SO WHO IS NEXT?

Succession planning in Gulf corporates and family businesses

The recent change of leadership in Qatar is extremely rare in the Gulf, where ruling families and family firms often wait for the leaders' death before finalising the succession process. But more often than not that is too late, and a lack of succession planning can precipitate failure, for states and all types of businesses alike. Unfortunately, writes **Matthew Lewis**, this is often a critical but overlooked element of corporate or family business in the region, and is an ever increasing feature of family disputes and corporate infighting and shareholder discord.

Guiding principles

No matter where a business is located, the principles of succession planning should be the same, even though the motivation and processes between corporations and private family business are often radically different. Nevertheless, whether it is the future leadership of an Emir for a state, a chief executive officer (CEO) of a corporation or the patriarch of a family business, there are strong principles that can be applied to each arena.

Irrespective of public or private ownership, well-run, suitably financed and properly governed businesses will generally thrive over those that are not. And it is within these guiding principles we can discover how important succession planning is to the overall direction of the company.

Corporates of course have the distinct advantage that the process is made easier, more transparent and democratic, and is not based on a family generational transition. Boards of non-executives, advisors and external shareholders have a vested, objective interest in the successful appointment of a new leader.

They have common and aligned goals, and most large corporates normally know who their internal and even external successors may be well in advance. GE is the classic example, whereby Jack Welch had been grooming and observing several potential successors before selecting Jeff Immelt to take over. The same process applies for Bill Gates, Steve Jobs and others.

"Choosing a successor is the most important business decision you will ever make." – **Jack Welch.**

Key pillars of corporate business success

Corporate
Strong financial management
Corporate governance
Excellent leadership
Strategy

Private/family business
Wealth management
Family code/family office
Internal or external succession plan
Future plan

For any organisation, the above considerations will play heavily in any senior succession planning. However, the way that corporates and family groups execute succession planning is determined by almost polar opposite influences:

Succession planning contrasting influence: Public versus private

Global Corporation
Logical
Board driven
Proactive
Strategic
Global talent pool
Systems in place
Market expectations
Shareholder returns

Regional Family Business
Emotional
Family-driven
Reactive
Tactical
Local talent pool
No systems
Family expectations
Family wealth

Fall or fly

For family groups and private businesses, the topic of internal family succession planning is a highly sensitive area, and unfortunately second and third generation business failure is a familiar scenario among family groups that do not take it seriously. This can result in family feuds, court cases and potential business collapse.

To ensure the success of any senior succession planning exercise, it is essential that the company takes a proactive approach, having at least a process in place and ideally an identified and assessed list of potential successors.

The key word is continuity, which privately-owned businesses often overlook. They rarely evaluate the negative impact that uncertainty can bring when the overall direction, leadership and future of a business is unclear. Often the cost of no succession planning to a business is hidden and only reveals itself when least anticipated or welcome.

If there is no succession in place in a family business, they are likely to experience some or all of the following:

- The CEO exit or demise plunges the business into crisis. With no one at the helm, panic sets in and poor decisions are made or worse, none at all.
- Chaos creates instability among all senior management and staff.
- There is a lack of direction, strategy, clarity and resolution.
- Customers will feel a lack of level of service and attention they expect.
- Organisational infighting will ensue among family members and management as they jockey for position and power.
- Competition will prey on the business, customers and staff.
- Eventually the business could shrink, fail, break up or be sold.

Statistics show that second to third-generation business survival is at most risk in the period of leadership transition.

“The lesson is that, No. 1, this management has to be at the highest class possible. No. 2, they have to have a succession plan.” – **Prince Al Waleed bin Talal.**

Fail to plan, plan to fail

In order to plan for the future, irrespective of the anticipated timing of change of leadership, companies should formally start to think about what the future may hold, and how the business should be run and by whom going forward, and design a process of dialogue to ensure that succession planning is always on the agenda. In order to achieve this, there are a number or proactive steps a business can take.

Prior to need

- **Talk about it** – Discuss it in advance with the family, advisors, and consultants. Death is inevitable and guaranteed, business continuity is not.
- **Listen** – What role do other family members expect or want, and listen equally to non-family members who do not have the same emotive agenda.
- **Watch** – Identify who impresses you with their skills, commitment, and attitude.
- **Select** – Agree on one or more internal successors, pay attention to their interests, motives, strengths and weaknesses and support them via internal and external development.
- **Appoint** – Put in place an assessment process or an executive search process to identify and attract external alternatives that provide you with an independent opinion.

Post appointment

- **Prepare** – Have them alongside you as long as possible working in the business, let them make decision, get involved, take the lead and set an example.
- **Delegate** – Relinquish power, give them room early to lead and make mistakes.
- **Support** – Stand by your decision, be a sounding board and not a father figure.
- **Guide** – Coach, mentor and guide their decisions but don’t undermine them.
- **Step Aside** – Set a timeframe for your eventual exit, depart in dignity.

Case studies

Consider the two following examples of prominent family groups and how they have decided to implement a smooth succession plan either to the younger generation or to an externally appointed CEO.

Often the cost of no succession planning to a business is hidden and only reveals itself when least anticipated or welcome.

Case study one

A large regional Arab family group in existence for decades. The founding father is currently the chairman and would like to retire. His two eldest sons have successful careers outside of the core family businesses and they are not actively involved in the daily operations but do advise occasionally. The youngest son has returned to the region following an excellent western education, and is due to take over leadership of the group from his father. He has a five-year experience inside the business.

Succession planning steps:

- Build a strong, supportive operational management team at the C level, and divisional managing director level to decentralise the business away from a centrally-controlled family-centric environment.
- Strengthen the back-office functions including finance to support the change and decentralisation process and support the business and family, ensuring rigorous financial planning and governance.
- Develop the structure so that all members of the family will remain interested and be able to make major decisions while being involved in decision making, but without being ultimately involved in the day-to-day running of the business.
- Appoint the two sons as non-executives to protect and steer the family assets and support the youngest brother, while leaving the day-to-day running of the company to the management team.

Case study two

Saudi-based family group. The founding father is in his 80s and retired several years ago. He handed the business to his son in his 40s who steered the business for five years until his sudden, unexpected death. The family has three remaining children none of whom were involved in the business and are in their 30s and 40s, with a good western education.

Succession planning steps:

- Family engages professional services firm to create and implement a family code and to locate an external CEO with regional family business expertise.
- The family embarks on a family corporate governance process.
- The three children are appointed as non-executive board members.
- Three independent non-executive directors are appointed to the board to balance the board and bring structure, transparency and governance to support the family members.
- The external CEO is given full autonomy for running the group, reporting to the new board.

Even though in both of these cases the family has remained involved, there is a distinct but subtle difference between family running the business within the business, and the family sitting over the structure but not actively managing the daily operations. However, there is no right or wrong way to approach this, and each business will have its complications and nuances, but the common ground is that they proactively sought to implement a plan in advance of a reactive scenario. This has many benefits and not only meant that the family was involved and bought into the whole process but it allowed the remainder of the family and staff to adapt and get used to the new leadership regime.

The buck stops here

At all levels of government, corporation and family business, succession planning should be constantly on the agenda. Statistics show that second to third generation business survival is at most risk in the period of leadership transition.

This is a challenge in the Middle East, a region where there is a lack of internal and external talent that is adequately qualified, experienced, and emotionally and culturally aware enough to be true leaders in this environment.

But what is certain is that the world is changing faster than anyone is comfortable with and in directions we never imagined, and like the leaders of Qatar, its businesses should take heed of their example and ensure they are well prepared and have planned ahead for every leadership change eventuality, from Emir to CEO. e

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