



THE HAWKAMAH JOURNAL

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THE GOVERNANCE JOURNEY OF A FAMILY BUSINESS

INTERVIEW WITH FOUAD MAKHZOUMI, CHAIRMAN OF FUTURE PIPES

We would like to explore the corporate governance journey of the Future Pipe Industries. And we would like to start from the very beginning, and we would like you to take us through the early days of the business.

What is now Future Pipe Industries was founded in 1984 in Dubai, after I recognised the immense opportunity in the pipe business, especially in the desert where there was a need for water distribution and also petrochemical production. We acquired the Eternit business in Dubai, which had been incorporated back in 1971 with the support and blessing of his Highness Sheikh Rashid bin Saeed Al Maktoum and which commenced production in 1973. Since then the

business has concentrated on meeting the needs of the region during its phenomenal growth over the past thirty years. We have grown alongside it and Future Pipe Industries' operations now span over twenty three countries, with over 20 sales offices and 13 pipe manufacturing factories, as well as offering services varied from design to engineering, to after sales support. The group has its own sales and marketing, internal audit, finance, legal communication & IT departments. Business grew and expanded with over three thousand employees and hundreds of customers, government bodies and private large companies.

Corporate governance in the Gulf has come a long way since the late nineties, driven by increased



public governance and greater awareness of higher standards. Our responsibility within FPI has always been to develop effective corporate practices which will also facilitate innovation and support business operations.

Let us turn to family involvement. It is often considered that family businesses do not start out as family businesses, but become so over time. When did you start viewing your business as a family business? A number of family members became involved in the business over the years, starting from 1980s. Did you encourage or discourage family involvement in the business? And how did FPI manage the process of hiring family members?

Over time and after several restructurings, and given the growth in the pipe industry and the opportunities it offered, I managed to bring in many of my university friends and my colleagues from Saudi Arabia to work with me. At a later stage I recruited brothers, in laws and cousins, with relevant experience of course. I didn't bring in the fresh graduates. I wanted them to work in other companies first, to gain experience before joining FPI. To an extent we have therefore always been a family business.

Progression into positions was according to merit and experience, not because of being a relative, as this was no privilege. The same goes for my son Rami. Rami was introduced to the factories from a young age and saw the business grow, even when he was still at college studying Business, I used to take him to attend negotiations for joint ventures and company acquisitions, to see things on the ground and not only through books.

When Rami joined the company he had to go through all the departments from procurement to manufacturing, to sales, to engineering, and so on. It was only after all training was done and he had attended the office and progressed in his skills that he earned his position as CEO, and in due time. When Rami took the lead he brought in a young team consisting partly of some of his childhood friends.

You always have confidence in family and friends to be by your side as they have your interests in mind, thus the interests of the business. Also they would always want to prove they are in such positions because they earned it and not because of their relation to the boss.

By the 1990s you had three young children, one of whom would later become the CEO of the company - when did you start thinking that you would like to pass the business on to the future generations?

There was no plan in my mind to compel any of my kids to follow suit. When Rami wanted to choose his major at university I took him around to visit many universities in the US other than the universities in London to see what was on offer and decide. It was actually Rami who decided to join the family business after a lengthy consideration. In 2003 my decision to appoint him as my successor was taken after a lot of thought and after watching him grow and perform in an increasingly mature and assured manner. Rami flourished with the responsibility, bringing passion, vision, ambition and great humanity to his administration of business, and it is under his leadership that FPI became as successful as it is today.

Let us turn to the grooming process – in the book “The CEO’s journey” – it is mentioned that you gently started grooming Rami without being explicit about it, taking him to meetings with people such as Pope John Paul II and Sir John Major. To what extent was this grooming as a father as opposed to grooming as a business man? What advice would you give to other business owners on how they should start grooming the second generations?

I believe that it's our responsibility to teach our children about life, the good and the bad, you guide them through and advise them. I believe if you succeed in having your children not making 50% of the mistakes that could have been done, then it is a job well done. Grooming kids for life is grooming them to face it all in day-to-day life and in business.

I am a great believer of preparing the young generation from early age. To get them involved in the history of the business and the achievements, as even if they decide not to work in the business, yet one day they will be sitting on the board as shareholders. So yes I am a believer in involving the second generation at early stages. I even believe in passing on the helm when the older generation is still able and capable to guide the younger generation through their first few years, so by the time they want to retire or leave this world, they know that the business is in good hands. I am a believer that the second generation will bring new original ways and up-to-date methods to move the company forward.

And once Rami joined the business, what role did the non-family employees play in the grooming process?

From the factory floor, to the executives reporting to him, to the board members, Rami was just a unique guy that earned great respect and a leadership role at such a young age. In each department he was advised, but he conducted his own research too. Of course feedback was given by the heads of departments to the CEO, who at the time was me. We also had many regular discussions to make sure that all questions Rami had in mind were answered. Rami was an observer and a good listener and that helped him progress through all





areas. And I did not offer Rami to take full office until I was fully satisfied that all was in order.

Businesses truly become family businesses when passed on to the 2nd generation, but many CEOs of family businesses find it extremely difficult to let go. However, you suggested to Rami in 2003, when he was 25 years old, that he should consider becoming the CEO of the company. Why do you think you were able to make this decision to pass on the business when many others cannot?

Passing the business on to your family is as much a matter of personal preference as a commercial decision, and one has to think that there is time when you let go, and better let go when you are still alive, still around and can still play a role even from the back seat. Thus ensuring that the business will succeed after you leave.

The overriding concern is whether any family member is both interested and has the right skills and experience, however, Rami understood the

culture of the company, and he was very good at taking a long-term view of what is best for the business.

Rami was even the one who suggested diversifying the family's personal investments independently of the business. He brought consultants to start a family office; to put everything in proper working order so as to manage the family business and assets and ensure everything falls in place for direct family, and other family members who work in the group and those who don't. He was the one who was behind introducing the disciplines to treat the company as a public one; the introduction of advisory board, stricter rules and transparency was one of the major fundamentals initiated by Rami. Rami had a lot of ideas that he brought to the business such as Corporate Social Responsibility and he tackled it from all aspects, responsibility towards employees (vigorous training and workshops for advancement), towards customers (better communication), towards upper and lower management to improve company performance as one team, towards the communities of the countries they are in and towards the environment, making FPI a leader in that field.

In the book "The CEO's Journey", there is a dialogue between you and Rami at the time when he was taking over as CEO:

Fouad: "Rami, you are coming from a different generation. So the management is going to reject you. The only thing is to prove to all of them that you deserve the post, not because your name is Rami Makhzoumi. You have to engage all these people, you have to give them credit where it's due, and you have to be very firm where it's needed."

Rami: "Give me time... And don't get involved."

A transition process such as this obviously requires that the new CEO performs, which he did, but what did this require from you as the current Chairman and former CEO? How did you manage not to get involved? Did clients, suppliers, staff and other stakeholders initially come to you?

At the beginning they did, but I directed them to Rami emphasizing that it's Rami who was leading FPI now. It did not take long before all realized that there was a new skilled CEO, and very rarely was I bothered after that. As for customers and suppliers they knew Rami, he was not a new comer, he had good relations with them, as I had done the introductions years back and slowly shifted the relation to Rami, so it was an easy transition.

As Rami said, to be able to prove himself, he had to be left alone, and not to be seen as my son. To help him do that, I took a step back and watched. Of course I was always there to give advice if needed, but it was discretely and never obliging Rami to abide, but left the decision to him.

Rami became well-known within the business community as a visionary leader and as the driving force behind corporate governance reform in FPI, but he was also instilling governance on the family side – he instigated the Family Office as well as the Makhzoumi Family Constitution. He also started preparing the business to go through an IPO and consequently a Board was set up. What was your view on these developments? What were the costs vs benefits?

As with every new thing, the old generation has its own views of how things should proceed. But Rami had been to London Business School for his Masters, he was involved in the Young Arab Leaders (YAL), and the Young Arab Presidents (YAP) associations, he was a speaker and a panelist in family business conferences, he was exposed to all the new challenges facing the modern world and he had a better vision of what should be done. At the end everything made sense.

In regards to the family constitution it proved to be the best thing that Rami did for the family, as it put us on the right track to move forward. As for the changes in the company, putting things in place; whether in HR, Communication, or IT, it was all a step forward towards his 2020 Vision which we are still working towards to this day.

As for the Advisory Board, it has benefitted us tremendously as we have members from the Middle East, Europe and US, who bring a vast knowledge and expertise to the table with a profound advice. Seeing things from outside the box is an asset. Any cost here is justified.

Additionally, there were several enhancements that happened on the management and on the board level. In particular, we have enhanced the risk framework and the risk management. Going through the IPO process, of course it was a costly exercise, and even with the IPO not coming through, the procedure itself helped us develop many of our current processes and practices to improve the efficiency, the transparency and the disclosure and enabled us to truly behaving like a public company. At the end the IPO did not go through as the decision was to withdraw at the beginning of the Financial Crisis; this proved to be the right decision during those challenging times.

In particular, the policies and procedures that were scattered all over the company were governed in one framework in a way that adds value to the overall structure. We have clearly defined the roles and responsibilities between the board and the management, in particular to have a greater, enhanced sense of accountability and responsibility between the two levels.

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How has the board added value to your business?

The board of directors in a family business is a structure that can help steer a business and provide direction for the organization. The board has a strategic function in providing the vision, mission and goals of FPI. Each of our board members has been appointed for their substantial experience and deep expertise, including backgrounds in governance and engineering, as well as energy and water resource management. With the board in place the risk and remuneration governance continued to be very important aspects.

What are the characteristics you most value in an independent non-executive director?

Being independent! That is the most important value. They must remain highly independent and ask challenging, often difficult questions. Being away from the day to day issues, help them see the bigger picture. It is like having a Bird's eye view, you can analyze better and point out things that people from the inside cannot. Independent non -executive directors need to bring a truly independent perspective, champion their area of expertise but not hide behind it.

You are the Chairman, you are the founder, largest shareholders – how do you conduct board meetings to ensure that the board does not become a group of yes men?

Well, when you are used to the old way of doing things it will be very difficult to change from that habit. But when you have an independent board that is appointed because of their expertise and experience you cannot ignore their recommendations, and you have to listen to their views. Mostly board level decisions are collective decisions, even if some decisions are not to the liking of some, the majority rules.

Looking at FPI's history, what do you think are the key takeaways for other business owners?

For a business to succeed you have to believe in it. To make it grow you have to grasp every opportunity. To become a market leader you have

to be innovative, to do so you need to keep on reinvesting your profit into the business, into new products, new machines, R&D and of course the most important asset, your employees.

In previous issues of the Hawkamah Journal, we have asked other prominent business leaders such Dr Helmut Maucher, the former CEO and Chairman of Nestle, about the role of business in society. What are your views on this?

A flourishing society depends on flourishing businesses. The role of business in society is a legitimate aspect of business leadership, an integral part of successful management practice and sustainable business building. Company leaders are not only leaders of business but leaders in society

Philanthropy is an important tool to support society by empowering the individuals to be self-independent, like what the Makhzoumi Foundation is doing in Lebanon. Also to give back to society charity is not the only means; you can give back by contributing to its cultural, educational, and political development.

Sitting on many boards, like the Institute for Social and Economic Policy in the Middle East, the Harvard's John F Kennedy School of Government, and the international board member of the Council on Foreign Relations, to name a few gives me the opportunity to be a contributor to the development of the national and international societies.

Corporate Governance is a subject close to Rami's heart, and after his passing away, a chair in his name for Corporate Governance was set up at AUB in Beirut. We are hopeful that with the book the Journey of a CEO will lead to more awareness of such an important subject.

Furthermore, corporate social responsibility has now become a primary concern at Future Pipe Group. A Vice-President CSR has been recently appointed to dedicate time to ensure that the business oriented activity does not ignore, at any time, its social responsibilities.

