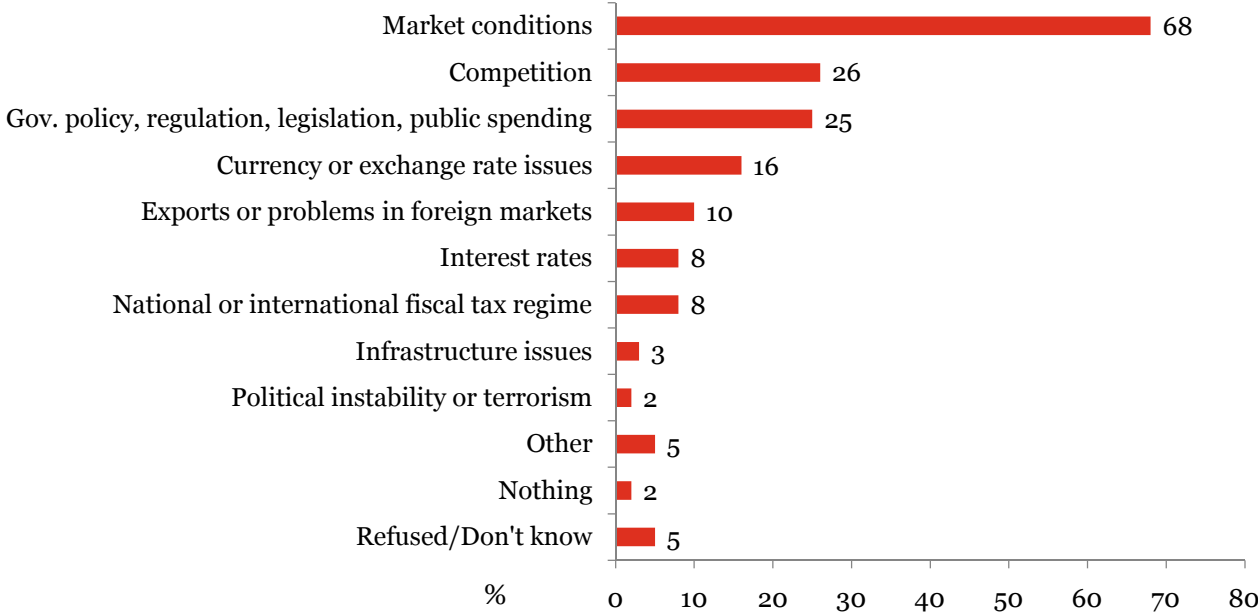
Most executives don't plan to change their business models in the near future



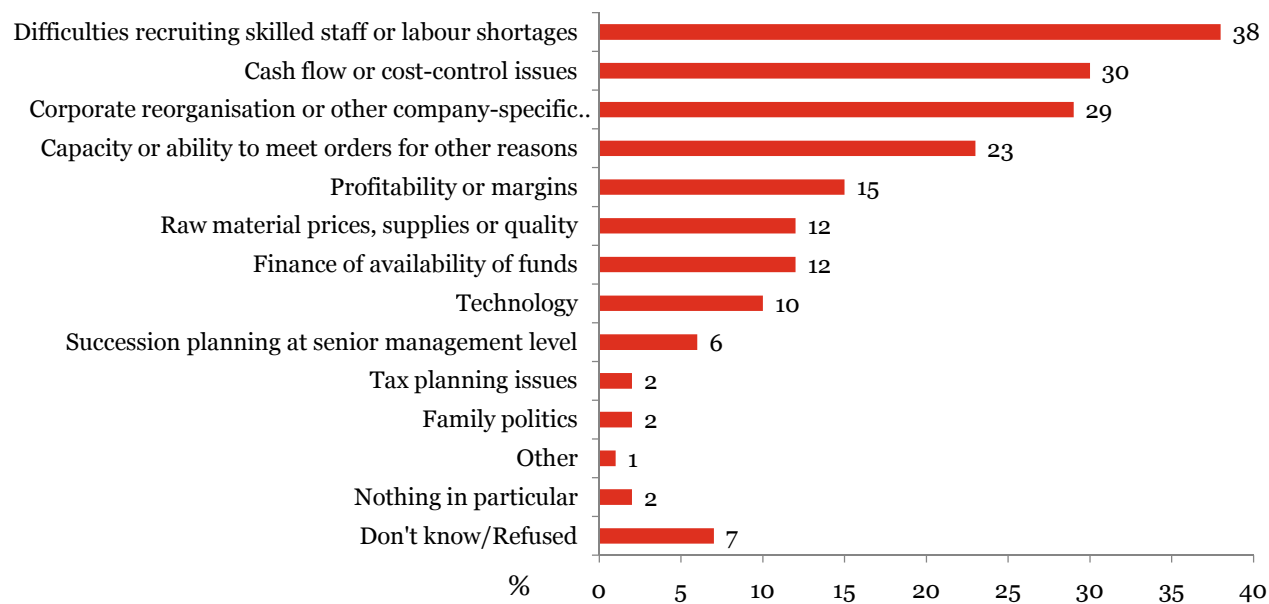
Most companies would have to borrow the money, if they needed additional short-term cash



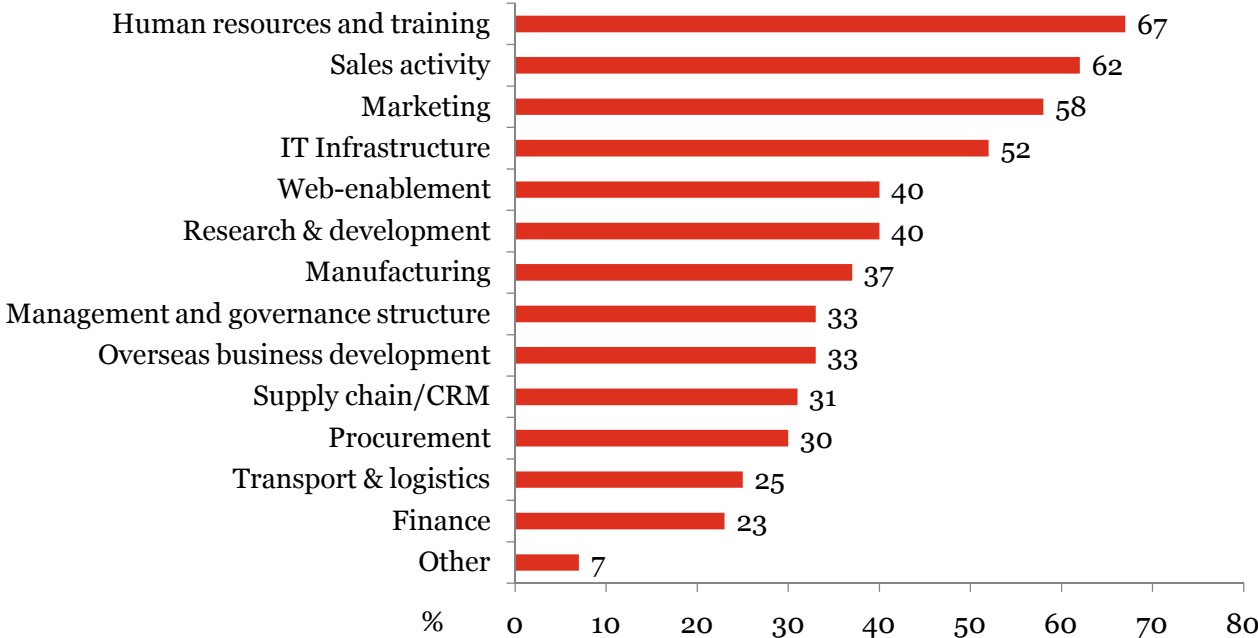
Market conditions, competition and changes in government policy are the biggest external concerns



Labour shortages, cash flow management and corporate restructuring are the main internal challenges



Human resources, sales and marketing head the investment agenda



The challenges differ in the mature and emerging markets

<i>Key external challenges</i>		<i>Key internal challenges</i>	
<i>Mature markets</i>	<i>Emerging markets</i>	<i>Mature markets</i>	<i>Emerging markets</i>
Market conditions (67%)	Market conditions (69%)	Labour issues (34%)	Labour issues (54%)
Competition (26%)	Government policy (31%)	Cost control & cash flows (32%)	Company reorganisation (29%)
Government policy (24%)	Competition (27%)	Company reorganisation (29%)	Cost control & cash flows (21%)

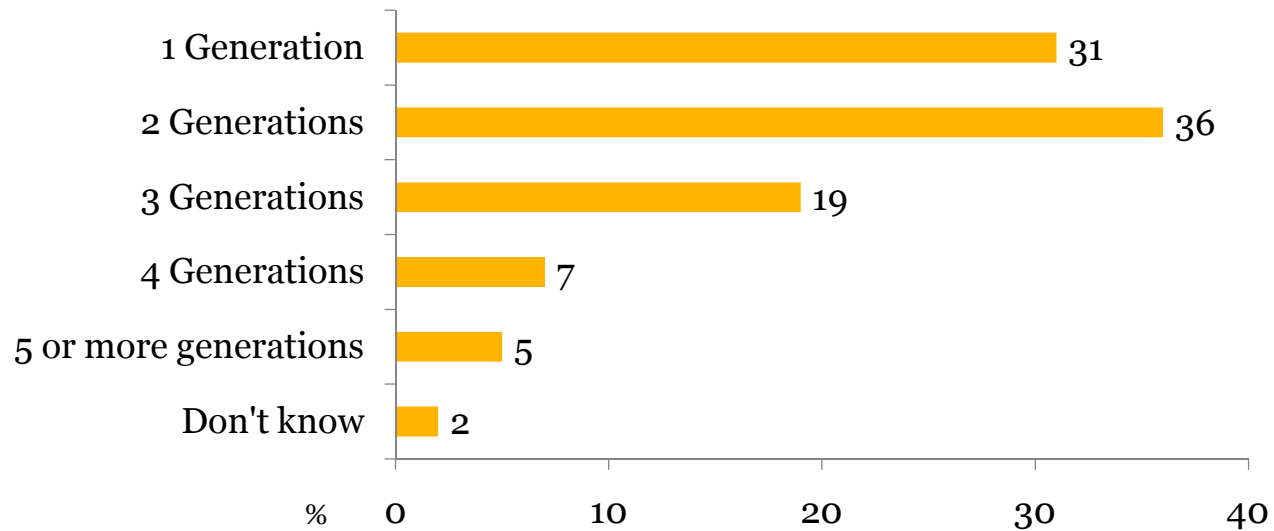
People's investment priorities differ, too

<i>Mature markets</i>	<i>Emerging markets</i>
Human resources/training (64%)	Human resources/training (81%)
Sales activity (61%)	Marketing (67%)
Marketing (56%)	Sales activity (66%)

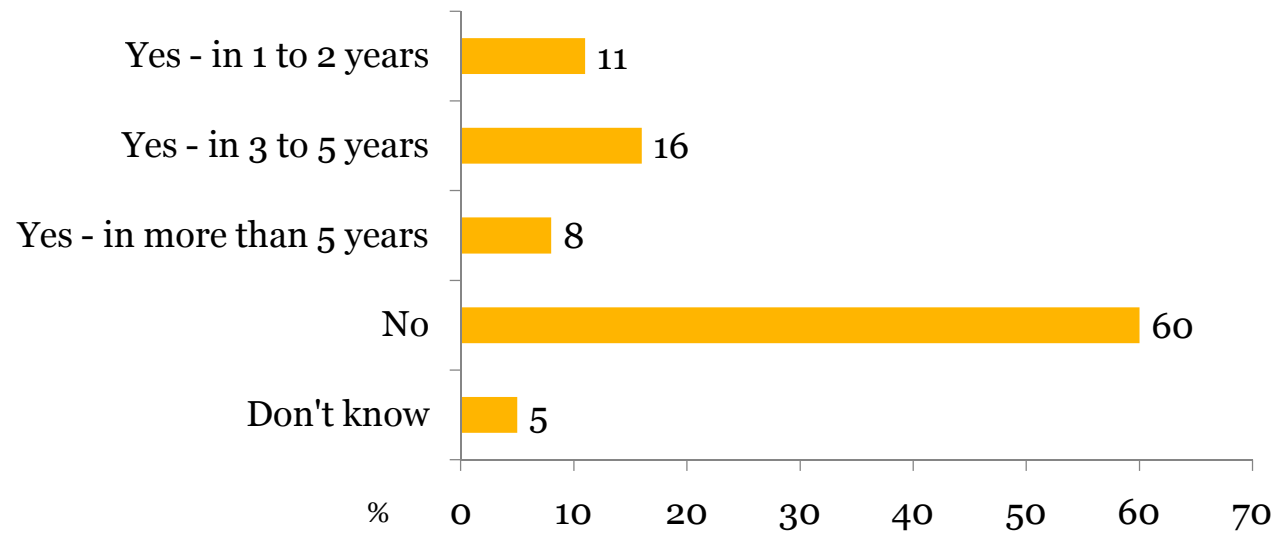
Handing over the reins



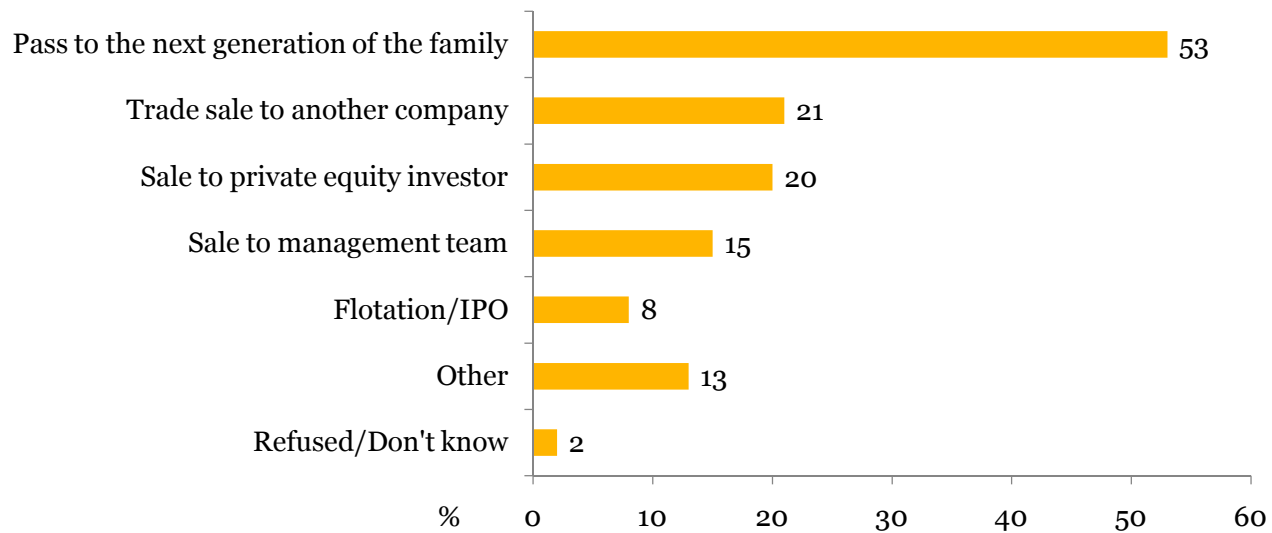
Most of the family firms in our survey have only existed for one or two generations



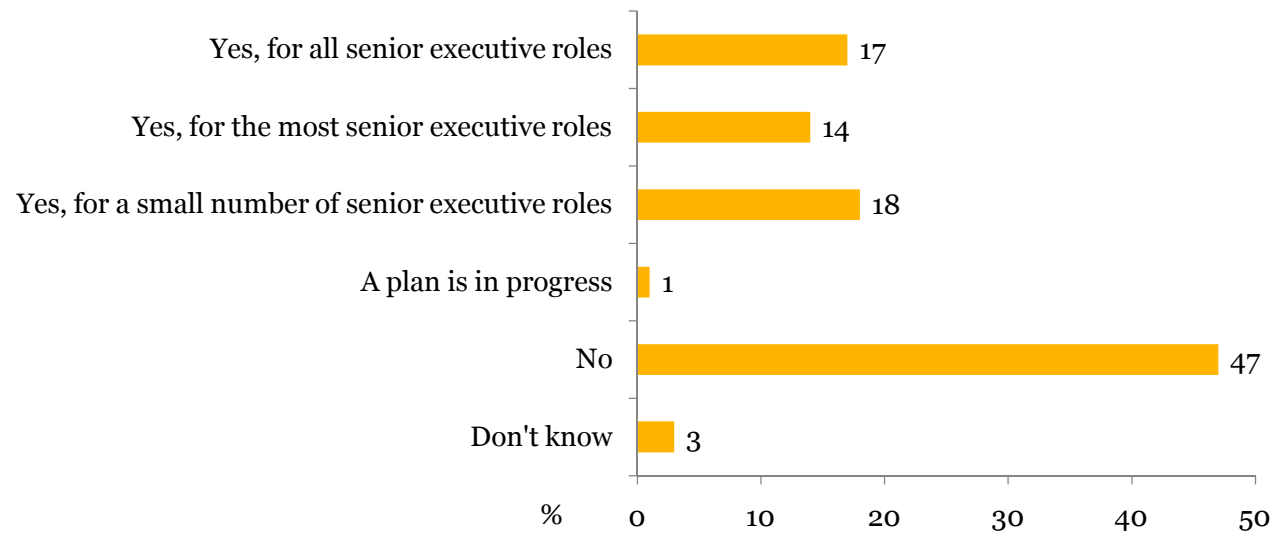
More than a quarter of companies are expected to change hands within the next five years



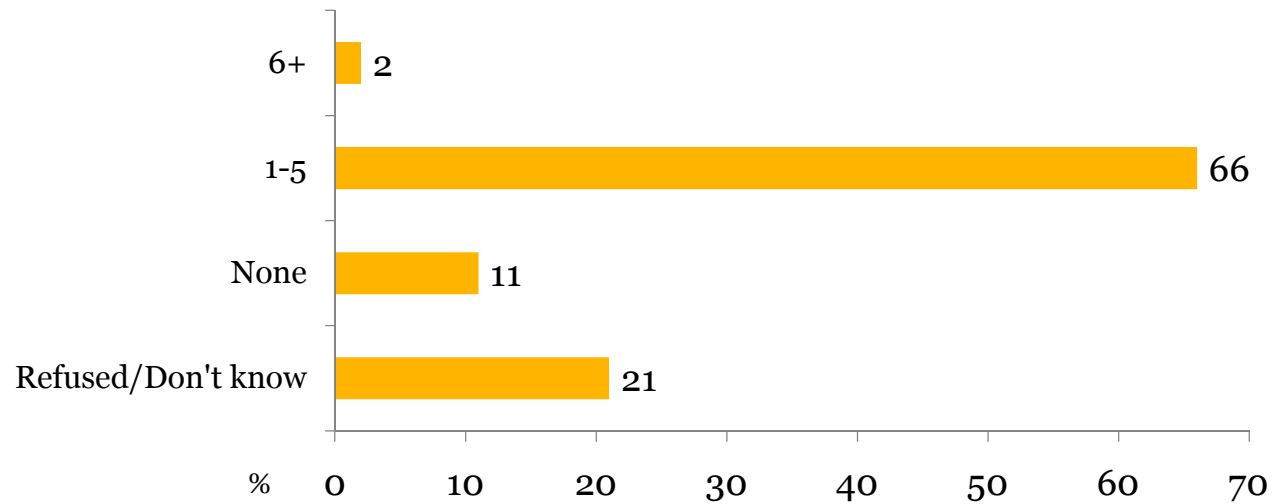
Most of those who think their companies will change hands over the next five years expect the business to remain in the family



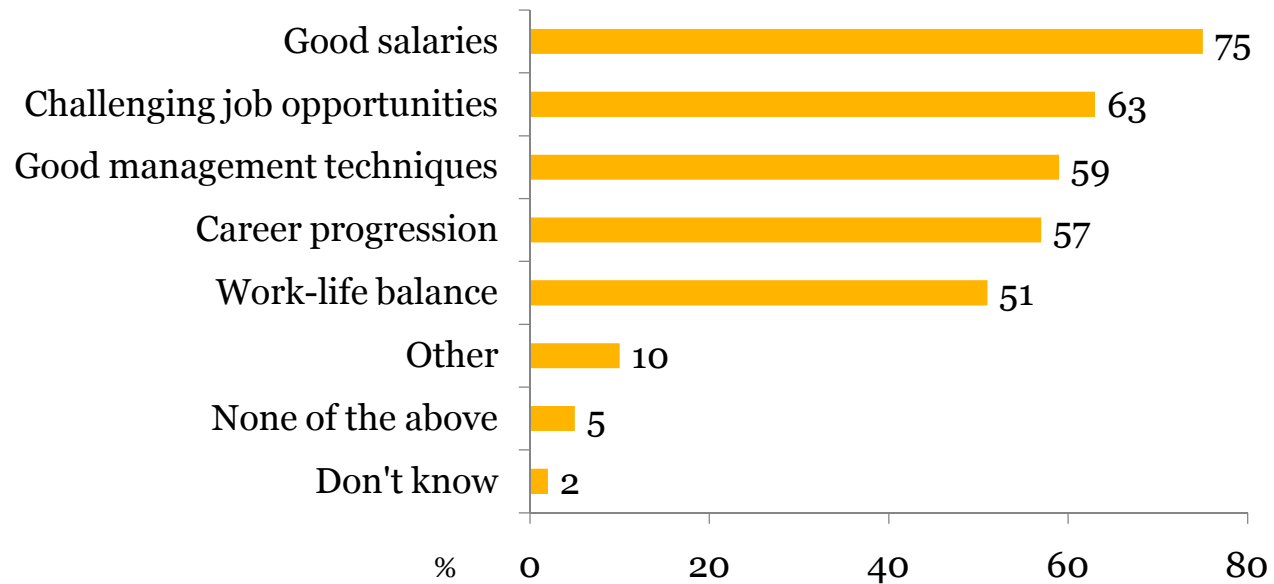
Nearly half of all companies have no succession plans



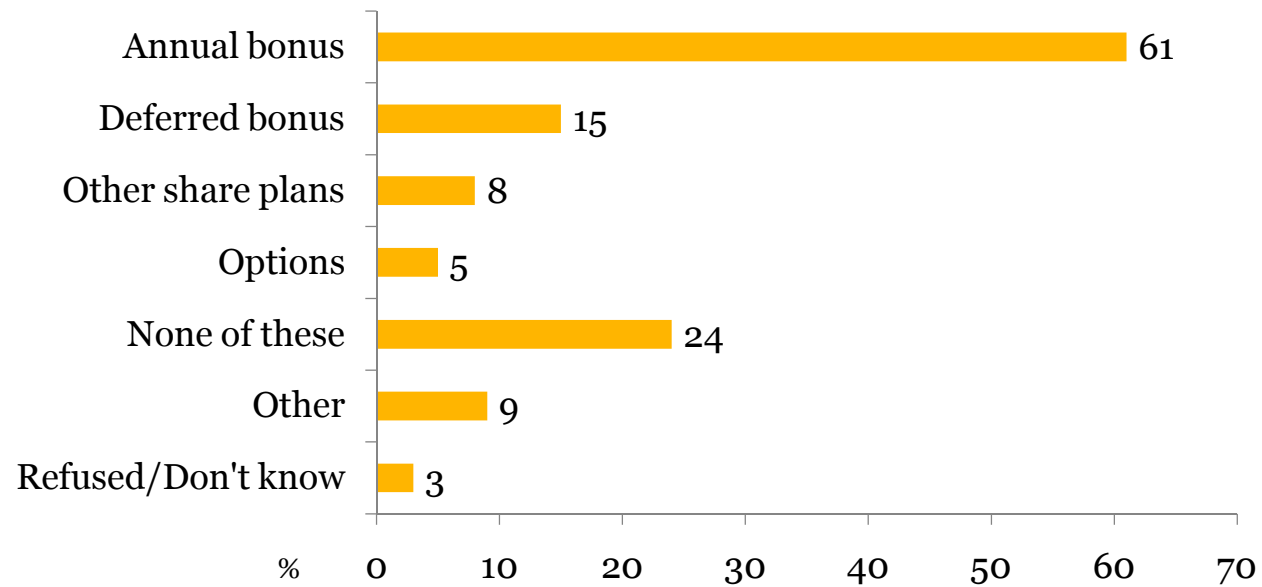
In most companies with succession plans family members are expected to assume at least one of the key roles



Salaries top the list of measures family firms use for retaining key talent



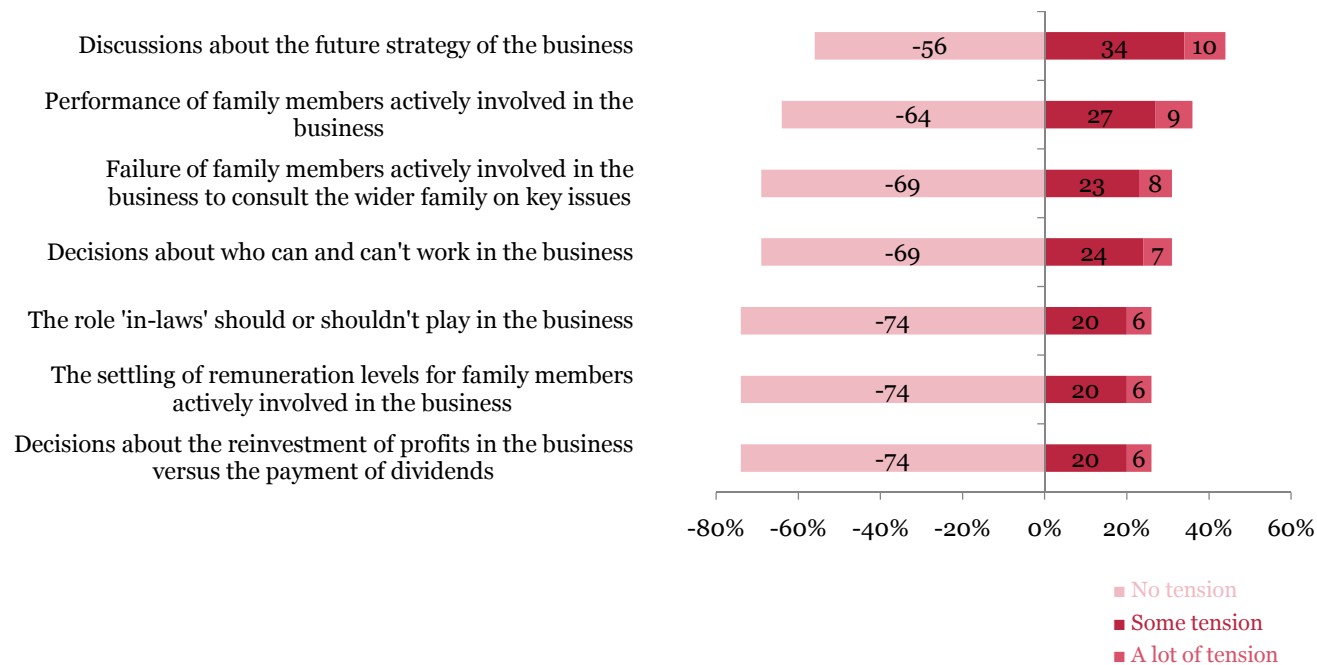
The most popular means of rewarding senior management is the annual bonus



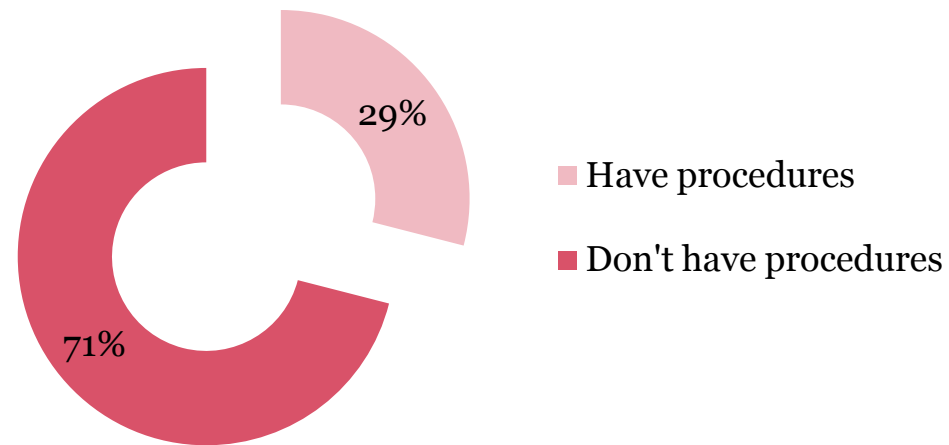
Falling out and making up



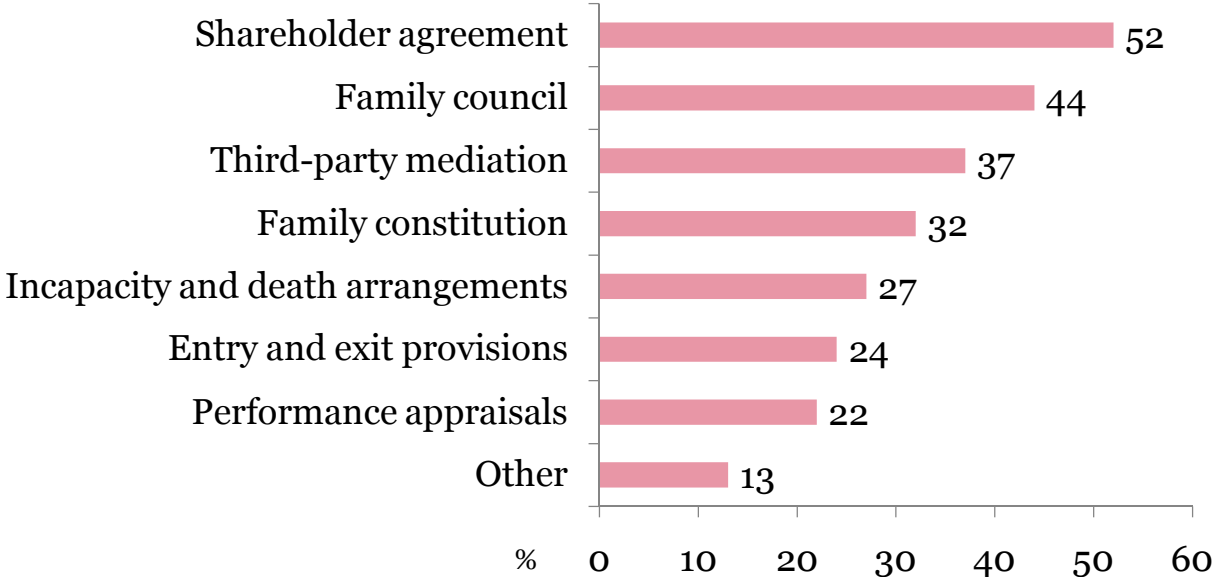
Disagreements about future strategy are the most frequent cause of dissent



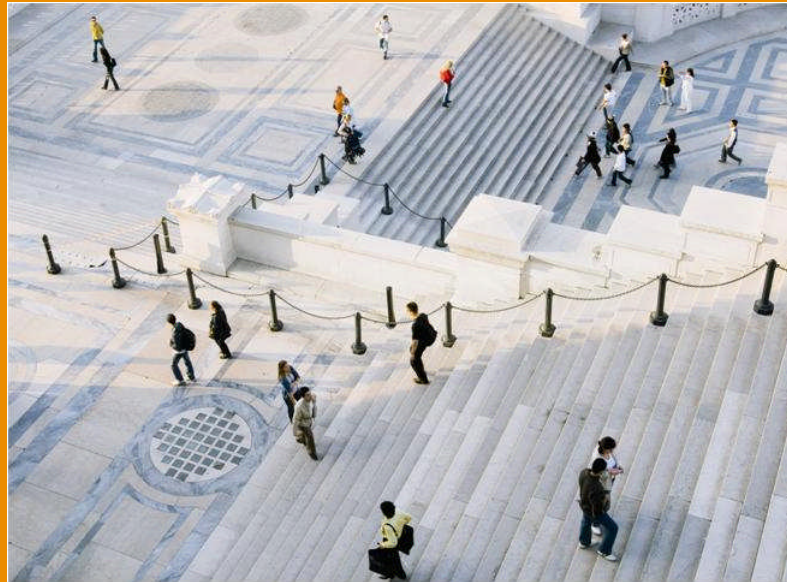
Most companies haven't adopted any procedures for resolving conflicts between family members



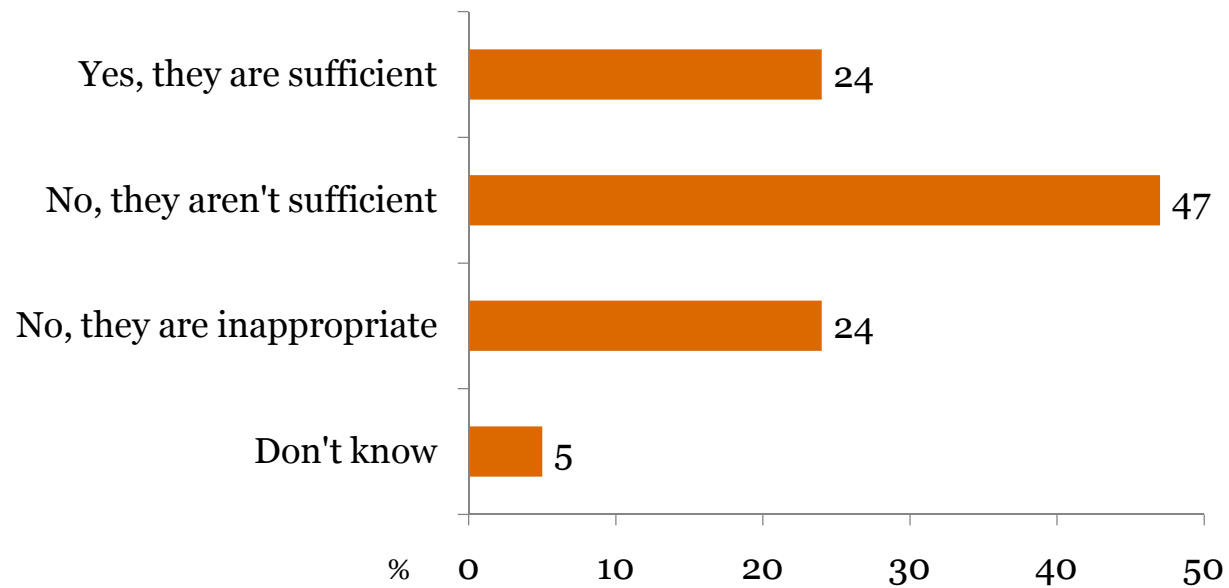
Shareholder agreements, family councils and mediation are the most common measures for resolving conflicts



*Dealing with regulation and
creating value for society*



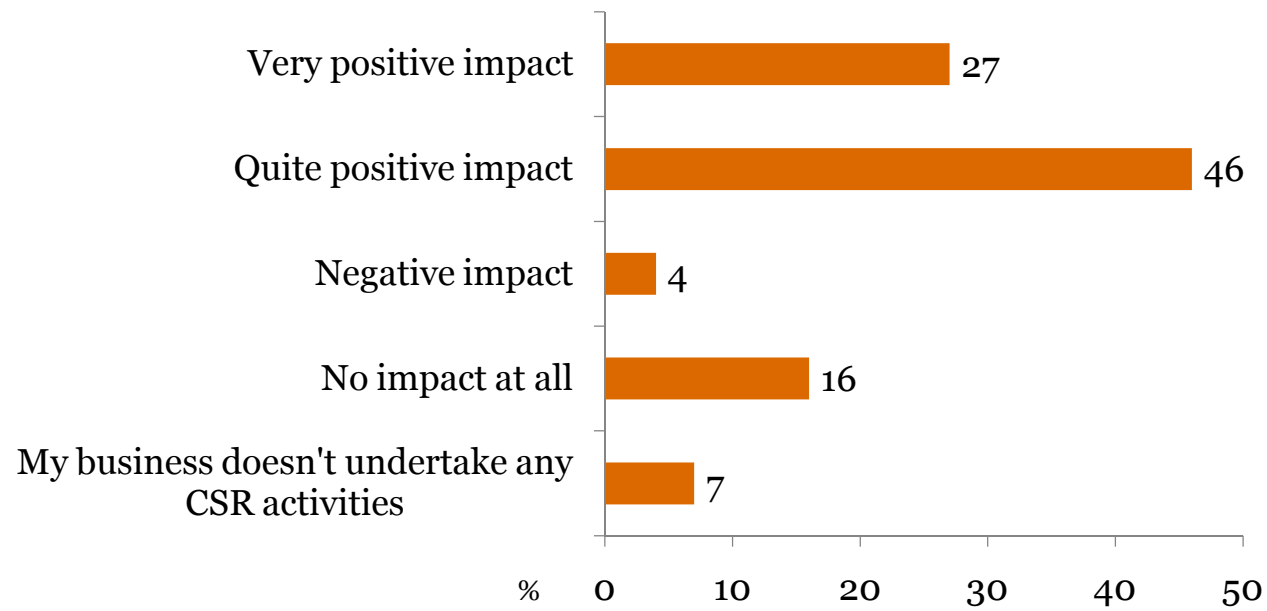
Family-business managers are critical of government initiatives to help them through the recession



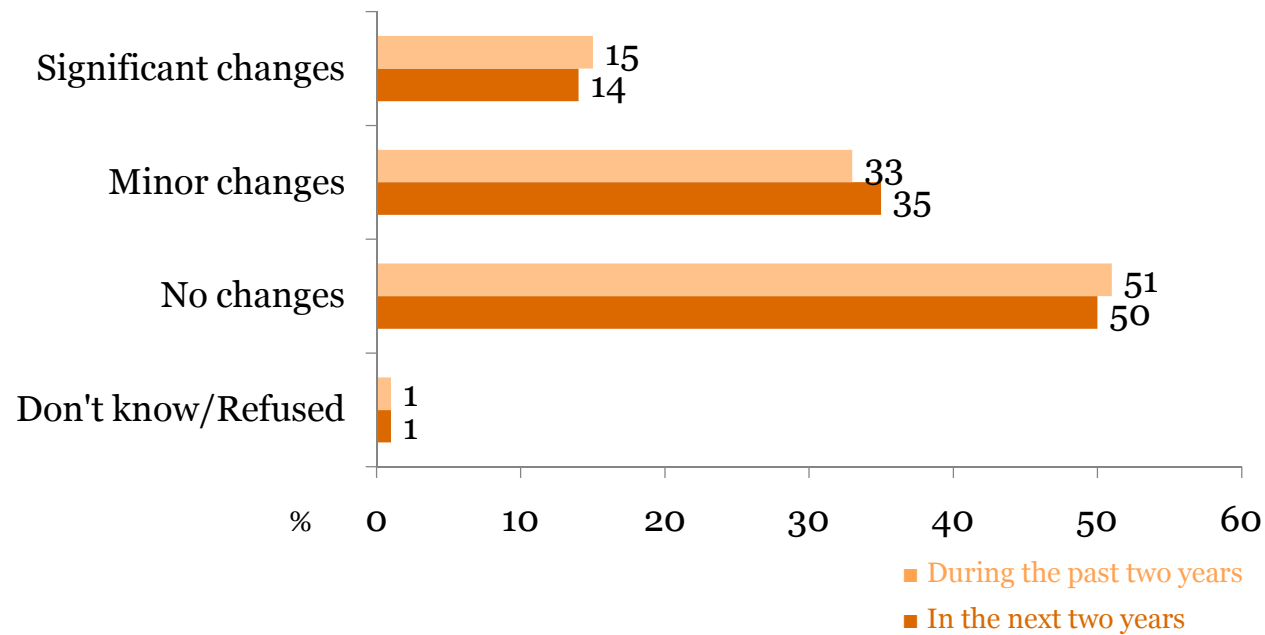
Executives in the emerging markets are especially dissatisfied with their governments' initiatives

	<i>Mature markets</i>	<i>Emerging markets</i>
Think measures sufficient	26%	17%
Think measures insufficient	45%	60%
Think measures inappropriate	25%	21%

Most executives believe CSR has had a positive impact on their business



Many companies have already made CSR-inspired changes, and many more plan to do so over the next two years



*Middle East perspective and
how families address these
challenges*



Key Issues faced by families

- **Family issues**
 - Clarity and unity of vision
 - Family of more than one branch
 - Transitioning of the current to incoming generation (succession)
 - Engaging passive members of the family
 - Choosing the future leaders of the family
 - Mentoring and training of the next generation
 - Deciding between reinvestment of profits and payment of dividends
 - Establishing strong business working relationships between family members
 - Agree a process for resolving conflicts
- **Business issues**
 - Decision about the future strategy of the business
 - Decision making and the rule of the majority
 - Family representation in the Holding Company Board
 - Performance of family members actively involved in the business
 - Setting remuneration levels for family members working in the business
 - Agreeing the terms and process for exiting the family business

What do successful families do to address these challenges?

Partition ownership issues from business issues

- Create separate forums for family and business
- Shareholders' Assembly, Family Council, Family Office

Establish the family Rules

- Address key ownership issues
- Create clear lines between family and business activities

Set up good corporate governance mechanism

- Accountability and reporting to the Holding Company Board and shareholders
- Communication to the shareholders

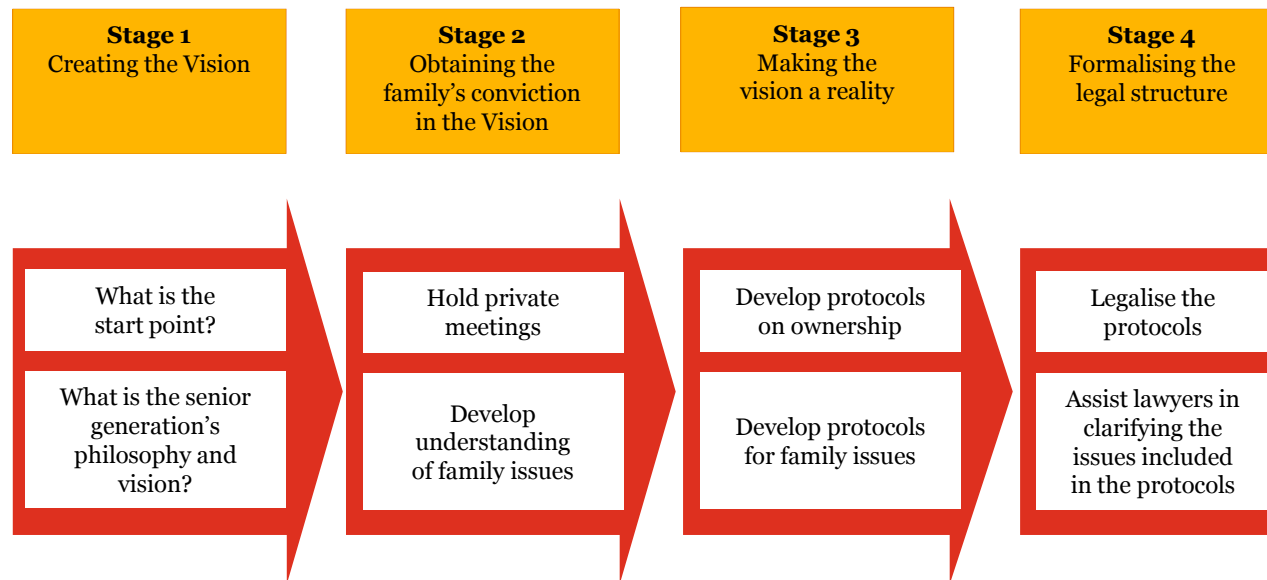
Commitment to fairness

Conflict resolution mechanism

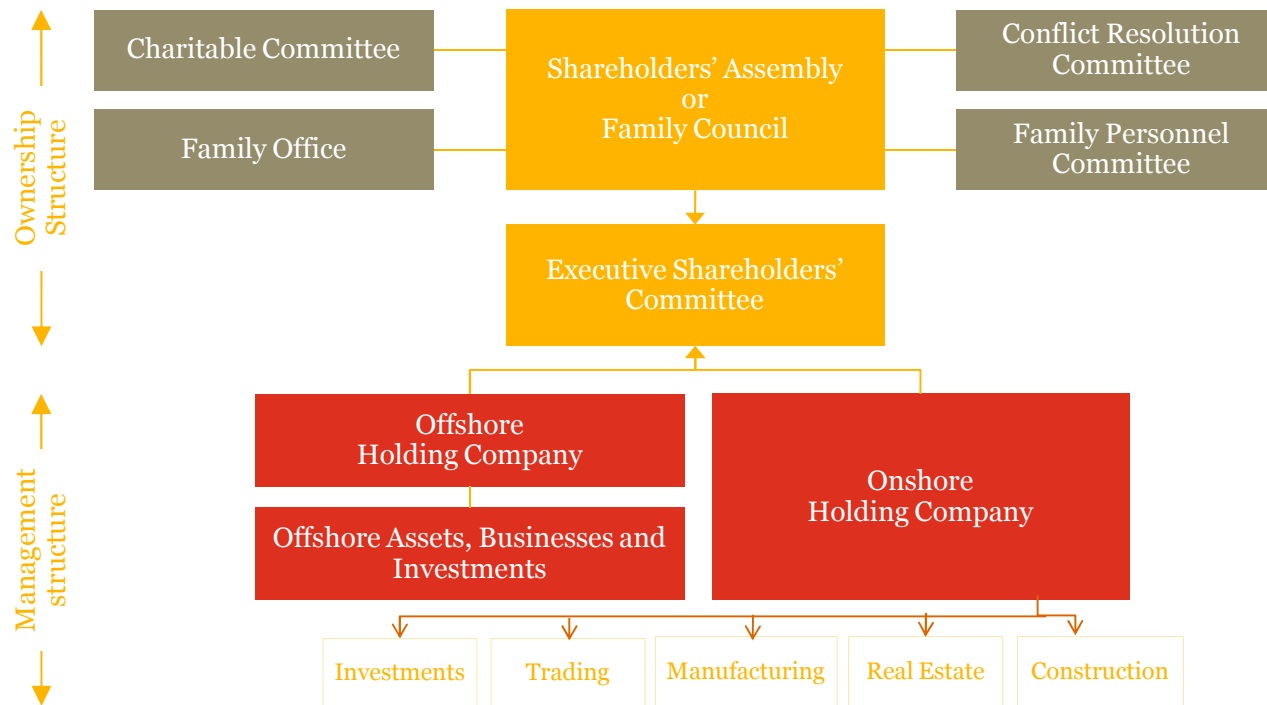
Building of Family Protocols – Implementation Process

The process works differently in each family depending on the ultimate brief given by the family.

However, the process is often as follows:



Possible family business structure:



Protocols likely to be required

- It is important that these protocols are prepared in conjunction with the Shareholders.
- The protocols should be modeled on the basis “what is good for the family business is good for me”.
- Family Protocols would usually cover the following :
 1. **Shareholders’ Vision Statement**
 2. **Governance of the Shareholders’ Assembly**
 - Role of the Shareholders’ Assembly
 - Voting mechanism for decision making
 - Membership of the Shareholders’ Assembly
 - Election of Chairman
 - Duties and responsibilities

Protocols likely to be required (Continued)

- 3. Family representation on the Holding Company Board**
 - Election process
 - Terms of office
- 4. How do we deal with Exits (family members wishing to leave)**
 - Valuation
 - Building reserves for exits
- 5. Conflict Resolution Mechanism**
- 6. Family Personnel Policy**
 - Criteria for family employment
 - How will family members be rewarded
 - Restrictions on what family members can invest in their own name
 - Family joint ventures

Protocols likely to be required (Continued)

- 7. Charitable activities**
- 8. Family Office**
- 9. Confidentiality & Code of Conduct**



Thank you.



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