Family Business Succession Planning

Achieving a sustainable future for one of the cornerstones of Middle Eastern economies

in collaboration with

WORLD GOVERNMENTS SUMMIT 2024

pwc

To Inspire and Enable **The Next Generation of Governments**

The World Governments Summit is a global platform dedicated to shaping the future of governments worldwide. Each year, the Summit sets the agenda for the next generation of governments with a focus on how they can harness innovation and technology to solve universal challenges facing humanity.

The World Governments Summit is a knowledge exchange center at the intersection of government, futurism, technology, and innovation. It functions as a thought leadership platform and networking hub for policymakers, experts and pioneers in human development.

The Summit is a gateway to the future as it functions as the stage for analysis of future trends, concerns, and opportunities facing humanity. It is also an arena to showcase innovations, best practice, and smart solutions to inspire creativity to tackle these future challenges.

Table of Contents

Executive Summary

At the World Government Summit in Dubai in February 2023, some 40 family businesses from around the world took part in a closed discussion about the future of family businesses in the GCC region and globally, highlighting emerging challenges and debating optimal government interventions.

Family businesses play an important role in supporting regional economies all around the world. In the Middle East the situation is magnified, with the largest family-run businesses each constituting many billions of assets in their respective nations. Yet as business ownership passes down through the generations and becomes diluted, these critical regional employers must work harder to maintain profitable growth as well as harmony and a unified direction across all of the family stakeholders.

One of the biggest challenges can be how to navigate inter-generational sensitivities and keep the peace between different branches of a family as second-generation, sibling-oriented ownership passes to cousins, multiplying the number of stakeholders and sharers of profit. This has implications for business growth and diversification strategies, requiring room for new entrepreneurship and risk-taking, within managed parameters.

Supporting the future of family businesses has become a strategic priority for governments across the Middle East, perhaps most visibly in the United Arab Emirates and the Kingdom of Saudi Arabia to date. By providing the right targeted support, these nations can not only de-risk inter-generational handovers, but also optimize opportunities for growth in a range of key industries as GCC countries look to diversify their economies away from oil.

At the same time, the Gulf region is also attracting family businesses from around the world, as an attractive and well-connected global base from which to continue building those enterprises. It follows that targeted advice on succession and strategic sector focus will have broad appeal for these businesses too.

With the right external support, next-generation family businesses can be encouraged to boost their activities and grow their capabilities and connections in strategically important sectors ranging from financial services, tourism and technology, to manufacturing and logistics.

This paper summarizes the highlights of the WGS Family Business debate session, including the proposed recommendations.

Introduction

Across the GCC region, family businesses founded by entrepreneurs some 60 to 70 years ago have diversified to become highly successful conglomerates, contributing significantly to local GDP and employment.

Today, a large number of these businesses are going through generational change, a process which, collectively, could see trillions of dollars changing hands from one generation to the next ('NextGen' leadership). Unless this transition is handled well, once-successful family businesses could fragment and fail, with a potentially devastating impact on economies and employment in the region.

Up to now, succession planning and governance has not always been a high priority for many family businesses in the GCC region, because of sensitivities around retirement and death, which are not easy to discuss between the generations.

Governments have begun to recognize the need for proactive intervention here, leading to some encouraging and targeted practical support for family businesses in the region.

In the UAE, new government initiatives include updates in the law, such as the introduction of a new ownership governance law, plus the establishment of the Dubai Centre for Family Businesses, to provide targeted practical advice on matters including governance, succession planning, and conflict resolution. Targeted events, meanwhile, are creating opportunities for family business owners and stakeholders to network and learn from each other.

The Kingdom of Saudi Arabia is also putting in place specific measures to help family businesses thrive and prosper. Along with a National Center for Family Business to strengthen the role of family businesses in the Kingdom and ensure their sustainability,[1] the Saudi government is implementing new laws to take the place of moral agreements as the basis for defining family relationships and rights within businesses.

Importantly, evolving government support isn't just around the transfer of ownership to the next generation. It also involves providing proactive guidance and help to family businesses as they adapt to the Middle East's transforming economy, and pursue new sources of revenue growth.

Dubai's plan for 2033 (known as D33), for instance, embodies that strategy – by looking to actively foster the success of key sectors including tourism, manufacturing, logistics, digitization/technology, financial services, and wealth management.

Family business leaders recognize this need to evolve, so ought to be primed to take advantage of these new support mechanisms. High on the list of priorities for family businesses around the world, but especially across the Middle East, is growth. In PwC's Middle East NextGen Survey 2022, 78% of respondents in the region (compared with 65% globally) said this was their top priority, to ensure and build on the legacy created by previous generations and to secure the family's continued prosperity and wealth.[2]

1: https://gccbdi.org/news/621924/

2: https://www.pwc.com/m1/en/publications/middle-east-nextgen-survey-2022.html

Given the relative size and sometimes complex make-up of families in GCC countries, growth is particularly important for these businesses if they are to maintain the same level of wealth for individual stakeholders as company stewardship passes down through the generations. That growth is likely to come from expansion into new markets, upskilling, and the use of technology, the same PwC survey suggests.

In PwC Middle East's most recent 2023 Family Business Survey 'Transform to build trust', 57% of respondents across the region want to improve their digital capabilities over the next two years.[3] Rather than be seen to interfere directly with family dynamics, GCC governments are looking at ways to help these private businesses adopt more of the formal governance structures and approaches seen elsewhere across the economy. Examples include more formal succession planning; take-up of appropriate legal provisions; and the establishment of more corporate-like boards of directors including independent members who are outside of the family.

To discuss some of the challenges of family business succession and future-proofing, Dubai played host to a debate session at February's World Government Summit in February 2023. Here, some 40 family businesses came together to discuss the future of family businesses, to highlight emerging opportunities and issues, and to debate optimal government interventions.

Highlights of the main themes debated are summarized over the following pages.

3: PwC's Middle East 2023 Family Business Survey
www.pwc.com/me/familybusinesssurvey

Section 1

Exploring New Frontiers: New Industries for Family Businesses

Family businesses have long been and will continue to be key drivers of the Middle East economy - as long as owners and stakeholders continue to pursue growth opportunities.

Across the GCC region, family businesses were mainly focused on fairly traditional domains including retail, trading, manufacturing, construction, and real estate. Although these routes have proved very successful, a good proportion of that business is now subject to disruption. In many cases, diversifying from their core activities will be critical if family businesses are to future-proof themselves and provide the growth in value that will be necessary to avoid the dilution of their wealth across lower branches of the family.

As many family-run organizations undergo a transition to third-generation ownership, bringing up younger generations into leadership positions, the chance to expand and take advantage of adjacent or new opportunities should increase. Yet this requires the right culture and structures to be in place to foster new thinking and innovation, which has implications for the way family businesses are organized, governed and run.

With the pressure to maintain double-digit growth in the GCC region, and to uphold levels of individual wealth for family members, there are practical considerations about how companies can deliver this while still maintaining harmony between the respective shareholders as younger generations compete for position in the company.

Section 2

GCC Economic Overview

As the Middle East moves away from its dependence on oil, there are other macro trends that are currently affecting the region's economic performance. There is global inflation and soaring interest rates, falling confidence linked to concerns about recession, and the impact on borrowing and housing. All of this has cemented the need for the region's economy, and the businesses that drive it, to diversify into new growth markets – a strategic pillar in the national agendas of regional governments.

Currently, the financial sector has a big hub in Dubai, for instance – which is already well on its way to becoming a leading global financial center because of its easy access to the rest of the world and its safe, secure environment for both businesses and families. Meanwhile tech and digital opportunities are growing rapidly across the Middle East, both linked to target verticals and as new revenue streams in their own right.

Related to these developments, the Middle East has also seen an influx of family businesses from overseas. In recent years, numerous family offices have moved to the UAE from Europe, prompted by a change in laws back home. In 2022, more than 4,300 families moved to Dubai, even if they have not (yet) relocated their main office premises. Attracting more international business is a key part of the UAE's strategy to balance supply and demand, and succeed in target industries with the right spread of skills. But here too, long-term success depends on the right support structures being in place to help these businesses grow and prosper.

Section 3

Adopting Commercial Leadership Strategies and Mindsets

Compared to family businesses, commercially-run and public enterprises are often better positioned to adapt to seismic changes in the market. This is because of the formal structures and independent advisors they have in place. That includes a balanced board of directors (including independent parties), and a robust and effective governance structure that can help the organization adapt and scale. Family-run businesses, on the other hand, can come up against internal family politics which prohibit responsiveness to external conditions.

In our recent PwC Middle East 2023 Family Business Survey, 28% of Middle East respondents said that they have only family members on their board, 45% have no-one under the age of 40 on their board and 19% have no-one from a different industry background on the board.

Even where there are no plans to take the organization public, family businesses do need to think and behave more like commercial enterprises in their roadmaps and plans for long-term evolution. To thrive and remain relevant and competitive in the market, they must consider their core strengths both now and in the future, and what this suggests in terms of next paths and actions.

How can they more effectively leverage what they have today to build capabilities for tomorrow?

Governments have an opportunity to help provide targeted support here, through advice on reskilling programs. Networking opportunities meanwhile could help encourage the cultural shift toward including more independent voices at board-level that may be needed.

Awareness of emerging threats and opportunities is key to any long-term business roadmap, yet too often large family businesses have a reluctance to undergo gravitational change. 'Entrepreneurship paranoia' – fear of failure in a new area – may exist too. Yet, technological and digital advancement and disruption is happening in almost every industry now, so all businesses need a strategy for these developments if they want to avoid compromising their future.

Certainly, technology and digital innovation are among the biggest drivers of growth both now and for the foreseeable future. Family businesses have an opportunity to capitalize on this trend if they can successfully leverage the energy and insights of their younger successors and absorb these attributes in a way that profitably augments existing activities, and creates new pathways for sustained growth.

Technology spans a wide spectrum, of course. There is both the opportunity to invest in technology to become more efficient in the way the current organization operates, and doing so for the sake of survival. Competitive organizations and services are being digitalized, so traditionally-run equivalents risk falling behind, not only through poorer efficiency, but also through a lack of data-based insights to inform decision-making.

Either way, all businesses need to embark on some sort of evolution to stay relevant and ultimately to survive.

Section 4

Maintaining Family Wealth and Building New Value: Strategies for the Future

If individuals from different branches of the family are not aligned on the direction and nature of future expansion, or the way that dividends are managed, this could be a barrier to managed diversification.

Since business growth and returns are all directly associated with risk, families must come together to agree on the company's risk appetite and profile. Then they can develop and refine a strategy for growth that everyone agrees on and which does not unduly expose existing business success and wealth creation.

Business leaders must also consider how the size, scale and diversity of the wider family can work more effectively as an asset to drive growth and prosperity: in other words, how the family (down to its farthest reaches) can be harnessed optimally as a positive resource for the company.

Preparing younger generations to contribute positively in their upcoming role in the business is important too, equipping them with skills and knowledge in emerging areas that are likely to be the source of future growth. This may require a different mindset and knowhow to that of previous generations, so continuing to think and operate as in the past is unlikely to be the most effective route forward for the company's younger blood.

Section 5

Rethinking Roles and Contributions

As family businesses evolve and pass between generations, strategies and roles need to be well thought out, to minimize conflict and maximize resources.

Considering how respective family members currently derive wealth or an income from the business and how that might look over time is important, too, with consideration for family members who don't want to participate actively in the company, despite being entitled to a share of its wealth.

Having a formalized internal Family Charter and Constitution becomes important here, in providing a framework that allows family members to secure ongoing wealth – via employment or through entrepreneurship, for instance.

Thought also needs to be given to how to retain and continuously motivate those currently employed, while also keeping the business feeling fresh and enticing to younger generations as they start to think about their own futures. As in any business, there needs to be a strategy for harnessing and engaging all talent, to ensure that ambitious targets are met. All of this needs to be factored into effective succession and generational change management.

Of course the business landscape has changed as a result of the COVID-19 pandemic, too, which is having a bearing on individuals' expectations about their work and careers. This too demands a response as family businesses pass between the generations.

Involving NextGen family members proactively in strategy-setting ought to automatically pave the way for fresh thinking, especially if they are given opportunities to network and share ideas with peers at events to support regional entrepreneurship and growth in strategic industries.

Government support initiatives can help here too, by helping to inspire a vision for entrepreneurship among upcoming generations, hand in hand with founding generations. One example would be by providing opportunities for NextGens to meet and network with successful entrepreneurs, helping them to understand and grow their appetite for opportunities and risk.

Evolving family businesses are recognizing the importance of balancing the board of directors so that it is both representative (for example, including NextGen family members) and able to action critical decisions. Well-run boards don't just have the power to determine the allocation of capital, for example, but also the freedom to hire (and fire) management. Including independent advisors on the board can help significantly here. If family businesses are unsure how to advance any of these scenarios – for example, how to appoint and run an effective board – they can seek external guidance from consultants, the newly-formed Dubai Centre for Family Business, or other similar organizations.

A well-balanced and empowered board will have the right mix of relationships, expertise, and knowledge. Issues for family business owners to consider include whether the existing board comprises the right skills and people to understand new growth areas, for instance those related to tech and digital opportunities. If it doesn't, adding board members with the latest knowledge and insights will help in challenging and opening the eyes of the existing leadership.

Section 6

Succession Planning and Managing Inter-Generational Relationships

Up to now, succession planning and governance has not always been a high priority for many family businesses in the GCC region. This is because of cultural expectations which make it hard for younger family members to discuss retirement and death with founders or current leaders.

Governments have begun to recognize the need for proactive intervention in this area, leading to some encouraging and targeted practical support for family businesses in the region.

The UAE has been proactive in its response to this, introducing a range of government programs and facilities to provide targeted help. In addition to a governance law around business ownership, it has set up a Centre for Family Businesses in Dubai with a mission to provide practical advice on matters including governance, succession planning, and conflict resolution. The government is also facilitating opportunities for family business owners and stakeholders to network and learn from each other, via a program of special events.

The UAE is not alone in such activity. Targeted measures are also in place in the Kingdom of Saudi Arabia, to help family businesses succeed. Specific facilities include the National Center for Family Business. This is designed to boost the role and ongoing sustainability of family businesses. New laws are being implemented in the Kingdom too, succeeding the moral agreements which had previously defined family relationships and individuals' respective rights.

Actionable Takeaways

Family businesses will continue to be part of the backbone of the Middle Eastern economy, provided they can keep moving with the times and do not find their value diluted as ownership transitions to younger and wider branches of the family group.

There has been a visible increase in family conflicts in recent years, as long-established family businesses have begun to transition from second- to third-generation ownership, introducing greater diversity and complexity to the line-up of stakeholders. Waiting until the company founder dies or becomes incapacitated to address the critical matters of succession and future strategy is all too common, but the situation persists because of cultural sensitivities around challenging elders or confronting the harsh realities of death or infirmity.

Government organizations and supporting partners can help with all of this, through targeted support, policies and laws, having identified the risks associated with non-formalized succession planning and strategic direction agreement. To effectively manage conflict, there is recognition that relationships between the family members in the context of the business need to be formalized, with high-quality underlying governance in place. Documented national rules and bylaws can also help define opportunities and engage the next generation, while providing guidance to the families when tightening their structures and devising their own governance and charters.

PwC, which has decades of first-hand experience of advising on and managing succession and governance in family businesses, across and beyond the Middle East, has a wealth of resources available on its website.

Author

Amin Nasser

Senior Advisor - Middle East Private Business

PwC Middle East

Email: Amin.n@pwc.com

About PwC

At PwC, our purpose is to build trust and solve the most important challenges facing government, businesses and communities. We are on a mission, bringing our community of solvers together to deliver human-led, tech-powered solutions from strategy through to execution, developing talent and scaling exponential opportunities that deliver sustained outcomes for our clients for future generations. We're a network of firms in 151 countries with nearly 364,000 people who are committed to delivering quality in assurance, advisory and tax services.

Find out more and tell us what matters to you by visiting us at www.pwc.com.

WORLD GOVERNMENTS SUMMIT

JOIN THE CONVERSATION

@WorldGovSummit

www.worldgovernmentssummit.org