

# Egypt Family

## Business Survey

Family businesses must professionalise their operations to build resilience and emerge stronger from the COVID-19 crisis

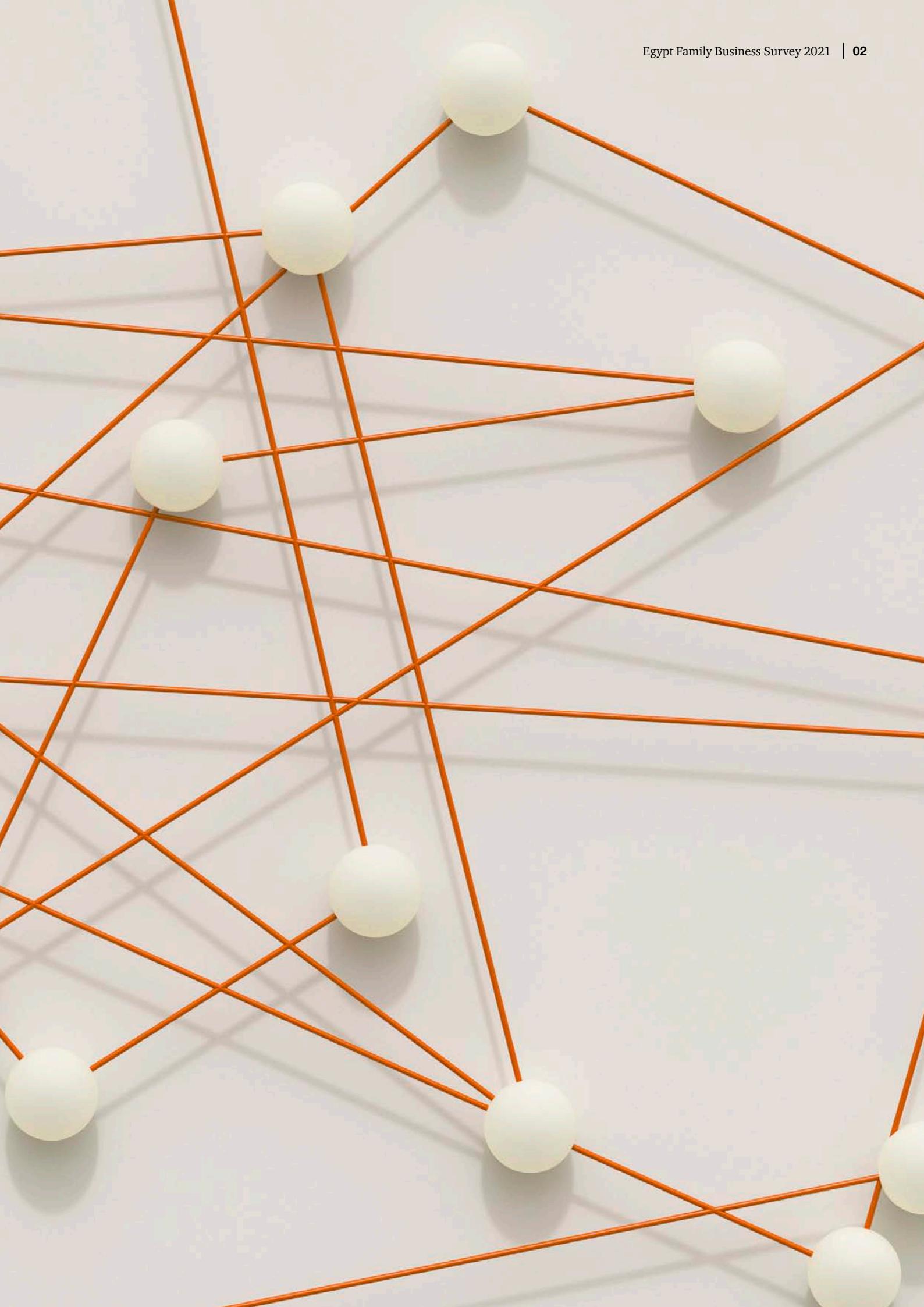
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# Foreword

Egypt's family businesses play a vital role in the country's economy. More than half of Egypt's companies are family-owned, and collectively, they account for the majority of the nation's income and employment.<sup>1</sup> During the first COVID-19 wave in the spring of 2020, family businesses formed the front line of Egypt's response to an unprecedented crisis. As vaccines arrive and the pandemic subsides, they will be equally critical to the country's economic recovery.

This is the backdrop for our inaugural Egypt Family Business Survey, part of PwC's ongoing series of national, regional and global surveys of family-owned companies. Our analysis of Egyptian family businesses identifies the common themes and trends the sector is facing as it works to meet the challenges created by the downturn. In addition, the survey provides evidence-based guidance to family businesses about how to professionalise in order to seize emerging post-crisis opportunities.

We would like to thank the survey participants for responding to our survey during a time of major social and economic upheaval. We look forward to hearing your thoughts about our findings and to further collaboration with Egypt's family businesses in the coming years, as we continue to explore the growth of the sector.



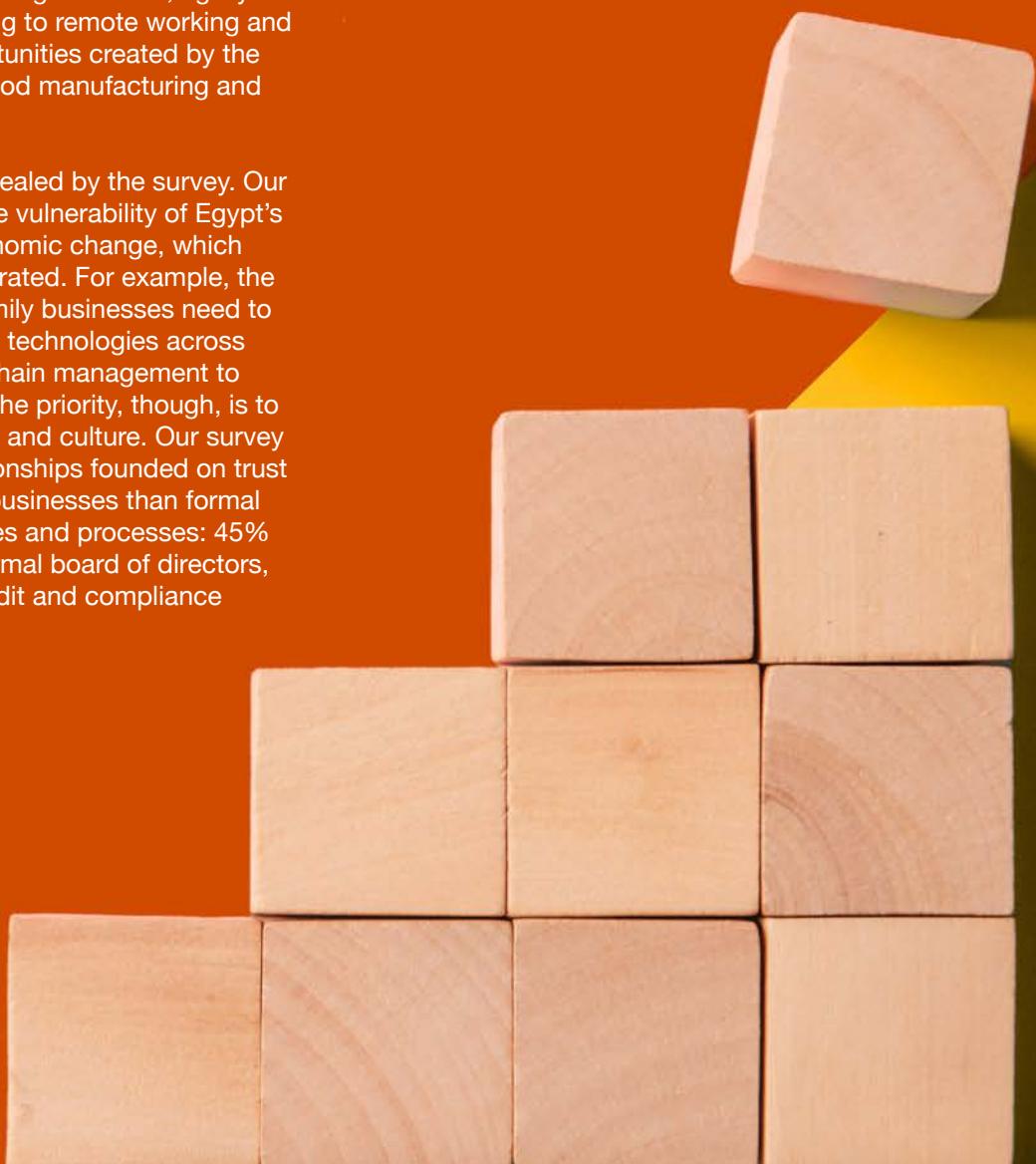
# Taking steps to professionalise your company and family is essential to emerge stronger from the COVID-19 crisis

The most successful family-owned businesses share a set of distinctive characteristics that frequently give them the competitive advantage over other companies. Planning for the long term, flexible decision-making processes and commitment to their employees and the local community are just some of the characteristics highlighted in a series of regional and global Family Business Surveys carried out by PwC.

These strengths are on show at many of the companies in our inaugural Egypt Family Business Survey, covering businesses with only a few hundred workers to large international conglomerates. Many coped well with the unprecedented impact of the first wave of COVID-19 from March to July 2020, exhibiting resilience, agility and strategic foresight in shifting to remote working and online sales, and seizing opportunities created by the pandemic in sectors such as food manufacturing and medical supplies.

Yet this is not the only story revealed by the survey. Our findings provide evidence of the vulnerability of Egypt's family businesses to rapid economic change, which the COVID-19 crisis has accelerated. For example, the results indicate that Egypt's family businesses need to work harder to introduce digital technologies across their companies, from supply chain management to customer sales and relations. The priority, though, is to professionalise their operations and culture. Our survey responses show informal relationships founded on trust count for more at most family businesses than formal corporate governance structures and processes: 45% of the survey group have no formal board of directors, while 39% do not have risk, audit and compliance committees.

In slower-moving, less disruptive times, the lack of professional governance structures was not such an obvious flaw. The difference now is that intense market volatility and digitally driven change mean Egypt's family businesses cannot rely on traditional ways in order to pass on their companies in good shape to future generations. They should professionalise, drawing on the best available external boardroom and management expertise, to emerge stronger from the crisis while serving the long-term interests of the owning family.



Based on our survey results, we recommend three key measures that Egypt's family businesses should urgently implement to build resilience and ensure sustainable value creation as the country recovers from the COVID-19 crisis.

## Egypt's Family Businesses should:

Professionalise the company, ensuring independent board oversight, and introduce strict audit, compliance and risk management functions

01

Professionalise the family, including more rigorous succession planning and training the next generation with the right skills and qualifications

02

Prepare for a radically different post-COVID-19 future by developing clear strategic plans that harness the power of digital technologies

03

**45%**

of the survey group  
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compliance committees.



# Egypt Family Business Survey Overview

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Lessons from the COVID-19 crisis

At the time of the survey, the participating companies had recently weathered the first wave of the pandemic with its associated restrictions and market disruption. Some of Egypt's family businesses displayed resilience and agility in navigating extreme crisis conditions, managing to mitigate the damage to their operations. Others, however, struggled to cope with broken supply chains, falling sales and the general economic slowdown. Our survey sample reflects this mixed picture. In March 2020, when the first wave began to surge, many family owners and their management teams took immediate measures to establish crisis command centres and ensure the safety of their employees, before embarking on tactical steps to stabilise the company.

These measures included liquidity analysis and operational scenario planning. In this context, it is revealing that only 21% of survey respondents said they had considered seeking assistance during the crisis from other family members outside the business with different skills and experience, indicating a strong level of self-confidence in their own resources and abilities.

## Learning the right lessons from the COVID-19 crisis

Key considerations for Egypt's family businesses

01

Did we have the best executives on the crisis team, with clear accountability?

02

Did we have an effective enterprise-wide crisis response plan?

03

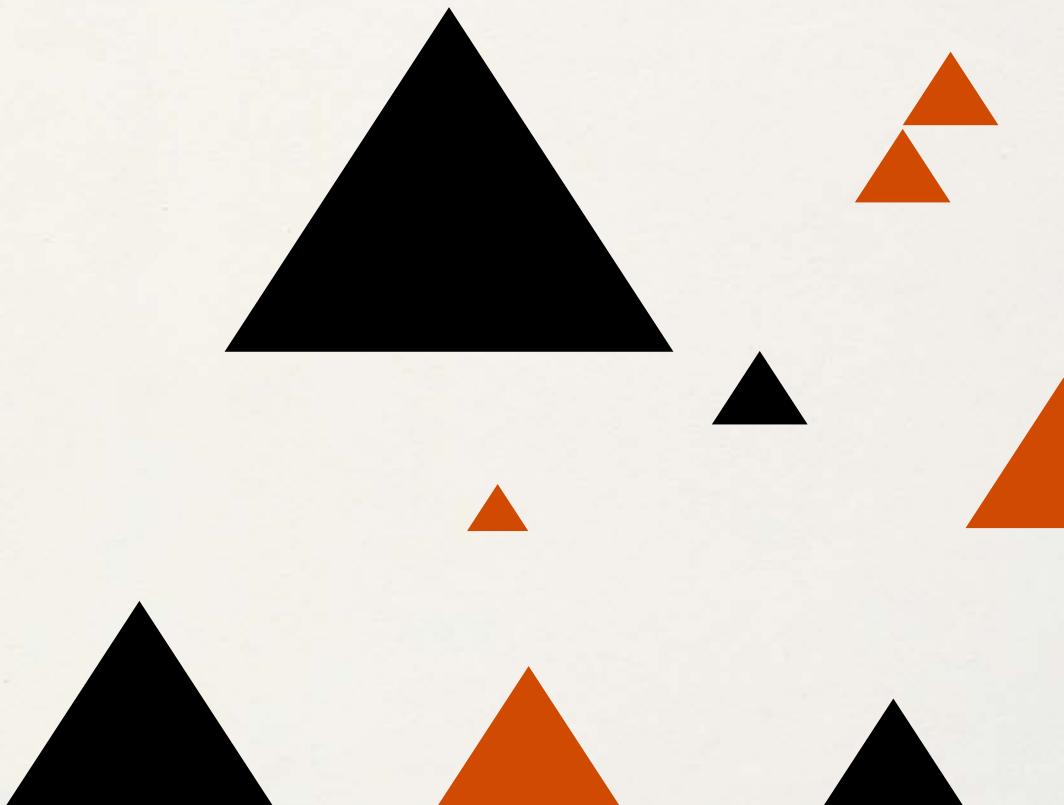
Did we communicate effectively and rapidly with employees and other key stakeholders?

04

Did we react quickly to our competitors' response to the crisis?

05

Did we use the right technology and data to manage our response to the crisis?



It is no surprise that improving profitability in the current volatile and fast-moving economic climate is the top priority for most respondents. However, only 9% say they need to innovate or make changes to their business model, while just 6% rank digital transformation as a top concern.

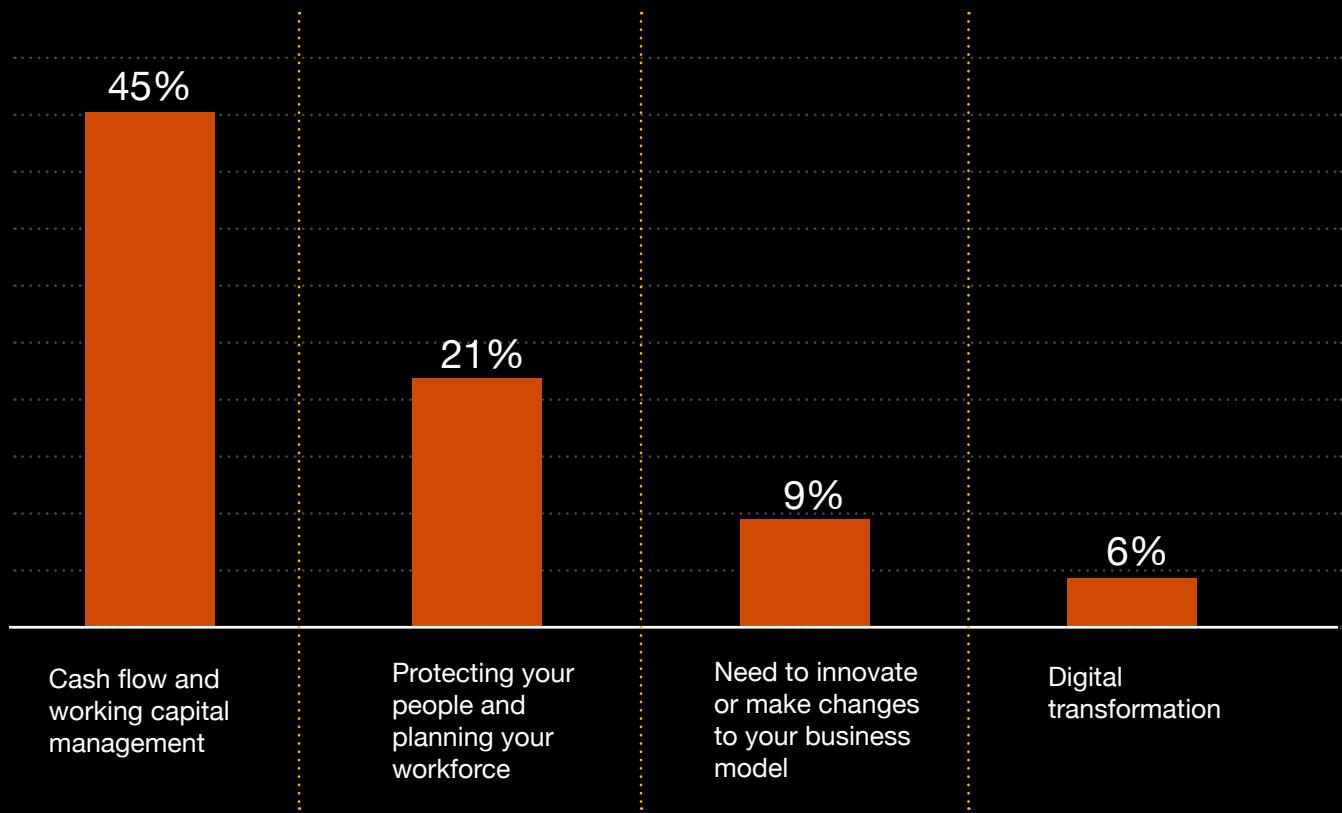
These findings indicate a somewhat surprising level of optimism given the country's post-pandemic economic outlook. Egypt's GDP is forecast by the World Bank to fall from 6% in 2019 to 4% in 2020, with a further decline to 2% in 2021.<sup>2</sup> These forecasts may seem pessimistic given the recent breakthroughs in vaccine development. Nonetheless, it is notable that the kind of post-crisis due diligence that most other companies are conducting seems far less urgent to a significant

proportion of the family-owned businesses in the survey.

For example, conducting a portfolio review in the present economic climate was only on average the fourth most important priority for respondents, scoring an average of 64 on a scale where 100 is top of the agenda. Addressing supply-chain disruptions and exploring alternative channels was ranked fifth, with a score of 63, despite COVID-19's major and potentially lasting impact on national and international supply networks. The need to consider financial restructuring was even further down the agenda, with an average score of 51.

**Q:** As a business owner, please rank your top concern during the current uncertain business environment.

Source: Egypt Family Business Survey 2020



It is possible to argue that families that have successfully owned and managed their companies for generations through previous crises have both the experience and knowledge to navigate the post-COVID challenges. Notably, 43% of the survey respondents said they do not have a dynamic strategic plan in place for the next three to five years, however 80% reported that they are likely to introduce one. We believe they would be well advised to do so. Among the 57% of companies in the survey with dynamic “three to five-year” strategic plans, almost three-quarters achieved growth in the current “COVID-19” year to date, markedly higher than the overall survey average.

Indeed, the survey findings all point in the same

direction when placed in this wider national and international market context. The fact that Egypt’s family businesses have generally weathered the immediate COVID-19 emergency well does not guarantee that they are set up to prosper in the post-COVID economy. This will be subject to rapid, accelerating change, propelled by digital technologies that are transforming the business landscape worldwide. On the contrary, the results suggest that family businesses should be wary of assuming that structures and cultures that have served them well in the past, and even through the first wave of the pandemic, are fit for a fast-approaching post-COVID future where only the most rigorously managed and tech-savvy companies will retain their competitive edge.

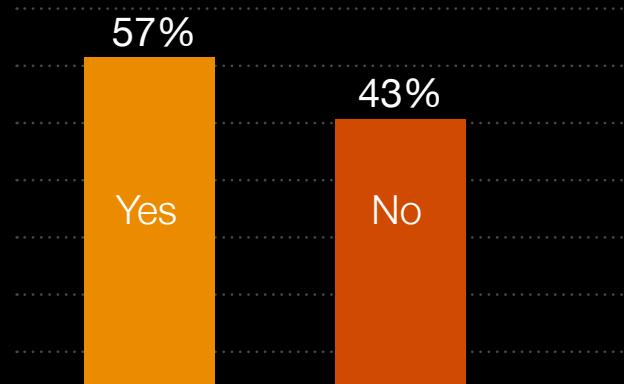
**Q:** During the current economic conditions, what are your priorities?

Source: Egypt Family Business Survey 2020



**Q:** Does your company have a dynamic strategic plan for the next three to five years?

Source: Egypt Family Business Survey 2020





# The need to professionalise Egypt's family businesses

Our survey results highlight how measures to professionalise family businesses require a twin-track approach, focused on both the family owners (including next generation members) and the day-to-day governance and management of the company. In particular, family businesses should:

- **Professionalise the company**, ensuring independent board oversight and introducing strict audit, compliance and risk management functions
- **Professionalise the family**, including more rigorous succession planning and training of next generation members with the right skills and qualifications

## Professionalising the company

As our survey confirms, Egypt's family businesses have been slow to professionalise their governance and operations compared with their global peers. For example, 45% of respondents have no formal board of directors, while among companies which do have a board around one-quarter are not confident that it is fully equipped to manage risks associated with COVID-19. In addition, only 50% of these boards request that portfolio reviews and benchmarking exercises are conducted for the various businesses held by the company, in order to identify underperforming units. At the same time, a significant proportion of the boards lacked risk, audit, compliance and investment committees.

The reasons for this have deep roots in Egyptian family business culture. Traditionally, Egyptian family businesses have been wary of recruiting outsiders from beyond the family circle. In addition, Egypt has no legal requirement for companies to appoint independent directors. The survey results underscore the degree to which these closely-knit networks make up the fabric of Egypt's family businesses. 94% of respondents say family members are allowed to work in the business, while 53% also permit the employment of spouses of the owning family.

A parallel issue that arises directly from the inward-looking nature of many family businesses is the difficulty of attracting and retaining external skills and talent to strengthen the company. Without a professionalised system that presents talented managers and executives with a structured career path, family businesses can

struggle to compete with other companies offering incentives such as share options and performance bonuses. Yet this challenge has to be addressed if family businesses aim to expand internationally, diversify into new markets, manage risk better or innovate more effectively. On all these fronts, many family businesses will need to bring in highly qualified people to deliver results.

Before the pandemic, Egypt's family businesses were already under mounting pressure to professionalise their corporate governance and management processes to ensure their long-term sustainability amid rapid, digitally-driven economic change and market volatility. COVID-19 has intensified this pressure, with many discovering that their insular, informal way of doing business could not meet the challenge of navigating an unprecedented crisis. The risk for owners who refuse to read the warning signs and professionalise their companies is that the business will not survive to be handed down to the next generation.

Yet encouragingly, many family businesses have begun to take steps to modernise their governance and management. Key measures include ensuring that company boards are fully accountable for their actions and answerable to shareholders; that board members have the right mix of skills and experience to drive the shareholders' agenda; and that there is a clear separation between the roles of the board, management and shareholders.

**Q:** Does your family business have a formal board of directors?

Source: Egypt Family Business Survey 2020



**Q:** Are you confident that your board of directors is fully equipped to manage the current COVID-19 situation and the risks related to it?

Source: Egypt Family Business Survey 2020



## Professionalising the family

Professionalising the family is about creating rules and protocols to formalise the relationship between family members. It will always be a sensitive undertaking, because so much family sentiment and history is tied up in the business. Yet in the wake of the disruption caused by COVID-19, it is a challenge that many family businesses must urgently address, to build resilience, safeguard the company for future generations and ensure long-term sustainability. In this respect, professionalising the family should be seen by owners as integral to professionalising the company, ensuring that all family members are committed to the same strategic vision for the business in turbulent market conditions and that potential conflicts of interest are minimised.

It is concerning that many of the family owners covered by our survey have felt little or no need to formalise their involvement in the company. For example, 64% of respondents do not have an official shareholders' agreement, while 45% have no succession plan and 43% say they have not involved the next generation of family members when preparing for the succession. Only 11% have some kind of family constitution or protocol, while 11% have a formal family personnel policy, 6% have a family council and only one company in the survey has a third-party mediation process in the event of disputes between family members.

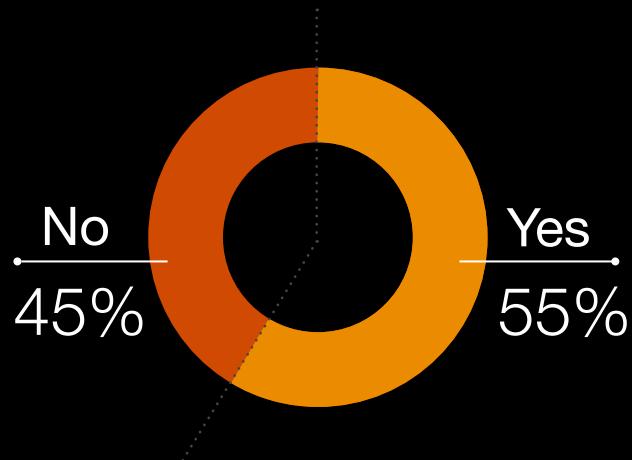
**Q:** Which of the following policies and procedures, if any, do you have in place?

Source: Egypt Family Business Survey 2020

Shareholders agreement	36%
<b>None of the above</b>	<b>36%</b>
Prefer not to answer	13%
Family constitution or protocol	11%
Emergency & contingency procedures	11%
Family personnel policy	11%
Testament/Will	6%
Family council	6%
Conflict resolution mechanisms	6%
Entry & exist provision	4%
Third party mediator	2%

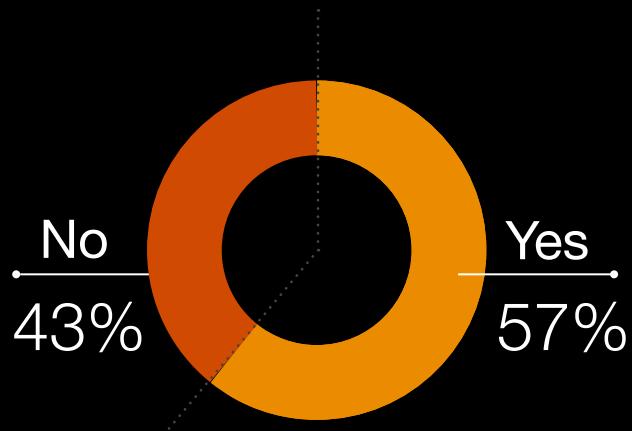
**Q:** Does your company have a succession plan in place?

Source: Egypt Family Business Survey 2020



**Q:** Have you involved the next generation family member(s) in succession planning?

Source: Egypt Family Business Survey 2020



It seems from these results and other PwC Family Business survey findings that most of our respondents still run their companies using the same informal arrangements as preceding generations of owners. The vast majority do not have conflict-resolution mechanisms, documented entry and exit procedures for family members, third-party mediation processes or all the other formal governance structures that are increasingly found in successful family businesses worldwide.

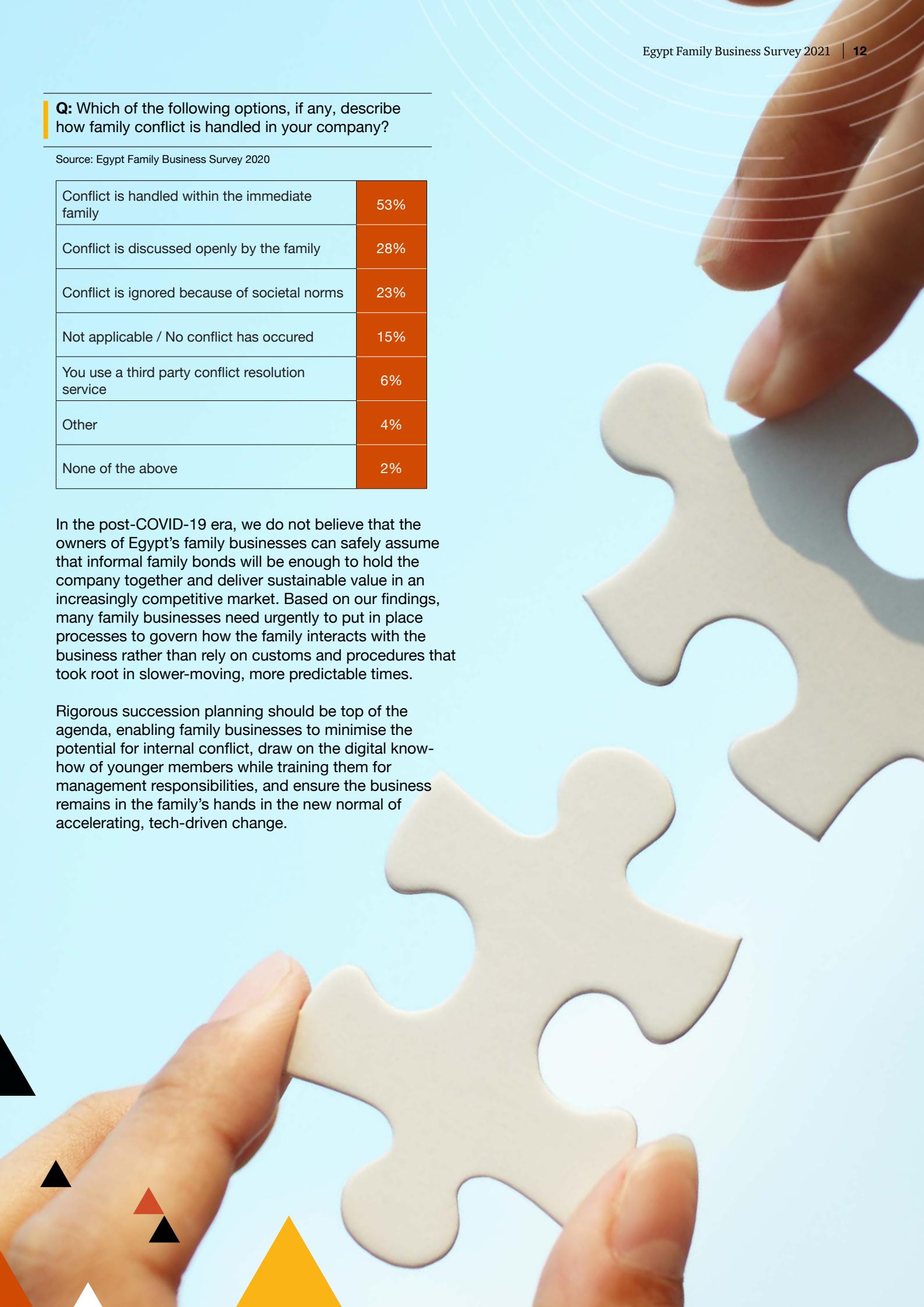
**Q: Which of the following options, if any, describe how family conflict is handled in your company?**

Source: Egypt Family Business Survey 2020

Conflict is handled within the immediate family	53%
Conflict is discussed openly by the family	28%
Conflict is ignored because of societal norms	23%
Not applicable / No conflict has occurred	15%
You use a third party conflict resolution service	6%
Other	4%
None of the above	2%

In the post-COVID-19 era, we do not believe that the owners of Egypt's family businesses can safely assume that informal family bonds will be enough to hold the company together and deliver sustainable value in an increasingly competitive market. Based on our findings, many family businesses need urgently to put in place processes to govern how the family interacts with the business rather than rely on customs and procedures that took root in slower-moving, more predictable times.

Rigorous succession planning should be top of the agenda, enabling family businesses to minimise the potential for internal conflict, draw on the digital know-how of younger members while training them for management responsibilities, and ensure the business remains in the family's hands in the new normal of accelerating, tech-driven change.





# How to emerge stronger from the COVID-19 crisis

Prepared by the Egypt Family Business Survey 2021

A fully professionalised family business will be in a strong position to implement our final recommendation:

- **Prepare for a radically different post-COVID future by developing clear strategic plans that harness the power of digital technologies**

As our survey results indicate, Egypt's family businesses have demonstrated their resilience throughout the first wave of the pandemic, yet many of them lack a clear strategy for negotiating the challenges ahead. In a professionalised company, the board, CEO and senior management team should invest their energy in preparing the business for the new normal, starting with these three steps:

## 01

**Identify** the most profound structural shifts in your industry and markets and their potential impact on the company

## 02

**Ideate** the bold, far-sighted decisions you should take in anticipation of these changes

## 03

**Initiate** a “Fit for Growth in the New Normal” programme to deliver on these decisions, which radically reassesses your strategy, operations and culture

In the **Identify phase**, risk management should focus on assessing value and cash-flow drivers. Some COVID-19-related disruptions are likely to be temporary while others may be permanent.

## Risk management in the new normal

### Revenue

Main risk issues:

- Volatile demand
- Ability to procure raw materials
- Ability to offer products and services
- Price regulations

### Profitability

Main risk issues:

- Variable costs
- Ability to adjust fixed costs

### Liquidity & Leverage

Main risk issues:

- Inventory management
- Ability to collect receivables
- Pressure to meet payables

In the rapidly evolving new normal, poorly focused cost-cutting could undermine your company's longer-term survival and growth prospects. Senior management should:

- Shift costs towards areas of the business with the greatest potential for adding value
- Gain a competitive advantage through new or improved products and services, new distribution channels or more efficient operations

For the second phase (**Ideate**), companies should:

# 01

Conduct urgent, comprehensive portfolio reviews with a view to diversifying geographically

# 02

Revisit business and operating models

# 03

Reassess assets in alignment with your new normal strategy and risk appetite

Valuing the business and redeploying capital are especially hazardous in the current volatile market conditions. Yet it is critical to release liquidity and redeploy capital to capture the opportunities created by the COVID-19 disruption. As part of the valuation process, it is worth considering partnerships with companies that have critical capabilities, as well as merger and acquisition opportunities.

As part of the Ideate phase, companies should also revisit their business and operating models. They should take the long-term view with customers, suppliers, employees and regulators, ensuring that relationships remain strong with all stakeholders, despite key post-crisis issues that have to be addressed. They include:

cutting unprofitable products and services; increasing supply-chain resilience and diversity; investment in local production to reduce import dependence; and investment in digital technologies and skills across all areas of the business.

In the Initiate phase, family businesses should pivot to an agile strategy that is attuned to fast-changing, volatile market conditions where innovative, flexible decision-making will deliver a competitive edge. The most successful Egyptian family businesses have always displayed these attributes, which should be directed towards building market-leading capabilities in the new normal, funded by more efficient cost structures.

In phase three (**Initiate**), with the above goal in mind, family businesses should:

# 01

Identify “good” and “bad” costs in the changing market landscape

# 02

Aggressively cut operations, products and services that will be obsolete in the post-COVID-19 era

# 03

Initiate or accelerate digitalisation programmes, harnessing the power of relevant emerging technologies

Based on our survey results, there is significant cause for concern that many of Egypt’s family businesses have not sufficiently grasped the speed with which digital, data-driven technologies are transforming the global economy. It is worrying, for example, that 64% of the survey do not believe they are vulnerable to digital disruption, and 55% say they are not prone to a cyber attack. Furthermore, only 6% report that digital transformation is a top priority.



**64%**

believe they are not vulnerable to digital disruption

**55%**

believe they are not prone to cyber attacks

only

**6%**

consider digital transformation a top priority

Egypt's family businesses cannot ignore the degree to which digital technologies will be integral to survival and success in the coming years, regardless of their company's size and sector. They need to invest urgently in digital capabilities and skills throughout the business, from automation and AI-supported supply chains to data analytics that will enable them to serve their customers better.

Above all, the companies in our survey offer persuasive evidence that it is misguided for family businesses to preserve informal governance structures and traditional ways of working, simply because they have been inherited from the previous generation of owners. The challenges and opportunities created by the

current economic and social upheaval require a clear, professionalised succession framework and a corporate culture that is agile, proactive and welcoming to external management talent. Family businesses which embrace these changes, rather than resist them, will be best placed to survive and prosper as Egypt recovers from the pandemic.

## About the survey

To help identify the business and economic impact of COVID-19 on Egypt's family businesses, PwC Egypt office surveyed 47 businesses for the inaugural Egypt Family Business Survey. The survey was in the field from August 16 to October 10 2020.

The survey covered family businesses of varying sizes. The companies were distributed across a representative range of sectors, from real estate and food and beverages to construction and financial services.

**36%**

of respondents operate in more than one sector

**32%**

operate in more than one country

**43%**

are both wholly based in Egypt and confined to one industry only

**36%**

of respondents have one dominant individual owner

**45%**

are co-owned by siblings

# 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,<sup>3</sup> 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 that 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](http://www.pwc.com/me) or get in touch.

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