



LOUIS B. BARNES

# The Khalil Abdo Group

## History and Background

Khalil Abdo, founder of the Khalil Abdo Company, left Egypt in 1929 to study at the American University in Beirut, Lebanon. After graduation, he returned to the family's home in Port Said where, in 1933, he became the sole owner of a family pharmacy. In 1946 Khalil established a wholesale drug business with one of his brothers whom he later bought out. In 1956 he opened a branch in Alexandria, and began expanding into other fields related to pharmaceuticals. He soon founded several Abdo trading companies which dealt with surgical equipment, cosmetics, and laboratory, industrial, and agricultural chemicals.

When Khalil passed away in 1960 at age 50, the business employed 30 people. He also left five children who were 18, 17, 16, 13 and 9 years of age. The rules of primogeniture and family tradition prescribed what everybody's future role would be as far as the business was concerned. Khalil's possessions, including company shares, were divided according to the laws of Islamic Sharia. Under the rules of Sharia, Khalil's wife inherited 12.5% of the company, and his mother inherited 25%. When the mother died, her four sons, Khalil's brothers, each inherited one-fourth of her share. Khalil's own three sons each inherited 16 2/3% of the shares while each of the two daughters inherited 6.25%.

Before he died, Khalil appointed his wife, his brother-in-law, and his best-friend as the guardians of his immediate family. According to Sharia Law, Khalil's brothers would automatically become their guardians unless he specified otherwise. Khalil appointed the other guardians because he had such poor relationships—financially and otherwise—with his own brothers. He did not wish to entrust his wife, minor children, and business to them. Within a short time, the appointed guardians chose another friend, a dignitary with solid business experience, to be the new managing director of what was called the Khalil Abdo Group

Among the three sons, Talal was the oldest, though only 11.5 months older than Sharif. The two oldest brothers were very close. Sharif described their relationship:

We were treated like twins. We went to the same school, were in the same class and even wore the same clothes. Talal rarely displayed jealousy towards me. I was always competitive with him, but he did not seem to mind. By the time we were teenagers, I started to develop

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Professor Louis B. Barnes prepared this case with Muna Sukhitan. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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more intellectual interests than he, and during our university years, we started to grow apart though still remaining each other's best friend. We were always there for each other. I beat him academically, but he was also a good student.

Zeid, the third and youngest son, was almost five years younger than Sharif. Partly because of this, he was somewhat distant from his older brothers and did not see them much until after he finished his own university education. Talal and Sharif treated him as "the little brother," and Zeid gradually developed his own friends. This separation created some tension, because Talal and Sharif tended to be critical of Zeid who felt the need to prove his competence. However, while they were all in school in the United States, they also tried to look out for each other.

Talal got married in 1964 to an American woman at his university. At that point, he and Sharif were still very close to each other. However, Talal and his wife soon became suspicious of Zeid's honesty with respect to some financial issues. That created enough tension to cause their relationship to deteriorate. Zeid, already feeling vulnerable as the youngest of the three brothers, resented Talal's accusations. Nevertheless, the sense of isolation after their father's death kept the three brothers close.

After his studies, Talal returned to Port Said and soon became chairman of The Khalil Abdo Group. In 1967, the company's head offices were moved to Cairo and Sharif returned to Port Said with his half Norwegian-half Egyptian wife to take charge of that office. They lived in the original family house with Sharif's mother and then, for several more years, with Zeid and his new American wife. As children arrived, the house became so crowded that, in 1976, Sharif and Zeid also moved with their families to Cairo. All three spouses, with their predominantly Western backgrounds, found the communal living style difficult. In this respect, Sharif observed that:

We were a very close family--business and otherwise. We three brothers would talk about the business daily, and there was rarely a day when we didn't get together in twos or threes. Rivalries were there but were controlled so that they did not affect the business. Our wives did not like this arrangement at all, but we were all sort of trapped together, physically and emotionally.

Nevertheless, during the period that all three brothers lived in Cairo, they worked well together and often traded off responsibilities on different projects. Talal did not overplay his role as CEO, but acted more as a team member. He also seemed reluctant to play the head of the family role, partly out of kindness and partly because he feared the feedback that would go back to other family members. Sharif added:

We believed for a long time that we were a bunch of orphans who must stick together. As the oldest son, Talal was always an enforcer of the family sticking together. However, his definition of family soon changed to include mostly his own wife and children. When it came to business, I tended to make the calls. There were probably flaws in Talal's leadership approach. He, in fact, did not show many leadership qualities as a child. I was definitely always doing the brainstorming when it came to business, and Talal and Zeid usually took my advice. We usually got together and allocated responsibilities. We switched projects from time to time until every one of us settled into his own domain.

In the early stages, the families were definitely interdependent, partly because only the brothers had to deal with each other. We didn't even take salaries. Whenever one of us needed money, he went to the company and took it. Later, as the families expanded, and more complex relationships developed, each family became more independent and each one of us ran his department as though it was his own fiefdom.

## The Business Develops

Over time, the three brothers ceased rotating projects among themselves, and by 1991 had divided their work so that each brother had his own special activities. Discussions about work became less common as did shared social contacts. By 1987, when the headquarters building became too crowded, Sharif moved to another office on the top floor of an office building five minutes away. Soon after that, Zeid also moved, but to another building, while the three brothers became even more involved with their own families.

During the early 1990's, each brother made all decisions about his own business areas. Talal ran The Khalil Abdo Co. Ltd. in Egypt, the mother company as well as the business in the Sudan. Sharif spent his time equally in Cairo and in Saudi Arabia where he was Managing Director of the pharmaceutical factory, as well as the agriculture and trading companies. His companies there generated 80% of the business' revenue. Sharif also managed several operations in Cairo. Zeid became Chairman of the pharmaceutical factory in Cairo, and looked after Sharif's work there when Sharif was absent.

These increasingly separate work divisions mirrored family relationships. As each family grew, new relationship patterns formed. Talal and Zeid's mistrust of one another was still intense, and Sharif usually mediated their disputes. New tensions also arose because Talal had four daughters and no sons. Sharif had the oldest son in the combined families and a daughter, and Zeid also had a son and a daughter. According to Sharia Law, it was a clear disadvantage for Talal to have only girls in his family. When there were only girls, the brothers of the deceased inherited part of his wealth, whereas when there was at least one son, inheritance remained within the immediate family: the wife, parents, and children of the deceased inherited everything. Thus, according to the Sharia law, Sharif and Zeid would inherit part of Talal's wealth while Talal would not inherit anything from either of them. Furthermore, according to Sharia, one could not change one's will during his lifetime. In effect, Talal could not exclude his brothers from his inheritance, although Sharif and Zeid promised Talal that they would never dream of touching his wealth should he die.

## Talal's Daughters

However, there were so many cases where uncles had taken their full share of the inheritance that Talal felt vulnerable. He became very protective of his daughters, and when they joined the company, they worked only for him. Talal's daughters also became suspicious of their uncles' motives and seemed highly defensive about any criticisms they received. They suggested that their uncles did not treat them well because they were women working in a masculine environment. This astonished Sharif, whose record was one of strong support for women's rights. "I do not really understand why they feel insecure," he said. "They are some of the most liberated women in Egypt and have individual and communal wealth."

Despite this support, Sharif still objected to his nieces' work ethic and performance. He felt that they treated the company as their own, though they had never received any training in management. From Sharif's point of view, they lacked interpersonal skills and did not respect appropriate working hours. Sharif added:

I think that the best way to address their insecurities is to make them believe that they are worth something on their own. But they will never be able to gain business sense without the training that makes them invaluable and highly productive in a business environment.

By the time Zeina, the oldest niece, joined the company after completing college in America in 1987, the business was becoming fairly large and diverse. About 500 employees worked in the various companies operated by the three brothers. Talal, Sharif, and Zeid were still reasonably familiar with each other's projects, though they had no formal system of reporting details to each other. Zeina, employed by her father, did not consult Sharif and Zeid on any issues beforehand. Talal continued to make all decisions about her responsibilities, salary and promotion, although Sharif and Zeid were dissatisfied with her performance right from the start. Sharif complained that:

When Zeina joined the company she could not hold a job. She had absolutely no training in business, but I did not want to burden her father by expressing my opinion about her competence. She moved from one job to another and from day one acted like a manager who knew it all. She is a well-meaning person, but she is highly emotional and not business-like. She first worked as an assistant general manager in human resources, then in public relations, and on to international trade. But her assignments were not pre-planned by the three of us, so her job was totally unclear. Zeid was totally dissatisfied with her work ethic and believed that she was not professional in the way she attended to her responsibilities.

In 1988, Talal, Sharif and Zeid agreed to begin formulating a succession plan. Talal had the security of his four daughters in mind while Sharif and Zeid wanted to lay out general policies and procedures for bringing third generation members into the business. At this point, Sharif's and Zeid's children were still young so that any talk of succession planning would only affect Talal's daughters in the short term. As it turned out, Sharif's and Zeid's concerns were not addressed at that time. Instead, the brothers began discussing Zeina's responsibilities, but never reached any conclusions. Talal became defensive about criticism directed towards his daughter and the other two brothers backed off, not wanting to object too much to Zeina's performance or to hurt Talal's feelings.

Two years later, still with no formal procedures for hiring family members, Talal employed his second daughter, Leila, again not consulting his brothers in advance. Leila became the general manager of Delta Labs, a small tissue culture laboratory owned by the company which Leila pretty much established on her own. Sharif and Zeid had the same complaints with Leila's work ethic and competence as with Zeina, but did not complain to Talal. Leila showed up late to work and would take several months of paid vacations each year. She occasionally covered her travel expenses with company money. Delta Labs was acclaimed a technical success, but was a complete business failure. Leila also supposedly kept track of some joint accounts for the three brothers, but she attended board meetings only once a year when she needed cash injections for her project.

Every few years, Sharif and Zeid would try to discuss certain objections they had to their nieces' management actions with Talal. Each time, after considerable discussion, the brothers would conclude that they needed to formulate specific policies, but they could rarely agree on the details. Whenever they could, the policies were implemented only halfheartedly for short periods of time.

In 1994, Aya, Talal's third daughter joined the company. By that time, Aya's two older sisters had established patterns of behavior which were difficult for even Talal to change. In discussing how the brothers could move the business into the third generation, Talal acknowledged:

I am really lost. I had better ideas before. The longer we waited to implement them, the harder it got. It was easier to make a plan 10 years ago than it is today.

Nevertheless, Talal still hoped to save the situation. Before Aya joined the company, he agreed with Sharif "to do this one right" and to have Aya work for Sharif rather than himself, but that never happened. However, whereas Sharif and Zeid believed that family members should receive no extra

compensation compared with non-family employees, Talal argued that family members should be better paid, because they were more dedicated and loyal than non-family members.

Likewise, Sharif suggested that family members should be monitored by non-family members in terms of their progress and compensation. He also wanted an organized selection process to select a new CEO for the companies based upon competency alone. He advocated appointing a single CEO who drew the businesses together.

The CEO should be responsible only to the shareholders of the company. It is disastrous to have persons watching out solely for their own interests rather than those of the shareholders. We should also avoid considering only the interests of one powerful family member as CEO, because we will then have problems with other shareholders and with the rest of the company. The advantages of being a family member could be weighted against non-family counterparts. An incapable family member could cost us many fold what we pay them as salary and could hurt not only that person but also the rest of the family.

Talal disagreed explaining that, for Abdo, there was little competition for senior posts. The diverse businesses permitted different family members to work in distinct fields with little overlapping of interests, he maintained. He further argued that, rather than bringing the different companies together under one person's leadership, individual family members should spread out into new fields and create new businesses.

Regardless of the business they generated, the three brothers received equal compensation with no bonuses. Sharif always remembered his father's statement that he was to take care of his two brothers and make sure that the three always remained equal. What became most frustrating to him was that with his disproportionate contribution, he not only did not receive financial and verbal acknowledgment of his efforts, but also faced the stress caused by his nieces' lack of respect for him.

In 1995, Talal finally resolved his dilemma of protecting his daughters' shares in the company on paper. He transferred 80% of his shares to his four daughters and explained that it would have been unbusiness-like not to do such a thing. Meanwhile, Zeina continued to undermine her uncles in the company. By 1996, her cumulative actions finally provoked Sharif to act again. Zeina kept interfering with Sharif's businesses and appeared to undermine his position. The straw that broke the camel's back for Sharif occurred when Zeina insisted to Sharif's employees that they take a specific business decision concerning the cosmetics factory which Sharif had clearly opposed. Sharif painfully searched for ways to make it clear to Zeina that he would not tolerate such actions, but he wanted to do this without hurting his brother, Talal. Sharif sent a formal letter to his niece as well as to the department heads expressing his objections to such behavior. Talal was furious when he heard about this. After several shouting matches during which Sharif threatened to leave the company, but supported by Zeid, the brothers began new discussions on planning third generation rules. The discussions seemed fruitful. Talal, Sharif and Zeid finally began expressing their grievances clearly. However, before the talks were complete, Talal went on a trip with his wife and the whole issue subsided. However, Zeina no longer overstepped her lines of authority with Sharif, though relationships between the three families became very tense. They rarely saw each other socially and business activities continued with Sharif still generating most of the profits. As he said:

I was torn. I felt secure in the extended family system and tried hard to keep it alive. My role was to keep us together because I saw clear strength in unity and advantages to having the Abdo Group. I also believed in both of my brothers. They were, in my opinion, hard workers and good in control. However, my brothers, both married to Americans, discarded the extended family system much sooner than I did. They stayed in it largely because I was there making most of the money and was trying to hold it together. My history as being the most

successful of the three, kept us together because either of them would have been crazy to break up with the company and lose my inputs. The whole thing always shook severely when either one of my brothers was dissatisfied with my performance. This happened occasionally.

## Other Third Generation Members

By 1997, the Khalil Abdo Group employed over 600 people, and management was spread thin. As the other members of the third generation grew, they became more aware of family tensions when they heard their parents speak of business issues at home. The cousins tended to adopt their parents' views and reflected them in their interactions with each other. Whereas Sharif and Zeid's sons and daughters were very close to each other in age and in their social circles, they were not on good terms with Talal's daughters who were older. They seldom saw them, and when they did, the situation was tense.

Khalil Junior, Sharif's son, graduated from a U.S. university with a masters degree in manufacturing engineering. He worked for a computer company for six months then joined one of Abdo's joint venture pharmaceutical companies in Egypt. There he eventually became involved in finance and administration. Even though Khalil Junior was hired by his father, he was accountable to many people. Nevertheless, after his son had worked for two years, Sharif encouraged him to leave the Khalil Abdo Group and work elsewhere for awhile. As Sharif explained:

At the age of 18, I had the privilege of working on my own. I had the freedom to make decisions without having to get permission. This was a valuable experience that I want my son to have. In addition to that, I've noticed that he was beginning to slide into the "privileged son" role.

Sharif also mentioned how difficult accountability could be for a subordinate if the boss was his or her parent compared with being accountable to an outside-the-family boss. For example, a child tends to ignore the authority structure in the workspace and would enter the parent's office without knocking. Sharif was also uncomfortable with seeing his son both at work and at home. As a result of these discussions, Khalil Junior began to seek work outside the family business, that would occupy him at least for a few years.

In 1997, three other members of the third generation--Sharif's daughter and Zeid's two oldest children graduated from college in the United States and were trying to decide whether to work in the family business or elsewhere. Zeid's son was enthusiastic about returning to Egypt to immediately begin working with his father. His sister and her cousin were more reluctant to go straight into the family business. They preferred to gain experience as well as independence by working elsewhere at least initially. Zeid was pessimistic about his children working in the company because he felt that the conflicts between himself, his brothers, and his nieces had already affected their impressions of the business in a negative way. He saw little hope that the cousins would improve that situation.

Sharif was also dissatisfied with the ways in which he and his brothers had managed their business and family transitions. He wondered if it was time to once again seek a better resolution and how it should be different this time. However, he too was pessimistic that the three brothers could lay any effective groundwork for their children's working well together.