KPMG Enterprise

GCC Family Business Survey 2017

Driving the region forward

February 2018

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Foreword

In the GCC, perhaps more than anywhere else world-wide, family businesses are all around us. From small and medium-sized enterprises (SMEs), to renowned multinational corporations – family owned and managed companies in all guises form the backbone of the region's economy.

In this report – the GCC Family Business Survey 2017 – we heard from senior members of family businesses in the six GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) about how confident they are in the future of their organizations, the challenges they face and the mechanisms they have in place to support sustainable growth. From May to November 2017, 42 family business leaders completed the survey (largely during face-to-face interviews with KPMG member firms' specialist family business professionals), helping us to create this snapshot of the trends and issues currently affecting the industry.

On the whole, the picture for family businesses seems relatively optimistic. Well over half of respondents feel confident about their businesses' prospects as they continue to adjust to the 'new norm' of lower oil prices and the impact of recent geopolitical developments. However, growth is still high on the agenda, with many businesses focusing on improving profitability, just over half on improving revenue and over two-thirds focusing on making investments as part of their strategy over the coming years.

I would like to take this opportunity to thank the survey's participants. The GCC is an incredible place to do business and I have found it extremely interesting to gain deeper insight into what is one of the most important segments of the region's economy. We would very much welcome the opportunity to discuss the findings and any other questions you may have about family business matters (your local family business lead is listed on the contacts page at the back of this report).

Best regards,

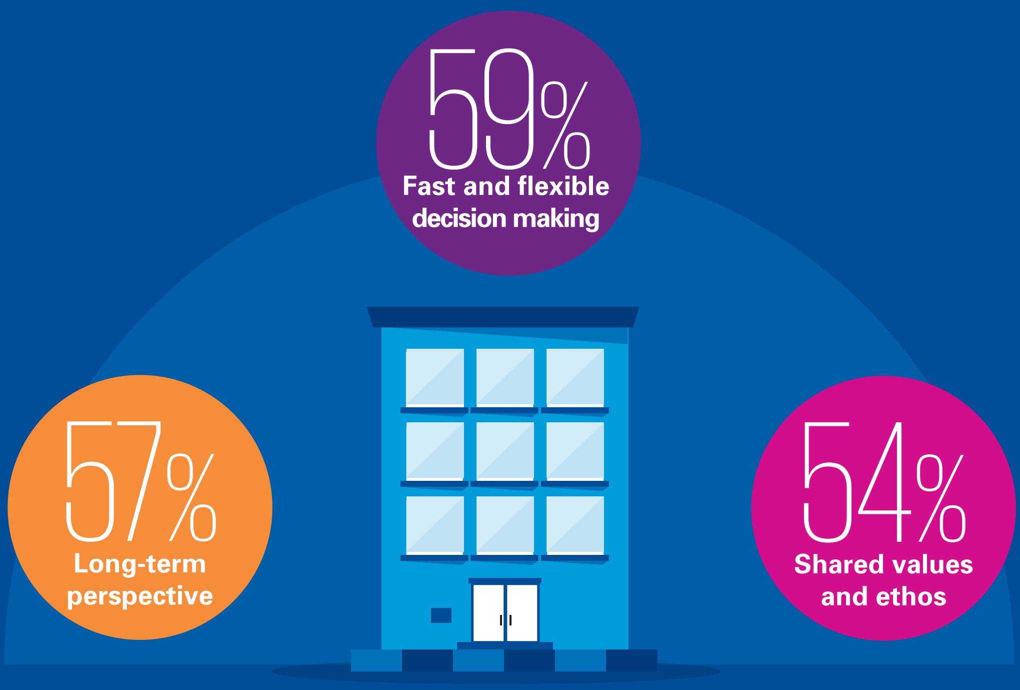
Harish Gopinath
Head of Family Business
KPMG in the Middle East
and South Asia

KPMG Enterprise

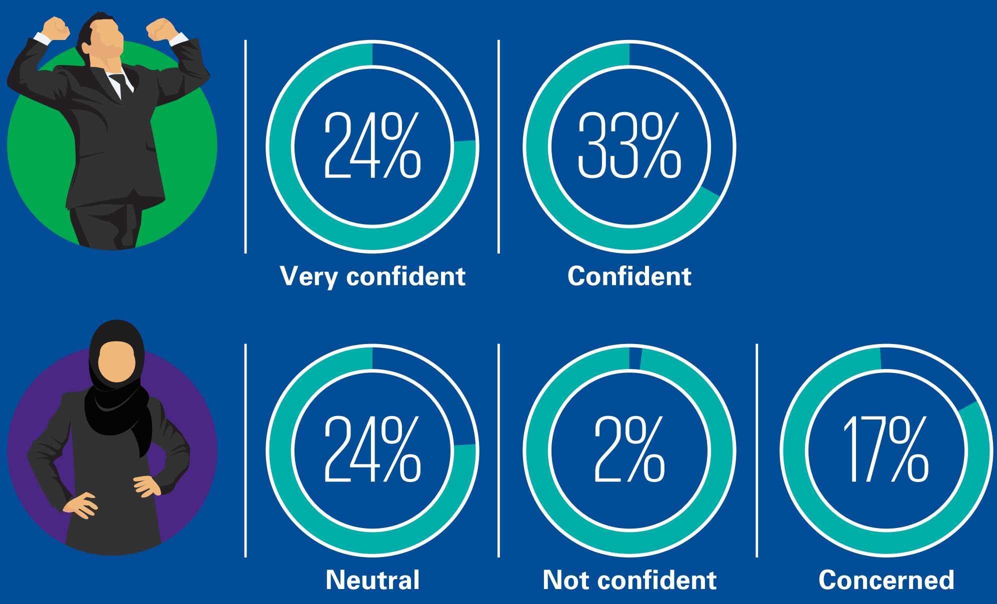
> "Family businesses in the region are known for having a long-term perspective, which enhances the sustainability of their business."
>
> **Harish Gopinath**

Survey findings

What are the major strengths/advantages of your family business?



How do you feel about your family business's prospects over the next 12 months?



Steady progress

The 2016-17 financial year has been challenging for the region, with significant policy changes, the introduction of new taxes and economic uncertainty. With oil prices falling as low as US$45 per barrel, governments have proactively taken austerity measures to bolster the region's economies.

However, despite recent challenges, family businesses across the GCC continue to see sustained growth and positive performance; if not, perhaps, at the levels witnessed earlier in the decade. Over a third of the companies interviewed reported that their revenue had increased in the previous 12 months and 40 percent reported stable or improving year-on-year revenue.

"Family businesses in the region have demonstrated strong resilience to external pressures and challenges."

Fawzi AbuRass
Head of Family Business,
KPMG in the Lower Gulf

In the past 12 months your company has:

Revenue

33%	38%	29%
Increased	Maintained	Decreased

Staff numbers

33%	38%	29%
Increased	Maintained	Decreased

Overseas activity*

38%	33%	10%
Increased	Maintained	Decreased

*19% reported no overseas activity had taken place.

Watching out for bumps in the road

Increased competition, the 'war for talent', and a decline in profitability are all top-of-mind for family business owners.

Family businesses are often faced with making difficult choices and must look for new ways to stand out as competition heats up. With 30 percent of respondents stating that they are looking to become more innovative and 38 percent looking to diversify into new products and services, it is clear that finding ways to differentiate in the market are priorities.

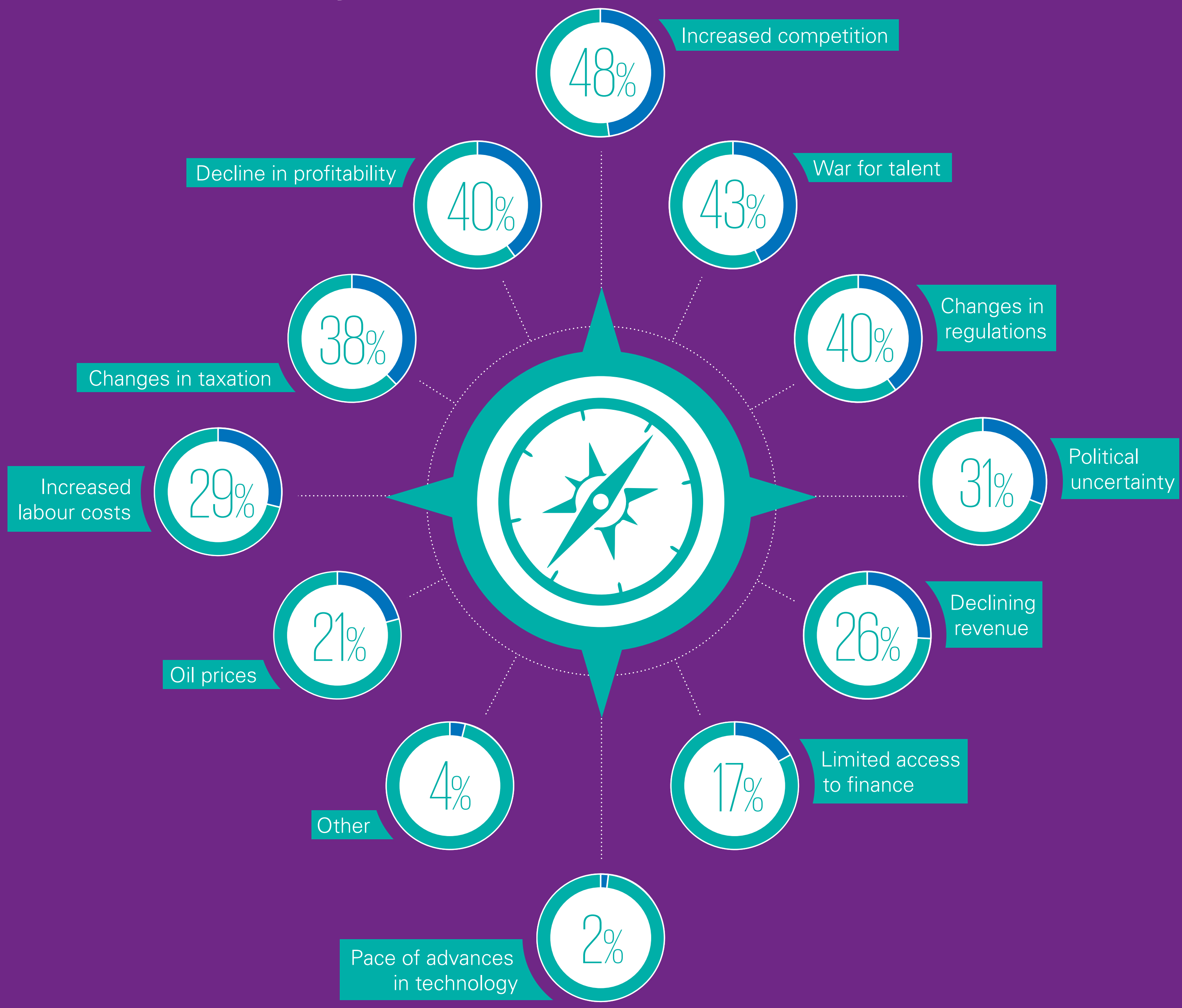
Declining profitability is of considerable concern to 40 percent of family businesses and this could be a consequence of increased competition and changes in regulations and taxation in the region.

Family businesses are beginning to find it more difficult to attract the talent they need and, with 95 percent of those surveyed stating that they see benefit in having non-family executives within the business, this is clearly something which should be addressed. In an effort to improve recruitment, KPMG professionals are increasingly seeing family businesses defining and communicating their value proposition.

A major factor for prospective candidates to consider favorably is that family businesses offer higher retention rates, longer tenures than other businesses and are likely to avoid layoffs during downturns.

1: Source https://hbr.org/2012/11/what-you-can-learn-from-family-business%20

What are the major concerns for your family business today?



When there are family members willing to take over the reins, the challenge lies in ensuring a smooth transition to the next generation – for both the management and the ownership of the business. The transition must address family concerns and ensure the new owners are well prepared. Business owners who want to build or ensure a legacy are recognizing the importance of preparing a strong succession plan to protect the longevity of their business.

Succession encompasses two distinct issues: The ownership succession, as well as the succession of management leadership. Family businesses need to have processes in place to deal with both these aspects of transition.

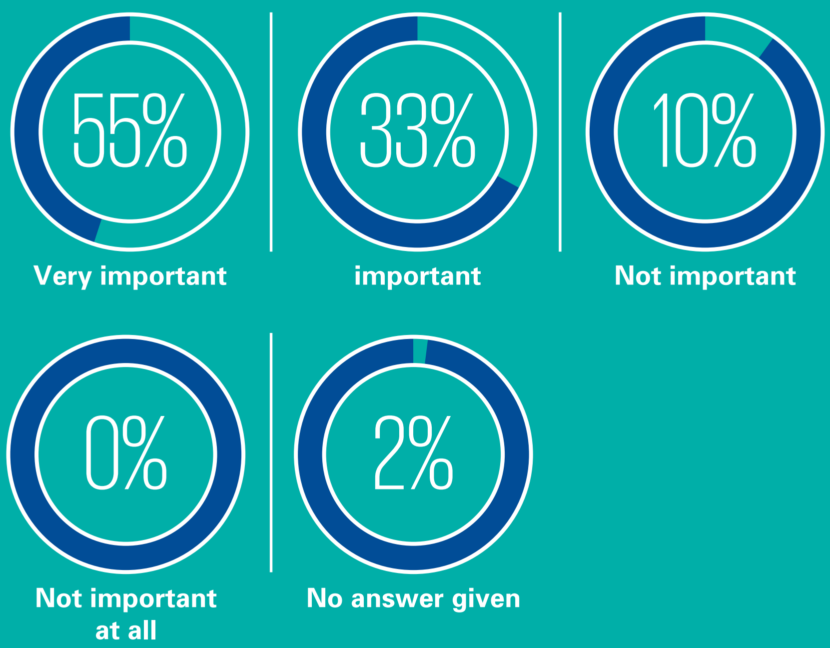
A total of 88 percent of respondents indicated that preparing and training a successor was important or very important to their business. Successful family businesses are investing an increasing level of time and energy into building their leadership from within the family to ensure the long-term continuity of the business.

Over 60 percent of respondents indicated that they have members of the next generation in management roles within the company (and 25 percent have recruitment in process), which will put them in a stronger position when planning for succession.

Taking the reins

Passing the family business on to the next generation is a top priority and a consistent concern for many family business owners. A total of 88 percent of respondents believed that preparing and training the next generation is crucial for the business' survival and success, and that it is the responsibility of the senior generation to teach incumbents a solid and sustainable set of values and guiding beliefs, along with the family's principles.

How important is preparing and training a successor before leadership succession takes place?



Are you considering any of the following strategic options for your family business over the next 12 months?

38%
Passing the management of the business to the next generation

21%
Passing the ownership of the business to the next generation

21%
Initial public offering (i.e. publicly list the firm)

17%
Appointing a non-family CEO retaining ownership/control within the family

17%
Sale of the business to a third party

14%
Passing governance (ultimate control) of the business to the next generation

7%
Selling the business to another family member

5%
Selling the business to current employees

Essential maintenance

Family businesses are increasingly looking at establishing processes, procedures and plans to manage the complex ties between the business and the family, to continue to drive growth into the future.

There is no 'one-size-fits-all' approach to governance within family businesses and it continues to be seen as a sensitive topic, compounded by the delicate inter-link between the family, ownership and business, and the associated personal sentiments. The 2016 release of the GCC Governance Code (Governance Guidelines for Family Businesses) by the Family Business Council – Gulf, recognizes the need for rules of engagement to harmonize the differences brought about by generational gaps.

Good governance is a success factor for growing family businesses, and each organization requires a unique, fit-for-purpose governance structure that will carry the business into future generations, whilst managing the risks associated with succession and sustainable growth effectively.

Family businesses appear to be acknowledging this by ensuring that they have the right mechanisms in place, including a formal board of directors (85 percent) and formal advisory boards (22 percent). Interestingly, only 20 percent of respondents indicated that they have adopted a family council. While the board of directors' role is to manage the business, the family council resolves and regulates family issues by creating a common set of rules that define the conditions for entering into family ownership, governing bodies or operational positions in the company.[2] Family councils define the training and development conditions, the required skills motivations and experiences necessary for the business.

Whether formal or informal, family councils establish the links between the family and the business.

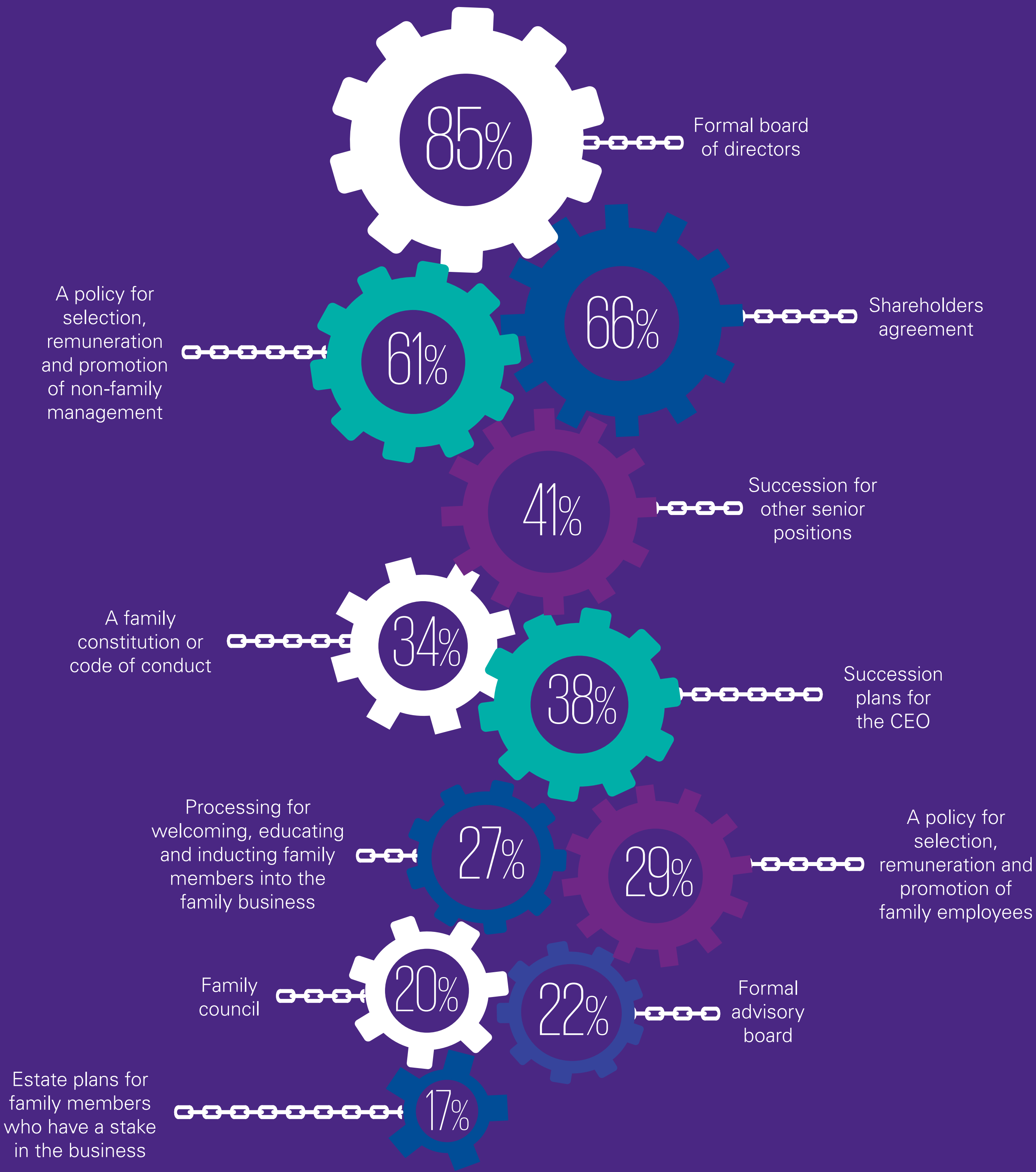
With 77 percent of respondents noting that balancing business and family concerns is important or very important, it seems that setting up more family councils could be necessary to strike this balance.

As they adopt these and other mechanisms, it is equally important to ensure roles and responsibilities are clear, especially considering that some board members may have divided focus between the family and the business.

With this in mind, nearly a third are, in turn, creating a family constitution to ensure clarity and transparency so that families know what to do when disagreements arise.[3] These constitutions strengthen the family's emotional cohesion because the shareholders work together to formulate them in the first place.

2: Source https://home.kpmg.com/xx/en/home/insights/2016/02/board-of-directors-and-family-council.html
3: Source https://home.kpmg.com/xx/en/home/insights/2017/07/a-family-constitution-increases-family-cohesion-and-business-connectivity.html

Does your family business have the following mechanisms and practices in place?



The road ahead

Setting goals and seeing far ahead into the future is a family business hallmark. Although priorities can shift from year-to-year, family business owners seem to have a long-term view, continuously preparing for the future and aiming to create a legacy.

Confronting declining profits is the most important priority for the majority of businesses, with 81 percent of business owners reporting improving profitability as their top business goal.

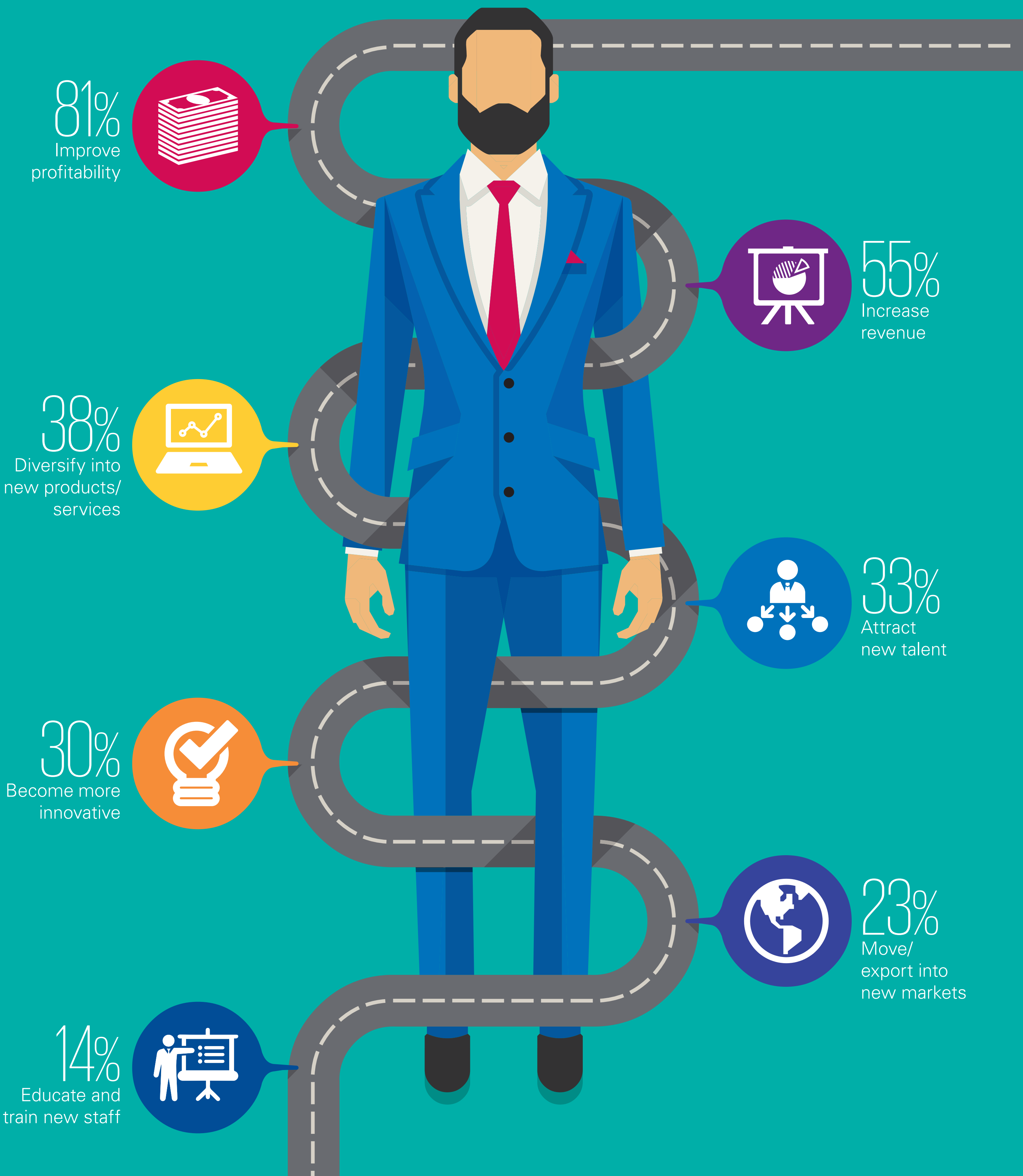
A total of 84 percent of responders noted that their strategic plan includes investments, both internally and externally. Even with a reasonable level of confidence and good business results, profitability will determine their ability to succeed and grow.

An increase in revenue naturally follows as the second key business priority that was reported by 55 percent of the respondents. And 38 percent are looking for ways to diversify into new areas and planning to invest in diversification.

"Family businesses in the GCC grow their business and pursue new opportunities by relying on increased profitability, revenue and diversification."

Paul Callaghan
Head of Family Business
KPMG in Oman

What are your family business priorities for the next 2 years?



Alternate routes

It is clear from the survey results that family businesses place high value on non-family executives, with over 95 percent agreeing that there are benefits and 86 percent currently employing non-family members in senior positions.

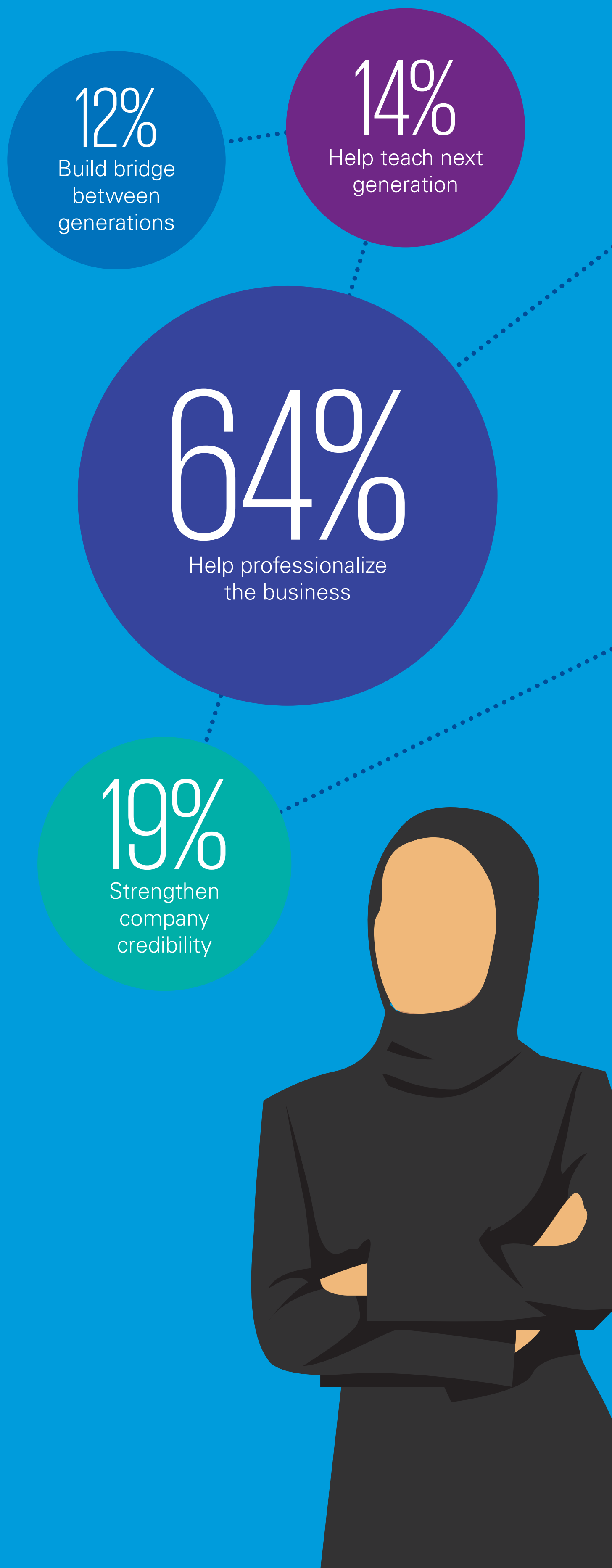
Some circumstances force owners to look externally for members of executive management (i.e. the family are not willing or ready to join the business). However, rather than having to do this, the survey finds that this is most often a deliberate decision, based on the clear value that bringing in external expertise has.

In order to draw the best talent, the value proposition for external candidates must be carefully considered. Of those surveyed, the most popular incentives used were having clear delegation of authority (68 percent) and an attractive compensation package (71 percent). Interestingly though, 30 percent of businesses felt that negotiating reward packages was a major risk when bringing on board non-family members.

The main concern, however, was that non-family members would not share the vision and values of the family (58 percent).

It is therefore important to ensure that the recruitment process for bringing in external candidates is designed to assess whether the potential employee understands and aligns with family dynamics, as well as having the required experience and technical knowledge.

What are the main advantages of bringing non-family executives into the business?



19%
Free-up time to focus on succession

74%
Bring external expertise and knowledge

36%
Enable owners to focus on strategic issues

14%
Are an additional source of investment

19%
Support moves to new markets

> Handing over control of the business to non-family members is an emotional decision, and no matter how obvious the benefits, the lack of control can take a while to grow accustomed to.

Abdulaziz S. Al Mutawa
Family Business leader
KPMG in Kuwait

Continuing the journey

Family businesses come in all shapes and sizes. They are innovators and world leaders. They share a common desire to build a legacy that can be passed on to the next generation. Many family businesses within the GCC have enjoyed a strong year that saw improvements and overall success. In addition, many more than this are taking proactive steps to help ensure that they achieve sustainable growth.

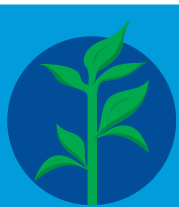
Family businesses have played an unparalleled role in securing the region's economic stability, despite having to continually manage the balance between family and business.

The future for family businesses is bright, as they continue to implement strategies for growth, are introducing new products and exploring opportunities to break into new markets.

Their growth and legacy will likely be secured further as they invest in formal governance and make improvements to succession planning and intergenerational communication.

Throughout this report, we have seen a number of themes emerging which must continue to be top of the agenda for boards in order for them to thrive.

Governance
With over a fifth of respondents stating that they will be transferring ownership of the business in the next 12 months, it is essential that good governance and effective succession plans are developed and implemented. By having confidence in how the business will be managed in the future, the current leadership can focus on creating a sustainable business with a long-term outlook.



Growth
As families grow throughout the generations, so must the business if it plans to continue to generate profit for all members. A focus on creating a diversified portfolio, and new and innovative products and service offerings, can help to ensure that the business has long-term sustainability. Similarly, exploring opportunities for local and overseas investments can support growth.

Technology
Technology is changing the way that business is done and family businesses need to think carefully about their own operating models and offerings to ensure that they are meeting customer's needs in an increasingly competitive market. Similarly, changes to regulation (such as the implementation of value-added tax (VAT)) will have huge consequences for businesses' systems and operations, and measures should be put in place to manage this sooner rather than later.

"Family businesses in the GCC continue to be vibrant and ambitious. With a positive outlook and a strong passion for a unified vision for the family and the business, their prospects for continued success look promising for the long run."

Fuad Chapra
Head of Deal Advisory
Head of Family Business
KPMG in Saudi Arabia

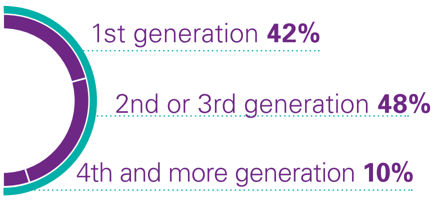
Methodology

The ‘GCC family business survey’ draws from the findings of 42 questionnaires, completed during interviews with senior representatives from family businesses in each of the six GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) between May 2017 and November 2017. The survey aimed to measure trends among GCC family businesses.

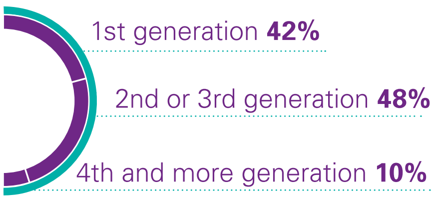
Respondents’ profiles

1. Which generation of your family is currently managing the business

1.1 Regarding ownership

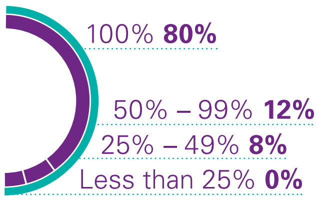


1.2 Regarding governance

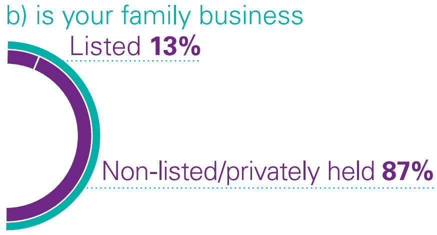


2. Concerning the ownership structure of your business...

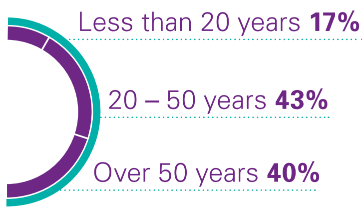
a) what is the percentage of the family ownership?



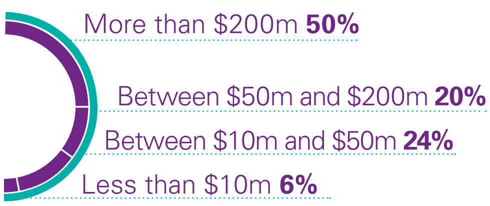
b) is your family business



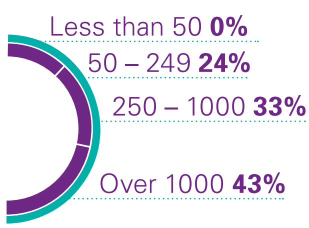
3. How long has your business been operating with family ownership?



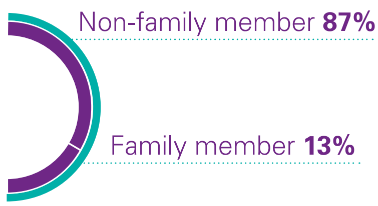
4. What is the approximate annual turnover of the business?



5. Approximately how many people do you employ? (the equivalent of full-time employees)



6. Are you a…



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European Family Business Barometer

The questions and methodology used to compile this report were developed to analyze the unique trends and issues that family businesses face in the GCC region. KPMG Enterprise and European Family Businesses (EFB) carry out a similar survey across Europe; the 'European Family Business Barometer'. You can find this here: https://home.kpmg.com/xx/en/home/insights/2017/11/european-family-business-barometerconfidence-in-unity-sixth-edition.html

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KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours – we understand what is important to you and can help you navigate your challenges — no matter what the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It is a local touch with a global reach.

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Contact us

For more insights about family businesses, please feel free to contact an adviser in your country:

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Publication name: GCC family business survey 2017

Publication number: J1491

Publication date: February 2018