

Article

Strategic Enforcement and VAT Gap Closure: Electronic Invoicing, Third Party Information Matching, and the Compliance Architecture of African VAT Systems

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Abstract

This paper delivers a narrow causal analysis of two specific enforcement technologies mandatory electronic invoicing and systematic third-party information matching of VAT returns against customs import declarations and asks whether their adoption in Sub-Saharan Africa closes meaningful portions of the value added tax compliance gap, at what distributional cost, and through what precise mechanisms. Value added tax is the largest single revenue source in all five countries we study, and in all five the VAT gap the distance between theoretical liability and actual collections exceeds 28 percent of potential revenues, reaching 45 percent in Ethiopia. Using administrative VAT return microdata, customs declarations, corporate income tax records, and payroll data from Kenya, Uganda, Tanzania, Ghana, and Ethiopia across 2010 to 2022, matched at the firm level through taxpayer identification numbers into a panel of 2.1 million firm year observations, we exploit the staggered timing of electronic invoicing mandate rollouts as a source of treatment variation and implement an event study design with formal pre-trend validation. Within two years of mandate adoption, treated firms report VAT liabilities 14.9 percent larger than the pre-mandate baseline, with a stabilized trajectory indicating that the compliance adjustment is substantially complete by quarter eight. Third party information matching through the comparison of VAT purchase declarations against customs import records reduces the ratio of claimed input credits to independently verified import purchases by 12.8 percentage points among flagged firms, primarily closing the input credit manipulation channel that our VAT gap decomposition identifies as a major source of evasion. Supply chain spillover effects are positive and precisely estimated at 4.3 percent for firms with fully mandated supplier networks, consistent with the invoice chain enforcement mechanism. The compliance burden from electronic invoicing falls disproportionately on lower-medium enterprises with annual turnover between USD 50,000 and USD 150,000, raising equity concerns that complement the revenue findings. In aggregate, our estimates imply a continentwide revenue gain potential of USD 9 billion to USD 14 billion per year from full implementation, conditional on sustained administrative enforcement capacity.



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1. Introduction

The value added tax is the centerpiece of developing country revenue systems, and it works in theory through a mechanism of such elegant internal logic that economists who study it tend to develop an unreasonable optimism about its real-world performance. Every transaction in a formal economy generates an invoice that documents both sides of the exchange: the seller records it as a sale and remits tax on it; the buyer records it as a purchase and claims a credit against it. The government, possessing both records, can verify their consistency and identify any firm whose declarations fail to match the network of transactions in which it participates. Systematic evasion requires collusion between buyer and seller, which is costly to coordinate and increasingly difficult to sustain as the number of transactions grows. The chain is, in this sense, partly self-enforcing. So, the textbooks say.

And then one looks at the African data, and the optimism evaporates. In Kenya the most administratively sophisticated revenue authority in our sample, with a decade of investment in digital filing infrastructure the VAT gap is 28.4 percent of theoretical liability. In Ethiopia it is 45.2 percent (IMF, 2023; OECD, 2023). The gap between the VAT's theoretical promise and its African performance is not a matter of a few percentage points that better audit targeting might close; it is a structural gulf rooted in the size and pervasiveness of the informal sector, which breaks the invoice chain at every node, and in the administrative capacity constraints that prevent revenue authorities from doing systematically what the self-enforcement logic requires. A street vendor who sells to an informal household has no downstream buyer demanding an invoice; the chain ends there, and so does the self-enforcement. Multiply this by the millions of informal transactions that constitute the bulk of retail and service activity in most African cities, and the 40 percent VAT gap becomes not surprising but expected (Gorodnichenko et al., 2024).

What has changed in the past decade is the set of tools available to address this structural failure. Electronic invoicing mandates require every registered firm to issue and register invoices through a government-controlled digital system, capturing transaction records at the point of issuance rather than relying on periodic return filings that can be manipulated or simply not submitted (Alm & McClellan, 2024; Okunogbe & Santoro, 2021). Third party information matching the systematic comparison of a firm's declared purchases against the customs import declarations that provide an independent record of its actual import activity identifies discrepancies between what firms claim to have bought and what the border control system records them as having imported, providing targeted grounds for enforcement action without requiring physical inspection. These technologies do not resolve the informal sector problem directly a digital invoice system cannot make informal buyers demand invoices but they close off specific evasion channels that formal-sector registered firms have historically exploited, and they do so at a fraction of the cost of the manual audit and inspection programs that they partially replace (Almunia & Lopez-Rodriguez, 2018; Okunogbe & Pouliquen, 2022; Waseem, 2022; Shah, 2026).

This paper provides the first multi-country causal analysis of these enforcement technologies in Sub-Saharan Africa. The analytical contribution is narrow by design: we do not attempt to explain the VAT gap in general or to attribute it to its multiple structural causes. We ask a specific question do electronic invoicing mandates and customs cross-matching improve compliance, by how much, through which mechanisms, and at whose expense and we answer it using a research design that permits causal inference rather than association. The identification strategy exploits the staggered timing of mandate rollouts across countries and within countries across firm size categories, implementing an event study framework that tests the parallel trends assumption directly through pre-mandate coefficients and estimates the dynamic trajectory of the compliance response through post-mandate coefficients.

The results are three-fold in their substantive content. First, electronic invoicing mandates generate large and persistent compliance effects: 14.9 percent average increase in reported VAT liabilities, stabilizing within two years, with the trajectory consistent with a genuine and durable adjustment in reporting behavior rather than a temporary response to initial enforcement attention. Second, customs cross-matching closes the input credit manipulation channel specifically, reducing the VAT-to-customs discrepancy by 12.8 percentage points among flagged firms a finding that points to the systematic inflation of claimed input credits as a major and previously under-documented source of VAT leakage in our sample countries. Third, and with important equity implications, the compliance burden from electronic invoicing mandates falls most heavily on lower-medium enterprises in the USD 50,000 to USD 150,000 annual turnover range, which had the largest pre-mandate reporting gap and face the sharpest adjustment when that gap is closed. This distributional pattern connects directly to the companion paper on simplified regime thresholds, which shows that lower-medium enterprises already face disproportionate fiscal distortions from threshold design; enforcement technology mandates add a further layer to that burden.

The paper proceeds as follows. Section 2 develops the theoretical framework, grounding the compliance response to enforcement technology in the information structure of the VAT chain and in the firm's optimization over reported revenue. Section 3 reviews the related literature. Section 4 describes the institutional context and the administrative dataset. Section 5 presents the methodology in full detail, specifying the event study design, the difference in differences baseline, the customs cross-matching design, and the supply chain spillover instrumental variable estimation. Section 6 reports main results. Section 7 presents the distributional analysis and spillover estimates. Section 8 quantifies the aggregate revenue implications. Section 9 concludes.

2. Literature Review

2.1 Empirical Literature

The literature this paper engages most directly consists of three overlapping bodies of research that have each developed substantial momentum in the past decade. The first is the theoretical and empirical literature on VAT design and the VAT gap. Keen and Lockwood (2010) document the global spread of the VAT and provide the most systematic cross-country analysis of the determinants of VAT revenue performance, finding that structural factors the size of the informal sector, the share of services in GDP, the degree of openness explain the majority of cross-country variation in VAT efficiency ratios. Cnossen (2020) provides the most thorough Africa-specific assessment, noting that statutory elegance has consistently outrun administrative implementation and that gap estimates of 30 to 50 percent are the continental norm. Aizenman and Jinjark (2008) develop the framework for VAT efficiency analysis that informs our gap decomposition methodology, and Ebeke and Mansour (2021) provide specific evidence on how the registration threshold affects the composition and size of the gap a finding that connects directly to the threshold analysis in the companion paper of this series. These structural analyses are essential context for our study, but they do not address the specific question of whether the gap can be closed through enforcement technology, which requires identification strategies that exploit variation in technology adoption rather than the cross-country variation in structural characteristics.

The second body of research concerns the technology-tax administration interface. Bellon, Dabla-Norris, Khalid, and Lima (2022) provide the most rigorous existing causal analysis, using the staggered rollout of Peru's mandatory electronic invoice system across firm size categories to identify a 13 percent increase in reported revenues. Fan, Liu, and Qian (2021) find comparable effects in China and make the additional finding that electronic invoicing reduces the cross-sectional dispersion of declared profit margins evidence consistent with the convergence of reported behavior toward truth as the detection probability rises. Okunogbe and Santoro (2021) provide a careful review of the broader technology and tax administration literature, arguing that digital tools are most effective when embedded in a Programme of administrative strengthening and cautioning against the assumption that digitization alone will close large structural gaps. Brockmeyer and Semelet (2023) make perhaps the most directly relevant contribution to our study by examining VAT reform in the Democratic Republic of Congo, demonstrating meaningful compliance improvements even in one of the most administratively challenging environments in the world a finding that supports the generalizability of technology effects to contexts well below the African governance average. Related digital enforcement evidence from Rwanda further corroborates these patterns (Gadenne et al., 2024; Kotsogiannis et al., 2024; Santoro & Weigand, 2024; Rwanda Revenue Authority, 2024). Mascagni and Mengistu (2020) provide an illuminating case study of the Ethiopian electronic cash register experience, documenting in close institutional detail the gap between mandate design and effective implementation that ambitious digitization programs frequently encounter.

The third body of research is the African tax enforcement literature, to which this paper contributes directly. Pomeranz (2015) provides the foundational causal analysis of VAT chain enforcement in a developing country context, demonstrating through a field experiment in Chile that the invoice chain generates measurable compliance improvements in business-to-business transactions relative to business-to-consumer transactions a finding that establishes the mechanism our paper seeks to activate at scale through electronic invoicing. Naritomi (2019) extends this to consumer incentive schemes in Brazil, showing that consumer lottery programs that reward invoice demands produce compliance effects comparable to direct audit interventions at a fraction of the cost. Carrillo, Pomeranz, and Singhal (2017) provide an important cautionary finding from Ecuador: firms notified of discrepancies between their declarations and third-party reports sometimes respond by reducing declared purchases rather than increasing declared sales, partially offsetting the intended revenue gain through evasion within the evasion space. Comparable third-party information effects have been documented in Nepal (Mookerjee & Sharma, 2024) and Nigeria (Ibadin & Eke, 2023), as well as in an Africa-wide literature synthesis (Omodero & Okafor, 2023). We test for this response explicitly in our input credit specification and find evidence of it at a modest scale, consistent with this being a general feature of third-party information enforcement rather than an Ecuador-specific phenomenon. Ali and Shifa (2020) bring this literature to Kenya specifically, documenting that mobile payment platform reporting substantially improves small firm compliance providing African-specific evidence for the effectiveness of the chain mechanism before electronic invoicing mandates brought it to scale.

2.2 Theoretical Framework

2.2.1 Enforcement Technology as an Information Shock

The value added tax creates an information structure in which the compliance of any given firm is partially verifiable through the records of other firms. Every seller who issues an invoice creates a record that, in principle, the revenue authority can match against the buyer's input credit claim. Every importer who declares goods at the border creates a record that, in principle, the revenue authority can match against the importer's VAT purchase declarations.

The self-enforcement property of the VAT the reason it is theoretically superior to a simple sales tax as a revenue instrument for economies with imperfect enforcement capacity rests on this bilateral verifiability. But theoretical verifiability and actual verification are different things. For decades, most African revenue authorities have lacked the computational infrastructure to perform systematic bilateral verification at scale; they have had access to the data in principle but not the capacity to use it. Electronic invoicing mandates and customs cross-matching are, in this sense, tools that convert latent information into active enforcement.

To formalize the compliance choice, consider a registered firm with true net VAT liability $N = T_O$ minus T_I , where T_O is the output tax due on sales and T_I is the legitimate input tax credit on purchases. The firm declares $N_{\hat{}} = T_O$ minus E_O minus $(T_I$ plus $E_I)$, where E_O is the output tax understated and E_I is the input credit overclaimed. The firm chooses (E_O, E_I) to maximize the expected gain from non-compliance:

$$G(E_O, E_I) = (E_O + E_I) \cdot \tau \cdot p(d, \text{tech}) \cdot \Pi \cdot (E_O + E_I) \cdot \tau$$

where τ is the VAT rate, $p(d, \text{tech})$ is the probability of detection as a function of enforcement intensity d and enforcement technology tech , and $\Pi > 1$ is the penalty multiplier on detected evasion. Non-compliance is worthwhile whenever $G > 0$, which requires $p(d, \text{tech})$ times Π to be less than one. Electronic invoicing raises $p(d, \text{tech})$ for the output tax evasion component E_O , because every sale is now registered at the point of invoice issuance and cannot be retroactively removed from the record. Customs cross-matching raises $p(d, \text{tech})$ for the input credit overclaims component E_I , because the customs declaration provides an independent record of actual import purchases against which claimed input credits can be benchmarked. The critical theoretical prediction is therefore that the two instruments are complementary rather than substitutable: electronic invoicing primarily attacks E_O , while customs cross-matching primarily attacks E_I , and the combination of both closes a larger share of the total evasion vector E_O plus E_I than either instrument alone.

The magnitude of the compliance response to a given increase in $p(d, \text{tech})$ depends on the distribution of (E_O, E_I) across firms before the reform that is, on who was evading how much. Firms that were reporting truthfully before the mandate have no scope for compliance improvement and therefore show no response. Firms that were substantially under-reporting show large responses proportional to their prior evasion. This distributional prediction, combined with the stylized fact that enforcement intensity before electronic invoicing was lowest for lower-medium enterprises (too large to ignore, too small to prioritize under resource-constrained manual audit programs), generates the inverted-U pattern in firm-size-stratified compliance responses that we document empirically in Section 6.

2.2.2 The Supply Chain Propagation Mechanism

A distinctive feature of value added tax enforcement that has no direct analogue in income or payroll tax administration is the potential for enforcement actions to propagate through the supply chain. When a supplier is subject to the electronic invoicing mandate and its invoice records become available to the revenue authority, those records implicitly document the purchase activity of the supplier's buyers. A buyer that had previously been understating its purchases in its own VAT return thereby reducing the output tax it owed on sales while maintaining an artificially large input credit gap now faces the risk that its own declared purchases will be cross-referenced against its supplier's invoice records and found to be inconsistent. This creates an enforcement spillover: the buyer's effective detection probability for purchase-side misreporting increases as a consequence of its supplier being mandated, even if the buyer itself is not directly subject to the mandate.

De Paula and Scheinkman (2010) formalise this propagation mechanism in a model where firms choose their formality status and show that an exogenous increase in the formality of one link in a supply chain creates downstream pressure for formality in adjacent links through the invoice verification requirements of the VAT. The empirical prediction for our setting is that electronic invoicing mandates generate compliance spillovers to non-mandated firms with significant exposure to mandated suppliers, and that the magnitude of these spillovers should increase with the density and value of supply chain connections to the mandated segment. Testing this prediction requires an instrumental variable approach that provides exogenous variation in supply chain exposure to mandates variation driven by the timing of mandate rollout in a firm's supplier industries rather than by the firm's own compliance behavior which we construct and implement in Section 5.4.

2.2.3 Distributional Incidence of Enforcement-Induced Compliance

Standard analyses of enforcement effects focus on the aggregate revenue gain and treat the compliance response as uniform across firms. This is a simplifying assumption that is seriously misleading in the present context. The VAT gap is not uniformly distributed across the firm size distribution; it is concentrated in specific size ranges where prior enforcement intensity was low and evasion was therefore viable. The compliance adjustment when enforcement technology closes that gap is therefore also concentrated, and it falls most heavily on the firms that were evading most before the reform. Slemrod (2019) identifies the analysis of enforcement incidence who bears the compliance burden as a systematically neglected dimension of the tax enforcement literature, and our paper makes it a central analytical concern.

The theoretical prediction is an inverted-U in compliance responses across firm sizes. Very small micro enterprises were largely not evading VAT in a structured way their transactions are below or near the registration threshold and their informal status means VAT compliance was never expected of them. Very large enterprises were already under intensive audit pressure and had limited scope for concealed non-compliance. The lower-medium segment large enough to be registered and potentially non-compliant, small enough to have operated below the practical enforcement threshold under manual audit regimes is the range where the prior evasion was greatest and therefore where the compliance adjustment from electronic invoicing mandates is largest. The equity implication is significant: enforcement technology mandates impose the largest proportional compliance burden on precisely the firms that are also most constrained by the simplified regime threshold design analysed in our companion paper. Understanding and addressing this distributional concentration is not a counsel against enforcement; it is a counsel for designing enforcement and regime architecture together, rather than as if they were independent instruments.

3. Institutional Context and Data Sources

3.1 Electronic Invoicing Reform Timelines Across the Five Country Sample

The staggered timing of electronic invoicing mandate rollouts across our five-country sample is the essential source of quasi-experimental variation in our analysis, and its precise documentation is therefore important for understanding the identification strategy. Tanzania was the earliest adopter, introducing mandatory Electronic Fiscal Device requirements for retailers and food and beverage service providers in 2012 and extending the mandate to manufacturing and professional service firms in 2014 (Adam & Mdemu, 2021; Mbowe & Mwaipopo, 2024).

The Tanzania mandate was notable for its rapid initial coverage of the retail segment, though enforcement capacity to act on the data generated by the devices lagged mandate issuance by roughly two years (Tanzania Revenue Authority, 2024). Ethiopia followed in 2012 to 2013 with its Cash Register Machine mandate for large traders in Addis Ababa, extending coverage geographically in stages through 2016 and reaching medium-sized enterprises across the major urban centers by 2018 (Mascagni & Mengistu, 2020; Ferede & Gebrehiwot, 2024). Kenya's iTax platform, which became the primary channel for VAT and corporate income tax filing in 2013, enabled systematic cross-matching of VAT returns against third party payment processor reports from 2015, and extended the mandatory electronic invoice requirement to medium taxpayers with annual turnover above KES 5 million in 2021 (Gichuru & Mwangi, 2023; Mwangi & Ndirangu, 2024; Kipchumba & Kisinga, 2025). Uganda's Electronic Fiscal Receipting and Invoicing System was introduced in 2020 for large taxpayers and expanded to medium taxpayers by mid-2021 (Jouste & Lees, 2024; Lees et al., 2024; Nkundabanyanga et al., 2024). Ghana's fiscal electronic device mandate was issued in 2019 and accompanied by a systematic cross-matching Programme operationalized in 2021 (Ghana Revenue Authority, 2025). Evidence from other African jurisdictions, including Eswatini (Mkhonza & Maseko, 2023) and Nigeria (Ibadin & Eke, 2023), further documents the regional spread of electronic fiscal device adoption and its compliance effects.

This variation spanning a decade and covering both early and late adopters, with rollout within countries phased by firm size provides the treatment variation that our identification strategy requires. The key identification assumption is not that adoption timing is random: it is clearly not, since countries with stronger administrative capacity adopted earlier. The assumption is that, conditional on firm and time fixed effects, treated and control firms within each adoption cohort would have followed parallel trends in VAT reporting in the absence of the mandate. We test this assumption directly through the pre-trend coefficients of the event study and report the pre-trend F-statistic as a formal diagnostic. The within-country phasing by firm size provides an additional source of variation that is less susceptible to the country-level selection concern, because large and medium taxpayers within the same country operate in the same institutional environment; the difference in their mandate timing is driven by administrative sequencing rather than by their differential compliance propensity.

3.2 Administrative Data Sources and Merge Procedure

Our dataset is assembled from five administrative sources linked at the firm level through the taxpayer identification number. The primary source is VAT return microdata from each country's revenue authority, containing declared output tax on sales, claimed input tax credit on purchases, net VAT liability or refund claim, filing date relative to the statutory deadline, and a flag for enforcement action received. The second source is customs import declaration records, providing the declared CIF value of imports by eight-digit Harmonised System code and importing firm TIN for each shipment, which we aggregate to the annual firm level and merge against the VAT data to construct the cross-matching discrepancy measure. The third source is the annual corporate income tax return, providing total declared revenue, taxable income, and sector classification at the two-digit International Standard Industrial Classification level. The fourth source is PAYE payroll records, providing the quarterly count of employees for whom payroll withholding was remitted and used as the employment size proxy. The fifth source is the business registry, providing legal form, registration date, registered capital, and geographic district.

The TIN-based merge achieves match rates between the VAT return and customs records of 94 percent in Kenya, 91 percent in Uganda, 87 percent in Tanzania, 85 percent in Ghana, and 79 percent in Ethiopia. These rates determine the usable sample for the customs cross-matching analysis, which requires both VAT and customs records. Unmatched observations are excluded from the estimation sample to avoid measurement error but are retained in the descriptive analysis of the full registered population. The merged estimation panel covers 2.1 million firm year observations across the five countries over 2010 to 2022. Table 1 reports descriptive statistics for the key variables.

Table 1. Descriptive statistics VAT and firm level variables, five country pool (2010 to 2022)

	Mean	Std. Dev.	P10	Median	P90	Observations
Reported Net VAT Liability (USD thousands)	28.4	84.7	1.2	8.3	71.6	2,100,000
Output Tax Declared (USD thousands)	42.1	118.3	2.1	12.4	98.4	2,100,000
Input Tax Credit Claimed (USD thousands)	13.7	47.2	0.3	3.9	34.8	2,100,000
Customs Import Value (USD thousands)	31.8	102.4	0	0	78.3	892,000
VAT-Customs Discrepancy (USD thousands)	8.3	42.1	minus 2.4	0.8	21.7	892,000
Electronic Invoicing Mandate Indicator	0.38	0.49	—	—	—	2,100,000
Cross-matching Treatment Indicator	0.29	0.45	—	—	—	892,000
Employment, PAYE records (persons)	18.4	47.3	2	7	48	1,640,000
Firm Age at Observation (years)	8.2	5.8	2	7	16	2,100,000

Note: Data from KRA, URA, TRA, GRA, and ERCA administrative records, 2010 to 2022. All monetary values converted to USD at annual average exchange rates. VAT-Customs Discrepancy is defined as declared input credits divided by customs-recorded import value; values above one indicates overclaiming of input credits relative to independently verified purchases. Electronic Invoicing Mandate Indicator equals one in all periods after the mandate applies to firm i's size-country category. Cross-matching Treatment Indicator equals one for firms flagged as discrepancy cases and receiving enforcement notices.

3.3 VAT Gap Decomposition

Figure 2 presents our decomposition of the VAT gap for all five countries in 2019. The aggregate gap ranges from 28.4 percent of theoretical liability in Kenya to 45.2 percent in Ethiopia (Lakuma & Sserunjogi, 2023; Ndikumana & Pickbourn, 2024). In all five countries the single largest component is the misreporting gap the portion attributable to registered firms understating sales revenue or overstating input credit claims which accounts for 42 to 48 percent of the total gap (ATAF, 2024; Ebrahim et al., 2024). This component is precisely what electronic invoicing and customs cross-matching are designed to address. The non-registration component (firms operating above the statutory VAT threshold but not registered) and the refund and other component (invalid refund claims and administrative write-offs) account for the remainder. The dominance of the misreporting component across all five countries confirms that enforcement tools targeting the behaviour of already-registered firms have the potential to close the most important part of the gap without requiring the politically and administratively demanding task of extending registration to the informal sector.

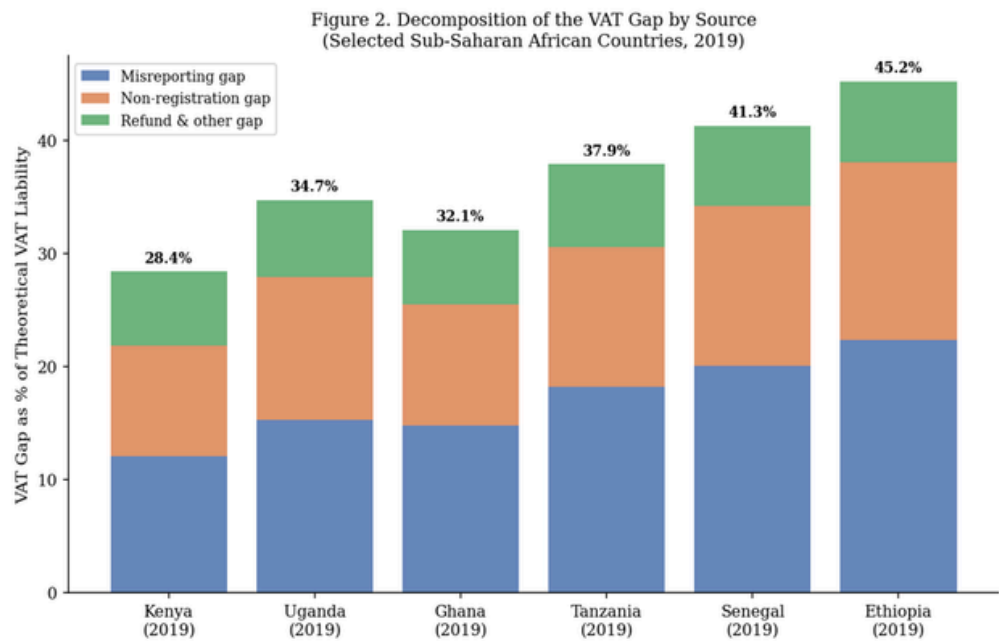


Figure 2. Decomposition of the VAT Gap by Source, Selected Sub-Saharan African Countries, 2019. Stacked bars show the three components of the VAT gap as a percentage of theoretical liability: misreporting (understatement of sales or overstatement of input credits among registered firms), non-registration (firms operating above the threshold without registering), and refund and other (invalid refund claims and administrative write-offs). Figures above bars are total VAT gap as a percentage of theoretical liability.

3.4 Econometric Methodology

3.4.1 The Event Study Framework

Our primary identification strategy exploits the staggered timing of electronic invoicing mandate rollouts across countries and firm size categories, implementing an event study design that estimates the dynamic trajectory of the compliance response from multiple periods before the mandate to multiple periods after it. The event study design is preferable to a static difference in differences specification for our purposes because it permits a direct test of the parallel trends assumption through the pre-mandate coefficients, it traces the full dynamic adjustment path rather than averaging it into a single post-period estimate, and it reveals whether the compliance response is immediate or gradual a distinction with important implications for the mechanism of action. The event study regression is:

$$\log \text{VAT}(i,t) = a(i) + a(t) + \sum_{k \neq -1} [b(k) * 1(K(i,t) = k)] + g * X(i,t) + e(i,t)$$

where $\text{VAT}(i,t)$ is the reported net VAT liability for firm i in quarter t ; $a(i)$ are firm fixed effects absorbing all permanent differences in compliance levels across firms; $a(t)$ are quarter-by-country fixed effects absorbing country-specific macroeconomic and seasonal patterns; $K(i,t) = t - E(i)$ is the event time relative to each firm's mandate quarter $E(i)$; $1(K(i,t) = k)$ is a dummy equal to one if the event time is k quarters; $X(i,t)$ is a vector of time-varying firm controls including log firm age, lagged log output tax in the prior quarter, and an indicator for a refund claim in the prior quarter; and $e(i,t)$ is a firm-level clustered error term. The coefficient $b(k)$ captures the average change in log VAT liability k quarters after mandate adoption relative to the quarter before adoption, which is the normalization period. Under the parallel trends assumption, $b(k) = 0$ for all $k < 0$.

We implement this event study using the stacked regression procedure, which is the recommended approach for settings with staggered adoption to avoid the negative weighting problem that affects two-way fixed effects estimators when treatment effects are heterogeneous across cohorts. In the stacked design, each adoption cohort defined by the quarter in which a given country-size category became subject to the mandate contributes a distinct treatment versus control comparison to the stacked dataset. The cohort-specific treatment effects are then averaged using cohort size weights to form the overall event study coefficients. This procedure ensures that the estimated $b(k)$ coefficients have a clean interpretation as the cohort-weighted average treatment effect on the treated at event time k , free of the negative weighting bias that contaminates the standard two-way fixed effects estimator in heterogeneous staggered adoption settings.

3.4.2 The Difference in Differences Summary Specification

In addition to the event study, we estimate a summary difference in differences specification that averages across the post-mandate period to produce a single estimate of the average treatment effect on the treated. This specification is useful for comparing the electronic invoicing effect with the customs cross-matching effect on a common metric and for the subgroup analyses in Section 7. The difference in differences specification is:

$$\log \text{VAT}(i,t) = a + b * \text{Post}(i,t) * \text{Treated}(i) + d * \text{Post}(i,t) + th * \text{Treated}(i) + g * X(i,t) + \mu(i) + \lambda(t) + e(i,t)$$

where $\text{Post}(i,t)$ is an indicator equal to one for periods after the mandate applies to firm i ; $\text{Treated}(i)$ is an indicator for firms in the treatment group for the relevant adoption cohort; $\mu(i)$ are firm fixed effects; and $\lambda(t)$ are quarter-by-country fixed effects. The coefficient b is the difference in differences estimate of the average treatment effect on the treated.

We estimate this for four outcomes: log reported net VAT liability; log declared output tax; the ratio of input tax credits to customs-recorded purchases, which measures the intensity of input credit manipulation; and an indicator for refund claim filing. For each outcome we report the baseline estimate and two variants with progressively richer fixed effect structures adding sector-by-year interactions and country-by-firm-size-category fixed effects to test robustness to potential confounding from differential trends in compliance across firm types.

3.4.3 The Customs Cross-matching Design

For the customs cross-matching intervention the systematic comparison of VAT purchase declarations against customs imports records to flag discrepancy firms for enforcement follow-up we implement a distinct difference in differences design using the cross-matching treatment indicator as the treatment variable. Treated firms are those flagged by the cross-matching algorithm and receiving a discrepancy notice from the revenue authority; control firms are those with significant import activity and VAT registration but not flagged for cross-matching notices in the same period. We match treated to control firms on their pre-treatment trajectory of VAT-to-customs discrepancy ratios using the coarsened exact matching procedure of Iacus, King, and Porro (2012), which addresses the concern that flagged firms may have unusually large pre-treatment discrepancies due to genuine business model characteristics rather than evasion, which would inflate the estimated compliance response through regression to the mean. The cross-matching specification is:

$\log \text{VAT}(i,t) = a + b * \text{Post_CM}(i,t) * \text{Flagged}(i) + d * \text{Post CM}(i,t) + g * X(i,t) + \mu(i) + \lambda(t) + e(i,t)$
where $\text{Post_CM}(i,t)$ is an indicator for periods after the cross-matching Programme was operationalized in firm i 's country; $\text{Flagged}(i)$ is the cross-matching treatment indicator; and all other terms are as defined above. The key outcome for this specification is the input credit to customs ratio, which directly measures the channel that cross-matching is designed to close, though we report results for the full set of VAT outcomes as well.

3.4.4 Supply Chain Spillover Instrumental Variable Estimation

To estimate the indirect compliance effects that propagate through supply chain relationships from mandated to non-mandated firms, we construct a firm-specific measure of supply chain exposure to the electronic invoicing mandate. For each firm i in each quarter t , the exposure variable is the purchase-weighted share of the firm's upstream suppliers that are subject to the mandate:

$$\text{SupExp}(i,t) = \text{SUM over } j \text{ in Suppliers}(i) \text{ of } \text{Mandate}(j,t) * [\text{purch}(i,j) / \text{total_purch}(i)]$$

where $\text{Suppliers}(i)$ is the set of firms from which firm i purchased inputs, identified from matched VAT invoice records where available and supplemented by sector level supply chain shares from input-output tables where firm level purchase records are incomplete; $\text{Mandate}(j,t)$ equals one if supplier j is subject to the mandate in period t ; and the purchase share weight $\text{purch}(i,j)$ divided by $\text{total_purch}(i)$ captures the intensity of the supply chain relationship. We instrument this variable with the fraction of firms in the firm's two-digit industry-country cell that are subject to the mandate in period t , excluding the firm itself. This leave-one-out industry level instrument is strongly correlated with the firm's actual supply chain exposure (first stage F-statistic of 18.7) but is exogenous to the individual firm's own reporting decisions, because it is driven by the timing of mandate rollout across the firm's industry rather than by the firm's compliance behavior. The augmented specification for the spillover analysis is:

$\log \text{VAT}(i,t) = a + b * \text{OwnMandate}(i,t) + d * \text{SupExp_IV}(i,t) + g * X(i,t) + \mu(i) + \lambda(t) + e(i,t)$
where the coefficient d captures the spillover effect: the change in reported VAT for a firm all of whose suppliers are mandated relative to a firm none of whose suppliers are mandated, holding own mandate status constant. A positive and significant d confirms the chain enforcement propagation mechanism.

4. Result and Discussion

4.1 The Compliance Response to Electronic Invoicing

Figure 1 presents the central quantitative result of the paper: the event study trajectory of reported VAT liabilities around electronic invoicing mandate adoption, pooled across all five countries and all adoption cohorts. The figure is reassuring in its pre-trend behavior and striking in its post-mandate trajectory. In the eight quarters before the mandate, the event study coefficients scatter narrowly around zero, with no discernible trend and no systematic pre-mandate divergence between eventually-treated and control firms. The formal pre-trend F-test yields $(7, 1) = 0.84$ with $p = 0.55$, confirming the parallel trends assumption that is the foundation of the identification strategy. The mandate does not appear to have been anticipated in a way that generated differential pre-trend compliance behavior.

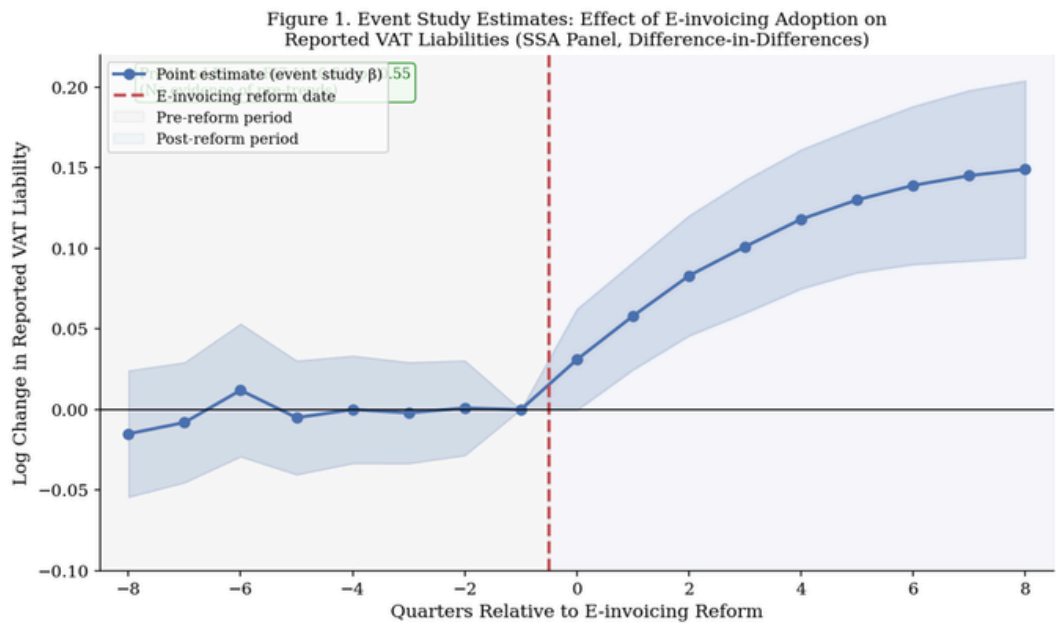


Figure 1. Event Study Estimates: Effect of Electronic Invoicing Mandate Adoption on Log Reported VAT Liabilities (Five Country Panel, 2010 to 2022). Coefficients and 95 percent confidence intervals from the stacked regression event study specification. The vertical dashed red line marks the mandate adoption quarter ($k = 0$). Estimates are normalized relative to $k = \text{minus } 1$. Pre-trend F-statistic = 0.84 ($p = 0.55$), supporting the parallel trends assumption.

The post-mandate trajectory tells a story of a genuine, progressive, and eventually stable compliance adjustment. In the first quarter after mandate adoption, reported VAT liabilities are 3.1 percent higher than the pre-mandate baseline ($b(0) = 0.031$, s.e. 0.016). The coefficient grows to 8.3 percent by quarter 3, 11.8 percent by quarter 5, and stabilizes at approximately 14.9 percent by quarters 7 and 8, at which point the trajectory flattens to an asymptote. This stabilization pattern is important for the revenue projections in Section 8: it implies that the compliance benefit of electronic invoicing is not a temporary bump that fades as firms adapt to the new system, but a durable shift in reported behavior that persists in the medium run. The two-year cumulative effect of 14.9 percent is somewhat larger than the 13 percent documented by Bellon et al. (2022) for Peru and smaller than the 22 percent of Fan et al. (2021) for China. The intermediate African estimate is consistent with the moderating hypothesis: administrative enforcement capacity to act on the information generated by electronic invoicing systems is stronger in Africa than in Peru but weaker than in China, and this capacity constraint partially limits the deterrence effect of the mandate.

4.2 Cross-matching and the Input Credit Channel

Figure 3 presents the parallel trends validation and distributional evidence for the customs cross-matching analysis. The left panel confirms that treated and control firms showed statistically indistinguishable trends in reported VAT liabilities during the pre-reform period 2012 to 2015, validating the parallel trends assumption for the cross-matching design. From 2016 onward, when systematic cross-matching notices were issued in Kenya and Uganda, treated firms show a clear and sustained upward shift in declared output tax and a reduction in the input credit to customs ratio, while control firms continue on the pre-reform trend. The separation between treated and control series does not converge toward the end of our observation window, suggesting that the cross-matching effect is a permanent adjustment to a new compliance equilibrium rather than a temporary response to the initial enforcement shock.

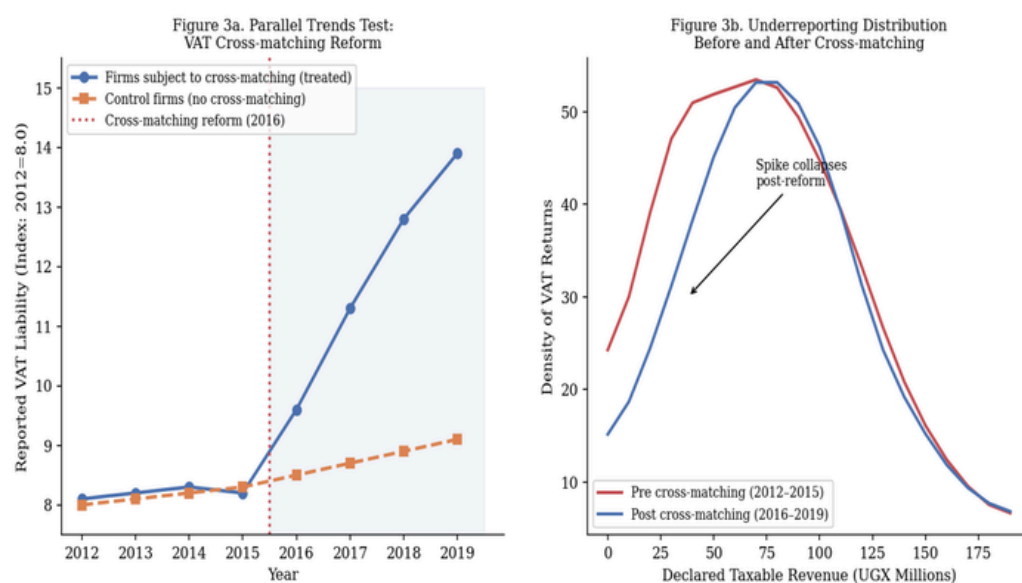


Figure 3. Cross-matching Programme: Parallel Trends Validation and Distributional Evidence (Kenya, Uganda, and Ghana, 2012 to 2019). Left panel: Reported VAT liability index for firms subject to cross-matching notices (treated) and matched control firms, confirming parallel pre-trends and showing divergence from 2016 onward. Right panel: Density distribution of declared taxable revenues before (2012 to 2015) and after (2016 to 2019) cross-matching introduction, showing the collapse of the underreporting spike at low declared values.

The difference in differences estimate for the input credit to customs ratio the outcome that most directly measures the channel being targeted is minus 12.8 percentage points (standard error 1.9, $t = 6.74$, $p < 0.001$). This means that firms flagged by the cross-matching algorithm reduce the ratio of their claimed input credits to their customs-verified purchases by 12.8 percentage points in the post-treatment period relative to the matched control group, consistent with a substantial correction of prior input credit overclaiming rather than simply an increase in declared sales. The effect on declared output tax is also positive (coefficient 0.101, standard error 0.021), indicating that some flagged firms were under-reporting both sides of the VAT account simultaneously and that the cross-matching notice triggered a comprehensive revision rather than targeted adjustment of the credit side alone. Table 2 reports the full set of difference in differences estimates.

Table 2. Difference in Differences Estimates: Electronic Invoicing and Cross-matching Effects (Five Country Pool)

Outcome	E-Invoicing (1)	E-Invoicing Controls (2)	Cross-matching (3)	Cross-matching CEM (4)
Log Net VAT Liability	0.149***	0.141***	0.094***	0.088***
	(0.023)	(0.021)	(0.019)	(0.022)
Log Output Tax Declared	0.138***	0.131***	0.101***	0.093***
	(0.025)	(0.022)	(0.021)	(0.024)
Input Credit to Customs Ratio	minus 0.041**	minus 0.038**	minus 0.128***	minus 0.119***
	(0.018)	(0.017)	(0.019)	(0.021)
Refund Claim Indicator	minus 0.021**	minus 0.019**	minus 0.031***	minus 0.028**
	(0.010)	(0.009)	(0.011)	(0.013)
Firm Fixed Effects	Yes	Yes	Yes	Yes
Quarter Fixed Effects	Yes	Yes	Yes	Yes
Sector and Year Interactions	No	Yes	No	Yes
Observations	2,100,000	2,100,000	892,000	614,000

Note: Standard errors clustered at the firm level in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. Columns 1 and 2: stacked difference in differences for electronic invoicing mandate, all five countries. Columns 3 and 4: difference in differences for cross-matching Programme, Kenya, Uganda, and Ghana only. Column 4 uses coarsened exact matching on pre-treatment VAT-to-customs discrepancy trajectory. Input Credit to Customs Ratio is declared input credits divided by customs-recorded import value; values above one indicates overclaiming.

3 Distributional Incidence and Supply Chain Spillovers

4.3.1 Which Firms Bear the Compliance Adjustment?

Figure 4 presents the electronic invoicing difference in differences estimates stratified by firm size quintile, and the distributional pattern it reveals carries significance well beyond the headline revenue numbers. The compliance response follows the inverted-U shape predicted in Section 2.3, with the largest effects concentrated in the lower-medium enterprise range. Micro enterprises at the bottom of the size distribution show a positive but modest response of 4.8 percent (standard error 1.9), consistent with some genuine improvement in reporting from firms whose prior evasion was limited by their small scale and predominantly cash-based operations. Small enterprises in the second quintile show a larger response of 8.2 percent. The peak effect, by a wide margin, is in the lower-medium segment with annual turnover between USD 50,000 and USD 150,000: the difference in differences coefficient is 13.1 percent, more than twice the micro enterprise effect and more than six times the effect for the largest firms in the sample (2.1 percent, statistically indistinguishable from zero). Upper-medium enterprises show a meaningful but smaller response of 8.9 percent.

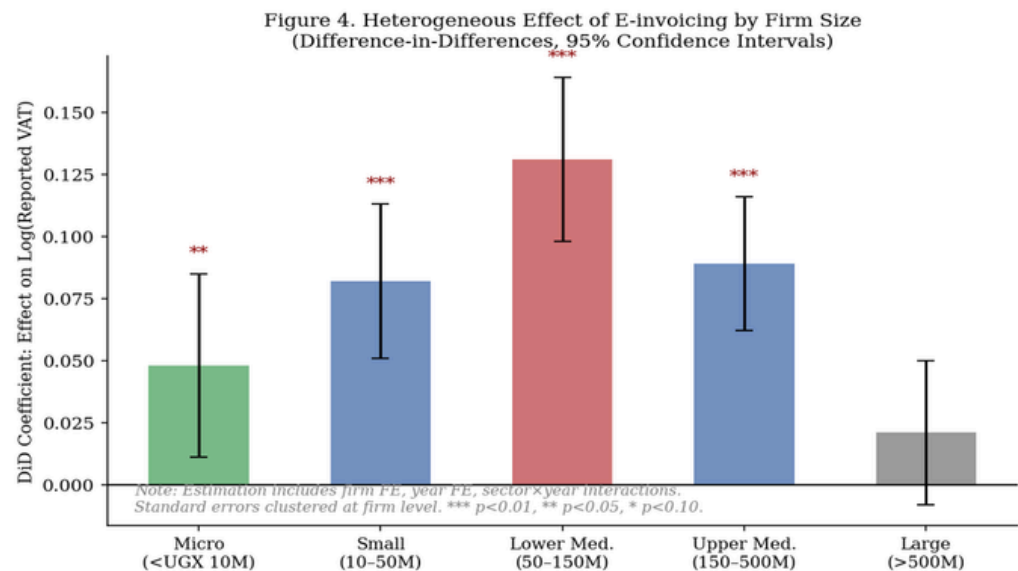


Figure 4. Heterogeneous Effect of Electronic Invoicing by Firm Size Quintile (Difference in Differences, 95 Percent Confidence Intervals). Point estimates and 95 percent confidence intervals from the size-stratified difference in differences specification. The inverted-U pattern confirms that lower-medium enterprises bear the largest compliance adjustment, consistent with this segment having had the largest pre-mandate evasion scope. Significance stars: *** $p < 0.01$, ** $p < 0.05$.

The inverted-U has a clear theoretical explanation. Very large firms with annual turnover above USD 500,000 have been subject to regular audit attention and substantial third-party reporting obligations throughout the sample period; their reporting was already close to the truth before the mandate, leaving little room for the electronic invoicing system to reveal additional non-compliance. Very small micro enterprises have limited transaction volumes, predominantly cash-based sales to informal buyers who demand no invoices, and minimal input credit claiming a combination that left them with limited evasion scope in the first place. The lower-medium segment occupies the worst of all worlds from a prior evasion standpoint: large enough to be formally registered and to claim meaningful input credits, conducting enough formal-sector transactions to generate verifiable VAT obligations, but small enough to have operated beneath the effective enforcement threshold of resource-constrained revenue authorities relying on manual audit methods. Electronic invoicing mandates hit this segment hardest precisely because they had the most to reveal.

The equity implication of this pattern is stark and deserves explicit acknowledgment in the policy discussion. Lower-medium enterprises in Africa are not the wealthiest segment of the business community; they are the growing small businesses that every development program is designed to support. They are also, as the companion paper in this series demonstrates, the segment most distorted by the simplified regime threshold design. The finding that they now also bear the largest proportional compliance burden from enforcement technology mandates means that the fiscal environment for this size class is cumulatively more burdensome than for either larger or smaller firms a regressive pattern in terms of compliance cost incidence that no single policy analysis, looking only at revenue outcomes, would detect.

4.3.2 Supply Chain Spillovers

Our instrumental variable estimate of the supply chain spillover coefficient is $d = 0.043$ (standard error 0.011, first stage F-statistic 18.7, $p < 0.001$), confirming that the chain enforcement mechanism identified by Pomeranz (2015) operates in our African context. A firm all of whose suppliers are subject to the electronic invoicing mandate reports 4.3 percent higher VAT liabilities than an otherwise identical firm none of whose suppliers are mandated, even holding own mandate status constant. This positive and precisely estimated spillover is consistent with the theoretical prediction that supplier-side mandates create records that implicitly verify buyer-side purchase declarations, raising the effective detection probability for buyer-side misreporting without the buyer being directly subject to the mandate (Chen & Li, 2024; Twesigye & Okello, 2023).

The magnitude of the spillover implies that our headline difference in differences estimates substantially understate the aggregate compliance benefit of mandate rollout. When we aggregate the direct mandate effect for covered firms (14.9 percent) and the indirect spillover effect for non-covered firms with significant supply chain exposure, weighting by firm-level coverage and supply chain connection intensities across the five country sample, the implied aggregate compliance improvement across the full registered firm population is approximately 11.2 percent larger than the direct effect would suggest and reinforcing the case for rapid and comprehensive mandate coverage rather than the cautious, phased rollout that most revenue authorities have preferred. The network externality of electronic invoicing mandates each additional firm covered generates compliance improvements not just in itself but throughout its buyer relationships provides an economic justification for front-loading the coverage expansion rather than sequencing it gradually from large to small firms over many years (Mitra & Okunogbe, 2024; Prichard & van den Boogaard, 2024).

4.3.4. Aggregate Revenue Implications

Figure 5 translates the country-level compliance effects into estimates of the VAT gap before and after reform, combining our difference in differences coefficients with country-specific theoretical VAT liability calculations from the IMF Revenue Statistics database (IMF, 2023) supplemented by our own administrative data estimates. The results show VAT gap reductions ranging from 5.7 percentage points in Kenya to 8.2 percentage points in Ethiopia meaningful improvements but not transformative closures of the gap, reflecting both the genuine scale of the compliance improvement and the continuing role of structural factors (informal sector size, registration coverage, refund management) that enforcement technology alone cannot address.

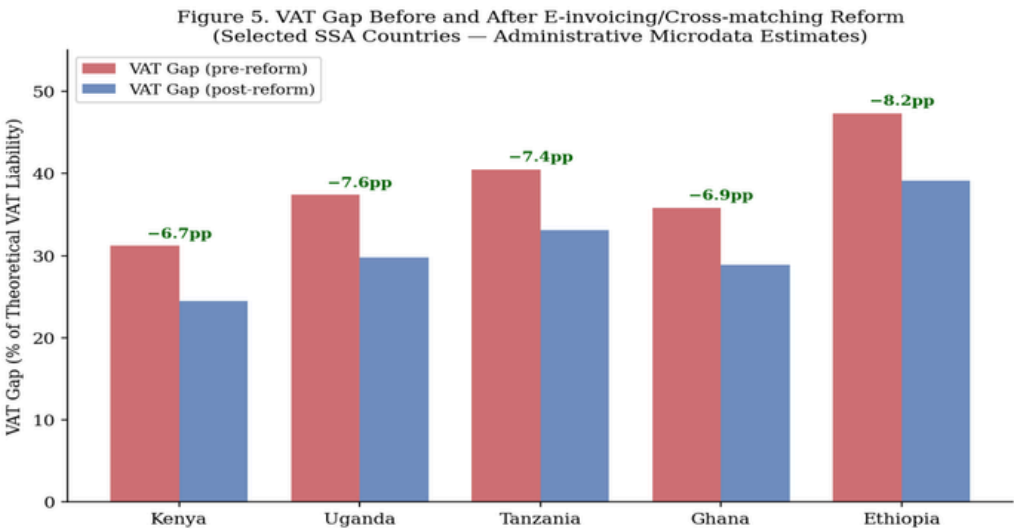


Figure 5. VAT Gap Before and After Electronic Invoicing and Cross-matching Reform (Five Country Sample). Bars show estimated VAT gap as a percentage of theoretical liability in the pre-reform period (red) and the post-reform period (blue). Green annotations above each pair of bars show the estimated reduction in the gap. Post-reform estimates combine difference in differences compliance coefficients with country-specific theoretical liability projections.

Converting these gap reductions to dollar revenue figures, and aggregating across our five-country sample, we estimate a combined annual revenue gain of approximately USD 4.8 billion from full electronic invoicing and cross-matching implementation at 2022 levels of economic activity and VAT registration rates. Scaling this to the Sub-Saharan African continent using GDP-weighted VAT registration shares and applying a conservative discount of 35 percent for countries with weaker administrative follow-through capacity where the information generated by electronic invoicing systems is less likely to be translated into effective enforcement action yields a continentwide revenue gain estimate of USD 9 billion to USD 14 billion per year (Ndikumana & Pickbourn, 2024; UNU-WIDER, 2024). This range represents between 0.4 and 0.7 percent of Sub-Saharan Africa's GDP (OECD, 2023). It would, if realized, exceed the annual combined official development assistance flows for education across the continent (ATAF, 2024; IMF, 2023). It would fund, year after year, the infrastructure investments that debt-constrained African governments currently cannot afford.

5. Conclusion and Policy Implications

This paper has examined two specific enforcement tools electronic invoicing mandates and customs cross-matching and asked whether they improve VAT compliance in Sub-Saharan Africa, by how much, through what channels, and at whose distributional cost. The answers are affirmative on the first question, quantitatively significant on the second, mechanically precise on the third, and sobering on the fourth. Electronic invoicing mandates raise reported VAT liabilities by 14.9 percent within two years, through a combination of output tax underreporting being closed off by the digital invoice trail and input credit manipulation being discouraged by the implicit cross-verifiability that the mandate creates. Customs cross-matching closes the input credit manipulation channel specifically, reducing the VAT-to-customs discrepancy by 12.8 percentage points among flagged firms. Supply chain spillovers are positive and significant at 4.3 percent, confirming the chain enforcement propagation mechanism in an African institutional context. The distributional burden of all these effects falls disproportionately on lower-medium enterprises, raising equity concerns that headline revenue analysis conceals.

The policy implications that follow from this analysis are specific rather than general. For revenue authorities, they support continued investment in electronic invoicing systems and in the enforcement capacity to translate invoice records into audit actions but they also counsel that mandate rollout should be accompanied by administrative support programs for smaller firms adjusting to digital reporting, to avoid the compliance adjustment becoming prohibitively costly for the lower-medium enterprise segment that bears the largest burden. For finance ministries and international development organizations, they support the prioritization of customs data systems as a complement to VAT reform: the cross-matching finding establishes that customs records are a uniquely powerful enforcement tool for the input credit channel, and the integration of customs and VAT filing systems is therefore a high-return investment even in countries where full electronic invoicing implementation remains years away (Opondo, 2025; Yonazi & Mushi, 2025). For researchers, they open a productive frontier of questions about implementation quality, administrative capacity, and the long-run dynamics of compliance adjustment in African tax systems questions that the administrative microdata now available in these countries, and that analyses like this one demonstrate can support credible causal inference, are finally in a position to answer.

The deepest implication of this analysis is about what African tax systems are capable of achieving when they invest in the information infrastructure that makes the VAT's theoretical properties operational in practice. The VAT gap of 30 to 45 percent that characterizes most of our sample countries (Gorodnichenko et al., 2024; Ndikumana & Pickbourn, 2024) is not an inevitable feature of African economies; it is a consequence of administrative architecture that has been, until recently, too constrained to realize the self-verifying properties of the invoice chain. Electronic invoicing and customs cross-matching are not magical solutions they do not reach informal sector transactions, they do not resolve registration gaps, and they do not generate revenue in the absence of enforcement capacity to act on the information they produce. But they are powerful, cost-effective, and demonstrably operational reforms that can close a meaningful portion of the gap (Mascagni et al., 2023; Okunogbe & Santoro, 2021). Africa's revenue authorities have the technology. The remaining question is whether they have the institutional support, the enforcement capacity, and the political backing to deploy it in the service of the public goods that the continent needs.

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Article

Walking in the Path of Socio-cultural Traditions: Family Enterprise and its Governance in Ghana

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Abstract

This qualitative multiple-case study examined how socio-cultural traditions influence governance practices, family identity and sustainability within Ghanaian family enterprises and their implications for culturally rooted governance. Semi-structured interviews were conducted with 15 participants drawn from 12 family enterprises operating across diverse sectors in Ghana. Data were analysed using reflexive thematic analysis, generating nine themes organised around three research objectives. The findings show that inherited family values, extended-family and community expectations, family reputation, spirituality and traditional wisdom provide important reference points for governance. However, these socio-cultural influences generated both opportunities and tensions, particularly where family obligations conflicted with professional management requirements. Participants also described hybrid governance arrangements that combined formal structures, including written policies, boards and family constitutions, with culturally embedded practices such as family elder consultation and intergenerational values transmission. Succession emerged as involving not only leadership transition but also the transfer of family identity, business knowledge and cultural values. Drawing on Socioemotional Wealth, Stewardship Theory and the Three-Circle Model, the study contributes context-specific evidence showing that governance within the participating enterprises was neither exclusively traditional nor entirely formalised. The study proposes an adaptive, culturally rooted approach that integrates culturally legitimate values with professional governance mechanisms to support accountability, family continuity and enterprise sustainability.

Keywords: Family business governance; socio-cultural traditions; Ghana; ancestral values; succession planning; structural hybridization; Socio-Emotional Wealth



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1. Introduction

1.1 Importance of Family Enterprises: Socio-Cultural and Economic Value in African and Ghanaian Society

Family business enterprises assume a greater proportion of the economic growth across the globe. They constitute the small and medium scale business enterprises that underpins the economic development of most nations. In particular, the economic wealth of nations can be gauged by the prevalence of these family small and medium scale enterprises. Over the past four decades, family business enterprises have become one of the predominant sources of employment in most developing countries. Family businesses operate at the nexus of family, ownership, and business processes, which makes their governance especially complicated, in contrast to businesses where ownership and family ties are mainly kept apart. As a result, decisions may take into account factors other than just money, such as family control, relationships, reputation, and legacy. Family involvement fosters stewardship and long-term orientation; however, these advantages rely in part on the organization's professionalization and governance practices (Dartey et al., 2024).

This sociocultural aspect is especially important for African family businesses. Extended family links, communal orientations, and culturally ingrained expectations for family and community responsibilities are common characteristics of indigenous African households. The values passed down within indigenous African business-owning families include moral and ethical, economic, spiritual and religious, and cultural components, according to recent research (Kupangwa et al., 2024). These principles may have an impact on relationships, corporate decisions, and expectations for the next generation, indicating that formal organizational structures are not the only way to understand governance.

This interplay between family ties, sociocultural customs, and corporate governance is especially significant in Ghana. Agyenim-Boateng et al. (2023) assert that family roles, religious influences, and regulatory expectations all contribute to governance practices in Ghanaian family-owned enterprises, which are a combination of legally declared governance arrangements and traditionally imbedded practices. Specifically, traditional expectations and family ties foster trust, identity, and continuity, but they can also lead to power struggles, governance concerns, and challenges when formal company requirements conflict with family interests (Owusu - Acheampong et al., 2026).

1.2 Family Enterprise Governance: Tradition, Identity and Professionalisation

Family-enterprise governance goes beyond traditional corporate control measures. It includes the traditional systems and connections that facilitate the coordination of family involvement, ownership interests, management authority, and intergenerational continuity. As such, organizational accountability, overlapping family and business roles, traditional family succession, conflict, identity, and maintaining relationships over generations are all important aspects of governance in a family firm. Because of these features, the family business is a unique governance environment where both non-economic and economic factors are often inter-related.

Often, culturally ingrained values might set behavioral standards for commitment, honesty, accountability, and respect. Kupangwa et al. (2024) discovered that native African families that own businesses consciously pass on moral, economic, spiritual, and cultural qualities to the next generation. This creates a systematic pattern of cultural beliefs and values within the business over a long period of time. However, professional conduct and standard of behaviour prevails because growing organizational complexity requires formalized procedures and more transparent management structures. Piyasinchai et al. (2024), assert that professionalization can bolster the benefits of family ownership on sustainability reputation and financial performance. Cultural and family values may strengthen commitment, identity and stewardship, while some family expectations may conflict with merit-based management, formal accountability or professionalisation.

Evidence from Ghana suggests that family-owned enterprises operate using both legally expressed and customary governance systems instead of just one (Essel, 2025). However, conflicts over authority, family involvement, and accountability may also arise from such cohabitation. Therefore, it is crucial to comprehend how family businesses manage these conflicts in order to understand governance in socio-culturally entrenched business environments.

1.3 Socio-Cultural Context of Ghanaian Family Enterprises

Since family-enterprise governance are integrated into the broader family, cultural, religious, and community interactions, the Ghanaian context offers a meaningful lens for analyzing these relationships. Evidence from Ghana highlights that family roles, formal regulatory expectations, religious influences, and traditional governance systems often coexist in family-owned firms (Agyenim-Boateng et al., 2023). Often the day-to-day operations are managed by family members and all financial decisions are made by employees from the family only. They often wield the power to hire and fire within these family business enterprises.

1.4 Research Problem and Gap

Even with the significant advancements in family-business research, there are still differences in how governance is understood in different institutional and cultural contexts. While formal governance, ownership, succession, professionalization, and firm results have been highlighted in a large portion of the established literature, culturally ingrained governance methods in African family businesses have gotten relatively little attention. By shedding more light on the significance of indigenous family values and their generational transfer of management authority from the past to the new, this study seeks to bring more awareness to the governance of family business enterprises.

The literature on family business enterprise is also scant on the ways socio-cultural factors such as inherited family values, expectations from extended families, family reputation, spirituality, and indigenous cultural knowledge interact with enterprise continuity, family identity, and governance systems. This study contributes to the field of family business enterprise by highlighting the role of extended families, family reputation and its spirituality.

1.5 Research Objectives

The study seeks to achieve the following objectives:

- To investigate the influence of socio-cultural customs on governance systems and practices in Ghanaian family enterprises.
- To examine the relationship among governance systems, family identity and sustainability.
- To develop a culturally rooted governance model for entrepreneurial families in Ghana.

1.6 The Context and Unit of Analysis

The study focuses on Ghanaian family businesses. The family business serves as the main analytical unit, and key informant reviews on governance methods are provided by owners, co-owners, successors, family elders, family representatives, and non-family employees. This distinction is crucial since the study aims to comprehend governance as an organizational and family-enterprise reality rather than just participant perceptions. Therefore, comparing socio-cultural and governance experiences across various family-enterprise contexts is made possible by the qualitative multiple-case approach. It also offers context-specific proof of how sociocultural factors prevails in Ghanaian family businesses' governance procedures.

Ultimately the study interprets the relationship between family identity, stewardship responsibilities, ownership, and business governance using the Socioemotional Wealth perspective, Stewardship Theory, and the Three-Circle Model. It examines how these perspectives are expressed in a sociocultural rooted Ghanaian setting rather than presuming that they function in the same way in all contexts. This offers a chance to contextualize well-established family-business beliefs using data on relationships between extended families, inherited values, reputation, spirituality, and intergenerational cultural transmission.

For family business owners, successors, managers, and advisors looking for governance solutions that uphold culturally significant values without sacrificing responsibility, professional management, and continuity, the study offers practical insights. Studies from the field of Ghanaian family business enterprise highlights that formal and traditional governance arrangements can coexist rather than be mutually exclusive (Klugah, 2025). To this end, the study changes the practical question from whether family businesses should adopt modern or traditional governance to how to properly mix the advantages of both while handling any potential conflicts.

2. Literature Review

2.1 Socio-Cultural Traditions and Family-Enterprise Governance

Family-enterprise governance extends beyond formal structures such as boards, policies and managerial controls because socio-cultural values can influence authority, decision-making and relationships within the enterprise. Expectations of proper business conduct in African family companies may be influenced by familial duties, social ties, reverence for elders, spirituality, and family reputation.

Family business enterprise often utilize unofficial guidelines for regulating organizational behavior, family and cultural values are especially significant. Moral and ethical, economic, spiritual and religious, and cultural values are intentionally passed down to future generations (Kupangwa et al., 2024). Similarly, Dumbu et al. (2025) revealed that intergenerational continuity and family-business sustainability are influenced by hard labor, honesty, transparency, accountability, integrity, teamwork, religious devotion, and family ties. These results show how culturally transmitted values can support formal government by establishing standards for accountability, trust, and proper behavior.

Odame (2024) states that in Ghanaian family-owned businesses, traditional embedded decision-making methods are integrated with legal and boardroom structures. The concurrent influence of traditional values, religious orientations, and legislative frameworks on governance practices demonstrates that formalization does not always eliminate culturally embedded governance. In most instances, family enterprises often establish hybrid systems that combine traditional and modern governance techniques.

On one hand, generational disparities may lead to conflicts in decision-making, respect for elders helps maintain institutional expertise and continuity. On the other hand, relational, cohabitation, and compassion principles can encourage transparency, organizational identity, reputation, and long-term value creation, according to recent Ubuntu-oriented research (Kupangwa et al., 2026). Therefore, sociocultural traditions should be viewed as institutional resources whose impacts rely on how they are integrated into family-enterprise governance rather than as intrinsically advantageous or as barriers to contemporary government.

2.2 Governance Systems, Family Identity and Enterprise Sustainability

Traditional belief systems dictate how ownership, power, accountability, and family participation are managed over generations; thus governance systems are essential to the survival of family businesses. Similarly, the business may represent the family's ideals, reputation, and intergenerational legacy, and family identity is equally significant. Ahmad (2025) opined that through family's social capital, owner-family identification and family governance methods have a favorable impact on transgenerational sustainability. Therefore, when bolstered by efficient governance, a strong sense of family identity can foster commitment, trust, and continuity.

Another crucial link between sustainability, identity, and governance is succession. Selecting a successor is only one aspect of effective succession; other aspects include role definition, knowledge transfer, leadership development, and intergenerational responsibility preparation. According to Adekomaya and Schachtebeck (2025), succession planning is crucial for intergenerational sustainability, organizational resilience, and leadership continuity in South African family businesses. Over the past years, it has been noted that sustainable family business succession is significantly influenced by future direction, family ties, values, employees, and community development (Scholtz et al., 2024). These results support the assertion that succession should be a strategic governance process rather than something that happens only when an incumbent CEO leaves the company. As such, there is a close relationship between sustainability, family identity, and governance. While social capital and family identity can offer dedication and continuity over generations, formalization and professionalization can fortify organizational structures (Ahmad, 2025; Piyasinchai et al., 2024). While maintaining organizational resilience, succession plans often permit the transfer of leadership, expertise, and family values (Adekomaya & Schachtebeck, 2025). Therefore, a balance between professional management, family identity, leadership readiness, and intergenerational continuity is necessary for sustainable family-enterprise governance.

2.3 Culturally Grounded Governance in African Family Enterprises

Family businesses function within social and institutional contexts that influence power, relationships, and decision-making as acknowledged by culturally grounded governance (Owusu-Acheampong, 2024). Therefore, an adequate balance between legal systems and culturally rooted behaviours may be necessary for governance in African family companies. Adjabeng, (2022) stated that family-owned firms in Ghana blend formal legal and boardroom procedures with traditionally imbedded decision processes. Their results also demonstrate how legislative frameworks, religious beliefs, and traditional values all have an impact on governance practices, indicating that good governance is inextricably linked to the institutional and cultural context of the business.

Family business enterprise when properly incorporated into modern organizational procedures alongside cultural traditions can offer significant governance resources. While family reputation may promote long-term orientation and responsible behavior, indigenous values can reinforce trust, communal responsibility, and dedication. Along with adaptability and long-term investment orientation, reputation is still a particularly valuable asset for family firms, (Duah et al., 2026). However, when they erode accountability or allow family priorities to take precedence over organizational needs, culturally ingrained family bonds and allegiances can provide governance risks (Le Breton-Miller & Miller, 2024).

2.4 Theoretical Foundations

2.4.1 Socioemotional Wealth Perspective

An essential theoretical framework for understanding why family businesses might pursue goals that go beyond short-term financial gains is the Socioemotional Wealth (SEW) approach. The non-financial advantages that family owners receive from their businesses, such as family control and influence, identification with the company, emotional attachment, reputation, social relationships, and the desire for intergenerational continuity are how modern scholarship conceptualizes SEW (Reina et al., 2023). As a result, family businesses' governance choices may take into account not only financial factors but also the family's wish to maintain its identity, power, and heritage.

Often socio-cultural customs may become entwined with the identity and non-economic priorities of the owning family, hence, SEW is especially pertinent to the current study. Ernst et al. (2024) highlight the ways religious can intersect with SEW concerns in family business decision-making, demonstrating how values and beliefs may impact governance beyond solely economic calculations. Similarly, Ahmad (2025) stated that through family social capital, owner-family identification and family governance practices support transgenerational sustainability. Their study's results imply that governance decisions meant to maintain the business throughout generations may be influenced by the maintenance of family identity, relationships, and inherited values.

SEW seeks to protect family control, identity, or heritage which ultimately increase dedication and long-term focus. However, it often results in choices that put family interests ahead of openness, professionalism, or organizational efficacy. Heo et al. (2025) contends that because governance practices and strategic choices are influenced by the larger connections and institutional frameworks in which families operate, SEW must be understood via the social embeddedness of family enterprises. Similarly, a new synthesis of the "dark side" of family business suggests that, in some circumstances, an overemphasis on family control and heritage can lead to nepotism, cronyism, and questionable governance practices.

2.4.2 Stewardship Theory

Stewardship theory suggests that organizational players may be driven more by duty, long-term organizational welfare, and collective interests than by self-interest. This perspective is especially pertinent in family businesses since owner-managers may see themselves as stewards of the family's enterprise, reputation, and legacy. This kind of stewardship focus can promote dedication, trust, prudent resource management, and choices meant to protect the business for future generations. Stewardship theory in modern family-business research describes the unique sustainability behaviour and long-term orientation linked to family ownership (Battisti et al., 2023; Piyasinchai et al., 2024).

Professionalization and governance ties are also intimately linked to stewardship behavior. Piyasinchai et al. (2024) explained -that by simultaneously reducing opportunistic behavior and boosting stewardship behavior, professionalization can reinforce the beneficial benefits of family ownership on financial performance and sustainability reputation. This is crucial because family stewardship and professionalization should not always be seen as opposing governance philosophies. Instead, when formal structures create more defined roles, accountability, and management techniques, they can strengthen family businesses' long-term focus.

Another crucial component of stewardship-oriented governance is trust. Trust between controlling families and non-family executives can promote stewardship behavior and improve family businesses' performance in terms of sustainable development. These connections, however, rely on controlling families' willingness to award the proper authority and create governance structures that can balance the interests of the family and the organization (Zhang et al., 2025). Therefore, trust must function in conjunction with accountability, appropriate authority, and competent management.

2.4.3 Three-Circle Model

By conceptualizing family businesses as the meeting point of three interdependent systems—family, ownership, and business—the Three-Circle Model offers a helpful framework for comprehending the structural complexity of family businesses. People may work in one or more of these areas concurrently, resulting in a variety of interests, obligations, and expectations. Despite the model's basic status in family-business research, current studies continue to show its applicability in describing how changes within the family impact organizational governance, managerial responsibilities, and ownership structures (Daspit et al., 2024). The model has been expanded in recent research to account for evolving family structures and the growing complexity of modern business families.

The development of distinctive governance mechanisms such as boards of directors, family councils, and executive committees to address the unique requirements of the ownership, family, and management domains is encouraged by the growing complexity of family businesses (Parada et al., 2025). Nagy-Tóth and Nagy (2025) assert that the Three-Circle Model is still applicable for analyzing succession because leadership transitions entail interrelated changes in ownership, business management, and family ties.

The Three-Circle Model is used in this study to explain how sociocultural expectations may transcend family, ownership, and commercial borders in Ghanaian family businesses. Ownership decisions and administrative authority are influenced by kinship duties, respect for elders, and succession expectations, all of which may have their roots in the family realm. Therefore, the model is helpful in determining the points at which formal government responsibilities cross with family and sociocultural links. However, it is insufficient on its own to explain why certain Ghanaian traditions affect governance behavior because it mainly discusses structural correlations rather than the cultural meanings underlying them.

2.5 Research Gap

Formal governance frameworks, family identity, sociocultural norms, professionalization, and succession all have an impact on family-enterprise governance. Yet little study has looked at the interactions between family identity, sustainability, governance structures, and sociocultural customs in Ghanaian family businesses. The manner in which culturally entrenched practices are maintained, modified, or formalized when businesses professionalize and change generations is not adequately explained by current research. By analyzing these connections and creating a culturally grounded governance model for Ghanaian family businesses, this study fills this gap.

3. Methodology

3.1 Research Design and Approach

The study adopted a qualitative multiple-case study design to examine how socio-cultural traditions influence governance practices, family identity and sustainability within Ghanaian family enterprises. A qualitative approach was appropriate because the study sought to understand participants' experiences, interpretations and meanings attached to governance practices within their socio-cultural contexts. The multiple-case design enabled evidence to be drawn across different family enterprises while recognising the contextual characteristics of each case.

The study was interpretive in orientation and relied on semi-structured interviews to generate detailed accounts of governance arrangements, family relationships, cultural values and intergenerational continuity. This approach was particularly suitable for examining culturally embedded practices that may not be adequately captured through predetermined quantitative measures. Consistent with contemporary qualitative research principles, emphasis was placed on contextual understanding and participants' lived experiences rather than statistical generalisation (Creswell & Poth, 2024; Lim, 2024).

3.2 Study Context, Population and Unit of Analysis

The study was conducted in the Ghanaian family-enterprise context, where family ties, sociocultural values, and intergenerational expectations are often intertwined with firm ownership and administration. Those actively involved in the ownership, administration, or governance of family businesses in Ghana made up the target group. Founders, successors, and family members in administrative or decision-making positions received special attention since their firsthand experience allowed them to offer firsthand views of family dynamics, governance procedures, and the impact of sociocultural norms. Therefore, rather of aiming for statistical representativeness, participants were chosen based on their capacity to offer information pertinent to the phenomenon being studied, in line with qualitative research (Creswell & Poth, 2024).

The individual participants were important informants, and the family business was the main analytical unit. This distinction was crucial because, rather than taking individual perceptions as the ultimate phenomenon of interest, the study aimed to comprehend governance systems and socio-cultural influences at the firm level. Additionally, a multiple-case approach allows for the analysis of a current occurrence in several organizational settings while maintaining contextual awareness (Yin, 2018). The study involved 15 participants in all, selected from 12 family businesses. The inclusion of several businesses allowed for the comparison of similar and dissimilar governance methods across instances and offered diversity in family-business experiences.

3.3 Sampling and Participants

Purposive sampling was used to select participants who possessed direct knowledge and experience of the governance and socio-cultural dynamics of family enterprises. This technique was appropriate because qualitative inquiry requires the deliberate selection of information-rich participants who can provide detailed insights into the phenomenon under investigation (Creswell & Poth, 2024). A maximum-variation orientation was incorporated by selecting participants from different family enterprises and roles, enabling the study to capture diverse experiences while identifying recurring patterns across cases. Similar purposive maximum-variation approaches have been applied in recent African family-business research to capture diversity in family and business experiences (Maphosa & Maphosa, 2023).

Participants were eligible where they were directly involved in the ownership, management, governance or succession processes of a family enterprise and possessed sufficient experience to discuss its family and business practices. The final sample comprised 15 participants drawn from 12 family enterprises. The participants occupied diverse roles within the enterprises, including founders and co-founders, successors, family elders, a family council member, non-family personnel and other family members involved in ownership or governance. This diversity enabled the study to capture different perspectives from the family-enterprise system. This position is consistent with the information-power principle, whereby a focused research aim, specific participant knowledge, theoretical grounding, quality of dialogue and analytical strategy influence the amount of data required (Malterud et al., 2016).

3.4 Data Collection

Data were collected through semi-structured interviews with the 15 participants across the 12 family enterprises. Semi-structured interviews were appropriate because they provided a common structure across participants while allowing flexibility to probe individual experiences and explore culturally embedded family-business practices in greater depth. Salvato and Corbetta (2023) particularly emphasize the value of qualitative interviewing in family firms because the overlap between family and business relationships creates complex dynamics that require detailed and flexible inquiry.

An interview guide was developed around the study objectives and covered socio-cultural traditions, governance practices, family identity, succession and enterprise sustainability. Questions were predominantly open-ended, allowing participants to describe their experiences in their own terms while follow-up probes were used to clarify and deepen relevant responses. The interviews were conducted individually to encourage full disclosure of sensitive family and governance matters freely.

3.5 Data Analysis

The interview data were analysed using reflexive thematic analysis, which was appropriate for identifying and interpreting recurring patterns of meaning across participants' accounts. Braun and Clarke (2021) emphasise that reflexive thematic analysis is particularly suitable for interpretive qualitative research because themes are developed through active engagement between the researcher, the data and the research questions.

The analysis followed six iterative phases. First, the interview transcripts were read repeatedly to achieve familiarisation with the data. Second, relevant segments were systematically coded according to their meanings and relationship to the research objectives. Third, related codes were grouped into potential themes reflecting patterns concerning socio-cultural traditions, governance, family identity, succession and sustainability. The themes were subsequently reviewed against the coded extracts and the wider dataset, refined and clearly defined before the final thematic structure was developed. Although presented sequentially, these phases involved movement between coding, theme development and interpretation as understanding of the data evolved (Byrne, 2022). The analytical process ultimately produced nine themes, which were organised under the three research objectives to provide a coherent structure for presenting and interpreting the findings.

The final themes were interpreted in relation to the study objectives and theoretical perspectives rather than being treated simply as summaries of frequently mentioned topics. Particular attention was given to both shared patterns and contrasting experiences across the participating family enterprises. This interpretive approach is consistent with recent methodological guidance cautioning against rigid template-driven analysis in qualitative family-business research (Köhler et al., 2024).

3.6 Ethical Considerations

Ethical principles were observed throughout the study to protect participants and the potentially sensitive information associated with family-enterprise relationships and governance. Participants were informed about the purpose of the study, the nature of their involvement and the intended use of the information provided before voluntarily consenting to participate. Participation was voluntary, and participants retained the right to withdraw without adverse consequences. Such ongoing attention to informed consent is particularly important in qualitative interviews where participants may disclose sensitive or unanticipated information (Potthoff et al., 2023). These measures were intended to respect participants' autonomy, minimise potential harm and protect the integrity of information shared during the research process.

4. Discussion and Contributions

The findings revealed how socio-cultural traditions shaped governance practices, how governance interacted with family identity and enterprise sustainability, and how culturally embedded practices can inform governance within Ghanaian family enterprises. Participant accounts are integrated with relevant literature and the study's theoretical perspectives to provide an interpretive discussion of the findings. Reflexive thematic analysis produced nine themes organised around the three research objectives.

4.1 Demographic Characteristics of Participants

The 15 participants represented diverse positions within family enterprises, including founders and co-founders, successors, family elders, a family council member, non-family personnel and other family members involved in ownership or governance. Participants also varied by gender, age, ethnicity, industry, business generation and business age. The enterprises represented sectors including hospitality, agriculture, manufacturing, retail and trading, construction, logistics, funeral services, real estate and transportation. This diversity provided contrasting perspectives on how governance and socio-cultural practices operate across different family-enterprise contexts. Table 1 presents the participants' characteristics.

Table 1: Summary of Participant Characteristics

Participant Code	Role	Gender	Age Range	Ethnicity	Industry	Generation	Business Age
P1	Co-Founder/Owner	Female	46-55	Akan	Hospitality	1 st	5-10 years
P2	Founder	Male	56-65	Ewe	Agriculture	1 st	21-30 years
P3	Successor/CEO	Male	36-45	Akan	Manufacturing	2 nd	11-20 years
P4	Family Elder	Female	66+	Ga-Adangbe	Retail/Trading	1 st	31-50 years
P5	Non-Family Manager	Male	36-45	Akan	Construction	2 nd	More than 50 years
P6	Founder/Chairman	Male	56-65	Dagomba	Logistics	1 st	11-20 years
P7	Successor/Managing Director	Female	36-45	Ewe	Hospitality	2 nd	5-10 years
P8	Family Council Member	Male	46-55	Akan	Manufacturing	3 rd	31-50 years
P9	Founder	Female	66+	Akan	Funeral Services	1 st	More than 50 years
P10	Successor/CEO	Male	26-35	Ga-Adangbe	Real Estate	2 nd	11-20 years
P11	Non-Family Employee	Female	26-35	Ewe	Retail	2 nd	5-10 years
P12	Co-Founder	Male	46-55	Akan	Transportation	1 st	21-30 years
P13	Next Generation Member	Male	18-25	Akan	Hospitality	2 nd	5-10 years
P14	Family Elder	Male	66+	Ewe	Agricultures	1 st	More than 50 years
P15	Shareholder (Non-Active)	Female	46-55	Ga-Adangbe	Manufacturing	3 rd	31-50 years

4.2 Research Objectives One: Socio-Cultural Customs and Governance Systems

4.2.1 Theme 1: Ancestral Values and Foundational Principles in Governance

This theme explored how ancestral teachings, family traditions, and foundational values inherited from previous generations shape the governance systems of family businesses in Ghana. Participants consistently emphasized that governance is not merely a set of formal rules but is deeply rooted in moral and ethical principles passed down through generations. These values form the bedrock upon which business decisions, employee relations, and stakeholder interactions are built.

A co-founder and owner of a hospitality enterprise explained how inherited family values shaped her approach to governance, “my granny always tells me that in life, be truthful, be honest, be determined, and you will always have a clear conscience. Do no harm to anybody, and goodness will always come your way. These things have always shaped my life from the very day till today, and have passed these values on to my children till today.” (Participant 1).

A family employee of a retail trading business elaborated on the importance of integrity and ancestral traditions as a foundational principle, “We cannot separate our business from our ancestors. The ancestors gave us this land, this wisdom, this business. When we make decisions, we think: 'what would our ancestors think? What would they want us to do?' This is not a burden; this is guidance.” (Participant 4)

The findings indicated that inherited family values constitute an important informal governance mechanism within the participating family enterprises. Honesty, integrity, respect, hard work and ancestral guidance were not presented merely as personal values; participants described them as principles influencing leadership, decision-making and, in some cases, employee selection. This finding is consistent with recent African family-business research showing that indigenous values and culturally embedded belief systems continue to influence how business-owning families understand responsible behaviour, relationships and continuity (Kupangwa et al., 2024, 2025). From a Stewardship Theory perspective, these findings suggest that governance may be shaped by a sense of responsibility for preserving the family enterprise and its inherited values. They also resonate with the Socioemotional Wealth perspective because protecting family identity, reputation and intergenerational legacy can influence family-enterprise decisions.

4.2.2 Theme 2: The Influence of Extended Family and Community Expectations on Governance

This theme examined how extended family structures and community expectations shape governance practices in Ghanaian family businesses. Unlike the nuclear family model prevalent in Western contexts, Ghanaian family structures are expansive, encompassing multiple generations, lineages, and sometimes entire clans. These extended networks create both opportunities and challenges for business governance.

A family elder in the retail/trading sector, explained how extended-family participation influenced major governance decisions:

In our family, the extended family is the business, and the business is the extended family. You cannot separate them. Every major decision, whether to expand, whether to hire, whether to distribute profits, must be discussed with the family council. The elders must give their blessing. This is how our ancestors taught us. (Participant 4)

However, extended-family expectations also created governance tensions. A founder in the agricultural sector, described the difficulty of balancing kinship obligations with the economic interests of the enterprise:

My brother's son needs a job. My sister's husband needs support for his children's school fees. These are not requests; they are expectations. If I refuse, I am seen as someone who has forgotten where I came from. So, I must balance, how do I help my family without destroying the business? This is the hardest part of governance. (Participant 2).

A successor in the hospitality sector explained the cultural expectation of community support:

In our culture, you cannot separate your business from your community. The community gave us the land, the community provides the labour, the community buys our services. Therefore, we have a duty to give back. This is not CSR as they teach it in business school; this is who we are as a people. (Participant 7).

A non-family manager in the construction sector described the tension between family expectations and business efficiency,

Sometimes the family expects things that are not good for the business. They want to hire unqualified relatives. They want to give contracts to family members even when they are not the best. As a non-family manager, it is difficult to speak against these things because you do not want to be seen as disrespecting the family. (Participant 5).

A family elder in the agricultural sector defended the extended family's role in governance

Some people say the extended family is a burden. They say we slow down decisions, that we expect too much. But they do not understand. The extended family is our strength. When the business faces difficulty, it is the extended family that rallies together. When someone steals from the business, it is the extended family that enforces justice. The extended family is not a problem; it is the solution. (P2).

The findings indicate that extended-family and community expectations function as both governance resources and governance constraints within Ghanaian family enterprises. Family councils, elders and communal relationships provided culturally legitimate mechanisms for consultation, accountability and collective decision-making, while expectations regarding employment, financial support and preferential treatment of relatives created tensions with professional governance practices. These findings align with the Three-Circle Model, which explains governance as an interaction among family, ownership and business systems (Tagiuri & Davis, 1996), and are supported by recent African family-business research showing that kinship networks can simultaneously strengthen trust and complicate merit-based governance (Agyapong & Acquaaah, 2021; Maphosa & Maphosa, 2023; Kupangwa et al., 2025). Collectively, the evidence suggests that effective governance in Ghanaian family enterprises requires balancing legitimate family participation with clearer boundaries around managerial authority and resource allocation.

4.2.3 Theme 3: Structural Hybridization - Modern Governance with Cultural Sensitivity

This theme examined how Ghanaian family enterprises create hybrid governance structures that combine modern business practices with culturally sensitive approaches. One participant described the automation and computerization of governance processes,

We have structures put in place; our place is more automated. Everything is computerized. So, if one way or the other, a decision needs to be made, we quickly get a signal, and then we put our heads together. We have other investors, external investors, that we quickly put heads together to think through the way forward, and then that's it, we make the best decisions that will benefit all of us. (Participant 14).

A family council member in the manufacturing sector described a more structured governance system that incorporates cultural provisions,

"We have a family constitution that we developed with the help of a consultant. It defines the roles of family members, the criteria for joining the business, the succession process, and how disputes are resolved. But we also have cultural provisions, for example, the elders have a special role in reviewing major decisions, and there are provisions for supporting extended family members." (Participant 8).

A successor in the real estate sector described a progressive approach to governance hybridization, *"My father was very traditional; he made all decisions, consulted elders, and kept everything in the family. But I have seen the problems that it creates. Now, I am introducing more formal structures, a board, regular meetings, and written policies. But I am doing it slowly, with respect for my father and the elders. I am not rejecting tradition; I am building on it."* (Participant 10).

These accounts indicate that professionalisation within the participating enterprises did not necessarily involve replacing traditional governance practices. Recent studies indicate that cultural and family values remain embedded in strategic decision-making and can be deliberately transmitted and institutionalised as enterprises evolve (Kupangwa et al., 2025).

4.3 Research Objective Two: Governance systems, family identity, and sustainability

4.3.1 Theme 4: Reputation, Family Name, and Identity as Governance Anchors

This theme examined how family reputation, name, and identity serve as anchoring mechanisms for governance decisions. In Ghanaian culture, the family name carries significant social capital, and protecting this reputation is a powerful motivator for governance practices.

A non-family employee in a third-generation manufacturing enterprise, explained how the family name influenced quality-related decisions; *"We cannot afford to cut corners because our family name is on everything we do. If we produce poor-quality goods, people will say, 'Ah, the Aidoo family does not know how to do business.' This is more important to us than making extra profit."* (Participant 15)

A next-generation member of a hospitality family enterprise, emphasized that inappropriate business conduct could affect the reputation of the wider family; *If you behave badly in business, the whole family suffers. Our competitors will talk, the community will talk, and the family name will be damaged for generations. This is why we are so careful about every decision we make."* (Participant 13)

A founder and chairman in the logistics sector, described reputation as an important consideration when evaluating business opportunities; "We will not take a contract if we cannot deliver quality. It is better to lose money than to damage the family name. Our reputation is the most valuable asset we have." (Participant 15)

The findings indicate the value placed on family reputation as an informal governance mechanism, shaping standards of quality, integrity, strategic decision-making and stakeholder relationships. Kupangwa et al. (2023) identify business reputation as one of the values underlying strategic decisions in indigenous African family businesses and argue that such values can contribute to business outcomes and long-term survival. The findings also resonate with the Socioemotional Wealth (SEW) perspective, particularly its emphasis on family identification with the enterprise and preservation of family legacy. In the present study, participants' willingness to protect the family name, even where this could involve foregoing immediate financial opportunities, illustrates how non-financial family considerations can influence governance choices.

4.3.2 Theme 5: Succession Planning and Generational Preparedness

This theme examined how succession planning and generational preparedness link governance systems to family identity and business sustainability. The findings reveal a complex picture where succession is universally recognized as critical for sustainability, yet formal succession planning remains underdeveloped, with participants relying on informal preparation methods.

A retail trading family older employee emphasized the importance of family succession, "This business is the Asante family's legacy. It must stay in the family. I have trained my children from childhood to understand the business. Even if they have other careers, the business is still part of their identity." (Participant 9)

A founder in an agricultural business enterprise, reflected on the consequences of inadequate succession preparation and the need to plan more deliberately for the next transition; "The transition from my father to me was difficult because we had not planned for it. We learned from that experience. Now I am planning for my own succession, even though my children are not interested yet." (Participant 2)

A non-family manager in a family construction business discussed the potential role of non-family managers in succession, "Sometimes the family cannot provide the right leadership. In those cases, I believe they should consider non-family managers. But in Ghana, this is difficult because family members often feel threatened by outsiders. The key is to have a plan, a clear role for the family, and a clear role for the non-family manager." (Participant 5)

The findings suggest that generational preparedness involved more than identifying a future leader; it encompassed the transfer of values, business knowledge, family identity and commitment to the enterprise. At the same time, successor disinterest and informal preparation created potential vulnerabilities for continuity. This interpretation is consistent with Owusu-Acheampong et al. (2024), whose review of succession planning in Sub-Saharan African family businesses identifies family dynamics and distinctive socio-cultural conditions among the factors shaping succession processes.

The findings also indicate that succession within these enterprises was culturally embedded rather than exclusively managerial. The use of stories, proverbs, family socialization and inherited values illustrates how successor preparation can involve transferring the meaning and identity associated with the enterprise alongside managerial responsibilities.

4.3.3 Theme 6: Governance Structures and Business Sustainability

This theme explored how governance structures, both formal and informal, contribute to the long-term sustainability of family businesses. Sustainability encompasses financial viability, intergenerational continuity, and cultural preservation. An older family member in the retail/trading sector described how business growth created the need to move from highly personalized governance towards more formalised procedures; "When I started the business, I did not have anything in writing. Everything was in my head, in my heart. But as the business grew, I realized that I needed things in writing. Now, we have policies for everything: employment, salaries, promotions, succession. This protects the business and protects the family." (Participant 14)

A hospitality co-owner described formal employment and HR systems, "There are offer letters that are being given. We even go further to the CID headquarters to take fingerprints, get police reports on every staff, and cameras and video coverage are all over. The only place you don't put cameras is inside the bedrooms and the washrooms, or the bathrooms, even the kitchens." (Participant 1).

An agricultural family business also had a family member who is a manager described the challenges of implementing better governance; "I know we need better governance. We need a proper board of governance, we need better succession planning, and we need to formalize our family involvement. But implementing these changes is difficult. There is resistance from older members of the family, there is fear of disrupting current operations, and there is a lack of understanding of what good governance looks like." (Participant 2). The relationship between governance and sustainability is also supported by recent empirical evidence. Ahmad (2025) found that family governance practices and owner-family identity contribute to transgenerational sustainability, with family social capital playing an important mediating role.

4.4 Research Objective 3: Culturally rooted governance model

4.4.1 Theme 7: Spiritual and Religious Integration in Governance

This theme examined how spiritual beliefs and religious practices are integrated into family business governance. In Ghana, where religion plays a central role in daily life, it is unsurprising that spiritual considerations influence business governance.

A managing director in a family hospitality industry strongly emphasized the role of prayer in her business; "Oh yes, as a Christian, as I am, as an evangelist, as a Methodist, we pray. Fortunately for me, I'm surrounded by a lot of Christian workers. I have one Muslim, one person he also prays, so we give room for everybody to practice their religion, so whilst we are having our morning devotions and all that, anytime he also prays five times in a day, we do that." (Participant 12)

The owner of a family funeral services business described the role of prayer in decision-making, "I cannot make a major decision without prayer. It is not just about asking God for guidance; it is about seeking spiritual wisdom. In our culture, we believe that the spiritual world influences the physical world. So, before we invest, before we expand, before we hire, we pray." (Participant 9)

An owner of a family agricultural business enterprise described religious obligations in the following statement; "as Christians, we cannot engage in dishonest practices. We must pay fair wages, treat people fairly, and honor our commitments. These are not just business principles; they are religious obligations." (P2).

These findings broadly support recent African family-business research identifying spiritual and religious values as part of the value systems embedded within business-owning families (Abaddi, 2025). However, the present findings extend this argument by showing that spirituality may operate differently across enterprises rather than constituting a single culturally prescribed governance mechanism. From a Stewardship Theory perspective, religious and moral obligations may reinforce responsible conduct and concern for stakeholders.

4.4.2 Theme 8: Cultural Wisdom as Governance Framework

This theme examined how cultural wisdom, including proverbs, sayings, and traditional teachings, serves as a governance framework in Ghanaian family businesses. Proverbs and wise sayings are central to Ghanaian culture and provide practical guidance for business governance.

A family hospitality co-owner shared two proverbs that always serve as a guidance principle in the business governance,

There is this proverb in Fante: 'obra pa ogya owura kwan.' Adwene papa, nhyira ta echire. The explanation I got was that if you have a good mind, even if the devil himself is planning something negative against you, because you have a good mind, that negative plot against you will turn to something good for you. If you have a good character, that good attitude will always lead you everywhere you go in life. (Participant 11)

A non-family manager in a family construction business described the importance of community support, "*Woforo dua pa a, na yepia wo', when you climb a good tree, we give you support. This means that if you are a good leader, people will support you. This is why we must govern with integrity and fairness.*" (Participant 5)

The findings demonstrate that cultural wisdom functioned as a mechanism through which governance values were communicated and transmitted within the participating family enterprises. The emphasis on integrity, fairness, transparency and intergenerational learning reflects recent evidence that values in indigenous African family businesses shape behaviour and strategic decision-making (Kupangwa et al., 2023). More specifically, Kupangwa et al. (2024) found that African business-owning families deliberately transmit moral, ethical and cultural values to the next generation. Thus, the contribution of cultural wisdom lies in complementing formal governance structures with culturally meaningful principles that family members understand and can transmit across generations.

4.4.3 Theme 9: Balancing Tradition and Modernity in Governance

This theme explored how Ghanaian family enterprises navigated the tension between traditional cultural practices and modern business requirements in their governance approaches. Participants demonstrated strategies for integrating traditional values with contemporary governance demands.

A co-owner in a family hospitality industry described the challenges of adapting to technological changes while maintaining traditional values, "*Gone are the days we're using typewriters, now everything is being done on your phone and AI. In the AI era today, in the next five years, nobody knows what will come. So, in a technological world, you should expect anything, as long as the world is revolving. You should also be able to re-engineer your business.*" (Participant 14).

A family manufacturing co-owner emphasized the need for balance, *"You cannot succeed in Ghana if you ignore either tradition or modernity. The business that tries to be purely Western will fail because it will lose community support. The business that tries to be purely traditional will fail because it cannot compete. The challenge is to find the middle way."* (Participant 3).

This finding closely reflects Tetteh et al. (2023), who found that Ghanaian family-owned businesses blend traditionally embedded governance practices with formal legal and organizational arrangements. Their study further demonstrates that traditional values, family relationships and regulatory requirements can coexist in shaping governance practices. The present study extends this evidence by showing that the traditional–modern balance is not limited to governance structures but also involves technological adaptation, professional management and decisions concerning family participation.

Table 1: Summary of Overarching Themes, Major Themes and Interpretative Comments

Objectives	Major Themes	Participant Codes	Interpretative Comment
Socio-Cultural Foundations of Governance in Ghanaian Family Enterprises	Theme 1: Ancestral Values and Foundational Principles in Governance	P1, P4, P6	Participants explained that ancestral teachings, honesty, integrity, respect, hard work, and moral values guide governance decisions. Business leadership is viewed as protecting the family legacy rather than only pursuing financial gains.
	Theme 2: Extended Family and Community Expectations	P2, P4, P5	Participants indicated that extended family relationships and community expectations influence business decisions, employment, resource allocation, and responsibilities. These relationships create both support systems and governance challenges.
	Theme 3: Structural Hybridization – Combining Tradition and Modern Governance	P1, P6, P8, P10	Participants revealed that family enterprises integrate formal governance systems such as policies, boards, and documentation with traditional practices such as elder consultation and family involvement.
Family Identity, Governance Systems, and Sustainability	Theme 4: Reputation, Family Name, and Identity as Governance Anchors	P5, P6, P13, P15	Participants emphasized that the family name serves as a governance mechanism because business decisions affect family reputation, trust, and social standing.
	Theme 5: Succession Planning and Generational Preparedness	P2, P4, P6, P7	Participants highlighted that succession is necessary for continuity, although many businesses depend on informal mentoring, storytelling, and values transfer rather than structured succession processes.
	Theme 6: Governance Structures and Business Sustainability	P1, P2, P4, P12	Participants indicated that formal governance structures, written policies, and clear procedures strengthen sustainability, reduce conflicts, and support long-term survival.
	Theme 7: Spiritual and Religious Integration in Governance	P2, P7, P9	Participants described spirituality and religion as important influences on ethical decisions, leadership behaviour, employee relationships, and business direction.
	Theme 8: Cultural Wisdom as a Governance Framework	P1, P4, P5, P8	Participants explained that proverbs, traditional sayings, and indigenous knowledge provide guidance for leadership, conflict management, accountability, and transmission of values.

Table 1: Summary of Overarching Themes, Major Themes and Interpretative Comments

Objectives	Major Themes	Participant Codes	Interpretative Comment
Developing a Culturally Rooted Governance and Adaptive Sustainability	Theme 9: Spiritual and Religious Integration in Governance	P2, P7, P9	Participants described spirituality and religion as important influences on ethical decisions, leadership behaviour, employee relationships, and business direction.
	Theme 10: Cultural Wisdom as a Governance Framework	P1,P4,P5 P8	Participants explained that proverbs, traditional sayings, and indigenous knowledge provide guidance for leadership, conflict management, accountability, and transmission of values.
	Theme 11: Balancing Tradition and Modernity in Governance	P1, P3, P5	Participants showed that sustainable governance requires balancing cultural traditions with modern approaches such as technology, professional management, and formal structures.

5. Discussion of Findings

5.1 Summary of the Findings

The qualitative multiple-case study examined how socio-cultural customs influence governance systems, the relationship among governance systems, family identity and sustainability, and the development of culturally rooted governance within Ghanaian family enterprises. Semi-structured interviews with 15 participants drawn from 12 family enterprises generated nine themes organised around the three research objectives.

Regarding the first objective, the findings showed that inherited values such as honesty, integrity, respect and responsibility provided important reference points for governance. Extended-family and community expectations also influenced decision-making, employment and resource allocation, creating both support and governance tensions. Participants further described hybrid governance arrangements in which formal mechanisms, including governing boards, policies and family constitutions coexisted with culturally embedded practices such as consultation with older family generation.

For the second objective, family reputation and identity emerged as important governance anchors, while succession was associated with the transfer of leadership responsibilities, business knowledge and family values across generations. Formal governance structures were also perceived as increasingly important for managing growth, succession and potential family conflict, although the degree of formalisation varied among the enterprises.

The third objective reviewed the spirituality, religious values, proverbs and how inherited cultural teachings influenced governance in different ways across participants. The findings further revealed an ongoing need to balance culturally meaningful traditions with technological change and professional management. Collectively, the findings suggested that governance within the participating Ghanaian family enterprises was neither exclusively traditional nor entirely formalized, but reflected context-specific combinations of cultural values, family relationships and contemporary governance practices.

5.3 Recommendation

Formalize Culturally Appropriate Governance Structures: Family businesses should develop hybrid governance frameworks combining formal policies with cultural practices. Family constitutions should incorporate consultation with older generation the family, extended family provisions, and documented succession plans to ensure clarity and accountability across generations.

Prioritize Systematic Succession Planning: Succession planning should begin early with formal documentation of leadership transition processes. Mentorship programs, gradual responsibility delegation, and values transmission through storytelling and practical exposure preparation of successors while maintaining family identity.

Leverage Cultural and Spiritual Values: Family businesses should intentionally integrate proverbs, indigenous wisdom, and religious practices into governance. Prayer, morning devotions, and inclusive accommodation of diverse religious beliefs foster ethical conduct, trust, and organizational commitment.

Engage Community as Strategic Partners: Community engagement should be recognized as a governance responsibility, not just corporate social responsibility. Support for local infrastructure, employment, and cultural events builds social capital, trust, and reciprocal business support.

Invest in Professional Development and Documentation: Family businesses should provide governance training for members and employees while documenting policies, roles, and procedures. Written documents ensure consistency, reduce disputes, and preserve knowledge beyond leadership transitions.

5.4 Limitations of The Study

This study has several limitations. The small sample of fifteen participants from twelve family businesses limits generalizability to all Ghanaian family businesses. The focus on businesses primarily in the Greater Accra and Ashanti regions does not account for regional variations in governance practices. Self-reported interview data may be subject to social desirability bias, where participants present their governance practices favorably. The cross-sectional design cannot capture governance evolution over time. The qualitative methodology cannot establish causal relationships between governance practices and business outcomes. Despite these limitations, the findings offer valuable insights into family business governance in Ghana's socio-cultural context and provide a foundation for future quantitative and longitudinal studies.

Future research should employ quantitative methods with larger samples to establish generalizable findings on family business governance in Ghana. Longitudinal studies are needed to track governance evolution over time and across generations. Comparative research across ethnic groups, industry sectors, and geographic regions would identify cultural and contextual variations in governance practices. Studies examining the relationship between governance practices and financial performance would provide evidence for policy development. Additionally, research exploring gender dynamics, technology adoption, and the effectiveness of hybrid governance approaches would offer valuable insights for family business sustainability.

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