

Strengthening Family Businesses:

Proven Strategies for Long-Term Economic Resilience

March 2025



Introduction

What is a Family Business?

A business is considered family-owned or managed when family members have significant ownership or management involvement. These businesses may be operated by multiple family members and may vary in size, from small local shops to large multinational corporations. Simply put:

Family Business = Business + Family + Dominant Ownership + Multigenerational Approach.

In some instances, the family retains primary ownership, but are not involved in the daily management of the business. Instead, key management roles are held by non-family members.

What makes family businesses unique?

There are unique attributes that distinguish family businesses from non-family businesses. These include deeply ingrained values, a high level of trust, and a long-term orientation. Together, these attributes contribute significantly to their resilience in the economy.

This publication examines these unique attributes of Nigerian family businesses and highlights their competitive advantage over non-family businesses during macroeconomic challenges

Unique Attributes

The role of strong Values in the success of Family Businesses

According to PwC's Family Business Survey 2021¹, globally, 79% of family businesses cite their core values as a key factor in their success and longevity. In Nigeria, this holds even greater significance, as cultural values such as community support, trust, and integrity are deeply embedded in family businesses. The survey further shows that 65% of Nigerian family businesses place a strong emphasis on contributing to their communities, which not only fosters goodwill but also reinforces their reputation and trustworthiness within society.

For instance, in Northern Nigeria, the Hausa culture places a strong emphasis on community and religious principles, which are vital to the success of family businesses. Respect for authority, adherence to tradition, and the protection of family reputation and dignity are fundamental in business dealings. Additionally, many Hausa families integrate Islamic values and principles (Sharia) into their governance and decision-making processes, ensuring their business practices align with their religious beliefs. As part of their communal support, they provide opportunities and jobs for hardworking community members, offering financial aid and support to aspiring apprentices who wish to start their own businesses through learning.

In the Southwestern region, family businesses often embrace a patriarchal leadership style, emphasising consultation and consensus in decision-making, much like boardroom discussions. Family interests are typically prioritised over individual ambitions. Yoruba family businesses usually feature a hierarchical

structure with clear lines of authority and respect for titles and positions, resembling a structured corporate environment. The Olori Ebi (Family Head) is highly revered and often serves as the patriarch, guiding family business decisions.

In the southeastern region of Nigeria, the traditional Igbo Apprenticeship System (IAS) HBR(2021)²—popularly known as Igba-Boi—exemplifies many of the cultural values we have discussed, particularly in terms of community support, skill transfer, and trust. These values facilitate the transfer of entrepreneurial skills across generations and nurture the development of future business leaders. With the IAS, participants are settled in cash and/or in goods after several years of apprenticeship with a master, contributing to communal wealth over time. This approach not only fosters economic inclusion but also ensures that prosperity is shared across the community. By fostering trust and inclusion, family businesses build strong relationships with their stakeholders—both internal and external—which contributes to long-term success.

However, it is important to note that the Igbo system is distinct in its structure and approach compared to other cultural models, such as the Northern Sharia system or the Yoruba patriarchal style. While all these systems reflect deep-rooted values within their respective regions, the Igbo Apprenticeship System stands out for its emphasis on economic empowerment through a structured apprenticeship process that culminates in granting the apprentice independence and resources to start their own business.

Integrating cultural values and fostering economic opportunities within the community has helped family businesses build a sustained trust premium over time.

The role of Trust in the success of Family Businesses

According to the PwC's Family Business Survey 2023³ trust has been—and remains—a vital competitive advantage that sets family businesses apart from other companies. The Edelman Trust Barometer³ confirms that family businesses are trusted more than other businesses: their trust score is 12 percentage points higher. Higher levels of trust can result in better performance, as demonstrated by the survey report, showing a strong correlation between trust and profitability.

Protecting and nurturing this trust is crucial for the long-term sustainability and transformation of the business. Trust is often regarded as a family business' greatest asset, fostering loyalty, customer retention, and business longevity. Together, these values are vital for effective business management.

Family businesses' long-term orientation

Family businesses often prioritise long-term success over short-term gains, a strategic approach that sets them apart from non-family businesses and contributes to their outperforming competitors in various ways. This long-term orientation allows family businesses to focus on sustainable growth, rather than pursuing immediate profits at the expense of future stability.

These businesses are typically less driven by the pressures of quarterly earnings reports or shareholder expectations, allowing them to take a patient approach to decision-making. In times of economic downturns, this gives them the flexibility to ride out challenges, maintaining core operations and avoiding drastic measures like layoffs or divestitures. Their emphasis on long-term stability

fosters resilience, helping them to weather crises more effectively than non-family businesses that may focus on short-term profitability.

Family businesses tend to focus on investments that ensure long-term growth, such as innovation, research and development, and talent development. Unlike non-family businesses that might be driven by short-term market fluctuations, family businesses can make decisions based on multi-generational goals. This approach allows them to invest in future-proofing the business by embracing new technologies or expanding into new markets, ensuring they remain competitive over time.

Their long-term investment mindset also enables them to avoid excessive risk-taking, which is often prevalent in non-family businesses driven by short-term market pressures. By taking calculated, conservative risks, family businesses are able to maintain steady, sustainable growth.

From a succession perspective, family businesses often prioritise robust succession planning, preparing the next generation of leaders early on. This ensures continuity and stability in leadership, which contrasts with the frequent changes in non-family business leadership that can lead to instability. The continuity of leadership in family businesses allows for smoother transitions, preserving institutional knowledge and maintaining relationships with stakeholders.

Furthermore, family businesses benefit from the deep-rooted knowledge passed down through generations, creating a competitive advantage that enables them to outlast and outperform non-family businesses that lack this generational continuity. One significant advantage that family businesses have over non-family businesses is leadership continuity. They thrive by building on the founders' entrepreneurial spirit and core values, enabling family business leaders to consistently drive success over the long term.

Leadership continuity is crucial to realising the legacy that family businesses aim to create. It relies heavily on family involvement and external support. Based on insights from PwC's extensive work with family businesses, out of 100 family businesses in the founding generation: 60 remain in business in the second generation; 32 continue into the third generation; and only 16 survive into the fourth generation.

One of the ways family businesses can ensure this long term orientation is by involving the next generation in documenting the business' core values; the succession plan should be intentional, collaborative and documented. This is crucial as it helps to ensure that the future leaders align with the mission and honour the family's legacy. It helps to build a foundation for seamless transitions, maintaining resilience and adaptability. It instils responsibility, commitment, and a shared vision, not just ownership transfer.

In PwC's 2018 Family Business Survey⁴, only 10% of Nigerian family businesses had a robust, documented, and communicated succession plan, slightly below the global average of 15%; while 77% of these businesses intend to pass on management or ownership to the next generation, but the necessary structures to

¹PwC's 10th Global Family Business Survey 2021: <https://www.pwc.com/ng/en/assets/pdf/nigeria-family-business-survey-2021.pdf>

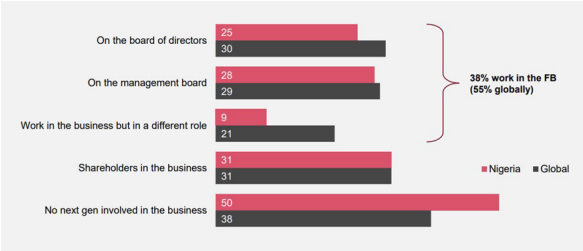
²HBR Nigerian model of Stakeholder Capitalism <https://hbr.org/2021/05/a-nigerian-model-for-stakeholder-capitalism>

³PwC's 11th Global Family Business Survey 2023 Transform to build trust: <https://www.pwc.com/gx/en/services/family-business/family-business-survey.html>

facilitate this transition may be lacking. However, in the 2021 PwC Family Business Survey, there was an improvement (+15%), with 25% of Nigerian family businesses having a documented succession plan (compared to 30% globally). The survey indicates an upward trend in business planning for succession, with expectations of a shift in governance from family-managed (97%) to family-owned but externally managed (59%) over the next five years.

Furthermore, the survey revealed that 38% of Nigerian NextGen are involved in the business. Their level of involvement and the role played are depicted below:

Figure 1.0: Level and role of NextGen in family businesses based on the survey



Source: PwC Family Business Survey 2021 | Nigeria Report

Other than NextGen involvement towards averting longevity risks, succession should also involve intra-family transitions or external parties. Careful planning is essential for success.

Some successful Nigerian family business leaders have employed several strategies to ensure the continuity of their business legacy and leadership for the next generation, including:

- **Early engagement and education:** Involving the next generation early in the business through internships, mentorship programmes, and formal education about the business can spark interest and commitment.
- **Leadership development programs:** Establishing structured leadership development programmes that focus on grooming potential successors can ensure they are well-prepared to take over.
- **Incorporating modern business practices:** Adopting modern business practices and technologies can make the business more appealing to the younger generation, who may be more tech-savvy.
- **Creating a vision for the future:** Clearly communicating the long-term vision and goals of the business can help the next generation see their role in its future success.
- **Flexible roles and responsibilities:** Allowing the next generation to explore different roles within the business can help them find their niche and contribute more effectively.
- **Non-family professional management:** Some successful Nigerian family businesses have relied on non-family professionals to manage the business, ensuring merit-based leadership, and reducing family conflicts.
- **Family governance structures:** Implementing family governance structures, such as family councils and constitutions, can help manage family dynamics and ensure smooth transitions.
- **Encouraging innovation:** Promoting a culture of innovation within the business can attract the next generation, who may have fresh ideas and perspectives.

The succession playbook

We have elaborated a few of the strategies adopted by Nigerian family businesses and their founders to ensure that the next generation of leaders are groomed into leadership positions within the company. Please note that these businesses are in their first generation and their names have been pseudonymised for privacy reasons:

Company A: The Group, led by its founder, has

been proactive in involving the next generation. The children have been engaged in various aspects of the business from a young age, receiving mentorship and education to prepare them for future leadership roles.

Company B: The Group’s founder has involved his children in the business early on. They have roles in different departments to gain comprehensive knowledge and experience, preparing them for future leadership.

Company C: The company has implemented leadership development programs to groom the next generation. The children are being prepared for leadership roles through structured mentorship and training programs.

NextGen involvement?

When the next generation appears disconnected from the family business, it may be more effective to hire an external executive, depending on the situation. Competency should always be the guiding principle. From our extensive work with family firms across the world, we see four main approaches that next gen are taking to build their own paths to success:

- **Steward:** They focus on protecting the profitability of the family firm, and ensuring its long term sustainability.
- **Transformer:** The Transformers take on the task of driving significant change in the family firm, with the scope and support to do so.
- **Intrapreneur:** Intrapreneurs set up their own venture within the family business, often with family financial backing.
- **Entrepreneurs:** For the Entrepreneurs, they set up their own separate venture outside the family firms, with no profits going back to the family business.

It is more effective to work with the family member individually to prepare a personal development plan that matches their interests, goals and needs.

Family Businesses Resilience During Macroeconomic Challenges

Family businesses have long been recognised for their unique ability to withstand economic pressures and adapt to changing environments. In times of macroeconomic challenges—whether driven by inflation, currency fluctuations, or global market volatility—family businesses often demonstrate remarkable resilience. Their long-term focus, strong values, and deep-rooted connections to their communities enable them to navigate uncertainty more effectively than many non-family businesses. By leveraging these strengths, family businesses can not only survive but also thrive during periods of economic turbulence, preserving both wealth and legacy for future generations.

Our study investigates the impact of macroeconomic challenges on family-owned businesses, leveraging a decade-long analysis (2015- Q2 2024) of GDP growth rate presented in our Economic Outlook report for 2024.

To distinguish between family businesses and non-family businesses, we considered control, involvement and shareholding. We classified instances where the founding individual or family retains substantial control through active involvement in the business as a family business.

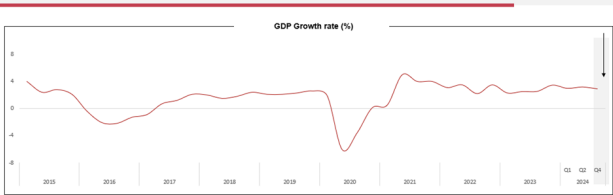
Significant shareholding is determined by the proportion of shares held by the individual or family relative to other shareholders. Even if the shareholding percentage is less than 5%, and the individual or family holds the majority of shares and exercises control over the business, it is considered a family business.

To illustrate further, the following factors in the table below were considered in distinguishing family businesses from non-family businesses:

Ownership strategy	Selection criteria	Classification
Founder	Is the business originally incorporated by an individual or family in Nigeria?	If yes=FOB If no=non-FOB
Acquisition	Are the majority shares relative to other shareholders acquired by a single individual or through a family-owned company?	If yes=FOB If no=non-FOB
Family Trusteeship	Is the company held in trust for the family?	If yes=FOB If no=non-FOB
Special Purpose Vehicle (SPV)	Is the company held through a SPV set up by a family member?	If yes=FOB If no=non-FOB
Institutional Investors	Is the majority shareholding held by an institutional investor not belonging to a family	Non-FOB

Note: Our analysis did not account for sectoral effects on revenue and did not include multinational companies listed on the NGX.

Figure 2.0 GDP growth rate from 2015



Source: NBS, PwC Analysis

The graph illustrates the fluctuations in the GDP growth from 2015 to Q2 2024, highlighting periods of economic expansion and contraction. A noticeable dip in 2016 suggests economic challenges and recession, while a sharp decline in 2020 underscored the global impact of the COVID-19 pandemic and supply chain shock. We focused on reviewing listed companies during this period to compare the performance of family businesses and non-family businesses. As family businesses evolve into larger enterprises, with the next generation assuming various management roles or holding diluted ownership, it is important to evaluate how this transition has enhanced the prospects of family businesses relative to non-family businesses. This brings us to an important question - Are listed family businesses more resilient and attractive to investors than non-family-owned businesses? We discuss this further in the next section where we examined the resilience of family businesses to economic challenges.

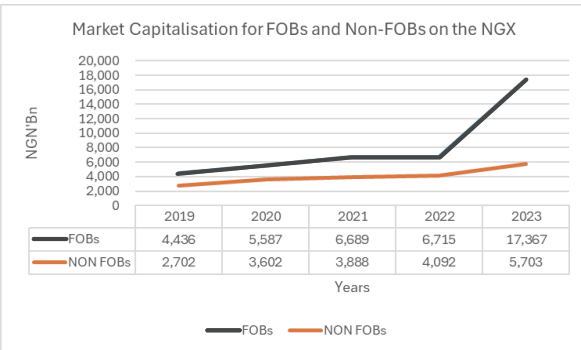
Five-year market capitalisation data of family businesses and non-family businesses on the NGX from 2019

Market capitalisation serves as a key indicator of a company’s attractiveness to investors. A higher market cap signifies that investors view the company’s shares as a valuable investment, providing a reliable source of return and liquidity. This also enhances the company’s ability to raise additional capital in the market.

In the dynamic world of investment, family businesses have sparked considerable interest among investors. When these family businesses are publicly listed, they often present a unique blend of stability, long-term vision, and strong governance, which can be highly appealing. In this regard, we try to determine whether listed family businesses hold a distinct advantage over non-family businesses in attracting investor attention and capital, exploring the factors that contribute to their perceived attractiveness.

Our analysis is based on the top 50 performing companies listed on the NGX with data from 2019, categorising them into family-owned and non-family-owned, using the shareholding structure of the listed companies. We analysed their performance, using market capitalisation to understand the factors driving investor interest in these companies and compared their revenues and average earnings per share during the same period.

Figure 3.0 Market Capitalisation of family businesses and Non-family businesses on NGX



Source: NGX Market Capitalisation Data, PwC Analysis

⁴PwC, Global Family Business Survey 2018: The Values Effect, 2018, <https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html>.

Figure 3.0 reveals a notable divergence in market capitalisation growth between family businesses and non-family businesses. Pre-2020, family businesses held a slight edge, but the COVID-19 lockdown marked a turning point with family businesses demonstrating a steady growth trajectory. Between 2022 and 2023, family businesses experienced a surge, with market capitalisation soaring from NGN 6.7 trillion to NGN 17.3 trillion – a 158% increase. This expansion phase propelled family businesses' market capitalisation to more than four times its 2019 value, underscoring their robust market performance.

Key Insights

- Family businesses outpaced non-family businesses in market capitalisation growth post-2020.
- 2022-2023 marked a significant growth phase for family businesses, as family businesses' market capitalisation demonstrated remarkable expansion, driven by strong market performance.

Higher market capitalisation signals increased investor confidence, fuelled by market dominance, robust financial health, and superior credit ratings. This confidence reflects a positive growth outlook, as investors perceive these companies as resilient, strategically positioned, and capable of sustaining long-term growth.

Other qualitative attributes responsible for the performance of listed family businesses

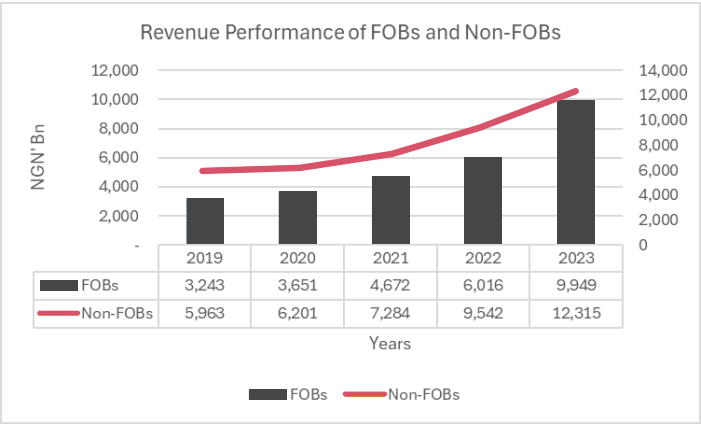
- Control and decision-making**
Family businesses benefit from a concentrated ownership structure, where family members retain significant control over the company. This control allows for swift decision-making processes that align with the family's long-term interests. It also ensures that the business remains true to its founding principles and values.
- Reputation and trust**
A strong reputation and trust within the market are hallmarks of many family businesses. These businesses often build long-lasting relationships with customers, suppliers, and investors. The trust and loyalty garnered over the years can translate into sustained business success and a loyal customer base.

As highlighted, these factors collectively make family businesses an attractive choice for investors who prioritise stability, control, and long-term growth over immediate high returns. As such, family-owned businesses continue to play a vital role in the global economy, leveraging their unique strengths to achieve sustained success.

Five-year performance between family businesses and non-family businesses

To assess the financial health and growth potential of both family businesses and non-family businesses, we analysed the revenues reported in the annual financial statements of our sampled listed companies.

Fig 4.0 5-year revenue performance; family businesses vs. non-family businesses



Source: Industrywide Annual reports, PwC Analysis

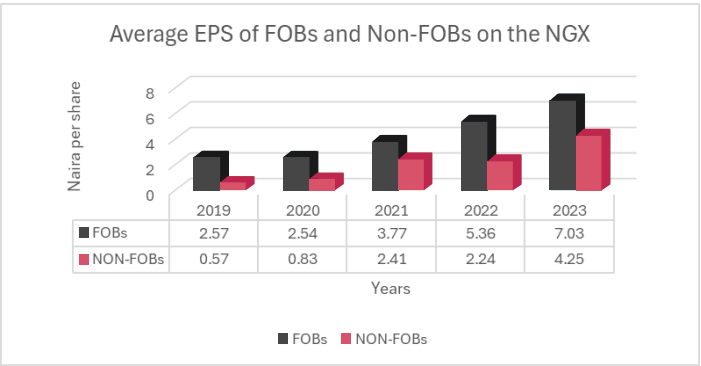
In figure 4.0, the 5-year revenue data from 2019 to 2023 shows significant growth for both family businesses and non-family businesses, with non-family businesses constantly holding higher values. Notably, the growth rate for family businesses accelerated in the later years, particularly between 2022 and 2023, where family businesses experienced a 65% increase compared to the 29% growth seen in non-family businesses.

To delve deeper, we ascertained the average earnings per share (EPS) within our sampled group.

Analysing the 5-year average earnings per share of listed businesses in our sample

Earnings per Share (EPS) is used by investors to determine how much profit a company generates for each share of its stock. Investors use this metric to assess a company's performance and predict future earnings. By consistently maintaining our study data, we analysed the annual EPS of this group of businesses.

Fig 5.0 5-year average EPS



Source: NGX Market Capitalisation Data, PwC Analysis

Key Insights

Family businesses consistently outperformed non-family businesses in average EPS over the five-year period, demonstrating their efficient resource management in generating earnings. However, non-family businesses experienced a higher percentage change in average EPS between 2019 and 2023 (645%) compared to 173% for family businesses. A higher EPS average underscores the potential for dividend distribution, which can be attractive to investors seeking regular payouts.



Other qualitative factors attributable to family businesses economic and financial performance

- Long-term vision and stability**
Family businesses often benefit from a long-term vision and stable leadership. The continuity in management and ownership allows for consistent strategic planning and execution. This stability is a crucial factor in their sustained revenue growth.
- Diversification and innovation**
Family businesses tend to diversify their product and service offerings, reducing dependency on a single revenue stream. This diversification not only mitigates risks but also opens new market opportunities. Additionally, they often reinvest profits into innovation, driving growth and maintaining a competitive edge.
- Strong community and customer relationships**
Family businesses typically build strong relationships with their communities and customers. These relationships foster loyalty and trust, which translate into sustained business performance and revenue growth.

Conclusion

In conclusion, the resilience of family businesses during macroeconomic challenges can be attributed to their unique characteristics—strong values, trust, and a long-term orientation. These traits set them apart from non-family businesses, allowing them to navigate uncertainties more effectively. The PwC Family Business Survey has highlighted that trust is a vital asset for family businesses, contributing to their success and positioning them as reliable and stable entities in times of economic volatility.

Their ability to focus on long-term growth, invest in innovation, and foster deep-rooted relationships with their communities and stakeholders ensures that family businesses not only survive but thrive across generations. By balancing tradition with modern business practices, family-owned enterprises can continue to build wealth and preserve their legacy, even in an unpredictable economic landscape.

Our research drew valuable insights from data obtained from the NGX and the published annual financials of over 50 listed Nigerian companies for the year 2023. We also highlighted the PwC Family Business Survey results from 2018 and 2021, covering both the pre-pandemic and post-pandemic periods. Our findings reveal that family businesses have demonstrated exceptional resilience and growth, outperforming non-family businesses in profitability from 2019 to 2023.

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