

INDUSTRIAL DEVELOPMENT

Keeping it in the family

Why family businesses are an important engine for sustainable industrialisation

WHAT should countries do if they do not have or soon will run out of natural resources? Countries reinvent themselves based on their strengths, capabilities and comparative advantages. The goal of this strategy is to develop unique niches to provide the basis for future prosperity, an idea developed by Adam Smith in his 1776 treatise, *The Wealth of Nations*.

Other than oil and gas, the Gulf is associated with a boom in real estate. Real estate, as we have seen recently in Dubai, is not a suitable basis for a sustainable economy. It is not a productive asset; you cannot export flats. Even worse, if you build flats with imported material and labour you actually move value creation out of the country.

In the Gulf countries, the state-owned oil and gas companies constitute the beginning of the value chain by extracting natural resources. A first wave of downstream development was represented by state-owned companies moving into refining, the petrochemical industry, aluminum smelters and other basic industries. At the other end of the value chain, there are the many family companies active in retail and trading on the basis of agencies and dealerships. In between these two, there is a sizeable gap in the Gulf's value chains due to the

by Bernd Hoefler
thegulf@tradedearabia.net



almost complete absence of producing or manufacturing industries, other than basic ones.

In Germany, for example, small and medium-sized companies that are active in this gap represent 90 per cent of all companies, 90 per cent of total employment and much of the innovative power of the country. For the countries of the Gulf Co-operation Council, the question now is: who are the forces in the region able to bridge the value chain gap and to initiate broad-based industrialisation?

Government companies, monopolies and central structures are unable to do this, and, even if they could, the result would be undesirable state capitalism. The private, listed corporations are caught in the rat race of short-term growth, short-term performance and quarterly results. They cannot bridge the gap because their planning horizon is too short. Start-ups and entrepreneurs lack the capital and the structures necessary for the task at hand. Only one group of companies has the capital, long-term perspective, management capacity and business experience to build the economic backbone for sustainable industrialisation: the family business.

The only problem is that the family companies are

not doing it, yet, because they are strongly embedded in their background as traders. So far, there has been no necessity or incentive for them to change course. Family businesses need to reconsider their strategic approach and spearhead their countries' industrialisation for four reasons. Firstly, they have a patriotic duty to support job creation and long-term economic sustainability. Secondly, it is in their own interest to create an economy that provides sustainable jobs, and therefore income, to the population which secures the spending power of their retail customers. Thirdly, it contributes to managing the risks associated with the dependency on foreign product providers, and fourthly, it creates new growth opportunities to produce and export goods with more value.

In the first step, family businesses must identify and consider their existing strengths, capabilities and potential. These considerations must include, on the one hand, regional aspects

and advantages that allow greenfield developments in sectors such as renewable energy, aerospace or logistics. On the other hand, the companies' status quo is a starting point for enlarging their value chain through back-ward integration, up or downstream developments or even a complete change of focus.

Support will also need to come from the governments. One idea could be a "matching fund" whereby the government matches the companies' investments in industrialisation activities with an equal amount.

The overall conditions for a strategic shift in activities are excellent. Those who can take the lead and cultivate this change must now step forward. ■

Bernd Hoefler is chief executive of A9C Capital, a Bahrain-based technology consultancy and private equity firm, www.a9c.com