

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

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1. Introduction

Globalisation has brought in an increase in parent companies and subsidiary relationships into the business environment of today. The benefits of the structure, varying from its creation to its different advantages, including flexibility in operations, tax benefits, exposure to different markets, and segregation of legal liabilities, cannot be overlooked. With these advantages comes a network of intricate legal relationships, control frameworks, and governance expectations.¹ There have been challenges in achieving a balance between oversight duties of the parent company and independence needs of the subsidiary. This has been the cause of gaps in governance, regulatory dangers, and cultural differences.

With the above, group relationships are no longer limited to simple compliance with law. They need deliberate structuring of decision-making, a strong corporate culture, sound risk management, and open communication channels. Part B of the article on 'Group Dynamics' has the most applicable reasons to practice why tensions between a parent and subsidiary company may arise. In particular, we will consider the extent to which a parent company can control, autonomy need of the subsidiary, and management of risk and conflict.

2. Delegation of Authority to the Subsidiary and Decisions Reserved for the Parent Board

In a relationship between parent and subsidiary companies, a clear delineation of authority between them is essential for operational efficiency, legal compliance, and corporate governance. Under the Companies and Allied Matters Act (CAMA) 2020,² subsidiaries are distinct legal entities with their own boards and management, allowing them to operate independently, enter contracts, and assume liabilities in their own name.

The CAMA provisions for the separation of ownership and management also cover subsidiaries, and no less so than the parent company.³ Subsidiaries must possess boards and managements of their own that are independent, so that ownership control is not permitted to override sound corporate governance at subsidiary level. The Court of Appeal in Nigeria has held that “A subsidiary company has its

1 Upcounsel, “Understanding the Parent Subsidiary Relationship: Definition and Dynamics” <https://www.upcounsel.com/parent-company-subsidiary-relationship> accessed 8 August, 2025.

2 Companies and Allied Matters Act 2020, section 42; *Salomon v A Salomon & Co Ltd* (1896) UKHL 1; *Lee v Lee's Air Farming Ltd* [1960] UKPC 33.

3 *Jairus Ede Otoja, 'A Critique of the Separation of Ownership and Control of Companies under Companies and Allied Matters Act 2004'* (LLM Dissertation, Faculty of Law, Ahmadu Bello University, Zaria, 2016). <https://kubanni.abu.edu.ng/bitstreams/4b5a6b9e-b9ec-40d2-aafc-78e699faf7c0/download> accessed 11 August 2025.

*own separate legal personality. In general, the acts of a subsidiary company cannot be imputed to the parent company and vice versa.” Each has its respective assets and properties.*⁴

While legally independent, parent companies usually acquire controlling stakes in their subsidiaries to enable them to have control over key elements of governance and operations. Parent companies usually make the relationship manageable through formal delegation of powers structures that grant subsidiaries autonomy in overseeing local market conditions and regulatory needs and that ensure the parent board maintains control over strategy and exposure to significant risks.

A company is also a subsidiary under Section 381 CAMA 2020 where the parent company maintains direct or indirect control of its board of directors, has more than 50% of its share capital, or itself a subsidiary in a chain of control. In corporate law, the control of the subsidiary board is where generally the parent will be exercising a right of appointment or removal of over half of the directors without having recourse to other shareholders' approval. In practice, the delegation framework under the parent firms and subsidiaries is fairly clear in defining the decision latitude at each level.⁵ The day-to-day business functions are typically delegated to subsidiaries to be carried out at their own level, such as the approval of operational expenditures within approved financial limits, organizational appointments and manpower decisions at local levels, negotiations and signing of contracts with suppliers, and compliance with applicable local laws and industry-related regulations. This autonomy is especially significant in the complex and dynamic business environment of Nigeria where subsidiaries must deal with disparate regional regulatory environments, local content strategy, and socio-economic contexts.

For instance, subsidiaries operated by industry sectors such as banking, telcos or manufacturing are not just expected to observe the broad provisions of CAMA, the Nigerian Code of Corporate Governance, and applicable sector-based governance codes, but also with regulations overseen by regulatory agencies.⁶ These range from institutions such as the Nigerian Communications Commission (NCC), Standards Organisation of Nigeria (SON), and broader regulatory agencies, including the Federal Competition and Consumer Protection Commission

4 Asset Management Nominees Ltd and Anor v Forte Oil Plc & Ors. 4 [2017] LPELR – 43553 (CA); Bulet International (Nig.) Ltd & Anor v Olaniyi & Anor [2017] LPELR – 42475 (SC); Pharmacia (Nig) Ltd v Pharmacia Corporation [2020] LPELR - 49581(CA)

5 Kelley Pruetz, 'Delegation of Authority: Key Insights for Effective Decision-Making' (APQC, 25 March 2025) <https://www.apqc.org/blog/delegation-authority-key-insights-effective-decision-making> accessed 11 August 2025

6 Global Law Experts, *Navigating the Regulatory Maze: Key Government Permits Required for Oil & Gas Operations in Nigeria*, Global Law Experts (date published) <https://globallawexperts.com/navigating-the-regulatory-maze-key-government-permits-required-for-oil-gas-operations-in-nigeria/> accessed September 22, 2025.

(FCCPC). This diverse regulatory control requires subsidiaries in these sectors to have decision-making authority in order to function effectively, and avoid unnecessary delays, especially those arising out of excess control by parent companies.

Furthermore, because Nigeria's geopolitical zones differ widely in culture and business strongholds, subsidiaries often need room to blend and adapt to their areas of primary assignment and build relationships with the communities ensure balance in respect of employment and community standards and practices.⁷ Through the act of delegation, especially in respect of day-to-day operations of the subsidiary by the parent company, these subsidiaries are made stronger, and more sustainable in building trust with local stakeholders in host communities, and managing risks and compliance. This must, however, be handled with caution in order not to allow subsidiaries to operate with no control at all.

Conversely, decisions that have either strategic, financial or reputational weight for the group are usually kept at the level of the parent's board. Within the context of Nigeria, such reserved matters often cover the approval of annual budgets and business plans, authorisation of major capital projects, and confirmation of appointments or removals of senior executives and directors in subsidiaries. Through the possession of these powers at the forefront of operations, the parent company is able to ensure consistency in all directions in charge and safeguard the overall direction and growth of the group.

Besides this, major financing agreements such as lending, guaranteeing, or intra-group lending are also withheld based on their capacity to impact the overall financial position of the group and exposure to liabilities. Mergers, acquisitions, or other restructuring options are also screened by the parent entity in order to protect shareholders and not contravene regulatory frameworks⁸.

Similarly, Related-party transactions, by virtue of their being in group structures, are very much controlled at the level of the parent to prevent conflict of interest and deal with the disclosure requirements as set out in the Nigerian Code of Corporate Governance. Within the Nigerian regime, and as investors increasingly verify, having such choices localized at the top of affairs enables the

7 Kezia Farnham, 'Subsidiary Management Explained: What It Is & How to Get It Right' (*Diligent*, 26 February 2024) <https://www.diligent.com/resources/blog/subsidiary-management> accessed 11 August 2025.

8 Adeola Oyinlade & Co, 'Merger And Acquisition In Nigeria: The Legal Procedure And Guidelines' (Mondaq, 12 November 2024) <https://www.mondaq.com/nigeria/maprivate-equity/1541974/merger-and-acquisition-in-nigeria-the-legal-procedure-and-guidelines> accessed September 22, 2025

group to sustain uniform standards of supervision, thus limiting legal as well as reputational risk. Finally, centralized monitoring of this nature assures minority shareholders that their interests are safeguarded while ensuring subsidiaries continue operating in accordance with the parent company's broader objectives and vision.

Delegation of authority between parent and subsidiary companies in Nigeria serves as a major governance control. It allows the subsidiaries to take care of day-to-day business concerns and react to local circumstances and conditions while the parent firm retains ultimate authority over major decisions, most critically those that are on the borderline of the group's financial well-being, reputation, and long-term strategic direction and objectives. This is ensured through CAMA provisions under legislation and supplemented by governance codes that ensure accountability and transparency within parent as well as subsidiary firms.

3. Risk Management and Liability Sharing in Group Structure

In a corporate group structure, risk will always result in conflict between the parent and subsidiary corporations if not managed properly.⁹ Risks can significantly impact a company if proper frameworks are not in place to mitigate them.

In a corporate group structure, the presence of risk is likely to cause tension between the parent company and its subsidiaries if not properly managed. Without a doubt, a company cannot operate in a risk-free environment; however, it takes risks to pursue opportunities and earn returns for its owners. Striking a balance between risk and return is the key to maximising shareholder value. Risk, if properly managed, is a positive thing.¹⁰ Though risks cannot be avoided, they must be recognized as not just harmful dangers but as chances that, if utilized, may provide a better means of reaching goals.

Therefore, risk management mostly entails:

- a. Risk setting
- b. Risk identification
- c. Risk mitigation

⁹ Will Kenton, "Business Risk, Definitions, factors and examples" (*Investopedia*, 10 May , 2025) <<https://www.investopedia.com/terms/b/businessrisk.asp#:~:text=In%20business%2C%20risks%20are%20factors,and%20government%20rules%20or%20regulations>> accessed August 13, 2025.

¹⁰ R Smerdon, 'Risk Management and Internal Control' in *A Practical Guide to Corporate Governance*, 3rd ed., p. 309.

Risk management within a group organizational structure of companies begins with the recognition that the obligations of one company can, under certain circumstances, impact the entire group. The parent company must then create risk management systems safeguarding the group as a whole while also fitting the operating needs of every subsidiary.

Who, then, sets risk appetite for group companies? Setting an organisation's risk appetite is a delicate aspect that entails balancing the tight rope between parent control and subsidiary independence. The parent organisation is typically involved in determining the risk appetites of its subsidiaries, particularly where it deals with significant enterprise risk management aspects, credit, and capital, which can expose an organisation to debts and liabilities. While the subsidiary board can decide credit and capital with lower financial impact, risk appetite with greater financial impact will need to be decided by the parent company and clearly communicated to the subsidiary. To this end, it is expected that the parent company will develop a risk management policy that allows its subsidiaries to take sensible risks without jeopardizing the reputation or stability of the group.

An important consideration in risk management is ensuring regulatory compliance, i.e., adherence to policies, standards, laws, or specifications formulated by an organisation's management or other regulatory institutions. While the parent company and its subsidiary may not necessarily operate in the same jurisdiction, the parent company needs to exercise some level of oversight over its subsidiary's compliance with relevant laws and regulations. This is because breach of these laws and regulations involves sanctions such as heavy fines, withdrawal of operating licenses and restructuring of the board members. These sanctions can directly or indirectly impact the parent company, and as such, should be given requisite attention.

To ensure alignment in risk management procedures and standards, it is essential for the parent company to develop a risk management policy that sets standards and procedures for identifying, mitigating, and preventing undesirable risk-taking, reviewing past incidents, and implementing changes to prevent or reduce future incidents.

Liability Sharing in Group Structures

While corporate law generally shields the parent from the liabilities of its subsidiaries due to their distinct corporate personality, practical and contractual arrangements can alter this dynamic. In sectors such as finance, extractives, and construction, parent guarantees, intercompany loans, and joint operations often create implicit or explicit liability-sharing mechanisms.

Common approaches include:

- i. *Contractual Indemnities:* express agreements between a parent and subsidiary should be executed and can allocate specific risks, ensuring that liabilities are to be borne by either the parent company or the subsidiary, are expressly stated.
- ii. *Insurance Structures:* Corporate group should adopt a group wide insurance structure that allows risk pooling and cost efficiency while providing coverage for subsidiary operations.
- iii. *Separation of Governance Structure:* Maintaining strict legal separation through independent boards, separate accounts, and adherence to corporate formalities strengthens the protection of the corporate veil.
- iv. *Operational Containment:* High-risk activities may be ring-fenced within specific subsidiaries to prevent contagion to the broader group.

4. Conflict Resolution Mechanisms

Conflict is inevitable in life as it is certain that there will be disagreements. Parent company/subsidiary conflicts and parent company/subsidiary conflicts could arise from divergent strategic agendas, communication breakdowns, control-autonomy conflicts, incompatible interests, differences in culture, and compliance with regulation.¹¹

Conflicts between subsidiaries and holding companies, if not controlled, can lead to operational disruptions which can eventually slow down the business on a day-to-day basis.

¹¹ Aaron Hall Attorney, 'Conflicts in Governance Between Parent & Subsidiary', <https://aaronhall.com/conflicts-in-governance-parent-subsubsidiary/> accessed October 6, 2025

Conflict must be realized as it is not necessarily violent but may intensify and lead to devastating consequences. Not all conflict is bad, though; the proper kind of conflict can contribute positively to an organisation and lead to creative thought and positive development.

Conflicts have to be managed and solved effectively. Not only is it required to resolve the conflict, but it is also equally important to ensure that the parties to the conflict do not unnecessarily get into any sort of emotional turmoil while the conflict is being resolved. Resolution of conflict and emotional stability of those involved will be critical to effective conflict management. Proper conflict management is also crucial to the overall operation of the companies in a group structure.

Key stakeholders involved in group conflict

Conflicts can occur between key stakeholders in a corporate group structure.

- Executive board members of the parent and subsidiary companies
- Non-executive board members of the parent and subsidiary companies
- Executive and non-executive board members of the parent and subsidiary companies
- The Chairman and the Chief Executive Officer of the parent and subsidiary companies
- Board and Management of the parent and subsidiary companies
- Management of the parent and subsidiary companies

Mechanisms for conflict management

As noted above, while it is most probable that conflict and disagreements will arise, what matters is how the affected organisations manage to weather such storms skillfully. Conflict resolution requires effective leadership and systematic planning. Effective conflict resolution requires stable systems aimed at supporting free communication and cooperation and incorporating systematic self-evaluation and third-party audits on a periodic basis to identify key problems before they blow into full-blown scandal proportions.¹²

¹² Boardroom conflict expert conflict coaching solutions', <https://minutemediation.com/boardroom-conflict-expert-conflict-coaching-solutions/> accessed October 6, 2025

Some of the techniques that are applied in conflict management are:

- *Compromising:* it entails a situation where the aggrieved party is able to identify some middle ground or sacrifice some of their interests without necessarily losing or winning. Compromising parties are willing to sacrifice some of their interests in order to settle. Compromising is a basic short-term conflict resolution skill because it facilitates immediate settlement of the conflict matter in order to prevent any further escalation.
- *Collaboration:* This conflict resolution is marked by a highly cooperative and assertive conflict management style. It is the capacity to blend ideas in an effort to seek the best solution in a conflict. It is one of the most positive conflict resolution styles, which depends on the building of trust and understanding among stakeholders. The best solution arises from a creative process that results from input from other stakeholders.
- *Establishment of conflict resolution policy:* Group structural companies need to have a conflict resolution policy to handle conflict issues. The policy should indicate how the conflicts will be solved, including escalation and corrective measures. A conflict resolution policy provides a standard method of solving similar conflicts. This will remove any possibility of any kind of unfairness or injustice, which could increase tension.
- *Fostering open communication:* Open dialogue in a group structure where power can be abused creates an avenue for the expression of concerns and viewpoints without restraint or fear. This will enhance a culture of transparency and accountability, prevent misunderstandings and encourage trust. One-to-one conversations enable active listening to uncover the root causes of conflicts and improve engagement.¹³ Acknowledging concerns, holding face-to-face conversations, and addressing them helps depersonalise tension by reminding the parties involved of their higher purpose. Reminding members of their higher purpose can reduce personal conflicts. Acknowledging the existence of misunderstandings and understanding the points of view and differences in personalities, even without agreement, prevents repetitive discussions and discourages disengagement.¹⁴
- *Mediation:* Mediation is an essential tool for managing boardroom conflicts. This involves bringing in a neutral third party to help resolve the dispute. This

¹³ CS Julius Mwatu, 'Navigating the Boardroom: Managing Conflicts and Tensions in the Boardroom' (26 September 2024)

ICS Governance Journal, Vol 1 No 3, <https://journal.ics.ke/index.php/journal/article/view/27> accessed 6 October 2025.

¹⁴ Ibid

can be particularly useful when emotions run high, as a mediator can help facilitate constructive dialogue.¹⁵ This third party may be an independent third party (external third party) or the chairman of the organisation, particularly where the chairman is not a party involved in the conflict. Independent directors can also serve as mediators because they are not engaged in running the company.¹⁶ Part of their quality is providing an impartial perspective, which is especially helpful in mediating disputes between board members or between the Board and Management of the parent and subsidiary company.

- *Clarifying authorities reserved for the parent company:* Clearly defining the authority limits of subsidiaries helps prevent overlaps and power struggles. Governance guidelines clearly define the scope of decision-making and establish accountability mechanisms.
- *Implementing Conflict Resolution Training:* it is essential that key strategic officers in both the parent and subsidiary organisation are given frequent training on conflict management and resolution, which should be included in their KPI's and the organisation's training modules. Knowledge of conflict management and resolution skills can equip organisations with the tools to handle disputes effectively. Additionally, establishing clear contractual provisions and escalation protocols pre-emptively addresses potential disagreements, enabling swift intervention before conflicts intensify.
- *Adopting Clear Governance Policies:* To prevent disputes and governance issues, it is essential to have a strong governance framework in place. Establishing and adhering to clear governance policies can reduce the potential for conflicts. These policies should cover areas such as decision-making processes and conflict-of-interest management.

Emotional intelligence is a must for conflict management, representing the ability to listen and empathise with all sides to negotiate the most rational and beneficial outcome.

15 'Mastering Boardroom Disputes and Governance Challenges: Resolving Conflicts with Confidence' (Chaman Law Firm) <https://chamanlawfirm.com/boardroom-disputes-and-governance-challenge/> accessed 6 October 2025.

16 CS Julius Mwatu, 'Navigating the Boardroom: Managing Conflicts and Tensions in the Boardroom' (ICS Governance Journal, Vol 1 No 3, 26 September 2024) <https://journal.ics.ke/index.php/journal/article/view/27> accessed 6 October 2025.

5. Instilling a Unified Corporate Culture and Code of Ethics Across Group Entities

Corporate culture is the set of values, beliefs, behaviours, and attitudes that are shared, interpreted, and transmitted within a corporate entity over time, and which is unique to that corporate entity.¹⁷ To best understand corporate culture, it is important to first understand what culture is. Hofstede defines culture as the collective programming of the mind which distinguishes the members of one human group from another.¹⁸ By this definition, corporate culture is a 'collective programming of the mind' which distinguishes the members of an organisation from those of another organisation. It encompasses the way employees, members, directors, management, and others within an organisation think, behave, and interact. There is a shared mindset within the organisation.

For the structure of a corporate group, the most significant issue of governance is to have the same set of values and ethical standards in all subsidiaries so that the culture embedded in the parent company is duplicated within the entire corporate group. It must be noted here that the subsidiaries may also be exposed to different legal, cultural, and market environments, and the sensitivity levels in these different environments are also different. One culture over group entities unites governance, brand identity, stakeholder trust, and also assures defense versus corporate collapse.

A code of ethics is a document drafted and adopted by an organisation to guide the ethical behavior of its members. Such codes are either rule-based (that is, detailed, written rules and standards) or principle-based (general, abstract expectations, such as an organisation's mission, vision, and values). Typically, the code of ethics includes the organisation's mission and vision, the major values, responsibility to stakeholders, and the clear code of behaviour for employees. In practice, it is the code of ethics that establishes and drives the organisation's corporate culture.

A cohesive corporate culture and shared ethics code across a corporate group strengthen trust, coherence, and performance across all entities. When a parent company instils common values and norms throughout its subsidiaries, it gains alignment and a shared identity that holds the entire corporate group together.

17 Prabina Shrestha, 'Corporate Culture and Organisational Performance: A Review of Literature' (2024) 4 Nepalese Journal of Management Research <<https://www.nepjol.info/index.php/njmgtr/article/download/63695/48152/187057>> accessed 10 August 2025.

18 Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (Sage 1980) 13.

For instance, Unilever explicitly notes that its Code of Business Principles, with values of integrity, respect, responsibility, and pioneering, is mandatory for all Unilever companies, subsidiaries, and organisations over which Unilever has management control.¹⁹ This shared code, translated into many languages, is meant to guide every employee and affiliate of Unilever worldwide.

Instilling a unified corporate culture and code of ethics across all group entities requires deliberate and sustained action. This includes the following best practices:



Leadership Commitment: The board and management of the entire corporate group (that is, those of the parent company and the various subsidiaries) must set the ethical tone from the top. They must model the values they wish to see embedded throughout the organisation.



Clear Communication: The values and ethical standards desired by the organisation must be clearly articulated and reinforced through its policies and procedures, internal communications, leadership examples, and consistent day-to-day behaviour.



Training and Development: Ethical expectations should be integrated into induction programmes, compulsory e-learning courses, and ongoing training initiatives, ensuring all employees understand and apply the organisation's standards.



Integration into Policies and Processes: The code of ethics should be embedded into corporate policies, HR processes (such as job descriptions and performance reviews), and operational procedures, with clear consequences for breaches.



Monitoring and Feedback: Regular audits, performance assessments, and confidential reporting channels should be used to track compliance and address concerns promptly.

¹⁹ Unilever, 'Business Integrity', <<https://www.unilever.com/sustainability/responsible-business/business-integrity/>> accessed 10 August 2025.

While such strategies provide a template, wholesale consistency is difficult to implement. Cultural differences, particularly where group units cross different national or regional settings, can affect interpretation of values and ethics. Alternative legal and regulatory needs can further complicate uniform application, and in some cases, the motivation can shift away from genuine ethical integration towards reputational management or appearances.

Walmart de México y Centroamérica (Wal-Mex), Walmart's largest non-U.S. unit, is a good example. In 2012, scandal erupted when it was revealed through an investigation that Wal-Mex officials had bribed Mexican officials in order to receive permits and The center of the scandal was a classic disconnect between the parent firm's governance and compliance systems and the subsidiary's on-the-ground practices. Internal investigations in 2005 had provided concrete evidence of impropriety, including the payment records of bribes that had been falsified. Even so, senior managers at Walmart's US headquarters allegedly suppressed thorough investigations and failed to act quickly to bring the corruption to an end.²⁰ The culture of silence thus created allowed the unethical activities to go on for years without anyone taking action against them.²¹ The company faced prolonged investigations by U.S. authorities and was forced to pay over \$280 million USD in 2019 for bribery violations that took place not only in Mexico but also in Brazil, China, and India.²²

A good example in point is the Parmalat scandal. Listed parent firm Parmalat Finanziaria S.p.A. of a large multinational dairy and food group was at the heart of one of the largest business scandals ever. By December 2003, the company, with more than 200 companies across 50 nations, 139 plants, and more than 36,000 employees, had defaulted after a massive accounting scandal where the company had overstated cash holdings, fabricated reports, and concealed losses in overseas subsidiaries.²³

Parmalat's complex multinational group structure was exploited by the controlling shareholder, Calisto Tanzi, and executives who deliberately created a network of offshore subsidiaries and specialty corporations to hide losses and inflate financial statements.²⁴ For instance, the company's Cayman Islands subsidiary, Bonlat, functioned as a “waste basket” entity, holding fictitious assets

20 Ibid.

21 Heineman Jr, 'Who's Responsible for the Walmart Mexico Scandal?'

22 Nathaniel Meyersohn, 'Walmart settles with US government over international bribery investigation' (CNN, 20 June 2019) <https://edition.cnn.com/2019/06/20/business/walmart-bribery-mexico-brazil-fcpa-sec> accessed 9 August 2025.

23 Guido Ferrarini and Paolo Giudici, 'Financial Scandals and the Role of Private Enforcement: The Parmalat Case', (ECGI Working Paper Series in Law, Working Paper No 40/2005, May 2005) https://www.ecgi.global/sites/default/files/working_papers/documents/ssrn-id730403.pdf accessed 10 August 2025; Ron Rimkus CFA, Parmalat (Financial Scandals, Scoundrels & Crises, 29 November 2016) <https://www.econcrises.org/2016/11/29/parmalat/> accessed 10 August 2025.

24 Dan Venon, 'Parmalat Scandal (2003): The Complete Story' (Shipping and Commodity Academy, 6 March 2024) <https://shippingandcommodityacademy.com/blog/parmalat-scandal-2003-the-complete-story/> accessed 10 August 2025

that were also shielded from its primary auditors.²⁵ The company's auditors, including Grant Thornton International and Deloitte Touche Tohmatsu, either missed or ignored the clear signs of fraud.²⁶

A critical factor that led to these scandals is the lack of effective group-wide monitoring and oversight. The absence of a robust governance structure and ethical culture across all subsidiaries and entities within a corporate group can lead to corporate failure.

Corporate failures within corporate group structures are not due to a lack of rules, but are attributed to uncontrolled behavioural issues, including greed, the pursuit of excessive power, and conflicts of interest that arise when dominant shareholders assume multiple roles, among others, which create inherent conflicts and foster self-dealing.²⁷ To counteract these behavioural risks, a governance framework must define clear boundaries for corporate dealings and prohibit managerial self-aggrandisement and illicit transfers of wealth.²⁸

The statutory officers of each entity within the corporate group, be it the board chairman, directors, company secretary, or auditor, each have a role to play in fostering corporate culture and code of ethics, and the failure of any can severely impact the overall well-being of the company as well as the entire group. Directors, acting as fiduciaries, are bound by a duty to exercise utmost good faith towards the company. A responsible board must ensure that a comprehensive code of ethics is formally adopted, widely disseminated, and rigorously enforced across all group entities.²⁹

6. Strategies for Effective Communication Between Parent and Subsidiaries

One of the challenges faced by parent companies and their subsidiaries is the lack of effective communication. Regular two-way communication is essential to building a strong relationship between different parts of a business. It is expedient for a parent company to establish proper and functional communication channels with their subsidiaries to ensure effective management and achievement of set goals.³⁰ To achieve effective communication, the company must employ certain strategies, and some of these strategies include:³¹

25 Ferrarini and Giudici, 'Financial Scandals and the Role of Private Enforcement: The Parmalat Case'

26 Ibid.

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

28 Ibid.

29 Ibid.

30 MSP Company Secretarial, '5 Tips for Effective Subsidiary Management' (2023)<https://www.mspsecretaries.co.uk/effective-subsidiary-management/> (accessed 14th August 2025)

31 Valen Legal and Tax, 'Understanding the Relationship Between Holding Companies and Subsidiaries' (2023) <https://valen-legal.com/news/understanding-the-relationship-between-holding-companies-and-subsidiaries/> (accessed 14th August 2025)

a. *Adoption of Group Policies on Governance Structures*³²

There should be clear governance charters and group-wide policies that define the roles, reporting lines, escalation thresholds, and decision-making protocols of the group company and the subsidiaries as well as the various departments that make them up. This will ensure that subsidiaries understand the scope of their autonomy and the boundaries of the parent's oversight.

b. *Formalised Board-Level Communication*

The group must ensure that board-level communication is formal, structured, and regular. This can be achieved by organising periodic joint board meetings, board training sessions on group compliance policies, and having a representative of the parent company on the board of each subsidiary, among other measures. In doing so, the group must also ensure that it respects the subsidiary's independence.

c. *Deploy Group-Wide Compliance and Reporting Systems*

The parent company may adopt digital platforms that enable auditable communication across entities. It behoves on the Companies to ensure their data systems are compatible, stay current with compliance initiatives, and promote collaboration within the organisation. This will help facilitate central monitoring of risk reports, standardised financial reporting, real-time updates on legal and regulatory developments, and internal whistleblowing frameworks, ensuring the parent company remains aware of potential breaches at the subsidiary level and can respond promptly to address them.³³

d. *Establish Clear Channels for Strategic Alignment*

The parent company should clearly and regularly communicate its strategic objectives, while allowing subsidiaries to implement them in ways that suit local market conditions. This fosters a sense of ownership among the leadership of the subsidiary whilst ensuring the group relationship is preserved. the leader.

³² Kezia Farnham, 'Subsidiary management explained: What it is & how to get it right' (2024) <https://www.diligent.com/resources/blog/subsidiary-management> (accessed 14th August 2025)

³³ MSP Company Secretarial: '5 Tips for Effective Subsidiary Management' (2023) <https://www.mspsecretaries.co.uk/effective-subsidiary-management/> (accessed 14th August 2025)

e. *Documentation of Communication*

Documenting communication, particularly on matters related to risk, compliance failures, or strategic directions, is crucial. It serves as a shield against liability, proof of board oversight, and evidence of reasonable diligence.

7. Case Studies of Successful Companies in a Group Structure – Lessons to Learn

Irrefutably in a more globalized and complex business environment, the prosperity of multinationals and conglomerates to a significant extent hinges on the energy and agility of group structures. Well-handled, a parent-subsidiary relationship has the potential to release colossal value, enabling innovation, safeguarding corporate identity, and risk-spreading across borders. This section of the article examines case studies of globally and domestically renowned companies that not only embraced group structures but also optimized them to achieve strategic integration, market dominance, and operational efficiency. The cases are rich in lessons on corporate governance, risk management, decentralisation, and cultural integration among organisations. They are:

a. *Alphabet Inc.*

Alphabet Inc., is a prime example of a modern and strategic group structure. It is the parent company of Google. In 2015, Google underwent a major restructuring, where Alphabet was established as a holding company, where Google became one of several subsidiaries.³⁴ This reorganization was intended to cut through the conglomerate's diversifying portfolio silos, where it invested in driverless vehicles, health technology, and artificial intelligence.³⁵ Alphabet, under this organization, focused on long-term capital management and corporate governance, but operational control of individual subsidiaries with significant autonomy. This setup allowed ventures like Waymo and Verily to grow independently without being overwhelmed by Google's giant ad business.³⁶ This Alphabet's organizational design has come under praise since for establishing transparency, promoting innovation, and minimizing risk by isolating operating risks into distinct corporate entities.³⁷ The success of this design

34 Alphabet Inc, Form 8-K Current Report (Rule 12g-3 successor issuer disclosure) (US Securities and Exchange Commission, 2 October 2015) <https://www.sec.gov/Archives/edgar/data/1652044/000119312515336577/d82837d8k12b.htm> accessed September 24, 2025.

35 Ibid

36 Larry Page, 'G is for Google' (Google Official Blog, 10 August 2015) <https://blog.google/alphabet/> accessed 8 August 2025.

37 'What's Behind Google's Alphabet Restructuring?', Knowledge@Wharton (podcast, 14 August 2015) <https://knowledge.wharton.upenn.edu/podcast/knowledge-at-wharton-podcast/googles-alphabet-reorg-can-the-whole-live-up-to-one-of-its-parts/> accessed 8 August 2025

shows the benefits of providing subsidiaries with the space to operate while maintaining strategic guidance at the parent level.

b. Unilever Group

Unilever Group is another instructive example of a successful company in a Group Structure. It is a global consumer goods company with operations in over 190 countries.³⁸ Unilever's group structure is characterised with a combination of a centralised strategic core and decentralised operational units.³⁹ This means that each regional subsidiary is empowered to make market-specific decisions tailored to local practices, tastes, cultures, and regulatory frameworks.⁴⁰ At the same time, Unilever works to ensure coherence through a shared code of ethics, corporate governance system, and sustainability goals. At the center, the parent company drives innovation and efficiency by centralising functions such as research and development, procurement, and legal compliance.⁴¹ It is noteworthy that Unilever's ability to embed a unified corporate culture across culturally diverse subsidiaries highlights the effectiveness of values-based leadership and shared services in group structures. Despite local adaptations, the group's consistent global brand positioning stands as a testament to the power of harmonised yet flexible governance.

c. Dangote Group

One of the most striking Nigerian cases viewed from an African perspective is the case of the Dangote Group. It is chaired and headed by Aliko Dangote. Dangote group, one of Africa's largest and most diversified business conglomerates operates in a broad range of industries, including but not limited to cement, sugar, salt, oil refining, and most recently fertiliser production and so on. Its crown jewel subsidiary is Dangote Cement Plc and which is very visibly listed on the Nigerian Stock Exchange and stand-alone with its own board and management.⁴³ Nevertheless this subsidiary is strongly anchored in the parent company's strategic vision and oversight, Dangote Industries Limited (DIL). Through DIL, the parent company provides the capital, brand equity, and policy leadership required to drive long-term growth among its subsidiaries. The financing and coordination of the 2025 commissioning of the Dangote Petroleum Refinery, a \$19 billion

38 At a glance', Unilever (Unilever, n.d) <https://www.unilever.com/our-company/at-a-glance/> accessed 8 August 2025

39 Ibid

40 Ibid

41 Unilever PLC, Annual Report and Accounts 2023 (Unilever2024), <https://www.unilever.com/files/unilever-annual-report-and-accounts-2024.pdf> accessed 8 August 2025.

42 Dangote Industries Limited, 'Our Business' <https://www.dangote.com/our-business> accessed 8 August 2025

43 Ibid

USD mega-project, were undertaken by the parent company in a stand-alone structure to operate as an independent entity from the parent Company.⁴⁴

What is so remarkable about the Dangote Group is that the company has very tight strategic control while granting subsidiaries autonomy that they actually need in order to effectively compete in their own markets.

This policy enables them to be quick and responsive in their working while collaboratively ensuring a common goal of national progress. The group also emphasizes disciplined rule; for example, core subsidiaries like Dangote Cement prepare annual reports at timely intervals and comply with public disclosure requirements. In addition, the conglomerate's strong, legendary brand helps in building credibility for all its offerings, which contributes towards its success as a whole.⁴⁵ Apparently, Dangote model demonstrates very well how the organizations of local groups can thrive under visionary management, prudent risk management, and long-term planning. The Nigerian experience is a lesson that sharp distinction between functions, supported by centralized financing and decentralised execution, is critical to expanding sustainable clusters of businesses in emerging markets.

d. *Tata Group*

Tata Group is a more complex but equally strong model. It is India's largest multinational conglomerate. It has an enormous and multi-layered structure with over 100 companies ranging from industries like steel, automobiles, telecommunication, and IT services. At the center is Tata Sons, the master holding company, which owns significant shareholding in the majority of group companies. Despite the autonomy of its subsidiaries, each with its own board and executive leadership, Tata Sons is kept in line by means of strategic guidance, brand management, and a corporate responsibility culture they all share.⁴⁶ The Tata brand per se functions as a unifying force, one which is recognized for ethical management and social responsibility in industries. Such an organizational structure has enabled Tata Group to retain entrepreneurial strength at the subsidiary level while projecting an image of uniformity that upholds stakeholder trust.

44 Bloomberg, 'Seven Years Late, Nigeria's Mega Oil Refinery Opens With a Whimper' (22 May 2023) <https://www.bloomberg.com/news/articles/2023-05-22/seven-years-late-nigeria-s-mega-oil-refinery-opens-with-a-whimper> accessed 8 August 2025

45 Dangote Cement PLC, Annual Report 2023 (Dangote Cement 2024) <https://www.dangotecement.com/investor-relations/financial-reports/> accessed 8 August 2025.

46 Tata, 'Brands Showcase' (2025) <https://www.tata.com/brands-showcase> accessed August 8, 2025

47 Harvard Business School, *Tata Group: A Leadership With Trust* (HBS Case Study 2019)

48 Tata, *The Tata Group. Leadership with Trust* (2025) <https://www.tata.com/> accessed 8 August 2025

e. *Berkshire Hathaway Inc.*

A prime example of strategic decentralisation is Berkshire Hathaway Inc. It is an investment conglomerate under the leadership of Warren Buffett.⁴⁹ Berkshire's model diverges from traditional corporate hierarchies in that it provides near-total autonomy to its subsidiaries. Berkshire operates companies that range from insurance giants like GEICO to retailers like Nebraska Furniture Mart, with very little guidance from the parent Company.⁵⁰ The key to success of the model is the investment philosophy of Buffett that entails investing in good management and letting them run their companies. While the parent company keeps tight discipline on capital allocation and acquisition strategy, operating decision-making is entrusted to subsidiary leaders.⁵¹ The trust-based model has provided stable long-term growth with the proof that centralised oversight need not mean centralised control. To other business groups, the message is straightforward: under the right leadership and with accountability structures in place, autonomy can be an enormous growth engine.

f. *Nestlé Group.*

Nestlé Group is another fine example. It is the world's largest food and beverage company with operations in 189 countries and over 2,000 brands.⁵² Nestlé has perfected the art of balancing global integration and local responsiveness. The central headquarters only provides a strategic direction with respect to nutrition, health, and sustainability, whereas the local units bear the responsibility of adjusting offerings to the needs of the marketplace in question.⁵³ A salient feature of Nestlé's structure is the use of regional centres to manage and communicate across borders.⁵⁴ Besides, Nestlé has a single corporate social responsibility policy called "Creating Shared Value,"⁵⁵ where profitability in the business must also generate society value. This philosophy is practiced in all its group companies, reinforcing Nestlé's image as a responsible multinational.⁵⁶ Nestlé's experience proves that success is not only in financial synergy but also in a shared moral direction and vision for society.

49 'Official Home Page' (Berkshire Hathaway, 2025) <https://www.berkshirehathaway.com/> accessed 8 August 2025.

50 Berkshire Hathaway Inc, 2024 Annual Report (PDF, Berkshire Hathaway Inc 2025) <https://www.berkshirehathaway.com/2024ar/2024ar.pdf> accessed 8 August 2025.

51 Global Masters Fund, 'Berkshire Hathaway's Business Model – What Investors Should Know' (Global Masters Fund, 21 August 2025) <https://www.globalmastersfund.com.au/articles/berkshire-hathaway-business-model/> accessed August 8, 2025

52 Nestlé, 'About Us — We are Nestlé. The Good Food, Good Life Company' (2025) <https://www.nestle.com/about> accessed August 8, 2025

53 *Ibid*

54 *Ibid*

55 Nestlé, *Creating Shared Value and Meeting Our Commitments* (Nestlé 2014) <https://www.nestle.com/sites/default/files/asset-library/documents/creating-shared-value/nestle-csv-full-report-2014-en.pdf> accessed 8 August 2025

56 Nestlé SA, Annual Review 2023 (Nestlé 2024) <https://www.nestle.com/investors/annual-report> accessed 8 August 2025.

Lesson Learned

All of these illustrations imply some of the underlying themes of effective group design. First, autonomy and alignment must be traded off. Alphabet and Nestlé demonstrate that subsidiaries can innovate or respond to local conditions without conflicting with strategic priorities within the parent, if only the parent sets clear vision and governance expectations. Second, juridical and risk segregation such as the restructuring of Alphabet need to be done to isolate the larger group from the liabilities of a particular unit. Third, cultural and brand alignment such as Tata, Unilever, and Dangote offers homogeneity in stakeholder perception and corporation image, especially for global markets. Finally, the expertise of investing capital under the careful supervision of Berkshire Hathaway guarantees that funds are being put where they stand the greatest opportunity of returning the most in the long term.

In short, success in a parent-subsidary relationship within a group firm is not a matter of absolute control or absolute decentralization but coordination. Companies which thrive under such an arrangement are companies which ignite innovation through autonomy, bond with a shared set of values, and advance through prudent management. As businesses expand geographically and by industry, wherever they may be in Silicon Valley, Zurich, Mumbai, or Lagos, the models offer a blueprint for the building of healthy, resilient, and morally grounded group forms.

8. Conclusion

Parent-subsidary relationship is a central component of modern corporate governance with extensive implications on strategic direction, risk management, and operational efficiencies. The nature of parent-subsidary relationship dictates the process of ensuring compliance with regulations and good governance. The subsidiaries might be independent, but the rules of good corporate governance must be observed to maintain their operational autonomy but consistent with the objectives of the parent company.

As much as the business world continues to evolve, organisations are compelled to navigate such intricacies cautiously. Not only will this enhance their

CONTRIBUTORS



Abasiemediong Etuk, MCArb
Governance and Compliance



Oluwapelumi Ikunjenyo
*Environmental, Social
and Governance*



Michael Arinze
White Collar



Chiamaka Anakua
Governance and Compliance



Jessica Obodo-Elue
White Collar



Yasir Abubakar-Sadiq
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

