A Review of the Family Business Landscape in Egypt

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According to the Egyptian Centre for Economic Studies (‘**ECES**’), at least 50 – 60 percent of Egyptian companies are family owned. These companies contribute around 80 percent to the national income, constitute about 75 percent of the private sector’s activity, and employ approximately 70 percent of the labour force. Unfortunately, there is a lack of accurate statistics on family businesses in Egypt, due to the overlapping of the properties of some companies and the acquisition of influential shares in subsidiaries or public shareholding companies, as well as the establishment of some closed companies between businessmen and banks.

During the 1950’s and 1960’s Egypt witnessed a dramatic decrease in family businesses due to the nationalisation policies of the Nasserist regime. Family businesses were revitalised during the late 1970’s following Egypt’s adoption of free market policies. However today, family businesses in Egypt are facing a succession problem, whereby only 30 percent of businesses continue after the death of their founders, while only 3 percent of businesses continue until the fourth and fifth generations.

Whilst the emerging generation is highly qualified and ready to accept the challenges facing family businesses (such as internationalisation, innovation and digitisation), and yet, at the same time, they continue to maintain a desire to retain the core family values of the business with a view to respecting the legacy of previous generations. Keeping family values alive, as well as growing the company in a rapidly changing economic and business environment, are the main challenges facing the current generation. The leading family companies, together with the introduction of the Egyptian Company Law, have played an important role in promoting the sustainability of family businesses.

Eng. Hazem Hassan, Chairman of Hazem Hassan KPMG, a leading company in the professional services’ sector, affirmed Egypt’s family companies’ commitment to ensuring the continued development of the management and transfer of leadership to future generations by indicating a willingness to seek professional advice. The practice in Egypt shows that the sustainability and growth of a family business requires a legal framework, capable of regulating all the potential conflicts and setbacks. Christopher Bernard, a French expert specialising in family businesses, is of the view that family businesses that have been handed down to the third and fourth generations are the ones that have succeeded in preserving the family legacy as well as the business. However, this is not the case for all businesses, and hence the early stages of the establishment and constitution of a family business should be clear regarding relations, policies and mechanisms of operation so as to ensure the reduction of tension at all stages of continuity, and transfer of leadership. Some businesses are stymied and unable to survive for future generations, because the transition from the founder of the company to the next generation is often considered one of the most difficult stages in the history of family businesses. In the main, this is because of the conflicts caused by the overlap between family relationships and the management and ownership of the business. Thus, each business determines its own legal framework itself in line with the nature of its activity, the family conditions, the successive generations and their willingness to manage the activity with their own experience or with external advice.

In the last 30 years, family businesses in Egypt have begun to open up to the markets and have changed from closed companies to public shareholding companies under continuous pressure from economic and social changes. Equally, the advantages provided by the Egyptian Capital Market Law, which gives companies tax advantages when they are registered on the stock exchange once they become public shareholding companies, is one of the reasons family businesses tend to be public shareholding companies.

In light of the importance of family businesses to the continued growth of Egypt’s economy, it would be welcome for the government to implement an appropriate strategy to help understand the reasons why family businesses are struggling to continue past the third generation, with a view to identifying ways in which assistance can be offered, including, for instance, the reduction of taxes and participation in the cost of support programmes for the continuation of family businesses. However, for the time being the question is: what types of business structures are available for a family business under current Egyptian Law? There are various options available to family businesses depending on the size of the company, its capital, and its future growth and expansion plans:

Sole Person Companies (‘SPC’)

A SPC is an appropriate structure for a family business in its early stages. A natural person or a legal entity must be the sole owner of its capital and that person or entity has limited liability to the extent of its capital. A SPC shall have a minimum capital of EGP 50,000 (USD 2,800), which must be paid by the owner upon the company’s incorporation. As only one person may own a SPC, it does not have shareholders and it does not have any shares to offer for public subscription. The rules governing distribution of profits are the same as those that apply to LLCs and JSCs, except that profits are required to be distributed to the employees only as and when the capital reaches EGP 250,000 (around USD14,000).

The owner of a SPC is responsible for all of its affairs and the manager of such company must act as a reasonable person would in exercising his/her duties. The manager must not be involved in the management of any other company of the same type or of the same practice as the company. He/She may not contract with the company that he/she manages for himself/herself or for others, or exercise for another company any activity that the company carries out. A SPC will be treated as a LLC with regard to matters which the law did not address. Thus, a SPC shall be subject to corporate income tax at the rate of 22.5 percent of its net profits.

Limited Liability Company (‘LLC’)

The LLC is the appropriate structure for small-scale projects, not requiring significant financing. It could be the appropriate structure for companies involved in internal trade and the provision of services. A LLC is owned by its quota-holders (as opposed to shareholders) who each have limited liability equivalent to the value of their respective quotas (the equivalent of shares) in the capital of the company. Unlike a JSC, the founders of the LLC are not bound by an initial minimum amount of capital required on incorporation of a LLC, however, the only restriction is that the capital must be fully paid at the time of the incorporation of the entity. The law does not impose a minimum value for quotas in a LLC, however, the law imposes that the quotas in a LLC cannot be offered to the public.

Regarding the quota-holders, they may be natural persons or legal entities. In all cases, a LLC must have a minimum of two quota-holders at all times and may have a maximum of 50 quota-holders.

The management of the LLC could be effected by one or more managers appointed by the quota-holders. There are no legal restrictions on the number of the managers, he only requirement being that one of them must be an Egyptian national. The managers may be appointed for a definite term (which must be specified in the articles of association) or for an indefinite term. If the LLC has more than 10 quota-holders, a supervisory board must be appointed and at least three members of this board must be quota-holders.

Joint Stock Company ('JSC')

In the context of a family business, a JSC is typically a structure that an established LLC, which has been grown by the founders and second generation, may progress towards to help achieve expansion and future growth whilst, at the same time, ensuring stability. Egyptian Law imposes certain requirements that must be met in order to establish a JSC or, more commonly in the context of a family business, to convert another type of company to a JSC. A JSC will have an authorised share capital and must have issued, paid-up share capital. The issued capital may not be less than EGP 250,000 (around USD14,000) for closed companies and EGP 500,000 (around USD 28,000) if the company intends to offer its shares to the public. At least 10 percent of the share capital must be paid-up at the incorporation stage and at least 25 percent must be paid-up within three months following the incorporation. The law imposes that the full payment of the issued share capital must be made within five years of the date of incorporation. In the case of holding companies established for the purposes of stock dealings and investment, the issued capital shall not be less than EGP 5 million (around USD 279,000) of which at least 25 percent must be paid upon incorporation and the remaining amount must be paid-up within five years of the date of incorporation. A JSC is permitted to offer its shares to the public.

A JSC must have a minimum of three founding shareholders at all times but there is no maximum limit on the number of shareholders whether natural persons or legal entities. However, if the number of shareholders reaches 100, the company would be considered as having been offered to the public and the rules for public companies would then apply.

A JSC is managed by a board of directors that consists of at least three members appointed by the general assembly. The board of directors has full authority to represent the company vis-à-vis third parties. The directors shall hold a term of three years, except for initial directors, who are appointed for a term of five years. There are no nationality requirements for board members.

Success stories

There are many examples of leading family businesses in Egypt that have taken advantage of the current structures under Egyptian Law that have evolved over time to successfully transform a small closed family company to a larger LLC or JSC.

Mohammed Farid Khamis, the founder and owner of family business, **Oriental Weavers**, has said that the transformation of a family business is a natural development experienced by family businesses worldwide. When companies expand, they typically require more experienced management that is independent of the family, as the existing family management may no longer be effective on its own. When independent management comes on board, the company will typically implement more effective principles of governance, transparency and accountability. However, the family aspect of the company is maintained by the fact that the founding family continues to hold the largest amount of shares in the company.

There has been a wave of family-owned companies that have launched recently on the Egyptian stock exchange. Al-Ahli Real Estate Development Company, owned by Sabbour Family, is one of the most anticipated companies set to list in 2019 offering a 25 – 30 percent stake. Hussain Sabbour, Chairman of Al Ahli Real Estate Development Company, stressed that the introduction of family companies on the stock exchange is necessary for their continuity. He is quoted as saying ,

> *"The first generation creates the family company, 66% of the second generation develop the business, and the third generation goes bankrupt". He added, "Before the third generation,*

> *family businesses should be transformed into public companies through the stock exchange, which we are currently preparing for."*

Once listed on the Egyptian stock exchange, the Sabbour's family company will be subject to Egypt's Capital Market Laws and corporate governance guidelines, which include obligations in respect of financial solvency and evaluation of the company's performance on a continuous basis. It is hoped that the exposure gained form listing on the Egyptian stock exchange will attract foreign investors to invest in the company, and hopefully create international demand.

Examples of Family Businesses in the Egyptian Market

ElSewedy Electric, founded in 1938 by the ElSewedy family. The Company listed 25 percent of its shares to be sold to strategic investors specialising in the same field, in order to obtain funding for its expansion in a number of Arab countries. The company expanded both horizontally and vertically by providing more products and services and exporting products to several countries. Currently, the company has 30 production facilities located in 14 countries and exports its products to more than 110 countries worldwide.

Ghabbour Auto, the largest automobile manufacturer in Egypt, was founded by brothers Sadek and Kamal Ghabbour, and has thrived under the leadership of one of Egypt's most visionary business families. The company, has steadily transformed into what has been described as,

> *"a leading regional automotive producer and distributor guided by world-class executives with proven track records locally, regionally and internationally."*

Mansour Group, founded in 1952 by Loutfy Mansour, is another success story of a family business which started as a cotton company and is now a conglomerate. It was nationalised in 1970 under the socialist regime, but the Mansour family was able to continue its activities when Egypt returned to a market economy. The Mansour Group has dealerships with many international brands, like General Motors, who set up the first General Motors factory in 1985, and has since become the largest General Motors dealer in the world. The Mansour Family has negotiated deals with various international companies over the years, including Caterpillar in 1977, Philip Morris International in 1992 and McDonald's in 1994. In 2000, the company launched the first Egyptian-owned supermarket chain and launched Egypt's first discount store in 2006.

Azza Fahmy jewellery, in recent times, the fashion sector has had a boost with designers turning their 'talent' into a business family which look to have promising futures in terms of expansion. Jewellery designer Azza Fahmy launched her own business in 1969, with the help of her two daughters, Amina and Fatma.

Okhtein, a handbag brand, was founded by two sisters, Aya and Mounaz Abdelraouf, in 2013 and is now distributed on many luxury brand websites worldwide.

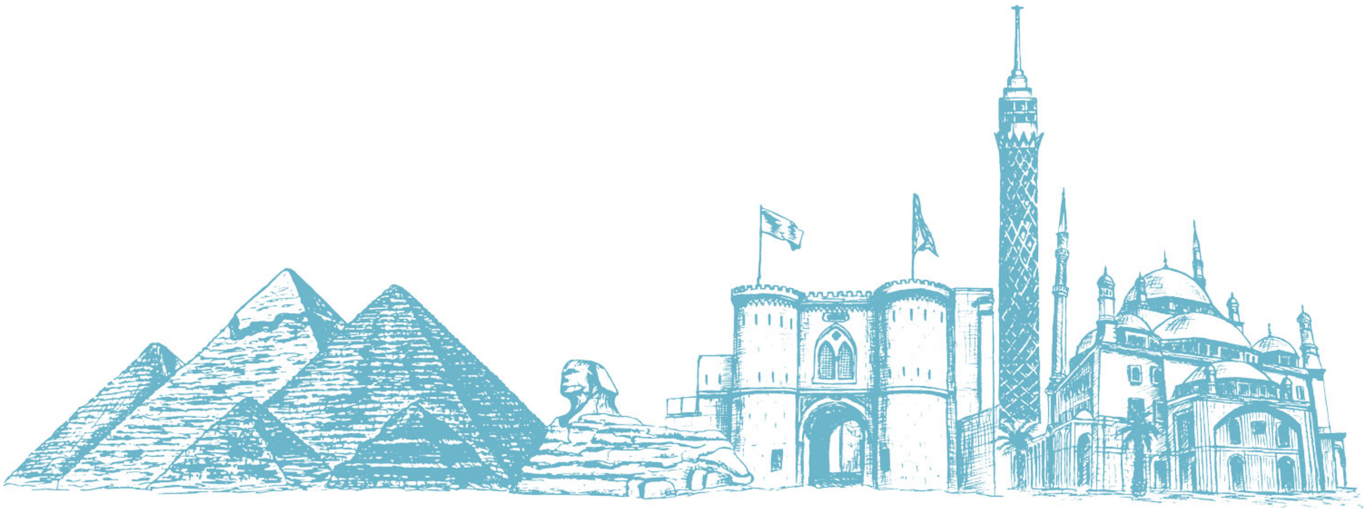
Helping Family Business Succeed

The prosperity of family businesses across various sectors shows that the current laws and regulations in Egypt can help to facilitate sustainability, growth and expansion. However, more could be done to assist family businesses with navigating the challenges that they face in so doing.

As an example the creation of a family council with a remit of offering guidance to family businesses with progressing their expansion plans, as well as other challenges that they face, could be useful. Family businesses are particularly vulnerable to corruption, illegal practices including fraud and deception, often due to the absence, or lack, of appropriate systems of internal controls and governance. It is, therefore, extremely important that businesses adopt clear and transparent systems of internal controls and governance to protect against such threats. For family businesses that do not yet have any independent shareholders or managers who may assist with this, a family council could be of great benefit in terms of offering an independent view.

In order for a family business to achieve longevity and be sustainable, it is critical that its founders (and subsequently their successors) involve their successors in, and expose them to, the day-to-day running of the business and offer advice, mentoring and guidance so that they gain the necessary experience required for managing the business early on in order to ensure a smooth transition and successful succession.

It is easy to establish a family business in Egypt, especially now that the law provides many solutions and alternatives to the founders of the business. History has shown us that often the difficulty with family businesses is not their foundation, but rather their continuation and perpetual prosperity after the death of the founders. The equilibrium between family relationships and business relationships is not usually granted, therefore, the key to success of the continuity of a family business rests in its legal structure.



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