

Family businesses in the Gulf Cooperation Council

The journey to long-term sustainability

Findings from the inaugural GCC family-owned business survey
October 2015



In collaboration with:



Introduction:

The GCC Family Business Survey was inaugurated in 2014 by McKinsey & Company in collaboration with the Gulf Family Business Council (GFBC) and will be conducted on periodic basis in order to track progress.

GFBC welcomes the research being carried out, as a means to enhance the governance, performance, and wider contribution of family-owned businesses in the region. GFBC has provided insight to inform the research on the context for family-owned businesses in the region. The research forms part of a McKinsey global knowledge initiative on the governance of family-owned businesses. The conclusions of the report are those of McKinsey. GFBC will value the ongoing discussion of the issues the research raises.

About the Survey:

The goal of the survey is to understand the health of family businesses in the region today; define an actionable agenda, based on the areas where family businesses struggle most; and identify the role models of the future.

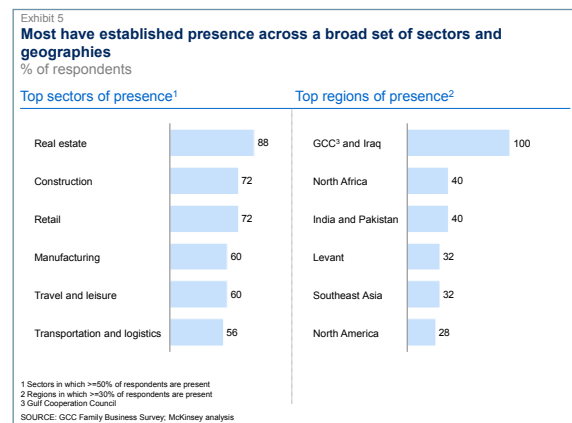
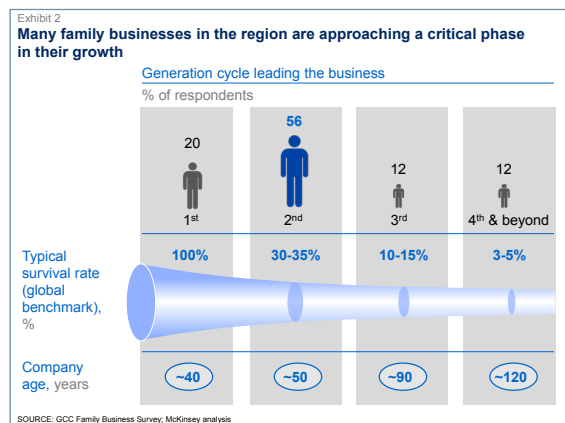
As it is critical for the longevity of any family business for five dimensions to work together in synchrony:

1. Family
2. Ownership
3. Business
4. Philanthropy, and
5. Wealth management

We asked a set of specific questions for each dimension to understand what practices are currently in place. Participants were assigned a score on each dimension, reflecting the presence and effectiveness of the relevant practices.

About the Survey sample:

- Representing many of the largest businesses from across the GCC
- Relatively young; between 40-60 years old
- Three-quarters of the businesses are run by the first or second generation
- Collectively generate \$100 billion in annual revenues across the region
- More than 50% of the businesses have 5 or fewer shareholders
- All businesses have at least one family member employed full-time in the business
- 60% of the businesses have 6 or more family members working in the business
- Most of the businesses have diversified significantly within their home markets
- 88% of businesses are present in 5 or more sectors, most common being real estate, construction, retail, manufacturing, and travel and leisure.
- 76% of businesses have presence outside of GCC

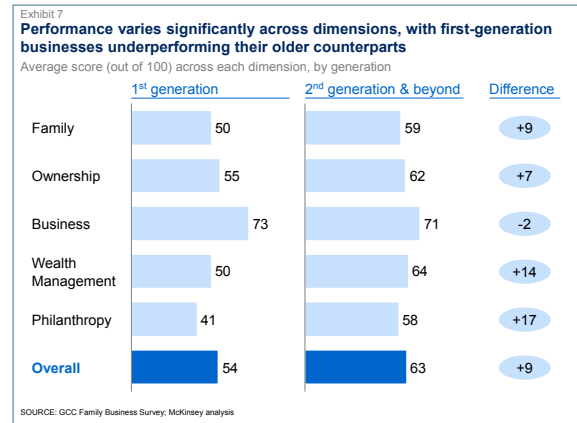
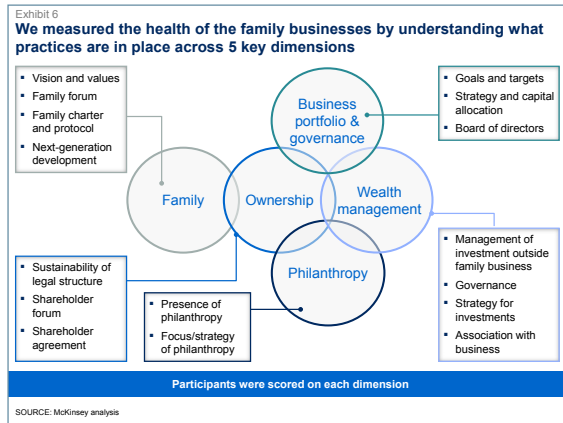


Overall findings:

This first year of the survey established a baseline against which we will measure progress in future years. Overall, our sample performed relatively well across the five dimensions, with an overall average score of 62 out of 100 points. However, this overall score masks these variations in performance across the sample:

- **First-generation businesses underperformed their older peers.** This is true on virtually every

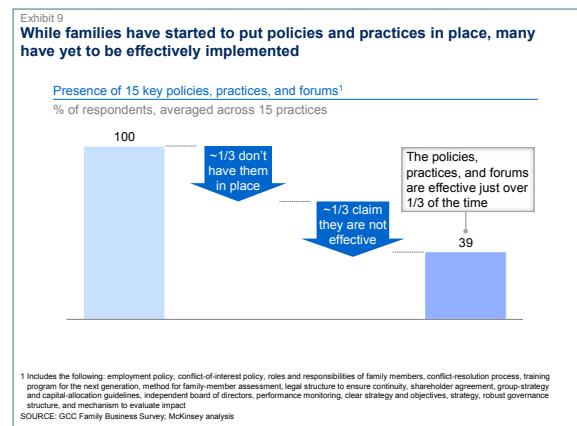
dimension, except for business practices. The result is not surprising as first-generation members are consumed in building the business and often postpone building the needed “guardrails” for continuity.



Specific insights across the five dimensions:

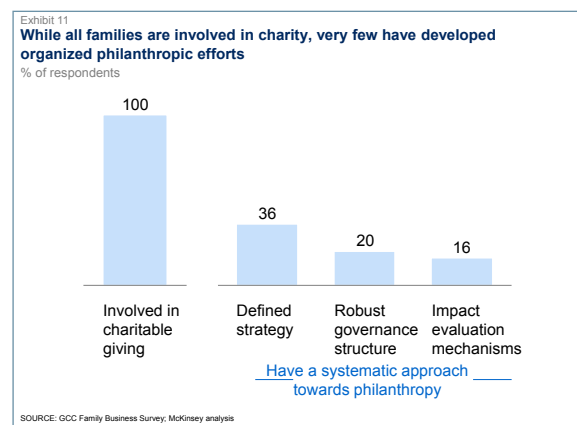
The following six themes emerged from our analysis of the data:

- While family businesses have made significant progress in putting in place the governance systems, few have been successful in implementation.** We asked our participants about the presence and effectiveness of 15 practices that are key building blocks of an effective governance system. Two-thirds of the time, participants report that they have started to put the building blocks in place. However, only around one-third of the participants report that the practices are fully adopted and working effectively.



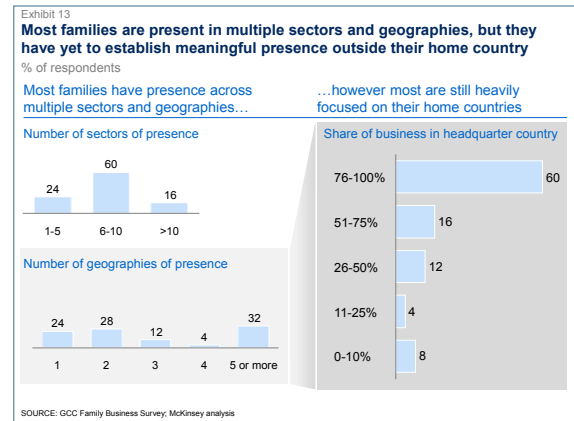
- One of the most challenging tasks for families today is managing family dynamics, particularly when it comes to preparing the next generation and managing conflict.** While 44 percent of families state that they have an employment policy in place, only 32 percent believe they have clarity on the roles and responsibilities of family members, 22 percent report that they have effective training programs and 17 percent report that they have an effective assessment method in place for the next generation. While this is a difficult topic to address given the sensitivities, it must be tackled head-on and made a priority, especially that it is one of the most important enablers for a successful generational transition.

- While all families are involved in some form of charitable giving, very few have developed organized philanthropic efforts.** All families in our sample report that they are involved in charitable giving. However, relatively few have defined a clear strategy for their giving (36 percent), established a robust governance structure to oversee their giving (20 percent), or determined how they will evaluate the impact of their efforts (16 percent). This may be in part due to the relative youth of family businesses in the region. However, given the general desire of many families in the region to engage in philanthropy, as well as the role philanthropy can play in galvanizing family members around a common set of values,



many families would benefit from being more systematic about their efforts in this area.

- **Over time, families may need to shed their reluctance to tap into external sources of liquidity.**
Today, very few family businesses in the region have public ownership at either the holding level or the subsidiary level. As the family grows, external sources of liquidity could become more important as a means of giving family members an exit and pruning the shareholding.
- **On the business side, geographic diversification is a big priority for most family businesses.** While most family groups have established some presence outside of their home countries (76 percent have some activity outside of the GCC), many have yet to make this presence meaningful. Roughly 60 percent of family businesses still derive more than 75 percent of their revenues from their home countries. Many, however, have aspirations to expand internationally and establish regionally and globally competitive businesses; this will require family businesses to develop an exportable competitive advantage and an institution that allows them to infuse the family's DNA in new businesses.



- **Talent management emerges as one of the biggest challenges from a business perspective.**
Less than a third of our participants believe that they have an effective career-development and retention program in place for their nonfamily executives. This will clearly need to change if these groups want to attract the best global talent. Furthermore, while most families believe they create a level playing field for family and nonfamily executives in the business, it is quite possible that nonfamily executives do not share this point of view.

Recommendations:

Based on our findings, there are a number of priorities that emerge for family businesses in the region. Specifically on the family side, the clear areas of focus include: ensuring effective implementation; investing in preparation of the next generation; and being much more strategic and systematic about philanthropic efforts. Based on our work with families, in the region as well as globally, the following guiding principles should be kept in mind by any family designing its governance system:

- **Ensuring effective implementation:**

 - **The process is as important as the outcome** – the families that have been most successful are those that engage the broader family, not just those who are in positions of authority or involved in the business, to ensure their buy in and commitment. They also recognize that this is an evolutionary journey, and are willing to take it gradually.
 - **Making tough decisions is unavoidable** – and families must be prepared to make them as they embark on this journey, in order to avoid future conflict.
 - **Clear ownership for decisions and implementation is a must** – the family must establish upfront how decisions will be made and who will make them, to keep the process moving and avoid ambiguity.
- **Preparing the next generation:**

 - **You can never start too early** – the most advanced families in this regard start the process early to form a bond between the family members and the business. This can involve company visits and events, joint projects with other members of the next generation, internships, etc.
 - **Clarity must be created upfront for the next generation** – to the extent possible, it is important to educate the next generation on the “rules of the game” as early as possible – i.e., Will they be

allowed to work in the business? What will make them eligible? What sorts of roles will be open to them?

- **“Rules of the game” must also be clarified to nonfamily executives** – to minimize impact on the business (in terms of tainting a meritocracy, or demotivating a high performing professional) the plan for next generation family members should be clarified to relevant stakeholders.

■ **Engaging in philanthropic efforts:**

- **The cause must be aligned with the family’s values** – in order for philanthropic activities to be sustained, families are typically best off selecting causes that are most closely aligned with the family’s values.
- **Sustainability of funding should be ensured** – some families choose to “protect” the funding source for their philanthropic efforts to enable the build-up of a sustainable organization.
- **Clear governance mechanisms should be established** – those foundations that have the most impact over time are the ones that rigorously measure the impact they are having, and ensure continuous alignment of their activities with their mission.

On the business side as well, family businesses must continue to up their game in order to thrive in an increasingly competitive environment. As highlighted by the survey, areas of focus include geographic diversification and talent management.

Conclusion:

Looking forward, we are optimistic about the pace of change, especially given the surge in awareness among family businesses on the need to change. At the same time, we are conscious that the real test is yet to come. The institutions that are being designed and implemented today will be stress-tested in the coming years as next generation members transition into leading those businesses. Our survey participants, who are amongst the largest family businesses in the region, will have a responsibility to serve as pioneers and role models for their peers, who could learn from their achievements to date.

