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“SUSTAINABILITY OF FAMILY OWNED CONGLOMERATES IN NIGERIA”

A Lecture Presentation Paper delivered by:

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Abstract:

This lecture presentation paper focuses on some of the attendant “Challenges and Opportunities” facing the setting up and running of successful and sustainable family owned conglomerates in Nigeria.

If properly identified and analyzed, some of these challenges and opportunities can be sufficiently leveraged for the growth and sustainability of these conglomerates.

This paper will also attempt to recommend some structured enterprise transformation steps/road map, which if properly implemented will reduce the inevitable high risk of failure normally associated with the exit or demise of the founding visionary entrepreneur(s).

Since all the challenges and opportunities are neither generic nor all-purpose, the use of an initial “Diagnostics/Strategy Validation” exercise will help in determining the most practical and appropriate transformation road map for each particular conglomerate.

As a general guide, the minimum “*listing requirements*” stipulated by the Nigerian Stock Exchange or similar reputable international Stock Exchanges will be used as the target benchmark for transformation.

Most family owned Nigerian conglomerates have limited in-house capacity/expertise to carry out a thorough “Diagnostics/Strategy Validation” and the subsequent follow-up business transformation required for desired sustainable growth. The use of suitably qualified external consultants is therefore highly recommended.

1.0 Introduction.

Nigeria with an estimated population of over 150 Million¹ is the most populous country in Africa and the eighth most populous country in the world. With an average population growth of about 3% per annum (*slightly more than the country's GDP growth rate*), one of the critical success factors for addressing the attendant demographic challenges is the development of viable and sustainable family owned Nigerian conglomerates which will sustainably generate and provide employment for Nigerians. The successful family owned industrial conglomerates (“Chaebols”) of South Korea likes Samsung, Hyundai, LG, etc. are good examples of family owned conglomerates that have contributed immensely to the economic and industrial growth of South Korea.

Apart from contributing to economic development and employment generation, sustainable family owned conglomerates are also catalysts for:

- ✓ direct creation of wealth and reduction of poverty;
- ✓ provision of technical innovation;
- ✓ provision of competition for better services;
- ✓ enhanced local tax income, etc.

A good understanding and appreciation of the attendant challenges and opportunities facing the successful setting up and running of sustainable family owned conglomerates in Nigeria will therefore be a good starting point in the pursuit of Nigeria’s long-term economic and technical development.

1.1 **Some common characteristics that “define” family owned conglomerates in Nigeria:**

- 1.1.1 The business was **privately** founded usually by a visionary proprietor with exceptional entrepreneurial drive who, in some cases invite family members as joint owners of the business enterprise;
- 1.1.2 Most started initially as either a trading and/or transportation business which later diversified and grew into a relatively large and successful family owned Nigerian conglomerate;
- 1.1.3 Despite the considerable growth and size, there is lack of good corporate governance (viz. effective Board of Directors, etc.), effective internal business controls and audit function, enterprise risk management, etc.;
- 1.1.4 Key business processes and procedures remain pedestrian:
 - Lack of proper strategic planning and implementation, poor budgeting and corporate performance management;
 - Weak internal business controls, enterprise risk and audit functions;
 - Lack of formal finance and accounting processes, procedures and reporting;
 - Lack of proper human resource management policies, processes and procedures
 - Lack of proper management information and communication processes, systems
 - **.. the entire business simply revolves around the sole proprietor(s)!**
- 1.1.5 Business activities will usually falter (or collapse completely) during the absence (or demise) of the sole proprietor(s).

¹ Not verified.

1.2 Some “external” challenges (barriers) to doing business in Nigeria:

External obstacles (outside the control of the family owned conglomerates) that limit the growth and long-term sustainability of family owned conglomerates include: (but not limited to):

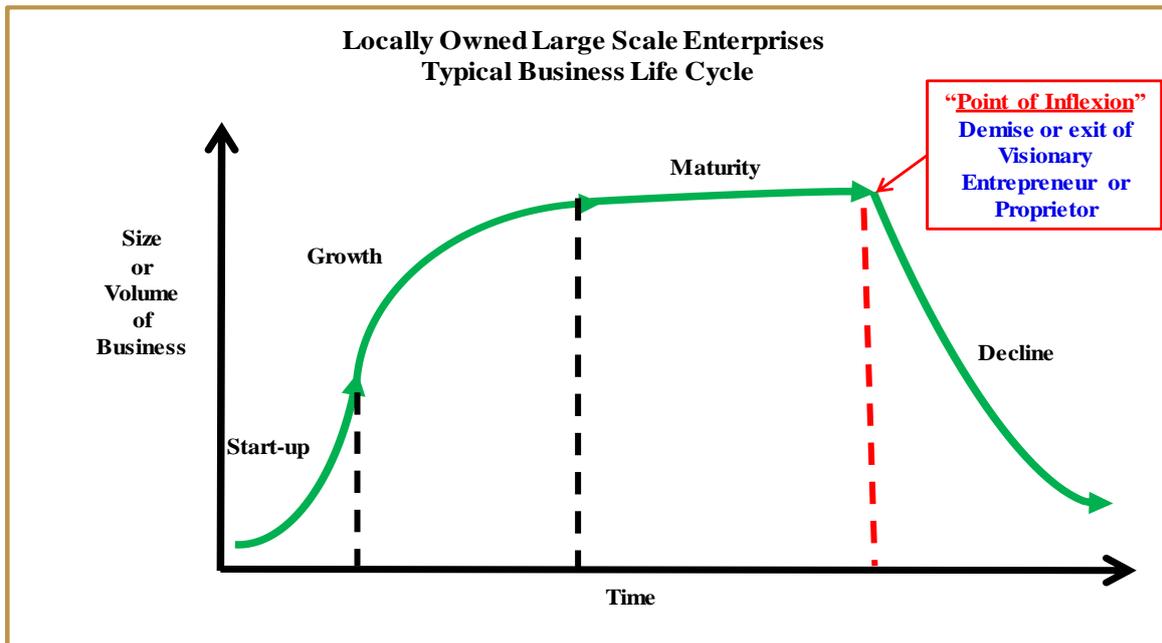
- 1.2.1 Lack of long-term financing;
- 1.2.2 Lack of adequate local technical and management expertise;
- 1.2.3 Weak/bureaucratic contracting, legal and judicial regimes;
- 1.2.4 Severe national security challenges;
- 1.2.5 Other challenging operational conditions such as poor infrastructure, corruption, multiple taxation, policy inconsistencies and summersaults, etc.

1.3 “Key Man” risks associated with family owned Nigerian conglomerates:

Even when some of the family owned Nigerian conglomerates can overcome all or some of the above listed external barriers, most of the businesses have been observed to significantly shrink or collapse completely immediately after the demise of the visionary proprietor or entrepreneur(s), (See Chart 1 below).

Chart 1:

Typical business life cycle of a family owned conglomerate without transformation:



For obvious sensitivities, this paper will not mention examples of large-scale successful family owned Nigerian conglomerates that have shrunk in size or ceased operations soon after the exit (or demise) of the visionary founding proprietor or entrepreneur.

1.4 Business Opportunities (drivers) in Nigeria:

1.4.1 Abundant Human and Natural Resources:

Nigeria has enormous natural resources, most of which are yet to be fully exploited. Apart from oil and gas, tremendous investment opportunities exist especially in the solid minerals and agricultural sectors.

1.4.2 Relatively Political Stability:

Despite periodic crises and flash points, Nigeria offers a relatively stable political environment. The international business community increasingly sees Nigeria as the central driver of a vast and relatively untapped African market.

1.4.3 Attractive Investment Incentives:

The Nigerian government has a comprehensive package of investment incentives including pioneer status tax incentives. The Federal Government also recently inaugurated the Presidential Enabling Business Environment Council (PEBEC) and the signing of a series of executive orders, all aimed at improving the Ease of Doing Business (EODB) in Nigeria.

1.4.4 Vibrant Telecommunications Sector:

Nigeria is home to the most lucrative telecoms market in Africa, which is growing at twice the African average growth rate.

1.4.5 Large Consumer Market:

With a population of more than 155 million, Nigeria is the most populous country in Africa (one in every six African is a Nigerian) and is the eighth most populous country in the world. The structure of its population, with 75% of the populace under age 30 is a healthy index for potential future growth.

1.4.6 Free Market Economy:

The Nigerian government has created a favorable climate for business and industrial ventures. Administrative and bureaucratic procedures have been greatly streamlined. The government has put in place, policies and programs that guarantee a free market economy. In recent years, Nigeria has fully or partially privatized some key sectors like banking, telecommunications, power and some aspects of the oil and gas industry.

1.4.7 Improving Infrastructure:

Nigeria is rapidly developing its physical and industrial infrastructure, in terms of transportation, communications, electricity, gas and water supply. Four of Nigeria's airports – Lagos, Kano, Port Harcourt, Abuja and Enugu - currently receive international flights and there are several domestic privately-owned Nigerian airline operators.

1.4.8 Future Economic Power:

Nigeria has recently been receiving relatively good sovereign ratings from Fitch, Standards & Poor, Moody's, Citi, etc. Global analysts generally believe that Nigeria will soon be one of the top ten (10) Global Growth Generators - economies which have been identified as destinations for profitable investment opportunities.

See latest Nigeria's long-term foreign currency issue default rating (IDR) by Fitch:

<https://www.proshareng.com/news/REVIEWS%20&%20OUTLOOKS/Fitch-Affirms-Nigeria-at--B-plus---Outlook-Stable/45662>

2.0 Necessary Enterprise Transformation Steps for Sustainability.

Depending on the type of business and its level of maturity, there are well structured transformation steps that will assist a family owned Nigerian conglomerate in its journey of achieving sustainable growth and value creation that will outlive its visionary proprietor(s).

In more cases than otherwise, family owned Nigerian conglomerates will not have the requisite internal capacity and/or resilience to embark on these transformation steps including the necessary change management that will ensure long term success. ***The use of competent and experienced external management consultants is therefore highly recommended.***

With the assistance of competent and experienced external management consultants, the sequence of a typical enterprise transformation journey will involve some or all the following steps:

- i). *Diagnostics;*
- ii). *Strategy articulation or re-validation;*
- iii). *Tax and financial optimisation;*
- iv). *Organisational structure and human resources review;*
- v). *Marketing, sales and distribution review;*
- vi). *Finance and accounting processes review;*
- vii). *Review of corporate governance, enterprise risk management and internal business control processes;*
- viii). *ICT Systems review;*
- ix). *Change management and implementation support;*
- x). *Getting listed as a publicly quoted company in a one or more capital markets.*

2.1 Details of the steps are as follows:

Steps	Activities and Work-Streams	Deliverables and Benefits
i)	Diagnostics: <ul style="list-style-type: none"> ▪ Carry out organisational diagnostics to establish “as is” business status. 	<ul style="list-style-type: none"> • Diagnostics report; • Identification of issues & gaps; • “Execution of “quick wins”.
ii)	Strategy Articulation: <ul style="list-style-type: none"> ▪ Articulate and/or revalidate strategic direction. 	<ul style="list-style-type: none"> • Revised strategic plan complete with: • Strategic objectives • Strategic initiatives (projects) with targets, timelines, milestones, etc.
iii)	Tax and Financial Optimisation: <ul style="list-style-type: none"> ▪ Review & upgrade family owned Nigerian conglomerate’s structure for tax, financing, legal and operational efficiencies. 	<ul style="list-style-type: none"> • Optimised tax efficient financial organisation structure.
iv)	Org. Structure and Human Resource (HR): <ul style="list-style-type: none"> ▪ Review operational organisation structure and if necessary re-design the HR systems; ▪ Review/Re-design Performance Management framework for each functional department ▪ Review/Re-design and develop performance incentive philosophies to link performance to individual executive performance 	<ul style="list-style-type: none"> • Target Organisational Structure (Operations) • Job Description Manual • Job Evaluation, Job grading & Compensation Structure • HR Policies & Procedures Manuals • Staff performance Management Framework & Tools • Staff Handbook
v	Marketing, Sales and Distribution: <ul style="list-style-type: none"> ▪ Develop Sales & Distribution (“S&D”) and Route-to-Market (“RtM”) structure and processes. 	<ul style="list-style-type: none"> • Defined “S&D” structure • Finalised “RtM” procedure and process manuals
vi)	Finance and Accounting: <ul style="list-style-type: none"> ▪ Develop Finance & Accounting Policies, Processes and Manuals ▪ Develop Standard Operating Procedures for Finance & Accounting 	<ul style="list-style-type: none"> • Accounting Policies Manual • Finance & Accounting Processes • Standard Operating procedures for finance & accounting

Steps	Activities and Work-Streams	Deliverables and Benefits
vii)	Enterprise Risk Management and Internal Business Control: <ul style="list-style-type: none"> ▪ Develop Risk Management Framework – policies, processes, roles & responsibilities, ERM systems and technology ▪ Develop Risk Management Implementation plan ▪ Develop Internal Business Control Policies, Processes and Manuals 	<ul style="list-style-type: none"> • Good Corporate Governance structure (Effective Board of Directors, etc.) • Risk Management Framework • Enterprise Risk Management Framework • Internal Business Control Framework • Standard Operating Procedures (SOPs’) for critical activities
viii)	Information, Communication and Technology Systems: <ul style="list-style-type: none"> ▪ Design IT Strategy & Architecture ▪ Design IT Strategy Implementation Plan ▪ Identify suitable solution options 	<ul style="list-style-type: none"> • IT Strategic Plan • IT Strategy Implementation Plan • Selected fit-for-purpose Enterprise Resource Planning (ERP) package
ix)	Change Management and Implementation Support: <ul style="list-style-type: none"> • Implementation support for IT Systems • Running the Internal Audit Function initially on an “outsourced” basis • Support in running a Project Management Office (PMO) for the Entity <ul style="list-style-type: none"> ▪ Support in embedding key operational processes and procedures ▪ Support in internal communication of shared vision, core values, business ownership and ethics. 	<ul style="list-style-type: none"> • Focused and improved communication, execution and monitoring dashboards for all strategic operation and activities • Timely issues identification and resolution and reporting • Improved operational efficiencies • Improved strategic results
x)	Getting listed in one or more stock exchanges: <ul style="list-style-type: none"> • Meeting the necessary listing requirements • Successful listing operation. 	<ul style="list-style-type: none"> • Listed in at least one or more reputable stock exchanges

The sequence and mode of application of the transformation steps will depend on the nature of business and level of “maturity” of the target family owned Nigerian conglomerate. In some cases, it may also be necessary for the target family owned Nigerian conglomerate to recruit qualified personnel to fill newly created key positions.

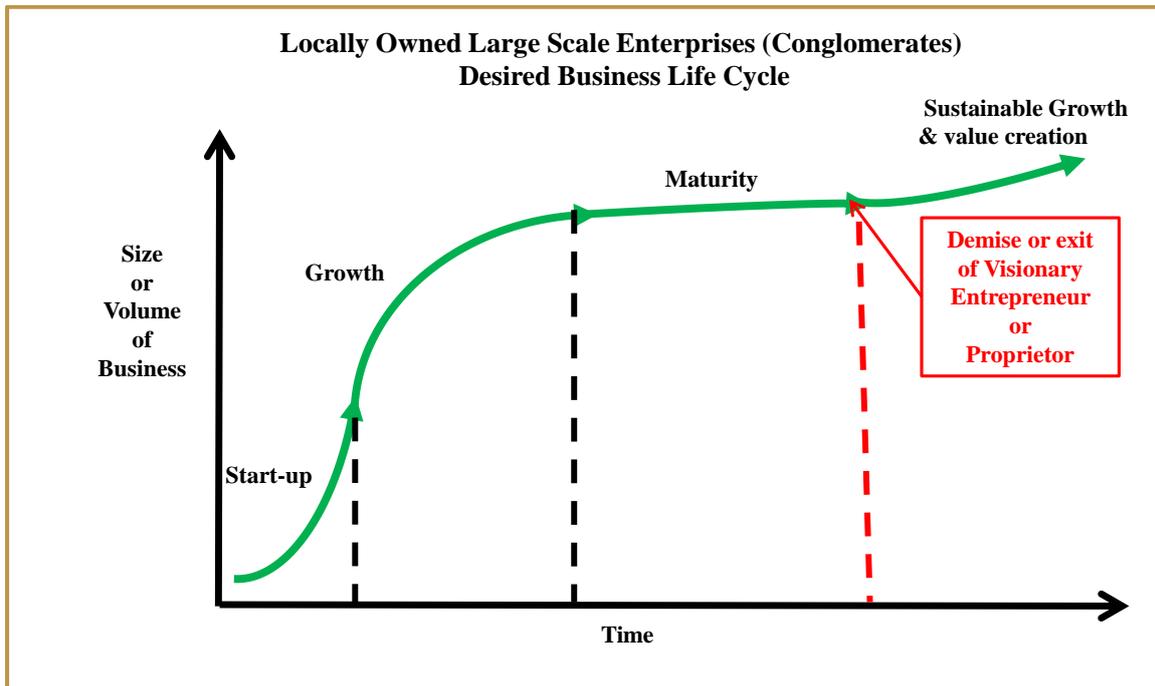
3.0 Conclusion.

Enterprise transformation is a journey. The transformation steps listed above are no “silver bullets” that will guarantee successful enterprise transformation irrespective of other extenuating circumstances. The steps, if professionally implemented, especially with the assistance of good and experienced management consultants, will greatly reduce the business risks associated with the demise or exit of visionary founder of the business.

The overall objective is to end up with a family conglomerate with a life cycle as shown in Chart 2 below.

Chart 2:

Typical life cycle of a family owned Nigerian conglomerate with desired transformation:



Thank you.

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19th June 2019*

About the Author: Engr. (Dr.) Okechukwu John (OJ) MBONU, PhD, FNSE

Engr. (Dr.) Okechukwu John (OJ) **MBONU** attended Mayflower School, Ikenne where he obtained his West African School Certificate (WASC) with seven alpha distinctions (seven A1s, one A2 & one A3). He later proceeded to Federal Government College, Warri for his Higher School Certificate (HSC). On completion of his HSC, he was awarded a Shell-BP Overseas scholarship to study Mechanical Engineering at the University of Manchester, UK. In 1977, he was awarded a Bachelor of Science (B.Sc.) degree, with first class honours and four academic prizes.



In 1978, on completion of his National Youth Service with Shell-BP, he was awarded the prestigious Manchester University Noel Philip Bedson Research Scholarship which in 1982 led to the award of a Ph.D. degree in Mechanical Engineering from Manchester University, UK.

OJ started his career as an engineer with Nigerian Breweries Plc in 1982. After his training programme, he held several senior engineering positions including, Chief Engineer, Aba and Chief Engineer, Lagos. In 1989 he was posted to Heineken Technical Services (HTS) in The Netherlands for a one-year development programme. He returned from The Netherlands in 1990 and was appointed the Group Engineering Manager of Nigerian Breweries Plc in 1990; the first Nigerian to be so appointed.

In 1996, he was “seconded” by Nigerian Breweries Plc to Shell Petroleum Development Company of Nigeria (SPDC) on contract. Whilst in SPDC, he successfully designed and commissioned a “green field” and tailor-made pre-recruitment Special Intensive Training Programmes (SITP-1 and SITP-2) located in Warri and Port Harcourt respectively.

After the contract with SPDC, he returned to Nigerian Breweries Plc in January 1999 and was elevated to the Board of Nigerian Breweries Plc as the company’s Human Resource Director (HRD) in November 1999. He was appointed as the Sales Director (SD) of the company in November 2001.

In March 2005, he was posted to Heineken International and then to Sierra Leone Brewery Limited, Freetown as the Managing Director/Chief Executive Officer of the company.

In August 2009 OJ retired from the services of Heineken International/Nigerian Breweries Plc and joined the services of PricewaterhouseCoopers (PwC), Nigeria Limited as a Director in their Advisory Line of Service (Strategy and Operations).

In July 2014, he joined Execution Edge Limited (an advisory and management consulting firm with strong capabilities and experience in the development and execution of strategy) as one of the founding Partners.

He is a COREN registered Engineer, a Fellow of the Nigerian Society of Engineers (FNSE), a Fellow of the Nigerian Institution of Mechanical Engineers (FNIMEchE), a Fellow of the Sierra Leone Institute of Engineers (FSLIE) and a Fellow of the Nigerian Academy of Engineers (FAEng).

OJ is currently living in Lagos with his wife and family. He is a keep fit enthusiast.