Build trust to secure your legacy

PwC East Africa Family Business Survey 2023

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Peter Ngahu
Country and Regional Senior Partner
PwC East Market Area

Welcome to PwC's 2023 East Africa Family Business Survey report!

At PwC, our purpose is to build trust in society and solve important problems. In a world characterised by disruption and rapid change, socio-economic stability is essential.

Family-owned businesses exemplify the stability we're committed to supporting. As the engine of economies and societies worldwide, family businesses have been creating more employment and economic output than any other type of commercial organisation. They are also the most trusted form of organisation, in a world where trust has become one of the most valuable assets to build resilience, grow and innovate.

Maintaining the success and continuity of family businesses is key to a sustainable future – and lies at the heart of our purpose. And it's why our mission is to help family businesses grow, prosper and professionalise, while also ensuring continuity for future generations.

Our report covers the East Africa countries of Kenya, Tanzania, Uganda, Rwanda and Ethiopia. This bi-annual survey was conducted between October 2022 and January 2023 when the world had finally emerged from the impact of COVID-19 with a renewed sense of hope for the future.

Yet in 2022, we experienced the effects of the invasion of Ukraine – with all the human and economic implications such as spiralling inflation, supply chain shocks and a looming energy crisis with the attendant increase in poverty and disaffection across Africa. As we were preparing this report, the news of the conflict between Israel and Hamas was sending shock waves around the world. How this will affect our region directly or indirectly is yet to be seen.

Despite the challenges faced by family businesses, this survey shows the resilience that family businesses are known for. Through the lenses of some of the family business owners we interviewed, we share some tips and tools for family businesses to strengthen trust – which is one of their unique competitive advantages.

On behalf of the staff and partners involved in this report, and the wider PwC network of firms in East Africa, I would like to express my sincere thanks to all the family businesses who participated in our survey. In addition to being committed to your success, we are also in pole position to take the lead in driving your agenda. We are committed to supporting you with our expertise, passion and dedication.

At PwC, we are trusted business advisors to many family businesses in the region and it is a privilege to be associated with you. I hope you enjoy reading this report. Please feel free to contact me or any of the other PwC people profiled in this report if you require any help.

Foreword

Michael Mugasa
Partner and Leader
Private Business Services
PwC East Market Area

PwC's 2023 East Africa Family Business Survey report comes at a time of great change and uncertainty. The optimism of a post-COVID world has been sorely tested by geopolitical turmoil including the war in Ukraine and the recent outbreak of violence in Israel and Palestine. The impact around the world is still unfolding.

Disruptions and crises have left many business leaders questioning the viability of the organisations they lead. Of the 4,410 executives that participated in PwC's 26th Annual Global CEO Survey, 39% of respondents believe their company will not be fit for purpose in ten years' time, if they stay the current course. A similar percentage of the cohort identifying as family business leaders say the same thing.

However, as our survey results show, East African family businesses are rising to the challenge: 64% are experiencing growth with only 13% seeing a sales reduction. This is a significant departure from the 46% who reported experiencing growth and 31% sales reduction in our 2021 survey, although those results were a reflection of pandemic uncertainty.

Growth aims in East Africa are also ambitious over the next two years. 75% of our respondents in East Africa say that they expect to see growth over the next two years (compared with 77% of our Global Family Business Survey respondents).

In other words, there is great optimism even in the face of significant challenges and disruption, which speaks to the resilience of these family businesses and their owners, stakeholders and communities.

The survey results also show that East African family businesses are less likely to think that they are very advanced in a number of areas including adapting or making decisions quickly, offering staff incentives and having leadership that encourages a culture of accountability. As with family businesses across the globe, most East African family businesses admit that issues related to environmental, social and governance (ESG) and diversity are not a current area of focus.

In an increasingly globalised environment, it is concerning that only 12% of our respondents admitted that they put significant focus, investment, and resources into innovation or research development.

On the important aspects of diversity and inclusion and societal impact, only 37% and 44% of our respondents confirmed that they have a person or team to drive the respective agenda within the business. The survey results also show that East African boards do slightly worse than the global average at women representation in governance, with 37% having no women on the board (versus 31% in our global survey).

As we have previously observed, family businesses that are built around strong values, with an aspirational purpose, have a competitive advantage in disruptive and uncertain times. For that reason, I am delighted that the survey results show that 84% of our respondents have a clear company purpose (global average: 79%), even if many do not take the required action to ensure it is effective. This is an area that all family-owned businesses should prioritise for long term prosperity.

Most East African family businesses believe that it is essential to be trusted by customers, employees, and family members. However, only 56% and 47% of our respondents believe that they are fully trusted by their customers and employees respectively.

Trust levels between family members are generally seen as high although about a quarter admit to lower levels of trust between family members. Communication between family members is quite high and 61% say there is family alignment on company direction (versus 59% globally).

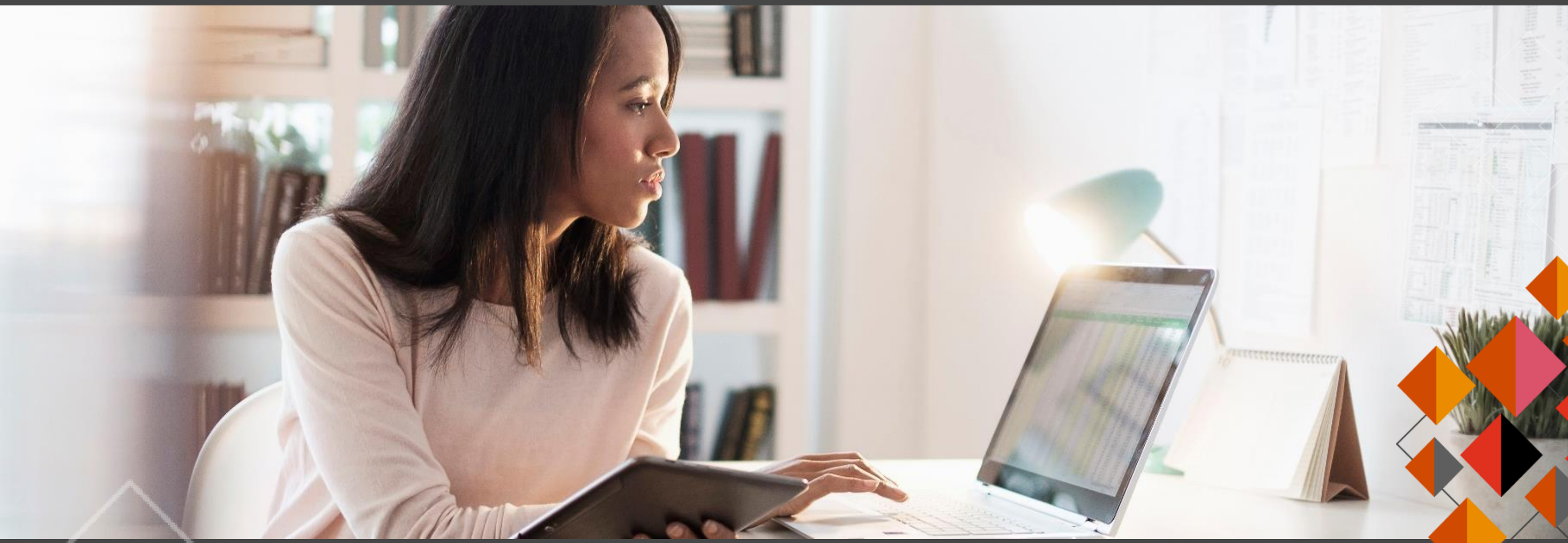
Only 46% of our respondents feel they have strong digital capabilities. This is slightly higher than the global average where 42% feel they have strong digital capabilities.

Considering the optimism broadly shared amongst many family business owners, now is an opportune time to focus on one of the key strengths of East Africa's family enterprises: trust. While family businesses have long relied on the trust premium they've built for ensuring strong relationships with key stakeholders like their customers, our survey showed many organisations have been slow to adapt to the evolving nature of trust today.

What's becoming clear is that a new formula for trust is emerging that requires family businesses to deepen relationships with a broader range of stakeholders —notably their employees and the general public. This new formula also means expanding the definition of what builds trust, especially when it comes to key ESG matters, as well as increasing transparency about the organisation's performance on the issues stakeholders care about most.

The good news is that trust can be built systematically. In this report, we present the results of the survey and describe what constitutes the new trust formula. We also share insights from family business owners who are navigating this evolving landscape.

We trust that you will appreciate the key learnings from this survey and share with family members, business executives, and stakeholders. We hope you'll commit to engaging in this vital conversation about trust and transformation.



The imperative of strategy in family business

Sunny Vikram
Partner, Tax and Private Business Service
PwC Kenya

Alex Murage
Associate Director, Business Strategy and Value Creation
PwC Kenya

Based on our survey results, family businesses in Kenya experienced solid financial performance in 2022 with 70% of the respondents achieving growth and only 18% reduction in sales. This compares with 52% growth and 28% sales reduction in 2021 (pandemic influenced). The growth in Kenyan businesses is almost in line with the global picture where 71% of family businesses grew while 8% had a reduction in sales. While Kenyan family businesses leveraged on trust from family members and their loyal customers, they still have an ambition for growth with over 82% expecting to grow compared to the 77% from global counterparts.

Our survey shows that most family businesses set goals and targets for customer satisfaction and growth, but only a few focus on goals or targets for diversity and inclusion and social impact. Their strategies focus on business outcomes demonstrated through financial metrics and revenue growth outcomes. Such a focus can be limiting as it has the tendency to side-line the full potential of internal capabilities that could support growth including talent capabilities, sweating the assets, fully leveraging technology and the strength of the brand and others.

The survey results show that the key priorities for Kenyan family businesses over the next two years are territory expansion and increasing customer loyalty, while their immediate focus is customers, shareholders and investors.

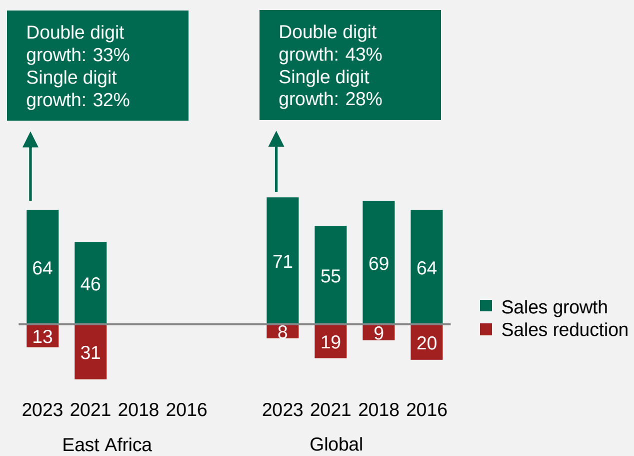
These are important focus areas, which could be supplemented by mergers and acquisitions and/or strategic partnerships in the region or beyond.

Growth in East Africa has increased when compared with previous years, but is below the global average

Growth aims in East Africa over the next two years are in line with the global average

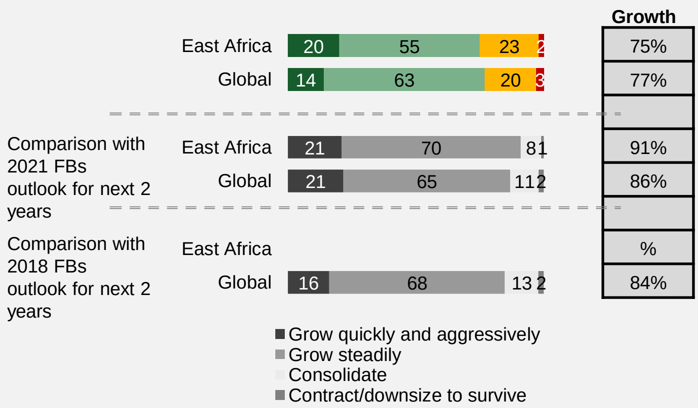
%

* Growth in last financial year



%

* Growth ambitions for next two years



** No East Africa data from 2018 and 2021*

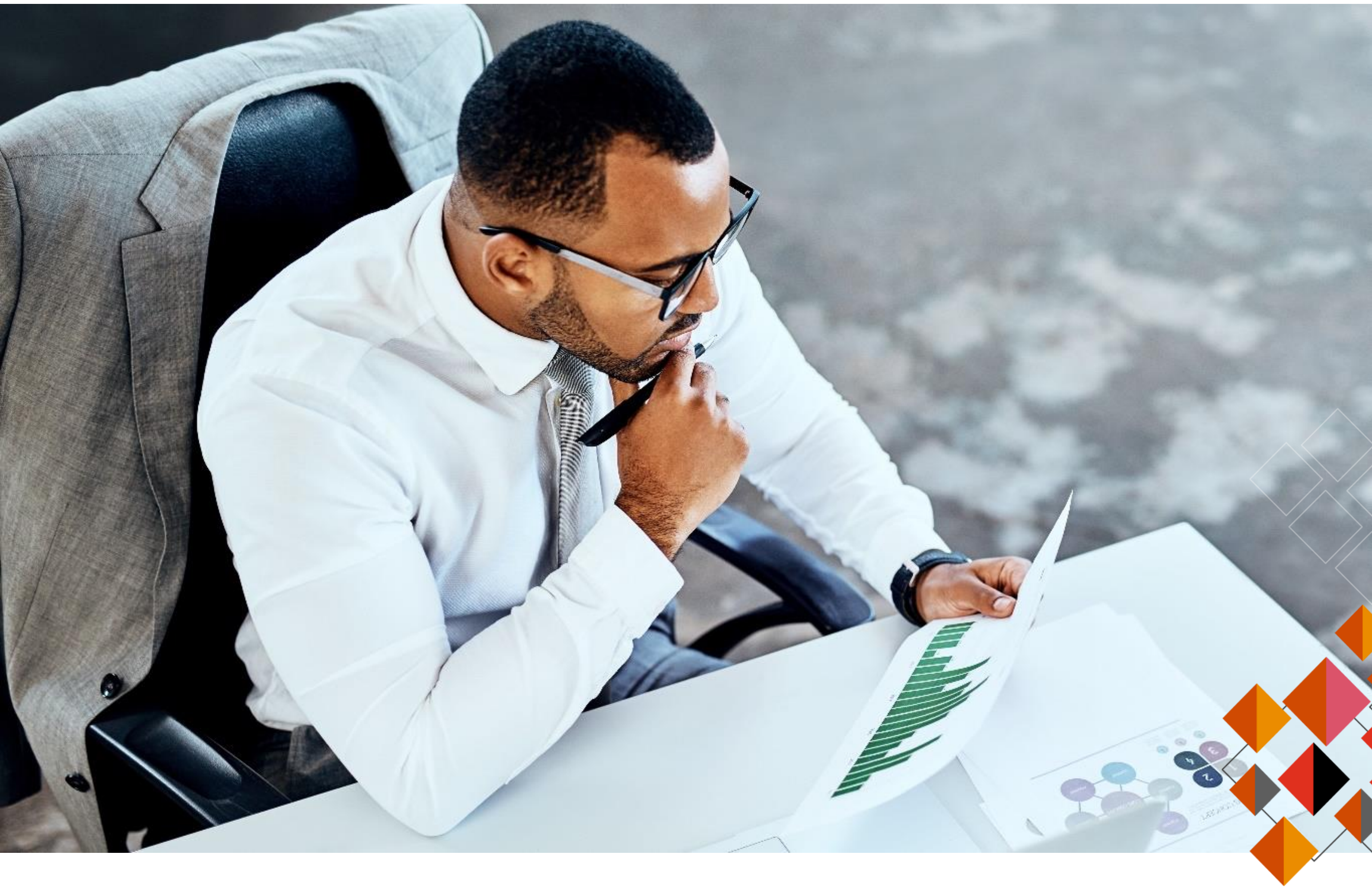
Considering their ambitions for growth, it is useful to ask, "What does good growth look like? And, what do they need to do to get there?".

With their ability to adapt and/or make decisions quickly, family businesses can easily and readily take advantage of market dynamics and macro-opportunities. However, there are other factors that can be a strong catalyst for sustainable business growth that perhaps do not get as much attention in family businesses, such as leveraging technological advancement, talent management, risk and regulatory compliance, capital management, mergers and acquisitions amongst others.

Beyond the business priorities, family businesses also need to contend with dynamics amongst the owners or family members. Family members usually attach significant value to matters relating to legacy, membership and control of the business, continuity/generational transfer, corporate governance, remuneration strategy, business model amongst others. Cohesion among family members is key to ensuring ultimate business success. Therefore, the owners must have a strategy for the business that is connected or aligned with the family ambitions, vision and values.

The owners' strategy will have a significant impact on the overall business strategy. A significant mismatch between the two could potentially lead to failure of even the strongest families or successful businesses.

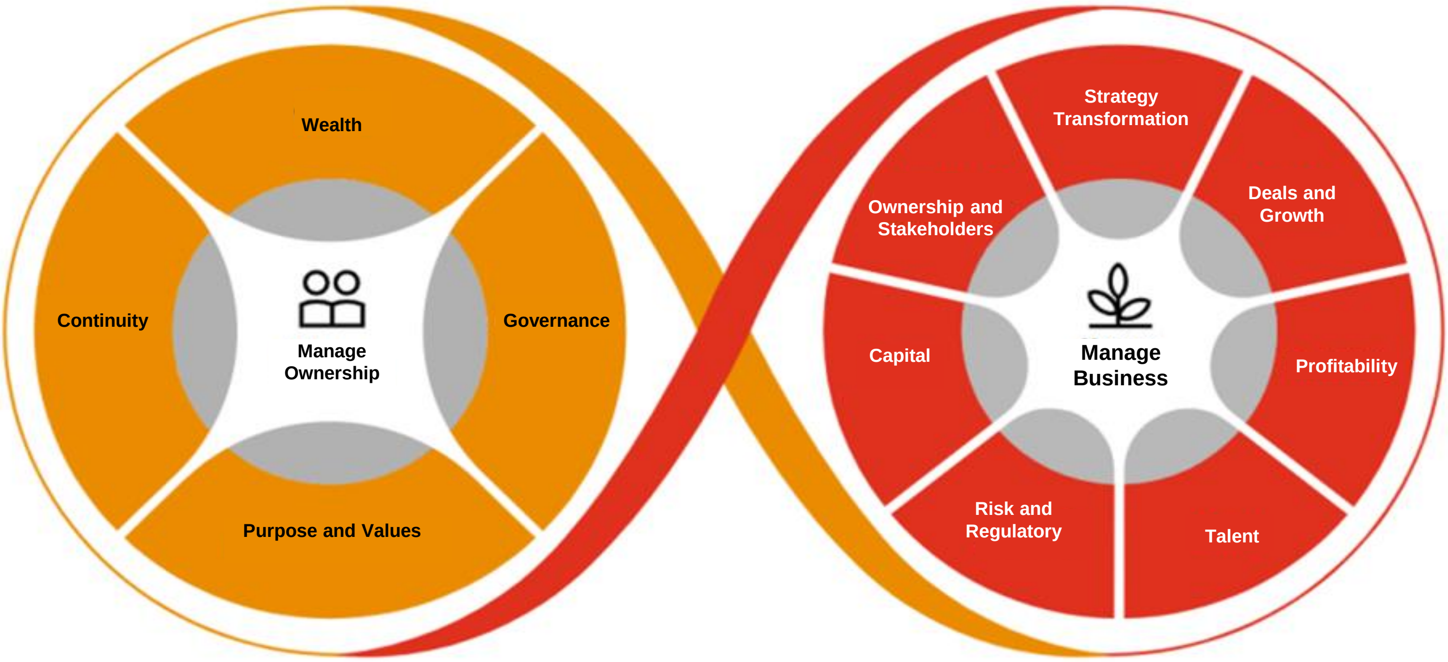
Family businesses should therefore invest time and resources in developing a robust strategy that critically looks at the future growth drivers of the businesses including the internal capabilities that could provide that additional boost. An effective family business strategy should facilitate a convergence of the interest of the business and that of the family by incorporating the family's interests, those of external investors and also of professional business managers and employees. Such a strategy will balance economic considerations and family dynamics, ensuring that the family not only prospers financially but retains its harmony.



Our unique approach: PwC Owner's Agenda

Shreya Shah
Senior Manager, Private Business Services
PwC Kenya

The Owner's Agenda is our unique approach to supporting family businesses of all sizes and generational stages. It's a proprietary framework that we've developed to assist business-owning families in developing both their ownership strategy and their business strategy.



As a family business owner, the Owner's Agenda helps you to address the two key interrelated issues that you must manage every day: ownership dynamics and business success. It addresses both sets of issues in a consistent, integrated way, reflecting the fact that you sit at the heart of each of them, and that your agenda encompasses both.

We understand that an owner's decision isn't always just about business. We use our digital Owner's Agenda tool to help family businesses identify and address priority areas and gaps that often comprise:

- Leadership and the board
- Business model review
- Asset and wealth management
- Management and control structure
- Succession planning ownership and leadership
- Testament and emergency plan
- Philanthropy and impact investing
- Capital and financing structure
- Generational transition and knowledge transfer.

No matter where you are on your business journey, your PwC team is at your side translating our unique vantage point and perspective into real insights that can help you succeed. Together, we can find new opportunities and shape the future of your business.

Snapshot: East Africa Family Business Survey 2023

This year's findings include over 2,000 responses from 82 territories, 95 of which were from Eastern Africa. We would like to extend our sincere thanks to all those who participated in the survey.

Trust levels within family businesses in East Africa are slightly higher than globally. Most East African family businesses believe that it is essential to be trusted by customers, employees and family members. Among those who consider trust among each group important: 56% are fully trusted by customers (global: 51%), 47% are fully trusted by employees (global: 46%) and 77% are fully trusted by family members (global: 74%).

Insights from the survey show that growth aims in East Africa are ambitious over the next two years, with 75% of East African family businesses expecting to see growth (77% globally). In addition, 84% of East African family businesses claim to have a clear company purpose but many do not take action to ensure that it is effective such as by communicating it verbally or documenting it in a formal way.

The key priorities facing East African family businesses over the next two years are expanding into new markets and increasing customer loyalty. When it comes to conflict, typically, family businesses in East Africa discuss challenges within the family without using third parties or resolution mechanisms.

Global Family Business Survey 2023

East Africa snapshot

At a glance

- Trust levels in East Africa are generally slightly higher than globally: Among those who consider trust among each group important:
  - 56% are fully trusted by customers (Global: 51%)
  - 47% are fully trusted by employees (Global: 46%)
  - 77% are fully trusted by family members (Global: 74%)
- 35% of East African FBs are very advanced in having a system in place that gathers customer feedback (vs. 27% globally) while 39% are very advanced in offering staff incentives at all levels (vs. 33% globally)
- 29% of East African FBs say there are high levels of trust between family members outside the business and family members working in the business (vs. 40% globally)

Interviews

Total number of interviews	95
Total turnover	$9 bn
Report requested	82

Customers

88%	Say being trusted by customers is essential
56%	Of those who think it is important, say they are fully trusted by customers
47%	Put very much focus, energy, investment and resource into understanding customer needs
31%	Actively communicate their company purpose externally
53%	Say increasing customer loyalty is a top five priority
35%	Very advanced in having a system in place that gathers customer feedback

Employees

72%	Say being trusted by employees is essential
47%	Of those who think it is important, say they are fully trusted by employees
29%	Put very much focus, energy, investment and resource into attracting and retaining talent
26%	Say increasing trust among employees is a top five priority
56%	Actively communicate their company purpose internally
27%	Very advanced in offering staff incentives at all levels

Family

63%	Say being trusted by family members is essential
77%	Of those who think it is important, say they are fully trusted by family members
29%	Actively communicate their company purpose to family members
61%	Feel that all family members involved in or affected by the business have similar views and priorities about the company's direction
71%	Say relevant information is shared in a transparent and timely way between family members
29%	Say there are high levels of trust between family members outside the business and family members working in the business

Transform to build trust

Family businesses need to adopt new priorities to secure their legacies

The notion of how to build trust in business is changing – fundamentally and rapidly. For everyone – including customers and employees – issues like environmental, social, and governance (ESG) and diversity, equity and inclusion (DEI) have become litmus tests for trustworthiness. Due to powerful demographic shifts, most of today's customers and employees hail from generations (millennial and generation Z) whose goals and values sometimes differ from those of older generations. Family businesses, which for years have relied on a trust premium built up over generations, have been slow to get the message.

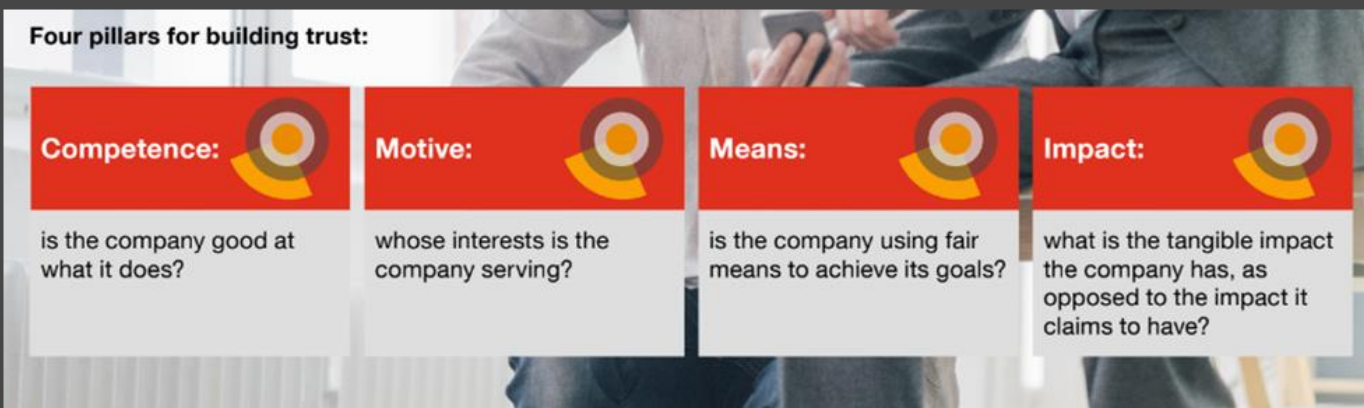
At a basic level, the formula for building trust is expanding and becoming more complex. Businesses will need to take into account new groups of stakeholders who have different expectations around what builds trust, and who consume information in entirely different ways. When it comes to these new measures for earning trust, East African family businesses will need to do a much better job of both showing and telling such as by increasing the visibility of their ESG and diversity efforts and communicating them consistently to stakeholders and building trust with employees and family members. These are among the key findings from PwC's East Africa Family Business Survey 2023.

Trust has been – and remains – a vital competitive advantage that sets family businesses apart from other companies. The Edelman Trust Barometer confirms that family businesses are trusted more than other businesses; their trust score is six percentage points higher than that of businesses in general.

Higher levels of trust can result in better performance, as demonstrated by recent PwC research showing a strong correlation between trust and profitability. Finding ways to protect and nurture that trust premium is essential to achieving the ambitious long-term goals that the survey's participants say they're pursuing.

54% of survey participants say expanding into new markets is their top priority

This year's survey of 172 family business owners in 12 African territories uses a model developed by Sandra Sucher, a Harvard Business School professor of management and the author, with Shalene Gupta, of *The Power of Trust,* to assess whether family businesses are doing the right things in today's world to build trust (see the four pillars, below). The results of the survey reveal a disconnect between traditional views about trust and their impact on how family businesses operate today. They also highlight where and how family businesses will need to transform to ensure their legacy.



Family businesses know that the trust of customers and family members is essential, but those businesses need to be more proactive in building trust with their wider key stakeholder groups, especially employees and the general public.

Thriving in Tanzania

Rishit Shah
Partner, Tax and Legal Services
PwC Tanzania

Family businesses are commercial setups in which decision-making and ownership are influenced by multiple generations of a family. In my experience of working with family businesses, family members are frequently involved in the day-to-day operations and hold key positions in the company.

In contrast, non-family businesses (sometimes referred to as "corporates"), typically operate with more conventional, hierarchical structures, clearly demarcated lines between personal and professional matters and standardised decision-making processes. Corporates usually prioritise profits whilst for family businesses, the main focus tends to be on stability or the family legacy.

What makes family businesses unique?

- **Leadership** - Family businesses often have family members in leadership roles. This can lead to a strong vision and consistency and foster long-term thinking, as they're not only thinking about the success of the business but are also focused on the legacy and tradition.
- **Decision-making** - The decision-making process in family businesses can be quicker due to fewer bureaucratic layers, but there is some danger that it may be influenced heavily by family dynamics and emotions.
- **Culture and values** - The culture in a family business is usually driven by the family's core values, traditions and internal relationships. These businesses often focus more on preserving reputations, legacies and family relationships, which in turn influence their relationships with employees and customers.
- **Succession planning** - Family businesses face unique succession challenges. The transition from one generation's leadership to the next can be a critical phase, often accompanied by emotional complexities.
- **Governance** - The lines between management and ownership can easily blur in family businesses. The extent of formal governance structures and procedures can vary considerably; in some family businesses (often the smaller ones), they could be less formal. Increasingly, larger and more established family businesses often have formal governance structures similar to corporations.

Prospects of doing business in Tanzania

There is no doubt that COVID-19 has influenced all businesses, including family-owned ones, to adapt to technology. Most family businesses in Tanzania are implementing digital tools and platforms to boost efficiency and reach a wider audience. This shows that there is certainly a lot of awareness and adapting with technological changes. However, what has intrigued me is the pace of innovation on the technology front; as an example, two technology platforms that have taken Dar es Salaam by storm are the brainchild of family-owned businesses. The first is *Inalipa*, a digital commerce solution that has tailored its services to the distinct needs of businesses, consumers and distributors alike. In a span of months, *Inalipa* has become Dar es Salaam's favourite digital shop. The other one is *Azam Pesa*, which is proudly marketed as the *"first and only independent Tanzanian mobile money operator".*

Tanzania has also been affected by demographic change and rapid urbanisation. Tanzania's population continues to increase rapidly in cities like Dar es Salaam, Mwanza and the capital, Dodoma. A number of big family conglomerates in Tanzania are designing their strategy to take advantage of these two megatrends. A classic example is the beverage industry and specifically soda and water where my personal estimate is that family-owned businesses or Tanzanian 'local' brands now control more than 60% of the market. This is a significant shift, given that the soft drinks market was 90% controlled by multinationals only a few years ago. Fascinating!

With the right guidance, advice and strategy, the prospects are immense.

Many countries in Africa have seen a talent drain in the last 24 months as young professionals move to the western world. Family businesses have also faced this challenge where the next generation want to do something different or study overseas and do not want to join the family business. This is a real challenge!

Balancing the need to innovate and the desire to maintain tradition

Tradition can be a source of competitive advantage but it is important to ensure that it does not inhibit innovation that could lead to the growth and sustainability of the business. Family-owned businesses can consider some of the following strategies to balance innovation and tradition:

- Encourage open communication: It is important to foster an environment where family members and employees feel comfortable expressing their ideas, opinions, and concerns regarding innovation and tradition.
- Seek external perspectives: Invite trusted third parties like consultants to provide input and fresh perspectives on your business. Their insights can bridge the gap between tradition and innovation and bring a broader view of industry trends.
- Embrace modern technologies: As discussed earlier, adapting modern technologies can help enhance efficiency, productivity, and competitiveness while maintaining core traditions.
- Training, educating and upskilling: Whether in a corporate or a family-owned business, it is important to invest in training and development programmes to ensure family members and employees are equipped with the necessary skills to adapt to changing markets.
- Respect and honour traditions: Continually acknowledge and celebrate the history, values, and traditions that form the foundation of your family business. Find ways to integrate traditional practices into modern processes to preserve and honour your heritage.

Helping family businesses navigate challenges

On the recommendation of an external director of a family-owned business, we were approached to provide a second opinion on a tax audit report generated by the Tanzania Revenue Authority (TRA) on one of their companies. The previous tax consultant left many unresolved issues, with the company potentially facing a hefty tax bill. With our guidance, the company quickly and efficiently resolved all the issues.

Feedback from the TRA indicated that they would not have raised issues in the audit report had they received the guidance we gave, further buttressing the need for engaging the right consultants. In addition to the work we did for this client, we also helped to set up a new ERP system and trained their finance team on using the new system. This was a massive change for the company but we helped to make the transition smooth and provide comfort throughout the whole process.

Family values, professional leadership

Dhruv Jog
Managing Director, Advent Construction Limited, Tanzania

> "Advent Construction Limited is a 29-year-old family business that specialises in civil and building construction, with its head office in Dar es Salaam and offices in Kenya and Uganda. The group employs over 2,200 people across East Africa."

Dhruv Jog's father Ashutosh Jog founded the family business that is now Advent Construction Limited as a civil and building construction company in 1994. Mr Ashutosh Jog remains the Board Chairman and the ownership structure is retained within the family while the management function of the group companies is led by non-family professionals.

Dhruv Jog grew up working in the business while he was still in school. Shortly after completing his undergraduate studies he was appointed Director in 2006 and became Managing Director of Advent Construction Ltd in 2016.

The family's interests have grown from a singular focus on construction to currently having five primary verticals employing about 2,200 people across East Africa.

Dhruv is optimistic about doing business in Tanzania and reflects that the past 12 months have been a pleasant change from previous years. "The country is experiencing a more open and private-sector friendly, growth-oriented market. Our entire region has always had growth prospects and we are happy to see the trend once again become positive, consistently profitable and predictable - all of which create an excellent business environment".

As owner of a business that has been in existence for 29 years, Dhruv says that trust is key to ensuring alignment of direction within the family first and driving that same ethos down to the management of the respective businesses.

"The trust within shareholders is also of paramount importance to achieve growth and can only be achieved by having absolute transparency within the group," he says. "This creates harmony and a common set of goals to strive towards".

Conflict management

Conflict is still a reality, and Dhruv notes that not all family/cultural structures allow for difficult and open conversations. A family business can prioritise education and outside work experience (preferably in more developed markets) to help bridge this challenge while maintaining harmony and mutual respect internally.

Family structures and the relationships within the family setup can be excellent assets or challenges, at different times and in different situations, according to Dhruv, depending on how these structures and relationships are integrated in the business. In East Africa, the family structure often trumps the business structure, which can create a culture of deliberately minimising conflict. Dhruv's view is that healthy conflict is not bad and can inspire new ideas and drive new direction for the "business" within the "family business". He proposes that hierarchical structures and their associated positions within the family must be carefully separated from the positions one holds within the business and not be allowed to influence each other. "That separation between family and business is critical to ensuring the success of the family business," he says.

Professional management and succession planning

Dhruv suggests that while there is no perfect solution, it is important to ensure that management teams are treated equally and given access to authority and responsibility, just as family members would. He maintains that the regular, tangible demonstration of this authority and responsibility is key to ensuring a motivated, dedicated and loyal management team which is crucial for the longevity of the business. Governance practices and organisation-wide compliance with industry and global best practices also help to ensure that all stakeholders rely on common benchmarks for performance and that professionals are not treated differently in the business simply because they are not family members.

Our East Africa survey shows that while 63% of family businesses are family managed and family controlled, 52% are first generation business owners. Dhruv agrees that a lot of the successful family businesses in Tanzania are first and second generation. Many do not successfully transition to the second generation and very few make it beyond the third generation. The primary reason for this, he says, is poor succession planning.

"Succession planning should begin early, even before the next generation is old enough to work, and they should learn and experience the family business's values as they grow up. However, it is important to have a framework for the execution of a succession plan. In our case, the succession plan is based on merit only."

Building trust

"My philosophy around building trust is to consistently and repeatedly deliver value to the customer base. The best way to build trust with potential customers is to offer excellent service delivery to existing customers. That goodwill created by having satisfied existing customers is what creates future patronage and subsequent loyalty, resulting in a virtuous cycle of growth".

Talent identification and retention is one of the biggest challenges for all East African businesses and therefore requires dedicated effort from the principals of the family business, according to Dhruv. Similarly, a happy and motivated workforce and a customer base benefiting from a family business's hallmark personalised care and attention is key to ensuring long term success and sustained growth.

Higher than the global average, 78% of the respondents in our East Africa survey reported that they engaged in contributing to their local community and traditional philanthropy or grant-based giving but they also admitted that ESG was not a current focus of their business. Dhruv believes that East Africa as a whole and Tanzania in particular has substantial development priorities that require immediate attention.

"Our region has more basic matters yet to be fully dealt with such as clean running water, access to medical facilities, poverty and unemployment in large families, or decent education for our people. We are more focused on the basic challenges that our respective businesses can help to eradicate for our people. More mature businesses such as ours do have an ESG focus and align our five-to-ten-year plans with ESG objectives and I am sure that more and more businesses will follow a similar path in making ESG a priority. The prioritisation of ESG for East Africa is a non-negotiable matter".

Insights on Uganda's family business landscape

Cedric Mpobusingye
Partner
PwC Uganda

Like elsewhere globally, opportunities abound for family businesses in Uganda. It is hard to miss some of the signs: global capital is seeking suitable investment opportunities and government policy has, among other initiatives, pivoted towards import substitution and value addition. These developments favour local enterprises most of which are family businesses. The important question, however, is whether Ugandan family businesses are poised to seize the opportunities and reap benefits for the long term. It is also important to ask what these businesses must do to make the most of the opportunities.

First, Uganda stands out for its high (4:1) first generation to multigenerational family business ratio. That several Ugandan family businesses are first generation is no surprise. Most businesses have sprouted and thrived on the foundation of the recent political stability that has created a conducive environment for private sector investment and economic growth for a generation. The concern, however, is that several Ugandan family businesses are unprepared for transition to the next generation. The 2023 survey results reveal low favourable scores for the following family governance and transition guard rails: shareholder agreements (23%), family constitution (20%), conflict resolution mechanisms (20%), and testaments and wills (7%). The potential adverse implications of these scores is further compounded by low family trust scores — 57% of respondents say being trusted by family members is essential, and 63% of these say they are fully trusted by family members. The results expose transition vulnerabilities that, left unattended, could inhibit the success of family businesses beyond the current generation. A great opportunity, then, for family businesses to build multigenerational resilience by paying close attention to family trust and in doing so, address thorny issues relating to family cohesion, family governance, and succession. Such proactiveness will improve family and business resilience and the chances of reaping benefits over the long term.

Other elements essential in securing long-term family business resilience are regulator trust, customer trust, and employee trust. The Uganda results show significant trust gaps in each of these elements.

Regulator trust scores are quite low, and the trust gap, at 33%, relatively significant — 87% of respondents say that being trusted by regulators is essential, yet only 54% consider themselves trusted by regulators. It's critical that family businesses improve their individual regulator trust scores. Regulator trust, to start with, is a good indicator of compliance with laws and regulations. A low regulator trust score could be an indication of a high non-compliance risk which can inhibit a business's going concern prospects. The 33% regulatory trust gap is, therefore, an invitation for family businesses to look at their state of compliance. Tax compliance is one area to pay attention to. Only 20% of respondents say that they see the value in paying their fair share of taxes. 70% of respondents say that they see tax as a cost to their business. This unfavourable perception of tax is not a good place to be for businesses seeking long term resilience. The Uganda Revenue Authority, as a key regulator, has over the years intensified its efforts to improve tax compliance. These efforts will continue on account of the ever-growing fiscal deficit. Improving the regulator trust score will minimise exposures to non-compliance risk (and the attendant penalties) and improve long-term business resilience.

Customer trust and employee trust are equally essential to building long-term business resilience. Customer and employee trust gaps for Ugandan family businesses are respectively, 24% (desired trust, 87%; actual trust, 63%) and 13% (desired trust, 70%; actual trust, 63%). Whereas the actual trust scores present a decent foundation for businesses to build long-term resilience, they also reflect vulnerabilities to competition (customer trust) and exposures to operational inefficiency (employee trust). The message here is clear. To build long-term resilience and take advantage of opportunities ahead, family businesses mustn't take their customers and employees for granted. They must invest more in understanding their customers' needs and preferences, and how these are likely to evolve over time. They must also invest more in employee retention strategies to improve employee creativity, productivity, and loyalty.

Successful family businesses have high trust scores. To build multigenerational resilience and attain sustainable continuity, Ugandan family businesses must, therefore, acknowledge the importance of trust as a tangible bonding element in all stakeholder relationships. This requires family businesses to introspect on three important questions: Are we trusted? Are we trust-worthy? What must we do to build trust?

Passing the baton: Preparing the next generation to run the family business

Oliver Lalani
Executive Director, Roofings Limited, Uganda

> "Roofings Limited is a family business that was founded in Uganda in 2004 and is now one of the largest manufacturers of steel construction materials in East Africa."

Family business leaders that participated in PwC's 2023 Africa Family Business Survey were broadly aligned on the importance of building trust between family members. However, whilst 77% of the respondents believed that they have done well in building that trust, there was a recognition that conflict within the family is a challenge that they face when building trust both internally and externally.

Intergenerational conflict is a key source of conflict. Often, the old guard seldom trusts the next generation to preserve the business along with the family values and legacy while the next generation may not consider the family business a worthy career option.

This conflict is often exacerbated by the different approaches and perspectives to "how things are done" with the older often clinging to conventional tried and tested means while the younger clamour for change in line with the "new world order" as they see it through the lens of digital and technological advancements.

How then should family business leaders go about preparing the next generation and manage intergenerational conflict?

We spoke to Oliver Lalani, the Executive Director of Roofings Limited, one of the largest manufacturers of steel construction materials in East Africa. Roofings Limited is a family business that was founded in Uganda in 2004.

Who should be included in our next generation of owners? Should the next generation of owners be limited to family members?

All shareholders who own a stake in the business should be part of the next generation of owners. In the case of our business, the next generation of owners is not limited to family members. We have strategic equity partners in one of our businesses who, despite being minority shareholders, will form part of the next generation of owners.

What is the most appropriate way of preparing the next generation for participation in the family business?

Preparing successors is one of the most fundamental elements to enhance a firm's succession preparedness. Succession should be managed as a process and planned for well in advance, centring around the future needs of the family and the business. Therefore, it can be helpful to identify potential successors early on. This can help in tailoring their education journey in line with the sector in which the family-owned business operates.

I spent time getting early exposure to the business through summer assignments, internships, and even shadowing my dad which allowed me to understand the business system a bit better. Capability and knowledge enhancement did not only take place in the classroom but also on the shop floor. I came to understand what I would deal with when I joined the business. However, getting outside work experience is also crucial as it can provide credibility, self-confidence and a strong knowledge base.

Should the next generation be employed in the family business and if so, at what level – Executive? Management? Rank-and-file?

The role the next generation plays depends on a few factors starting with the capabilities they possess. In our case, all members of the family were welcome to join the business, though management leadership rested with the founder and key managers. It was up to the next generation to prove themselves worthy of a leadership role, in line with a meritocracy. Nevertheless, a career development plan for next generation members was not initially in place and this created some confusion as to the future role they were likely to play.

In my case, after nine years of operational experience in the business, I personally went on to do my MBA and work outside the family business to further enhance my capabilities.

The second important factor determining the next generation's role is the requirement of the business. In our case, we appointed our first non-family CEO who is now executing full operational responsibilities and a board of directors which supports the CEO and acts in the best interests of the business and the shareholder.

A next generation member can be a great owner, but not necessarily an excellent manager. Looking back on my journey, it would have been helpful to spend more time down the line, in operational functions.

Should the next generation obtain experience outside the family business before working in the family business?

Outside work experience is one of the most important elements of successor development as successors learn innovative means of achieving better outcomes, work ethics and discipline in an environment where they are not the boss's child.

I interned for five months prior to joining the business and this helped a lot. Though when I finished my undergrad in 2009, we had just broken ground for our Namanve project. My dad suggested I first come and participate in the project as it was a mammoth undertaking and a once in a lifetime learning opportunity. The idea was that after three years I would do my MBA and get some outside work experience - years later I was still in the business! I am very grateful that I was able to complete my MBA eventually and get some experience outside the legacy business.

Should the family business next generation include non-family employees? Should key non-family employees be considered for share ownership? Is ownership in a family business a birthright or is kinship the sole prerequisite for share ownership?

Ownership in a family business shouldn't be a birthright. Our business has welcomed outside partners based on their experience in the field, their credibility, and the longstanding relationship we enjoyed with them. However, unless a family business is listed, kinship can be a strong prerequisite for share ownership. It would be challenging to work with partners who do not understand the DNA of the family or share similar values. We have enjoyed a seamless relationship with our Japanese partners and look up to their commitment to quality, productivity, and efficiency. If a family business lists, the game changes totally.

How should family dynamics be addressed (and what KPIs should be used) in deciding who amongst the next generation should be involved in the family business?

One of the major challenges of family businesses is reconciling the ever evolving and diverse needs, goals, and values of family members and integrating that with what is best for the business. It is crucial that family baggage is left out of the family business, however in practice we found this challenging to achieve. There is a need for strong family and business governance such as a board of directors for the business, a family council and a family constitution. All layers are being proactively worked on in our case and we are constantly assessing how best the different layers interact.

As a basic rule, we think “family first” in the council meetings and “business first” in the board meetings, which provides a necessary distinction between the two.

How should the next generation go about being a responsible steward of the family legacy and at the same time be a catalyst for change?

Firstly, we found it important to document the family vision and values. We worked on our individual aspirations and values, then as siblings, and eventually after six months our dad joined the journey. This provided a monumental shift in our alignment, and it was helpful that it started with the individual and the siblings, since at times it is easy to get lost in the founders’ overarching vision and aspirations, especially when they have led to such astounding business success. We made a commitment during this process that we will stand by each other as a family no matter what, and we would always try to put our family first, with or without a flourishing business. Furthermore, we undertook to encourage each other to flourish as individuals, whether that is as a contributing member of the business operation or not.

We also committed that we would do whatever we can in our capacities to continue our father’s legacy and also build a legacy of our own individually and collectively. With alignment in purpose, values, and a unifying vision, I have no doubt that we can be responsible stewards of our family legacy. Having room to contribute as individuals, with our unique ideas and abilities and being a strong collective whole will allow us to be a catalyst for change and a purposeful future.

Mind the trust gap

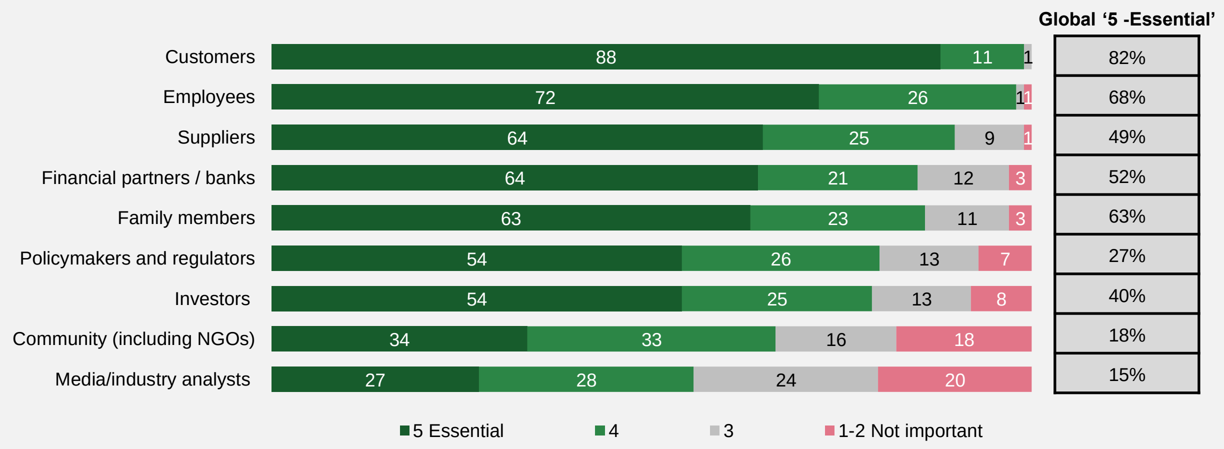
Our survey of East African family businesses shows that customers are still viewed as the most critical audience for building and maintaining trust, amongst 88% of respondents, followed by employees (72%), suppliers (64%), financial partners (64%) and family members (63%).

When it comes to trust, the customer is still seen as king, followed by employees and suppliers

Over half feel it is essential to be trusted by policymakers and regulators (higher than the global average)

%

Importance of being trusted by the following stakeholder groups - East Africa



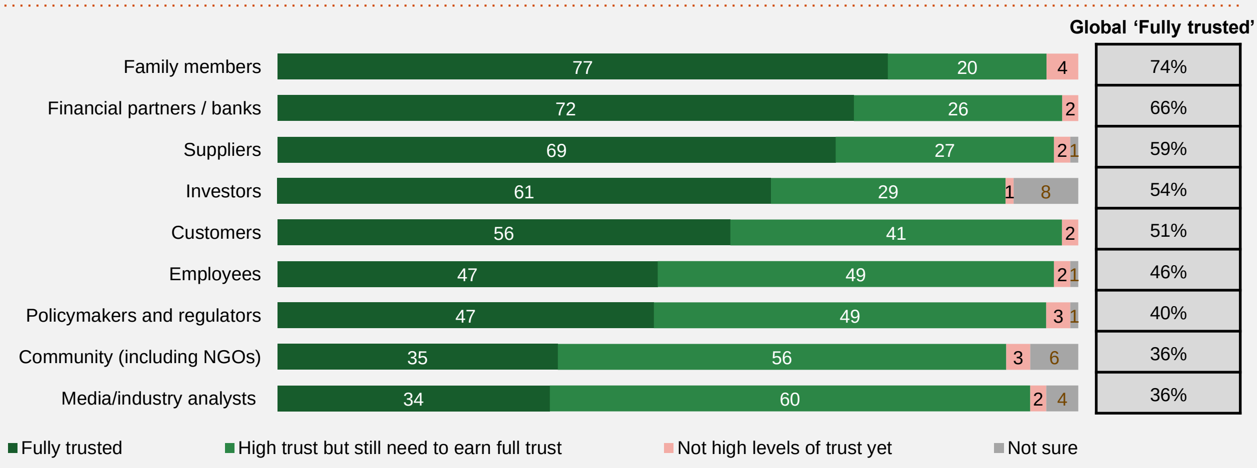
Despite recognising their critical importance, however, only 56% of respondents believe that they are fully trusted by customers. Similarly, only 47% believe that they are fully trusted by their employees. This is what we mean by the "trust gap" and it's a critically important issue, particularly for the 75% of family business owners who expect to achieve growth over the next two years.

Only 47% believe they are fully trusted by their employees and only 56% for customers, despite claimed focus

…but trust between family members is believed to be high

%

*** Levels of trust following stakeholder groups have in your company (among stakeholder groups considered important) - East Africa**



One way to build trust with all stakeholders including customers and employees is to clearly articulate and document the company's purpose. Although 84% of respondents in East Africa have a clear company purpose, it may not be communicated regularly, written down, published or actively communicated and reinforced with different stakeholders – including family members. It may not even be related to the business's delivery of products or services, or oriented towards customers, or connected to SDGs or ESG objectives. In other words, even if a family business has a purpose statement, it may be meaningless – and could erode trust. In a PwC publication on why corporate purpose statements often miss their mark, analyses of 2000 CEOs' description of their company purpose reveals that most omit a critical detail: why their company is in business.

84% claim to have a clear company purpose, but many do not take the required action to ensure it is effective e.g. write it down, communicate it externally

84%

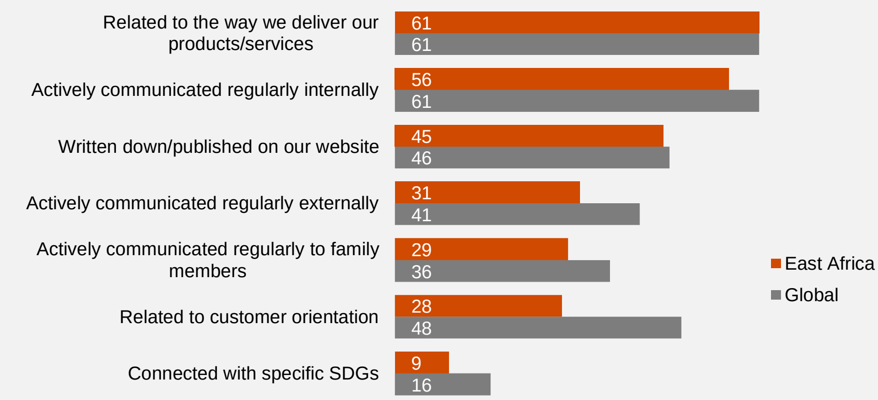
East Africa FBs have a clear company purpose

i.e. one that can be summed up / articulated in one sentence

Global: 79%

%

Which statements are true of your company purpose? (among those who have a purpose)

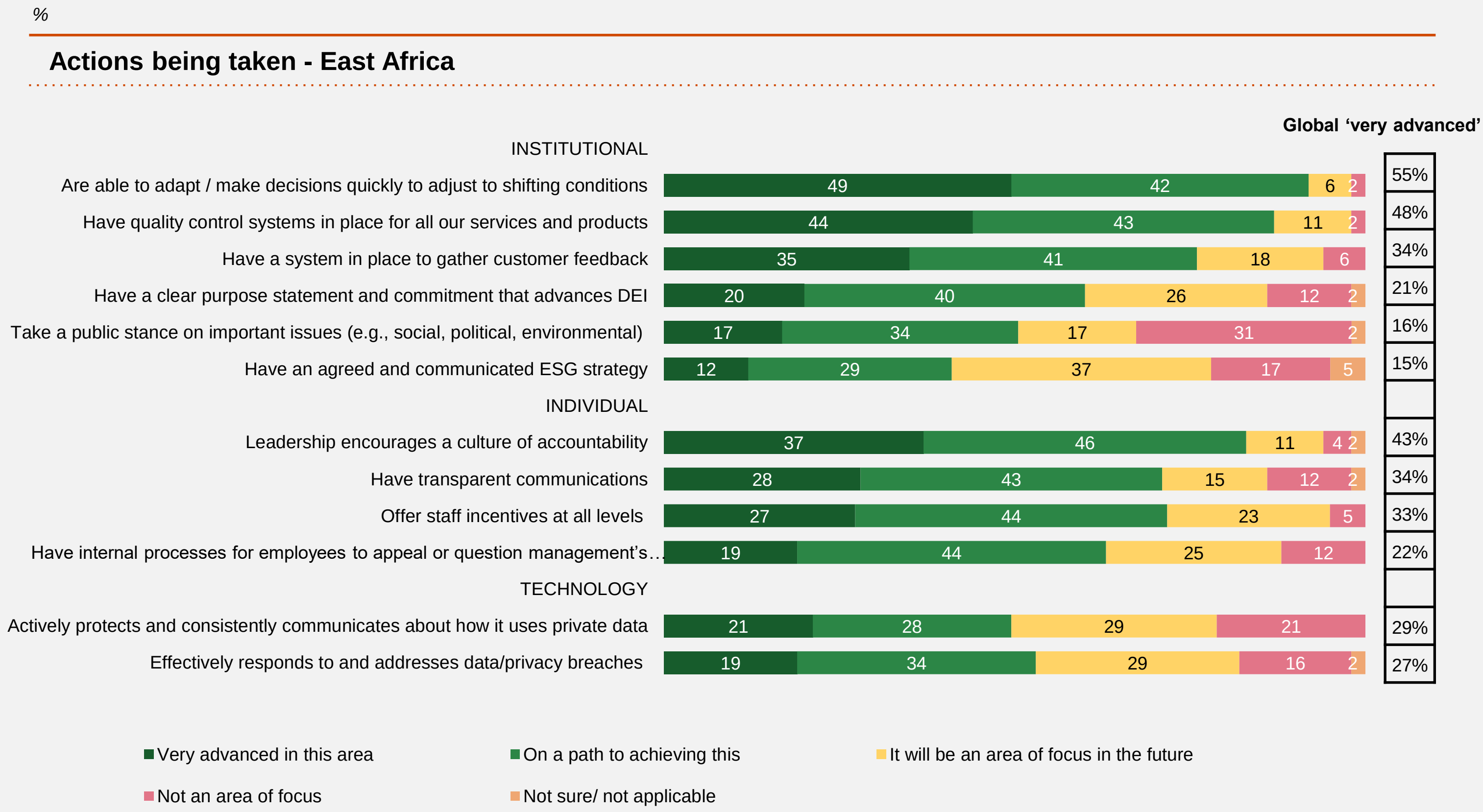


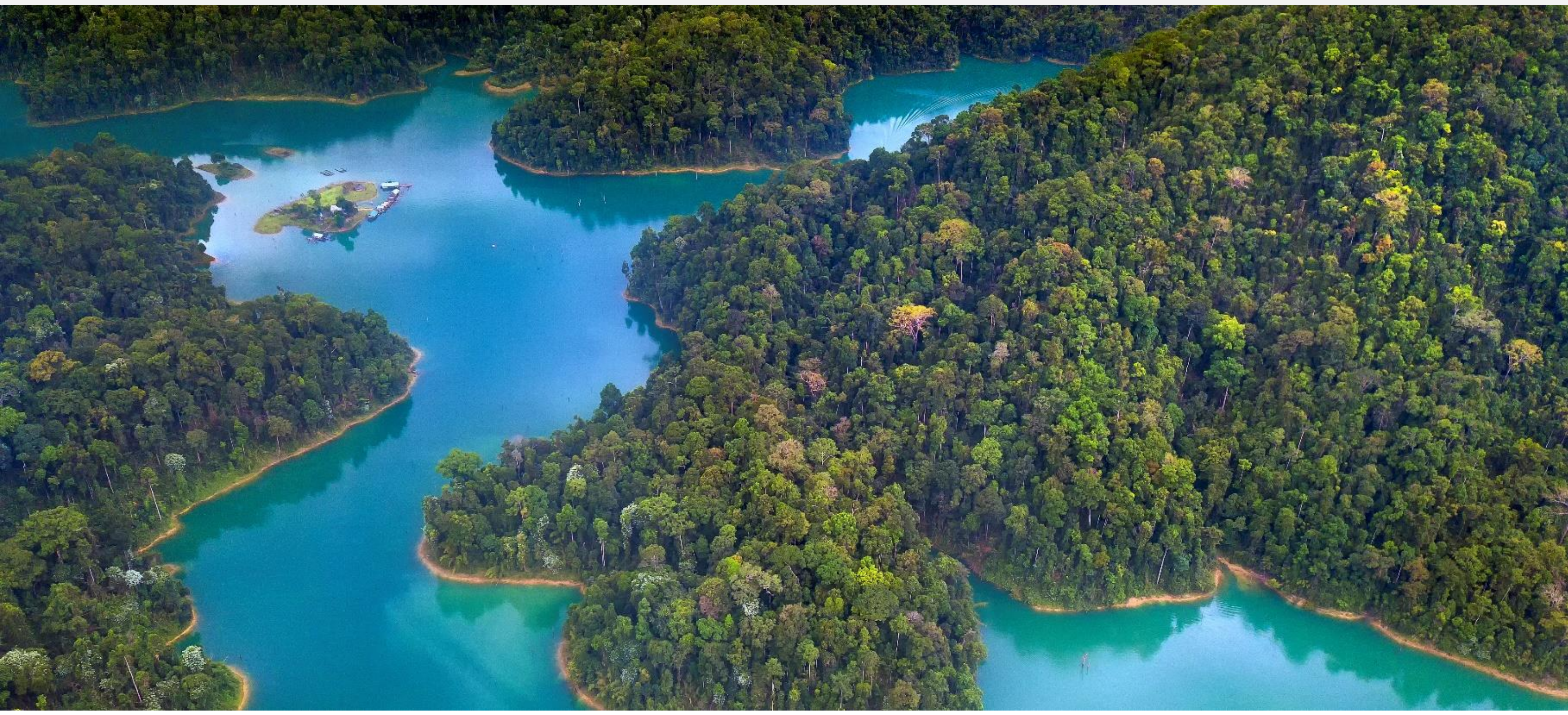
- 69% don't communicate their purpose externally
- 83% don't take a public stance on important issues
- 88% don't have a clear and communicated ESG strategy
- 80% don't have a purpose statement that advances DEI

Efforts to professionalise a family business can help to build trust. Responsive, agile decision-making processes, quality controls and data privacy systems, customer and employee feedback management and a culture of accountability are all aspects of professional organisations that combine to support trust, internally and externally. In some of these areas, East African family businesses seem to be lagging just a bit behind global averages according to our survey. Rather than resting on their laurels, these businesses can refocus on professionalising their operations and view these efforts as investments in building trust.

Our survey of East African family businesses shows that customers are still viewed as the most critical audience for building and maintaining trust, amongst 88% of respondents, followed by employees (72%), suppliers (64%), financial partners (64%) and family members (63%).

Many admit that issues related to ESG and diversity are not a current area of focus





The new formula for trust

The good news is that trust can be earned, built and strengthened systematically. But if family businesses are to protect and grow their trust advantage, it will require transformation – a reality that some business leaders are already acknowledging. The new formula for trust helps to clarify why this transformation is necessary.

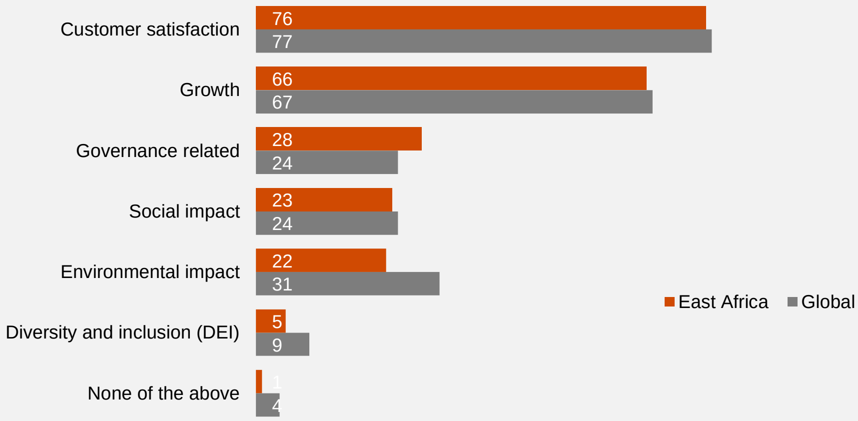
When we asked East African family business owners about their goals and targets, 76% identified “customer satisfaction” and 66% identified “growth” as goals and targets that they set as a matter of policy. Only a minority set goals and targets for diversity and inclusion and social impact.

Customer satisfaction and growth are the goals / targets most likely to be set

Only a minority set goals and targets for diversity & inclusion and social impact

%

Goals and targets set as standard policy (in addition to revenues and profits)



When we asked East African family business owners if they measure and monitor progress against these goals and targets during the year, most of them report that they do – internally.

Most businesses claim to measure progress against their goals and report on this internally

77%

East Africa FBs measure / monitor progress against goals
(among those setting goals)

Global: 82%

78% **Monitor progress at least quarterly (Global: 65%)**

79% **Give staff updates on progress of performance against goals (Global: 74%)**

19% **Publish performance against goals more widely (Global: 29%)**

As the new formula for trust shows, an expanded audience of stakeholders (including the general public) and younger generations (such as millennials and generation Z) have higher expectations above and beyond standard goals like customer satisfaction and growth. Not only do they expect excellent products and services delivered by quality brands, but increasingly they prioritise brands with a defined purpose, commitments to ESG and diversity, and transparent communications. The toolkit for meeting these expectations has also changed and now includes social media, speaking out on social issues and taking action.

New ways family businesses can transform to build trust

Transform to build trust with your customers

Looking more closely at what family businesses can do to build trust, it is useful to consider their three most important stakeholder groups: customers, employees and family members.

PwC research carried out as part of this year's Global CEO Survey shows that after industry conditions, levels of consumer trust are the next biggest determinant of performance variance. We consider the following actions to be high priorities.

Establish two-way communication

It's not enough for family businesses to say they have a strong purpose or ideals. They must model those ideals in their relationships with internal and external stakeholders, starting with a fair internal system for reporting misbehaviour and a clear feedback mechanism for customers. These are visible solutions that will help to build trust.

Build trust through transparency

Many family businesses typically keep a low profile and may be reluctant to share details about their business publicly. But transparency is essential to trust. This means regular communications, including about the business's purpose and commitments to ESG and DEI targets and positions on relevant social issues.

Transform to build trust with your employees

Trust is built from the inside out, and a company won't be trusted by its customers if it's not trusted by its employees. Family businesses understand the importance of employee trust, with 72% reporting in our survey that the trust of their workers is essential or very important. However, only 47% of family business leaders believe they are fully trusted by their employees and only 26% of respondents said they will prioritise building trust with their employees in the next two years, and only 29% say a top priority is attracting and retaining talent.

This disconnect could have significant consequences for businesses' future. There is a strong correlation between trust and profitability, and the survey findings suggest that the correlation extends to employee trust: companies that prioritised their employees, gave them incentives, and invested in attracting and retaining talent reported higher levels of growth in the prior 12 months than companies that didn't take those measures.

The following actions can help prioritise talent in your organisation.

Listen to your people

Creating a structure for accountability that allows employees to speak up about their concerns is a good way to help build trust. Of the East African family business owners surveyed, only 19% said they have advanced processes to allow employees to appeal or question management decisions while 44% say they are on the right path. Empowering employees by giving them autonomy to make decisions will help bridge the trust gap. Culture should never be an afterthought in a workforce strategy.

Provide inclusive policies and practices

Establish and articulate distinct policies that encourage diversity and inclusion in areas like recruitment, career advancement, and daily business activities. This demonstrates commitment to DEI beyond verbal assertions.

Create opportunities for development and upskilling

Findings from PwC's Future of Work and Skills Survey show that companies that actively create opportunities for their employees to build skills achieve more consistent results, have greater earnings resilience, and demonstrate a superior ability to attract and retain talent. Regular training and educational programmes will enable employees to understand the significance of company goals, and their role in delivering those goals.

Building dreams together: The real estate journey of a husband and wife team

Leonard and Emily Mcharo
Founders and Owners of TSAVO City ("TSAVO")

> "TSAVO is a real estate investment company based in Kenya. Founded by Leonard and Emily Mcharo, the company's purpose is to help investors achieve financial independence through affordable apartments."

We sat down with Leonard and Emily Mcharo to discuss their remarkable real estate success story. According to the duo, their business really took off during the COVID pandemic. When people were looking for either affordable homes or affordable real estate projects, they came to TSAVO, the real estate company that has now been in operation for eight years.

Leonard is an architect while his wife Emily is an accountant. They had been married for quite a while before running the business together and so discussions about money had been a constant from the very beginning of their relationship which started while they were at university. They also have different but complementary temperaments - Leonard says he's the spontaneous and aggressive one while Emily is the more organised, structured and risk aware person. Their dream was to achieve financial independence in 15 years but armed with their knowledge about finance and investments they were able to do this in 13 years. Having achieved financial independence, they started thinking of what to do next. TSAVO was founded in 2015 and over the course of 18 months with their team of seven, they dedicated their efforts to carefully crafting their business strategy. During this period, they experimented with various business models ultimately arriving at the eighth model which proved to be the one that aligned with their goals and vision as they are currently still running the business on the eighth model. It took two years before Leonard was able to convince her to join the business full time.

"The team has continued to grow and is run like a council," says Emily. Decisions are made together, and ideas can come from anyone. Everyone's voice is important". During the 18 months that the eight business models were being tried, they had no income stream but beneath the model was a philosophy and culture they were building. It may seem cliche, but TSAVO's growth has been driven by customers' needs.

By the time the country was hit by the pandemic, when people could no longer afford expensive real estate, they came to TSAVO whose purpose is to enable you to achieve financial independence through affordable amazing apartments. Since then, their business has grown in leaps and bounds.

The real estate market is fraught with risk and Emily says the biggest risk is in funding. She says they rely on their investors for funding, which eliminates a huge risk for them. Their growth is tempered by their investors' needs and appetite for growth. Another major issue in real estate is integrity. On time delivery and keeping up with deadlines and promises is a key part of their success. Leonard reiterates that the real niche for their business is in trust and integrity given the nature of the real estate business where there have been stories of investments that never took off. “The biggest thing about trust for us is delivery and you deliver only when you know what you're doing. So many people get into this business for different reasons, but I think understanding what needs to be done both from a technical perspective and a financial perspective is what makes the delivery possible, and delivery naturally builds trust”. Leonard’s experience as an architect spans many years, while his wife has an impressive background as a certified public accountant (CPA), and economist with an extensive career in the banking industry. These diverse skills allow them to leverage their collective expertise.

Our family business survey indicated the importance of trust particularly in family businesses and suggests that trust within the family and amongst employees and customers almost helps them grow more ambitiously. For this couple, trust between the two of them is crucial. Emily states that this has never been an area of concern because they had had many money conversations even before they were married. Secondly, they have built trust with their employees and thirdly, their investors who have worked with them from the very beginning and who are at the centre of what they do. “Our purpose is really around our investors and keeping our promise to them is key. These investors refer their friends and family to us because of the trust they have in us” says Emily.

The Mcharos’ stakeholders are very important to their business. Their employees know virtually everything about the business. They know how much money is collected and how much is spent on projects, and they have complete operational ownership. Emily talks about the culture at TSAVO which they call TSAVOISM. TSAVONISATION is the process of teaching and sharing their philosophy and culture which happens twice a week for those who have recently joined and for the rest of the staff, it is a continuous conversation. There are weekly meetings every Monday which is an avenue to communicate, share, teach and learn. They also have quarterly retreats which give further opportunities to listen, share, debate and ultimately come up with the best decisions for the company.

According to Leonard, 80% of TSAVO’s business comes from investors. “They are allowed to call us every day and every quarter I write a handwritten letter to all our investors to tell them exactly what we’ve done with their money for the last three months and every week we give them an update of what we’ve done with their money over the last 7 days by sharing the site updates via email every Saturday morning at 5am. That brutal transparency is sometimes scary, says Leonard, but in the event of an error, they are committed to openly acknowledging and communicating where they went wrong.

The Mcharos are still quite young and energetic so although succession may not be top priority now, they have started to think about the future. Leonard says he comes from a community where they do not know of any family that has passed on wealth from one generation to another. They are learning from the experience of the Jewish and Asian communities and realise that they cannot depend only on their biological children. One of their two sons is interested in the business and the other is not. Their philosophy at the moment is to provide leadership for the business. According to Leonard “the person who will run this business has to be a competent person. So, we are working extremely hard to teach our sons. We talk about TSAVO every day, it is the basis of all our conversations in the bedroom and on the dining table and everywhere, but it is also the basis of our conversations with our 150 and growing TSAVORITES. One of them may lead this company and it doesn't have to be our biological son”.

On the issue of ownership and management, for now, the Mcharos are studying various options with their sons. They will continue to read and learn from other people’s experiences. For them all they want is to ensure that the top brains are at the helm of their business. Having the right person is the primary objective.

Closing the trust gap

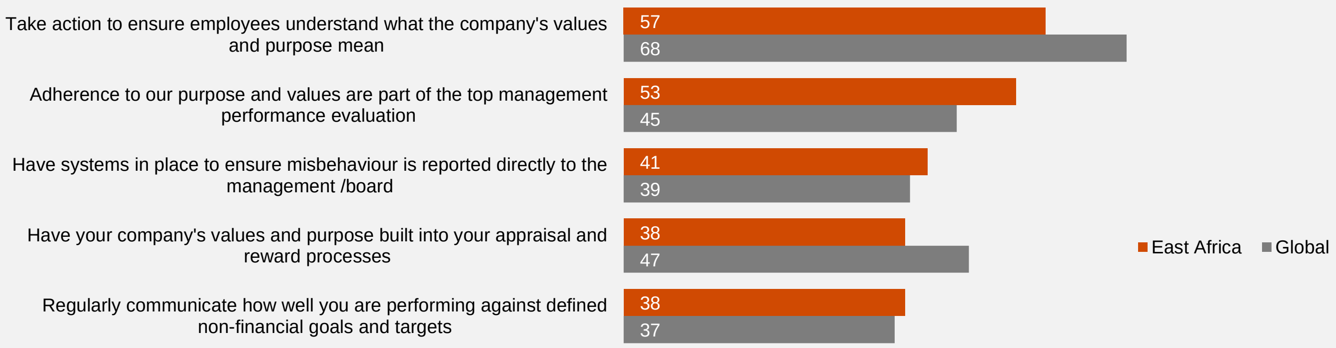
Communicate the company's purpose and values

Our survey reveals that 84% of East Africa's family businesses have a clear purpose. They know what they stand for but only 57% take actions to ensure employees understand what the company's values and purpose mean. Though 56% report that their company purpose is communicated internally, only 45% write it down or publish it on their website. The business's values should be front and centre, set out clearly on the website and on all external and internal communications. Regular reporting should reinforce what the company is doing to demonstrate those values.

Only 38% of those who claim to have a clear purpose regularly communicate about how well they are performing against defined non-financial goals and targets

%

Actions taken to ensure your purpose and values are being acted on within the business on a day-to-day basis (among those who have a purpose)



Align community-oriented and philanthropic work to the "S" in ESG

Our survey report suggests that 88% of East Africa's family businesses don't have an agreed and communicated ESG strategy. Many aspects of the ESG journey, such as reducing greenhouse gas emissions, are progressing at national levels with a number of countries in the East Market investing in renewable energy. Family businesses can continue to take advantage of their strong relationships at a community level and long history of philanthropy and focus on deeply rooted values, thereby contributing to the social aspects of ESG.

However, with the increased scrutiny and regulation around ESG actions and reporting becoming more mainstream, family businesses may have some catching up to do. Family businesses have the advantage of approaching the ESG journey from the long-term perspective inherent in legacy-focused organisations and their strong sense of purpose and values can support the journey beyond a sole focus on compliance. Family businesses have the capacity to be more deliberate on the issues key stakeholders, including customers, employees and communities, care about – so they can identify and prioritise their top ESG risks and opportunities accordingly.

Speak out on social issues

Family businesses are now expected to be more vocal, visible and active. Public trust matters, and that means showing that you care about what's going on in the world.

The message from this year's survey is clear: family businesses not only need to make transformative changes to build trust; they've also got to show and tell – by making their efforts visible and communicating them clearly to their stakeholders. In today's world, that means not just their customers, employees and family members, but also the public at large.

Deliver on non-financial goals and values

In PwC's 2022 Workforce Hopes and Fear Survey of more than 52,000 workers worldwide, 53% of respondents said it's important that their employer is transparent about the company's impact on the environment, and 54% said it's very important that their employer is transparent about its record on DEI. Only 38% of family businesses in our survey regularly communicate how they are performing against such non-financial indicators.

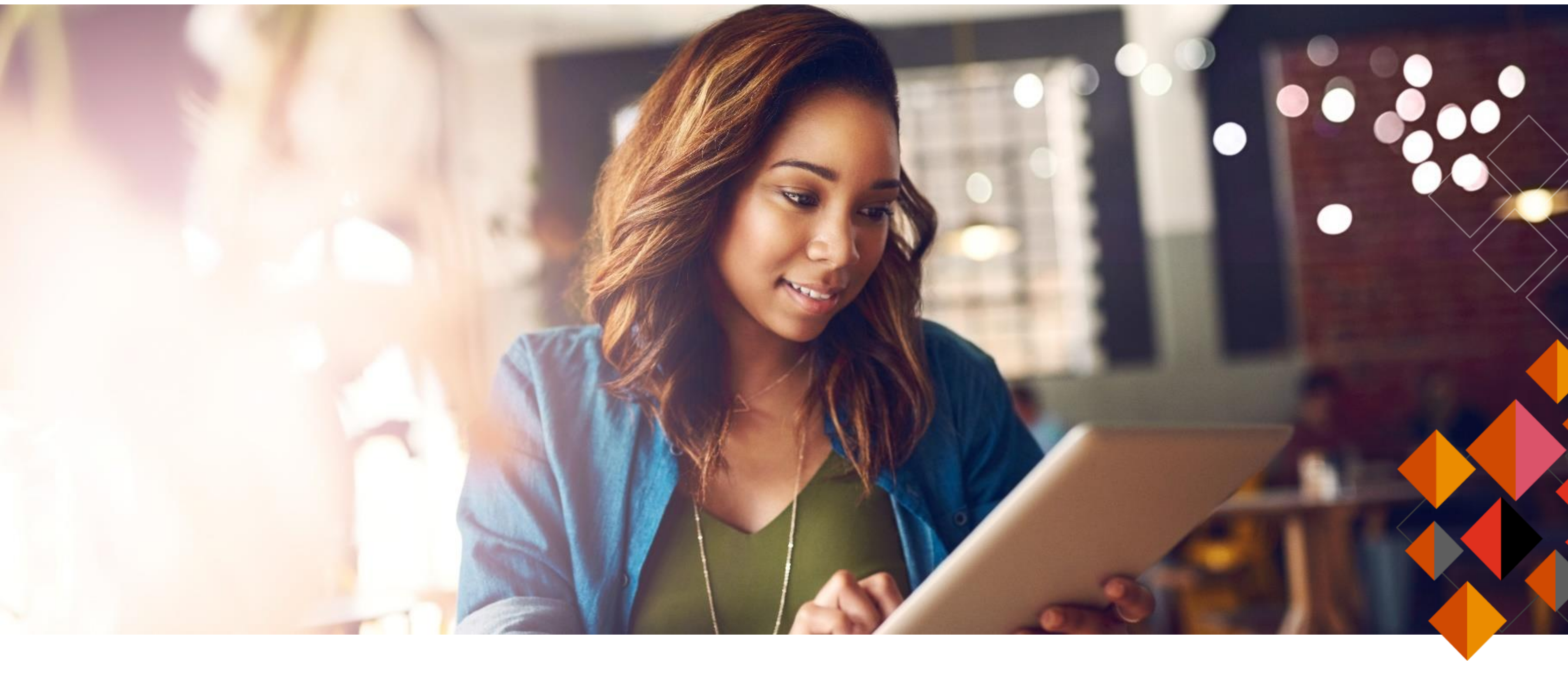
In our East Africa Family Business survey, only 37% of respondents said there was a person responsible for DEI, and 44% had an ESG leader. To show their commitment to these issues, companies need to appoint senior leaders who are responsible for making progress and reporting in these areas.

Transform to build trust: Family matters

While customers, suppliers, employees and the broader public are key elements of this new formula for trust, there's another important group whose support is critical to the success of East Africa's family enterprises: the family members themselves. And this, too, raises further considerations for family business leaders given the delicate balancing act they face. Not only must they successfully manage ownership of the enterprise and the business itself, but they must also ensure family members – whose interests and expectations may differ – understand and are aligned with the direction they're taking.

In our work with family businesses, we see many challenges related to family trust and transparency that can cause conflict and disagreements that spill over into the business itself and the ownership structure. Family members may have unequal access to information, there can be a lack of communication between them and confusion can arise around roles and responsibilities and expectations people have about their level of input into key decisions.

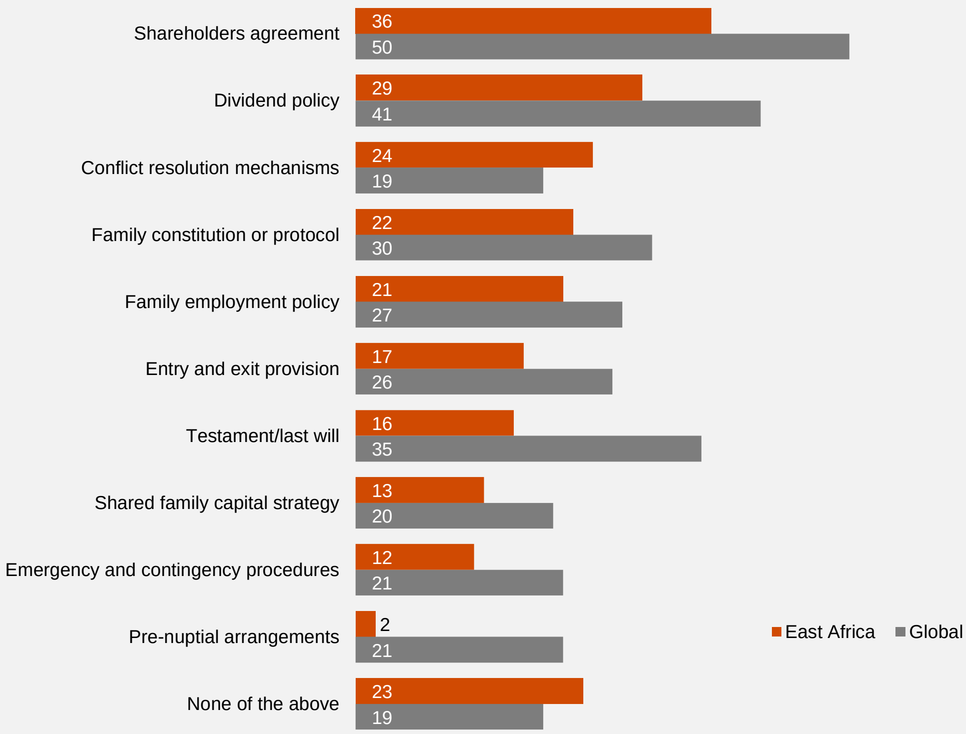
Challenges can be particularly strained between family members with different levels of involvement in the business and ownership sides, including when it comes to the roles and input of active and non-active shareholders. Respondents to our Family Business Survey seem to take the trust of family members for granted with just 63% saying this is essential. But many are yet to adopt some of the key governance practices that build family trust and alignment. Only 36% have a shareholders' agreement in place while 22% have a family constitution or protocol and just 13% say they have a shared family capital strategy.



77% of East African FBs have some form of governance policy in place within the business (versus 81% globally)

%

Governance policies in place?



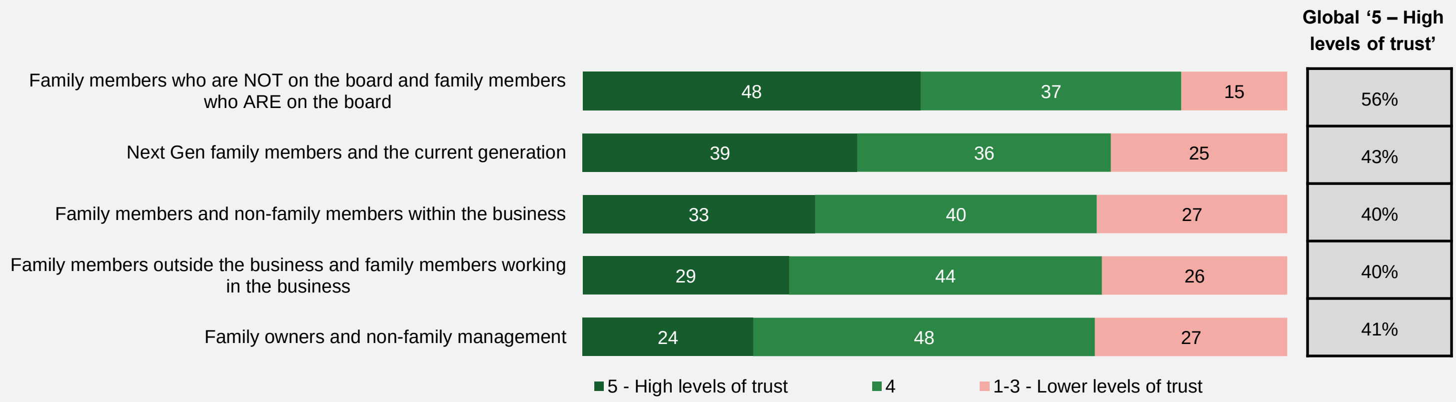
A fifth of family businesses say that disagreement among family members is one of the biggest challenges to building trust with stakeholders and conflict is typically resolved without third parties or a conflict resolution mechanism. 24% report having a conflict resolution mechanism in place, up from 14% in our 2021 survey.

As much as these policies and mechanisms can facilitate family dynamics, they also link back to the core issues involved in building trust with other stakeholders like customers, employees and the general public. Governance policies help to build trust in the business more broadly as part of the professionalisation journey. These policies also support clearer communication channels and reduce conflict and friction in the family business, which can erode trust inside the business and within the family.

Around a quarter admit that trust is low between certain types of family members

%

Levels of trust between family members (1-5) - East Africa



Three generations crafting a touch of love, comfort and lifestyle

Rupen Shah
CEO Victoria HomeStore, Kenya

> "Victoria HomeStore is a modern retailer of comfortable and stylish home furniture and furnishings. With six showrooms, a warehouse in Nairobi and an online business catering to the wider region, as well as a showroom in Uganda, Victoria HomeStore is focused on quality products and customer service."

Victoria Furnitures Limited, Rupen Shah's family business, was started by his grandfather who landed on the shores of Mombasa with only ten shillings to his name. His grandfather, who always had an entrepreneurial spirit, had attempted to start many businesses, some of which failed. However, failure didn't deter him and the family became famous for selling charcoal in their community. Rupen's grandmother was also known for making bedding and in 1969 they had the opportunity to open their first furniture business on what was then Victoria Street (now Tom Mboya Street).

Growing up in a family business meant that Rupen started to learn about the business and the furniture industry at a young age. As the business blossomed, Rupen's father and his brothers dropped out of school to support their father in running the business. The business has grown over the years and they now have hardware, manufacturing and retail operations across the region, including Kenya, Uganda, Rwanda and Burundi. Change has always been a constant and Victoria Furnitures has evolved and become more innovative over time. The family business was one of the first to explore importation and new ways of working.

According to Rupen, "It gets more difficult to keep the third generation in the business especially because there is a spectrum of different professions available in today's world." When he reflects on his own journey, going to university and then working for a Big Four consultancy for eight years, and rising through the ranks, was a personal evolution. "I was able to discover myself. Around 12 or 13 years ago, my father approached me and said it's time for me to contribute to the family business. It wasn't a difficult decision to make since I had a lot of passion for the business and it was a sense of pride to go back."

For any business to survive, it needs to keep changing and adapting. When Victoria Furniture started, they were mainly focused on the domestic market and home furniture. Over the years, the business has slowly transitioned to catering to corporates and 80-90% of their focus has shifted to B2B, including the supply of office furniture. The business has subsequently expanded into Uganda, Rwanda and Burundi, and is servicing other markets within the region.

Victoria HomeStore specialises in providing convenience and great customer service. A cousin of Rupen's later joined the family business and a new complementary business called Design Gallery was launched. Design Gallery focuses on kitchens, wardrobes and designer furniture.

As the market has changed, Victoria HomeStore's size has enabled greater flexibility and speed to market. Their close-knit family stays together and can make decisions faster. Making the business more professional does mean more bureaucracy, however, as there needs to be certain governance and board structures in place which could influence agility going forward. But Rupen readily acknowledges that governance procedures are important in any business as they help to prevent conflict. Once trust is broken within the family, it's often too late to remedy the situation.

He says that it took a while for people in the business to realise the importance of certain structures and processes. They only started to see change when a professional consultant came into play. This was a real catalyst in transforming the business into the professional operation that it is today.

The consultant helped to bring together three key elements: the family, the business and the shareholding. Rupen says conflict can exist in family businesses because of a lack of communication and things being left unsaid amongst family members. It can also arise due to a lack of alignment and lack of shared vision and values. These are all interconnected factors so the family worked hard to look at what mechanisms could be incorporated to make the business more sustainable. For example, the family put a shareholder agreement together which has very clear rules about entry, exit and sell out. A family constitution was also put together. They have a family council and have put certain rules in place to encourage bonding. With regards to the third element, 'the business', there are clear criteria for family members to join the business, and also what is required for progression.

In terms of succession planning, the Shah family has become wiser and more careful about employing professional people to help drive the business forward including in Rwanda, Uganda and Burundi where those businesses are no longer run by family members. When Rupen lost his father during the pandemic, they had to quickly convene and decide who was going to lead the business going forward. It is also essential to have a Will in place to disclose how ownership will be distributed.

Having sometimes uncomfortable conversations about succession and implementing good governance, the family can navigate difficult situations. Strong and independent directors and a chairman can also be powerful levers driving greater professionalism and heightened governance.

Rupen Shah is a big believer in family and strongly believes that if you want to keep a family business together, there's a lot of non-monetary value that needs to be appreciated. The more family businesses professionalise, the more they will reap the true glory, benefits, success, and happiness of business.

Nurturing growth in Rwanda's prospering economy

Moses Nyabanda
Partner
PwC Rwanda

Family businesses are the backbone of the private sector in Rwanda, contributing significantly to employment and economic growth. As is the case in other economies, family businesses are characterised by the intertwining of family relationships and ownership, often spanning multiple generations.

While family businesses have unique strengths such as shared values, loyalty, trust, and a long-term perspective, they also face a set of distinctive challenges that can be both complex and emotionally charged. Although these unique strengths are powerful drivers of success, succession planning is vital to ensure a smooth transition of leadership from the current generation to the next generation. We find that in the context of family businesses in Rwanda, conflict resolution, lack of professional management, governance and capital constraints continue to be prevalent challenges family businesses struggle with.

We particularly see a need for family-owned businesses to document what has worked in the past for other family businesses and use the learnings as a clear guideline to help them secure their legacy. This publication is timely and a critical avenue we use to help our clients document this journey.

Generational stewards of impact: A family business enriching the community

Faustin Mbundu
CEO and Chairman,
MFK Group Rwanda

> "MFK Group in Rwanda is a family-owned company founded in 2012 by Faustin Mbundu with about 1,000 direct employees across the businesses. It has holdings in businesses across many industries such as agriculture, education, real estate and IT."

Faustin Mbundu's journey into the world of business began with a vision and a passion for creating value. Born and initially raised in Uganda, he started his career with a clear goal in mind - to build a family business empire that would not only be financially successful but also contribute to the growth and development of his community and country Rwanda.

After moving to Uganda, Faustin's father worked for a couple of businesses to provide for his family that turned out to be 25 children. In 1958, his father's venture into the import and export of coffee, tea, gold and sunflower seeds, turned into oil and real estate. The father managed the business singlehandedly until 1981 when he introduced the young Faustin into the business at the age of 16 while still in high school. Shortly after, his father was exiled due to the political climate in the country.

After his father left, the management of the Kampala business was unexpectedly left in the hands of Faustin and his late brother, Nsenga. From then he had to learn to be accountable for his life. He had to excel in school and also manage the family businesses in the absence of his father. Once Faustin was 19 and done with high school he wanted to follow his father's footsteps in business. After a tough selection process, he got into Makerere University Business School to study commerce.

He continued to manage the business along with his late brother J. Nsenga until his father came back from exile and put him in charge of the export and import business while his brother was in charge of the transport business.

Today, Faustin is the second generation and in 2014 he introduced his son Kevin as the third generation with a large presence in the coffee sector. It is important in a family business to embrace ideas from young members of the family's new generation, since they can bring modern ideas and new ways of doing business. Faustin believes his father, having given him a chance to explore different ideas while running the business, helped sustain the family business.

MFK grew and diversified into various business ventures such as agriculture, real estate, logistics, investments, etc.

Agriculture and agribusiness: Recognising the importance of agriculture in Rwanda's economy, Faustin embarked on several agribusiness ventures. His agricultural projects have not only boosted food production but have also created employment opportunities for local communities and exports to the United Kingdom among other countries.

Real estate and property development*:* His ventures in real estate and property development have played a crucial role in reshaping Rwanda's urban landscape. Through sustainable and aesthetically pleasing developments, he has contributed to the modernisation of Rwanda's cities.

The last 12 months have been fruitful for MFK Group as there was a recovery from the pandemic and businesses are currently running as usual. While most businesses in Rwanda were offered short term loans to help their businesses stay afloat during the pandemic, Faustin chose to reinject capital he already had in his savings. He chose not to get a COVID recovery loan for his businesses and he says that the decision helped his business survive the financial crisis that other businesses might incur later.

Like many businesses that deal in agriculture especially exports, during the pandemic they had a logistics issue - most of his European customers were no longer outsourcing from MFK subsidiaries and changed their preferences to canned products - but relying on the relationship he had built over time, once the conditions were favourable for businesses, orders flew back in as usual.

Where most companies were reducing the number of their employees, MFK Group invested into quality experienced management personnel and improving the skills of those that were already available.

As an entrepreneur with a global perspective, Faustin Mbundu envisions his businesses expanding their reach beyond borders while maintaining a strong local presence. His future goals include exploring new opportunities due to the changing demands in the market, fostering innovation, and continuing to make a meaningful impact on society.

Faustin believes that building trust starts from giving the family and the management the benefit of the doubt and allowing everyone to show their capability in decision making and in growing the business. He also notes that there is more trust in a family business than in corporates due to the sense of ownership, compared to the underlying set of systems driving operations in a corporate business.

Faustin believes that having a big family such as the one he came from does not favour a family business due to different points of view from every member of the family. He also believes that education is key to the survival of a family business. Family is the most important factor in the business, he says, especially if everyone sees the bigger picture. “There is a need to start early to mould children into the future you want them to pursue but most importantly, to allow the children to explore their passions. That way they will care more about the family business because they know the importance of working hard”.

Employees are always the first customers of a business, therefore Faustin believes in building a close relationship with the employees, investing in them and building an environment where they feel like they can approach the leadership with any issue. This will allow one to keep both experienced and loyal employees who in turn will keep the values the business has had for generations. He notes that providing his employees with job security has allowed him to retain productive, loyal and experienced employees.

The success of MFK Group for three generations now has been due to building trust, respecting obligations, having consistency in their products and services and delivering on time for external customers.

There is a big shift in Rwanda with the government encouraging people to use electric cars as a way to reduce carbon emissions. Thus most businesses are planning to invest in selling electric cars, providing charging stations and other services that will support the government agenda.

Faustin's businesses thrive on a foundation of innovation and sustainability. He recognizes that staying ahead in the competitive business world requires embracing modern technologies, digitalisation, and sustainable practices. By doing so, he not only ensures the longevity of his ventures but also contributes to environmental conservation and responsible business practices.

Rooted in legacy: Flourishing in Ethiopia

Anthony Murage
Partner, PwC Kenya

Ethiopia is home to more than 120 million people; and in Africa's second most populous nation, the economic potential of family-owned businesses remains relatively untapped compared to neighbouring countries in the region. Now, as the country begins to open its economy and attract private and foreign capital, family enterprises have a unique opportunity to lead and further develop industries in Ethiopia.

To drive market growth, family businesses must build trust with key stakeholders – family members, employees, customers, and the public. Currently in Ethiopia most family firms are classified as second generation, with a few entering their third generation. This is primarily due to the state's historic control and ownership of productive sectors and industries, and the economy being closed for many years. That is now changing, and family-owned companies are well positioned to foster new business opportunities through strategic joint ventures and private-public partnerships (PPPs) in key sectors such as agro-processing, industrial manufacturing, mining, construction, real estate, and consumer goods.

The Ethiopian government's commitment to structural reform, political stability, and concerted efforts to ease macroeconomic issues related to forex shortages, access to finance and high inflation, will encourage family enterprises that have proven to be resilient and agile thus far to expand and take charge in the country's ambition to transform for inclusive and sustainable growth. The ongoing development of Ethiopia's capital market and preparations to launch its securities exchange next year, will present immense opportunities for family enterprises to raise capital, increase market share, attract domestic and foreign investment, and more importantly share their story with the public.

The new formula of trust requires that family-owned businesses transform to protect their trust advantage. Family business leaders and the next generation should continue to prioritise transparency through sustainability reporting and the implementation of environmental, social and governance (ESG) practices. The next generation of family business leaders in Ethiopia should champion new business priorities such as ESG to ensure business continuity and lasting success in a rapidly changing market. Beyond managing family dynamics and succession planning, having a clear business strategy that defines future growth and conveys market differentiation will sustain the family's legacy for future generations.

Built to last: Professionalising a multi-generational business

Egziael Buzuayehu
Deputy CEO, National Cement, Ethiopia

“Established in the late 1800s, the East African Holdings SC family business has been around for more than 100 years and has strong ties to Ethiopia’s socio-economic history. They are a fourth-generation family enterprise, evolving into a thriving and diversified industrial conglomerate. Their interests encompass a wide array of sectors including building materials, mining, fast-moving consumer goods, agro-processing, construction, real estate, logistics and distribution. The family business employs 10,000 direct and temporary employees and has over 50 brands across the group’s subsidiaries.”

The East African Holdings SC family business was established in the late 1800s, spanning over a century with roots deeply embedded in Ethiopia's socio-economic history. They are a fourth-generation family enterprise, evolving into a thriving and diversified industrial conglomerate in sectors including building materials, mining, fast-moving consumer goods, agro-processing, construction, real estate, logistics and distribution. The family business employs 10,000 direct and temporary employees and has over 50 brands across the group’s subsidiaries.

Bizenu Cheru laid the foundation for this family business, with a legacy of entrepreneurial spirit and pioneering vision. “Under the stewardship of our current Chairman, Buzuayehu T. Bizenu, my father, we have experienced remarkable growth and transformation over the past four decades,” says Egziael Buzuayehu, the Deputy CEO of National Cement, an East African Holdings SC family business. “My father’s vision and leadership have been instrumental in shaping our company's trajectory.”

As global commerce evolved and recognising the enormous potential in Ethiopia, Egziael’s father diversified from trading and distribution to manufacturing. “This strategy allowed us to tap into new avenues of unprecedented growth and innovation,” he says. East African Holdings is a pioneer in green-field projects in key sectors of the economy like tea farming and processing and cement manufacturing. “We have remained resilient and focused despite many challenges, driving the private-sector’s contribution to Ethiopia's industrial and economic development.”

Many family businesses have ambitious long-term goals as they emerge from the economic turmoil of the pandemic. Although the pandemic and a recent series of global political and economic complexities have been challenging for family businesses, our survey shows that they remain hopeful for prospects of growth in the next two to three years.

"One of our strategic pillars is to attract tier one investors into Ethiopia. We have been quite successful in this endeavour, nurturing partnerships in existing and new projects. We have strategic and financial investors from China, Hong Kong, Norway, Denmark and the USA. We're optimistic about the future and Ethiopia as a favourable investment destination.

We believe that by adapting and staying focused, we can still be a driving force in fostering valuable partnerships. We are committed to maintaining the course we've charted for the coming years. Our intention is to persist in investing in all our sectors and growing market share, and we are highly confident about the prospects," says Egziael.

Building trust with stakeholders

Trust is the foundation of conscious capitalism. It enables higher purpose, leadership and stakeholder orientation to co-exist. Ultimately, trust enables an enterprise to have a positive and lasting impact on society. When we asked Egziael Buzuayehu who their most important stakeholders are when it comes to building trust, the family and employees are priorities. Trust can only spread outwards if transparency is firstly fostered internally. Embedding a customer-centric ethos into the organisation's culture is also important.

Family businesses can strike a balance between pursuing growth and profitability while creating opportunities for employees and enhancing the customer experience. Some of the ways this can be done is by investing in employee training and development, and recruiting candidates who demonstrate the potential to acquire and apply new skills effectively. Encouraging employee feedback and creating a positive company culture and offering career advancement opportunities are also means towards these goals and help to foster trust.

Family businesses can reinforce the importance of transparency in building trust by 'walking the talk' and communicating proactively. For example, transparency in dealings with the government takes many forms, including tax and financial compliance, rigorous audits and adherence to HR and environment laws. These issues are not just legal requirements but are essential pillars of any business strategy. These values need to be documented and communicated to employees, customers and all stakeholders.

According to Egziael, "Transparency is the cornerstone of our corporate culture. Transparency enables us to consistently attract and retain talent. This same principle of transparency underpins our ambition to attract world-class investors. We recognize that the trust and openness we demonstrate internally has ripple effects. Our culture of trust and integrity is reassuring to our partnerships and strengthens our talent pool as well as positions us as the partner-of-choice for investors who share our vision for growth and excellence."

"As we continue to grow and evolve, we remain steadfast in our mission to continue building on our reputation," concludes Egziael.

Building trust with family

East African Holdings' National Cement has taken significant steps to enhance corporate governance and ensure continuity of their business. They are currently operating under a Family Executive Board, which is supported by an Advisory Board. These overarching organs are responsible for overseeing the activities of all companies under their umbrella, including conflict resolution.

Egziael says they have committed to establishing a Family Office dedicated to managing the affairs of the family. "We have drafted a Family Constitution as part of our governance framework to manage and align objectives related to investments, philanthropy and succession. Our family understands the paramount importance of conflict resolution and so we have established a robust mechanism to address conflicts, whether they arise internally or externally."

Family business priorities

Building trust in business is changing for everyone, at different times. Due to powerful demographic shifts, most of today's customers and employees hail from generations – millennials and generation Z – with somewhat different values than older generations. Progress on issues such as the environment, social inclusion, diversity and good governance have become litmus tests for trustworthiness. Some family businesses, which, for years, have relied on a trust premium, built up over generations, have been slow to get the message.

The tone needs to come from the top, with the leadership communicating and demonstrating commitments in the ESG and DEI space including responsible business conduct.
For East African Holdings SC, sustainability is a strategic pillar. This family business has an environmental policy and programmes, especially in energy and resource intensive sectors like cement manufacturing. Quarry rehabilitation, biodiversity and energy management projects in Dire Dawa where their cement plant is located all help to deliver on the company's commitment to ESG objectives.

Egziael says, “We have community engagement platforms across our subsidiaries, where we collaborate with local leaders to ensure harmonious co-existence and to solve community related issues. We jointly identify and support development projects including clean water, sanitation, education and health. We intend to continue making a positive impact in the communities and the environment where we operate. We believe in the transformative power of these initiatives, creating a brighter and more sustainable future.”

The company also prioritises corporate responsibility and community impact efforts through various initiatives under the family’s foundation, the Buzuayehu Tadele Foundation. Established in 2019 with the long-term objective to create a positive impact on the environment, society and the economy at large and empower marginalised groups and communities in Ethiopia, the foundation supports poverty reduction, basic education, elderly care, capacity building and job creation for women and youth.

For family businesses, embracing ESG in their operations and business strategies will ensure success and continuity. The next generation of family business leaders must accelerate the ESG agenda with a clear ESG narrative and two-way communication, including channels for customer feedback.

About the East Africa Family Business Survey

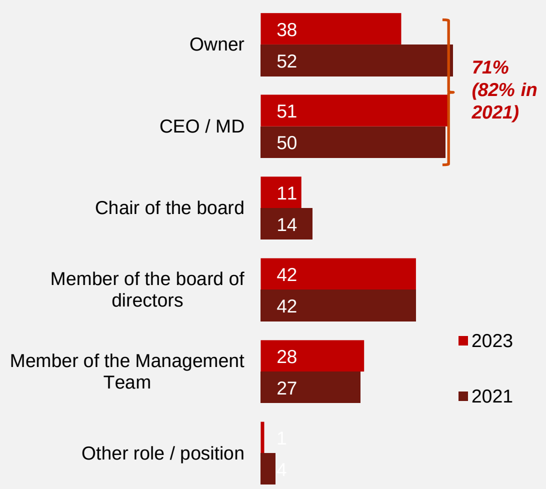
PwC's Global Family Business Survey is a global market survey among key decision makers in family businesses within a number of PwC's key territories. The goal of the survey is to understand what family businesses are thinking on the key issues of the day. For our most recent survey, we conducted:

- 2,043 interviews with family businesses, typically 25 minutes each,
- Between 20 October 2022 and 22 January 2023,
- In 82 territories.
- **95 interviews were conducted in East Africa for this survey**.

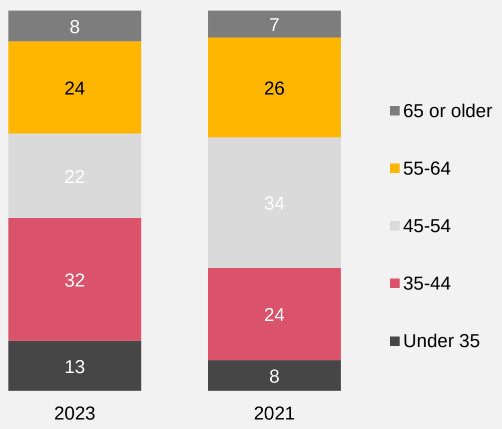
East Africa respondent profile – who have we spoken to?

%

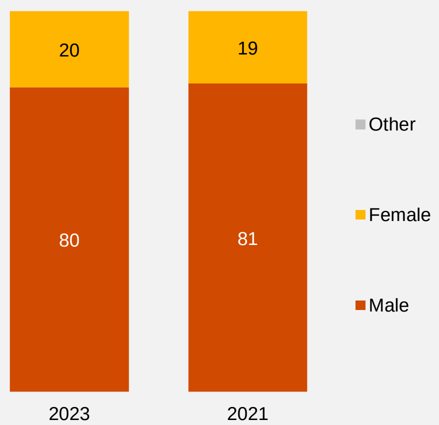
Current Job Role / Position



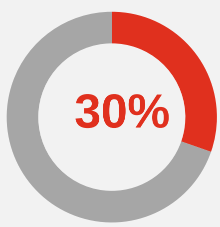
Age



Gender



FBN Member (2023)



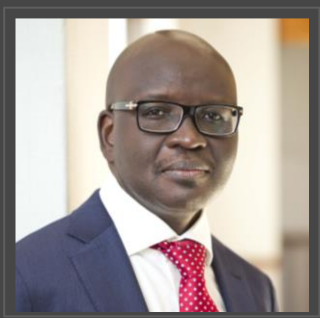
Contacts

Michael Mugasa
Partner and Leader, Private Business Services, PwC East Market Area
michael.mugasa@pwc.com

Sunny Vikram
Partner, Tax and Private Business Service, PwC Kenya
sunny.vikram@pwc.com

Rishit Shah
Partner, PwC Tanzania
rishit.shah@pwc.com

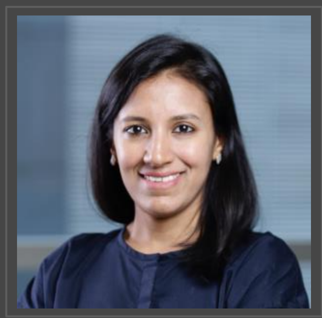
Cedric Mpobusingye
Partner, PwC Uganda
cedric.mpobusingye@pwc.com



Moses Nyabanda
Partner, PwC Rwanda
moses.o.nyabanda@pwc.com

Anthony Murage
Partner, PwC Kenya
anthony.murage@pwc.com

Alex Murage
Associate Director, PwC Kenya
alex.murage@pwc.com



Shreya Shah
Senior Manager, PwC Kenya
shreya.shah@pwc.com