Keeping it in the family: Family firms in the Middle East

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Foreword

The 8th PwC Family Business Survey is the largest and most comprehensive global survey to date. Senior executives from over 2,800 firms have taken part across 50 countries and sectors as diverse as agriculture, retail and manufacturing. In the Middle East, a wide range of companies were involved, both large and small, of which the majority were either conglomerates, retail chains or manufacturing firms.

Many of the issues highlighted in the survey have remained constant since the last survey in 2014, both across the world, and within the Middle East. This is particularly true of the qualities of the family firm and the strengths and challenges inherent in this business model. The most obvious example of the latter being succession planning. However, there is also a definite sense of evolution. In 2012, the dominant global themes were skills, scale, and succession – in other words, the practical day-to-day challenges the family firm typically faces. By 2014, this had evolved to focus on the need to professionalize: to sharpen up processes and institute robust governance, both for the business and the family. As we will see later, this agenda is far from complete, though progress is definitely being made.

In this year's global survey the shift is perhaps more fundamental: from the short term and the tactical, to the medium term and the strategic. The challenge is in the middle: having a strategic plan that links where the current state of the business is to its long term potential and prospects.

Family businesses in the Middle East are a vibrant and vital part of the region's economy, and are often much bigger and more diversified than their Western counterparts. They are successful, ambitious, and dynamic. But there are also issues they have to face if they are to fulfil their full potential. Some of these issues are external- in a recent report we looked at how the global megatrends are affecting the Middle East, and in the pages that follow we will look at these trends from the perspective of the family firm. But there are internal challenges as well. Many of these internal challenges are similar to those faced by all family businesses across the world, but shaped by local culture and business customs in the region. The six key areas we will highlight are succession planning, strategic planning, digital disruption, professionalisation, family and corporate governance, and the role of the next generation.

At PwC Middle East, we have experience of working with family businesses to help them manage their businesses, achieve their goals, and protect and enhance their family wealth. Being able to share with you insights about the sector in this biennial survey is of particular importance to us.

Firas Haddad
Partner, PwC

Antoine Abou-Mansour
Partner, PwC

Key findings of the 2016 Middle East family business survey

Governance and Succession

1. Succession planning

The most important challenge over the next **5 years** for ME family businesses

5 years

The most important personal and business goal over the next **5 years** is 'to ensure the long-term future of the business'

5 years

Family businesses with a robust, documented and communicated succession plan in place

2016: ***14%*** of ME businesses; ***16%*** of Global businesses

2014: ***9%*** of ME businesses; ***15%*** of Global businesses

No succession plan in place

2016: ***38%*** of ME businesses; ***43%*** of Global businesses

2. Need to professionalise

2016: ***50%*** say professionalizing the business is a key challenge of the next five years ***(43% globally)***

5 years

3. Conflict between family members

2016: ***53%*** of ME family business claim alignment between family and businesses strategies vs. ***69%*** globally

2016: ¾ of family businesses in the Middle East have at least one procedure/ mechanism in place to deal with conflict vs. ***82%*** globally

Globalisation and Internationalisation

1. Economic situation

Concerns about the economy in the next 5 years

2016 ME: ***61%*** vs ***45%*** two years ago

Growth in the last financial year

2016: ME ***74%*** experienced yoy growth vs ***64%*** globally

2014: ME ***79%*** experienced yoy growth vs ***65%*** globally

2. Internationalisation

Current international sales

2014: ME ***64%*** vs. Global ***68%***

2016: ME ***93%*** vs. Global ***70%***

3. Market and political instability/ Regulatory factors

The single most source of concern over the short term

5 year concern over market and political instability in countries of operation

2016: ME **32%** vs Global **33%**

5 year Concern over having to comply with regulations

2016: ME **43%** vs Global **42%**

Core business issues

1. Ability to attract talent

Family businesses say they work harder, than other firms, to attract talent

ME **65%**

Global **48%**

2. Financing growth

Family businesses find it harder to access capital than non-family businesses

ME **42%**

Global **32%**

Innovation and Digitisation

1. Need for continuous innovation

48% identify innovation as a key challenge to keep ahead in the next five years

(64% globally)

2. Keeping pace with the digitisation

48% say keeping pace with digital and new technologies is one of their key challenges **(47% globally)**, yet only **32%** think their business is vulnerable to digital disruption

3. Cyber security

Only **35%** believe their business is prepared for dealing with a data breach or cyber-attack **(45% globally)**

The role of women in the workplace

1. Gender of survey respondents

ME: **6%** of survey respondents are female

Global **15%** of survey respondents are female

2. Active gender equality programmes in place

ME: **25%** of firms have an active gender equality programme in place

Global: **54%** of firms have an active gender equality programme in place

The Middle East family business

"The three most significant challenges cited in this year's survey are government policy, legislation and regulation (42%), skills shortages (35%), and market conditions (31%)."

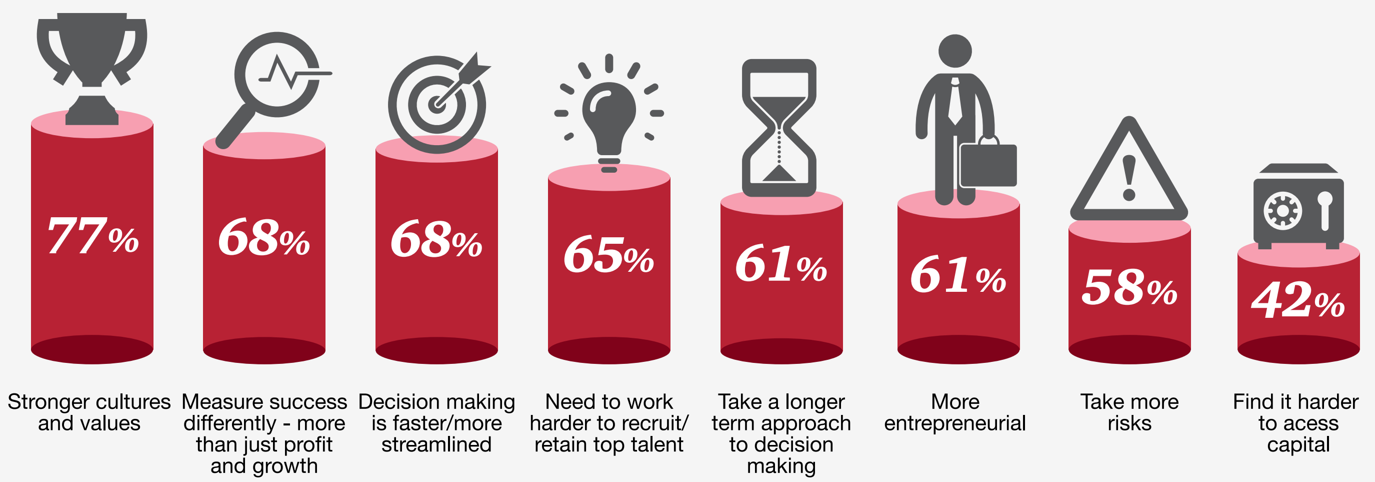
What defines and differentiates the region's family businesses

Family businesses are especially important in Middle Eastern economies, contributing 60% to GDP and employing over 80% of the workforce. These firms have succeeded because of a founding generation that possessed entrepreneurial insight, and developed high-level and successful political and financial relationships. They also benefited from the fact that they were doing business in countries that were enjoying rapid growth, where a more informal business and regulatory environment made it easier to do business.

While the region's family businesses continue to be active and successful, the political and economic environments are now changing, and this is affecting both their current performance and growth expectations. It's no surprise then, that the three most significant challenges cited in this year's survey are government policy, legislation and regulation (42%), skills shortages (35%), and market conditions (31%).

Respondents in the Middle East agree with their global peers about the qualities that characterise a family firm, though there are some factors that have an added importance. For example, more respondents in the region believe that family businesses take a longer term approach to their decision-making (61% compared to 55% globally), and are prepared to take more risks (58% versus 40%). However, they also recognise the challenges some family businesses face:

Fig 1: How family businesses differ from non-family businesses - % agreeing with statement in Middle East

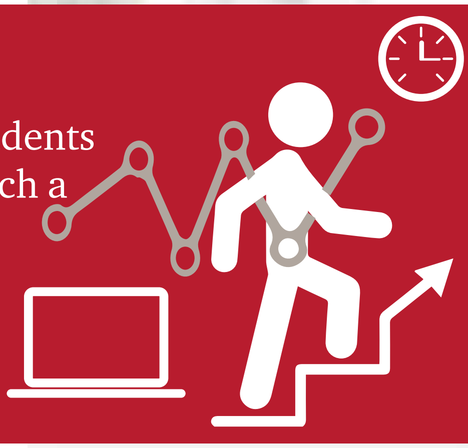


Q: Please tell me how much you agree on a scale of 1-5, where 1= Disagree strongly and 5 = Agree strongly

Base: all respondents (2016: Middle East=32, Global=2802)

It's noticeable that

50% of the respondents in the Middle East attach a high value to leaving a positive legacy, compared to 28% globally.



for example, respondents in the region feel they struggle more to attract and retain talent (65% versus 48% globally) and find it harder to access capital (42% versus 32% globally).

Leaving a positive legacy for the 'family name'

It's noticeable that half the respondents in the Middle East attach a high value to leaving a positive legacy, compared to 28% globally. This reflects the particular social culture in the region, and the importance of protecting and enhancing the family name.

Charitable contributions are a big part of this, and many family businesses have their own foundations. Likewise 16% consider that creating employment for local communities is 'very important' compared to a global average of only 6%. This has historically been a high priority for family businesses in the region.

‘A sense of responsibility’: Family, community, and nation in Oman

Sayyid Nasr bin Badr bin Hamad Albusaidi, SABCO, Oman

SABCO was set up in Oman in 1977, by Sayyid Hamad Bin Hamood Albusaidi and his two sons, Sayyid Sami and Sayyid Badr. The business was founded with a mission to provide local infrastructure and employment, and play an active role in nation-building. Forty years later, it’s a diversified conglomerate headquartered in Muscat, which now includes members of the third generation as both owners. It has interests in sectors as diverse as luxury goods, media and energy, and as is common elsewhere in the region – these different divisions allow family members to take a leadership role in their own specific business. But the company is also open to the contribution that skilled outsiders can make, and has a number of non-family executives at senior levels, including on the Group Board of Directors.

Sayyid Nasr is the grandson of the founder and serves as a non-executive director on the board of one of SABCO’s subsidiaries. He believes the company has gained a lot from bringing in outside professionals; “It is possible we might even appoint an external CEO at some point in the future. But this is a journey that will take time to implement and in the meantime we are keeping our options open by encouraging suitably qualified members of the family to consider a career at SABCO.” But such positions are only offered on merit, “We will no doubt have specific training programmes for the family so that we can match the skills they have with the skills our businesses need. Our aim is to develop them as leaders, whether they end up taking such a role in SABCO, or in another corporation. In general, we are looking to grow our business by fostering a entrepreneurial spirit among all our employees – in effect, by growing our own ‘intrepreneurs’.”

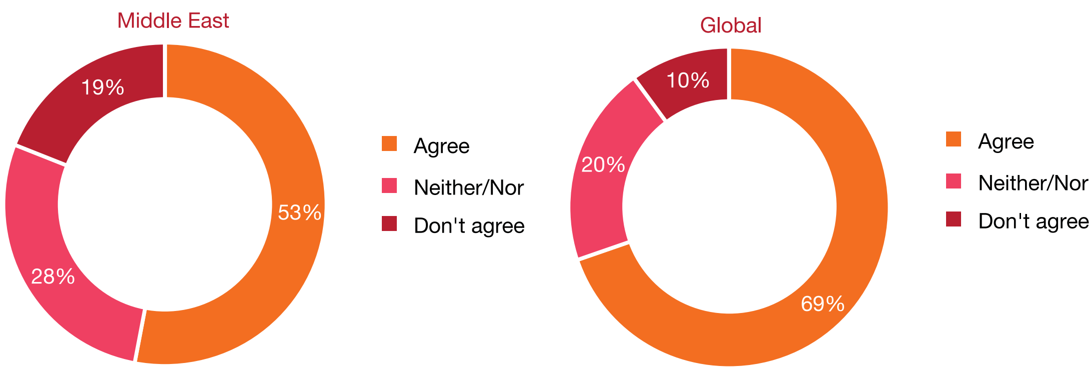
SABCO has spent time and care on developing its corporate and family governance. There is an active family office, which has been looking after the family’s financial and other interests since the 1970s, but is now expanding to take on a wider remit. The Family have also implemented a number of practical solutions to professionalise the business as well as the family’s relationship with it, including setting up a family council and other governance structures necessary to enhance communications between the various stakeholders. These forums are starting to meet more often, as the business grows, and the number of wider family increases. “We are all agreed on our long-term goals - for example, we are looking carefully at how we nurture the next generation and bring them through, how we make it possible for family members to keep involved who do not work at SABCO, and how we balance the need for profitability, with the wider vision with which this business was founded.”

That vision is inextricably linked to a pride in nationhood, and a deep personal and family commitment to Oman. “We feel a sense of responsibility to create jobs and make a positive contribution to society. But that is not a burden; it is a privilege.”

Managing family dynamics

It is significant that only 53% of family businesses in the region believe that there is alignment between the family and the business, compared to 69% globally (and our work with families suggests that both of these figures may be much lower in practice, or if you question people other than the current owner). In the Middle East, this misalignment often arises out of a lack of transparency and insufficient communication: those running the firm are often reluctant to share anything but the bare minimum of information with family shareholders, fearing that more information will only lead to more interference. As a result, many family members feel out of touch with the strategic direction of the business.

Fig 2: Alignment of family and the business



Q: Please tell me how much you agree on a scale of 1- 5, where 1= Disagree strongly and 5 = Agree strongly

Base: all respondents (2016: Middle East=32, Global=2802)

The elephant in the room: Governance and succession

"91% of Middle Eastern family businesses have no succession plan, which is even higher than the global average of 85%. More worryingly, the Middle East figure is slightly higher than the 86% recorded in 2014."

Failing to plan means planning to fail

The most obvious potential 'failure factor' for the family firm is the succession process. The transition from one generation to the next is the fault-line in this business model. There's no point in having detailed plans for business continuity, if the single most significant risk to this is not addressed.

And this is especially important in the Middle East where most family businesses in the region are younger than many of those in Europe and North America. The majority are still in their second or third generation, and some have yet to carry out their first intergenerational transfer.

On the plus side, these young firms are still drawing inspiration from the entrepreneurial energy that launched them in the first place, but this can present challenges too.

Across the world, the average family firm only makes it to the third generation[1]. And yet the same pattern continues to repeat itself, even with promising and dynamic firms. The cause is almost always the same: problems with the family. By the third generation, the number of family members can have grown quite significantly, which multiplies the potential for dispute and disagreement. This is even more acute in the Middle East, where extended families are much more common, and there can be a large number of family members who hold shares but do not work in the firm.

This can lead to a lack of alignment between the family and the business strategy which we've discussed. There can also be a lack of clarity about the respective roles of those who work in the business, those who own shares in it and those who sit on the Board (and, of course, any single individual can play more than one of these roles). This is why robust family governance is so important, providing channels for communication, and mechanisms to prevent and resolve disputes. Without that – and without an equally robust Board - family conflicts can become so damaging that they eventually bring down the firm as well. Nowhere is this a greater risk than in the management of the always-sensitive issue of succession,

"The most obvious potential 'failure factor' for the family firm is the succession process."

and this challenge only intensifies the need for an open, transparent, and well-managed succession plan. And yet an overwhelming 91% of Middle Eastern family businesses have no such plan, which is even higher than the global average of 85%. More worryingly, the Middle East figure is slightly higher than the 86% recorded in 2014. However, awareness of this issue has grown in that time - 65% of respondents in the region highlighted it as a concern this time compared to 55% in 2014. While this is encouraging, there seems to be a worrying lack of any follow-up action.

There are various possible reasons for this. There is a tendency to put off making decisions on succession if it requires a choice to be made between two or more possible successors - like all family businesses, those in the Middle East are reluctant to provoke conflict, and many find it difficult or embarrassing to even raise the subject. Likewise, the generation currently running many family businesses in the region are still only in their sixties, and don't yet want to let go of the business, especially if they built it themselves. They don't want to feel that their own working life is coming to a close, or reduce their own income from the business prematurely, and they therefore postpone even thinking about what happens next. This is dangerous for any family business, but especially for those which have not yet passed from the founding entrepreneur to the second generation, because they may underestimate how difficult the transition can be. And finally, even family businesses that want to start succession planning are often unsure how to start: there is a lack of understanding of the 'process' and most do not have sufficient expertise to guide them. This is where a trusted independent adviser can be of real support.

In our experience adopting the thinking and terminology of 'business continuity' rather than 'succession' can itself be a useful way forward: if the current generation sees succession in these terms it can help them approach it more objectively, and avoid the emotional stresses that can otherwise arise.

A well-managed succession process can be a rallying point for the family firm, allowing it to reinvent itself in response to changing circumstances and find new energy for growth, diversification and professionalization. To do this effectively family businesses need to develop, implement, and communicate a robust succession plan, and do so as early as possible before the actual handover. This is especially important in the Middle East, where a higher proportion of family businesses want to ensure their business stays within the family (38%, against 30% globally). We also see this in practice – it is common for families in the region to include measures within the company's Memorandum and Articles to ensure that shares can only be owned by those biologically related to the founder – in other words, there are restrictions on in-laws and adopted children.

Robost strategic planning is key to the succession process: without clarity about what you want the future to look like – both for the business and the family – it's impossible to choose the right leader, or know what qualities and skills they will need. In other words, strategic planning and succession planning are inextricably linked; indeed, succession planning is a subset of the strategy process. But as this year's results prove, a limited number of family businesses are approaching the succession process in a structured manner, and those who do see this as a one-off exercise focused on the 'who' rather than the 'what'. In reality, these decisions are part of a continuum, and constantly need to be revisited and adjusted as circumstances change, and the corporate strategy evolves.

"It is even more important to plan carefully when some family members are working in the business but some are not. In these circumstances, issues like ownership and entitlement are often not even discussed, which means there is a risk that different people have different assumptions about the future. Again, local cultural factors in the Middle East can exacerbate this problem: we have seen families where there is a huge amount of resentment that is often left unsaid because of respect for the older generation and a reluctance to openly challenge the established hierarchy."

Firas Haddad, PwC Partner

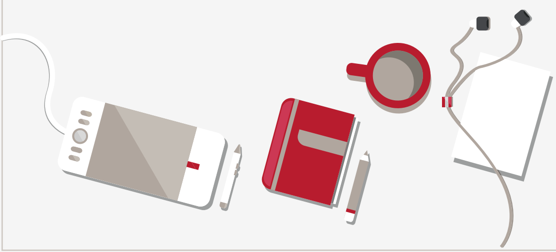
[1] A study of management practices, carried out by National Bureau of Economic Research Family Business Alliance. Retrieved October 2016:(http://w w w.f bagr.org/index.php?option=com_content&view=article&id=117&Itemid=75)

Ten steps to effective succession planning

Into leadership

Get experience outside the family firm

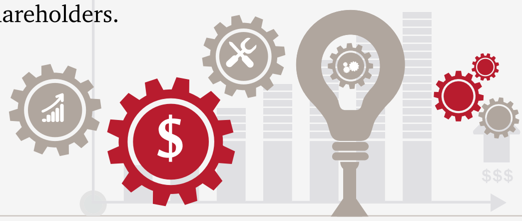
As the business landscape becomes more complex, it's vital to bring a broad range of experience to the task of leadership. So develop a career plan that involves working outside, to allow you to acquire the specific skills the family firm needs.



1

Develop a strategic plan for the medium term

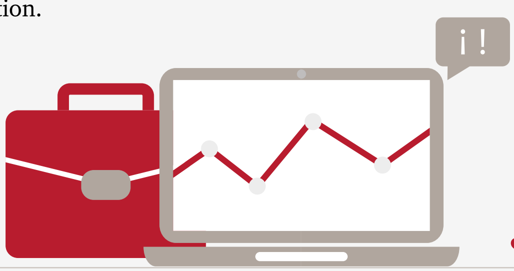
The next generation often see the succession process as an opportunity to modernise the business, and there may indeed be a need to do this. But it's important to make changes in the context of longer term objectives, which is why it's vital to have a strategic plan, developed jointly by both the current and incoming generation, and in consultation with all the shareholders.



2

Broaden the decision-making process

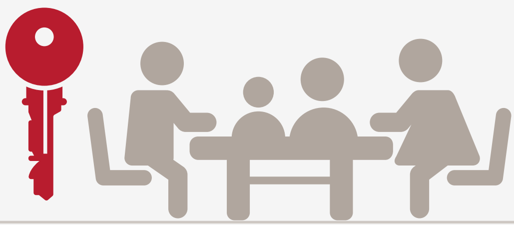
As the business passes from one generation to the next, it's important to create an organizational structure which isn't dependent on one single individual. Decisions need to be made collectively, and with proper information and preparation.



3

Strengthen the role of the Board

The board has a key role to play in overseeing the succession process, and in ensuring that family members are only offered positions they are properly qualified to fill. Becoming a member of the board is a useful way for the retiring generation to make an invaluable ongoing contribution.



4

Clarify what the retiring generation will do

The current generation needs to have a clear plan for their life after retiring. This will prevent misunderstandings, or the temptation to interfere. Taking on roles outside the family business – in the community, for example – can be both worthwhile and rewarding.

5

Into ownership

Start early

It's vital to start the process as early as possible. Everyone needs to know what to expect, and what the timetable is, to avoid misunderstandings and unspoken tensions that could lead to outright conflict. This is especially important for family members who are going to be taking executive roles in the future. Our advice is always to transfer shares during the current generation's lifetime.

1

Communicate, communicate, communicate

Decisions need to be made by a process of consultation and discussion, not dictated by the owner. Everyone with a stake in the future needs to have a say in it.

2

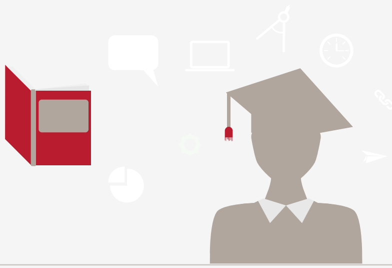
Do your homework

Make sure you know the tax and legal implications of your succession plans. Depending on your circumstances and jurisdiction, some approaches may cause difficulties which may not be obvious until it's too late.

3

Invest in education

The people who are going to be running the business need the right expertise to do that, but ownership demands specific skills too. Make sure all current and prospective shareholders are educated to become professional and competent owners.



4

Diversify your wealth

If the retiring generation rely entirely on the firm to provide a retirement income, that can put a disproportionate strain on the business. It can also make it harder for the older generation to 'let go', because their lifestyle is at stake. So build assets outside the family firm from an early stage.

5

The changing landscape: Translating ambition into results

"In the Middle East right now, change is fast and vast. Family firms have to be agile and flexible to keep up and be prepared to change from within in response to changes outside. The short term fluctuations resulting from the global megatrends are transforming our region. This raises big questions that some are struggling to answer. These questions include knowing about the skills required, having the right infrastructure, and where and how to compete."

Hani Ashkar, PwC's Middle East Senior Partner & UAE Country Senior Partner

The 'lower for longer' oil price and resulting economic slowdown, combined with reductions in government spending, and more fragile business and consumer confidence, are all contributing to rapid change in the region. In 2014, 79% of Middle East respondents had seen an increase in revenues over the previous year, but that number is now slightly down to 74%, though it's still ahead of the global average of 64%. The effect is more marked when you look at respondents' expectations over the next five years: in 2014, 40% expected to grow quickly and aggressively over that period, but this year the comparable number has fallen to 27%. Likewise, 10% now expect their business to shrink in that time-frame, compared to just 2% in 2014.

It's not just the political and economic landscape that is challenging. The region is going through a significant shift in government policy, as GCC authorities try to shift their economies away from oil and gas towards a more diversified and entrepreneurial industrial base. Companies are also under pressure to hire more locals and fewer expatriates, which is leading to talent shortages in some key areas. In markets like Egypt and Jordan it is also becoming harder to attract expatriates to take jobs. Hence 53% of Middle Eastern respondents say that attracting the right people is a very important issue over the next five years, compared to a global average of 38%.

The lower oil price is also forcing changes in fiscal policy to shore up falling public sector finances. As a result, subsidies for some industries are being phased out and the tax framework is changing, with new taxes like Value-Added tax (VAT) planned in several markets. This will affect how family firms run their business, report to the tax authorities, and recruit their staff, however, it's unclear whether they'll be better or worse off as a result.

In terms of regulation, many Middle Eastern economies have ineffective or underdeveloped systems compared to Western economies, and there can be significant inconsistencies between the different markets. Governments' efforts to regularise and improve their frameworks are also putting increased pressure on the business community, including family businesses.

In 2014, ***79%*** of Middle East respondents saw an increase in revenues over the previous year, but that number is now slightly down to 74%, though it's still ahead of the global average of 64%.

Globalisation and internationalisation

When it comes to international sales, 93% of Middle Eastern respondents are already making some international sales, compared to a global average of 70%. The Middle East figure is up very significantly from 2014, where it was 64%, against a global average of 68%. This suggests real and impressive progress, probably fuelled by the current slowdown within the region, as well as longer-term factors like saturated local markets, larger opportunities elsewhere, and a longstanding 'trading' mind-set. All of these have made Middle Eastern family businesses more willing to look beyond their own national or regional borders. 50% in the region say they will be trading in new countries in five years' time, compared to 44% globally.

Middle Eastern companies are consistently ahead of their Western counterparts: when it comes to diversification, 75% are operating across more than one sector, compared to a global average of 45%. One reason for this is the relatively small population in most of the Middle Eastern markets, which means the domestic opportunities in a single sector are inevitably limited. It has also been common for Middle Eastern firms to diversify across a wide range of unrelated sectors (for example, real estate, construction, education, retail, logistics) in order to give individual family members the chance to run a business of their own. Likewise, some have deliberately pursued a strategy of wide diversification as a cushion against the effects of economic volatility, and in many cases this has worked. This may explain why 63% of Middle Eastern respondents this year say that it is not important to diversify – many are very diversified already and probably do not see a need to increase this any further.

[1] A study of management practices, carried out by National Bureau of Economic Research Family Business Alliance.

Getting the house in order: Planning and finance

Strategic planning

Both the survey results and our own experience lead us to conclude that greater emphasis on strategic and medium-term planning would allow many family businesses to achieve greater success, and fulfil their true potential.

Some family businesses are doing this already, and doing it well, but others are caught between the everyday and the weight of inter-generational expectations. This is a particular issue in the Middle East at present – not only is there a greater desire to hand the business on to future generations, but the current economic climate is particularly challenging and volatile. While some family businesses in the region are fully aware that longer-term strategic planning is an issue they cannot duck, they often lack the skills to take on the task and may not know where to start. Some are consciously or unconsciously avoiding the issue, because they fear it will cause more problems than it solves, especially in relation to personal issues like succession. And some will say they have a business plan, and are getting on with executing it. But a strategic plan is not the same as a business plan, and a plan that isn't documented, communicated, managed, and monitored isn't a 'plan' at all.

"The key priority is to ensure the firm has one overall strategic plan, covering the whole business, which is clearly aligned to the family's long term goals. That has to be anchored to the family's vision and values: a shared vision of the future and strong values to guide decision-making."

Motaz Saleh, PwC Partner

Ten steps to effective strategic planning

While each business needs a strategic plan suited to its sector, market, and stage of development, there are some basic principles that all good plans share. Here is a ten-step guide to get you started.

1. **It's about the 'what' not the 'how'**
   A strategic plan is about setting your business goals over the medium term, and deciding the direction of the firm. A business plan is about the specific actions you need to take in the next twelve months, to make the strategic plan a reality. So having a good business plan is crucial, but it's only half the answer.

2. **Stand in the future and look back**
   Where do you want to be in three years? In five? Be absolutely clear about what the future looks like, and then work out what you need to do to get there – from your products and services, to your balance sheet, your working culture, and your organisation.

3. **Stand in the present and look around**
   Take a long hard look at the business as it is right now. Do you have a genuine competitive advantage? Are your ambitions realistic? What needs to change? Techniques like SWOT analysis can help you get an objective view of where you are internally, and you can also use PESTLE to analyse the external factors at play in your market (Political/Economic/Social/Technological/Legal/ Environmental). Porter's five forces analysis is another useful way to assess issues such as the threat of new competitors entering your sector, or the likelihood of new game-changing products or services.

4. **Invite input**
   The CEO needs to drive the strategic plan, but the more people who contribute, the more likely it is to be robust. People are also more committed to something they've helped to create. So involve skilled people from across the organization (and trusted advisers outside), including those with a good grasp of how the market is changing. Ask your employees and canvas your customers.

5. **Be prepared for change**
   A rigorous strategic planning process should challenge the way you're operating today, and test its fitness for the next phase. If it doesn't do that, it's not doing its job. So be open to different alternatives, and new approaches, and accept that you may need to adapt your own personal role, as well as the way the business operates.

6. **Set a timescale**
   A good strategic plan is like an itinerary – it's about when you plan to reach the milestones along the way, as well as the final destination.

7. **Assign responsibilities**
   The CEO and board must take ultimate ownership of the plan, but specific elements need to be owned and driven by appropriate managers, supported by the budget and resources they need to succeed.

8. **Translate the strategic plan into a business plan**
   Move from the strategic to the tactical by turning the first phase of the plan into a programme of action and implementation over the next twelve months.

9. **Measure, monitor and adapt**
   As you implement the plan, assess how well it's working, and whether it needs to be fine-tuned. Use objective KPIs to evaluate progress.

10. **Communicate, communicate, communicate**
    Don't just share the strategic plan, but the progress you're making against it. This builds a shared sense of commitment, energy, and sense of direction.

Financing growth

Financing growth is a recurring challenge for the family business, and an area of concern flagged consistently in our survey. In this year's results, 76% of the global respondents looking to grow significantly said they would be relying on their own capital, at least in part, to do that. Some have no doubt chosen to do this, preferring to finance themselves rather than relying on banks, or external investors who might want a measure of control. For others, using their own funds is not always a deliberate choice. Many family businesses have been forced to draw on their own resources because other types of finance are either unavailable or too expensive. Again, robust strategic planning will help family businesses bridge the gap to future growth, as this will help to determine whether the business has the appropriate capital structure, and access to the funding it would need to take advantage of future opportunities.

The importance of aligning the business strategy with the owner and family strategy cannot be underestimated. If there are many dependent shareholders with diverging needs and priorities, this may affect the willingness and capacity of the business to invest in new ventures or drive fundamental change. Making the decision to go to the capital markets for funding, or look for other private investment, is a complex process with significant implications for the owners of the business which demands exceptionally clear communication within the family.

At a more immediate and tactical level, family businesses need to consider issues such as whether they can free up more capital for investment by ensuring they have optimised their working capital.

Furthermore, family businesses need to ensure their funding is on the right terms, and that its source is secure if circumstances change, whether inside the business, or outside in the market.

"Middle Eastern family businesses need to grow in double digits every year, if they need to sustain the family's wealth from one generation to the next. Growth of this magnitude can only be achieved if family businesses expand aggressively and one way to do this is to either borrow from the debt and equity market, which is not always palatable for family businesses, or alternatively, to extract value internally by freeing up working capital and disposing unprofitable legacy businesses. These are stark choices and can often be the difference between long term success and looming failure and the sooner families respond to these challenges, the easier it will be to ease the succession from one generation to the next."

Antoine Abou-Mansour, PwC Partner

Navigating the 'no go zone': managing family wealth

Intergenerational wealth transfer involves a raft of personal family issues, and families are often not communicating regularly on matters relating to improving, preserving and protecting the family's wealth. There is, in effect, a 'no go zone' where issues like wealth and ownership cannot even be raised.

This leads invariably to different people having expectations and a different sense of entitlement, which in turn leads to fixed positions, jealousies, and potential conflict. This 'no go zone' is alive and kicking even in the largest and wealthiest families. Many of these families have regular social events and get-togethers, but that's not the same as sitting down to discuss the hard issues.

It's not easy for families to start the process: it takes courage. But doing so will ensure family harmony and continuity, and make it easier to protect relationships, facilitate succession planning, and work together more effectively. It's a challenge to find the successful family formula, but it can be an even bigger challenge to preserve the family wealth.

There's an old cliché that families make money in the first generation, enjoy it in the second, and lose it in the third. But there's a good reason why that's become a cliché: all too often it's true. There are all sorts of reasons why this happens – from over-leveraging to accelerate growth, to over-spending on personal lifestyles, to matrimonial disputes, to putting 'all the eggs in one basket'.

Many families invest for the long term as they are not dominated by short-termism, unlike many public companies. But even where family business diversify their balance sheet, they don't diversify where they invest their wealth, which leaves them with a disproportionate exposure to one single asset.

There will always be forces outside your control that even the best planning won't protect you from, be it a change in government regulation, obsolescence, technological development, market and product disruption, or sovereign and political risk. That's why every fund manager will say you need to spread your risk, but too many family businesses don't apply this basic principle to the money they have in their own firm. Some of this is for emotional reasons – owners are understandably attached to the business they've built. If they weren't, they wouldn't have been a success in the first place. But it's important to strip out the emotion when it comes to wealth preservation. So consider the ways in which they may be able to release funds for the benefit of the family, such as a partial sale, recapitalization, or bank loans.

Many family businesses take the view that they will get higher returns from their own business than any fund manager could give them, especially after tax and fees are taken into account. This can often be true, but diversification is just as important to ensure long term and stable returns. Owners often, shift to this point of view as they near retirement and start considering the income they need to fund the lifestyle they want. That's a good time to look at all the options, in the context of effective succession planning, and to achieve a successful transfer of wealth between the generations.

"It's not easy for families to start the process: it takes courage."

Facing the future: Innovation and digitization

Given today's rapid pace of change, the advent of new technologies and the emergence of disruptive business models, all companies need to be able to think beyond the immediate demands of the day-to-day business and develop an informed view of what the picture will look like in two, five or ten years. This means understanding the trends driving change, assessing which products are vulnerable to new technology, and how global trends such as demographic change are affecting the market. In the Middle East, the global megatrends are bringing in new risks and new opportunities – from the threat of water scarcity, to rapidly growing and tech-savvy young populations; from rising energy demand to a new concatenation of global trade flows.

> *"Digital has to be absolutely integral to every organization's marketing and communication strategy. It's central to every aspect of consumer engagement, whether that's e-commerce, advertising, consumer targeting, or social media. That's the future, and it's happening now."*
>
> **Osama Ibrahim Seddiqi**, CFO, Seddiqi Holdings, UAE

Three quarters of the global family businesses we surveyed this year think that being more innovative is either important or very important, and the need to continually innovate was the biggest single challenge global respondents see over the next five years (64%). However, the numbers look very different in the Middle East, where succession planning was the biggest single concern (65%), and innovation came only seventh at 48%. So while Middle Eastern firms are ahead of their peers on internationalization and diversification, there is a bigger question mark in the area of innovation. 41% of respondents in the region say family firms are less open to new thinking compared to 34% globally. However, our own experience suggests that the issue may be more nuanced than this suggests: family businesses in the region are open to new ideas, but (and this is key) their appetite to follow through and implement those new ideas is relatively low. As a result, they tend to stick with what they know and avoid disrupting their current business on the grounds that 'if it's not broken, don't fix it'. This approach may have worked in the past, but in a world of global megatrends and accelerating change, there is a very real risk of obsolescence, not just of products and services, but business models and ways of working.

Nowhere is this more pressing than in the area of digital technology. Middle Eastern family businesses are aware of the importance of digital: 48% say that keeping pace with new technology is a key challenge over the next five years, which is marginally higher than the global figure. But while 52% in the region believe they have a strategy fit for the digital age (broadly the same as the global average), only 39% say that digital is fully integrated into their business, compared to 56% globally. This suggests there is a damaging and probably widening gap between what Middle Eastern family businesses are telling themselves, and what they are actually doing. Many Middle Eastern family businesses are not agile enough to adapt to new technology, and some are reluctant to make the substantial investments it often entails, especially as this would have to be financed out of their own money. Others may believe - genuinely - that the sectors they operate in are insulated from the impact of digital technology, but this is a dangerous assumption to make. Every business is vulnerable in some way to digital disruption, and those who think they are immune will soon find out that this is not the case. This is a threat which is facing all businesses, regardless of their geographical location, industry, or size.

[2] A false sense of security? Cyber security in the Middle East, 2016

Cybersecurity is an important related issue here. Only 35% of respondents in the region believe they are prepared for a cyber-attack, compared to 45% globally. As our report on cyber security showed[2], Middle Eastern companies can have a greater tendency to believe they can fix cyber issues by buying a technological 'fix', or assuming that Audit or IT are 'dealing with it'.

But investment in technology needs to be supported by a parallel investment in awareness and training - less than 20% of respondents to the cyber security survey have a strong awareness programme, and not enough Boards in the region are getting actively involved in this issue, as they urgently need to do.

As we discuss later, digitalization is an area where the next generation could have a significant part to play. Many of them have grown up with new technology, and are keen to employ it when they take over.

As we have observed many times, the most innovative companies are invariably those which are open to new ideas and new ways of working. Having a more diverse and inclusive workforce is a considerable advantage here, but being able to not just manage change but thrive on it is even more important.

"There is a tendency to think about digital in terms of information and communications, and yes, that is really important. But digital is also revolutionising areas like manufacturing and logistics, with innovations like 3D printing and driverless cars. Firms in the Middle East need to explore and embrace digital in the widest possible sense, if they are to make the most profitable use of it."

Steve Plimsoll, Digital Leader. PwC Middle East

Traditional values, new challenges: Seddiqi Holding, UAE – a case study

Osama Ibrahim Seddiqi

Many of the Middle East's largest companies are family controlled, and in a sector like retail, some of the biggest Western brands are actually managed as franchise operations by local family businesses. The Seddiqi family has built its own successful legacy and brand: Ahmed Seddiqi & Sons has a reputation as a trusted destination for luxury watches and jewellery in the Middle East, representing more than 60 luxury timepiece brands across 65 locations in the UAE. The company was originally founded in the late 1940s, and four generations later, is still owned and run by the family, with new ventures in education, healthcare, services, and real estate coordinated through a holding company. Osama Ibrahim Seddiqi is CFO of Seddiqi Holding, and first got involved in the family firm during school vacations, working as a sales assistant. "This is where I learned one of the secrets of our family's success: we treat our customers as long-term friends, not just one-off clients. That's as important now as it was in the 1950s. That's why I sometimes make a point of delivering some of the client's timepieces. That's part of our culture."

However, Osama didn't go straight into the family firm. In fact, he followed a carefully thought-out career plan, beginning with a baccalaureate in Dubai, followed by a degree in Business Administration in Denver, and several years' experience with the National Bank of Dubai. "This allowed me to develop all the specific skills I needed to take on a senior finance role in my family's company, and I now sit on Seddiqi Holdings Executive Committee and Board of Directors. We currently have ten family members actively involved in the day-to-day operations of the business, but we recognise the value of bringing in skilled professionals from outside, and there are many in senior management or C-suite roles."

Osama believes that the Seddiqi family culture is one of the principal reasons why top talent comes – and stays: "Our founder wanted us to have a dynamic but family-oriented working environment, and we're committed to ensuring that continues. People like the fact that we have a very flat management structure, and decisions can be made and implemented quickly. We also invest in training and developing our employees – we now have over 700 across the whole business." Family members are also thoroughly trained: "We have a robust succession plan that nurtures and develops younger family members who are interested in joining the firm, ensuring they have the right skills in order to succeed."

One of those skills will undoubtedly be digital. Ahmed Seddiqi & Sons was one of the first retailers in the region to see the potential of digital ten years ago, and this technology is now transforming how people shop. "Digital has to be absolutely integral to every organization's marketing and communication strategy. It's central to every aspect of consumer engagement, whether that's e-commerce, advertising, consumer targeting, or social media. That's the future, and it's happening now."

Unfinished business: Professionalisation 2.0

In 2014, our survey's main theme was the professionalization of the family firm. This year's results show that real progress is being made in this area, but there is clearly more that needs to be done.

Every firm will eventually reach the point when it has to professionalise the way it operates, by instituting more rigorous processes, establishing clear governance, and recruiting skills from outside, and family businesses are no different. This year's survey proves (again) how important this is. For example, 50% of Middle Eastern respondents say the need to professionalise the business is a key priority over the next five years (compared to 43% globally). Some in the region have already made good progress; others are targeting smaller initiatives, because they fear disrupting day-to-day operations too much, and are reluctant to pay for professional help.

But the family firm has another dimension which other companies never have to tackle: the family itself. The issues here are much harder to address. They're more personal, more complex, and the risks if it goes wrong are potentially terminal: as we've said many times, 'family firms fail for family reasons'. No surprise, then, that progress in professionalizing the family is slower, or that some companies like to think they have made advances when in fact, little has really changed.

This year's survey shows that family businesses are continuing to establish processes to 'professionalise the family', including mechanisms such as shareholders' agreements, family councils, and incapacity arrangements. Middle Eastern firms are generally making reasonable progress here:

"50% of Middle Eastern respondents say the need to professionalise the business is a key priority over the next five years (compared to 43% globally)."

	ME	Global
Family constitution	48%	24%
Shareholders' agreement	42%	53%
Family council	35%	34%
Conflict resolution mechanisms	26%	29%

Shared goals, different roles: Responsibilities within the business

Across the world, 65% of respondents have non-family members on the Board, but the number in the Middle East is much lower, at 52%. This is very marginally up from 50% in 2014. Middle Eastern family businesses have traditionally been wary of bringing in outsiders: they are reluctant to share information about their private affairs, and often do not see the value an external non-executive can bring. It's also – arguably – difficult to find suitable candidates within the region who have both the right experience and the right 'fit'. Finally, many countries in the region have no legal requirement for independent directors, so that external incentive is lacking.

However, to reach full maturity, a family firm needs a strong board of individuals with relevant experience and a wider perspective. This includes directors who are able and willing to give an opinion, and question decision-making, but who also share the company's vision and values. This is as true in the Middle East as it is elsewhere in the world. A well-functioning board can add tremendous value to a family business by – for example – examining how the company's assets and profits are being used, and moderating discussions about the level of dividends, as well as offering insight and advice on succession planning. This can help ensure the company retains sufficient funds to both survive and grow.

Beyond 'rubber stamping': The contribution the board can make

In our experience, many family businesses are not making full use of their board: a good Board is much more than merely a 'rubber stamping' body. Here's a summary of areas where a robust and objective Board can make a real difference:

- Helping the owners separate what the company needs from what the family wants
- Fresh perspectives, relevant experience, and access to influential networks
- Helping the CEO move beyond the tactical and the day-to-day
- Ensuring there is accountability across the business
- Assistance with risk management
- Objectivity, independence, and an 'outside-in' point of view
- Support and advice on planning for CEO succession
- A 'safe place' for difficult discussions
- Smoothing the transition to the next generation
- Planning and advising on exit strategies.

The role of the professional CEO

We've looked before at the advantages of bringing in an external CEO, and the challenges that this entails, both for the family and the professional coming in. Some external hires clearly relish the chance to make decisions quickly, and enjoy the autonomy that the family business model can offer.

But many CEO respondents this year cited the difficulties they continue to encounter. Families can be reluctant to give up control, and external CEOs can find their professional judgements over-ridden by family and owner decisions, which may appear to be based on emotion rather than rational argument. This is a particular issue in the Middle East, where founders and owners tend to be more reluctant to cede decision-making to an outsider, and where C-suite roles still tend to be held by family members, even if there are outsiders in lower senior positions.

In this year's survey, 46% of respondents in the region said they plan to pass on ownership of their business to the next generation, but bring in professional managers to run it. This is up significantly from 25% in 2014, and shows a major change in thinking in the sector. However, such plans risk damaging failure unless the owners understand the value of an external CEO, and give them the freedom they need to do the job properly.

"The next generation are ambitious, dynamic, and open to change. "

The role of the next generation

In the next five years it is likely we will see the biggest inter-generation transfer of wealth the modern economy has ever seen. Much of this wealth will take the form of shares in family businesses, which is why a more robust approach to succession planning is such a key priority for the whole family business sector – and, indeed, for the economies they help sustain. A change of this magnitude poses huge risks, but it's also opening up immense opportunities, with a new generation in waiting that's more ambitious, more open-minded, and arguably better prepared than any that have preceded it.

Earlier this year, we undertook a global survey of this next generation of family business leaders[4], to understand their priorities, and how they see the future. Some of the findings came as no surprise – the next generation are ambitious, dynamic, and open to change. They want the business they hand on to be very different from the one they inherit: they want to explore new products and services, and new markets, but they're also interested in new locations, and even new business models. 88% said they want to do something special that will really make a mark, and 79% have lots of ideas about how to take the business forward. 59% would like to diversify their product portfolio, but 68% believe their firm is unlikely to make this change, even a decade ahead (which is in the global Family Business Survey results). This may explain why 47% of the next gens are looking to set up a parallel venture, alongside what the main business is doing. It's interesting, in this context, that 56% of Middle Eastern respondents in this year's main Family Business Survey are planning to set up new entrepreneurial ventures.

Many of today's next gens are from the millennial generation, which comes to the workplace with different expectations, different priorities, and an easy familiarity with digital technology, all of which will influence the future direction of the family business sector. Many have benefited from a business school education, which also gives them the analytical tools they need to carry out effective strategic and medium term planning.

All of these factors hold true – to a greater or lesser extent – in the Middle East. However, there are additional factors in play in the region, which complicate the picture. There has not been a tradition of working outside the family firm in the region, and some families are reluctant to force their next gens into such a competitive job market, given the prevalence of youth unemployment. Many next gens feel they would not even get a job without their family's active support, and some fear they are unlikely to be hired by other family businesses, who don't want to risk sharing their confidential information.

That said, it's important to remember that this situation is evolving fast. The issue is not going to go away, but different families and different individuals will come up with different ways of dealing with it. We can help families learn from the good ideas that others have developed, and have the courage to turn this challenge into a positive opportunity.

"46% of respondents in the region said they plan to pass on ownership of their business to the next generation, but bring in professional managers to run it."

[4] www.pwc.com/nextgen

Five ways the current generation can support the next one

There are five key things the current generation can do to make sure the next generation have the best chance to succeed:

1. **Plan ahead**

   The single most important success factor for succession is a good plan. That starts with detailed career and development planning for the next gen, so they can get a wide range of experience and acquire the right skills. If possible, find ways for them to work outside your home market, as well as outside the family firm. This will help build their credibility if they do eventually decide to come back to the family business.

2. **Make it an opportunity, not a burden**

   Many of the next gen are excited about the chance to work in the family firm and take it over one day. But make sure they don't feel expectation as a burden, and have the chance to make a free choice about their own future.

3. **Give them the chance to build something of their own**

   56% of Middle Eastern respondents this year talked about the possibility of setting up new entrepreneurial ventures to run alongside the main firm. Such ventures can be a wonderful way to give the next gen their own area of responsibility, where they can learn, explore new ideas, and gain vital skills. And who knows – those new ventures could evolve into an exciting future for your firm.

4. **Understand where and when to let go**

   Almost all next gens say they would welcome continued support from their parents when they take over (91% in our global next gen research), and many talk with feeling about the mentoring they've received, and the lessons they've learned. But there's a fine balance between being there to help, and never letting go. It's an understandable wrench to step back from a business you've run or built – 61% of next gens in our global 2016 Next Generation survey[5] acknowledge this as a challenge in their own family. So spend time discussing the exact shape of your future role, and find yourself something else to do beyond the business, so you won't constantly be tempted to 'just show up'.

5. **Address family governance**

   One positive role the current gen can play is in relation to family governance. We all know how dangerous conflicts and misunderstandings can be in family businesses, and 52% of next gens in our global 2016 Next Generation survey said that they were worried about the prospect of dealing with 'family politics'. The older generation are ideally placed to help manage this, both through their experience and the 'gravitas' of age. So if your family firm hasn't yet got to grips with family governance, or could benefit from a proper family constitution or family council, why don't you take on this task yourself, so the next gen can concentrate on taking on the business?

[5] www.pwc.com/nextgen

The role of women in the workplace

Women are increasingly taking up leadership roles across the Middle East- both in the public and private sectors. Governments, in particular, are actively appointing women to key positions. The cabinet of the United Arab Emirates is an obvious example, and one which provides a role model both for businesses in general, and family businesses in particular.

With regard to Middle Eastern family businesses, there is definitely an increase in the number of gender equality programmes across the region: 25% of the respondents said they have such a programme in place, compared to 54% globally. Globally some countries have legislation to support gender equality and the role of women in business, but in the Middle East any such initiative is normally left to individual organisations. Thus the businesses that run equality programmes in the region are doing so out of principle, not necessity, and in recognition of the fact that women represent a huge and under-utilised source of talent, commitment, and new ideas.

The tide is definitely changing for the women in the workplace in the Middle East, albeit rather slowly. The global megatrends will inevitably open up more and bigger roles for talented women, and they, in turn, will demand more equal opportunities and the chance to contribute, just as their peers across the world do. Younger women, in particular, see examples of what women are achieving across the world, in all walks of life, and aspire to do the same themselves. There are also many great examples of successful business women from the Middle East, who have attained national and international standing and prestige, and are leading the way for the next generation of women.

"As family businesses in the Middle East are increasingly professionalising their boards, there are growing opportunities for women to proactively seek the experience and training required to assume productive roles in the governance of their family businesses. Gender diverse boards have shown better results globally, so an increase in the number of seats on family business boards in the Middle East would have positive impact on many levels."

Muna Sukhtian, Jordanian Family Business

A final word

There are five key conclusions to be drawn from this year's survey, which require concerted and determined action:

Family businesses in the region must redouble their efforts to deal effectively with succession, and institute robust plans to address it.

1

There is an equally urgent imperative to make the time and space to carry out a rigorous strategic planning process. This includes planning for the future of the family, as well as the future of the firm. There is much to be learned from family businesses who are already doing this well, and our own teams are ideally placed and skilled to assist with this.

2

Thinking positively about the opportunities digital disruption presents is critical. And this may mean facing up to some stark realities about the long -term future of some areas of the business. This is where family businesses can deliver on their ability to reinvent themselves and not lose the entrepreneurial spirit they were founded on.

3

The professionalisation journey is not yet complete, and will need further time and resources. This is especially true in relation to family governance, and the role of the Board

4

The next generation have an increasingly vital role to play, both in responding to digital disruption and the strategy setting process. They need to be empowered and supported to do so.

5

This agenda is not easy, but it is necessary. If done well and promptly, it offers ***family businesses*** in the region a golden opportunity to punch above their weight, and fulfil their huge potential even more effectively than they already are.

Survey methodology

'Family business' definition

For the purposes of this Survey, a 'family business' is defined as a business where:

1. The majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child's direct heirs);

2. At least one representative of the family is involved in the management or administration of the firm;

3. In the case of a listed company, the person who established or acquired the firm (or their families) possess 25% of the right to vote through their share capital and there is at least one family member on the board of the company.

Survey methodology

Between 9 May 2016 and 19 August 2016, 2,802 semi- structured telephone, online and face-to-face interviews took place with senior executives from family businesses, in 50 countries worldwide. The interviews were conducted by Kudos Research, in the local language by native speakers, and averaged between 25 and 35 minutes. The turnover of participating companies ranged from US$5m to more than US$1bn. 32 respondents took part in the Middle East, covering Egypt, Kuwait, Jordan, Oman, Qatar, Lebanon, Saudi Arabia, and the UAE.

All results were analysed by Jigsaw Research, an independent market research firm.

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