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# **Business advisors and family firms in Nigeria: The role of goodwill trust**

## **Abstract:**

This study contributes to the literature on professional advice for family firms. Specifically, we apply the goodwill trust construct to examine the relationship between family firms and professional lawyers who provide them with business advice. We classified the services offered by lawyers to family firms into three groups: statutory services, non-statutory services and family-specific services. Using a sample of small and medium sized Nigerian family firms, we found that the statutory and family-specific service that lawyers provide to family firms had a significant and positive impact on goodwill trust, in other words, they engender goodwill trust between firms and lawyers.

Keywords: goodwill trust, professional lawyers, family firms

## **Introduction**

Professional advisors offer a wide range of business advisory service to firms. Advisory services involve the provision of intangible business services to firms (Bennett & Robson, 2005; Bennett et al., 1999a; Bennett & Robson, 1999b); such service can provide a firm with competitive advantages (Gooderham et al., 2004). One of the major providers of business advisory services to firms is the professional lawyer (Bennett & Robson, 2003; Bennett & Robson, 1999a; Gooderham, Tobiassen, Doving, & Nordhaug, 2004). Professional law firms can act as “one-stop shops”, providing an extensive array of services in addition to legal advice, such as financial advisory and management consulting (Greenwood, Hinings, & Suddaby, 2002).

Family firms require the services of business advisors (Nicholson, Shepherd, & Woods, 2009), in particular the services of professional lawyers. These advisors provide statutory services such as technical legal services to family businesses. In addition, professional

lawyers help with succession planning, conflict resolution, transfer of ownership and/or with the dissolution of family businesses (Kaye & Hamilton, 2004).

The requirement to understand the family dynamics makes the provision of advisory services unique to family firms (Upton, Vinton, Seaman, & Moore, 1993). The provision of advisory service to family firms involves developing personal relationships with owners of the family business. Personal relationships between advisors and owners of family businesses engender an exchange of information (Bennett et al., 1999a; Nicholson et al., 2009). Such exchange can influence the process and the quality of service the advisor provides to family businesses. Furthermore, personal relationships between advisors and family firms may involve family business advisors taking on additional responsibility in addition to their traditional advisory function.

The provision of advisory services for family firm involves a process of learning. That is, the advisor learns about the family, the firm, their challenges and the long term goals of the family and of the firm (Kaye & Hamilton, 2004). This study examines the relationship between professional lawyers and family firms in Nigeria. As with many Western countries (e.g. Astrachan & Shanker, 2003), our sample suggests that the Nigerian family business can be classified into small to medium sized enterprises (SMEs). This is in line with previous studies on Nigerian family firms (Ukaegbu, 2003).

Business advice is particularly important to SMEs, the use of external advisor has been linked to financial growth of SMEs (Bennett et al., 1999a). However, trust influences the success of any advisory service; it influences firms' choices of their business advisors (Strike, 2012) and the type of service advisors undertake on behalf of their clientele (Bennett et al., 1999a;

Nicholson et al., 2009). In addition, trust influences the interaction intensity between advisors and firms (Bennett et al., 1999b).

The current literature on business advisory services in family firms is growing (e.g. Nicholson et al., 2009; Strike, 2012; Upton et al., 1993). For instance, Kaye & Hamilton (2004) emphasize the importance of trust catalysts during advisory process. They go on to suggest that advisors should take on such responsibilities temporarily during an advisory process. Strike's (2012) review of the literature on business advisory in family firms classifies family business advisors into content and process advisors.

Despite this growing theme in the family business literature, to the best of our knowledge, no empirical research has investigated the concept of trust in relation to family firms and 'outsider' advisors. We find this somewhat surprising, given that at the inter-organizational level, trust is key to inter-organisational relationships (Das & Teng, 2001). Inter-organisational trust is fundamental to inter-organisational cooperation and to economic efficiency (Dyer & Chu, 2000). This study aims to fill this gap by considering goodwill trust between family firms and their professional lawyers.

Particularly, we explore the influences of trust on the type of advisory services offered by professional lawyers to family firms. External lawyers are particularly important in small and medium sized family firms. Robson & Bennett, (2000) present empirical evidence to show that external lawyers are the only professionals whose advice leads to improved performance of SMEs. They measured performance of their SME sample in terms of employment growth, sales growth and profitability per employee.

Specifically, our paper contributes to the literature in two main ways. First, we add to the trust literature on family firms by investigating inter-firm level trust between family firms and external business advisors. This study posits that trust and goodwill trust affect the type of services professional business advisors offer firms. Second, this paper joins the current debate on advising family firms. Given that family dynamics influence the nature of the family businesses, we examine three types of services external lawyers offer family business in Nigeria.

The remainder of this paper is structured as follows: In the following section, the theoretical framework on advising family firms is presented. Hypotheses relating to the relationship between goodwill trust and the type of service advisors offer family firms are stated. In the next section, the data and the research methodology are discussed. This is followed method, results and finally a discussion and implications section.

## **Family Firms and their Relationships with Professional Advisors**

Family firms are particularly reliant on the services of business advisors such as lawyers. These advisors provide statutory services such as legal services to family firms. In addition, they are able to assist with family-firm specific issues such as succession planning, conflict resolution, transfer of ownership and/or with the dissolution of family businesses (Kaye & Hamilton, 2004).

Offering advisory services to family firms requires an understanding of the underlying family dynamics of the firm and hence the service offered is very unique (Upton et al., 1993). The provision of such services requires the development of close personal relationships between

the professional organisation and the owners of the family business. Such relationships foster client-advisor interaction (Bennett et al., 1999a). Such interaction allows for information exchange, thus allowing the advisor to establish the needs of the client; it also helps to reduce information asymmetry between the client and the advisor (Bennett et al., 1999b).

The information exchanged may influence the quality of service provided. In addition, the advisor may undertake tasks outside their traditional functions, such as mentoring. To enable successful delivery of advisory services, the advisor must undertake a period of learning, that is, the advisor learns about the family, the firm, their challenges and the long-term goals of the family and the firm.

Advisory services can be classified into task-based service and personal-based service (Bennett et al., 2005). Task-based services are also dubbed 'hard' advisory service (Nicholson et al., 2009); they involve the family firm employing the services of advisors to achieve specific business objectives (Bennett et al., 2005), such as an increase in the profitability of the family business. For task-based services, family firms employ the services of content advisors (Kaye & Hamilton, 2004; Strike, 2012); who provide specific business systems advice, to family firms (Strike, 2012). Examples of content advisors are: lawyers, accountants and bankers.

Personal-based services are inherently 'soft', subjective and cognitive (Bennett et al., 2005). They may involve services such as counselling, mediation or conflict resolution. Process advisors help family firms achieve their personal-based objectives. Process advisors are more concerned with the establishment of structures that help foster healthy family dynamics within the family firm. Examples of process advisors are: family therapist, psychologist etc.

For the purpose of this study we classify the services content advisors, in this case, lawyers, offer to family firms into three distinct groups: statutory, non-statutory and family-specific services. Family firms may employ the service of an external lawyer for any of these three services. However, these services are interrelated this will be explored in detail in subsequent sections.

### **The Role of Trust**

Trust impacts on the type of advisory services provided to family firms by professional advisors (Gooderham et al., 2004). Trust is key to facilitating cooperation between advisors and family firms. With a high level of trust, a personal relationship is engendered. Such relationships help to reduce transaction costs (Dyer et al., 2000; Sako & Helper, 1998); promote network relationships; and facilitates the effective functioning of the advisor and the family firm (Sundaramurthy, 2008).

The concept trust is extremely important for family firms, and as such the current literature surrounding the issue is increasing. For example, at the intra family level (Sundaramurthy, 2008), the life cycle model posits that trust follows an evolutionary pattern in which an interpersonal trust develops between 'active' family members during the early years of the firm. Family members trust each other's intentions to act in the best interest of the family and the business. Steier (2001) presented four case studies to suggest that family firms with weak governance structures find a suitable substitute in interpersonal trust (i.e. trust within family members). However, as the family firm grows, interpersonal trust is replaced or complemented with later stages of trust such as competence and system trust. In addition, with the family business expansion, some family members perform the role of a trust catalyst as the business expands. Trust catalysts are persons who take a role in creating and

maintaining trust within and beyond family firms (LaChapelle & Barnes, 1998). Research has reflected on issues of trust between consultants and financial families (e.g. Steier, 2001), Kaye & Hamilton (2004) suggest that external advisors should undertake trust catalyst responsibilities within family firms as this would enhance a successful service.

For the purposes of this study, we define trust as, “a person’s belief that individuals engaged in exchanges will make sincere efforts to uphold their commitments and will not take advantage of the given opportunity” (Sundaramurthy, 2008:89). In essence, the concept of trust reflects the reliance that family businesses have in their advisor’s character, ability or truthfulness. Trust can provide a family firm with strategic advantages as it replaces conflict and friction which may exist within the firm (Sundaramurthy, 2008).

For operational purposes, our conceptualisation of trust is similar to the “goodwill trust” description given by many scholars (e.g. Nooteboom, 1996; Sako & Helper, 1998). Goodwill trust as an inter-firm trust construct is not concerned with trust that emanates from a contractual sanction; rather it is concerned with trust that emerges from non-contractual mechanisms between firms (Dyer et al., 2000). Goodwill trust therefore refers to an expectation that someone in the social relationship will have a moral obligation and responsibility to demonstrate a special concern for the other’s interest, placing it over their own interests (Das et al., 2001).

Goodwill trust involves one’s confidence in the commitment of partners to an agreed relationship (Miyamoto & Rexha, 2004). This type of trust is essential for the development of long term relationship between firms (Miyamoto et al., 2004). Goodwill trust is built over a long period of time (Das et al., 2001) through previous inter-firm interactions. Goodwill trust



is associated with loyalty; such loyalty could be as a result of firm ethics or bonds of friendship (Nooteboom, 1996). This form of trust reduces relational risk between firms (Das et al., 2001; Lui & Ngo, 2004). It helps reduce the cost of installing contractual agreements to safeguard against opportunism (Lui et al., 2004). Where goodwill trust is high, fewer resources are required to monitor actions of firms. It is worthy to note that goodwill trust does not involve the ability of a firm; rather, it involves the willingness of the firm to carry out an action.

In the family business context, goodwill trust between a family firm and its business advisor reflects the willingness of family members to show their more vulnerable side to their advisor. Family members may, for example, share family/business secrets with their advisor when they have a high level of goodwill trust in him/her. Goodwill trust in the family business context is about the advisor's good faith, good intentions and integrity. From this viewpoint, goodwill trust describes the extent to which there is a collectively held trust by family members active in family firms toward the business advisor.

Furthermore, goodwill trust engenders learning which helps the advisor identify the needs, priorities and preferences of the family and their business (Sundaramurthy, 2008) more effectively than would otherwise be possible. At this stage, the business advisor is not only seen as an advisor, but rather, also as a confidant, a mentor, as someone who can bridge intra-family trust (Strike, 2012). It is envisaged that at this stage, the business advisor, in addition to his/her traditional duties, takes on responsibilities that are idiosyncratic to family firms.

Lawyers offer a substantial and varied range of advisory services to firms. These professionals are arguably one of the main providers of advisory services to firms (Bennett et

al., 2003; Bennett et al., 1999a; Gooderham et al., 2004). Bennett et al., (2005) identify four key features of advisory service; intangible, inseparable, heterogeneous and perishable. These qualities separate business advisory services from other forms of business services offered to firms.

### **The Nigerian Context**

Family businesses in Nigeria are predominantly small to medium sized firms. As with the Nigerian economy, most family firms in Nigeria are within the service sector – e.g. transportation, educational services, financial services etc. Family businesses in Nigeria are faced with survival concerns as many do not survive after the second generation (Ukaegbu, 2003). Family businesses in Nigeria employ the service of an external lawyer primarily for statutory motivations such as business formation. The Nigerian external lawyers operate within a self-regulatory framework which provides qualification and training to their members. The Nigerian Bar Association (NBA) is the self-regulatory institution that regulates the activities of the Nigerian professional lawyer.

### **The Model and Hypotheses**

Statutory services are those services which are provided by a lawyer in order for the family businesses to fulfil the statutory provisions of the law. Such services have the legal backing of the law. Statutory services provide an initial basis for interaction between the advisor and the family firm. Lawyers offer advice on technical legal requirements such as business formation, finance and leasing. The provision of these services begins the interaction; the advisor becomes acquainted with the peculiarities of the family and the family business. Also, with such a service, the active family members of the firm are able to assess the trustworthiness of the external lawyer.

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**Insert figure 1 here**

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The individual characteristics of the external business advisor such as knowledge, ability and personality (Trotman & Trotman, 2010) are brought to bear during statutory service advisory sessions and can affect the performance of the business advisor. Knowledge depicts the understanding of the business advisor in relation to the task and the family firm. Ability reflects the competence of the advisor, whilst personality reveals the overall character of the advisor. Since goodwill trust develops over a period of time through interactions (Dyer et al., 2000), the intensity of interactions between the lawyer and family firm increases. We thus envisaged that trust ties would develop between members of the family firm and the external lawyer. Accordingly, we hypothesize a positive association between the statutory service legal advisors offer and the development of goodwill trust in family firms.

**H1:** Statutory services are positively related to goodwill trust between family firms and professional lawyers

Non-statutory services are those services such as management consultancy offered by external lawyers to family businesses. Non-statutory services are not stipulated by any regulatory framework; however, they provide family firms with strategic and competitive advantages. For instance, a consultancy advisory service may increase the knowledge base and resource base (Bennett & Robson, 2004) of family firms.

Robson & Bennett (2004) present empirical evidence to show that employing the services of lawyers for management consultancy purposes is associated with increased employment turnover and profitability of small and medium-sized firms (Dyer & Ross, 2008). Such increases in profitability can significantly engender goodwill trust between the family firm and the lawyer. The family firm can have confidence in the ability of the advisor to achieve specific business objectives. Thus:

**H2:** Non-statutory services are positively related to goodwill trust between family firms and professional lawyers

The uniqueness of family firms offer an opportunity for lawyers to provide services that may be exclusive to family firms, i.e. family-specific services. Nicholson et al., (2009) describes such advisory services as “soft advisory services”. Family-specific services appeal to the psychological and emotional needs of family members actively involved in a family business. It involves the advisors providing services that are beyond the business objectives of the family firm. In addition, family-specific services allow family business advisors to appreciate the family dynamics of the family business. It provides the business advisor with more information about that family and the firm. Examples of such service include conflict resolution, mediation etc. We envisage that the provision of such specific services to family businesses, will lead to a positive association between this service and goodwill trust. Hence, we hypothesize the following:

**H3:** Family-specific services are positively related to goodwill trust between family firms and professional lawyers.

Whilst we expect non-statutory and family-specific service to be positively associated with goodwill trust, such association may depend on the initial statutory services provided to family firms. Without a statutory demand, SMEs family firms may not employ the services of lawyers at all. Family firms are generally reluctant to employ the services of external advisors (Nicholson et al., 2009) as they may deem them to be too expensive and their preference for family privacy (Graves & Thomas, 2006). Therefore, we expect that the provision of statutory service will open a window of opportunity of for lawyers to offer to family firms other services such as consulting and succession planning services. Based on this reasoning, the following hypotheses are as follows:

**H4a:** Statutory service will moderate the relationship between non-statutory and goodwill trust.

**H4b:** Statutory service will moderate the relationship between family-specific services and goodwill trust.

Figure 1 summarizes our hypotheses and the postulated relationships between statutory services, non-statutory services, family specific services and goodwill trust.

## **Method**

### **Sample**

This study is based on a survey data, an in-depth questionnaire is has been distributed to 300 Nigerian family firms. There is no national list of family firms in Nigeria. Therefore, we followed other empirical studies in family business research (e.g. Sharma, Chrisman, & Chua, 2003) to employ a convenience sampling strategy. We received 105 responses of

which 91 were usable. For the purpose of our research, a family firm has at least one family member in the management team.

## **Measures**

Our dependent variable is *goodwill trust*. We measured goodwill trust between family members and lawyers based on a scale developed by Sako & Helper (1998). Two items were adapted to focus on goodwill trust within a family business context. Respondents indicated level of agreement or disagreement to the following items: “This firm relies on the external lawyer to help in ways not specified in the contractual agreement”; “This firm can depend on the external lawyer always to treat us fairly”. Overall goodwill trust was calculated by taking the mean score to create a final score. The Cronbach alpha for the scale was 0.70.

The following independent variables were included in the analysis:

*Statutory services*: We captured statutory services by utilizing three items. We asked the respondents to respond to the following items: “This firm employs the services of lawyers for assurance/audit, “This firm employs the services of lawyers for taxation services. “This firm employs the services of services of external lawyer for legal services. This alpha for the scale was 0.71.

*Non-statutory services*: Non-statutory services in this study were captured with two items: “The firm employs the services of external lawyers to resolve family conflict”, This firm employs the services of the external lawyers during family transfer of ownership. An alpha of 0.73 was observed.

*Family-specific services*: This was measured using two questions: we asked respondents to respond to the following: “This firm employs the services of external lawyers to resolve

family conflict; “This family employs the services of external lawyers to resolve family/business goal conflict”. The alpha for the scale was 0.85.

## **Results**

The means, standard deviation, and zero-order correlations – i.e. descriptive statistics – are shown in Table 1. Hierarchical multiple regression was used to test our proposed research hypotheses. Results of the hierarchical regression are presented in Table 2. In model one, the control for age of business, length of relationship with the external lawyer, number of employees and turnover were entered. However, only size of family firm was significantly related to goodwill trust within Nigerian family firms. To test hypotheses 1, 2 and 3, we entered the three independent centred variables into Model 2. A significant change in R2 was observed ( $\Delta R^2 = 0.14$ ,  $p < 0.01$ ). Statutory service (H1) ( $\beta = 0.337$ ,  $p < 0.01$ ) and family specific service (H3) ( $\beta = 0.294$ ,  $p < 0.01$ ) were found to have a significant positive impact on the goodwill trust between family firms and their lawyer. The effect of non-statutory services was not significant therefore H2 was not supported. These results show that the statutory services and family-specific services lawyers offer family firms have a direct significant impact on goodwill trust between family firms and their lawyers.

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**Table 1 insert here**

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**Table 2 insert here**

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To test the moderating effect of statutory and non-statutory services on goodwill trust, we entered, the two interaction terms in Model 3. A significant change in R2 was observed. ( $\Delta R^2$

= 0.056,  $p < 0.001$ ). There was some weak support for H4a ( $\beta=0.307$ ,  $p < 0.10$ ) but no support for H4b. There is therefore some weak evidence that statutory services can enhance the relationship between family-specific services and goodwill trust.

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**Figure 2 insert here**

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In order to examine the precise nature of the interaction effect a graphical representation is shown in Figure 2. The interaction effect between goodwill trust and family specific services shows that in family firms that engage their lawyers at a low level of statutory service, there is a positive but weak relationship between family specific services and goodwill trust. This relationship was similar for moderate statutory service group. However, family firms with high statutory group, there is a strong positive relationship between family specific services and goodwill trust.

## **Discussion and Implications for Future Research**

The aim of this study was to investigate the role of goodwill trust in services offer to family firms by lawyers. The literature on advising family firms is emerging. Our study demonstrates that the type of service business advisors offer to family businesses can encourage and enhance goodwill trust. In line with the current discussion on business advice for family firms, we show that the statutory services and family-specific services offered by lawyers to their family businesses engender a goodwill trust relationship. Though current literature suggest literature warns against business advisors undertaking overlapping roles



that may involve their statutory service and other services (Strike, 2012), our findings suggest that such overlap engender trust for the business advisor.

In addition we believe that institutional based trust – trust as a result of operating within a self regulatory environment – engendered goodwill trust between family firms and their professional lawyers in this case. Given that the statutory service lawyers provide to firms are highly institutionalised by their self regulatory institution, we argue an institutional trust for such regulatory body will generate goodwill trust for the statutory service lawyers offer to firms. This, we expect would be applicable other content business advisors such as accountants and bankers who also operate within a highly regulated environment.

Furthermore, our study adds to the current literature on family firm as advising family firm as we investigate the relationship between external lawyers and family firms. While previous studies focused on other external advisors such as accountants (Giovannoni, Maraghini, & Riccaboni, 2011; Salvato & Moores, 2010); psychologists (Kaye, 1996; Kaye et al., 2004), our study focuses instead on the role of external lawyers in family firms. We show that the relationship between the services offered by external advisors is rather complex. Contrary to our hypotheses, we could not accept the hypothesis that consultancy services external advisors offer to family firms engender trust between them. Arguably one could speculate that family firms view advisors who only offer consulting services as content advisors and nothing more. Since content advisors do not necessarily take family dynamics into account during their advisory process. One pragmatic implication would be for family advisors act both as content and process advisors. Family business advisors should develop the necessary skills that would allow them perform overlapping advisory functions.

The implication of our findings for family firms relate to succession planning and financial management. In order to seek help on areas such as succession planning and financial management, a lawyer may be the first port of call. If the relationship with the lawyer can be nurtured, leading to a good level of trust, some of these problems may be resolved effectively. With respect advisors our findings suggest that, in order for advisors to gain the trust of family firms, and subsequently more business with them, engaging effectively from the outset is vital. Developing a trusting relationship on first contact (when statutory services are requested) is key to the future relationship between the two parties. Furthermore, advisors must be aware of the somewhat uniqueness of advising family businesses. They must be aware of how the emotional dynamics of family business can influence the provision of their services. In addition, be prepared to engage to roles that may be outside their traditional function as a business advisor. Future research is required to investigate other forms of inter-organizational trust – such as competence trust and contract trust – and how these influence the types of services advisors offer to family firms. Research is also needed to investigate to role of business advisors as trust catalysts for family businesses.

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Figure 1. Theoretical Model

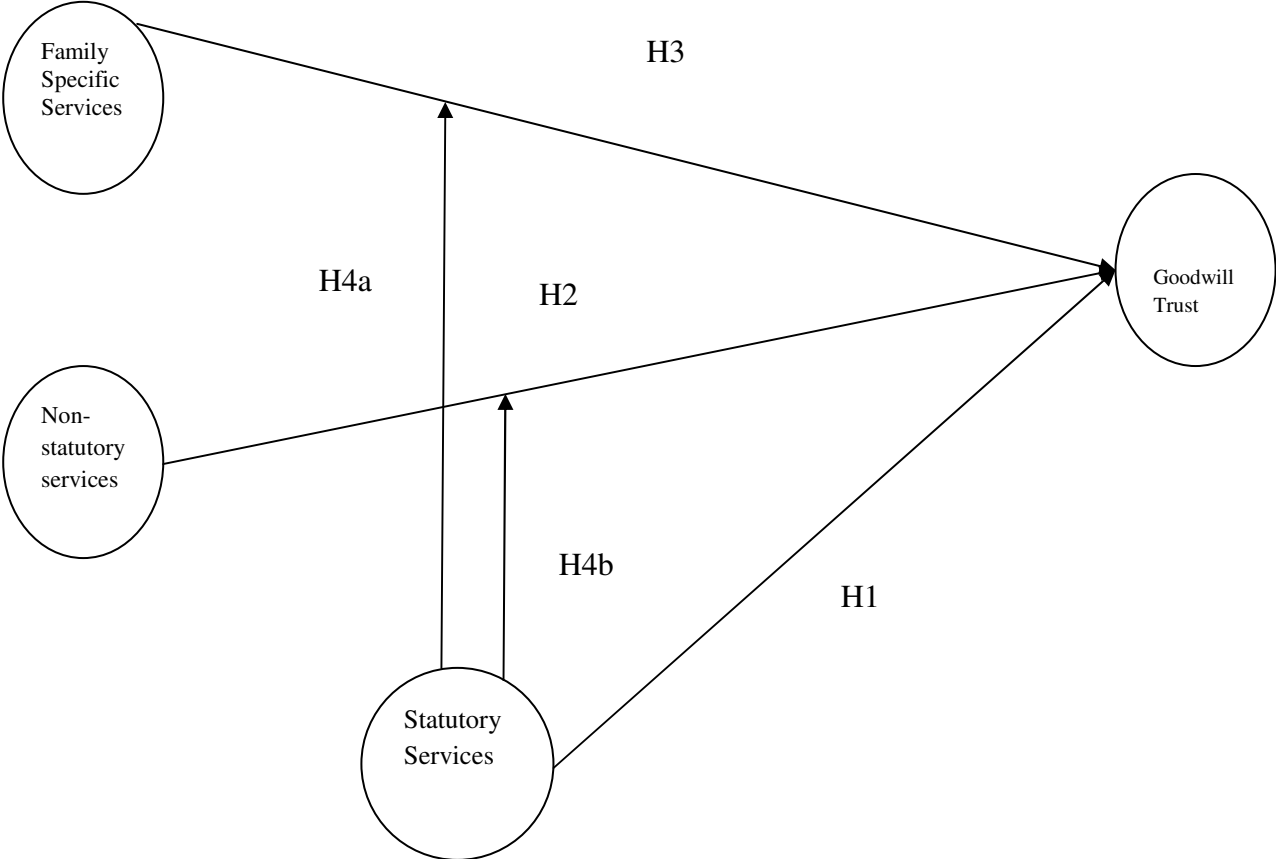
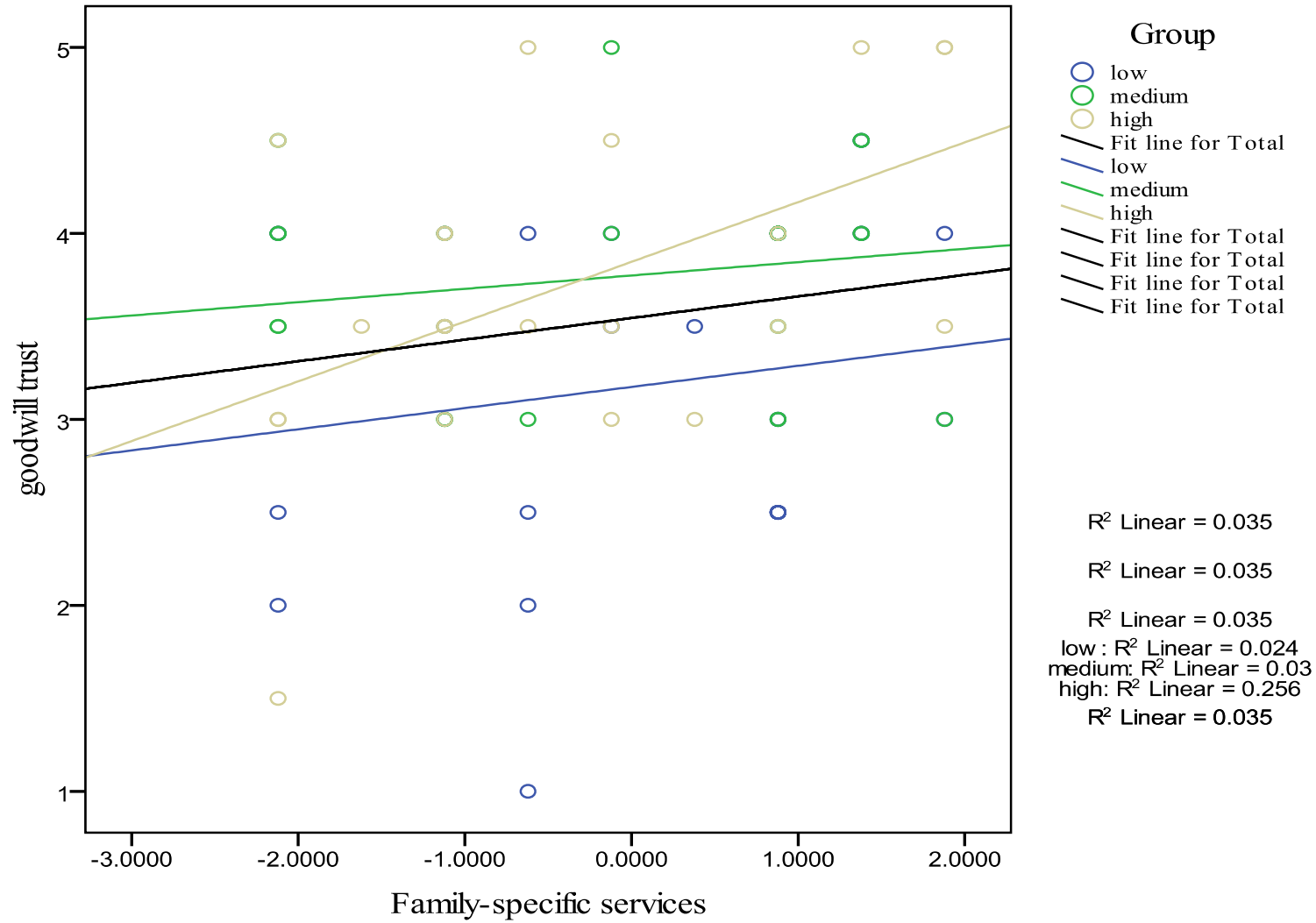


Figure 2: Interaction between goodwill trust and family-specific services



**Table 1**

## Descriptive statistics and correlations

Variables	Mean	SD	1	2	3	4	5	6	7
Goodwill Trust	3.55	0.79							
Statutory Services	2.78	0.96	0.31**						
Non-Statutory Services	3.32	1.16	0.167	-0.13					
Family Specific Services	3.12	1.27	0.188	-0.24*	0.64**				
Length of relationship	3.48	1.33	0.07	-0.15	0.89*	0.51**			
Average Turnover	3.20	0.92	-0.004	0.13	0.15	-0.35**	-0.19		
Size (Employees)	67.49	40.07	-0.34**	-0.08	-0.17	-0.06	-0.12	0.11	
Age of business	13.67	9.12	-0.13	0.08	-0.08	-0.22*	-0.08	0.44**	0.44**

N=91. \*\*p < 0.01, \* p < 0.05.

**Table 2: Multiple Regression analysis; dependent variable: goodwill trust<sup>a</sup>**

	Model 1	Model 2	Model 3
<i>Independent variables</i>			
Family Specific Service		0.294*	0.254#
Non-Statutory Service		-0.026	-0.038
Statutory Service		0.337**	0.296**
Family Specific service x statutory Service			0.307#
Non-statutory Service x statutory Service			-0.079
<i>Controls variables</i>			
Age of Business	0.053	0.039	0.07
Size (Employee)	-0.316*	-0.294*	-0.336**
Average Turnover	0.018	0.066	0.077
Length of relationship	-0.119	-0.068	-0.046
Change in R2	0.00	0.14**	0.056***
R2	0.125	0.264	0.32
Adjusted R2	0.080	0.197	0.237
F	2.816	3.901**	3.868***
n	91	91	91

<sup>a</sup> Regression coefficients are reported as betas. \*\*\* p < 0.001, \*\*p < 0.01, \* p < 0.05, # p < 0.10.