

In this article, we explore the concept of the family constitution, what its overall objectives are, and why implementing one can be a sensible choice for family-owned businesses in the Middle East.

The value of a family constitution for family-owned businesses

Family-owned companies represent around two-thirds of businesses in the Middle East, and it's clearly a successful model, with those companies contributing the majority of the region's GDP and employing around 8 in 10 of its workers, according to the Family Business Institute, as we illustrated in our [recent infographic](#) on the topic.

But the family-owned model comes with its own unique challenges—dispute resolution, succession planning and transfer of ownership, as examples, can all be more complex than in non-family businesses. In order to regularize and professionalize their business affairs, family business leaders are increasingly opting to put in place a family constitution.

Why do family businesses need a constitution?

To put it simply—the point of a family constitution is to codify various elements which affect the running of the business, and therefore to provide a single source of truth in the event of a disagreement. When family businesses start out, the founder is usually the

ultimate arbiter when it comes to questions about policy, succession, ownership, and so forth.

But as family businesses mature, ownership is divided more widely, and the number of members involved in the executive and management function increases, implied or verbal commitments are not sufficient. This can create difficulties in decision making, delegation of responsibility, and assignment of authority. To ensure everyone involved understands their role and influence within the organization, a written document is needed.

What is a family constitution?

The objective of a family constitution is principally to maintain harmony between the business and the family members—whether directly involved in the business or not. This can include acting as a tool to limit intra-family disputes, providing a unified response to unforeseen events, managing the transition between generations, clarifying the role, responsibilities, and expectations relevant to each member, and codifying agreed norms for addressing ownership issues.

It can also act as a record of the family's history, philosophy, and values, to ensure that these are preserved and respected over time, even as ownership structures or management hierarchies change and evolve. Rather than an immutable, binding document, the family constitution should be composed as a toolkit or guidance framework, which will inform decision making in the future.

How does it work in practice?

Implementing a family constitution can be relatively simple for smaller businesses, with greater potential for complexity in larger organizations.

A common starting point is to define the family mission statement in terms that all members can agree on—although this may seem like a minor achievement, it can lay the groundwork for a more expansive family constitution by providing a benchmark against which to test future proposals or ideas. Each element of the family constitution should support the family mission.

The family constitution in larger organizations may lay out a governance structure for the business, defining the internal bodies which will have authority and control over different areas including family support, the family office, the management of family wealth and the way in which the family integrates and interacts with the business. Examples include:

The Family Assembly - meeting annually for one or two days, usually including all adult family members. Some families may choose to include in-laws, family members ineligible for or preparing for ownership, or children under the age of 18 as they feel appropriate. The objective of the family assembly is to unite all family members behind the core mission of the business, to embed family values and principles in the DNA of the business, and to ensure current and future members understand and are involved in decision making, strategy and reporting.

The Family Council - larger families may form a family council, with one or two members from each branch of the family, to ensure equal representation. This body usually meets several times a year for one or two days to discuss current business issues, create policy, and plan strategy. The family council liaises between the wider family—i.e. those forming the family assembly—and the family business's board of directors, to ensure effective communication of views, policies, and plans.

Family Committees - in larger businesses it may be practical to form committees, which are made up of family members selected for their experience or expertise in a specific area of the business - for example, investment, charity work, or talent management. Those committees meet as regularly as needed, and report to the board and/or family council with findings and recommendations.

The benefits of a family constitution.

The key benefit of a family constitution (and the family assembly, council, and so forth) is to manage the relationship between the family and the business, in a way that ensures neither negatively impacts the other.

When implemented well, it provides protection against disputes or feuds which may arise, especially during the discussion or decision-making process surrounding key issues such as transfer of ownership or sale of shares, distribution of profits or dividends, recruitment

or hiring of new talent, and succession planning.

It can help to embed family values at the heart of the business, provide a clear code of conduct, and facilitate open and transparent communication between family members. In this way, the family constitution is an important element of the governance framework needed to ensure family businesses continue to thrive, succeed and grow over multiple generations.

MEIoD provides advice, resources and capacity building programs on corporate governance which is tailored to the unique needs of family businesses in the Middle East. For more information on the support available, contact info@meiod.org.

About the Author:



Maali Q. Khader is a highly experienced, effective, and trusted lawyer. Today she is a luminary in the corporate governance, sustainability, legal training, and advice sectors.

Maali holds a few concurrent roles, chief of which is CEO of the influential Middle East Institute of Directors (MEIoD), delivering advanced environment, social and governance (ESG) advisory and training to several prestigious organisations.

Since 2012, as Founder and Board Member, Maali has driven change and excellence across a number of leading organisations.