

CORPORATE GOVERNANCE FRAMEWORK FOR MICRO, SMALL, MEDIUM SCALE ENTERPRISE IN NIGERIA: A NECESSITY?

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1. ABSTRACT

Corporate governance enables business systems that operate independently from their proprietors. Through generations, a good corporate governance structure assures sustainability beyond the business owner. The tenets of responsibility, accountability, and transparency are central to corporate governance. Although the current corporate governance framework in Nigeria is specifically for private, public companies, the question comes to mind as to if corporate governance is relevant to micro, small and medium scale enterprises (MSMEs)? on one hand ,and if there is a legal framework for corporate governance micro, small medium enterprises in Nigeria? This article seeks to evaluate the corporate government framework for MSMEs in Nigeria and If having such corporate governance framework will contribute immensely to the growth of enterprise governance in Nigeria.; to promote ethical and best practices in building business integrity and standards in the MSMEs ecosystem in Nigeria.

KEYWORDS: Micro, Small and Medium enterprises, Corporate governance framework, Nigeria.

2. INTRODUCTION

Business growth thrives on certain fundamental structures which will mainly include: legal, corporate governance, financial, digital, operational structures

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among others. For businesses to be sustainable through generations and grow from a small entrepreneurial entity to a big brand or company, the culture of building strong business, legal, financial structures from the onset is foundational and vital for the growth of such businesses. Every business has a need that it is trying to solve in the society, which must be reflected and clearly stated in its business plan, business projections, value proposition among other business structures in place. A well-structured business is attractive to investors. Establishing financial structures such as proper Book keeping, Governance and legal structures, Business structures in a business carry with it benefits such as accessibility to loans, grants, crowdfunding opportunities, business growth, innovation, strategy and more. The importance of implementing business and other fundamental structures cannot be overstated.

It is important to note that financing is pivotal to any business particularly micro, small and medium sized businesses (MSMEs). Investors provide most of this financing, and one of the major prerequisite required by investors is the corporate governance structure, processes or charter of such businesses. Corporate governance structures guarantee the security of the finance provided by the investors from been squandered by the proprietors of the Business, and consequently yield substantial returns. A well governed business gives investors confidence and attracts other investors to such a business.

3. THE NATURE OF MICRO, SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA.

According to Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)², Micro enterprises are enterprises that have less than 10 employees and assets (excluding land and buildings) with less than 5 million naira. Small enterprises are enterprises with 10 - 49 employees with N5 million to less than 50 million assets (excluding land and buildings). Medium enterprises are those with 50-199 employees with N50million to less

² Small and Medium Enterprises Development Agency of Nigeria is the governmental agency established by the SMEDAN Act 2003 responsible for the development of MSME sector of the Nigerian Economy.

than N500 million naira assets (excluding land and buildings)³. The world bank defines Micro enterprises as such with 1 to 9 employees, small enterprises as 10-49 employees and medium as enterprises with 50-249 employees. While definitions vary from nation to nation, the standard of definition is beyond number of employees but also inclusive of variables like turnover and assets⁴. It has been argued that for there to be a universal definition MSMEs, annual turnover of enterprises should be used as one of the parameters or standards to use in defining them⁵.

MSMEs have a huge role in growing developing economies; they contribute to economic growth and job creation. Globally they symbolize a major stake of businesses and employment⁶. Consequently helping and offering hope to vulnerable communities⁷. Likewise in Nigeria, they drive economic growth and are responsible for 61% of the Gross domestic product (GDP)⁸. Micro, Small and Medium Enterprises (MSMEs) are pivotal in achieving 2030 Sustainable development goals (SDG) also known as Global goals⁹ of the United Nations as they are key drivers to entrepreneurship, employment, women and youth inclusion in the economy¹⁰. MSMEs are connectors and enablers of the various sustainable development goals which are: 1. No

³ SMEDAN, 'Federal Republic of Nigeria National Policy on Micro, Small and Medium Enterprises' pg. 12, available at www.smedan.gov.ng accessed on 20 December, 2022.

⁴ United Nations Department of Economic and Social Affairs (UNDESA), 'Micro, Small and Medium -sized Enterprises (MSMEs) and their role in achieving the Sustainable Development Goals' pg. 1-42, available at sustainabledevelopment.un.org accessed 20 December, 2022.

⁵ Amare A. Esubalew, A. Raghurama, 'Revisiting the Global Definitions of MSMEs: Parametric and Standardization Issues' (2017) 7(8) *Asian journal of Research in Business Economics and Management* 438,429-440.

⁶ World Bank, available at www.worldbank.org accessed on the 20th December, 2022.

⁷ United Nations Conference on Trade and Development, 'The International day of Micro, Small and Medium Enterprises (MSMEs)' (24, June 2020) available at www.unctad.org accessed 20 December, 2022.

⁸ Emmanuel Isaac John & Willie Ebiri, 'Small and Medium Scale Enterprises (SMES) and Economic Growth in Nigeria' (2021) 2(1) *IARJ Business Management* 39, 38-43.

⁹ These are goals earmarked by the United Nations to transform the world precisely to put an end to poverty, inequality, shield the planet, and ensure that every person enjoys health, justice and prosperity; World Health Organization, 'Sustainable Development Goals-World Health Organization (WHO)', available at <https://www.who.int>>... accessed 20 December, 2022.

¹⁰ United Nations Department of Economics and Social Affairs, 'Micro, small and medium sized enterprises', available at sdgs.un.org accessed 20 December, 2022.

Poverty 2. Zero hunger, 3. Good health and wellbeing, 4. Quality education, 5. Gender equality 6. Clean water and sanitation, 7. Affordable and clean energy 8. Decent work and economic growth 9. Industry, innovation and infrastructure 10. Reduced inequalities 11. Sustainable cities and communities. Others are: 12. Responsible consumption and production, 13. Climate action 14. Life below water 15. Life on land, 16. Peace, Justice and Strong Institutions and 17. Partnerships for goals¹¹. In other words, MSMES are significant and very relevant economic entities in our world.

4. LITERATURE REVIEW

Various scholars have written on the importance of corporate governance to SMEs. Some of these views are stated as follows. A research on Sri Lanka¹² shows that, corporate governance has been helpful for public companies but less of corporate governance is discussed for SMEs. This is a kind of disadvantage as application of good corporate governance mechanisms to SMEs may be advantageous. Corporate governance has great and positive implications such as improved management systems for SMEs growth opportunities, better resources and more. The deficiency of corporate governance not used by SMEs. reflects when they need funding, and investors ask for the corporate governance structures in place. Based on this deficiency, they lose funding opportunities, funding is key for any entrepreneur.

Small and medium enterprises (SMEs) stimulate: economic growth and development, revenue generation, diversification of economic operations, innovation via entrepreneurship and provides employment for the population. Also big companies have adopted governance standards while SMEs are yet to fully grasp corporate governance standards and ethics. However, SMEs are constantly being asked about their policies on governance, environmental and social issues especially because of their frequent interactions with these

¹¹ Available at .www.undp.org accessed 20 December, 2022.

¹² Raisal Ismail & Arun Kumar Tarofder, 'Corporate Governance And Firm Performance In Small And Medium-Sized Enterprises (SMEs) In Sri Lanka: A Path To Access The Credit' (2015) 12(1) *Journal of Management* 35, 28-37.

big companies. Incentive based governance approach would spur SMEs to adopt good corporate governance practices. These governance practices have proven to ensure accountability and transparency and structure in businesses¹³. Through the use of regional resources in the manufacture of intermediate goods and the transfer or transformation of rural technologies, SMEs also support industrial employment. SMEs actually offer the biggest possibility for job creation and rural development, and are often considered as the engine boosting this and other economies¹⁴. Adonu opines that corporate governance theory and practice now have a strategic place in relation to big, publicly traded companies. However, little focus has been placed on researching and implementing corporate governance in SMEs. Furthermore, claims have been made the viability and sustainability of any organization are frequently significantly impacted by the use of solid management and governance concepts in administration. Thus, regardless of the company ought to size, no business entity to neglect corporate governance. In fact, adopting corporate governance principles in management by SMEs has significant benefits for both a nation and owners of SMEs generally¹⁵.

In the view of Ufua, Olujobi and Edafe, Businesses rely on the functionality of the legal system to regulate interactions between business entities and the environment. This legal structure or system can support the operations and obligations of businesses in the Nigerian economy. They advocate for the need for overhauling of the legal system to encourage SMEs formation, sustenance through a conducive business environment and infrastructural development. Still, Businesses depend on the legal system's ability to control interactions between their entities and the environment. This legal framework or system is capable of sustaining the commitments and activities of

¹³Ngozi Ijeoma & Raymond Ezejiofor A, 'An Appraisal of Corporate Governance Issues in Enhancing Transparency and Accountability in Small and Medium Enterprises (SME)' (2013) 3(8) *International Journal of Academic Research in Business and Social Sciences* 162-176.

¹⁴Rasak B, 'Small and Medium Scale Enterprises (SMEs): A Panacea for Economic Growth in Nigeria' (2012) 4(6) *Journal of Management and Corporate Governance* 83-98 available at www.Cenresinpub.org accessed 20 December, 2022.

¹⁵Geoffrey C. Adonu, 'Corporate Governance in Small and Medium Scale Enterprises: Any Relevance?' (2016), available at www.papers.ssrn.com accessed 24 December, 2022.

commercial enterprises in the Nigerian economy. These authors cry out for the legal framework to be updated in order to promote the formation of SMEs, their survival through a favorable business climate, and the development of infrastructure; It also clamors for legal structure for dispute resolution for SMEs and commercial disputes and brings speed, more than that a legal framework for corporate governance and SMEs. This is paramount beyond the operations of SMEs alone¹⁶.

Although poor governance and managerial inefficiency have been identified as crucial to SME owners' attempts to secure financing and, as a result, are considered to be the major obstacles to SMEs' growth, some authors have emphasized the high potential of SMEs to push economic growth and development. Accordingly, Nigeria's SMEs have a high rate of insolvency, which is demonstrated by the collapse of numerous small and medium-sized businesses. Over the years, it has been discovered that Nigeria's SME sector has underperformed. Owners and managers of SMEs in Nigeria still have a responsibility to run their companies profitably, uphold good corporate governance, and promote a variety of funding options for long-term viability and growth¹⁷.

If the regulators demand the proper procedures, corporate governance mechanisms might boost SMEs' performance as well. Fostering effective corporate governance mechanisms has a significant impact on creative business ideas in companies. However, encouraging strict measures can stifle business entrepreneurialism¹⁸. Corporate governance makes a key contribution to promoting accountability and transparency in order to boost an enterprise' performance. Still it is important and useful, and required for

¹⁶Daniel E. Ufua, Olusola J. Olujobi & Oluwatosin D. Edefe, 'Operations of Small and Medium Enterprises and the Legal System in Nigeria' (2020) 7(94) *Humanities and Social Sciences Communications* 1-8

¹⁷ Muhammed Musa, Mabel Ukairo and Buhari Mohammed, 'Corporate Governance and Performance of Small And Medium-Sized Enterprises: A Catalyst for Entrepreneurship Growth and Sustainability in Nigeria' (2019) *The 1st International Conference on Business, Management and Information Systems* 1-19.

¹⁸ Joshua Abor & Charles K.O Ajasi, 'Corporate governance and the Small and Medium Enterprises Sector: Theory and Implications' (2007) available at, www.researchgate.net accessed 022 December, 2022.

carrying out an enterprise's social and ethical obligations in addition to its aims and objectives. Good Corporate governance encourages the enterprise's strategic direction for the environment¹⁹. Integrating sound corporate governance principles is essential for SMEs to survive²⁰.

Literatures have discussed on the effectiveness of the Nigerian legal system ,the operations of SMEs, the link between firm performance, corporate governance and SMEs, the benefits to the economy growth and more. This article seeks to reiterate the importance of corporate governance to MSMEs, particularly to examine if there is a corporate governance framework for such businesses in Nigeria. Furthermore, if it is necessary to create an exclusive and adoptable corporate governance framework for not only SMEs but also micro enterprises inclusive (due to their size) to guide them through the implementation of best corporate governance practices for their businesses. The methodology to be adopted in this article is the Doctrinal and qualitative research design. Primary and secondary data such legislations and laws and gazette national policies, journal articles will be utilized.

5. CORPORATE GOVERNANCE REGULATIONS IN NIGERIA.

Prior to 2018, the existing corporate governance regulatory framework for Nigeria was sectorial based. The various sectors: Banking, Telecoms, Pensions, Securities, Insurance had their industry specific guidelines on corporate governance. The corporate governance train had taken off in Nigeria when the Atedo Peterside committee in 2001 (which was inaugurated by the Nigerian Securities and Exchange Commission- SEC) to ascertain limitations in the Nigerian corporate governance particularly regarding public companies , subsequently formulate recommendations on the essential difference leading to the creation of SEC Code of Best Practices for Corporate governance in 2003²¹.The 2003 SEC Code was not without inadequacies, thus another committee led by M.B Mahmoud was set up in 2008 to address these inadequacies. Consequently the SEC Code 2011 was

¹⁹ Opcit, Ijeoma et al 175.

²¹ Augustine Ujunwa, 'Rethinking Corporate Governance In Nigeria' (2011) *Corporate Ownership & Control* 9(1) 517, 514 - 523.

originated.²²The other corporate governance sectorial codes in existences were: Code of Corporate governance for licensed Pensions Operators (PENCOM Code), Code for corporate governance for Insurance Companies (NAICOM Code), Code for Corporate governance for Banks and Financial Institutions (CBN Code)²³.The corporate governance ecosystem in Nigeria needed more than a sectorial code approach thus an all-encompassing or universal code was needed to meet the demands of the corporate space in Nigeria²⁴. In 2018, the Financial Reporting Council of Nigeria established the Nigerian code of corporate governance, 2018 to serve as the major corporate governance code in Nigeria while the sectorial codes complemented the main code.

The Nigerian code of corporate governance (NCCG) 2018 which is the foremost corporate governance framework in Nigeria provides for Private companies and public companies. The 2018 Nigerian Code of Corporate Governance aims to make the best corporate governance principles institutionalized in Nigerian companies. The Code also aims to raise public understanding of fundamental business principles and moral conduct that will improve the integrity of the commercial environment²⁵.Part 1 of the NCCG Act 2018²⁶ specifically states that the business entities to adopt the NCCG code are: (i.) all public companies (ii).all private companies that are holding companies of public companies or other regulated entities (iii.) all concessioned or privatized companies (iv.) all regulated private companies being private companies that file returns to any regulatory authority other than the Federal inland revenue service and Corporate affairs commission. The mentioned companies are to report on their application of the code in the annual returns.

²² Junaidu Bello Marshall, 'Corporate Governance Practices: An Overview of the Evolution of Corporate Governance Codes In Nigeria' (2015) *International Journal of Business & Law Research* 3(3) 58, 49-65.

²³Kunle Aina & Bolanle Adejugbe,' A Review of Corporate Governance Codes and Best Practices in Nigeria' (2015) *Journal of Law, Policy and Globalization* (38) 80, 78-86.

²⁴ Ibid

²⁵ Nigerian Code of corporate governance Act 2018 (NCCG Act) , Federal Republic of Nigeria, Official Gazette 2019, 30th January Vol. 106, No. 16, Part 1.

²⁶NCCG Act, S.1.

The provisions of NCCG Act may be applicable to some small and medium enterprises because they fall in the “Small Private company category”, but may not apply to some other MSMEs that are not Private companies like Business names, Partnerships and others. The Companies and allied matters Act 2020²⁷ in Section 394(3) (b) and (c) defines a “small company” as a company with a turnover of not more than N120 million and a net asset value of not more than N60 million. Section 24 of the Finance Act 2020 defines Medium sized companies as a company that earns gross turnover greater than N25 million, but less than N100million per annum or as otherwise defined by the Companies Income Tax Act. It further defines small sized company as a company that earns gross turnover of N25million, or less per annum or otherwise defined by the Companies Income Tax Act²⁸.

It is safe to imply from the above provisions that there is no provision in the Nigerian corporate governance framework for MSMEs. The extant corporate governance framework may be applicable to a class of MSMEs but not all precisely micro enterprises. Consequently, the question raised is, does the exclusion of MSMEs from the NCCG Act 2018 mean corporate governance does not apply to MSMEs? The answer to this question is a big “NO”. Is there a need for such a framework for MSMEs in Nigeria? YES. The current National code of corporate governance seems to address bigger businesses hence neglecting smaller micro businesses. The needs of smaller businesses are not met by corporate governance frameworks because they are often designed with the consideration of larger listed public organizations. Following such regimes is expensive, and the disadvantages far exceed the benefits. The needs of smaller companies' governance must be specifically addressed²⁹.

²⁷ Federal Republic of Nigeria Official Gazette, available at <https://www.cac.gov.ng> accessed 14 January, 2023.

²⁸ Federal Inland Revenue Service available at <https://firs.gov.ng> accessed 14 January, 2023.

²⁹ Opcit, Adonu

6. LEGAL AND REGULATORY REQUIREMENTS FOR MICRO, SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

The legal structure of MSMEs in Nigeria begins from Registration of the corporate organization with the corporate affairs commission (CAC) which is the governmental agency responsible for corporate matters in Nigeria. It is established under the Companies and allied Matters Act (CAMA)³⁰. The Companies and allied Matters Act 2020³¹ provides the categories of businesses for registration in Nigeria. These will include Business name (Sole proprietorship, Partnerships), Limited partnerships, Limited liability company by shares or by guarantee, Public companies. Part C of the CAMA Act 2020 provides for limited partnerships, while Part E provides for Business names, procedures, processes and requirements for registration. MSMEs in Nigeria fall within these range of business registration class except for Public companies which are for large companies.

Upon registration or incorporation of companies in Nigeria, they attain a corporate personality status³² which implies they are corporate legal persons that can sue and be sued. Business names and partnerships are excluded from the corporate personality status³³. After incorporation of the corporate organization, it is to subsequently engage with CAC and other relevant regulatory agencies depending on the nature of business (such as the Federal Inland Revenue and others) on post incorporation matters. Regulatory compliance is vital for business organisations or else such a business will be prone to penalties and sanctions which is unhealthy for such a business. Such regulatory compliance requirements are: Filing of annual returns with the CAC, Tax returns, Bank and other financial

³⁰ CAMA 2020, S.1

³¹ Federal Republic of Nigeria Official Gazette available at <https://www.cac.gov.ng> accessed 20 December, 2022

³² Salomon v. Salomon and co ltd (1897) AC 22

³³ The Proprietors of the business are personally held responsible for the operations and transactions of the business.

obligations, Sector specific regulatory requirements depending on the nature and operations of the said business and more.

To enable easy of doing business in Nigerian one of the current initiatives created by the Nigerian government is the digitalization of corporate registration and incorporation processes in 2017³⁴. Although the intention of the initiative is to ease corporate affairs processes, there have been serious drawbacks such as Technical complications and other challenges to the processes. Nevertheless the CAC is seen to make efforts to solve those challenges, although the challenges have brought frustrations to practitioners and lawyers who have complained severally of the reputational risk they face with their clients as a result of the delay due to the technical challenges that have come with the digitalization of the CAC processes. It is suggested that these challenges be pinpointed by the commission and nipped in the bud so that confidence will be restored in the system.

Registration or incorporation of businesses has benefits namely: Exclusive right to the name of the business, Registration or incorporation certificate, Reputation with stakeholders, Access to grants, loans and other financial instruments, organized business structure, recognition with government, perpetual existence and more It is important to note that it is ideal practice for businesses to be managed as a different entity from the owner for sustainability and growth notwithstanding if it is a company with corporate personality status or a business name or partnership especially regarding the funds and governance of the business. Where this is not the case, the business is set for collapse.

7.1 COMPONENTS OF AN EXCELLENT CORPORATE GOVERNANCE FRAMEWORK FOR MSMEs.

Corporate governance framework is basic for business enterprises as it will awaken the implementation of best corporate governance Practices in

³⁴ CAC, 'Corporate Affairs Commission', available at <http://www.cac.gov.ng> accessed 15 January, 2023.

MSMES to improve sustainability of businesses and better business structuring³⁵. The standards of good corporate governance are interconnected with business ethics. Corporate governance involves setting managerial processes and practices that guide the members of the business entity. Corporate governance must be enshrined through every growing stage of a business. The journey of a business begins from its ideation stage to maturity and through these stages structures must be put in place to avoid issues in the future of the business. Corporate governance should reflect from the ideation stage of the company through its growth stages. Governance concerns cannot be ignored as lack of good corporate governance mars business organizations. The negative implications of bad governance are: mismanagement of the business funds, reputational risk, business collapse, regulatory sanctions, loss of investors and many more. Thriving , well governed businesses breed economic growth .empowerment, job creation, organized business sector .sustainability and are purposeful (in the sense that the businesses are operated with environmental, social and governance in consideration).Furthermore, corporate governance reflects on the culture and values of the business, financial controls, ethical and business conduct, brand reputation, impact of the business operations on its host community, environment and persons connected to the business including employees, creditors, suppliers. Such businesses priotise legal and regulatory compliance with fundamental structures, transparency and accountability processes in place, building corporate integrity.

It is noteworthy to highlight the role of documentation and basic records keeping (financial book keeping inclusive) in strengthening business, regulatory and governance structuring. For MSMEs, it is important to balance out the interest of stakeholders from the ideation stage of the business. Corporate governance should flow in through the contractual relations of the business and business interactions, in its business documentation and policies making. Roles and stakes of each of the founders should be explicitly stated in the form of founder's agreements, corporate governance charters and other contracts. Ascertaining the governance roles

³⁵ G. J. Rossouw, 'Business Ethics and Corporate Governance in Africa' (2005) *Business Society* (44) 105, 94-106 available at <http://bas.sagepub.com/content/44/1/94> T accessed 16 January, 2023.

of founders from the onset.³⁶ It is ideal to have a corporate governance charter (the corporate governance blueprint of a business) for businesses, no matter how micro the business is. This can be drafted by governance professionals.

An ideal corporate governance framework should set standards on: Leadership; Remuneration structure of the business proprietors and relevant players in the business; stakeholder engagement with relevant stakeholders; financial reporting; environmental, social and governance issues of the business. On leadership, MSMEs ought to have board that the business is accountable to. The board must be composed of experienced personnel with balance of skills, experience and diversity. It does not have to be a large board. One of the functions of the board is to independently review the policies, processes, objectives and operations of the business and protect the best interest of the business. It could also provide advisory and constructive criticism where necessary in the business. The board does not have to include all the founders of the business as part of its composition for objectivity. The members of the board must understand the ecosystem of the business and must be able to advise and strategise accordingly. The business must provide proper records and financial documentation for the review of stakeholders, and must prioritize stakeholder meetings and discussions and meetings frequently. The business must have detailed policies, procedures and processes on remuneration structure, internal controls and management of risk, environmental impact, social and governance structures in place. It is worthy of note that the culture and values of the business must reflect good corporate governance. It is important that a corporate governance framework or code embodies the guidelines on corporate governance for MSMEs according to best practices be created in Nigeria.

7.2 Argument for Corporate Governance Framework for MSMEs in Nigeria.

The benefits of creating a proper legal framework for corporate governance in MSMEs in Nigeria are: when there is proper law or framework,

³⁶ Yemi Keri, 'Roundtable on corporate governance in startups' (October 11, 2022), Society for Corporate governance webinar.

compliance is required. Regulators will prioritize and look out for and address non-compliance in the course of their duties. It will provide a uniform corporate governance structure for MSMEs in Nigeria. There will be more awareness and knowledge for business owners, and they will see the need for its application in their businesses. Depending on the nature of the framework whether voluntary or mandatory, businesses will be required to comply or explain for non-compliance or be penalized for non-compliance respectively. It is suggested that the framework should take the voluntary nature and not mandatory so as to avoid create another burdensome regulatory requirement. Other benefits are namely: improved internal controls that lead to greater returns, separation of ownership and control and reduction of conflict of interest³⁷.

As established above, MSMEs contribute immensely to economic growth implying their significance in the economic development of nations. The collapse of MSMEs will conversely have a negative impact on the economy. MSMEs cannot be ignored; a legal framework for corporate governance for MSMEs is a necessity. As overlooking them will have a ripple effect on nations' economy. Thus the need a proper corporate governance framework that meets the exclusive needs, capacity and size is inevitable. Attention has been given to larger companies and enterprises on corporate governance; it is high time maximum attention is given to the MSMEs (the cradle of corporate organizations and businesses). MSMEs grow through stages to become big brands and companies, so why not inculcate corporate practices from the cradle.

8 ISSUES INHIBITING MSMEs IN NIGERIA.

The following are some of the issues inhibiting MSMEs in Nigeria precisely in line with Business development and corporate governance:

- a. Affordability of resources to set up basic business and corporate governance structures or afford the services of professionals to help create such structures.** Many MSMEs

³⁷ Opcit, Adonu.

assume implementing business and governance structures may be expensive, as a result they neglect important and foundational structures for their businesses to reduce seeming ‘expenses’ and focus on making profit. This neglect consequently has costly effects on such businesses leading to paying heavy regulatory penalties, governance damages and loss of opportunities. Thereby resulting is a “Penny wise, pound foolish” situation. However, this can be solved by understanding the business ecosystem, its players and requirements, employing the required skilled personnel and leveraging on the opportunities of subsidized professional advisory services at little or no cost provided by institutions such as the KPMG³⁸ (through research and its publications), Pan Atlantic University (Lagos Business School) through its Enterprise Development Centre and others, who have provide guidance and business advisory or some form of help desk for MSMEs³⁹.

- b. Lack of knowledge of corporate governance and its importance to businesses.** As a result of the passion to grow their businesses and to raise funds for it, they jump into business and contractual relationships with other parties without necessarily understanding the implications or securing their interests in such relationships. Consequently as the business grows they get entangled in corporate governance, legal, structural, business conflicts and issues that could have been avoided if they had paid attention at the beginning. It is important that basic business, legal and corporate governance knowledge, information and guidance be obtained by business proprietors especially those with a future forward and sustainability mindset⁴⁰. Management of MSMEs must be aware and possess

³⁸ KPMG, ‘MSME Banking Study; Strengthening Access to Finance for Micro, Small and Medium Enterprises (MSMEs) in Nigeria’. (November 2014) in conjunction with Enterprise Development Centre (EDC), available at [Kpmg.com/ng](https://kpmg.com/ng), s3.eu-central-1.amazonaws.com accessed 15 January 2023.

³⁹ Pan Atlantic University, ‘Enterprise Development Centre (EDC)’, available at www.pau.edu.ng ; <https://edc.edu.ng> accessed on 11th January, 2023.

⁴⁰ Opcit, Adonu.

requisite corporate governance skills so as to apply in their business procedures and strategies.

- c. Attitude of Business proprietors to Regulation and corporate Governance:** Business owners may have the attitude to corporate governance structures and regulation generally as ‘thing’ for big companies and not for them. This attitude is wrong as Regulatory compliance and corporate governance is for every business irrespective of its size and capacity. As long as business wants to grow, it must prioritize documentation of processes and structures, regulatory compliance, business and financial structuring and corporate governance. Investors look out for structuring in businesses and most importantly regulators are strict with defaulters of regulations as ignorance of the law is not an excuse. The earlier MSMEs began with implementation of the relevant legal, business and corporate governance structuring of their business from inception the better for the development of such businesses.
- d. Funding/Financing:** This is a major issue inhibiting MSMEs. Businesses need finance to grow. The lack and availability of finance frustrates many business proprietors especially MSMEs. Governmental and private intervention efforts and grants like YOUWIN⁴¹, Tony Elumelu Foundation grants for entrepreneurs⁴² and more are available to help finance and support MSMEs. The Central Bank of Nigeria and Bank of Industry have programs for financial and business support of entrepreneurs⁴³ among other similar initiatives. One of the requirements to access these grants and financial support from the government is business structure and documentation (structure cannot be overemphasized. Applicant businesses have to pass through different stages to qualify for such grants. This reiterates the point that Business and governance

⁴¹ C. Nelson, ‘Remodeled Youwin to mobilize N2.5 billion for SMEs’ *www.guardian.ng*.(Lagos, 26 June , 2017) accessed on 15 January , 2023

⁴² The Tony Elumelu Foundation , available at <https://www.tonyelumelufoundation.org> accessed on 15 January , 2023

⁴³ Bank of Industry Nigeria : MSMEs , available at <https://www.boi.ng>; Central Bank of Nigeria, ‘Micro ,Small and Medium Enterprises Development Fund (MSMEDF)’ available at <http://www.cbn.gov.ng> accessed on 15 January , 2023

structures are necessary to access finance support. Beyond desiring and looking for financing and opportunities, MSMEs have to be well organized and structured to access those opportunities. It is not enough to want finance; MSMEs must position their business to leverage such opportunities. Conversely, some scholars have argued that the Nigerian government has not done enough for the financing of SMEs, rather the government is to provide more loans, infrastructure, enabling environment and SMEs friendly policies for SMEs to thrive financially⁴⁴.

- e. **Role of the regulator as a guide as against an enforcer who is targeted at slamming sanctions.** Regulators should embrace MSMEs by providing and sensitizing them on the importance of legal and corporate governance and business structures for their businesses. Engagement, collaboration with stakeholders to provide a platform for businesses to thrive should be the priority of regulators. Also regulators should invest in the training of their staff to enable them perform better in their role towards building businesses in Nigeria.
- f. **The Ease of doing business in Nigeria is costly and tedious⁴⁵.** This makes it difficult for businesses to be sustained. Particularly as infrastructural challenges like electricity, good roads, security, high cost of doing business in Nigeria and Regulatory bottlenecks and bureaucracy, Insecurity, Inflation and foreign exchange, high interest rate on loans have led to the collapse of two million MSMEs in Nigeria between 2017 and 2022⁴⁶. It will require resilience and consistency to build a sustainable business in Nigeria. Other

⁴⁴ B. Rasak, 'Small and Medium Scale Enterprises (SMEs): A Panacea for Economic Growth in Nigeria' (2012) *Journal of Management and Corporate Governance*. 4(6) 83-98, available at www.Cenresinpub.org. accessed 16 January 2023.

⁴⁵ Nigeria currently ranks 131 out of 190 countries 2022. It has improved from 146 position in 2018 to 131 position; G. Onyedinefu, 'Boosting Nigeria's ranking on ease of doing business via standards' *businessday.ng* (Lagos, 18 November 2022) accessed 16 January, 2023.

⁴⁶D. Dan-Awoh, 'why two million MSMEs collapsed in two years?' *Punchng.com* (Lagos, 29 August 2022) accessed 16 January, 2023.

climes⁴⁷ have business registration, regulatory compliance online systems that can be accessed conveniently, from the comfort of the home in lesser time and stress. Nigeria has online platforms for business registration via the Corporate affairs commission (CAC), Federal Inland Revenue Service and other agencies, however these platforms comes with so many frustrating issues⁴⁸. The CAC digital platform for company registration has been criticized severally by professionals due to its technical hitches, errors and lack of speed in some instances. These hitches have jeopardized the professional integrity of professionals in the face of their clients. It is suggested that beyond digitalization of regulatory systems and processes in Nigeria (which is excellent initiative), putting the well trained personnel (in terms of technical know-how) to man such systems and processes. Also, uploading correct and accurate information of applicants without errors, timely response to applications and complaints are important.

9 CONCLUSION

The current corporate governance framework in Nigeria does not include nor does not apply to MSMEs, although some class of SMEs may due to the fact that they fall under the private company category be covered under the applicability of the NCCG Act 2018. This brings to the conclusion that there is no exclusive corporate governance framework for MSMEs in Nigeria, the non - availability of such framework does not mean there is no need for it. The significance of MSMEs to economic growth, development and sustainability is a major pointer to the fact that it is a necessity for a corporate governance framework for MSMEs to be created in Nigeria by the relevant statutory authority saddled with corporate governance matters in Nigeria which is the Financial Reporting Council of Nigeria. Moreover, it is these

⁴⁷ United kingdom ,Sweden, Hong Kong and more; www.forbes.com Best countries for Business (accessed 15 January, 2023)

⁴⁸T. Olu, 'CAC: Registering Business Now 'Game of Chance' As Nigerians Lament Commission's Inefficiency' thewhistler.ng (Lagos, April 25, 2021) accessed 15 January, 2023.

MSMEs who determine the economic direction of nations that will grow (if they survive) to become great multinational companies and industries. This is the reason why a solid governance foundation be provided for these enterprises for sustainability purposes and also to imbibe the governance culture and practices from the onset.

10 RECOMMENDATIONS

It is necessary for a corporate governance framework for MSMEs to be created in Nigeria not as a regulatory burden, but as a tool to make businesses grow better. The following are recommendations that would enable and enhance the governance framework for MSMEs in Nigeria:

1. Sensitization of all Business enterprises proprietors' particularly micro enterprises on the benefits of corporate governance structures for their businesses. Due to the high rate of unemployment in Nigeria⁴⁹, many youths are embracing and venturing into entrepreneurship. It is not about the creation of businesses that will keep the economy growing rather it is the sustainability of such businesses that is key. The Nigerian government through the National youth service corps scheme⁵⁰ has been exposing youths to entrepreneurial skills and vocational trainings⁵¹. The corporate governance awareness and sensitization can also be taken to the NYSC entrepreneur programs since a lot of MSMEs spring up from the youths entrepreneurs. This will enable that they imbibe the culture of good corporate governance from the foundation of their businesses. Furthermore the media can be used to sensitize business owners generally on the benefits of corporate governance for their business and its implications. Sustainability can only possible through the implementation of best corporate governance practices

⁴⁹The World Bank, 'Unemployment, youth total (% of total labor force ages 15-24) (modeled ILO estimate)-Nigeria', available at data.worldbank.org accessed on 15 January, 2023

⁵⁰ NYSC is a compulsory one year service scheme to the Nigerian government for graduates in Nigeria;

⁵¹ F. Olorokor, '764,677 Corps members have completed entrepreneurship training, says NYSC DG' *Punchng.com* (Lagos, 19 December 2021) accessed on 15 January, 2023.

and standards to build viable and long standing businesses consequently boosting the economy.

2. The creation of an exclusive and adoptable corporate governance framework for MSMEs in Nigeria. The framework should be drafted in simple, relatable language not verbose language, and broken down to the level for micro enterprises to easily understand and interpret. The intention of the suggested corporate governance framework is not to overburden MSMEs with more regulatory standards, rather to create structure and sustainability for their businesses. It should not be a cumbersome framework that will frustrate this class of business owners so as not to become another “Box ticking”, tedious regulatory regulation. As already the business environment in Nigeria is already stressful and ease of doing business in Nigeria is tedious considering bureaucracy and cost of doing business. It may not be mandatory in nature, but may adopt the voluntary nature⁵² of corporate governance codes, more like a guide to guide process of imbibing the corporate governance culture. Stringent corporate governance measures for MSMEs may discourage business entrepreneurship. It is recommended that the Financial Reporting Council of Nigeria which is the body saddled with responsibility of corporate governance matters in Nigeria⁵³ creates the corporate governance framework for MSMEs for accountability and better governance structuring for enterprises.
3. Encouragement of Micro enterprises to have a board of professional advisers for accountability. Such can enterprises ought to have a reasonably sized board with a balance of experience, diversity and skills that the business can be accountable to, for guidance purposes and for promotion of business growth and sustainability. There are professional consultants who are willing to offer advisory services to budding businesses pro bono or with little cost or minimal equity. Business owners must seek information in order to leverage these opportunities.

⁵² More like a persuasive, a comply or explain approach.

⁵³ Financing Reporting Council Act 2011.

4. Contributions of Stakeholders in the suggested corporate governance framework for MSMEs in Nigeria. For there to be a robust corporate governance framework for MSMEs, the input of stakeholders in the MSMEs' ecosystem is important. This will include Regulators, relevant governmental agencies, MSMEs, governance professionals, academicians and more to view issues from different perspectives and develop an enriched framework.
5. Relevant Governmental agencies that have regular interface or interactions with MSMEs and entrepreneurs such as the Bank of Industry , Corporate Affairs Commission , Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and others, may have Corporate governance MSMEs help desks in their offices to guide entrepreneurs on the importance of corporate governance and applicability for their businesses. Also, there is the need for proactive regulatory monitoring of corporate governance compliance on MSMEs by regulators such as CAC and FRCN who is saddled with corporate governance responsibilities.