

From trust to impact

**East Africa Family
Business Survey report**

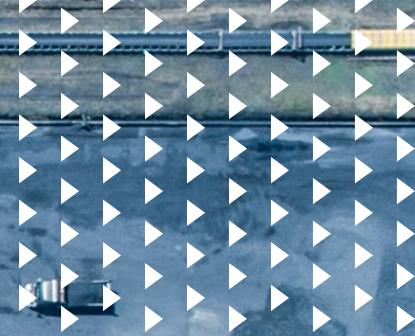
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Message from PwC Regional Senior Partner

Welcome to PwC's 2021 East Africa Family Business Survey report. This is our first report covering the East Africa region, although we have published three editions previously in Kenya on a biannual basis since 2014.

Our biannual Family Business Survey was conducted in late 2020, a year characterised by significant worldwide disruption and unprecedented change arising from the COVID-19 pandemic. Our survey shows that disruption impacted the growth prospect for family-owned businesses, at least in the short term, but that the owner generation is very clear about their priorities going forward. This is good news for the East African economy because of the importance of family businesses as the main driver of GDP growth and employment in the region.

They place significant stock in trust and family values, which tend to carry them through times of change. Their outlook for sustainable and agile operations, digital capabilities and professionalisation is generally bright and a testament to their hard-won resilience. There is much to admire in these businesses, as I think you'll find demonstrated in the following pages.

The purpose of this report is to share the results of our survey, but we also want to provide insight into the reasons why family business owners responded as they did. The report is supplemented with many points of view that are invaluable to understanding the family business sector in East Africa. Our intention is to provide a well-rounded interpretation of the survey results for anyone interested in the sector - not least, family business owners themselves.

In each section of this report, we provide a discussion of the survey results as well as in-depth points of view from family business owners. In their own words, they

have shared with us their thoughts on certain themes from the survey and much else besides. On behalf of the staff and partners involved in this report, and the wider PwC network of firms in East Africa, I would like to express my sincere appreciation for their willingness to participate and their thoughtful, insightful comments.

This report also includes points of view from senior-level PwC experts in the region who have years of experience advising family businesses and other private companies as they have navigated uncertainty, change and opportunity.

As PwC, we are trusted business advisors to many family businesses in the region. We recognise that we always have more to learn, and working with family-owned and private companies is a privilege and an honour.

I hope that you enjoy reading this report. Please feel free to contact me or any of the other PwC people profiled in this report if you would like to discuss any part of it or how we can help.



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Foreword

Family businesses tend to place a high premium on trust, seeing it as a key component of their license to operate. Trust within the family, trust in their suppliers and customers, and trust between their businesses and other stakeholders are sustaining features amongst these businesses, especially during periods of significant disruption. It is, therefore, no surprise that our survey results show that levels of trust, transparency and communication are felt to be quite high in family businesses in East Africa.

Just under three quarters of East African family businesses feel they have a clear sense of company and/or family values and these values have helped a clear majority during the COVID-19 pandemic even if only 39% have their values and company mission documented in written form.

With their keen interest in building trust, 64% of family business owners believe that businesses like theirs have an opportunity to lead the way in sustainability practices (much higher than the global average). Their interest in and support for the communities and economies in which they operate is readily apparent, even if most have not documented those sustainability plans or communicated them widely.

Despite experiencing lower rates of growth before the COVID-19 pandemic, as compared to the global average in PwC's 2020 survey, the owners are just as optimistic about growth prospects in 2021 and 2022 as their peers globally. The East African family

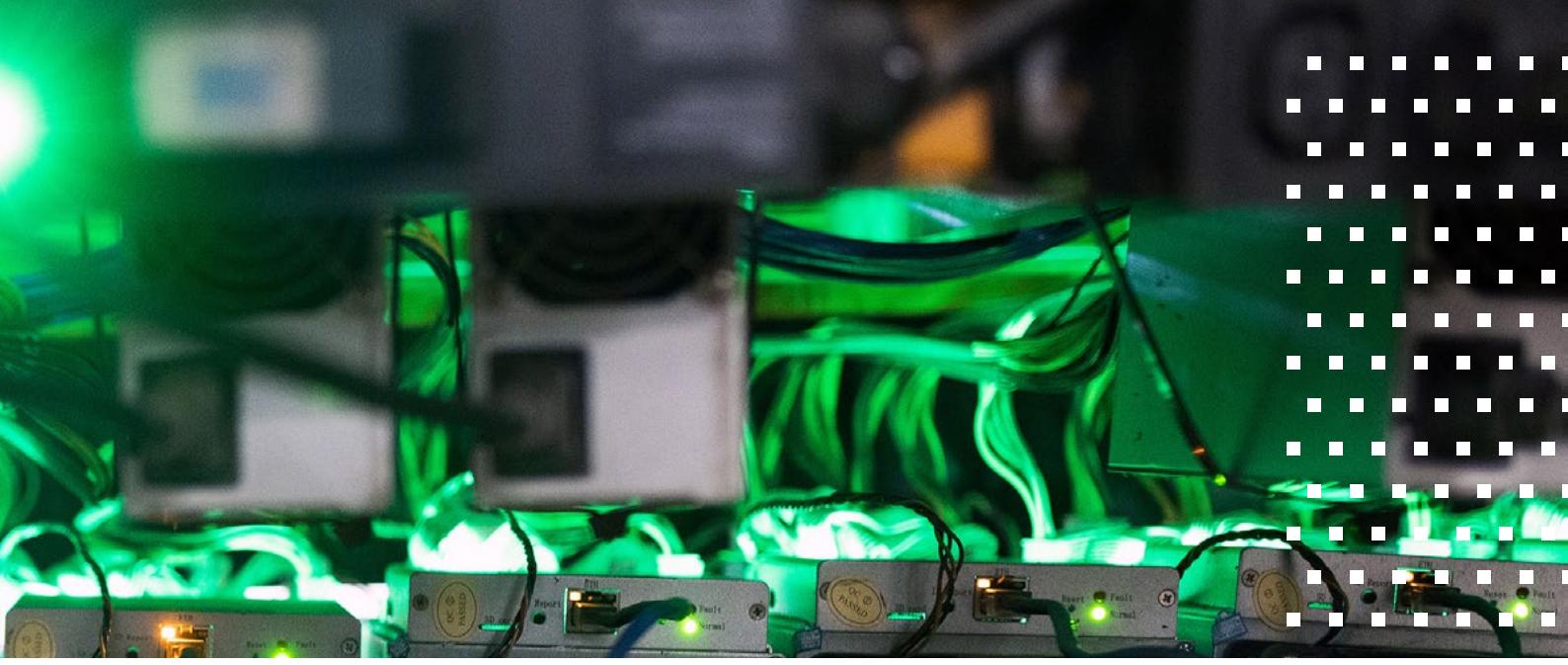
business owners' priorities are good indicators for this optimism: a focus on expanding into new markets, client segments, products and services, the increasing use of new technologies, improved digital capabilities and rethinking their business models.

The strong fundamentals that are the hallmark of family businesses - commitment to values, long-term thinking, sensible leverage - puts them in a strong position for faster recovery from the pandemic disruptions. More so, because family businesses are more trusted than other institutions and leaders, and, in most sectors, they are more resilient.

Understanding these nuances, amongst others, is a key objective of this publication. In the pages that follow, we will focus on five main themes: growth and legacy, impact and purpose, getting ahead of the digital curve, and family dynamics and professionalisation.

Each of these areas is fertile ground for discussion, contemplation and ultimately greater understanding of the many factors influencing family businesses today. After all, the interplay between 'family' and 'business' can be challenging but also a great source of strength and resilience.

For family businesses in East Africa, there is good news in these survey findings as well as a wake-up call. Their optimistic outlook for growth and their values, agility and resilience make them well-placed to succeed. The power to fuel economic recovery resides in these



businesses, which can generate employment and develop innovations and contribute in a myriad of ways towards making the world a better place.

To retain their license to operate, however, family businesses need to revisit their purpose and use the trust that they have earned. Organisations of all kinds, in the public and private sectors alike, need to think carefully about how to create measurable non-financial impact in a rapidly changing world.

Three final conclusions summarise the key areas for family businesses where immediate actions will help to secure a lasting legacy for generations to come.

Transform digital capabilities. Over many years, our survey in this region and globally has shown that there is more talk than action, when it comes to digitisation. Disruption tends to reveal which businesses have made more progress on their digital journeys, and which were then able to transition to new ways of working more readily and seamlessly. Now is the time to act. Those businesses that have not made digitalisation a priority and have not made progress will face significant challenges in protecting their legacy.

Professionalise the business. Families that improve their internal governance by adopting more professional, business-like practices tend to realise more success, as families and in business. Their sense of purpose may need to shift, perhaps focusing on operational capabilities or codifying

values. Performance will improve as a result of clear communication and expectations.

Involve the next generation sooner rather than later.

Up-and-coming generations of family business owners need time to decide how best to make an impact. Their interest in the business should not be assumed, but it can be cultivated over time.

Their interests in areas like technology and digital capabilities and the ESG agenda should be celebrated and encouraged. They often want to make a difference. Encourage them and keep the lines of communication open.

The time to act is now if you want to keep your legacy for future generations.



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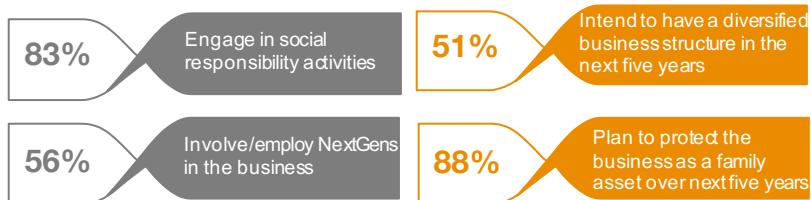
East Africa snapshot



96

interviews with family business owners in East Africa

Total impact



At a glance

- Pre-Covid-19 growth in East Africa is lower than the global average but East African family businesses are just as optimistic as the global average in terms of future growth aims in 2021 and 2022.
- The key priorities facing East African family businesses over the next two years are expanding into new markets/client segments, increasing use of new technologies, improving digital capabilities, introducing new products/services and rethinking / changing / adapting the business model.
- Levels of trust, transparency and communication are felt to be quite high. However, only 56% say there is family alignment on company directions (similar to the global average).
- 42% feel they have strong digital capabilities (slightly higher than the global average: 38%).
- Only 25% have a developed and communicated sustainability strategy but 64% say there is an opportunity for family businesses like ours to lead the way in sustainable business practices.

Key findings



Pre-COVID performance

Sales growth	46%
Sales reduction	31%



Growth ambition

	2021	2022
Grow quickly/aggressively	11%	21%
Grow steadily	49%	70%



Key priorities for next two years

Expanding into new markets/segments	69%
Increasing use of new technology	56%
Improving digital capabilities	53%
Introducing new products/services	51%
Rethinking/changing the business model	50%



Adaptability & agility

Access to reliable/timely info/data that feeds into decision-making	58%
Have the ability to change course at short notice	53%
Have strong digital capabilities	42%



Family cohesion and trust

Family members regularly communicate about the business	72%
Have family values and mission for the company in written form	39%
Robust, documented and communicated succession plan in place	21%



Country snapshots

Kenya

As a regional hub for business, tourism and trade, Kenya's diversified economy tends to demonstrate resilience over the course of economic ups and downs. Growth sectors like telecommunications, renewable energy, banking and commercial horticulture and agro-processing as well as innovative and emerging technology, e-commerce and multimedia sectors all contribute to a healthy outlook for Kenya's economy in the medium term. Elections in 2022 may dampen the recovery somewhat, but most forecasts anticipate 5% growth or more from 2022 or 2023 onwards.

Certain sectors of the economy had shown signs of softening in 2019 and the pandemic has exacerbated those trends, particularly in the manufacturing, media, health and retail sectors. The pandemic and public health measures like curfews and social distancing put pressure on the manufacturing sector and reduced demand for non-essential health services. The decline in foot-fall in shopping centres and other public areas affected the retail sector, and the shift to remote learning impacted the education sector.

Many businesses, including Kenya's family businesses, responded to this economic pressure by cutting costs and streamlining operations. Family businesses have a long history as drivers of job creation and economic output and now, looking ahead, they are optimistic with 66% expecting growth in 2021 and 96% in 2022. Having become even more resilient during the pandemic, their sights are firmly set on the future.

Their key priorities over the next two-to-five years speak to this forward-looking, resilient mindset. Many of them are focused on expanding into new markets



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or client segments, introducing new products and services, increasing the use of new technologies and digital capabilities and rethinking their business models. They are conscious of their wider purpose in society, with some 80% engaging in some form of social responsibility activities.

Within these businesses themselves, there are generally high levels of trust and communication. Yet very few of them have properly considered and documented governance and succession frameworks for their family and business.

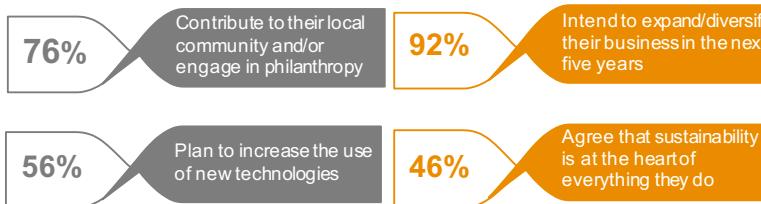
The professionalisation journey continues to be relevant and top-of-mind for many family businesses. However, the extent of the professionalisation desired, and its perceived impact on the family business, tends to vary slightly.

As they progress, many family business owners may need to ask themselves, "What next?" In our conversations with them, we often urge them to listen. Look for clues amongst the next generation, in emerging pockets of the economy, data from your business and the market. There is real promise to be had, and a legacy to preserve, through strong values and the right talent.



Kenya snapshot

Total impact



At a glance

- Pre-Covid-19 growth in Kenya is lower than the global average. Kenyan family businesses are more optimistic than the global average in terms of future growth aims in 2022 (but similarly optimistic about 2021).
- The key priorities facing Kenyan family businesses over the next two years are expanding into new markets/client segments, introducing new products/services, increasing use of new technologies, rethinking/changing/adapting the business model and improving digital capabilities.
- Levels of trust, transparency and communication are felt to be quite high. 62% say there is family alignment on company direction.
- 48% feel they have strong digital capabilities (higher than the global average: 38%).
- Only a quarter have a developed and communicated sustainability strategy but 64% say there is an opportunity for family businesses like ours to lead the way in sustainable business practices.

Key findings

	Pre-COVID performance	
Sales growth	52%	
Sales reduction	28%	
		Growth ambition
2021		2022
Grow quickly/aggressively	16%	28%
Grow steadily	50%	68%

Key priorities for next two years

Expanding into new markets/segments	76%
Introducing new products/services	58%
Increasing use of new technology	56%
Rethinking/changing the business model	56%
Improving digital capabilities	46%

Adaptability & agility

Have the ability to change course at short notice	62%
Access to reliable/timely info/data that feeds into decision-making	54%
Have strong digital capabilities	48%

Family cohesion and trust

Family members regularly communicate about the business	68%
Have family values and mission for the company in written form	44%
Robust, documented and communicated succession plan in place	16%

Uganda

The future for Uganda's economy is bright with the projected average five-year GDP growth rate estimated at 6.5%. The drivers for this growth as set out in Uganda's Third National Development Plan 2021-2025 include: agro-industrialisation, import substitution, tourism, oil and mineral-based industrialisation, and increased local content participation. This clear strategy by the Ugandan government bodes well for local enterprises, the majority of which are family-owned businesses.

The business opportunities for these enterprises are immense, and their role in Uganda's long-term economic transformation is key. It's through these enterprises that most local entrepreneurs invest their capital, which reduces the risk of capital flight, creates employment, broadens the tax base, and advances the socioeconomic transformation agenda at the same time.

Our survey results for Uganda tell a story of resilience and hope: growth in revenues and profits, capital resilience, and operational agility in spite of the pandemic. However, family business owners must do a bit more on improving family governance and succession planning.

Only 26% of Ugandan respondents said they have a robust succession plan and less than 20% have a testament and will, a family constitution or protocol, a family employment policy, and/or a family conflict resolution mechanism. Proper succession planning will help families to realise their long-term family business objectives which, for more than 90% of respondents, are to maintain the family business as the most important



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family asset and create a legacy through the business.

To create a company that ensures a legacy for future generations, families must embrace more than good family governance and proper succession planning.

The first hurdle is to keep the business profitable and navigate through uncertain times. Sustainable growth will require more than improved digital capabilities, business diversification and expansion into new markets.

It will require family businesses to deliver on the trust agenda which has integrity, competence and consistent delivery of quality results at its core. This means that family businesses must examine the fit-for-purpose state of their business strategies, continue professionalising, and optimise business capital. All these aspects will strengthen business resilience.

I trust that the results of the survey will challenge and inspire you to focus on broader business sustainability issues beyond growth and profits. Above all, I hope that the experiences and expert views in this publication will prompt you, where necessary, to transform your business and revisit its relationship with the family.

Uganda snapshot

Total impact



At a glance

- Pre-Covid-19 growth in Uganda is lower than the global average and Uganda family businesses are less optimistic than the global average in terms of future growth aims in 2021 (but similar for 2022).
- The key priorities facing Uganda family businesses over the next two years are improving digital capabilities, expanding into new markets/client segments, increasing use of new technologies, protecting the core business / covering costs/ survival and rethinking/ changing/ adapting the business.
- Levels of trust, transparency and communication are felt to be quite high. However only 49% say there is family alignment on company direction, lower than the global average.
- 37% feel they have strong digital capabilities (similar to the global average: 38%).
- Only 29% have a developed and communicated sustainability strategy but 77% say there is an opportunity for family businesses like ours to lead the way in sustainable business practices.



Key findings

Pre-COVID performance	
Sales growth	43%
Sales reduction	46%
Growth ambition	
2021 2022	
Grow quickly/aggressively	9% 14%
Grow steadily	43% 69%
Key priorities for next two years	
Improving digital capabilities	66%
Expanding into new markets/segments	60%
Increasing use of new technology	54%
Protecting core business/survival	46%
Rethinking/changing the business model	43%
Adaptability & agility	
Have access to reliable/timely info/data that feeds into decision-making	69%
Have the ability to change course at short notice	43%
Have strong digital capabilities	37%
Family cohesion and trust	
Family members regularly communicate about the business	77%
Have family values and mission for the company in written form	37%
Robust, documented and communicated succession plan in place	26%



Tanzania

Resilience, innovation and a strong understanding of the local market are features that have defined Tanzania's family-owned businesses over time. The largest of these family businesses are industrial conglomerates with a particular focus on manufacturing, but services are also an area of increasing focus (including hospitality; the information, communication and technology space; and regional logistics / transport).

Whilst their foundation has been the local market, the last decade or so has seen these businesses expand beyond Tanzania's borders, whether elsewhere in the East African Community (EAC), or further afield including South or Central Africa, or Dubai. The EAC is not just about cross border trade but also cross border investment - and insofar as outbound investment from Tanzania to the rest of the EAC is concerned, and particularly outbound into Kenya, this has been led by family owned businesses.

Encouraging such investment flows will certainly help further cement the integration of business activity in the EAC. As PwC, we are proud to have helped support a number of these businesses as they have embarked on broadening their regional footprint.

Challenges faced in recent years by these businesses have included depressed consumer activity and general economic uncertainty, as well as regulatory challenges including taxation and immigration. The

global pandemic has clearly had a significant adverse impact on the local economy - particularly, the hospitality sector. On the other hand, it has also created an opportunity for some domestic manufacturers to respond to a demand trend for shorter (more local) and diverse supply chains.

Recently, we have observed an increasing mood of optimism amongst these businesses, many of them heartened by the Government's very clear commitment to address regulatory / business environment challenges impacting investment.

This optimistic trajectory, allied with Tanzania's natural advantages (large consumer population; gateway to several countries; natural resources) portend huge opportunities for the family business sector.



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Rwanda

Rwanda's operating environment is conducive to starting and growing a business, including private companies and family businesses. Apart from the pandemic period, the country has a strong track record of economic growth over the last decade or more.

The Government continues to focus on positioning the country at regional and pan-African levels as an investment destination through three key channels: the Kigali Innovation City is intended to promote technological advancements through cluster-enhanced activities; the Kigali International Financial Center helps to position Rwanda as a preferred financial jurisdiction for investments into Africa; and a new investment law which provides a number of incentives for start-up organisations and entrepreneurs. The new investment law is part of a wider effort to enhance the Government's agility in adapting to evolving investment priorities.

Rwanda is becoming a hub for regional expansion, particularly in technology-related services. Specifically, we are seeing the incubation of new solutions and innovations in transport, drones, apps and other areas, which are broadly relevant to neighbouring countries as well. Investments in capital-intensive sectors like energy and commercial property are expected to generate significant returns in the medium term.

Most family businesses in Rwanda started afresh or were constituted in the last 15 years or so, and they are still owned and managed by the founder generation. Another generation of businesses have opened in recent years by founders who may have left Rwanda to study abroad or work elsewhere, but who have now returned. A number of them are attracting investment or self-financing expansion, particularly those that have a technology or digital focus. These innovative businesses could very well become the multigenerational, multinational family businesses of tomorrow.

The pandemic has certainly presented challenges, particularly for those that were founded very recently. Others with a longer history have tended

to demonstrate more resilience. In response to the challenges some of them were facing, the Government initiated a programme to support the SME sector through access to finance and guarantees for borrowing.

Through the Private Sector Federation, the Ministry of Trade and Industry has created a forum for businesses to share ideas and take advantage of opportunities in Rwanda and beyond. With the advent of the African Continental Free Trade Area agreement, there are more opportunities for these businesses to expand and grow.

Most family businesses and private companies in Rwanda have not progressed very far with professionalising the business or, as part of that process, succession planning. Founders who have been in their roles for some time should start thinking about the next generation, whether that means involving their descendants or outside professionals or both, preferably through a structured process.

Looking forward, these businesses will need to be prepared for growth. Rwanda had a 7.5% compound annual growth rate for five years until 2019. Investments in infrastructure and post-COVID-19 development support should help to pave the way for renewed growth from 2023 onwards. Now is the time to professionalise, plan for expansion and diversification and cultivate the talent of tomorrow.



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Growth & legacy

Optimism abounds

The end of 2019 until now has proven to be an extraordinary test of resilience for almost all businesses. Family businesses in East Africa are rising to the challenge at a time when financial uncertainty has already impacted many of their forecasts.

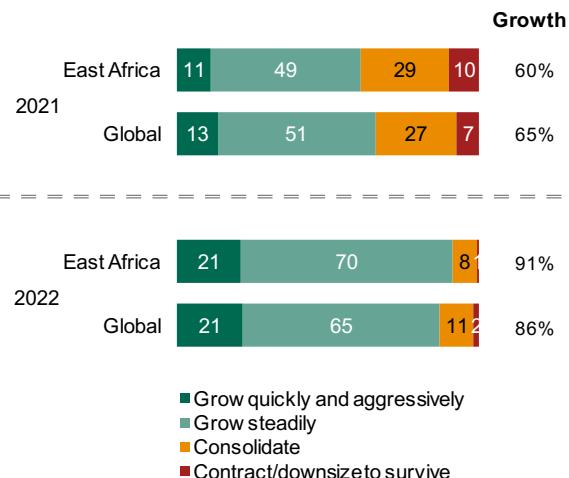
Whilst 60% anticipate growth in 2021, a much higher percentage - 91% - expect that their businesses will grow in 2022, an impressive level of optimism that we may find tempers over time in response to changing circumstances on the growth.

Family businesses in East Africa are rising to the challenge at a time when financial uncertainty has already impacted many of their forecasts

Resilience

Over the last year, 77% of East Africa family businesses report having retained as many staff as possible and many provided financial and/or mental health support to staff during these trying times. Although only one third (33%) of East Africa family business owners had to reduce dividends, 51% of them took salary cuts themselves, a significantly higher percentage than globally (31%). Overall, less than a third (28%) of family shareholders needed to inject more capital into the business from their personal assets.

Growth ambitions for 2021 and 2022



Family businesses have proven robust and adaptable and as we have come to expect. They are prioritising expansion into new markets, client segments, products and/or services as well as new technologies, digital capabilities and business models that are more responsive and agile.

As they look forward, many family business owners are also thinking about the talent they need to realise their ambitions. In many cases, they are looking to groom the next generation for leadership as part of ensuring their legacy for years to come.

Key priorities over the next two years (Top 5) – East Africa compared to Global





PwC point of view: Agility, growth & change

Family businesses in East Africa are quite optimistic about future growth. Approximately 70% plan to continue growing steadily (and 21% plan to grow quickly and aggressively), 69% intend to expand into new markets and 51% plan to launch new products. As encouraging as this is, there are certain steps that these businesses should take to realise their aspirations.

Proper strategic planning is one such step. It will help these businesses to prepare for growth and ensure the continuity and sustainability of their operations, even as they look forward to brighter days ahead.

As PwC advisors to family businesses, we often recommend starting with the end in mind. As a business and as an owner, what do you want to be known for - now, in the near term and beyond? To seek insight into that question, we recommend an outside-in approach: ask your customers, analyse the market, look for macroeconomic signals and then assess whether your business is agile and responsive enough to evolve through the dynamic environment shaped by megatrends such as technology, the future of work, legislation and geopolitics.

Key indicators for a business's agility and responsiveness include the ability to forecast and model different potential outcomes, depending on an investment strategy or a product launch's reception or possible disruptions to the supply chain. Modelling exercises and scenario planning can help identify weak links, such as a lack of internal capabilities or appropriate systems, or certain risks to the brand and/or reputation in the market.



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At times, established family businesses may not be prepared for new entrants, next-generation technologies, competitor innovations or rapid efficiencies. Thinking about the road ahead, certain business transformations will require a defensive stance to protect market share but on the whole, family businesses need to be bold enough to seize opportunity and run with it.

Technology is another competitive advantage available to family businesses, particularly when it is part of a wider strategic plan for the business. Unfortunately, some businesses focus on the cost of technology and neglect to assess its potential contribution to business growth or efficiency. It can take time to realise the benefits of certain technologies and digital applications, to be sure.

But a clear strategic business case for the investment should demonstrate its benefits and the time frame for realising them; after all, technology and digital is no longer a differentiator but an expectation for every institution and every individual. Family businesses tend to take the long-view, but these benefits still need to be clear and persuasive.

Finally, a strategy on paper is meaningless without the people on board to execute it. Family businesses need to be absolutely clear about what enhanced skills they need and how they will recruit for those skills and retain the people who have them, well in advance and with an eye on the business of tomorrow.



An interview with Dr Narendra Raval, MGH, EBS, CEO of Devki Group of Companies

A legacy of professional leadership



Devki Group of Companies is a diversified organisation manufacturing steel, roofing sheets and cement and with further interests in aviation services. The group is led by Dr Narendra Raval, MGH, EBS, known as Guru, who has grown the organisation over three decades by focusing on quality products at affordable prices and customer satisfaction. Guru spoke to us about the professionalisation of family businesses like his, the importance of legacy and involving future generations in the family business.

"Professionalism is essential because as business owners, we can't do everything. We can't sign every cheque. That's why it's important to have a good system and the right people in place," he says. "That said, owners cannot afford to lose sight of their businesses. They need to remain interested and focused on the business, even when they hire professionals to support them."

Guru points to two aspects of professionalism that continue to support Devki's success: efficiency and talent.

"Efficiency is very important," he says. Even with a sophisticated inventory and sales management system in place, however, business leaders need good judgement and experience to understand why sales may have shifted day-to-day. "There is a lot of detail and work that requires careful attention and that benefits from a clear sense of ownership," he says. Guru looks for talented, dedicated people with experience in different operational areas. "I have to make sure that the people I hire are professionals," he says. "We recruit people who are young and who have good ideas."

At a group level, Guru has worked to attract outside directors who have specialised experience, such as in the cement industry where he foresees opportunity and growth. As much as these directors add value, Guru is not interested in changing the ownership

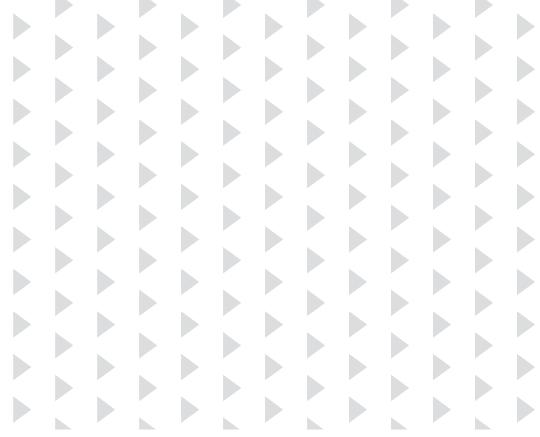
structure of Devki companies. "When ownership is diluted, the owners tend to lose interest; similarly, when they borrow too much," he says. Going forward, Guru intends to pass on a company that is in good hands and remains 100% owned by the family.

For Guru, sustaining the business and ensuring its survival and success is a legacy that he intends to pass on to his children. "I try to show my children how I work so that they learn how to take care of the business," he says. "Multitasking is very important and every minute counts." He believes that if owners want to run a successful family business, they need to be fully engaged and committed - around the clock, 365 days a year. "It's not an 8 to 5, Monday to Friday affair," he says.

Guru recommends involving the next generation in the family business as early as possible but focusing on cultivating their skills and experience from about age 20 or so. "It can take time to fully involve the next generation, to groom your next generation of talent," he says. "It's important to manage expectations," he adds. Guru is a well-known proponent of modest lifestyles. "The next generation needs to learn how to manage their own money, such that they don't expect easy money or a luxurious lifestyle without having earned it."

He hopes to instil a real passion for the family business in his children. This passion has served him well and contributes to a sense of professional and personal satisfaction. He believes that the next generation will naturally want to get involved in the family business if they, too, see the value of joining a business that is large enough, well run and profitable.

"I love my business. It has given me challenges, for sure. But I love those challenges, too. Each challenge has taught me something about how to run my business," he says. "At the end of the day, if you love what you're doing, you'll do it from the heart."



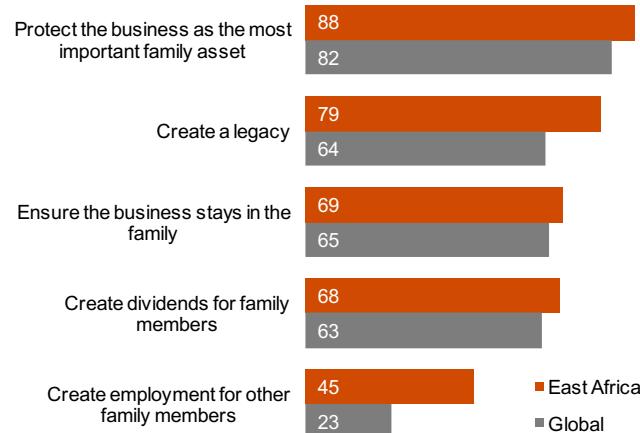
A legacy for the future

Family business owners in East Africa are clear about their business priorities in the medium term and those priorities will help to strengthen resilience and deliver results, whether on the digital front, in new markets or other areas.

Their personal long-term goals are also important, particularly goals such as protecting the business as the most important family asset and ensuring that the business stays in the family and creates dividends and employment for the family.

Our in-depth conversations with several family business owners suggest that these goals will support a meaningful and lasting legacy, even as many of them also identified creating a legacy as a separate goal in our survey.

Important personal long term goals (5+ years)





An interview with Joseline Kateeba, Managing Director of Crest Foam Limited

Leapfrogging to the next level



Crest Foam Limited is a leading manufacturer and distributor of flexible foam and related products in East Africa. The Uganda-based family business first opened its doors in 1987 and today produces a range of standard, high density and orthopedic mattresses as well as pillows and cushions. We spoke to Joseline Kateeba, Managing Director of Crest Foam, about her journey as a second-generation family business owner.

Crest Foam was started by Joseline's father, the late Joseph Kateeba, and led for many years by his wife and Joseline's mother, Petua Kateeba, who remains Crest Foam's Co-Founder and Executive Director.

Before she joined the family business in 2014, Joseline had a successful career that took her far beyond Uganda. In global roles with a consulting firm and an engine, filtration and power generation manufacturing company, Joseline gained experience in strategy development, business analytics and world-class manufacturing that has served her well as Crest Foam's Managing Director.

As successful as she was, her mother began calling her back to the family business as early as 2011. "She wanted me to join her and take over running the business, so that she could transition to retirement," Joseline recalls. "It was difficult to leave a successful career in industry, but I felt that I really needed to support my mother and the family business."

The transition from global industry to local family business was not an easy one; as she says, "I underestimated the extent to which it would be a challenge for me." With a number of family members in senior positions, some of them with over 25 years of experience in the business, Joseline had to find her niche and try to implement a culture of greater accountability and professionalism - similar to what she had experienced elsewhere. "When I came in and started to implement things, I was accused of being impatient.

"There was a certain polite reluctance to getting things done," she says.

Polite reluctance or otherwise, Joseline was clear that certain things needed to change. First, she revitalised the company's Board of Directors. With the guidance and support of the chairman, a former senior-level

banker in the development finance sector, she worked to earn her mother's buy-in as she implemented good governance standards and other changes consistent with a professional, formal business operation.

"I've spent a lot of time reflecting on what would have helped me to better prepare for this job," she says. She advises other next generation business leaders to bring something valuable to the business by identifying their genuine areas of interest and actively developing their leadership potential. Working outside of the family business can also be very helpful and instructive, as Joseline herself has done, because "it gives you confidence in business."

For the owner/founder generation, Joseline recommends that they expose the next generation to the business from an early age, even as interns in secondary school, and communicate an openness to new ways of working.

Accountability and a strong work ethic begin at home, she adds. "It can be hard to hear, because parents want to give their children the best of everything, but how you manage money and encourage creativity and hard work will influence the professionals that your children become."

"When I returned to join the family business, I was keen to analyse our strategy for the future," she recalls, pointing to what she had learned working in strategy consulting. "The family had a very conservative approach to growth and we had been a medium-sized business for a while. I started to think about our size as a business and different products, and how we could leapfrog to the next level," she adds.

Looking ahead, Joseline is excited and optimistic about the future for Crest Foam. At an early stage of the pandemic, Crest Foam launched a new product, face shields, in partnership with Nice House of Plastics. Joseline credits her team, who she says were empowered to develop a solution that would work. She looks forward to new challenges and opportunities associated with 'Buy Uganda, Build Uganda'.

In her own words, "If you support a family business, you are directly supporting local families and local economic growth."



An interview with Rishad Karimjee, Executive Director of Karimjee Jivanjee Group and the Group's Director of Operations

Driving growth through the right mindset



Karimjee Jivanjee Group is a diversified family business based in Tanzania. The company was started by Jivanjee Budhabhoy in 1825 as a small trading business, conducted via annual dhow voyages between India and East Africa. The business evolved and prospered as a result of determination, hard work and an enterprising spirit. Those values have been transmitted over eight generations and today, the group is a successful, multinational and multigenerational family-owned business operating in five key sectors: automotive, financial services, real estate, energy and investments.

We spoke to Rishad Karimjee, an Executive Director of Karimjee Jivanjee Group and the Group's Director of Operations, about the features of a growth mindset in family businesses like his, and how Karimjee Jivanjee Group continues to build resilience in response to change.

Rishad studied accounting and finance and then worked outside the family business for a few years, an experience that many next generation family business leaders share. "I was very lucky to have a great mentor who taught me a lot about hard work, discipline and how to have a solution driven mindset," he recalls of his time at the multinational telecommunications company. "The exposure I was given was rare. It was like a fast-track MBA."

In 2012, Rishad joined the family business in Karimjee Jivanjee Group's Financial Services arm (SFL). He focused on building that business and, over time, cultivated skills associated with identifying new investments, developing diversification and innovation strategies and navigating high-growth opportunities. Those skills became exceptionally important in 2019, when his father (Mahmood A. Karimjee) and uncle (Hatim A. Karimjee) passed away. Both of them had been vital leaders in the family business holding the positions of Group Managing Director & Chairman. As difficult as it was, Rishad had to quickly pivot to new roles in the family business.

"Like any family member in a family business, you wear multiple hats," he says of his responsibilities today. In addition to his Group-level oversight and operational roles, Rishad is also a Trustee of the family's charitable foundation, Karimjee Jivanjee Foundation, and part of the Group's Board of Directors.

One of the defining features of a growth mindset at a family business like Rishad's is agility. "Family businesses are significantly more agile and less bureaucratic," he says, adding that when they are confronted with disruption or uncertainty, they can quickly make decisions and drive implementation in areas like cost containment and managing their revenue streams.

A growth mindset also entails looking ahead to new markets and new opportunities. Karimjee Jivanjee Group is expanding regionally into Kenya and Uganda predominantly through its vehicle leasing programme. As one of the oldest distributors for Toyota in Africa, Rishad notes that "it is our responsibility to find ways to add value to our main partner (Toyota). Through our experience in leasing and fleet management, we've seen the impact it has had on the customer experience and retention, and we're excited to be given the opportunity to add value by sharing best practice in new markets."

To finance growth, Rishad notes that for many generations, the family never borrowed. "It was a key principle of my father's: family businesses with low debt ratios managed well even through economic shocks." Over the last few years, however, Karimjee Jivanjee Group has started to consider different financing options in response to changing circumstances. When international competitors with deep pockets start to enter the market, for example, "you have to expand and compete or you'll risk getting left behind," he says.

Rishad notes the importance of investing in the future. "Distribution and e-commerce are growing sectors in Africa, and we're well positioned," he says. Early-stage investments in electric vehicles and conversion kits have raised some interesting questions and challenges for the Group. "We're constantly testing the market and trying to understand if these solutions make sense commercially as well as from a sustainability perspective," he says.

Another aspect of the growth mindset is knowing how to prioritise units or investments that are generating returns and identify others that could be spun off into independent ventures. Traditionally, Rishad recalls, earlier generations would approach an investment opportunity based on the view that the family would be operating this business for generations to come. According to Rishad, values must continue to come to the fore. "We believe that your values as a group should never be compromised, no matter how profitable a venture could be," he says. "You only lose your reputation once."

Today, Rishad credits many of the good governance structures that his uncle put into place years ago as contributing directly to the strength of the Group's reputation, agility and growth prospects. It's a journey, according to Rishad.

"We're a family business but we're moving towards becoming a family corporate. How else do you stand the test of time?"

Impact & purpose: Translating ambition into action

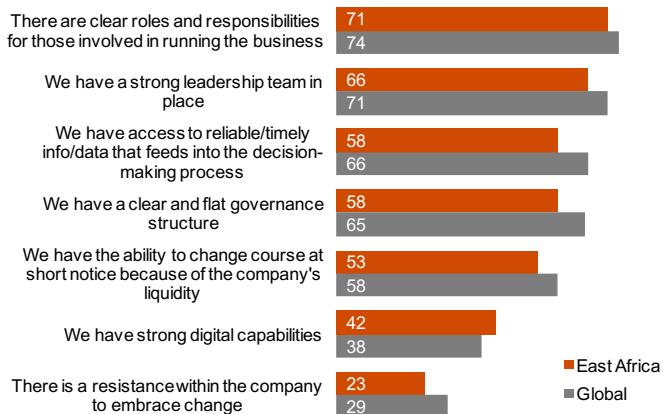
Family businesses tend to be trusted businesses, by reputation. Many of them contribute directly to local economies through employment and tax revenue, their brands are seen as ‘home-grown’ and their owners and founders are highly credible and well known.

Family businesses can take the long-view and invest for the future, often with family resources. These and other attributes make family businesses powerful forces for change.

Even so, we are seeing more interest in the Environmental, Social and Governance (ESG) agenda amongst various stakeholders. Documenting the business’s sustainability strategy is a good first step. ‘Sustainability’ tends to be associated with the environmental aspect of ESG, but an organisation’s contributions to society and good governance practices also form parts of the ESG agenda.

The ability to translate ambition, such as making a difference, into specific actions speaks directly to some of the key strengths common amongst family businesses: agile decision making in times of change, driven by clear priorities and values.

Agreement with statements (Top 2)



‘Sustainability’ tends to be associated with the environmental aspect of ESG, but an organisation’s contributions to society and good governance practices also form parts of the ESG agenda.





An interview with Thibault Relecom, CEO of Unibra

Building trust to weather the storm



Unibra is a Belgian family-owned company founded in 1960 but with artisan-brewer roots and a commitment to flavour and tradition going back to 1829. Today it is owned by Maïté Relecom and her son Thibault Relecom, who is the current CEO and the main shareholder. One of its key investments in Africa is SKOL Brewery Limited where the company focuses on the family's vision to grow the brand in Rwanda and the continent.

Thibault shared his thoughts on investing in Africa and why family businesses are uniquely capable of good growth even in uncertain times.

Thibault's family first started investing in Africa after the second World War. "It was a 'promising land' then, as it is now," he says. Thibault's father moved to the Democratic Republic of the Congo (DRC) and opened Unibra in 1960 but over time, certain challenges required that the family take a step back and regroup. Thibault later revisited the family's strategy of investing in Africa and focused on Rwanda starting in 2009.

"We have a passion for the African continent," he says. "It speaks to our family values: entrepreneurship, quality, sustainability. Personally, my purpose is to support the development of this continent by creating jobs and value and participating in general development. Especially in Rwanda, I have the feeling that it is a true partnership between the government, the business community, and the end consumer," he says. "It is becoming very clear that the government is making good decisions with a clear vision for the medium and long term."

Thibault referenced the Rwanda Development Board, calling it a "beautiful tool" that supports investors like him end-to-end, including post-transaction services. Rwanda is also a gateway to other markets in the region; Thibault pointed to DRC and Burundi and the opportunities emerging from trade with these and other countries in the continent through the recently ratified African Continental Free Trade Area agreement.

"The narrative has really shifted. More and more investors are confident enough to come and invest in Africa, and there are many untapped opportunities," he says.

Thibault believes in the power of trust to overcome challenges and uncertainty, which many family businesses have experienced over the last year. "If there is trust, you can weather the storm."

Part of building trust is contributing to the human story, according to Thibault. "I always tell people that when you invest in Africa and create jobs, you are bringing to life this concept of corporate social responsibility."

During the pandemic period, Thibault points to priorities like managing cash and supporting employment even during a year that was difficult for the business. "We were proud to keep our 380 employees on board," he says. "Also, we were careful not to default on any of our obligations to banks or the government. As is the case sometimes, and just like for other businesses globally, the year has not been good. But this has shown us other avenues for operating our business and adapting to current circumstances with innovative activities."

Among these innovative ideas is the company's environmental footprint. Thibault says that the company is very conscious of wastewater treatment. SKOL has committed to a significant, two-year investment that will further refine the company's management of wastewater. Rwanda ratified a law prohibiting the manufacturing, importation, use and sale of plastic carry bags and single-use plastic items including plastic bottles in 2019, with a grace period of two years for users to switch to eco-friendly materials. Thibault recalls feeling a sense of obligation and responsibility at that time. Transitioning to become Rwanda's first provider of mineral water in returnable glass bottles was "one of the best things that we did in 2020," he says.

On a final note, Thibault returns to the importance of creating good jobs and hiring the right people. Talent is about more than just skills; for Thibault, it is also about attitude. "I am interested in people who are eager to learn," he says. "I like the image of a large tree. Nothing is going to grow very close to it, because of its shadow. You have to create the space for your people - whether they are family members or not - to grow."



PwC point of view: Sustainability makes good business sense



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Going forward, it's clear that sustainability is going to be a very important issue in the East Africa region. At present, sustainability tends to be driven by larger companies but other companies are still having an impact. Smaller companies may not have the resources to pursue and communicate sustainability practices in the same way, but they may still participate and contribute meaningfully.

Sustainability tends to refer to the environmental aspect of the Environmental, Social, Governance (ESG) agenda. In this region, family businesses tend to take the 'social' aspect of ESG very seriously. They see themselves as employers and corporate citizens, contributing to economic development, with strong values and upstanding reputations in the market.

They may not communicate or report on metrics indicating their sustainability, such as what actions they have taken and the benefits, but we expect that in the coming years, they will need to. Stakeholders across the board are likely to demand it as a license to do business in a world characterised by disruption.

Certain regulatory requirements already guide an organisation's sustainable business practices, in areas such as employment law, waste management or energy and water consumption. Complying with the letter and the spirit of these regulations helps to create goodwill.

In recent years, we have seen increased interest amongst financial partners like investors, where ESG indicators are often central to any discussions. Those companies that are seen to be actively enhancing their approach to ESG are seeing a premium ascribed to their valuations or attracting lower-cost funding.

Family business owners interested in exploring a more rigorous ESG agenda may find that the global

Sustainable Development Goals are a good place to start. Different goals pertaining to good health and wellbeing (#3), quality education (#4), alleviating hunger (#2) or creating decent employment opportunities and economic growth (#8) are all areas where a family business may already have an impact and that are well aligned to their organisation's purpose.

We work with organisations to design their ESG strategy on the basis of the SDG Selector Tool, which helps to analyse an organisation's operations and focus areas to identify relevant and actionable SDGs. For example, an organisation that works through a distribution network of mostly women-owned micro-enterprises may find that Gender Equality (#5) is a good fit. Agriculture businesses may take certain steps to ensure that their labourers are ensured of decent working conditions (#8).

The starting point for this level of analysis is always the business's strategy. A common question that we often hear is, "How can I make my business more sustainable?" When really, the first question is actually "Why?" And the answer is pretty simple: because it makes good business sense. A sustainable business will be around for the long-term, adapting to changing conditions and communicating value holistically.

Sustainability needs to be integrated in the business strategy and cascaded to every aspect of the business's day-to-day operations. With certain KPIs in place to measure and assess progress, and a clear reporting framework demonstrating impact, a business can communicate clearly with a range of stakeholders on indicators both financial and non-financial. This is the essence of corporate citizenship, and it is well aligned to the family business owner's agenda.

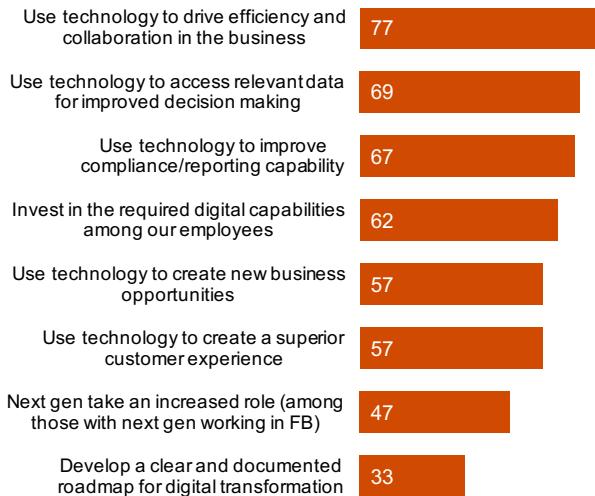
Getting ahead of the digital curve

Several of family business owners' key priorities over the next two years are associated with the digital age, or fourth industrial revolution, currently underway.

Over half of our East Africa respondents indicate that that will increase their use of new technologies and improve digital capabilities, and several of their other priorities such as expanding into new markets or client segments or introducing new products and services, or even reimagining how they measure success or invest in innovation, may require technologies and digital capabilities.

Their reasons for improving digital capabilities tend to be operational in nature. They intend to want to use technology to drive efficiency and collaboration in the family business, to access relevant data for improved decision making and enhance compliance or reporting capabilities. To a lesser extent, our respondents are keen to invest in digital upskilling or to create new business opportunities or a superior customer experience.

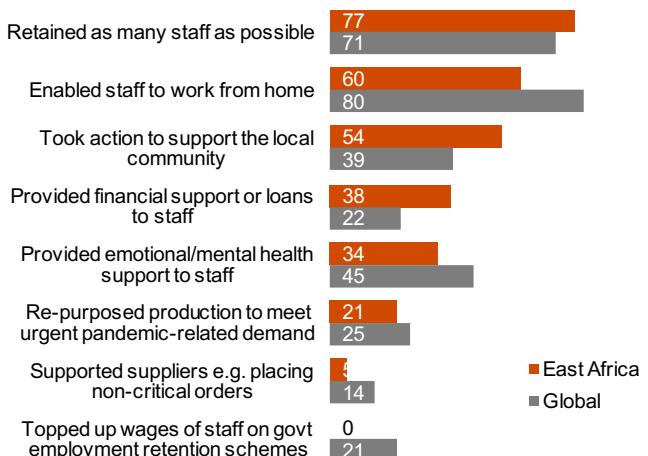
Steps taken / will take to improve digital capabilities?



Periods of disruption tend to dissolve any lingering doubts about the benefits of digital transformation. Many businesses had to transition to digital and remote ways of working almost overnight, and those with established capabilities fared better than those that needed to catch up.

A further indication of their ongoing digitisation journey is the fact that so many family businesses were able to implement remote working in good time. According to our survey, 60% of East Africa family businesses enabled their staff to work from home as a response to the COVID-19 pandemic.

Help and support provided during COVID-19



Organisations that have upgraded their digital capabilities tend to reap the most benefit when they have a clear road map in place and yet only 33% of our respondents indicate that they have a clear and documented road map for digital transformation.

A road map is vital since digitisation is a journey, just like professionalisation, and yet just 20% of our respondents say that their digital journey is complete and 58% believe they still have a long way to go.





Strong digital capabilities translate into strong business performance

Better performance

60% of family businesses **with strong digital capabilities** saw growth pre-COVID (vs. 51% for other family businesses)

32% expect growth after COVID impact (vs. 26%)

71% expect to grow in 2021 (vs. 61%), and 88% expect to grow in 2022 (vs. 85%)

Increased agility

86% of family businesses **with strong digital capabilities** have access to reliable and timely information/data that feeds into the decision-making (vs. 54% for other family businesses)

71% have the ability to change course at short notice due to liquidity (vs. 50%)

More focus on sustainability

60% of family businesses **with strong digital capabilities** ensure sustainability is at the heart of everything they do (vs. 42% for other family businesses)

51% have a developed and communicated sustainability strategy that informs all their decisions (vs. 29%)

More transparency

73% of family businesses **with strong digital capabilities** say information is shared in a transparent and timely way between family members (vs. 58% for other family businesses)

Note: Base is all global respondents (2021: n=2,801).

Source: PwC Family Business Survey 2021



An interview with Sailesh Savani, CEO of Compulynx

Technology and culture intersect at a family firm

Compulynx is a technology leader in systems integration, software product development and a provider of hardware solutions company specialising in retail management, biometric and digital identity. With customers in 37 countries, Compulynx has a proven track record of delivering technology solutions that contribute to business growth, improved efficiency and increased profitability. We spoke to Compulynx Founder and CEO, Sailesh Savani, about his family-owned business and the outlook for digital capabilities in the region.

A software engineer by training and profession, Sailesh was born and brought up in India. As a young professional, he came to Kenya to work for a corporate organisation and then started Compulynx in 1994. Compulynx's first client was a retail business and needed a software solution; although Sailesh had not planned to venture into retail technology, it quickly became apparent that retail was likely to expand in East Africa and solutions like SmartCards were the future. "Almost by accident, we got into SmartCards as a means of providing a loyalty program that allows customers to access their points in a portable manner," he says. "Biometrics and payments then naturally followed."

Today, several of Sailesh's family members are involved in the business in different roles. "One thing we've learned (the hard way) is not to take business conversations home," he says. Family members joined the business over a period of time, and Sailesh recalls that 'professionalisation' became a priority beginning in 2009. "We started to develop strategic business plans, operating structures, regular meeting cadences, budgets, targets and so forth," he says. "We've learned to trust the process. On the whole, I believe that now we have a very professional operation."

As well as being a family business itself, Compulynx also works with family businesses in the region. Sailesh says that he tends to find that the next generation are particularly interested in technology solutions for their family businesses. "The older generation has to trust and believe in what has been proposed, in terms of digital transformation," he says. "The younger generation seems to want to proactively deal with issues. They recognise the value of data and information for decision-making."

For family businesses contemplating a digital transformation, Sailesh recommends a clear roadmap

because "it's important to document how, exactly, the business will digitise their operations within a clear time frame." He looks for processes and actions that can be tracked and monitored, as well as clear benefits. Otherwise, he says, "it's easy to say that a business has a 'digitisation strategy', but what does that really mean?"

As much as family businesses may want to implement a technology solution, Sailesh is conscious of the impact that the pandemic period has had on many of them. "Technology takes a hit in situations like this, when clients are cutting down on maintenance contracts, CAPEX and other tech-related spending," he says, noting that Compulynx revenues have taken a hit. "We were not alone in the storm, though, and we've found ways to work better."

On the other hand, the pandemic has also presented certain opportunities. "With the advent of COVID-19, non-touch biometric became a priority for many businesses," he says. "We fast-tracked our face biometric program and are helping our customers to understand that face biometrics is safer, more effective and cost efficient."

Other Compulynx customers are looking for cybersecurity solutions. "With more of their people working from home, they are more vulnerable - and so are their devices," he says. Compulynx customers are also interested in strengthening their Know-Your-Customer, or KYC, processes through biometrics. "Digital identity has taken up a good share of our product development investment," he says.

Sailesh returns to the importance of culture and values in a business - not least because an organisation's own people are the first line of defence in risk management. "Even amongst profitable businesses, I think culture and values can be reinforced to sustained growth, staff and customer retention," he says.

Values influence reputation in the market as well as behaviours and expectations within an organisation, including in his own business and other family businesses. "For a family business leader, culture and values are increasingly becoming important areas of focus, as they accrue huge organisational benefits," he says. "They actually do have an impact on your top and bottom line."





PwC point of view: Assessing the value & risks of digital

Increasingly, we are seeing more interest from family businesses in the potential value of technology and digital capabilities. Their owners and leaders recognise that certain digital applications, for example, can support them with running their businesses such as by providing a record of transactions, helping them to comply with regulatory requirements or detecting fraud. Other advanced technologies are tailored to specific industries like hospitality or manufacturing, and can add value and improve competitiveness.

Although there are many reasons why a family business would want to invest in technology or digital capabilities, it is worth remembering that the brightest tool in the shed is not always the right one for the job. Vendors can be very persistent and persuasive, and yet a specific tool may be better suited to a larger, smaller or different type of organisation. This tends to be the case with Enterprise Resource Planning software; there are a number of excellent options, not all of them suitable for every organisation.

Therefore, we recommend that family businesses follow a thorough, documented and impartial process to procure technology systems or digital tools. Such a



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process would evaluate each option and its benefits and potential risks or drawbacks. When procurement is well thought out, there is a better chance that the technology will meet the business's needs and achieve its stated objectives, such as improving efficiency. Which is why we often recommend that the business starts with a strategy and clearly articulates what it wants to achieve, before discussing systems, technology, digital tools or applications to support the strategy's execution.

With any technology or digital tool, the most critical aspect is people. Family businesses may need to recruit and/or train people, whether family members or otherwise, to ensure that they get maximum value from their investments in technology and digital capabilities.

Even the very best technology will fail to deliver benefits without the right people on board. On the other hand, opportunities to upskill can be very motivating for people - particularly the next generation - as long as there is a good match between people, their skills, the business strategy and the tools themselves.

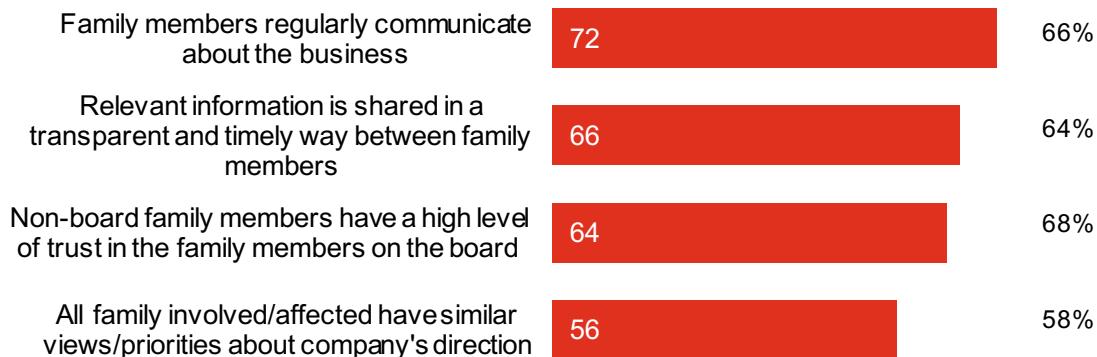


Family dynamics: holding up a mirror

Family dynamics are complex, given the nature of personal relationships. The same qualities that can help a family business to act and adapt rapidly can also impede decisions and hold it back. According to our East Africa Family Business Survey, 44% of respondents indicate that not all family members share similar views about the company's direction even though 72% agree that family members communicate regularly about the business.

Agreement with statements (Top 2)

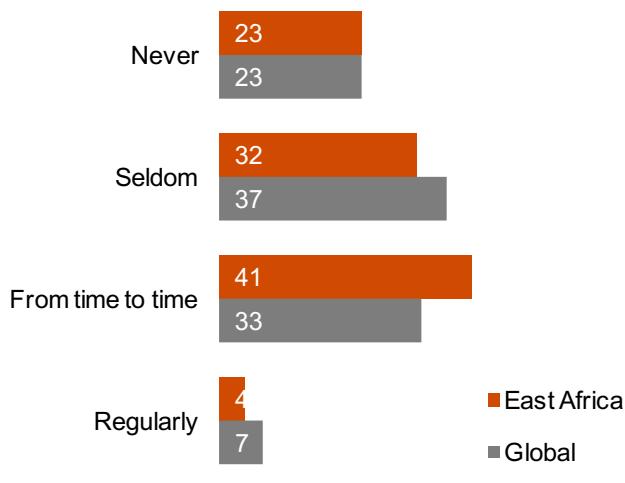
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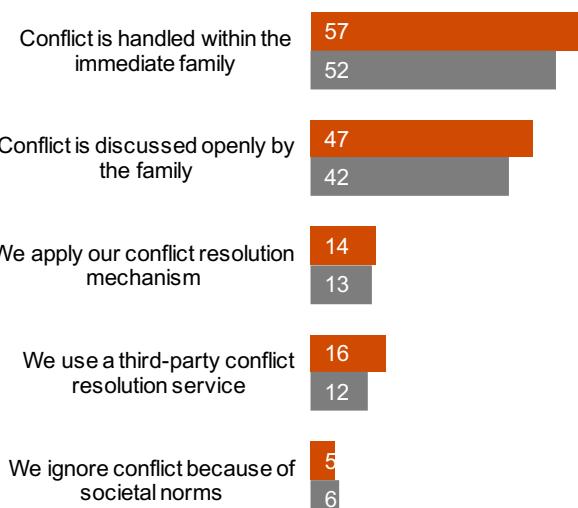
Some degree of disagreement can be productive, since the openness to express opinions and views indicates a strong culture of trust, but family harmony should never be taken for granted. Harmony requires work and planning, and should be approached with the same focus and professionalism that is applied to business

strategy and operational decisions. Although 76% of our respondents indicate that conflict occurs in the business, just 14% of our respondents apply a conflict resolution mechanism. Instead, conflict tends to be handled within the family, either by immediate family members or openly.

Does the family conflict within the business occur?



How is this conflict handled?





The impact of values

Strong family and business values form the foundation of an effective decision-making and prioritisation process. Nearly three-quarters of our East Africa respondents indicate that the family owning the business has a clear set of family values, and 70%

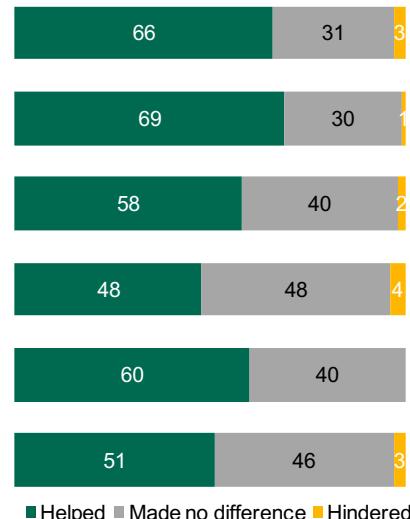
report that at a company level, there is also a clear sense of values and purpose.

Again, when it comes to documenting that vision and purpose statement, a defined code of conduct or family values, our survey shows that many family businesses may be falling short.

Agreement with statements (Top 2)

The family that owns the business has a clear set of family values	71	70
The family have a clear sense of agreed values and purpose as a company	70	68
The values of the family that owns the business define clear expectations for family members	57	58
The family have a documented vision and purpose statement (mission) for your company	50	51
The family have a defined code of conduct	49	47
The family have the family values and mission for the company articulated in written form	39	44

Impact of each on how the business managed during the COVID-19 pandemic (East Africa)



■ Helped ■ Made no difference ■ Hindered

Again, when it comes to documenting that vision and purpose statement, a defined code of conduct or family values, our survey shows that many family businesses may be falling short.



PwC point of view: Building trust takes commitment and discipline

There doesn't seem to be a formula for building trust; it takes time to build and sustain it. Family business owners tend to place a high premium on trust, at a family level and with employees, suppliers, customers and other stakeholders.

But with the disruption that many family businesses have experienced over the last year or so, many of them have realised that what worked before may not work now. Whereas previously, trust may have been implied or taken as a given, many family businesses are now finding that trust can be sustained and supported through clear lines of communication and by documenting values, succession plans and conflict resolution policies.

Values certainly help to support resilience and build trust, at a personal and a professional level. Values have an impact far beyond the office or working environment; if values are truly internalised across an organisation, everyone will have a similar level of commitment to the business. Values influence behaviour since, after all, how the work gets done is just as important as what gets done. Amongst family businesses, we have found that values tend to be very

Succession planning is one of the most sensitive issues in many family businesses, with only 21% of respondents indicating that they have a succession plan in place. Amongst our survey respondents, however, 48% of respondents report that their family business is already in its second or third generation and 55% expect that the business's shareholder majority will be second generation family members in five years time (a further 14% expect it to be held by the third generation). To the extent that the next generation is currently working in the business, they may not be in a senior-level capacity, and 42% report no next generation involvement at all.

Clearly, succession planning is a relevant, timely issue for family businesses in East Africa. And yet some of them may not want to formalise the process or address it head-on. Others may make assumptions about the next generation without consulting them or caring about their actual interest in the business.



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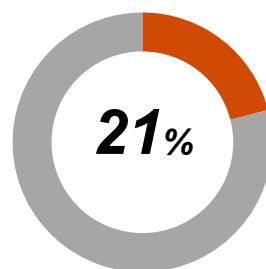
important to the family itself but those values aren't always communicated or documented clearly.

Similarly, there can be challenges with documenting a succession plan since some of the issues inherent in 'succession' can be emotive. Here again, trust plays an important role. Trust within the family and across the business, and trust in the processes involved, can actually strengthen the family and the business going forward.

Conflict is another challenge that can undermine trust in a family business. Treating the company as the company and the family as the family is not as straightforward as it sounds. The family may grow faster than the business, or some family members may have more responsibility than others.

These and other potential sources of conflict highlight how important it is to document conflict resolution mechanisms ahead of time. Conflict arises in any business upon occasion, but to maintain and build trust in the family business, it's important to actively manage harmony in the family and the business. Clear communication and documentation can help.

Have a robust, documented and communicated succession plan in place?



East Africa



Global

9%

of East Africa FBs revised this plan in light of COVID (the remaining 11% did not revise it)

9%

of global FBs revised this plan in light of COVID (21% did not)



An interview with Rupen Shah, CEO of Victoria Courts

Communicating value and style across generations

Victoria Courts is a modern retailer of comfortable and stylish home furnishings. With showrooms and a warehouse in Nairobi and an online business catering to the wider region, Victoria Courts is focused on quality products and customer service. We spoke to Rupen Shah, CEO of Victoria Courts, about his third-generation family business and the importance of transmitting the family's values from one generation to the next.

Rupen's grandfather started the business that is now Victoria Furnitures Limited, a group of companies including Victoria Courts which today employs over 10 family members in different roles. "From a young age, it was ingrained in me that I would get involved in the business," he recalls.

Like many next generation family business owners, Rupen spent time outside of the business to gain experience and training. Having been brought up in Kenya, Rupen qualified as an accountant in the UK and worked in the audit profession. Although the experience was useful, he always wanted to return to Kenya. "I had an interest in making an impact," he recollects, speaking of his interest in the family business.

When he joined the family business, Rupen worked for short stints in different roles and areas of the business. "Understanding our strengths and challenges in different areas was particularly useful when I joined the business after having been away for over ten years," he says. Returning from the UK to join the family business was not without its challenges, however. "There can be a real resistance to change, particularly when it's clear that certain manual processes actually do work," he says. "It took me a long time to be comfortable with that."

Today, as Victoria Court's CEO, he is focused on resilience, growth and innovation. "My vision for the business is to take it to greater heights and sustain it for future generations."



Strong values contribute to resilience and support growth and innovation, according to Rupen. "Identifying those values and clarifying what they mean is very critical because values support the development of a culture, both for the family and the business," he says.

As the family business matures and more people get involved, many things change. "Once you reach a certain size as a business, it's a good idea to document a mission statement, your vision and values," he says, noting that it can be helpful to work with an external consultant experienced in family business. "I was exposed to this kind of exercise in a formal, methodical way when I worked in the UK," he recalls.

The family's values tend to permeate throughout the business in important ways, but as the business grows, communication and trust become increasingly important. "Whatever you do for your business, consider doing for your family: team building, quarterly meetings or get-togethers, a retreat," he advises. Speaking from experience, Rupen notes that he and his own family members benefit from getting to know each other on different levels.

Governance structures like a family constitution and family councils are also helpful in addressing conflict, and external consultants can help to mediate between different family members. Good governance can also entail a segmented approach to managing family, shareholders and business affairs such that policies, procedures and expectations are clear for each segment.

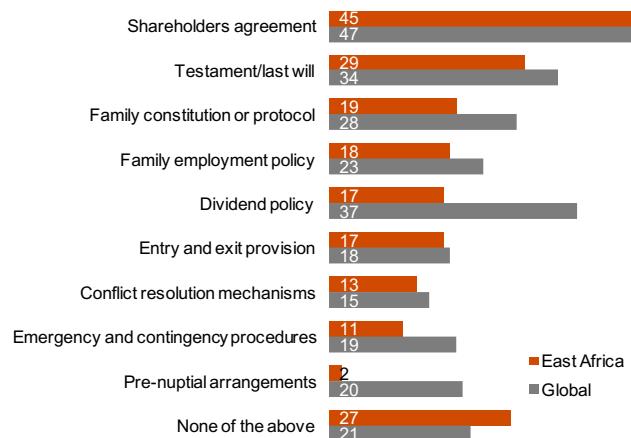
"From my experience, governance is critical particularly as you orient a family business towards the future," Rupen concludes. "There can be a guardedness around sharing information, sensitivity around succession planning or tension between family members." Rupen notes that miscommunication, misinterpretation and conflict are common in businesses of all kinds. "It happens, it's human," he says. "But in a family business, relationships are that much more important."

Governance

Most of our respondents have some form of governance policy or procedure in place, but there are some significant shortfalls as indicated by a comparison of East Africa and global family business survey responses.

In particular, a smaller percentage of East Africa family businesses have testaments/last wills in place, or family constitutions or protocols, as compared to global respondents.

Governance policies in place?



PwC point of view: Family governance considerations in estate planning

Traditionally, wills and trusts have been the primary devices for facilitating estate and succession planning in Kenya. With time, other mechanisms have emerged which augment the classic approach, particularly where a family business is involved. These are highlighted below.

1. Family Holding Companies

A company limited by shares is a useful legal structure to hold assets for the following reasons:

- It is, by law, considered to be a separate legal person from its shareholders and can therefore hold property and enter contracts in its own right; and
- The company's shareholders are generally not liable for its debts and obligations (a concept known as limited liability).

These attributes allow a founder to segregate key assets in a company structure. Generally, this can help protect the assets from the founder's personal creditors. The founder can also allocate shares in the family company to family members.

2. Family Constitutions

Increasingly, family constitutions have gained popularity in estate planning and are used to govern relationships between family members with respect to the operation of a family business.

Matters to articulate in a family constitution include: core family values; family member involvement in the board and management of the business; the role



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of non-family members in the business; dividend policy for family shareholders; next generation involvement in the business; and dispute and conflict management within the family.

3. Family Councils

Family councils are particularly relevant where the third or later generation of family members are involved in the running of the family business. The family council implements the family constitution, draws up family policies and articulates the long-term goals for the family. The council works with the board of the family company to ensure that the family's objectives are reflected in the management of the family business. Ideally, a family council should include family members from different generations and branches as well as members employed in the business and those who are not.

4. Family Offices

Wealthy families use family offices to manage the family wealth in an efficient and structured manner. Family offices are usually run by professional managers with diverse skills such as tax, legal, finance and real estate. Some of the support services offered through family offices include investment management, accounting, tax and legal consulting and real estate management.

These approaches can significantly enhance estate planning. Where possible, they should be embedded when the founder of the family business is still alive and significantly involved in the business.



An interview with Sim Katende, Partner at Katende, Ssempebwa & Company Advocates

Estate planning for family businesses



Family business owners have a keen interest in sustaining the business as a family asset and as a legacy, according to PwC's 2020 East Africa Family Business Survey. Estate planning is an important component for family business owners and their families to consider, since it speaks directly to how certain assets will be preserved, managed or distributed. As part of an overall succession plan, estate planning clarifies how these assets will be passed on to the next generation or otherwise distributed. We spoke to Sim Katende, an Advocate of the High Court of Uganda and a partner at Katende, Ssempebwa & Company Advocates about estate planning and why it is an important aspect of the overall succession planning process.

What is estate planning, in general terms?

In East Africa, an estate planning process would generally begin with a conversation within the family, with an attorney or a trusted business advisor. For a variety of reasons, the founder and/or owner would want to take action and ensure that his or her assets pass on to others - typically, other family members - in a predetermined way. Although estate planning can bring to the fore some uncomfortable emotions, it is an important aspect of succession planning. We have seen cases where a lack of an estate plan has created friction within families and it was avoidable, had the proper planning been done.

What are the typical components of an estate plan?

Typically, estate planning is accomplished through the making of Wills and/or setting up a Trust(s). Wills are usually the primary document in estate planning. A Will is a written legal document detailing the wishes and intentions of the individual, such as the family patriarch (in legal terms, the testator). It would document the testator's assets and how they want those assets distributed, naming their heirs and the Executors who will implement their wishes.

There are two kinds of Wills: a Living Will, which declares and implements the testator's intentions whilst they are still alive and a Testamentary Will, which takes effect after the testator has passed on. At that point, the Testator's Executors apply to the Courts of Law to secure Letters of Probate which authorise them to manage the estate. Even when this process is uncontested, it can take up to 12 months in Tanzania and Uganda and 18 months in Kenya, during which time the beneficiaries may not have access to the assets of the estate.

A Trust, on the other hand, establishes a structure for administering the assets of the owner (or Settlor) through a Board of Trustees. Trustees hold the legal title to the settlor's assets for the benefit of the beneficiaries, and provide legal protection by ensuring that those assets are distributed as the Settlor intended and according to the Trust Deed and the governing local law. Living Trusts allow the Settlor to maintain control of their assets and for a successor trustee to step in as needed, such as if the Settlor becomes incapacitated. Certain tax benefits apply to Living Trusts, which also allow for the smoothest continuity of ownership across generations and fewer delays.

Unlike assets bequeathed to individuals, a Trust will continue to operate and its beneficiaries can continue to benefit from the Trust's assets even if one or more of the beneficiaries pass on.

Why is estate planning important?

There are many benefits to estate planning, including protecting the interests of the owner and ensuring that their wishes are carried out. Estate planning allows them to choose how their finances and assets are managed, should he or she become incapacitated or pass on suddenly, and it protects beneficiaries including those who may be minors, elderly or disabled. Estate planning also protects the family's wealth for future generations and a Trust can help protect assets from bad decisions, physical and mental infirmity, outside influences, creditor problems, divorce and other challenges.

Estate planning also helps to prepare future generations to receive and manage wealth or other assets, and it can help to secure the owner's legacy. Philanthropic intentions can be implemented through a family foundation or charitable trust. In jurisdictions with inheritance tax regimes, proper planning can help to reduce the tax burden on the estate and/or the heirs. In East Africa, only Tanzania currently has a semblance of an inheritance tax.

There are a number of pitfalls that families can avoid, such as naming the wrong trustees, failing to update estate planning documents regularly or simply not taking the time to think through the relevant issues.

Many family businesses do not survive from one generation to the next. The right approach to estate planning will vary amongst founders and families, but it is never too early to start the succession planning process.

The professionalisation journey and the owner's agenda in East Africa

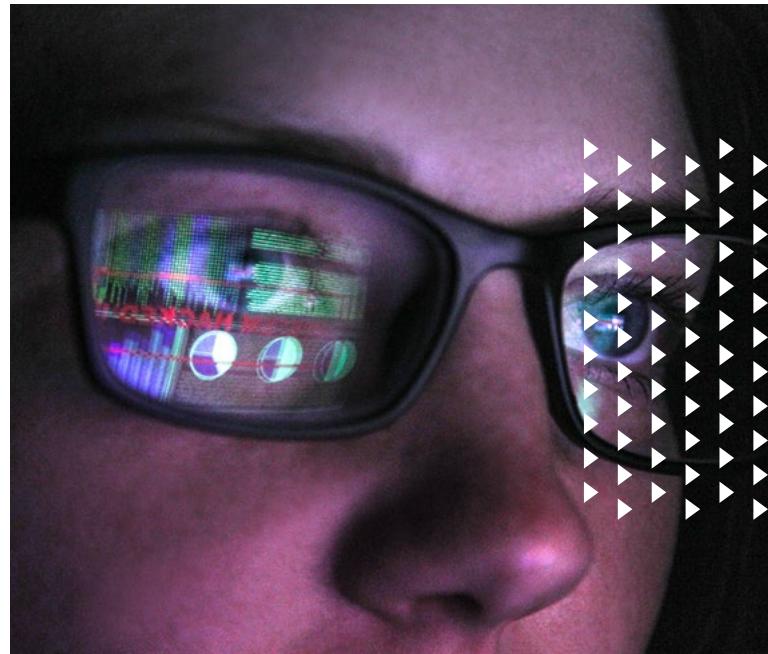
Professionalisation is a journey with many steps along the way. Our East Africa Family Business Survey indicates that not only is professionalisation important, but it is top of mind for many members of the owner generation - and the next generation.

Documenting an organisation's values, instituting conflict management procedures, clarifying the plan for succession, and putting in place a culture of accountability to support business growth and digital capabilities are all steps on the professionalisation journey.

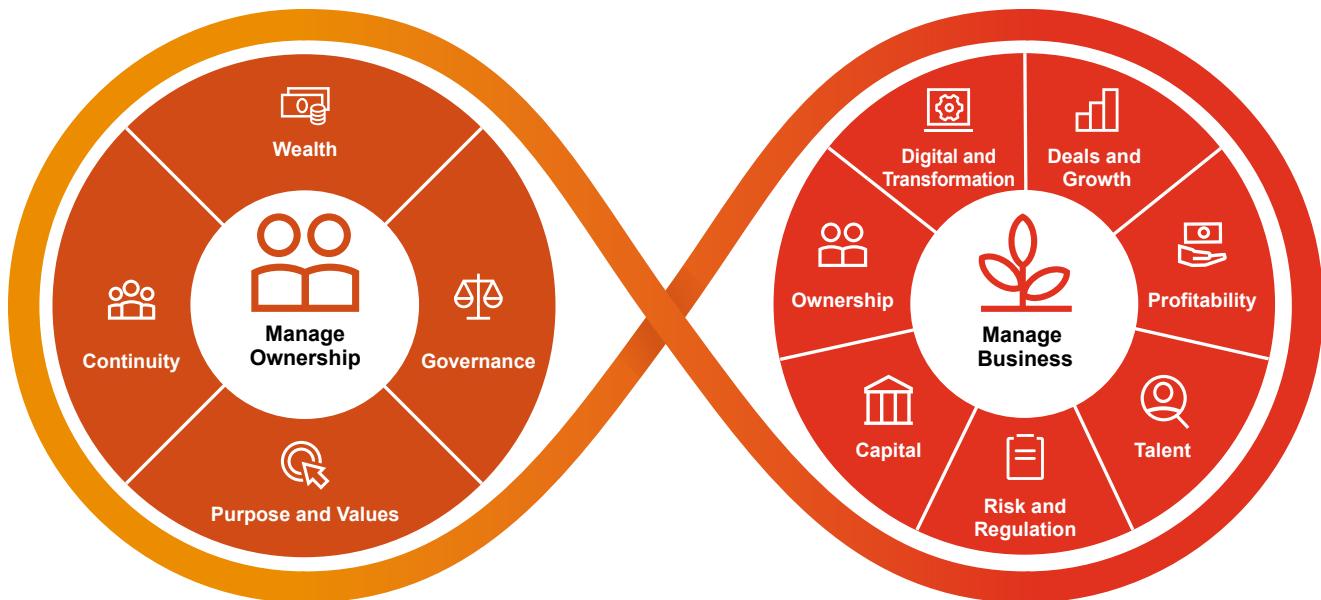
None of these steps are easy, but every step of the way there are also opportunities to strengthen relationships and trust within the business and with other stakeholders.

The Owner's Agenda

PwC's Owner's Agenda is a framework for assisting family business owners to develop their ownership and business strategies in a consistent and integrated way. On the one hand, managing family ownership is perhaps the most unique and complex challenge which sets family businesses apart from other types of business. The approach to ownership strategy is key to business success and longevity, and also family cohesion and happiness.



On the other hand, sustainable growth is fundamental to the longevity and continuity of all family businesses. Achieving the right level of sustainable growth is an especially complex undertaking for family businesses, because of the need to consider not just the business's goals but also those of the family.





An interview with Kamlesh Madhvani, Joint Managing Director of Madhvani Group

Professionalisation and culture intersect at a family firm



With turnover and assets in excess of USD 500 million and USD 1 billion respectively, the Madhvani Group is one of the largest diversified private sector organisations in East Africa. Madhvani legacy companies, with origins in Uganda as far back as 1914, have developed into a multi-sector conglomerate with a presence in various African countries, the Middle East, India and North America. Today, Madhvani Group's interests include agriculture and agro-processing, hospitality, information technology, media and communications, packaging and construction.

The Group's flagship business is Kakira Sugar Limited in Uganda. Over many years, the Madhvani family and Kakira Sugar have weathered political turmoil and successive generations of leadership. Following the death of the Group's founder, Mr Muljibhai Madhvani in 1958, the development of the Group in East Africa fell to the two elder sons, Mr. Jayant Madhvani (1922-1971) and Mr. Manubhai Madhvani (1930-2011).

In 1972 the Group in Uganda suffered a huge setback with the imprisonment by Idi Amin of Mr. Manubhai Madhvani and the expulsion of Asians from Uganda. In 1985 the family returned to take control of the Group



and the experience of rehabilitating the Group since then has taught the family some important lessons on the importance of professionalising the family business.

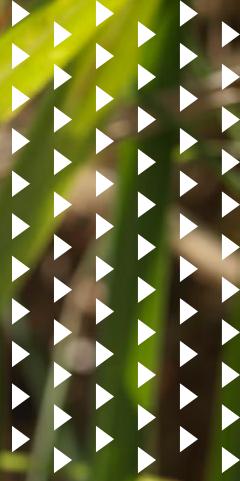
To date, professionalism remains pivotal to the success of the Madhvani Group. Kakira Sugar, for example, is one of Uganda's largest taxpayers and a mature business, having undergone a complete transformation after 1985.

In addition to producing 180,000 tonnes of sugar, 74,000 tonnes of molasses and other confectionery products annually, the company also generates 51 megawatts of electricity daily and produces 22 million litres of extra neutral alcohol (ENA) annually, and has recently started the production of bottled spirits such as rum, vodka and gin as supplementary by-products of the manufacturing process.

We spoke to Kamlesh Madhvani, Joint Managing Director of Madhvani Group, about the family's unwavering commitment to professionalisation with a special focus on corporate governance, talent management and solid systems and processes.

The Madhvani family has retained ownership of Kakira Sugar and other Group companies but has appointed experienced, independent non-executive directors and professional managers. "No family has an endless supply of the expertise needed to deal with all business challenges," says Kamlesh Madhvani. Independent non-executive directors constitute half of Kakira Sugar's Board, for example, and the family has delegated important levels of responsibility to professional managers; both the directors and the managers have diverse backgrounds and relevant expertise and experience.

Speaking of the role of the Board, Kamlesh Madhvani notes that it provides oversight on important matters like strategy and capital optimization. "This has been instrumental in the execution of our concentric diversification plans," he says. Diversification helped the business to pivot towards addressing a surge in demand for ENA from regional and local customers, who faced supply chain disruptions. ENA is the primary ingredient in the manufacture of alcohol-based



sanitizers. “Our diversification has helped to mitigate the impact of the pandemic on our turnover and profitability,” he adds.

Kamlesh notes that Madhvani Group’s governance model has demonstrated the power of effective leadership. “Empowering individuals - both family members and outside professionals - is easier,” he says. Good governance has supported the family’s culture of hard work, commitment, knowledge, expertise, emotional intelligence and innovation.

Another aspect of the family’s culture, passed down from Mr Muljibhai Madhvani, is that “our wealth is our people,” according to Kamlesh. “We are deliberate about knowing our people - their aspirations and their hardships - and we endeavour to inspire them, motivate them and reward them for their contribution to the business.”

One of the ways that Madhvani Group supports the talent pipeline of tomorrow is through the Madhvani Foundation Scholarship programme, which has helped the business to recruit talented beneficiaries into the business.

Recently the Group started a new programme under the Kakira Sugar Busoga Foundation to encourage school leavers to get training through an apprenticeship programme. To retain talent in the business, Kamlesh points to the business’s practice of involving staff in important policy decisions, which he says “instills a sense of commitment, responsible ownership and pride.”

Madhvani Group focuses on investing significantly in business processes and systems, particularly

those that will provide detailed, accurate and timely information to the family’s businesses, support corporate governance, contribute to optimising productivity and create a conducive working environment that supports the Group’s talent agenda.

At Kakira Sugar, for example, “our production systems are now largely automated,” Kamlesh says. The company has achieved full integration of the SAP ERP for operational and financial reporting purposes.

Additionally, it has implemented quality management systems with certifications from organisations such as the International Organization for Standardization and the British Standards Institution. “These developments have contributed to improved productivity and efficiency, which in turn has had a favourable impact on our financial performance,” Kamlesh adds.

On a final note, Kamlesh circles back to the family behind the business. “Any family can fall into the family business trap whereby the first generation creates, the second generation enjoys and the third or fourth generation destroys,” he says. At no time is professionalisation and a strong board more important than when leadership changes from one generation to the next.

“Our experience has shown us that with professionalisation it is possible to do good business ethically and thrive. To us, professionalisation is essential to our survival and sustainable growth,” he says. “Above all, it has fostered openness, honesty and trust in our family business - three qualities that we consider necessary for any family business to move forward.”



PwC point of view: Professionalisation and the owner's agenda

Family firms in East Africa tend to be further along on the journey of professionalisation depending on the size of the business, how long it has been around and how many generations are involved. For most of them, however, priorities like protecting the business as a family asset and creating a legacy are often the driving forces behind the process of professionalisation.

The professionalisation journey typically includes a number of milestones, such as implementing internal standards guiding business operations, performance management, ethical business conduct as well as conflict resolution. It is a common truism in business that acting in the best interests of the company and other stakeholders like customers, and restraint in terms of one's own personal needs or goals, are key characteristics of professional conduct. This truism is just as likely to be found at professionalised family firms.

Professionalisation is also characterised by full compliance with all applicable laws and regulations. In Rwanda, for example, when the government set up an Economic Recovery Fund last year, one of the requirements for accessing those funds was that entities applying for funds must demonstrate tax compliance. Compliance is integral to getting support to sustain a business in Rwanda - whether it is a family firm or not.

In the current environment, sustaining the family business is definitely top of mind for many family business owners and certain characteristics, such as lower debt levels and flexible decision-making, tend to work in their favour when the going gets tough. Flexible decision-making and agility have helped many of them to conserve cash and reduce spending without compromising on quality.

For many family business owners, sustaining the business through periods of uncertainty or change also requires a keen focus on their markets and customers. Their customers may be facing similar challenges and perhaps also scaling back their purchasing to sustain themselves. But by taking the long view, family firms can also project forward and begin to think about new markets and new customer segments. Uncertainty highlights the importance of clear communication with stakeholders, within the business and between the business and the family.



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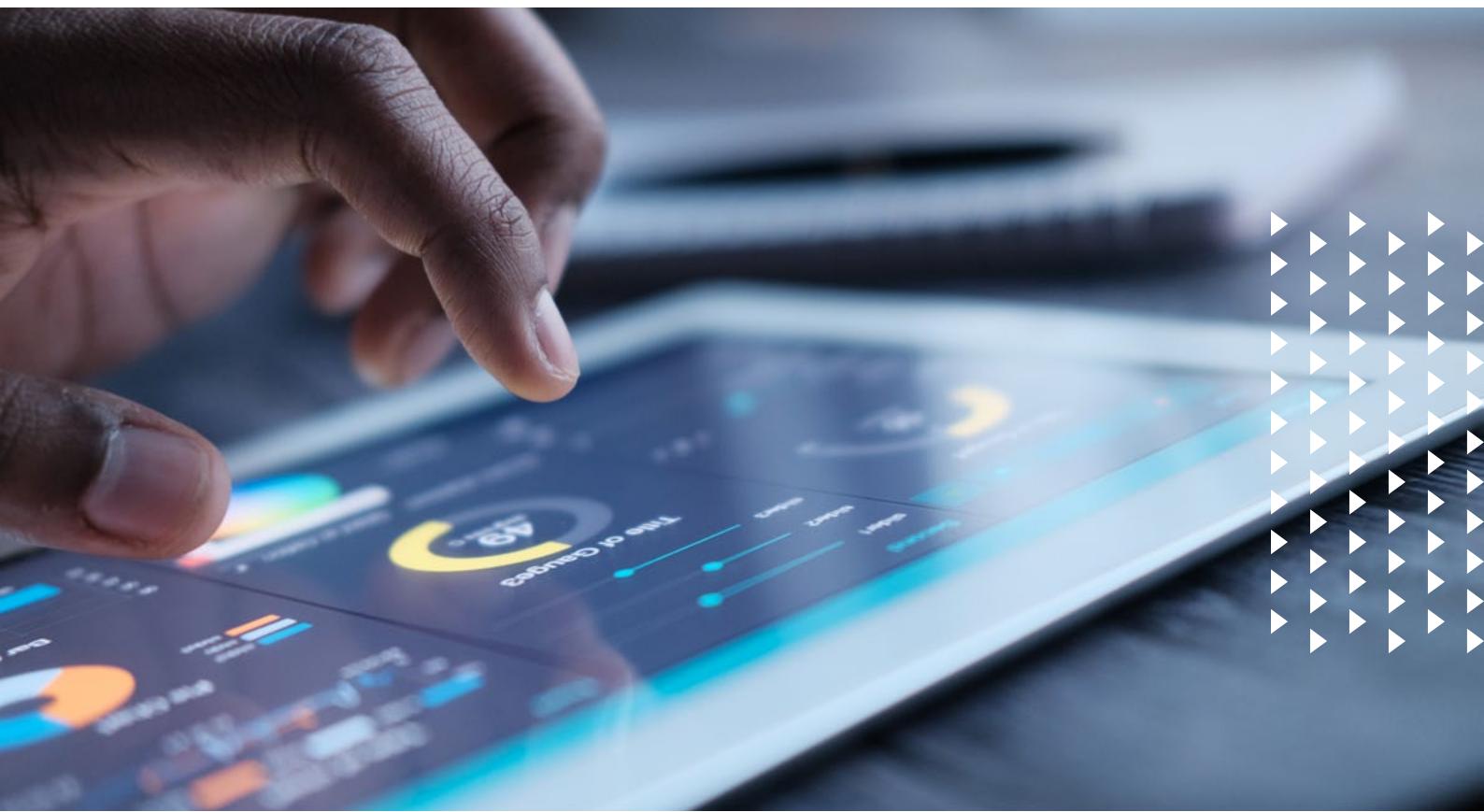
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Involving the next generation in the business is another common milestone on the professionalisation journey. Many family business owners expect the next generation to prove themselves elsewhere at another organisation before joining the family firm. They understand the value of experience and expertise that will benefit the business in the long term. In Rwanda, we find that the next generation may spend a period of time working for the government, which is an excellent training ground and a respected employer.

Businesses of all kinds largely compete on the basis of their talent; family businesses are no different, but must also be candid about those family members with leadership potential and the skills required to take the business forward. In Tanzania, there are cases where the third generation is now managing the family's business but we have also seen some families allowing outsiders to take up key management positions in the business. Unfortunately, there are cases where forcing a child to join the family firm has backfired. It is important to actively engage with the next generation and perhaps even encourage them to set up a new venture, which can empower them and build a sense of commitment and responsibility. In this way, the family's legacy is somehow preserved from one generation to the next!

In general, succession planning is a key feature amongst professional businesses but for family firms, it can present some special challenges associated with internal family dynamics, relationships and expectations. Succession planning may depend on how many children comprise the next generation and traditional expectations of these children. In some families, the eldest son may be expected to run the family business at some point, although this expectation may not be documented in a plan.

Empowering and preparing the next generation requires clear communication, strong relational bonds and the right training. Succession planning is one of the most significant challenges that family firms face, in many cases because there was little planning. Families can underestimate the time that a succession process takes and the potential complications. But the benefits to succession planning - and the professionalisation journey - are clear: sustaining value in the business and ensuring a legacy for future generations.



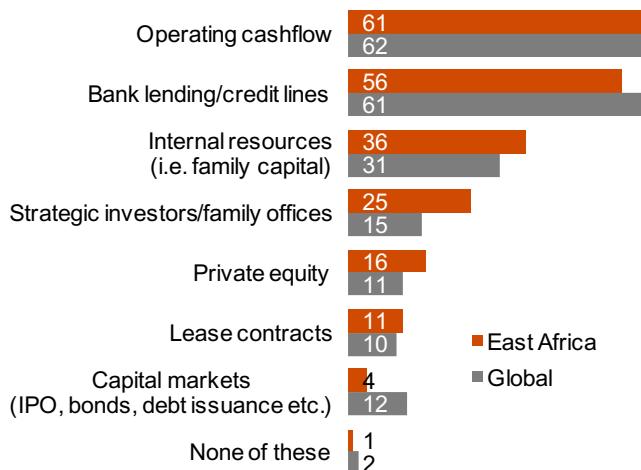
As family businesses prepare for the future, there are a few final considerations that will influence their success.

The first is that sources of finance may change and, on a related note, business capital optimization will support improved agility.

Most family businesses rely on operating cash flow and/or family capital to finance both day-to-day operations and investments, but unforeseen challenges can put stress on that model.

One of the main learning points from the pandemic is that business capital optimisation is absolutely key to continuity and competitiveness

Sources of finance in the future



35% had a need for additional capital in the last year
(21% globally)



PwC perspective: Business capital optimization

Strategies to support business capital optimisation, whether during periods of disruption or otherwise, include focusing on prudential cash collections from debtors or receivables, and the business's approach to ensuring that what it is owed is paid on time. Route to consumer is also important: what relevant channels is the business using to ensure that customers or clients get the goods or services in time and pay on time? How frequently does the business engage with its customers to build goodwill and trust, as well as reinforce the expectation that payments need to be made on time?

The business's supply chain is another avenue for improving business capital optimization. Over the last year or so, many supply chains have become unstable leading to inefficiencies that add in more cost to running the business. Businesses tend to commit significant capital to the supply chain, and yet this is an area that is just begging for optimization and a new approach.

A business may have relied on large warehouses stocked with huge inventory levels, an old distribution model and a sales team pushing product to market, for example, but it could also work to optimize the capital in these cost centres and shift to producing on-demand and a pull mechanism supply chain. Additionally, the business can negotiate with its suppliers on their favourable payment terms, such that the business can manage cash flow and plan ahead from that perspective.



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Many family businesses have long benefited from strong, long-standing reputations in the market or relationships with financing partners. Now, however, banks and investment partners tend to place more emphasis on project cash flows as security as opposed to hard assets, and will more often require feasibility and market studies to support a capital raising proposal.

It's important to invest in the right resources to assess these opportunities, so that the decision to approach a bank or engage with an investment partner is supported by internal capabilities or experienced consultants. Different means of financing the business could have a direct impact on shareholder value and the optimization of business capital, after all, and family members may have a variety of views on the subject.

As much as businesses tend to focus on sources of capital and how to optimize them, rarely do they have the end in mind. At some point, shareholders or financing partners may exit the company. The decision to bring in a financing partner is just as important as the mechanism for eventual exit. Meanwhile, the very concept of 'capital' is evolving, just as ways of working are evolving, and businesses need to adapt and learn.

We live in an era of disruption and truly, constant change is the new normal. Certain things have not changed, however. There are still good opportunities for businesses and their owners, if they keep their eyes open and manage their capital wisely.



An interview with William Nyaoke, Regional Director of Norfund in East Africa

Investing in growth & taking the long-term view



Norfund is the Norwegian Investment Fund for developing countries. With a mission of creating jobs and improving lives, Norfund invests in growth businesses that drive sustainable economic development by providing equity and long-term debt capital. We spoke to William Nyaoke, Regional Director of Norfund in the East Africa region, about growth in the region and financing that growth as well as the importance of taking the long-term view.

Norfund investments are focused towards three key sectors including clean energy, financial institutions, and scalable enterprises in agribusiness, manufacturing, waste management and water supply. Norfund also invests in private equity funds. In East Africa, Norfund's portfolio is primarily oriented towards clean energy, financial services and agribusinesses. William estimates that about 30-40% of Norfund's portfolio in East Africa are family-owned businesses or private companies led by the founder.

"We're interested in growth businesses that have sustainable business models, with local supply chains, and serving the local, regional or export markets," he says. "We see a lot of growth opportunities locally in East Africa."

Norfund is currently working with several family businesses in the region. William references some of the learnings from the pandemic period including an overreliance on global supply chains. "Some local customers now want their local suppliers to reserve capacity for them to reduce dependence on global supply chains," he says.

Due to the pandemic, some family businesses involved in export markets may find that buyers abroad, especially in the US and Europe, are now more interested in diversifying their supply chains from traditional source markets in Asia and Middle East to Africa. "We've seen cases where buyers abroad who may have sourced 5% of their supply from Africa previously, now want to move to 10%. This presents massive expansion opportunities for local export-oriented businesses," he says.

Although family businesses may have reason to be optimistic about expanding capacity to take advantage of emerging growth opportunities from the pandemic, William has observed that many family businesses are cautious when it comes to financing that growth. "A lot of family businesses don't want to put all of their eggs in one basket even if they do have resources," he says.

That said, they often need to react to market conditions rapidly. With some competitors going out of business because of the pandemic, the pressure is on to fill growing orders from existing and new customers. "It's quicker and easier to fund expansion from internally generated funds or from the family's sources," he says.

Family business owners tend to be hesitant to develop new relationships with potential investors or financiers. "Internally generated cash flow is an easy way to finance growth, bearing in mind that investors are taking longer to finalize transactions and banks are not lending much these days," he notes. Higher levels of scrutiny of business models considering the impact of the pandemic and remote due diligence contribute to delays in investors deploying capital, in some cases.

William's team at Norfund focuses on identifying high-potential businesses with clear growth opportunities, run by strong management teams or sponsors. Norfund deploys capital accompanied by technical support into such companies to create long-term value and development impact. Typically, as a minority-stake investor, Norfund is not interested in 'controlling' the businesses it invests in, which is a particular concern amongst some family business owners. "We rely on strong management teams and entrepreneurs to implement the business plan while Norfund provides oversight at the board level," he says.

"We focus on earning buy-in and trust from these entrepreneurs," he says. "We absolutely need to agree on a common vision and align our long-term interests with an entrepreneur before we invest." He notes that it can take a long time for a family to have confidence that an external investor like Norfund, often represented by outside board members, will act in the best interests of the business and the family.



An interview with William Nyaoke, Regional Director of Norfund in East Africa Investing in growth & taking the long-term view

William reinforces that Norfund is careful about who it partners with as co-investors. “We don’t want a scenario where other investors are running away from a business, when the going gets tough. The true character of an investor is known when the business hits headwinds,” he says.

“We work with co-investors with whom we can align our long-term interests and that of the sponsors,” he says. “Bottom line: Norfund will stay the course as long as the fundamentals of the business model remain unchallenged and there are opportunities for value creation and sustainable development impact in the future.”

Taking the long-term view is common amongst many family businesses, as well. “We find that businesses that invest in sustainable business practices are more valuable and attractive in the long run; they are more future-proof,” he says. Investing in these businesses

is fully aligned to Norfund’s purpose and values. Like many family business owners, “We put our money where our mouth is.”

Tax compliance is another important aspect of professionalisation. The benefits of conscientious tax compliance are clear; compliance upholds an organisation’s reputation and standing in the market and is a key indicator of overall good governance.

As the saying goes, knowledge is power. By knowing their true tax position, family businesses can manage their tax affairs through lawful tax planning. In East Africa, the tax landscape is becoming increasingly complex and sensitization by tax administrations may be insufficient. Poor record keeping and the perception of unfairness or a lack of trust in the system and the high cost of compliance are all challenges to compliance. And yet the benefits still far outweigh the costs.



PwC perspective: Tax compliance is an imperative for family businesses

According to our survey, close to 50% of family businesses see tax as a cost that needs to be minimised to stay competitive.

But times have changed. Whereas tax compliance may once have been viewed as a ‘flexible’ cost of doing business, and definitely a cost to be minimised however possible, today the benefits of conscientious tax compliance are clear. Compliance upholds an organisation’s reputation and standing in the market and is a key indicator of overall good governance.

As the saying goes, knowledge is power. By knowing their true tax position, organisations like family businesses can manage their tax affairs through lawful tax planning. It is true that the tax landscape is becoming increasingly complex and sensitization by tax administrations may be insufficient. Poor record keeping and the perception of unfairness or a lack of



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trust in the system and the high cost of compliance are all challenges to compliance. And yet the benefits still far outweigh the costs.

Tax compliance helps to sustain a family business for future generations and supports the founder’s legacy. No business wants to be known for cutting corners; instead, by taking a keen interest in the true spirit of tax compliance, a family business will endeavour towards correctness and accuracy and a good understanding of the processes involved. Truthful and honest self-assessments and declarations of tax liability and careful planning help to support a business’s reputation in the market – and also its competitiveness in the long run.

Careful planning requires a good understanding of the opportunities and benefits available in the tax laws. For example, a business in East Africa with an effective tax



rate (ETR) higher than 30% should seek to understand why and explore how this rate could be rebalanced legitimately. A business's network of employees and suppliers can also affect its tax position, such as if it uses independent contractors. Whilst independent contractors can reduce a business's employment taxes, incorrectly labelling an employee as a contractor can raise red flags with the tax authorities.

A wide range of tax incentives and exemptions across East Africa serve to encourage new investment in strategic sectors. In Kenya, for example, an investor incurring a capital expenditure on buildings and machinery for manufacturing purposes is entitled to an investment deduction equivalent to 50% of the cost of that expenditure. In Tanzania, investors in agriculture can take advantage of a 100% capital allowance on certain plant and machinery expenditures. In Uganda, persons operating in an industrial park and engaging in activities such as agricultural processing and certain manufacturing activities may qualify for an exemption from income tax. These and other incentives and exemptions are intended for compliant taxpayers and tax authorities tend to examine any application of them with more scrutiny.

Tax authorities in the region try to incentivise good tax compliance through a variety of initiatives which can lead to direct benefits for businesses including family firms. In Uganda, taxpayers with a good compliance history of at least three years are eligible for an exemption from the 6% withholding tax, a form of advance corporate tax on the supply of goods and services. This exemption can unlock working capital that would otherwise have been tied up in a tax credit.

Additionally, many businesses will have experienced the common request of a tax clearance certificate as part of the prequalification, tendering or bidding processes. To qualify for these opportunities, the business will need to request the tax clearance certificate. Meanwhile, the rules governing the process of obtaining a tax clearance certificate have become much more stringent and, in some cases, the tax authorities will not issue them for taxpayers with an outstanding tax liability over a certain amount.

Good tax compliance is also a clear indicator to potential investors that the business is well-run. Family businesses interested in seeking capital externally, such as from private equity investors, banks or initial public offerings, will find that their tax compliance speaks to the quality and character of their business operations. Due diligence on the business's tax affairs and compliance with statutory obligations is commonplace and investors tend to shy away from

significant risks associated with historical tax liabilities or in some cases will factor in a price reduction or indemnities.

Compliance is also a smart business strategy. In these uncertain times, when organisations of all kinds are conserving cash, cutting costs and streamlining their operations, non-compliance is an unacceptable risk. Non-compliance can lead to hefty fines and penalties, as much as double the amount of the tax payable. A range of tax offenses are subject to custodial sentences, as well.

Non-compliant taxpayers may suffer onerous collection or enforcement measures such as the confiscation of property, business closure, garnishee orders and agency notices. Aside from the cost and inconvenience involved, non-compliance can be significantly damaging to an organisation's reputation. It can take longer to recover from bad publicity than the financial implications themselves.

Even the most compliant organisations may find that upon occasion, they are in dispute with the authorities on the interpretation of certain statutes and requirements. Here again, dispute resolution is more efficiently accomplished when the business has a history of good tax compliance. Increasingly, tax authorities in East Africa are willing to negotiate with taxpayers in the event of a dispute rather than engage in protracted and costly litigation. But if the authorities do not trust the taxpayer, these negotiations are often brief and unproductive. Taxpayers can also seek clarification from tax authorities on the tax treatment of potential transactions and business dealings ahead of time, helping to mitigate against possible instances of dispute or uncertainty in the future.

Recognising that not all businesses are at an advanced stage of good tax compliance, tax authorities in East Africa have implemented a number of initiatives. Some authorities have extended certain concessions to non-compliant taxpayers, such as waiving interest on tax arrears incurred during the COVID-19 pandemic period. Voluntary disclosure regimes allow taxpayers to disclose tax liabilities and pay what they owe, providing relief from the penalties and interest that would have otherwise accrued over the period. Flexible payment terms may also help to lessen the immediate financial impact on the business.

Digital transactions, technology-enabled tax administration and the long memory of the internet ensure that non-compliance is easier than ever to trace. Far better to comply – with both the spirit and the intent of the law – than not.

Final thoughts

For family businesses in East Africa, there is good news in these survey findings as well as a wake-up call. Their optimistic outlook for growth and their values, agility and resilience make them well-placed to succeed. The power to fuel economic recovery resides in these businesses, which can generate employment and develop innovations and contribute in a myriad of ways towards making the world a better place.

To retain their license to operate, however, family businesses need to revisit their purpose and use the trust that they have earned. Organisations of all kinds, in the public and private sectors alike, need to think carefully about how to create measurable non-financial impact in a rapidly changing world.

Three final conclusions summarise the key areas for family businesses where immediate actions will help to secure a lasting legacy for generations to come.

Transform digital capabilities. Over many years, our survey in this region and globally has shown that there is more talk than action, when it comes to digitisation. Disruption tends to reveal which businesses have made more progress on their digital journeys, and which were then able to transition to new ways of working more readily and seamlessly. Now is the time to act. Those businesses that have not made digitalisation a priority and have not made progress will face significant challenges in protecting their legacy.

Professionalise the business. Families that improve their internal governance by adopting more professional, business-like practices tend to realise more success, as families and in business. Their sense of purpose may need to shift, perhaps focusing on operational capabilities or codifying values. Performance will improve as a result of clear communication and expectations.

Involve the next generation sooner rather than later. Up-and-coming generations of family business owners need time to decide how best to make an impact. Their interest in the business should not be assumed, but it can be cultivated over time.

Their interests in areas like technology and digital capabilities and the ESG agenda should be celebrated and encouraged. They often want to make a difference. Encourage them, and keep the lines of communication open.

Disruption tends to reveal which businesses have made more progress on their digital journeys, and which were then able to transition to new ways of working more readily and seamlessly

Methodology

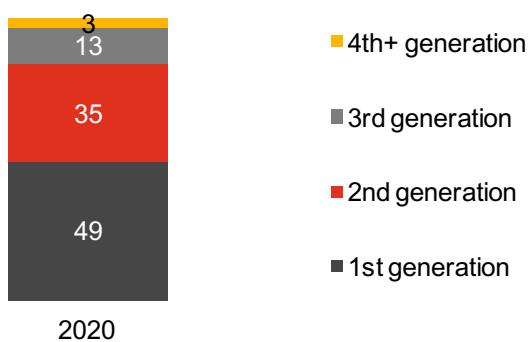
About the Family Business Survey

The Family Business Survey is a global market survey among key decision makers in family businesses within a number of PwC's key territories. The goal of the survey is to understand what family businesses are thinking on the key issues of the day.

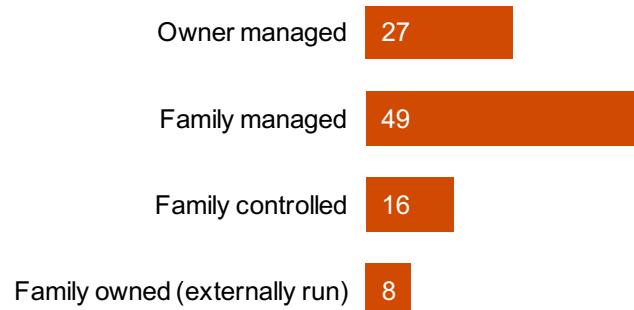


East Africa company profile – which companies have we interviewed so far?

Shareholder majority

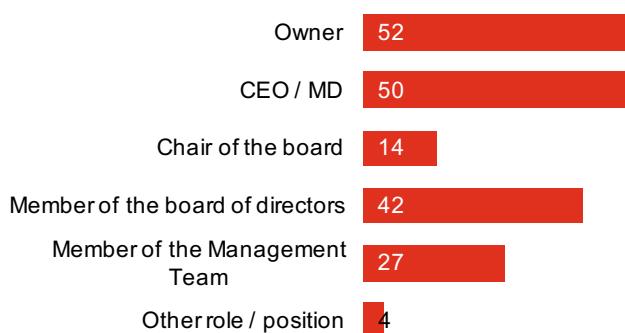


Family's role in the business

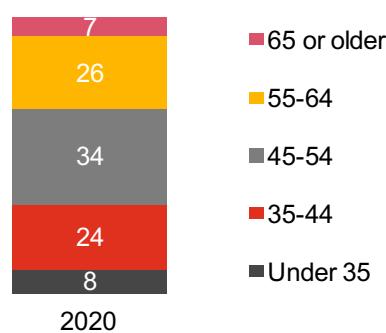


East Africa respondent profile – who have we spoken to so far?

Current job role/position



Age



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