



Nigerian Family Business Barometer

SUCCESSFUL & RESILIENT

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Introduction

Vision. Passion. Single-minded focus and dedication. There is nothing quite like the entrepreneurial spirit that sparks the launch - and spurs the growth - of a family business. The combination of performance, profit, and family pride can be a powerful force in driving founders and owners to build great businesses and valued brands. Family businesses like every other business in Nigeria have their peculiarities and challenges. While family businesses have the unique characteristics of a family, they, like other companies are often in search of financing to propel growth. As a family grows and changes, the family business must also evolve to accommodate changing family dynamics.

The future of the family members, maintaining the independent nature of the family business and the preservation of family unity depends on the growth of the family business and its capacity to generate sufficient profit for all its members.

Aware of these challenges faced by family businesses in Nigeria, we at KPMG wanted to create a way to share experiences and start a conversation around family business. We want to share our insight, experience, research, and our point of view, and we want to talk about what matters to you in the day-to-day running of your business.

In this very first edition of the Nigerian Family Business Survey Report, we have insights from family businesses across Nigeria and throughout the document we draw comparisons between the Nigerian, African and European family business community.

As our survey report reveals, family businesses in Nigeria have demonstrated strong resilience to external pressures and challenges in the last one year and are optimistic about the future. To grow their business, company leaders are investing in two areas: core business and innovation/new technology. An overwhelming number of respondents (98%) validate the fact that having good governance structures and processes is a key driver for the success of their business. Our respondents have highlighted limited access to finance (47%), fluctuating exchange rate (42%), and declining profitability (27%) as the top three concerns for family businesses in Nigeria. Limited access to finance continues to be a key challenge for businesses in Nigeria.



Almost half (42%) of respondents indicate infrastructure development as an area whose improvement would boost growth and improved profitability for their businesses. This shows how significant infrastructure development is, as a vital enabler of the economy.

Of course, every family business is unique; but the insights shared here can go a long way towards helping any family business maximize value and position the company to thrive and endure across generations. We hope these results and observations will help provide valuable insights into the growth and survival of family businesses across Nigeria.

For us at KPMG, we remain committed to providing a platform for articulating the critical issues and concerns faced by family businesses and supporting in their quest for growth and sustainability.

We welcome your comments and feedback on this topic – please feel free to contact us.



Segun Sowande
Lead Partner,
Family Business
KPMG in Nigeria
E: segun.sowande@ng.kpmg.com



Strong Confidence in the Future

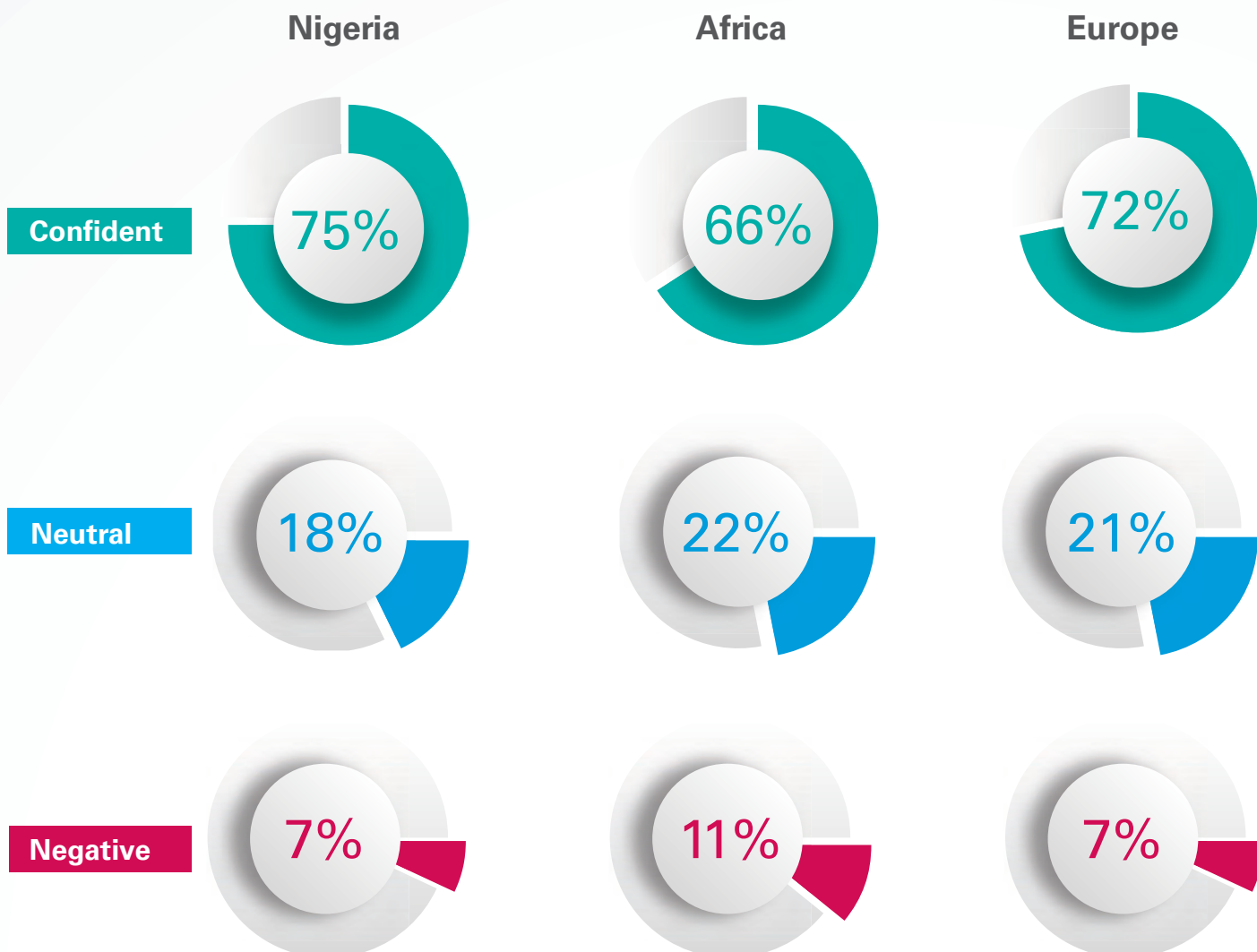
Nigerian family businesses continue to post positive results and remain confident about the future.

In order to effectively face the current complex business environment, family businesses rely on their traditional, structural and cultural strengths.

However, if current challenges continue to place pressure on family businesses (particularly the smaller ones) and impede their future growth, their performance may be hindered.

Q1

How Do You Feel About Your Family Business' Economic Perspective For The Next 12 Months?



Family businesses are key to the economic growth of Nigeria and 75% of respondents are confident about the future despite the economic, security and infrastructure challenges being faced by the country.

High confidence levels and positive performance

The Nigerian family business community continues to feel positive about the future, with 75% of respondents stating that they feel confident or very confident about their economic prospects in comparison to 72% in Europe for the next 12 months and 68% in Africa. Almost one-fifth (18%) of the companies surveyed in Nigeria feel uncertain about their future prospects and only 7% feel pessimistic.

Many factors explain this confidence, not least the increasing

'maturity' of family businesses and their determination to succeed against all odds.

Family businesses are key to the economic growth of Africa and whilst confidence levels are lower than Europe, businesses in the two largest economies, South Africa and Nigeria, are as positive as their European counterparts. Primarily, the respondents attribute this success to an optimised product and service portfolio, high market demand, and aggressive sales.

75% of family businesses in Nigeria are confident about the future

Less than half (**44%**) of companies in Nigeria have increased activities abroad in the last one year, compared to **53%** and **65%** of their African and European counterparts respectively. Overseas markets present an excellent opportunity to diversify the business and a natural hedge against the fluctuating exchange rate.

Performance in the last one year

A. Turnover

Backed by their confidence, family businesses continue to demonstrate sustainable growth and positive performance. 28% of the companies surveyed in Nigeria report that their turnover has grown, 38% witnessed a stable turnover and 34% experienced a decline in the last one year. Those who are cautious about their growth plans cite their desire to remain leaders in their market niche and their focus on improving profits as the key reason for their stable turnover.

B. Activities Abroad

Over half (65%) of respondents in Europe say that their companies have increased activities abroad; 53% of respondents in Africa and less than half (44 %) of companies in Nigeria have increased activities abroad in the last one year.

C. Staff Numbers

In Nigeria, 53% of the companies surveyed have maintained staff numbers compared to Europe (44%) and Africa (44%), over the last one year.

34% of family businesses experienced a decline in turnover within the last one year



Q2

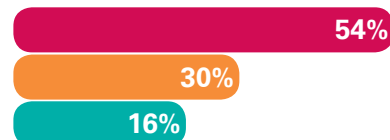
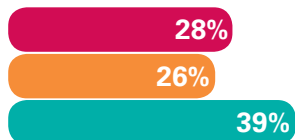
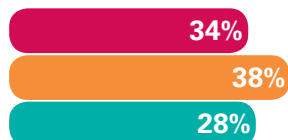
IN THE PREVIOUS TWELVE MONTHS, YOUR COMPANY HAS:

Nigeria

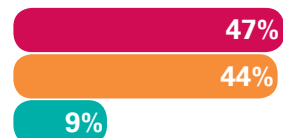
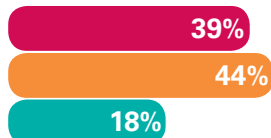
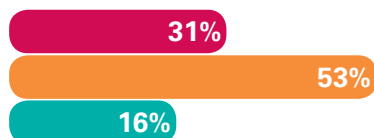
Africa

Europe

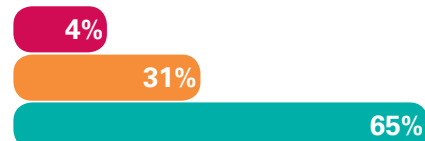
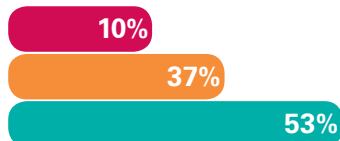
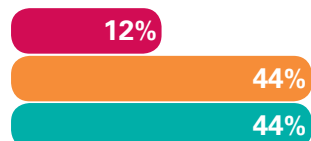
TURNOVER



STAFF NUMBERS



ACTIVITIES ABROAD



■ DECREASED ■ MAINTAINED ■ INCREASED

What's Your Family Business Performance Score?



A family business is unique, in that it needs to keep both the needs of the family in mind with every business decision, without deterring from what's right for the business itself. So how well is your business performing?

A balance is a must

Anyone running a family business will attest to the fact that with every decision the interests of the family must be held in one hand, and then interests of the business in the other. When one is favoured over the other, things fall apart. If the owners set aside the interests of the family for those of the business too often, then they will soon find that the family starts to resent the business and pull away from it – making it difficult to pass it on to a committed next generation.

On the other hand, placing the family's needs above those of the business will lead to the quick deterioration of the company's health. Making it unlikely that it will sustain itself much further, let alone thrive. That's why the Family Business Performance measurement takes 6 important business and family characteristics into account to decipher how well a business is doing to keep the balance and therefore the health of both the family and the business high.

The Characteristics

1. CEO's Age

According to some findings*, businesses with CEOs aged between 51 and 60 perform the best, with firms increasing in performance as the CEO's age increased before they reached this optimal age bracket. Interestingly, the opposite is true for CEOs after the age of 60 – as CEOs approach 70, their personal goals tend to stop aligning with the business goals and risk-taking diminishes.

2. Diversity in Leadership

High performing family businesses are more likely to have a female CEO, as well as a formal board of directors with a non-family, non-executive director. This suggests that bringing diversity into the upper management of the business allows for different viewpoints to be heard and guards against stagnant

thinking in the business.

3. Communication

The more structure and formal documentation around how family and non-family employees will be handled in the business, the better the overall performance of the business. When issues like succession, promotions and remuneration, as well as governance policies are not firmly in place, then a lot of time can be wasted on conflict and confusion – which will just work against the business's positive performance.

4. Outward Focus

The highest performing family businesses are doing so because they are actively keeping an eye on both their competitors and the outside factors affecting the business through competitor analyses, benchmarking and documented strategic plans that are reviewed annually and reported on for progress made.

5. Entrepreneurial Culture

Such a culture supports the pursuit of innovation in developing new products and services, thus ensuring that the business is never left behind its competitors or the needs of the market. This "Prospector" strategy is all about moving forward as a business, rather than simply sticking with the same strategy the business has always had.

6. Financial Resources

This one should be quite obvious – a family business without access to financial resources will not be able to champion innovation as they won't have the capital to float new products and services before they reach market. The healthier a family business' financial situation, the more likely they are to perform well overall.

*Source: Family Business Survey 2015 'Family businesses: Optimistic, entrepreneurial, open to disruptive technologies'
Written by Bill Noye, Chairman, Family Business Services, KPMG in Australia

Facing up to Challenges & Issues

Top three concerns for Family Businesses in Nigeria are: Limited access to finance **(47%)**, fluctuating exchange rate **(42%)** and declining profitability **(27%)**

Family business issues


For family businesses in Africa, the future is about sustainable growth and although they are optimistic, there are still major challenges inhibiting their growth plans. The biggest concerns this year relate to limited access to finance, foreign exchange rates and declining profitability.

Limited access to finance is cited by almost half of the respondents as a big concern.

Like all companies, family businesses need finance. Expansion is the priority for most in both the short term and the long term. The short-term focus is on organic

growth in existing markets, but over the long term, the more ambitious strategies of acquisitions and expansion into new geographical markets are the main focus. To fund this expansion, family firms are often willing to offer equity, as long as they can maintain a controlling position and their strategic independence.

Family businesses in Nigeria may need to start looking at HNWI's (High Net Worth Individuals) as a viable source of financing. HNWI's are happy to be involved and offer their advice, which is a trait that many family businesses are looking for. They would often like to have an equity stake, which (in some cases) could be a barrier to investment.

Concerns of Family Business in Nigeria			
	Nigeria	Africa	Europe
Limited Access to Finance	47%	27%	37%
Fluctuating Exchange Rate	42%	32%	28%
Declining Profitability	27%	24%	33%
Political Uncertainty	26%	37%	37%
War for Talent/Recruiting Skilled staff	23%	22%	37%
Increased Competition	21%	23%	36%
Changes in Regulation	6%	11%	21%

Fluctuating Exchange Rate

Foreign exchange supply will continue to be a challenge and this concern has been exacerbated by the downside risks to oil production. The Central Bank of Nigeria (CBN) announced a flexible exchange rate regime aimed at making foreign exchange more accessible in May 2016.

The CBN took the measure following severe pressures on external reserve and foreign exchange supply crisis. There is a strong relationship between oil price, external reserves and exchange rate for oil exporting countries that rely on over 90% of their annual revenues from crude oil sales. An import dependent economy relies on robust foreign reserves to pay for her import demands. During periods of high and sustained crude oil price, the domestic currency (Naira) tends to appreciate in value because of sustained inflow of FDI (foreign direct investment) and foreign capital. When oil price is declining, the revenue from crude oil sales exerts pressure on the foreign reserves. The result is fluctuation in exchange rate and a resultant rise in capital flight.

Declining Profitability

Family businesses must begin to enforce strategic cost optimization as a means of tackling decline in profit levels. Businesses that do not take firm and sustainable cost optimisation measures will likely soon find themselves dealing with ever tightening profit margins and a stagnant bottom line.

47% of respondents in Nigeria identified access to finance as their biggest challenge



Sustainable Cost Optimization



Cost reduction by definition goes one way – to reduce costs. Cost optimisation is a two-way street – focused on both reducing costs and enhancing the realisation of value within the business. A short-sighted but common approach to cost reduction is to attack in isolation a single part of the business through a single, finite project. Unfortunately, such efforts rarely achieve the desired goals; either they run out of steam or else the costs simply pop up in another part of the organisation. Even for those that succeed, the benefits tend to be short lived, with the same problems cropping up again in the near future.

A study conducted by KPMG and the Economist Intelligence Unit revealed that many businesses find it hard to sustainably reduce their costs, with nine out of ten cost reduction programmes failing to achieve their targets. When faced with margin pressures, businesses often implement rapid and broad cost-cutting measures. These may deliver short-term benefits but not get to the heart of the cost drivers. While companies need to act decisively, the imperative is to balance short-term concerns (e.g. shoring up cash and working capital) against longer term strategic objectives.

The focus should be making a leaner, more nimble organisation, with cost reduction as a consequence, not necessarily just the target. A structured approach to cost optimisation therefore means thinking beyond short-term cost savings to assess and question the underlying business models.

By focusing on some of the key dimensions of the business, CFOs and business leaders can identify

the core cost drivers and value levers and take steps to sustainably manage costs while driving up value delivery within the organisation. Rather than a quick-fix diet, the clear imperative is a sustainable lifestyle change.

The Imperative

Cost optimisation is not a walk in the park. However, a structured and well-executed approach to cost optimisation can:

- Improve margins, cash flow positions, balance sheet and performance
- Generate efficiencies around production, inventory and supply processes
- Create flexible and agile operating and business processes
- Streamline traditional financial and regulatory processes to reduce costs and free up resources
- Embed a culture of cost consciousness throughout the business
- Turn cost efficiency into a real competitive advantage.

Organisations that do not take firm and sustainable cost optimisation measures will likely soon find themselves dealing with ever tightening profit margins and a stagnant bottom line.

Execution is Key

The effective execution of cost optimisation initiatives is as important as the development of the initiatives that will underpin the intended cost reduction and value enhancement. Companies have to put in as much, or even more effort in taking strategic steps to ensure that the cost improvements are not merely one-off benefits, but a culture of thinking cost-conscious is instilled in the workforce.

While changes may be painful to implement, organisations that get this right will enjoy sustainable and efficient cost management that will almost certainly deliver a significant competitive advantage.

The following are recommendations for driving sustainable cost-efficiency:

Maintain cost management as a strategic priority

- Do not allow cost efficiency to drop down the priority list of executive management. Cost management will need to be aligned with the organization's other strategic priorities.

Adopt an external investor mindset

- An outside-in view can be value-adding. Challenge the organisation in the same way a potential investor would, unconstrained by current organisational boundaries and perceptions

Create profit and cost transparency

- The business should have a clear view of where costs lie within the business and how this evolves over time as the needs and strategic directions change.

Engage front line workers

- Seek to instil a greater sense of ownership within your front-line staff and line managers.
- Focus on creating a high level of cost-consciousness that encourages employees towards active cost management.

Equip staff to 'walk the walk'

- The business should look to develop a deep sense of ownership of cost optimisation initiatives by investing in the tools and training to enable employees to fully participate in creating cost efficiencies.

The CFO as Champion

- Significant responsibility for driving cost

management initiatives rest with CFOs. Few would dispute that the support of CFOs is necessary for cost-management efforts to succeed. The role of the CFO in cost optimisation include the following:

- Demonstrate to the business that finance has gone through – or is undergoing – the same cost reduction pain
- Help mediate the inherently political nature of such exercises and provide critical energy and motivation
- Ensure value creation and guide the organisation on the appropriate balance between cost and value
- Ensure that the finance team are aware and engaged in cost reduction initiatives and are supporting in driving these changes across the organisation
- Be aware of customer value and not destroying that value by over-cutting costs
- Have a clear view of the baselines and cost drivers

Benefits of sustainable cost optimisation

- A structured approach to cost optimisation can;
- Embed a culture of cost management throughout the business
- Improve cash flow positions, balance sheet and performance
- Generate efficiencies around production, inventory and supply processes
- Create flexible and agile operating and business processes
- Streamline traditional financial and regulatory processes to reduce costs and free up resources

The challenging operating environment today provides a massive opportunity for organisations to significantly raise the cost efficiency bar by examining more strategic options for cost management, fundamentally changing their business and organisational models, and instilling a cost-conscious culture throughout their workforce. Successfully delivered cost optimisation efforts will produce a positive ROI that sets the business up for future growth as the engine of the economy roars back to life.

Changes or Improvements to Boost Growth Prospects

Family businesses have always occupied a particular niche in the market and it is interesting to see that the respondents attribute much of their companies' success to their unique characteristics. To effectively meet the challenges of the current complex environment, family companies rely on their structural and cultural strengths: long-term outlook, ability to take fast and flexible

decisions and employee loyalty and commitment.

When asked what changes would have the greatest impact on their business and future success, 61% cited easier access to finance, 42% infrastructure development, followed by reduced administrative burdens, 20% and lower tax rates, 15%.

Q3

WHICH CHANGES OR IMPROVEMENTS WOULD BOOST GROWTH PROSPECTS OF YOUR BUSINESS

	Nigeria	Africa	Europe
Easier access to finance	61%	36%	10%
Infrastructure development	42%	25%	12%
Reduced administrative burden	20%	18%	27%
Lower tax rates	15%	21%	21%
Reduced non-wages labour cost	6%	9%	29%
Simpler tax rules	6%	7%	21%
Benign tax & administrative arrangements for inter-generational family business transfers	5%	6%	17%
More flexible labour market regulations	3%	15%	30%

61% of respondents feel that easier access to finance would boost their growth prospect

In Nigeria and Africa, the key changes required to boost growth prospects for family businesses include: easier access to financing, infrastructure development, reduced administrative burden and lower tax rates. In Europe, having more flexible labour market regulations is a key factor in boosting growth prospects as 30% of respondents allude to this fact.



Strengthening Access to Finance for Micro, Small and Medium Enterprises (MSMEs) in Nigeria

We would like to reiterate our findings from a recent study of access to finance for MSMEs in Nigeria, which we believe could be relevant for Family Businesses in Nigeria.

What Micro, Small and Medium Enterprises (MSMEs) in Nigeria Want?

- Knowledgeable and effective relationship managers/ bank representatives who have an understanding of MSME banking requirements, particularly at the beginning of the relationship.
- Product and services that meet specific needs of the MSMEs. These products must be simple, easy to use and reflect the peculiarity of MSME's business.
- MSMEs often require access to unsecured credit due to the hassle and bureaucracy involved in providing collateral acceptable to the banks - C of O (Certificate of Occupancy) in choice locations.
- Quick transaction processing turnaround time. Maximum of 3 days for loan requests.

What Banks are saying

- MSMEs are a critical part of the Bank's strategy. Average yield of providing banking services to MSMEs are typically higher than that of large corporates
- Provision of credit to the MSME segment is a strategic priority to 78% of the banks interviewed due to the immense opportunity in the sector.
- Percentage of loans dedicated to MSME sector expected to increase. Whilst 56% of the banks interviewed have dedicated 5% of their loan portfolio to MSMEs. Over 80% of them noted that this will grow over the next 5 years as provision of credit to the MSME segment is a strategic priority to three quarters of the banks interviewed due to the immense opportunity in the sector.
- Insufficient documentations and poor information on the MSME segment limits banks' ability to lend. Around 40% of the banks interviewed listed insufficient documentation and poor business plans as a critical reason for MSME loan rejection.
- Government intervention required to facilitate lending to MSMEs: Majority of banks noted that the current government policies are insufficient to grow the level of credit extended to MSME. Government therefore needs to create an enabling environment to facilitate lending to this crucial sector



Financial institutions need to simplify their requirements for accessing finance.

Considering the structures and business models of MSMEs, documentation requirements should be simplified and standardized.



Banks should consider introducing specialized financial products and services that can cater to the specific requirements of the MSME segment. Banks should also design credit facilities with more attractive lending terms.



Training sessions could be conducted to spread awareness among SMEs about available financial sources, banking products/services, and existing schemes that the government has undertaken for the disbursement of credit.



Goals and Priorities

Backed by a positive outlook, Nigerian family businesses include new investments in their strategic plans. This is yet another indicator that family businesses are preparing for future growth and confident in their ability to generate returns by re-investing profit.

When setting business goals and objectives, family companies remain clear as to what drives their success – technology, innovation and people. The rising importance of these success factors is reflected in the high levels of investment expenditure



Family Business Goals



When asked to identify future objectives, unsurprisingly, 62% cite improved profitability, 38% higher turnover and 27% diversification as their top business goals. Across Nigeria, Africa and Europe, the highest number of respondents cite “improved profitability” as their number one business goal.

The ranking corresponds to the natural desire of family business owners to increase sales and keep income ahead of costs to allow their businesses to grow.

These top three strategies in Nigeria were closely followed by innovation, the search for talent and overseas expansion.

Q4 FAMILY BUSINESS PRIORITIES IN THE NEXT TWO YEARS

	Nigeria	Africa	Europe
Improved Profitability	62%	52%	57%
Increased Turnover	38%	34%	34%
Diversify into new products	27%	24%	17%
Become more innovative	23%	21%	25%
Attract New Talent	15%	9%	18%
Move/ Export into new markets	14%	12%	22%
Educate and Train Staff	9%	9%	13%

The highest priorities for family businesses relate to **profitability**, **turnover**, and **diversification**

62% of respondents in Nigeria, indicated that they are planning on making investments in the next 2 years mainly in their core business and innovation.

Q5

DOES YOUR STRATEGIC PLAN INCLUDE ANY INVESTMENTS OR DIVESTMENTS

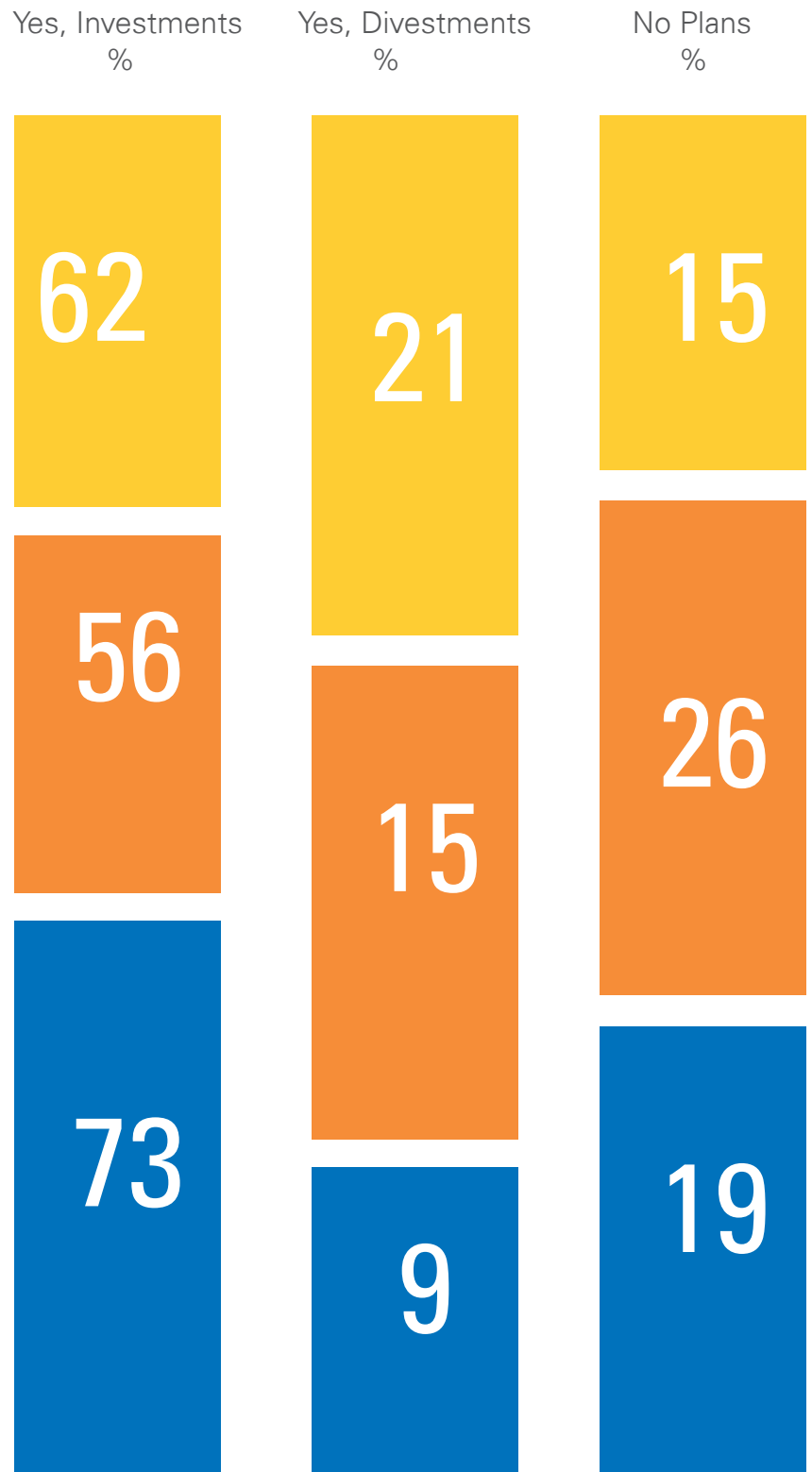
Investment plans

A company's ability to innovate is a prerequisite for competing in the current global economy and a major success driver. It is therefore not surprising that, after placing profitability among the top 3 business priorities, over half of respondents in Nigeria and Africa are planning new investments especially in their core business areas alongside innovation and new technology.

Family business investment strategies confirm that growth is firmly on their agenda. 62% of the companies surveyed are planning new investments in the year ahead.

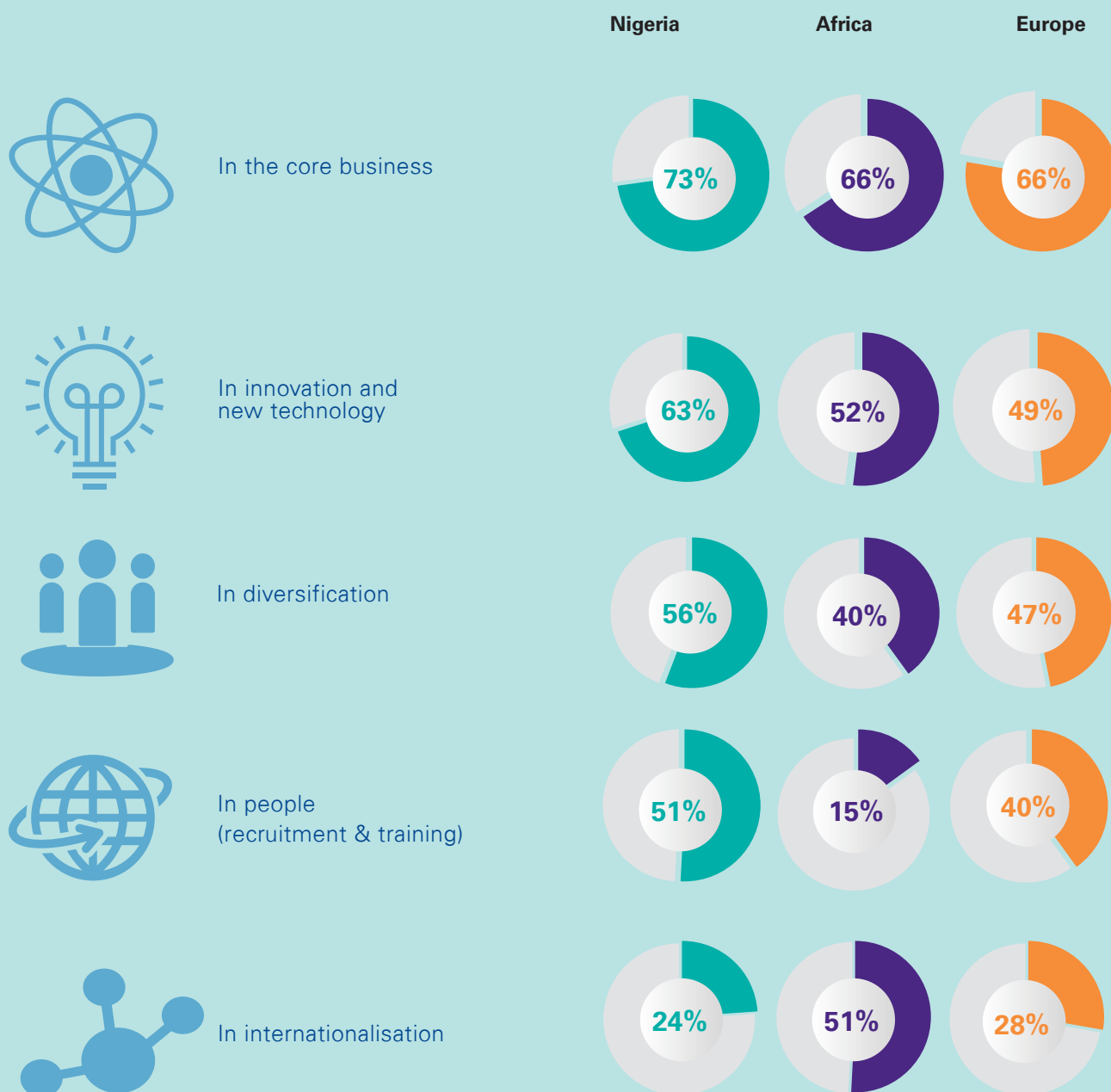
62% of family businesses surveyed in Nigeria, plan to invest in their core business in the near future

■ Nigeria
■ Africa
■ Europe



62% of respondents in Nigeria indicated that they are planning on making investments in the next 2 years mainly in their core business and innovations.

IF 'YES', IN WHICH AREAS DO YOU PLAN TO INVEST?



Family business leaders understand what, or rather who, constitutes their key assets. Struggling to find and retain the best talents, they allocate a significant share of their spending on new hires and training.

Apart from investments in the core business, innovation and technology, family businesses in Nigeria continue to invest in recruitment and training, diversification and internationalization often through

investments in other companies thereby gaining access to new markets.

The primary investment targets are start-ups, young one-to-five-year-old companies, or stable businesses over 20 years old.

Future Strategies

Family businesses are planning for the future. One third of them are ready to take quick decisions entailing a drastic change in the company's management and/or ownership structures.

To ensure a bright future and smooth implementation of agreed plans, family business owners are taking steps to boost their companies' professionalisation.



Passing the management of the business to either the next generation or a non-family CEO is the highest strategic change proposed in the next 12 months. Making the right decision, therefore, will be critical for the future of the business.

Proposed strategic changes over the next 12 months

Q6 WHICH STRATEGIC CHANGE ARE YOU CONSIDERING FOR YOUR FAMILY BUSINESS IN THE NEXT 12 MONTHS

	Nigeria	Africa	Europe
Passing Management of the business to the next generation	8%	17%	18%
Appointment of a Non-family CEO	5%	14%	10%
IPO (i.e. publicly listing the firm)	5%	6%	1%
Passing Ownership of the business to the next generation	4%	8%	9%
Passing the governance (Ultimate control of the business to the next generation)	3%	7%	8%
Sale of Business	1%	8%	8%

Family businesses feel confident and optimistic about their future and are developing their business plans.

The key strategies in Nigeria and Africa relate to handing over the reins of power, either to next-generation family members or a non-family CEO. The results are naturally subjective and based on where the business is in its life cycle and the generational profiles of current leaders. Family business owners demonstrate a desire to prepare

their business for the future either by giving young family members management roles or by bringing in external expertise and talent.

Results also suggests that in order of ranking, business owners are more keen to transition management to the next generation in the first instance and ownership and governance of the business much later

Respondents are not inclined to selling off their business despite the

tough economic conditions which still reflects the tenacity, resilience and readiness of family businesses to weather harsh conditions

Respondents are not inclined to selling off their business despite the tough economic conditions

INCREASED PROFESSIONALISM

Family-owned companies, particularly those in the early stages of their life cycle, are generally characterised by a casual attitude to business processes, more personal management, and informal business strategies and plans.

A casual working space can be very conducive to entrepreneurial activities – allowing family businesses to thrive and grow in a way that big businesses do not allow. However, a different approach

is seen when owners decide to take the business to the 'next level'.

With family businesses placing growth high on the agenda, it is not surprising that they are taking steps to boost professionalisation. To that end, they are formalising governance structures, improving intergenerational communication and preparing successors.

In Nigeria, 98% of respondents agree that having good governance structures and processes in place is a key driver for success in their

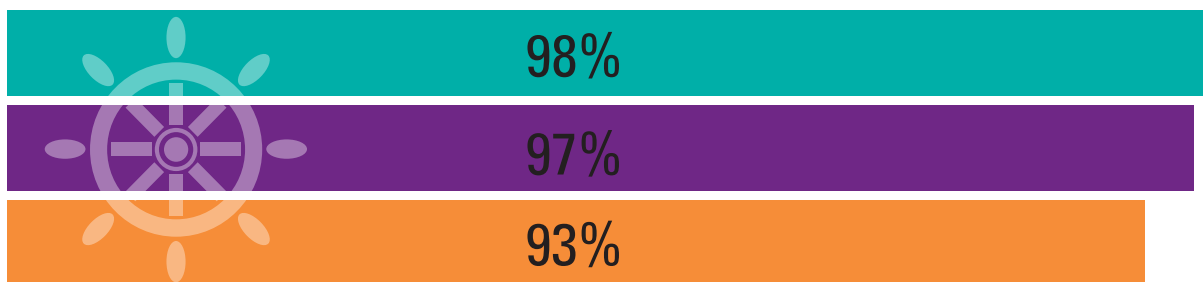
business. This is followed closely by intergenerational communication.

In Africa and Europe, 97% and 93% of respondents respectively indicated good governance structures as a key driver for business success. This reflects the importance of effective structures and processes for the overall success of organisations.

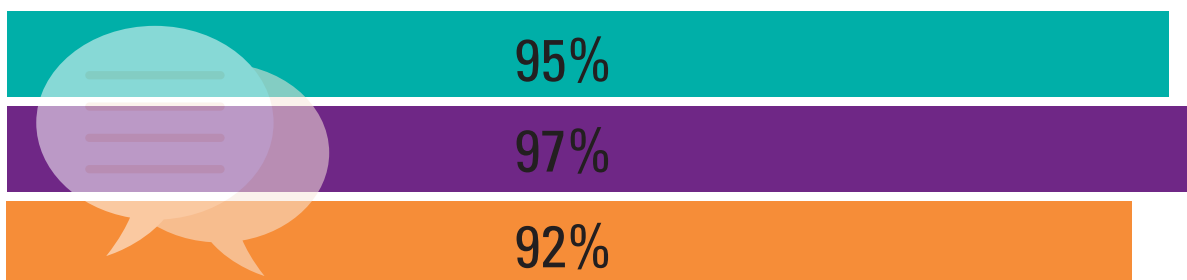
Q7

WHAT ARE THE KEY DRIVERS FOR SUCCESS FOR A FAMILY BUSINESS

HAVING GOOD GOVERNANCE STRUCTURES AND PROCESSES IN PLACE



COMMUNICATION BETWEEN GENERATIONS



Professionalising the Family Business

When growing a family business, family business owners often find themselves at a crossroad – on one hand, there's the wish to keep things 'in the family', and on the other, there are outside business coaches and consultants urging them to 'professionalise'. What does it actually mean to professionalise a business? And is keeping the business in family hands and professionalising it mutually exclusive goals?

The casual nature of family business

Family businesses – particularly first or second-generation businesses where the founding force is still active – can generally be distinguished from corporations by the following characteristics:

- A commitment to family values
- An entrepreneurial spirit
- A casual attitude to business processes and procedures
- Informal recruitment and employment policies
- Less defined business strategies and plans
- Less conventional management practices
- A 'do-it-yourself' attitude, which may lead to multi-tasking and the exclusion of outsiders, even those with specialist knowledge.

This casual working space can be very conducive to entrepreneurial activities – allowing employees to thrive and grow in a way that big business doesn't allow. thus far – so why change?

Often, it's the very reason entrepreneurial types leave the corporate sphere and strike out on their own – and also why family business owners recoil at suggestions that their enterprise should professionalise. After all, a

more casual business operation has been sufficient to achieve business, financial and personal objectives

'Professionalising' versus 'corporatising'

A clear distinction should be made between 'professionalising' and 'corporatising' a family business. To professionalise is merely to embed a professional structure to an entity and its processes and procedures. Corporatisation, however, is what fly-by-the-seat-of-your-pants entrepreneurs fear most – to develop or turn a small business into a large corporation, or as they may see it, the morphing of an innovative, inspired family enterprise into a staid corporation overly focused on processes and procedures.

Whilst some family business owners may indeed strive to turn a small business into a booming multinational, others may prefer to keep it straight and simple. That's where professionalising comes in – a few well-considered tweaks here and there can benefit any family business, without detracting from its firm family roots and core values.

Professionalising can promote:

- More sound financial management
- Better allocation of resources
- Better research and development and hence a wider range of products and services
- More effective service delivery
- Better branding and greater brand awareness
- All of which leads to increased efficiency, profitability and, ultimately, business growth.



When should a family business professionalise?

Professionalisation is associated with taking a business to the 'next level'. Consider embarking on a process of professionalising your family business when:

- You are experiencing rapid growth
- A co-investor or partner comes on board
- The business entity changes format, for example from a sole proprietorship to a private company or when a company lists on the stock exchange
- New (outside) managers are recruited to work in the business
- There is a hand-over from the founder to a next-generation family member.

How is professionalisation achieved?

Professionalising is about enhancing the family business rather than making it into something overly complicated which doesn't suit the family's objectives. Some of the key points on how you can achieve professionalisation

within your family business, include:

- If you haven't already, formalise the business's legal structure
- Develop a formal business plan outlining a strategy plan and an operational plan
- Formalise business leadership bodies – for example, establish a Board of Directors and an Executive Management Team
- If you don't like the thought of non-family members sitting on a Board of Directors at this stage of the game, consider an Advisory Board – a body of appropriately skilled and experienced individuals who can provide advice and guidance on business matters but who don't have the power to vote on such matters
- Develop and document organization wide policies and procedures for all processes

Professionalising your family business is a key step towards ensuring its longevity.

48% of next generation respondents are concerned about unclear career perspectives for them in the family business

Integrating the Next Generation

The importance of legacy in a family business is confirmed by thirty-one percent of respondents.

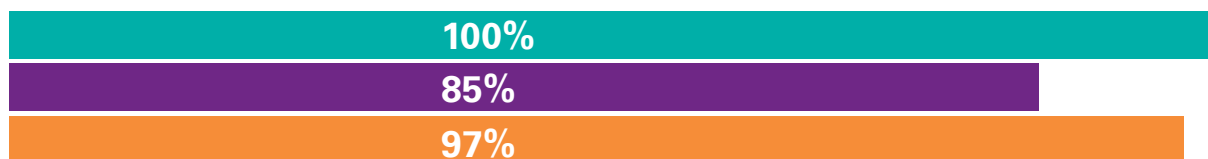
However, integration difficulties may arise if the older and younger family members do not communicate enough. Both sides have concerns. The younger members are worried about forced integration into the family business and tense family relations. The more senior members state that they sometimes feel unable to keep up with the rapidly changing business environment or to relinquish their hold on the company. Formal governance mechanisms are essential to ensure healthy family relations and continuity across generations.

In addition, respondents in Nigeria and across continents surveyed agree that preparing and training the next generation prior to assuming leadership positions, and improving financial literacy among family members are critical success factors to building businesses that will outlast the founder's generation. Most of the preparation and training for the next generation will have to start earlier rather than later, to ensure a seamless transition in later years.

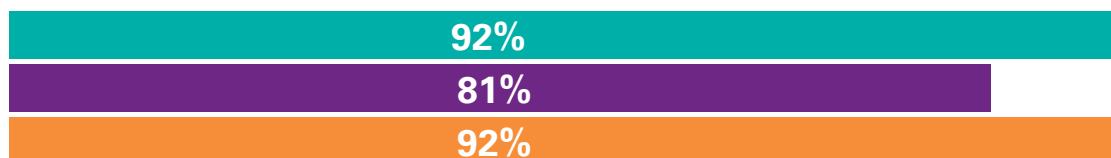
Financial literacy amongst members of the family business cannot be over-emphasized as it is key to making sound business decisions. This is re-affirmed by the same number of responses (92%) in Nigeria and Africa as shown below.

INTEGRATING THE NEXT GENERATION

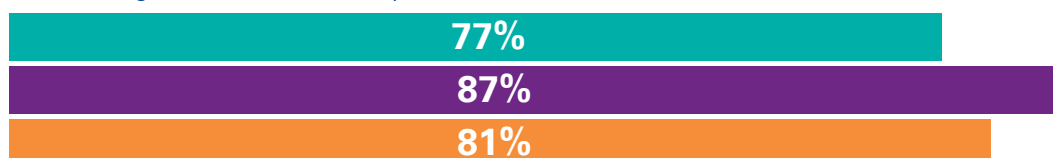
Preparing and Training a Successor before Leadership Succession actually takes place



Financial Literacy



Maintaining Control of the Family Business





Getting the Next-Generation into the Family Business

Family firms are fashionable. Management thinkers like them because they are reckoned to take a longer-term view than other firms. Politicians like them because they provide lots of relatively secure jobs. And the public like them because they think such firms are more in touch with local communities than ones owned by anonymous shareholders.

This chorus of praise has some notable absentees, however: the next-generation family members who are supposed to inherit these businesses. Whenever the heads of family businesses gather, they complain about the difficulty of getting their children to take over from them. A recent survey by Peking University found that 80% of potential Chinese heirs were reluctant to follow in their fathers' footsteps.

There are some good reasons for the younger generation to be hesitant. A successful patriarch or matriarch can be a hard act to follow—and may be a bothersome back-seat driver long after relinquishing the steering-wheel. Even an heir who lifts the business to new heights may still suffer sniping that he got where he is simply by belonging to the “lucky sperm club”, as Warren Buffett calls it. In other cases the heirs may genuinely not be right for the job: they may be more extensively and expensively educated than their parents, but lack the managerial skills to command a big organisation. Joachim Schwass of IMD, a Swiss business school, argues that the most common characteristic of failed successions is that the family marks out the eldest son for the top job from an early age, and hands it to him regardless of ability.

The list of companies that have ended up being sold, or handed over to professional managers, for want of a suitable family member willing or able to take over, include two of the world's biggest hotel chains, Hilton and Marriott; and one of its biggest toymakers, Lego. To avoid this fate, and increase the chances of producing a strong successor, business families need to grasp two things. The first is that inheritance is a process, not an event.

That process involves giving potential heirs a chance to prove their worth. Bernard Arnault, the boss of LVMH, and Rupert Murdoch, the boss of News Corp, have both given their children bits of their empires to run.

Samsung created the role of “chief customer officer” for Jay Lee, the son of its boss, Lee Kun-hee, to give him experience in handling all-important partnerships with other tech firms, such as Apple. Another Lee family, which owns Lee Kum Kee, a Hong Kong-based maker of sauces, have created a “family learning and development centre” to prepare the next generation to take over.

Another way to ensure that heirs are ready for the jobs they inherit is to make them prove themselves outside the family firm. This can broaden their experience, boost their self-confidence and prove to doubters that they are more than just daddy's pet. George Stalk of the Boston Consulting Group says he knows of one company that refuses to interview members of its founding family unless they have earned a master's degree in business or engineering and have won two promotions within five years while working for a non-family firm.

In the meantime a firm could hire a CEO from outside the family but still keep open the option of someday going back to having a family member run the show - as seems possible, for example, at Pictet, a Swiss bank. An alternative is to have a non-family CEO and give the chosen heir the job of chairman. This is Mr Buffett's plan for Berkshire Hathaway when he eventually retires.

The second thing that business founders must grasp is that behind a successful family firm lies a successful family. A striking proportion of businesses spring from minorities which have had to rely on strong and cohesive families to survive in a sometimes unfriendly climate: the Jews in Europe; the Parsis in India; the Chinese in South-East Asia. Successful business dynasties work hard at reinforcing family ties. They hold regular gatherings; and they prepare for disagreements by creating family constitutions, including such things as guidelines on when and how family members may be hired by the firm. Business families need to persuade the younger generation that taking over the company is an opportunity, not a burden. Mr Schwass notes that successful families tend to have “informal curriculums” which are designed to teach younger members not just about how the family firm works but about why it matters.

Sticky Batons

No amount of sugar-coating will work unless the retirement problem is solved. A striking number of patriarchs suffer from “sticky-baton syndrome.” Melvin Gordon, boss of Tootsie Roll, an American confectioner, died in office in January, aged 95. Serge Dassault, boss of Dassault Group, a French conglomerate, is 90. Viacom, a media conglomerate, is floundering in part because Sumner Redstone, aged 92 and in poor health, has resisted handing over to his daughter, Shari. Christophe Bernard of KPMG, says families need to devote as much thought to getting the former boss to move on as they do to training his successor. One “golden rule,” he says, is to give the retiring patriarch something big to fill his days, such as running a family charity.

There are signs that business families are getting better at all this. More of them are drawing up formal family constitutions. More of them are seeking outside advice on managing a generational transition. There is now quite an industry of providing family firms’ heirs with training and networking opportunities. IMD has a course that mixes members of European family dynasties with Chinese princelings. Loyola University in Chicago has a Next Generation Leadership Institute. Family capitalists like to proclaim that “A family business is not a business you inherit from your parents, it is a business you borrow from your children.” But making a reality of this charming adage requires hard work, careful planning and a willingness to let go.

Written by Christophe Bernard, Partner and Head of Middle Markets across Europe, Middle East and Africa, KPMG.



Only about one-fifth of respondents in Nigeria and Africa have adequate succession plans in place for their chief executives.

Formalizing Governance Mechanisms

Regardless of the strategy – growing sales, tapping into new markets, or preparing for a successor – good governance is essential for business success and for building family business into institutions.

In Nigeria, 58% of family businesses have a formal board of directors in place, compared to about 46% of respondents across Africa.

On the other hand, family businesses in Nigeria are yet to put in place formal structures for family governance and participation in the business. These include structures such as family councils, clearly defined

vision and constitution for the family, requirements for participation in the business, remuneration and promotion of family members participating in the business, etc.

Of greater concern also is the fact that only 20% and 3% of respondents respectively have put in place structures and plans for leadership succession and wealth transfer. These are essential building blocks for effective transition and sustainability for the family and its businesses.



55% of family businesses currently have non-family executives

Q7

DOES YOUR FAMILY HAVE THE FOLLOWING MECHANISMS AND PRACTICES IN PLACE

	Nigeria	Africa	Europe
Formal Board of Directors	58%	46%	73%
Shareholders agreement	30%	30%	46%
A policy for selection, remuneration and promotion of non-family members	21%	20%	22%
Succession plans for the CEO	20%	21%	30%
Succession plan for other senior positions	15%	16%	17%
A family constitution or code of conduct	14%	14%	21%
Formal Advisory Board	11%	13%	22%
Family Council	11%	15%	22%
Processes for welcoming, educating & inducting family members into the family business	9%	10%	11%
A policy for selection, remuneration and promotion of family employees	6%	9%	18%
Estate plans for family members who have a stake in the business	3%	14%	14%

The 4 Step Succession Plan

A family business is either at its weakest during succession, if the new owners are not fully equipped or untested, or on the brink of a brilliant new era. One thing is certain, the business cannot stay the same, even in the hands of blood relatives, and that's why it's important to plan the succession process to its best advantage.

Most family firm owners trust their own flesh and blood more than an outsider to take the reins when they have to step down, but that trust can still be a little unstable. They want to know that when their business is handed over, the new management will govern their evolving legacy to even greater heights – not leave the business stagnant or worse, diminished.

Plan for Succession Success

If you fail to plan, then you plan for your business to fail in succession.

1. Evaluate Realistic Goals

Before you can accurately discern what you are expecting of a successor, you need to first draw up a clear idea of what you and your fellow owners expect from the business going forward. Are there specific goals and objectives you'd like achieved? Write them down and agree on them. These can include business performance goals, as well as what the retiring family members expect the business to afford them after stepping down.

2. Document the Succession Plan in its Entirety

Identify every successor, from owners to managers of the business, and write down their exact roles and responsibilities. The succession plan must also serve as a clear timeline for how long succession will take for each role and how succession will be achieved. When it is documented properly then there will be less minor disputes escalating into major ones and every family member can be clear on their path going forward – including what they need to do to fit into their new roles, in the case of the younger generation.

3. Clearly State a Governance Process

With different generations of the family now having a vested interest in the running of the business – and the older generation having the experience, but now the younger generation having the status – it becomes

more important than ever to set out clear governance procedures.

Document everything from how certain disputes will be handled, to the succession plan itself with details of every family member's role going forward and make sure that every family member and stakeholder is on the same page. It's important for the successor to know when they will have the support of key family members in business affairs, and what kind of support they can expect.

4. Detail the financial Implications of the Succession

Draw up an agreement for the sale of the business that is fair for all parties. It should reflect the worth of the business while also minimising the tax incurred from the transaction. There are also different ways that the business can be legally handed over to the next generation, including the successors purchasing the business, or it being treated as a gift from the present owner to the new one. All this should be worked out as early on in the succession planning as possible so that all parties know what is to be expected in the eventual handing over of the reins.

The succession plan should state a clear plan for the transfer of stocks between family members in the hand over. If spouses of those involved in the company are stakeholders then it should also be stated here what say they will earn in the running of the business.

Make sure that your legacy only grows with the next generation of the business by ensuring that nothing is left unaccounted for in succession – this way both the present generation and the future generation can work together towards the same goals.

Written by Christophe Bernard, Partner and Head of Middle Markets across Europe, Middle East and Africa, KPMG



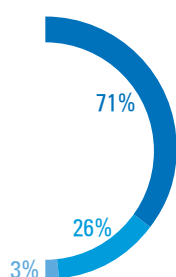
METHODOLOGY: NIGERIA

The first Nigerian Family Business Barometer is based on the results of an online survey.

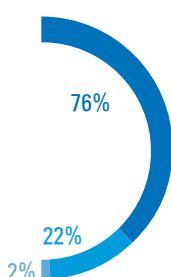
In total, 66 completed questionnaires were received from 1st May to 30th June 2016. This survey will assist to compare results of Nigerian family businesses to their African/European counterparts and measure trends going forward.

Respondents' profiles

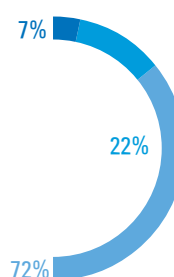
GENERATIONAL PROFILE – OWNERSHIP	GENERATIONAL PROFILE – GOVERNANCE	FAMILY CONTROL	INDUSTRY SECTOR
Generation that currently owns the business	Generation that currently manages the business	Share of the company under family ownership	Industry in which the business primarily operates



- 1st generation
- 2nd-3rd generation
- 4th+ generation



- 1st generation
- 2nd-3rd generation
- 4th+ generation

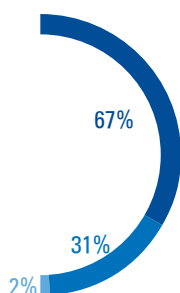


- 25% - 49%
- 50% - 99%
- 100%

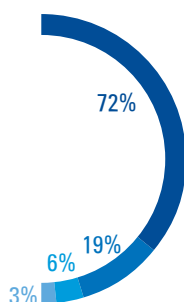


- Manufacturing
- Wholesale
- Retail
- Agriculture
- Technology
- Other

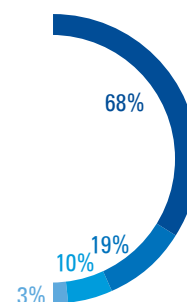
COMPANY AGE	ANNUAL TURNOVER	NUMBER OF EMPLOYEES	RESPONDENT'S PROFILE
Length that the business has been operating with family ownership	Approximate annual turnover of the business	Approximate number of people employed	Family member or non-family employee status of respondents



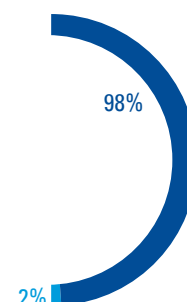
- Less than 20 years
- 20 - 50 years
- Over 50 years



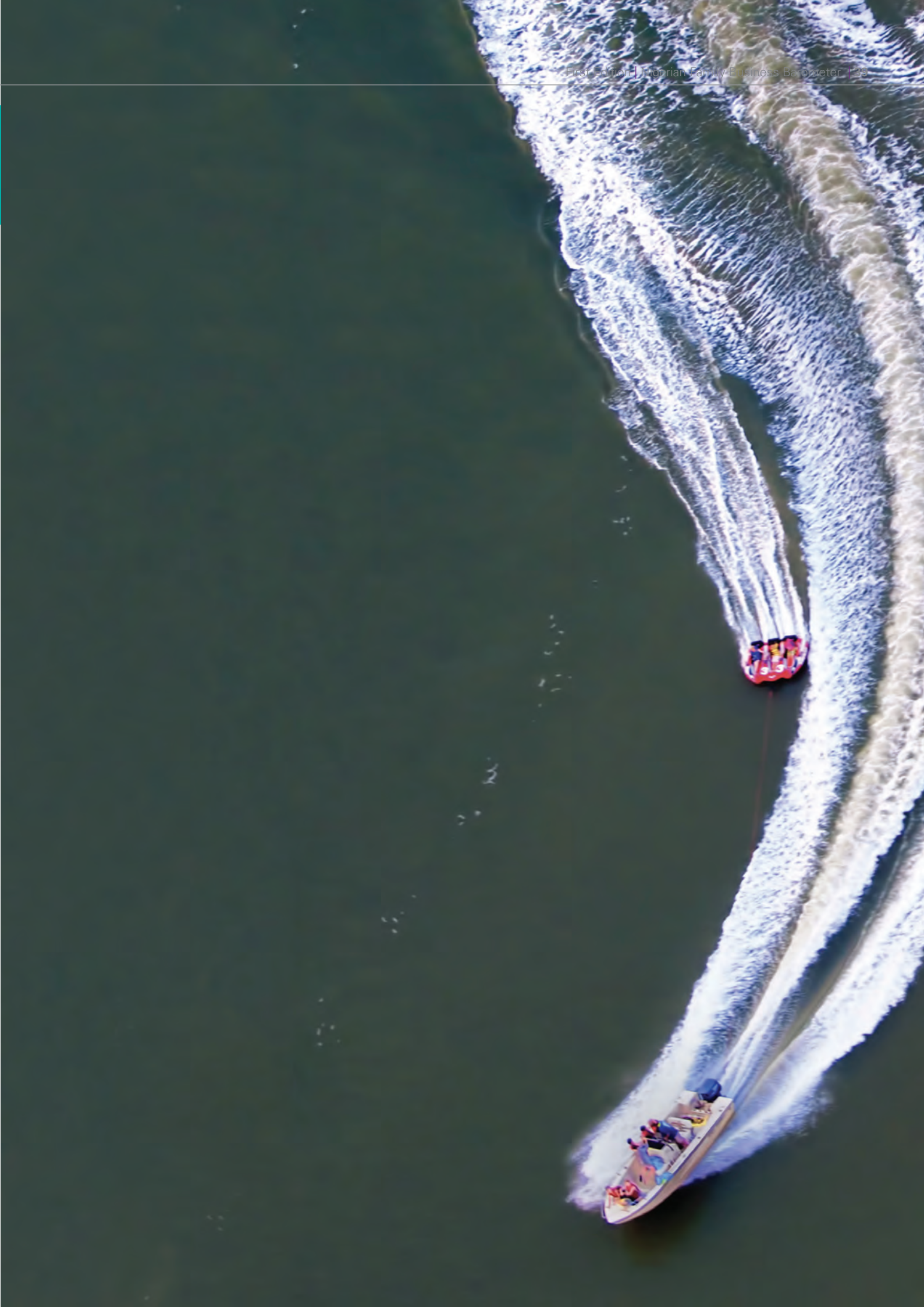
- Less than €10m
- Between €10m and €50m
- Between €50m and €200m
- More than €200m



- Less than 50
- 50 - 249
- 250 - 1000
- Over 1000



- Family member
- Non-family member



Thank you

We trust that these results have provided an insightful look into the family business community. We look forward to continuing this project and shedding more light on this crucial sector for Nigeria. We hope that you will continue to contribute to our survey.



About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have more than 174,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

KPMG Enterprise Global Centre of Excellence for Family Business

From the boardroom to the kitchen table, KPMG Family Business advisers share practical advice and experienced guidance to help you succeed. To support the unique needs of family businesses, KPMG Enterprise coordinates a global network of member firms dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers "the family component".

Visit: www.kpmgfamilybusiness.com

FAMILY BUSINESS SERVICES

Your business has a unique element that no other business has – the aspect of the family. This difference can play a significant role in decision making and offers both opportunities and challenges. We understand that the growth and sustainability of your family business lies in the fine balance between the needs of the business and the expectations of your family members. With its knowledge and experience with family businesses around the world, KPMG Enterprise business advisers have worked with companies – large and small – to address the needs of the business, and the family.



Succession Planning

When it comes to running a business, the toughest decisions can be around succession. As an owner-manager, you want to make the right choices, for your business – and your family. Starting early is critical for a smooth transition. By making decisions and developing transition timelines, you can avoid conflict and build the support and buy-in your successor will need.

KPMG Enterprise family business advisers can help you manage the sensitivities that come with succession and provide confidential advice on the implications of any decisions your family might make. When the time comes, we can also help your successor take on his or her new role.



Family Business Governance

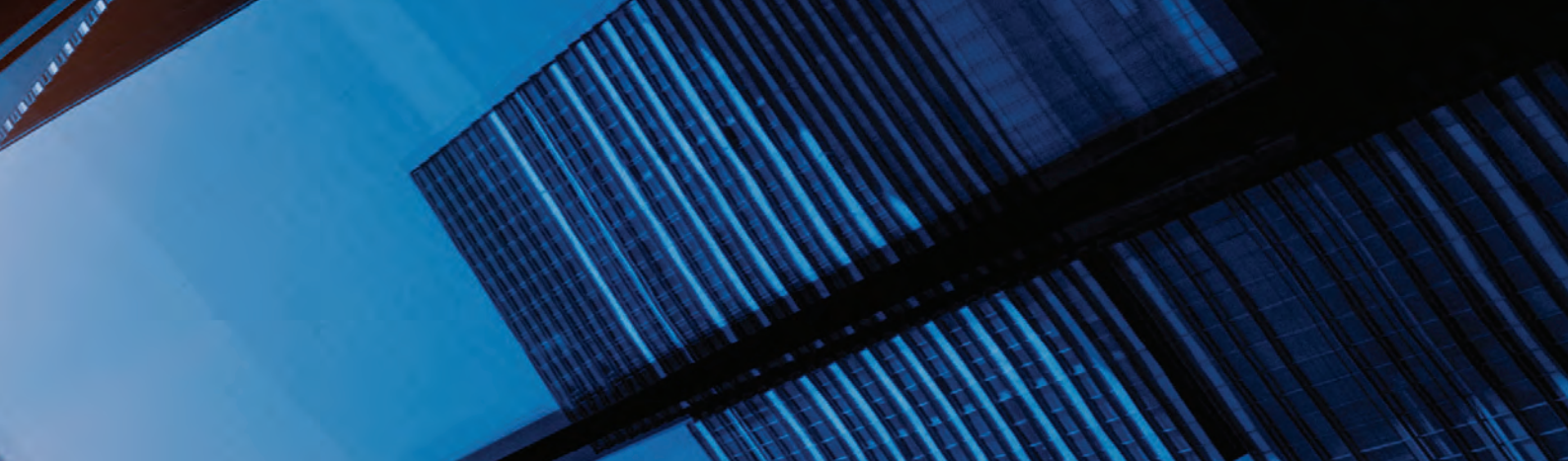
Starting a family business is easy, relatively speaking; sustaining it beyond a couple of generations is the hardest part. It's often said that the typical family business goes from rags to riches and back to rags in three generations. Better governance of a family business can help improve performance and satisfy the expectations of all family members. Establishing a governance framework that includes a family constitution and code of conduct for family members can help your family deal with changes in the business constructively. It requires your family to think through important scenarios before critical decisions have to be made and find agreement on important family and business goals.



Growth

Growth is an essential ingredient to continued business success. While most businesses can achieve growth organically, this can require considerable time and effort. In order to grow sustainably, entrepreneurial businesses must consider all of their market opportunities including seeking out complementary businesses for acquisition, potentially divesting non-core businesses, outsourcing functions to increase cost efficiencies and potentially expanding into the emerging markets.





Assurance

The need for effective risk management and controls is crucial in an environment of increased scrutiny. It is important to minimize these risks in an entrepreneurial business, not only for the business itself, but also for the family, property holdings and capital. Implementing controls, securing new financing, efficient tax management and optimization can all have a positive impact on the bottom line of your business.



Exit Strategies

Sometimes, an exit strategy rather than a succession plan is needed as there isn't a next generation of family members who are ready, willing or able to continue the business. The sale of your business is often a once-in-a-lifetime transaction, with just one opportunity to get it right. There are many options when considering an exit for the family business – KPMG Enterprise family business advisers can work with you to examine the options available to you and assist with the transaction itself.



Wealth Management

You've worked hard to build your business and make it a success. Now, as you look to the future, you want it to remain in good hands. At the same time, you want to maintain your personal wealth and pass it on to future generations.

KPMG Enterprise family business advisers can help you develop an estate plan for transferring wealth to your heirs and a succession plan for your business in a manner sensitive to your needs. By thinking about the future today, you can mitigate many of the risks associated with unplanned transactions, including family conflict and high probate and other fees.



Philanthropy

As a successful entrepreneur or owner-manager of a business, you recognize the importance of giving back to your community – whether through your time, wisdom, money or assets. But giving to others can also be an effective part of your tax and wealth management program.

KPMG Enterprise family business advisers can work with you to maximize the impact of your philanthropic endeavours, both for the organizations and causes that you support and as part of your personal tax plans. We'll help you find the best ways to structure your support so you can give generously while also being tax-efficient.



Contacts

Segun Sowande,

Partner & Head
Management Consulting
E: segun.sowande@ng.kpmg.com

Ajibola Olomola

Partner
Tax, Regulatory & People Services
E: ajibola.olomola@ng.kpmg.com

Goodluck Obi

Partner
Audit Services
E: goodluck.obi@ng.kpmg.com

Tomi Adepoju

Partner
Risk Consulting
E: tomi.adepoju@ng.kpmg.com

Tinuola Ipadeola

Senior Manager
Management Consulting
E: tinuola.ipadeola@ng.kpmg.com

Nike Oyewolu

Head
Markets Operations
E: nike.oyewolu@ng.kpmg.com

www.kpmg.com/ng
www.kpmg.com/enterprise

contact us via: ng-fmfamilybusiness@ng.kpmg.com

kpmg.com/socialmedia



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