
Group Dynamics: Navigating the Relationship between Parent Companies and Subsidiaries - Part A

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1. Introduction

In general, a parent company is defined as an organisation that controls a significant portion of another company's management and operations, typically more than 50% of the voting rights or shareholding.¹ The parent-subsidiary relationship is a key part of modern corporate structures. It lets companies spread out their risks, grow in a smart way, and make their operations more efficient.²

In addition to mitigating complex legal, financial, and governance issues, these structures are designed to accomplish objectives like international expansion or tax efficiency through the creation of specialised business units. A key factor in these arrangements is the level of freedom the subsidiary has, which in turn affects the parent company's liability and the extent of legal compliance and regulatory oversight

The law, therefore, sets certain parameters that determine when a subsidiary will be treated as a distinct legal entity and when its acts may be attributable to the parent company.

In law, a subsidiary is a separate legal entity, yet a court can “pierce the corporate veil” if it can be established that there is fraud, wrong or misconduct, or when the subsidiary is nothing more than the agent of the parent. This captures the conflict between the legal conceptualisation of separate corporate personality and the actual situation where beneficial owners control the company.

In Nigeria, the Code of Corporate Governance (NCCG) 2018 underscores the need for parent companies to exercise effective oversight without undermining the autonomy of their subsidiaries. The framework emphasises that, while strategic direction may come from the parent, the board and management of a subsidiary must retain sufficient independence to act in the subsidiary's best interest and comply with sector-specific regulatory obligations.

¹ Section 381 of the Company and Allied Matters Act, 2020

² Dilitrust - **Understanding Subsidiary Companies: A Comprehensive Guide**
<https://www.dilitrust.com/subsidiarycompanies/#:~:text=One%20of%20the%20most%20common%20and%20effective,aland%20manage%20risk%20while%20maintaining%20strategic%20control.>

2. Understanding the Corporate Group Structure

A corporate group, or companies operating within a group structure, refers to companies that have parent-subsidary relationships.³ It is generally understood as a network of companies all linked by a common controlling entity, with the controlling entity being the parent (or holding company) and the others, its subsidiaries. A parent-subsidary relationship arises under certain conditions, including:

- a. When one company (the parent) holds more than 50% of the share capital of another company (*the subsidiary*).⁴
- b. Where one company (*the parent*) controls the composition of the other company's board of directors. This control means the parent, acting as shareholder, can unilaterally appoint or remove a majority of the subsidiary's directors.⁵

In a corporate group structure, there must be a controlling relationship. The parent company “controls” the subsidiary. The parent is usually the major shareholding, and through this majority shareholding, it has the decisive voting power and influence over the subsidiary's operations.⁶ Typically, corporate groups are formed through mergers and acquisitions (M&A), which creates a cluster of companies under a unified control structure. For instance, when Google was restructured in 2015, Alphabet Inc. was formed as the parent company of Google and its various subsidiaries. Also, following Guaranty Trust Bank PLC's restructuring in 2021, Guaranty Trust Holding Company PLC (GTCO PLC) was formed as the parent company for Guaranty Trust Bank Limited and its other financial and non-financial subsidiaries.

Parent-subsidary relationships are common among financial institutions, where the parent (or holding company) is typically a public limited liability company, and the subsidiary is a private limited liability company. For instance, Stanbic IBTC Holdings PLC is a financial services holding

³ Ajogwu Fabian, *Corporate Governance & Group Dynamics* (Revised edition, CLDS Publishing 2024).

⁴ Companies and Allied Matters Act 2020, Section 381

⁵ Ibid.

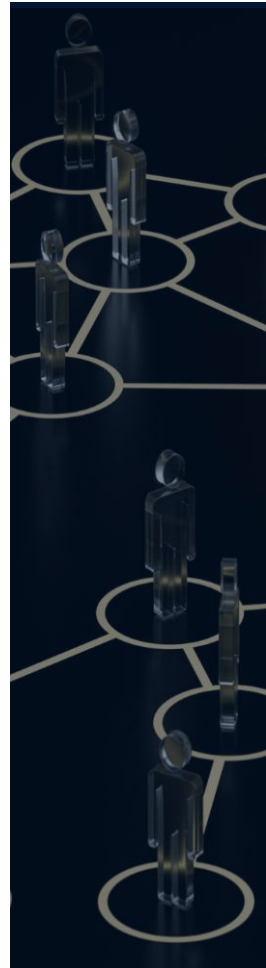
⁶ Karsten Sørensen, *The Governance of Company Groups*, OECD Corporate Governance Working Papers No 22 (OECD 2021) <https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/03/the-governance-of-company-groups_bab4d23a/6302f79a-en.pdf> accessed 25 July 2025.

company, and its subsidiaries include Stanbic IBTC Bank Limited, Stanbic IBTC Pension Managers Limited, Stanbic IBTC Asset Management Limited, and Stanbic IBTC Insurance Limited (all part of the broader Stanbic IBTC Group). A corporate group structure also arises where the parent company expands internationally. For instance, Guaranty Trust Bank (UK) Limited is a subsidiary of Guaranty Trust Bank PLC (headquartered in Nigeria).

Structure and Hierarchy of Corporate Groups

Corporate groups come in many forms but share a basic hierarchy. At the top is the ultimate parent (often a holding company or the largest operating company), which holds controlling interests in one or more subsidiaries. The subsidiary is a company in which the parent owns a majority of the shares (often more than 50%), giving the parent effective control. Subsidiaries can themselves own other companies, creating a “subsidiary of subsidiary” structure or a second-tier subsidiary.

Now, a parent in a group structure (which, for the purpose of this article, can be used interchangeably with the term “holding company”) can also refer to a company specifically established with the primary purpose of acquiring and holding controlling interests in other entities. Rather than engaging in its own direct operations, its business owns shares in other companies. If it solely owns shares in other companies and does not engage in its own business operations, it is a “pure holding company.” If it also conducts its own business operations, it is a “mixed holding company.”⁷ For instance, Alphabet Inc. is explicitly described as a holding company for Google and related ventures. Many large groups use a holding company at the top of the structure to centralise control. The primary objective of these holding companies is to manage their portfolio companies and allocate capital effectively. Other examples that fall under the pure holding company structure are Berkshire Hathaway Inc. (led by Warren Buffet) which owns GEICO (insurance), BNSF Railway, Dairy Queen, Duracell,



⁷ Ajogwu Fabian, *op. cit.*

and many other companies, across various industries; FBN Holdings Plc for First Bank of Nigeria Limited and its other subsidiaries; Stanbic IBTC Holdings Plc as a holding company for Stanbic IBTC Bank Plc and various other subsidiaries; among others in this category.

Another form of a corporate group structure is the conglomerate. This refers to parent or holding companies whose subsidiaries engage in diverse, unrelated lines of business. The holding companies mentioned above (Stanbic IBTC Holdings Plc, FBN Holdings Plc, etc.) hold companies within the financial services sector, including commercial banks, asset management, pensions, and insurance. For conglomerates, their subsidiaries span a wide range of industries, often entirely distinct from one another, such as manufacturing, real estate, household goods, and technology.

A prime example of such is Samsung. While widely recognised for its electronics (Samsung Electronics), Samsung's operations extend to shipbuilding (Samsung Heavy Industries), construction (Samsung C&T Corporation), financial services (Samsung Life Insurance), biopharmaceuticals (Samsung Biologics), medical equipment (Samsung Medison), and more. A large conglomerate like this employs a circular ownership structure: one subsidiary owns part of another, which in turn owns part of the first. In essence, company A owns a stake in company B, company B owns a stake in company C, and company C, in turn, owns a stake back in company A, completing a “circle.” This is how Samsung's founders, the Lee family, have maintained control over the entire Samsung empire despite not holding a majority stake in any single company.⁸

Within the African context, there is Dangote Industries Limited, or Dangote Group (founded by Aliko Dangote). This is the largest conglomerate in West Africa, with multiple subsidiaries operating across various sectors. Its subsidiaries include Dangote Cement Plc, Dangote Sugar Refinery Plc, NASCON Allied Industries Plc (producing salt and

⁸ Heekyong Yang and Yuna Park, 'South Korea regulators step up pressure on Samsung over complex ownership structure', Reuters (Seoul, 10 May 2018) <<https://www.reuters.com/article/technology/south-korea-regulators-step-up-pressure-on-samsung-over-complex-ownership-struct-idUSKBN1IB0KC>> accessed 25 July 2025.

other food products), Dangote Petroleum Refinery and Petrochemicals FZE, Dangote Fertilizer Limited, Dansa Foods Limited, Dangote Transport Limited, Dangote Agro Sacks Limited (packaging materials), and Dangote Sinotruk West Africa Limited (truck assembly).⁹

The Fundamental Principle: Separate Legal Entities

It is a well-established principle in company law that a company is a separate legal entity, independent of its shareholders, directors, and other related individuals or entities. The rights and liabilities of the company are its own and are not automatically those of its shareholders or directors.¹⁰ This principle applies to all companies, including those within a group structure (parent-subsidiary companies).

This principle of separate legal personality presupposes that a subsidiary's liabilities and obligations generally do not automatically bind the parent or the other subsidiaries within the group, and vice versa. Shareholders (even the parent company) have limited liability, meaning their loss is limited to their investment in that company. Each company in the group structure is treated as a separate legal entity with its own obligations and responsibilities. The parent company and its subsidiaries each own their own assets and properties, and neither can be held liable for the debts or actions of the other, except in specific instances where a court might “pierce the corporate veil” due to fraud, improper conduct, or in the interest of justice.¹¹

3. Board Composition in Group Structure & Dynamics

Board Composition

The composition of the Board of Directors is a critical element of corporate governance, as it directly impacts decision-making, accountability, and strategic oversight. An effectively structured board balances executive directors (EDs) and non-executive directors (NEDs), including

⁹ Dangote Industries Limited, 'Our Business' <<https://www.dangote.com/our-business>> accessed September 29 2025.

¹⁰ Salomon v A Salomon & Co Ltd [1896] UKHL 1, [1897] AC 22

¹¹ Ajogwu Fabian, *op. cit.*

independent directors, thereby ensuring that decisions are taken objectively, free from undue influence by management or controlling shareholders.¹² The Nigerian corporate governance standards for Board composition include diversity and skills,¹³ size of the boards,¹⁴ independence of the board,¹⁵ and separation of powers (The NCCG states that there must be a clear separation of the roles of the Chairman, who leads the board, and the Chief Executive Officer (CEO), who manages daily operations. This separation prevents excessive concentration of power and promotes accountability.)¹⁶

Board Composition in Parent, Subsidiaries Group Structure & Dynamics

When these principles are applied to group structures, the dynamics become more complex due to the interplay between the parent company's strategic oversight and the operational independence of its subsidiaries. The parent company often nominates directors or senior executives to serve on subsidiary boards, aligning group-wide strategies and monitoring performance. However, this must be balanced with the inclusion of independent directors who safeguard the subsidiary's autonomy and ensure that decisions are made in the subsidiary's best interest.

Under Section 305 of the CAMA 2020, directors owe their fiduciary duties to the specific company on whose board they serve, even when they are appointed by a parent company shareholder. This statutory obligation underscores the importance of independent judgment and the avoidance of conflicts of interest.

Key Governance Considerations in Group Structures

1. Board Representation and Cross Directorships

Parent companies often nominate executives or directors to serve on the boards of their subsidiaries, thereby preserving strategic alignment and ensuring group oversight. However, under Section 305 of CAMA 2020, a director owes a fiduciary duty specifically to the company whose board

¹² Directors Forum <https://www.pwc.com/mu/en/assets/miod-position-paper-7.pdf>

¹³ Principle 11 of the Nigerian Code of Corporate Governance 2018

¹⁴ Principle 2 of the Nigerian Code of Corporate Governance 2018

¹⁵ Principle 7 of the Nigerian Code of Corporate Governance 2018

¹⁶ Principle 3 of the Nigerian Code of Corporate Governance 2018

they serve, even if they were appointed by a shareholder of the parent company.

To prevent conflicts of interest, boards of subsidiaries should include independent non-executive directors (INEDs) who can safeguard the interests of the subsidiary.

2. *Independence and Operational Autonomy*

Principle 11 of the NCCG 2018 requires that boards be composed to foster independence, accountability, and transparency. Some sector-specific regulations also mandate that while the parent company provides oversight, subsidiary boards must maintain operational autonomy, ensuring that decisions are taken in the best interest of the subsidiary, its stakeholders, and its regulatory obligations.¹⁷ This principle is particularly critical in highly regulated sectors, such as banking, pensions, and insurance, where subsidiaries have sector-specific compliance requirements.

3. *Diversity and Skills*

A well-composed board should reflect a balance of skills, expertise, and diversity, including gender diversity. For instance, NCCG 2018 encourages boards to have combine financial, legal, risk management, and industry expertise to ensure robust decision-making. Within a group structure, the subsidiary board may require additional sector-specific expertise compared to the parent board, depending on the nature of its operations.¹⁸

This approach is evident in the governance practices of companies such as Stanbic IBTC Holdings Plc¹⁹ and FBN Holdings Plc.²⁰ In both cases, directors nominated by the parent company sit on subsidiary boards to ensure strategic alignment, but these boards are also complemented by independent directors and industry specialists.

¹⁷ The CBN Corporate Governance Guidelines for Financial Holding Companies (2023)

¹⁸ Principle 4 of the Nigerian Code of Corporate Governance 2018

¹⁹ Stanbic IBTC Holdings plc, *Report on Compliance with the Nigerian Code of Corporate Governance 2018* (Financial Reporting Council of Nigeria) (Corporate Governance Report) 2024, 8–9

²⁰ FBN Holdings Plc, *Corporate Governance Report 2020* (FBN Holdings) 35–38 'FAQs on FirstBank Migrating to FBN Holdings' (FBN Holdings Plc) 6.

4. Fiduciary responsibility of the Board of companies in the Parent and Subsidiaries Relationship

The ultimate responsibility for managing the company's affairs lies with the Board of Directors.²¹ A director is expected to exercise due care, skill, and diligence in the discharge of their responsibilities. A company's director is also expected to demonstrate the highest level of good faith in any transaction involving the company or conducted on its behalf.²²

The sum of these duties is referred to as the fiduciary duties of a director. The fiduciary duties of the board of directors of a parent company and its subsidiary encompass the duty of trust and confidence.²³ These category of duties emerged from the common Law (old English laws) and equitable doctrines (law that mitigate the harshness of the common laws of England) which comprises of the director's duty of utmost good faith in his dealings with the company, the duty not to place himself in a position where there is conflict of interest between his duties and his personal interest. The fiduciary duties of directors stemming from the common law duties of skill, care, and good faith are not exhaustive but can be submerged under the following:

- a. Duty to manage the affairs of the company within the powers conferred by the company's Memorandum and Articles of Association²⁴;
- b. Duty to avoid a conflict of interest²⁵;
- c. Duty to act in the best interests of the company (Loyalty)²⁶;
- d. Duty of care and skill²⁷; and
- e. Duty not to make unauthorised profit.²⁸

In addition to understanding the fiduciary duties of the board of a parent company and the board of its subsidiary, it is also essential to understand to whom these duties are owed. *The Companies and Allied Matters Act (CAMA) 2020*, the primary regulation for companies in Nigeria, declares positively that the board of directors owes its duties to the company on

21 Ajogwu, Fabian (2015), Decoupling Ownership from Management of Companies: Governance Perspectives in the Pursuit of Profits. Pp 26 & 27

22 Companies and Allied Matters Act 2020 Section 305 (1)

23 Fabian Ajogwu, *Corporate Governance in Nigeria: Law and Practice* (2nd edn, Centre for Commercial Law Development 2019) 151.

24 Companies and Allied Matters Act 2020 Sections 269 and 87 (3)

25 Companies and Allied Matters Act 2020 Section 306

26 Companies and Allied Matters Act 2020 Section 305 (3)

27 Companies and Allied Matters Act 2020 Section 308

28 Companies and Allied Matters Act 2020 Section 306 (2)

whose board it sits.²⁹ In other words, the board of a parent owes its fiduciary duty to the parent company, while the board of a subsidiary owes its fiduciary duty to the subsidiary.

'A director of a company stands in a fiduciary relationship towards the company and shall observe utmost good faith towards the company in any transaction with it or on its behalf.'³⁰

A director is legally obligated to always act in what they believe to be the company's best interests. This includes preserving the company's assets, protecting the interests of its shareholders and other stakeholders, and acting with the diligence, care, and skill that a prudent and conscientious director would exhibit under similar circumstances.³¹ *Section 305 (3) CAMA, 2020* provides that:

'A director shall act at all times in what he believes to be the best interests of the company as a whole so as to preserve its assets, further its business, and promote the purposes for which it was formed, and in such manner as a faithful, diligent, careful and ordinarily skilful director would act in the circumstances and, in doing so, shall have regard to the impact of the company's operations on the environment in the community where it carries on business operations.'

Subsection 4 also provides that this duty extends to protecting the interests of the company's employees and its members, thus:

'The matters to which a director of a company is to have regard in the performance of his functions include the interests of the company's employees in general, as well as the interests of its members.'

²⁹ Companies and Allied Matters Act 2020 Sections 170 and 172

³⁰ Companies and Allied Matters Act 2020 Section 305

³¹ Companies and Allied Matters Act 2020 Section 305 (3)

It should, however, be noted that with the evolution of corporate governance and the establishment of the various codes of corporate governance, the directors' fiduciary duties now extend towards the shareholders of the company on whose board they sit.³² Specifically, *Principle 23.2 of the NCCG, 2018*, stipulates that at all times, directors should act in good faith and with integrity in the best interests of all shareholders and provide adequate information to shareholders to facilitate their investment decisions.

There are situations where conflicts may arise regarding the board of the subsidiary company being torn between acting in the best interest of the parent company as a shareholder and at other times in the best interest of the subsidiary as a company. In such situations, if the directors make a decision that serves the interests of the subsidiary company as an entity at the expense of the shareholder, they risk losing their positions on the board and facing liability to the shareholder for breach of fiduciary duty. On the other hand, if they resolve the conflict by making a decision that favours the shareholder, they risk being held liable by regulators and other third parties to whom traditional corporate law may provide a fiduciary duty.

While these two duties to the company and shareholders are of equal and independent significance, the directors' duty to the company as an entity should generally take precedence over their duty to the shareholders.

The law has also anticipated situations where the director is acting as an agent of a particular shareholder and, in relation to group dynamics, where a director on the board of a subsidiary is an agent of the parent company, a shareholder in the subsidiary. In situations like this, the fiduciary duty of the board is owed to the subsidiary company and must take priority over those of its shareholders.³³ Specifically, *CAMA 2020* states that the fiduciary duty of a director is owed to the company where –

³² Companies and Allied Matters Act 2020 Section 305 (4)

³³ Companies and Allied Matters Act 2020 Section 305 (2)

S. 305(2)–

- (a) a director is acting as agent of a particular shareholder or*
- (b) though, he is not an agent of any shareholder, such a shareholder or other person is dealing with the company's securities.*

Based on *Section 305(a), CAMA 2020*, where a director (or, in this case, the Board) is appointed explicitly by a shareholder to represent their interests and act on their behalf, the director (or the Board) still owes a fiduciary duty to the company. Despite their role as an agent for the shareholder, the director (Board) is legally required to prioritise the company's best interests over those of the shareholder. This is a crucial aspect of corporate governance, ensuring that directors (the Board) act solely in the interest of the shareholders who appointed them, without considering the broader interests of the company.

On the other hand, *S. 305(b)* means that even if a director is not acting as an agent for any particular shareholder, they still owe a fiduciary duty to the company when there are dealings involving the company's securities by shareholders or other individuals. The director must ensure their actions do not unfairly benefit or harm any parties involved in these securities transactions and act in the company's best interests.

Be that as it may, it is important to note that at all material times, the board of a parent company is expected to exercise its fiduciary duty in favour of the parent company, while the board of a subsidiary company is expected to exercise its fiduciary duty in favour of the subsidiary company.

5. Balancing Control with Subsidiary Autonomy: The boundary of the parent-subsidiary relationship

Subsidiary autonomy refers to the extent to which³⁴ subsidiaries make strategic decisions in their operating environment without any interference whatsoever by the parent company.³⁵ As already stated above,

³⁴ Kawai, N., & Strange, R, 'Subsidiary autonomy and performance in Japanese multinationals in Europe.' (2014) *International Business Review*. <https://doi.org/10.1016/j.ibusrev.2013.08.012> accessed July 25, 2025.

³⁵ Q. Nguyen, 'The determinants of MNE foreign subsidiaries' performance: A systematic literature review and future research agenda.' (2024) *International Marketing Review* <https://doi.org/10.1108/IMR-09-2023-0249> accessed July 25, 2025.

subsidiaries are distinct legal entities, subject to their own regulatory obligations and fiduciary duties.³⁶ Subsidiaries, therefore, need to be able to make their own decisions to encourage creativity and generate new ideas that will help them remain competitive. It is understandable that parent companies often feel the need to maintain control over their subsidiaries' operations to make sure their activities are in line with the group company's broader goal; however, too much control over the subsidiary's activity can delay their creativity and growth.³⁷

It is impossible to deny how sensitive it can be trying to balance the parent-subsidiary relationship in corporate governance; this requires proper guidance between the control of the parent company and the independence of its subsidiary. This dynamic required a careful understanding of governance, strategic alignment, and operational autonomy. While a parent company needs to have a level of control and oversight over its subsidiaries to manage its group interests effectively,³⁸ this oversight must be balanced to avoid a situation where a parent company seeks to have excessive control and involvement in the affairs of a subsidiary.

Balancing the parent company's control with the subsidiary relationship is never straightforward. Although a parent company and its subsidiary are separate entities and independent of each other, the parent is shielded from direct liability for the acts or omissions of the subsidiary. The separation between a parent company and its subsidiary is not always preserved in practice.

In practice, the parent company often has a major influence over the subsidiary, especially when it owns a majority or controlling interest. However, this control must be exercised carefully, as a parent could be penalised for excessive interference in the subsidiary's operations,³⁹ which can result in legal and regulatory sanctions. It is important to note that excessive “control” by the parent over the subsidiary is sometimes said to

36 Aaron Hall, 'Conflicts in Governance Between Parent & Subsidiary' (Aaron Hall Attorney) <https://aaronhall.com/conflicts-in-governance-parent-subsidiary/> accessed July 25, 2025.

37 J Li, G Liu and Z Ma, 'RD internationalization, domestic technology alliance, and innovation in emerging market' (2021) 16(6) PLOS ONE e0252669 <https://doi.org/10.1371/journal.pone.0252669> accessed July 26, 2025.

38 Matheson, 'Achieving balance in the Parent-Subsidiary relationship: Some Practical Tips for Corporate Groups and their Directors' (Lexology, 2022) <https://www.lexology.com/library/detail.aspx?g=91af9a59-160e-4d26-a1cc-dd200dc0d314> accessed July 26, 2025

39 William J Rands, 'Domination of Subsidiary by a Parent' (1999) 32 Indiana Law Review 421.

be a *sine qua non* for piercing the corporate veil of the subsidiary⁴⁰ to hold the parent liable.

It is important to address how the parent companies exercise influence without compromising their independence. Various means exist by which parent companies may influence the subsidiary companies without infringing on their independence.⁴¹ Terms and conditions, such as intercompany or service agreements, delegated authority matrices and a schedule of reserved matters,⁴² may be entered into and assist in properly delineating the scope of authority between parent and subsidiary.

a. Board Representation

- The parent company may appoint or nominate directors to the board of the subsidiary to give a measure of control and influence and oversee the functioning of the subsidiary. It would also be an opportunity to monitor the performance of the subsidiary without interfering with day-to-day work.
- Directors owe fiduciary duties to the subsidiary and must act in the best interest of the subsidiary, regardless of the control exercised by the parent company.⁴³
- At least one-third of the board must consist of Independent Non-executive directors to ensure a proper balance of power.⁴⁴

b. Service Agreements

- The service agreements/ intercompany agreement should be drafted appropriately to define the duties and responsibilities between the parent and subsidiary.
- These agreements help the subsidiary retain operational autonomy within a framework that ensures the parent retains strategic oversight.
- Areas typically covered include branding, intellectual property use, and financial reporting.

⁴⁰ Legal Memorandum: Liability of Parent Corporation for its Subsidiary' (LegalResearch.com) <https://legalresearch.com/litigation-advisor/litigation-pathfinder/issue-finder/legal-memorandum-liability-of-parent-corporation-for-its-subsidiary-3/> accessed July 26, 2025.

⁴¹ UpCounsel, 'Understanding the Parent Subsidiary Relationship: Definition and Dynamics' (UpCounsel, 27 February 2025) <https://www.upcounsel.com/parent-company-subsidiary-relationship> accessed July 25, 2025.

⁴².

⁴³ Eric J. Gouvin, 'Resolving the Subsidiary Director's Dilemma' Hastings Law Journal, Vol. 47, p.287

⁴⁴ Ibid.

c. Schedule of Reserved Matters

- A schedule of reserved matters outlines some specific decisions that needs the approval of the parent company before a subsidiary can act on it; this includes matters such as major sale of assets, change in capital structure and certain contracts.⁴⁵
- This gives subsidiaries the freedom to manage their day-to-day operations without any interference whatsoever, whilst relying on the parent company to handle/approve other sensitive and critical decisions.

d. Flexibility

- It should be permitted for subsidiaries to implement certain policies where they are in agreement with local laws of the reporting area.
- It, however, behoves subsidiaries to ensure the proper communication of their aims and objectives to their parents, so that they are in line with the aims of the parent company.⁴⁶

e. Risk Management

- Parent companies should create policies that will help to guide subsidiaries, especially in the aspect of risk management.⁴⁷
- This will help the subsidiaries to properly assess the risk involved in a matter before making certain important decisions so as to protect the image of the group.

f. Limiting Excessive Interference

- Parent companies should make sure they do not interfere too much with the day-to-day management of the affairs of the subsidiary; instead, they should be more involved in carrying out proper checks and balances on the subsidiaries' activity.⁴⁸

⁴⁵ Raveena Rani, 'What is a Reserved Matters List, and what is it for?' (Zegal, 14 February 2024) <https://zegal.com/blog/post/reserved-matters-list/> accessed July 27, 2025.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Matheson, 'Achieving balance in the Parent-Subsidiary relationship: Some Practical Tips for Corporate Groups and their Directors' (Lexology, 2022) <https://www.lexology.com/library/detail.aspx?g=91af9a59-160e-4d26-a1cc-dd200dc0d314> accessed July 26, 2025

Adopting these approaches allows the parent to maintain strategic alignment of the subsidiary with its overall goals and objectives whilst retaining subsidiary autonomy. However, some instances may arise in which a parent company oversteps these boundaries and becomes actively involved in the day-to-day operations of its subsidiaries.⁴⁹ There are numerous ways in which a parent company can exceed its bounds. These may include, but are not limited to, imposing operating decisions upon the subsidiary's routine operations; unilaterally overriding management decisions made by the subsidiary; interfering with financial matters of the subsidiary and making decisions without respect to intercompany agreements; and instances where Board action at the level of the subsidiary is not independent.⁵⁰ Such actions usually indicate that the subsidiary does not enjoy real independence in fact, and, if proved, certainly courts and regulatory authorities may impose liability upon the parent company for actions taken by the subsidiaries, since it is usually found, in such instances, that fraud is practised on third parties.

Ultimately, the parent companies should be interested in constructing governance systems for corporate structure that define and fix the limits of decision-making bodies and promote transparency across lines. While the entire idea of subsidiary independence may be more than a goal than anything of practical import, still the question arises as to a serious discussion in indicating a balance between these two tendencies. As stated above, a properly constructed governing system will give a parent company proper control of its subsidiary to render it possible to give full opportunity to protect its interest and thus give the subsidiary the opportunity to operate independently of parent control.

6. Regulatory and Compliance Considerations: Jurisdictional Challenges and Reporting Obligations

Parent-Subsidiary relationships often face various complex regulatory and jurisdictional challenges, including issues related to conflict of laws,

⁴⁹ Ibid

⁵⁰ Emiliano Di Carlo and Francesco Ranalli, 'Corporate Governance and Performance: A Study of Listed Subsidiaries' (2023) 1(2) Business Performance Review

reporting and disclosure obligations, regulatory scrutiny, and liability risks, among others, which will be discussed below:

- i. *Conflict of laws:* Conflicts of law often arise from cross-border group structures when parent companies desire their subsidiaries to comply with some of their rules, which usually conflict with local laws of the jurisdiction within which the subsidiary operates.
- ii. *Reporting and Disclosure:* Much concern centres around financial reporting when investors hike asking for some sort of transparency in terms of disclosures and consistency disclosures⁵¹ Section 374 (2) (a-b) of the Companies and Allied Matters Act (CAMA) 2020 requires disclosures that accurately reflect a company's financial position to enable directors to prepare reliable financial statements.⁵²

Subsidiaries must report their operating and financial activities to the parent quarterly, every two years, or every year in a parent-subsidiary relationship.

Under Nigerian law and IFRS, a parent must consolidate subsidiary accounts for compliance and for performance measurement.

These problems include delayed receipt of complete and accurate reports by the subsidiaries, inconsistency or divergence in the reports, and discrepancies in accounting standards across jurisdictions. To mitigate these, parents should adopt a standardised reporting template and establish clear deadlines for submission to prevent delays in reporting.

- iii. *Regulatory Scrutiny and Liability Risks:* A scandal in a subsidiary can easily damage the parent company's reputation.⁵³ Though it is the overall principle of company law that each company operates independently with liability of its own, courts can 'lift the veil of

51 KPMG, 'Presentation and Disclosure, IFRS 18' *First Impressions* (June 2024) <https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/ifrg/2024/isg-first-impressions-presentation-and-disclosure-ifs-18.pdf> accessed July 27, 2025.

52 Companies and Allied Matters Act (CAMA) 2020, ss 374 (1-2)

53 Ibid

corporate liability' in case it is discovered that a subsidiary is undertaking certain activities which may turn out to be fraudulent.

iv. Double Taxation of Dividends: The taxation of dividends in Nigeria concentrates on the withholding tax (WHT) system, with companies being required to withhold tax before the payment of dividends.⁵⁴ While this ensures compliance, it often creates challenges for multinational corporations, particularly double taxation.

Profits earned by Nigerian subsidiaries are first taxed locally, and when dividends are sent to the parent company, they may also be taxed in the parent's home country. This results in the same income being taxed twice, increasing the financial burden on cross-border businesses.⁵⁵

To reduce this, Double Taxation Agreements (DTAs) share taxing rights between countries and provide relief through exemptions, reduced WHT rates, or foreign tax credits. These mechanisms allow parent companies to offset taxes already paid in Nigeria, easing the impact of double taxation.⁵⁶

7. Conclusion

Part 2 of the piece on 'Group Dynamics' will examine key factors that could cause tensions between a parent company and its subsidiary. Particularly, the extent of control a parent has, the need for autonomy of the subsidiary, as well as risks and conflict management.

⁵⁴ Emmanuel Obidimma and Chukwubikem David, 'Dividend taxation in Nigeria: Addressing double taxation, challenges, reforms, and prospects for economic growth' (2025) 2(1) *Nnamdi Azikiwe University Journal of Private and Property Law* 54.

⁵⁵ A Olowookere and A Adebayo, *Nigerian Taxation: Principles and Practice* (2nd edn, Princeton Publishers 2020).

⁵⁶ OECD, *Model Tax Convention on Income and on Capital 2017* (OECD Publishing) <https://www.oecd.org/tax/treaties/> accessed 3 April 2025

CONTRIBUTORS



Abasiemediong Etuk, MCArb
Governance and Compliance



Rafiat Shittu
*Environmental, Social
and Governance Unit*



Shallom Ikenga
White Collar Unit



Chiamaka Anakua
Governance and Compliance



Contact

LAGOS

KENNA Place
8, Ogunyemi Road, Palace Way, Oniru
PO Box 73002, Victoria Island, Lagos

ABUJA

1st Floor, Novare Central
Plot 502 Dalaba Street,
Wuse Zone 5, FCT 900285, Abuja

ENUGU

3 Emmanuel Ngwu Street,
Thinkers' Corner,
Enugu, 400001

+234 811 395 1052, +234 811 395 1053
counsel@kennalp.com

