The Family Firm: Central to the success of the Middle East
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Introduction

The 2012 PwC Family Business Survey covered almost 2,000 firms across the world. It involved businesses from both developed and emerging markets, and from a wide variety of sectors including manufacturing, retail, automotive, and construction.

In the Middle East there were 65 in-depth interviews, covering broadly the same range of sectors. Over 80% were businesses established for more than 20 years, and nearly 70% of the respondents were from firms with a turnover of over US$100m. The comparable figure for the whole survey was 28%, so the firms taking part in our region were, on average, considerably larger. This reflects the significant cultural importance, political influence, and economic power of the family firm in the Middle East - most of the region’s GDP outside the oil sector, and over 80% of its businesses, are either family-run or family controlled, making family businesses crucial to both economic activity and employment. Family firms in our region are also unusual, compared to the rest of the world, in that they are very often highly-diversified conglomerates. Many started life as trading companies, but have since diversified into sectors as varied as retail, automotive, construction, import/export, shipping, insurance, agriculture, financial services, real estate, and manufacturing.

The overarching message from the survey for the Middle East is that family businesses are more controlled. They are more focused in terms of goals, growth. The objectives of family businesses are clearer” (Middle East)

Both globally and within the Middle East, there is a marked similarity in the approach family firms take to business, and a high degree of agreement about the distinctive characteristics of such firms.

Those characteristics can be summarised as

Longer-term thinking and a broader perspective

Family businesses take a long-term approach to business, and when they invest, they do so with the needs of future generations in mind. Most are unlisted, so they are not constrained by investor pressure to make quick returns, or the need to observe a quarterly reporting cycle.

“Each family business is different, but the ambition and dedication of the family to grow the business is always there” (India)

“We take a long-term approach to investments” (Middle East)

“We leave a legacy for future generations” (Middle East)

“It is important to learn from your mistakes – you have to lose money to make money” (Middle East)

“There is always a unified decision. Despite differences, family members tend to end up agreeing on a course of action. The decision-making process is faster” (Middle East)

“Family businesses are generally stable, and decisions are made much faster than in other types of businesses” (Middle East)

“Family businesses are more controlled. They are more focused in terms of goals, growth. The objectives of family businesses are clearer” (Middle East)

“We have a more autonomous decision-making capacity. And especially more flexible management” (France)

“If the owner is close to their people, loyalty is a key factor” (Middle East)

“Employee loyalty is very important” (Middle East)

“The things that are really powerful about family businesses are the values, which are genuine corporate responsibility” (UK)

65% of Middle Eastern firms believe that family businesses play an important role in ensuring economic stability, which is rather lower than the global figure of 72%. 46% consider that family businesses take a longer-term approach to decision-making, compared with 53% globally.

Quick decision-making

Family businesses believe that their ability to make decisions quickly is a distinct competitive advantage.

An entrepreneurial mind-set

In the global survey, 63% of respondents consider family businesses to be more entrepreneurial than other sectors of the economy, a figure which drops to 58% in the Middle East, though this may be a reflection of the larger size of companies in the Middle East survey. 45% of those in our region believe that family businesses are able to reinvent themselves with each new generation.

A greater commitment to jobs and the community

77% of those who took part in the global survey believe that family firms feel a stronger sense of responsibility to support employment than other companies, but this drops slightly to 72% in the Middle East. Firms in our region do clearly believe, however, that family businesses tend to generate greater loyalty from their staff. 78% agree that community initiatives are important to the family firm, compared with 70% globally. This reflects the very strong commitment Middle Eastern family firms have to charitable giving, in particular, with many donating extremely large sums to good causes in the region.

Summary of survey figures – by market etc. – in graphic form
The characteristics of the family business

A more personal approach to business based on trust
74% of respondents in the Middle East agree that culture and values are stronger in the family firm. As elsewhere in the world, many businesses in our region believe that they win business because they have closer relationships with their customers.

Family firms consider these special characteristics to be a source of real competitive advantage, which are at the heart of their distinctive approach to business. But some other characteristics of the family firm can hinder growth, whether by generating conflict within the family or causing the business to be overly risk-averse, which may mean opportunities are not seized. We will look at some of these issues in more detail in due course, after a brief résumé of the current state of sentiment in the family business sector, both globally and in the Middle East.

“Family businesses tend to have a better relationship with clients”  
(Middle East)

“A lot of our customers like doing business with us because we have good values. We can adapt more readily to customers’ needs because we are flexible”  
(USA)

The family firm in 2012
Here are some of the key survey findings:

Family businesses are thriving globally, and even more so locally
An impressive 83% of Middle Eastern family firms have seen growth in sales in the last year, compared with 65% globally. Only 9% of respondents in our region saw a reduction in sales in the last year, as against 19% overall.

Family businesses in our region are ambitious and planning for growth
23% of Middle Eastern businesses plan to grow quickly and aggressively in the next five years, nearly double the comparable number for the survey as a whole. A further 69% in our region expect steady growth, and only 2% expect to contract.

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<thead>
<tr>
<th>Last year</th>
<th>Middle East</th>
<th>World Wide</th>
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<tr>
<td>Sales Growth</td>
<td>83%</td>
<td>65%</td>
</tr>
<tr>
<td>No Change</td>
<td>8%</td>
<td>15%</td>
</tr>
<tr>
<td>Reduction</td>
<td>9%</td>
<td>19%</td>
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<table>
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<tr>
<th>Growth Aims (Next five years)</th>
<th>Middle East</th>
<th>World Wide</th>
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</thead>
<tbody>
<tr>
<td>Grow quickly and aggressively</td>
<td>23%</td>
<td>12%</td>
</tr>
<tr>
<td>Grow steadily</td>
<td>69%</td>
<td>89%</td>
</tr>
<tr>
<td>Consolidate</td>
<td>6%</td>
<td>16%</td>
</tr>
<tr>
<td>Shrink</td>
<td>2%</td>
<td>2%</td>
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All Middle East businesses predict growth and are confident of achieving it
**The family firm in 2012**

Here are some of the key survey findings:

**Globally, the economy is the key external challenge, but not in the Middle East**

All businesses face difficulties in the current climate, but family firms in the Middle East are significantly less concerned about this in 2012 than they were in 2010, with the number dropping from 71% to 45% this year. The top three external issues identified by global respondents are market conditions (54%), competition (27%), and government policy and regulation (27%). In the Middle East the top three, by contrast, are government policy and regulation (46%), market conditions (45%), and competition (32%).

**Internally, skills are the main issue, both globally and in the Middle East**

As with the global results, the Middle East findings suggest that the recruitment of skilled staff has become a greater challenge in 2012 than it was in 2010 – the number of Middle East respondents citing this has risen from 34% to 45%. Globally, the need for corporate restructuring has eased somewhat as an issue, but, perhaps significantly, this number has remained steady in the Middle East. Likewise cashflow and cost control are no longer so important overall, with the global number falling from 30% in 2010 to 17% in 2012, but it remains rather higher in the Middle East at 23%. This may suggest that there is more that family firms in our region could do to streamline their organisations, improve internal processes, and tighten up inventory control and debtors.

Looking ahead: Emerging issues for 2017

**The economy remains a cause for concern, but less so in the Middle East**

66% of the global respondents cite the general economic situation as a key issue going forwards, and those companies who believe their business will contract are likely to see this as the cause. Middle Eastern family firms are more optimistic, with only 42% concerned about the economy over the medium term. Price competition is a slightly more important issue in our region (48%) but again this is lower than the global figure (59%). 34% of Middle Eastern family firms believe regulation will continue to be an issue, and 20% anticipate supply chain issues becoming more important.

Despite their overall confidence about the future, family firms do recognise that there are issues and challenges they need to address.

**That the economic crisis we are experiencing will restrict liquidity in all enterprises, including family ones.** (Mexico)

“We need more international thinking - it’s a challenge not to limit the company to the local market” (Belgium)

“International competition is now much more structured, much more professional, but on the other hand, this leaves large market niches that large companies are not attacking, precisely because of the agility of family businesses” (Mexico)

“It is the era of the multinational” (Romania)

“Our short product life cycle means that we need to constantly produce new ideas and new products to stay in the market” (South Korea)

“Some family businesses depending on their size will probably merge with bigger companies to become public companies” (Middle East)

“Potential employees think that within a family business they will not have a future. In order to attract and retain talent we must create an enabling environment for the future” (Singapore)

“Some families may be ready to withstand the storms of the economic crisis but more likely to collapse at the first dispute among family members” (Middle East)

**Globalisation is having a major impact**

Globalisation emerges more strongly as an issue in five years’ time. ‘Taking the survey as a whole, the respondents are concerned that family firms may struggle to compete with major multinationals and global megabrands. However, many businesses are still confident that they have distinct advantages such as local knowledge, and the ability to move quickly, which will help them compete. Middle Eastern firms are less concerned about innovation, and more about consolidation’

Turning to the internal management of the business, the key emerging issues in the Middle East are recruiting the right skills (53%), innovation (45%), and retaining key staff (43%). It’s interesting that the comparable figure for innovation for the global survey is much higher (62%). 37% of the global respondents anticipated the need to invest in new technology, compared with 34% in the Middle East. It’s important that Middle Eastern businesses do not lose sight of the need for constant innovation, whether in processes and ways of working, or products, services, and new technology. The issue of market consolidation is more prominent with Middle Eastern firms than elsewhere. Some firms have the prospect of possible acquisition by a larger listed business as a threat, others see a merger with such a firm as an opportunity.

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**The ‘war for talent’ is still waging – both generally and in the Middle East**

Attracting appropriately skilled staff, and then retaining them, are as much a concern for Middle Eastern family firms as for those in the rest of the world – the numbers are 55% and 43% for the Middle East, and 58% and 46% globally. Across the world, a number of respondents observed that family
The global survey proves that family firms across the world – and in the Middle East – are successful, ambitious, and entrepreneurial. But these businesses face specific challenges which might stand in the way of their ambitious growth plans if they are not effectively addressed. Some of these are unique to their particular business model, but others are issues which every company will face, but which can create particular difficulties for a family business. In addition, there are specific cultural and historical factors in the Middle East, which can create particular challenges for firms in our region.

The global survey identified several key ‘tipping points’ for the family business: moments in the firm’s evolution where key decisions have to be made, and the future direction of the business is determined. PwC’s Middle Eastern practice is particularly experienced in dealing with these transitional moments, especially in relation to continuity planning, succession planning, and conflict management.

Tipping point 1: Scale

The first of the key tipping points is scale: the moment when a business achieves a certain size but can only progress further by making a significant step change. This may take the form of a new opportunity in the domestic market, prompted by the actions of a competitor or the introduction of a new product or innovation, or by the decision to become an international business.

It’s notable than the average proportion of sales that family firms make internationally is significantly lower in the Middle East than it is elsewhere in the world – 15% as against 25% globally. This disparity widens ever further when it comes to family firms’ plans over the next five years: on a global basis, the average level of exports is predicted to rise to 30% by that time, but only 18% in our region. As many as 32% expect to have no new international markets at all in that time.

When they were questioned about the challenges of becoming an international business, the global respondents cited understanding the business culture overseas (20%), competition (19%), local regulations (19%), exchange rate fluctuations (16%), and local economic conditions (16%) as the main ones. A number also referred to the complexities of an international supply chain. In the Middle East, by contrast, the top issues were the political situation in overseas markets (18%), local regulations (13%), and understanding customers overseas (13%).

Finding the finance for expansion – whether international or domestic – can be a particularly difficult challenge, because family businesses do not usually have access to the public capital markets, and prefer not to leverage their balance sheets or sell off family assets. As the family business passes from one generation to the next the number of family members grows (especially in the Middle East where families tend to be larger), which means that the income from the business is distributed more thinly, and there are likely to be fewer family members who are able or willing to invest the significant resources required for a major capital investment. The only practical option, in these circumstances, is bank finance, but this has become more difficult since the economic slowdown.

In the past, family firms in the Middle East have been able to access finance through their strong long-term relationships with the banks, but since the credit crunch the financial institutions have become much more demanding, both in terms of the criteria they impose, the collateral they demand, and the information they require. The only practical option, in these circumstances, is bank finance, but this has become more difficult since the economic slowdown.

Family business survey
Dealing with regulatory requirements
Property, and IT, as well as broader
others include innovation, Intellectual
broadest sense - is one of these, and
businesses can find it hard to develop,
experience they need to do this, but
they lack the specific skills and
are reluctant to relocate, or because
Some family businesses are wary of
exports are focusing mainly on other
countries in our own region (32%),
which are planning to increase their
survey, those Middle Eastern firms
to their home market. In this year’s
those Middle Eastern firms
investment funding may explain why
The challenges of obtaining
investment funding may explain why
require, which might range from
details of the corporate strategy to
succession and continuity plans. PwC
has helped many firms in the region to
prepare a successful business case for
a bank loan.
The challenges of obtaining
investment funding may explain why
there is a marked tendency for family
firms in general to focus their export
efforts only on neighbouring
countries, or those with historical ties
to their home market. In this year’s
survey, those Middle Eastern firms
which are planning to increase their
exports are focusing mainly on other
countries in our own region (32%),
rather than on regions further afield
such as the Americas (16%), or Europe
(8%).
Tipping point 2: Skills
Some family businesses are wary of
exporting because family members are
reluctant to relocate, or because they
lack the specific skills and
experience they need to do this, but
there are also other skills that these
businesses can find it hard to develop,
because they draw their management
team only from within their own
family. Risk management - in its
broadsense - is one of these, and
others include innovation, Intellectual
Property, and IT, as well as broader
management and business skills.
Dealing with regulatory requirements
and changes are another common
concern.

Some family firms struggle to fill their
’skills gap’ because they are not clear,
themselves, exactly what skills their
business lacks: in some cases the titles
of the senior people are not an
accurate reflection of the role they
actually play. This results in a lack of
clarity about responsibilities in the
business, and an inaccurate picture of
what skills the business may need to
recruit.

One way to address the skills gap is to
bring in managers to either
supplement or replace family
members in specific positions. This
can be an extremely positive step, and
a source of new energy and new ideas,
but it’s a process that needs careful
management, and flexibility from both the family and the incoming
executive. It is not surprising, for
example, that some first-generation
entrepreneurs can find it particularly
difficult to ‘let go’, and allow the
incoming executive to do the job they
were recruited to perform.

The cultural norms of Middle Eastern
society can make it even harder for
companies here to take this step: they
are often very reluctant to give
executive power to non-family
members, or even discuss family
affairs with outsiders. Even where
they are prepared to do so, it is
difficult to find the right candidates
for these positions. PwC has worked
with a number of Middle Eastern
family firms to help them recruit
appropriately qualified outsiders.

If an outsider is brought in as CEO, the
challenge for the family will be to
learn how to ‘manage their manager’,
so that the performance of the
business can be a benefit of all concerned. The skills of a
good CEO are not the same as the
skills of a good shareholder, and PwC
has worked with a number of firms in
the Middle East to assist the owners in
developing positive and productive
working relationships with those who
are managing their interests.

A perceived lack of skills in the
younger generation can be one reason
why the founders of family business
find it difficult to relinquish their
management role. Conversely, there
may be difficulties if a younger family
member is educated abroad and
returns to the family firm with new
ideas that may conflict with their
parents’. It can also be the case that
younger family members who have
played no active role in the firm may
lack the experience they need to be
effective shareholders in the future.
That’s why PwC has designed a
special course for family firm
directors, covering issues such as
accountability, delegation, and
transparency.

Tipping point 3: Succession
The single most obvious point about a
family business is, of course, the fact
that has been passed from one
generation to the next, but the
moment of transition is vital to the
firm’s future success - or failure. For a
mainstream firm, succession planning
is about preparing for the moment
when a CEO retires or steps down; for a
family firm that moment of transition
is more complex and more challenging
because it involves not just the
management of the business, but its
ownership as well.

In this year’s survey, 41% of the global
respondents intend to pass on both the
ownership and management of their
business to the next generation, though
more than half of them are unsure
whether the next generation will have
the skills and enthusiasm to do this
successfully. In the Middle East the
comparable number is 45%. 25% of the
global respondents plan to pass on
their shares but bring in professional
managers, and here the comparable
number for our region is 28%. The
majority of the remaining 34% of the
global respondents have either not yet
decided what to do with their business
when they retire (11%), or are planning
to sell or float it (17%). In the Middle
East these numbers are 18% and 5%,
making the number of possible
flotations or sales in our region
significantly lower.

In the Middle East, family businesses
are large and successful corporations,
mostly managed by family members of
the first or second generation. Many

“A family business can be hampered by an insistence on continuing
with a low-performing line of business. Emotions can dominate, and
founders can become obsessive about control” (Turkey)

“There can be a lack of stability for professionals brought into the
company. The decision-making process can be difficult due to the
interference of family members” (Middle East)

“We want our family boardrooms to be dynamic and not end up
discussing family issues” (Middle East)

“If we need to bring outsiders onto the board of the company, and
learn how to deal with that. Also the organization of internal
processes to streamline our operations. In other words, the
professionalisation of management” (Brasil)

“When a new partner joins it is crucial to respect older generations remain
respected and are managed now by a consortium of cousins. Although the culture
of respect for older generations remains strong, and families traditionally
prefer to keep their affairs private, we have seen an increasing number of
disputes ending up in the courts in recent years. In some cases this has led to
the assets of the entire firm being frozen until the case could be resolved.

This is why it’s so important to plan for
the moment of succession as early as possible.
Those who own and run the
business need to make important, and
often difficult, decisions about such
questions as the needs and skills of the
next generation, the best way to ensure
the long-term success of the business,
and whether the use of trusts or
holding companies might be a more
effective ownership vehicle.
Family firms around the world are putting formal procedures in place to mitigate or manage potential problems associated with succession, but there is evidence that the Middle East is lagging in this respect. According to the survey results, Middle East firms are less likely to have instituted measures such as entry and exit provisions (12% as against 28% globally), performance appraisal mechanisms (18% as against 32%), or provision for a third party mediator (9% as against 24%).

As this suggests, family firms in our region could benefit from strengthening the provisions they have in place to deal with potential conflict, ideally as part of a more comprehensive review of their corporate governance framework. The questions that would need to be addressed as part of this process would include the mechanism for allotting shares, the representation of the family on the board, decision-making procedures, any rights the family may have to be employed in the firm, exit provisions, reward and remuneration policies, performance appraisal, recruitment, the establishment and role of board committees in areas such as audit, and the approach to dividends and reserves. PwC has extensive experience in all of these areas.

One popular governance mechanism with family firms is the family council - 29% of the respondents to this year’s survey have these, but only 15% in our region. However, a family council could be an especially effective framework for firms in the Middle East, where families tend to be larger than in Europe and North America, and few family businesses have a clear line of demarcation between ‘the family’ and ‘the business’, which increases the potential for damaging disputes.

Likewise the conglomerate structure of many Middle Eastern firms means that the businesses within the firm are often run by different family members, but only the owner has a clear idea of what is going on in all these very diverse operations. When he steps down and passes control to the rest of the family, the managers of the different businesses will need to understand the issues and opportunities faced by the firm as a whole, and not just the ones that they themselves are running. The clear danger, at this point, is that decisions can start to be made for emotional rather than commercial or strategic reasons, and conflict can arise between different ‘fiefdoms’. If this is not addressed, there can be a danger that some businesses within the firm can start absorbing cash, and destroying rather than creating value.

A family council can be a good way to provide a forum for all family members to participate in discussions about the whole business, and achieve a shared vision for its future, whether they play an active role on the day-to-day management of the firm or not. In other words, it can function as a mechanism for separating ownership (which may involve the whole family), from management (which usually involves only a few). Such a forum also makes it much easier to manage the succession process smoothly and successfully, and can be invaluable if the firm is bringing in non-family executives, or establishing an independent advisory board.

PwC has helped many Middle Eastern family firms establish family councils like this, and has also designed transitional structures specifically tailored to address the challenges of succession by reserving the right of veto to the founder for a specified period, while giving all the relevant members of the next generation a voice in decision-making during that time.

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“Sibling rivalry, as well as irreconcilable differences in vision, often leads to splitting up of the family businesses” (Middle East)

“The best time to plan for the future is when the family is harmonious” (Middle East)

“Family businesses do not place enough importance on proper procedures and governance” (Middle East)

“In the event that someone is not pulling their weight, it is much more difficult to make a business decision that you should make- there can be a conflict between the head and the heart” (Ireland)
Are governments supporting family firms?

As part of the global survey, PwC asked family businesses whether they feel valued by their governments, and what more they think should be done to support them.

Family firms feel under-valued in general – but not in the Middle East

At a global level family firms feel that the economic contribution they make is overlooked or underrated by their own governments. Middle Eastern firms are by far the most positive in this respect, with a 34% net agreement that their governments value them (compared, for example, to disagreement levels of 31% in the USA, 42% in the UK, and 48% in France). This may reflect the significant political influence large family firms wield in our region, and the fact that they often have access to decision-makers at the very highest level.

All the same, family firms in the Middle East do believe there’s more their governments could do to help them.

So what are family businesses in the Middle East looking for?

The top issue for family firms in the Middle East is access to finance, and 57% would like governments to help more with this. Other than that, there was general agreement on such measures as improving education, training and vocational skills, and reducing bureaucracy, all of which are echoed in the global findings. One obvious area of difference was tax: cutting taxation is a major concern for family firms around the world, but it is not an issue at all in our region, given the favourable tax regime they (and other businesses) enjoy here.

There were some issues which are specific to our region – such as making it easier to hire skilled immigrant workers – and others specific to family businesses in particular. These included helping family firms through the process of succession, flotation, or merger; assisting with conflict resolution; and providing more guidance and – if necessary – regulatory support for stronger corporate governance.

Family firms in the Middle East are successful, diversified, agile, and professionally-managed, and their greater size compared with other family firms could mean that they are better-placed to compete with the challenges of globalisation.

Governments across the region recognise and support the family firm, but there is still more they could do to help this vibrant and vigorous sector achieve its full potential.

Conclusion

“In the future family businesses will operate more like multinational corporations. Although the decision-making will still be in the hands of the family, a family business will have to behave more like a global corporate company. I am already following this model. Family and global businesses will converge going forward and this will be a big change” (Middle East)

“There is no other region where family firms are more vital to the local economy, or more integral to business life. However, there are some areas where family firms in our region could benefit from more formalised processes and procedures, and it’s vital that they continue to attach a high importance to innovation and the development of new ideas.”

“Government should put policies and procedures in place in terms of corporate governance within family businesses” (Middle East)

“We need more facilities in terms of access to finance” (Middle East)

“Government should be involved in the succession planning to avoid conflicts or have guidelines so it can be easily followed” (Middle East)

“We need an easier process for the recruitment of expats to work in this region” (Middle East)
Key Contacts

Amin Nasser
Partner - Middle East Entrepreneurial & Private Clients Leader
Tel: +971 4 304 3120
Email: amin.nasser@ae.pwc.com

Tamer Tawab
Egypt
Tel: +202 22 759 7701
Email: tamer.tawab@eg.pwc.com

Ayman Abu El Izz
Iraq
Tel: +962 6 500 1300
Email: ayman.abueiz@iq.pwc.com

Aff Al Masri
Jordan
Tel: +962 6 500 1300
Email: aff.almasri@jo.pwc.com

Thaer Banajah
KSA - Jeddah
Tel: +966 2 610 4400
Email: thaer.banajah@sa.pwc.com

Nader Farid
KSA - Khobar
Tel: +966 3 849 6311
Email: nader.farid@sa.pwc.com

John Saead
KSA - Riyadh
Tel: +966 1 213 0490
Email: john.saeed@sa.pwc.com

Aied Eed
Palestine
Tel: +971 02 532 6660
Email: aied.eed@ps.pwc.com

Khalid Al Shatti
Kuwait
Tel: +965 2 227 5701
Email: khalid.alsharti@kwt.pwc.com

Mohamed ElMboatas
Qatar
Tel: +974 4 419 2720
Email: mohamed.elmoataz@qa.pwc.com

Andre Rohayem
Lebanon
Tel: +961 5 428 600
Email: andre.rohayem@lb.pwc.com

Ihab ElShahawy
UAE - Abu Dhabi
Tel: +971 2 694 6800
Email: ihabh.el-shahawy@ae.pwc.com

Husam Elnaili
Libya
Tel: +218 21 369 983 032
Email: husam.elnaili@ly.pwc.com

Murad Noor
UAE - Dubai
Tel: +971 4 304 3100
Email: murad.nsoor@ae.pwc.com

Definitions
For the purposes of this survey, a ‘family business’ is defined as a business where
1. The majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child’s
direct heirs);
2. At least one representative of the family is involved in the management or administration of the firm;
3. In the case of a listed company, the person who established or acquired the firm (or their families) possess 25% of the right to vote
through their share capital and there is at least one family member on the board of the company.

Survey methodology
1,952 semi-structured telephone interviews were conducted via Kudos Research in London with key decision makers in family
businesses more than 30 countries worldwide between 7th June and 18th September 2012. The interviews were conducted in the
local language by native speakers and tended to average between 20 and 35 minutes. The results were then analysed by Jigsaw
Research.