

# SUCCESSION PLANNING FOR FAMILY BUSINESSES

Curating Processes For  
Seamless Transitions





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# 01

## UNDERSTANDING SUCCESSION



# The Importance of Succession Planning






**It is often said that succession planning is about having the right people in the right place at the right time to ensure the long-term sustainability of the business. However, within the domain of family businesses, succession takes on a unique and more nuanced character involving the identification and development of individuals within the family who have the potential to take over leadership and management roles in the business.**

Proactive and comprehensive succession planning is crucial for ensuring the smooth transition of the business from one generation to the next, maintaining continuity, and preserving the family's legacy.

Understanding the significance of succession planning is closely linked to recognizing the pivotal role that family businesses play in both the economy and society.

- 1 According to a report by the UAE Ministry of Economy, family businesses employ 70% of the private sector workforce and account for 90% of all private companies in the country.
- 2 Internationally, family businesses exhibit resilience during challenging times, with a higher proportion of women in senior leadership roles and displaying greater long-term profitability.
- 3 Family businesses in the UAE are often actively involved in philanthropy, contributing to charities, supporting educational institutions, and funding cultural initiatives. This generosity plays a crucial role in improving the lives of people in the UAE and beyond.

Despite the far-reaching benefits of family businesses to the social and economic fabric of nations, only 15% manage to extend beyond the second generation. Therefore, it's crucial for current family business leaders to proactively address succession planning during their lifetime to prevent business decline in the absence of clear leadership. Other important benefits of planning in advance includes:

 <b>Minimal Family Conflicts</b>	 <b>Preserved Business Continuity</b>
 <b>Adequate Next Generation Development</b>	 <b>Financial and Retirement Planning</b>
 <b>Efficient Adaptation to Changing Circumstances</b>	



Planning is indispensable for the survival of any family business, as it strives for continuity, stability, wealth preservation, legacy preservation, and the anticipation and mitigation of potential family conflicts.

# Challenges in Succession Planning for Family Businesses

Critical for the sustained continuity of family businesses, succession planning is often burdened with numerous challenges, many of which are specific to each family's circumstances. Nonetheless, it is essential to acknowledge certain shared challenges when formulating a comprehensive succession plan.

## Global Challenges



### Communication Barriers



Family businesses often promote a culture of secrecy and reluctance to discuss sensitive topics, like succession planning. This hinders the initiation and maintenance of meaningful dialogues about the succession process.

### Competing Interests



Family members may hold different visions for the business's future, accompanied by conflicting personal interests.

### Resistance to Change



Founders and other senior family members may hesitate to relinquish control of the business, even when they are no longer able to manage it effectively.





# Challenges in Succession Planning for Family Businesses

In addition to the above challenges, succession encounters additional regional hurdles.

## Regional Challenges



### Inherited Leadership norms



Adhering to traditional practices, favoring the eldest son for business succession can spark sibling conflict and hinder qualified leadership.

### Cultural Taboo



Cultural taboos around topics like death and inheritance hinder family dialogues on succession and can impede open discussions, particularly when family members disagree with the founder's succession preferences.

### Regulatory Principles



Shari'ah principles provide the basis of distribution of a deceased person's wealth among heirs while protecting minors and vulnerable family members. As a result, the sudden increase in stakeholders complicates governance, fostering disagreements and shareholders disputes. During a transition, especially for businesses accustomed to fewer decision-makers, this can result in a complete standstill in decision-making, disrupting daily operations.



# Ownership and Management Succession

Succession comprises two distinct aspects: **ownership succession and management succession.**

## Ownership Succession



Ownership succession refers to transfer of ownership rights across families or across branches within one family.



An ownership succession plan generally addresses the following questions:

- Who will occupy ownership of the family business in the future?
- How will ownership be transferred?
- When will ownership be transferred?



Ownership succession related questions can be addressed and regulated through different options and mechanisms. The UAE provides different tools, structures and arrangements to assist family owned businesses in providing for and regulating their succession planning. When considering ownership succession plan, several factors must be taken into account including Sharia related considerations where applicable.

Given the complexity of these options, It is advisable to consult with an experienced legal professional to discuss your individual circumstances.

## Management Succession



Management succession involves passing leadership and managerial duties from one generation to the next, ensuring sustained success and sustainability.



It tackles the following essential questions:

- Who will lead and oversee the operations and management of the business in the future?
- How will the transition of leadership and management responsibilities be orchestrated?
- When will this transition of leadership and management roles occur?



A succession planning framework comprises a robust set of guidelines, policies, and materials designed to facilitate a systematic approach to talent management. This system involves key steps such as pinpointing critical business roles, recognizing the talent pool, aligning with identified individuals, crafting detailed development plans, and regularly conducting progress reviews.

(Refer to appendix on Page 22-28 for details).

# 02

## EMBARKING ON THE JOURNEY TO SUCCESSION PLANNING





# Checklist to Facilitate Succession Related Conversations within the Family Business

Discussing succession planning, particularly between the 1<sup>st</sup> and 2<sup>nd</sup> generation, can be challenging within any family business. Depicted below is a checklist to help facilitate these crucial conversations within your family business.



## Pre Succession Planning

- Define the vision, mission, and values of the business in alignment with family aspirations and long-term goals.
- Identify family goals, differentiating between family continuity and business continuity objectives.
- Compare trust arrangements and wills to determine the optimal approach for estate and wealth distribution.
- Determine contingency plans if interest from next generation members within the family is lacking.
- Specify participants in ownership.
- Decide whether ownership succession will align with involvement levels or involve equal share distribution among family members.
- Define the factors contributing to future business success.
- Outline essential skills for an optimal future leader.

## Succession Planning

### Ownership Succession

- Define ownership rights for family business shares, considering family members, those working in the business, and potential external ownership. Specify the extent of ownership, including considerations for in-laws.
- Determine the eligibility for share allocation based on employment within the family business. Address share allocation for former or terminated family members.
- Decide on equal share distribution among family members.
- Evaluate the importance of family members holding all business stock.
- Determine the method of transferring shares to the next generation: gifting or purchase from the current generation. Ensure legal and financial documents are updated and compliant with the succession plan, addressing tax implications.

## Succession Planning

### Management Succession

- Establish the timeline for the current generation to relinquish control over decision-making.
- Define the style of leadership transition, whether gradual or immediate, with considerations for retaining control until the current leader's passing.
- Decide on the composition of management successors: strictly family, non-family, or a combination of both.
- Identify key positions for succession within the next generation.
- Develop minimum education, training, and experience requirements for each identified key position.
- Implement training programs and mentorship initiatives to prepare successors for their future roles and responsibilities.
- Evaluate and mitigate potential risks associated with the transition, considering impacts on stakeholders and business operations.



## Post Succession Planning

- Develop a robust communication strategy to inform and engage all stakeholders in the succession plan.
- Gather feedback from involved parties and adapt the plan based on continuous improvement feedback.
- Regularly evaluate the performance of the new leadership, addressing emerging challenges and concerns.
- Periodically review family agreements to ensure relevance and alignment with evolving family and business needs and goals.
- Maintain ongoing communication with stakeholders, ensuring they are updated on changes and developments within the family business.
- Encourage continual discussions and future succession planning to sustain and grow the family business across generations.





# 03

## NEXT GENERATION DEVELOPMENT




# Engaging the Next Generation and Developing Future Leaders

In nurturing a family business for future success, the primary focus should be on engaging the next generation and cultivating them as future leaders.

Early initiation into the business culture and values is key; starting with exposure to the family business ethos during childhood lays a solid foundation. As they mature, integrating practical experiences through internships, mentorship programs, and involvement in decision-making processes enhances their understanding of operations and instills a sense of responsibility. As they approach adulthood, providing opportunities for specialized training, advanced education, and international exposure equips them to steer the enterprise towards innovation and growth. The commitment to continuous learning and open communication facilitates the seamless transition of ownership and management, ensuring the family legacy endures with competent and visionary leaders.

Depicted below is an illustrative next generation development matrix of how families can adopt the approach of 'continuous learning' from an early stage:

Next Generation Development Matrix 			
Age	10 – 15 years	16 – 21 years	21 + years
Level			
<b>Level 1 (Basic)</b>	<b>Family Discussions</b> Engage in dinner table conversations about the family business, its history, values, and fundamental principles.	<b>Cultural Immersion</b> Attend family business gatherings (family councils, shareholders assembly etc.) and encourage active participation and discussions on the family legacy.	<b>Mentorship and Shadowing</b> Receive mentorship from senior family members or key executives within the family business and shadow experienced leaders to gain relevant insights.
<b>Level 2 (Intermediate)</b>	<b>On-Site Visits</b> Participate in and gain exposure to various aspects of the business, such as customer interactions, production, and teamwork.	<b>Internships and Rotations</b> Participate in internships within different business units or departments to gain a comprehensive understanding of the business's operations.	<b>Leadership Roles</b> Take on leadership roles in specific projects, departments, or initiatives within the family business.
<b>Level 3 (Technical)</b>	<b>Introduction to Industry Basics</b> Engage in guided e-learning or classroom sessions covering introductory topics like industry trends, market dynamics, and the role of the family business within the industry.	<b>Specialized Education</b> Attend specialized workshops on relevant topics and initiate process to acquire professional / formal education.	<b>Advanced Professional Development</b> Pursue advanced professional development programs and encourage obtaining certifications relevant to the family business's operations.

# Succession Planning Success Stories

## Leading Family Business Specializing in Consumer Chemicals



### What was the challenge they faced?

One of the global manufacturers of household cleaning supplies and other consumer chemicals, faced the challenge of transitioning leadership from the third to the fourth generation of its founding family.



### How did they tackle the challenge?

- Identified potential family leaders through open communication.
- Considered external candidates for top positions.
- Established a diverse family council and board of directors.
- Implemented comprehensive training and leadership programs.
- Provided exposure to different departments and international operations.
- Engaged external consultants for guidance and objective insights.



### Result

The successful implementation of the succession plan led to a smooth transition from third to fourth-generation leadership. The family business continues to thrive with a global presence.

## Family Business Dealing in Confectionery And Pet Wellness



### What was the challenge they faced?

Transitioning leadership from the second to the third generation of the founding family, ensuring continuity in a global confectionery and pet care business.



### How did they tackle the challenge?

- Implemented a phased approach to leadership transition.
- Emphasized professional development, including executive education programs for family members.



### Result

Smooth transition to the third generation. The family business remains a global leader in its industries.



# APPENDICES



## Overview of Management Succession Planning Framework

### Step 1 – Identifying Key Business Roles



#### What does this mean?

Defining the critical positions or functions within a business or organization that are fundamental to its success and operations.

#### Responsible Party

The individuals leading the family business will take on the responsibility of pinpointing critical business positions.

#### Timelines for initiation

Initiated, upon commencement of the succession planning process and reviewed periodically, annually or as needed.

### Step 2 – Recognizing the Talent Pool

(Including External candidates, if no suitable candidates are recognized within the family)



#### What does this mean?

Identifying suitable family members or external candidates to fill critical positions identified as part of Step 1.

#### Responsible Party

Head(s) of the family business in consultation with wider family (may be discussed at a family council or shareholders assembly meeting).

#### Timelines for initiation

Should be initiated as early as possible to ensure curation of appropriate development plan.

### Step 3 – Aligning with Identified Talent within the Family



#### What does this mean?

Engaging in open dialogues with potential successors within the family to ensure buy in and alignment of interests.

#### Responsible Party

Head(s) of the family business.

#### Timelines for initiation

Initiated when potential successors reach a suitable age (early adolescence to young adulthood).

### Step 4 – Curating Development Plans



#### What does this mean?

Designing customized development plans to enhance the capabilities and readiness of identified successors.

#### Responsible Party

HR, in collaboration with Heads of the family and / or relevant department heads within the business.

#### Timelines for initiation

Developed once potential successors are identified and revisited periodically.

### Step 5 – Conducting Periodic Progress Reviews



#### What does this mean?

Tracking and evaluating the progress of successors in relation to their development plans and the overall succession goals.

#### Responsible Party

Family Employment Committee (if established) or a Family Council, in collaboration with HR and department heads.

#### Timelines for initiation

Scheduled semi annually or quarterly upon establishment of the succession planning framework.

# Detailed Breakdown of Management Succession Planning Framework

## Step 1 – Identifying Key Business Roles



To identify key business roles within the family business, begin by listing all positions within the business and evaluating them based on the specified criteria. Roles that receive high ratings against these criteria will be designated as 'Key Business Roles.'

### Factors for identifying key business roles



#### Impact on Family Business Performance

#### Absence of the job holder will:

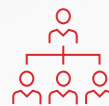
- Affect the family businesses' ability to achieve its strategic objectives
- Impact other employees' productivity
- Impact external relationships / partnerships
- Pose financial risk to the family business



#### Relevance of Family Involvement

#### This role contributes towards:

- Strong commitment to family values, traditions and vision
- Family – specific skills and insights
- Family unity, cohesion, or business harmony
- Family's commitment and emotional connection to the business



#### Current Availability to fulfil specified tasks

#### This role is at risk because:

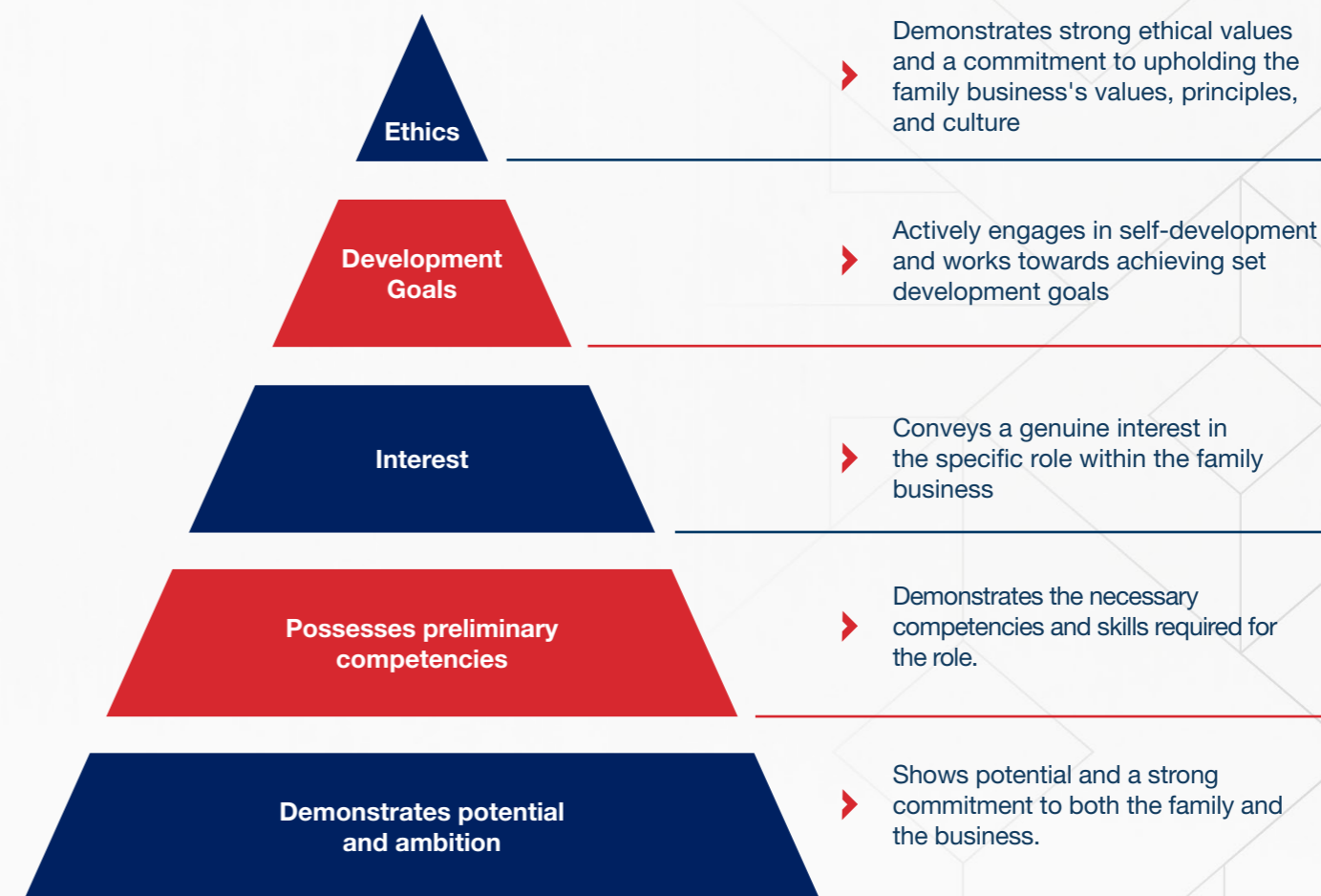
- This role consists of retirement vulnerable individuals who have expressed intent to retire
- Current employee is on their notice period

ILLUSTRATIVE

## Step 2 – Recognizing the Talent Pool



To be deemed appropriate successors, family leaders must assess potential successors to ensure alignment with the objectives of the family business. The below framework can be used to recognize behaviors and patterns for individuals best suited to assume significant roles and duties within the family business, facilitating a smooth transition and promoting sustainability.



\*If no family member is identified as a potential successor, the framework can be adapted to identify non-family employees who have the potential to fill critical roles within the business and potentially become successors.



# Detailed Breakdown of Management Succession Planning Framework

## Step 3 – Aligning with Identified Talent within the Family Business



After identifying potential successors, family business leaders should engage in informal discussions to express their intent and inquire about the potential successors' aspirations regarding the management of the family business in the future.

## Step 4 – Curating Development Plans



A crucial tool for potential successors within a family business is the Development Plan, which aids in outlining areas of development and identifies any gaps in knowledge, skills, and attributes. Development plans should incorporate a mix between:

### Structured Education



Examples:

- Classroom Training
- University Education
- Professional Qualifications
- Specialized program for management of family business
- Specialized seminars, conferences and workshops

### Supervised Learning



Examples:

- Job Shadowing
- Observing Board and family business meetings
- Participation in sub committees such as family charitable committees
- Mentorship and career coaching sessions

### Applied Learning



Examples:

- Leadership roles in specific campaigns / small scale projects
- Role specific Lower level – Mid level assignments
- Job Rotation schemes
- Internships and Secondments

## Step 4 – Curating Development Plans (cont.)



Creating a checklist to assess the readiness of the next generation is vital for family businesses. This allows for a thorough real-time tracking of their progress and provides a more hands-on approach to their development. By utilizing the checklist and maintaining vigilance, adjustments can be made to development plans that may not align with the specific needs of the family business or the next generation family member. To begin, outline educational, professional, and behavioral objectives as part of the next generation family member's development plan. Subsequently, establish a rating system to evaluate each objective based on the demonstrated progress of the potential successor. Below is an example of a rating scale and a checklist for the next generation:

Rating	Definition
<b>Rating 1 – Not Initiated</b>	The next generation family member has not initiated any efforts in the respective area.
<b>Rating 2 – Initiated</b>	The next generation family member has taken the initial steps towards development, showing a keen interest and starting to engage in relevant activities. However, they require further guidance and practice.
<b>Rating 3 – Progressing</b>	The next generation family member is actively engaging and consistently working on improving and developing themselves. Progress is evident, but there is still room for improvement.
<b>Rating 4 – Proficient</b>	The next generation family member has demonstrated a solid understanding and ability with minimal foreseeable risks. They have mastered the fundamentals and can perform at a satisfactory level.

S.no	Key Action Items	Rating
<b>Educational</b>		
1	<b>Attained "X" degree from a recognized university</b>	
2	<b>Obtained a professional qualification related to "X"</b>	
3	<b>Demonstrated continuous commitment to learning through completion of "X" number of ad hoc online courses</b>	
4	<b>Attended "X" number of training workshops, seminars, and conferences</b>	

# Detailed Breakdown of Management Succession Planning Framework

## Step 4 – Curating Development Plans (cont.)



S.no	Key Action Items	Rating
<b>Behavioral</b>		
5	Demonstrates leadership skills and ability to influence and execute tasks	
6	Expresses willingness to listen to and understand various perspectives; is a good team player	
7	Shows respect and consideration towards staff while also being assertive	
8	Ensures timely completion of assigned tasks	
9	Demonstrates effective communication skills and proficiency in client management	
10	Demonstrates strong industry knowledge	

<b>Professional</b>		
11	Accumulated “X” number of hours/years working in the industry (outside the family business)	
12	Spent “X” number of hours observing Board and Family meetings	
13	Led “X” number of projects/campaigns to successful completion	
14	Led “X” number of charitable or other initiatives within the family business	
15	Completed “X” number of mentorship and shadowing hours	
16	Accumulated “X” number of hours/years in relevant low-level to mid-level positions within the family business	

## Step 5 – Conducting Periodic Progress Reviews



Following the identification of pivotal roles and the next generation individuals, the Family Council, Board, or established Family Employment Committee may arrange regular meetings to address succession-related affairs, occurring semi-annually or quarterly, contingent upon the proximity to the succession timeline. Important topics for discussion concerning succession plans include:



### Continued Interest of Identified Next Generation

Assess whether the identified next generation family members maintain interest in the roles identified for them.



### Progress on Next Generation Readiness

Evaluate the positioning of identified next generation family members on the readiness checklist for the designated roles / individuals.



### Supportive Interventions

Discuss and determine specific interventions to assist any next gen family member who might require support in fulfilling their readiness plan.



### Feedback and Performance Reviews

Implement regular feedback mechanisms and performance reviews to track the progress of the next gen family members and provide constructive feedback for improvement.



### Succession Timeline Assessment

Review and potentially adjust the succession timeline based on the progress and preparedness of the next generation family members.





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