

LEADERSHIP & FAMILY BUSINESS NEWSLETTER

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SECTION A

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



Leadership in Family-Owned Enterprises: Guiding Through Generations

Family-owned enterprises (FOEs) are the backbone of economies worldwide, contributing significantly to GDP, employment, and innovation. Across Africa, FOEs represent approximately 80% of all businesses, contributing to 70% of employment. However, leadership and succession challenges remain barriers to their long-term sustainability.

Leadership style is a key factor in the success of FOEs. Research indicates that transformational leadership—marked by vision, motivation, and employee empowerment—outperforms authoritarian leadership. A 2016 study by Ensley and Pearson revealed that FOEs led by transformational leaders enjoyed higher revenue growth and better employee engagement than those led by autocratic leaders.

Despite this, many African and global FOEs are still controlled by founders who favor autocratic leadership styles. A 2018 survey found that 60% of family business leaders globally maintain authoritarian approaches, which can hinder innovation and adaptability—crucial components for navigating changing market conditions.

A 2020 study by Lagos Business School highlighted that Nigerian FOEs adopting transformational leadership saw 40% higher revenue growth than those with autocratic leadership. This collaborative and innovative leadership style fosters adaptability, which is essential for long-term success.

Building a Visionary Leadership Legacy

Creating a visionary leadership legacy is vital for sustaining FOEs across generations. The PwC Family Business Survey found that while 84% of family business leaders globally recognize the need for long-term strategies, only 49% have formal plans. In Nigeria, 87% of FOEs have a long-term vision, yet only 45% have solid strategies to achieve it.

Astrachan and Shanker's (2003) research showed that FOEs with institutionalized visionary leadership were more likely to survive across generations. Global examples like the Walton family (Walmart) and the Murdoch family (News Corp) demonstrate how visionary planning ensures continuity. In Nigeria, Dangote Industries and BUA Group have shown the importance of strategic planning that empowers future generations while adapting to shifting market dynamics.

Balancing family ties with business responsibilities is a major challenge for FOEs. KPMG's 2019 report revealed that 52% of global family businesses fail during leadership transitions due to conflicts between family members and non-family executives. Professional leaders often face high turnover, as their decisions are undermined by family members.

Clear role definitions and merit-based leadership are essential for overcoming these challenges. Studies from the University of St. Gallen show that FOEs with formal leadership programs experience a 45% increase in profitability and innovation.

By embracing visionary leadership, mentorship, and structured development programs, FOEs can thrive across generations in an evolving marketplace.



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SECTION B

Macro-economic overview – Mr Segun Sanni

(Development Economist)

Human Capital Development and Poverty Alleviation in Nigeria

Nigeria's growing young population presents both a significant challenge and an opportunity, depending on how the country invests in human capital development. Decades of insufficient investment in education and healthcare have resulted in widespread poverty, leaving policymakers with limited options for addressing this issue. This lack of investment has created a major obstacle to Nigeria's development, with extreme poverty acting as a significant barrier to progress.

While global poverty rates are declining, they are rising in Sub-Saharan Africa, largely due to institutional weaknesses, low economic growth, and rapid population expansion. The World Bank projects that by 2030, Africa could account for 90% of the global poor, with Nigeria contributing significantly to this number. Nigeria is already home to the second-largest population of extremely poor people, with 20 million out-of-school children in 2022, the third-highest in the world. Additionally, UNICEF estimates that a third of Nigerian children under five suffer from stunted growth.

In contrast, China has drastically reduced poverty through significant investments in education and healthcare. Over 40 years, China lifted 770 million people out of poverty and greatly reduced the number of out-of-school children. Nigeria, however, has consistently fallen short of the UNESCO benchmark for education spending, allocating less than 6% of its budget to education and around 4-5% to healthcare over the past three decades. This underinvestment, compounded by institutional inefficiencies, has resulted in poor outcomes in education, healthcare, and economic productivity.

These issues are reflected in Nigeria's low productivity, with the World Bank estimating that a child born in Nigeria in 2020 would be only 36% as productive as one born in a country with full access to education and healthcare. Nigeria also has a low life expectancy of 53.6 years, compared to the Sub-Saharan African average of 61 years, and low economic growth, with an average GDP growth of just 2.02% from 2014 to 2023. The country's unemployment rate is also alarmingly high, and about two-thirds of the population lived in multidimensional poverty as of 2022, according to the World Bank.

To address these challenges, Nigeria must significantly increase its investment in education and healthcare, particularly in science, technology, engineering, and management fields. This would better prepare its youth for future job markets and empower them to create employment opportunities, reducing unemployment and underemployment. Additionally, improving institutional quality is crucial for enhancing the effectiveness of these investments.

Failure to take these steps could lead to a worsening of the current crisis of violent crime, including kidnapping, terrorism, and robbery, with potentially devastating consequences for the country. Investing in human capital is essential for transforming Nigeria's large young population from a potential burden into a powerful driver of economic and social progress.



SECTION C

Private Equity & Venture Capital

– Toni Sanni *(Head, Corporate Finance and Venture Capital)*

Economic Impact of Private Equity (PE) and Venture Capital (VC) in the African Market

In Africa, Private Equity (PE) and Venture Capital (VC) are essential funding sources for business growth, especially when commercial debt is either inaccessible or too expensive. PE firms invest in established companies to enhance their profitability, while VC focuses on high-risk, early-stage startups, offering both capital and strategic support. The significance of these funding options has grown due to the COVID-19 pandemic, which has strained conventional lending and created a financing gap.



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Private Equity vs. Venture Capital

Private Equity refers to investments made into private companies (not listed on public stock exchanges) through direct investment or buyouts. PE firms typically invest in mature companies, aiming to improve their operations and profitability before eventually selling them for a return.

Venture Capital is a subset of private equity focused on early-stage, high-growth startups. VC investors provide capital in exchange for equity, often taking an active role in guiding and mentoring the company to achieve significant growth.

When to Consider Venture Capital Funding as a Startup

Expansion Stage: Ideal for businesses planning to grow, as VCs offer critical business, financial, and legal expertise.

Need for Mentoring: VCs provide valuable guidance, networking opportunities, and strategic support to help elevate your company.

Facing Competition: For startups about to encounter significant market competition, VC funding can provide the necessary resources and support to compete effectively.

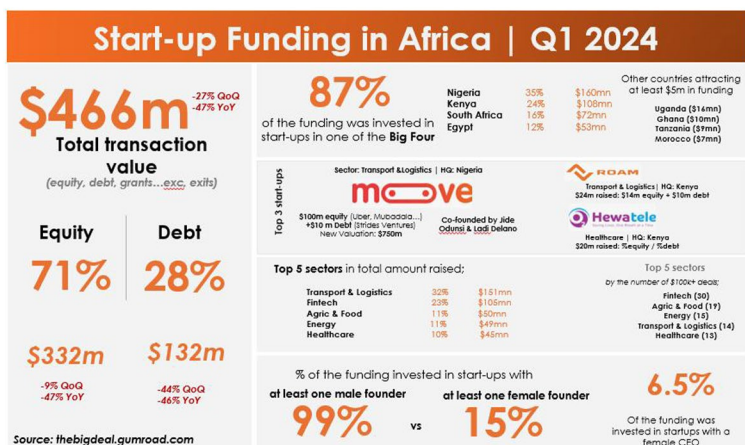
Recent Trends in the African Venture Capital Space

2022 was a record-breaking year for investor interest in African ventures, with over 1,100 unique investors participating in deals. In a dramatic reversal of this trend, 2023 saw the number of active investors dropping by 33%. This downturn evidenced the broader contraction in deal activity on the continent and a general shift in investor sentiment amidst worsening market conditions.

Africa's venture ecosystem saw a significant decline in 2023, reflecting the broader global downturn in venture funding for startups. The total capital raised by African entrepreneurs dropped by 33% year-on-year, a setback for the continent's vibrant yet still emerging startup scene.

During the first quarter of 2024, African startups raised about USD 466 million representing a 27% decrease quarter-on-quarter compared to the previous year.

This capital flight demonstrates a distinct lack of investor sentimentality, as investors who made opportunistic rather than dedicated investments in Africa exited in favour of more familiar shores. Further underscoring the cyclical nature of foreign investment in Africa which is contingent on global macroeconomic trends; therefore emphasizing the need for indigenous capital allocators with a long-term commitment to the African economy.



About Emerging Africa Technology Fund LP

Emerging Africa Technology Fund is a USD50,000,000 Mauritius licensed venture capital fund backed by the Emerging Africa group, aimed at investing in African tech-focused or enabled early and growth-stage companies.

The Fund aims at providing a combination of equity, debt and hybrid funding to technology-enabled businesses in need of early stage, growth and replacement capital, thereby fostering the UN SDG goals and acting as a catalyst for youth and gender empowerment within the African continent. Target jurisdictions include Nigeria, Kenya, Ghana, and Francophone West African countries (including Cameroon and Ivory Coast).

As Africa continues to grow, private equity and venture capital will become even more crucial in driving economic expansion, while also contributing professional expertise, best practices, and strong corporate governance to the businesses they invest in. The growth of Africa's venture ecosystem reflects the industry's resilience, the dedication of investors active on the continent, and the unique adaptability of African businesses that thrive even in capital-constrained environments.

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SECTION D

Wealth Management & Personal Finance

- **Toluwa Sanni** (*Head, Partnerships and Client Coverage*)



Sustainable Investing: Aligning Your Portfolio with Your Values

Sustainable investing has become a dynamic way for investors to align their financial choices with personal values. Individuals who choose to pursue this approach to investing aren't merely concerned with seeking financial gain for themselves; but involving and integrating ethical considerations into their investment choices. The rising popularity of sustainable investing reflects a global desire to contribute positively to the environment and society.

Amid global challenges, sustainable investing offers a way to earn returns while improving the world. Also known as ESG (Environmental, Social, and Governance) investing, this method evaluates investments based on environmental impact, social responsibility, and governance practices. Successful models demonstrate that financial success and ethical principles can coexist.

Strategies in Sustainable Investing

Negative and Positive Screening: This common approach involves screening techniques. Negative screening excludes companies or sectors that don't meet ethical standards, such as those involved in tobacco, fossil fuels, or firearms. Positive screening selects companies excelling in ESG criteria or contributing to areas like renewable energy, healthcare, or education. This method ensures investments are financially sound and ethically aligned, discouraging companies from non-ESG compliant activities.

ESG Integration: This strategy incorporates ESG factors into traditional financial analysis. Assessing how environmental and social issues may impact long-term performance helps investors make informed decisions. For example, a company with strong environmental and governance policies is less likely to face regulatory fines or reputational damage, leading to more stable returns.

Impact Investing: Impact investing focuses on generating financial returns while creating measurable social or environmental benefits. This proactive strategy targets positive outcomes, such as improving access to clean water or supporting renewable energy projects.

Shareholder Engagement: Using shareholder influence to drive corporate change is another key strategy. Investors can influence ESG practices, advocate for better governance, and push for greater transparency and accountability. This approach encourages companies to adopt more sustainable and ethical practices.

Benefits and Challenges of Sustainability

The benefits of sustainable investing are numerous. Aligning investments with personal and global values allows individuals to contribute to societal and environmental change while pursuing competitive financial returns. Companies with strong ESG practices are often better managed and more resilient, translating into better long-term performance.

Sustainable investing also enhances personal moral satisfaction by ensuring financial decisions reflect ethical beliefs.

However, some challenges exist. The lack of standardization in ESG metrics can make assessing and comparing investment options difficult. The rise in sustainability's popularity has also led to greenwashing, where companies falsely portray themselves as environmentally friendly or socially responsible, misleading investors. Balancing financial performance with social impact may present trade-offs, requiring careful consideration and constant re-evaluation.

As sustainable investing evolves, it offers more tools and strategies to align your portfolio with your values. With growing awareness and demand, the industry is developing better standards, frameworks, and monitoring practices to address global challenges. As an investor, you can make informed decisions and play an active role in shaping a more sustainable and equitable world. The advancing field of sustainable investing holds the promise of creating a better future for all.

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SECTION E

Estate Planning, Family Offices & Offshore Trusts

- **Dami Olugbemi** (*Legal Private Trust Officer*)



Understanding Wills vs. Living Trusts: Key Differences and Benefits

A Will and a Living Trust are crucial components of estate planning, each with distinct advantages. A Will specifies how a Testator's assets should be distributed and who will care for their minor children upon their death. However, executing a Will necessitates a probate process, which can be time-consuming and public.

In contrast, a Living Trust involves transferring assets from a Settlor to a Trustee, who manages these assets either during the Settlor's lifetime (Living Trust) or after their death (Testamentary Trust). This arrangement ensures that assets are distributed according to the Settlor's wishes, whether they are alive or incapacitated.

A key benefit of a Living Trust is its flexibility. It allows for the ongoing management and distribution of assets both during your lifetime and after death. Unlike a Will, which only takes effect posthumously, a Trust can set conditions for asset distribution, such as specifying milestones for beneficiaries.

One of the primary advantages of a Living Trust is that it avoids the probate process, which can incur costs and delays. By bypassing probate, a Trust ensures a faster and more efficient distribution of assets to beneficiaries. Additionally, Trusts maintain privacy by keeping estate details confidential, unlike Wills, which become public during probate.

Living Trusts also offer protection for beneficiaries, especially those who are dependents or have special needs. They provide a structured approach to asset management according to the Settlor's instructions, rather than an outright distribution typical of Wills.

Illustration

Consider Mr. A and Mr. B, who both plan to leave their estates to their children.

Mr. A creates a Will, leading to probate, which delays distribution and makes details public. His underage children receive their inheritance outright, risking mismanagement. Probate also incurs legal fees, reducing the estate's value.

Mr. B, however, sets up a Living Trust, avoiding probate and ensuring privacy. His children receive their inheritance in stages, aligned with milestones, promoting responsible use. By choosing a Living Trust, Mr. B's beneficiaries benefit from structured asset management, privacy, and a streamlined distribution process.

While both Wills and Trusts play important roles in estate planning, a Living Trust provides a more versatile and private method for managing and transferring assets. Its ability to avoid probate, maintain privacy, and offer tailored asset management makes it a superior choice for safeguarding your estate and ensuring a smooth transition for your beneficiaries.

Conclusion:

This edition of the Leadership & Family Business Newsletter underscores the vital role of strategic leadership, human capital investment, and innovative financial practices in ensuring the sustainability of family-owned enterprises and economic growth across Africa. As these businesses navigate succession challenges and economic uncertainties, visionary leadership and structured planning remain essential for long-term success. The insights shared across leadership dynamics, human capital development, private equity, and estate planning offer valuable guidance for driving growth and resilience in the face of evolving market conditions. Let's continue to foster innovation, adaptability, and ethical investment as we build lasting legacies for future generations.



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