

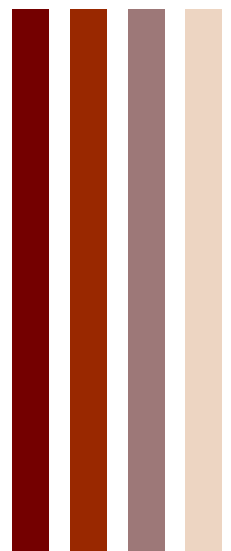


Corporate Governance in Family-Owned and Closely Held Nigerian Companies

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Introduction

Family-owned and closely held companies remain a pivotal part of Nigeria's private sector and growing economy. The introductory paragraph of the Financial Reporting Council's (FRC) SME Corporate Governance Guidelines indicates that these companies, ranging from nascent startups to multi-generational conglomerates, constitute the backbone of the nation's private sector. Specifically, the FRC estimates that Micro, Small and Medium Enterprises (MSMEs), majority of which are family-owned businesses, constitute 96% of all businesses and provide approximately 84% of private sector employment. In 2023, the Minister of Industry, Trade and Investment in Nigeria, Dr Jumoke Oduwole, estimated that about 23.3 million family businesses account for millions of jobs and contribute \$200 billion to the Nigerian economy yearly.[1]

Despite the immense contribution to Nigeria's economy, the survival of family-owned and closely held companies remains precariously low. The systemic attrition is primarily attributed to a crisis of corporate governance, where the lack of formal structures, existence of founder-centric ideology, and the absence of robust succession planning create an environment inimical to long-term sustainability. This article therefore explores corporate governance practices in family and closely held companies, while proffering recommendations on how companies of this nature could benefit from strong corporate governance practices.

Unique Corporate Governance Challenges in Family Business

In recent years, global efforts and attention on corporate governance have increased and spurred the introduction of ever-evolving governance policies. The situation is the same in Nigeria, with significant efforts and strides recorded in the last two decades. The Nigeria Code of Corporate Governance (NCCG), introduced in 2018 by the Financial Reporting Council (FRC) remains the primary framework for corporate governance in Nigeria, complemented by other sectoral guidelines and statutory frameworks such as those contained in the Companies and Allied Matters Act, 2020 (CAMA).

While the corporate codes are by themselves impactful, their application to private companies remains muted, with a larger breadth of private companies not mandated to abide by the governance policies. It is therefore no surprise that private companies, particularly subsets such as family-owned and closely held companies, continue to encounter governance challenges which threaten the sustainability of the businesses and their existence beyond the current generations. Beyond the fortunes of individual enterprises, the collapse of these companies poses a broader threat to the national economy. Family-owned organisations account for roughly 60% of Nigeria's MSMEs, a sector which, as noted by Dr. Jumoke Oduwole, contributes more than 50% to the nation's Gross Domestic Product (GDP). Their failure therefore carries serious implications for employment, productivity, and long-term economic stability.

Overlap between Ownership, Management and Control

In many instances, there is an overlap between ownership, management and control in family-owned and closely held companies. It is not uncommon to find companies in which the founders, who are often the majority shareholders, also serve as both the board chair and the Chief Executive Officer (CEO). The concentration of power and control often results in the board's effectiveness being compromised by the intertwining of family dynamics and business imperatives. Similarly, the concentration of power in a single individual who serves as both the managing director/CEO and the chairman of the board significantly weakens the board's ability to challenge the executive's decisions. This structure also contradicts the Nigerian Code of Corporate Governance, which emphasises the separation of these roles to ensure independence and accountability. The resulting imbalance often leads to informal decision-making processes and a culture in which family loyalty is prioritised over corporate accountability.

[1] Adaku Onyenuchey, '23.8m family businesses contribute \$200b to Nigeria's economy yearly' The Guardian (13 October 2023) <https://guardian.ng/business-services/23-8m-family-businesses-contribute-200b-to-nigerias-economy-yearly/> accessed 3 March 2026.

Succession Planning and Board Composition

A significant governance risk for many family-owned and closely held companies is the absence of structured succession planning and the improper composition of their boards. Otika et al. (2019) in their study *Inheritance culture and management succession of family-owned businesses in Nigeria: An empirical study*, found that around 30% of family-owned companies in Nigeria successfully transition to the second generation, with an even smaller proportion surviving the third or fourth. This challenge is more prevalent in organisations built around the founder or the founder's family, where the founder often struggles to relinquish control as the company grows.

In the Nigerian context, many founders tend to regard the business as an extension of their personal or professional identity. Consequently, this dynamic often impedes the establishment of structured succession frameworks and hinders the development of a professional management team. When the founder eventually exits the organisation or dies, the absence of documented processes—together with the concentration of critical relationships, institutional knowledge, and decision-making authority in a single individual—creates a structural vacuum that few successors can fill. This leadership void not only disrupts operational continuity but also exposes the company to significant strategic and governance risks. In such circumstances, successors often struggle to replicate the founder's tacit knowledge, stakeholder networks, and informal management style, thereby weakening organisational stability and undermining long-term sustainability.

Family Nepotism as Against Meritocracy

A common feature in family-owned and closely held companies in Nigeria is the practice of giving preferential treatment to family members in hiring and promotion. While employing family members can foster loyalty and shared values, doing so without regard for merit can be disastrous. It leads to the placement of unqualified individuals in critical roles, leading to inefficiency and poor decision-making. Perhaps more damagingly, it creates a "glass ceiling" for talented non-family employees, leading to resentment, demotivation and high turnover among high-performing staff who start to see that bloodline is prioritised over competence.

Way Forward?

For Nigerian family-owned and closely held companies, the first step towards stronger corporate governance is to formalise governance structures. It involves specific, actionable steps that separate the interests of the family from the operations of the company.

Secondly, the adoption of a governance roadmap can provide these companies with a structured pathway for integrating corporate governance principles into their operations. Such a roadmap may include, for example, the development of a board charter that clearly delineates the respective responsibilities of the board and management in the day-to-day administration of the company. Importantly, the roadmap should also specify clear timelines within which the relevant governance measures are to be implemented, thereby ensuring accountability and sustained progress toward full compliance.

Professionalising Management Teams

One of the most effective ways to mitigate the risks of nepotism in closely held companies is to hire external expertise. Introducing non-family executives into key roles such as Chief Financial Officer (CFO) and Chief Operating Officer (COO), can inject fresh perspectives and ensure that decisions are driven by data, competence, and operational efficiency rather than familial sentiments. A company's board of directors (or similar governing body) sets the managerial tone for the entire organisation. The board should have a strong group of independent directors, as well as relevant management, industry, and financial expertise. An ideal board features a mix of company executives, key shareholders, and unaffiliated individuals, each bringing a unique set of talents and perspectives. Furthermore, family members who work in the company should be subject to the same performance metrics and Key Performance Indicators (KPIs) as non-family employees.

Succession Planning as a Continuous Process

Succession planning should not be a reactive exercise triggered by a crisis. Instead, it should be a continuous process of leadership development that equips the company to survive beyond the current generation. A typical approach is to groom potential heirs early, by involving them in the family business, allowing them to understand its day-to-day operations and internal dynamics. It is also advisable to encourage family members to gain experience outside the business, enabling them to acquire independent skills, broader industry exposure, and a more professional mindset before returning to assume leadership roles. Another effective means could also be pairing potential successors with experienced non-family members to provide objective feedback and guidance.

Accountability and Transparency in Operations

Emphasising accountability and transparency in business operations could also help ensure the longevity of the company. By documenting records, partaking in audits and presenting reliable financial information, the company could boost its credibility in the eyes of external stakeholders. The NCCG 2024 SME Guidelines are instructive to this end, as they recommend the preparation of a complete set of financial statements for small scale business. The NCCG 2018 also introduces strict guidelines for the external audit of companies to ensure objectivity. An example is the provision that a company may only retain the service of an external audit firm for a maximum of ten continuous years. These measures are designed to ensure the audit remains a true check on the integrity of the company's financial reporting.

The Strategic Value of Governance in Family Enterprises

The importance of governance to family enterprises can be readily observed in notable family-owned companies in Nigeria that have evolved into some of Nigeria's leading conglomerates. The Dangote Group, for instance, started as a small trading company and now leads as the largest industrial conglomerate in Africa. The group's survival is attributable to a balance of family ownership with professionalised management. Other examples, such as Emzor Pharmaceuticals, the Honeywell Group, BUA, the Ibru Organisation and the Dantata Organisation, evidence that adopting strong corporate practice could help sustain the existence of the company, preserve generational wealth, and enhance valuation and investor confidence.

Conclusion

The survival and prosperity of Nigerian family-owned and closely held companies are contingent upon their willingness to embrace the rigours of corporate governance. While the informal and close-knit nature of these companies was a source of strength in their early stages, it becomes a liability as they attempt to scale in a complex, globalised market. The regulatory framework embodied in the NCCG 2018 and CAMA 2020 provide a flexible and modern roadmap for transition from a "family business" to a "business family". The real question for Nigerian founders is not whether they control the company today, but whether the company will survive when they no longer do. However, by weaving the threads of traditional values into the fabric of formal governance, Nigerian family companies can build enduring institutions that continue to serve as the bedrock of the nation's economic future.

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