Corporate Governance Challenges and Proposition of Internationalization Model Adoption for Family Owned Businesses in Nigeria

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The internationalization of family businesses as being impeded by corporate governance structure has been a controversial subject theme in developing economies; especially Nigeria as family businesses contributes a reasonable proportional percentage to the national gross domestic product (GDP). The essence of internationalizing a family business to become global business has been the interest of most business founders in Nigeria as the purpose of establishing such business are usually short-range to financial sustainability and business continuity as only a few firms outlived the death of their founder due to lack of proper standard governance structure that can make the businesses to be perpetual. The research is qualitative in nature as it tries to explore the internationalization models on internationalization which includes the progressive, contingency and interactive models that are suitable, available and adoptable for a large family business concern that desires to go international by working on their corporate governance and strategy adoption. The paper ponders on the governance challenges of family owned businesses and probable techniques to adopt to go international. The paper therefore acclaimed that business founders should be visionary in their affairs and applaud initiatives that have the capacity to make their firms to be internationalized.

Key words: Corporate Governance, Internationalization, Family Business
INTRODUCTION

Corporate Governance is considered as how an organization is run, and how the resources of an organization are employed in pursuance of the set goals of the organization. (Owolabi, 2014). OECD, (2017), further pointed that Governance includes corporate discipline, transparency, independence, accountability, fairness, social responsibility, timely and accurate disclosure of all material matters relating to a company including the situation of financial performance, ownership and governance arrangements.

Family business represents an organization or company in which two or more key individuals linked by kinship, close affinity or solid alliances hold a sufficiently large share of financial capital (ownership) or board control (controlling ownership/governance) to enable them to make decisions on strategic management and overall business goals. (Gubitta and Gianecchini, 2002). Evidently a number of globally recognized firms such as Michelin, Armani, Wal Mart, Home Depot, and IKEA were founded and are still controlled by families (Miller and Le Breton Miller, 2005). Astrachan and Shanker (2003), posit that family businesses are pivotal to many economies world economies as studies by Akinbola, Zekeri and Idowu (2017) have confirmed the weight these businesses carry in national economies especially in Nigeria. Family business accounts for 95% of the private sector in the Middle East region. Majority of all United States businesses are family-owned and controlled, constituting 50% of the employment and Gross National Product (GNP). The economic and social relevance of family businesses cannot be negligible especially in a developing economy.

Governance Challenges and Family Owned Businesses

The manner in which family firms are directed and controlled (governed) is crucial to the subject of research in developing economies as Nigeria which is regarded as giant of Africa has a huge number of family business that have stood the test of time despite unfavourable economic conditions. Selected family businesses in Nigeria which includes the Michael and Olorogun Ibru Family business, Folariwyo group, Okoya Thomas, Subomi Balogun FCMB group, Cosmos Maduka Group, Ibeto group, Ade Ojo Elizade Motors etc.

The adoption of good governance practices is beneficial to listed companies, unlisted companies, and family-owned enterprises. Good governance practices strengthen companies by building relationships among investors, boards of directors, managers, and employees. Implementing corporate governance guidelines allows businesses to obtain capital at lower cost, enhances business strategy, and attracts the best human capital. Corporate governances also promote competitiveness in the marketplace and is an antidote to corruption. Effective corporate governance also helps ensures the integrity of business operations and strengthens the rule of law and democratic governance by promoting values of accountability and transparency. In the last decade, Nigerian has experienced a sizeable increase in the number of unlisted companies, particularly family-owned organizations. These enterprises form the backbone of Nigerian’s economy and growth; the need for corporate governance guidelines for these particular types of companies has never been greater. Instituting good governance practices is particularly effective in overcoming the challenges many family-owned enterprises face.
Family Business Edge

Family ownership may be seen as an opportunity or a threat, depending on a variety of factors. The family ownership and commitment to the business may be understood as adding value, provided that the company and the controlling family can respond to the concerns of the investor. Community if they exist. Investors both shareholders and creditors may look with distrust on family-controlled companies, because of the risk that the controlling family may abuse the rights of other shareholders.

Hudzik (2011) pointed that investors will likely scrutinize such companies with care before taking the plunge and investing. There is a long and storied history of family-owned companies with highly-concentrated ownership, poor transparency and absence of accountability and fairness principles that led to abuse of minority shareholder rights. From an investor perspective, the key is to establish the right corporate governance conditions so that the positive aspects of family ownership are coupled with assurances that investor interests will be recognized and addressed. Investor perception on ownership concentration, and the value associated with it.

Globalization influence for Internationalization of Family Owned Business

According to conventional definitions, globalization is what “pushes an enterprise, its products, and its services across national borders; it promotes interaction and engagement on a global scale; it advances networking, communications, and execution of transactions; it spreads trade, investment and technology; and it integrates nations politically, economically, and culturally” (Hudzik, 2011). In contrast, the “internationalization of family business consists of strategy-based decisions and responses that family businesses adopt as a result of the impact of globalization” (Naidoo, 2006). Certain futuristic decisions facilitate family businesses to have opportunities to engage in international activities such as foreign direct investment and linkages but another question is how many of Nigerian family businesses have products that are globally acceptable? Internationalization is associated with multiculturalism, diversity, and divergence, while globalization is associated with standardization, centralization, and convergence (Antunes& Thomas, 2007). Additionally, internationalization goes beyond family business mobility (Luijten-Lub, Vander Wende, & Huisman, 2005); it should affect the entire business value chain (Bruner & Iannarelli, 2011). In terms of knowledge production, international knowledge is “affected by local markets, culture, regulations, and other idiosyncratic factors where specific regional and local insights are essential,” whereas global knowledge and insights address “universal truths (business operations, human behavior, and financial analysis)” where “a more centralized and disciplinary focus is appropriate”(De Meyer et al., 2004). Large Nigerian Family businesses are professional services organizations that have demonstrated local competencies, and the environment is highly institutionalized and should lead to highly converging strategies for internationalization but reversal is the case as a result of inappropriate governance structure of the purpose of establishment of such businesses for family and children sake.
METHODOLOGY

The methodology adopted for the study is exploratory in nature as it places emphasis on desk research and observation on the existing large family business in Nigeria. The study considered selected 7 family businesses for the study out of those family businesses registered in Nigeria based on year operations. The prominent ones considered on observation includes: Michael and Olorogun Ibru Family business, Folawiyo group, Okoya Thomas, Subomi Balogun FCMB group, Cosmos Maduka group, Ibeto group, Ade Ojo Elizade Motors. The basis for selecting the family businesses is based on their number of year of existence which is above 20 years.

DISCUSSION

Internationalization Models for Businesses

The study holds its footings on Sorensen (1997) who proposed a comprehensive classification of the internationalization models in four groups, as follows: internationalization modes (progressive models), contingency models, business network (interactive models) and social construction. Svend Hollensen (2004, 2008) has recommended the product life cycle, the Uppsala model, the transaction cost, the international business network and the globalizaton as models for internationalization. More recently, Rubaeva (2010) has dealt with Uppsala model, international network, REM and eclectic models. This paper is proposing the adoption of a systematic approach on the models for the internationalization of family businesses in Nigeria, which is classifying them in progressive, contingency and interactive models coupled with effective corporate governance structure and visionay thinking. The scientific dimensions of these three groups are included in Table 1.

Table 1

The main characteristics of the internationalization models

<table>
<thead>
<tr>
<th>Groups of models/ Scientific dimensions</th>
<th>Progressive models</th>
<th>Contingency models</th>
<th>Interactive models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective vision vs. subjective vision</td>
<td>Objective</td>
<td>Objective</td>
<td>Subjective</td>
</tr>
<tr>
<td>Static perspective vs. dynamic perspective</td>
<td>Comparative Static</td>
<td>Static</td>
<td>Dynamic</td>
</tr>
<tr>
<td>Planned orientation vs. action</td>
<td>Planned</td>
<td>Planned</td>
<td>Interaction</td>
</tr>
</tbody>
</table>

Source: Sorensen, 1997

Progressive Models of Internationalization of a Company

This type of model is assuming that internationalization is a progressive process having several successive stages. As the company is receiving more knowledge and is learning more from the international activities, these obstacles could be gradually overtaken (Forsgren, Hogstrom, 2004; Lakomaa, 2009). This hypothesis implicitly suggests too that big companies that have
considerable resources could overlap some stages and internationalize in one single step. This statement paves the way for globalization when the “born global” company targets the global market in spite of the fact that it has not yet the necessary knowledge and learning. Also, the utilization of the stored knowledge about significant markets could be not critical for the success of the internationalization if the foreign market conditions are stable and homogenous. At the same time, if the company has obtained knowledge on similar markets, it could need only one stage to entering analogous markets (Etemad and Ala-Mukta, 2009). The process of progressive internationalization is built on four stages that are sporadic export, export via independent representatives, foreign sales subsidiaries and production and manufacturing units in foreign markets (Rubaeva, 2010).

The progressive model is known as the Uppsala model and has as first scope to explain how companies succeed in learning and receiving knowledge during their internationalization operations (Pignatti). The international activities request and allow at the same time gaining two categories of knowledge, objective or general knowledge and market – specific knowledge (Hollensen, 2008; Pignatti). Market- specific knowledge is assumed to be gained mainly through experience in the market whereas knowledge of operations can be transferred from one country to another. The general knowledge can be easily obtained and facilitates geographic diversification. The knowledge generates business opportunities and is an impulse for the internationalization, this being a slow process. Another scope of the Uppsala model is aiming to show how the knowledge of the company exercises an influence over its investing behavior. The company’s lack of knowledge on new markets constraints the company to follow a gradual process of international commitment. More knowledge the company has about market lower the risk and stronger its commitment in foreign markets.

The third scope of the Uppsala model is trying to explain the significant factors for the selection of the target-market. Since the companies are aiming to reduce the incertitude and risk they start the internationalization process in the nearest countries both psychological and geographical, before they venture into far markets. The experience is showing that the psychic distance is sometimes larger than it really is and it is not a constant one and can change as a result of the development of the international trade, communications and other factors (Sorensen, 1997).

The combination among commitment of the company, geographic diversification and time allows a reorganization of the internationalization process as follows (Popa, 2001):

- First landing, when the company capitalizes its specific advantages using those capabilities and competences which allow its success in domestic market; such advantages could be technological, marketing or financial strength.
- Go native, if the company capitalizes the relocation advantages following the shift of the production and sale capacities into various markets.
- Globalization, as the company has and capitalizes global advantages using a global strategy.
The globalization is the attribute of “born-global” which are companies that from their “birth” globalizes rapidly without any preceding long term internationalization period. The increasing number and importance of “born-global” companies is the result of many tendencies as market globalization, increasing role of market niches, industries globalization, particular of the technological ones, improvement and advance of new technologies, global networks, advance and high speed of IT which have major influences on the communication technology. Contrary to the progressive process, globalization assumes internationalization in one stage only. The progressive internationalization is the outcome of the decision of individual company, while globalization requests various types of alliances, partnerships and cooperation with other companies already possessing supplementary competences, in order to facilitate the rapid growth (Hollensen, 2008).

The model of the product life cycle

The hypothesis of the model is that the successive modes of internationalization are closely related with the product life cycle and it was introduced by Vernon in 1966. It is assuming that producers in advanced countries are “closer” to markets than producers from other countries. As a result, first production facilities will be in advanced countries. As the demand expands an increasing degree of standardization takes place allowing economies of scale through mass production. The costs become more important than product adaptation. In its turn product standardizations allows that less developed countries offer competitive advantages as production location.

The life cycle hypothesis suggests that the internationalization of the company could be divided in three stages which are; the stage of the new product, the stage of the mature product and the stage of the standardized product.

Contingency models for internationalization

These models have REM as factors of influence which in fact are stages of decision of the company (Rubaeva, 2010). Reasons for internationalization or R factor are about external and internal motives of the company.
They are proactive and reactive as in Table 2.

**Table 2 The main proactive and reactive reasons of the internationalization of the company**

<table>
<thead>
<tr>
<th>Proactive reasons</th>
<th>Reactive reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Profit and growth goals</td>
<td>• Competitive pressures in the domestic market</td>
</tr>
<tr>
<td>• Technology competence/unique product</td>
<td>• Domestic market small and saturated; lowering sales</td>
</tr>
<tr>
<td>Economics of scale; cost reduction</td>
<td>• Overproduction/excess capacities</td>
</tr>
<tr>
<td>• Foreign market opportunities /</td>
<td>• Unsolicited foreign market orders</td>
</tr>
<tr>
<td>market information</td>
<td>• Extend sales of seasonal products</td>
</tr>
<tr>
<td>Managerial urge</td>
<td>• Proximity to international customers/ psychological distance</td>
</tr>
<tr>
<td>• Access to resources</td>
<td></td>
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</tbody>
</table>

*Source: Hollensen, 2008.*

**Environment or E factor**

The companies chose to enter nearby markets during the initial stages of the internationalization process due to the concept of psychological distance. By acting this way they keep working in a familiar environment and reduce the risk and uncertainty. The particular features of the location are due to the differences between the markets. These differences could be as follows: differences between the level of economic development of domestic and foreign market; Differences between the business and local language; Differences between the culture of the company and the culture of the foreign country; Differences between the level of education in the market of the company and that of the foreign target market. (Rubaeva, 2010)

**Interactive models for the internationalization of the company**

The interactive models have the market formed from a set of anonymous actors which interact on a continuous basis and have long term business relationships as the essential hypothesis. The result of this approach is a long term business network.

The model of business network emphasizes the value of commercial, personal and cognitive relationships between its members. This model assumes that the organizational network of the company is a major incentive for internationalization and the companies produce their resources by interacting with other partners. The companies of the network can be both individually independent and dependent on the resources controlled by other companies. The degree of dependence gradually increases and that means the resources of one company become more dependent on the ones of other companies for the benefit of all parties (Hollensen, 2008; Rubaeva, 2010; Căescu and Dumitru, 2011). The business networks work throughout exchange relationships and their needs and capacities are mediated by the interactions during those relationships.

The position of a company inside a network is a key concept of the network model. This position defines the present control of the company and its access to the network resources. The business
network allows the company to internationalize following three strategies (Sorensen, 1997; Rubaeva, 2010):

- Extension, when the company has relationships with companies and networks in new markets.
- Penetration, if the company deepens its relationships as part of existing international networks.
- Coordination, by improving its existing relationships inside different networks in various markets.

Mode of entry or M factor

The selection of the mode of internationalization is subject of influence of many variables. Some of the main factors of influence are cost, profit, degree of commitment, necessary control, future benefits of investment, risk potential of investment. The internationalization of the company depends on its own position inside the network and on the general framework of the internationalization of the industry or market. A four field matrix of the company inside the network may be obtained by combining the two dimensions mentioned above (Sorensen, 1997; Danciu, 2001) as in Figure 2.

Source: Danciu, 2001 and Hollensen, 2004, Figure 2. The position of the company depending on the internationalization degree

- The early starter. The company has not business relationships with foreign companies. It has to be a pioneer since no other company within the industry has such relationships. The company may follow a gradual and slow involvement in the foreign markets via an agent, leading to a sales subsidiary and then a manufacturing subsidiary.
ii. The lonely international. The company already has experience of relationships with others in foreign countries, but its competitors and customers are less internationalized. It may establish new relationships or to deepen the existing ones.

iii. The late starter. The company is still domestically focused, while the other industry companies already have long term relationships with foreign partners. Compared to early starter the late starter often finds it difficult to discover free partners and to establish new positions in a tightly structured market.

iv. The international among others

v. In this situation, the company has the chance of using positions in one network to bridge over to other networks and partners with regard to both extension and penetration. The success of such moves depends on the coordination of the international activities along the value chain.

The international business networks seem to evolve and change easier and faster. Thus, they may be more flexible and find faster answers to the change of market and business conditions. As a result, international business networks emerge in industries and markets where the coordination of interested parties gets important additional revenues.

CONCLUSIONS & RECOMMENDATIONS

The study addresses the relevance of corporate governance and internationalization of family businesses in Nigeria with references to internationalization model that have not mostly been appreciated by Nigerian family businesses. The discussion on governance challenges of family businesses in Nigeria tend to mitigate Nigerian businesses from going international as the purpose of establishing most of the businesses does not align with actualizing the vision of internationalization due to management styles. The paper concludes that family businesses in Nigeria have remained in local operations due to governance standards affecting product quality and international entry techniques of businesses. Nigerian family businesses must therefore strive to attain excellence in conduct and governance of their firms as it is essential to accessing the global market.

RECOMMENDATIONS

i. The structure basis of establishment of family businesses in Nigeria should be based on strong visionary convictions and management in order to be able to enter global market in due time.

ii. Issues that have to do with management and succession in businesses in cases of demise of owners of such establishment should be properly settled before internationalization plans of business to avoid mitigation element of trust when it comes to adopting internationalization models.

iii. Family businesses should endeavor to adopt the internationalization model that suits their business most when going international.
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