



African family business barometer

Embracing innovation
for a new reality in Africa.

In collaboration with:

NELSON MANDELA
UNIVERSITY

Family Business Unit

AFRICA
CEO
FORUM

KPMG Services Proprietary Limited

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Introduction

Welcome to the third edition of the African family business barometer, which this year was done in collaboration with the Nelson Mandela University Family Business Unit and the Africa CEO Forum.

Our bi-annual survey, which was undertaken during the COVID 19 pandemic, received 122 responses from family businesses in 9 countries across Africa. The barometer shows that the pandemic has had an impact on the confidence levels of respondents and uncertainty concerning the economic prospects for their family businesses over the next 12 months exists. Despite this uncertainty, they remain optimistic for the future.

Family businesses face many challenges and the pandemic has tested their resilience, innovation and leadership during a difficult period. Several of these challenges have remained the same compared to the previous barometer, which focused on improving turnover and profitability, accessing finance, as well as dealing with volatile currency and political uncertainties.

Family businesses have traditionally focused on the long term and are risk-averse, but the new reality and way of conducting business, as a result of Covid-19, has resulted in families reassessing their purpose as well as reaffirming their values and the role they play in the wider community. In addition, there is an accelerated focus on succession and the role of the next generation in governance, ownership and leadership. It is therefore critical that a detailed succession plan be put in place to ensure adequate preparation for an uncertain future. This uncertain future is acerbated by the technological and digital explosion and requires that families become more entrepreneurially oriented in their business operations. This year we assess two important topics in the barometer, namely level of Entrepreneurial orientation (EO) of African family businesses and the importance they place on Socioemotional wealth (SEW).

Whilst the immediate future is uncertain, African family businesses are well placed for the recovery of their respective economies due to their natural characteristics – patient capital, a clear sense of purpose and community and a long-term focus on the future. Patient capital in a family business context refers to more than the material value of equity and represents business owners who are willing to balance the current return on their investment against long-term transgenerational potential and success. A key change from the results of previous barometers, is that African family businesses are looking to diversify their businesses to continue growing in this rapidly changing global and African business environment.



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1 Family business - Africa's economic backbone

In this third edition of the African family business barometer, KPMG Private Enterprise has joined forces with the Nelson Mandela University Family Business Unit and the Africa CEO Forum to explore key issues facing family businesses across Africa. The purpose is to share perspectives of family businesses on a range of critical topics – including market confidence, growth, concerns as well as areas for investment.

This year we assess two important topics in the barometer, which are gaining great focus globally, Entrepreneurial orientation (EO) of African family businesses and the importance they place on Socioemotional wealth (SEW). Not only is SEW the most important differentiator between family and non-family businesses, it also has a positive influence on family business performance, especially in areas where social norms are considered important. Similarly, EO is important as it influences both the growth and performance of family businesses.

Family businesses play a significant role globally (Miroshnychenko, De Massis, Miller, & Barontini 2020) and in the context of African economies (Acquaah 2016). However, due to a lack of adequate data their significance and contributions are not fully appreciated or understood. Although many family businesses are privately owned and their sizes may vary, it is clear from the results of the barometer that they are all experiencing similar challenges in the current environment.

Covid-19 pandemic has changed the positive outlook

African family businesses participating in this barometer experienced a very strong year of growth in 2019 and were therefore very confident at the beginning of 2020 about the economic prospects for the coming year. The impact of the COVID 19 pandemic has changed this outlook somewhat but only 20% of respondents were either negative or very negative about their future economic prospects.

The impact of the pandemic varies amongst family businesses, from having a negative impact and struggling to survive, to having a positive impact and seeing growth during the period of global lockdown. However, for most it has placed real pressure on the business and has required strong leadership and decisive decision-making to deal with the needs of both the family and the business.

The challenges being faced are not dissimilar to the challenges highlighted in the 2018 or 2016 barometers, however what is noticeable is that the war for talent is no longer one of the top five challenges.

Family businesses are resilient and agile

The unique nature of family businesses has the ability to either enhance or restrict their entrepreneurial activities. The respondents in this years' barometer provided insights into the five key dimensions of entrepreneurial orientation, namely: innovation, risk-taking, autonomy, proactiveness and competitive aggressiveness.

Despite the excellent growth experienced by family businesses over the last few years, the responses to this year's survey indicate that family businesses will need to pay close attention to the five key dimensions of entrepreneurial orientation as a result of the new reality caused by the COVID 19 pandemic and there is a need for all businesses to be increasingly entrepreneurial in their behavior.

Family businesses are resilient and agile, but they will need to become less risk averse and more proactive in driving innovation.

This year a high number of respondents indicated that they are considering handing over key family business roles to the next generation in terms of either governance, ownership or leadership. It is therefore critical that the entrepreneurial mindset of the founding generation is also transferred to the next as part of the succession process.

Socioemotional wealth is key for the business

Socioemotional wealth (SEW) helps explains why family business put as much emphasis on pursuing non-financial goals as financial goals. In other words, SEW refers to the intentional pursuit of non-economic objectives, such as control, transgenerational succession, social capital, emotional connection to the firm, and reputation. Not only does SEW positively influence the performance of family businesses, it is also the most important differentiator between family and non-family businesses, and an important guide when making strategic decisions.

The African family business respondents agree that all five dimensions of SEW is important to their business. To retain family influence and control, the majority of shares in the business are owned by family members and these family members exert control of the strategic directions of the business.

Africa family businesses in this study were also in agreement that it is important for the family to build relationships based on trust with all their stakeholders (employees, the community, customers and suppliers) and not just with family members. In addition, most respondents agreed that the emotional bonds among family members are very strong and helps them to maintain a positive self-concept in their family business (65%).

Renewal of family bonds relates to the successful transfer of the family business to the next generation and to continuing the family legacy and tradition, as important goals of the family business. When such goals are considered important, family owners are not likely to evaluate their investments over the short-term nor are they likely to sell the business. Most 2020 Barometer respondents agreed that continuing the family legacy and tradition is an important goal for their family business as is the successful transfer of the family business to the next generation.

Future outlook

The role that the family plays in driving the business forward, building long term relationships with key stakeholders and making a difference in the community, has never been more important.

African family businesses are much younger than their counterparts in other countries and therefore have the opportunity to manage the key family business dynamics of growth, risk, governance, wealth, transition and people in a manner that sets their businesses up for long term sustainability.



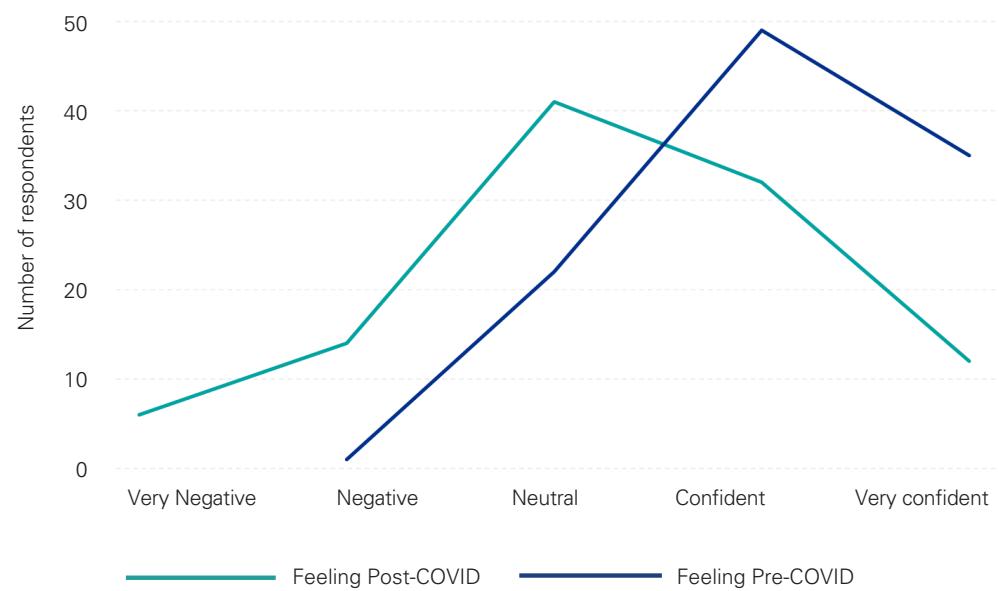
2 Economic outlook: Uncertainty prevails

African family businesses are uncertain about the economic impact of the pandemic but remain optimistic about the future.

The impact of the pandemic has certainly had an impact on the confidence levels of respondents about the economic prospects for their family business over the next 12 months. Respondents that were confident or very confident about the next 12 months declined from 80% pre-COVID 19 to 37% post-COVID 19. In fact, confidence levels at the beginning of 2020 (pre-COVID 19) were higher than that of the 2018 survey.

Less than 20% of respondents were negative about the future despite the uncertainty created by the impact of the pandemic, whereas the majority were neutral about the future due to the uncertainty of the economic impact over the next 12 months. Despite the uncertainty created by the impact of the pandemic, the majority of respondents were either positive about the future or neutral in terms of the pandemic having a negative impact on their businesses. The reason for the high level of confidence at the beginning of 2020 and the low negative outlook post-COVID 19 has much to do with the success of the previous year.

Confidence about the future (Pre-COVID and Post-COVID)



Approximately 70% of respondents reported an increase in turnover in 2019 from the previous financial year. This compares with 57% in the 2018 survey and 39% in the 2016 survey. The number of family business that reported a decline in turnover was only 10%, which was less than surveys in previous years.

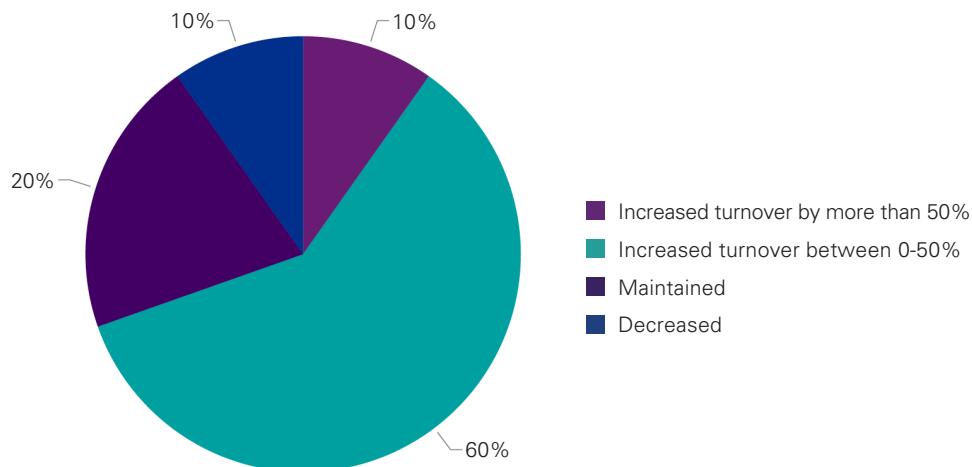
Hiring of staff also increased in comparison to previous surveys, with 37% of respondents reporting that they had increased staff numbers in 2019 to achieve growth in turnover, relative to 29 % in 2018. A large number of respondents (45%) were able to achieve growth in turnover without increasing staff numbers and therefore increased profitability.

Expanding into new markets is one strategy to grow your business but it has its challenges and can be a very costly exercise. Almost 60% of family businesses undertook activities in other countries and 31% reported having increased these activities during 2019. The expansion into new markets was not only on the African continent but into more established markets.

What is encouraging to see is that growth was achieved by all the participating family businesses regardless of size, highlighting the important contributions that family owned businesses make to the African economy.

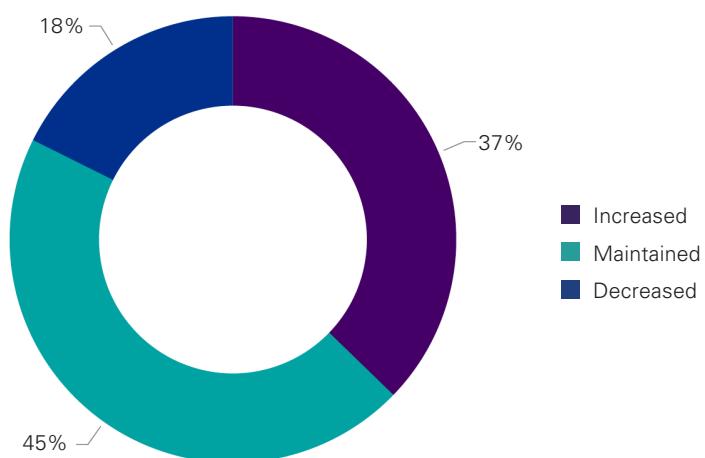


Turnover growth

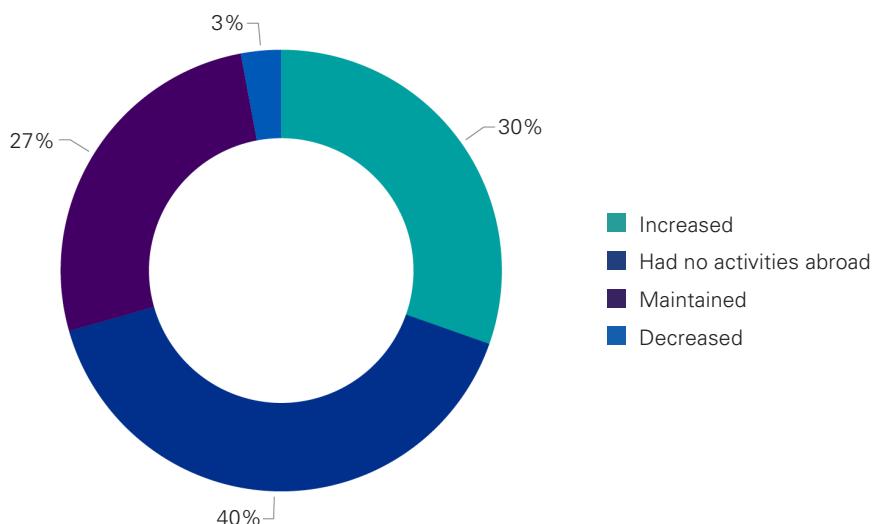


" African family businesses experienced excellent growth in 2019 "

Staff numbers



Activities abroad



“ Less than 20% of respondents were significantly impacted by the pandemic ”

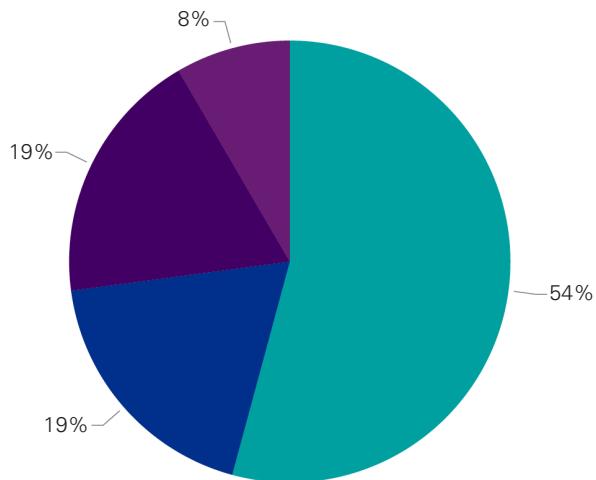
3 Challenges impeding growth

Impact of COVID 19 pandemic

Every business around the world has been impacted by the COVID-19 pandemic and African family businesses are no exception. They are however resilient as only 19% of respondents reported that they had experienced a significant negative impact on the business and as a result had to drastically change the way in which they operate, including reducing staff numbers.

More than 50% of respondents indicated that they are feeling challenged in the current tough economic environment but were adapting to the new reality, whereas for 19% of respondents it is business as usual. At the time of the survey, 8% of respondents reported that their businesses had actually been able to take advantage of opportunities presented by the crisis.

Impact of COVID-19 on the business:



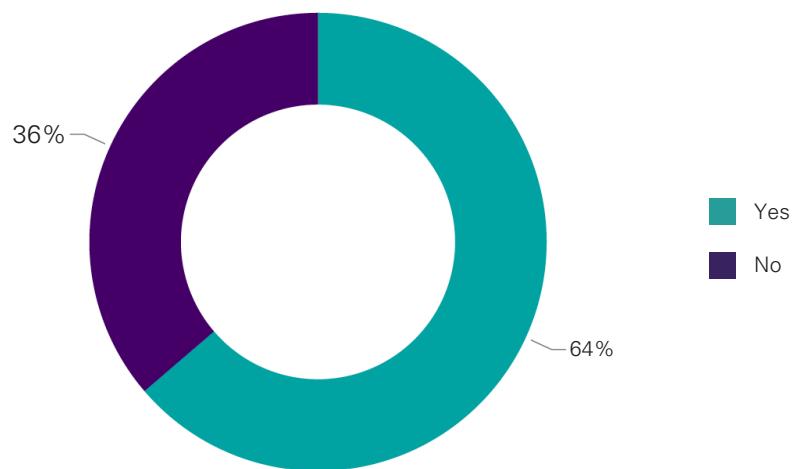
- **Real** – Challenged at the moment in a tough environment, business is operational whilst we learn to adapt
- **Significant** – our business has been under real pressure and has drastically changed the way we operate
- **Business as usual** – yes there are challenges, but we are prepared as with any crisis and have plans in place to respond accordingly
- **Contrary trend** – business has picked up and we are seeing improved performance as compared to pre-crisis.

As time progresses and people move out of crisis mode, we are seeing more and more family businesses taking advantage of the opportunities available due to their agility and resilience.

A key question posed was how prepared were African family owned businesses to handle the crisis? Approximately 64% of respondents reported that they had a business continuity plan in place to deal with a crisis. In both Kenya and Ghana the majority of family businesses reported having a business continuity plan in place, whereas only 50% of respondents from Africa's two largest economies, Nigeria and South Africa, had a plan in place.

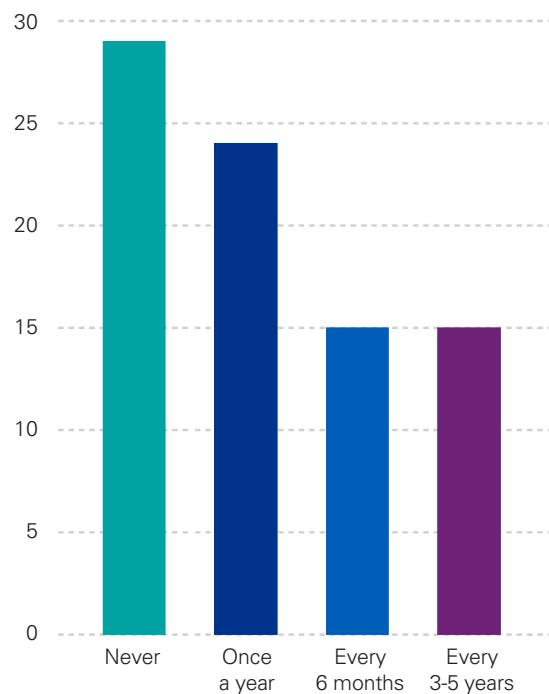
Business Continuity Plan

Did the company have a Business Continuity Plan before the COVID-19 outbreak?



Of those which had a plan in place, 47% had previously tested their plan at least once a year or more, whereas 35% had never tested whether their business continuity plan actually works. One of the key lessons learnt from the pandemic is that business continuity plans should be put in place timely so that crises can be managed, and continued business operations can be ensured.

If the company had a Business Continuity Plan, how often was it tested:



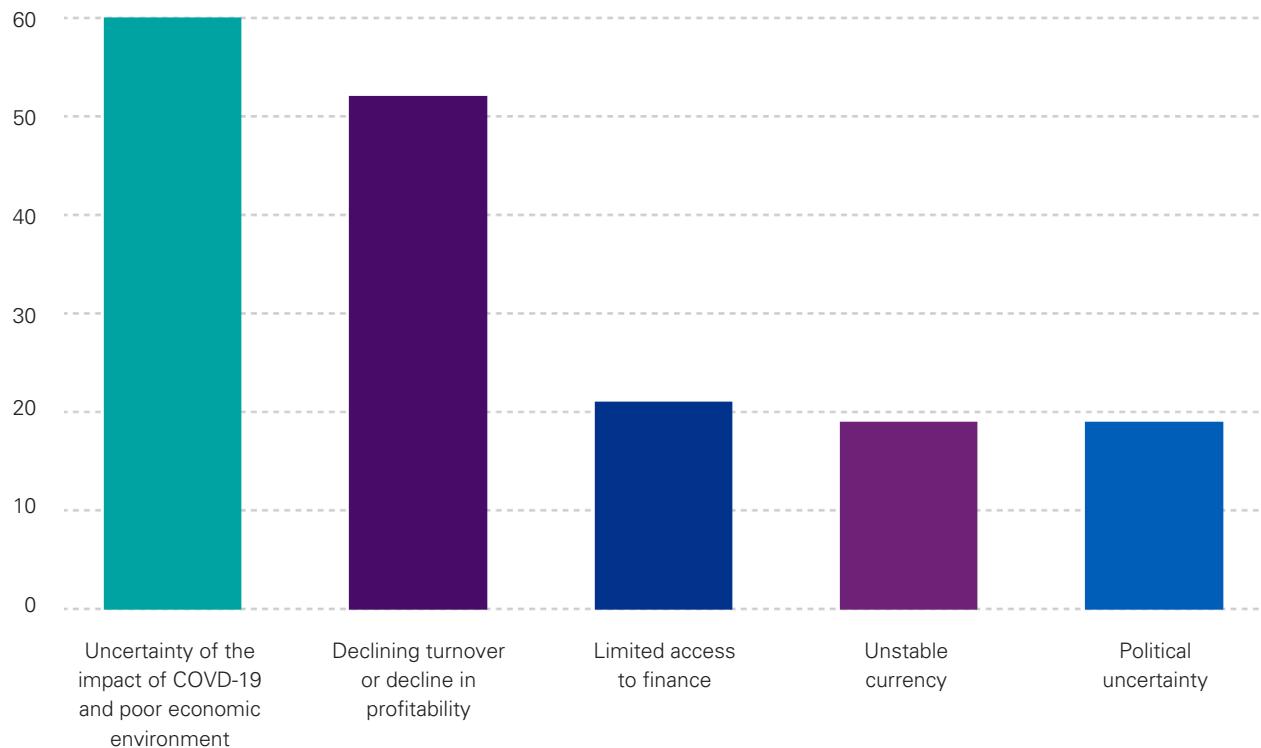
Challenges impeding growth or forcing innovative business models

Challenges are inevitable in every business and despite the strong financial performance of 2019 by African family businesses, the new reality caused by COVID-19 pandemic has brought its own unique challenges.

The key concerns for African family businesses include:

- Uncertainty created by the impact of the pandemic and a poor economic environment, which have been acerbated by the actions of governments to deal with the pandemic,
- Managing declining revenue and profitability,
- Access to finance to fund growth,
- Unstable currency, and
- Political uncertainty.

Top 5 major concerns



All these concerns are interlinked to the impact of the pandemic and related to managing their businesses through the crisis and preparing the business for the new reality. Several of these concerns arise due to external factors that are out of the direct control of the business, for example, currency instability, (the lack of) government strategies to rebuild the local economy and recovering funds to reduce debt raised to deal with the crisis. However, many family business owners are assessing all aspects of their business to ensure that it remains viable and is ready for the new reality of conducting business.

The war for talent, one of the previous top five challenges reported by family businesses in the 2018 survey, is no longer a key concern for African family businesses. This is interesting as the war for talent has become the number one risk facing global CEOs of large corporates per the 2020 KPMG Global CEO Outlook survey. A possible explanation may be that African family businesses were able to achieve the growth without employing large numbers of people and therefore with the reduced job opportunities available, a trusted relationship and the long-term focus by a family business, employees are less of a flight risk.

Access to finance has been one of the major concerns facing African family businesses for some time now. A notable change is that this year respondents reported that their number one choice is debt financing from a bank or financial institution. Financing raised from individual financial partners, individuals or families remains a viable option as the second option but is not as popular as in the 2018 survey.



4 Entrepreneurial orientation

“ African family businesses are less likely to make radical changes to product and/or service lines ”

This year we assessed the *Entrepreneurial orientation* (EO) of African family businesses. EO is an important concept in the fields of business and entrepreneurship due to its influence on the growth value and performance of a business (Fredyna, Ruiz-Palomo & Dieguez 2019). EO refers to the business having the ability, capacity and willingness to identify new business opportunities, engage in innovation activities, commit a large portion of its resources to risky ventures, and invest heavily in entrepreneurial product and/or market initiatives. The business also acts proactively to initiate actions which its competitors respond to (Covin & Wales, 2018; Hosseini, Dadfar & Brege, 2013; Dess & Lumpkin 2005).

The unique nature of family businesses can either enhance or restrict their entrepreneurial activities. For instance, their centralised organisational structure and business culture may help these businesses develop entrepreneurial tendencies which in turn fosters proactivity and innovation. However, an aversion to risk and resistance to change tends to reduce the EO exhibited by family businesses. This aversion to risk, as well as their fear of losing control of the business, their unwillingness to use external finances, as well as other family business-specific factors contributes to reducing their levels of EO and hence their innovativeness. However, family businesses that are entrepreneurially oriented report a stronger relationship between EO and business performance than their non-family counterparts (Jiménez-Jiménez, Sanz-Valle & Perez-Caballero 2020).

“ The long-term focus, together with the risk-averse nature often exhibited by family businesses, results in them resisting change ”

There are five dimensions of EO, namely innovativeness, risk-taking, autonomy, proactiveness and competitive aggressiveness. For each of these dimensions, the responses of the participating African family businesses are discussed below.

Innovativeness

Innovativeness and innovation are often used interchangeably. However, innovativeness refers to a business's willingness and capacity to engage in innovation activities, while innovation is the process of creating new or enhanced products or processes. Given this close relationship, proactiveness and risk-taking tend to be determinants of innovation, as well as innovativeness within businesses. The Barometer respondents were requested to indicate their extent of agreement with several statements assessing the level of innovation in their family business.

Respondents agreed that their family business actively introduces improvements and innovations (66%) and is creative in its methods of operation (64%). They were also in agreement that their family business has brought several products and/or services to market in recent years (63%). However, only 36% agreed that changes in product and/or service lines have been radical.

In addition, most respondents agreed that their family business directors prefer to try out new approaches to resolve problems (58%), and that there is a long-term commitment to invest in new technology, R&D and continuous improvement (57%).

African family businesses being less likely to make radical changes to product and/or service lines is consistent with global research on this topic. It is also well-documented that because of their emphasis on tradition and their risk-averse nature, family businesses tend to focus less on product innovation than non-family businesses do.

Risk-taking

Risk-taking in business involves the brave action of venturing into unknown territory, as well as the willingness of managers and employees to adopt risk and seize opportunities that exist in uncertain business environments. Given that innovation is an extremely risk-intense activity, businesses who wish to implement innovation successfully are required to accept some degree of risk (Mihić, Umhanić & Fazlović 2015). Smaller businesses may struggle to take significant risks as they often do not possess the necessary resources to mitigate these risks.

The 2020 Barometer respondents were requested to indicate their extent of agreement with several statements assessing the level of risk-taking in their family business. Most agreed that their family business commits a large portion of its resources in order to grow (53%) and that employees are encouraged to take calculated risks with new ideas (56%).

However, less than half of the respondents agreed that their family business emphasises both exploration and experimentation for opportunities (42%) and that the family business adopts bold, wide-ranging acts necessary to achieve the firm's objectives (42%). Even less agreed that when faced with uncertain situations, their family business's directors prefer to adopt an aggressive bold stance to gain the maximum benefit from opportunities (32%), invests in major projects through heavy borrowing (23%) and the business directors tend to choose high-risk projects to obtain high returns (20%).

In general family businesses tend to focus on the long-term because the family wants to ensure that the founding generation has financial security and that the business can adequately provide for the family indefinitely. This long-term focus, together with the risk-averse nature often exhibited by family businesses, results in them resisting change and failing to allocate significant financial resources to new business ventures, new technologies and costly innovations.

Autonomy

When autonomy exists in a family business, efforts to work autonomously are supported and decisions are made without constant reference to supervisors. Employee initiatives and input play a major role in identifying and selecting entrepreneurial opportunities, and initiators decide for themselves which opportunities to pursue.

The African family business respondents were requested to indicate their extent of agreement with several statements assessing the level of autonomy in their family business. Most agreed that their family business supports the efforts of individuals/teams that works autonomously (66%) and that employee initiatives and input play a major role in identifying and selecting entrepreneurial opportunities (56%). However, less than half of the respondents agreed that in their family business, the best results occur when individuals/teams decide for themselves what business opportunities to pursue (44%) and individuals/teams pursuing business opportunities makes decisions on their own without constantly referring to their supervisors (30%).

This result is no surprise given that most family businesses like to maintain control over the strategic direction of their business, especially if the business is in its first, second or third generation where the family is likely to own the majority, if not all, the shares in the business.

Proactiveness

The proactive element of EO focuses primarily on the readiness of businesses to seek and engage in innovation, as well as the timing of said innovation in relation to market conditions (Covin & Wales 2018). In this study African family businesses were requested to indicate their extent of agreement on several issues relating to proactiveness.

Most 2020 Barometer respondents agreed that their family business is proactive in closely monitoring technological trends and identifying future needs of customers (62%). Most also agreed that their family business usually initiates actions, which their competitors respond to (60%) and excels at identifying opportunities (60%). However, less than half of respondents agreed that their family business is often the first to introduce new products, services and management techniques (44%), new administrative techniques (44%) or new operating technologies (39%).

Boling, Pieper and Covin (2016) are of the opinion that proactiveness is an important dimension of entrepreneurial orientation for family businesses. They add that proactiveness follows a “nonlinear pattern as the family firm ages; proactiveness first declines, then increases, and finally decreases again”. In other words, the level of proactiveness varies in family businesses, depending on the current generation that is in control of the family business.

Competitive Aggressiveness

Being competitively aggressive refers to a family business seeking to be aggressive and intensely competitive, adopting price-cutting strategies to enhance its competitive position, using unconventional strategies to challenge competitors and copying the business practices or techniques of successful competitors to enhance a competitive position.

Like many family businesses in other parts of the world, the African family businesses participating in this study did not view themselves as competitively aggressive. Less than half agreed that their family business copies the business practices or techniques of successful competitors to enhance a competitive position (45%); adopts a price-cutting strategy to enhance a competitive position (33%); and uses unconventional strategies to challenge competitors (33%). The majority did however agree that their family business is aggressive and intensely competitive (51%).

A possible explanation for the lack of competitive aggressive behaviour reported by African family businesses could be that those who participated in the barometer already see themselves as dominant players in their industry. As such it is more important for them to focus on the continuity and survival of their businesses and to maintain good relations with competitors, than it is to compete aggressively with them. In addition, family businesses tend to avoid very offensive aggressive behaviour because of concerns for their reputation among stakeholders. The lack of competitive aggressive behaviour could also be explained by the low levels of individualism and high levels of collectivism embedded in indigenous African culture.

The family life stage has been noted by several authors in previous research as having a significant influence on the entrepreneurial mindset that exists in a family business. It has been observed that entrepreneurial activity decreases in family businesses in later generations when compared with the founding generation. For example, as time passes and the founder's influence on the business reduces, the increased involvement of the next generation tends to result in a reduction in the levels of innovativeness, risk-taking, and proactiveness, and as a result, a reduction in entrepreneurial behaviour. It maybe that the generation taking over the family business tend to hold the perception that they are less entrepreneurial in their approach “due to the pressure not to lose family capital created by previous generations”.

The following recommendations are suggested to enhance Entrepreneurial Orientation:

- The traditional way of doing business should be challenged and a culture of open innovation and collaboration should be implemented. A learning orientation should be created, where owners and managers continuously strive to educate and upskill themselves and their employees, so as to be equipped to come up with innovative ideas.
- A work environment that encourages employees to come up with creative ideas combined with the empowerment of employees to take these ideas forward should be created. Such an environment will increase motivation, morale and build trust.
- Investment decisions should be thoroughly researched by undertaking feasibility and viability assessments. Financial qualified senior management should form part of these assessments.
- Proactive behaviour should focus on scanning the environment in order to identify business opportunities, monitor technological trends, and identify future needs of customers, and actions to which competitors respond should be initiated.
- Emphasis should be placed on building and maintaining a good business reputation and good relationships with competitors.



“ African family businesses don’t view themselves as competitively aggressive ”

5 Socioemotional wealth

“ Preservation of family control and independence are important goals of the business ”

Socioemotional wealth (SEW) refers to “the non-financial aspects of the firm that meet the family’s affective needs” (Rousseau, Kellermanns, Zellweger & Beck 2018). SEW helps explain how the pursuit of non-financial goals drives family firm behaviour (Chua, Chrisman, & De Massis, 2015). Not only does SEW positively influence the performance of family businesses, it is also the most important differentiator between family and non-family businesses, and an important guide when making strategic decisions (Debicki, Kellermanns, Chrisman, Pearson & Spencer 2016).

Family businesses gain socioemotional wealth through exercising authority, satisfying the need for belonging and intimacy, perpetuating the family values, preserving the family dynasty, conserving the family business’s social capital, fulfilling family obligations based on blood ties, being altruistic to family members, and building the family reputation. In other words, SEW refers to the intentional pursuit of noneconomic objectives, such as control, transgenerational succession, social capital, emotional connection to the firm, and reputation (Berrone, Cruz & Gómez-Mejía, 2012).

The dimensions of SEW assessed in the 2019 Barometer are family influence and control, binding social ties, emotional attachment of family members and the renewal of family bonds through dynamic succession.

Family influence and control

Family influence and control is associated with the owning family’s desire to perform, preserve and if feasible, cultivate control over their family business and refers to the owning family viewing the preservation of family control and independence as important goals for the family business.

The 2020 African family business respondents were in agreement that: the majority of shares in the family business are owned by family members (69%); family members exert control of the business’s strategic decisions (63%); preservation of family control and independence are important goals of the business (57%); the board of directors are mainly composed of family members (55%); and most executive positions are occupied by family members (53%). Less than half (42%) agreed that non-family managers and directors are named by family members.

The majority (74 %) indicated that the shares in the family business were 100 % family owned, whilst a very small percent (5%) indicated that less than 25% of the shares were family owned but that the family still maintained control of the business.

Binding social ties

Business owning families build relationships based on trust with all their stakeholders (employees, the community, customers and suppliers) and not just with family members (Stankiewicz 2016; Berrone et al. 2012). Sometimes these relationships become so strong that non-family employees are viewed as part of the family. By nature, family businesses are concerned with the wellbeing of those around them, regardless of whether they benefit financially or not. Family businesses are usually strongly integrated into their surrounding communities, assisting these communities with sponsorships or donations which in turn strengthen their position in the community. It is believed that family businesses do this for philanthropic motives or for the publicity it generates.

The 2020 Barometer respondents reported their strongest level of agreement with this component of SEW. The majority were in agreement for all aspects relating to building social ties, namely that: building strong relationships with other institutions is important in their family business (75%); contracts with suppliers are based on enduring long-term relationships (68%); the family business is very active in promoting social activities at the community level (65%); non-family employees are treated as part of the family (64%); and family business contractual relationships are mainly based on trust and norms of reciprocity (57%).

Emotional attachment of family members

This dimension of SEW looks at the role that emotions play in a business. Family businesses have a more complex set of emotions and affections than non-family businesses do (Stankiewicz 2016). These emotions can either be positive or negative and can quickly be altered during events, such as succession, divorce, illness, death or even financial difficulties.

Even though emotions are an essential and undividable part of everyday business activities, in businesses where family relationships dominate there is a longer narration and understanding of shared experiences and past events that converge to manipulate and shape present activities and events, as well as relationships. Therefore, family businesses embody a place where the need for belonging, understanding and affection occurs.

Most respondents agreed that family members feel warmth for each other (65%); that protecting the welfare of family members is critical to them (64%); and that emotional bonds among family members are very strong (54%). Furthermore, strong emotional ties among family members help them to maintain a positive self-concept in their family business (65%). However, less than half of the respondents (46%) agreed that emotions and sentiment often affect decision-making processes in their business and that emotional considerations are often as important as economic considerations are (49%).

Renewal of family bonds through dynastic succession

Renewal of family bonds relates to the successful transfer of the family business to the next generation and to continuing the family legacy and tradition, as important goals of the family business. When such goals exist, family owners are not likely to evaluate their investments on a short-term basis and family members are not likely to consider selling the business.

Renewal of family bonds relates to the successful transfer of the family business to the next generation and to continuing the family legacy and tradition, as important goals of the family business. When such goals are considered important, family owners are not likely to evaluate their investments over the short-term nor are they likely to sell the business.

Most respondents agreed that continuing the family legacy and tradition is an important goal for their family business (69%) as is the successful transfer of the family business to the next generation (69%). In addition, the majority agreed that family owners are less likely to evaluate their investment on a short-term basis (52%) and family members would be unlikely to consider sell the family business (52%).

" For 49% of respondents, emotional considerations are often as important as economic considerations "





The following recommendations should be considered to enhance socioemotional wealth among African family businesses:

- The need exists to understand the multidimensional nature of performance outcomes in an African family business context. Outcomes are not only financial in nature but are also non-financial in nature. Such outcomes include social and entrepreneurial performance outcomes.
- A strong reputation and brand should be built. Family businesses are known for outperforming non-family businesses because they invest more in serving their communities and performing charitable deeds.
- Succession has become part of the family business tradition. The renewal of family bonds through dynastic succession occurs when families do not simply see their business as equity but as the rebirth and succession of the family itself. As a result, a family business is seen as a long-term investment that represents the family's legacy and tradition.
- Relationships influencing the success of the family business are not only those between active and inactive family members, but also those between the family and their employees, customers and the community. Relationships with non-family employees should be nurtured resulting in strong connections between employees and both the family business and family. An organisational culture should be created where employees, whether family or not, are treated like family.
- The important role of the older (elder) generation as mentors to the managing generation should be acknowledged in the family business. In African culture there is a deep respect for elders and a desire to maintain their norms and values.

6 Looking to the future

“ The most pressing priority for African family businesses is increasing turnover ”

The impact of the COVID 19 pandemic has not only accelerated the need to adopt new technologies, it has also accelerated a focus on the top priorities of family businesses, namely identifying key areas of investment, the need for handing over leadership roles to the next generation and how best to manage the family wealth.

Top priorities and key areas of investment

In response to the challenges noted earlier, the most pressing priorities for African family businesses are increasing turnover (38%), improving profitability (34%) survival and keeping the business afloat (33%), and diversification of products and services (12%).

Apart from survival and keeping the business afloat, the other three priorities are the same priorities noted by African family businesses in the 2018 barometer. The key question is how African family businesses will achieve these priorities and where will they invest.

African family businesses must take a close look at their business operations, not only to ensure that they survive the economic impact of the pandemic, but also because of the new reality in which they operate. This new reality has resulted in African family businesses focusing their investments for the foreseeable future on their core business but also in the diversification of products and services to ensure that they remain relevant.

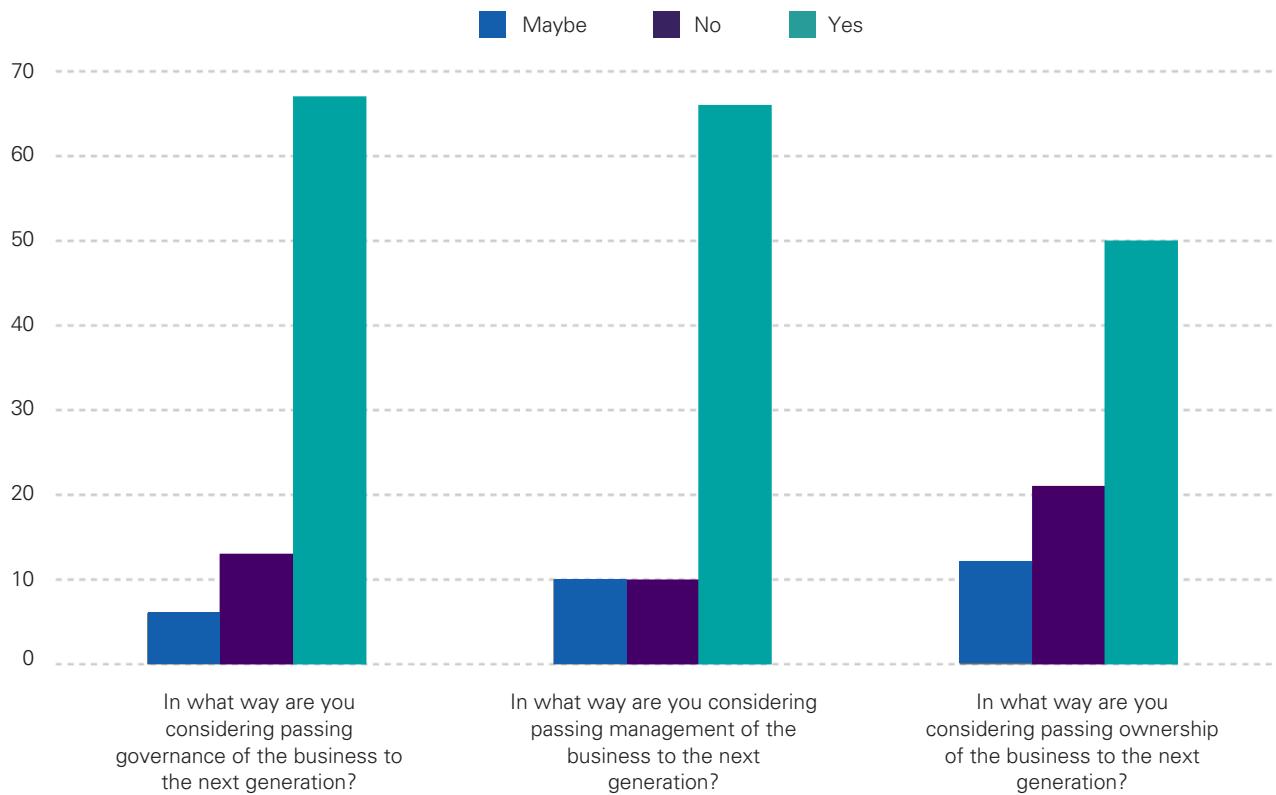
In comparison to the 2018 survey, there has been a significant decline in the number of respondents planning to invest in innovation and technology, as well as the development of their staff. This response reflects the focus by family businesses on survival as well as those wanting to diversify their business. This is, however, contrary to global trends where companies are investing in digital transformation as well as their people. Human resource development is one of the strategies to manage the war for talent risk.

The changing face of leadership

The past few months have also accelerated the planning done by business families with regards to the handing over of key responsibilities to the next generation. According to the 2019 Barometer, more than 60 % of respondents were making plans to hand over the business to the next generation in the next five years, either through governance (78 %), management (76 %) or ownership (60%).

More than 50 % indicated that they are also considering appointing a non-family CEO to manage the business. This is a significant increase from the 28 % reported in the 2018 Barometer and highlights a move away from appointing a family member to the position, to appointing the best person to manage the business to the position, whether that be a family member or not.

“ More than 60 % of respondents were making plans to hand over the business to the next generation in the next five years ”



Whilst many respondents indicated that they were not planning on sell the business in the next three years, 23% indicated that they would consider doing so. The majority of those wanting to sell, showed a preference for selling the business to a third party, whereas a few would consider listing the business on a stock exchange.

A change in leadership requires a clearly defined process to ensure that all stakeholders understand their roles during the transition period. A clearly defined process defining the timelines and roles ensures that relationships are maintained, business knowledge is transferred, and business operations are not disrupted. The senior generation can be redeployed into different roles to support the successor and the business, but boundaries need to be clear.

Management of wealth

As African family business continue to grow and expand, more focus is being placed on how they manage their wealth and how do they use their wealth to make a difference in the community in which they operate.

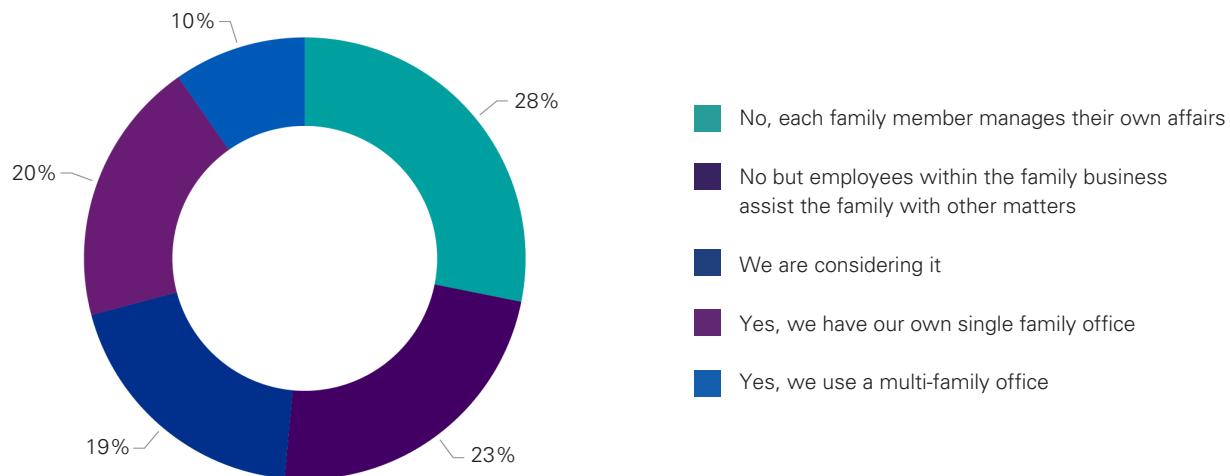
This year 30% of responses indicated that they have a professional team assisting them in managing their wealth, either via a multi-family office or a single-family office. A further 19% indicated that they were considering this as an option for the family whilst the remaining respondents indicated that family manage their own wealth or the employees in the business assist them with certain matters.

As the personal wealth increases and investments become complex, families need to consider the time it takes to manage their personal affairs as well as the peace of mind they require to ensure that all risks pertaining to their wealth are appropriately managed.



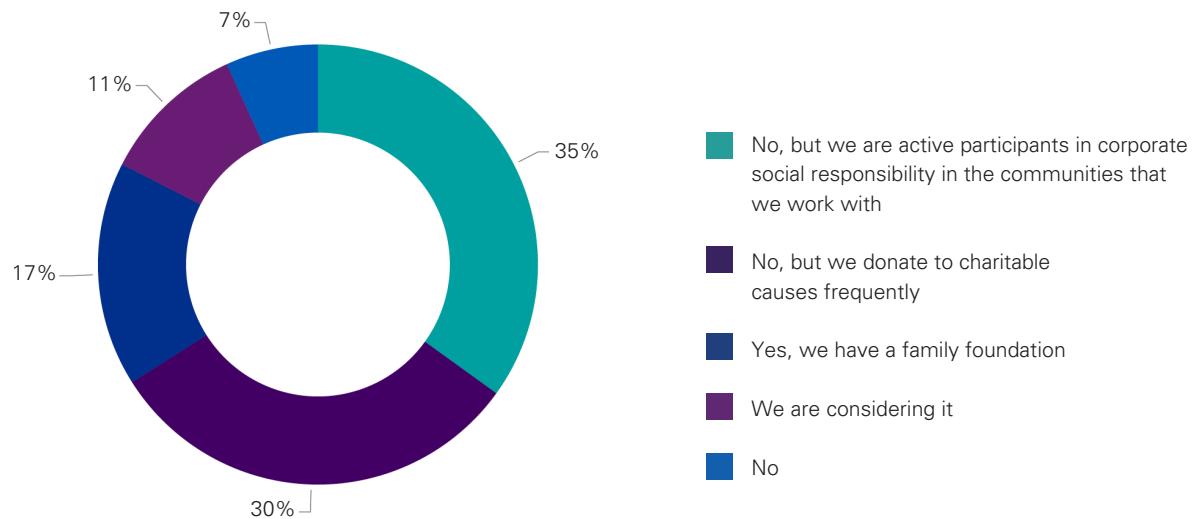
“ 93% make a charitable or philanthropic contribution in their communities. ”

Does the family make use of a professional team to help the family manage its wealth and personal affairs?



With regards to philanthropic activities, only 7% indicated that they do not conduct any philanthropic or charitable work in their areas of influence. Many of the respondents (65%) indicated that they make a difference in the community through regular donations to charities, either in their own capacity or through the company corporate social investment initiatives. Less than 20% of the respondents indicated that they had a family foundation which drove the philanthropic activities of the family. Regardless of the structure adopted by families to give back, it is clear that across Africa, the majority of families ensure that portion of their wealth is ploughed back into key initiatives in their community.

Does your family have a philanthropic organisation?



7 Governance and a clear purpose

" I look forward to the 2022 African Family Barometer and seeing how African family businesses have implemented the plans in dealing with the new reality. "

- Alan Barr
Head of KPMG
Private Enterprise
(Africa and South Africa)

African family businesses are relatively young compared to their counterparts in other regions around the world. This was confirmed in that approximately 70% of respondents indicated that their family businesses were less than 50 years old. This provides a great opportunity for African family businesses to learn best practices from older and more established family businesses which, if implemented, could enable African family businesses to thrive and continue to drive economic growth across the African region. The Africa Free Trade Agreement is going to provide African family businesses with many more opportunities, but they will need to ensure that they are ready for this growth, the increased competition and the need to be more innovative.

Governance structures need to be assessed on whether they are appropriate for the new reality to ensure communication, transparency and effective decision making. The appropriate governance structures will enable business families to take advantage of the business opportunities presented, help manage the various business risks and the pending transitions that will be taking place with regards to ownership, governance and business leadership.

Business families need to ensure that they have a clear shared purpose of what they want to achieve and how they want to achieve it i.e. a clear vision supported by common values. Despite the challenges of the COVID-19 pandemic period, it has provided business families with the opportunity to reassess their shared purpose. A clear shared purpose will guide family members with not only the clear direction of what they want to achieve but also assess they appropriately organized to achieve their collective vision.



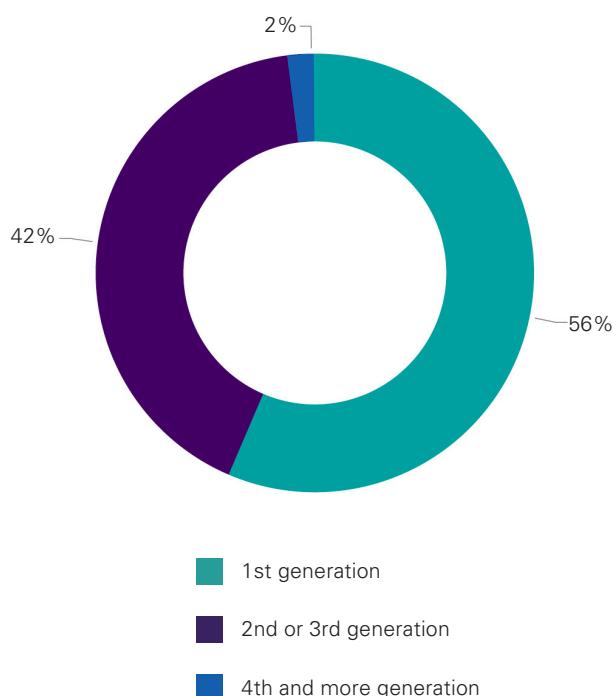
8 Methodology

The 2020 *African family business barometer* is based on the results of an online survey as well as online webinars where attendees could respond to several questions. In total, 120 completed questionnaires were received during the period 1 June to 20 July 2020. This is the third survey of its kind to be conducted measuring trends amongst African family businesses.

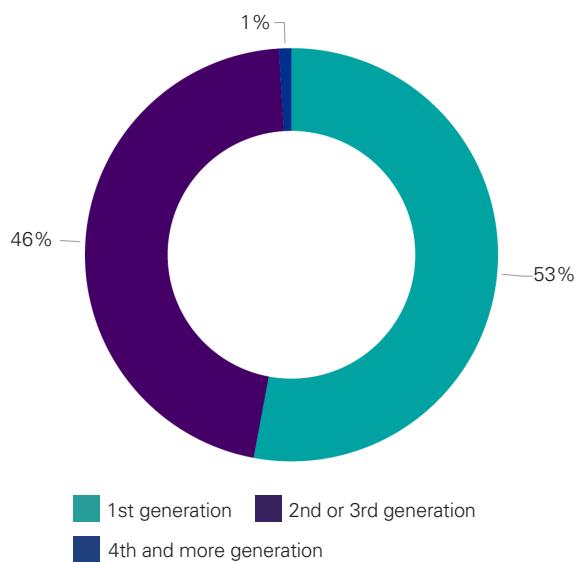
The dimensions of Entrepreneurial Orientation were measured using scales from the research of Covin and Wales (2018), Hosseini, Dadfar and Brege (2013), Dess and Lumpkin (2005), whereas the scales to measure the dimensions of SEW were sourced mainly from research done by Berrone et al. (2012) and Debicki et al. (2016). A seven-point Likert scale was used to obtain responses, whereby respondents were requested to indicate their extent of agreement with each statement. The seven-point Likert scale ranged from 1 to 7, where (1) indicates "strongly disagree", (2) "disagree", (3) "somewhat disagree", (4) "neutral or no opinion", (5) "somewhat agree", (6) "agree" and (7) "strongly agree".

Respondents profile

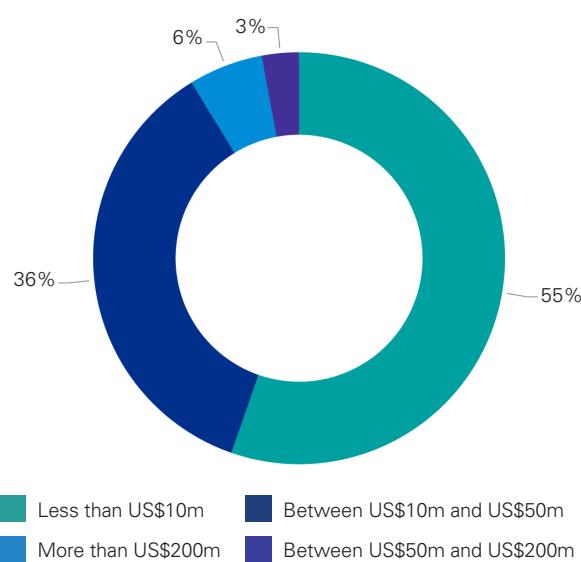
Which generation owns the business?



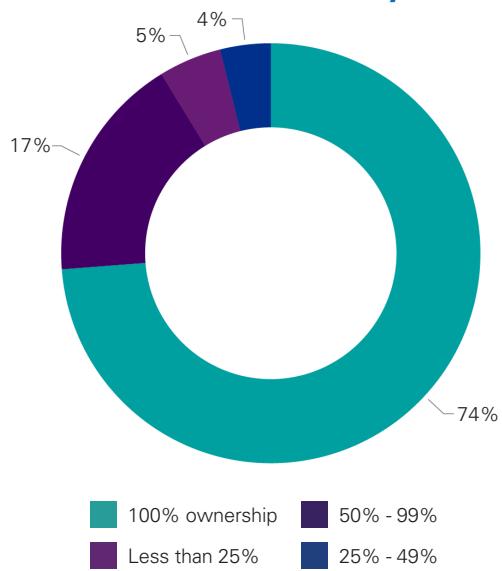
Which generation governs the business?



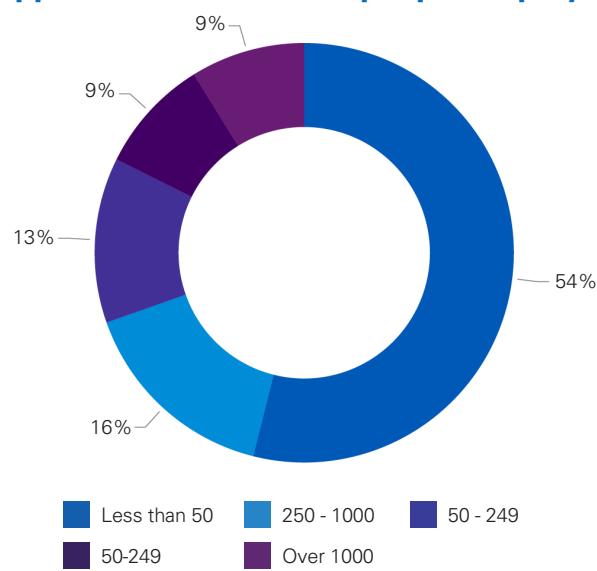
Approximate annual turnover of the business?



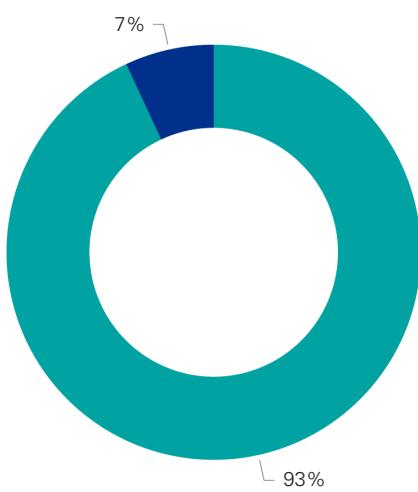
What % does the family own?



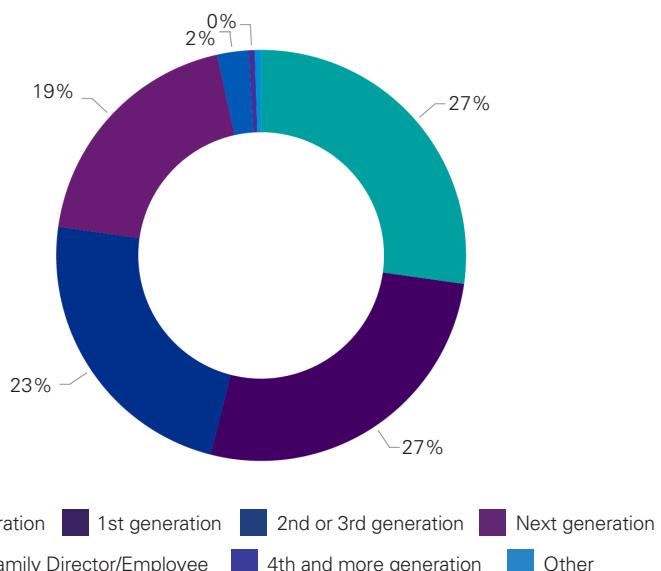
Approximate number of people employed



Is the business listed?



Which generation do you represent



9 About the role players

KPMG Private Enterprise

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Nelson Mandela University

The Nelson Mandela University is a comprehensive university based in Port Elizabeth, South Africa. The Family Business Unit is a unit which does extensive research, training and consulting services for family businesses across Africa.

Visit: fbu.mandela.co.za

Africa CEO Forum

The AFRICA CEO FORUM is a leading Platform of decision-makers from the largest African companies, as well as international investors, multinational executives, heads of state, ministers, and representatives of the main financial institutions operating on the continent. The AFRICA CEO FORUM organizes since 2012 the largest Event for the African private sector and several other Events such as WFC The Summit, the Family Business Summit and the Financial Industry Summit.

Visit: www.theafricaceoforum.com



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