



## Family Business and Innovation in Nigeria: Problems and Prospects

Ayodele Olubayode Ayobami<sup>1</sup>, Oko Dominic Odey<sup>1</sup>  
Ayodele Margaret Olanireti<sup>2</sup> & Kayode Philip Babarinde<sup>1</sup>

<sup>1</sup>Centre for Entrepreneurship and Innovation  
University of Ibadan, Ibadan Nigeria

<sup>2</sup>Department of Social Studies College of Education,  
Ikere, Ekiti State

Ayobami.olubayode@gmail.com, domkody@yahoo.com  
ayodeleolanireti@gmail.com, kayodebabarinde@aol.com

**Abstract:** Family business has attracted more attention in recent times, as a result of its immense contribution to entrepreneurship and national development. Several Nigerian businesses have grown from single ownership (sole proprietor) into fully fleshed family owned businesses with more personnel, better decision making, management style and resources to effectively carry out business activities. Most family businesses adopt innovation as a competitive strategy in the marketplace. Today's business environment is highly dynamic, complex and fiercely competitive, it is therefore of great importance for family businesses to be innovative, willing to adapt to change, creative and ready to employ strategies that will position the business at a competitive advantage in the marketplace. The focus of this paper is to examine the concept of family business and innovation, role of innovation in building a successful family business, factors inhibiting the growth of family business and prospect of family business. This paper concludes by recommending ways to tackle problems faced by family businesses and how these businesses can be improved upon.

**Keywords:** Family Business, Innovation, marketplace, problem, prospect.

### Introduction

The concept of family business in Nigeria has become significantly attractive, its root in sole proprietorship

form of business; however the realisation of the full potential of the prevailing opportunities associated with family business depends on a variety of

factors. Family business in most instances grows from a one man business into a business controlled, managed and operated by two or more family members. Active participation of more than one member of a family which result in controlling above 50% of the total assets of the company/business is what makes the business a family owned business. Family business is predominately grounded on the idea of ensuring the business ownership remains within the close control of family members over a successive generations (Chua, Chrisman, & Sharma 1999). The acceptability of family business as a culture across the globe is the outcome of dominating role of family members play in the daily running and operations of various businesses, thereby leading to a leadership system proposed by family members.

Innovation is catalyst for business survival, growth and development. Micro, Small and medium scale as well as large scale businesses leverage on innovation to remain competitive in the marketplace. Family businesses recognise the necessity for innovation in their product development, service offering and marketing (Katila, 2002; Nerkar, 2003). Innovation makes it possible for family businesses to flourish despite fierce competition from large businesses, dynamic business environment and complexity. Family business and innovation has a close relationship, however, there is a debate concerning family business and innovation (Mori, 2014) and without innovation most family businesses would not outperform expectation; without innovation, family business cannot be sustained over time (Carnes & Ireland, 2013; Zahra, 2005).

In spite of the benefits family business play in economic development and nation building, Nigeria family businesses continue to experience several challenges that prevent the steady growth of several innovative businesses across the country. A large number of family business owners in Nigeria do not understand the role of innovation on their family businesses, therefore this businesses fail to take full advantage of the benefits innovation brings to family businesses. In the US for example, where family business comprises of 40- 60 percent of her Gross domestic product, this is still farfetched in Nigeria as a result of a combination of factors including enabling environment for family business to thrive, funding, and policy summersault among others.

The research question is what are the roles of innovation in family business? Matz and Duane (2013) believed that innovation plays crucial role in breakthrough of family business.

### **Literature Review**

There has been an extensive number research in the area of family business, majorly focusing on what makes family business different from other forms of businesses. The nature and structure of these family owned businesses create a unique system which is individual family can suit into based on the culture of this distinct families. Family business pays less attention in investing in innovation especially radical innovation (Rod, 2016), these businesses prefer to incremental innovation other than ploughing a large chunk of their resources in disruptive innovation. Rapid death of family business is common in Nigeria as well as other African countries, in some instances, the business goes into extinction few years

into the death of the visionary as a result of combination of factors, ranging from succession planning, management style, misappropriation of funds, embezzlement, lack of competent top management among others. These factors inhibit the growth and long-term objective of the business, making a reasonable percentage not living beyond the second generation. Wilier (1996) in her study discovered that most family businesses in Nigeria, do not outlive their founders, she associated this fact with lack of succession planning which is an innovative strategy to ensure continuity of the business.

Innovation has been proven to be relevant to family business for business progress, growth and survival (Pindado & Requejo, 2015). Tidd, Bessant & Pavitt, (2005) was of the opinion that innovation refers to creating, renewal, changing product or ways of doing things. Innovation is the sensed creation of ideas from individual's perspectives resulting into his or her responds to it (Robertson and Yu 2001). Innovation is made up of technical know-how of objects which can be performed in much better ways other than previous states (Tyler, 2001). Without innovation, family business would not be able to compete both at local and global frontiers, the innovativeness of family business is responsible growth and survival of the business. Innovation is something new or novel, a business cannot grow effectively amidst this competitive environment without firms coming up with innovative strategies that will give such organisations the competitive edge. Calantone, Cavusgil, and Zhou (2002), observed that innovation includes processes which acquires, disseminates and utilizes knowledge that has not been

implemented before and this results into organisational success. Although this businesses are diverse in performance and behaviour (age, family size, family culture, generation, country's environment, succession plan etc.) yet they this factors is important in having a grasp of their entrepreneurial performance and behavioural outcome.

### **Role of innovation in building a successful family business**

Innovation plays a very germane role in building a successful family business anywhere around the world. The roles of innovation in building successful family business includes:

#### ***a. Succession plan:***

Innovation has made it possible for several family businesses to embark on long term planning. Succession planning is a major concern for most family businesses, as such, these businesses employ innovation in planning the organisational hierarchy and who takes over from member/s of top management in case of death or incapability. In a study of 10 Zimbabwean family businesses, it shows that 6 out of ten businesses do not have a succession plan, while only 3 of the ten business owners engaged their successor in activities that would prepare them for the forthcoming responsibilities (Maphosa, 1996). Innovation within family business, enables the business owner and other members of management prepare effectively for unforeseen events and also train successor in line with the demands of the business.

#### ***b. Build competitive advantage***

Innovation is a vital instrument in developing competitive advantage over other businesses within the same industry and outside industries. Innovation is a catalyst that drives

business to achieve long-term objectives. Innovation makes businesses more attractive, drives organisational change as well as builds competitive advantage of the business. Innovation affects the culture of the business which in turn puts the business at a competitive position.

### **c. It promotes Product Innovation**

Family businesses sometimes uses product innovation as competitive strategy to gain an advantage. Businesses which fail to innovate their individual products will in no time discover those products have become obsolete. Family businesses makes use of new products with different technologies, methods and offer greater customer benefits than existing products (Khaled, Aboulnasr, Om, Edward & Rajesh 2008). Product innovation includes tangible produced goods or intangible services that have an impact on the quality of lives people live. The perspective of product innovation is that the uniqueness of the new product will persuade prospective customers to purchase it, and this will in turn achieve organisational goals.

Product innovation occurs regularly in environment characterised by high level of uncertainty and competition. The dynamism of the business environment is reducing the life cycle of products gradually; managers now need to respond through product innovation in order to sustain such product in the market. Incremental product innovation focus is improving the features of an existing product, while radical product innovation is aimed at creating an entirely new product.

### **Factors inhibiting family business**

Family business and Innovation in Nigeria, face several factors which inhibits their growth and steady

development, Adedeji, (1981) asserts that the challenges inhibiting family business are both internal and external.

#### **(a) Lack of infrastructural facilities**

Infrastructural facilities has over the years played a huge role in preventing the growth of family business in Nigeria. A significant number of family businesses have collapsed as a result of lack/poor infrastructural facilities which has impacted their business activities negatively. Oraka, (2013) suggest that deficiency in infrastructural facilities obstruct the growth of innovation in family business. This factor makes large percentage of family businesses to focus less on innovation in their business pursuit. The state of power supply, road network, water supply etc hamper family businesses generally in Nigeria. Infrastructural facilities can break or make a family business irrespective of the size, structure or location of the business. Family businesses requires facilities which in most cases can only be provided by government as a result of the capital intensity of the facilities.

#### **(b) Poor Financial management**

Financial management is very common in Nigeria, despite this, family businesses in some instances fail to keep proper financial records. Family business can only focus on innovation when such business is keeps proper financial record and as such it reflect in the growth and progress of the business. Most family businesses do not make financial management a priority especially when the family business is at a micro level or it's a small scale business. Ejemobi (2013) argued that family business owners need to properly manage the financial record of their businesses if they want to be innovative while carrying out business activities.

**(c) Funding**

Despite the increase in number of family businesses in Nigeria, funding still remains a key setback facing family businesses generally. Several family businesses have gone into extinction as a result of lack of funds to ensure their continuity. The business of Nigeria has recorded underperformance in its contribution to economic growth and development as a result of lack of funds available to family businesses across the country (Adisa, Abdulraheem, & Mordi, (2014). Government and her parastatals over the years have failed to make available fund in form of grants, loans with very single digits to family businesses. Kliein (2014) in his findings explained that most family business are started with personal saving or loans from friends.

**(d) Competition**

Family business in most cases face fierce competition from foreign companies. Nigeria family businesses are thrown into unhealthy competition with foreign product which in most cases the goods are produced in countries where they have low cost of production advantage (Onuoha, 2013). Unhealthy Competition inhibits the growth and development of family business in Nigeria by resulting into decline in sales of domestic products.

**Methodology****Sampling Techniques**

As a result of lack of inclusive list of family business in the Nigeria Bureau of statistics or other related government agencies, it is difficult to carry out a study on family business, however the researchers employed the use of convenient sampling method for this research work.

**Research Design**

The researchers employed a multi-case study using a semi structured interviews, observation. An in-depth study of four family businesses were randomly selected in four of the six geopolitical zones in Nigeria. The names of the firms were not disclosed as a result of the agreement between the researchers and the businesses. Jukka, Chetty, and Arto (2014) stated that case-study can be selected in instances where the phenomenon under study is clearly noticeable.

**Data Collection**

The qualitative data collection method was used (semi structured interviews and observations). The CEO's and management team of the four businesses where interviewed. The semi structured guild consist of 26 questions. Secondary data such as trade journals, past records, articles and textbooks were collected.

**Data Analysis**

The data analysis was based on the title of the study (family business and innovation; problems and prospects). The interviews were tape recorded and transcribed. Role of innovation in family business, factors preventing growth of family business were discussed to arrive at the study objective of this study.

**Results**

The research was analysed using a qualitative data analysis. The following were responses from the four founders on the question major factors inhibiting family business.

*'Government policy is a major setback for family business in Nigeria'* one of the interviewees expressed her concern for family business, she made the researchers understand that government policies do not favour family business rather this policies are in favour of

foreign products that flood the Nigerian market.

*'Innovation is important for family business, but in most cases, we do not have the resources to be innovative as such' 'Innovation cost huge money which we don't have'*. Two family business founders made emphasis to lack of finance to carryout most indigenous innovative ideas that can change a lot in the business sector. They both expressed the importance of finance to the growth of any venture.

*'Competition from foreign products prevent the growth of family business'* one of the founders stressed that competition from foreign products is a major setback confronting family business in Nigeria, He went further to state that this competition is made possible as a result of lack of government interest in growing the Nigeria family business.

### **Discussions**

Evidence from this study revealed that innovation makes it possible for family businesses to engage in succession planning, innovation leads to competitive advantage as well as it promotes product innovation in manufacturing industries. Although most family businesses in Nigeria do not take full advantage of the accrued benefits innovation brings to family-owned businesses, this is as a result of combination of factors which impedes family business success story within the country. Government policy do not fully support the existence of family business, empirical evidence shows that government rather support importation of foreign products via their policies that favours foreign products as against locally made products. Funding, poor financial management and infrastructural facilities stands as forces

preventing the growth of family business in Nigeria. Ejemobi (2013) stressed the importance of up to-date record keeping in family business and how it has a way of elongating the lifespan of the business, also the findings in this work resonates with Oraka (2013) argument that insufficient infrastructural facilities curtail the success of Nigeria businesses. The authors of this study identified Succession plan, building a competitive advantage, and it promotes product innovation as role innovation in building successful family business and on the other hand, identified lack of infrastructural facilities, funding, competition and financial management as factors that inhibits family business in Nigeria.

### **Conclusion and Recommendation**

Despite awakening of Nigerian towards family business, innovation is important to the growth and development of family business, in support, Olaore, Oyeleke, & Oluwafemi, (2014) used 5 family firms as a case-study, they came to a conclusion that successful performance of family businesses is as a direct product of firms innovativeness.

Government should provide infrastructural facilities so as to enable family businesses thrive in the complex and competitive global market. These facilities can serve as a catalyst for innovation for family business, this was in line with Onuoha, (2013) in his research work covering 5 South-eastern states in Nigeria, scientific evidence shows that government do not provide adequate infrastructure for family business to compete with foreign products. Once there are available facilities to accommodate family businesses in Nigeria, these businesses will be able to compete favourably with

other businesses in the global frontiers. This will also reduce the rate of dumping foreign products in Nigeria.

Financial management is key to every organisational success. It is therefore of great necessity for family business owners to employ the services of a financial manager/ accountant or auditor to regularly check the financial status of the business and also manage the accounting department. This is in association with Adedayo, Olanipekun, & Ojo (2016) study that asserts that that family business owners should acquire finance knowledge if

necessary as well as succession planning if they desire to survive the next generation.

Government and financial agencies should also provide start-up capital, loans, grants as well as other financial assistance needed to successfully operate a family business. This was in line with Bewayo, (2009), he stated that government and its agencies should also be on the look for strategies to reduce competition from foreign goods on our domestic product, through barriers to entry for certain products, and other tariff platforms.

## References

- Adedayo, O. S., & Olanipekun, & Ojo O. (2016). Planning for success ion and firm ' s sustainability : Evidence from family owned businesses in Lagos and, 4(6), 63–69.
- Adedeji, A. (ed.) (1981) *Indigenisation of African Economies* (London, Hutchinson).
- Adisa, T. A., Abdulraheem, I., & Mordi, C. (2014). The Characteristics and Challenges of Small Businesses in Africa : an Exploratory Study of Nigerian Small Business Owners, (4), 1–14.
- Bewayo ED, (2009). Family business in Africa: A comparison with the U.S. model” *The J. Global Bus. Issues*, 3(1): 171-181
- Calantone, R.J., Cavusgil, S.T., & Zhao, Y., (2002). Learning Orientation, Firm Innovation Capability, and Firm Performance. *Industrial Marketing Management*, (31), 515-524
- Carnes, C. M., & Ireland, R. D. (2013). Familiness and innovation: Resource bundling as the missing link. *Entrepreneurship Theory and Practice*, (37), 1399-1419
- Chua, J. H., Chrisman, J. J., Steier, L. P., & Rau, S. B. (2012). Sources of heterogeneity in family firms: An introduction. *Entrepreneurship Theory and Practice*, 36(6), 1103–1113.
- Chua, J. H., Chrisman, J. J., & Sharma, P. (1999). Defining the family business by behavior. *Entrepreneurship Theory and Practice*, 23(4), 19-39.
- E jemobi, S. (2013). Reasons why small businesses fail. Available at <http://www.punchng.com/business/ambusiness/reasons-why-small-businesses-fail/> Accessed April 22, 2018).
- Jukka P., Chetty S. K. Arto R. (2014). Innovation Types and Network Relationships, *Entrepreneurship: Theory and Practice*
- Katila, R. (2002). New product search over time: Past ideas in their prime? *Academy of Management Journal*, 45(5), 995–1010.
- Khaled Aboulnasr, Om Narasimhan, Edward Blair & Rajesh Chandy

- (2008). Competitive response to radical product innovation. *Journal of marketing* (72 may), 94-110
- Matz C. C., & Duane I. R. (2013). Familiness and Innovation: Resource Bundling as the Missing Link. *Entrepreneurship: Theory and Practice*, November 1.
- Mori, P. (2014). Leveraging Innovation in Family Startups: A stewardship, IX(3), 119–129
- Olaore, R. A., Oyeleke, G. O., & Oluwafemi, O. (2014). The Significance of Innovation to the Performance of Family Business in Nigeria, 1–7.
- Onodugo, V., and Onodugo, C. I. (2015). The impact of socio-cultural factors on entrepreneurial development in Nigeria. *African Educational Research Journal*, 3(4): 246-254
- Onuoha, B. C. (2013). Challenges and Problems of Professionalizing Family Businesses in South-East , 3(4), 130–139.
- O r a k a , C. (2013). Why Nigerian family businesses fail. Available at <http://www.punchng.com/opinion/re-why-nigerian-family-businesses-fail/> (Accessed April 21, 2018).
- Pindado, J., & Requejo, I. (2015). Family business performance from a governance perspective: a review of empirical work. – *International Journal of Management Reviews*, 17: 279-311
- Robertson, P. & Yu, T., (2001). Firm Strategy Innovation and Consumer Demand: A Market Process Approach. *Managerial and Decision Economics*, (22), 183-199.
- Rod, I. (2016). Disentangling the family firms's innovation process: a systematic review. *Journal of Family Business Strategy*. (7), 185-201
- Tidd, J., Bessant, J.& Pavitt, K.B. (2005). *Managing innovation: integrating technological market and organisational changes* (3ed.). Chichester, west sussex: John wisey & sons ltd.
- Tyler, B.B., (2001). The Complementarily of Cooperative and Technological Competencies: A Resource Based Perspective, *Journal of Engineering Technology Management*, (18), 1-27.
- Wilier, H. (1996) "Industrial Entrepreneurship and the Human Factor: The Succession Problem in Nigeria", Paper presented at the International Institute for Human Factor Development Conference (Harare, Zimbabwe).
- Zahra, S. A. (2005). Entrepreneurial risk taking in family firms. *Family Business Review*, (18), 23-40