Al Saud Company Case Study

Saud Bin
Majid’s
Dilemma
“Arrows when apart are fragile but bound together are unbreakable.”

A saying attributed to Ma‘n ibn Za‘ida, an 8th-century Arab general.
Sultan Sooud Al Qassemi,
Managing Director of Al Saud Company
Upon returning to the UAE in the fall of 1998 at the age of 20 after a four-year stay in Paris and unexpectedly assuming a role with substantial responsibilities in the firm my family founded about 20 years ago, I realised I was out of my depth.

I proceeded to enrol in short-term courses and conferences that discussed the challenges faced by family businesses in the region. I had the opportunity to listen and learn from many leaders, but above all else, the candid and frank talks by members of leading family businesses who shared their experiences of dealing with conflict had the largest impact on me.

In reality, nothing can completely prepare a young man or woman for the responsibilities that a role in a family business entails. However, I realised that being armed with as much knowledge as possible of other cases in which disagreements had arisen can significantly help in resolving issues or avoiding them altogether.

Furthermore, philanthropy had always been a major component of my father’s beliefs. He had urged us throughout our lives to support numerous causes around the world. Upon his passing and based on one of his final wishes, we decided to allocate money to an educational cause in the UAE. We realised that many family businesses that do an equal amount of good are approaching a point of inflexion at which the businesses are being handed over to second- and third-generation members who, like me in my younger years, are not aware of the complexities of running a family business. As a result, many of these businesses end up closing down due to misunderstanding between family members.

Education has always featured prominently in my family as well. When my maternal grandfather passed away in 1958, my maternal grandmother insisted on sending her granddaughters to
school to pursue their education despite it being somewhat frowned upon by society in the 1950s. As a result, in the past few years, my mother, Na’ama Bint Majid, and my aunt, Mahra Bint Majid, have been recognised as the first teacher and the first school director in the UAE, respectively. My mother’s and my aunt’s success added to the impetus of funding an educational chair at a local university. The American University of Sharjah, being a leading educational institution, was the ideal home for such an initiative.

My family has always envisioned this initiative to be larger than a single classroom and to be targeted to the wider community. We are pleased to see leading members of family businesses being invited to speak and exchange views with each other as well with students and to witness wider initiatives, such as the Family Business in the Arab World Conference.

Securing the future of family businesses, which account for the majority of establishments and employers in the region, also means securing a better future for the region. In fact, several years since the establishment of the Sheikh Saoud bin Khalid bin Khalid Al-Qassimi Chair in Family Business, additional courses are still needed throughout the region for us to minimise the risk of potential misunderstandings within family businesses.
Family photos placed by the late Sheikh Saoud bin Khalid, founder of Al Saud company, under the glass panel covering his desk.
“Saud Bin Majid’s Dilemma”

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Like digging small canals that flow into a larger river, my investment policy entails making small investments in a variety of firms.

A saying attributed to the late Sheikh Saoud bin Khalid, founder of Al Saud company.
Introduction

Saud Bin Majid, grandson of the founder of Al Saud Company, walked through the long corridor that leads to the main offices and stopped in front of the last door. Having knocked on the door two times without receiving a reply, he opened it cautiously. From the portrait above the mantel, he felt the gaze of Sheikh Saoud Bin Khalid Bin Khalid Al Qassimi, his grandfather and the founder of the firm. In the office, everything was just as it had been when his grandfather was alive. Saud looked over his shoulder, making sure that no one was observing him. Stepping in, he closed the door and dropped down onto the sofa. The time for the succession had arrived, and he was to take over management of the Al Saud Company. The die was cast, and events that could not be reversed were now in motion.

Saud Bin Majid had long known he was expected to take over the family business and had worked hard, first at other firms and then within the Al Saud Company, to develop his own confidence and to earn the trust of the other family members.

Nevertheless, today, he reflected on the daunting task he had inherited. He asked, "How can a young man with a young man's limited experience in business and even in life manage the future of a firm and a family? How can I integrate the interests of the first, second, and third generations into a new balance between my family and our family business? How can I introduce necessary changes while maintaining respect for the legacies of our founder and the second generation of managers? Will I make my future within this firm? Do I have a future outside it?"

The Al Saud Company is a family firm established in the late 1970s by Sheikh Saoud Bin Khalid Bin Khalid Al Qassimi in
the Emirate of Sharjah in the newly established country of the United Arab Emirates (UAE). The new country enjoyed rapid development, and Saud Bin Majid took part in the boom by opening a firm that did business in the construction and real estate sectors. As the years passed, the company continued to grow, benefiting from the opportunities offered by the rapid growth of the UAE and the surrounding Gulf Cooperation Council (GCC) region.

In 2004, the family faced a crisis: Sheikh Saoud fell ill, and it was suddenly apparent that the issue of succession had not been adequately addressed, leaving the future of the firm uncertain. However, the family pulled together after Sheikh Saoud’s death, uniting around the firm. More than 10 years later, the Al Saud Company is again in a state of transition, now to the third generation of leadership. The transition period occurs amid the backdrop of significant changes in the family and in the business environment and will demand leadership if the continuity of the business is to be maintained while continuing to satisfy the growing number of shareholders.
The Family and the Business

The origins of the family firm can be traced to Dallal Street in Colaba, Mumbai (then known as Bombay), where Sheikh Saoud spent part of his childhood living in humble circumstances with his grandmother, Ummi Mariam. He had moved to India for medical care that was unavailable in Sharjah at that time. After spending seven years in Mumbai and two years in Sharjah, at the age of 14, he moved to Kuwait, spending his time with his mother, Fatima; his grandmother, Mariam; and his maternal uncle, Ibrahim. In 1964, he got married after returning to Sharjah to work in the accounting department of the Kuwaiti Office in Dubai.

Settling in Sharjah, he started his own business building small shops in the rapidly developing coastal districts, renting rooms above the shops, and finally building apartments for middle-income families. Sheikh Saoud’s business was developing at a time of rapid economic growth in the Emirate of Sharjah. He was able to recognize opportunities and exploit them. In the beginning, Sheikh Saoud accepted risks as a necessity in his attempt to escape from poverty and to create, expand, and then consolidate his firm, earning a respected name in society throughout the process.

Sheikh Saoud and his wife Sheikha Na’ma had seven children. All the children were granted shares in the firm from the time of their birth. After the death of their father in 2005, there was a shift in the percentages of ownership, and a family charter was drawn up to ensure that the family remained together, united through the firm. Two brothers, Majid and Sultan, took control of business operations. Saud’s father, Majid, became the chair of the firm, while Sultan took over as the managing director.
Arabic poetry newspaper clippings placed by the late Sheikh Saoud bin Khalid, founder of Al Saud company, under the glass panel covering his desk.
Saud bin Majid with his grandfather Sheikh Saoud bin Khalid, founder of Al Saud company, on May 13th 1990
The rest of the shareholders had minimal impact on the business’s daily decision making. In the particular context of the UAE and considering the sectors in which the family firm competes, risk was the main concern. Therefore, there were two important issues to maintain the health of the firm: 1) preventing the firm from taking on financial risks that could threaten the wealth at the root of the firm and 2) maintaining a sufficient return from that wealth to keep the family united around the firm as the best vehicle to manage the family’s wealth. Majid and Sultan understood the need to control risk and, consequently, developed a clear investment strategy in this sense.

Majid, having extensive experience in the business and being the eldest male in the second generation, took primary responsibility for overseeing the business, while Sultan managed and successfully strengthened the relationship between the family and the firm. Sultan persuaded family members to define specific spaces for interacting and discussing both family issues and business issues. For instance, he implemented annual family shareholder meetings as a way to keep the family informed about business activities and to debate relevant issues related to the management of the business, the ownership structure, and the relationship between the family and the business.

Due to Sharia law, male family members hold shares representing higher percentages of firm ownership than female family members. In fact, it is not uncommon in the region for male family members to buy the shares of female family members, leaving control of the firm entirely in the hands of male descendants. The Al Saud Company, however, defied this local tradition, leaving female family members with their shares in the firm, albeit representing lower percentages of firm ownership than their male counterparts (see Figures 1 and 2). While this decision is progressive in terms of gender equality, it exacerbated issues related to firm unity and control by increasing the number of shareholders and increasing the potential for exponential expansion as the family tree continues to develop more branches. Since Sheikh Saoud’s death, the firm and family cohesion required by Majid and Sultan’s vision was maintained by Sultan’s leadership in the family sphere, assisted by Sheikha Na’ma, who took on an important role in settling contentious issues through her embodiment of the legacy of Sheikh Saoud.
Figure 1:
Family Ownership Profile
before the Death of the Father
Figure 2: Family Ownership Profile after the Death of the Father

- Majid (Eldest) 15.9%
- Sultan 15.9%
- Majd 7.9%
- Nourah 7.9%
- Layla 7.9%
- Abdulaziz 15.9%
- Saud

- Naaema (Mother) 12.5%
- Khalid 15.9%
- Sultan 15.9%
- Layla 7.9%
- Abdulaziz 15.9%
- Saud
The Business Model

When the firm began its operations in the 1970s, it was focused on the real estate and construction sectors. However, over the years, this model has been diversified through the redirection of profits into stock investments. While real estate and construction were focused within the Emirate of Sharjah, stock investments were focused within the GCC region. Sheikh Saoud developed a specific investment strategy to diversify risk across firms, industries, and countries within the region and to ensure stability while exploiting opportunities. However, Sheikh Saoud’s investment strategy was developed for a world that lacked the instant communication technologies of today, so his regional focus was necessary for him to gain familiarity with the main stakeholders and their investment positions across the region. In some cases, he invested in companies to access their financial statements and other records. With this long-term strategy, Sheikh Saoud had mapped a network of the influential investors across the GCC countries, allowing the firm to capture economic opportunities in the region while operating with businesses and individuals who were known entities.

During the 2000s, there were significant changes in the firm’s business model. First, there was a shift in business activities as a source of income from construction to stock investment. Sultan convinced his father to refocus the business model by internationalizing the firm’s stock investments beyond the GCC countries. Currently, stock investments are the most important source of income for the firm. As the stock portfolio grew, construction activity was correspondingly reduced in importance as the sector became more and more competitive, requiring significant amounts of new investment as well as specialized knowledge to participate, thereby potentially exposing the firm to correspondingly high risk.
Sheikh Saoud’s office has been left untouched by his family since he passed away on May 30th 2005.
Current Business Model

Al Saud Company LTD

Stock Investments

Construction

Real Estate
The current generation is managing the firm under the motto “do not take unnecessary risk.” This attitude is a part of the business culture even though there is some resistance from non-executive family members who would prefer to move into investments that offer higher returns or begin new business activities, such as construction and mall administration. So far, Majid and Sultan have been able to adhere to their motto and block risky initiatives from other family members, crediting their conservative approach with having minimized the firm’s troubles during the 2008 downturn, a time when many highly leveraged companies in the GCC faced disaster. In terms of investments, the company does not invest in technology companies, such as Facebook or Uber, because Majid and Sultan believe the sector is not mature, that current market valuations are not supported by P/E ratios, and that the rapid growth in share price for such companies is premised upon uncertain future growth. Similarly, the construction projects the company engages in are modest and make use of existing capital assets, avoiding any need to leverage construction costs against anticipated profits from the project under construction. The weight of the company’s business activities according to their capacity to generate income is as follows: stock investments = 72%, real estate and construction = 27%, and earnings on cash deposits = 1%. Since stock investment activities are the main source of income, the firm’s income growth is highly dependent on market fluctuations. Consequently, the company has a policy to distribute income from investments only when dividends are paid by the companies in which they are invested so that the income of the company’s shareholders does not directly benefit from capital gains in its investments.
Figure 3:
Total Income Growth (annual calculation)
**Figure 4:**

Growth Paid to Shareholders (annual calculation)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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<tbody>
<tr>
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<td>2015</td>
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<td>2016</td>
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The diagram visualizes the growth paid to shareholders over the years from 2006 to 2016.
A Change in Leadership

Things changed when Sheikh Saoud fell ill. His son, Sultan, joined the firm in the late 1990s to spend time with his father. During this time, he also learned a lot about the business. Sultan introduced several changes in the firm to modernize economic activities, strategies, and the family-business relationship by separating ownership and management structures to avoid operational conflicts. Although Sultan introduced changes in the firm, he remained very risk averse, and he did not believe the firm should enter into risky markets or new business ventures that could jeopardize its survival.

When Sultan and Majid became the leaders of the firm, they not only managed and controlled the daily operations, but they were also able to control voice in the ownership meetings with the support of their mother. They established a family charter to ensure that the firm and the family would stay together, even convincing family members to restore company assets that Sheikh Saoud had distributed before passing away. Sheikh Saoud believed that "arrows when apart are fragile but bound together are unbreakable," a saying attributed to Ma’n ibn Za’ida, an eighth-century Arab general, that was also important to Sultan. Sultan has been the primary peacemaker between the family members, which—like any family—had its share of disagreements. An important part of the family constitution is the buy-and-sell agreement, which prohibits family members from selling their shares outside the family and discourages even sales of shares within the family by setting the price of shares to be transferred at 25% below market value.
NO NEW BANK ACCOUNTS
NO IPOS
NO STRUCTURED PRODUCTS
NO FUNDS, PERIOD
NO LEVERAGING
NO PRIVATE EQUITY
NO LIFETIME OPPORTUNITIES
NO FINANCIAL FORECASTING
NO CURRENCIES
Sheikh Saoud's desk has been left untouched by his family since he passed away on May 30th, 2005.
Despite its restrictions, the charter enjoys broad support among the siblings because it is seen as honouring and preserving Sheikh Saoud’s legacy, and no family members have been so dissatisfied with the management of the firm that they have availed themselves of the buy-and-sell agreement.

In the second generation, the firm consisted of eight shareholders with a high degree of consensus among them to maintain the status quo, allowing for the adequate management of any conflict. However, the increased number of owners under the third generation and the potentially vast expansion in the number of future owners jeopardizes the stability of the firm and the family, because the numerous new shareholders will bring new ideas, intentions and expectations. In the 2016 annual meeting, all owners agreed that the children of the current shareholders, who represent the future of the firm, should attend the meeting as observers [no voice and no vote].
Sheikh Saoud’s desk has been left untouched by his family since he passed away on May 30th, 2005.
Majid and Sultan are still involved in the firm, but their interventions in daily operations are decreasing. Majid’s son, Saud, being the natural successor, was socialized and trained to assume the future leadership of the company. Saud Bin Majid has been trained to handle business operations and family relationships by his uncle, Sultan. In 2011, after finishing his university degree in finance, he worked in HSBC in Dubai and then at a local bank before joining Abraaj Capital for 18 months, which included six months in Singapore.

While it was Saud Bin Majid’s choice whether to take on the leadership of the firm, there was significant pressure to do so, implicitly or explicitly, from general culture and the family itself. He occupies a prominent position among the siblings and cousins—the eldest son of the eldest son, which has a special meaning in Arab culture. Just before starting his undergraduate studies, his father and his uncle made clear their desire to see Saud join the firm. Even more, the desire of Sheikh Saoud Bin Khalid Bin Khalid Al Qassimi, his grandfather, was that Saud Bin Majid would one day run the company.

Saud Bin Majid is facing a tough situation as he will have to manage a large number of shareholders while keeping the family united. He is optimistic about the future of the firm but believes that some changes are needed to maintain the unity of the family while implementing new initiatives to consolidate the firm’s strategic position. As the family and the number of shareholders continue to grow, the business will need to produce more income to satisfy these shareholders’ expectations. If the income produced through Majid and Sultan’s risk-averse strategies fails to keep up with these expectations, that itself will pose a risk to
Saud Bin Majid, the future leader of Al Saud Company
the future of the firm. Further, if the shareholders believe they could get a higher return by managing the investments differently, then even the 25% penalty for selling will not keep them from cashing out of the family business. Saud Bin Majid will need to manage tradition and innovation to maintain the family and the business.

"Without a change, the company risks stagnation. The prioritization of stability above all else could prevent any improvement to the way things are done. When my father and Uncle Sultan took over the company from my grandfather, they made a lot of changes, and it was the right thing to do. I believe the market now is different from my uncle’s period. Now, it may demand calculated risk taking to succeed. I really don’t want to risk this company. It is well established, it provides for the family, and it keeps the family together. Saud Bin Majid’ thoughts.

Saud Bin Majid then articulated his dilemma “So, while I see a need for change and a need to take on risk, I don’t want change for the sake of change or risk for the sake of risk. I don’t want to be the one responsible for damaging or ruining the company. Any changes would need to be introduced gradually, in a way that retains the consensus of the second generation.”

During one of Saud Bin Majid’s visits to his grandfather’s office, his eyes wandered upon some of the newspaper clippings Sheikh Saoud had saved under the large glass panel covering the desk. “White Elephant” read one clipping, “A business term that indicates a giant commercial project that turns out to be pipe dream.” Another saved clipping was reminiscent of a remark Saud Bin Majid once heard from his Uncle Sultan, “If you maintain the cohesion of the firm, it will naturally grow.” That newspaper clipping read “Beware of the erosion of blessings, not every stray is an opportunity.” Saud Bin Majid’s challenge may ultimately be to balance the risk-averse status quo and the wider range of existing opportunities.
Al Saud Company Case Study

“Saud Bin Majid’s Dilemma”
Note to Instructors
Synopsys of the Case

This case study focuses on Al Saud Company, an Emirati family-owned firm established in late 60s. The case tells the story of Al Saud Company and the family behind it, emphasizing the origin of the firm, family relationships, and transitional succession periods. Al Saud Company’s story is told at the particular moment of time in which the leadership is moving from the second to the third generation. Specifically, the case uses the perspective of the third generation. Based on the trajectory of the firm, the case study raises the dilemma that any potential successor has: Do I have to introduce changes or maintain the status quo in terms of the firm’s strategy and family involvement in the firm? What kind of changes do I need to introduce: family changes and/or business changes?
Target Group

The case is suitable for basic and intermediate courses in family business and family entrepreneurship because it enables educators to introduce not only general topics specific to the family business classroom, such as succession, family and business structures (i.e., corporate governance), and family business evolution, but also specific topics, such as family business goals, succession intention, and family and business changes across generations. The case is written in a way to maintain the tension of the storyline, and it uses general lenses to describe and explain the trajectories of both the family and the firm thus far. For these reasons, the case could be used for undergraduate and graduate students from different disciplines. Additionally, the case could be used to help business families begin the succession debate and to put students’ own experiences into perspective.
3.

Learning Objectives and Key Issues

- Provide a general understanding of the nature of family business.

- Illustrate how the family and the business balance their needs across generations. The case serves to explore how the family business develops specific orientations: family-first, family-enterprise first, or business-first orientations.


- Contextualize family business in the Arab World.

Show how different pressures challenge the family’s and the business’s status quo across generations.

Illustrate how family business goals change across generations.


Discuss how to re-orient the family firm to be entrepreneurial and embrace successful practices.


Teaching Strategy

Ask students to read and prepare the case before class. A class of 75 minutes can be divided into three blocks:

- Block 1—20-minute discussion:
  - Question for students: Who is/are the main character(s) in the case study? Based on the students’ discussion, write the list of main and secondary characters on the whiteboard.
  - Question for students: What is/are the problem(s) in the case study? Based on the students’ discussion, write the list of problems the case study raises on the whiteboard. Try to separate general problems from the specific problem.
  - Question for students: When does this story occur, and Where does the story happen? Link the case study with the specific context of the United Arab Emirates. Based on the students’ discussion, write the most important historical, temporal, and contextual characteristics on the whiteboard.

- Block 2—40-minute discussion:
  - With the students, define the problem to be addressed: Will the firm be able to support the family’s lifestyle if it is passed from seven family members (the second generation) to more than 25 family members (the third generation)? Will the conservative wealth-management strategy developed by the second generation be able to support the third generation?
Based on the discussion with the students, write down the family and business challenges the new generation has to address on the whiteboard.

Based on the discussion with the students, write down the family and business changes the new generation has to introduce on the whiteboard.

Block 3—15-minute discussion:

- Discuss recommendations for how to solve the aforementioned problem(s): introduce/implementing corporate governance structures and creating a family legacy to engage the forthcoming generation.

- Use the model of changes during the succession process to define what kinds of changes should be introduced (if necessary) on the family side and/or on the business side.
The model of changes during the succession process
Main Concept for the Model

- **Non-Market pressure:** Non-Market pressure entails those forces coming from the family that may affect the firm’s pattern of actions. This pressure could be related to changes in the structure of the family (i.e., changes in the number of family members); changes in the roles that individuals play in the family and in the firm; and changes in the activities and actions that strengthen or reduce family ties, commitment, and the family legacy.

- **Market pressure:** Market pressure entails those forces coming from the environment within and outside the sector in which the firm competes. These forces include economic, social, cultural, political, and legal factors that can change the competition of the industry and affect the firm.

- **Level of status quo:** The level of the status quo represents the extent to which the new generation of family members recognize market and non-market pressures and introduce (or not) changes on the family side to maintain the harmony of the family-business relationship or changes on the business side to maintain firm competitiveness.
Reactions to Market and Non-Market Pressures

- **Inertia:** The new generation of family members is not able to recognize the market and non-market forces, or if they do recognize these forces, they decide not to introduce changes either in the family or in the business. The new generation prefers maintaining the status quo.

- **Family Changes:** The new generation of family members is able to recognize the non-market pressures (family) and decides to introduce changes to anticipate challenges that may jeopardize family harmony while maintaining the status quo on the firm side (e.g., via corporate governance or firm strategy).

- **Business Changes:** The new generation of family members is able to recognize the market pressures and decides to introduce changes to preserve firm competitiveness in the market while maintaining the status quo on the family side (e.g., via family corporate governance).

- **Revolution:** The new generation of family members is able to recognize that market and non-market forces can jeopardize family and firm survivability, and they decide to introduce changes on both the family and business sides.
5. Team Homework after the Class

- Propose an action plan for the firm to define future family and business corporate governance structures (family-business relationship).

- Propose a transgenerational entrepreneurship plan to define the shift from a wealth-conservation strategy to an entrepreneurial strategy.
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Christina Dimitrova
Kamran Farooqui
Family album