# How can Qatari families institutionalise their businesses?

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The legal steps

As in other GCC states, family owned and managed businesses contribute significantly to the economy of Qatar. Families in Qatar participated in the economic boom and have accumulated significant wealth and financial power.

Yet this wealth can be lost when families are confronted with a succession crisis or when there has been a failure to train and prepare the next generation for the transition of the family business.

Family business restructuring is therefore a cornerstone consideration for families in business. The key is developing an institutional structure which enables the family business to survive over generations. This is known as “conversion”.

There is no single correct answer as to when and how to approach family business conversion; however, experience has shown that it is a necessary precondition for most family businesses to survive and flourish.

Successful conversion can:

- consolidate family assets;
- allow specialisation in the running of businesses and management of assets; and
- engage family members in the active management of the business within sound governance framework.

**What is conversion from a family business into an institution?**

The conversion process essentially involves taking a business that is owned, managed, and controlled by the patriarch (or the original founders’ generation), and transforming it into a fully fledged corporate structure. This process involves consolidating collective family assets and managing them using institutional practices, whilst sharing ownership and management amongst family members.  The ultimate objective is to grow and preserve the family wealth.

There are a range of legal issues involved in attaining these desirable objectives, starting from designing a legal roadmap, right up to implementation of the restructuring of all assets under the stewardship and governance of selected (or elected) family stakeholders.

**What legal form will the business take?**

Often families operate their businesses and manage their assets though diverse entities, or a “sole proprietors” structure. Once the conversion decision is made, the appropriate legal form for the business (typically within a corporate holding structure) must be carefully crafted to allow horizontal, vertical and specialised growth. The conversion process should also allow machinery to accommodate potential future investment into the business without distorting or diluting the ultimate family holding and governance structure.

Company forms most commonly used are limited liability companies and private joint stock companies.  If implemented correctly, these structures can eliminate or at least reduce the need for stakeholders to offer personal guarantees to banks.

**How will the business be managed?**

Who from the family will lead the business? How will they be chosen? And why?

All these issues require a considered family document. The document may take the form of shareholders' agreement or a family constitution.

A family constitution can also be useful to record, reinforce and promote the family values and visionary insights of the original founding generation or the patriarch.

**Why is corporate governance a must?**

The term 'corporate governance' is overly used and is often a slogan. Nevertheless, sound corporate governance remains a key component of a successful conversion process because it can ensure the business is properly managed on an institutional basis with built-in checks to guard against breaches and errors.

**Is conversion Sharia'h compliant?**

Conversion of a family business can often be viewed, quite wrongly, as inconsistent with sharia'h inheritance rules. In fact, full sharia'h compliance is readily achievable with the right advice, and if required your lawyers can work together with learned scholars to ensure this outcome. Such advice is needed before and during the conversion process to ensure that the outcome is sharia'h compliant.

**Jurisdiction and governing law issues**

Family assets are often located across many jurisdictions.  Accordingly, legal input on the conversion and structuring considerations in the respective jurisdictions is required, along with appropriate tax advice.

Qatar is a civil law jurisdiction but it also incorporates the Qatar Financial Centre legal regime which can assist in adopting a hybrid civil and common law approach.  Such an approach, if carefully designed to respect the governing law, will allow the conversion process to benefit from common law concepts and documents not typically available under civil law regimes.

Understanding enforceability under Qatari law is vital for a successful conversion process capable of surviving the transfer between generations.

**Conclusion**

It is our view that conversion, as described in this article, is no luxury –  it is essential for a family business to flourish and endure. This transition is not only necessary to grow and preserve family wealth, but also to position Qatari families to contribute even more effectively to the rapid economic progress Qatar is now experiencing.

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