

Family Businesses and Its Impact on the Economy

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Abstract

The family business is the most frequently encountered ownership business model in the world and their impact on the global economy is considered significant. It is estimated that the total economic impact of family businesses to global GDP is over 70%. Family businesses are recognized as one of the engines of the post-industrial growth process since they are given credit for developing across generations' entrepreneurial talent, a sense of loyalty to business success, long-term strategic commitment, and corporate independence. This transformation can be achieved if the micro, small and medium scale enterprises (family owned businesses included) are encouraged to grow through the provision of finance and human capital. The key result of this study shows that Family firms are an integral part of Nigeria's economy and have contributed significantly to GDP of the country which sustains economic growth.

Keywords: Family firms; Economic development; Innovation; N (Nigerian Naira) and employment

Introduction

Family business is defined as a business in which two or more members of a family are involved and the majority of ownership and control lies within the family. Family business is one of the oldest forms of business organization [1].

Family business are within the category of micro, small and medium enterprises (MSMEs) globally whether in USA, South America, Europe, Asia and Africa. However, some family businesses are large multinational corporations that operate in many countries such as Ford Motors and McDonalds which originates from USA.

According to the Institute of Family Business, in 2011, there were just under 3 million family businesses operating in the UK, representing 66% of the private sector total [2]. In terms of distribution by size 75% (2.2 million) of these firms were micro businesses with no employees, with a further 639,000 (or 22%) family businesses employing between one and nine employees. Using the British SME size definitions of small, medium and large, family businesses made up the balance of the sector with 3.1%, 0.5% and 0.3% respectively.

In India, Confederation of Indian Industry (CII) in 2011 reports that the gross output of these family run businesses accounts for 90% of India's industrial output, 79% of organised private sector employment, and 27% of overall employment superseded only by the government and public sector undertakings, companies in which the government own the majority of shares [3].

Family ownership is often associated with a double role for the family as that of owners and managers of the firm. In economic terms, families make firm-specific investments in human capital, which makes them reluctant to give up control. This, and the fact that typically a higher share of owner's wealth is invested in the firm, creates a long-term commitment to the survival of the company and results in family firms being more risk-averse than other firms. Hence, their behaviour may be affected by a high sensitivity to uncertainty and by a risk attitude which induces them to avoid decisions affecting the firm's survival or the stability of control [4-6].

Economic impact of family business

The family business is the most frequently encountered ownership business model in the world and their impact on the global economy is

considered significant. It is estimated that the total economic impact of family businesses to global GDP is over 70%.

Family businesses are entrepreneurial in nature which enhances commitment to business performance, long-term strategic plan, and corporate independence [7]. Neshamba asserted that meaningful economic development aims at total transformation of the entire economy from traditional subsistence society to a modern industrial and self-sustaining economy [8]. This transformation according to Neshamba can only be achieved if the small-scale enterprises (including family businesses) are encouraged to grow through the provision of human and capital resources.

Family firms have been an integral part of the international economy for centuries and have continued to play an important role, though it is becoming difficult to sustain.

Challenges of family businesses

Family Businesses are majorly characterized by features such as owner-manager control and single product. According to a study by Perez-Gonzalez found that family businesses in the start-up stage were characterized by informal organizational structures, owner-manager and more incline to appoint family members as CEOs [9]. This affects the overall performance, competitiveness and innovative development of family businesses [10]. Leenders and Waarts further characterized the family business into two dimensions the family-oriented family business and the business oriented family business [11]. Lenders and Waarts explained that a family-oriented family business is a business firm that is considered as a family business when its ownership and/or management are concentrated within a family while Lenders and Waarts went further to explain the second dimension which is the business orientation as related to the value creation of the firm.

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Family businesses have a very low survival rate, 30% of family firms make it to the 2nd generation and only a third survives to the third generation.

Family businesses that refused to engage professionals in their businesses tend to be (i) smaller in size and market value (ii) more risk averse (iii) less innovative (iv) less productive (v) less international (vi) less inclined to do Corporate Social Responsibility; they are also more characterized by poor management practices [12].

Empirical Analysis: Economic Impact of Family Business

This study uses primary and secondary data to analyse the economic impact of family business to the economic, specifically the Nigerian economic and its contribution to GDP. The research uses convenient sampling to collect data from 50 family businesses in Anambra State, Nigeria (Table 1).

To place these figures in context from table 1, in 2015, the family business sector, the manufacturing sector had the highest turnover, while wholesale retail trade and repairs had the second largest turnover with a significant percentage of the family business sector which amounted to 45.5% given that in Anambra State, majority of the family businesses are micro, small and medium enterprises. The family business generated over twice as much as turnover in other Nigerian sectors and employed almost twice as many Nigerian workers as the entire public sector.

From Table 2, micro, small and medium enterprises paid the most significant (highest) amount of taxes compared to other types of firms

in the family business sector. Micro, small and medium enterprises drives economies and employed skilled workers more than other types of firms, thus contributing the largest amount of employees’ taxes to the government.

Family business: economic implications

The result of this study gives rise to the following positive implications of family business to the economy:

1. Family businesses show higher profitability and generated significant revenue for the government in terms of corporate and employees’ taxes.
2. Family businesses retain and hire employees even in times of economic recession.
3. Family businesses engage in corporate social responsibility activities.
4. Family businesses are innovative and employ strategy as a means of sustaining their businesses from generation to generation.
5. Family businesses are less likely to raise debts and are widely deemed financially prudent when professionalism is employed in the business.

Conclusion

Family businesses are associated with dual roles where family members serve as owners and managers of the firm. Family businesses are impacted by a high sensitivity to uncertainty and risk attitudes which induce the owners to avoid decisions affecting the firm’s survival

Sector	Turnover of family firms (N millions)	Sector value Added to turnover ratio	Gross value Added (N millions)	% share of family business sector
Wholesale and retail trade, repairs	5000	0.012	60	45.5%
Real estate, renting and business activity	4000	0.0075	30	3.29%
Manufacturing Construction	6000	0.0042	25	2.4%
Transport, storage & communication	3000	0.006	18	13.0%
Agriculture, hunting & forestry, fishing	200	0.0125	10	12.3%
Financial Intermediaries	2500	0.0044	11	5.2%
Hotels and restaurants	900	0.0189	17	6.9%
Other community, social and personal service activities	700	0.0214	15	4.4%
Health and social work	600	0.02	12	1.7%
Education	1000	0.02	20	5.31%
Total	23900		218	100%

Table 1: Turnover of the family business sector in 2015.

Type of Firm (N millions)	Small sole traders and partnerships	Micro, small & medium scale enterprises	Large companies	Total family business sector
Taxes	5000	12000	4000	21000
Employees taxes collected				
Total	300	1000	950	2250

Table 2: Contribution to tax authorities by the famil business sector in 2015.

and control of the business. Family businesses at the initial stages are often characterized by informal organizational structures, owner-manager with or without employees. The results of this study shows the impact of family businesses to the economy such as family businesses show higher profitability in the long run, pay a significant amount of taxes and family businesses have a more focussed strategy.

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