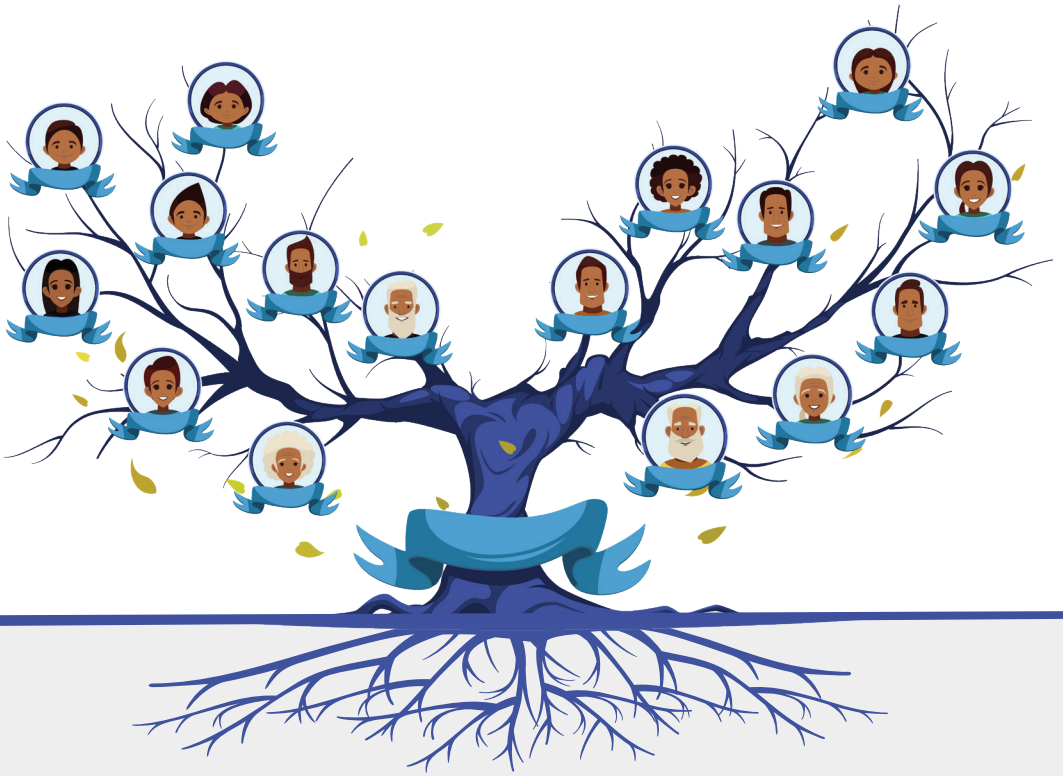




EFBF



# Ethiopian Family Business **Survey** **REPORT** 2024



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# Note from the CEO

**Dear Stakeholders,**

I am pleased to present the Family Business Survey Research Report, a foundational study that illuminates the unique dynamics of family-owned businesses in Ethiopia.

One of the primary objectives of a family-owned business is to exercise control over their own destiny. As many experts in the field of family business assert, these enterprises are cornerstones of economies worldwide, creating jobs, driving innovation, and generating superior returns on investment. Family businesses significantly benefit from having family members who share a vision for the future, possess a common value system, and exhibit the passion and capability to foster the growth of the family enterprise.

In a rapidly evolving market, the strength of family businesses lies not only in their commitment to values and traditions but also in their ability to adapt and innovate. This report represents a culmination of insights gathered from Ethiopia's dedicated family business community, highlighting essential themes such as succession planning, governance structures, and the impact of family dynamics on business performance.

Through this survey, we aimed to capture the perspectives of diverse family businesses across various sectors of the Ethiopian economy, providing a platform for the sharing of experiences and best practices. We hope that the findings will serve as a valuable resource for family enterprises looking to navigate the complexities of the modern business landscape.

I extend my gratitude to all participants who shared their valuable insights. Your contributions are vital in shaping the future of family businesses.

**Warm regards,**

**Solomon Gizaw | Chairman and CEO, HST**

# Introduction

In connection with Ethiopia Family Business Forum (EFBF) a family business is a company where the family holds substantial influence over the strategic direction, decisions, and core values, aligning the business's goals with the family's long-term interests. These businesses have high potential to scale, driven by the family's commitment to growth and continuity across generations.

Families own two-thirds of businesses worldwide, and these businesses constitute a significant economic force globally, contributing over 70 percent of global GDP and employment<sup>1</sup>. For instance, in Spain about 75% of the businesses are family-owned and contribute to 65 percent of the country's GNP on average. Similarly, family businesses contribute to about 60 percent of the aggregate GNP in Latin America<sup>2</sup>.

Research shows that family businesses often demonstrate resilience, long-term orientation, and strong community ties. Family businesses in Ethiopia hold a vital position in the economy, and they share many of these global characteristics. Despite their importance, however, they are often characterized by challenges in succession, lack of formal governance, and informality.

In Ethiopia, there needs to be more formal recognition and understanding of the impact of family businesses. Most Ethiopian family businesses are established, operate for a few years, and then fade away without gathering much attention. Little research has been conducted to quantify their contributions to the economy, which has led to a significant underestimation of their importance.

The Ethiopian Family Business Forum (EFBF) was established to address this lack of attention on the importance of family businesses in the economy and support their development. EFBF is a platform formed by HST to explore the development of locally relevant family business management practices to help Ethiopian family businesses grow and become sustainable. By conducting surveys that reveal the economic contributions of family businesses, the Forum seeks

1. United Nations Conference on Trade and Development (UNCTAD). (2021, April 13). Empowering family businesses to fast-track sustainable development.

2. Family Business Network (FBN). (n.d.). Facts.

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to ensure they receive the recognition and policy support they deserve.

This report, part of a series from the EFBB, shares the insights gained from the first benchmark survey undertaken by HST to better understand the Ethiopian family business landscape. The survey, which will be conducted annually, aims to provide ongoing insights into the challenges and opportunities faced by family businesses in Ethiopia.

This survey aimed to shed light on various aspects of family businesses, ranging from governance and succession planning. By gathering and analyzing data from different family businesses, we aimed to identify the challenges and potential areas for improvement. It is hoped that the insights presented in this report will serve as a foundation for informed decision-making, fostering the continuity and sustainability of Ethiopian family businesses.

The following sections will explore the survey methodology, key findings, conclusions, and recommendations.

## Methodology

A cross-sectional survey was conducted to gather primary data. The survey was distributed using a multi-faceted approach to maximize response rates. The initial distribution occurred during the first consultative forum held in March 2023, where attendees were provided with printed copies of the survey questionnaire to complete on-site. Additionally, an online version of the survey was made available via Microsoft Forms, allowing respondents to complete the questionnaire at their convenience.

Due to the low online response rate, an in-person data collection effort was initiated as a last resort. During the follow-up effort, family members and key stakeholders were approached individually, and a physical copy of the survey questionnaire was presented for completion. This approach facilitated direct interaction with respondents and the opportunity to address any questions they might have had.

All in all, a total of 49 responses were collected. This sample size was deemed sufficient for conducting meaningful analysis and drawing insights. The survey consists of five sections, each containing a set

of detailed questions on issues relevant to family businesses. The survey was designed to understand Ethiopian family businesses comprehensively and identify their challenges and opportunities.

Data collected from both the online and in-person surveys were consolidated into a single dataset. The data was analyzed using Microsoft Excel. All data was collected from participating families while preserving anonymity and confidentiality. It is used exclusively for this survey and report.

# Results and Discussions

## Overview of Ethiopian Family Businesses

### *Sector distribution:*

The survey reveals import, manufacturing, and retail as the top three sectors for Ethiopian family businesses. This finding aligns with the findings of Asoko Insights, which indicates that many of the Ethiopian family firms operate across multiple industries, with the most common combination being Importers of machinery and consumer goods and exporters of agricultural products<sup>3</sup>.

Indeed, Ethiopian businesses often demonstrate remarkable diversification, spanning several sectors or industries. This multi-sector engagement reflects the strong entrepreneurial spirit prevalent among Ethiopian family businesses. The survey further underscores this entrepreneurial drive, indicating that businesses typically venture into an average of three distinct sectors. In some cases, Ethiopian family businesses exhibit exceptional diversification, operating across as many as nine industries.

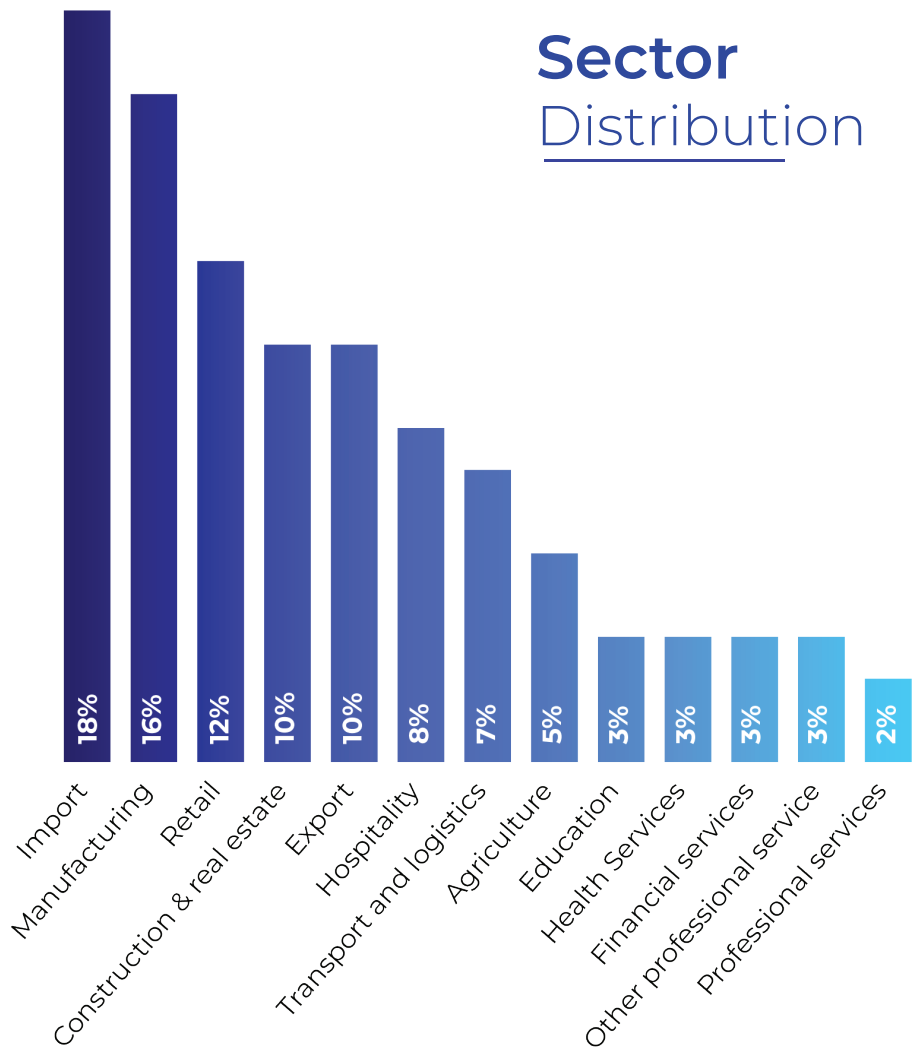
### *Generation:*

Ethiopian family businesses exhibit a relatively young profile, with an average age of 30 years under operation with a range spanning from 4 to 95 years. Notably, during our research, family members identified political instability as a primary factor hindering the long-term sustainability of their business.

3. Asoko Insight. (2019). East Africa's Family-Owned Business Landscape

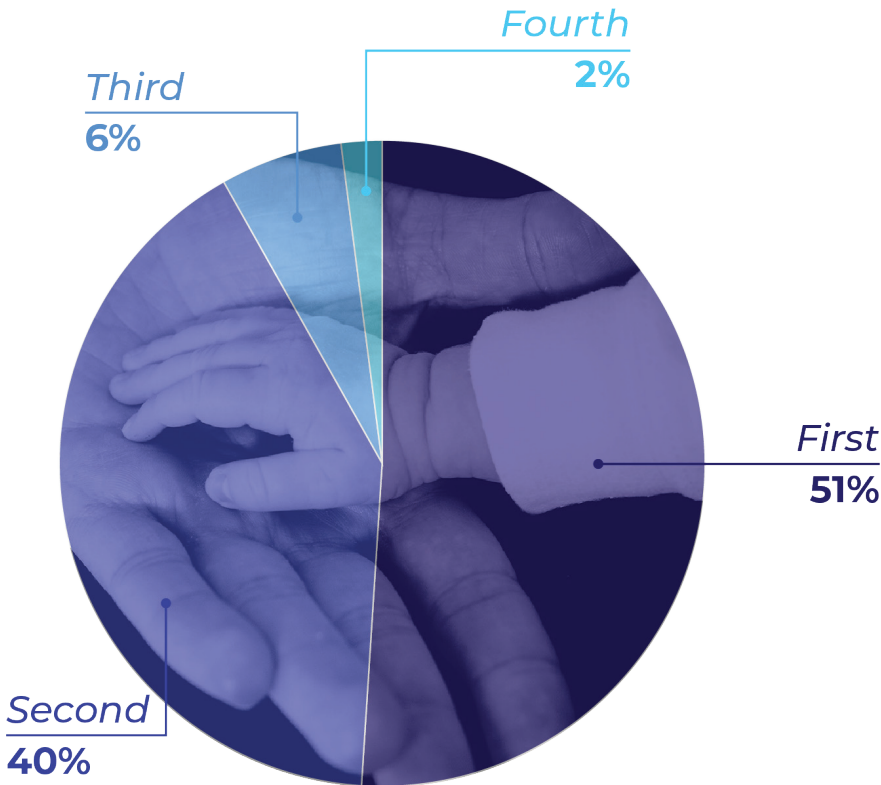
The study results also show that out of 47 respondents who answered the question, 51% are in the first generation, while 40% are in the second generation. These figures closely mirror global patterns. For example, in the U.S. only 40% of family businesses are reported to transition to the second generation, with only 13% successfully transitioning to the third, and a mere 3% surviving beyond the fourth<sup>4</sup>.

## Sector Distribution



<sup>4</sup>. Baron, J., & Lachenauer, R. (2021, July 19). Do most family businesses really fail by the third generation? Harvard Business Review.

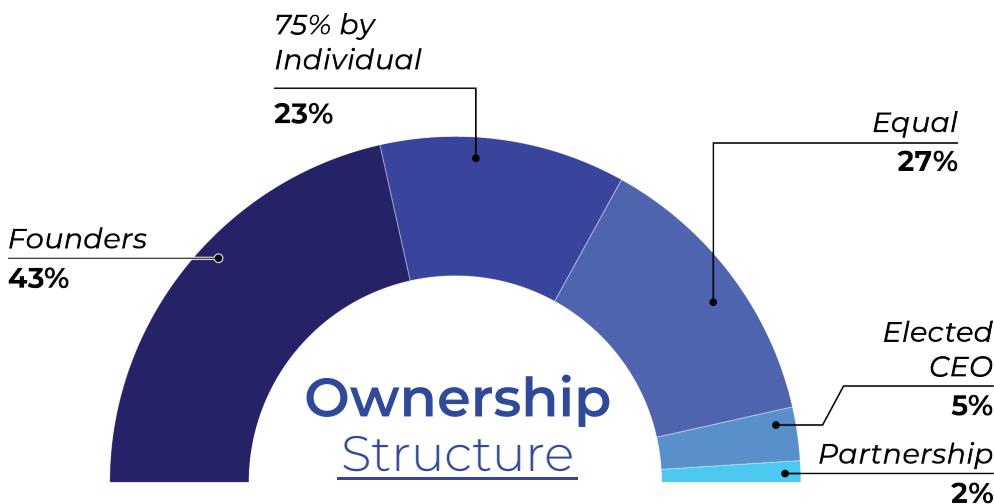
# Generation



## Ownership structure:

In terms of ownership structure, founders (often spouses) remain the majority shareholders in 43% of businesses. In approximately 23% of the businesses, only one individual holds a controlling stake (over 75% of shares) with the remaining 27% distributed equally among family members. The figure below illustrates the family business ownership structure. Founders retain significant ownership (25%) in the first generation and maintain a notable presence (13%) in the second generation.

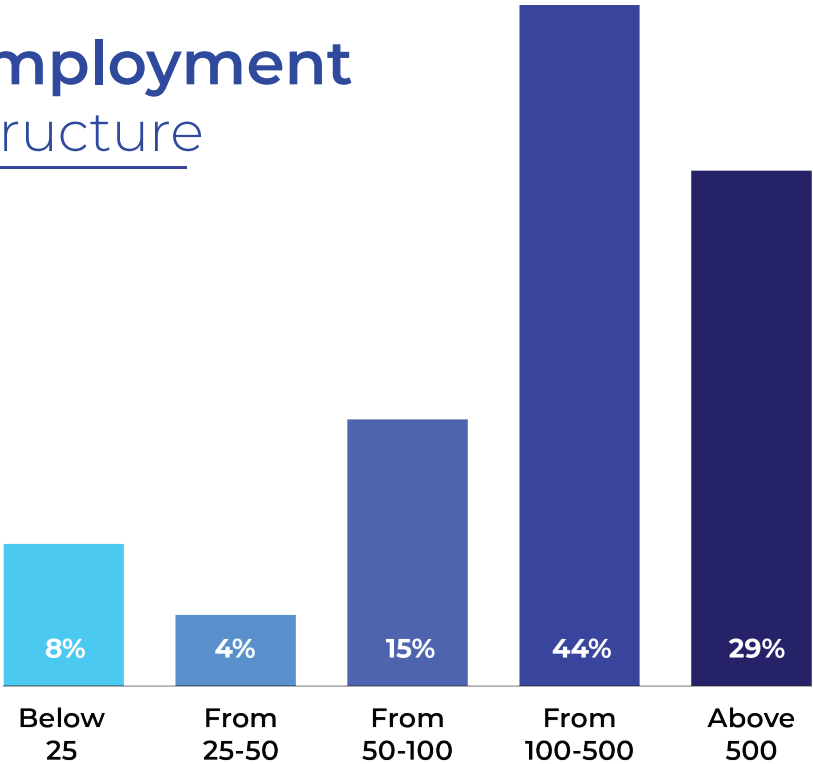




## Family Employment and Family Talent Management

Family businesses contribute significantly to global employment, accounting for approximately 60 percent of the workforce<sup>1</sup>. Ethiopia is no exception. Our findings indicate that the family enterprises employ a substantial workforce, with a large segment (44%) having between 100 to 500 employees. Furthermore, a considerable number (29%) employ over 500 individuals. This contribution is further emphasized by family members holding senior and middle-management positions within these businesses. The figure below illustrates the distribution of employee size in Ethiopian family businesses.

# Employment Structure



Effective talent management and attraction within family businesses hinges on robust governance practices. By establishing clear boundaries between the family and the business, and implementing oversight from a professional board, family firms can optimize their ability to manage both family and non-family employees and compete for top external talent.


Ethiopian family businesses show positive signs in some talent management practices. A merit-based reward system for high performers is perceived as a strength, along with encouraging family member engagement and successfully attracting and retaining outside managers. Additionally, recruitment and performance evaluation processes are seen as fair for both family and non-family employees. However, a significant weakness lies in the lack of required prior outside experience for family members before entering the family business. This can hinder the development of a professional management structure. There's also an opportunity for improvement by utilizing independent professionals more often. Seeking

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external guidance can provide valuable, unbiased perspectives and help mitigate potential conflicts within the family, ultimately contributing to business growth and continuity.

## Governance Practices in the Family Businesses

Effective and transparent governance is essential for the long-term success of family businesses. Typically starting as loosely structured entities centered around the founder and their family members, these businesses often evolve into more complex organizations as they grow. This growth necessitates the incorporation of external talent and the formalization of governance processes to maintain order and direction.



**85% of the family businesses surveyed reported that they don't have family councils which is a significant deficiency in smooth running of family businesses.**

Our analysis of management practices in Ethiopian family businesses reveals both strengths and weaknesses in governance. Most respondents believe their businesses follow best practices for governance and management policies. They also perceive that they have well-established systems for evaluating board/committee and business unit performance and a clear strategic direction. Furthermore, businesses report minimal tax liabilities and a clear strategic direction. However, a significant weakness lies in the lack of a clearly defined and communicated vision for the family business's future among family members. This absence of a shared vision can hinder effective decision-making when navigating the inherent complexities and challenges of running a family business specially during major transitions such as the death or incapacity of the founder(s).

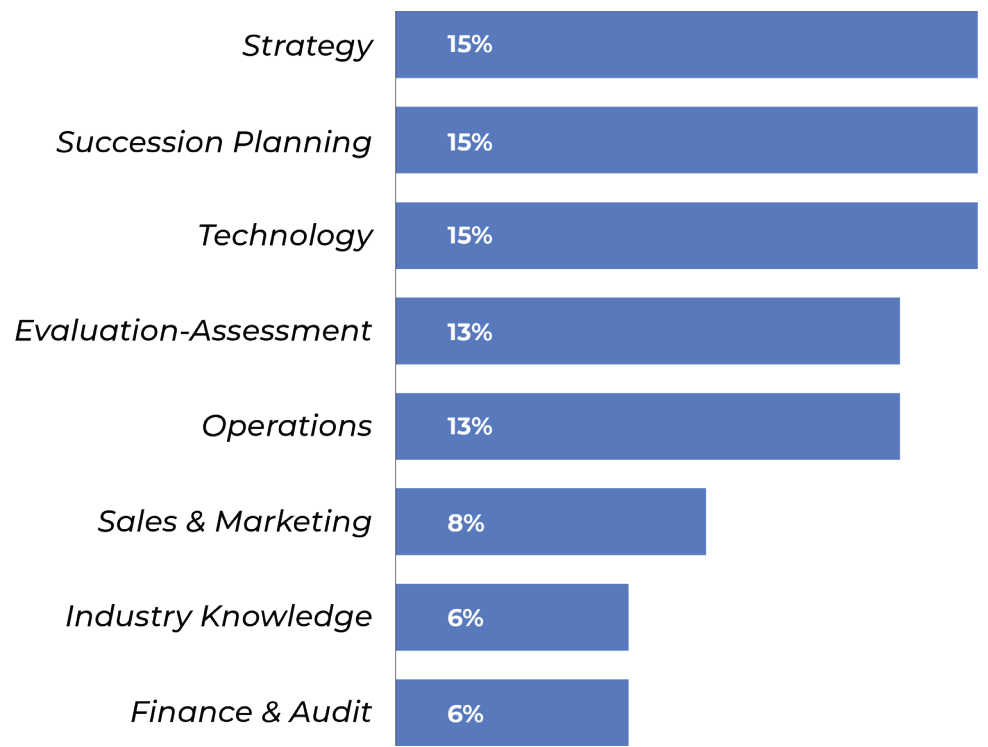
Our survey also reveals a concerning trend in Ethiopian family businesses: weak board structures. Only half (50%) of the respondents reported having a board of directors. This lack of formal oversight is compounded by a skills gap identified within existing boards.

The top five missing skill sets are strategy, evaluation, succession planning, technology, and operational expertise. These skill gaps can significantly hinder effective decision-making and strategic oversights, potentially impacting the viability of these businesses.

This lack of a structured approach is further compounded by the absence of family councils in 85% of the businesses surveyed. Family councils are powerful tools for navigating the complexities of family businesses, promoting healthy communication, and ensuring the alignment of family and business interests. These are all critical elements for successful succession planning.

# Missing Skills

## in the Board Members



On the other hand, Ethiopian family businesses demonstrate positive aspects in their cultural practices. Respondents report that

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they follow modern business practices with formal procedures, established decision-making processes, and adhere to appropriate leadership principles. Additionally, these businesses report that they foster strong team dynamics through cohesion, mutual understanding, respect, and open communication. However, a significant weakness lies in the absence of a well-defined and communicated value system. A clear set of values can unify family members, guide business relationships with employees and the community, and provide a strong foundation for future generations. Therefore, establishing a formal value system alongside clear guidelines for future ownership opportunities and business entry rules for the next generation is crucial for these businesses.

**A well-defined and communicated value system which can unify family members in times of trouble and guide business relationships with employees and the community is an area that needs attention.**

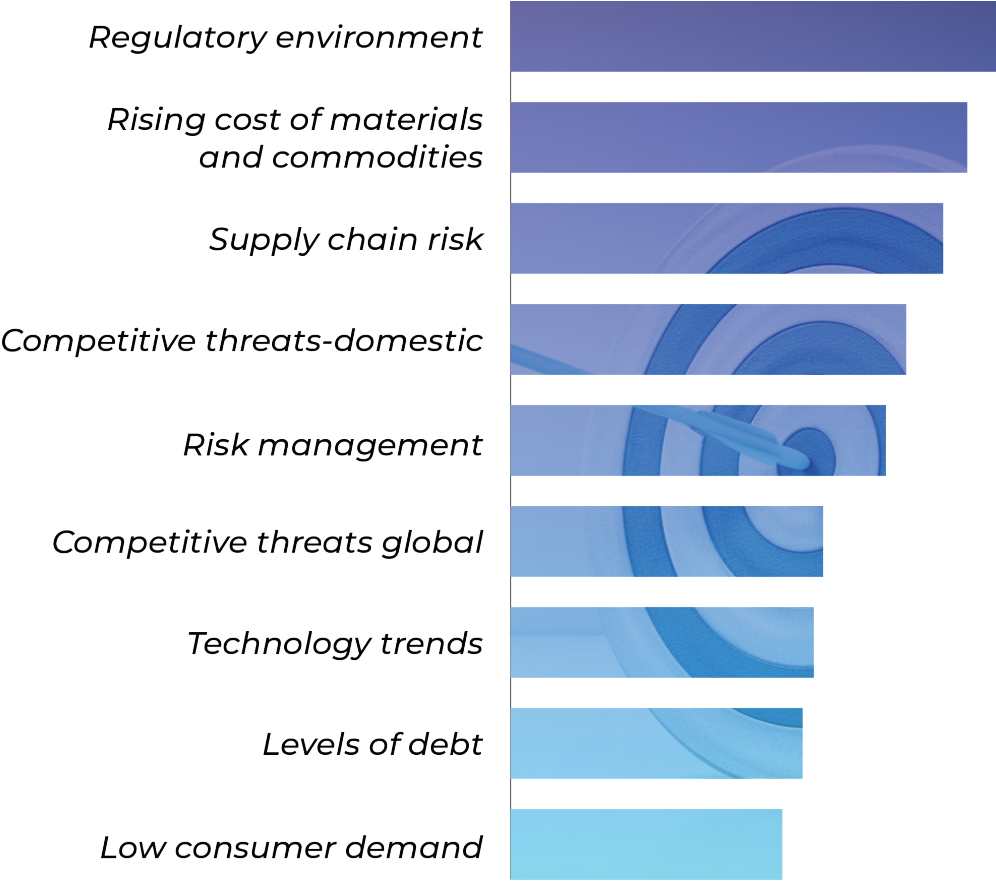


## **Family Business Challenges and Strategic Issues**

While effective strategy is crucial for all businesses, family-owned enterprises face a unique set of challenges due to the complex interplay between family and business dynamics. Based on survey results, the study identified the regulatory environment, rising costs, supply chain risks, domestic competition, and risk management as the top five strategic hurdles faced by family businesses. The figure below illustrates these challenges in rank order.

# Strategic Challenges

## Ordered by Rank

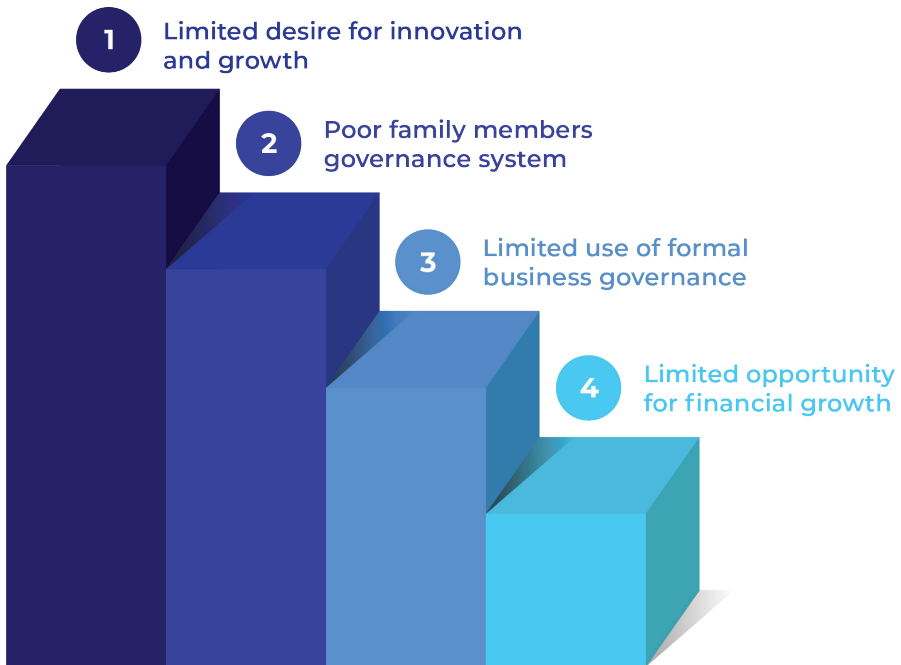


However, these external pressures are exacerbated by internal family dynamics. Survey findings indicate that family businesses often struggle with a limited appetite for innovation and growth, ineffective family governance, limited use of formal business structures, and constraints on financial expansion. The figure below visually ranks these internal challenges.

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# Family Business Challenges

## Ordered by Rank



## Succession Planning in the Family Businesses

Succession planning, a critical yet often overlooked component of family business management, is essential for ensuring long-term sustainability and success. This proactive process guides generational transitions. A Boston Consulting Group study analyzing over 200 Indian family businesses found that companies with well-defined succession plans experienced a 28-percentage point higher market capitalization growth rate compared to those without<sup>5</sup>. However, our study reveals a concerning gap in this area among Ethiopian family businesses. Surprisingly 81% of respondents lack a formal CEO succession plan.

<sup>5</sup>. Boston Consulting Group. (2015). Succeeding with succession planning: Family businesses

While frequent discussions on the topic indicate an awareness of the issue, concrete action is lacking. Although understandable at the early stages of business development, the absence of a systematic approach to identifying and developing potential successors poses a significant risk to future continuity. This is further emphasized by the fact that only 31% of businesses have identified a clear, immediate successor for the CEO role. Of this number, a mere 13% have formally designated a successor through a structured succession plan. The remaining 19% have informally identified a potential successor, highlighting the prevalence of ad-hoc approaches to this critical leadership transition.

Procrastination in senior management succession planning is a common pitfall for family businesses. Delaying this critical process often precipitates crises that can jeopardize the business's survival. Poor succession planning is a primary factor contributing to the high failure rate of family businesses beyond the second generation.



**The study revealed a concerning gap in the area of succession planning – 81% of respondents reported a lack of formal CEO succession planning.**



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# Conclusion & Recommendations

## Conclusion:

The survey conducted on Ethiopian family businesses provides a quick but essential overview of their current state, highlighting both strengths and areas for improvement. Notwithstanding the need for a nationwide and more comprehensive study, the results suggest that Ethiopian family businesses are significant contributors to the economy, particularly in job creation and diversification across multiple sectors. However, these businesses face critical challenges, including weak governance structures, a lack of formal succession planning, and insufficient talent management practices.

Despite these challenges, there is a clear potential for growth and sustainability if family businesses can address these issues. Implementing best practices in governance, developing a clear vision and value system, and establishing formal succession plans will be crucial for their long-term success. The insights gained from this survey serve as a foundation for informed decision-making and strategic planning, aimed at fostering the continuity and sustainability of Ethiopian family businesses.



## Recommendations:

To ensure the sustainability and growth of Ethiopian family businesses, the following key areas need to be improved:

**Strengthen Governance:** Establish formal boards of directors and address skill gaps through targeted training and strategic recruitment.

**Enhance Succession Planning:** Implement formal mechanisms for CEO and leadership succession, and cultivate a pool of capable family members or external candidates ready to take on leadership roles. Establish family councils to promote healthy communication and alignment of family and business interests.

**Improve Talent Management:** Encourage prior experience and professional development for family members entering the business to foster a more professional management structure. Utilize independent professionals to provide unbiased perspectives and help mitigate potential conflicts.

**Develop a Clear Vision and Values:** Define and communicate a shared vision for the future of the family business to all members. Establish a formal set of values to guide business operations and relationships with employees and the community.

**Address Strategic Challenges:** Implement structured planning processes to tackle external challenges such as regulatory changes, rising costs, and supply chain risks. Foster innovation and growth by aligning family and business goals and promoting a culture of continuous improvement.

By focusing on these areas, Ethiopian family businesses can enhance their sustainability and success, contributing more effectively to the economy and ensuring their legacy for future generations.

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# Supporting Sustainable Family Business Transformation and Governance (SFBTG–Model)

We help family businesses achieve sustainability and good governance through a tailored, step-by-step approach, focusing on vision setting, business model development, and execution planning. Our customized solutions consider local culture, family history, and unique business needs, while also establishing effective governance structures.

Aligned with our firm values, we emphasize trust and confidentiality, ensuring that our ongoing support fosters innovation, overcomes market challenges, and prepares family businesses for competition in Ethiopia's evolving market.

