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**Deloitte Middle East Family
Enterprise Survey**
Transformation: fit for the future

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Foreword

Transformation has swiftly become part of the lexicon associated with family enterprises, but its meaning and application can be very different to each business and family. The unprecedented operating environment has driven family businesses to pursue value with renewed vigour and purpose.

This pursuit of value is driving wholesale change and transformation that family enterprises are embracing today to best position themselves for the future. Transformation strategies, be that within the business, family or wealth, are being applied at scale in favour of a more marginal approach as it has become the focus to best equip family enterprises for constant change. The unpredictable market conditions, which offer both opportunity and risk, often require big changes to see a big impact on business.

This survey explores how family enterprises are planning and prioritising transformation across the connected aspects of the business and operating companies, the family itself and their wealth. The respondents are based in the Middle East and operate across a range of sectors, industries and geographies through their core division and separate investments.

Overall, the family enterprise landscape reflects incredibly high levels of activity and planning across the spectrum. 38% of the respondents have already finalised a transformation plan and are executing on it, whilst 59% of the respondents are designing and discussing this now. Two areas have emerged as of critical importance, both vying and competing for investment: digitisation and people. Continued investment into digitisation and people has become paramount and allocated budget will continue to grow in the coming years. Priorities reflect this, with cost reduction (31%) digitising businesses (27%) and human capital (26%) dominating the top three by some distance. Decisive actions versus a 'wait and see' approach overwhelmingly shines through as over 72% of the respondents place the acquisition of new businesses that meet their future strategy as a priority. This is split 45% in their home country, 30% in the Middle East and 25% international.

Historic concerns remain as oil prices, geopolitics, cost of borrowing and taxes are still a main priority, however, emerging challenges such as inflation and market sentiment are now of growing concern. Similar to the previous year, managing working capital and continuing to reduce costs remain the highest priorities. One notable change is the growth in the focus to optimise capital structures within the businesses. 78% of family enterprises are applying new capital through a mix of equity, debt, new working capital, trade finance and restructuring.

With the magnitude of planning and execution of transformation underway, it is evident that the family enterprise landscape in the region has begun a new period of rapid evolution.

This survey was conducted throughout September and October 2021 and reflects the respondents' sentiment at this time. We hope you enjoy reading this report and find that it offers an understanding of what the family ecosystem in the region might look like in the years ahead. We would like to express our sincere gratitude to the families who took part in our survey for their valuable contributions.

David Stark
Deloitte Private Leader
Deloitte Middle East

The Businesses and Portfolio Companies

The Businesses and Portfolio Companies

During the past year, almost every aspect of operating companies within the family enterprises have been reviewed, scrutinised, benchmarked and tested. Reactionary plans to the turbulence of the last 18 months have evolved at striking speed to form proactive and forward-looking transformation plans. Family enterprises are taking action in almost all areas and seemingly leave very little to chance.

Top priorities are clear

Reduce costs, embrace and invest in digital and attract, retain and invest in people. Following closely behind are the pursuit of both new products and new markets alongside heightened awareness of cyber and data security.

Fit for purpose and fit for the future

The businesses are being weighed and measured not just based on value and profitability, but on how they align with the vision of the family and how the world will evolve in the coming years. In fact, 68% of disposals are profitable companies that no longer fit the group strategy or that simply do not offer the same value as other opportunities in the marketplace. One striking trend from the responses was the breadth and variety of sectors where

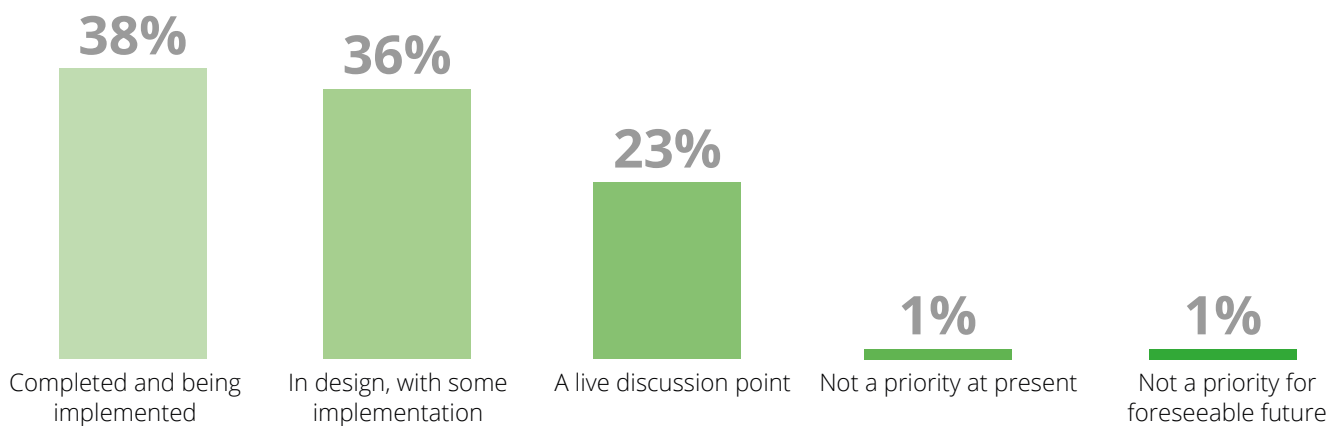
both investments and divestments are planned. With the outline clear on what and where to buy and sell, 78% of the respondents have planned changes, and will introduce new capital through a combination of equity, debt and short-term financing.

A new digital era is evolving at pace, but hand-in-hand with the human element

Over 21% of the respondents are allocating approximately 20% of their annual budget towards digital transformation initiatives. 94% of the respondents have some degree of budget set aside to pursue this. To offer a sense of how rapidly digital needs have manifested, respondents ranked the building of digital skills to drive technological transformation as among the most important aspect of human capital, ranking it as a top five priority.

People emerged as the standout leader when ranking people, purpose, profit and planet. The responses reflect high conviction that in-house talent with specific sector expertise will be the most vital element in landing acquisitions and fortifying the wealth of the business and family. The ability to land deals and drive the digital agenda reflect some of the most coveted skills in the market for family enterprises in the Middle East.

What is your group transformation plan?



What are your enterprise's top three priorities over the next 10-20 years?

Continuation of the family legacy and tradition



Preserving family capital



Protecting family reputation



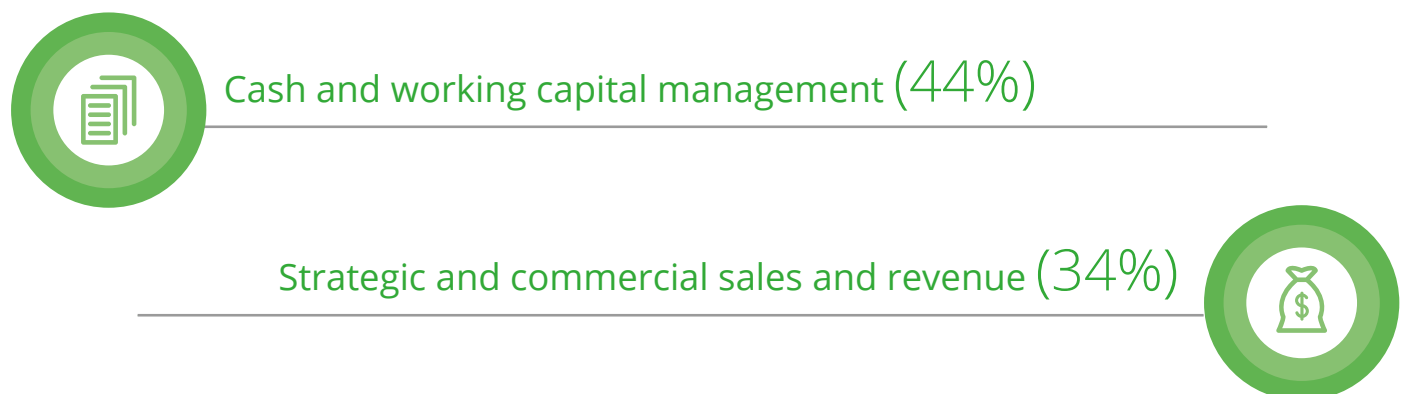
Priorities are ranked from highest to lowest.



Which three aspects of talent and human capital will most impact your ability to transform?



Which two performance improvements and turnaround initiatives are you primarily focused on addressing as part of your transformation plan?



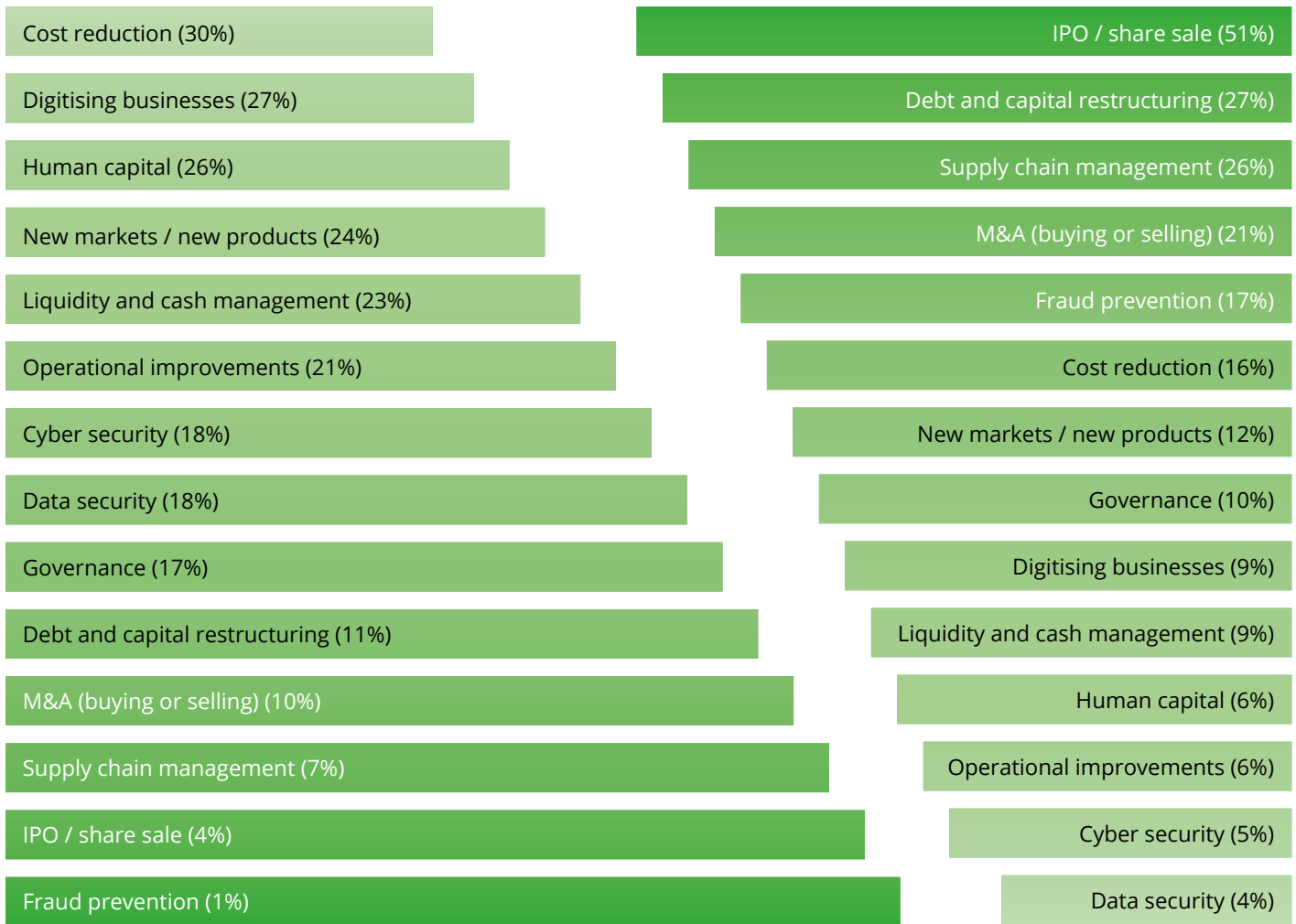
In terms of strategic priorities for the business, what are the top priorities and the least priorities over the near term?



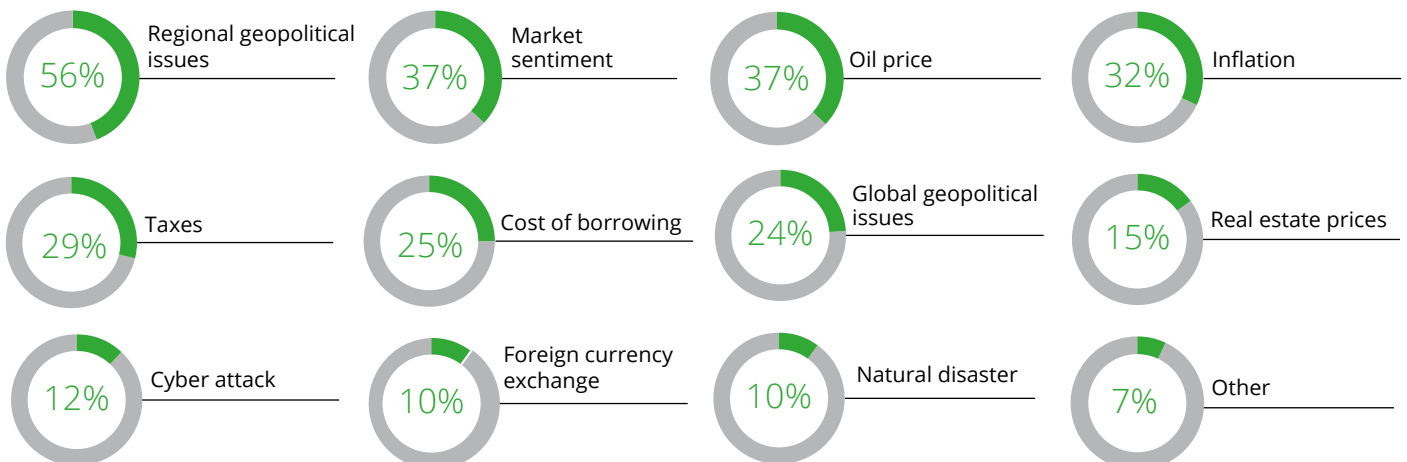
Top Priority



Least Priority

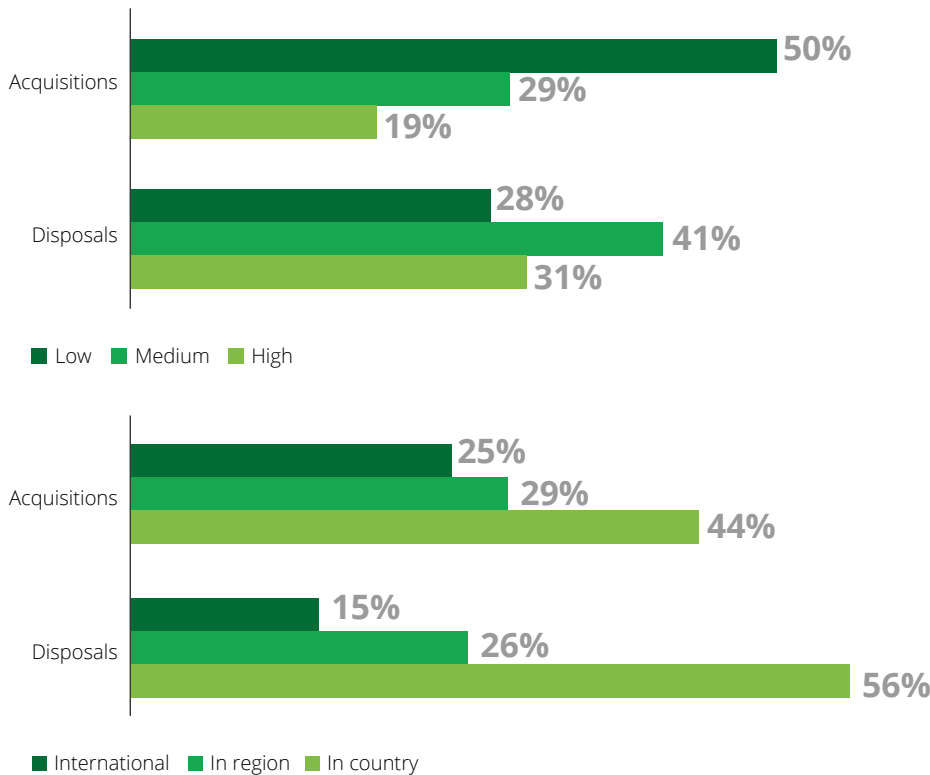


What are the economic risks that will most impact your transformation?



Transformation of the Portfolio Companies

What role will M&A (acquisition and disposals) have as part of your transformation over the next 12 months?



Acquisition Sectors:

- Real Estate
- Energy
- Tech
- Healthcare
- Food
- FMCG
- Education

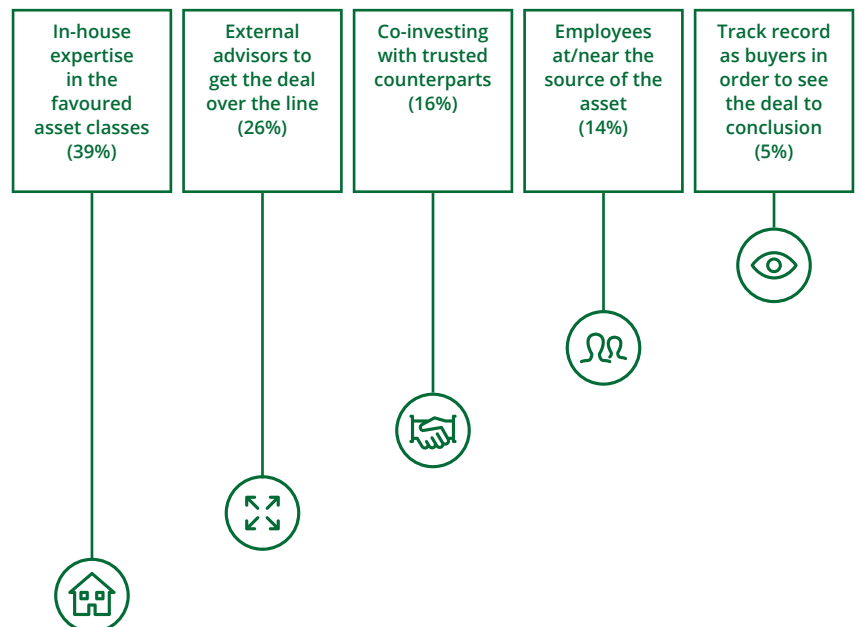
Disposal Sectors:

- Real Estate
- Travel
- FMCG
- Energy
- Tech
- Healthcare

Deloitte Insight: Ranking as ‘Low Priority’ in the October 2020 Deloitte Middle East Family Enterprise Survey, M&A has surged ahead in importance with 72% of family enterprises acquiring and 49% disposing. Tough decisions are being made in particular around historic businesses that have been part of the enterprise for some time. As the chart reflects, decision-making on whether to invest-retain-sell goes beyond simple profit and loss and hinges on aligning to the future strategy and division, and whether the capital is best deployed into other opportunities.

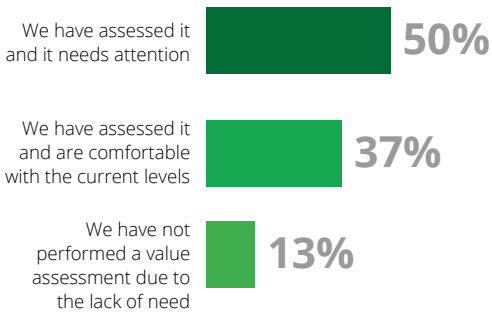
Respondents believe having their own people with specific sector experience and expertise offers the best chances of successfully closing M&A deals. With the use of external advisers to help reach the finish line ranking second.

How will your family enterprise access and capitalise on the most attractive deals in the future?



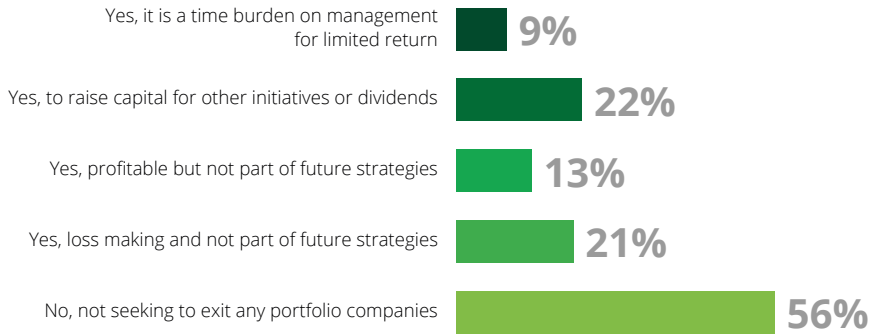
What?

Value allocation within the group's portfolio



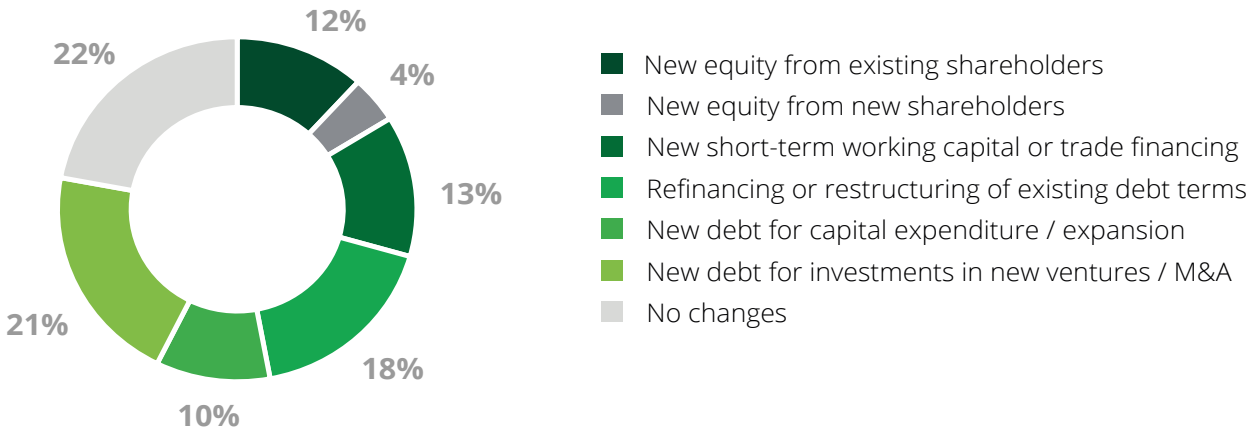
Why?

Are you seeking to exit any portfolio companies? If so, what are the main drivers?



How?

Capital structuring activities envisioned in the next 12 months



“The COVID-19 pandemic continues to drive M&A activity as businesses are now adapting to what is effectively a ‘new normal’. The majority of family enterprises in the region are a portfolio of diverse businesses and assets, which are now being scrutinised as owners seek to optimise capital allocation and focus scarce senior management time. This increased focus is a major factor contributing to the current levels of M&A activity.”

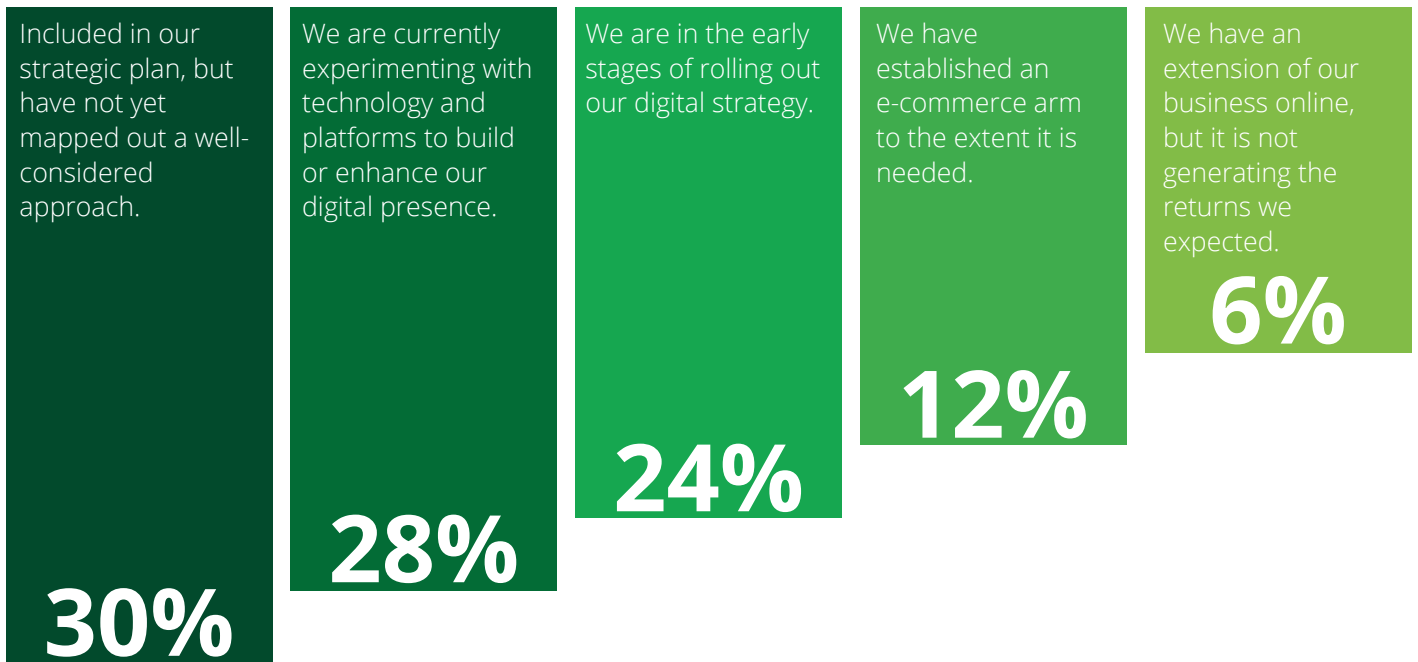
Mark Taylor
Deloitte Middle East

“It is interesting to observe how certain priorities, such as debt restructuring, have pivoted from high priorities 12 months ago to lower priorities today, yet how cash and working capital is still highlighted as the primary focus. This points to the speed and scale in which families reacted and implemented new strategies, in particular around debt and cash management, and how they have positioned themselves to adapt and prioritise in the post-pandemic environment. Of particular note is the introduction of new capital planned within family businesses, on both the equity and debt sides, indicating a major drive to a greater state of ‘readiness’ as enterprises commence and pursue their transformation.”

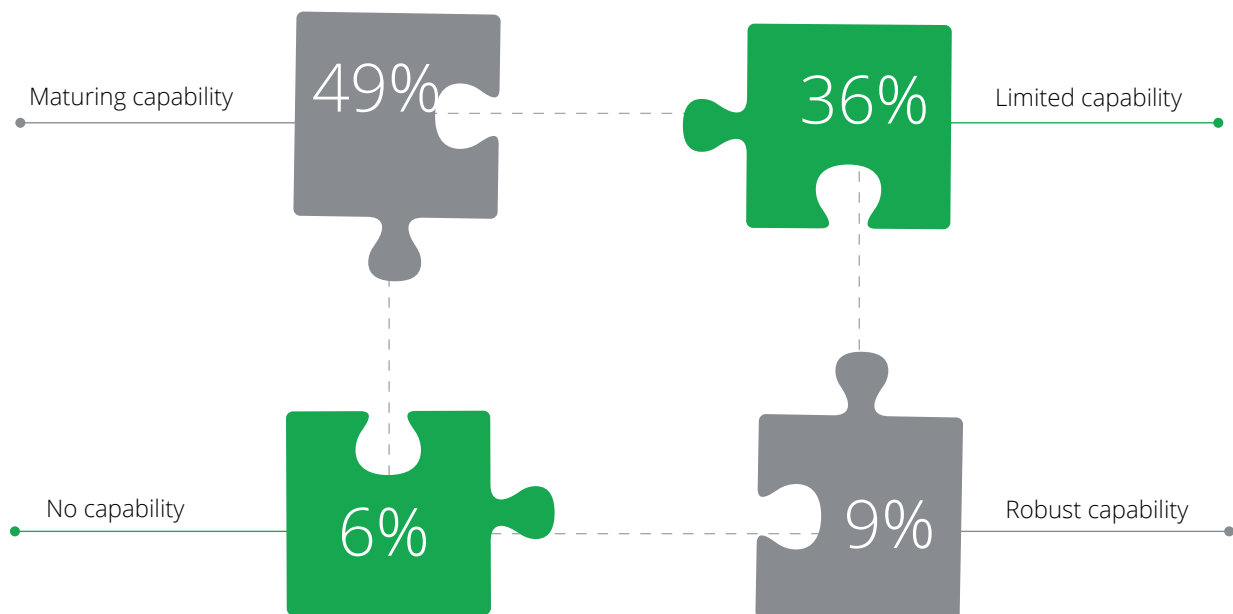
David Stark
Deloitte Middle East

Digital and Cyber

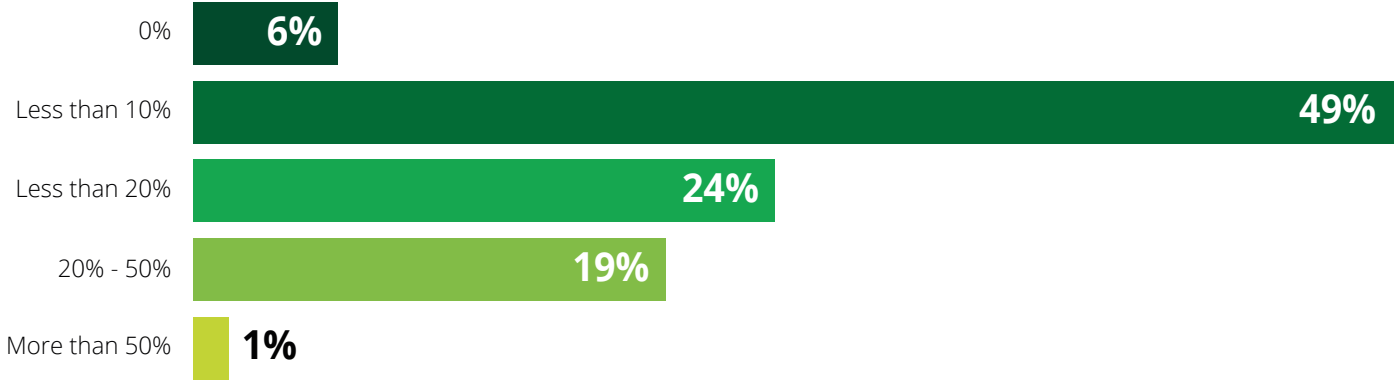
How important is the digitisation of your operating companies to your future transformation?



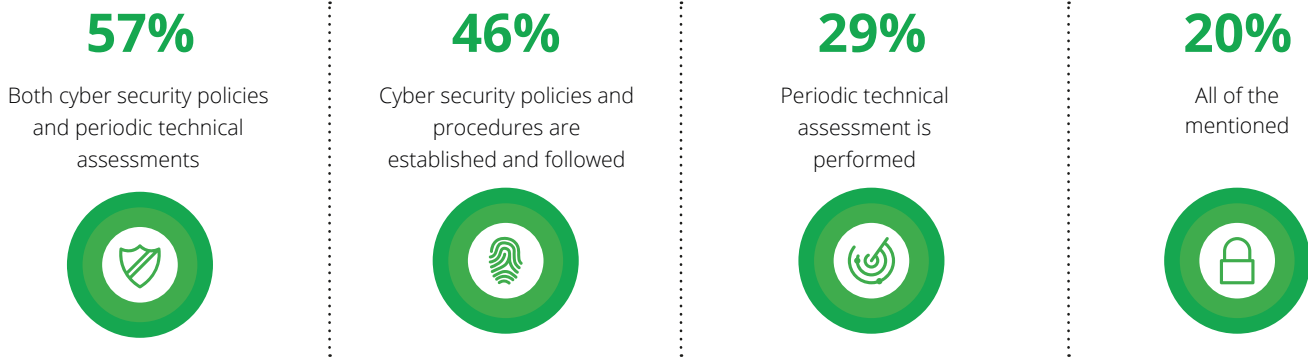
How are you leveraging data and analytics to drive decision making?



What percentage of your transformation budget is for digital transformation?



To what extent is cyber security embedded within your organisation?



“Business differentiation and therefore digital transformation in both physical and digital settings will be the cornerstone for most, if not all, family enterprises in the region. In a pre-pandemic world, the region was largely a follower in comparison to its European or North American peers. However, the pandemic created a stampede towards tactical digital solutions, a quick fix, that did not necessarily allow the time to align to the strategic transformation strategy and especially those related to Omnichannel transformation that position the business or retail customer front and centre.

As a result of lockdown some family enterprises suffered significant revenue losses due to the closure of physical stores, warehouses and factories. This drove customers to digital channels instead and thus tactical digital fixes were essential.

And now, in this post pandemic environment, family enterprise is afforded a reprieve from the necessity of tactical fixes, to take stock and give serious strategic thought to their business differentiation. Omnichannel digital transformation strategies are not a ‘nice to have’, they are a ‘must have’ for Generation Y and an evident demand from Generation Z. Customer loyalty will be won and lost on the ‘swipe left’ of a finger or a ‘click’ of a mouse. We must communicate simultaneously in each and every channel that our customers, our ambassadors and our fans demand.”

Hosein Moghaddas
Deloitte Middle East

“Family businesses in the Middle East should embrace the technological changes and digitisation that is happening at an accelerated pace post COVID-19 to continue being successful and to ensure future proofing. Given the evolving economic landscape and changing buying behaviours, traditional ways of doing business may be challenged by the change in generational spending that will see Gen X and Millennials making sustainable and conscious buying decisions.”

Sunder Nurani
Deloitte Middle East

Tax, Regulatory and Compliance

Do you think we are likely to have corporate tax introduced in the region?

15%

No



21%

Yes, **within 10 years**



52%

Yes, **within 5 years**

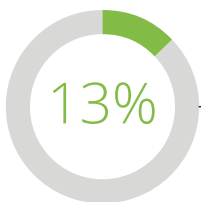


12%

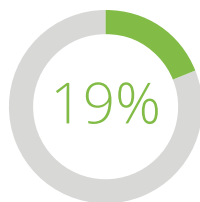
Yes, **imminently**



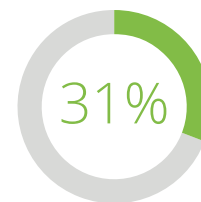
How has your group responded to tax developments such as economic substance, transfer pricing, and base erosions and profit shifting (BEPs)?



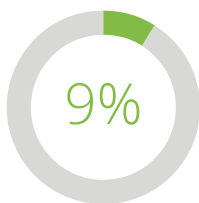
No change



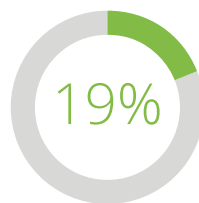
No change but it is on the agenda



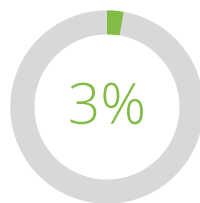
Creation of in-house tax team



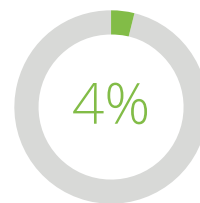
Change legal structures i.e. offshore or cross border



Investment in existing employees

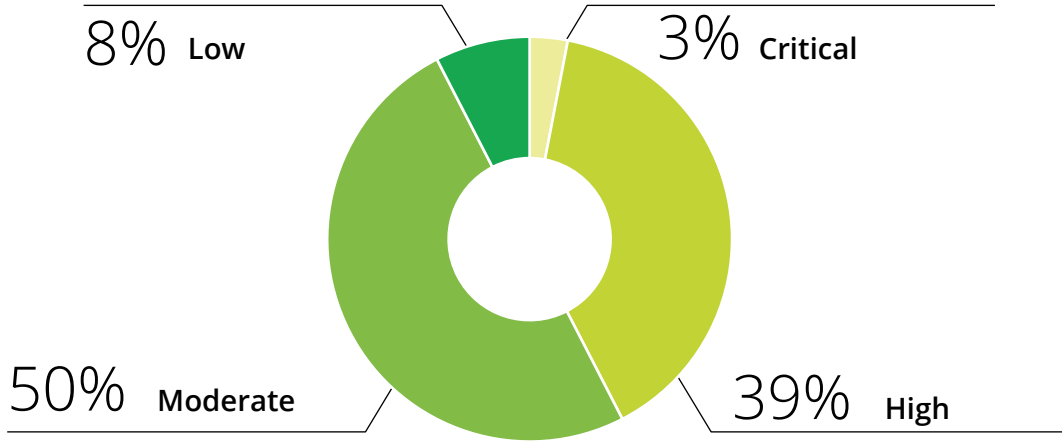


Increased liquidity to service tax

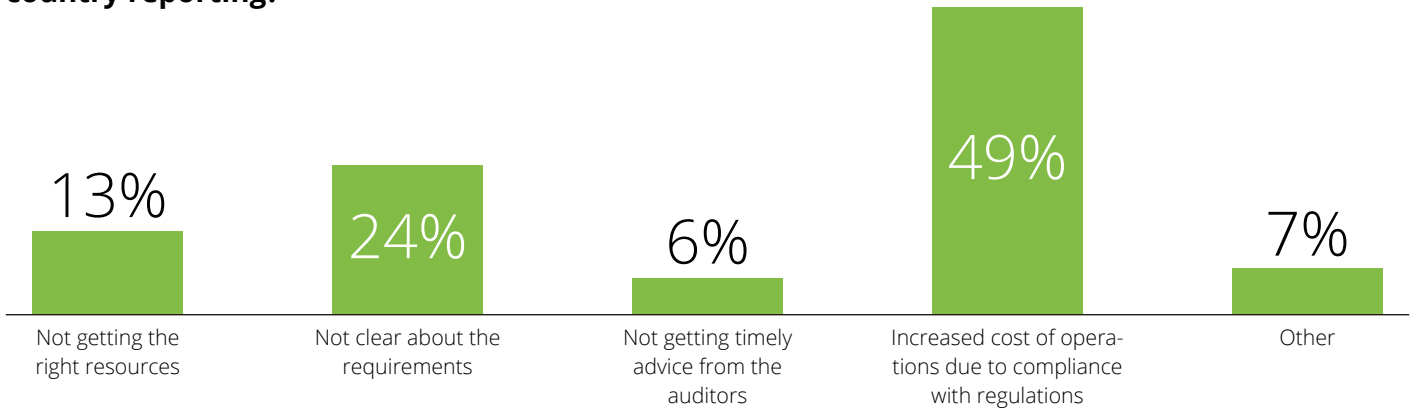


Other

What impact do you expect the tax reforms, regionally and internationally, to have on your strategy?



What is the greatest future challenge regarding changes to the regulatory and compliance landscape i.e. anti-money laundering, economic substance requirements and country by country reporting?



“It is clear that the pace of tax transformation is accelerating across the Middle East. Respondents expect further development of taxes in the region over the next five years, and that this will have a moderate to high impact on their business strategy. Indications are work has begun to prepare for changes by creating in-house Tax teams or investing in current employees, however many respondents are not yet clear on the true business impact such changes will have. Forward planning is key, as is the introduction of effective governance structures internally to ensure a fit for purpose structure capable of responding to tax developments and challenges in future.”

Mark Junkin
Deloitte Middle East

How are climate change and other environmental, social and governance (sustainability) issues being dealt with?



“Yet again, and despite the pandemic and its adverse circumstances, family businesses continue to thrive, outperforming their competitors, triggered by their resilience, adaptability and managing their life cycle challenges through attracting and retaining talent, cashflows management, digital transformation and adhering to frequent changes in laws and regulations.”

Basel Elmalki
Deloitte Middle East

The Family and Wealth

The Family and Wealth

79% of the respondents representing family enterprises are led by either the first or second generation. Within these, 43% of the next generation have already assumed significant responsibility and are leading a core business. A further 22% are expected to step into such roles within the next five years. This reflects considerable preparedness, and even more so as 32% deemed it too early to determine due to the current age of the future generation. Being awarded a role in the family business is still the most desired path: 39% are already within the family business but not yet in a leadership role, 37% are preparing to be, while only 7% have chosen to pursue a path separate from the enterprise.

The statistics highlight well-prepared future generations that have won the confidence of the family and shareholders. Robust frameworks that document transition and succession strategies, as part of a broader 'playbook' for the guiding principles and vision of the family itself, are growing in acceptance and general use.

Whilst 46% are still due to implement a family constitution, those that already have it in place are focusing on ensuring the wider family know the true value and its importance. Of the 50% of families who have a constitution, 14% are most concerned with enshrining it in law.

Building in-house

The centralised decision-making progress will continue to reduce in favour of a more institutionalised approach. At present 56% of the respondents stated that strategic decisions regarding the wealth and investments of the family are taken by leading family members. Transformation of the family enterprise will see this transition to a model where collective decisions are made. The most identifiable shift will be the growth of family offices and continued investment with in-house individuals to run them. Fully functioning single family offices, populated by individuals with the talent and experience to deliver institutional level investment capabilities, are reflected to grow to 33% with a regional footprint and 12% with an international footprint by 2026.

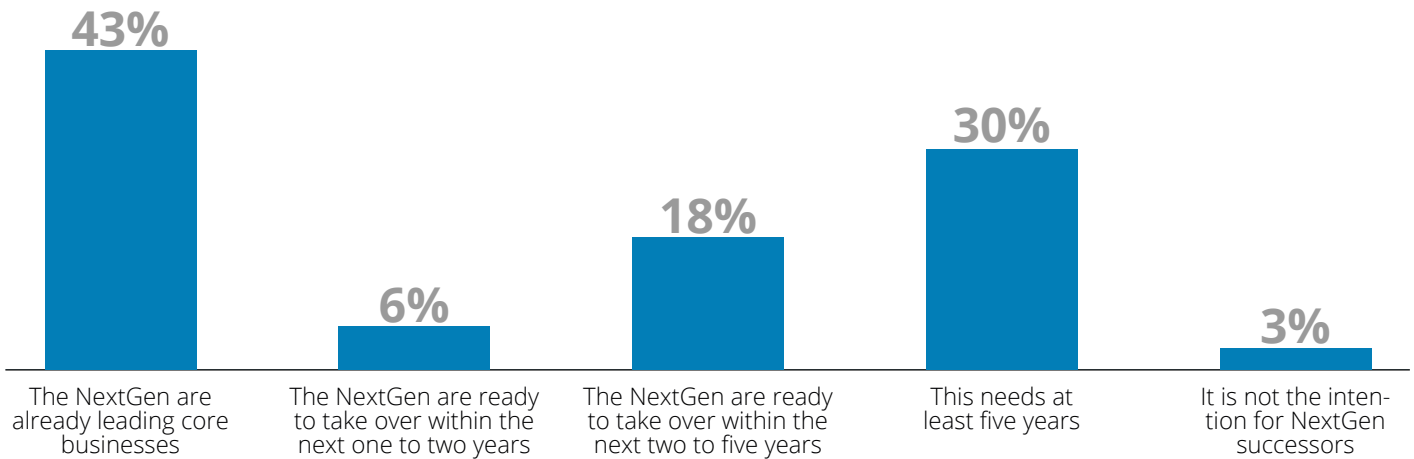
Writing your legacy

Looking further into the future, protection and preservation of the family legacy and its tradition is by far the most dominant priority, with 65% ranking this highest. The ambitions of the transformation plans underway and in design revolve around this central theme. In the context of an evolving and increasingly digitised environment is the legacy of the family and the traditions they seek to uphold.

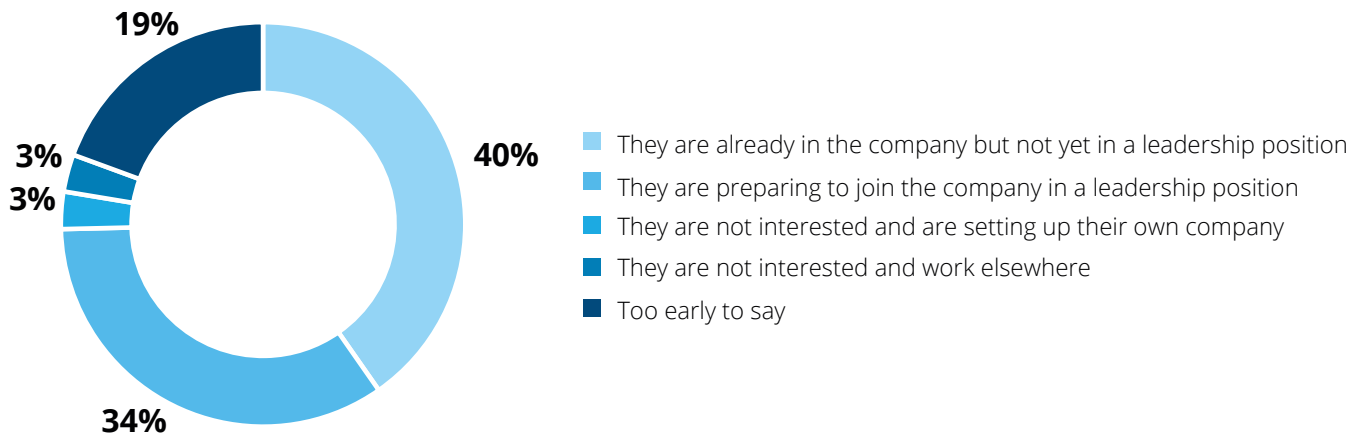
56% of the respondents stated that strategic decisions regarding the wealth and investments of the family are taken by leading family members.

NextGen

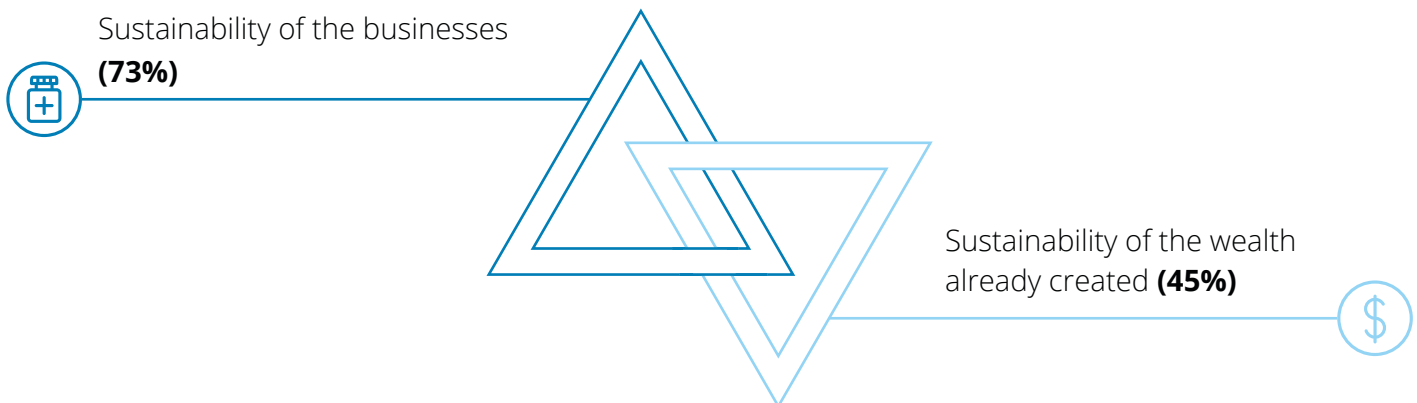
How prepared are the NextGen for leadership roles in the family business?



How interested are the NextGen for leadership roles in the family business?



Which of the following two are of most concern?



Communication, Constitutions and Governance

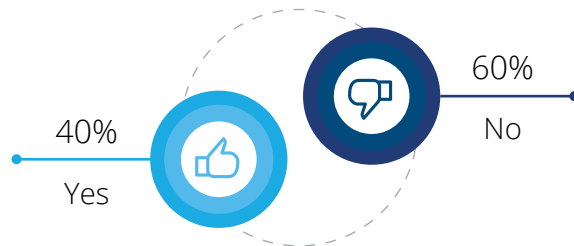
How prepared are the NextGen for leadership roles in the family business?

Active and open discussions around succession

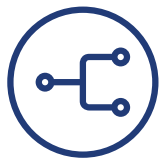
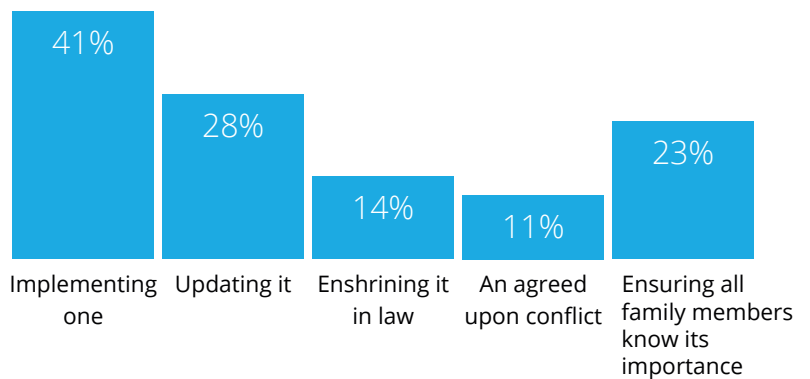
54%



Are there separate boards of directors representing family members and corporate members?



In the context of family constitutions, which of the following is most applicable?



Sharing information

35%

Gathering and strengthening our family bond

30%



Resolving disputes amicably

17%

Resolving disputes fairly

8%

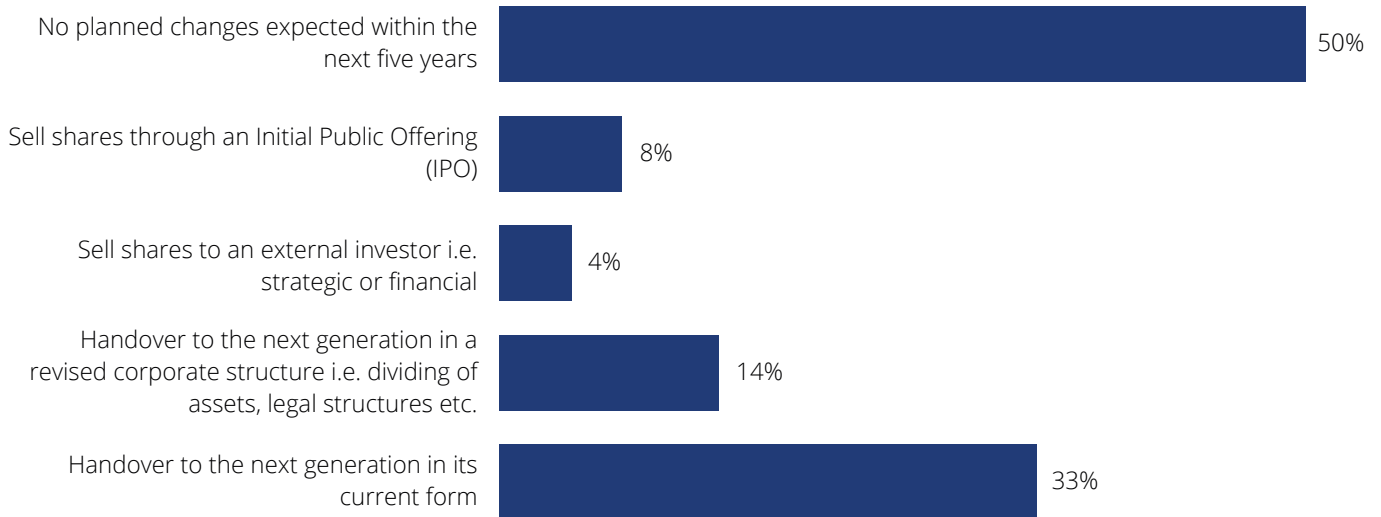


"There is no need to fixate over a family constitution. A family constitution is not an end in itself, it is merely a means to an end. It simply documents the agreement among the family members. This is the reason why it is the journey leading to the family constitution that counts most. Transparency and open conversations are the key to the sustainability of a family business in the hands of the next generation family entrepreneurs."

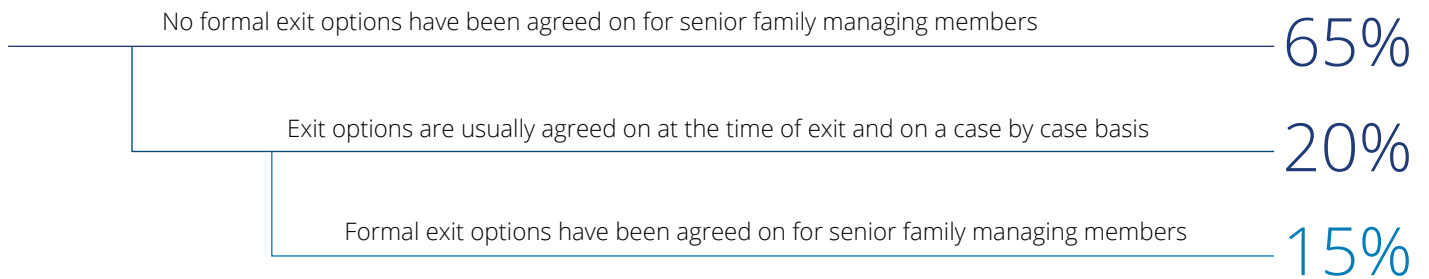
Walid Chiniara
Deloitte Middle East

Ownership and Change

Which of the following are planned changes to the ownership structure?



Have exit options been agreed for senior family members in the event of executive departure or change in structure?



“It is evident that sustainability is high on the agenda across the board, but this is particularly relevant for family businesses who are often community minded in addition to focusing on the preservation of wealth and success for future generations. Family-run entities might consider having two separate boards of directors representing family members and corporate members, such that each parties’ views and interests are equally balanced and the entity’s leadership is well suited to address both familial and professional conflicts.”

Rana Shashaa
Deloitte Middle East

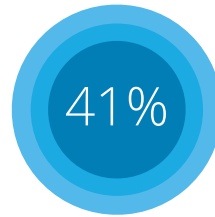
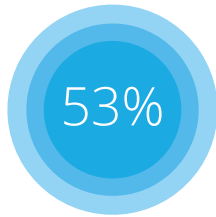
Family Office Composition and Shift

Which of the following are planned changes to the ownership structure?

⏪ TODAY

⏩ TOMORROW

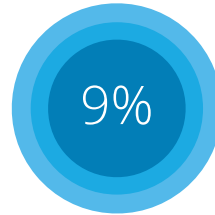
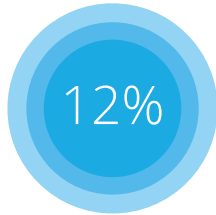
Personally managed by family



Reduce
23%



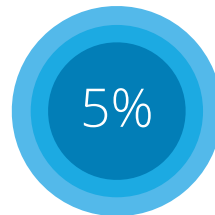
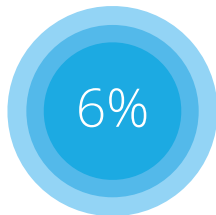
We are served by a cluster of banks, asset managers and trustees



Reduce
25%



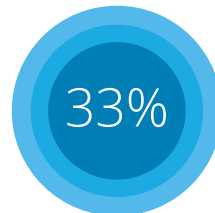
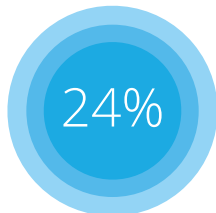
We are served by a multi family office



Reduce
17%



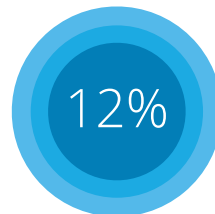
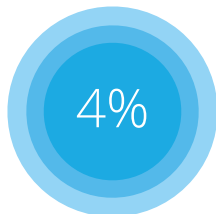
We have a functioning single family office (SFO) which is regional



Increase
38%



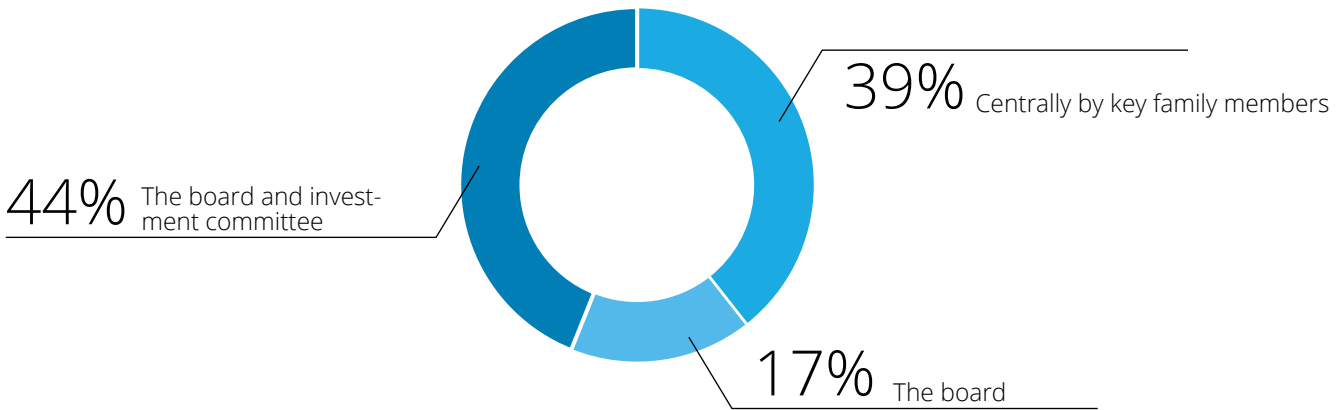
We have a functioning single family office (SFO) which is international i.e. outside the GCC



Triple
x3



Family enterprises are strongly advised to strike a balance between agility and governance when making investment decisions. Who makes the key investment decisions?



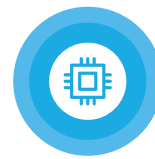
Which of the following are planned changes to the ownership structure?



FinTech



Alternative real estate i.e. data centres



Artificial Intelligence

“Over the past year the Deloitte UK firm have received numerous enquiries from family offices in the Middle East region looking to set up international offices, increase their global reach, and seeking support as they further professionalise their operations through improved governance, risk management, and NextGen training and development. The success of many of these single family offices has also been a significant trend – with many returning high double digit returns in recent years – and continuing to decrease their cost base through improved efficiency, automation, and a stronger control environment.”

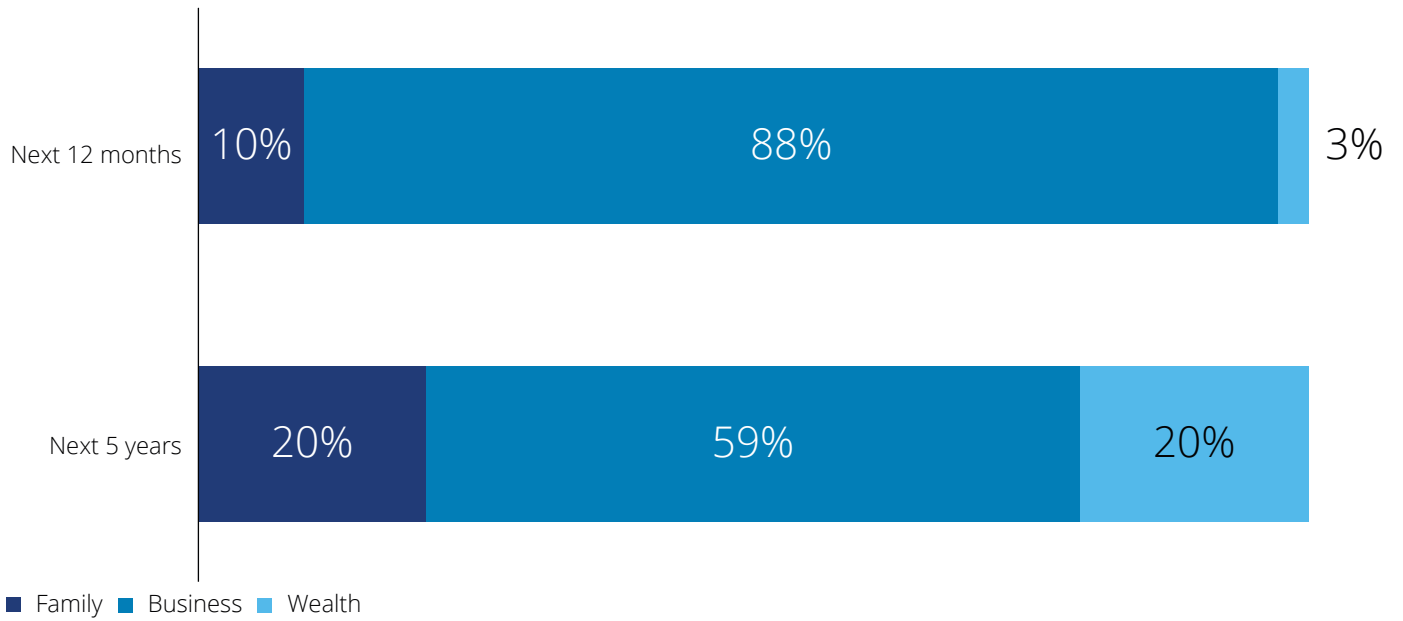
Jessica Hodges
Deloitte UK

“The level of preparedness and focus evident within family enterprises is arguably unprecedented. We are seeing families committed to forging their destinies and very clearly we’re in an era of ‘proactive over reactive’. The number of fully functioning single family offices is set to grow exponentially which will both support and further provoke the surge of deal activity, and also the competition for talent.”

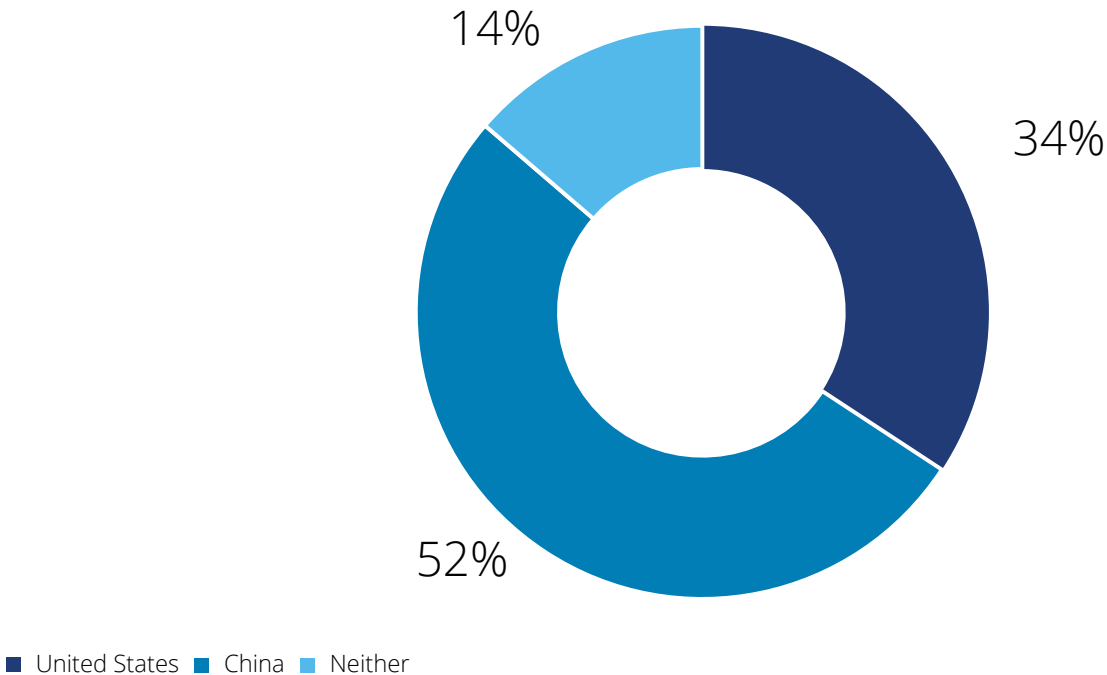
Richard Nunn
Deloitte Middle East

Wholesale Change

Which area of family enterprise will see the most change?



In your opinion, do you think the future economy will be led by the United States, China or neither?



The Last Word

The Last Word

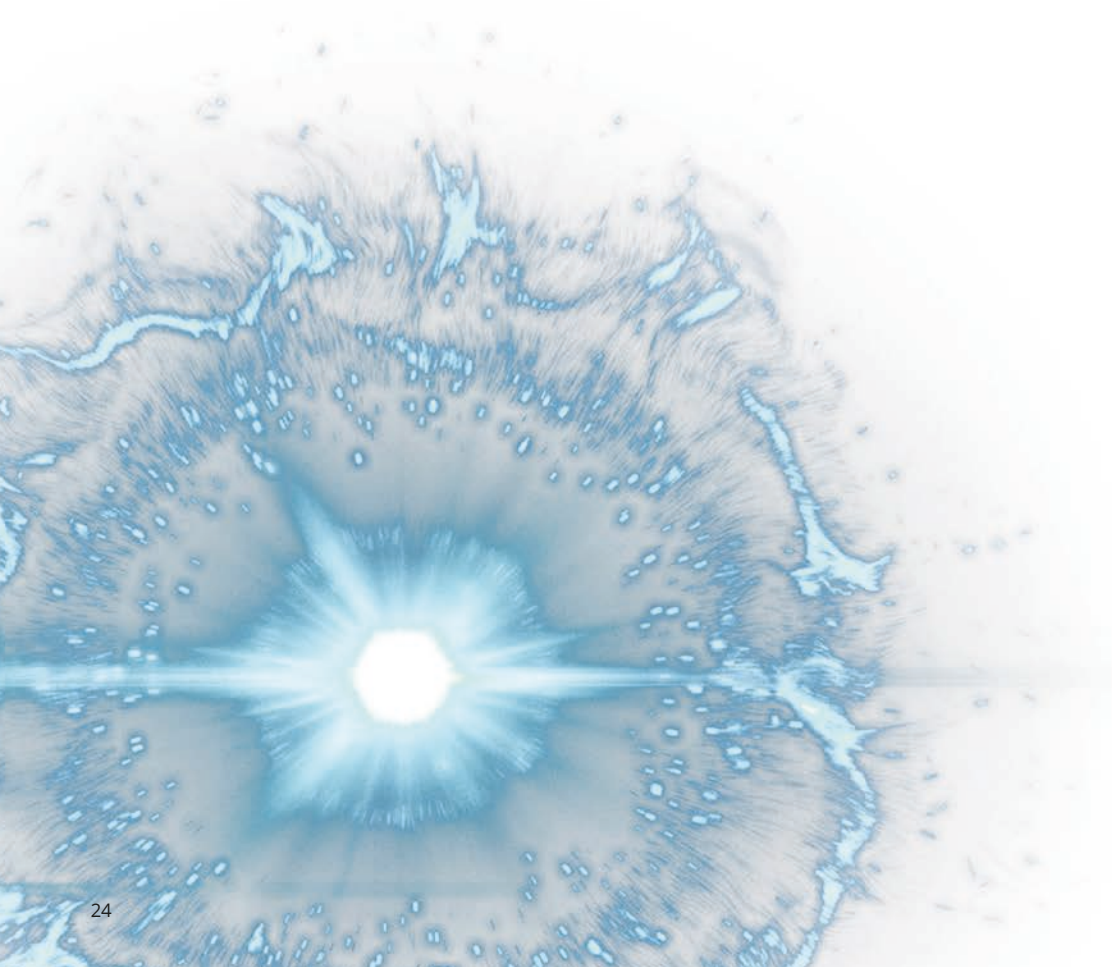
A revolution of rapid wholesale change is underway. This transformation will touch each aspect of the family enterprise with the family, their businesses and wealth proactively positioning themselves to make the greatest impact on their future.

The responses offer a clear picture of what is changing and why, and the level of proactivity and preparedness is significant. Whilst the operating environment surges into the digital age, driven by skilled people able to secure deals, manage assets and adhering to a global rulebook, the 'why' remains fixed to a more historic aspect, legacy. The drive for better businesses taking a better foothold in the market to deliver the greatest outcomes is evident, and the narrative has become set for the future with values and purpose anchored firmly in the foundations of the past.

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