



If it ain't broke, don't fix it

Sheikh Sultan bin Saud Al Qassemi on why the younger generations of family businesses should stick to the tried and tested strategies of their elders.

In a recent interview with *The Financial Times*, I was asked about how family businesses in the Gulf are faring as a result of the global financial crisis. I would now like to take this opportunity to elaborate on my opinions.

A family business is, in my opinion, an enterprise that includes some measure of control by the younger generation of the family. There are two types of family businesses: one in which the founder or an elderly family figure retains some measure of control and one in which the younger generation has a higher degree of control.

There is a struggle within each family business regarding who calls the final shot. I believe that on the whole (although there are certainly a number of exceptions), family businesses in which the younger generation plays a bigger part are worse off as a result of the financial crisis than those businesses in which the older generation has more say.

There are many reasons for this deduction. For one, the younger generation (those 40 and under) grew up at a time of riches in the Gulf, taking such issues as food and water for granted. But for some of their parents, fruits and vegetables were a luxury – forget valuable imports from Europe and Japan.

This generation is generally less street smart than the older generation and can easily fall prey to the neuro-linguistic programming savvy banking executives who try to convince them of complicated investment products that neither seller nor buyer fully understand. I've seen them all before: derivatives, structured products, hedge funds and other so-called "opportunities of a lifetime". I've turned them all down before and will turn them

all down again in the future. The elder founders of family businesses are not likely to fall so easily for a product that requires a fancy power point presentation to win over the investor. If an individual doesn't know where his money will be going even after a 20-minute show, despite the irresistible promised returns, then common sense dictates that he refrain from investing.

Typically, an elder person who has worked hard for his wealth will, indeed, refrain. But a younger person, often over-ambitious, eager to prove his prowess and armed with new ideas from his western education, will try to commit his father's hard-earned liquidity to such get rich quick schemes.

Stick to what you know

There is also an issue of core competency that must be adhered to. If your strength is, say, automobile sales, then don't venture into hotels or industrial production. That is the advice that Mohammed Abdul Jalil Al Fahim told a recent gathering I organised on family businesses. The Al Fahims sold their non-core-competency assets and concentrated on what they knew best. This is advice that all family businesses in the Gulf can make good use of.

The world is full of people who have wasted their fathers' money by taking excessive risks and venturing out of their core competency safe zones. For the sake of being politically correct, I will refer to a non-GCC example: that of Donald Trump himself.

The high-flying, so-called investment genius is a prime example of the younger generation expending its parents' money and seeking the limelight and celebrity

status. Fred Trump, a name not common on all tongues, was the real person behind the wealth of his famous son. The older Trump started slow and steady with a target niche market of building for middle-income clients in New York City. By following this approach, he was able to amass a sizable wealth that was estimated to be US\$300 million¹, most of which was used to bankroll his son's high profile investments such as casinos and iconic towers in Manhattan. The flashy, camera-friendly celebrity mogul Donald Trump abandoned his father's time tested approach and saw his policies lead him to declare bankruptcy on numerous occasions.

I will not be surprised if some fathers in the Gulf begin to take decision-making powers away from their sons as a direct result of this financial crisis, especially as they come to terms with the extent of what their sons have embroiled their enterprises in. Also, like Fred Trump in the early 1990s², some fathers in the Gulf may even have to bail out their more sophisticated sons' flamboyant ventures.

Ultimately, it may all boil down to maintaining tried and tested investment strategies that have accumulated the wealth of the older generation. There is no need to reinvent the wheel of commerce. To use a popular idiom: if it ain't broke, don't fix it. This financial crisis might prove to be the real education these kids never got in their western universities.

(Footnotes)

1 <http://www.nytimes.com/books/00/12/03/reviews/001203.03margolt.html>

2 *ibid*

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