Ownership Structure and Performance of Entrepreneurial Firms in Nigeria

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Abstract

This study was carried out to examine the relationship between the ownership structure and the performance of entrepreneurial firms in Nigeria. In addition, it examined some of the issues in the ownership structure that also affect business performance with a view to proffering appropriate suggestions to entrepreneurial managers. This study adopted the descriptive analytic method of research and relied on both primary and secondary sources of data. The data were collated, analyzed quantitatively and the findings presented in a descriptive manner. Samples for this study were drawn from small and medium scale enterprises within Lagos and Ogun states of Nigeria using the simple random sampling method. The findings confirm that there is a significant relationship between ownership structure and performance of entrepreneurial small and medium sized firms in Nigeria. This study recommends that relevant government agencies should intensify efforts at boosting the knowledge capital capacity of entrepreneurial firms through enlightenment, and to create opportunities for training for entrepreneurial managers. Entrepreneurial managers could also consider mergers or become subsidiaries to larger organizations as an option to ensure survival, good performance, and firm profitability.

Keywords: Knowledge Capital, Small and Medium Sized Firms, Ownership Structure, Performance, Entrepreneurial Firms.

1.0 Background of the Study

There are enough studies to show that the term ownership structure is not restricted to the composition of the entrepreneurial enterprise owners alone. They have also argue that the
concept also covers the framework of the management structure, the owners of organizations on their own, together with their inherent potentials (Enofe & Isaivwe, 2012; Ajagbe & Ismail, 2014; Dabor et al., 2015; Isiavwe, 2015). Ownership structure also involves the overall behaviour, disposition of the owners and management in terms of their skills and general abilities (Abu-Tapanjah, 2006). In addition, Faccio & Lang (2002) and Ajagbe & Ismail (2014) argue that ownership structure is defined by the distribution of equity with regard to votes and capital but also by the identity of the equity owners. Ronald & Reeb (2003) and Isiavwe (2015) put forward that these structures are of major importance in corporate governance because they determine the incentives of managers which result to manager’s creativity and hence result to the economic efficiency of the corporations they manage.

However, there is an increasing identification by the global financial group (World Bank) that the entrepreneurial small and medium sized enterprise (SME) sector could be relied upon as a veritable strategy for enhancing industrial development, employment generation and poverty alleviation (Bennedsen et al., 2000; James et al., 2000; Adusei, 2011; Ajagbe & Ismail, 2014). The growth of entrepreneurial firms is perceived as a relevant tool in the growth strategy of many economies and holds specific importance for growing the economies of developing countries. However, notable developing countries whose economies are largely driven by entrepreneurial firms include China, India, Korea, Taiwan and Brazil. Among the euro-zone countries, entrepreneurial firms are viewed as largely essential for creating massive employment. On a yearly basis, not less than a million new entrepreneurial SMEs are established in the European Union countries. Ajagbe et al. (2011) opine that the SMEs account for about 99.8% of all firms and 65% of business turnover in the region. Universal features of entrepreneurial SMEs include sole ownership of an enterprise where the owner is often the manager (Ajagbe et al., 2011; Dabor et al., 2015). Where the business is not owned by an individual, a few partners constitute the ownership. In some situations, they could also be family based. In addition, most entrepreneurial SMEs employ a few people, usually less than fifty employees. Furthermore, the operations of entrepreneurial firms are often domesticated in a geographical area. There are several reasons that have been adduced for the success or failure of entrepreneurial small scale firms in Nigeria. Nevertheless, the main area that determines their performance remains the human element, in this case, the owners/managers. David (2005) argue that the ownership structure of many small scale enterprises have been recognized as factor in their poor performance. Eng & Mak (2003) posit that in certain circumstances, government needs to embark on more deliberate programmes for development and sustenance of the sector, and in addition, addressing the deficiencies in the ownership structure becomes imperative. Hence, the need to re-orient entrepreneurial firms’ managers on some of the realities in the ownership structure that can adversely affect performance of their businesses informed and agitated the mind of the researchers to undertake this study.

Amran (2011) argues that it is pertinent for a prospective proprietor of an entrepreneurial venture to seriously think about the legal form to adopt for his new venture. Isiavwe (2015) points out that this entails determining the legal status the business would be in the eyes of the law. Enofe & Isiavwe (2012) posit that the most common legal forms are single proprietorship, partnership, and corporation. In addition, many people going into business and operators erroneously believe that only large firms are referred to as corporations. Ajagbe & Ismail (2014) add that three forms of business ownership are available to small firms:
Single Proprietorship: A single proprietorship is a business owned, managed and operated by one person. The assets of the enterprise are owned by this proprietor who is solely responsible for all personal and business debts and losses incurred. Rossouw (2005) argues that the ease of establishing this form of enterprise makes it a popular choice for new business planners.

Partnership: Partnerships are associations of two to twenty persons engaging in business ventures in common with a view to making profit (Marco & Roell, 1998; Ibrahim et al., 2010). A partnership agreement is usually made in writing, even though it is not a legal requirement. It defines the rights, authorities, and responsibilities of each partner and also, the limits of partner’s authority.

Corporation: A corporation could be defined as an invisible personality with its ownership divided into shares of stocks (Sanda et al., 2005). Those wishing to form a corporation are required by law to apply to the appropriate government authority with a statement of the rules of operation of the proposed corporation. Oyediran (2003) adds that the applicants are often required to specify the types and amounts of stocks to be authorised for sale by the corporation among other requirements. Goodpastor (2004) opines that a corporation is a legal entity that attains a legal personality for carrying commercial activities having its own rights, privileges, and liabilities distinct from those of its members. For economists, a corporation is defined as a business organization owned by a group of shareholders, each of who enjoys limited liability, and has the ability to raise capital by selling shares to the public (Ibrahim et al., 2012).

For government administrative purposes which include taxation, all businesses are expected to be registered with the government. To many business operators, business registration in Nigeria is still viewed as a mere revenue generating channel for the government as they are not yet satisfied with the level of services rendered by public agencies (Babatunde & Olaniran, 2009). The Oxford Advanced Learner’s dictionary defines ownership of small business venture as the state or right of being an owner of such business venture (Lewis et al., 2001; Rose, 2007; Solomon & Solomon, 2004). Such business venture may be owned by one of more than one person at a time. Solomon et al (2012) argue that the ownership of such business venture depends on the particular circumstances involved. In simplistic view, a venture may be said to belong to an individual or group by virtue of possession of the right of ownership. Such rights may be conferred through any legitimate means. The ownership of a business enterprise therefore may be by virtue of particular circumstances, either through inheritance, acquisition or through any other acceptable means.

Previous studies on management and quality theories for small business ventures suggest that entrepreneurial organizations should adopt a model that integrates quality concepts and strategic management concepts into a powerful systemic structure called the 5P’s model (Ajagbe & Ismail, 2014; Ajagbe, 2007; Fadeyi et al., 2015; Adegbuyi et al., 2015). This model is particularly effective for entrepreneurial small firms because they are not as complex as large firms. Long et al. (2012a) and Long et al. (2012b) posit that they can more easily develop and align their respective purposes, principles, processes, people, and performance which are the variables of the model.

Previous research has recommended that taking cognizance of the factors that impact entrepreneurial small business performance is essential and helps business advisors, policymakers and other important stakeholders to the small and medium sized enterprise sector
better (Oyediran, 2003; Ibrahim et al., 2012; Long et al., 2013; Ajagbe & Ismail, 2014). It has also been put forward that performance remains the main yardstick to measure prosperity of entrepreneurial firms and this is demonstrated in both empirical and theoretical models which state that performance of entrepreneurial small ventures can be determined in terms of sales growth, employment growth, changes in profitability, and changes in profitability in relation to competitors. Increases in earnings, sales revenues, and employment are also determinants of entrepreneurial firm performance. Cheng (2008) argues that managers of entrepreneurial firms often reflect on the venture’s performance in view of their personal vision for the venture to determine their performance. In addition, the authors added that organizational scholars and professionals continue to emphasize on the decision making capability of senior directors of such ventures in the performance of entrepreneurial firms. Enofe & Isiavwe (2015) argue that there is a strong relationship between individuals and performance of entrepreneurial firms particularly, the large business ventures; however, this relationship may be strongest in the more modestly sized firm. While there is little agreement concerning the nature and strength of this relationship, it is clear that this issue remains a fruitful field of research.

In America, the relationship between ownership structure and financial performance of entrepreneurial firms was carried out by Erhardt et al. (2003). Using regression and correlation analysis, the authors find that board gender diversity has a positive relationship with financial performance of entrepreneurial firms. In China, the effect of ownership structure on profitability performance of entrepreneurial firms was investigated by Cheng (2008). The author reports that there is a significant positive correlation between concentrated ownership and profitability performance of entrepreneurial ventures. In addition, Cheng (2008) reports no significant linkage between entrepreneurial firm performance and ownership concentration in nations whose membership of the Euro-zone countries is recent. Another study conducted shows that an increase in the number of female directors on the board does not have any significant influence on return on assets (ROA) of entrepreneurial firms (Faccio & Lang, 2002). The relationship between corporate governance structures and financial performance of entrepreneurial firms in Nigeria was carried out with the use of pooled ordinary least squares regression approach, the outcome of the study reveals that the structure of the board has no significant linkage with return on equity (ROE) while board size has a negative linkage with ROE (Babatunde & Olaniran, 2009; Ibrahim et al., 2010; Solomon et al., 2012). Figure 1 below shows the conceptual framework of the study which involves the ownership structure as the independent variable having a relationship with entrepreneurial performance as the dependent variable and mediated by the knowledge capital of the owner or manager of the venture.

![Figure 1: Conceptual Framework of the Study](image-url)
2.0 Methodology

The approach used in this study is the survey method. Researchers opine that survey research ipso facto, is concerned with the recent practices of a given population so that from such, it can be used for improving the operations of the population under investigation (Otokiti, 2010; Otokiti et al., 2007). This study was approached through a mono method strategy using quantitative technique for the data collection, analyzing and presenting such (Patton, 2002; Ajagbe et al., 2015). The population of this study was based on the total number of entrepreneurial small and medium sized enterprises in the geographical area sampled (Lagos and Ogun State, Nigeria). They include both the personnel at the senior cadre and other category of employees in the chosen firms. The questionnaire used is structured for both categories of the participants surveyed and the respondents are 120 in number. The response rate for this study is 99%. As suggested by Lincoln & Guba (1985) and Yin (2012) the two main sources of data collection were adopted (primary and secondary). The researchers’ used the questionnaire approach for data gathering because it helps to elicit required responses as the information sought was rather personal in nature. The researchers ensured that they carefully designed the questions contained in the questionnaires so as to achieve the objectives of the research. Creswell (2012) argues that both open and closed-ended questions are essential to bring out the desired responses from the target audience. Asika (1991) adds that, in testing for the validity of the research instrument, a copy of the questionnaire should be examined by the some selected professionals in the area of investigation. Dana & Dana (2005) suggested that such approach helps to justify the applicability of the research instruments because from comments, criticisms, and corrections made, the instrument can be made better. The next section of this study shows the analyses of the collected data (i.e, the responses) which enable the researchers to answer the research questions and hence, achieve the objectives they set out for this study.

3.0 Data Analysis

Table 1: Personal Initiative of the Owner Increases the Chances of Business Survival

<table>
<thead>
<tr>
<th>Validity</th>
<th>Frequency</th>
<th>Per cent</th>
<th>Valid Per cent</th>
<th>Cumulative Per cent</th>
</tr>
</thead>
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<tr>
<td>strongly agree</td>
<td>37</td>
<td>23.7</td>
<td>37.4</td>
<td>37.4</td>
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<tr>
<td>agree</td>
<td>57</td>
<td>36.5</td>
<td>57.6</td>
<td>94.9</td>
</tr>
<tr>
<td>undecided</td>
<td>2</td>
<td>1.3</td>
<td>2.0</td>
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</tr>
<tr>
<td>disagree</td>
<td>1</td>
<td>.6</td>
<td>1.0</td>
<td>98.0</td>
</tr>
<tr>
<td>strongly disagree</td>
<td>2</td>
<td>1.3</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>99</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: researchers field result (2012)
Table 2: Creativity of the Sole Owner Elongates the Life Span of the Business

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Per cent</th>
<th>Valid Per cent</th>
<th>Cumulative Per cent</th>
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<tr>
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<td></td>
<td></td>
</tr>
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<td>47.5</td>
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<tr>
<td>agree</td>
<td>47</td>
<td>30.1</td>
<td>47.5</td>
<td>94.9</td>
</tr>
<tr>
<td>undecided</td>
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<td>2.6</td>
<td>4.0</td>
<td>99.0</td>
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<tr>
<td>strongly disagree</td>
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<td>.6</td>
<td>1.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>99</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: researchers field result (2012)

Table 3: Decision Making Process of the Sole Owner Guarantees the Continuity of the Business

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Per cent</th>
<th>Valid Per cent</th>
<th>Cumulative Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>strongly agree</td>
<td>37</td>
<td>23.7</td>
<td>37.4</td>
<td>37.4</td>
</tr>
<tr>
<td>agree</td>
<td>42</td>
<td>26.9</td>
<td>42.4</td>
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<td>4.5</td>
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<td>97.0</td>
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<tr>
<td>strongly disagree</td>
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<td>1.9</td>
<td>3.0</td>
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<tr>
<td>Total</td>
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<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: researchers field result (2012)

Table 4: Involvement of Business Owners in all Aspects of the Operations Ensures Profitability

<table>
<thead>
<tr>
<th>Responders</th>
<th>Frequency</th>
<th>Per cent</th>
<th>Valid Per cent</th>
<th>Cumulative Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>strongly agree</td>
<td>36</td>
<td>23.1</td>
<td>36.4</td>
<td>36.4</td>
</tr>
<tr>
<td>agree</td>
<td>43</td>
<td>27.6</td>
<td>43.4</td>
<td>79.8</td>
</tr>
<tr>
<td>undecided</td>
<td>12</td>
<td>7.7</td>
<td>12.1</td>
<td>91.9</td>
</tr>
<tr>
<td>disagree</td>
<td>7</td>
<td>4.5</td>
<td>7.1</td>
<td>99.0</td>
</tr>
<tr>
<td>strongly disagree</td>
<td>1</td>
<td>.6</td>
<td>1.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

|
4.0 Discussions of Results

From the research question 1 which tries to find out whether personal initiative of the owner increases the chances of business survival, table 1 above shows that out of 99 respondents, 37 respondents represented by (37.4%) strongly agreed, while 57 representing (57.6%) agreed, 02 representing (2.0%) were undecided, 01 representing (1.0%) disagreed while 02 representing (2.0%) strongly disagreed that personal initiatives of the owner increases the chances of business survival. In this study, majority of the respondents agreed that personal initiatives of the venture owner increase the chances of business survival. Hence, entrepreneurial managers or owners should ensure that they develop initiatives and capability that would enhance the survival of their ventures for improved performance. This finding is in line with Abu-Tapanjah (2006) who opine that ownership structure involves the overall behaviour, disposition of the owners and management in terms of their skills and general abilities.

From the research question 2 which tries to find out whether creativity of the sole owner elongates the life span of the business, table 2 shows that 47 respondents representing about 47.5% strongly agreed, 47 respondents representing about 47.5% agreed, 04 respondents representing about 4.0% were undecided, and 01 respondent representing about 1.0% strongly disagreed that the creativity of the sole owner elongates the life span of the business. In this study, majority of the respondents agreed that creativity of the entrepreneurial venture owner or managers determine the longevity of the venture. This suggests that how creative a sole owner of a business is determines the life span of his or her business. The result of this study supports that of Ronald & Reeb (2003) and Isiavwe (2015) who report that ownership composition is of strategic importance in corporate governance because they determine the incentives of managers which lead to manager’s creativity and hence result in the economic efficiency of the corporations they manage.

From the research question 3 which tries to find out whether the decision making process of the sole owner guarantees the continuity of the entrepreneurial business, table 3 shows that 37 respondents representing about 37.4% strongly agreed, 42 respondents representing about 42.4% agreed, 10 respondents representing about 10.1% were undecided, 07 respondents representing about 7.1% disagreed and 03 respondents representing about 3.0% strongly disagreed that the decision making process of the sole owner guarantees the continuity of the business. This outcome indicates that majority of the participants in this study believe that the decision making process of the sole owner guarantees the continuity of the business. Cheng (2008) argues that managers of entrepreneurial firms often reflect on the venture’s performance in view of their personal vision for the venture to determine their performance. In addition, the authors added that organizational scholars and professionals continue to emphasize on the decision making capability of senior directors of such ventures in the performance of entrepreneurial firms. Enofe & Isiavwe (2012) argue that there is a strong relationship between individuals and performance of entrepreneurial firms particularly, the large business ventures, however, this relationship may be strongest in the more modestly sized firm.

From the research question 4 which tries to find out whether the involvement of business owners in all aspects of business operations ensures profitability, table 4 shows that among all 99
respondents, 36 respondents representing about 36.4% strongly agreed, 43 respondents representing about 43.4% agreed, 12 respondents representing about 12.1% were undecided, 7 respondents representing about 7.1% disagreed and 01 respondent representing about 1.0% strongly disagreed that the involvement of business owners in all aspects of business operations ensures profitability. This shows that majority of the entrepreneurial SME owners and employees believe that a business owner’s involvement in all aspects of the business operation ensures profitability. There are several reasons that have been adduced for the success or failure of entrepreneurial small scale firms in Nigeria. Nevertheless, the main area that determines their performance remains the human element which in this case is the owner/manager. David (2005) argues that the ownership structure of many small scale enterprises have been recognized as factor for their poor performance. However, entrepreneurial business owners are advised to be fully involved in managing their ventures to ensure profitability, or rather engage equity managers in situations where they cannot be fully involved in managing such ventures (Ajagbe & Ismail, 2014).

5.0 Conclusions of the Study

This research generated a number of findings as regards the effect of ownership structure on performance of entrepreneurial small ventures. The main objective of this study is to examine the relationship between ownership structure and the performance of entrepreneurial firms in Nigeria. Although the influence of ownership structure on firm performance has been a subject of extensive investigation in the theoretical and empirical literature, various findings have been put forward by different authors in this regard. However, these findings depend on the context of investigation of the concept. Ownership structure and business performance could be influenced either positively or adversely by several factors. Some of these include government policies, business output and the prevailing economic environment. Others include knowledge capital of the owners or managers of the entrepreneurial business in areas such as dynamics of family centeredness, non-exposure to formal or managerial training of the owner or manager of such venture, influences of informal relationship between owners and probably the inherent weakness and vulnerability of small and medium sized enterprise by their nature. Whatever the case may be, a change in one variable could affect the other, the extent of which will depend on the severity of the change.

However, this study reports a positive relationship between ownership structure and performance of entrepreneurial firms in Nigeria. Among the findings gathered from this study is that personal initiatives of the venture owner increases the chances of business survival. Hence, entrepreneurial managers or owners should ensure that they develop initiatives and capability that would enhance the survival of their ventures for improved performance. The next is that creativity of the entrepreneurial venture owner or managers determine the longevity of the venture. This suggests that how creative a sole owner of a business is determines the life span of his or her business. Also the decision making process of the sole owner guarantees the continuity of the business and finally that entrepreneurial SME owners and employees believe that a business owner’s involvement in all aspects of the business operation ensures profitability. Even though previous studies have reported several other reasons that have been adduced for the success or failure of entrepreneurial small scale
firms in Nigeria and elsewhere, the main area that determines their performance remains the human element which in this case is the owner/manager.

In view of the above findings, this study recommends that relevant government agencies should intensify efforts at boosting the knowledge capital capacity of entrepreneurial firms through enlightenment, and to create opportunities for training for entrepreneurial managers. Entrepreneurial managers could also consider mergers or become subsidiaries to larger organizations as an option to ensure survival, good performance, and firm profitability.

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6.0 References


