

# Purpose

## the bedrock of family governance



Family Businesses that succeed are those that are strong on Vision and Purpose of the founder. It is the purpose and drive of the Founder that shapes the fortunes of the family business and his/ her values and passion that lay the strong foundations. The key issue then becomes how the founder articulates his/her vision so that the rest of the family, especially the NextGen can build on it for the business to thrive into the following generations.

Our experience shows that this is a critical phase in the development of the family's business and one that requires careful thought and planning. Our most recent Family Business Survey 2021 had some worrying statistics on this – 50% of family businesses in Nigeria have no governance policies compared to 21% globally. Only 25% have succession plans (30% globally) and 9% (28% globally) have a family constitution. Over three quarters say they have a clear sense of values but only 31% have this documented. Clearly this is a big issue that needs to be addressed urgently in Nigeria.

### So, what are the ABCs of success for creating a legacy in a Family Business? Why do some businesses fail to make the transition to the NextGen?

Let us start by considering life lessons that can be drawn from some examples.

In our experience, if family feuds are not pre-empted, they lead to break-up of the business. Adidas and Puma's 60-year feud, the Ambani brothers battle that endangered the Indian economy, and the Gucci family split are all well known. Closer home in Nigeria we have some examples: The CEO, who was one of 5 brothers and a major UBO, dies intestate. There was no succession plan in place. The brothers are faced with the fear of fragmentation of ownership of the company as there was no structure around shareholders agreement and exit planning. There was also no agreement on how family finances would be managed. Another Nigerian example is the story of 2 prominent lawyers who both set up very successful law firms in their lifetime. One of the lawyer's children cannot agree on a way forward and the law firm has split and effectively destroyed the legacy. The other family has consolidated, found their purpose, and are now growing strongly.

Each one of these examples not only causes deep family rifts that are often irreparable, but there is also huge loss of wealth from the family and the obvious impact on the jobs and economy.

What steps can a family take to prevent such ruptures and cultivate an environment of unity and purpose that can enable ALL the family members to contribute to the overall success of the family and the business? It starts by understanding what we call the Bermuda Triangle of Money, Power, and Love. This is a complicated relationship, often mysterious and unexplained especially as the baton is getting ready to be passed on to the NextGen.

We have observed cases where the Patriarch or Matriarch uses money to wield power over the children; the management resort to corruption to maximise their returns and NextGen are disinterested in the family business as its not 'cool'. Where we compensate either the shareholders or owners, it helps in ensuring that stakeholder efforts are not ignored. Moreover, compensating efforts of the owner manager is a good way to start separating personal from business assets - a big issue common with family businesses which eventually undermines the valuation of sweat equity resulting in family disputes.

The danger the family business faces then is that the interests of the

different stakeholders are not aligned, and this pulls the business in different directions giving rise to dysfunctional behaviors that soon snowball into poor governance and disastrous decisions for the future of the business. The family too implodes with personalities taking over. The sense of Purpose and what binds the family together then is the most critical aspect of family governance – it is the bedrock upon which to build the family and the business. Developing a collective identity is central to the family and business. This provides shape to the family's entrepreneurial goals and values about family ownership, to the company belonging to the family and to the family operating the company. The first step then is to work through to identify the family's purpose and define, codify, communicate, and embed their values into how they do business. This is what we define as the first step towards developing the family's governance. In most families, this exists but is not formally documented.

Articulating and codifying the family's values helps clarify their mission and vision as a family. The shared mission and vision should reflect the owner's strategy. Here are some tips:

- Document your business family goals and values
- Communicate your values internally and externally to activate your family business advantage.
- Be specific about your values: identify them, write them down and act on them with the full involvement of family members.

We would like to wrap up with an example of a family business that has real clarity of purpose and how it permeates into every part of the organization. IKEA is named after the initials of founder Ingvar Kamprad, Elmtaryd, the farm which he grew up on, and Agunnaryd, the nearby village. Spread all over the world IKEA has a passion for home furnishing and an inspiring shared vision: to create a better life for the many people. Their vision is 'To offer a wide range of well-designed functional home furnishing products at prices so low, that as many people as possible will be able to afford IKEA.' They have a strong set of values that are the compass that guides them in everything they do. Their culture is formed when they put these values into action. The 8 values they stand for are Togetherness, Caring for people and planet, Cost consciousness, Simplicity, Renew and Improve, Different with a meaning, Give and take responsibility, and Lead by example.

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