



Today and beyond: Next
Generations challenging the
status quo of family business

Middle East NextGen Survey 2022

Contents

Today and beyond: Next Generations
challenging the status quo of family
business

01

Foreword

02

The growth imperative
• Challenging the status quo

03 - 04

Time to act on ESG

03 - 04

NextGen in a leadership role
• Bridging the gender gap
• Educating future leaders

05 - 08

Securing the family's future

09

Future wealth management

10

Recommendations
• Becoming the leader your family and
business needs

11

Contacts

12



Foreword

It has been a challenging couple of years for family businesses in the Middle East but they have more than risen to the challenge. The talents and enthusiasm of the NextGen Members has been an important ingredient of the resilience of family businesses both before and during the pandemic. Now, as family businesses across the region work to recover and grow, the NextGen will once again prove their worth.

This survey captures the views and aspirations of the NextGen in family businesses across the Middle East. It shows that the pandemic has united family businesses and brought generations together. Four out of ten NextGen family members say that they feel far more committed to the main family business than they did before the pandemic, and six out of ten agree that communication about the business between family members improved during the crisis.

This is good news as family businesses put in place a winning growth strategy for the months and years ahead. The survey shows that the generations are united around this common goal – but there are clear areas where NextGen will play a critical role in the future success of their family’s business. The world, and our region, is changing rapidly and businesses face a complex network of challenges, from geopolitical uncertainty to climate change. NextGen family members, who have already proven their value as businesses addressed technological change and digitisation, are uniquely placed to help.

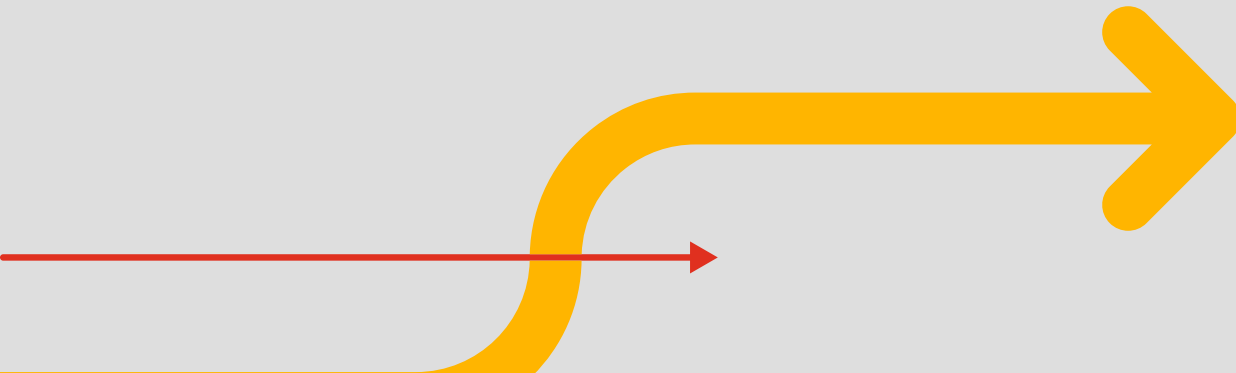
One of the most important areas is ESG, and in particular meeting the changing priorities of consumers and multinationals as the world faces the impact of climate change. NextGen understand the implications and have the necessary understanding to push ESG up the agenda and find ways to generate sustainable growth.

We would like to thank everyone who contributed to this survey and report, including the NextGen family members across the region who shared their thoughts. You are the future of your family’s business – and this report confirms that the future is in good hands.



Adnan Zaidi

PwC Middle East Entrepreneurial and Private Business Leader



The growth imperative

While family businesses are a driving force for economies around the world, they invariably face unique challenges. Conflict among family members who own or work within the business is not unusual. And in recent years our surveys have shown a divide between the priorities of the current generation of owners and the younger generation who will one day take over – particularly around the importance of sustainability and environmental issues, and on the rate of technology adoption. In this year's survey, for example, 31 per cent of NextGen told us that a priority for the business should be to increase the focus on sustainability and social responsibility, but only 16 per cent of the current generation agreed.

The Covid-19 pandemic, though, has brought the generations together and when it comes to future success for the family business, they are united around the main post-pandemic priority: Growth. 78 per cent of Middle East respondents (compared with 65 per cent globally) say that growth is their top priority, in order to maintain and build on the legacy created by previous generations and to secure the family's continued prosperity and wealth.

For most, growth is defined as higher sales and revenue, which they see as being achieved mostly through diversification into new products and markets; 56 per cent of family businesses in the Middle East say that expansion into new sectors and markets is a key priority for the next few years. In our last survey in 2021, investing in new technologies and digital skills – an area that has suffered from underinvestment in the past – was also seen as critical for the near future, with three-quarters of family businesses saying that digital, innovation and technology initiatives were a top priority for the following two years. This ambition seems to have been addressed to some extent as this year only a third of family businesses name adopting new technologies as a key priority.

Family businesses in the Middle East suffered more than others from the impact of the pandemic, which hit at a time of fluctuating oil prices and stagnating economic growth in the region. According to our 2021 Family Business survey, 56 per cent of Middle East family businesses expected sales to fall as a result of the pandemic, compared with 46 per cent globally. And while Middle East family businesses were more cautious about a return to growth in the short term, 89 per cent said they expected revenues to increase in 2022.

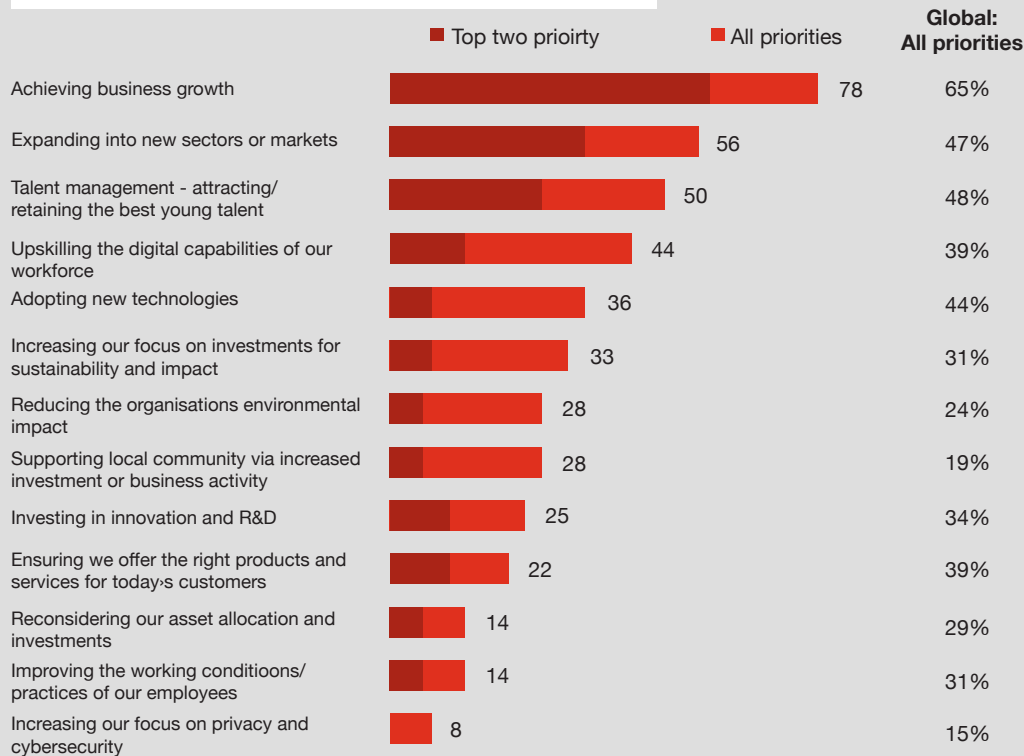
The fundamental question is how to achieve these growth ambitions in an environment with extreme challenges: climate change, ongoing pandemic disruption, geopolitical volatility, and technological change. Which growth strategies will achieve the best results? And what capabilities do you need, as the leaders of tomorrow, to ensure the prosperity of your family businesses?



Challenging the status quo

When we asked NextGen for their business priorities over the next two years, most focused on growth strategies such as expansion into new markets, upskilling, and the use of technology.

Figure 1: Key NextGen priorities over the next two years



Q9a. From your own personal point of view, what would be your priorities for the company over the next two years?
 Q9b. And which of those would be your TOP TWO options?
 Base: all Middle East respondents (n=36), all Global respondents (n=1036)

These are familiar strategies – in other words, the way that things have always been done in the past in order to achieve growth. When we compare the priorities of current generation family leaders globally with those of NextGen, both largely agree on this approach. But we would argue that familiar tactics may not be enough. The world is changing, and family businesses must adapt if they are going to thrive.

The Middle East region is evolving rapidly and radical changes are already underway as countries explore new opportunities. Saudi Arabia's Vision 2030, for example, is creating valuable opportunities, and the UAE has signed the region's first free trade agreement with Israel. Family businesses will need to be equally open to change in rapidly evolving markets if they are to meet their growth ambitions.

Growth is a complex area for family businesses, with emotional as well as financial elements in the mix. As leaders in waiting, you will have to develop your own blueprint for success, and this means reassessing the business's priorities. You will find yourself pushing boundaries and challenging years of established thinking. You will need new capabilities beyond digital expertise to comply with ESG requirements. And you will need to address workforce productivity – investing in skills to unlock the value of human capital and making the link between workforce wellbeing, productivity, and financial elements in the mix.

As leaders in waiting, you will have to develop your own blueprint for success, and this means reassessing the business's priorities. You will find yourself pushing boundaries and challenging years of established thinking. You will need new capabilities beyond digital expertise to deliver ESG. And you will need to address workforce productivity – investing in skills to unlock the value of human capital and making the link between workforce wellbeing and productivity.

Figure 2 'Business Family Wealth' graphic from page 5 of the global report



Business (the engine): The business needs to grow 10% every two to three years through organic growth, diversification or impact investing to serve the family interests.

Future focus: Develop the capabilities to deliver on environmental, social and governance (ESG) concerns



Family: A united family, supported by a strong constitution and governance, supports growth.

Future focus: Establish a generational contract to bolster succession planning and sustainable transformation.



Wealth: Adequate wealth reserves ensure that the family maintains or enhances its position.

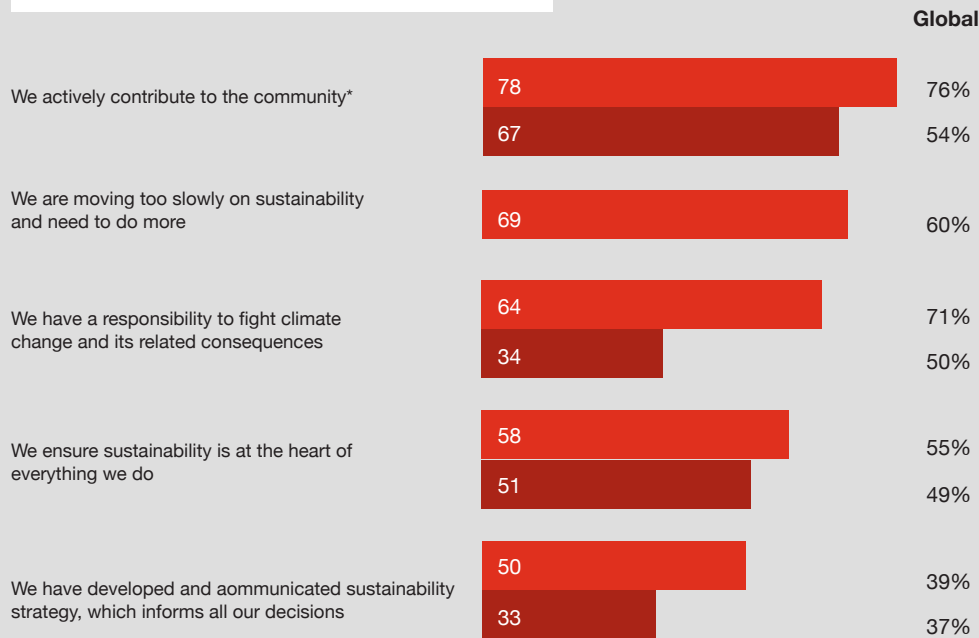
Future focus: Family Offices can strengthen business prospects and foster asset diversification.

Time to act on ESG

Environmental, social and governance (ESG) standards have always been important to family businesses in the Middle East. They have a long history of making a positive impact on society – 93 per cent of Middle East family businesses engage in socially responsible activities – and take their governance responsibilities very seriously (84 per cent have some form of family governance structure in place). But it is the environmental challenge that is foremost in the minds of NextGen. In climate change, the world faces arguably its biggest challenge – and society is turning to businesses as well as governments for guidance and action.

NextGen feel a strong responsibility to act and overall, are more attuned than the current generation to fully engage in ESG and sustainable business practices. This is as true in the Middle East as it is elsewhere; 64 per cent of NextGen in the region believe the business has a responsibility to fight climate change, and 58 per cent (along with 59 per cent of the current generation) agree that the business can lead the way on sustainable business practices (figure 3).

Figure 3: NextGen lead the way on ESG



Q11. How strongly do you agree or disagree that ... [*wording slightly different for Current Generation]
 Base: all Middle East respondents (NextGen=36, Current Gen=73), all Global respondents (NextGen = 1036, Current Gen= 2801)

■ NextGeneration
 ■ Current Generation

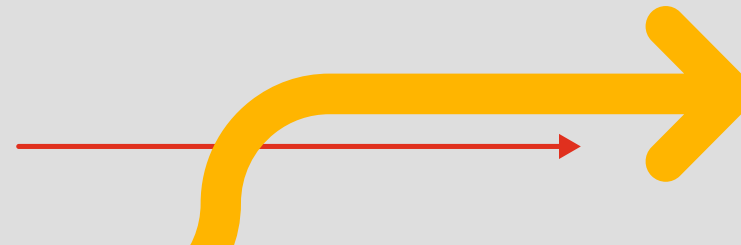
NextGen understands the role that business will play in addressing the world's challenges, alongside the growing importance of ESG to investors, shareholders, customers, and business partners. A strong ESG strategy is no longer a nice-to-have; it has become a business imperative – research consistently shows that companies that invest in ESG outperform those that don't. The multinationals that family businesses in the Middle East work so closely with are strengthening their commitment to ESG, propelled by consumer sentiment, and are encouraging their Middle East partners to do the same. NextGen understands that it makes sense to voluntarily strengthen their own ESG policies before it becomes a mandatory requirement.

The next, vital stage is to transform NextGen's ambitions around ESG into reality. Only a fraction of Middle East NextGen family members are actively engaged in ESG issues today, but 67 per cent want to be involved in the near future (figure 4).

Figure 4: The intention gap

Areas where NextGen are personally actively engaged:

Area	Engaged now	Total engaged (now and in the future)
Increasing our focus on investments for sustainability and impact	31%	67%
Reducing the organisation's environmental impact	17%	56%
Supporting local community via increased investment or business activity	19%	58%
Improving the working conditions/practices of our employees	39%	72%



NextGen have already proven themselves with their contribution to their family business's digital and technology strategy. ESG is the next big challenge – and NextGen has the ability and drive to lead family businesses on sustainability.

“ We witnessed an increased focus over the past few years to strategically embed ESG priorities across value chains, in line with the UN Sustainable Development Goals. ESG creates value, companies should focus on building a solid foundation of ethics and integrity to create a positive impact, adhere to responsible and transparent business practices and tackle climate change. This is how we will all progress on the ESG front and ensure the sustainability of our businesses and the communities where we live.”

- Patrick Chalhoub
the Group president of Chalhoub Group

NextGen in a leadership role

Family businesses in the Middle East trust and rely on NextGen family members to play a leading role in the business. 72 per cent of Middle East NextGen say that they are already in a leadership role, compared with just 53 per cent of NextGen worldwide.

The pandemic has undoubtedly encouraged more NextGen into roles of responsibility. Almost half of NextGen in the region say that the pandemic accelerated their involvement in the business, and a fifth say that they were asked to lead a specific change project or initiative during the crisis (figure 5). This was most frequently in the areas of talent management, expanding into new markets, or adopting new technology.

Bridging the gender gap

Across the world, women are less likely to be in a leadership role in a family business. The survey shows that 43 per cent of female NextGen, and 59 per cent of male NextGen, are currently in a leadership role.

Overall, 35 per cent of female NextGen believe their male counterparts are more likely to be expected to run the business, and this has historically been particularly true in the Middle East. But some family businesses in the region are moving against the trend.

This can bring real benefits in terms of diversity of thinking as our survey shows that male and female NextGens have different priorities. Women are marginally more focussed on ESG concerns. Also, improving working conditions and sustainability are higher on their list than their male counterparts.



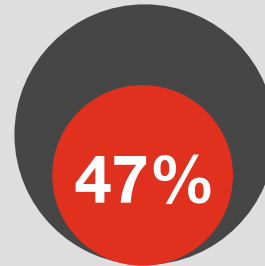


Figure 5: Impact of Covid-19 on involvement

Nearly a fifth of Middle East NextGen believe Covid-19 led to them being asked to lead on specific projects, above the global average.

Say that

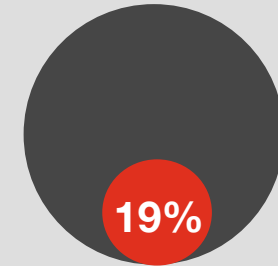
“the Covid-19 pandemic has **brought forward or increased** your involvement and engagement in any areas”



Global: 43%

Say that

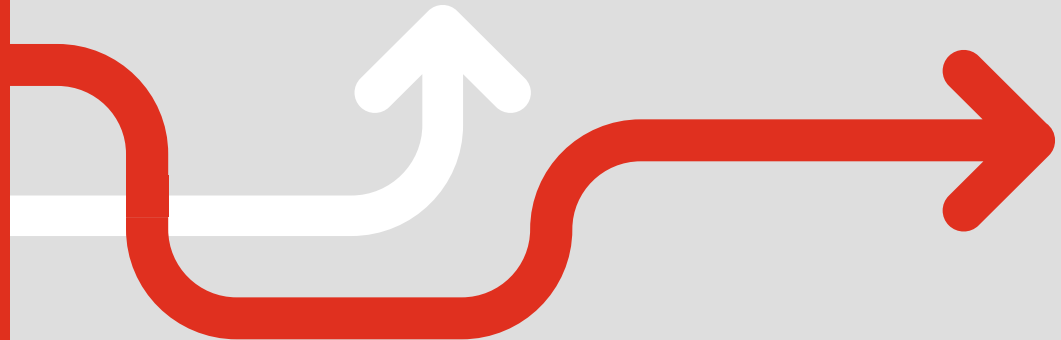
“the Covid-19 pandemic has meant you have been asked to lead on specific projects” (that may not have been the case in normal times)



Global: 14%

Q13. Overall, would you say that the Covid-19 pandemic has...
Base: all Middle East respondents (n=36), all Global respondents (n=1036)

As a result, 39 per cent of Middle East NextGen feel far more committed to the main family business than they did before the pandemic. 58 per cent say that communication about the business between family members improved during the crisis, and a third say that communication between NextGen and the current generation of leaders is stronger than it was before (figure 6). It took a crisis, but communication between family members has never been better – family businesses in the Middle East should make sure that this momentum is maintained in the future.



“ Covid-19 was in many ways a blessing in disguise, presenting an opportunity for the NextGen in family enterprises to step up and prove themselves by actively engaging in the business. It gave the coming generations an opportunity to demonstrate their capabilities to the current leaders, and also, become more involved in the communication lines surrounding the business, while at the same time, highlighting development areas for the NextGen to build on. From my own personal perspective, it was important for me to get external international exposure both from an education and work experience standpoint before joining the Family Business as the Chief Transformation Officer responsible for the transformation journey for our Family Business.”

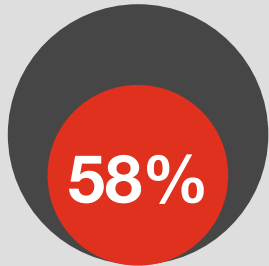
- Sultan Ibrahim Aljomaih
The Chief Transformation Officer of Al Jomaih Holding

Figure 6: The positive impact of the pandemic

Impact of Covid-19 on communication in the Middle East

Agree that

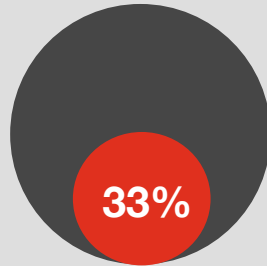
“Communication between family members about the business increased during the pandemic”



Global: 56%

Say that

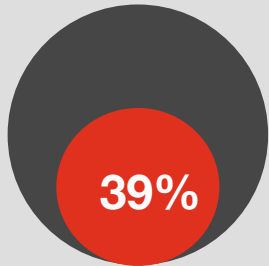
“The Covid-19 pandemic resulted in stronger communication between you and the current generation of leadership”



Global: 36%

Feel that

“More committed to the business than I did before the pandemic”



Global: 43%

Q11. How strongly do you agree or disagree that..

Q13. Overall, would you say that the Covid-19 pandemic has...

Base: all Middle East respondents (n=36), all Global respondents (n=1036)

Educating future leaders

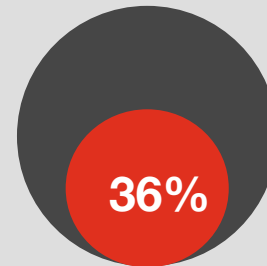
At a time when many NextGen in the region have been focused on their own projects, the survey shows a renewed commitment to the family business and a strengthening of the bonds of trust between generations. NextGen feel positive about their value and their contribution to the business. But they are not complacent; more than a third feel that the pandemic highlighted the need for them to improve their skills (figure 7).

Figure 7: The skills gap

Over a third of Middle East NextGen think the pandemic revealed a need for them to upskill or for additional education (vs. 28 per cent globally). There are a number of areas where additional expertise would be welcomed.

Say that

“The Covid-19 pandemic resulted in stronger communication between you and the current generation of leadership”



Global: 28%

Additional expertise required to prepare for future role - Middle East

Area	Middle East (%)	Global (%)
Finance/Investments	61	53%
Leadership development/ Soft Skills	39	48%
M&A	36	25%
Business model innovation	31	41%
Sustainability/ ESG	31	25%
Digitisation/ AI	28	30%
Internationalisation/ Globalisation	25	23%
Human resources/ Talent management	14	28%
Tax and accounting	11	29%
PR/ Communication	11	17%
Philanthropy	11	10%
Other		3%

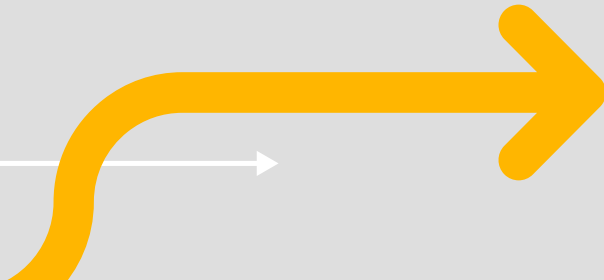
Q13. Overall, would you say that the Covid-19 pandemic has...

Q19. In which areas do you need to gain additional expertise/experience to prepare for your future role in the family business?

Base: all Middle East respondents (n=36), all Global respondents (n=1036)

All of the NextGen respondents to our survey have at least a university degree or the equivalent (61 per cent studied business), and one in five have an MBA. But they know that learning is an ongoing discipline and are keen to develop and broaden their skills even further.

Family businesses will need new perspectives if they are going to take full advantage of all opportunities. Business schools are beginning to recognise this, and many are exploring a more multidisciplinary approach to business and leadership with a far greater emphasis on people, planet, and purpose instead of pure profit maximisation.



Securing the family's future

The decision to cede control to the NextGeneration is a huge, once-in-a-lifetime decision for the current generation of family businesses. The involvement of NextGen has accelerated as a result of the pandemic and their level of responsibility has increased – they are keen to step up to further challenges but also conscious that the contribution of all generations is essential to the business and the current generation may not yet be thinking about retirement. This is a journey that the family must navigate together, with care; 67 per cent of NextGen in the Middle East (compared to 57 per cent globally) say that the current generation's reluctance to let go is one of the most difficult aspects of succession. While NextGen are clearly keen to take on new responsibilities, they are clearly conscious that the current generation are the core of the business and are not yet ready to retire.

Succession is critical for family businesses in the Middle East. 65 per cent of Middle East family businesses have NextGen family members working in the business, compared with 55 per cent globally. It is vital that these businesses capitalise on the involvement of their younger family members and make sure that training is in place to develop their skills and experience for the future. Equally important is a formal structure for succession, but while a third of NextGen in the region say that the pandemic has accelerated succession, only half of family businesses in the region currently have a formal succession plan in place (figure 8). Clarity around succession and the expectations of each generation are critical in continuing on a growth trajectory.

“There is a general reluctance in the Middle East for the founding generation to ‘let go’ of the business. Furthermore, we see that many NextGens are reluctant to speak about succession to the founders and find it easier to postpone the process rather than having difficult conversations and dealing with the issues upfront.”

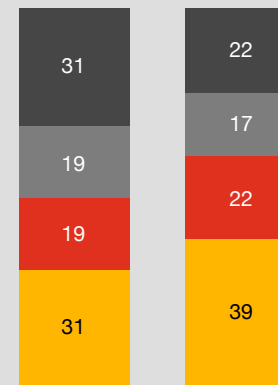
- Amin Nasser
PwC Middle East Family Business Senior Advisor

Figure 8: Succession planning

Half of Middle East NextGen are aware of a succession plan (of those, most were involved in its development). 19 per cent do not know if there is a succession plan.

33% Say Covid-19 accelerated/ brought forward succession

Awareness of succession plan in place - Middle East



Middle East Global

Say that the Covid-19 pandemic has... - Middle East



33%

Accelerated / brought forward succession (Global: 22%)



8%

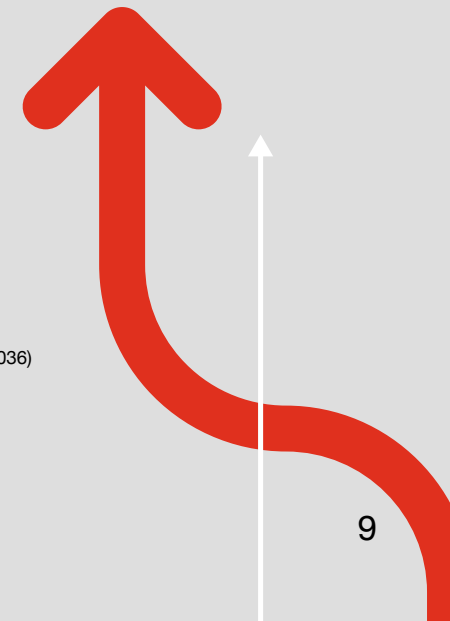
Slowed down / postponed succession (Global: 12%)

- No, there is no plan
- I don't know if there is a plan
- Yes, but I was not involved in its development
- Yes, and we have developed the plan together

Q12. Are you aware of your family having a succession plan in place?

Q13. Overall, would you say that the Covid-19 pandemic has...

Base: all Middle East respondents (n=36), all Global respondents (n=1036)



“As a family, we are actively engaging the NextGen in the family business and today, we have six NextGen members working in the Easa Saleh Al Gurg Group. We empower them in their respective roles and provide them with an opportunity to grow and succeed in their own right. We have also created a committee where the NextGeneration can voice their views comfortably. This ensures frequent communication among and between the generations, allowing us to practise our values as a family and ensure we are collectively working towards a unified, common vision – fostering a sustainable and profitable business for all.”

- Raja al Gurg
Chair, Easa Saleh AL Gurg Group

Succession planning is an area where clear communication is essential. The current generation needs to know that they can leave the business in the hands of family members who are well-prepared. And NextGen needs to see how they will gain the requisite experience, and the milestones they are expected to reach along the way. What being prepared for succession means in practice is rarely articulated and in the absence of that discussion, many NextGen feel that the way to win the confidence of the current generation is to follow their example rather than forge a different path. This might explain why NextGen's firm conviction that ESG is tied to growth has yet to be translated into action.

This is why a growing number of family businesses worldwide are turning to a 'generational contract', which sets out the expectations of both sides. Communication between the generations is stronger in the wake of the pandemic, so this is an opportunity to keep the conversation alive and work out the details: What are the leadership skills and experience required to allow the business to thrive? What experience does NextGen need to gain on the path to leadership?

Future wealth management

Creating the double-digit growth that family businesses need to ensure that the generations are secure in the wealth from the business is a significant challenge in a world gripped by crisis. For many family businesses outside the region, a Family Office to manage the investment element of the business is seen as essential not only in protecting wealth, but in improving governance – overall, 42 per cent of respondents said they have a Family Office.

The strong commitment to governance shown by family businesses in the Middle East has, so far, meant that relatively few have a Family Office. However, in 2021, 23 per cent said they planned to set up a Family Office within five years, indicating that wealth creation and protection is increasingly top of mind.



“The long-term commitment to offering quality private wealth and asset management will for sure play a unique role in advancing governance, succession and long-term growth of family businesses.”

- Dr. Tarek Hajjiri
CEO of DIFC Global Family Business & Private Wealth Centre

Recommendations

Becoming the leader your family and business needs

The world is changing, and the business techniques of the past will no longer be enough. NextGen must earn the right to challenge the status quo and to discover growth opportunities for their family legacy.



Make your voice heard on ESG.

ESG is becoming pivotal to business growth and critical to a business's licence to operate. NextGen is ideally placed to take a lead on building an ESG strategy.



Don't be afraid to take a different path.

NextGen family members have made significant contributions to their family business's technological and digital advancement in recent years. While the generations are united in the need for growth, NextGen has a different perspective on many other aspects, compared to the current generation. This diversity of thought is extraordinarily valuable as businesses seek to grow in a fast-changing market.



Articulate/negotiate a generational contract.

While family businesses are more willing to talk about succession as a result of the pandemic, the stages and conditions of succession are often unclear. It is vital to have an ongoing conversation about what will drive growth in the future and NextGen's role in achieving it.



Hone your leadership skills.

Leadership in today's world requires a different set of capabilities. It's time for NextGen to question whether the right approach is to shape themselves in the image of the older generation in order to be recognised as a potential leader. New times require new leadership styles.

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.



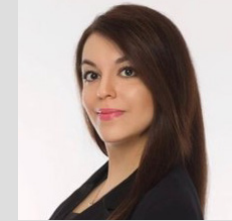
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