

Effect of Bank Lending Practices on the Performance and Sustainability of Family Business in Osogbo Metropolis

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Abstract

The focus of this study is to examine the Impact of the lending practices of Nigerian Financial Institutions on the family-owned business in Osogbo Metropolis. The methodology adopted was inferential and descriptive survey research method; this method of research was used in order to analyse microcredit/loans obtained from various financial institutions that serve as catalyst for business performance and sustainability of family-owned enterprises. The population of the study is family-owned businesses in Osogbo, Osun State. Data was analysed using inferential and descriptive statistics. The descriptive statistics involves frequency tables and percentages while inferential statistics involves regression, analysis of variance (ANOVA) and multiple regression analysis. Findings show that availability of microcredit/loan is statistically significant in predicting the dependent variable (business performance and sustainability) of family business.

Keywords: Bank Lending, Financial Institutions, Performance, Sustainability, Microcredit, loan. Family-Owned, Businesses.

Introduction

The emergence of banks in Nigeria in 1872 with the establishment of the African Banks Corporation (ABC) and later appearance of other banks in the scene during the colonial era witnessed the beginning of banks' lending practice in Nigeria. Though, the lending practices of the then colonial banks were biased and discriminatory and could not be said to be a good lending practice as only the expatriates were given loans and advances. This among other reasons led to the establishment of indigenous banks in Nigeria. Prior to the advent of Structural Adjustment Programme (SAP) in the country in 1986, the lending practices of banks were strictly regulated under the close surveillance of the bank's supervisory bodies. The SAP period brought about some relaxation of the stringent rules guiding banking practices.

Deposit money banks are the most important savings, mobilization and financial resource allocation institutions. Consequently, these roles make them an important phenomenon in economic growth and development. In performing this role, it must be realized that banks have the potential, scope and prospects for mobilizing financial resources and allocating them to productive investments and in return promote their performance. Therefore, no matter the sources of the generation of income or the economic policies of the country, deposit money banks would be interested in giving out loans and advances to their numerous customers bearing in mind, the three principles guiding their operations which are, profit performance, liquidity and solvency (Adolphus, 2011).

However, deposit money banks decisions to lend out loans are influenced by a lot of factors such as the prevailing interest rate, the volume of deposits, the level of their domestic and foreign investment, banks liquidity ratio, prestige and public recognition to mention just but a few. Lending practices in the world could be traced to the period of industrial revolution which increase the pace of commercial and production activities thereby bringing about the need for large capital outlays for projects. Many captains of industry at this period were unable to meet up with the sudden upturn in the financial requirements and therefore turn to the banks for assistance (Ezirim, 2005).

The concept of sustainability has received growing recognition. Sustainability.com in conjunction with Rochelle and Aiste (2016) believe that sustainability is simply the ability to sustain. They posit that it is about the future of any business from today's commercial success. Sustainability in term of family-owned business as alleged by Ogundele, Idris and Ahmed-Ogundipe, is the degree to which its existence can be elongated while accomplishing its purpose (Ogundele, Idris and Ahmed-Ogundipe, 2012).

Research Question

To what extent does the bank lending affect business performance and sustainability of Family-Owned business in Osogbo Metropolis?

Research Hypothesis

The hypothesis for this study is formulated as follows:

H₀₁: Bank lending has no significant relationship with the performance and sustainability of Family-Owned business in Osogbo metropolis.

Literature Review

The lending policy guides banks in disbursing loans to customers. Strict adherence to the lending policy is by far the cheapest and easiest method of credit risk management. The lending policy should be in line with the overall bank strategy and the factors considered in designing a lending policy should include; the existing credit policy, industry norms, general economic conditions of the country and the prevailing economic climate (Kithinji, 2010).

Performance Measurement of Family Business in Nigeria

Family businesses are successful proving shareholders value and stakeholders, sustainability is not just a cost but rather an opportunity to increase revenues and customer loyalty while protecting the environment. Environmental sustainability, economic sustainability and sociopolitical sustainability, the foundations to an emerging new field of entrepreneurship - Sustainable Entrepreneurship. Kaicz (2013) buttressed the above point indication that family business is a firm governed with the intentions to shape and pursue the vision of the business held by the dominant coalition controlled by members of the same family for sustainability of the firm. As it was described above, a lot of high-quality research on the connection between entrepreneurship and sustainability has been performed already.

Sustainable Development Theory

The theory considered appropriate for this study is Sustainable Development Theory (SD) because of the sustainability terms relating to socio-economic and environmental needs. The concept of sustainable development first appeared in public discourse in the report of the Brundtland Commission Report on Environment and Development in 1987, which defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland

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Commission, 1987). It involves the interface between the social community and the environment with positive impacts on the economy in which the social community and its environment operates. (Robinson, 2004).

Van der Merwe, & Saayman, (2005) added that sustainable development (SD) is a program for changing the process of economic development so that it ensures a basic quality of life for all people and at the same time protects the ecosystems and community systems that make life worthwhile.

Furthermore, the term sustainable development refers to a comprehensive development strategy which addresses socio-economic and environmental needs of the present generation and, which by design would not endanger nor compromise the needs of upcoming generation (Steurer et al., 2005; Nagesha & Subrahmanya, 2006; Adebakin & Raimi, 2012). The above thoughts align with the definition of SD provided by the World Commission on Environment and Development (2000). The body asserts that sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs. But, Sagay et al. (2011) defines sustainable development as a process where the natural resource endowment of a nation is being utilized in a manner that is free from deterioration. To Tounes and colleagues, sustainable development denotes a resources utilization method that gives the people long-term tripartite progress: economic, social and environmental progress (Tounés et al., 2011).

Institutional Theory

Institutional theory focuses on the deeper and more resilient aspects of social structure like the family business establishment. It considers the processes by which structures, including schemes, rules, norms, and beliefs, become established as authoritative guidelines for social behaviour of human (Scott, 2004). Different components of institutional theory explain how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. Scott (2004) indicates that, in order to survive, family business must conform to the rules and belief systems prevailing in the environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Relating this to the study at hand, organizations identified by Scott (2004) can be likened to the family business, with the rules and belief system prevailing in the environment depicts the axioms or philosophies of the existing social institutions in every society.

Family business have the institutional beliefs and principles held by and imposed family members through the business management. Therefore, in order to function to the fullest, family members would have to behave in conformity with the institutional demands (i.e., they have to conform to

the prevailing customs and practice dictated by the social structure). From the foregoing, it is not wrong to say that these aforementioned institutional/societal beliefs flowing from the basic institutions (i.e., social, economic, family, political, religious, marriage, educational institutions, demographic, technological and cultural demands) has direct implications on the participation of family members. Hence, if the prevailing social structure encourages the participation of family members in the business organization, then sustainable economic development is achieved. However, the prevailing societal structure might also be a major constraint for the achievement of the former. It is hoped that this theory will not only assist the study in revealing the factors considered by family members in choosing between entrepreneurship training programs but also identify the factors that encourages and discourages them to participate the program.

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Family Systems Theory

The dynamics that function within the Family Business Succession Model, as developed and added upon, can be explained through the various systems that interact to determine whether a family continues to operate intergenerational as an ongoing economic unit through a family business, and if they do, how those interactions between systems change by generation. The most applicable and flexible theory to help address and inform the underlying interactions in the Family Business Succession Model is family systems theory, which explains how the interactions of these systems create financial and economic results for the business and the family. Specifically, this study will address how extent of actions of ownership, the family, and the business enterprise interact to create results that prepare the business to transition intergenerational and how these interactions change by generation. The concepts and major assumptions as applied to family systems theory are addressed below.

At the core, systems theory has an underlying assumption of interdependency where a change in one system creates a change in other adjacent systems (Nichols & Schwartz, 2001). A system is defined as a bounded set of interrelated elements exhibiting coherent behavior as a trait (Constantine, 1986). Bowen (1966) proposed that family systems theory represents systems of interdependent units that cannot be understood without considering the system. Systems theory has been widely used to help explain phenomenon around family communication, goal setting, complex relationships, and maintaining boundaries because it allows for a conceptual framework (Jaccard & Jacoby, 2010). From a systems theory perspective, the family and the business are separate systems, which interact. Each of these systems is important to fully understand the development of a business owner family and family business.

The business ownership, the family, and the business enterprise are critical systems that interact to determine the level of succession preparedness. These systems may be impacted by the generation of the business (i.e., experience level interacting), as well as external environmental conditions, such as economic conditions. A major hypothesis of this study is that how business owners interact

with the business and family has an effect on the preparedness of the business for successful succession and that these interactions change based on the business generation. This hypothesis means that the level of succession preparedness, or formalized succession plan, is associated with the extent owners have formalized other areas of the business (e.g., created a board, employee development plan, or mission statement) and that business longevity has a moderating impact on this relationship. Literature has suggested that subsequent generations often have formalized business practices (Davis and Harveston, 1998; Ward, 1997). This study is adopting family systems theory as a result of the following aspects: -

Methodology

This study adopted the use of questionnaire in gathering information from respondents. The population of the study was the registered SMEs operating as Family businesses in Osun State out of which 12 operating in Osogbo metropolis were selected and questionnaires were administered on 10 respondents on each of the businesses, making a total of 120 respondents. The questionnaire was divided into three sections, Section A measures staff information of the respondents which include gender, experience, employment status, job function etc., while section B measures the characteristics of different loans and advances accessed by family business; and section C measures the impact of various financial institutions on family business performance and sustainability. The items were measured on a 5 – point likert scale ranging from strongly agree (5) to strongly disagree (1). Primary and secondary data were used. Primary data was obtained with the aids of questionnaire. The use of questionnaire was

employed to gather relevant information from the respondents. The secondary source was obtained from related journals and articles. Data was analysed using inferential and descriptive statistics. The descriptive statistics involves frequency tables and percentages while the inferential statistics involves regression, analysis of variance (ANOVA) and multiple regression analysis.

Discussion of Findings Table 1 Distribution and Return Rate of Questionnaire

	No. Distributed	No. Returned	% Returned	No. Not Returned	% Not Returned
Respondents	120	114	95%	6	5%
TOTAL	120	114	95%	6	5%

As shown in Table 1, questionnaire distribution demonstrates an approximately 95% response rate. The researcher was able to gather 114 out of the 120 distributed to the various family businesses in the study area of Osogbo metropolises.

Analysis of Staff information of the Respondents

In order to achieve the main purpose of this study, the researcher found it useful to find out the general staff information of the respondents. The general staff information of the respondents included gender, experience, employment status, and job function. **TABLE 2: Staff Distribution of Respondents**

Gender	Frequency	%
Male	66	57.9
Female	48	42.1
Total	114	100

Working Year Experience	Frequency	%
0-5 years	12	10.5
6-10 years	56	49.1
11-15 years	21	18.4
Above 15 years	25	22.0
Total	114	100

Employment Status	Frequency	%
Regular Staff	89	78.1
Casual Staff	18	15.8
Intern	7	6.1
Total	114	100
Job Function	Frequency	%
Customer care Officers	18	15.8
Accounting Officers	19	16.7
Sales and Marketing Officers	28	24.6
OTHERS	49	43.0
Total	114	100

From the staff distribution of respondents, it is evident that male participants out-numbered their female counterparts. As many as 66 (57.9%) who participated in the study were males. While the female participants were 48 representing (42.1%).

The year of experience of the respondents shows that the participants are exposed enough to give reasonable information to the research questions. The result reveals that only 12 of the

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respondents are in the bracket of 0-5 years of experience, representing (10.5%). 56 respondents are between the ages of 6-10years of experience representing (49.1%). Also, 21 respondents are between the ages of 11-15years of experience representing (18.4%) while 25 respondents have years of experience that is above 15years and this represent 22.0% of the total respondents.

Also, From the table 2 above it indicates that 89(78.1%) of the respondents are regular staff, while 18(15.8%) are casual staff. 7 of the respondents representing (6.1%) are on internship in various family enterprises in Osogbo metropolis.

From the findings, the respondents are spread in different job functions within the enterprises ranging from customer care officers, accounting officers, sales/marketing officers and other functions. The result shows that 18 respondents are customer care officers, 19 respondents are accounting officers, 28 respondents are sales/marketing officer, and 49 respondents are into other functions within the enterprises respectively. This represents (15.8%), (16.7%), (24.6%), (43.0%) respectively.

Hypothesis Testing

Ho₁: Bank lending has no significant relationship with the performance and sustainability of Family-Owned business in Osogbo metropolis.

Table 3a Model summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.779 ^a	.607	.603	.44696

a. Predictors: (Constant), Bank Lending

b. Dependent Variable: Sustainability

Sources: Authors' Computation 2022

R² value of 0.607 reveals that bank lending independently accounts for 60.7% of the variation in family business' sustainability thereby accepting the alternative hypothesis and rejecting the null hypothesis.

Table 3b ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34.526	1	34.526	172.827	.000 ^b
	Residual	22.375	112	.200		
	Total	56.901	113			

a. Dependent Variable: sustainability

b. Predictors: (Constant), Bank Lending Sources: Authors' Computation 2022

The f-statistics of 172.827 shows that the model is statistically significant. It shows that there is a significant relationship between bank lending and family business's sustainability.

Interpretations

The regression result displayed in Table 3a relates to relationship between bank lending and business sustainability. The value of the R² (0.607) reveals that bank lending affects the level of performance and sustainability of family businesses in Osogbo metropolis. This shows that bank lending has positive relationship with family business' performance and sustainability.

The f-statistics in Table 3b shows that the model is statistically significant. The value of the adjusted R² indicates that the model has a good fit.

Conclusion and Recommendations

The study has contributed to our knowledge on the effects of bank lending on business performance and sustainability of family-owned business in Osogbo metropolis. The results demonstrated that there is a significant effect of bank lending on the survival and sustainability of family-owned businesses. The study findings indicate that the variable is statistically

significance to influencing the performance and sustainability of family-owned businesses due to the contributions and the role various bank lending plays in the development and in sustaining family businesses especially in Osogbo Metropolis. Arising from the findings of this study, the following recommendations are made:

Since the study found that bank lending composition is a significant factor influencing the performance and the sustainability of family-owned businesses, the study therefore recommends that central bank and government should direct financial institutions to channel more of their loanable funds to SMEs and Family businesses so as to boost their financial capacity and enhance business expansion.

The study recommends that all the loose knots in channeling credits to family business should be tightened for the economy to experience significant improvement in the area of employment generation by small and family businesses. The study also recommends adequate regulations to ensure lending to small and family businesses and properly channeled and judiciously utilized.

The study further recommends the reduction in the interest rate on the loanable fund available to SMEs and Family businesses. Government should do more in creating efficient intermediation process as inefficiency in the intermediation process is a characteristic of a repressed financial system.

There is need for further studies to be carried out in other commercial cities of the country and other geographical zones of the country.

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