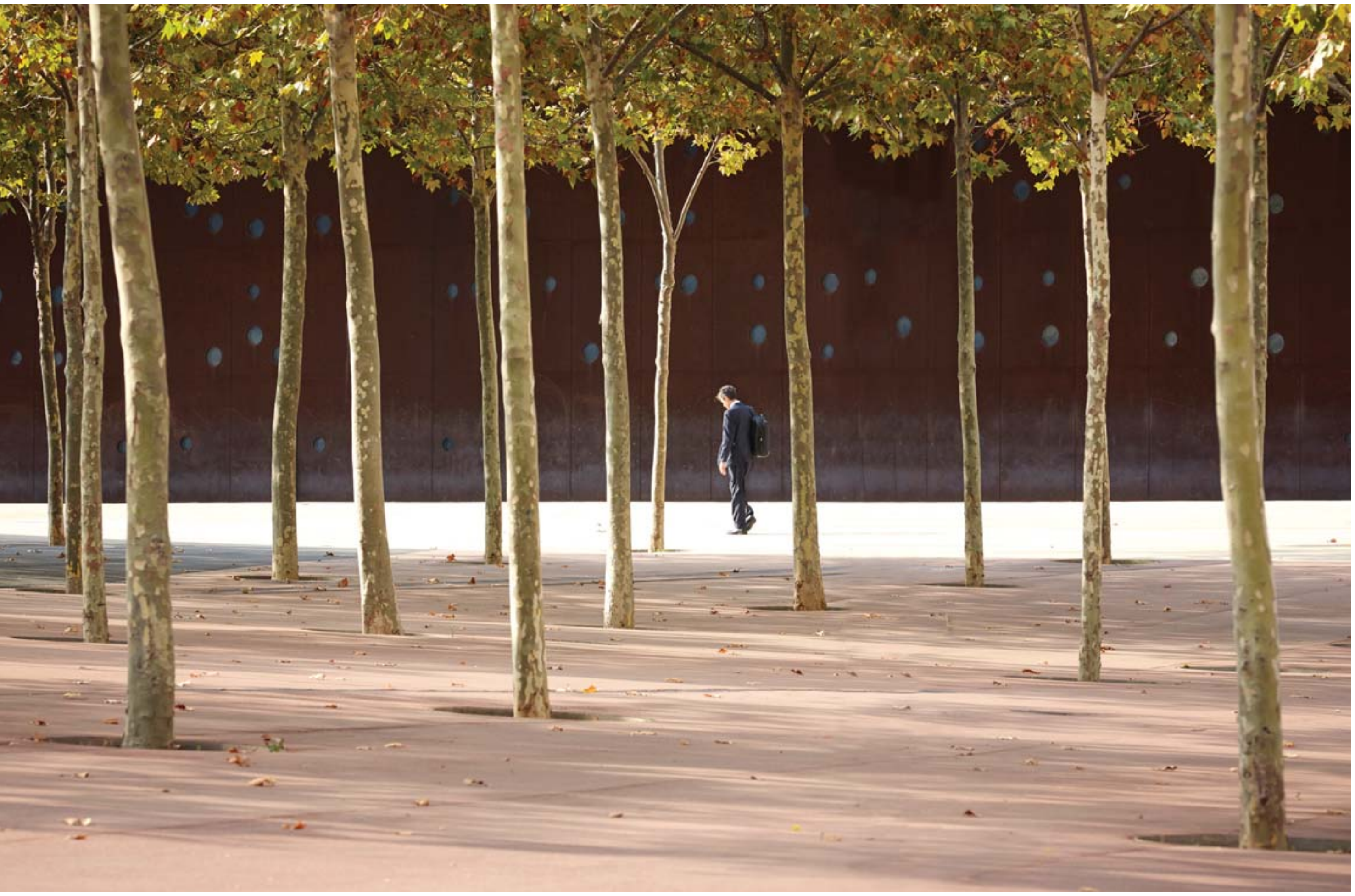
The 'missing middle': Bridging the strategy gap in family firms



2016 Kenya Family Business Survey

62 *interviews with private company and family business leaders in Kenya*

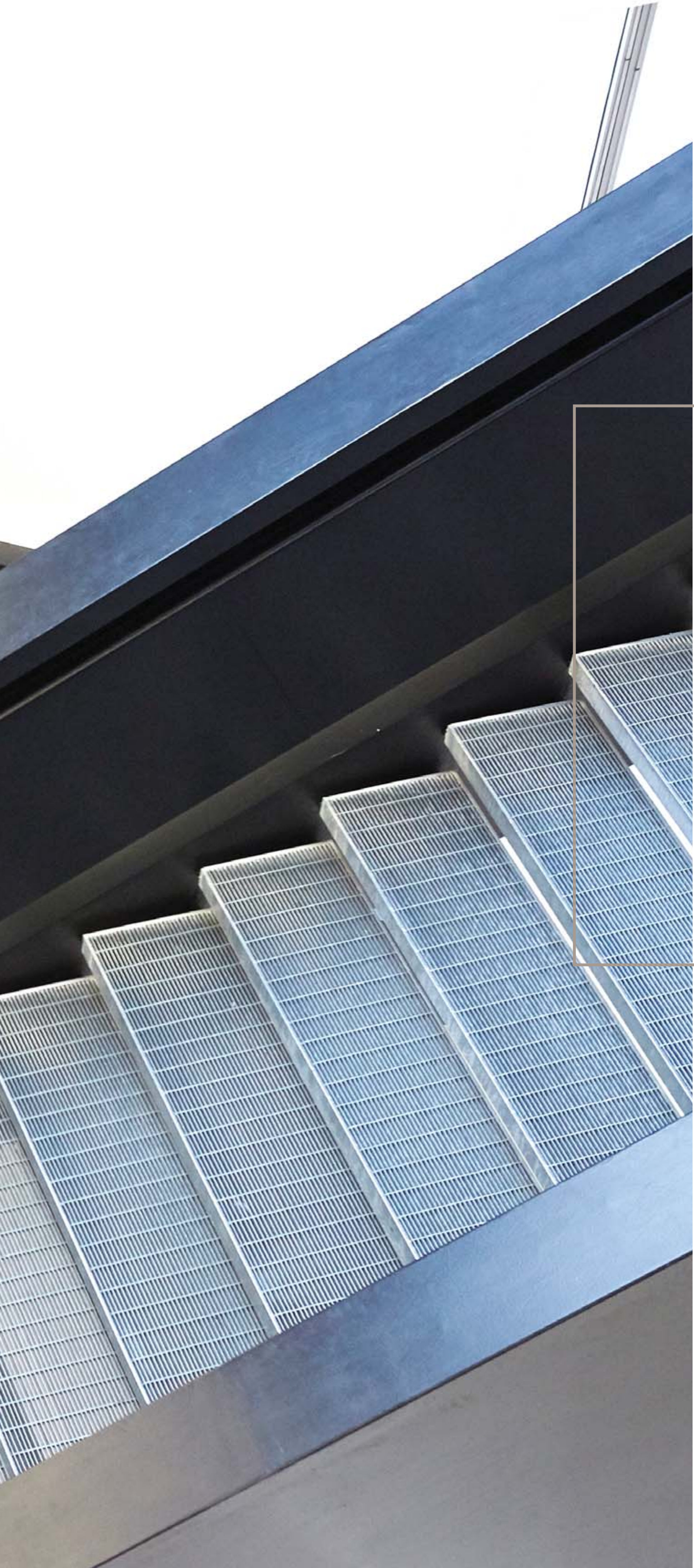
45% *have no succession plan in place for senior roles*

71% *plan to bring in non-family professionals to help run the business in the next five years*

66% *believe that the strategy of the family and the strategy of the business are completely aligned*

pwc

November 2016



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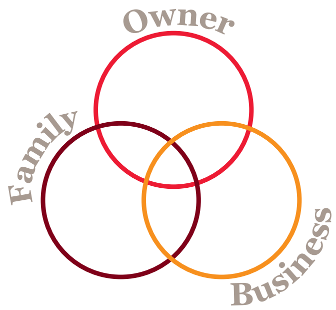


Foreword

We are delighted to publish the results of our 2016 Family Business Survey. This is the second Family Business Survey that we have conducted in Kenya and the eighth globally.

I would like to thank our 62 respondents from Kenya for their time and insights and particularly recognise those who volunteered to participate in in-depth interviews which are featured in this publication: Mr Joseph Okelo, Chairman of the Association of Family Business Enterprises; Mr Bharat Shah, Vice Chairman of Kenafric Industries Limited; Mr Hasit Patel, CEO of The Ramco Group; Ms Wandia Gichuru, Managing Director of Vivo Activewear and Mr Hanish Chandaria, Director of Kenpoly Manufacturers Limited.

Each of our in-depth contributors shared with us their perspectives on owning and running a family business. Together with our PwC contributors, we gained a better understanding of the unique and complex issues affecting family business owners and their businesses which we share in this publication.

It is heartening to see that 84% of our respondents are confident of their businesses' growth potential because we know that family businesses are a major engine of economic growth and creators of employment in the country.

Family businesses in Kenya have some advantages over non-family businesses, according to our survey respondents. A majority of them think that family businesses are more entrepreneurial, more streamlined and can make decisions more quickly than non-family businesses. Agility is a competitive advantage in today's dynamic marketplace.

2,802

Semi-structured interviews conducted with key decision makers in family businesses with a sales turnover of $5m to over $1bn

Interviews conducted between

May

and

August

Across

50

countries

The main challenges faced by Kenya family businesses over the next 12 months and indeed over the next five years include changing market conditions, government policy/regulation and staff recruitment. Family business owners also identify dealing with corruption, containing costs and the threat of increasingly regional competition. These and other challenges point to the need for family businesses to plan their professionalisation journey carefully. Appropriate, strategic and timely execution of these plans will help family business owners to achieve their goals: ensuring the long-term future of the business, improving profitability, attracting the right talent and running the business on a more professional basis.

A common thread in our conversation with family business owners was the issue of professionalisation and succession planning. This issue was often raised in the context of the professionalisation journey: any successful business will need professional systems and processes to foster growth and innovation but for family businesses, the family itself also needs to be managed throughout the professionalisation journey.

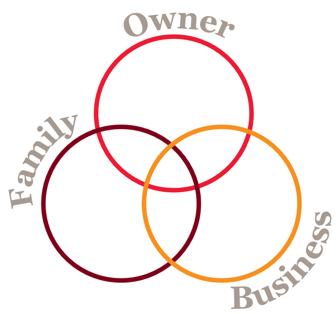
Earlier in the year, we conducted a separate global survey of the Next Generation (NextGen) of family business owners with six respondents from Kenya. The survey results showed that the NextGen are ambitious and talented and can help to drive the business forward. However, their ambitions do not always jive with the owner or founder generation, which can lead to conflict.

In areas like digital strategy or leveraging technology to inspire innovation, the NextGen may be better equipped to make a meaningful contribution. But the owner generation tends to rely on experience and demonstrate a more cautious approach. Having an effective succession plan in place is one way of creating an environment in which the NextGen can thrive and effectively contribute to the business.

What is clear is that family firms remain a vital part of economies across the world, including Kenya's. As a firm, we are honoured to have provided services to several family-owned businesses in Kenya and help them to grow their businesses so that they make an even bigger contribution to the economy. Our team of professionals delight in advising the family-owned businesses and the families themselves on professionalisation, governance, strategy and managing growth.

We will be delighted to have a conversations with you. Please contact me or any of the PwC practitioners identified in this report for more information.

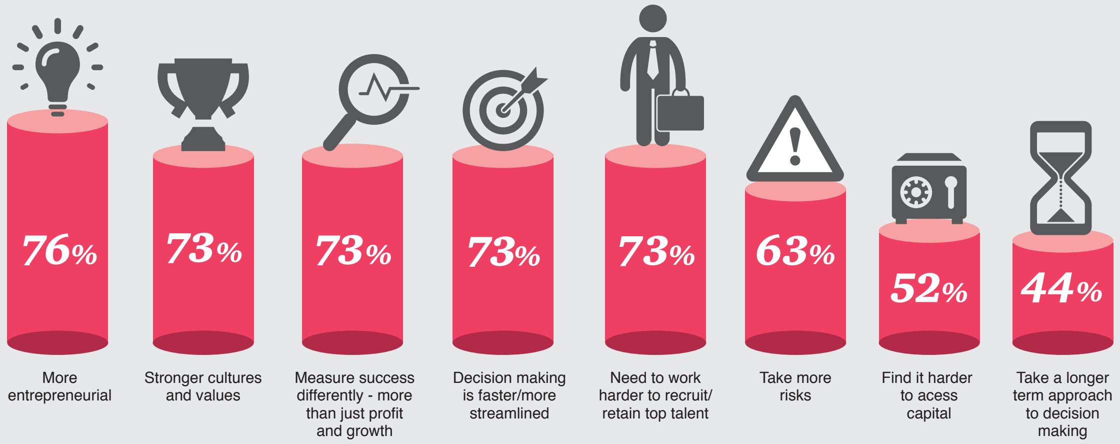
Michael Mugasa
Leader, Private Company Services
PwC Kenya



The family business sector in 2016

This year's results tell us that Kenya's family business sector continues to be vibrant, successful and ambitious. Family firms are vital to Kenya's economy, offering stability, a commitment for the long term and responsibility to their communities and employees. They also tell us that family businesses can be an engine for change and innovation.

Fig 1: How family businesses differ from non-family businesses



Unshackled from the quarter-to-quarter pressures of their listed peers, many family firms can invest for the long term and allow good ideas the time they need to prove themselves. Family business owners' view of themselves as more entrepreneurial (76%) demonstrates agility and responsiveness. While 73% say that their decision-making can be faster and more streamlined, less than half (44%) believe that family firms take a longer term approach to decision-making compared to 55% in 2014.

Kenya's family firms are proud of their contributions: 74% of respondents to this year's survey believe they offer stability to the wider economy, 81% say that they support employment even in bad times and 73% measure success differently and in broader terms than just profit and growth.

All of this is extremely positive and the fact that the big picture has remained largely unchanged from our 2014 survey is a measure of the resilience of this sector.

However, the absence of any significant change from survey to survey in areas such as succession planning is a cause for concern. Globally, some family firms demonstrate exceptional longevity but the average life-span across the sector is still only three generations. Typically, only 12% make it that far and the number getting past four generations falls to as low as 3%. In our Kenya survey, 44% of respondents are owners of first generation family firms; 31% of second generation firms and 19% of third generation firms.

In some cases, selling the business is a conscious choice and a mark of success but equally, for many, not surviving the transition to the next generation may be a sign of a family firm not achieving the owners' long-term ambitions.

43% of family firms do not have a succession plan in place, with only 12% making it to a 3rd generation

Joseph Okelo
Founder and Chairman,
Association of Family Business Enterprises

'We cannot overstate the importance of family businesses to the economy,' says Joe Okelo, Founder and Chairman of Kenya's Association of Family Business Enterprises (AFBE). 'We also cannot underestimate their challenges.'

As the first membership-based, non-governmental association for family businesses in Kenya, the AFBE was founded by Joe in January 2015 in response to what he felt was an unmet need in Kenya. As important as family businesses are to the economy, Joe knew that these businesses are also vulnerable. 'They can evaporate very quickly,' he says. 'What can we do to keep people motivated and keep these businesses going?' The AFBE was created to help answer this question.

The organisation struggled at first to attract new members until Joe persuaded Ashok Shah, CEO of Apollo Investments Limited and a family business owner, to tell his story at a private networking event for family business owners.

'Peer-to-peer learning is very effective,' says Joe. 'Family business owners don't want to hear from consultants. They want to hear stories.'

Today, the AFBE has over 80 members and in May 2016, hosted its first conference attracting 140 participants from Kenya, Uganda and Tanzania.

Perspectives on family businesses

According to Joe, it is important to distinguish between the two aspects of a family business: the family and the business. He believes that family businesses should focus on not only the business, but also the family for greater professionalisation. 'I am a big believer in managing the family,' says Joe, who recommends tools like a family constitution, rules to govern the family and also rules to govern family members who are also managing the business.

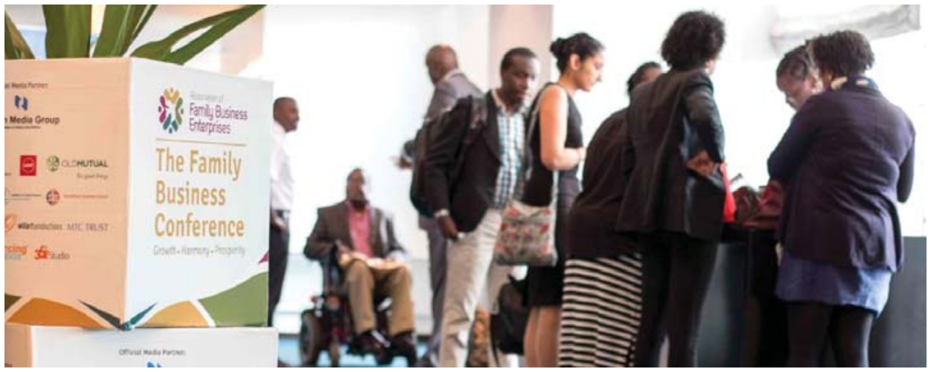
Professionalisation includes attracting and retaining the right talent from entry level all the way to board level. The central question for family businesses very often is how to make these opportunities attractive to outsiders. 'A family member may not have a choice but for outsiders, what are the growth prospects?' asks Joe. This question becomes more urgent as the business grows.

'An effective family business board should be no different than a non-family board,' says Joe. 'It should be diverse and composed of the relevant skills and competencies that are required.' As an association, AFBE is focused on promoting corporate governance for family businesses and related issues like independence and accountability.

Professionalisation can bring to light difficult issues related to maintaining the family vision or legacy as the business changes over time. 'How do people hold visions together?' he asks, rhetorically. 'Is it the charisma of the leader? Whose responsibility is it to transmit the vision?' Even if the family vision is clear to the second generation, who may have been closely involved in the family business under the tutelage of the first generation, Joe's concern is with transmitting the vision to the third or fourth generation. 'I don't know what the secret is,' he says, pointing out that the AFBE provides a forum for discussing difficult questions like this one.

Conflict management is another recurring theme among Kenya's family businesses. Joe believes that conflict within the family should be managed from a family perspective and through processes documented in the family constitution. Detailed processes and policies should govern conflict within the business, including conflicts between family and non-family members.

The process of professionalising the family business can add value and directly contribute to growth. Joe has observed increasing interest from private equity



investors in Kenya's family business sector. While he believes that many family businesses are reactive and short-term in their thinking, interactions with private equity firms can influence medium-term planning. He points to the scale that PE firms often want to achieve, increasing the size and scope of a family business significantly to achieve economies or growth ambitions, whereas family businesses can be much more cautious and concerned with quality.

A family business may not be structured appropriately to achieve large scale operations. 'That's one of the challenges facing family businesses,' Joe says. 'Our thinking can be very insular. You may need outsiders to remind you that there are other ways of doing things, or perhaps just being open to these ideas and willing to listen.'

Although family businesses may be cautious, Joe also thinks that family businesses can turn things around very quickly and make snap decisions. As for their risk appetite, Joe believes that businesses in some sectors will be more willing to take risks than others. Risk appetite may be tempered by the regulatory environment. Joe points to the private education sector, which is almost entirely made up of family owned businesses.

Understanding family businesses inside and out

Joe knows first-hand about the growth potential of Kenya's private education sector. In addition to his role as AFBE Chairman, Joe is a family business director and owner himself. He joined the family business, Makini College, after several years working for global corporate organisations where he learned some valuable skills in human resources and other areas. 'One of the things that bothered me was the volatility and constant change of the corporate multinational environment,' he says.

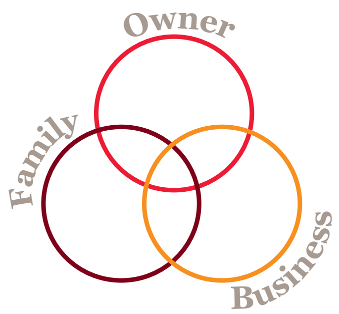
'Then a few things happened at a family level that hastened the process of me joining the family business.' When his father passed away two years later, Joe was glad that he had made the decision to join the family business because he had the chance to learn from his father.

His mother now leads the family and the family business. She encouraged Joe and his brother and sister to work elsewhere before joining the family business. When he did join the family business, 'I knew where I was in the pecking order,' Joe says. 'I didn't come in as a Director. I came in at a more junior level and I could appreciate that.'

What advice would he give other family business owners?

'Family businesses can have a commercial advantage. They can respond quickly to changes in the market. But as an owner, you also need to have the ability to let go.

'Succession planning is a way of letting go. You are taking ownership of the fact that you are not going to be here forever. Succession planning gets more complex as the business gets older and sometimes it can be difficult but in the long term, it's a good thing.'



Succession: Failing to plan means planning to fail

Managing the succession process

The most obvious potential 'failure factor' for the family firm is the succession process. The transition from one generation to the next is the fault-line in this business model. There's no point in having detailed plans for business continuity if the single most significant risk to continuity is not addressed.

Every family firm has to find a way to reconcile personal and professional issues. The succession process can bring these two dimensions into direct conflict, with both the family and the firm at risk of business failure as a result.

Conversely, a well-managed succession process can be a rallying point for the family firm, allowing it to reinvent itself in response to changing circumstances and find new energy for growth, diversification and professionalisation.

To do this effectively family businesses need to develop, implement and communicate a robust succession plan and do so as early as possible before the actual handover.

Yet only 24% of Kenya family business owners report having a robust, documented and communicated succession plan in place, compared to 23% in 2014. While this is a significantly larger proportion than globally (15%), it is worrisome that the figure has not risen in two years (either in Kenya or globally). In our experience, adopting the thinking and terminology of 'business continuity' rather than 'succession' can itself be a useful way forward.

We want to give the next generation every chance, so it's very important we build a strong base for them to take the business to the next level.

Mehul Devani, CEO, Digital Hub

If the current generation sees succession in these terms, it can help them to approach it more objectively and avoid the emotional stresses that can otherwise arise.

Succession planning is even more important where there are some family members working in the business and some not.

In many of these cases, issues like ownership and entitlement may not have ever been discussed or considered, which means different people are making different assumptions about the future. In these circumstances, we spend a lot of time sitting with family members, to work through a fair way forward. This can prevent conflict, and help the family become more unified for the future.

Bharat Shah
Vice Chairman
Kenafric Industries Ltd

The history of Kenafric Industries Ltd (Kenafric), one of Kenya's most successful manufacturers and distributors of fast moving consumer goods (FMCG), mirrors many of the changes in Kenya's economy since the 1970s. Kenafric is a family-owned and managed business led by Bharat Shah, formerly Kenafric's Managing Director and now its Vice-Chairman. Bharat's passionate dedication to innovation, diversification and risk management is a testament to the many ways that family business owners contribute to Kenya's growth. Today, Kenafric employs 1,800 people and is one of the largest manufacturers of confectionery, footwear and stationery products in Kenya. It also exports to 13 other African countries.

We spoke to Bharat about Kenafric's story and how family businesses can stay competitive in times of continuous change.

When Bharat joined the family business in the early 1980s, it was largely a distributorship of FMCG retail and wholesale goods like sugar, maize flour, cooking fat, confectionery, sanitary paper products and pharmaceuticals. The family business focused on selling these goods at an effective price and implemented strategies in selling, to reduce some distribution lines and concentrate on others. But he says, 'there was always a cash risk.'

His family had also bought a furniture manufacturing company and Bharat led this business shortly after returning from university in India. Like the family's FMCG business, the furniture business had a distributorship model and initially, the business grew dramatically. However, Bharat realised after a few years that the business's turnover was limited. He sold the furniture business but values the experience as worthwhile. 'It was a learning experience, like finishing nursery school,' he says with a smile.

If the shoe fits...

Meanwhile, his family's business had expanded into polyvinyl chloride (PVC) products like shoes, slippers and gumboots. Managing Kenafric Shoe Industries was Bharat's first experience with importation requirements. By this time, Bharat's brothers had also returned to Kenya and together, they learned the business of importation and shoe design.

They created a shoe style called 'Dancing Queen' that took the Kenyan market by storm. Their competitors were quick to copy their success, however. One competitor had 11 production machines compared to Kenafric Shoe Industries' three machines.

'My only choice and weapon was to take risks', he recalls. He and his brothers committed to establishing Kenafric as the number one shoe manufacturer in Kenya in three years. They sustained the business through a difficult price war and fierce competition in the school shoe segment. The price of shoes fell dramatically and destabilised the market. Bharat recalls the number of shoe manufacturers declining from 18 to four or five during this time. 'The people who didn't have the guts—this is about the guts or courage that you need—started packing up and leaving,' he says.

In 1989, the war between Iraq and Iran disrupted the market once more. PVC is a petrochemical by-product and as the war caused the price of oil to skyrocket, the price of PVC went up as well. Kenyan consumers could not tolerate the price increase and Bharat and his brothers realised that they were playing with fire. Businesses that require imported inputs are vulnerable to external shocks and very often, the business has no control. In addition, 'It's very important to build the domestic line and the domestic market because if foreign markets collapse, you still have a strong local business,' he says. 'Product and market diversification helps to cushion you against these risks.'

Sweet dreams

The family had always dreamed of going into sugar manufacturing and by 1989, they had closed the distributorship to focus on manufacturing. Furthermore, having experienced pressure on the PVC supply line during the Middle East war, they were keen to focus on a new product line: confectionery goods. They bought second-hand machinery to produce hard boiled candy and later bubble gum, ball gum and white mints.

Their interest in confectionery began with a realisation that 50% of Kenya's population was children. 'There is nothing cheaper than a sweet, for a child to enjoy his life,' says Bharat. And while the business was initially successful, in 1991 the value of the dollar fluctuated significantly in response to trade liberalisation policies and frozen development partner activity. Bharat's company was buying gum base from Belgium and needed foreign exchange to pay for it but all the company had was Kenya shillings. 'Fortunately, the supplier was an owner-operated company and understood the dilemma,' Bharat recalls. 'If it had been a big corporate, we might have had problems.'

These were testing times for the business. 'It made you think,' he says. 'It made you analyse risks very carefully.'

At this time, the family was very involved in all aspects of the business. Bharat's father, Velji Shah, led the company; one brother, Nilesh Shah, managed sales; another brother, Mayur Shah, was in marketing; Ketan Shah, was working on the manufacturing side. Bharat himself was looking after the financial operations. 'Every Saturday, we had a family meeting to discuss issues and what we wanted to do,' he says. Although their discussions were not necessarily documented, 'it helped to gel things together. Everybody was focused. Everybody wanted to become a giant among industries. Growth was our motive—not profit.'

Diversification and professionalisation

The company is now expanding into juice and food additives, having learned some good lessons about competitive advantage. Bharat believes that the keys to competitive edge are innovation, careful thinking and marketing. 'Brand has more value than your factory,' he says. 'The common mentality was never to spend money on marketing but this is changing.' He attributes this change to the next generation coming on board. 'They have brought a degree of professionalisation to our marketing.'

Kenafric has invested in professionalisation on many fronts, such as by implementing reporting levels and structures and identifying the right people to run the business. The business has several advisors who contribute expertise in different areas. Bharat recommends using trusted business advisors who have different perspectives than family insiders.

He encourages the next generation of family business owners to do their homework, use the business's experience and invest wisely. He worries that older generations of family business owners may not have focused enough on what they want to do next in life. 'They need to sit themselves down and decide on their sell-by date!' he says.

Now, Bharat can look back on a fulfilling and challenging career as a family business owner. He was Kenafric's Managing Director for 18 years and currently serves as the company's Vice Chairman.

This transition was the result of the next generation entering the business; his nephew, a niece and his son have joined the business. Bharat has found the transition from his generation to the next relatively straightforward. He has taken on new challenges, like government relations, which keep him busy and engaged.

Finally, we asked Bharat what advice he would give the next generation.

'Even if you're educated, without experience education is meaningless.' Also: 'It's good to fail sometimes.' Bharat continues to have a strong ambition to 'grow the pie such that Kenafric's thriving business fulfils the dreams of the next generation'.

Succession planning ensures business continuity

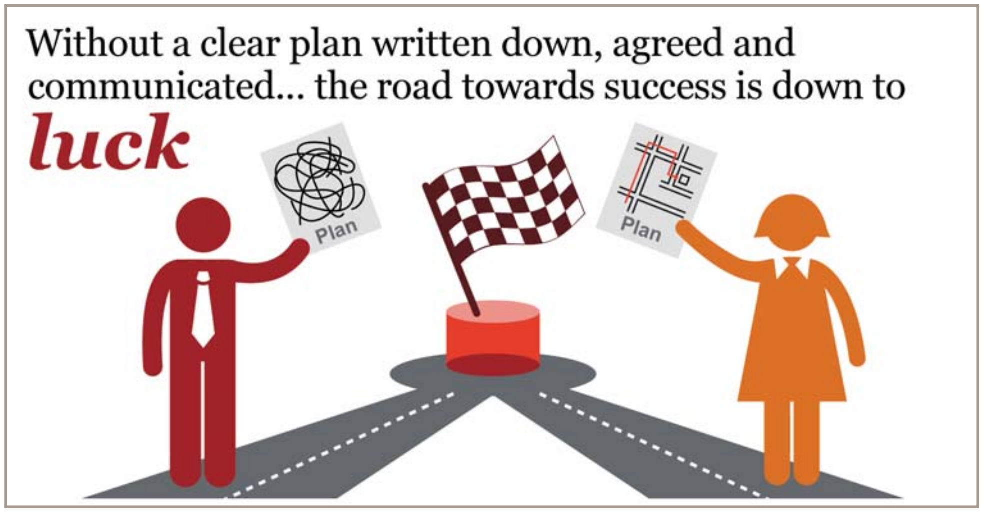
Succession planning is vital to ensure business continuity but it has a wider impact, too. Succession planning is essential to ensure the aims of the owners and the family and the objectives of the firm are properly aligned over the medium to long term.

In this year's survey, 66% of Kenya respondents believe that their family and business strategies are completely aligned, compared to 69% globally. Anecdotal evidence and our experience working with family firms suggest that this perception of alignment may sit primarily with the owner.

A focus on strategic planning is key to the succession process: without clarity about the future—both for the business and the family—it is impossible to choose the right leader or know what qualities and skills they will need, for example.

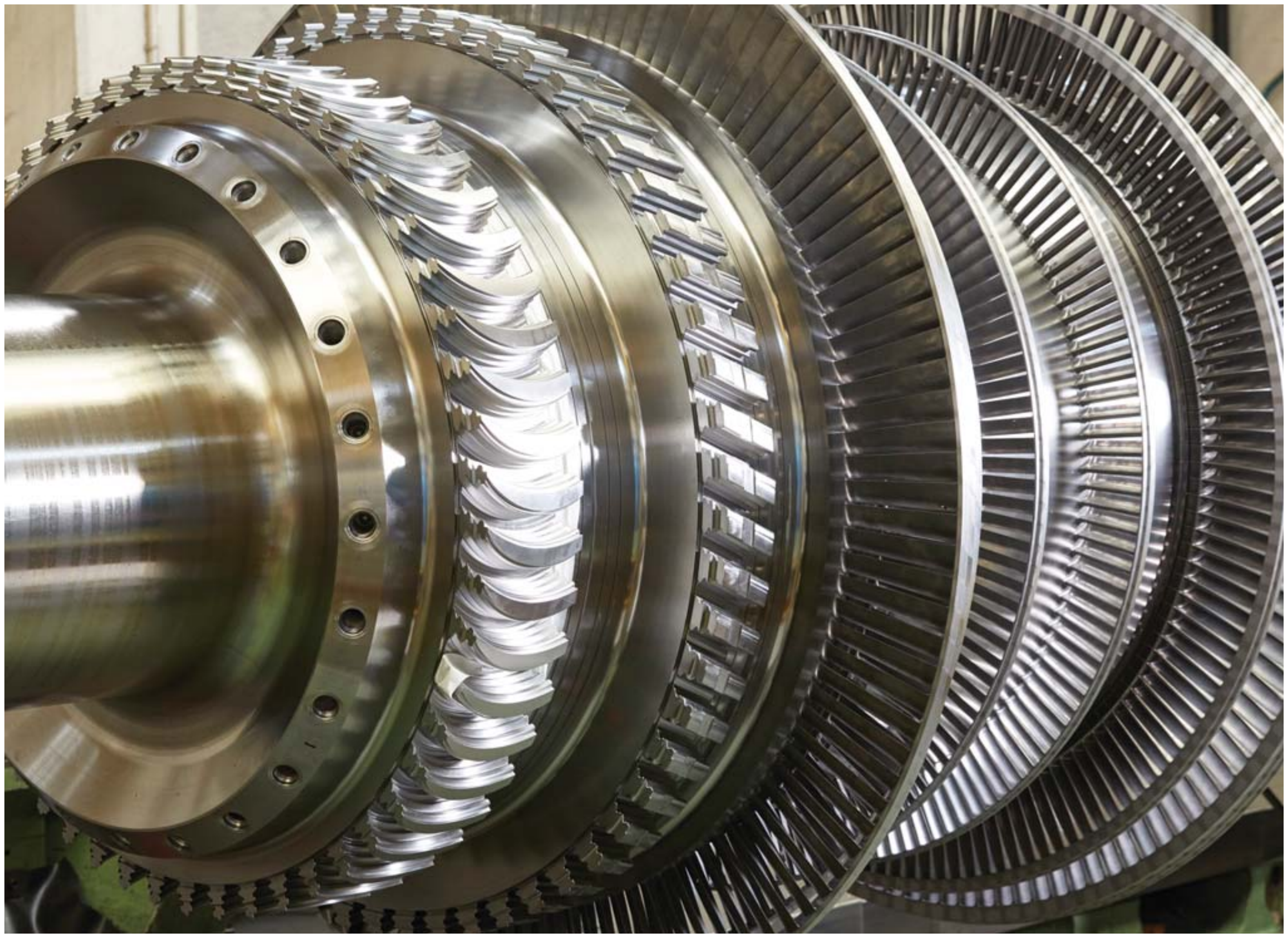
In other words, strategic planning and succession planning are inextricably linked and indeed, succession planning is a subset of the strategy process. But as this year's results prove, a limited number of family firms are approaching the succession process in a structured manner and see this as a one-off exercise focused on the 'who' rather than the 'what'.

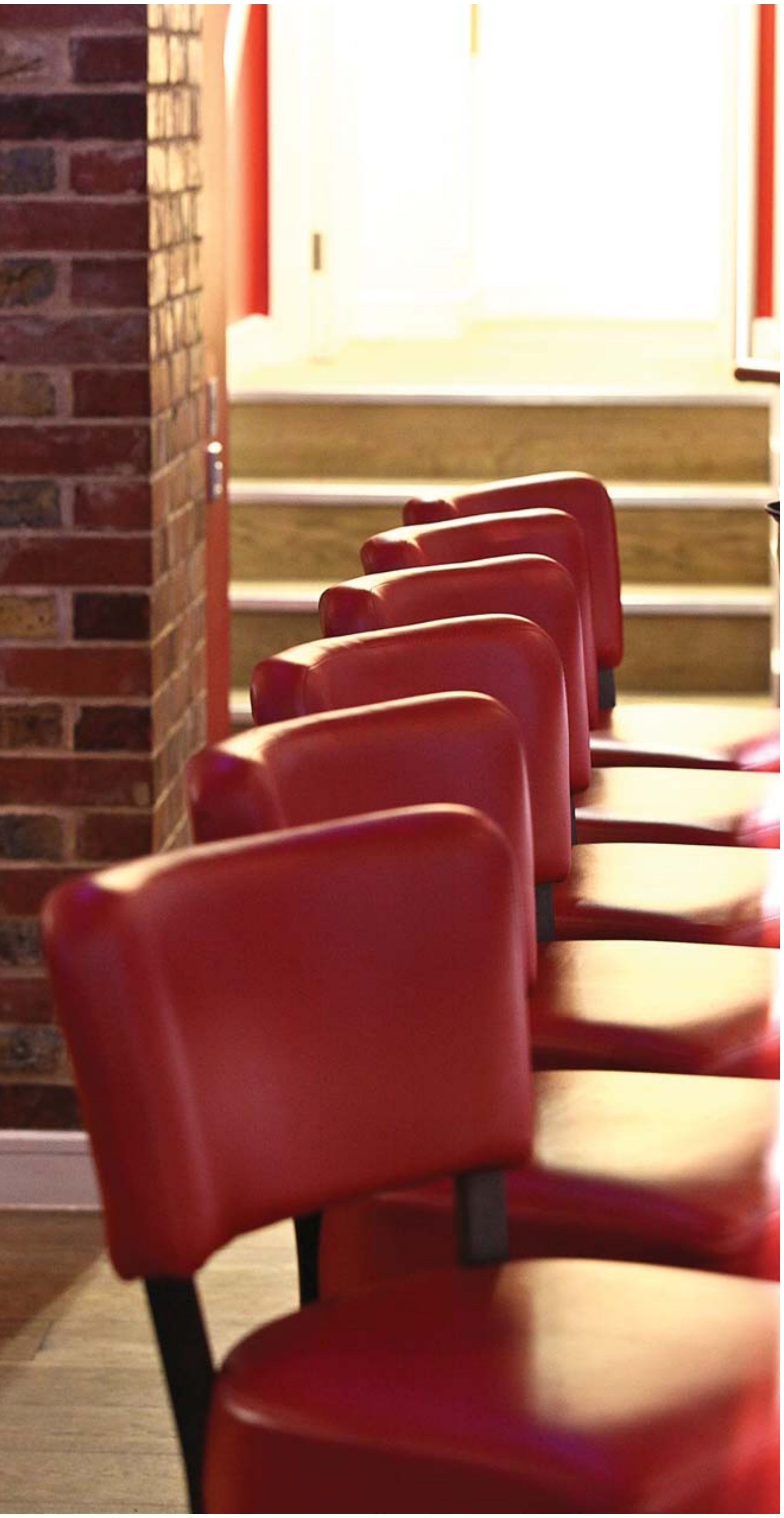
In reality, these decisions are part of a continuum and constantly need to be revisited and adjusted as circumstances change and the company strategy evolves.



I would like my legacy to be making a difference to the family and extended family and give them something to look forward to because they come from the community and that would benefit everyone around us.

David Sugden, 1st generation family business owner





Ten steps to effective succession planning

Dr Dominik von Au is the Family Governance Leader for PwC Germany, with extensive experience of working with established family firms to achieve a smooth and effective transition between generations. We asked him to summarise the secret to a successful succession:

Into leadership...

1. Get experience outside the family firm

As the business landscape becomes more complex, it's vital to bring a broad range of experience to the task of leadership. So develop a career plan that involves working outside, to allow you to acquire the specific skills the family firm needs.

2. Develop a strategic plan for the medium term

The next generation often see the succession process as an opportunity to modernise the business, and there may indeed be a need to do this. But it's important to make changes in the context of longer term objectives, which is why it's vital to have a strategic plan, developed jointly by both the current and incoming generation, and in consultation with all the shareholders.

3. Broaden the decision-making process

As the business passes from one generation to the next, it's important to create an organisational structure which isn't dependent on one single individual. Decisions need to be made collectively, and with proper information and preparation.

4. Strengthen the role of the Board

The board has a key role to play in overseeing the succession process, and in ensuring that family members are only offered positions they are properly qualified to fill. Becoming a member of the board is a useful way for the retiring generation to make an invaluable ongoing contribution.

5. Clarify what the retiring generation will do

The current generation needs to have a clear plan for their life after retiring. This will prevent misunderstandings, or the temptation to interfere. Taking on roles outside the family business – in the community, for example – can be both worthwhile and rewarding.

Into ownership...

1. Start early

It's vital to start the process as early as possible. Everyone needs to know what to expect, and what the timetable is, to avoid misunderstandings and unspoken tensions that could lead to outright conflict. This is especially important for family members who are going to be taking executive roles in the future. Our advice is always to transfer shares during the current generation's lifetime.

2. Communicate, communicate, communicate

Decisions need to be made by a process of consultation and discussion, not dictated by the owner. Everyone with a stake in the future needs to have a say in it.

3. Do your homework

Make sure you know the tax and legal implications of your succession plans. Depending on your circumstances and jurisdiction, some approaches may cause difficulties which may not be obvious until it's too late.

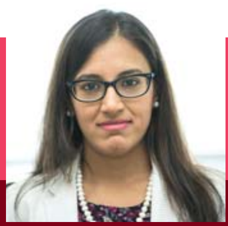
4. Invest in education

The people who are going to be running the business need the right expertise to do that, but ownership demands specific skills too. Make sure all current and prospective shareholders are educated to become professional and competent owners.

5. Diversify your wealth

If the retiring generation rely entirely on the firm to provide a retirement income, that can put a disproportionate strain on the business. It can also make it harder for the older generation to 'let go', because their lifestyle is at stake. So build assets outside the family firm from an early stage.

Gareth Harrison
Associate Director, Tax Services
PwC Kenya



Shreya Shah
Manager, Tax Services
PwC Kenya

At what point would you recommend that family business owners start to think about succession planning?

In Kenya, there are very few family businesses that have more than two generations active in the business. Succession planning is a journey and once the owner reaches their 40s, running a sizeable business, it may be time to start thinking about it, albeit that even someone in their 40s may still have a parent or older family member involved in the business.

As a starting point, we recommend identifying the critical functions in a business and evaluating them against key roles and competencies. Just because someone is a family member, you may not want to put them in a role without actually understanding what their capabilities are and what they want to do or where they want to go.

Increasingly, the next generation want key performance indicators and assessments and career progression frameworks like those they would find elsewhere, outside of the family firm. These structures help to establish credibility for family members when there are also outsiders involved in the business. Structures and goals with timelines also contribute to the planning required for executive roles, even when the older generation is still very much in control.

Getting started

A good first step is to look at what your strategy is, as a business, and evaluate it against what you have in terms of people. For your operations manager or finance director, for example, develop a plan or objectives for them so that they transition into their next roles and make sure that the plan is aligned to the future strategy of the company.

It is also helpful to put in place HR or recruitment policies because you may not necessarily get all the right talent from the family. Succession planning should involve relationships as well as critical information. Often the head of the company has all of the crucial relationships. Part of the discussion has to be, what are you passing on?

Does the family talk openly about what it owns, including assets and trusts? These issues may have historically been regarded as private, and sometimes the details are not known even within the family.

For family businesses, the succession plan could keep changing depending upon whether the next generation chooses to join or stay in the business. Regularly reviewing your people and processes against your goals can help to ensure that succession planning is a continuous process and also effective.

Engaging and planning for the next generation

The next generation can struggle with credibility, expectations and generational gaps. The older generation will know that the younger generation has the ambition to join the business but may question whether they have the experience. It is a careful compromise. The next generation is sometimes quite impatient with the time it takes to get things done.

Very often, the younger generation is required to work outside the family business for a period of time, in many cases overseas. Before, it may have been assumed that the next generation would come back but now, sometimes we find that none of the next generation want to be involved. If this happens, and there is no succession plan in place, and the managing generation is tired of day to day operations, family business may quickly and unexpectedly find themselves in a tight spot.

Engaging an advisor

Many owners start out as operational people. They have a great idea and start a business. They think in terms of factories or buildings, not legal entities. Yet this is part of the professionalisation agenda; you need people who think differently and in terms of complex structures.

Start with the people in the organisation who will eventually take on different roles and assess what investment may be required in their leadership training and developing their skills. What do you want them to be doing in the short, medium and long term? It's a two-way street; there has to be a business case for every investment, whether that is in fixed assets or human capital.

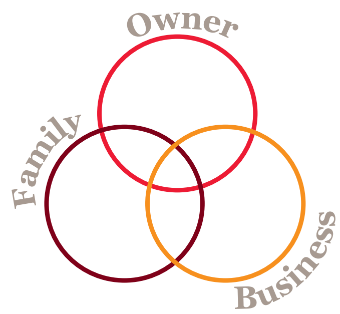
It is also about listening because every succession plan will be tailored. An advisor has to travel a thin line between objectivity and listening and tailoring. Part of our role as PwC advisors to family businesses is to demystify the succession planning process.

We recommend thinking three to five years ahead and considering who to put forward for leadership development. For family firms, there is often an emotional aspect to this process whereas corporate succession planning will identify a raft of people who could move up (their "bench strength") and then gradually evaluate and reduce that group. Corporates tend to manage expectations right from the beginning, whereas for family firms, expectations between generations may remain largely unspoken and assumed.

Conclusion

In our view, modern succession planning calls for honesty. Advisors to family firms need to be objective but the owner also must be receptive to honesty and objectivity. Within family firms and in our communities, our positions and reputations are very important.

The next generation may have had great educations, lived abroad and acquired material expectations. For family firms, this presents an opportunity to leave less to chance and to be more deliberate about succession planning for the family, the managers and the firm.



Strategy and growth

In terms of legacy, I want our business to be across Africa.

Tabitha Karanja, CEO, Keroche Industries Limited

I hope our business will continue into the 4th, 5th and 6th generation and continue the momentum of growth. This will enable the company to benefit the family.

3rd generation family business owner, Kenya

The missing middle

What has become clear—both from the survey results and our work with owners and executives at family firms in Kenya—is that the challenges with the succession process are just one example, albeit a vital one, of a much wider issue.

Family firms are proud, and rightly so, of their willingness to take the long view—to think in terms of generations, rather than years, or even months. At the other end of the scale, family firms are good at dealing with the everyday: the nuts and bolts of running a business.

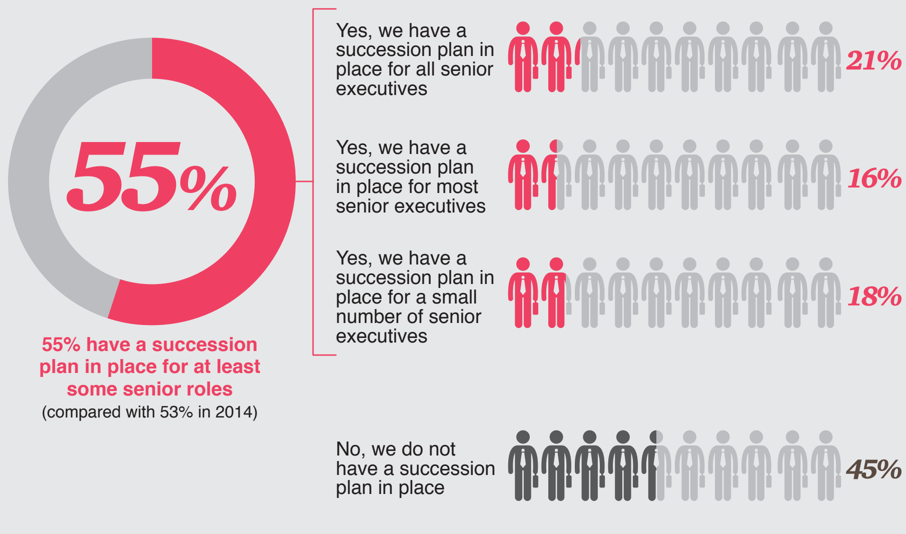
The challenge is in the middle: having a strategic plan that links where the business is now to a vision of where it could be in the longer term. That vision needs to encompass the family, the owners and the firm. They are interdependent and the success of one cannot be delivered without the success of the others.

In our experience, family firms can struggle to execute plans beyond the next 12 months to the next five or ten years. This is what we call the 'missing middle' and we believe that this is why so many family firms fail to turn early promise into sustainable success.

Even if the family are not active in the operation, there should be clarity for the family and we can leave a business that helps to create value in society.

1st generation family business owner, Kenya

Fig 2: Succession planning for senior roles



Strategic planning

Both the survey results and our own experience lead us to conclude that greater emphasis on strategic and medium term planning is the missing piece that would allow many family firms to achieve greater success and fulfil their true potential.

Some family firms are doing this already, and doing it well. Others are caught between the everyday and the weight of inter-generational expectations. While some are fully aware that medium-term strategy planning is an issue (for example, 58% of Kenya respondents believe that they have a strategy fit for the digital age), others may not know where to start.

Some family businesses may avoid the issue, because they fear it will cause more problems than it solves—especially in relation to personal issues like succession. Others have a business plan and move forward with executing it. A strategic plan is not the same as a business plan and a plan that is not documented, communicated, managed and monitored is not a plan at all.

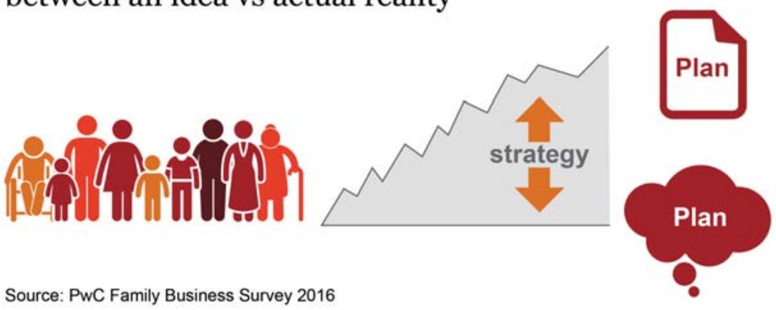
Family firms are good at executing a plan once they have one. Family businesses often have plans covering specific issues—like technology—but no overall strategy linking them all together. There has to be one clear strategic plan, covering all aspects of the business, which is explicitly aligned to the family's long term objectives and plans.

That has to start with vision and values: family firms need a shared vision of the objectives and agreed values to guide the decision-making process required to get there. Without these two things, planning processes invariably flounder.

We often work with clients where the owner has a plan in his or her head, but doesn't share it any wider. But because the rest of the business trusts them, then it works. At least for a while.

In the long term, this can be a recipe for disaster and it will be next to impossible to hire professional managers or to get external funding for financing growth or restructuring. There needs to be a clear plan, written down, agreed and communicated.

69% agree that the family and business strategies are aligned but anecdotal evidence suggests a gap between an idea vs actual reality



Source: PwC Family Business Survey 2016

Mark Simmons

Partner, PwC Advisory Services and Strategy& Leader

East Africa Region

Strategy planning insights

How can family businesses align the family interests with the strategic needs of the business in the medium term?

Family businesses often have a good sense of the known and immediate profitability and growth risks and opportunities coming around the corner. Where they—and other types of businesses—can fall short is consideration for how their market will look in ten years' time and equally importantly, changes required over the same period for their business to adapt.

- What business will they be in?
- What products and services will be needed?
- Who should they be partnering with?
- What are critical capabilities versus today?
- Who will be their customers—and competitors?

For some areas, the customers or competitors might not even exist today. This is the nature of strategic vision and disruption.

The disappearance of iconic businesses like Blockbuster, which rented VCR copies of movies, and services like telemarketing or travel agencies show how much the world has changed in the last 15 years. Streaming video and digital subscription services like Netflix completely usurped Blockbuster.

Now Netflix is even developing its own content and taking on Warner Brothers and Disney. Uber and Airbnb are changing the basis of competition in their respective industries creating challenges and opportunities within their industries.The speed of change is a real threat especially for organisations that are more concerned with what could go wrong today. Strategic or visionary thinking tends to get buried under a mountain of everyday concerns.

The process of strategic planning can become very transactional ending in 'tick-the-box' actions that business leaders carry out in their spare time. I advise a different approach to strategic planning: it should be a dedicated effort that is market driven but both fact, experience and intuition based. The numbers, although essential to strategic planning, only tell half of the story.

Tapping into the future potential market opportunity may require insight into the future needs and future consumers. Today's business managers may not have that 'freedom of thinking' as they are constrained by the existing business model.

Many family businesses do demonstrate commendable strategic forecasting and planning, some with the aid of outside consultants. For example, their market analysis reveals industry trends allowing them to project market growth opportunities or market decline threats with great accuracy.

Family businesses tend to want subject matter experts or specialists to provide assistance on day-to-day operations and consultants whom they trust to help them manage big market changes. Challenges arise when strategic advice clashes with entrenched views held by family members. Multi-generational input may be required to fully consider the outside perspective before discarding.

Generally, my experience working with family businesses has shown me that the organisations that are able to openly challenge family perspective with outside views are able to better adapt to rapidly changing markets, particularly as decision making and actions are much quicker to take place in family businesses versus corporate.

The family's passion and pride in ownership will motivate most people to give their best but might not provide strategic perspective. Finding the balance between passion and strategy is the key challenge. Winners are those who got the balance right.

I advise that family business owners think about their business five to ten years from now and consider their market in terms of customers, competitors, products, services and disruptors. How is the market and their business different? What are the critical capabilities of the business?

Then, they can work backwards and ask themselves: What needed to change to be successful? When did those changes need to happen? And which actions should they take now and over the next 5 to 10 years in order to address risks or seize opportunities?

Hasit Patel
CEO,
The Ramco Group

The Ramco Group was founded in 1948 by Hasit Patel's grandfather. The group started as a hardware store in downtown Nairobi and is now a highly diversified organisation operating in five sectors: print, hardware, manufacturing, stationery and services. The group comprises 35 companies with a total turnover of US$ 320 million and 3,800 employees in five countries. 'I call it a collection of small and medium-sized companies,' says Hasit.

As a third generation family business owner, Hasit holds three roles with the group: IT leader for the group, responsible for strategy and investment; board director, focusing on employee satisfaction; and managing director of Ramco's Platinum Packaging business.

Part of his management role includes leading group business CEOs. 'I have nine companies that report directly to me,' says Hasit of his management role. 'Those CEOs seek guidance from me on a day-to-day basis.'

Over the last few years, Hasit and his cousin Amit have initiated efforts to realign the group of businesses as vertical entities and their focus now is on ways to consolidate or improve the positioning of each vertical in the market. 'Managing multiple businesses is getting more and more complicated,' says Hasit. 'For my cousin and I, the biggest challenge that we face is getting everyone to evolve. It's hard when you have 35 CEOs. We're like a ship; it takes time to shift direction.'

Ramco's board of directors leads the group's strategic direction. At the moment, Ramco's board is made up of four family members who are also shareholders. A cousin of Hasit's sits on the board but is not a shareholder. Ramco's largest non-family shareholder also has a seat on the board as do two long-standing employees. There are plans to expand board membership to include other non-family members once the realignment of the group is complete.

For family members, Hasit believes that it is important to know 'when you're wearing a shareholder's hat and when you're wearing a manager's hat.' He says that the style of decision-making is very different, depending on the hat. 'When you're wearing both, you can't professionalise,' he says.

'It's almost like you're the coach but you're not a player,' says Hasit. 'You're not the one who scores goals or makes the passes. But you have to lead from the side-lines – you can't even get on the pitch. And you have to prevent other shareholders from going onto the pitch.'

Shareholders may look at risk in different ways and their risk tolerance may not be optimal for business growth. If a problem arises, someone wearing their shareholder's hat might immediately want to jump in and ask, 'What are you doing?' Whereas Hasit argues that the appropriate reaction for a board member should be, 'How can we help?'

He believes that the systems in place across the group should take care of performance and that family leaders should focus on strategic support. 'We need to be mindful of the mistakes that other conglomerates have made,' he warns. He recommends that family business owners should take each challenge in their own stride. 'You will have good days and bad days. Conflict should be avoided on decision making but it is healthy when agreeing on a particular strategy' he says.

Hasit believes that the single most powerful factor driving Ramco's success has been the relationships that the company has fostered, over the years. 'For us, relationships are key to our business, our board and our family'.

'My grandfather's story is about the first business relationship he ever formed,' he says. 'He had lost an eye to disease and he lost all of his belongings on the boat coming over to Kenya. A man came to collect someone else at the port of Mombasa and recognised my grandfather from their village in India. He gave my grandfather a job and a place to stay. Later on a client of that company gave my grandfather credit to start a business.

Rather than starting a new business, my grandfather chose to offer a stake in the new company to the man who helped him.'

Ram was Hasit's grandfather's name. In 2010, when the group decided to rebrand, Ramco seemed like a natural choice for the group's name.

In addition to strong relationships founded on trust, Hasit highlights six areas of his family business that have benefited from innovative thinking:

1. **Centralised operation functions** serve all group businesses so that, for example, all banking relationships are managed centrally at the group level. Group management has set up structures so that each group company submits monthly reports to a central finance function. Human resources, internal audit and customer services centres also serve the group as a whole.
2. **Lean operations** driven by competition in the marketplace, have led manufacturers like us to manage orders, customers and inventory differently. Orders are becoming more frequent and industries are moving towards best practices.
3. **Solution-oriented customer service** provides a competitive advantage. 'We've built credibility,' says Hasit. 'I don't just sell a box, but come up with a solution. My competitors say that they do plastic. We give advice on the best packaging.'
4. **Talent** is a major challenge but also an opportunity for Ramco. Attracting the right talent for the right parts of the business poses particular challenges for family businesses. 'I think that we're still perceived as a family business where professional growth beyond a certain point is not possible.' Hasit believes in executive training and a mix of experience and new talent.
5. **Profitability** can be uneven in diversified companies. Hasit is focused on challenging the group in this regard and looking at whether the group can extract more value from different verticals and also coaching smaller Ramco businesses beyond the first growth plateau. 'When costs go up, unless your market is growing, you need a bit of coaching and in many cases, the leaders themselves may need educational experience,' he says.
6. **Customer loyalty** is central to the family's vision. He says that loyalty can be measured by how much more someone will do or give, in money or terms, and how reluctant they will be to let you go. 'To lose a client who does not call me to provide any justification or explanation on why he no longer choses our products or services, is not a loyal client,' he says. 'We've given him reason not to be loyal.'
7. **Communications and technology** facilitate information sharing including the sharing of the family vision and best practices across the group. Good communication enabled by technology can also solve problems more efficiently. 'An issue that a CEO has in a new business, some other CEO has been through it. They have a powerful network within the Ramco Group,' he says.

Growth and regionalisation

In our 2016 survey, 29% of our respondents aim to grow quickly and aggressively over the next five years compared to 15% globally. Our experiences working in the sector suggest that many family businesses realise these ambitious growth targets but many also struggle to find or develop the skills that they need to do so.

Others are hampered by a lack of funding or they find themselves mired in family disputes which absorb the family's time and turn its attention inward.

Another common theme from our survey is that family firms intend to achieve growth through diversification; more than half plan to launch new entrepreneurial ventures and 65% plan to sell their products or services in new markets in five years' time.

Diversification can help a family firm to reduce the risks associated with market conditions and government activity which were identified as issues facing family firms by 55% and 44% of Kenya respondents, respectively.

Many family firms build successful international and diversified businesses. In 2014, 68% of survey respondents were engaged in international sales compared to 77% in 2016.

Our survey respondents currently report earning about 23% of total revenue from international sales.

They are ambitious for international sales to increase, with 87% projecting to increase sales internationally in five years' time to 35% of turnover.

Rajesh Shah
Partner, Tax Services
PwC Kenya

Regionalisation insights

Do you think that family business owners are prepared for a significant shift towards internationalisation?

Regionalisation and diversification are very important to the growth of a business. Otherwise, all an organisation can do is continually diversifying product lines within existing markets. A domestic market will never be enough if a family business or other organisation wants to grow.

Many family businesses are in the business of producing tangible goods. They look at how they can leverage off the production capacity that they have in their production lines to create new markets for consumers. Looking at what is happening with the free trade zone areas in Africa, trade is encouraged within the EAC, SADC and COMESA communities.

We need to continue making progress towards a fully common market and free trade. We are not there yet because for example, when it comes to trade with other states in East Africa, it is still necessary to cross a border and pass through border checks and customs. Harmonisation between domestic tax regimes and single windows helps.

If countries come together in a free trade zone, trade will increase. If trade increases, both economies benefit. Having said that, the partner states need to have interdependency and trust. If that enabling environment is not there, and no matter what work they have done towards harmonisation, there will be barriers. There are still challenges involved in moving a product across borders and patience and agility is needed to deal with those challenges.

Most of the trade that African countries do is with non-African countries. There is a lot of opportunity for inter-African trade, apart from the infrastructure challenges that governments are working on. The cost of infrastructure and power needs to come down to make businesses and products competitive.

Regionalisation is also a form of diversification because an organisation will work towards building a portfolio of markets. If one market does not have the potential to fulfil an organisation's growth ambitions, another might. Regionalisation also helps to diversify risk. Depending on the type of business, regionalisation can help to manage foreign exchange risk. We have countries with strict exchange controls which need to be understood before investing in these regions.

Family businesses often look for a local partner who can act as a distributor or agent before they establish themselves in other markets. Whilst there is no need to have a physical presence in that country, the business can have a distributor type relationship with a trusted person or organisation in the target market.

Financing growth

Financing growth is a recurring challenge for the family firm and an area of concern flagged consistently in our Family Business Surveys. In this year's results, 67% of Kenya respondents looking to grow significantly said they would be relying on their own capital, at least in part, to do so but 81% plan to use some form of external financing.

Many family firms have been forced to draw on their own resources because other types of finance are either unavailable or too expensive. Again, robust strategic planning will help family firms bridge the gap to future growth and help them to determine whether the business has the appropriate capital structure in place.

The importance of aligning business strategy with the owner and family strategy cannot be under-estimated. If there are many dependent shareholders with diverging needs and priorities, this may affect the willingness and capacity of the business to invest in new ventures or drive fundamental change.

Our legacy should be the continuation of the business within the family. I think it gives them security financially.

Nihal Shah, Director, Biodeal Laboratories Ltd

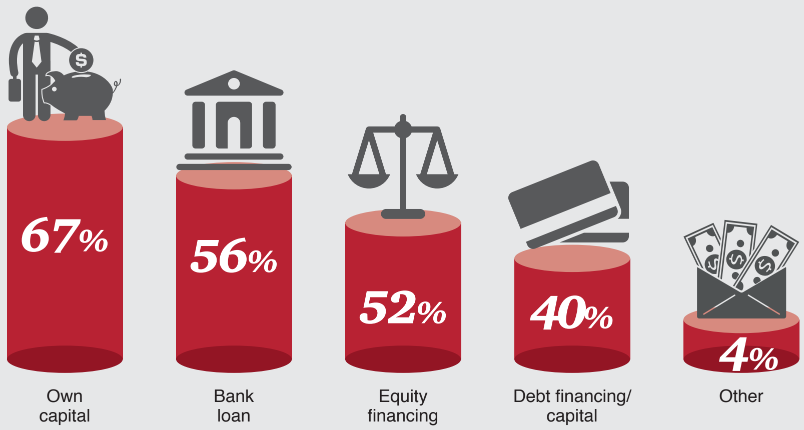
Making the decision to go to the capital markets for funding or to look for other private investment is a complex process with significant implications for the owners of the business.

This demands exceptionally clear and comprehensive communication within the family.

At a more immediate and tactical level, family businesses need to consider issues such as whether they can free up more capital for investment by ensuring that they have optimised their working capital.

Furthermore, family firms need to ensure that their funding is on the right terms and that source is secure if circumstances change, whether inside the business or outside in the market.

Fig 5: How family businesses plan to finance ambitious growth



I want to leave an institution that provides for the community and family. We hope to give back, like by making sure other institutions can serve the community in education and creating jobs and skills.

Adil AbdulKarim Popat, CEO, Simba Colt Motors Ltd

Anthony Murage
Partner, PwC Capital Markets and Accounting Advisory Services
East Africa Region

Financing growth insights

Decisions about how and when to finance growth depend very much on an organisation's growth cycle. Initially, the challenge is to put together start-up resources. Many organisations never emerge from this start-up stage. Among those that do, we recommend that they consider financing options carefully.

Another touchpoint for evaluating financing options occurs when an organisation decides to diversify or expand operations geographically. Access to capital can be a major barrier to those plans when it is impossible or unsustainable to finance this growth solely through savings or internal resources.

Engaging a financing partner is also a question of timing. Planning ahead for external financing means that by the time the business needs it, the foundation is already there. As resilient as family businesses often are, they should also plan for the future.

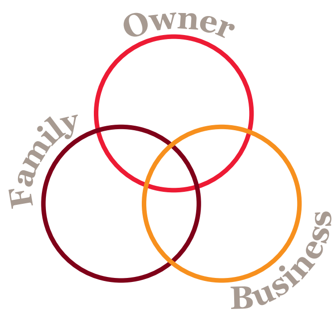
The information required by lenders or investors should be readily available within the finance departments of any sizable family business. It is more a matter of pulling together the information required and presenting it appropriately.

One option for raising capital is to approach a bank. In our work with family businesses, we find that some of them approach these discussions without knowing enough about the requirements and business case that a bank would need to see.

Poor record keeping, even for organisations that are eight or ten years old, does not tell a good story.

International development lenders may evaluate financing opportunities with a longer-term view; private equity firms may also provide strategic expertise in addition to capital. But these entities also require a prospective business to tell a good story. It can be difficult for family businesses to open up and share their plans and financial information. Owners may fear that they will lose control of the business. These concerns are understandable but also manageable.

Some lenders or providers of capital will want to change things within the business, or they will impose structures or policies that conflict with the family business's culture. Part of choosing the right financing partner is ensuring that the partner understands and commits to the family vision for the business.



Digital and innovation

Digital and innovation

The need to continually innovate to keep ahead is very important among 42% of Kenya family business owners, compared to 64% globally. Family business owners in Kenya identify innovation as less of a challenge, with 44% in Kenya and 64% globally identifying it as a challenge over the next five years.

Family firms are well positioned to make a success of innovation. They consistently tell us that they believe they are able to re-invent themselves with each new generation; 66% of Kenya family business owners said so this year, compared to 57% globally.

Some firms do manage to re-invent themselves and reap the rewards of innovation.

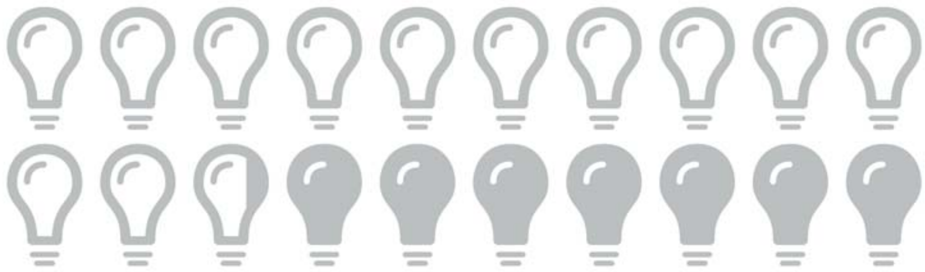
There are other examples of family firms that struggle to change and find it hard to innovate, and this is also a common observation among non-family CEOs and senior managers who have been brought in from outside. The next generation also see this as a real challenge for the future success of the family firm, while acknowledging that they often struggle to make the case for change.

Why would innovation be a challenge for a family firm? One answer may be skills. In our Kenya survey, 52% of family business owners identify the ability to attract and retain the right talent as a key business challenge over the next five years and 32% say it will be a challenge over the next 12 months.

It is hard to identify the 'right' people and skills without a clear strategic plan. This sets out the future direction of the business which will determine the range of skills and experience needed to achieve it.

In other words, defining the challenge solely in terms of skills shortages could be masking the real problem. This is especially relevant when it comes to innovation.

64% of companies think that the most important challenge over the next 5 years will be the need to **continually innovate**

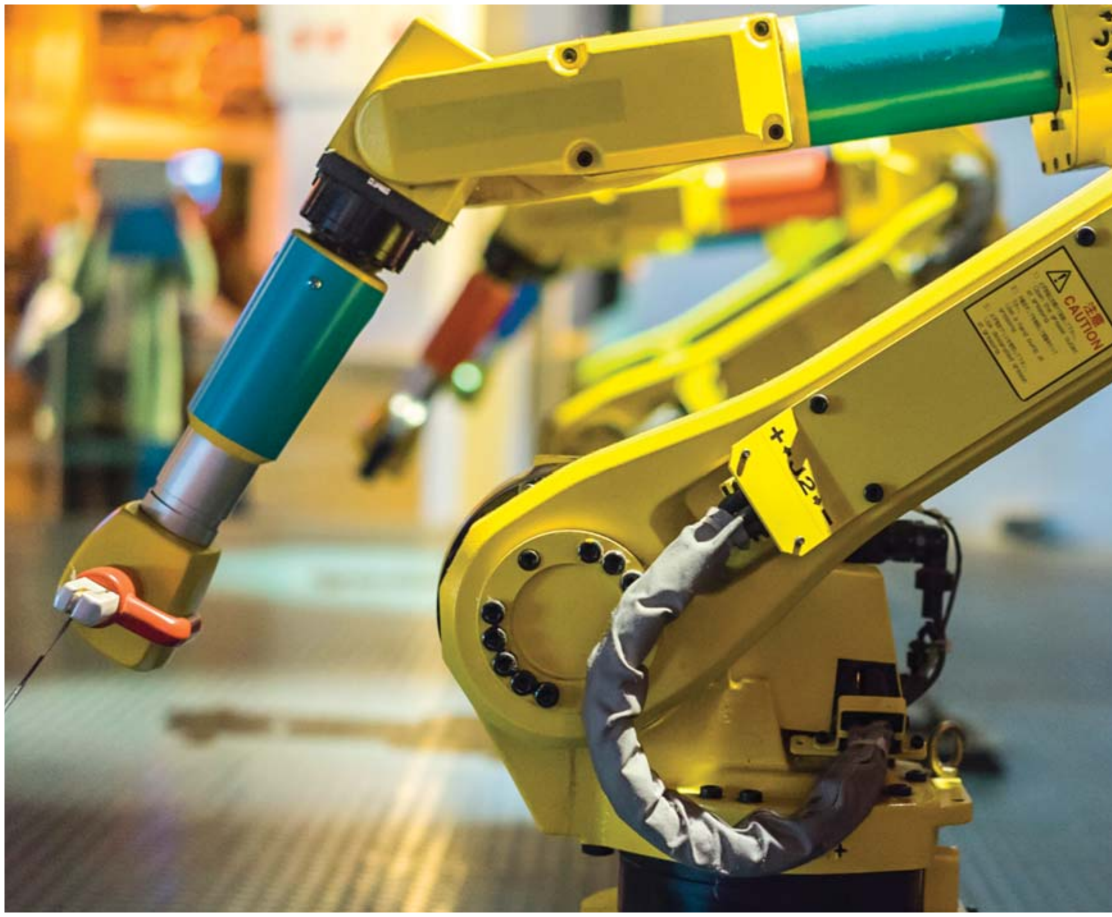


I want to move the business into the 21st century and create a sustainable business in terms of profit, wider stakeholder interest, employment and social initiatives like schooling for young children and scholarships.

4th generation family business owner, Kenya

Our legacy should be to create value for community and family so we can provide a sustainable business. It's all about people. In a family business, people are key to making the business grow and without people we wouldn't be here.

Imran Khan, Executive Director, Crater Automobiles (NBI) Ltd



Doing innovation well

Given today's rapid pace of change, new technologies and disruptive business models, all companies need to be able to think beyond the immediate demands of the day-to-day business and develop an informed view of what the picture will look like in two, five or ten years.

This means understanding the trends driving change, assessing which products are vulnerable to new technology and how global trends such as demographic change are affecting the Kenyan and East African market—and beyond.

This assessment is what will drive the development of the strategic plan and then the identification of skills and experience needed to achieve it. Without a strategic plan, companies will struggle to identify how, where and what they should be innovating.

Family firms benefit from a medium-term mind-set, especially in relation to issues such as the challenge of digitalisation because it may require significant investment to stay ahead of the curve and the rights skills to ensure that the investment delivers value.

This year, 35% of Kenya survey respondents identify 'keeping pace with digital and new technology' as a challenge over the next five years, compared to 47% of global respondents.

While digital change may be nothing new to most businesses in Kenya, many family business owners still feel that their businesses are vulnerable to digital disruption, with 40% in Kenya feeling vulnerable (compared to 25% globally).

Some family business owners feel well prepared and some do not; over three-quarters of Kenya respondents believe that digital is integrated within their business culture and 58% discuss digital disruption at a board level.

The most innovative companies are those that are open to new ideas and new ways of working. Digitisation is an area where the next generation could have a significant part to play and having a more diverse and inclusive workforce helps organisations to manage change and thrive.

As well-versed as many are in the benefits of digital technology, family business owners may not have as good a grasp of the risks of a data breach or cyber attack.

Our work with family firms shows that many only become aware of an attack once it has happened, and our survey confirms that just 35% currently feel prepared for dealing with such an attack.

Fig 3: Key challenges over the next five years

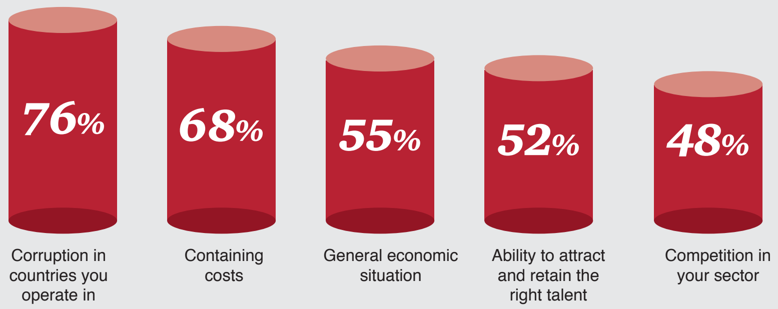
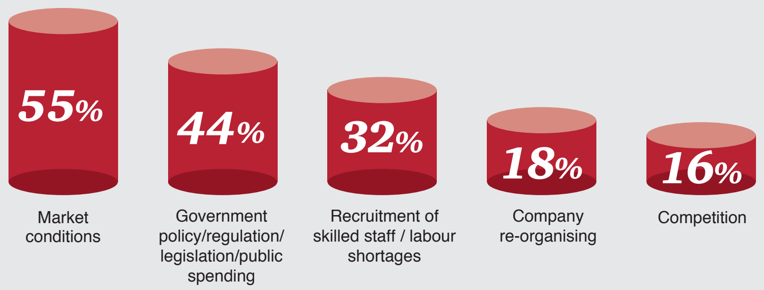
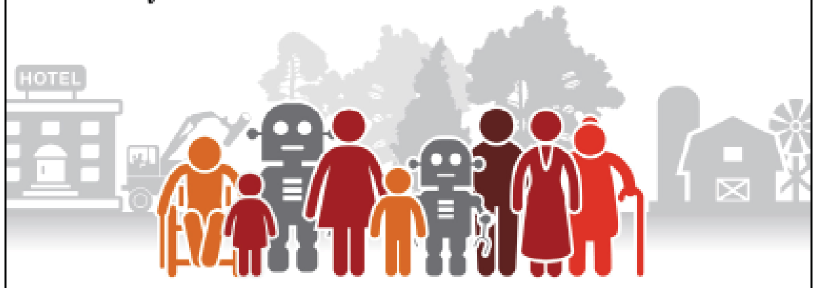


Fig 4: Main issues being faced in next 12 months



25% feel vulnerable to digital disruption, those who think they are immune will find out this is not the case



I would like to build a profitable business in the food industry that is based on ethics and values. I want to model values in the business for my children and to run a business that makes the planet a better place to live in. I want to be a role model.

Tara Fitzgerald, Chief Financial Officer, Creative Kitchen Co.

Our legacy is to be a signature group that adds value to society. We aspire to be the best company for employees, the best performing company in our sector and the benchmark for all companies in Kenya.

3rd generation business owner, Kenya

Alex Muriuki
Senior Manager, Technology Advisory
PwC, East Africa Region

Digital innovation insights

Family and small businesses are the heartbeat of any economy. However, in this demand-driven economy, many of these business owners keep their business strategies resident through institutional knowledge with little documentation informing a strategic roadmap.

As our environment continues to evolve from a demand-driven to supply-driven economy, these businesses will need a robust game plan on how to deal with external and internal threats. While traditional market shifts are evident, the greatest impact will come from digitisation. According to Bloomberg, eight out of ten entrepreneurs who start businesses fail within the first 18 months.

Among family businesses, The Family Firm Institute estimates that only about 30% of family businesses survive into the second generation, 12% are still viable into the third generation and only about 3% of all family businesses operate into the fourth generation or beyond[1]. Going digital requires family business owners to begin to institutionalise their thoughts and vision for the business. In many cases, control is held by a very small group of individuals.

By digitising, institutions and related processes will be allowed to take shape. This in turn will guide the decision-making process so that it resides within a structured system. In effect, digitising the family firm can help improve its odds of survival. One of the barriers to implementing technology solutions is the up-front cost. Strategic investments may not be brick-and-mortar; they can be services. This sometimes conflicts with the mind-set of the older, founder generation, which is more comfortable investing in physical things.

Other times we find that business leaders pay lip-service to the need for change but they side-step the need for transformation. Incremental change will not bring about transformative ways of working, supply chains, financial forecasting, customer data analytics or human resource management.

Technology survives generations

The benefits of a digital strategy include the automation of everyday tasks which can help to propel senior managers from routine transactional decision-making to more strategic roles. Digitising information management can inform investment decisions and reveal customer preferences. Sometimes, we find that knowledge is concentrated among the founders of the business and there may not be any data apart from what they remember. But if the founder passes on without a digital record, relationships and knowledge will also pass on.

In my view, there still is not enough of an awareness of the value of things vis-à-vis the value of information. For example, a jeweller will invest in top-of-the-line physical security but neglect the intellectual property of his jewellery designs or customer data. But the value of his designs and customer base is much greater that his physical assets. This needs to change, and I believe that change should be led by Board-level commitment.

[1]https://www.familybusinessinstitute.com/consulting/succession-planning/ accessed on 16 November 2016

Edward Kerich
Partner, PwC Risk Assurance Services
East Africa Region

Digital risk insights

The more digitally-enabled a business is, the more varied are the points of vulnerability and attack. In my view, digital innovation presents an opportunity to address potential vulnerabilities and grow a stronger, more resilient business.

My view is informed by experience working with organisations that engage with us after they have discovered a problem—almost never at the point of digitisation or innovation.

For many family businesses, risk management tends to be reactive rather than proactive. But when they have experienced an attack, they are more likely to plan for expenses related to risk management and better security.

Typically a business will have various interfaces with suppliers, customers, clients and staff and the more digital the business, the more risks it faces.

Consider for example, an internet portal that a business uses for marketing, customer orders and payment or a new application allowing customers to interact with the business in some way.

The pressure to innovate is real but I fear that effective risk management often lags behind, including cyber security risk management. Security is about protecting key data and information as well as securing the systems that are critical for business operations. System corruption can paralyse operations and so it is imperative that organisations protect their core, essential systems and data.

Different types of businesses require different levels of security. A hospital's digital operations will have higher thresholds because it handles a large amount of sensitive information.

But most companies do not actually know how vulnerable they are; when a breach occurs, it can take days for the attack to be discovered. There are attacks that are never discovered. Security breaches are caused by people with varying motives.

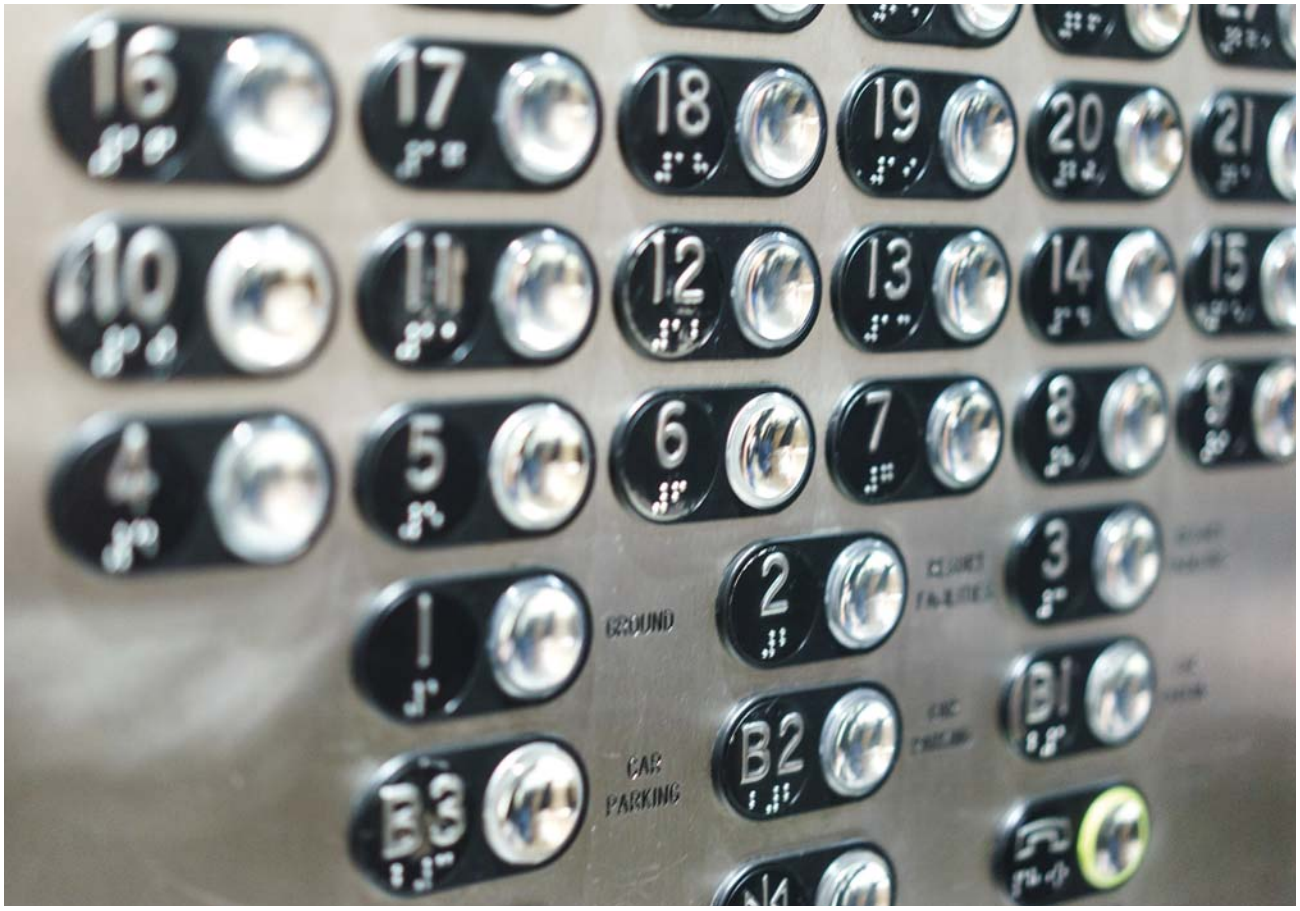
When information is concentrated in simple storage facilities, there is more chance of vulnerability.

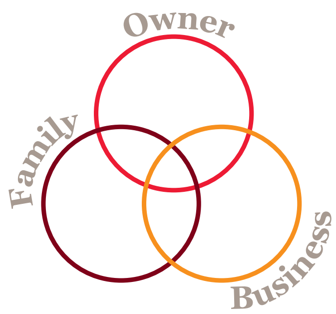
Business culture can trivialise the importance of security and growing businesses often prioritise reducing cost and growing profit and so may not make the right decisions in terms of systems, security and personnel.

In my experience, it is a case of the more you know, the more you realise what you do not know. When businesses invest in the right security features, the more aware they become of their vulnerabilities and the number of attempts on their infrastructure.

I want to support young people to give them employment and give them a leadership programme for them to follow. I want to develop people with integrity, who are committed and loyal and not only think about money. It takes time to do anything and to grow any kind of business; they must remain patient, committed and loyal. These are the professional values that Africa needs to do well to develop and grow economically.

Jennifer Barassa, CEO, Top Image Africa Ltd





Professionalisation 2.0

Journeys toward professionalisation

In 2014, our survey's main theme globally and in Kenya was the professionalisation of the family firm. This year's results show that real progress is being made in this area, but there is clearly more that still needs to be done.

Every firm will eventually reach the point when it has to professionalise the way that it operates, by instituting more rigorous processes, establishing clear governance and recruiting skills from outside.

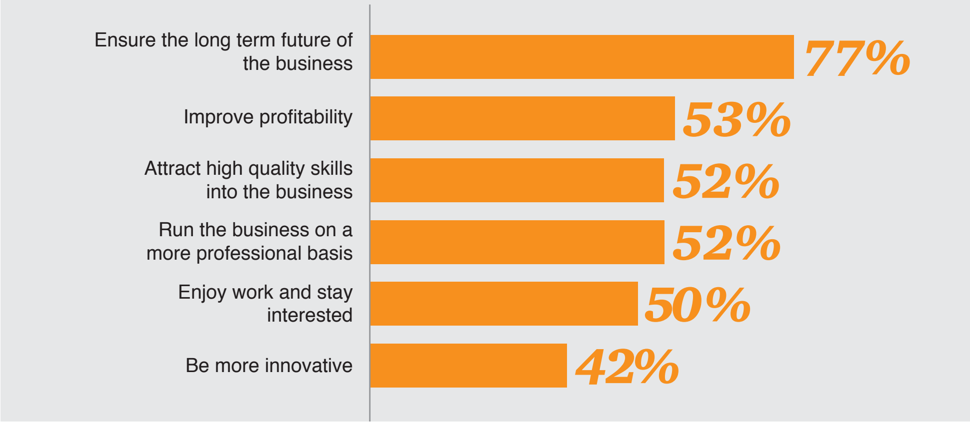
Family firms are no different. This year's survey shows again the importance of these priorities; for example, 45% of Kenya respondents say that the need to professionalise is a key challenge for their businesses over the next five years.

The family firm has another dimension which other companies never have to tackle: the family itself. The issues here are much harder to address. They are more personal, more complex and the risks if it goes wrong are potentially terminal.

This year's survey shows that family firms are continuing to establish processes to 'professionalise the family', including mechanisms such as shareholders' agreements, family councils and incapacity arrangements. Bringing in external managers is another way of professionalising the business.

Better processes and a clearer division of roles and responsibilities frees up time and space for the senior team to think and plan more strategically.

Fig 6: Personal and business goals over the next five years



I want to take our business to a certain level in what we are doing. We need someone behind to control and take over the business and make everyone accountable and have everything written down to a plan. We want to be the most professional distribution firm in Kenya.

Raju Shah, CEO, Debenham & Fear Ltd

The role of the professional CEO

We've looked before at the advantages of bringing in an external CEO and the challenges that this entails, both for the family and the professional coming in. In our Kenya survey, 69% of respondents have CEO/Managing Director roles. Only 8% of respondents are non-family members working for a family business.

Globally, the number of non-family CEOs is greater and the insights shared in our global report provide a useful context for family businesses in Kenya that may consider an external CEO in the future.

- Some external hires clearly relish the chance to make decisions quickly and enjoy the autonomy that the family business model can offer;
- Families can be reluctant to give up control and external CEOs may feel excluded from the strategic decision-making process ('around the dinner table');
- Managing or mediating conflict between different family members can become the 'unofficial' job description of an external CEO.

These considerations can inform the decision by family businesses to hire external qualified professionals.

The role of the board

Many family firms start with no non-executives at all, though most have formal or informal advisers who can act as a friendly sounding-board. When a proper board is first established, these people are often invited to be the first non-executive members.

They can play a useful role but our experience suggests that they may not offer the independence or experience needed for the family firm to grow.

While every family firm will want directors who 'fit', every business will have different needs when it comes to the selection of the board. PwC works with owners who are nervous about giving up control or sharing confidential information with outsiders, even when these people are board directors. Others worry about the expense or struggle to see the value of board meetings.

The process of selecting and hiring outside board members also raises real concerns about getting it wrong, especially for owners who do not have established processes in place.

Attracting the right talent and ensuring a good fit can be challenging, as potential non-executives need to understand the dynamics of the family business and the complexity of the family relationships involved.

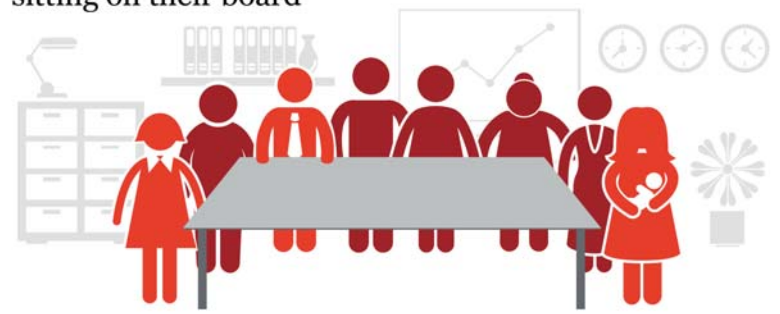
As a family we've done very well to go from nothing to what the business is today. My legacy is to grow almost 10 times bigger and have a presence in many communities and a lasting brand name.

Rupen Shah, CEO, Victoria Courts

The lasting legacy we would like to have is a positive impact creating entrepreneurship. We provide employment, we help in social work and we bring income generation. We grow businesses in Kenya through branding and we've worked with companies that have seen their profits grow.

David Nene Kalinga, CEO, Capital Colours Creative Design Limited

65% of family businesses have non-family members sitting on their board



Beyond 'rubber stamping': The contribution the board can make[2]

In our experience, many family firms are not making full use of their board: a good board is much more than merely a 'rubber stamping' body. Here's a summary of areas where a robust and objective board can make a real difference:

- Helping the owners separate what the company needs from what the family wants
- Fresh perspectives, relevant experience, and access to influential networks
- Help the CEO move beyond the tactical and the day-to-day
- Ensuring there is accountability across the business
- Assistance with risk management
- Objectivity, independence, and an 'outside-in' point of view
- Support and advice on planning for CEO succession
- A 'safe place' for difficult discussions
- Smoothing the transition to the next generation
- Planning and advising on exit strategies.

2 Family Business Corporate Governance Series: What is a board's role in a family business?' PwC US http://www.pwc.com/us/en/governance-insights-center/publications/assets/corporate-governance-role-in-family-business.pdf

Wandia Gichuru

Managing Director, Vivo Activewear

Wandia Gichuru started her career as an employee of a small family-owned advertising firm in Montreal, Canada. This experience and years of development work contributed to her decision to start a private company, Vivo Activewear, which produces affordable, stylish clothing marketed to Kenya's growing middle class.

'The freedom to think and actually make decisions really differentiates private companies,' she says of her experience owning and managing Vivo Activewear. She values the contribution that private companies like hers can deliver to society and points to benefits like creating jobs, building talent and setting a good example. She spends a lot of time sharing her story with young people and inspiring others to follow their dreams. 'I'm a strong believer that your journey is the one that you're meant to have,' says Wandia, who is also a trained life coach.

Proudly Kenyan—and fashionable

Her path to owning a successful fashion brand in Kenya has been a self-taught journey, beginning with the realisation of an unmet market need for stylish exercise clothing. Over time, Vivo designs have grown to include more versatile clothing styles. 'Women want variety and the opportunity to express themselves and have fun with their clothes,' she says.

Vivo styles are designed with Kenyan women and the Kenyan climate in mind. Her business model focuses on delivering these styles at an affordable price point. And while she acknowledges that competitive global retail brands also see potential for business growth in this market, she believes that Kenyan women will buy Kenyan if the styles and price points are comparable or better. Vivo differentiates itself with its proudly Kenyan marketing on Instagram, Facebook and Twitter.

She has also observed a generational shift in attitudes towards locally-produced clothing. 'When we were growing up, we thought that imported products were better,' she recalls. 'Now, the younger generation may be less loyal but they won't not buy from you just because you're a local brand.' She points to their creative self-expression and desire to interpret fashion trends for themselves as characteristics driving their consumer choices. She has learned a lot about their preferences from social media interactions and Vivo's customer loyalty programme.

'There's a lack of data for understanding customer segments, demographics, spending power and frequency of purchases,' she says of the Kenyan fashion market. 'We have had to extrapolate and make some guesses. We try to collect information about our customers and we are conducting surveys about how often and where they shop.' This information gives Wandia a better sense of Vivo's market share and growth opportunities.

Growing a fashion business one stitch at a time

As much as she enjoys design and fashion, she has also led the company through an evolution of management and operational changes. In the beginning, she intended Vivo to operate almost exclusively online. She ordered ready-to-wear dance clothing from Asia, South Africa and the UK. Her customers wanted to try on the clothing and initially, her home served the purpose of a boutique but she quickly realised that she needed a separate retail space.

At that time, the Junction shopping mall was expanding and she secured the last remaining retail space. This commitment led to a further realisation: Vivo needed the revenues to pay the rent. Over time, she learned first-hand that location is everything. 'From day one, that store has covered its costs,' she says. 'We're in seven locations now and I know how much location matters.'

Wandia and her co-founder, Anne-Marie Burugu, financed Vivo's start-up costs with personal savings and investment from a small group of family members and close friends. She acknowledges that external financing might have facilitated faster growth, but also warns that faster decision-making might have led to mistakes. Personal savings and private capital caused her to make more frugal, creative decisions.

Two years after opening the business, Wandia started thinking about sustainability and the challenges and weaknesses that the business was facing. Selling imported clothing posed significant challenges, particularly styles that suited different body shapes and costs that they could not control. Vivo was too small to afford wholesale quantities produced by both local and international manufacturers and wholesale did not suit Vivo's focus on small-scale, fashion-forward and versatile styles. She started looking into setting up her own production capacity.

'A lot of people said it wouldn't work because local tailors are unreliable,' she says. 'But that hasn't been my experience and retaining my production staff has not proven to be a problem for me. One of the first tailors that I hired had been at a manufacturing company for 17 years, and he is still with us today.'

As the business grew and Vivo's styles gained in popularity, Wandia's management and operational roles increased in complexity. 'For the longest time, I was trying to do it all,' she recalls. 'I was doing everything from finance to HR to marketing to management.'

She says that she is not a natural manager or leader and that she is task-driven and sometimes impatient. Even so, she points to her willingness to take risks and her goal-oriented attitude as strengths that have contributed to Vivo's success. 'For me, all it takes is a spark of an idea and I'm looking into it,' she says. 'I believe in the market responding to that spark and testing it.'

Dressed for success

Now, she is focused on hiring the right people to grow the business and considering a more diversified ownership model to attract senior people, as well as external financing. 'This is my year for figuring out where I see the business going', she says.

Wandia is currently part of the Stanford Seed Transformation Programme which is helping her to apply structured thinking to her business growth ambitions. A recent valuation exercise caused her to realise that the business was worth significantly more than she had thought. 'Stanford has helped me to clarify the way forward,' she says. 'I believe that this business could be a billion shilling turnover business, with the right systems and people and financing,' she says.

'I want Vivo to become a global brand, in the sense that it's available throughout the world,' she says, referencing recent meetings with boutique owners in foreign cities and global online retailers who could carry her brand. 'Vivo can help to change the way that we think about fashion in Africa.'

Rajesh Shah
Partner, Tax Services
PwC Kenya

Saiba Nyindo
Manager, Assurance Services
PwC Kenya

Professionalisation insights

Professionalisation really means that the business does not become people-dependent. Once the business reaches a certain size, and because time is a limited resource, the founders need to consider how to put more capacity and capabilities in place. Certain areas of the business will require certain skills and these roles could be filled by family members, although not necessarily. Like any start-up, family businesses start by filling essential operational roles but in time the owner should shift his or her focus to strategy.

In any business, there are four levels of operations: first, the operations themselves, which generate revenue for the business; second, people who manage those operations and make sure that they happen properly; third, people who are responsible for the business's direction and finally a governance framework or board that oversees the business's direction and represents the interests of shareholders.

Professionalisation is an acknowledgement that any one person should not make or break the business. If the CEO was suddenly indisposed, would the business run in the same way? For family businesses, this is a double-edged sword because owners often want to maintain control but they also know that they need someone who knows what they do.

In a dynamic business environment like Kenya's, there are a great many disruptive changes that require businesses to demonstrate speed and agility. They need the resources to steer the business in the right direction. Professionalising the management process allows the owner or founder to invest the time to explore new things.

Professional managers can take on responsibility for running the business but family businesses also need people who can aid the exploration process. Particularly when they start to think about expanding across borders, these businesses may not have the expertise to execute a regional strategy. They can outsource or hire the skills required, but family business owners need to trust people to take on new responsibilities and this can take time.

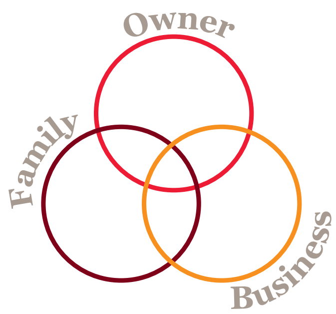
Family businesses sometimes struggle to attract and retain the right talent. Professionals who have trained and worked for large multinational organisations will naturally gravitate to that kind of employer. Conversely, many next generation family members earn their professional qualifications and gain experience working for multinationals before they join the family business.

Many family businesses are big enough that they can attract talented people but professional managers may worry that their ideas will get shot down at the top by family business leaders. They may also wonder if a succession plan will cause a sudden shift in reporting lines or responsibilities.

Family businesses can address these concerns by tackling the hard issues up front. Succession planning is an important part of the professionalisation process and it can be broken down into discreet tasks. Honesty is the best policy: the family needs to assess the skills that the business requires and address any gaps before those gaps can cause harm to the business or the family.

A third-party mediator or trusted advisor can assist with this process by coming up with a plan and asking tough questions. It takes time to build this relationship of trust but eventually the right advisor can help the family business to anticipate difficult issues before they arise.

Professionalisation is about controlling your destiny before someone else does. It is about choosing the direction that you want to go. If you are determined to do everything, you will only be able to do what you can do. To do more, you need people to grow. In a way, it is a bit like a farmer planting one tree and constantly harvesting branches. If he plants more trees and more varieties, his business will grow in new and different ways.



The role of the next generation

In 2015, PwC undertook a global survey of next generation family business leaders to understand their priorities and how they see the future. The survey shows that the next generation are ambitious, dynamic and open to change.

They want the business they hand over to be very different from the one that they inherit. They want to explore new products and services, and new markets, but they are also interested in new business models.

Globally, 88% of next generation survey respondents said that they want to do something special that will really make a mark and 79% have many ideas about how to take the business forward.

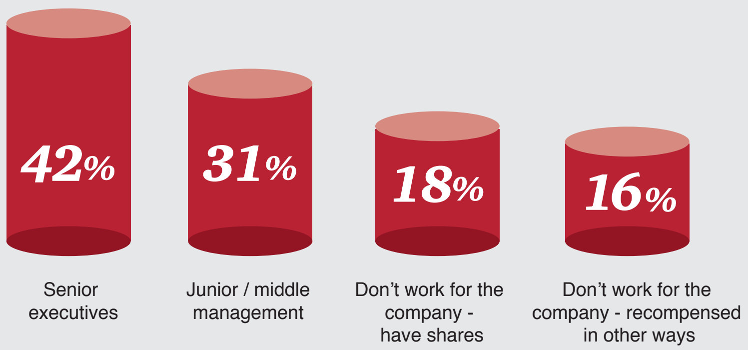
A large proportion of the survey respondents look forward to diversifying product lines but many 'next gens' believe that their family firms will never make this change, even ten years from now.

This may explain why 47% of next gens are looking to set up a parallel venture alongside what the main business is doing.

Many of today's next gens are members of the millennial generation which comes to the workplace with different expectations, different priorities and an easy familiarity with digital technology—all of which can influence the future direction of family businesses.

Many have also benefited from a business school education that has given them the analytical tools to carry out effective strategic and medium term planning.

Fig 7: Next generation involvement in the family business



I would like to have an impact on family and society and a hand in the next generation. I would like to fulfil my vision so my family takes over multiple business facets not just one business.

3rd generation business owner, Kenya

Five ways the current generation can support the next one

Sian Steele, Family Business Leader, PwC UK.

There are five key things the current generation can do to make sure the next generation have the best chance to succeed:

1. **Plan ahead**

   The single most important success factor for succession is a good plan. That starts with detailed career and development planning for the next gen, so they can get a wide range of experience and acquire the right skills. If possible, find ways for them to work outside your home market, as well as outside the family firm. This will help build their credibility if they do eventually decide to come back to the family business.

2. **Make it an opportunity, not a burden**

   Many of the next gen are excited about the chance to work in the family firm and take it over one day. But make sure they don't feel expectation as a burden, and have the chance to make a free choice about their own future.

3. **Give them the chance to build something of their own**

   54% of respondents this year talked about the possibility of setting up new entrepreneurial ventures to run alongside the main firm, and 47% of those questioned in our next gen Great Expectations[4] survey said they would like to do this. Such ventures can be a wonderful way to give the next gen their own area of responsibility, where they can learn, explore new ideas, and gain vital skills. And who knows – those new ventures could evolve into the future for your firm.

4. **Understand where and when to let go**

   Almost all next gens say they would welcome continued support from their parents when they take over (91% in our next gen research), and many talk with feeling about the mentoring they've received, and the lessons they've learned. But there's a fine balance between being there to help, and never letting go. It's an understandable wrench to step back from a business you've run, and in many cases, built – 61% of next gens in Great Expectations acknowledge this as a challenge in their own family. So spend time discussing the exact shape of your future role, and find yourself something else to do beyond the business, so you won't constantly be tempted to 'just show up'.

5. **Address family governance**

   One positive role the current gen can play is in relation to family governance. We all know how dangerous conflicts and misunderstandings can be in family firms, and 52% of next gens in our Great Expectations survey said that they were worried about the prospect of dealing with 'family politics'. The older generation are ideally placed to help manage this, both through their experience and the 'gravitas' of age. So if your family firm hasn't yet got to grips with family governance, or could benefit from a proper family constitution or family council, why don't you take on this task yourself, so the next gen can concentrate on taking on the business.

Hanish Chandaria
Director,
Kenpoly Manufacturers Ltd

Hanish Chandaria's return to Kenya in 2009 was driven by the need for his skills in the family business. His interest and excitement in the family business continues to be driven by a desire to make a difference and create something meaningful. Many second generation family business owners have had similar experiences, finding not just a vocation but a calling in the family business.

Hanish is one of three siblings, all of whom are involved in the family business. Their children range in age from 24 to 8 years and Hanish is very conscious of the need to plan ahead and prepare for their future, whether the third generation finds their calling in the family business or not.

'Entrepreneurship is in our blood,' says Hanish about his family. Some first generation business owners 'expect the family business to be here forever and run by the family,' but to be successful 'the business has to outlive individuals,' he says. 'The only way to achieve that is to put in place structures to make that possible.'

A diversified family firm

Hanish's family business group has four operating companies and a 30% ownership share in a bank that the family used to own. Altogether, the combined group employs about 4,000 people.

The first of these businesses, Kenpoly Manufacturers Ltd, is a diversified plastics business producing quality, affordable products for the home and industrial, horticultural and packaging industries. Kenpoly exports to 12 countries in the region and employs approximately 750 people. Hanish calls Kenpoly the 'flagship of the group'. It was established in 1977.

The family also owns a successful farming businesses with greenhouses in Naivasha and Nakuru that employ 1,800 people. New operations in Kibwezi could soon employ an additional 400 people. The family's farming businesses grows and exports 65 million high-end roses annually direct to buyers in Russia, the Middle East, Eastern Europe, Australia, Japan, China and elsewhere. The business is currently developing a fresh herbs line at the new property in Kibwezi that will leverage relationships formed by the family's flower business.

Two other companies focus on packaging products. Blowplast Limited produces packaging products for fast moving consumer goods companies in the edible oil, lubricant oil, cosmetics and pharmaceutical sectors, among others. Thermopak Kenya Limited produces food grade packaging, primarily for the horticulture, hospitality and diary industries.

The family also founded Fina Bank and Hanish was a board member and shareholder until 2009 when he was asked to return to Kenya and manage the bank's day-to-day operations as the executive director. In 2012, Guaranty Trust Bank (GT Bank) expressed an interest in entering the East Africa region. The family also wanted to expand into Africa and so, 18 months later, they reached an agreement with GT Bank to buy a 70% stake in Fina Bank, which was subsequently rebranded. The Group still retains a 30% share in the East Africa operations.

Hanish sits on the Boards of Directors for all four of the family businesses, as well as the bank. His current role at a group level is Director of Strategy and Finance and much of his time is spent on group-level strategy, finance and new business development. Each group company is run independently but Hanish is focused on group-level relationships with providers of capital and ensuring that the group is financed with the right mix of capital.

Earning your stripes—outside the family firm

Hanish was well-prepared for this role, having worked in investment banking in the UK, Europe and the US before getting involved in the family business. He highlights the importance of outside work experience to establish credibility within the family business.

'If you're a family member working in a professionally-managed family business, other professionals will look at you differently,' says Hanish. 'Working outside, there are certain disciplines and formalities that are imposed upon you that are useful.' Professional discipline contributes to performance, which speaks for itself.

Future generations may choose to join the family business or not but Hanish hopes to instil values like working hard, having a positive impact on society and the enthusiasm 'to create something from nothing'. He points specifically to the importance of creating jobs, calling it a 'significant motivator for us as a family.'

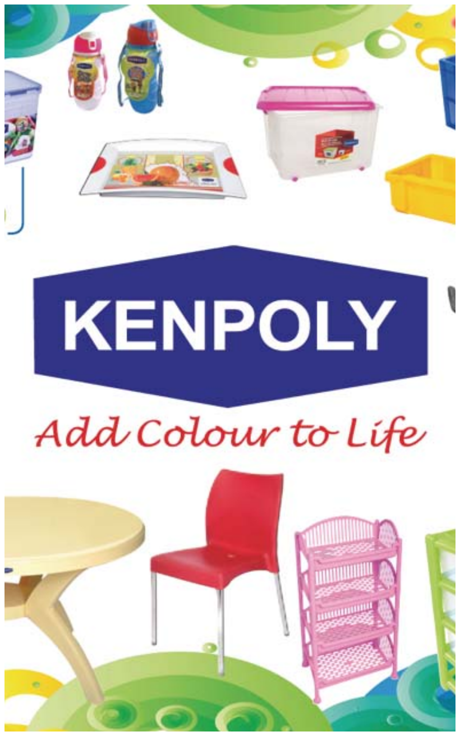
The second or third generation may have very different priorities, like work-life balance. Hanish remembers his father working seven days a week and Hanish himself was sometimes expected to work over the holidays. While Hanish remembers weekends spent at Kenpoly, his children expect him to take holidays with them—away from the business.

Professionalisation and the next generation of owners

One of the risks for family firms is a lack of clearly defined responsibilities among family members involved in the business. Hanish believes that outside of the office, family members are part of the family. 'But once you step into the office, your number one interest has to be the business—not family,' he says.

'Nothing stops a family member from being a professional,' he says. 'It comes down to your criteria for hiring someone: is one performance-driven, will one coach others, does one abide by timelines, is everything well documented, can one close a deal. Any family member has to adhere to these same ways of operating.'

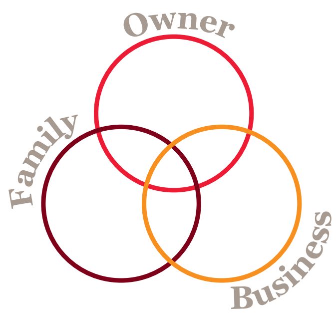
Trust must be earned—not necessarily inherited. Non-family members can also earn this trust, such as through long-standing commitment and loyalty to the business. The nature of family firms may



require certain levels of confidentiality about family issues and Hanish values having a trusted advisor and a family constitution to help navigate these issues. 'I'm very clear in my own mind what is a family issue and what is a business issue,' he says.

Hanish's family business and others like it make a substantial and important contribution to Kenya's economy. Hanish believes that family firms tend to have a longer-term view of business performance. Stable family firms may not react to the same short-term horizon or quarterly reporting demands as listed companies or those controlled by private equity firms. Their agility allows family firms to invest business dividends in research and development, for example, and evaluate business performance against internal goals.

Hanish looks forward to his family business continuing to evolve as a professionally run, investment-oriented culture. He hopes to leave behind a legacy of positive contributions to society. 'From day one, our reputation has come above all else for us as a group,' he says.



A final word

There are five key conclusions that we draw from this year's Kenya Family Business Survey, which require thoughtful action:

- Family firms must redouble their efforts to deal effectively with succession, and institute robust plans to address it.
- The professionalisation journey requires time and resources.
- There is an equally urgent imperative to make the time and space to carry out a rigorous strategic planning process. This includes planning for the future of the family as well as the future of the firm.
- Think positively about the opportunities presented by digital disruption. This may mean facing up to some stark realities about the long term future of the business, but family firms can derive good value from their entrepreneurial spirit to reinvent themselves.
- The next generation have an increasingly vital role to play both in responding to digital disruption and the strategy development process. They need to be empowered and supported to do so.

This agenda is not easy but if accomplished well and promptly, it offers family firms a golden opportunity to punch above their weight and exceed their potential.

Methodology

Between 9 May and 19 August, 2,802 semi-structured telephone, online and face-to-face interviews took place with senior executives from family businesses, in 50 countries worldwide. The global survey includes 62 interviews with family business executives in Kenya.

The interviews were conducted by Kudos Research, in the local language by native speakers, and averaged between 25 and 35 minutes.

The turnover of participating companies ranged from US$5m to more than US$1bn.

All results were analysed by Jigsaw Research, an independent market research firm. PwC practitioners in Kenya provided additional analysis and insight informing the content of this report.

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We would also like to thank those family business owners who told us their stories, which have added colour, insights and the personal touch to our survey findings.

We are indebted to the insights and comments provided by PwC Kenya practitioners throughout this report. Within the PwC global network, we received invaluable help from PwC's Entrepreneurial & Private Business Director, Oriana Pound, and Sarah L Wall, the Global Family Business Survey Project Leader.

Our grateful thanks to the many others who made this survey possible including PwC Kenya's Private Company Services team, our Country Senior Partner Anne Eriksson, PwC's East Region Design Studio leader, Nixon Mute, and the Clients & Markets Development team. Your contributions and hard work are deeply appreciated.

Supporting family businesses

At PwC, we know that the most successful family firms are those in which there is a good balance between professional management, responsible business ownership and a healthy family dynamic.

We have a keen understanding of the unique subtleties of family businesses, and we have the tools, experience and focus to help family businesses optimise the positive forces in family enterprises, while anticipating and minimising any potential conflict.

No matter what the size, industry or market, PwC's advisers assist family businesses worldwide.

From strategy and governance, to business transition and private wealth, to putting values into action, we have the tools, people and presence to help family enterprises build lasting value.

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