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# Succession planning: a medicine for family-owned businesses' longevity

**Ahmed Youssef, Senior Partner, McKinsey & Company**

Family businesses are an important and high-impact economic development engine. Various estimates peg their share of the world's gross domestic product at between 70 and 90 per cent. While many family businesses are private, about a third of the Fortune Global 500 companies are founder- or family-controlled, as are 40 per cent of the major listed companies in Europe.

Family businesses are especially important in emerging markets, where they are estimated to account for close to 80 per cent of private-sector companies with revenues of $1 billion or more.

Yet, being a family-owned entity, survival is not a given. These businesses are complex and fragile systems, and one of the biggest challenges they face is succession: transitioning from one generation to the next. Globally, family-owned businesses falter at the first transition, from the founder to the second generation, and only around 15 per cent survive to the third generation. In the Middle East, many family-owned businesses are at this critical generational transition juncture.

Many were founded in the 1960s and 1970s, and these are now facing a second-to-third-generation transition. Improving these odds is critical, not only for the continuing evolution and survival of their own businesses, but because much of the growth and health of the private sector of countries in the region depends on how well founder- and family-owned businesses manage their successions. This is even more pressing in the current environment, where the region's economies are transforming and depending even more on a thriving private sector.

Simply put, the challenge for these businesses is: how can they be shielded from predictable and unpredictable family complications, while continuing to benefit from the strengthened family ownership?

To overcome this problem, the first action required from these businesses entities is to acknowledge the pitfalls that come with this type of ownership.

There are several predictable issues: family ties alienating top performers, conflict stemming from insecurity of shareholders distant from the business, the business as a mortal institution tied to one or few individuals, blind loyalty instead of responsible ownership, misalignment on direction. Yet, when confronted with

these risks, families too often respond with common refrains: "It's never going to happen to us, we are not like the others... It's very sensitive, it's not something we can discuss... If it's not broken, why fix it..."

Breaking news: these issues will happen to you, and it is far better you sit around the table and address these taboos now instead of passing the burden on to the next generation. Like so many other family feuds that have become public, these issues are also at the risk of being exposed to the wider community and beyond.

Under-investing in thinking about succession and what it means for the following generation is often the root cause of succession failure.
The second action, once you are around the table, is to work on protecting the business. Governance and decision making has to evolve as the family evolves, and this requires addressing four blocks -- legal structure and governance as the foundations, upon which rest the pillars of people and capital.

The final action is to build resilience by immortalising positive family values - the sense of purpose, the long-term view, the special relationship with employees – and anchor decisions around them, to ensure the spirit of the family continues to flow through the business and that your business retains its identity.

Part of it is communication. That means aligning on values as a family, and creating a mechanism to instil those values for the family – such as writing a book about the business that is passed on to each individual when they turn 18, regular family meetings off-site with all generations involved to discuss the business and its values. It also means building them into the DNA of the business by embedding the values in day-to-day company culture and holding employees accountable for living them.

Part of it is 'responsible ownership', which means moving from blind loyalty and irresponsible ownership to the idea of being a custodian, protecting and perpetuating the business.

And part of it is having active shareholders that use the luxury of being able to think 20 years ahead and take bold decisions: unlike a corporate, family-owned businesses can constantly disrupt, lifting their purpose beyond any particular industry and moving from one sector to another. This is particularly relevant now, with lots of business models being disrupted as the nature of economies change from being government-led to private-sector-driven.

In conclusion, family ownership is like a very powerful medicine. It can be the lifeblood of a business and strengthen it, encouraging proactive investments based on long-term horizons and offering a sense of stability and consistency that gives comfort to staff and investors alike. When it works, it stays stronger for longer: the Credit Suisse Family Index has grown three times faster than the Dow Jones Global Titans since 2002; half of the top 500 family-owned businesses have been around

for more than 70 years, compared to just 15 per cent in the S&P 500.

But like every strategy there are expected and unexpected factors that can influence a business. Some of the unpredictable factors include events, such as the sudden or early demise of the patriarch/matriarch creating tension, unethical behaviour by one shareholder leading to conflict within the family, a crippling financial crisis testing resolve. To tackle these, a proper legal set-up is required to ensure the business is protected.

The predictable factors are those that emerge at times of succession. They must be addressed by first accepting that sustaining performance and maintaining continuity requires hard work, then protecting the business by instigating change, and finally sustaining it by codifying ideas.