PICTURE:
Sanaa Abouzaid

FAMILY INSTITUTIONS

The Realities of Implementation

Assisting families set up governance and institutions has shown her the inherent hurdles to implementing best practice initiatives.

Interview with Sanaa Abouzaid, MENA Corporate Governance Lead, International Finance Corporation (IFC)

Family institutions are all very well in theory. We understand their benefits and importance in long-run business strategies, but when it comes to implementation, the challenges can seem daunting.

International Finance Corporation (IFC), member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. IFC works with businesses around the world, using capital, expertise and influence to help eliminate extreme poverty and share prosperity.

Sanaa Abouzaid joined the IFC 12 years ago as part of a team that focused on bringing good corporate governance practices to fast growing economies. Abouzaid quickly realised that most businesses they were dealing with were family-owned. Assisting families set up governance institutions and policies has shown her the inherent hurdles to implementing best practice initiatives. Abouzaid now has over a decade of experience in the field and is the author of the IFC Family Business Governance Handbook.

Tharawat spoke to Sanaa about the misunderstandings, challenges and opportunities surrounding family business institutions.

Having seen a considerable variety of family businesses throughout the world, what would you say makes them special? Why are they such important actors in national economies?

Entrepreneurial drive and long-term commitment set family businesses apart. These aspects are more dominant in early generations and at the founding stage. In successful families, this spirit trickles down.

The impact these businesses have is clear in all economies. They are the most prevalent form of business throughout the globe. The model is as predominant in Western countries as it is in others. The most successful economies around the world are those with the highest number of entrepreneurs. Governments should therefore make sure to create friendly environments for the creation of new companies and for multigenerational businesses to prosper.

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Sanaa Abouzaid - IFC

What would you say were some of the key challenges you have encountered while setting up and implementing governance systems?

We have consistently seen three trends across geographies:

First, families must understand the importance of implementing governance systems and family institutions before starting any structuring process. We come across many family businesses well into the third generation that still don't know why this is an important conversation to have. When it comes to making such changes, all family members need to be on board and buy-in. If not, it is merely a theoretic exercise.

Second, families need to comprehend that institutions and governance systems are not an end product. If you start out with the misunderstanding that they are an objective rather than a process, then you're setting up for failure. I cannot emphasize this enough. Many families fall into the trap of simply hiring someone who can get the job done. To build a document is one thing, to implement it is quite another.

Finally, families are usually excited to start the process but find it hard to maintain interest. This holds especially true in the implementation phases, during which a lot of changes and sacrifices have to be made.

Have you seen a trend to improve family business functionality over time?

At the moment, many businesses are going for good corporate governance to solidify their practices and image. Whether this adaptation has a real effect on the business is quickly made apparent. Family institutions, on the other hand, are more personal. It is harder to assess how many families actually have worked on their family governance because they might be more private about it. I believe there is more awareness around this topic and that many family businesses are coming to terms with the fact that they cannot address the future without basic structuring.

From a practical perspective, at what size would you advise a family business to consider adopting family institutions?

It is really never too early to begin. It also greatly depends on the type of company, the industries they are in and, of course, the family itself. I would highly recommend gradual implementation because you can't have institutions without policies, and policies take time to develop.

Family meetings are a must at the founding stages of the company, but there is no need for a formal council. If you want to formalise at this point then simply upgrade from dinner table discussions to a more formal setting. It is also important to talk policies, mission and vision early on. There might not be a need for full-fledged shareholder and other policies just yet. As the family gets bigger you may want to introduce an assembly to keep united and maintain cohesion, which is harder for families spread-out across the world.

I would also add that it makes sense to instate a family council from about 30 members on, in order to help achieve accord. It would take far too long to reach consensus in a meeting of 30 people! As the family business grows, more committees can be assembled to address various issues needing dedicated discussion.

If a family considers improving their governance structures, what family institution would you advise them to initially set up?

It really depends on the size of the family. Institutions, tools and policies have to be put into context and tailored to the specific family. They should not burden the family or the company. Again, I suggest starting early and slow. You can't suddenly write up a policy and enforce it.

A family also has to decide what its main goal is. Do they want to increase cohesion? Grow information flow? These objectives help define what institutions need to be established. It is also important to educate oneself. Information Technology, for example, is a process and not an end product.

A structure that works for the family might not be a lasting solution. It may work for a few years, but you might have to redefine the structure depending on growth. Pick and choose. Also make sure to keep updating the systems. Failure to update is the reason so many institutions fail.

Do you consider the Family Office to be an institution? How should it be included in the family governance structure?

This is a hot topic! The field of Family Office is growing at a tremendous rate. This crucial topic will gain even more importance with the growing number of multi-generational companies. We currently have more case studies to draw from than ever before. Again, the right fit depends on the size and wealth of the family. I have encountered many families that have tailored their setups.

I personally consider the Family Office to be an institution, but it really depends on what functions it serves. A Family Office is a very useful tool for wealthy families that need to be advised on how to use their wealth. This format is more applicable in second and third generation business where more money is paid out to the family, and less to reinvest in the business. Accounting, tax advice, portfolio management and estate planning are some of the focus areas of Family Offices.

What advice would you give a family that is considering setting up institutions?

I really think it starts and finishes with education. Families have to start educating themselves early on in order to understand how they can make a difference in governance. This kind of effort usually requires a champion who will push the project forward. This person needs to be willing to put in the hours and keep all family members engaged and informed. Education is also crucial to maintaining standing institutions that have to be updated and continuously improved.