

Highlights of the PwC Middle East Family Business Survey

PwC for GCC Board of Directors Institute
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Today's discussion

1. Middle Eastern family businesses
2. Highlights of the Middle East Family Business Survey
3. Significant issues facing family businesses in the Middle East
4. PwC for Family Businesses

Middle Eastern family businesses

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Family businesses are especially important in the Middle East, contributing around **60%** to the region's GDP and employing **80%** of the workforce.

What sets Family Businesses apart?

Balancing “family” and “business” in a unique set of dynamics

Family businesses show **higher profitability in the long run** and have a more **long-term strategic outlook**

Family businesses are **less likely to lay people off** and more likely to hire despite the possibility of an economic downturn.



Private businesses are **more risk averse, less likely to raise debt** and are widely deemed financially prudent.

In emerging economies family businesses are **more likely to remain in family hands** than in the West, even when stock-listed.

Emerging family businesses are more open to **branching out into different business lines.**

Family businesses are the very foundation of Middle East economies

1

ME family businesses are entrepreneurial and over the years have created massive, diversified businesses

2

Over 80% of the businesses in the ME are either family owned or controlled - a significant source of economic activity and employment

3

Most of the family businesses are in their 2nd generation and a significant number will undergo a generational shift in the next 5 – 10 years

4

Many businesses have realised the importance of having structured governance process and not be dependent on individuals

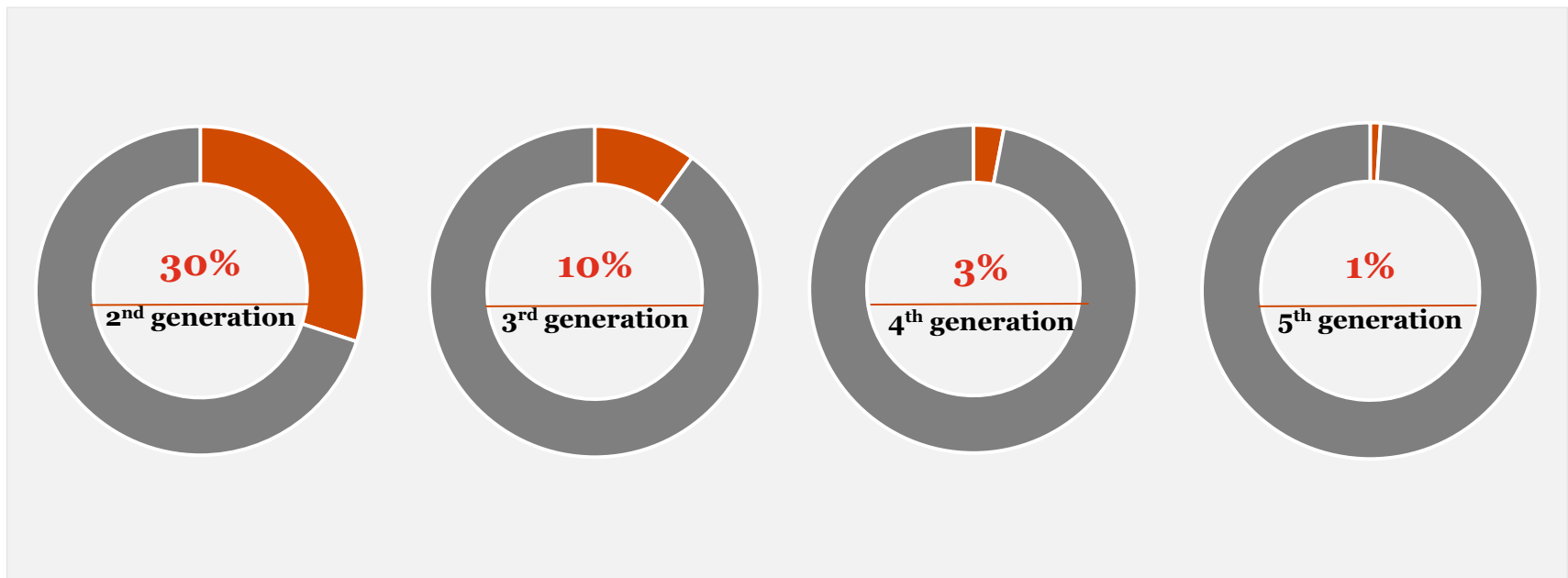
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A number of Middle East families are going through family feuds although respect for the older generation has, to some extent, protected these families

6

Only a small percentage of family businesses survive beyond the 3rd generation - continuity is, therefore, a major concern

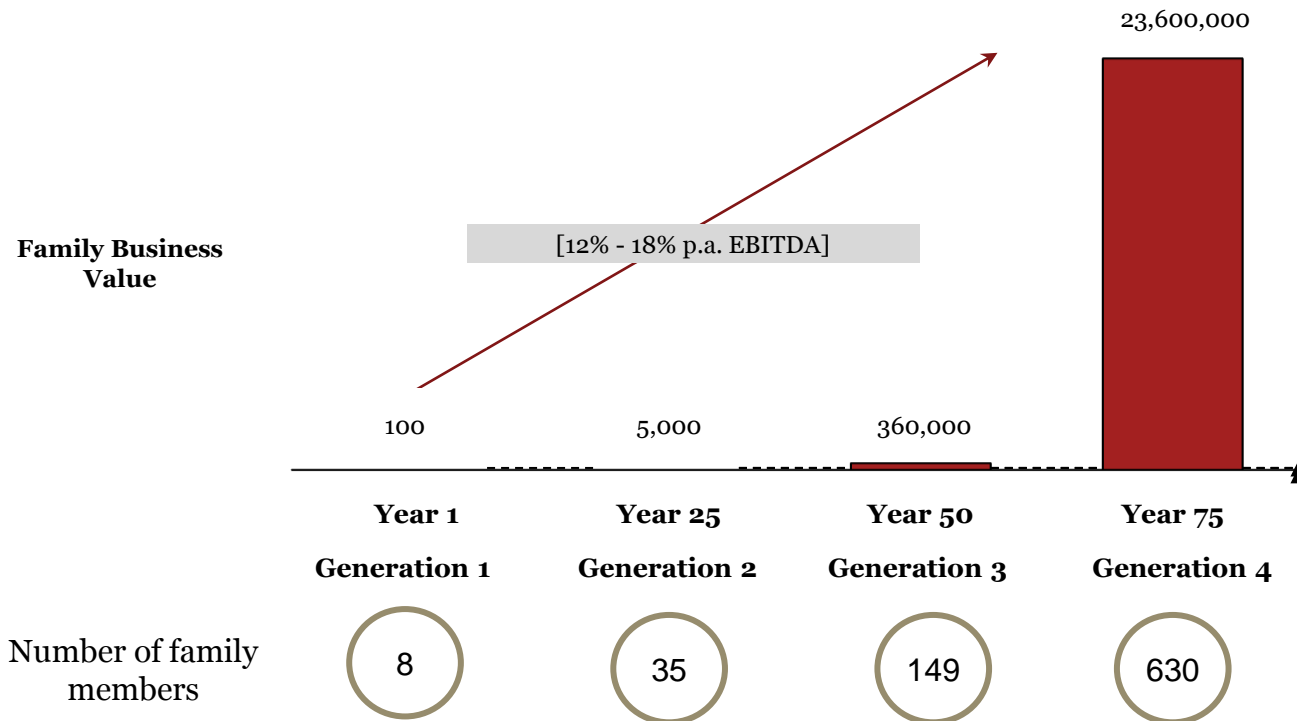
Family business survival rates through generations



Source: <http://www.europeanfamilybusinesses.eu/uploads/Modules/Publications/family-business-statistics.pdf>

Family businesses need to grow 12%-18% p.a. to maintain dividend and family's wealth levels

A significant challenge for even the most entrepreneurial business families



Highlights of the Middle East Family Business Survey

PwC biennial Family Business Survey

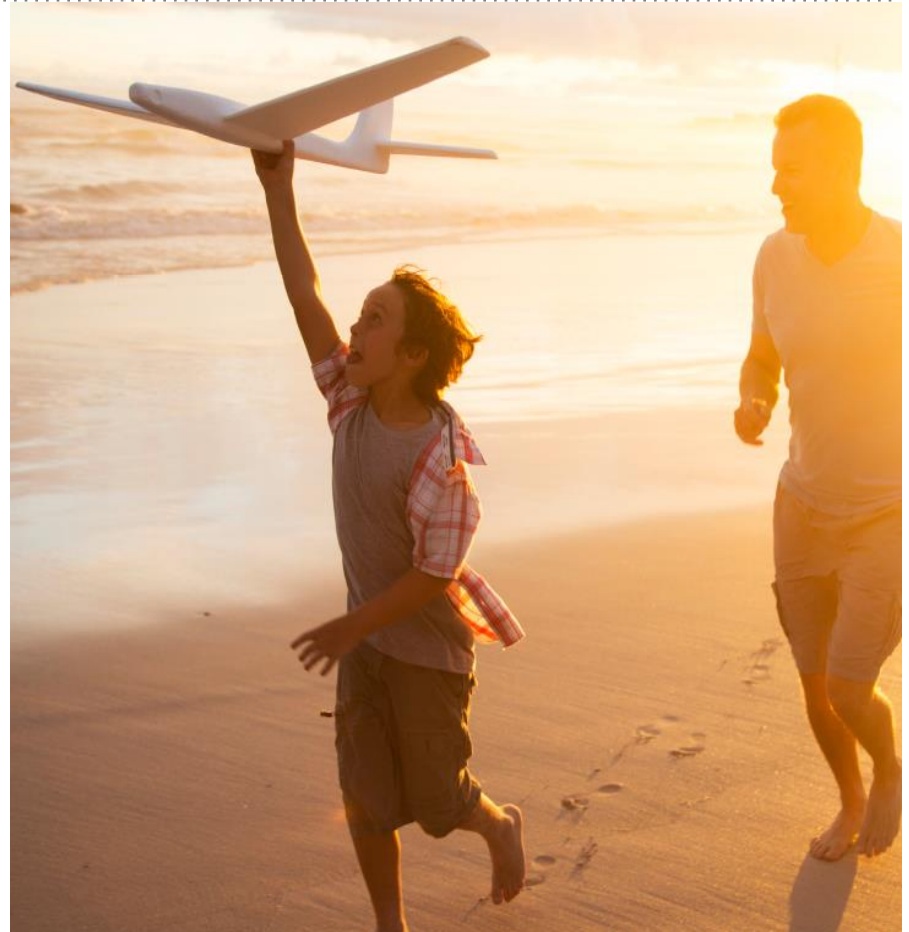
Our 9th survey captures the pulse of family businesses globally

2018 PwC Family Business Survey:

- 2,953 senior executives interviewed
- Participation from 53 territories
- Key theme for this edition: values, purpose, impact, legacy

Key global outcomes:

- **75%** of respondents felt that having a clear set of **values** created a **competitive advantage**
- **84%** expect their **revenues to grow** over the next 2 years
- **80%** are **concerned about digitalisation, innovation and technology**



Middle East Family Business Survey participation

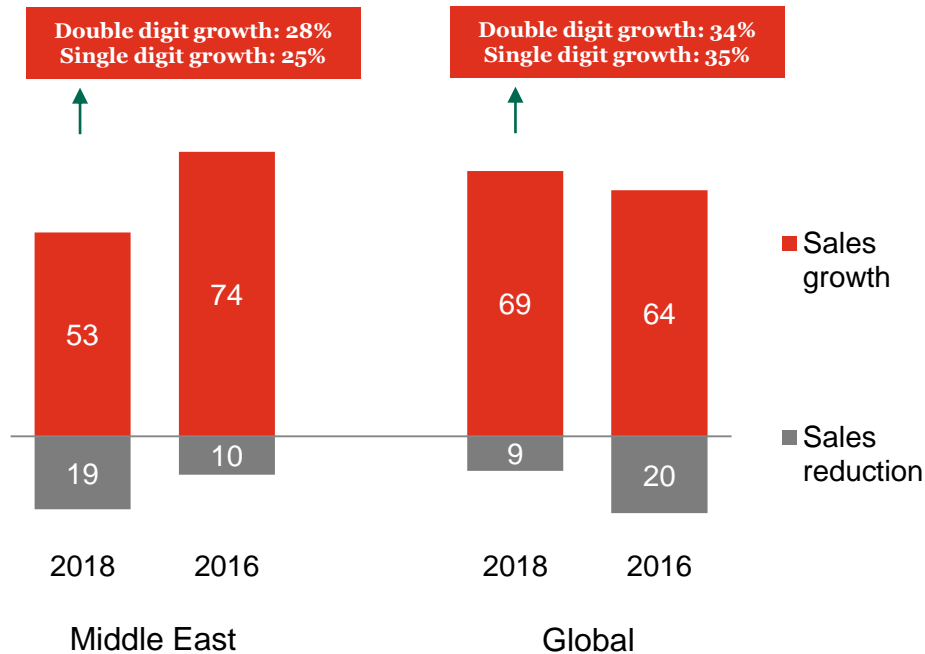
Typical profile of Middle East respondents:

- **Wider portfolio diversification: 50%** Middle Eastern businesses work in multiple sectors and multiple countries, compared with a quarter globally
- **Next Gen already onboard: 75%** of Middle Eastern family businesses have next generation family members working in the business
- **Generational transition is imminent: 78%** plan to pass on management and/or leadership onto the next generation. This is higher than the 57% who plan this globally

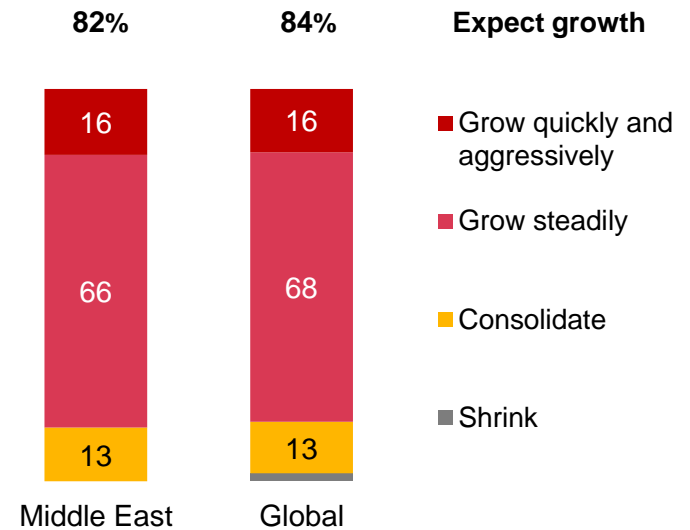


Oil prices made their impact on growth but the future outlook is optimistic and ambitious

Growth in the last financial year



Growth aims over the next two years

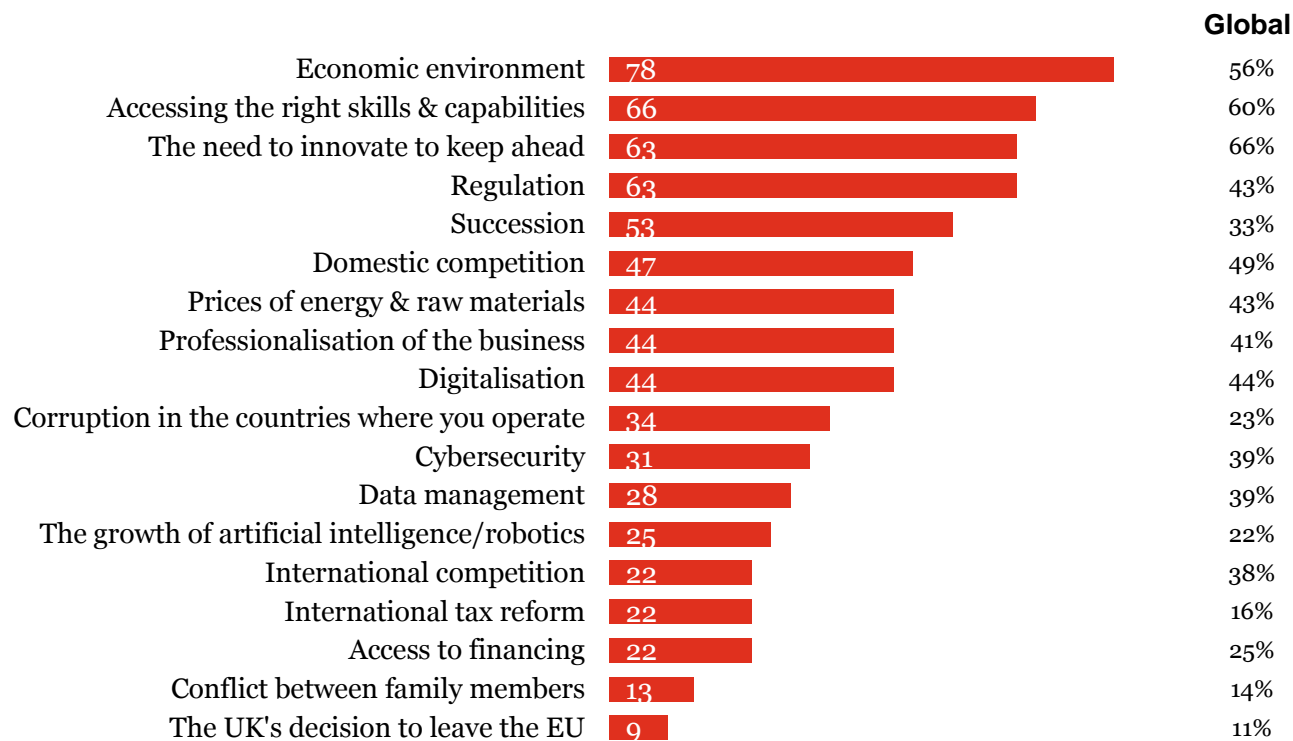


*Comparison note: In 2016, 87% of businesses in Middle East and 85% of Global businesses expected to grow over the next **five years***

Percentage of respondents

Top issues facing Middle East family businesses

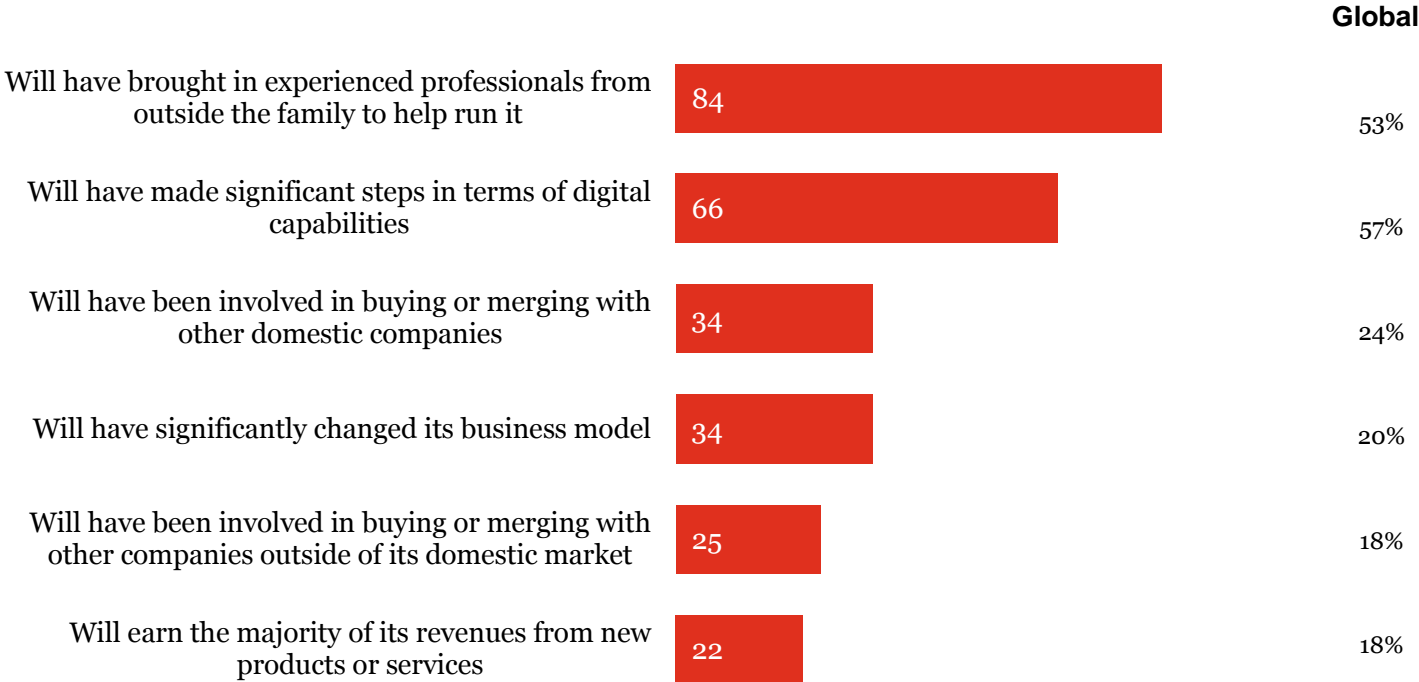
Key challenges over the next two years



Percentage of respondents

How family businesses plan to respond in times of transformation

Middle East family businesses are planning to undergo significant changes over the next two years

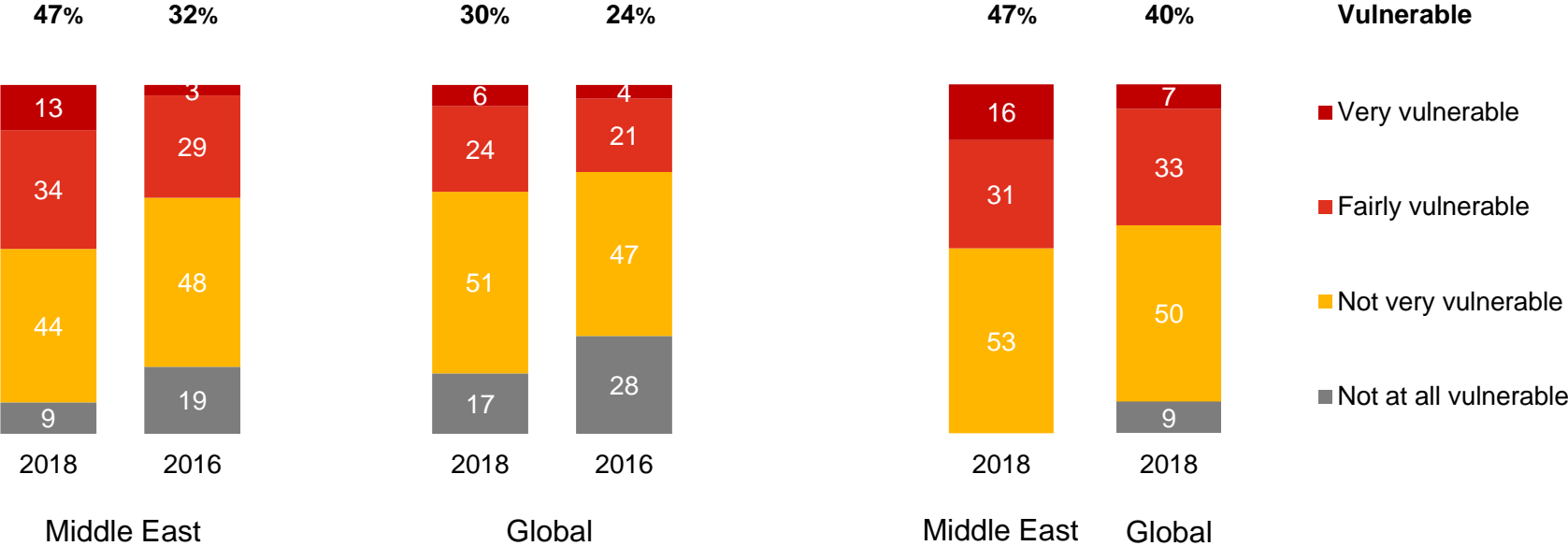


Percentage of respondents

Digital disruption is seen as particularly influencing for the business

Business vulnerability to digital disruption

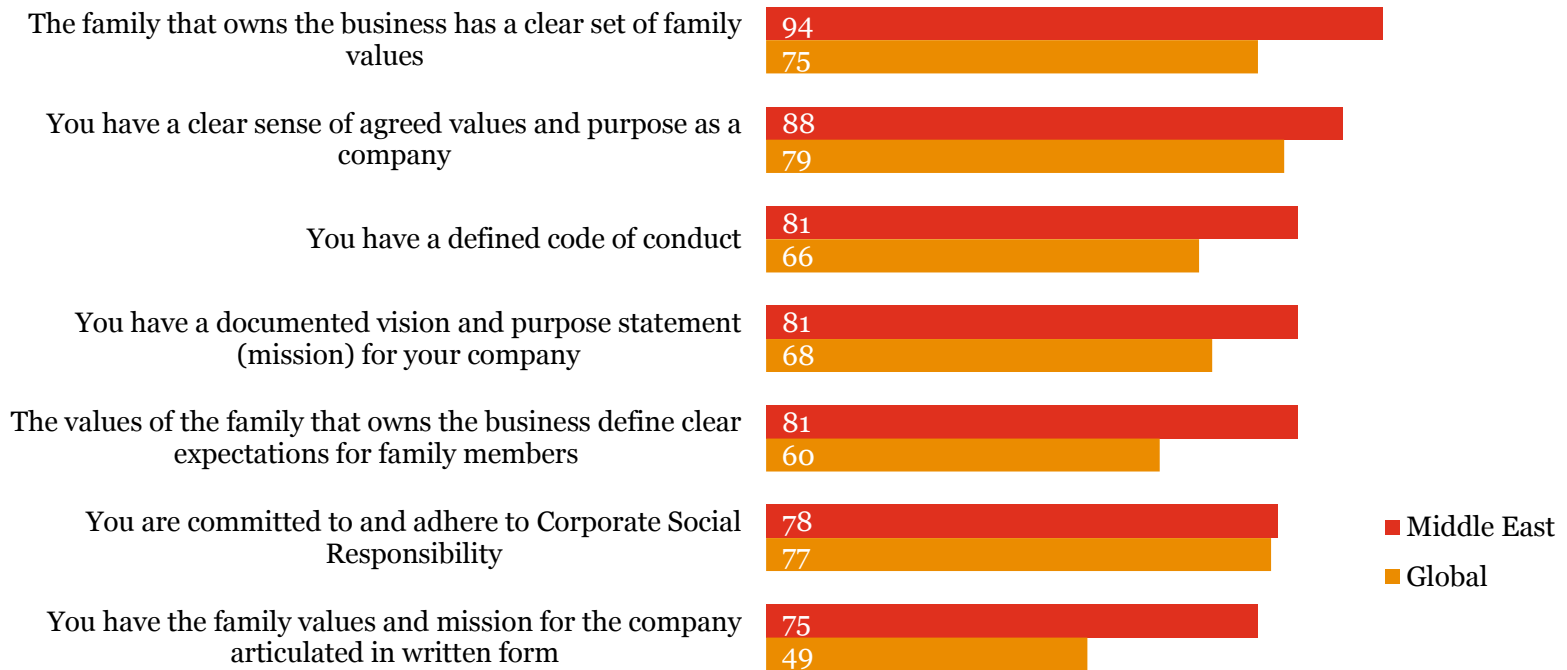
Business vulnerability to a cyber-attack



Percentage of respondents

A distinguishing factor: family values

Middle East families view their values and purpose as defining for their businesses



Percentage of respondents

How should family businesses future-proof themselves in times of transformation?



Targeting sustainable growth for Middle East Family Businesses



Looking inwards

Setting the right foundation

The underlying challenges:

- **Succession planning** is a key issue for 53% of respondents
- 66% agree that assessing the right **skills and capabilities** is a top concern
- **Professionalisation** of the business is a key goal for 72% of respondents
- **Trust** in a changing world is more important than ever. Family values can be a strong competitive advantage.



Looking outwards

A fostering ecosystem

The underlying challenges:

- The **economic environment** is identified as the number one challenge with 78% concerned about it
- Changing **regulations** are identified by 63% as one of the top five challenges



Looking forward

Innovation and digitisation

The underlying challenges:

- The need to **innovate** to keep ahead is ranked as a key challenge by 63% of Middle East respondents
- 34% expect to significantly change their **business models** over the next two years
- 66% plan to take significant steps in terms of enhancing **digital capabilities**



Looking long-term

Creating sustainable value

The underlying challenges:

- 88% of senior family business executives **plan to improve profitability** over the next two years to remain competitive
- Wider **portfolio diversification**: 50% operate a portfolio of businesses in multiple sectors and multiple countries compared to a quarter globally

Significant issues facing family businesses in the Middle East

Significant issues facing family businesses in the Middle East



Continuity planning

It is important that each family has a vision for the future and is fully committed to the success of the business.

It is very easy for family members of the next generation to have conflicting objectives.



Succession planning and generational change

Succession is the biggest threat facing all family businesses.

There are two dimensions to this:

- ownership succession
- management succession



Conflict management

Conflict always exists in families and will always exist in family businesses.

Managing conflict is the key not just to the survival of the business, but to the survival of the family itself.

... suggesting the need to professionalise the 'Family' as well as the 'Business'

Professionalising the Family

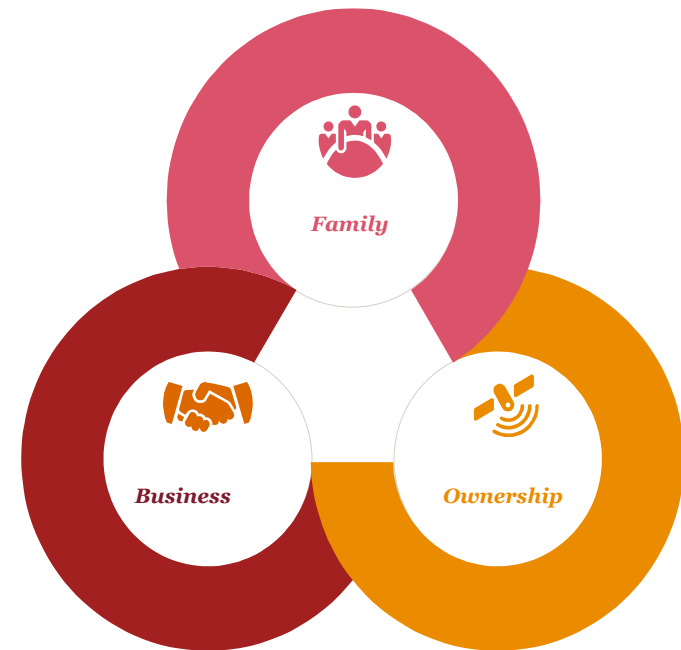
- Putting in place a Family operating model (structures and processes) that aligns the 3 pillars of the Family Business ecosystem

Professionalising the Business

- Instituting best-in-class processes, governance and skills

Benefits

- Increased odds of survival into the 3rd generation and beyond
- Increased attractiveness for a future IPO or exit strategy
- Providing confidence to stakeholders – internal and external
- Enabling family members to become more effective owners



What successful families do...



1. Distinguish between business and family



6. Get experience from outside the family



2. Establish the family rules



7. Develop a strategic plan for the medium term



3. Apply a proper system of governance



8. Clarify the decision making process



4. Engage and involve the next generation early



9. Strengthen the role of the board and address the growth agenda



5. Invest in education



10. Make a commitment to fairness



PwC for Family Businesses

PwC's goal is to support family businesses in their growth journey

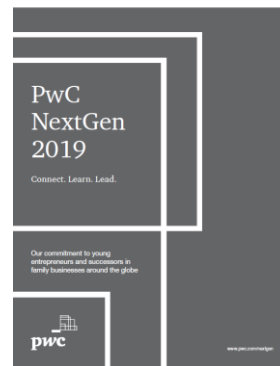
Thought leadership generation

- Our thought leadership aims to address key trends and challenges concerning family businesses and share best international practices.



Next Gen Education program

- Our academic curriculum aims to build the leaders of tomorrow.
- The 2019 Next Gen Education program is live with 5 courses are available



Connect. Learn. Lead.

Family Business Roundtable and Retreat

- Our annual roundtable and retreats hosted by selected family businesses aim to support peer to peer networking and exchange.



Thank you!



Imad Shahroui

Middle East Private Business leader
imad.shahroui@pwc.com



Amin Nasser

Middle East Private Business Senior Advisor
amin.n@pwc.com