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An assessment of ownership structure, management and Profitability in Business: A case study of selected SME's in south-western geo-political zone in Nigeria

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Abstract
This paper examines the influence of corporate governance, effect of ownership structure and business management on the profitability of small and medium scale enterprises (SMEs) and the overall impact on companies for economic development of south-western, Nigeria. The research methodology involves an empirical study of an estimated 410 sampled SMEs data, drawn from three major South-Western states of Nigeria, namely Lagos, Ogun and Oyo. In addition, an independent statistical samples t-test model was used as an analytical tool to investigate the differences in profitability of SMEs between owner managed businesses and those entities managed by business managers. The results from comparative analysis provide statistical evidence which suggests that businesses managed by managers compared with owner managed businesses had a slight higher profitability performance. Furthermore, research findings also revealed that owner managed businesses compare favourably with business managers' control entities which indicates an insignificant or an indistinguishable difference.

Keywords: Corporate Governance, Structure, Business Ownership, Management, Profitability, SMEs, Economic development.

INTRODUCTION

Corporate governance is of greater importance to the management of business entities in any country as a result of its direct influence on economic development. Hence, planning efficient corporate governance mechanisms for effective decision-making is therefore very crucial. Many literatures on management and control of contemporary company entities have relied on the idea that company ownership is widely spread wherever possession and control are separated between the owner (principal) and manager (agent). However, recent work shows a high level of ownership concentration in corporate entities in several developed and developing countries (Shleifer and Vishny, 1997; La Porta et al, 1999). As such, it is therefore necessary to look at the influence of the structure of ownership and management on profitability relative to SMEs.

Theoretically, it is often argued that the owner-managed business entities might observe a better and improved performance as a result of decreasing observation cost and ploughing back the cost savings to the business in form of profits (Shleifer and Vishny, 1986). Operationally, profitability is a performance dimension which measures business efficiency and defines an entity's excess of revenue over expenses. Profit as a performance indicator, therefore implies the possession concentration and have been examined through empirical observation by numerous researchers but have produced mixed results. For instance, (Demsetz and Lehn, 1985) noticed that there is no significant impact of ownership concentration on accounting profit, whereas (Leech and Leahy, 1991) however noticed that there is a negative relationship between possession concentration, firm's worth and profitability. On the other hand, however, (Zeitun and Gary, 2007) equally noticed a significant positive relationship between ownership concentration and the accounting performance measure of return on assets (ROA) and return on equity (ROE). (Morck and shliefer, 1988) however observed a non-linear relationship between corporate executive ownership and firm performance while examining Fortune five hundred corporations for the year 1980. In addition, most analysis of ownership concentration and performance were conducted in developed countries. Equally and worthy of note is the fact that there is an increasing awareness that the theories created based on the proof collected in developed countries like the USA and the United Kingdom could have restricted relevancy to emerging market as a result of the immense variations in political, socio-cultural and business contexts between the developed and developing countries.

Ownership concentration is a subject of high interest to scholars in a variety of disciplines. Its influence on strategic behaviour and company's performance were studied in a wide selection of national contexts (Gedajlovic and Shapiro, 1998) and from differing theoretical perspective. In analysis, the influence of economic incentives on prime executives and investors, ownership concentration has been used primarily as a yardstick for measuring agency costs (Shleifer and Vishny, 1997). Similarly, in another study of accenting social context, ownership concentration has been used as an indicator of the strength which ties a firm to its investors (Gerlach, 1992; Lincoln et al., 1996). In a previous empirical study, which examined the ownership-performance link however, had frames of reference restricted to at least one or the other of those perspectives.

As such, SMEs are widely accepted as the most recognized form of businesses entity that contributes largely in the area of income generation, poverty reduction and employment generation in Nigeria (Sunday, 2011). However, in spite of this, the contribution of the sector to the economic development of Nigeria is incredibly low as compared to its contemporaries in a similar category. This may be due to the myriad of other issues such as poor management associated with corporate governance, which may have been responsible to the low corporate profit, growth, and large failure of SMEs (Okpara, 2011; Ademola et al., 2013). In view of the aforementioned, it is expedient therefore to attempt to answer this research question:

"Is there any difference between SMEs profitability of owner-managed businesses and those entities managed by business managers?"

Objectives of the study

To examine the difference between SMEs profitability of owner-managed businesses and those entities managed by business managers

LITERATURE REVIEW

Ownership structures are of major importance in corporate governance because they have an effect on the incentives of managers, and also the efficiency of companies. Governance problems arise from conflict of interest orchestrated by separation of ownership of a corporate entity from its management (Tricker, 2000). This further intensifies the requirements to search for good governance practices, as identified by (Berle and Means, 1932). Central to this analysis is the agency theory which helps to explain the conflict of interest between management (inside owners) and shareholder (outside owners) (Jensen and Meckling, 1976). Jensen and Meckling (1976), further argue that, relative to the level of ownership and control by insiders, managers are given incentives to pursue activities to serve their own benefits, which are also aligned to overall corporate strategy aimed to enhance the achievement of the overall goals. According to their hypothesis, a firm's worth and its performance increase with the level of insider ownership.

Agency Theory

The agency theory is a supposition that explains the connection between principals and agents in the business. Agency theory is concerned with resolving problems that can exist in an agency relationships attributed to organization dysfunctionalism, unaligned goals or different levels of risk. The most common agency relationship in finance happens between shareholders (principal) and company executives (agents). In addition, it is also a contractual agreement between two or more parties where one could be a principal and the other is an agent who represents the interest of the principal in transactions with a third party and most importantly where one person manages another person's business affairs for a financial reward. Hence understanding the agency theory's application in financial management will offer greater insight as a capitalist, investor or aspiring financial professional (Ingram, 2016). Agency relationships occur when the principal hire the agent to perform a service on the principals' behalf. A principal normally gives decision-making powers to the agents as a result of contracts and decisions are made with third parties by the agent that could have an effect on the principal, which may lead to agency problems.

It suffices to also mention that, the problem around the agency theory revolves around the main challenges of agency relationships in addition to reconciling the two actors' (principal/agent) distinct sets of personal goals. In an agency relationship, agents are required to work towards meeting principals' goals, yet it is the agents' own goals that drive them to succeed on behalf of their principals. Abioye (2016), also noted that "the principals, who are typically the investors, are interested in their return on investment, hence, having a vested interest in the company performance. Whereas, the agents who are the management team, want to protect their employment, on the one hand, as well as other management perks for good performance, on the other hand. Therefore, the profit motive is the only avenue in meeting their respective economic goals as well as increasing shareholder's wealth." In order for an agency relationship to be interdependent, both parties' goals ought to be congruent and addressed within a climate of compromise with the understanding that meeting the principal's goals is the primary function of the relationship (Ingram, 2016). To this end, it is important that information is shared freely and openly between the two parties so that agents are always clear of their principals' priorities and principals are equally aware of their agents' decisions, actions and interest.

Table 1. Cross Tabulation of the Sample

Sector of Business/Categories	Business Manager	Owner- Managed Businesses	Total
Agriculture (Corporate Farms)	34	46	**80**
Building and Construction	0	13	**13**
Manufacturing	29	62	**91**
Service	30	74	**104**
Retail Stores	30	84	**114**
Others	1	7	**8**
Total	**124**	**286**	**410**

Source: Survey Data 2015

Empirical Evidences

Agency theory suggests that the corporate form of organization is characterized by a professional management with little ownership operating a business on behalf of a large number of widely dispersed shareholders who represents a prototypical principal-agent problem (Eisenhardt, 1989). This agency problem stems from the fact that managers often have both the discretion and incentive to pursue strategies and practices that benefit themselves at the expense of shareholders (Jensen and Meckling, 1976). The exercise of managerial discretion may be harmful to shareholders in two broad ways. Managers could engage in short-term cost augmenting activities to enhance their non-salary income and/or they can indulge their need for power, prestige, and status by attempting to maximize corporate size and growth rather than company profits (Gedajlovic and Shapiro, 1998).

The study of (Gedajlovic and Shapiro, 2002) examined the relationship between ownership structure and financial performance of 334 Japanese corporations from 1986 -1991. It was found that there is a positive relationship between ownership concentration and financial performance and which is very consistent with agency theory predictions. It was also observed that a more pronounced profit redistribution effect characterised by transfer of financial resources from more to less profitable firms. The findings also indicated the need to account for both economic incentives and social context in corporate governance research.

In another study by (Alimehmeti and Paletta, 2012) who also investigated the implications of ownership concentration over firm's value by conducting an empirical analysis of 203 listed Italian firms during the period from 2006 to 2009 by collecting the secondary data from Amadeus database. The findings of their study indicated a positive relationship existed between ownership concentration and firms value except in 2008 when the results show a non–linear relationship, which implies that the financial crisis was a contributory factor to the expropriation effects observed.

Furthermore, because of the contextual differences across countries, different relations between ownership and firms' value could be expected. For example, in a developing economy like Nigeria where ownership is highly concentrated with friends and family, a positive and significant effect of ownership concentration on firm's performance is proposed. This argument is confirmed by (Zeitun and Gary, 2007) whose study examined the relationship between ownership concentration, and firm's performance both in term of accounting measures and market measures using a sample of public listed companies in the Jordan stock exchange. The study found that there is a significant relation between ownership concentration and the accounting performance measures. In examining the subject further, (Abor and Biekpe, 2007) investigated whether there is a significant effect of corporate governance and ownership structure on the performance of SME's in Ghana. The study however indicated that board size, board composition, CEO duality, inside ownership and family ownership have significant positive impacts on profitability.

Hypothesis of the study

H_0: There is no significant difference in SMEs profitability between owner-managed businesses and entities managed by business managers.

RESEARCH METHODOLOGY

Multistage sampling procedure consisting of stratified random sampling and simple random sampling technique were adopted. A structured questionnaire was distributed among 500 SMEs in the study area out of a total population of 6,485 registered SMEs from three major industrialised states in the South-Western geopolitical zone in Nigeria namely; Lagos, Ogun and Oyo states with the aid of formula recommended by (Mugenda and Mugenda, 2003). 410 SMEs of the sample had responded to the questionnaire sufficiently. The study respondents were CEOs, Business Unit Managers and Business owners of registered SMEs. The study covers selected SMEs operators from five major sectors of business operation, namely; Agriculture, Building and Construction, Manufacturing, Service, and Retail stores located within the three major states of the South-Western geopolitical zone of Nigeria. (Table 1), shows the cross tabulation of the sample showing the five major sectors of business operation against the categories of business ownership and management. This study employed both quantitative and descriptive techniques.

Table 2. Group Statistics (Descriptive)

Variables		N	Percentage	Mean	Std. Deviation	Std. Error Mean
profitability	business manager	124	30.2	9.4758	2.34248	.21036
	Business Owners Manager	286	69.8	8.8182	2.24354	.13266

Source: Survey Data 2015

Table 3: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
profitability	Equal variances assumed	.777	.379	2.690	408	.007	.65762	.24449	.17701	1.13824
	Equal variances not assumed			2.644	224.938	.009	.65762	.24870	.16755	1.14770

Source: Survey Data 2015

The study examined one dependent variable, and two independent variables (as resulted in independent sample t-test). Profitability is the dependent variable and categories of business management structure (business unit manager and owner-managed business) represent the independent variable. Independent samples t-test has been utilized to determine the differences between owner-managed business and entities managed by business managers on profitability.

Rational for the Statistical Model

Independent samples t-test is usually applied when there is a need to test whether the means of two populations on one metric variable are equal. The two populations must be identified in the sample as a dichotomous variable (Ruben, 2014). The two groups must also be considered as independent samples because none of the cases should belong to both group simultaneously; that is samples don't overlap. This study satisfies those rule of thumb, therefore, independent sample t-test was effectively utilized in the study.

RESULTS AND DISCUSSIONS

The data were analysed using two techniques; descriptive and quantitative techniques and the following paragraphs detail a comprehensive discussion of the outcome of the survey and the statistical tests of the outcome.

Descriptive Statistics

(Tables 2), presents the results of descriptive statistics for the variables utilised in this study. The entities managed by business unit managers has a frequency of 30.2 per cent of the respondents while owner-managed businesses with the frequency of 69.8 per cent which implies that in the study area, majority of the SMEs are controlled by the business owners. The statistical mean of the business unit manager was 9.47 with the standard deviation of 2.34 compared to the owner-managed businesses which had a statistical mean of 8.81 with standard deviation of 2.24. The standard error for a business unit manager is 0.21 while owner-managed businesses were 0.13. There is a mean difference of 0.66 with standard error differences of 0.24 which implies that, businesses managed by business unit managers enjoy more profitability compared to the owner-managed businesses, even though the differences are not that pronounced despite the fact that the number of respondents for owner-managed businesses doubled compared to the business managers' responses.

Quantitative Statistics

The result for the independent samples t-test as shown in (Table 3) reveals the t-test result with Levene's test for equality variances. The assumption of equal variances states that when using Levene's test equality of variance for evaluation; as a rule of thumb, if sig. >.05, use the first line of t-test result (Accept H_0), however, if its p-value ("sig") <.05 reject the null hypothesis of equal variances and thus use the second line of t-test results (Ruben, 2014). In addition, if the confidence interval of the difference contains 0, the result is not significant at the chosen significant level.

The difference between the profitability of businesses managed by a business manager and the owner-managed businesses as identified in (Table 3) was 0.66 as mentioned earlier. The chance of finding this result or a larger difference between two means is about 7%. Since this is a fair chance, we do reject the null hypothesis that states that there is no difference in SMEs profitability between businesses managed and owner-managed businesses and those managed by business managers. The result was t (408) = 2.70, p=0.007 (sig. <.05), which implies that there is significant difference between the two variables. The result also revealed that owner-managed businesses is significantly lower in profitability (i.e. 8.82±2.24) at the end of the data evaluation compared to the profitability of entities managed by business managers (9.48±2.34), t (408) = 2.70, p=0.007.

This result is not consistent with (Demsetz and Lehn, 1985) who also found no effect of ownership concentration on accounting profit whereas (Leech and Leahy, 1991) found a negative relationship between the ownership concentration and firm's value and profitability. On the other hand, (Zeitun and Gary, 2007) found significant positive relationship between ownership concentration and the accounting performance measure of return on assets (ROA) and return on equity (ROE). However, Morck et al., (1988), found a non-linear relationship between insider ownership and firms' performance in their examination of Fortune 500 firms for the year 1980. In addition, Gedajlovic et al. (2002), also opined that there is a positive relationship between ownership concentration and financial performance and this is consistent with agency theory predictions.

CONCLUSION

The main theme of the study as well as the research question attempts to test if there is a significant difference in SMEs profitability between owner-managed businesses and those entities managed by business managers. The study findings revealed that the difference between the profitability of owner-managed business and those entities managed by business managers had a mean of 0.66. Therefore, the chance of finding a difference between two means was about 7%. Since this is just a fair chance of occurrence, we do not reject the stated null hypothesis. The study also focussed on two objectives, the first objective was to test the effect of businesses managed by business managers on SMEs profitability, while the second objective is to determine the effect of owner-managed businesses on SMEs profitability. The result revealed that there is a higher profit return in the businesses managed by business managers (9.48±2.34), compared with the owner-managed businesses (8.82±2.24). Therefore, the study findings concluded that there is a significant difference in SMEs profitability between the owner-managed businesses and those entities managed by business managers. The implication of this result is that there is no significant difference in profitability (ROI) or performance of SMEs in the South-Western Nigeria whether a business is controlled by an agent or owner-managed business. It implies further that owners of businesses in the study area may decide to bear the agency cost and at the same time be involved in other economic activities outside their business environment.

Conflict of interest

Authors have none to declare

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