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Analysis of factors affecting performance of family owned businesses in abia state, Nigeria

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Abstract: *The study analyzed the factors affecting family owned businesses in Abia state, Nigeria. It employed random sampling technique in the selection of location and 100 respondents from whom data and information were elicited using pretested and well structured questionnaire. In the course of data analysis, multiple regressions model and the Pearson's correlation coefficient were used. The analysis of factors affecting performance of family owned business showed that among the variable considered as factors influencing the performance of family owned business in the study area, Age, Education, Line of business, Years of Experience, Household Size and Annual income of the respondents were significant at 1-percent level, The R^2(coefficient of determination) which shows the total variation of the dependent accounted for by the independent variables was 0.723 (that is 72.3%). The F-statistic value (20.028) was also significant at 1% indicating that the model was adequate. The Pearson's correlation revealed that there is an existence of a strong positive relationship between annual income of family business operators and the profitability of the family owned venture at the 1% (highest) level of significance. On the basis of the findings, there is a need for effective policies and programmes to support the development and sustainability of family owned enterprises whose sustainability depends critically on adequate knowledge of characteristics and constraints of family business operators should be put in place by government.*

Keywords: *Factors, Performance, Family Owned Businesses, Abia State, Nigeria*

I. Introduction

The importance of small and medium-sized enterprises (SME's) in creating jobs and economic wealth is globally recognized. Among SMEs, family businesses are fast becoming the dominant form of business enterprise in both developed and developing countries. In developing countries in particular, the social and economic importance of family businesses can hardly be over-stated. More importantly, however, is the fact that their influence can be expected to increase substantially in the future (Ryan, 1995).

Family businesses are considered as one of the engines of the post-industrial growth processes as they are credited for nurturing across generations entrepreneurial talent, a sense of loyalty to business success and long-term strategic commitment. Some noted examples of family businesses are Walmart, the Priztker group and Marriotts (Family Firms Magazine, 2002).

Family-owned firms face unique challenges. However, many failures of family-owned companies indicate that such firms also face a multitude of challenges which risk destroying share- holder value or even the business itself. Corporate governance measures lead to long-term success and keep peace in the family. Corporate governance measures at the family and business levels provide good solutions to family ownership challenges and often are indispensable to the long-term success of the family business and peace in the controlling family, especially with succeeding generations.

Family-owned or controlled companies are the leading form of business organization in African countries, even among large listed companies: one recent study from Nigeria revealed that 51.5 percent of the 200 largest listed companies are family-controlled (Economic intelligence unit, 2013).

The small business sector (family business) is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2001). Small- Scale businesses are driving force for economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved (Harris et al, 2006; Sauser, 2005). Furthermore small scale business has been recognized as a feeder service to large- scale industries (Fabayo, 2009).

Given the importance of family businesses to economic and social development, their lack of longevity, is however a cause for concern because the survival of business is critical to the sustainability of economies. It has been estimated that, internationally, only 30% of family businesses survive to the second generation, while fewer than 14% make it beyond the third generation (Bjuggren and Sund, 2001; Matthews, Moore and Fialko, 1999). There is evidence of this lack of survival in second and third generation firms in Nigeria, which will be addressed in the results of this paper. Smaller family businesses are especially vulnerable as they generally survive only for five to ten years (Perricone, Earle and Taplin, 2001).

Family firms have been recognized as an important governance structure of business organizations in both developed and developing economies, with a substantial impact on the development of national economies (Demsetz and Lehn, 1985). This study therefore delved into the analysis of family owned business in Abia State, Nigeria.

II. Research Methodology

The study area was Umuahia city in Umuahia North Local Government Area of Abia State, Nigeria. Abia state is of the states that make up south eastern Nigeria with Umuahia as Capital Abia occupies about 5,834 square kilometers, with an estimated population of 4,222,476, is low-lying with a heavy rainfall of about 2400mm/year especially intense between the months of April to October.

The study covered only Umuahia Local Government of Abia State, Nigeria in which 100 family owned businesses were randomly selected as no database of family owned businesses exists in the area.

The study made used of primary data generated by the use of a well-structured questionnaire administered to the managers of the family owned businesses in the study area.

The study employed descriptive statistics such as frequency distribution tables, percentages and mean and the multiple regression analyses in analyzing data generated.

Model specification

The multiple regression model employed is specified thus;

Y=F(X1,X2,X3,X4,X5,X6,X7,X8,X9, e)

Where,

Y = years of existence

X1 = Sex

X2 = Age

X3 = Education

X4 = Marital status

X5 = Line of business

X6 = Years of existence

X7 = Household size

X8 = Annual Income

X9 = Source of income

III. Results And Discussion

The four functional forms of multiple regression analysis was employed in analyzing the result of the factors influencing the performance of family owned businesses. The linear form result revealed an R^2 of 0.934, standard error of the estimates of 2.83568E5 and seven significant variables at various level of significance. Whereas, the Exponential form of the multiple regression analysis revealed an R^2 of 0.476, standard error of estimates of 1.57063 and also seven significant variables at various level of significance.

Furthermore, the result of the double log functional form showing an R^2 of 0.723,the lowest standard error of estimates of 1.14156 and seven significant variables all at highest level(1%) of significance, While the semi-log form showed an R^2 of 0.599,standard error of estimates of 6.98981E5 and three significant variables at various level of significance .

Based on the lowest value of the standard error of the estimates, the number of significant variables and the a priori expectations of the research, double log functional form was chosen as the lead equation of result.

Table 1: Analysis of factors affecting performance of family owned business.

PARAMETERS	LINEAR	EXPONENTIAL	DOUBLE LOG	SEMI-LOG
Constant	482117.095	11.185	6.564	2681546.127
	(3.254)***	(13.631)***	(3.277)***	(-2.186)**
Sex	227531.845	0.976	-0.010	80725.148
	(2.925)***	(2.265)**	(-0.029)	(0.403)
Age	-6207.875	-0.058	-2.316	-315670.648
	(-1.853)*	(-3.146)	(-4.271)***	(-0.951)
Education	-86498.586	0.379	0.424	27770.581
	(-2.392)***	(1.892)**	(2.881)***	(0.308)
Marital status	241972.291	0.808	-0.232	394507.686
	(2.765)***	(1.668)	(-0.595)	(1.656)
Line of business	-80556.472	-0.925	-1.031	131059.950
	(-1.064)	(-2.207)**	(-3.319)***	(0.689)
Year of Experience	-3618.754	0.054	0.301	-34275.790

	(-0.648)	(1.757)*	(2.242)**	(-0.201)
HHS	-891.275	0.004	0.646	-216812.377
	(-0.100)	(0.072)	(5.731)***	(-1.498)
Annual income	0.225	1.518E-7	0.843	409840.807
	(26.114)***	(3.184)***	(9.305)***	(7.391)***
Source of income	-45658.109	0.090	-0.097	-274560.851
	(-1.781)*	(0.631)	(-0.974)	(-4.502)***
R^2	0.934	0.476	0.723	0.599
R^{-2}	0.925	0.408	0.687	0.547
F. statistic	108.563***	6.963***	20.028***	11.463***
Std error	2.83568 E5	1.57063	1.14156	6.98981 E5

*** indicates significance at 1-percent levels
Source: Computed from field survey data, 2014.

The result show that among the variable considered as factors influencing the performance of family owned business in the study area, Age, Education, Line of business, Years of Experience, Household Size and Annual income of the respondents were significant at 1-percent level, The R^2(coefficient of determination) which shows the total variation of the dependent accounted for by the independent variables was 0.723(that is 72.3%). The F-statistic value (20.028) was also significant at 1% indicating that the model was adequate.

The Age of the respondent was significant but negatively contributed to the performance of the business in the sense that as a man gets older, he will not be able the stand all the stress involved in the business anymore and this will decrease the performance of the business.

Education had a positive significant contribution to the business, this indicates the more educated the respondent is, the more knowledgeable he is to the business, and this will enhance the performance of the business.

Line of business was significant but negatively contributed to the performance of the family owned business. Years of Experience however, had a positive significant contribution to the business, in the sense that the longer the respondent last in the business the more experienced he becomes and this will increase the performance of the business, through experience curve economics.

Household Size had a positive significant contribution to the business, in the sense that when the family members are large there will be enough hands involved in the labour and this will enhance the performance of the business. More so, annual income also had a positive significant contribution to the business, in the sense that the higher the income, the more motivated they become to the business and this will enhance the performance and also increase the profit of the business.

Correlate Examination of Annual Income and Profit of Family Owned Businesses

The examination of the degree of relationship existing between the annual income and the profitability of the family owned business was carried out using the Pearson's correlation coefficient and the result shown in table 2 below.

Table 2: Correlation of annual income and profit of family owned businesses

	ANNUAL INCOME	PROFIT
Annual income	1	0.955**
Profit	0.955**	1

** Correlation is significant at the 0.01 level (2-tailed)
Source: computed from field survey, 2014

As depicted by the correlation result in table 2 above, there is an existence of a strong positive relationship between annual income of family business operators and the profitability of the family owned venture at the 1% (highest) level of significance. This implies that the profitability of family owned business depends to a large extent on what the operator or manager earns annually from the business.

IV. Conclusion And Recommendations

From the research perspective, we can therefore make a safe conclusion that a better understanding of enterprises and entrepreneurs can make a major contribution to the development of improved approaches for promotion of efficient and equitable growth of family owned businesses.

It is recommended that, effective policies and programmes to support the development and sustainability of family owned enterprises whose sustainability depends critically on adequate knowledge of characteristics and constraints of family business operators should be put in place by government. This will enhance the understanding of the pre-requisites for Nigeria family owned business operator and entrepreneurs to succeed in their businesses as it is of critical importance especially in today's competitive environment.

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