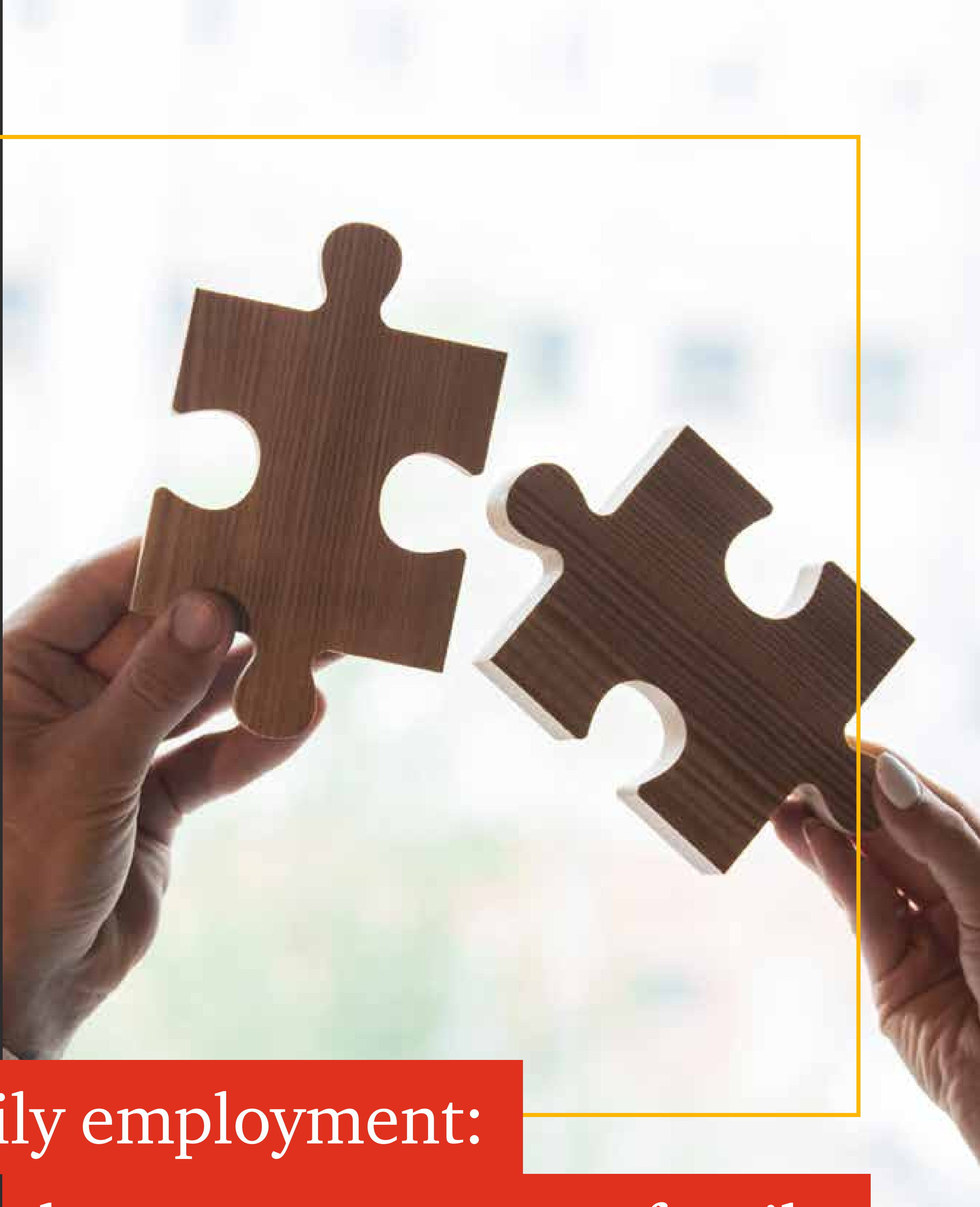

Family employment: how to ensure your family business is set up for success

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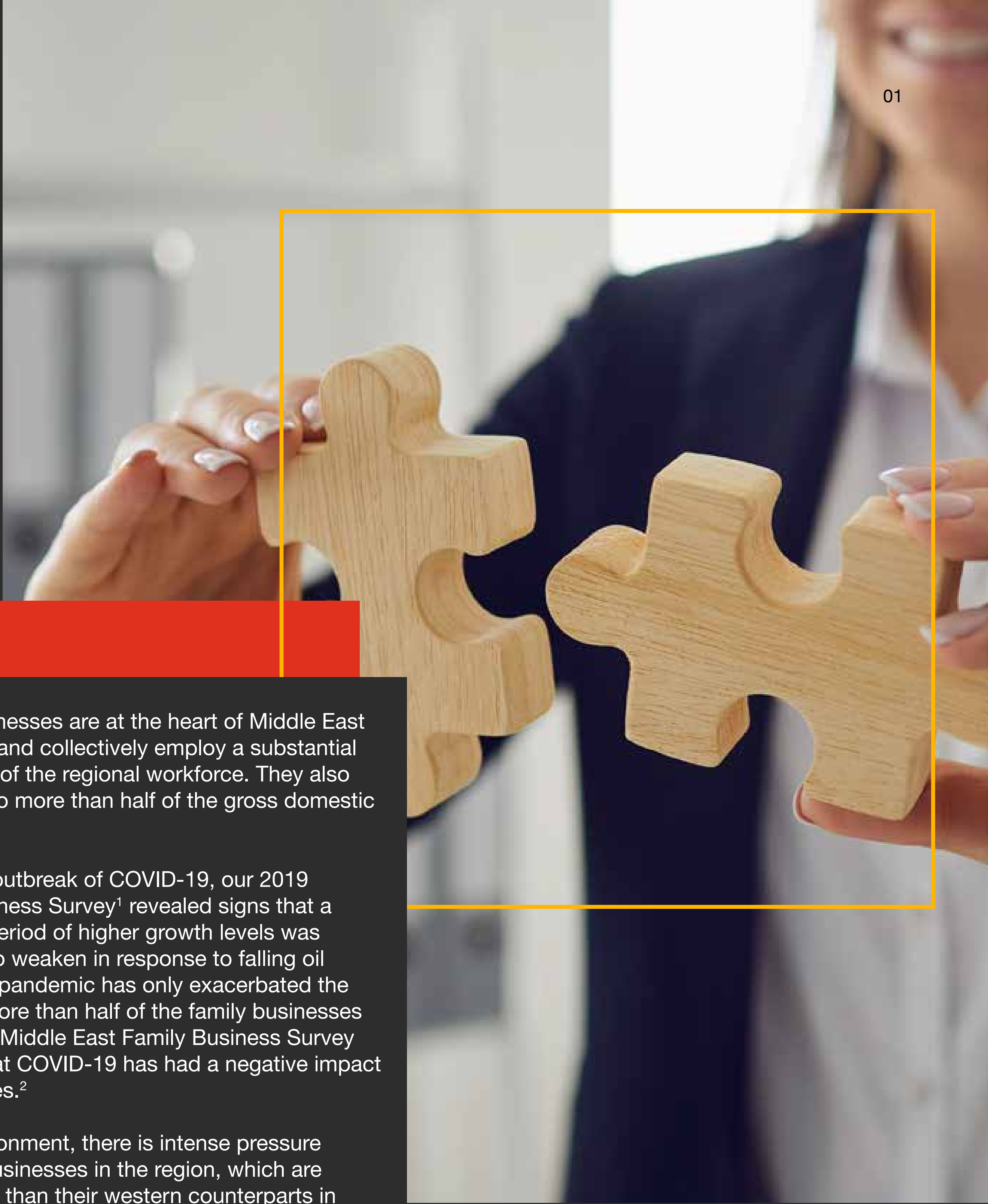


Family businesses are at the heart of Middle East economies and collectively employ a substantial percentage of the regional workforce. They also contribute to more than half of the gross domestic product.

Before the outbreak of COVID-19, our 2019 Family Business Survey[1] revealed signs that a sustained period of higher growth levels was beginning to weaken in response to falling oil prices. The pandemic has only exacerbated the situation. More than half of the family businesses in our 2021 Middle East Family Business Survey reported that COVID-19 has had a negative impact on their sales.[2]

In this environment, there is intense pressure on family businesses in the region, which are much larger than their western counterparts in terms of family members, to maintain the double digit growth rates that are required to sustain the standard of living for the next generation of shareholders.

To ensure family harmony, smooth succession and continued growth, Middle East family businesses will need to approach their family matters with the same level of professionalism that is applied to operational decisions and business strategy.

1 Middle East Family Business Survey 2019, PwC Middle East, 2019, https://www.pwc.com/m1/en/publications/documents/family-business-survey-2019.pdf
2 Middle East Family Business Survey 2021, PwC Middle East, 2021, https://www.pwc.com/m1/en/publications/family-business-survey/2021/documents/middle-east-family-business-survey-2021.pdf.

Challenges family businesses are facing now

Our 2021 Middle East Family Business Survey highlighted a number of underlying challenges that family businesses are facing in the region.

Looking inwards

Setting the right foundation

84% have some form of family governance policy in place but policies are not always fully implemented

Only **33%** have a robust, documented and communicated succession plan in place

75% have a clear clear set of values but only **47%** say that the family is aligned on the direction of the company

Looking outwards

Growth and diversification

56% expect a reduction in sales as a direct response to COVID-19 and just **31%** confidently expect to see revenue growth within 12 months

58% are expanding into new markets and client segments

47% are introducing new products and services

Looking long-term

Creating sustainable value

59% see an opportunity to lead on sustainable business practices

51% say that sustainability is at the heart of everything they do

Only **36%** have prioritised sustainability and local community initiatives so far

Looking forward

Innovation and digitisation

75% say that digital, technology and innovation initiatives are a top priority for the next two years

47% are rethinking, changing or adapting their business model

Family businesses in the Middle East are often driven by two key considerations – to maintain family harmony and to continue to grow.

Family harmony is often influenced by various factors, such as lack of trust and transparency between family members, perception of unfairness, lack of communication, inadequate measures to resolve conflicts or disagreement over which family members can work in the business. Growth on the other hand can be impacted by both family issues and business factors that can cause disagreements. For example, family businesses are more likely to not have clear policies for performance management and remuneration of family members or have a lack of alignment between the shareholders and the board of directors on the future of the company – all considerations that can seriously impact growth prospects of the business.

Below is a list of common family and business issues that can impact family businesses.

Typical family issues

- Lack of clarity about the family's vision and philosophy
- Lack of trust and transparency between family members leading to perception of unfair treatment
- Lack of clarity around rules relating to family employment
- Deciding on the future leaders of the family
- Minimal processes to mentor and train the next generation
- Potential conflicts of interest arising when family members pursue private business opportunities
- Inadequate processes for resolving conflicts

Typical business issues

- Lack of alignment between the vision of the shareholders, the board and the management
- Determining the size and composition of the board including the criteria for selecting future board members
- Decision-making and the rule of the majority
- Performance evaluation of family members working in the business
- Setting remuneration levels for family members working in the business
- Agreeing the terms and process for exiting the family business
- Reinvesting profits in the business versus dividend distribution

How to solve these issues?

Family issues

Most family issues faced by Middle East family businesses can be addressed by introducing good family governance, including protocols or family constitutions. While many family businesses in the region take governance seriously, 84% of respondents in our 2021 Middle East Family Business Survey said they have some type of family governance policy in place, the policies are not always fully implemented. For example, first generation families typically only consider such measures when the second generation is introduced.

A professional governance structure and a clear process for conflict resolution strips emotion and personal bias, common stumbling blocks for families, out of the decision-making process. It can separate family issues from business issues and set a foundation for the key values that the family adheres to. It's also a helpful tool for facilitating clear communication and decision-making across ownership, family and business considerations.

It's important to note that family governance policies need to go hand in hand with good corporate governance and should evolve as the business grows and changes.

Best practices in family governance

1. **Separate ownership issues from business issues**
   Create separate forums for the family and the business. For example, create family councils or shareholders' assemblies – a separate gathering from the board of directors – for the family owners.

2. **Set up good corporate governance mechanisms**
   Ensure accountability and reporting to the board of the holding company and shareholders. Prioritise transparency and constant communication.

3. **Establish the family rules**
   Agree on a set of rules which address key ownership issues. These values, often referred to as family protocols or the family constitution, are vital for establishing strong intragenerational business relationships.

4. **Create conflict resolution mechanisms**
   42% of family businesses in our 2021 Middle East Family Business Survey admit that conflict does occur from time to time and for 15% of businesses conflict is a regular occurrence. It's vital to introduce conflict resolution mechanisms that help family members air out their differences and resolve any issues in an amicable way. For family businesses, it can be especially beneficial to set up conflict resolution or arbitration committees that include third parties who are trusted and well respected by the family and offer their independent and objective views.

Business issues

While family governance can help prevent many of the business issues that can affect Middle East family businesses, there is more that needs to be done. Particularly in taking a more entrepreneurial view of the business, bringing on a strong board of directors and utilising other business strategies that can support growth.

Business issues are often closely linked with considerations that also affect the family. For example, when decisions need to be made about the compensation levels of family members or how they can exit the business. This is especially true in the Middle East where, as highlighted in our 2021 Middle East Family Business Survey, 65% of family businesses have next generation family members (NextGens) working in the business.

To reduce the likelihood of this type of conflict, family businesses in the region are taking steps to professionalise family employment and are implementing clear employment models for family members working in the business.

Below we highlight some of the most common employment scenarios that family businesses can adopt depending on the dynamics of the family.

Family employment scenarios

1. **Employment for all**
2. **Merit-based employment**
3. **Employment in non-key positions**
4. **Selective employment**
5. **Board service**
6. **The new entrepreneurs generation**

1. Employment for all

What does this scenario look like?

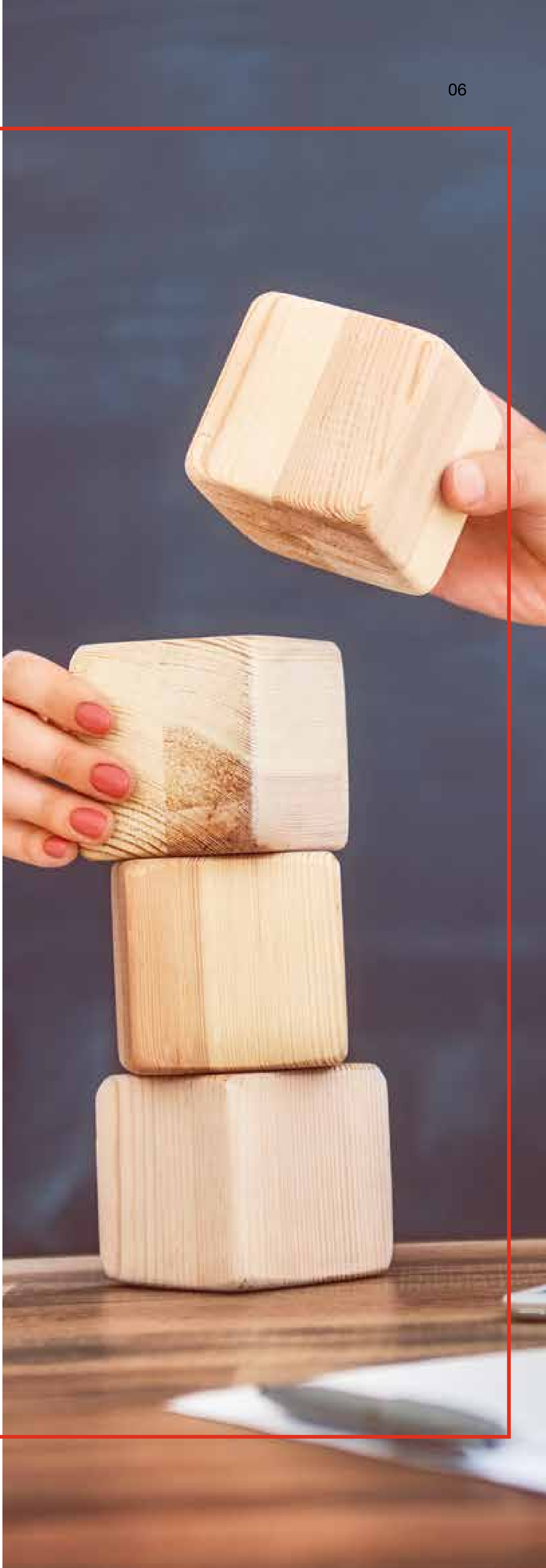
- Every member of the family can be employed as desired
- Available positions determine employment
- No particular selection criteria
- Mostly implemented (and suitable) in the inception stages of the family business when only a few family members are involved

What are the advantages?

- Every member of the family business can have a sense of contribution
- Preserves harmony in the family

What are the disadvantages?

- Skills (or lack thereof) may not match the position
- Non-family employees may be demotivated
- Fighting for top positions
- Difficulties can arise from a business management perspective



2. Merit-based employment

What does this scenario look like?

- The business starts selecting family employees based on skills, experience and capabilities
- As the business grows it is important to enhance the skillset of the employees

What are the advantages?

- Better suited from a business perspective
- Provides specialisation and growth potential to family members who are deemed suitable for employment
- Ability of family members to ‘open doors’

What are the disadvantages?

- Less flexibility in hiring and firing; can become very emotional
- Evaluating the performance of family employees can be difficult
- Might lead to disappointment or resentment from family members who are deemed unsuitable

3. Employment in non-key positions

What does this scenario look like?

- Family members serve in positions other than senior key management positions such as CEO, CFO

What are the advantages?

- More balance for the business: ‘Fresh blood’ from outside the business is involved in senior management positions, bringing new skills and perspectives
- Family members have a sense of contribution
- More flexibility in hiring and firing employees in key positions

What are the disadvantages?

- Family members may not join the business if they are not able to get top positions
- Skilled family members may leave the business
- Potential for difficulties between those managing the business and passive family members who are not involved in the running of the business

4. Selective employment

What does this scenario look like?

- Select family members are allowed to serve in the business (e.g. one or two children from each family branch)

What are the advantages?

- Preserves more balance in the business with a controlled number of family members being employed

What are the disadvantages?

- Might lead to disappointment or resentment from family members who are not asked to join the business
- Family members selected may not be the best fit or most appropriate for a particular position

5. Board service

What does this scenario look like?

- Family members may serve on the board of the holding company or subsidiaries, the Shareholders Assembly, the Family Council, various committees but not occupy operational or management positions in the business

What are the advantages?

- Professionalisation of the business
- Avoids emotional decision-making around hiring/firing of family members

What are the disadvantages?

- Might lead to disappointment or resentment from family members who feel left out
- Raises questions on how the family keeps the members trained and engaged in the business

6. The new entrepreneurs generation

What does this scenario look like?

- NextGens are not allowed to work in the business but may utilise business capital and resources to invest in new ventures with the family business

What are the advantages?

- Facilitates business growth outside of the main business
- Preserves the entrepreneurial spirit of the family

What are the disadvantages?

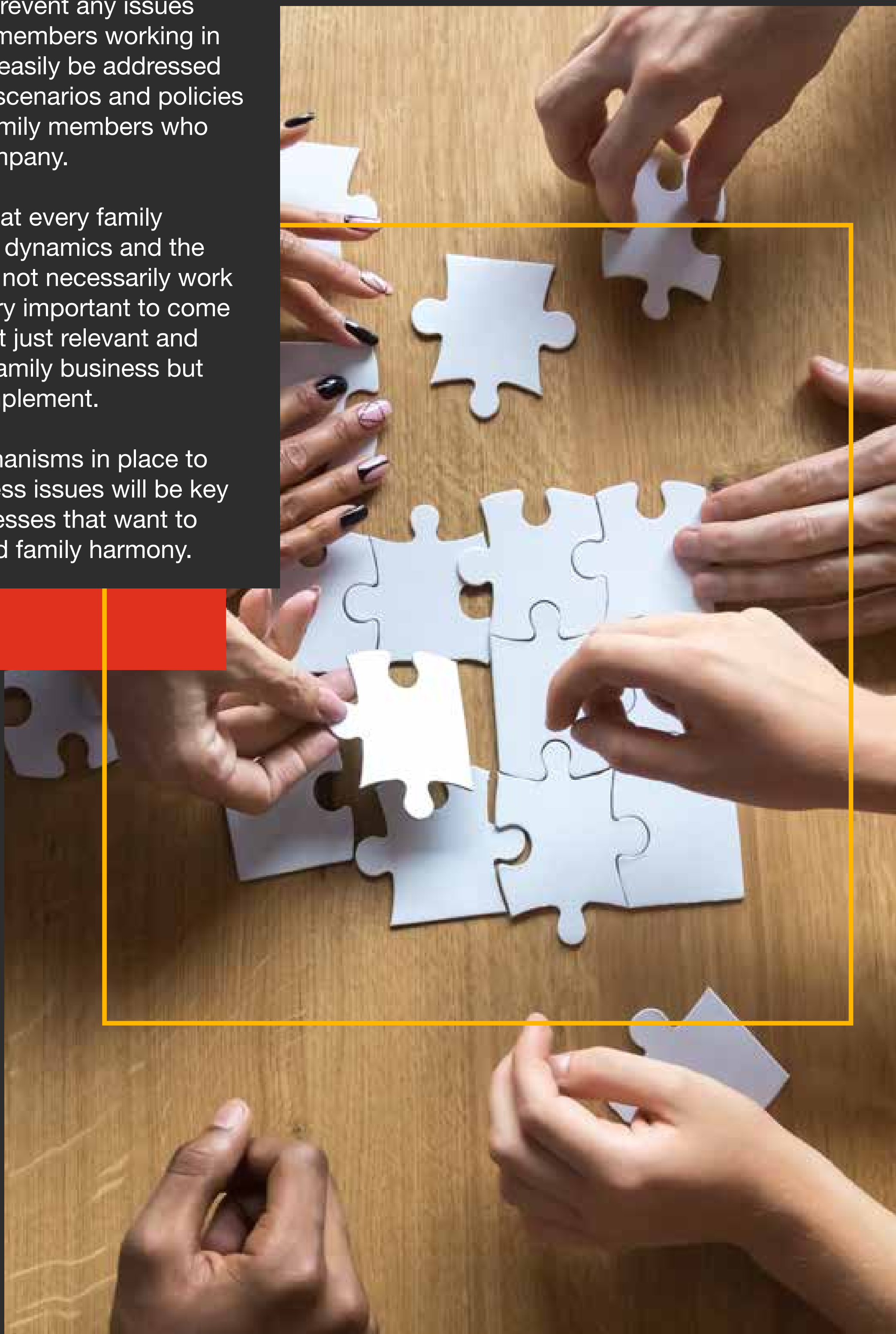
- Family members who may have the skills to serve the business are left out
- Family members whose business ventures don't qualify may feel disappointed/left out

Family businesses face many challenges and issues that can affect growth and relationships between family members. To avoid conflict and disappointment, it is increasingly important for families to employ strategies that remove emotion and personal bias from the decision-making process.

On the family side, this means separating family issues from business issues, establishing family rules and conflict resolution mechanisms.
On the business side, it's vital to set up good corporate governance and prevent any issues that could arise from family members working in the business. The latter can easily be addressed through family employment scenarios and policies that set out clear rules for family members who want to add value to the company.

It is important to point out that every family business has its own unique dynamics and the solutions for one family may not necessarily work for another. It is therefore very important to come up with solutions that are not just relevant and appropriate for a particular family business but also practical and easy to implement.

Ensuring that there are mechanisms in place to solve both family and business issues will be key for Middle East family businesses that want to ensure continued growth and family harmony.



What's next?

PwC has been advising entrepreneurs and their families for more than 160 years. Today, we provide services to 84% of the top 750 family-owned companies globally,[3] including a number of family businesses in the Middle East. Our Global Family Business Network includes more than 3,000 experts and partners specialising in advising and auditing family-owned companies.

We understand that while every family-owned company is unique, they all share some common characteristics which make them successful. We have analysed these characteristics and developed our 'Owner's Agenda' methodology which addresses both family and business challenges.

To find out more about how we can help your family business, please visit us at www.pwc.com/me or get in touch.

3 The Family Capital 750, Family Capital, 2020, https://www.famcap.com/the-worlds-750-biggest-family-businesses/.

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