Global Scientific JOURNALS

GSJ: Volume 7, Issue 2, February 2019, Online: ISSN 2320-9186
www.globalscientificjournal.com

THE SIGNIFICANCE OF INNOVATION TO THE PERFORMANCE OF FAMILY BUSINESS IN NIGERIA

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Abstract

The purpose of this paper is to examine the significance of innovation to the performance of family business in Nigeria. The study was carried out through exploratory research, thereby providing an outline of innovation in family firms and the implication to the business development. The paper aims to understand the dynamics of innovativeness of family firms' members towards the business growth. The researchers conducted in depth multiple case study of five family businesses to provide an insight into innovative abilities of family firms' members and how it affects the general performance of the organisation in terms of productivity, growth, efficiency and effectiveness. The findings indicate that family firms innovate rapidly due to absolute participation, family ties and members' commitment to the business sustainability.

Keywords: *Entrepreneurship, Family firm, Family member, Innovation, Performance, Sustainability.*

Introduction

Family businesses are the primary engine of economic growth and besides financial outperformance; families perceive also to be a significant factor in the creation of new venture (Posa and Daugherty 2014). Mitra (2013) discovered that the way innovation works in organisation and the strategies necessary for successfulness is part of the process of creating new products and services while family involvement as suggested by Craig and Dibrell (2006) leads to more flexible decision-making processes and structure. Innovation may be one of the processes that differ between firms with varying levels of family involvement (Ulrich and Miriam 2012) while the successful exploitation of new ideas can increase firms' productivity and efficiency which will eventually lead to higher firm performance (Edosomwan, 1989; Mandy Mok Kim 2009).

As argued by De Massis, Frattini, and Lichtenthaler (2013), innovation remains a subject of interest to those seeking to identify factors explaining differentials in firm performance, including those observed within family firms.

The purpose of this research is to examine the significance of innovation to the performance of family firms in Nigeria. Eddleston, Kellermanns, and Sarathy (2008) found that family firms that invested in their innovative capacity and fostered altruistic family relationships were able to build a competitive advantage and simply, Matz and Duane (2013) believed that familiness has the potential to affect a family firm's effort to innovate.

The research explores the significance of innovation to the performance of entrepreneurial family firms. We discussed the innovative ability of family members as stakeholders in the business and examine its possible impact. We then suggest answers to the following questions;

(i) How does innovation exist in family business?
(ii) Does innovation have significant impact on the performance of family firms?
(iii) What roles do family member play in the business?

Literature Review

Posa and Daugherty (2014) defined a family business as an enterprise in which two or more family members own fifteen percent or more of the shares, family members are employed in the business, and the family intends to retain control of the firm in the future. Urabe (1988) stated that innovativeness is the generation of new ideas and its implementation into a new product, process, or service leading to the dynamic growth of the national economy through job creation and profit maximisation for the innovative firm. Chrisman et al., (2002) opined that if family firms are to realise the family's vision for the business, they must be able to compete and there is no more sustainable competitive advantage than continual innovation or entrepreneurship.

According to Acs and Audratsch (2005), the literature on the economics of innovation focuses on the firm as the decision-making unit of analysis. Schumpeterian theory of innovation states that firms manage resources over time and develop capabilities that influence their innovation performance (in Laforet, 2013). As argued by Acs and Audratsch (2005), Innovation is a process that begins with an invention, proceeds with the development of invention, and results is the introduction of a new product, process or service to the market place. More so, OECD (2010) observed that the environment for innovation has changed and importance of new and small firms to innovation process has increased (Mitra, 2013).

The concept of innovation system as described by Piperopoulos (2012) expressed the idea that innovations do not originate as isolated discrete phenomena within a firm, but are generated by means of interaction of a number of entities, actor and agents. Innovativeness sustains superior firm performance and it also contributes to a firm's ability to outperform its competitors (Blundell, Griffiths, and Van Reenan 1999; Garoski, Machin, and Van Reeenan 1993; Matz and Duane 2013). There is no family business without the family just as the family business does not exist without the firm (Kellermanns, Eddleston, Sarathy, and Murphy 2012).

Social capital theory suggests how family firms manage innovation over time using internal and external resources that can be assessed through social networks or professional organisations (Laforet 2013). Social capital is usually embedded in family members (Mustakallio et al 2003 in Laforet, 2013). Through innovation, firms aim at responding effectively to environmental demands, and thereby achieve their goals of maintaining or improving their performance (Damanpour et al. 2009; Laforet 2013). For the process to be effective enough to yield positive results, an organisation needs a culture and structures that can support innovation (Mitra, 2013).

Family business constitutes the whole gamut of enterprises in which an entrepreneur or next-generation CEO and one or more family members strategically influence the firm through their managerial or board participation, their ownership control, the strategic preferences of shareholders, and the culture and values family shareholders impart to the enterprise (Posa and Daugherty 2014). Fast growing, high-performing family firms encourage family member participation in developing long-term goals and strategies (Upton et al., 2001). Chrisman, Holbrook and Chua (2002) suggested that innovation, entrepreneurship and family business are first and foremost regional phenomena that are crucial to economic development. Family firms need to be aware of their natural advantages to innovate and profit from it (Meroño-Cerdán et al. 2018). High levels of family involvement in firm's management may benefit innovative behaviour since family members are better able to identify and understand the challenges and opportunities that face the company (Zahara 2005). Many entrepreneurial firms begin as, or develop into family businesses. According to Schumpeter (1934), innovation is an entrepreneurial act in that it involves the commercialisation of new combinations of resources with economic value.

Family firm is described as where family has an ownership, governance and management participation through strategic direction, direct family involvement in day to day operations, and/or retention of voting control (Posa and Daugherty 2014). Furthermore, Chrisman et al. (2002) stated that family businesses frequently evolve from successful innovative and entrepreneurial firms.

Methodology

Sampling Techniques

One of the principal anticipated difficulties in studying family business in Nigeria is that no comprehensive list of family firms is currently available with Nigeria Bureau of Statistics or any other government agency. Higginson (2010) and Chrisman, et al. (1998) defend the use of non-statistical sampling procedures in family businesses research, citing the lack of a universally accepted definition of family business and nationwide statistics on this form of organisation. Therefore, the researchers chose to use a convenient sampling method based on their relative connection to the environment.

Research Design

A multi-case study was conducted through semi-structured interviews, observation, and the collection of archival data. An in-depth study of five family firms representing manufacturing sector, merchandise, agriculture and service firm were chosen. Consideration was given to Yin's (1989) and Eisenhandt's (1989) suggestion that cases be selected where the phenomenon under study is transparently observable (Jukka, Chetty, and Arto 2014). The interviews were conducted in Yoruba and English, or a mix of the two languages, depending on the choice of the respondent. The real names of the firms were not disclosed based on agreement between the researcher and the firms. The interview was commenced with the brief overview of the research subject, followed by the major objectives of the research and procedures, and then discussed the required duration of the interview.

Data Collection

The qualitative data collection method was used – interviews, observations and archival data. The founders, co-founders and management team and some stakeholders were interviewed to get deep insight into the study. The semi-structured interview guide consists of 30 questions was prepared while the case selection was carefully done by conducting pilot study of five entrepreneurial and innovative family firms in Nigeria. Secondary data such as trade journals, news reports, past records, and other external communications were collected.

Data Analysis

The Data was analysed using thematic analysis to identify common patterns and underlying themes (Caringal-Go and Hechanova (2018) on innovation and family firm performance. The interviews were tape recorded and transcribed. Innovativeness in different sectors of family business was examined to arrive at the objectives of the study. A qualitative data analysis was used to increase the ease of organising, sorting, and retrieving the data (Roundy 2014) while table was used to explain within-case analysis.

All the selected five family firms effectively responded to the study while innovation is highly evolved in manufacturing sector than other family firms selected. According to a founder,*" The successful performance of a firm depends on family innovativeness."*

Within Case Studies

Case A: Welding and fabrication company

The company was established in 1979 at Osogbo, Osun State, Nigeria. The business was founded by the husband who is also the head of the family. The company has twelves professional staff and twenty-one apprentices. Fifteen family members are involved in the company operation. There are five branches available within Osogbo, the capital of Osun State, and they are fabricating iron doors, gates, tools and construction of industry equipment. The company construct local industrial machine and tools that meet the current technological development at moderate cost.

"Innovative ideas are generated through the family team work"- Family employee

"*family tie is the backbone of family firm sustenance and innovation*" - Founder

Case B: Block moulding industry

The block industry was situated in Ikirun, Osun, State, Nigeria. The industry mould concrete blocks, interlocking and other cement works. Fifteen family members comprising husband, wife, siblings and children were working in the industry. There was a division of labour as each person (family member) performed different role in the operation of the firm. Every unit has a production and sales target within a stipulated period.

"within the past five years, we created new three markets for our products through the establishment of branches headed by family members"- family member

Case C: Tailoring and Fashion designing company

The company belongs to fashion industry, designing clothes for both males and females. The firm was being managed by eleven family members (including extended family) with six branches. This company created styles for customers through their staff innovation. The expansion was rapid through the innovative ability of the firm management team and staff. The success of the company rest on better customer service and outstanding fashion and design. Seven of the stakeholders are University graduates while four others are still in colleges, therefore, they are able reach out to wider markets. According to the founder, the firm changed its source of materials supply periodically to explore new market.

"Passion for the business and our collective responsibilities as family members make it very easy to advance in fashion industry"

Case D: Cassava flour processing industry

The cassava flour processing firm belongs to agricultural sector. The industry transforms cassava into flour for people's consumption. The industry was established by three brothers of the same parent. Due to expansion, they employed five other family members to participate as directors for the smooth running of the business. More so, the company has fifty-five employees. The industry is located on three acres of land inherited from the parent. The products were distributed within and outside the country, most especially west African nations. According to one of the founders, "we restructure the management team every three years to accommodate new ideas".

Case E: Furniture Industry

The company was founded in 1971 by a carpenter who has five children; four males and one female. In the year 2005, the four males joined the business after graduation from universities. With the involvement of the sons in the business, the company image changed positively. The four brothers took over the management and administration of the company and restructure it to meet the current furniture industry standard. Due to their good education background, they were able to expand the business, compete with other business peers and penetrate many government parastatals and private firms for marketing.

"*Family business has job security, that is why we remain committed for its expansion and sustainability for our incoming generation*"- Director

Findings and Discussion

The findings reveal that successful performance of the five selected family firms is a response to their innovativeness and entrepreneurial skills. In association with Laforets (2013) studied, the firms innovate because they operate in a dynamic environment, characterised by a constant change in tastes and preferences which encourage the development of radical new products in niche market. In support of Juka et al. (2014) observation, the findings are based on qualitative research of four case firms, so, it can be used for analytical generalization only, rather than statistical generalization. The Nigerian government promotes SMEs through different management and financial agencies but with less focus on family businesses. Thus, more emphasis should be placed on family firms as it contributes to the economic development of a nation. family firms' behaviours toward innovation could be a model to be imitated or adapted by non-family firms in order to increase performance by investing in innovation and launching new products or services (Meroño-Cerdán et al. 2018).

Findings reveals that innovation process is highly practiced in family firms and most especially in manufacturing sector. Family ties encourage participation and loyalty to the business, therefore facilitate innovation to enjoy sustainable performance advantages. In the process of meeting the market demand and be in line the current technological improvement, families work as a team to tackle the challenges. This study contributes to innovation management research by establishing that family innovative abilities impact firm performance.

Conclusion

The findings of this study exemplify that family firm performance is been justified by team work among the family. The study provides multiple cases that establish the link between innovation and family firm performance. As suggested by Acs and Audratsch (2005), the literature on the economics of innovation focuses on the firm as the decision-making unit of analysis. Moreover, it was observed that family firm sustainability and long-term performance are the consequence of innovation. In line with other studies (Chrisman et al. 2002; Meroño-Cerdán et al. 2018), we discover better performance in family firms from their innovation efforts.

The limitation of the study is that the results and their interpretations are based on a qualitative case study conducted in South West Nigeria, so, further research is still required to validate some of the implications derived from this study.

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