

Planning for Succession and Firm's Sustainability: Evidence from Family Owned Businesses in Lagos and Ogun States

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Abstract

Family businesses constitute a large number of commercial activities worldwide, contributing significantly to the global economy. Succession is a key issue influencing the sustainability of family businesses. Studies indicated that approximately 50% of family businesses do not have adequate succession planning. There are many family business failures in Nigeria, especially at the demise of the owner/founder. The main objective of this study is to find out the factors that are responsible for the failure to effectively plan for succession and its effects on a firm's sustainability in the small family businesses in Lagos and Ogun States of Nigeria. The study adopted the descriptive research design method. The population of study was limited to the family business owners who are members of the National Association of Small and Medium Scale Enterprises (NASME). A stratified sampling technique was used to select the family businesses, from where a random sample of 327 was selected. Pearson's Product Moment Correlation was used to analyze the data. The results revealed that there was a strong positive correlation between planning for succession and firm's sustainability, with an r value of correlation coefficient at 0.93 and significant level of $P < 0.05 @ 0.000$. In conclusion, succession planning was a critical issue in family-owned businesses, and a major determinant of a firm's sustainability. The owner/founder must act proactively by crafting succession plan early enough in the life of the business. To ensure a high survival rate of small family businesses, succession must be put into a strategic plan, to make sure that a successor has an adequate capability and knowledge of the family business.

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Background to the Study

Succession is critical to ensuring the continuity of any family owned business (Singhry, 2010). An effectively developed succession plan provides for a smooth transition in management and ownership (Chrisman, Chua, Sharma and Yoder, 2009). Lack of planning could put large numbers of family businesses at undue risk and have serious impact on the national economy (Bewayo, 2009). Family businesses make an important contribution to economic growth and wealth creation in the world (Merwe, 2009). Given the significant role family businesses play in national economy, it makes sense that more attention should be committed to understanding how to support and sustain them. Succession planning is thus, a major topic for family-owned businesses that is extensively examined in literature (Parrish: 2009; Grassi and Giarmarco: 2008; Lambrecht and Lievens, 2008; Panjwani, Aggarwal, and Dhameja, 2008; Royer, Simons, Boyd, and Rafferty, 2008; Rosenfeld, 2008; Alex, 2007; Herberman and Danes, 2007; and Yan and Sorenson: 2006). Although the bulk of family owned businesses intend to pass the control of the business to the next generation of family members, it is surprising that such family members are not gifted with the skills required for the operation and management of the business. (Merwe, 2009). The net result of this is that very few family businesses survive to the second generation (Merwe, 2009). A variety of factors might be responsible, but a large number of family businesses fail because they have no plan for business succession (Liroff, 2008; Merwe, 2009; and Yan and Sorenson, 2006).

With family businesses, succession planning can be especially complicated because of the relationships and emotions involved - and because most people are not comfortable discussing topics such as aging, death, and their financial affairs. Several studies have attributed the founder's reluctance to plan for succession to a number of factors including: the founder's strong sense of attachment to the business, fear of retirement and death and lack of other interests (Ogundele, 2008, Danny & Steier, 2004), retirement reminds entrepreneurs of their own mortality. Thus it is not surprising that most founders do not retire from their family business; they die while still at the helm according to Ogundele (2008).

Statement of the Problem

Family business represents the oldest and most prevalent type of business organizations worldwide (De Alwis, 2011). As such, they play a significant role in both the stability and health of the new global economy. It is estimated that 90 percent of all businesses in the US, Canada and Europe are family owned and operated (Ibrahim, McGuire & Soufani, 2009). Family business also represents the prevailing type of organization in most Asian and Latin American countries due to the strong clan type culture (Ibrahim & Ellis, 2006). Figures of family businesses in Nigeria could not be easily determined, due to paucity of data (Eshu, Mohd & Adebayo, 2011), the researcher however feels it will be similar to what operate in other countries. Despite their importance to the national economy, the survival rate of family firms beyond the founder's generation is extremely low especially in Nigeria (Ogundele, 2012). Also, very promising and vibrant organizations, have close down at the death of their founder, due to lack of adequate planning for succession (Ogundele 2012).

In Nigeria, history abounds of many family businesses (big and small) that disappeared with the death of their proprietors. Alhaji Jimoh Odutola who died in June 2010 at age 105, was a frontline Nigerian entrepreneur and a pioneer in many respects. In 1932, at their mother's instance, Jimoh went into partnership with his brother, Timothy Adeola Odutola, and the two brothers established the Odutola Brothers. The partnership was electric. Both men established the Odutola concern as one of the high points of business and industry in Nigeria in the 20th century. Moshood Kashimawo Olawale Abiola's story is more complex. The family of the late business mogul was engulfed in crises over the unlawful sale of about 40 of his properties and businesses that he left behind. Abiola, whose image loomed large on the expansive Nigeria's business landscape with his flourishing business empire, remains a most appropriate reference point of a tycoon whose business gradually went under after his death. M.K.O. Abiola, who was once the president of the Nigeria Stock Exchange had a chain of companies that spanned telecommunications, banking, media, aviation, farming and shipping; some of these companies, once described as going concerns with the capability to exist in perpetuity, are in complete ruin (Arogundade, 2011).

Similar situations abound in the South East, North East, North West and many other parts of Nigeria where some enterprises have become moribund after their proprietors passed on (Arogundade, 2011). From the catalogue of businesses that have gone under at the demise of their owner/founder, the major problem confronting Nigerian family business owner is the need to create opportunity for succession planning, which is lacking with most family firms in Nigeria. When the planning is carried out, they are done in half measure without carrying along all the interested parties: the successor, other siblings, other family members and also non-family member employees within the business (Ogundele, & Idris 2008). This research work therefore examines the reasons why family business owners/founder do not make deliberate plans for succession and its effect on the firm's sustainability.

Conceptual Review of Literature

Family business is an approach to entrepreneurship, and it has sometimes been referred to as family entrepreneurship. Unlike "entrepreneurship", there appears to be no standard definition of family business. It has even been suggested that the definition of family business varies with culture (BirdThistle, 2009). The definitional problem is compounded by a lack of consensus about what constitutes a family: whether it should include only parents and children, or all blood relations and in-laws.

Nwankwo (1990) is of the opinion that when family business is basically owned and operated by one person, he or she usually does the necessary balancing automatically. For example, the founder may decide that the business needs to build a new plant and decide to take less money out of the business to live on for a period of time in order for the business to generate the cash needed to expand. In making this decision, the founder is balancing his personal interest (taking cash out) with the needs of the society (expansion). The justification for the emergence of the field of family firm research lays in the assumption that family and non-family firms are different. Family firm is defined operationally by the components of a family's involvement in the business: ownership, management, or business succession (Chrisman et al., 2003). The family enterprises are business concerns in which members of a nuclear or extended family hold majority shareholdings in them (Onuoha, 2012).

Succession

Succession, in organizational theory and practice, refers to the process of transferring managerial control from one leader or one generation of leaders to the next. It includes the dynamics preceding the actual transition as well as the after-math of the transition (Shepherd and Zacharakis 2000). In the context of family business, Sharma et al (2001) define succession as the actions and events that lead to the transition of leadership from one family member to another.

By extension, succession is the process by which ownership and control of the production or commercial infrastructure accumulated by one generation of a nuclear or extended family is transferred to the next. In the context of this research work, it entails the transfer of a commercial investment of any type from the owner-founder to his prospective survivors. These could be members of a nuclear family in a monogamous household such as a wife and children, or members of a compound family in a polygamous household, namely wives and children.

Succession Planning

Succession planning is a process where firms plan for the future transfer of ownership (Sambrook 2005). Succession planning is a dynamic process requiring the current ownership to plan the company's future and then to implement the resulting plan. In fact, it occurs when the firm owner wishes to exit from the firm, nevertheless wants the business to continue. The motive behind this is to transfer ownership of the firm to any of the family members rather than shutting down the business altogether. Succession planning is generally considered to be a unique, case-by-case process, where a one-size-fits-all mentality is simply not appropriate (Sambrook 2005). Succession planning should be part of an ongoing process that looks at what leadership and management skills are necessary for the ongoing success of the company as it strives to meet its vision. Just as one develops board members and the skills of the workforce, the leadership needs of the organization should be regularly assessed and plans made for development.

In the same way that fire plants prepares a company for potential future emergency, a good succession plan should consider what would happen if the CEO were suddenly unable to carry out his or her job. A comprehensive succession plan should consider declining abilities and impending retirement as well as accidental death. Business owners may assume that if they have an estate plan, they don't need a succession plan. This is not the case. Estate planning, with its primary focus on the transfer of property, is an essential component of succession planning, but succession planning is much more comprehensive. A good succession plan, in addition to outlining the business's future ownership form, organizational structure and management, identifies how the transition from one generation of leaders/owners to the next will be managed.

It is important to emphasize that a succession plan is a *written document*. Because failing to plan for business succession can mean significant monetary losses and even loss of the business itself, an owner's intentions about what will happen to the business upon his or her departure from it are a poor substitute for a formal plan. In order to be effective, a succession

plan must also be regularly reviewed and updated to reflect company changes, industry or market developments, changes in tax laws, etc. Even in the absence of such changes, an annual review is in order. A number of crises can befall businesses that operate without a succession plan.

Factors Causing Resistance to Family Business Succession

Yan and Sorenson (2008) as pointed by Handler and Kram's (1988) model argue that resistance to succession can occur at four interrelated levels in a family business: individual (founder), interpersonal group (family members), organizational (nonfamily members), and environmental level.

Lansberg (1998) argued that resistance to succession sometimes comes from family business founders. A challenge family business face is the owner's unwillingness to step aside, largely owing to the need for control. The thought to transfer the company to successor means not only foreseeing his own mortality, but also letting go of his power. The owner's unwillingness to step aside can result in offspring losing interest in taking over the family business. Other problems include the unexpected, premature loss (death or illness) of the incumbent (Demassis Chua, and Chrisman (2008). To hand over control of the family business, Yan and Sorenson (2008) point that the owner should have confidence in the offspring's capabilities. Such trust depends primarily on the offspring's skills, previous work experience outside the company, and commitment to the company. They also suggest that planning for succession and retaining the founder as a consultant after succession are ways to facilitate the founder giving up control while maintaining an identity of the business.

Based on the various arguments and the conceptual analysis proffered in the above write-up, this proposition is formulated that;

- ⇒ There is a significant relationship between planning for succession and the sustainability of the family owned business.

Research Methods

The descriptive survey research design was adopted for this research work, as it helps in gaining understanding of the issue of variables responsible for entrepreneurial collapse and reasons why founders do not make adequate preparation for succession. The Descriptive method follows the use of quantitative method of analysis. The quantitative method is generally designed to ensure objectivity, generalizability and reliability.

Population

Due to the problem of unorganized association of family business in Nigeria and the lack of access to information from the database (according to Esuh, Mohd & Adebayo, 2011), the population of this study relied on family owned businesses that are members of NASME (National Association of Small Scale Enterprises) in Nigeria as at December 2015. Family owned businesses in NASME from Ogun and Lagos states were 9,000 members. Total registered members on roll of NASME (National Association of Small & Medium Scale Enterprises) as at December 2015 was 25,000 members. According to Akande & Ojikutu 2008, Lagos and Ogun States accounted for 60% of business and industrial transactions in Nigeria. Therefore Lagos and Ogun States member companies in NASME are 15,000. The

sampling frame therefore consisted of family business in Lagos and Ogun States that are members of NASME and the figure was 9,000 members.

Sample

The sample size of 327 firms used for this study was derived through a simple random sampling from the NASME register of family members in Lagos and Ogun States of Nigeria, 10 CEOs were also randomly selected to participate in the qualitative in-depth interview. The choice of the 10 CEOs for the in-depth interview was in line with previous research that puts the success rate at between 2 – 5% of the sample size (Frankfort-Nachmias and Nachmias, 1996: 226).

Analysis of Respondents

Table 1.

Distribution and Return of Questionnaires

	Frequency	Percentage (%)
Total Questionnaires Administered	350	100%
Total Questionnaires Received	338	96.5%
Invalidated Questionnaires	11	3.1%
Valid Questionnaires	327	93.4%

Source: Field Survey, 2016

The total of 350 questionnaires were administered, 338 were collected which represented 96.5% of the total questionnaires sent out. Of this value 11 were invalidated leaving 327 as the valid questionnaires used for analysis. This represents 93.4% of the total questionnaires administered. The sample size of this study is 327 respondents.

In testing the proposition that there is a significant relationship between planning for succession and the sustainability of the family owned business is hypothesis, all data obtain from the demographic variables, the qualitative discussion and its content analysis and the use of Product Pearson Moment Correlation were analyzed and discussion drawn appropriately.

Education

286 (87.5%) of the respondents had first degree; 36 (11%) had Masters Education while intermediate had only 5 (2%). One thing that is observable among the respondents is the high level of education.

Table 2

Highest Educational Qualification:

		Frequency	Percent %	Valid Percent %	Cumulative Percent %
Valid	OND	5	1.5	1.5	1.5
	HND/BSC(Degree)	286	87.5	87.5	89
	Masters	36	11	11	100
	Total	327	100	100	

Source: Field Survey, 2016

This result on education shows that 98.5% of those interviewed have higher educational qualification. This conforms to Akeredolu-Ale's (1975) finding on high literacy level of entrepreneurs in Nigeria. However, when we related this result with the need to make adequate planning preparation for the successor to take over, the level of education does not have an appreciable effect. During the in-depth interview, most of the CEOs interviewed even with their awareness, have not found it necessary to start planning for succession. Mostly out of fear of what they will do after leaving the organization, or for the fact that they are still young and in the prime of life or that they have not seen ready, competent successor that they can groom. Planning is therefore of great importance and necessity to succession and sustainability.

Product Pearson Moment Correlation

Table 3 – Analyzing the proposition that there is a significant relationship between planning for succession and the sustainability of the family owned business.

		CEO Planning for Succession	Firm's Sustainability
CEO Planning for Succession	Pearson Correlation	1	0.93(**)
	Sig. (2-tailed)	.	0.000
	N	327	327
Firm's Sustainability	Pearson Correlation	0.93(**)	1
	Sig. (2-tailed)	0.000	.
	N	327	327

** Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey, 2016

From the above table, there is a positive and strong correlation (0.93**) between planning for succession and firm's sustainability. This result shows that planning for succession accounted for 93% of a firm's sustainability. This also shows a very positive and strong relationship between the dependent and the independent variable i.e. firm's sustainability and planning for succession. Hence, the proposition which states that '*there is a strong significant relationship between planning for succession and the sustainability of the family owned business*' is hereby correct.

The result above is in tandem with the previous works of (Ifekwem, Oghojafor and Kuye, 2011; Ogundele, Idris and Ahmed-Ogundipe, 2008; Chakrabarty (2009), Utomi 2008, Kets de Vries, 1993; Handler, 1990; Handler 1989), which confirms that planning for succession ensures the firm's survival and sustainability over the long run. Failure to plan for succession has been cited as the primary cause for the poor survival rate of family firms (Merwe, 2009; Liroff, 2008; and Yan and Sorenson, 2006; Poutziouris, 2000, Handler, 1989; Dyer, 1986; Beckhard and Dyer, 1983).

This research is in agreement with the empirical work of Ifekwem, Oghojafor and Kuye, 2011, carried out on family business owners in the South Eastern States of Nigeria which identified the non-availability of succession plan in most family businesses. They found out that 70

percent of the respondents have no plans on who succeeds them. Those institutions which would have deepened the roots of enterprises seem to be compromised by attitude towards use of professionals. According to Utomi 2008, professionalizing business succession and planning, trust in ownership structure that makes a broad block of stakeholders committed to ensuring smooth transition of enterprise leadership from one team to another is important to ensure business sustainability.

Recommendations

Planning is a roadmap for success. The success and continued existence of a family business depends on the ability of the owner/founder to start planning for succession early in the life of the business. In this research work, most of the respondents clearly had succession planning in mind; however, the succession plan was not formalized and was not a part of the business strategic plan. Therefore, to ensure a high survival rate of small family businesses, succession must be put into a strategic plan, to make certain that a successor has an adequate capability and knowledge of the family business. Family business owners need to understand that their valued family business may not survive the next generation if they do not start early to plan for succession. Family business succession is thus an important practice that must be cautiously managed. A good plan will describe how management transition would occur and what criteria will be used to judge the best timing for the succession. Family businesses plan should clearly define how to avoid any potential conflicts between family members and nonfamily members involved in the company.

In the final analysis, it is submitted that entrepreneurs running family businesses should recognize that succession problems can constitute a great threat to the sustenance of the business and constitute a clog in the economic development of Nigeria. They must act proactively and pragmatically in this matter.

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