Family Owned Enterprises (FOEs) – the Backbone of Lebanon's National Economy

For nearly every country on earth, Family Owned Enterprises (FOEs) are the oldest and most dominant form of business organizations. In most countries including Lebanon, FOEs constitute "more than 70 percent of the overall businesses and play a key role in the economic growth and workforce employment. In Spain, for example, about 75 percent of the businesses are family-owned and contribute to 65 percent of the country's GDP on average.[1] Similarly, family businesses contribute to about 60 percent of the aggregate GNP in Latin America".[2]

FOEs may usually start as a small or medium sized enterprise, but can also grow to become large international conglomerates. Indeed, some of the largest well-known companies around the world which are also FOEs include the following: Salvatore Ferragamo, Benetton, and Fiat Group in Italy; L'Oréal, Carrefour Group, LVMH, and Michelin in France; Samsung, Hyundai Motor, and LG Group in South Korea; BMW, and Siemens in Germany; Kikkoman, and Ito-Yokado in Japan; and finally Ford Motors Co, and Wal-Mart Stores in the United States.[3]

However, FOEs only manage to achieve such impressive growth rates by introducing the appropriate Corporate Governance structures and procedures which enable both the company and the family to grow in a sustainable and cohesive manner. Unfortunately, different research studies have repeatedly demonstrated that up to 95% of FOEs do not survive beyond the 3rd generation.[4]

This very high rate of failure is most often due to "a lack of preparation of the subsequent generations to handle the demands of a growing business and a much

[1] The Family Business Network, www.fbn-i.org/fbn/main.nsf/doclu/facts.

[2] The Family Business Network, www.fbn-i.org/fbn/main.nsf/doclu/facts.

[3] IFC Family Business Governance Handbook, 2011: http://www.ifc.org/wps/wcm/connect/6a9001004f9f5979933cff0098cb14b9/FamilyBusinessGovernance_Handbook_English.pdf?MOD=AJPERES

[4] The Family Business Network, www.fbn-i.org/fbn/main.nsf/doclu/facts.

larger family. Family businesses can improve their odds of survival by setting the right governance structures in place and by starting the educational process of the subsequent generations in this area as soon as possible".[5] It is therefore important for FOEs to seriously consider and act on the specific corporate governance challenges that they face so as to adopt structures and practices that can address these challenges and ensure the sustainability of the business.

As FOEs embark on this journey, it is worth remembering certain key strengths and weaknesses which are relevant to nearly all FOEs and which can have a great influence on increasing the chances for success.

Several studies have shown that FOEs consistently perform better than non-family owned companies - in terms of sales, profits, and other growth measures. One such study, which was carried out over a period of 10 years by Thomson Financial on behalf of Newsweek, compared FOEs to non-family owned companies on the six major indexes in Europe and demonstrated that FOEs performed better than their counterparts on all of these indexes, from London's FTSE to Madrid's IBEX. "Thomson Financial created a unique index for both family and non-family firms in each country, and tracked them over 10 years. In Germany, the family index climbed 206 percent, while the non-family stocks increased just 47 percent. In France, the family index surged 203 percent, while its counterpart rose only 76 percent. Family businesses also outperformed their counterparts in Switzerland, Spain, Britain and Italy".[6]

These very positive levels of performance are a direct consequence of the key strengths that FOEs have compared to non-family owned enterprises. Sir Adrian Cadbury, who is widely regarded as the Godfather of Corporate Governance, describes these strengths as follows[7]: commitment, knowledge continuity, reliability and pride.

At the same time, FOEs need to be conscious of key weaknesses which can have a significant negative impact on their ability to maintain sustainable growth. More to the point, these weaknesses actually explain

[5] IFC Family Business Governance Handbook, 2011: http://www.ifc.org/wps/wcm/connect/6a9001004f9f5979933cff0098cb14b9/FamilyBusinessGovernance_Handbook_English.pdf?MOD=AJPERES

[6] Newsweek, www.msnbc.msn.com/id/4660477/site/newsweek

[7] Sir Adrian Cadbury, Family Firms and Their Governance: Creating Tomorrow's Company from Today's (Egon Zehnder International, 2000); John Ward , "The Family Business Advantage: Un conventional Strategy", Families in Business, 2002.

why around "two-thirds to three-quarters of family businesses either collapse or are sold by the founder(s) during their own tenure and only 5 to15 percent continue into the third generation in the hands of the descendants of the founder(s).[8] Of course, any FOE can fail because of weaknesses which could also be found in any type of company – such as "poor management, insufficient cash to fund growth, inadequate control of costs, industry and other macro conditions".[9] Nonetheless, it is important to bear in mind key weaknesses which are specifically relevant to FOEs, such as[10]: complexity, informality, lack of discipline.

In our next newsletter, we will go into the details of each of these strengths and weaknesses, as well as addressing how FOEs can be proactive in managing their growth, by identifying the governance challenges they face and putting in place a system of Corporate Governance which reflects their strategic objectives and enables them to capitalize on their strengths while mitigating their inherent weaknesses. This journey usually begins with a complete Corporate Governance Assessment, which is designed to provide a company with clear recommendations and an implementation plan on how to improve Corporate Governance in the following categories: The role and functions of the board; internal controls; transparency & disclosure; treatment of shareholders and family governance mechanisms.

Excellence in Governance Lebanon (EIGL) is a new division at Tamayyaz and is co-sponsored by the IFC. EIGL will provide tailor made consulting services and training programs to help businesses sustain themselves through today's increasing difficulties. Among these training programs, a new certification program is designed to equip board directors and members with the needed skills and knowledge for a successful implementation of Corporate Governance essentials. The IFC has featured Excellence in Governance Lebanon (EIGL)'s activities in the past Corporate Governance newsletters.

[8] Fred Neubauer and Alden G.Lank, The Family Business: it's Governance for Sustainability (Routledge New York, 1998).

[9] IFC Family Business Governance Handbook, 2011: http://www.ifc.org/wps/wcm/connect/6a9001004f9f5979933cff0098cb14b9/FamilyBusinessGovernance_Handbook_English.pdf?MOD=AJPERES

[10] IFC Family Business Governance Handbook, 2011: http://www.ifc.org/wps/wcm/connect/6a9001004f9f5979933cff0098cb14b9/FamilyBusinessGovernance_Handbook_English.pdf?MOD=AJPERES