

Comparative Business Practices and Productivity Performance between Family and Non-family Firms: Perceptions and Poverty Reduction Effects in Cameroon

By

Tabi Atemnkeng Johannes
and Fomba Emmanuel Mbebeb



Center for International Forestry Research
(CIFOR) - CC: BY-NC-SA

EXECUTIVE SUMMARY

This policy brief attempts to explain productivity performance between family and non-family firms in Cameroon. It also attempts to determine whether family firms' relative contribution to the social and economic development of a country is related to differences in production technologies and production efficiency, compared to non-family firms.

We used quantitative data from the World Bank Enterprise Survey and a self-exploratory survey, which was collected using qualitative methods. While the quantitative data enables us to assess firm productivity, the exploratory survey helps examine how current operators and university students perceive family and non-family entrepreneurship - in terms of their contributions to profitability, income generation, job creation and poverty reduction in Cameroon. Managers and students' perceptions of family management and ownership were collected in the form of

questionnaires. Specifically, the qualitative analysis focuses on the mechanism through which family ownership may potentially affect firm performance, in terms of growth, employment, income generation and poverty reduction. This type of analysis may have important implications, as the role of productivity in firm performance is of fundamental importance. According to Solow (1957) and Palia and Lichtenberg (1999) and Easterly and Levine (2001), approximately 90 percent of the increase in real per capita output is attributable to the growth of efficiency. Thus, we were able to link quantitative results to qualitative findings. The quantitative analyses capture business perceptions on obstacles to enterprise growth, and the relative importance of various constraints to increasing productivity, while comparing the differences between family and non-family firms. Based on the quantitative survey, we estimated total productivity by way of a Cobb-Douglas production function, while accounting for the correlation between input levels and productivity. Further analysis allows us to show the main features of the corporate governance model of Cameroonian firms.

HEADQUARTERS

TrustAfrica
Lot 87, Sacré Coeur 3
Pyrotechnie x VDN
BP 45435
Dakar-Fann, Senegal

T +221 33 869 46 86
F +221 33 824 15 67
E info@trustafrica.org
W www.trustafrica.org

The ICBE Research Fund is a joint initiative of TrustAfrica and the International Development Research Centre.

Related to management and control of firms, generally, family members are heavily involved in family firms, compared to those of non-family firms, which are mostly managed externally. A non-family firm employs more labour and invests more in capital, compared to family-owned and managed firms.

Using the two-staged least-squares technique, the econometric analysis shows that family firms and even those managed by families are, on average, less productive than externally managed firms and non-family owned firms (after controlling characteristics, such as sector, age, export status, access to credit and some business environment obstacles, i.e. competition, tax rates and tax administration). Firm growth, employment and poverty are reasons for enterprise creation. Differential results were obtained indicating that family firms are more concerned with subsistence and job creation than non-family firms, however the management of family firms appear to be plagued with operation crises that affect the performances of the enterprises as compared to non-family firms. As indicated in the qualitative analyses, the problem of capital is crucial since it is generally concentrated in the hands of one person (the owner-manager) who is often the source of subsistence for the family. Although the government has initiated venture-friendly policies to encourage self-employment, economic growth and poverty alleviation, tax administrative procedures deter the attractiveness and productivity of entrepreneurship. This is also evidenced in the qualitative analyses, as participants of both family and non-family firms expressed their concern, with taxes as a main factor hindering entrepreneurship and productivity in small businesses. In this regard, Schuetze and Bruce (2004) confirmed that tax policies could affect the decision to become self-employed in various ways, which makes self-employment more or less attractive than wage and salary work; thereby acting as a pull and push factor. This paper provides evidence-based policy recommendations to enhance the productivity and competitiveness of family and non-family firms in Cameroon.

CAMEROON AND ENTREPRENEURIAL DEVELOPMENT

Industrialization has created a better means to provide employment opportunities, and contribution towards economic growth, as compared to the traditional agricultural sector. It has also resulted in greater foreign exchange earnings through exports of value-added products.

In cases of developing countries like Cameroon, development policy is intended to provide employment opportunities, accelerate population growth, and increase their standard of living. However, the establishment of large-scale industrialization requires resources in abundance, therefore alternatively, emphasis should be laid on the establishment of small- and medium-sized enterprises (SMEs) to resolve all these problems. SMEs are important for economic growth and are seen as the engines of employment; alleviating poverty and improving equality. In most countries, SMEs account for a significant share of production and employment and are therefore directly influencing poverty alleviation (Okpukpara, 2009; Ayyagari et al., 2011).

SMEs are important for economic growth and are seen as the engines of employment, alleviating poverty and improving equality.

Cameroon has been unable to develop a competitive industrial sector, mainly because of its poor performance in the global economy and lack of an operational potential at the domestic level. This problem is also compounded by distribution of the wealth generated. In fact, dividends on share capital continue to have an edge over salaries and other social contributions. Hence, there is a general outcry for strong growth with an equitable distribution of its fallouts (Government of Cameroon, 2009). An analysis of the country's growth factors reveal that its economy depends more than 50 percent on Household and Sole Proprietor Businesses, which

constitute a sector comprising mostly informal units (notably agriculture and trade) with no guarantee of sustainable growth due to their generally fluctuating performances. In Cameroon, most of these are family firms characterized by the concentration of capital in the hands of one person, with family members of the proprietor involved in the management of the company and low-financing by bank loans. As noted by Tchankan (2002), the family firm has characteristics that are unique because of the significant presence of family members unduly influences their vision, perception and values, which determine the firm's culture, structure and function. Today, with increasingly greater competition, economic globalization and technological changes, family firms are forced to adopt growth strategies. Given that growth requires additional funding and given the limited resources of the family business, it was therefore necessary to compare the productivity and performance patterns of family firms with respect to non-family firms. Thus, in this paper we examine whether family ownership is related to differences in production technologies and/or in production efficiency of firms and also focus on the mechanism through which family ownership may potentially affect firm performance, in terms of growth, employment, income generation and poverty reduction.

METHOD OF ANALYSIS

This paper considers total factor productivity (TFP) as firm productivity being the difference between actual output and output, estimated by a production function using actual output and input quantities. A key issue in the estimation of production functions is the correlation between unobservable productivity shocks and input levels. Profit-maximizing firms respond to positive productivity shocks by expanding output, which requires additional inputs. Negative shocks lead firms to pare back output, decreasing their input usage. Olley and Pakes (1996) develop an estimator that uses investment as a proxy for these unobservable shocks. We follow the Levinsohn and Petrin (2003) procedure that introduces an estimator that uses intermediate inputs as proxies, arguing that intermediates may respond more smoothly to productivity shocks.

Secondly, we ran an econometric analysis in order to analyse the relationship between firm ownership, management and firm productivity. Thus, in order to disentangle the effect of ownership and governance structure from other factors on firm productivity, we regress TFP on ownership structure. This aims to determine whether family firms and those managed by a member of the owner family are more or less productive than family firms run by professional managers or non-family owned firms. Econometric problems are associated with the Ordinary Least Squares (OLS) estimation. For instance, higher production efficiency of family firms may provide

The results from this research initiative clearly demonstrate that reinforcing a business friendly environment would contribute to both stimulate firm growth and lower poverty in Cameroon.

incentives for families to maintain their ownership and control, thus the analysis potentially suffers from an endogeneity problem. To address this issue, we estimate a two-stage least square equation model whereby the logs of family labour and family capital are used as instruments for the endogenous regressor (FAM) (see, e.g. Martikainen et al 2009). The data collected in firms and higher education institutions were qualitative but also the students' perception questionnaire gathered some quantitative data. The respondents involved managers representing their enterprises in five regions and final year undergraduates in two federal universities in Cameroon. With regard to enterprises, 156 units were investigated, 74 families (47.4 percent), and 82 non-families (52.6 percent). The information gathered was used to examine the perceptions of managers and youths with regard to entrepreneurship in family and non-family firms, as well as the contributions of family and non-family firms to job and wealth creation and poverty alleviation.

KEY FINDINGS

Related to management and control of firms, on average, family members are heavily involved in

family firms, compared to non-family firms, which are mostly managed externally. Related to the key conventional input variables of labour and capital that affects firm level output, it is observed that non-family firms employ more labour and invest more in capital compared to family owned and managed firms.

Using the two-staged least-squares technique, the econometric analysis shows that, on average, family firms are less productive than externally-managed firms. When we use control for firm size, which has no effect, the coefficient on ownership structure became insignificant maintaining the negative signs. The results do not change when we consider total factor productivity based on the fixed-effects regression. Similar studies that family firms are less productive than non-family firms include Barth et al., 2005; Bosworth and Loundes, 2002; Lauterbach and Vaninsky, 1999; Wall, 1998.

Finally, regarding the control variables, age and age-squared have positively and negatively significant coefficients, an indication that young firms have higher productivity relative to old firms (see Ayyagari, et al 2011).

In this study, we also examined the relationship between environmental obstacles and the level of production efficiency amongst firms. We found that tax administration constitutes a bottleneck in running firms, despite the fact that tax rates themselves do not represent a barrier to firm productivity. The availability of credit, observed through access to finance, would help firms to

increase the investments in modern capital, human capital of workers and technological innovation, thereby creating a positive impact on productivity. It is important to note that credit is strongly and positively associated with productivity across firms. In particular, one might argue that exporters, and firms in the formal sector that compete with informal firms, both have higher know-how, and thus are more productive.

Closely associated to the foregoing results are the results based on the explorative survey. Firm growth, employment and poverty or subsistence are reasons for enterprise creation. Differential results were obtained indicating that family firms are more concerned with subsistence and job creation compared to non-family firms, however the management of family firms appear to be plagued with operation crisis that affect the performances of the enterprises. Participants also expressed their sources of dissatisfaction with regard to their respective enterprises. The greatest source of dissatisfaction stemmed from lack of capital, and this was very crucial for managers of family firms, compared to those of non-family firms. Too many taxes also appeared as a source of dissatisfaction, but this was projected more by managers of family firms than non-family firms. While managers of non-family firms complained of small salary, no voice was heard from the managers of family firms. Customer complaints were also a source of high dissatisfaction for managers of non-family firms, as compared to those of family firms.

POLICY IMPLICATIONS AND RECOMMENDATIONS

Although Cameroon's SMEs experience some positive performance, the country's economic development would still greatly benefit from thorough support in the sector; especially in family firms, where the low level of financial capital and poor management create bottlenecks

and impedes growth. With emerging economic challenges in developing nations, SMEs are being perceived as the engine of economic and social development, notwithstanding the management and performances issues associated with the growth of the enterprises.

The results from this research initiative clearly demonstrate that reinforcing a business friendly environment would contribute to both stimulate

firm growth and lower poverty in Cameroon, and that such policies may thus be considered by the government as a key "inclusive growth strategy."

In particular, the researchers recommend that Cameroon's decision-makers consider investing relatively more in family firms by easing access to credit, ameliorating the tax procedures and promoting entrepreneurial training for young

graduates. Policies should be devised that can help entrepreneurs in educational training, along with the provision of technical and managerial facilities that will promote firm growth.

Entrepreneurship education should be part of the curricula in higher education, as well as how to run a family business. University students should perceive family entrepreneurship as a career opportunity.

REFERENCES

- Ayyagari, M., Demirguc-Kunt, Maksimovic V. (2011). "Small vs. Young Firms Across the World: Contribution to Employment, Job Creation, and Growth". *Policy Research Working Paper Series 5631*. The World Bank.
- Easterly, W., R. Levine (200). "It's not factor accumulation: Stylized facts and growth models". *The World Bank Economic Review*, 15: 177-219.
- Government of Cameroon (2009). Growth and Employment Strategy Paper: Reference Framework for Government Action Over the Period 2010-2020". *Ministry of Planning, Programming and Regional Development*.
- Lauterbach, B & Vaninsky, A. (1999). "Ownership Structure and Firm Performance: Evidence from Israel". *Journal of Management and Governance*, vol.3, pp189- 201.
- Levinsohn, J. and A. Petrin. (2003). "Estimating production functions using inputs to control for Unobservables". *Review of Economic Studies* 70(2): 317-342.
- Martikainen, M., Nikkinen, J., & Vahamaa, S. (2009). Production Functions and Productivity of Family Firms: Evidence from the S&P 500. *The Quarterly Review of Economics and Finance*, 49(2), 295-307.
- Okpukpara, B. (2009). Strategies for Effective Loan Delivery to Small Scale Enterprises in Rural Nigeria. *Journal of Development and Agricultural Economics* 1(2), 041-048.
- Olley, G. S., and A. Pakes. (1996). "The dynamics of productivity in the telecommunications equipment industry". *Econometrica* 64: 1263-1297.
- Palia, D., & Lichtenberg, F. (1999). "Managerial ownership and firm performance: A re-examination using productivity measurement". *Journal of Corporate Finance*, 5(4), 323-339.
- Schuetze and Bruce (2004). Tax Policy and Entrepreneurship, Conference on Self-Employment, Organized by The Economic Council of Sweden, March 22nd 2004, Stockholm Sweden.
- Solow, R.M. (1957). "Technical change and the aggregate production function". *Review of Economics and Statistics*, 39: 214-231.
- Tchankam, J. (2000). L'entreprise Familiale au Cameroon. Cahier 2000-05, CREF.