Client Alert –

Virtual Roundtable Synopsis

Good family and corporate governance: managing through turbulent times

Geopolitical conflict, supply-chain disruption and economic uncertainty are testing the resilience of family enterprises worldwide. A recent virtual roundtable, hosted in collaboration with the John L. Ward Center for Family Enterprises at Northwestern University's Kellogg School of Management, suggested that resilience is rarely created in the middle of a crisis.

It is more often the result of decisions taken years earlier such as:

- Clarifying the relationship between ownership and management
- Agreeing how the family will exercise its voice
- Embedding shared values in operating protocols and establishing trusted processes for difficult decisions

The discussion brought together family owners, operating business leaders and close advisers from the Gulf Cooperation Council (GCC) region, Latin America, Asia and Europe.

The panel featured

- **Zayed R. Alzayani**, Chairman of Alzayani Investments and former Bahraini Minister of Industry, Commerce and Tourism

- **Professor Matt Allen**, John L. Ward Clinical Professor of Family Enterprises and Executive Director of the Ward Center

Five principal lessons emerged from the discussion.

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John L. Ward Center
FOR FAMILY ENTERPRISES

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Good family and corporate governance: managing through turbulent times

1. Governance should be established before it is needed

The central message was straightforward: a crisis is the wrong time to begin designing governance.

Mr Alzayani described governance as comparable to an insurance policy. A family hopes that it will never need to rely on every provision, but the arrangements must already exist when difficult circumstances arise. His family began developing its governance framework in the 1990s, when the ownership group consisted of three brothers. The framework subsequently evolved as the business developed and the next generation prepared to enter the enterprise.

Starting early matters. It is considerably easier to discuss rights, responsibilities and expectations while the family and shareholder group remain relatively small than after ownership has dispersed across generations, jurisdictions and potentially hundreds of shareholders.

Governance should nevertheless remain dynamic. Family charters, ownership policies and decision-making arrangements need to be revisited as the business, family and external environment change.

2. Separate ownership, management and family relationships

One of the foundations adopted by the Alzayani family was a clear separation between ownership and management.

Family members remained owners regardless of whether they worked in the business. Those who held executive roles received salaries for their work, while ownership returns and business funds were treated separately. This reduced the risk that access to company resources would be confused with personal ownership rights.

The family also decided that senior executive positions should be held by professionals from outside the family. This was presented as a deliberate choice for that particular enterprise rather than a universal model. Its purpose was to protect both the business and family relationships: removing an underperforming external executive is fundamentally different from dismissing a sibling, child or nephew.

The broader principle is applicable across family enterprises. Families should define:

- The rights attached to ownership
- The qualifications required for employment
- How family employees are appointed, assessed and remunerated
- Which decisions belong to management, the board, owners or family institutions
- How conflicts between these roles will be addressed

Without this separation, an operational disagreement can quickly become an ownership dispute and then a family conflict.

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3. Values must be converted into decision protocols

Values become particularly useful when they have already been translated into practical guidance.

Professor Allen referred to family businesses that entered the pandemic having previously agreed their responsibilities towards employees and customers. When demand fell, these companies did not need to invent their principles under pressure. Their established values informed decisions on retaining employees, accepting short-term costs and preparing for recovery.

In some cases, maintaining the workforce created an advantage when conditions improved. These businesses did not need to rebuild teams, rehire employees or recreate institutional knowledge before responding to renewed demand.

The lesson is not that every family enterprise should reach the same decision. It is that the enterprise should understand in advance how its purpose and values affect choices involving employees, customers, communities, liquidity and investment.
A values statement that does not influence resource allocation or management behaviour offers little protection in a crisis.

4. Long-term ownership can support both speed and stability

Family ownership can create two apparently contrasting advantages.

First, concentrated ownership can allow an enterprise to respond quickly. A relatively small and aligned ownership group may be able to approve changes more rapidly than an organisation with fragmented ownership and competing short-term interests.

Second, the family's generational horizon can provide stability. Family enterprises are often able to consider investments, relationships and regional commitments over decades rather than reporting periods.

During the subsequent discussion, participants described maintaining pre-committed investments despite regional uncertainty. Selective geographic diversification was also being pursued, but not as a substitute for existing commitments. The discussion highlighted that continually reversing capital allocation in response to each episode of conflict would make a genuine long-term strategy impossible.

The discussion also challenged the assumption that resilience always means becoming leaner. In suitable industries, maintaining additional capacity, preserving operational options and investing during uncertain periods may create greater resilience than maximising short-term efficiency.

Such strategies require strong balance sheets and careful risk assessment. They also require owners and boards to distinguish between disciplined long-term commitment and an unwillingness to reconsider an outdated strategy.

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5. Documents cannot substitute for trust and leadership

Formal frameworks matter, but no governance system operates by itself.

Participants repeatedly returned to the importance of leadership behaviour and tone from the top. A family charter, shareholder agreement, board or family council will not compensate for an absence of goodwill or a refusal to respect agreed boundaries.

Professor Allen observed that governance is only as effective as the process through which it was developed. Families sometimes focus on obtaining the visible components—a protocol, council, constitution or board—without undertaking the difficult conversations that give those structures legitimacy.

Those conversations may involve disagreement over purpose, employment, distributions, control, succession and individual expectations. Avoiding them may produce an elegant document, but it does not produce shared understanding.

The increasing availability of generic and AI-generated governance documentation makes this distinction particularly important. The value lies less in the document itself than in the discussion, negotiation and commitment behind it.

A participant from Latin America questioned whether formal governance would have helped once trust had already been broken. The exchange also illustrated that what appears to be a governance problem may sometimes be an unresolved succession problem. Adding another committee or policy will not resolve an avoided succession decision.

Questions for owners and boards

The virtual roundtable leaves family enterprises with several practical questions:

- Could the family make an urgent decision without renegotiating who has authority?
- Are ownership rights clearly separated from executive roles, remuneration and access to company resources?
- How is the voice of owners consolidated as the shareholder group expands?
- Have stated family values been translated into practical guidance for investment, employment and stakeholder decisions?
- When were the family charter and ownership arrangements last reviewed considering the current generation and business strategy?
- Are present tensions genuinely governance issues, or are they symptoms of an unresolved leadership or succession question?

Governance cannot eliminate conflict, disruption or uncertainty. Its purpose is to ensure that the family does not have to redesign its decision-making system precisely when circumstances are least conducive to calm and rational discussion.

The most resilient family enterprises do not wait for the storm to determine how they will act. They establish the principles, roles and relationships while conditions still permit thoughtful disagreement.

Watch the 20-minute panel discussion