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Family businesses and succession planning – a ME perspective


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The family business is one of the most dominant and enduring forms of organisation in the world. In fact, according to some estimates, over 90 percent of all commercial activity within the Gulf Cooperation Council (GCC) countries is controlled by family businesses.*

However, according to the Institute of Family Business in the US, a major obstacle which prevents family businesses from making a successful transition into the next generation is the absence of a sound succession plan.

What is a succession plan and why is it important?

A succession plan can be anything from a loose unwritten understanding or agreed cultural norms to formal constitutions and family charters. The key document contains a set of rules and guidelines that have been agreed by members of the family, to run the family business and segregating family matters from business matters. Some of the matters that a Family Charter should address include:

- providing an agreed process for the representative governance of the family business;
- establishing a mechanism for avoiding conflict between family members, through, for example, the formation of a 'Family Council' to arbitrate on disputes between family members;
- specifying an employment policy for the business and establishing guidelines in relation to the employment of family and non-family members;
- determining who is a 'family member' for the purposes of running the business;
- establishing mechanisms to ensure compliance with the rules and guidelines of the Family Charter and to deter violations; and
- providing an exit plan for family members who do not wish to remain in the family business.

A succession plan is important for a family business because it oversees the management of the family business and its transition from one generation to another.

The main objectives of a succession plan are to: develop a **long-term vision** for the family business; ensure the continuity of the business after the founder's death or retirement; promote family harmony and **avoid conflict** between family members; and enhance the **longevity of the family name** and reputation.

Families where the founder of the business (G1) still plays an executive role can be very different from families where the sons/daughters of the founder (G2) or the grandsons/granddaughters of the founder (G3) run or supervise the management of the business.

What does succession planning involve?

The process to implement a succession plan should be consultative in nature, and should ideally begin from within the family.

The use of specialist advisors is also a growing trend, especially among large family businesses in the MENA region. In particular, some of the advantages that may be achieved by utilising a corporate structure include:

- reducing the liability of the owners of the business to third parties by introducing limited liability;
- facilitating the disposal of the business, or part of it, in the future;
- facilitating the continuity of ownership of the business from one generation to another through the separation of holding and operating companies;
- improving the corporate governance of the business particularly as it evolves from a G1 structure to a G2 or G3 structure; and
- reducing the business' tax liability through tax planning.

According to MEED Magazine, only 30 percent of family businesses survive into the second generation, 10 percent into the third and 3 percent into the fourth. For a G1 founder, it is best to put in place structures which allow G2 family members to deal with each other within the business when the G1 founder is there to guide them rather than waiting to see what fills the often substantial vacuum left by the GI founder.

* Source: "The Impact of Private Equity on GCC Family Businesses", a report by Ithmar Capital in partnership with Dow Jones Private Equity.

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