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ABU DHABI CHAMBER

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# Family Business in Abu Dhabi

November 2019

In association with  IHS Markit



# Dear reader



The subject of the family-owned company is fairly underrepresented in today's economic publications and research lists, at least if measured against the overarching economic importance that family-owned businesses have for the economy. For example, Abu Dhabi's economy is driven by family-controlled companies. In fact, its entire private sector, except for several listed companies, consists of family-controlled businesses.

Far from aiming to filling this research gap, this report highlights the importance of family-controlled companies, how they have performed in the recent past, and what challenges they are confronted with. The focus is on the challenges family businesses face. Except for sectors that are usually in government control or require large upfront investment, family businesses are active in most parts of the economy. Family businesses play an important role in the economy as a whole.

This report also provides a view on family

business and best practices elsewhere in the world. It quickly becomes apparent that the challenges and opportunities are very much the same. The long-term success of a business dominates the mindset of family business owners both in Germany—the example quoted here in the report—and in Abu Dhabi. Preserving the business for the next generation matters, even if, like in the case of Germany, demographic change makes it difficult to find a successor.

The editorial team for this report had the opportunity to conduct interviews with executives of local, family-owned firms. The authors of this report decided to conduct the interviews in anonymity.

The results of the interviews are summarized in the latter half of this report. Key policy recommendations have been distilled, which will hopefully enable family businesses to continue to thrive in the future.

The authors wish to thank their interview partners for their time and thoughtful feedback.

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8:00 AM - 3:00 PM (Sun - Thu)

Printed in the United Arab Emirates

Cover images: Shutterstock/IHS Markit

### The world of family business

Family business is critically important for any economy. The share of jobs that family businesses support is reckoned between 50% and 80% of total jobs in an economy, depending on the region or country. It also depends on how the term family business is defined. In all cases, family business by definition means private-sector enterprises.

A common, short definition of a family business is a business entity that is owned or in control of a family. Whether a family fully or majority owns the company or has a key controlling stake with which the family dominates decision-making relative to other

shareholders might be regarded as a second-order question. The family business referred to in this report is generally assumed to include a broad definition of family ownership.

A family business can take many different shapes. It includes startup companies, small and medium-sized enterprises (SME), and large family business conglomerates—some well-known, some less so. Family businesses operate in most sectors of the economy, although most family businesses are found in agriculture, retail, tourism, finance, real estate, construction, and manufacturing. In Gulf Cooperation Council (GCC) countries, and in Abu Dhabi, family businesses play a

**Chart 1: Abu Dhabi's nonoil GDP breakdown 2018 (%)**

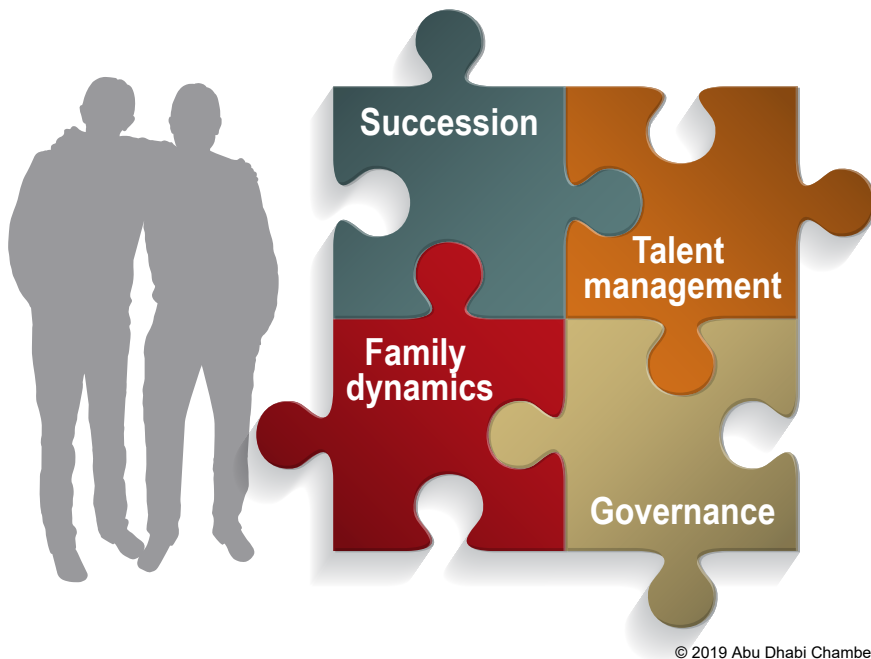


Note: \*Nonoil private sector is a crude estimate for the part of the economy that is primarily family-owned.  
Source: SCAD





**Chart 2: The magic square of family business success**



reported by statistical authorities. However, most of the data are simply not available in the first place, since many family businesses are relatively shy animals who keep their cards close to their chest.

It lies with private-sector institutions to report on family business performance. A report from the Credit Suisse Research Institute, published in 2018, said that family businesses outperformed their nonfamily peers considerably over a 12-year time frame, dating from 2006 until 2017. The institute found this pattern for almost all global regions and countries.

In Europe, for example, the European Family Businesses (EFB) association claims that family businesses support 60 million jobs in the private sector, equivalent to a bit more than a quarter of total employees, and that the sector generates 50% of GDP. As many as 14 million business entities in Europe are family-owned, EFB says. Altogether, this means that family business plays a somewhat smaller role there compared with Abu Dhabi and the region. Listed public companies, which are not family-controlled businesses for the most part, are stronger in Europe relative to the Middle East.

Many family companies or family-owned company conglomerates are governed by a small circle of insiders or even a single family member. This has certain advantages, but it also carries certain risks. A family breeze, if carried out within the circles that also take decisions for the company, can implicate corporate governance. Talented nonfamily outsiders can be antagonized, and their interest turned away. However, in most cases, a strong rule by a family member or a small group of family stakeholders still ensures the best outcome for the performance of the family business, as was shown by the Credit Suisse study (see chart 2).

Opacity of a family business could impose potential obstacles for succession. Carrying forward the business responsibilities from one generation to the next is critical for any company. A leader of a family is potentially at risk of taking an ill-informed, irreversible decision that could lead to loss of corporate asset value.

The long-term sustainability of the business model of a family company or conglomerate is thus among the prime concerns and risks quoted by most family business members in surveys. Finding a solution for these issues is one of the most difficult tasks for a family business owner—besides successfully starting and growing the business in the first place.



# 17

**million employees  
are in family-  
controlled firms in  
Germany**

particularly strong role in the economy. This is due to the traditional role of the family, which in Islamic culture is the center of life. The value of the family and the related cultural rule set is emblematic for the family business. This is not confined to GCC countries. Family businesses where certain values are ingrained in the corporate DNA are found everywhere in the world (see chart 1).

This DNA includes values that tie employees to a family-owned corporation. Turnover of personnel is typically less frequent compared with other companies because of those quasi-emotional or material bonds that tie nonfamily employees to a business family.

In Abu Dhabi, and the GCC member states in general, family business had to cope with challenges of a lower oil price in the last couple of years. Businesses had to adapt to the downward slope that has dominated the economic landscape in the Gulf region since 2015. According to various anecdotal surveys from consultancies, including McKinsey, KPMG, PWC, and Deloitte, family businesses have weathered the more challenging climate and are now looking ahead again with confidence.

That being said, there is little else to be found in statistical publications when it comes to family business performance. This is partly rooted in the fact that family business is not a category that is usually

### International example: Germany

Most companies around the world are family-owned. In Europe, and in Germany in particular, family businesses form the backbone of the economy, the so-called Mittelstand. The Mittelstand (roughly translated as medium-sized enterprises) is particularly strong in Germany's manufacturing sector. Several players there are world leaders in their niche markets, producing highly specialized products.

A report by German institute ZEW says that, out of the 3,300 companies that existed in Germany at the end of 2018, around 90% were family-owned and 86% were controlled by a single owner. The number of employees in all German companies was 31.8 million, which included 17 million employees in family-owned and 15.8 million in owner-controlled firms.

The vast majority of these companies regard themselves as self-reliant to the point that they simply do not want the state to interfere in their business, either in a negative form or in a positive way to support their business, such as granting subsidies.

Still, since politics in the western world is what it is, family business is represented by an association in Germany, Die Familienunternehmer, which represents the interests of family-owned businesses in the public discourse and toward the German government. On the European level, there is the EFB association operating to protect the interests of the family-owned companies.

For most family businesses in Germany, a sustainable business strategy that prioritizes long-term viability over short-term success is the overriding goal. Company owners are concerned about their lifetime achievement and thus in many cases need the business as a retirement scheme and eventually want to ensure they can hand it over to the next generation.

However, demographic change requires company owners to think differently about succession. The 2019 report from the German Foundation for Family Companies (Stiftung Familienunternehmen) noted that it might no longer be possible to hand over because the next generation is simply not there, or potential successors might not be qualified or look elsewhere for a job that offers better perspectives.

Most challenges for family businesses in Germany are identical to those faced by family businesses in Abu Dhabi. There are different nuances. In Abu Dhabi, the desire to keep a business within the family is likely to still be more pronounced, partly owing to the cultural role of the family in Islam and

a more favorable demography. That being said, demographic change will likely sooner or later take its toll here as well.

### Abu Dhabi Global Market (ADGM) and the Tharawat-NYUAD cooperation

Recognizing the importance of family businesses for the economy, Abu Dhabi has been actively seeking to improve conditions for family businesses. Two examples stand out: the Abu Dhabi Global Market and the cooperation between the pan-Arabian Tharawat family business forum and the Abu Dhabi campus of New York University.

The opening of the Abu Dhabi Global Market on Al Maryah Island in 2016 institutionalized support and facilitation of private-sector asset management on behalf of Abu Dhabi authorities. Easy access to registration, a large number of double tax treaties in force, zero domestic taxes, the status of an UAE company, common law jurisdiction, and other goodies—all under one roof—attract investors from in and outside of Abu Dhabi. Investors with a family business background are particularly welcome.

Meanwhile, the Tharawat family business forum, established in 2006 to provide, among other things, thought leadership and the opportunity to network, offers learning and educational programs to support family business in the Arab world. The forum signed a cooperation agreement with New York University Abu Dhabi in April 2017 to launch a project on family business histories.

This unique project examines the history of family business in Abu Dhabi and the Arab world. It creates an archive for oral and written histories of family-owned business across the region and will publish case studies and other examinations, using this trove of documents that have not been collected and brought together before in a similar way.

### Interview results

In the course of preparing this report, the research team had the opportunity to talk to executive members of family-owned business companies. The interviews touched on several aspects of the business involved and asked about key performance indicators, such as revenues and jobs supported. In the following section, we summarized the answers from these interviews.

The interviews revealed a common pattern. Family businesses, like almost any other business in Abu Dhabi, rely heavily on government projects. Therefore, government spending heavily impacts their performance. This has been the case in the past, and



**Cash is something many smaller companies rely on due to lack of credit lines**



Chart 3: Policy areas touched by the interviews



### Counter-cyclical: Government could spend more to kickstart demand

until recently this pattern has not changed fundamentally.

Meanwhile, smaller-scale businesses with less business history are less dependent on government projects and tend to grow faster (from a lower base of course). Yet, the issues that were revealed echoed the recommendations given in the previous report of the Abu Dhabi Chamber on entrepreneurs. Issues like access to financing and bureaucratic hurdles were mentioned.

The discussion also related to whether the companies involved have benefited from support schemes of any kind from the government. We also asked whether there is something the government can do to support a family company or business in general from a family business point of view.

In all cases, the comments are driven by the genuine desire to ensure that Abu Dhabi is a great place to do business. This is their home and they are happy to do business here. Many family businesses are immensely proud of their achievement and their business and will do everything they can to ensure the prosperous future of their company. One interviewee said, "This is our home and we will stay no matter what. Our money will stay here, and our business will stay here."

In terms of concrete benefits, therefore, company executives noted that financial support to hire locals was appreciated as a scheme where companies had a direct advantage. Family businesses are loyal to their employees—one refused to lay off people in the past years despite the market downturn not only because of faith in the

company and the economy, but also because of a level of social obligation they feel toward the people they employ and the country they live in.

Family businesses have an enormous social and economic impact on Abu Dhabi. Smaller contractors and businesses rely on large family businesses to survive, while the larger businesses provide many jobs and impact consumer sentiment.

However, the introduction of the value-added tax (VAT) at the beginning of 2018 was noted differently. While one company acknowledged a brief blow to its sales but without any longer-term consequences, another company said that the VAT is still a drag on its sales.

Yet another said the VAT has heavily increased its operating cost, while also acknowledging increases in utility cost, rising interest rates in the past five years, and a worsened market condition. The short-term revenue boost achieved by adding the VAT comes at a time when the private sector is looking to the government for support while the cost of operating a business is rising during a market downturn.

### Recommendations

The research team has extracted and compiled a list of recommendations, such as policy measures and new initiatives, that came up during the interviews. Some of the aspects mentioned are specific for family owned companies, and some can be seen as measures to improve the business environment in general.

The Abu Dhabi government has created clear long-term goals and plans that have been well received. For family businesses that rely on government support, clear government policies and stable long-term action plans are essential. The government should continue to improve communication. Changes to rules and regulations should be updated promptly on office websites in order to notify businesses of changes in a clear and informative way.

### Financing

Providing more and better options to finance and bankroll a business is one of the most common traits of interviews with family business companies. Family businesses find themselves in the same position as a startup company (because, in many cases, they are one) with a need for venture capital to finance expansion.

However, oftentimes, the need for credit touches on even more basic payment mechanisms. If more banks offered more generous credit lines for family business, costs could be reduced because many companies complain that they have to pay in cash for virtually everything. If they were able to draw on a credit line with a bank, that would ease the burden with cash management and enable them to focus on their core business.

Local banks could provide better support to family businesses in the long term. Financing and debt restructuring are issues that some local businesses are facing in the wake of the market downturn.

For example, selling off company assets in order to pay back debt is not a realistic solution since the price a company can get is not favorable. One recommendation is for banks to give extensions and work with companies to find a long-term solution, or more time to sell an asset at a preferred price—benefitting the bank and the business.

Banks can begin by looking at their non-performing loans (NPL) and work with the company to find a long-term solution. Banks are in an ideal position to play a more supportive role in order to help private enterprises flourish.

The key is incentivizing banks to foster long-term relationships with local businesses by growing with private sectors in the long term. The government should continue to support the private sector by facilitating better communication between banks and businesses.

Another recommendation is to level the playing ground for private companies. For example, private companies need a 100% cash margin in order to get a bank guarantee,

whereas banks do a 0% guarantee for government projects. Changing this balance even by small increments would better support the private sector.

With the Khalifa Fund, the government of Abu Dhabi has already provided a tool that helps startup companies in many ways, not least with providing financing schemes. However, providing ordinary banking services is of course not among Khalifa Fund's tasks, but it is rather essential for many businesses. Nudging banks to offer more generous credit lines is therefore a good way to support family business and improve local business conditions.

### Government spending

One theme that resulted from the interviews was the demand for more government spending while cutting costs. This is predicated on the strong role of the government and governmental entities for the economy.

The government influences private-sector spending as many private-sector companies rely on demand induced by the government, either directly through government purchases of goods produced by the private sector or indirectly through wage payment for an employee and the related household who would purchase such goods or utilize services. Many, possibly most, family businesses rely heavily on government projects.

For an economy like Abu Dhabi, there is a case for a relatively high level of government spending. Despite its high per capita income, which came from its oil wealth in the past, the economy still has properties of an emerging economy in many ways.

As the economy morphs from an oil-producing to an innovation-driven economy, a stronger role for the government is warranted until the private sector can take over. More public spending—within affordability and purpose constraints—could be a means to support the private sector for a certain time frame.

### Cutting regulations

Cutting regulation is a frequent request from all businesses around the globe. The Abu Dhabi Chamber has made positive steps toward minimizing regulations. Abu Dhabi has already significantly improved and ranked 12th in the World Bank's Doing Business survey. However, there is still more to be done.

The following examples were mentioned during the interviews. Family businesses in the UAE—just like elsewhere—can be



**Awareness:  
Local content  
could be increased  
if local companies  
knew about  
projects sooner**



# #12

**ranking worldwide  
in the World  
Bank's 2019 Doing  
Business report**

limited by succession, family feud, or other reasons. More options should be available to transition themselves if required, such as an option for IPO. Loosening regulations on percent ownership or providing more options would be helpful.

To register a business, one company owner suggests that the process can still become more efficient toward a one-stop shop, while at present, multiple visits are still required. Reducing the paperwork required to set up a business makes the process more user friendly and open. Clear communication of the streamlined registration process currently in place can help the Abu Dhabi business community to be better able to benefit from government policies.

Moreover, another owner feels that costs for foreign visa are still a burden, especially for smaller-scale businesses and export-oriented companies. Reducing the complexities of the visa process and costs for visa application will help companies venture into new markets more easily.

#### **Family business council**

Local businesses would greatly benefit by having a properly established "family

business council" in Abu Dhabi where all family businesses can gather, exchange ideas, and form plans. This could be set up by family business themselves with assistance from the government or set up as a government entity. Such a council can give family businesses a voice so they can be heard as a group with quick and effective feedback.

One possibility is to consolidate some business activities between family businesses to create a better business environment for all. This would best be a decision made by the businesses themselves, hence another reason to have a "family business council" where the owners can meet and exchange ideas.

#### **Freelancing as hiring scheme**

Freelancing can be an inexpensive way to satisfy personal resource needs on a short-term basis. There is a clear benefit for both the freelancer and the employer.

For the former, a short-term engagement might just be the right thing to do, either as a test before picking up a more permanent job or personal circumstances do not permit a longer-term affiliation. For the employer,





it is a cost-efficient and convenient way of filling a short-term resource need. The Abu Dhabi government could do more to support freelancers as this employment scheme is of particular interest for family-owned businesses.

“This is our home and we will stay no matter what. Our money will stay here, and our business will stay here.”  
*Abu Dhabi family business executive*

### Local content

The question of how best to support local content in many ways reflects the struggle between big versus small. While the government favors local produce, the demand could be spread more evenly across all company sizes of local origin.

To put it simply, the largest local company might not always offer the best deal. Looking further than just the well-known brands could help a smaller outfit to gather reputation and embark on a new growth path. Moreover, awareness about large-scale projects is critical in the first place, and is a potential task for institutions such as the Abu Dhabi Chamber to follow up on.

### Promotional activities

Advertising projects and making family businesses aware is important. Regular events where business folks and project

developers meet are therefore crucial, and the Abu Dhabi Chamber as one organizer of such events is already doing this. New platforms on the internet that might call out key projects for registered users could help to mend the awareness issue.

### Pension scheme for company owners

When Emiratis own a company and generate income solely from there, they no longer stay on the official pension scheme. This is potentially discouraging for people who think about starting a new business, hence the relatively large number of part-time business owners who are also employed by a government agency. Offering participation in the official pension scheme for a certain period after starting a new business could entice a potential entrepreneur to fully venture into the private sector. ■



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