

Diversifying, investing and digitising

Family businesses are
transforming for a sustainable
future



Foreword

In an exceptionally challenging year, our latest Family Business Survey clearly illustrates the extraordinary resilience and agility of family businesses in the Middle East. While many have been hit hard by the pandemic, they remain optimistic that growth will return in the coming months and years, and are looking forward to the future.

Family businesses are an essential driver of economies around the world. Their considerable contribution to GDP and employment means that their health and resilience matters as the world recovers from COVID-19. As the most trusted form of business, according to the Edelman Trust Barometer,¹ they can and should lead the way to recovery.

Our survey shows that family businesses in the Middle East have clear priorities for the next two years. Top of the list is diversification, with 58% planning to expand into new markets or client segments, but digital capabilities will also be the key to success in the future. While many family businesses have historically underinvested in digital, the pandemic has added a new urgency and three quarters (75%) say that digital, technology and innovation initiatives are a key priority.

There are, of course, risks ahead for all businesses. For family businesses, one of the biggest hazards lies in family relationships. In recent years, we have seen an increase in family conflicts in our region, although the respect held for the older generation, whilst alive, has helped to contain conflict to an extent. Many family businesses in the Middle East are also reaching a critical stage in terms of succession – second generation family members are already majority shareholders in over half of businesses. Managing potential conflicts will become even more critical as power is passed down through the generations. We believe the answer lies in a professional approach to family governance, mirroring the way in which businesses have always approached corporate governance.

We would like to thank everyone whose hard work made this report possible, including the family business owners in the Middle East and beyond who gave up their time to share their stories and offer important insights that have helped us interpret the survey results. As the global economic recovery from COVID-19 begins, we are convinced more than ever that the spirit and agility of family businesses, and the extraordinarily strong values that drive them, will lead the way.



Adnan Zaidi

Middle East Entrepreneurial &
Private Business Leader

PwC Middle East

¹ Edelman Trust Barometer 2020, Edelman, 2020, <https://www.edelman.com/trust/2020-trust-barometer>



Key findings

5 themes emerged

01 Resilient –
but cautious

02 Diversification is
the key to success

03 Transforming
to thrive

04 Family values, trust
and conflict

05 Making an impact

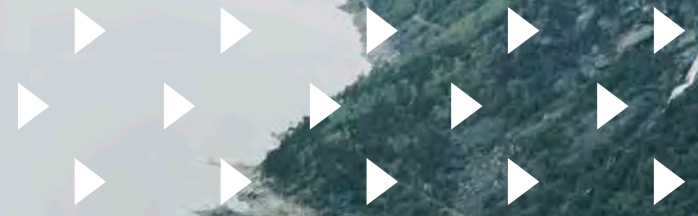


Scan the QR code to find out more.

Q

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Growth in challenging times

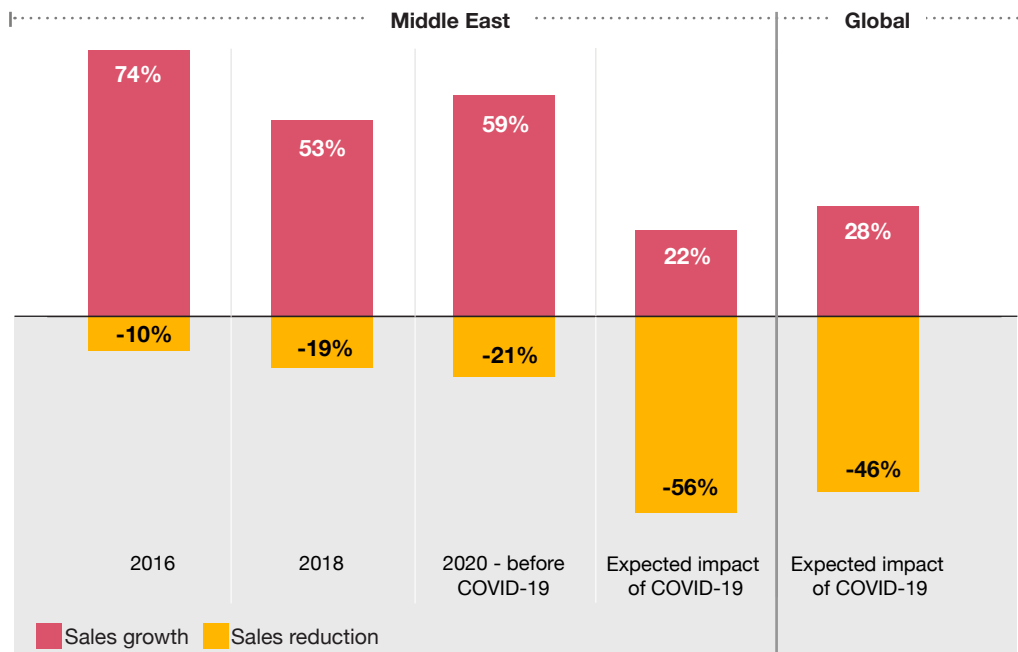


Family businesses in the Middle East faced the COVID-19 pandemic in more challenging economic conditions than most. Our 2019 survey revealed signs that a sustained period of strong performance, during which Middle East family businesses consistently reported higher growth levels than their global peers, was beginning to weaken in response to falling oil prices. Stabilisation of the oil price has put Middle East family businesses on a better footing but mindful of the fragility of global economics, they remain less confident about the speed of the recovery than their global peers.

Before the pandemic struck, the proportion of family businesses experiencing growth was rising from the low point of 2018. But the pandemic has hit the region hard with 56% stating that COVID-19 has negatively impacted their sales, compared with 46% globally (Figure 1).

Figure 1: Impact of COVID-19 on growth

Q: Looking back over the last financial year, before the COVID-19 pandemic, would you say your sales have been... And what do you think the impact of the COVID-19 pandemic will be on your sales?

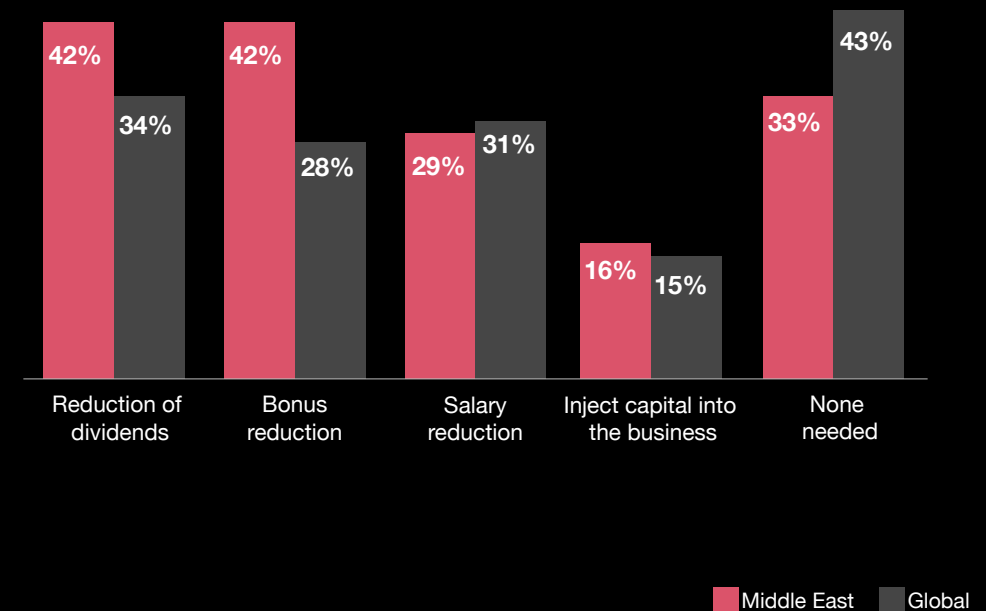


Note: Sums don't total 100, because results show only the percentage of responses indicating sales growth or decline. The range of possible answers to the multiple-choice questions includes 'stable' and 'don't know'.

The ability of family businesses to adapt quickly to changing conditions proved invaluable during the pandemic. Even so, the already challenging economic conditions meant that family businesses in the Middle East made more sacrifices than their global peers – predominantly in the form of reduced dividends and bonuses – in order to ride out the crisis (Figure 2). Families in the region have displayed a clear willingness to sacrifice personal gain in order to keep their businesses healthy during the crisis.

Figure 2: Sacrifices made by family shareholders

Which of the following sacrifices, if any, have family shareholders made as result of the COVID-19 pandemic?

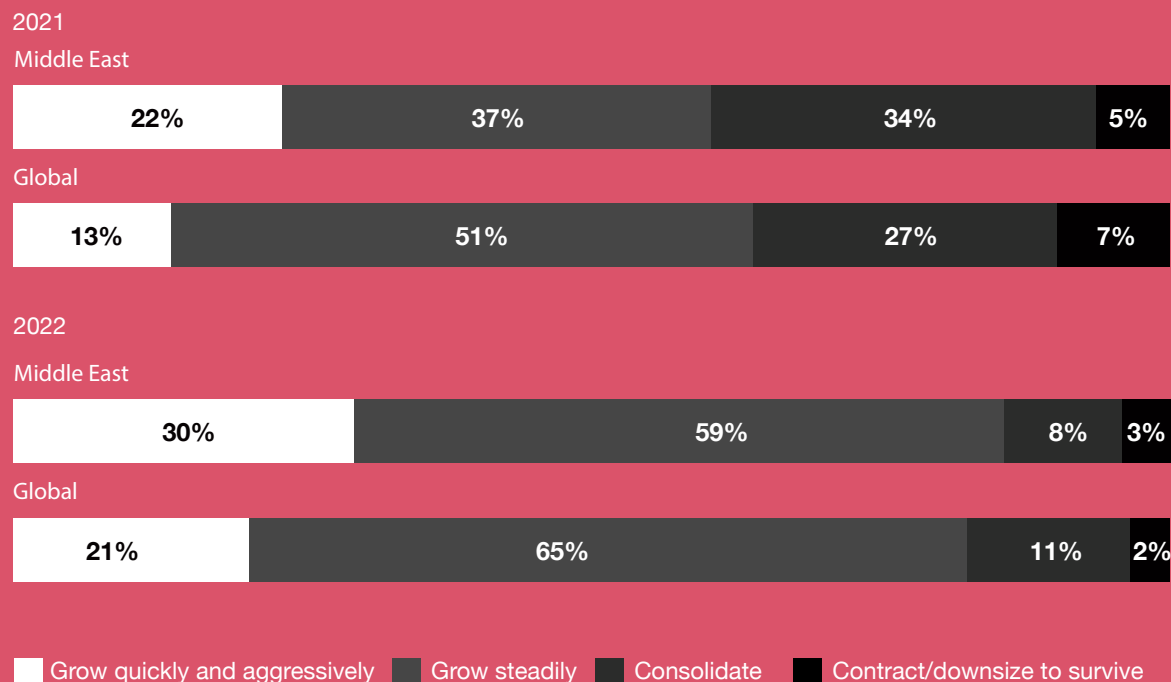


Looking forward with cautious optimism

The experiences of Middle East family businesses over the past year have left them more cautious about the speed of recovery in the short term, although 89% expect to see growth in 2022 (Figure 3). This is echoed in our 24th CEO Survey – just 31% of Middle East CEOs (compared with 36% globally) confidently expect to see revenue growth within 12 months, but this rises to 52% (compared to 47% globally) when the time horizon is stretched to three years.²

Figure 3: Growth ambitions for 2021 and 2022

Q: Which of the following best describes your company's ambitions for 2021 and 2022?



² PwC's 24th CEO Survey – Middle East findings, PwC Middle East, 2021, <https://www.pwc.com/m1/en/ceosurvey/2021/ceo-survey-24th-web-ver.pdf>

Adapting at speed

“In the third week of February 2020, we were thinking about what we could use to fight the virus. We already had a process to disinfect our paper products on the production line, so we approached a Swiss company, Livinguard, and asked if their technology could be used to kill the virus on fabric. It could. In just eight days we designed a mask, imported the material from Switzerland and started manufacturing. We used our own company to do the packaging and launched.”



**Ghassan
Nuqul**
Vice Chairman,
Nuqul Group, Jordan



Diversification on the agenda



It's clear that family businesses, particularly those in the Middle East, see diversification as the key to success in the coming years. As highlighted by our 24th CEO Survey, while almost three-quarters of global CEOs say they are pursuing organic growth, only half of those based in the Middle East say the same.

There is intense pressure on family businesses in the region to maintain the double digit growth rates that are required to sustain the standard of living of families that are, on average, double the size of family businesses in the US in terms of family members. The focus on creating a family investment office to better manage wealth is an indication that wealth creation and protection is front of mind (Figure 4).

As part of this diversification strategy, family businesses plan to expand into new markets, products and services – funded by bank lending, cashflow and family capital. Business leaders in the Middle East know that to thrive in the future they must transform, which includes making full use of innovative digital technology (Figure 5) – an area that has suffered from underinvestment in the past. But are they ready to embrace change?

Figure 4: The path to diversification – business structures in five years' time

Q: Please plot where you think your company currently lies on the model below? And where on the model do you think your company will be in five years' time?

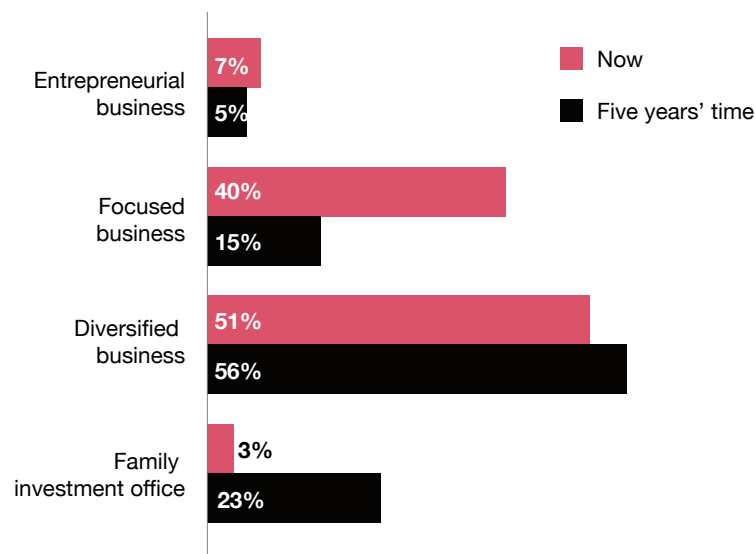
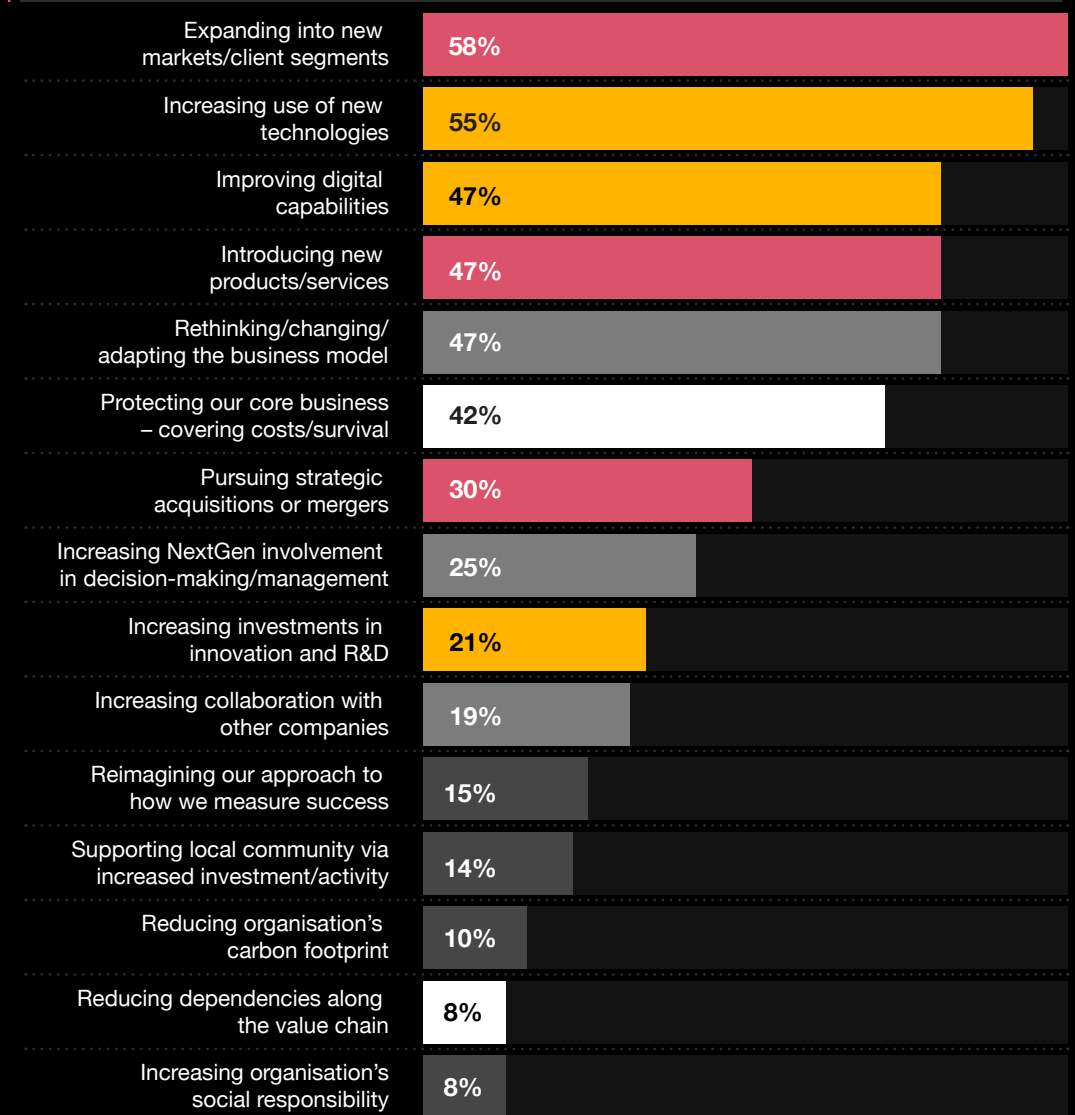
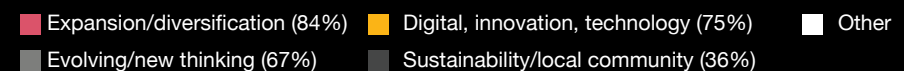


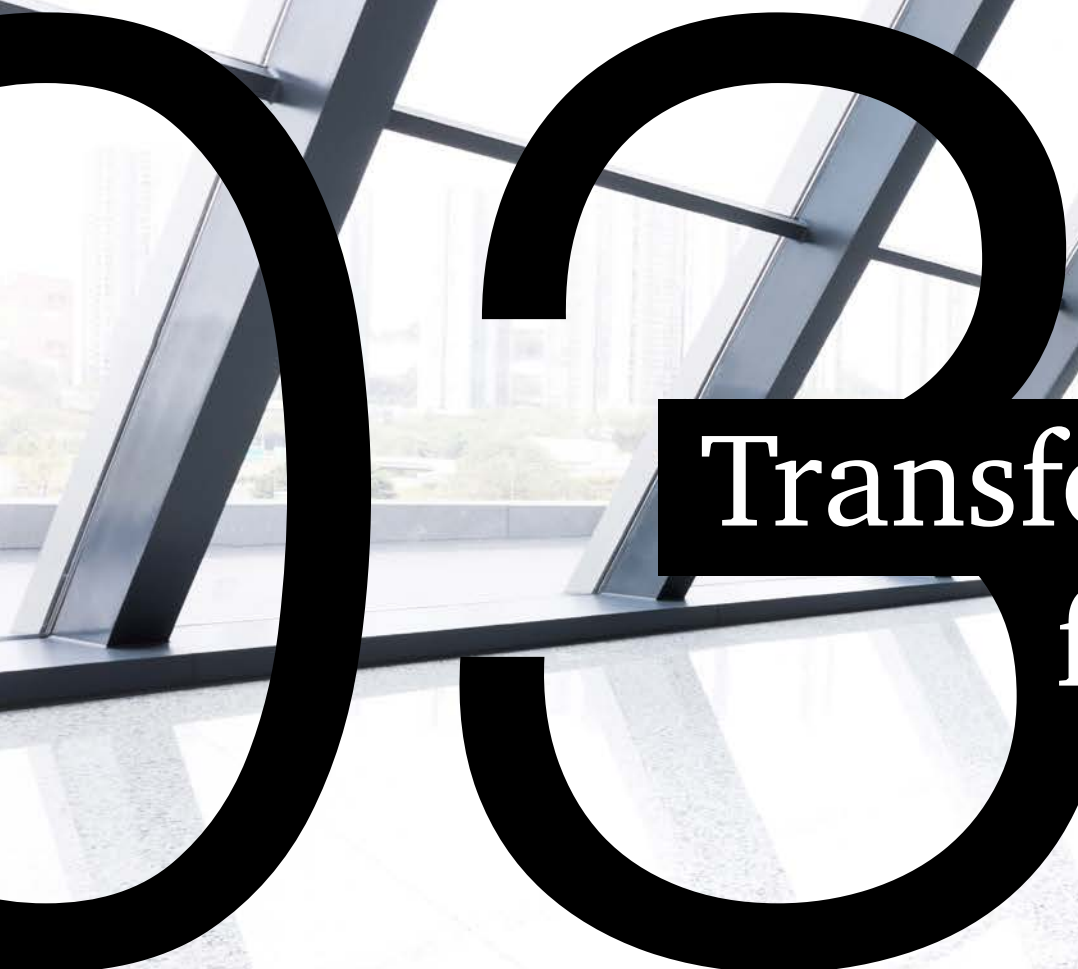
Figure 5: Key priorities for Middle East family businesses over the next two years

Q: Which, if any, of the following are the company's top five priorities for the next two years?



Company priorities by topic (net percentages)





Transforming to face the new world



As the world recovers, family businesses – set apart by their commitment to values, long-termism and sensible leverage – are in a strong position to lead the way, as they did in the months and years following the 2009 Global Financial Crisis. But the world has changed and family businesses know that they will need to transform in order to survive.

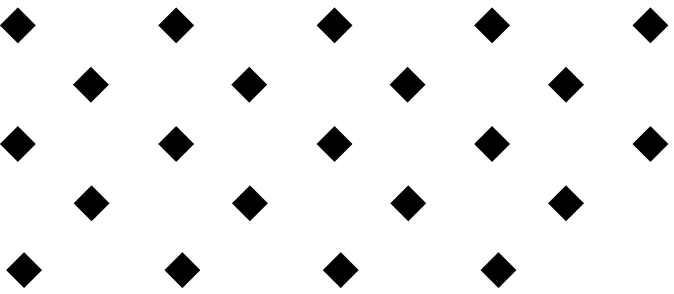
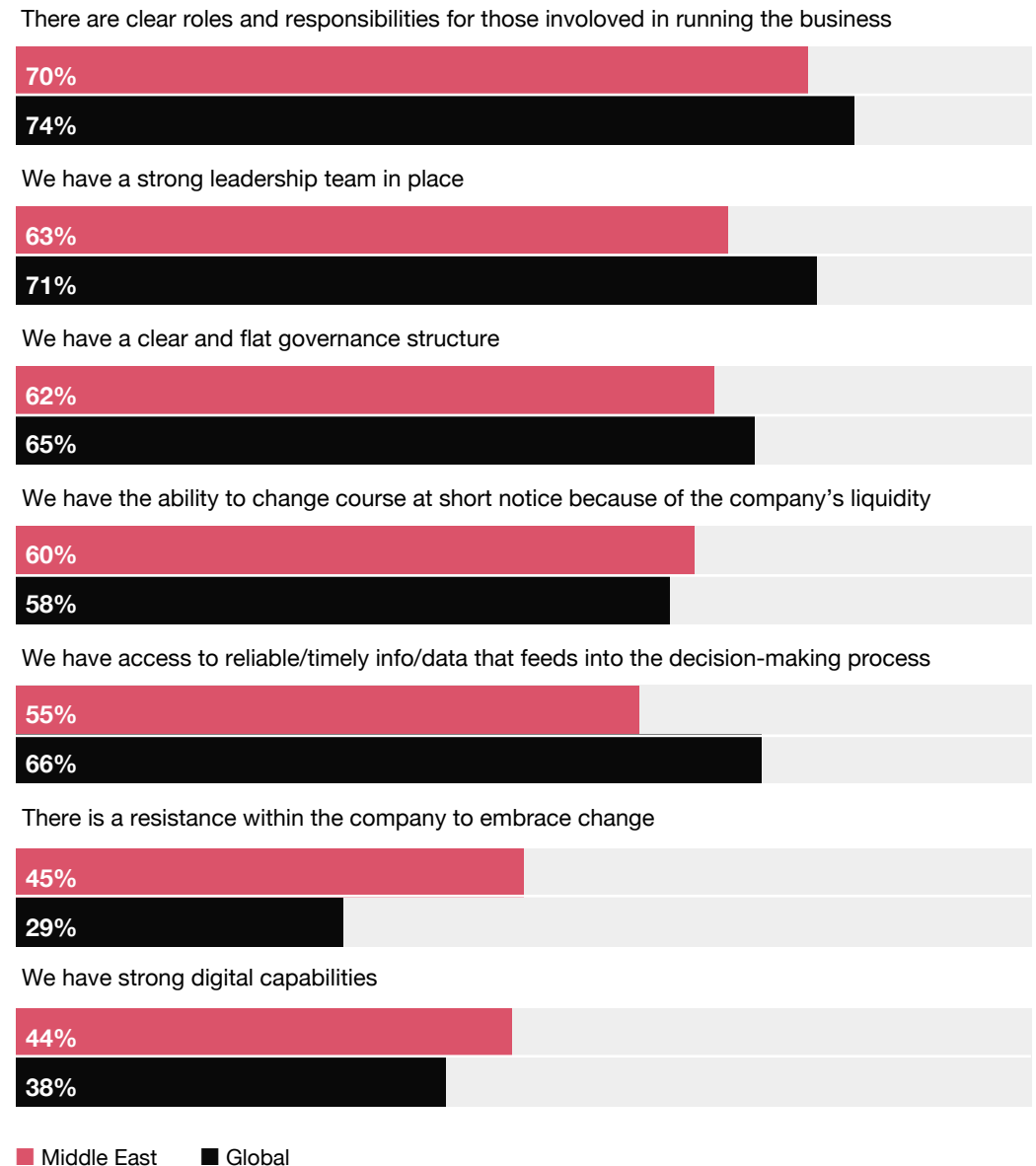
In many respects, family businesses are well prepared; leadership is strong and responsibilities are clearly set out, and they have the liquidity they need to support agility. But Middle East family businesses still struggle to embrace change – and there is a lingering question mark over the strength of their digital capabilities (Figure 6).

Worldwide, businesses with strong digital capabilities and access to good data outperformed their peers during the pandemic.³ As a result, digital transformation is a priority for CEOs; 55% of Middle East CEOs plan to increase their use of new technologies and 59% plan double digit investment in digital transformation over the next three years. This marks a notable shift in sentiment since the 2009 Global Financial Crisis – digital tools, rather than cost efficiency, are the basis for economic resilience.⁴

It was clear from our 2019 Middle East Family Business Survey that family business leaders in the region were feeling vulnerable to digital disruption and were actively taking steps to improve their digital capabilities in the short term. Significant progress has been made – and 75% say that digital, technology and innovation initiatives are a top priority for the next two years – but acceleration of existing digital trends during the pandemic has increased the urgency for change. 44% of family businesses in the Middle East describe their digital capabilities as ‘strong’ and 29% are focused on improving them still further.

Figure 6: The foundations for transformation are strong

Q: How strongly do you agree or disagree that...



3 PwC's 10th Global Family Business Survey, PwC, 2021, <https://www.pwc.com/gx/en/family-business-services/family-business-survey-2021/pwc-family-business-survey-2021.pdf>

4 PwC's 24th CEO Survey – Middle East findings, PwC Middle East, 2021, <https://www.pwc.com/m1/en/ceosurvey/2021/ceo-survey-24th-web-ver.pdf>

75%

say that digital, technology and innovation initiatives are a top priority for the next two years

55%

of Middle East CEOs plan to increase their use of new technologies



”

“Over the last year, all organisations have had to adjust to the new realities of doing business and to think deeply about how they can move forward with confidence. That includes placing a fundamental value on people. It is ultimately an organisation’s talent that enables them to keep evolving, to embrace new digital capabilities and to stay ahead of the marketplace. A collective sense of purpose and promise is essential to creating opportunities in the post-pandemic landscape.”



**Mohammad
A. Baker**

Deputy Chairman & CEO,
Gulf Marketing Group, UAE



Q4

Family, values and conflict



Values are the heart of Middle East family businesses. 75% of businesses in the region (compared with 70% globally) are owned by families that have a clear set of values. They are also more likely to have them in written form (56%, compared with 44% globally) and the vast majority believe that these values helped them cope with the disruption of the pandemic.

However, since we began this biannual survey in 2002 we have consistently argued that family businesses, in the Middle East and elsewhere, could extract even more benefit from their commitment to values. As the business world becomes more focused on purpose over profit, the lost opportunities become more pronounced.

Values and purpose are the glue that holds family businesses together, and are particularly important in large families once responsibility is passed down from the founder – only 12% of family businesses survive to third generation of ownership.⁵ Strong values are particularly effective in engaging younger generations into the business, providing the sense of purpose that the next generation (NextGen) craves.

Many family businesses in the Middle East are reaching a critical stage of succession – second generation family members are already majority shareholders in 56% of businesses and 42% expect that this will be the case in five years' time. Overall, 65% in the Middle East, compared with 55% globally, have NextGen family members working in the business.

Perhaps mindful of this, family businesses in the Middle East are more likely than their global peers to have a robust, documented and communicated succession plan in place (33%, compared with 30% globally).

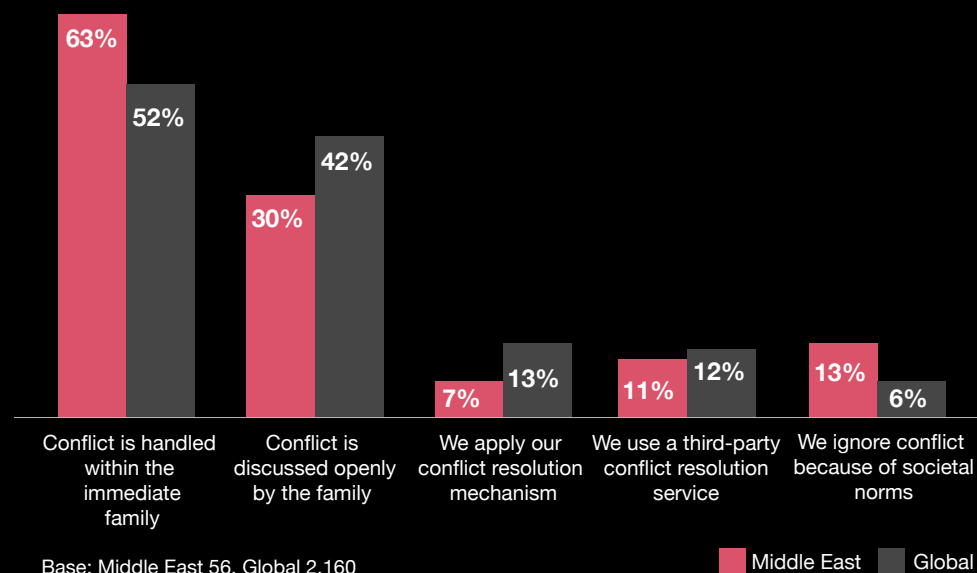
Dealing with conflict

While incidences of family conflicts in the region have risen in recent years, overall, family businesses feel that trust and communication levels are good; two thirds say non-board family members have a high level of trust in family members that sit on the board. But there are signs of unrest – only 47% say that the family is aligned in the direction of the company, and only 48% agree that relevant information is shared in a transparent and timely way among family members (compared with 64% globally).

Conflict within families is sometimes inevitable. 42% of family businesses in the Middle East admit that conflict does occur from time to time (compared with 33% globally) and for 15% of businesses, conflict is a regular occurrence (just 7% of the global sample say the same). Dealing with disagreement is very much a private affair – only 11% are prepared to involve a third party (Figure 7).

Figure 7: Family conflict is typically handled within the immediate family

Q: Which of the following (if any) describe how family conflict is handled in your company?

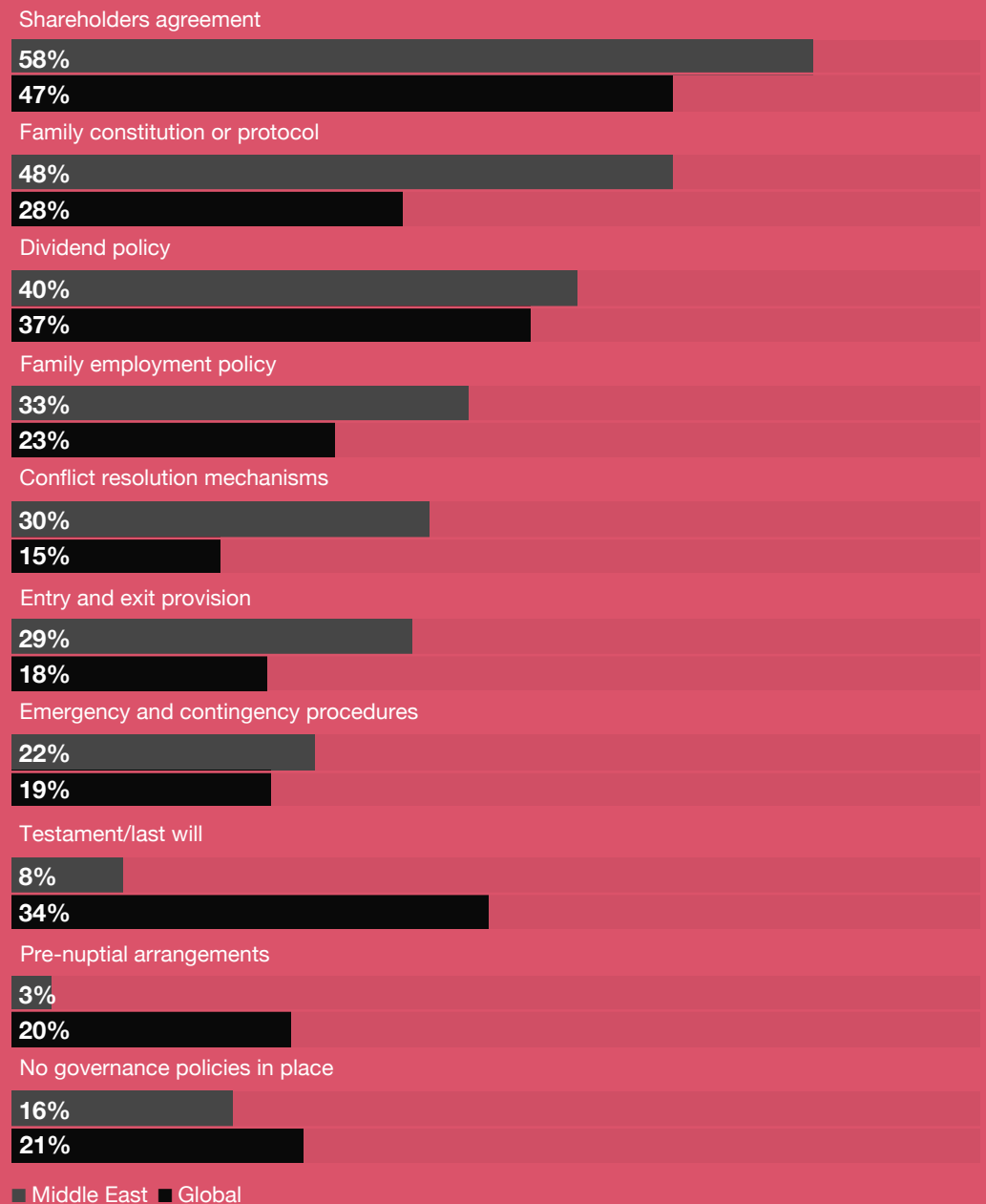



Professionalising governance

Family harmony should never be taken for granted – it requires work and planning, and should be approached with the same level of professionalism that is applied to operational decisions and business strategy. Family businesses in the Middle East take governance seriously – 84% have some form of family governance policy in place (Figure 8) – but policies are not always fully implemented (for example, first generation families typically only consider such measures when the second generation is introduced), leaving significant gaps.

Figure 8: Governance policies in Middle East family businesses

Q: Which of the following policies and procedures, if any, do you have in place?





75%

of family businesses have a clear set of values

but only

47%

say that the family is aligned on the direction of the company

Q5

Sustainability: Translating
ambition into action



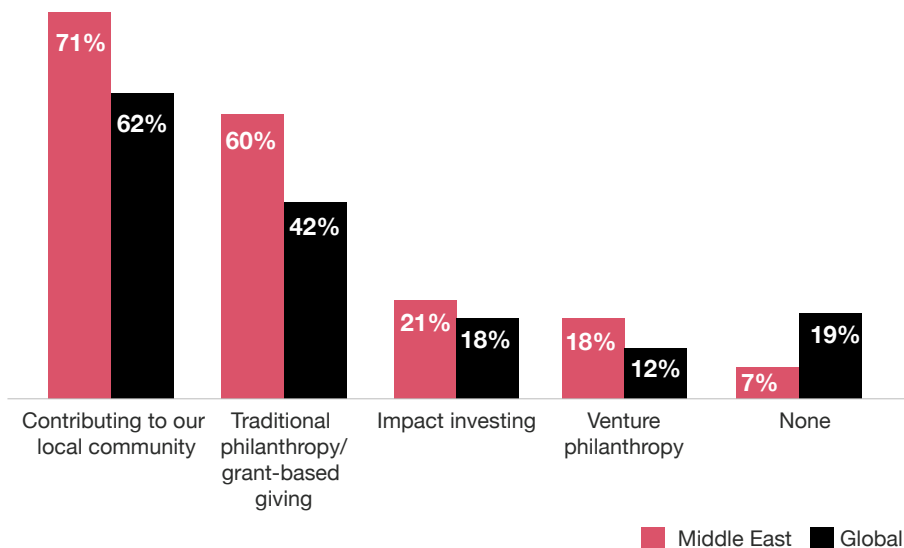
Family businesses believe in giving back to the communities they serve and society as a whole. Overall, 93% of Middle East family businesses engage in some form of social responsibility activities (Figure 9). This commitment was seen clearly during the pandemic, when family businesses in the region were far more active than their global counterparts in supporting their staff, suppliers and local communities (Figure 10).

Family business owners want, above all, to create an organisation that makes a positive impact and creates a legacy for future generations – and the actions of Middle East family businesses in recent months have lived up to that ambition. But the pressure on all businesses to contribute to a better society is increasing, bringing actions around a sustainability agenda into the spotlight.

Companies are expected to demonstrate their commitment to sustainability with concrete actions – and public companies are responding to this trend more effectively than family businesses. This is a business imperative rather than a choice; public companies have been steadily nudged into improving their sustainability practices and policies by increasing pressures from customers, investors, the media and even employees in recent years – and as a result, they have claimed the environmental, social and governance (ESG) stage. But prioritising ESG is now critical for all businesses that want to grow long-term.

Figure 9: Middle East family businesses believe in giving back to the communities they serve

Q: Which of these activities, if any, does your business engage in?

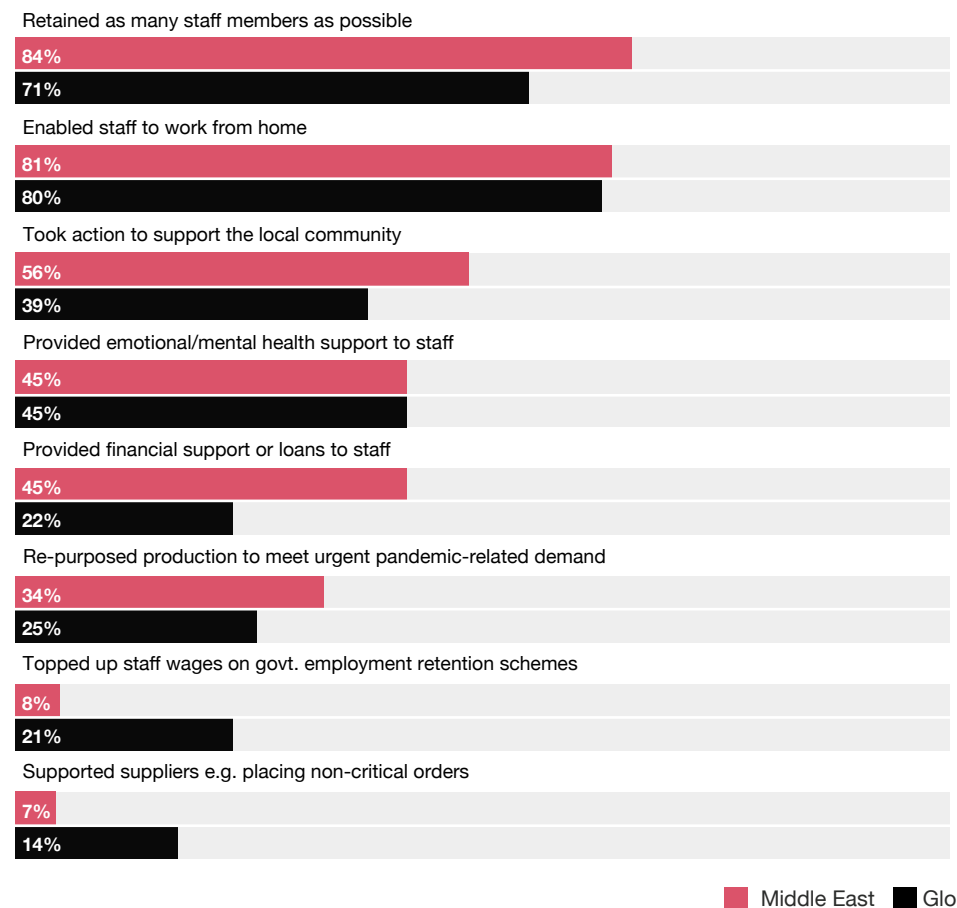


The ability of family businesses to take a long term view of investments puts them in an ideal position to lead the way on sustainable business practices – a role that 59% of family businesses in the Middle East say they are willing and able to accept.

51% say that sustainability is at the heart of everything they do, but only 36% have prioritised sustainability and local community initiatives so far. Reclaiming the agenda means translating family business’ longstanding commitment to community and society into concrete, visible action.

Figure 10: Family businesses supported their staff and communities during the COVID-19 pandemic

Q: In which of the following ways, if any, has your company provided help and support during the COVID-19 pandemic?





93%

of Middle East family businesses
engage in some form of social
responsibility activities

59%

see an opportunity to lead on
sustainable business practices

51%

say that sustainability is at
the heart of everything they
do

”

“Very little movement tends to happen in the Gulf region unless a topic is endorsed very strongly by the government. If initiatives are put in place to encourage businesses in a certain direction, it’s usually local companies and family-owned businesses that will take the lead.”



**Hind
Seddiqi**
Seddiqi Holdings, UAE



Final thoughts

Financial resilience of family businesses makes them well-placed to succeed and fuel the post COVID-19 recovery. In order to retain their license to operate they will need to revisit their purpose and use the trust they have to create measurable non-financial impact. These final conclusions focus on the key areas where immediate actions will help secure a lasting formula for success for the generations to come.

Focus on transformation, especially digital

Middle East family businesses should draw on their experience of withstanding COVID-19 and build smarter, more resilient organisations. Recent events have shown that those who embarked on their digital journey were better placed during the crisis. Now is the time to act. The 27% of respondents who are not making this a priority and have not made progress will face significant challenges protecting their legacy.

01

Professionalise family governance

A professional governance structure and clear process for conflict resolution (preferably involving an independent party) makes business sense, particularly when it comes to family businesses. A professional approach strips emotion and personal bias – a common stumbling block for families – out of the decision-making process.

02

Involve NextGen

NextGen family members will play a vital role in pushing family business forward in policy areas that are essential to their legacy. Younger generations are the driving force behind sustainability and, in family businesses, are looking for greater responsibility. ESG is a natural fit. NextGen members are also an important driving force behind digitalisation; our 2019 NextGen survey found that younger family members saw technology as one of the three most important drivers of change for the business, and 64% felt this was the area where they could add value.⁶

03

Communicate sustainability goals and achievements

Family businesses have a richly deserved reputation for prioritising the welfare of their employees and local communities in which they operate. But they are at risk of losing control of the narrative as listed companies claim the ESG agenda for themselves. Family businesses need to learn how to measure and communicate their ESG position and agenda to a wider stakeholder group.

04

About the survey

PwC surveyed 2,801 owners and executives in 87 territories, including 73 in the Middle East, between 5 October and 11 December 2020. The purpose of the survey was to get an understanding of what family businesses are thinking on the key issues of the day.

Middle East countries surveyed



Current role/position of respondents



Turnover (sales) in US\$ of family businesses who participated



What's next?

PwC has been advising entrepreneurs and their families for more than 160 years. Today, we provide services to 84% of the top 750 family-owned companies globally,⁷ including a number of family businesses in the Middle East. Our Global Family Business Network includes more than 3,000 experts and partners specialising in advising and auditing family-owned companies.

We understand that while every family-owned company is unique, they all share some common characteristics which make them successful. We have analysed these characteristics and developed our 'Owner's Agenda' methodology which addresses both family and business challenges.

To find out more about how we can help your family business, please visit us at www.pwc.com/me or get in touch.

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