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CORPORATE GOVERNANCE AND FAMILY-OWNED BUSINESS IN NIGERIA

Kolawole Subair, Yusuf Maitama Sule University, Nigeria (kolasubair@gmail.com)
Abideen Adekunle Tijani, Lagos State University, Nigeria (abideen.tijani@lasu.edu.ng)

ABSTRACT

Research on corporate governance and family-owned business has flourished in recent years, yet the mechanisms through which family involvement shapes the determinants, processes, and outcomes of corporate governance could hardly be well understood and largely undertheorized. For over a decade, international attention has been focused on corporate governance practices in family-owned businesses. Family-owned businesses face many challenges for their sustainability and profitability but with compliance with corporate governance procedures, these challenges can be subdued. This study contributes to research at the intersection of corporate governance and family-owned business by examining the roles of different sources of family firm heterogeneity and the context in shaping the determinants, and outcomes of corporate governance. Drawing on this analysis, we set outan agenda for further study aimed at advancing a more fine-grained and contextualized understanding of corporate governance and family-owned business in Nigeria.

Keywords: Corporate governance, family business dynamics, family-owned business, agency and stewardship theories, Nigeria

1. INTRODUCTION

For over a decade, international attention has focused on corporate governance practices in family-owned business. Family-owned businesses face many challenges for their sustainability and profitability. Corporate governance measures at the family and business levels provide good solutions to family ownership challenges and often are indispensable to the long-term success of the family business and peace in the controlling family, especially with succeeding generations (Gulzar & Wang, 2010).

Family businesses dominate the economic landscape. According to 2017 data from the Family Firm Institute, family firms account for two-thirds of all businesses around the world, generate around 70-90% of annual global GDP, and create 50-80 percent of jobs in different countries worldwide (Family Firm Institute, 2017). Interest in corporate governance practices of modern businesses is particularly linked to accountability, and mechanisms put in place that control, or govern, the actions of managers, including the rules and procedures for making decisions in corporate affairs. Corporate governance is not only applicable to large corporations but also any size of businesses including small and micro businesses such as family-owned businesses. The term family business connotes several meanings to different people. While some people view it as a local or traditional business, others consider it as a community business, and still, others refer to it as a home-based business. The importance of corporate governance cannot be overemphasized especially in the aspect of family-owned businesses since they make up a vital component of the country’s GDP and generate employment thereby reducing the unemployment rate in Nigeria.

Corporate governance analyses the processes, customs, policies, laws, and institutions that direct the organizations and corporations applicable in the administration and control of business operations. It works to achieve the goal of the organization and manages the relationship among the stakeholders including the board of directors and the shareholders. Also, it deals with the accountability of the individuals through a mechanism that reduces the principal-agent problem in the organization. According to Emeka, (2018) family business or family-owned business is one that is essentially controlled by a family, either two or more within a generation or across multiple generations of a family. In a family business, control and ownership typically reside within a family. It is arguably the oldest form of business organization, dating back to the start of agriculture and farming. Most agrarian communities were organized along family lines, which means that the larger the family size, the bigger the farm land that can be utilized by the family. Interestingly, some form of this type of ownership and control

continued to be adopted in later years. The practice of corporate governance is majorly influenced by parties involved in the management system of a company such as shareholders, investors, employees, and government. Good corporate governance is expected to increase the business performance irrespective of the size of the business, and as such corporate governance can be imbibed into family businesses because businesses need to have succession plans and good systems of governance. Sun (2016) defines corporate governance as "a way a corporation polices itself and as such, it is regarded as a method of governing a company like a sovereign state by stating its customs, policies, and laws to its employees from the highest to the lowest levels". According to Bicksler (2013), good corporate governance as aligning executive management actions with those of shareholders and by so doing, corporate governance becomes entangled with decision queries as to whether the formulated strategy and implemented tactics by companies' executive managements serve the best interest of the equity shareholders. It is therefore important to look at the in-depth meaning of corporate governance, its application to family businesses, and overall benefits to any economy.

Furthermore, family-controlled businesses included all enterprises that are owned, controlled, or drastically influenced by a specific family or families and having a significant dominant position in firms' equity. These firms are founded by the current top executives or their forefathers. This is the case when the family has the final say in whoever is responsible for managing it. In the same way, it makes sense to treat family firms as an international business form, on the basis that they face similar opportunities and problems and that those similarities outweigh the national and cultural differences between them. The governance of a family firm is in many ways becoming more complex than the governance of a firm with no family involvement. Family-owned firms face unique challenges. However, many failures of family-owned companies indicate that such firms also face a multitude of challenges which risk destroying shareholder value or even the business itself. Conflicts among the siblings who run the business or misunderstandings between different family branches may spill over to the company's domain and create problems for other shareholders (Feffer, 2007).

In sinister side, investors in companies with controlling family ownership are at risk of anecdotal degrees of expropriation, mainly through the family procuring confidential benefits at the price of the other shareholders, including related-party transactions on non-commercial terms and the transfer of the company's assets to other companies owned by the family. Going by event that characterised the Italian stock market, the high risk of expropriation connected with concentrated ownership can negatively affect a company's value when the ultimate owner is either the state or a family. While expropriation represents conceivably the most severe risk in family ownership structures, other less severe risks are also relevant to credit risk and financial health more generally.

The governance challenges covered in this study are diverse, and include: (1) the agency problems emanating from conflicts among family block-holders and the double agency problems that result when families employ intermediate agents to manage family wealth; (2) rules for executive team formation and setting decision-making boundaries in complex, multifamily businesses; (3) generation of the tacit knowledge, reputation, relationships, and slack resources needed to compete in industries with high uncertainty in quality, value, and demand; (4) how to nurture potential family successors to build both competence and commitment; (5) the work–family conflict that occurs among founders of family and nonfamily firms; and (6) utilization of family human capital to meaningfully manage the creation, preservation, and distribution of wealth through long-term involvement in enterprise. Whereas these challenges can affect families that own a single business, the challenges tend to escalate as family assets become more diverse and the structure needed to monitor the assets more complex (Steier, Chrisman, & Chua, 2015). It is in the light of these problems that concerted effort is made to emphasize on roles of corporate governance in enhancing family-owned business in Nigeria. Hence this study gives an overview of the implication of corporate governance structures based on evaluation of business composition, ownership concentration and business dynamism.

2. LITERATURE REVIEW

2.1 Conceptual Clarifications of Corporate Governance and Family-Owned Business Corporate Governance

According to Oxford Dictionary, 'corporate' is explained as an adjective belonging to a corporation, while 'governance' is an act on function of governing. The term 'governance' derives from the Latin gubernare, means 'to steer', which implies that corporate governance involves the function of direction rather than control. Therefore, corporate governance is a function of governing a corporation. It thus emphasizes further that corporate governance is a set of process, rules and regulations that give effect on the way business is run and operated (Shamsher & Zulkarnain, 2017). The concept of corporate governance incorporates the question of

accountability, ethics, and social responsibility to society and stakeholders, and it concerns the structures and procedures associated with the direction in which an organization plans to chart (Shamsher, 2002). Corporate governance promotes fairness, openness, and transparency in its responsibilities to stakeholders. Corporate governance is the collection of mechanisms, processes and relations used by various parties to control and operate a corporation (Shailer, 2004). It is a system by which companies are directed and controlled. It is a system of rules, policies and practices that dictate how a company's board of directors manages and oversees the operations of a company. It includes principles of transparency, and accountability.

Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and include the rules and procedures for making decisions in corporate affairs (Lin & Tom, 2011). Corporate governance is necessary because of the possibility of conflicts of interests between stakeholders, primarily between shareholders and upper management or among shareholders (Goergen, 2012). Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. These include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. Corporate governance practices can be seen as attempts to align the interests of stakeholders (Tricker, 2009).

2.2 Family-Owned Business

A family-owned business is one that is significantly controlled by a group of family members. In a layman's term, a Family Business would refer to a business, company, enterprise, or a firm where the voting majority is in the hands of the controlling family. A family business is a commercial organization in which decision-making is influenced by multiple generations of a family, related by blood or marriage or adoption, who has both the ability to influence the vision of the business and the willingness to use this ability to pursue distinctive goals (De Massis, Josip, Jess & James, 2014; De Massis, Sharma, Jess & James, 2012). The family is instrumental in taking all important decisions for the top hierarchy and the family members. Yasser (2011) defines 'Family Controlled Businesses as those enterprises that are either owned, controlled or drastically influenced by a specific family or families and have a significant dominant position in firms' equity. These firms are founded by the current top executives or their forefathers.

2.3 Ownership Structure

Firms may be owned by several mixes of different types of investors. With few exceptions, these investors become owners in firms to accomplish financial objectives. However, they may differ in a variety of ways regarding their trading styles, clientele, legal and regulatory environments, and their ability to gather and process information. From the hitherto, we review the dominant forms of ownership that researchers have examined in the governance literature and discuss factors that motivate them to own some, or most, of the firm. Inside Ownership Equity owned by insiders helps align the interests of managers and shareholders, which Dalton et al. (2003) call the 'alignment' approach. These insiders tend to be propelled to make decisions that are consistent with the interests of the wider constituency of shareholders.

From the executives' perspective lies in its simplicity: as executives gain greater ownership stakes, they are more likely to employ firm resources towards long-term profitability and less likely to neglect from executing their fiscal and strategic responsibilities (Jensen and Meckling, 1976). Once established, managers may consume more entitled benefits and/or reduce the firm's risk profile to protect their interests. Consistent with these contrasting perspectives, empirical support for the effects of managerial ownership has been mixed (Dalton et al., 2003; Himmelberg et al., 1999; McGuire and Matta, 2003). For example, according to Rajgopal and Shevlin (2002), the results of some studies show that executive ownership leads to greater risk-taking whereas others report the opposite effects (Desai and Dharmapala, 2006). Similarly, some studies have sought to establish a link between managerial ownership and goal alignment, but other studies have found that managerial ownership may as often lead to goal misalignment with respect to such issues as backdating of stock options, earnings manipulation, and dividend policies (Devers et al., 2007).

Others have applied the alignment principle to board members (Hermalin and Weisbach, 2003). The equity holdings of independent directors have not captured the same research attention as that of inside directors and other executives because, from an agency theory perspective, independent directors should already represent the interests of shareholders. There are some evidences that change in the equity holdings of board members can signal the long-term earnings potential of the firm to other owners (Certo et al., 2001). Although independent

directors vary considerably with respect to their equity positions, the influence of these variations on firm actions and the holding of other owners remains unclear.

Further to this, thousands of firms are structured in such a way that most employees own at least some stock; many more utilize programs where employees have appreciable shares of the firm (Blasi et al., 2003). Employee ownership can reduce turnover, absenteeism and grievances while increasing effectiveness, satisfaction, and overall firm performance. Scholars explain these positive results in at least two ways: extrinsically and intrinsically (Buchko, 1993). An extrinsic satisfaction model sees the appreciation of share price as the primary driver behind gains in employee effectiveness and commitment. An instrumental satisfaction model suggests these gains emerge more due to added control and influence. Either way, the goal of this ownership structure is to establish a link between an outcome of importance to employees and firm performance.

Of significance also in the ownership structure is the block-holders defined by Securities and Exchange Commission (SEC) as any investor with more than a 5% equity stake in the firm. Two main factors motivate large block ownership by outsiders: concentrated control and private benefits. Concentrated control arises from the superior monitoring that block-holders can perform through concentrated decision rights. On the other hand, block-holders also have an incentive to use their power over management to enjoy benefits not shared with minority shareholders. Barclay and Holderness (1989), for example, found evidence of the private benefits of block-holders in trades that were, on average, priced at a premium over subsequent trades of other shareholders. Firms may also repurchase stock above market price via private transactions with a disagreeing block-holder. Firms typically engage in such greenmail transactions to avoid a takeover threat or proxy fight initiated by the block-holder.

However, family members are one category of individual block-holder that has been the subject of considerable academic attention (Anderson and Reeb, 2003; Burkart et al., 2003; Schulze et al., 2003). Empirical research on family firms shows that family ownership sparsely creates value for the firm or its minority shareholders (see Anderson and Reeb, 2003), except in cases where the founder serves as CEO (Villalonga and Amit, 2006). The companion review in this issue discusses the influence of family firms, especially in the broader international context in greater detail (Johnson et al., 2010).

2.4 Family Business Dynamics

A family business in all uniqueness differs from a regular business based on its ownership and management. In most situations, the owner of the enterprise plays the role of the chief executive officer amongst other major roles. In other situations, the roles are split among family members, who may not necessarily possess relevant qualifications on the vacant opening in the family business. However, in a family business setting, family affairs slip into business management and decision making, thereby clouding business decisions with sentiments and personal interests. The interplay between family members and the management of the family business poses a vast number of threat to the survival of the business, which may lead to the slow and gradual demise of the family business.

3. THEORETICAL FRAMEWORK OF STUDY

Based on the nature of this study, the agency theory by Alchian and Demsetz (1972) in the field of economics, directed at the agency relationship, in which one party (principal) delegates work to another (agent), who performs that work (Alchian and Demsetz, 1972) has been viewed to be relevant. But to what extent in this study? Agency theory defines the relationship between the principals (such as shareholders of company) and agents (such as directors of company). According to this theory, the principals of the company hire the agents to perform work. The principals delegate the work of running the business to the directors or managers, who are agents of shareholders. The shareholders expect the agents to act and make decisions in the best interest of principal. On the contrary, it is not necessary that agent make decisions in the best interests of the principals. The agent may be succumbed to self-interest, opportunistic behavior and fall short of expectations of the principal. The key feature of agency theory is separation of ownership and control. The theory prescribes that people or employees are held accountable in their tasks and responsibilities. Rewards and punishments can be used to correct the priorities of agents.

Agency theory is used to understand the relationships between agents and principals. The agent represents the principal in a particular business transaction and is expected to represent the best interests of the principal without regard for self-interest. The different interests of principals and agents may become a source of conflict, as some agents may not perfectly act in the principal's best interests. The resulting miscommunication and

disagreement may result in various problems and discord within companies. Incompatible desires may drive a wedge between each stakeholder and cause inefficiencies and financial losses. This leads to the principal-agent problem.

The principal-agent problem occurs when the interests of a principal and agent come into conflict. Companies should seek to minimize these situations through solid corporate policy. These conflicts present normally ethical individuals with opportunities for moral hazard. Incentives may be used to redirect the behavior of the agent to realign these interests with the principal's concerns.

Corporate governance can be used to change the rules under which the agent operates and restore the principal's interests. The principal, by employing the agent to represent the principal's interests, must overcome a lack of information about the agent's performance of the task. Agents must have incentives encouraging them to act in unison with the principal's interests. Agency theory may be used to design these incentives appropriately by considering what interests motivate the agent to act. Incentives encouraging the wrong behavior must be removed, and rules discouraging moral hazard must be in place. Understanding the mechanisms that create problems helps businesses develop better corporate policy.

To determine whether an agent acts in their principal's best interest, the standard of "agency loss" has emerged as a commonly used metric. Strictly defined, agency loss is the difference between the optimal results for the principal and the consequences of the agent's behavior. For example, when an agent routinely performs with the principal's best interest in mind, agency loss is zero. But the further an agent's actions diverge from the principal's best interests, the greater the agency loss becomes.

Agency theory is one of two theories predominantly used in family business research (Chrisman et al., 2010), aside from the resource-based view (Barney, 1991; Wernerfelt, 1984). To delimit agency theory from other theoretical approaches, an often opposed and more collectivistic theory from the economic literature is stewardship theory (Davis, Schoorman & Donaldson, 1997; Eddleston, Kellermans, & Zellweger, 2010). The stewardship perspective addresses the behavior of controlling family firm owners that behave as far-seeing stewards and are guided by superior organizational goals (Sharma, 2004). Several authors have discussed the applicability of agency theory in comparison to stewardship theory in family firms and argue that both theories contribute important insights to the knowledge about family firms (Chrisman, Chua, Kellermans & Chang, 2007; Corbetta & Salvato, 2004; Eddleston & Kellermans, 2007; Kraus, Märk & Peters, 2011; Le Breton-Miller, Miller, & Lester, 2011).

Despite its origin in economic theory and finance (Jensen & Meckling, 1976), the application of agency theory in family business research increasingly shifted from pure economic thinking to the consideration of more altruistic and relational issues (Mustakallio et al., 2002; Schulze et al., 2001). In a similar manner, studies have also argued that agency theory contributes to the development of social exchange theory by considering rewards and costs arising through the relationships in families with regards to family members and their respective interests and behaviors as principals. (Jennings, Breitkreutz & James, 2014)

On the other hand, Stakeholder theory incorporated the accountability of management to a broad range of stakeholders. It states that managers in organizations have a network of relationships to serve – this includes the suppliers, employees, and business partners. The theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others. Donaldson and Davis (1994) note that “Managers are principally motivated by achievement and responsibility needs” and “given the needs of managers for responsible, self-directed work, organizations may be better served to free managers from subservience to non-executive director dominated boards”.

Business firms have many stakeholders, and the primary among them are employees, shareholders, creditors, customers, government, business partners and society. Jensen and Meckling (1976) viewed the corporation as a nexus of contracts among self-interested and potentially opportunistic parties. The contracts between the stakeholders such as employees, customers, creditors, and the company are legally complete contracts which can be enforced through law enforcement system. On the other hand, the contract between the company and shareholders is not a complete contract covering every aspect of business decision because of significant uncertainty, information asymmetries and contracting costs. Hence, the relationship between shareholders and the manager of a firm has been described as the ‘pure agency relationship’ because it is associated with the separation of ownership and control (Jensen & Meckling, 1976). This agency theory led to the birth of corporate governance issues. The incomplete nature of the contract between shareholders and the company makes it relatively easier for the later to violate the ethical norms while fulfilling their responsibility towards farmer.

Hence, the shareholders needed to find other ways to protect their interests. The ways in which shareholders, that is, the suppliers of finance assure themselves that the corporate entities fulfil the responsibilities towards them, that is, getting a return on investment are known as corporate governance (Shleifer & Vishny, 1997).
Stewardship theory was introduced by Donaldson and Davis (1989) as a normative alternative to the agency theory. The executive manager, under stewardship theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Grounded in psychology, sociology and leadership theories, stewardship theory argues for the possible alignment between the principals and agents which is reflective of a psychological contract or a close relationship with agent behaving in a community-focused manner, directing trustworthy moral behavior towards the firms and its shareholders (Davis, Frankforter, Vollrath, & Hill, 2007). Thus, stewardship theory holds that there would be no inherent, general problem of executive motivation (Donaldson & Davis, 1991). Davis, Schoorman and Donaldson (1997) argued that, among other factors, managers who identify with their organizations and are highly committed to organizational values are more likely to serve organizational ends.

Stewardship theory is a theory that managers, left on their own, will act as responsible stewards of the assets they control. Stewardship theorists assume that given a choice between self-serving behavior and pro-organizational behavior, a steward will place higher value on cooperation than defection.

In the family-controlled firms, the ownership and management are the same, as the family members themselves are the managers, or they exert enormous control over the strategic decisions of the firms. Hence, the agency theory may not hold well in family-controlled firms (Ang, Cole, & Lin, 2000). The family members are committed to the business. Also, they are altruistic towards each other as a result affinity obligation that are part of the axiomatically binding normative moral order in most cultures (Stewart, 2003). The existence of high levels of commitment is frequently regarded as one of the strong advantages of family firms compared to non-family firms (Tagiuri & Davis, 1996). Hence, ideally, the stewardship theory should hold well in family-owned firms. However, in practice, family-owned firms also have serious corporate governance problems.

4. EMPIRICAL REVIEW OF RELATED STUDIES

This study views corporate governance from a family business perspective, as many African countries have many family businesses that are family managed. According to Kane (2007), corporate governance is not about what is happening on large boards, but it is about good business practices at all levels and that companies need to show accountability and transparency as they are privately owned. This viewpoint is supported by Maharaj (2011) as he believes that corporate governance is no longer limited to leading companies, as many small organizations that are growing are slowly integrating financial reporting, legal aspects, and other compensation matters to create a sound governance framework.

Owners and managers of private companies have been for so long regarded corporate governance as an alien concept and often dismissed it as an issue for public companies. While the legislative emphasis on public companies causes such dismissal to be pardoned, it would be a blunder to view corporate governance as having no relevancy in the private sector because good corporate governance practices can lead to vast benefits for both public and privately owned businesses (Hubbard & Wood, 2013). Corporate governance as suggested by Prem (2014) is as significant to family businesses as it is for large corporations as with it, the application of cost-effective and modest mechanisms and processes will establish structure, contribute to business growth, and improve operations, as such, guarantee functioning compliance with the law.

International Private Enterprise (2009) explained that locally, corporate governance has been seen as the domain of large organizations for developing economies. This center also further explained this concept has something that is of interest to CEOs and investors, because it helps to clean up the governance environment, exposes insider relationship while injecting values of transparency and accountability in both private and public transactions. Therefore, it is considered as an effective means of building and encouraging operational family business enterprises, which can be capable of generating jobs and attracting investment, while at the same time viewed as a recognized sustainable solution to poverty.

According to PWC (2018), in achieving their growth expectations over the next two years, 73% of Nigerian family businesses intend to make significant steps in terms of digital capabilities in the next two years (higher than the 57% who say this globally). The pace and transformative power of technology indicate that Nigerian family businesses cannot afford to ignore the digitization trend. The disruption of the cab hire business in major Nigerian cities such as Lagos and Port Harcourt by ride-sharing tech firms is a major example of how digital technology is revolutionizing whole industries. Despite the impact of such digital innovations can cause, 70

percent of Nigerian family businesses do not think about digitization as a key challenge over the next two years. Also, Nigerian family businesses have a slightly lower level of perceived vulnerability to digital disruption (23 percent) or a cyberattack (33 percent) compared with the global average.

In the world today, continuity is key to the legacy of the enterprise, as such from the empirical point of view, where Nigerian family businesses does not have a reputation for strong corporate governance principles, capital will flow elsewhere, accompanied by slow business growth and vulnerability. All family enterprises in Nigeria regardless of how steadfast a particular company's practices may be, could suffer the consequences non effective corporate governance (King Report, 2002, para. 16)

5. CONCLUSION

This study has examined the relationship and the dynamism of corporate governance and family businesses. It has examined the roles of structures, corporate values, and sustainability of family-owned businesses. Family and corporate values enhance reputation, profitability, and sustainability. Without doubt, change requires courage and implementation of these corporate governances that depend on both a tactical and strategic plan, especially when dealing with extended family members. Whatever the consequences, the implementation of corporate governance should not be at the cost of these traits and traditional family values.

RECOMMENDATIONS

From the a priori, the challenges often encountered in the continuity and sustainability of family-owned businesses could be overcome by the following suggestions most especially in Nigeria:

1. Clarify the role of the key members from family duties.

The interpretation of the title "executive" in any reasonable corporate governance code means the Independent Non-Executive Director who heads the Board. In the African culture, and due to the prevalence of large family businesses, for example a "Chairman" generally means the founder, who still owns the bulk of the enterprise and still possesses the majority, of the powers typically associated with the position of the Chief Executive. The title "Chairman" is also easily interchangeable with other titles such as General Manager, Managing Director, and even President.

2. Distinct and documented segregation between the duties, functions, and responsibilities of shareholders, the Board of Directors (Board) and management.

The vast number of corporations in the region is family enterprises that represent a large part of the private sector. Within this segment, the roles functions and responsibilities between family members, the Board and its members, shareholders and the Executive are not properly stated, documented, overlapping, conflicting and complex. Operating in a well spelt and consensus-based culture, many members do not realize the need to create and document policies and procedures to enhance operational efficiencies and reduce the incidence of errors.

3. Authority Matrix and implementation.

Large number Nigerian family businesses still traditionally see the duty of the Chairman as a person to sign the payroll, and if he happens to be travelling his staff's salaries wait until his return for his signature on the cheques. Such an example of the lack of delegation which may seem archaic in terms of a "Western" governance model, the African culture has always been slightly resistant to the delegation of authority, which has contributed towards operational bottlenecks and restrictive corporate practices. A clear Authority Matrix must allow for the delegation of command within specified limits and controls, while ensuring optimum accountability.

4. Provide further education for your Board members.

A lot of institutions and organizations offering Board Leadership and Non-Executive Director courses in corporate governance such as the Lagos business school in Nigeria. Some offer professional certification for Board members while also assisting in developing skills and keeping individuals appraised of the most up-to-date corporate governance practices and regulatory frameworks within the business's jurisdiction.

5. Establish an Audit and Risk Committee.

The nature of the activities undertaken by this board committee, is that the individuals on this committee have a concrete knowledge of internal audit, external audit, accounting principles, financial reporting, and risk management expertise. It is generally advised that the committee is comprised of Independent Non-Executive Directors who should oversee the major elements of (a) financial statements; (b) internal controls; (c) risk management; etc. Establishing a sound system of risk oversight, management and an effective internal control environment is another essential role of the Board. Risk Management encourages better decision making because it nurtures an in-depth insight into the risk-reward trade-offs that all businesses must continuously evaluate.

6. A Family Business needs a family constitution.

A family constitution should clearly spell out the principles and policies that the family and its business subscribe to and must explain the roles and function of all members including the shareholders, board, and the employees. By defining the way by which family members may become involved in the business will contribute to the avoidance of any family misunderstandings It is important to identify the complex nature of family issues and conflicts. Globally, less than 95% of family businesses survive the third generation as a family business.
Lastly, generally applicability of good corporate governance bears similar key benefits which are: (a) good strategic decision making; (b) access to cheaper credit and capital; (c) Better valuation of your enterprise; (d) strong internal risk management and control framework; (e) meeting any regulatory compliance requirements.

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