

NextGen hold the key to family business growth, driven by ESG

The younger generation's focus on ESG is the key to the sustainable success of family businesses in the Middle East



Foreword

When it comes to talking about the Environmental, Social and Governance (ESG) issues across an organisation, young people are amongst the most engaged, informed and driven, with a rising cohort of young family business leaders - the 'NextGen' - sitting at the heart of this growing movement.

NextGen understands the growing importance of ESG issues to customers, investors, shareholders and business partners – and that it makes sense to strengthen ESG policies voluntarily and under their own terms, before being compelled to by legislation. And, according to the findings of our recent Middle East NextGen survey, NextGen in the Middle East feel this particularly strongly, with 28% (compared with 24% globally) saying they want to reduce the organisation's environmental impact, and 28% (compared with 19% globally) want to support the local community through investment or action.

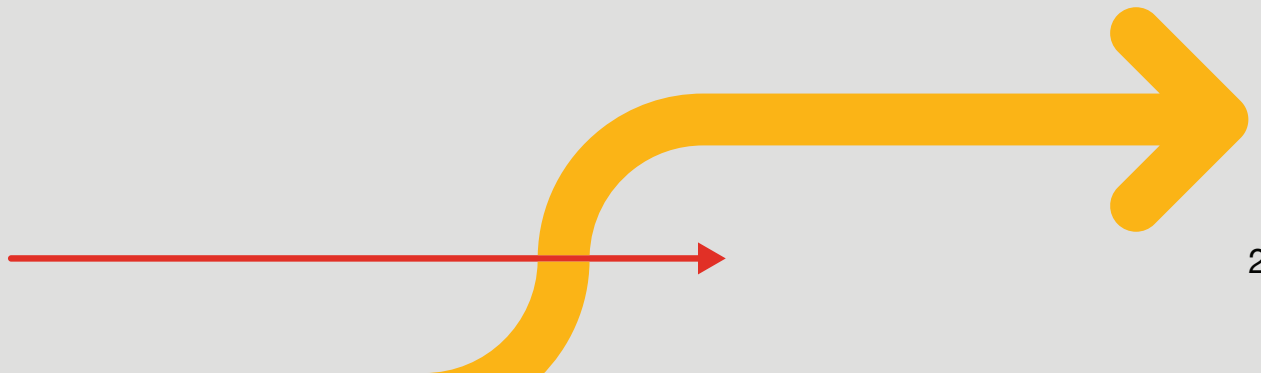
On the 'E' of ESG in particular, the younger generation are highly engaged with an acute awareness of the climate crisis debate, and they understand the power of diversity of the workforce, are dedicated to sustainability, and determined to make a difference – and businesses, particularly family businesses in the Middle East, have much to gain if they can harness their power.

Our survey findings also highlight elements of the 'S' and 'G' in ESG that feature strongly among NextGen's list of priorities – namely social inclusion, diversity, flexible working, and ethical decision making. And, as young leaders in the Middle East rise to influential positions at their respective family businesses, we can look forward to seeing the region experience genuine and positive transformation around these key issues.



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The passion for the 'E' in ESG

It is the 'E' of ESG that has attracted the most attention in our region in recent months. Middle East countries are at the frontline line when it comes to the impact of climate change. The threat of drought, the increasing frequency of sandstorms, rapidly rising temperatures, and water scarcity represent a growing risk for the region's 400 million people. Governments in the region are driving the necessary change; the UAE has committed to net-zero carbon emissions by 2050 – the first MENA nation to do so – while Saudi Arabia and Bahrain have pledged to meet the target by 2060. COP 28, which will be held in the UAE in December 2023, will draw the world's gaze to the Middle East and its growing climate focus.

When it comes to family business's response to the environmental challenge, it is clear that the younger generation within family business members – the 'NextGen' – feel a strong responsibility to act, and are both more engaged and committed than previous generations. Looking at the views of youth more broadly, our recent survey of the views of young people around the world – of which 42% of respondents are based in the Middle East – shows the extent of the younger generation's commitment to ESG ; 60% of respondents are actively engaged or plan to support the United Nations' Sustainable Development Goals. Climate change and its impact is a major concern; two thirds are uncertain that enough is being done to save the planet.

64%

of Middle East NextGen believe their business has the responsibility to fight climate change (vs 34% of current gen)

58%

of NextGen agree that their family business can lead the way on sustainable business practices



ESG in the Middle East

It's important to note that the focus on environmental issues does not mean that the 'S' and 'G' of ESG are considered less critical and it is clear that ESG policies more broadly have become a priority for Middle East businesses and governments. This is not just because of the urgent need to address climate change, but because of a growing recognition that acting on ESG – by reducing the organisation's environmental impact, improving diversity and social inclusion within the workforce, and introducing greater transparency in the way you do business, for example – can open up significant opportunities.

Research consistently shows that businesses that invest in ESG outperform those that do not, and our Consumer Insights Survey found that Middle East consumers are strongly committed to ESG. 53%, compared with 42% globally, say they always buy eco-friendly or sustainable products when they shop in-store, and 68% say they purchase all or most of the time from companies with strong values.

And when it comes to the views of younger generations around the 'S' and 'G' in ESG and the workplace, it's clear that particular elements - namely social inclusion, diversity, flexible working and ethical decision making in particular - feature strongly in their list of priorities. If we look at how these general views could impact family businesses, it's fair to say that young leaders rising to positions of power and influence within family organisations have the potential to affect genuine and positive transformation around these key issues.

More concerned about support and resources provided by employers for making ethical decisions



Less confident about employer transparency on addressing diversity and inclusion in the workplace



The Middle East has much to gain as nations seek to diversify their economies; as a firm we believe that embedding ESG principles as a whole, as economies and society evolves will allow the Middle East to become a leader on the global sustainability stage.

58%

of companies in the Middle East see enhancing their brand and reputation as the top benefit for implementing an ESG strategy

But while businesses in the region recognise the importance and benefits of a strong ESG strategy, our research shows that the level of ESG maturity remains low. In a recent survey we found that only 18% of ME companies questioned had the teams and systems in place to cover the full remit of ESG functions.



Family businesses can lead the way on ESG

Family businesses across the world have long championed the role of ESG in sustainable business and this is particularly prevalent among family businesses in the Middle East. Family businesses have strong social and governance credentials – 93% of regional family businesses, for example, engage in socially responsible activities – and tend to take their government responsibilities very seriously (84% have some form of family governance structure in place). Even so, there is room for improvement when it comes to each element of ESG.

It is important for family businesses to acknowledge, for example, that CSR activity does not necessarily translate into a strong ESG strategy. A valuable ESG strategy should be part of the DNA of the business - ensuring, for example, that diversity in management and the workforce drives innovation and growth - and is not confined to CSR alone.

And if younger generations within family businesses are given the opportunity to lead on the issues they care about when it comes to ESG, they will play a critical role in fully embedding this commitment to ESG in the long term.

A rich seam of NextGen talent

The good news for family businesses in the Middle East is that they are particularly asset rich when it comes to NextGen. 72% of NextGen in the region are already in a leadership role, compared with just 53% globally. Even so, there are signs that the potential of this generation when it comes to using ESG to generate growth is untapped. Less than a third of ME NextGen family members are actively engaged in ESG issues.

Areas where NextGen are personally actively engaged:

	Engaged now	Total engaged (now and in the future)
Increasing our focus on investments for sustainability and impact	31%	67%

It is vital that family businesses draw on the enthusiasm and talent of this younger generation. Strong governance - in the form of a clear structure for advancing NextGen through the business, setting out the ways in which they can contribute to growth through the ESG topics that are so important to them - will help to build intergenerational trust and engage NextGen in the sustainable future of the family business.



Technology is key

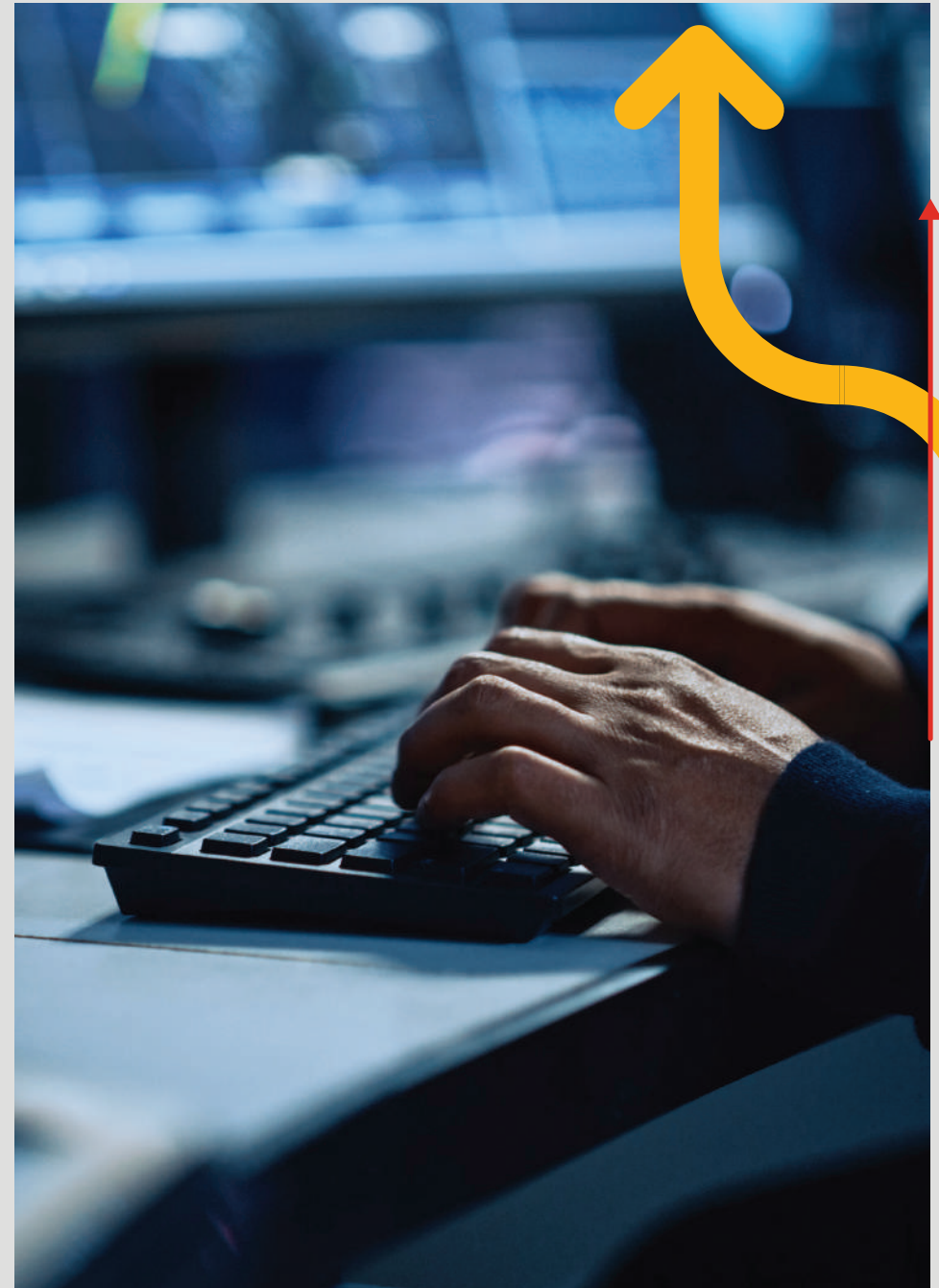
A further complication is the gap between the generations on the willingness to adopt technology, which plays a vital role in tackling climate change. Last year, our first Middle East State of Climate Tech report found that the Middle East is ideally placed to pioneer the development of technologies that help to achieve climate change goals, because of its unique combination of natural resources – the cost of producing solar, wind and green hydrogen in the Gulf region is about one-third of the global average – and the investment capacity of sovereign wealth funds.

At an organisational level, digital technology and ESG strategy are closely intertwined. Digital transformation can generate significant ESG benefits, such as cutting down on employee travel, or the introduction of a paperless office. The reality is that growth, digital transformation and ESG are not independent drivers of growth - they are closely connected and feed off each other.

Yet our research shows that the generations within family businesses are not in agreement over the importance of the adoption of new technology. 44% of the current generation believe that the business already has strong digital capabilities, but only 33% of NextGen say the same. This is a cause of tension and frustration; a third of NextGen (33%) believe the current generation do not fully grasp the opportunities for digital transformation and the risks that can come with a lack of digital infrastructure within the business.

Understanding how to fully leverage digital and new technology is an area where NextGen are already proving their worth to their family business. Our latest CEO Survey showed that two thirds of business leaders in the region see technology disruption as the issue that will have the biggest long term impact on their business in the coming 10 years. 84% of Middle East CEOs say they are investing in automation this year, and 66% plan to deploy advanced technology such as cloud tech and artificial intelligence. With such significant investments at stake in family businesses across the region, it makes sense to make the most of the skills and knowledge of the younger generation of business leaders.

One in five NextGens in family businesses say that their engagement in the business in the areas of new technologies and upskilling digital capabilities was brought forward as a result of the pandemic. Almost two thirds also said that they felt they could add significant value to the business by helping to develop a strategy fit for the digital age. In other words, the pandemic revealed just how much some family businesses needed the digital and tech expertise of the younger generation. So why stop there?



Looking ahead

It is clear that NextGen family members have skills of significant value to offer their family business and the rise of ESG as a business imperative brings new opportunities for NextGen to really prove their value as the potential secret weapon that will drive sustainable success in family businesses across the region. All generations agree on the need for growth, but NextGen has a different perspective on where that growth will emerge. This diversity of thought, and NextGen's focus on ESG as a driver of business growth, will be critical to the future success of family businesses across the Middle East.

If family businesses are to succeed in a very different environment, they need visionary leadership. This is a watershed moment. It is time to reimagine what success means – and NextGen has the foresight to lead the way. You know the path the business must follow; it is up to you to become the leader your business needs.

Be yourself. Be different. Drive change.



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