

LEADERSHIP & FAMILY BUSINESS NEWSLETTER

SECTION 1

Leadership, Entrepreneurship and Family Business – Dr. Toyin F. Sanni (Executive Vice Chair, Emerging Africa Group)

Exploring Family Business Dynamics

Family businesses uniquely blend entrepreneurship, tradition, and long-term sustainability, characterized by family control over ownership, management, and operations. This structure fosters a strong sense of identity, core values, and legacy across generations. Leadership within these enterprises involves navigating intricate dynamics where personal relationships intersect with strategic business decisions, presenting both challenges and opportunities essential for sustainable growth.

Family businesses face distinct challenges compared to their non-family counterparts. A study by the Family Business Institute highlights that succession planning and governance issues are top concerns for family-owned enterprises. Leadership transitions and governance structures require a nuanced approach that considers both business acumen and familial cohesion, significantly influencing decision-making processes, corporate culture, and adaptation to changing market environments.

Addressing Succession Planning

Succession planning stands as a primary challenge for family businesses. Research from PwC shows that only about 30% of family-owned businesses survive into the second generation, underscoring the critical need for effective succession strategies. Preparing the next generation of leaders involves assessing their business capabilities and nurturing a deep understanding of the company's heritage, values, and long-term vision. Effective leaders must innovate while preserving core business principles to ensure continuity and adaptation in a dynamic global economy.

Despite these challenges, family businesses possess inherent strengths that contribute to their resilience and success. Research from McKinsey & Company indicates that family businesses often show higher resilience during economic downturns due to their long-term orientation and conservative financial practices. Their ability to maintain a long-term perspective, agility in decision-making, and commitment to stakeholders often leads to sustainable growth and competitive advantage. These businesses can capitalize on emerging market trends and technological advancements while upholding foundational values, presenting opportunities for expansion and diversification.

In conclusion, the unique dynamics of family businesses, encompassing both challenges and strengths, are crucial to their enduring success and growth in the global marketplace.



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📍 Emergingafricagroup 🌐 Emerging Africa Group
📞 EA Capital Group 📞 08133540432

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SECTION 2

Macro-economic overview – Omolola Adeniyi

(Team Lead, Research)

Inflation Straining Wallets and Bottom Lines

Inflationary pressure continues to intensify in Nigeria further squeezing consumer's pocket. Headline inflation jumped to 34.19% in June 2024 from 22.8% in June 2023, an 11.39% increase yearly. Nigeria's inflation has remained in the double digits since 2016,

far above the Central Bank of Nigeria's (CBN) target range of 6% - 9%. This is despite the various efforts of the CBN to tame rising inflation, including a cumulative rate hike of 750bps in 2024 and reforms in the forex market.

Food inflation remains the largest contributor to inflationary pressure, driven by insecurity in food-producing regions, low agricultural yields, and expensive imported food items, amid other structural issues. As of June 2024, food inflation stood at 40.87% from 25.25% in June 2023, implying an increase of 15.62%.

This has led to a significant squeeze in consumers' pockets, making it difficult for consumers to spare money for discretionary spending. According to Picodi Research, Nigerians spend 59% of their income on food items.

Businesses alike are feeling the brunt of the cost of doing business at an all-time high and the cost of borrowing high. The benchmark interest rate currently stands at 26.3%, making debt financing expensive for many businesses. The challenging operating environment, combined with reduced disposable income for consumers, has continued to adversely affect business operations and dampen profitability. With consumers focusing their spending primarily on essential goods, businesses are struggling to maintain sales and sustain their profit margins.

Inflation is expected to remain elevated driven by the existing challenge and the newly implemented minimum wage. However, the monetary & fiscal authorities are expected to continue to implement policies aimed at taming inflation and ensuring economic stability.



SECTION 3

Wealth Management & Personal Finance

– Ada Ijara (Managing Director, Emerging Africa Asset Management Limited)

Wealth Preservation in an Inflationary Environment

In an environment plagued by rising inflation, wealth creation and preservation become a challenging dilemma. Individuals and businesses are finding it increasingly difficult to reserve

portions of their income and preserve their wealth from rising inflation and currency depreciation. Inflation in Nigeria has surged to 34.2% as of June 2024, a record high in several years, with food inflation being the primary driver. This situation is especially dire for low-income earners. As inflation rises, the cost of essential goods and services increases, significantly straining consumer budgets and reducing one's disposable income.

To mitigate the impact of rising prices, individuals often cut back on non-essential items to maintain their standard of living and to save a portion of their income for future needs.

Wealth preservation for individuals typically involves diversifying their investment portfolios to include assets that are partially or fully immune to the impact of inflation. This might involve allocating funds into equities with a track record for resilience during inflationary periods, as these can present opportunities to outpace inflation. Additionally, including fixed-income assets such as Eurobonds can enhance portfolio diversification and stability, providing a buffer against economic volatility.

Businesses also face the dual challenge of elevated operational costs and squeezed profit margins. With the cost of borrowing rising due to high interest rates – Nigeria's benchmark rate stands at 26.3% – firms may seek alternative financing strategies or improve their capital management to navigate the financial strain.



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Businesses can implement cost control and management measures to optimize operational efficiency or consider adjusting prices to capture higher input costs. Additionally, businesses might explore equity financing and debt restructuring to secure more favorable terms. Investing in inflation-resistant assets such as real estate and commodities, as well as diversifying investment portfolios, can also protect business reserves. Strategic expansion into new markets and product diversification can also provide additional revenue streams and reduce dependence on a single economy.

In the face of a challenging Nigerian economic landscape, it is crucial for individuals and businesses to be proactive and adaptable. By regularly evaluating and modifying financial strategies to align with changing conditions, they can better protect their wealth and maintain long-term financial stability.

SECTION 4

Estate Planning, Family Offices & Offshore Trusts - **Olutoye Sanni** (*Head, Trust services / Director UK Rep office*)

How Do Living Trusts Help in Estate Planning?

Living trusts are a pivotal tool in estate planning, providing significant advantages over traditional wills. Created during an individual's lifetime, living trusts become effective immediately and allow for seamless management and transfer of assets. Unlike wills,

which take effect only after death, living trusts help avoid the lengthy and costly probate process, ensuring a quicker and more cost-effective asset transfer to beneficiaries. Additionally, living trusts maintain privacy as their terms do not become public records, safeguarding the details of the estate from public scrutiny.

Moreover, living trusts offer greater control and flexibility over estate management, particularly in cases of disability or mental incapacity. They allow individuals to specify how their assets should be handled, which is crucial when beneficiaries are minors or otherwise unable to manage the estate themselves. Living trusts can also help minimize tax liabilities, including estate, inheritance, gift, and income taxes. Furthermore, by transferring legal ownership of assets to the trust, individuals can protect their estate from bankruptcy claims, financial risks, and adverse lawsuits, offering a level of security that wills cannot provide.

Illustrations

Consider a scenario where an individual, Femi (as the settlor), creates a Living Trust. If Femi becomes incapacitated, the Trust ensures that his assets are managed according to his wishes without the financial expense and time-wasting process of a court intervention.

Upon his death, the assets in the Trust are still managed for the benefit of his beneficiaries, bypassing the probate process, which can save time and money. Furthermore, his beneficiaries are protected from adverse claims by Femi's creditors or other bad faith actors and from tax liabilities such as inheritance tax.

In contrast, if Femi had only a will, his estate would undergo probate, delaying the distribution of his assets and potentially incurring significant costs.

Living trusts offer a practical and efficient alternative to wills in estate planning. By avoiding probate and ensuring continuous asset management, they provide a more streamlined and cost-effective method for transferring assets. While both tools have their place in estate planning, the immediate operational nature and flexibility of living trusts make them a valuable option for individuals looking to protect and manage their assets during their lifetime and beyond.



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