Original Research Article

Planning for succession and firm’s sustainability: Evidence from family owned businesses in Lagos and Ogun States, Nigeria

Received 4 July, 2016                             Revised 18 August, 2016                             Accepted 23 August, 2016                             Published 8 September, 2016

Oludare Simeon Adedayo¹, Ojo James Olanipekun*² and Oladipupo Ojo¹

¹Department of Business and Marketing, BBS, Babcock University, Ilishan Remo, Ogun State, Nigeria.  
²Department of Business Administration, McPherson University, Seriki Sotayo, Ogun State, Nigeria

*Corresponding Author  
Email: lanipekunojo@gmail.com

Family businesses constitute a large number of commercial activities worldwide, contributing significantly to the global economy. Succession planning is a key issue influencing the sustainability of family businesses. There are many family business failures in Nigeria, especially at the demise of the owner/founder. This study investigated the factors that are responsible for ensuring planning for succession and firm’s sustainability of family businesses in Lagos and Ogun States of Nigeria. The study adopted a survey design with a population of study 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 and Multiple Regression were 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. The founder must act proactively by crafting succession plan early enough in the life of the business, such that his experience will help the firm’s survival. Issues that can create conflicts should be avoided like appointing an incompetent successor, while the successor should be made to come into the family business early enough to gain the confidence and respect of other family and non-family workers.

Key words: Family business, succession, sustainability, succession planning.

INTRODUCTION

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 et al., 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 (Parris, 2009; (Grassi and Giarmarco, 2008); (Lambrechts and Lievens, 2008); (Panjwani et al., 2008); (Royer et al., 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 and Steier, 2004), retirement remind 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 et al., 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 and Ellis, 2006). Figures of family businesses in Nigeria could not be easily determined, due to paucity of data (Esuh et al., 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 closed down at the death of their founder, due to lack of adequate planning for succession (Ogundele et al., 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 and 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.

Objective of the study

The objective of this study is to examine the reason(s) why family business owner/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,
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 aftermath 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 develop 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 plant 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 et al. 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 above, this proposition is formulated that:

 النقدية 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
Table 1. Distribution and Return of Questionnaires

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Questionnaires Administered</td>
<td>350</td>
<td>100%</td>
</tr>
<tr>
<td>Total Questionnaires Received</td>
<td>338</td>
<td>96.5%</td>
</tr>
<tr>
<td>Invalidated Questionnaires</td>
<td>11</td>
<td>3.1%</td>
</tr>
<tr>
<td>Valid Questionnaires</td>
<td>327</td>
<td>93.4%</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2016

Table 2. Highest educational qualification – To show the level of literacy of entrepreneurs in Nigeria

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Frequency</th>
<th>Percent %</th>
<th>Valid Percent %</th>
<th>Cumulative Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>OND</td>
<td>5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>HND/BSc(Degree)</td>
<td>286</td>
<td>87.5</td>
<td>87.5</td>
<td>89</td>
</tr>
<tr>
<td>Masters</td>
<td>36</td>
<td>11</td>
<td>11</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>327</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey, 2016

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 et al., 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 7,690 members.

Total registered members on roll of NASME (National Association of Small and Medium Scale Enterprises) as at December 2015 was 25,000 members. According to (Akande and 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 7,690 members.

Sample

Members of NASME that are Family Owned Businesses (as at December 2015) in Ogun and Lagos states were 7,690 companies. Therefore the sample size of the study is determined by using this formula: \( n = \frac{N}{1+N} \left(\frac{e}{2}\right)^2 \) (Yaro Yamane, 1998)

The sample size of 327 firms used for this study was derived through this method, 10 CEOs were also randomly selected to participate in the qualitative in-depth interview from the 327 companies (Table 1). 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).

Analysis of Respondents

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, all data obtained 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. Note that Ordinary National Diploma (OND) is intermediate degree, while Higher National Diploma (HND) and Bachelor of Science (BSC) are classified as degrees respectively (Table 2).

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
Adequate planning for succession by the Founder/CEO ensures the firm’s success and sustainability over the long run with a mean of 4.82 and a standard deviation of 0.39 (Table 3). Presence of conscious planning and preparation for succession is among the most important factors in ensuring effective succession for your business. Ownership succession issues will impact the management succession plan of your family business. The need for succession planning may be raised by the incumbent or another family member. Succession process should be a gradual process which allows both the departing leader and the successor to adjust to their new roles.

From the above Table 4, there is a positive and strong correlation (0.93**) between planning for succession and the 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.

Planning for succession by the Founder/CEO ensures the firm’s success and sustainability over the long run has the Mean and Standard Deviation value of (4.82 ±0.39) of the factor analysis(Table 3).

The result above is in tandem with the previous works of (Ifekwem et al., 2011; Ogundele and Idris, 2008;
This research is in agreement with the empirical work of (Ifeokwem et al., 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.

CONCLUSION

Family business owners need to understand that their valued family business may not survive the next generation if they do not get serious about succession planning. 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 business plan should clearly define how to avoid any potential conflicts between family members and nonfamily members involved in the company.

Recommendations

1. 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.

2. 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 be certain that a successor has an adequate capability and knowledge of the family business.

3. Owner founder should avoid and do away with nepotism in the choice of a successor; succession plan must reflect a true management succession. No such plan works without being people- and market-focused. The interest of the family business must be foremost at heart. The founder must, choose the best person to succeed him as the family business will neither benefit anyone nor the society if an incompetent family member runs the business down.

4. Arising from the values subscribed to by the owner founders, ethical issues are involved in succession. There is need to build honesty, love, trust, confidence and loyalty within the family members. This has to be done by the founding entrepreneur before his exit.

5. The successor should be made to come into the family business early enough to gain the confidence and respect of other non-family workers and subsequently be elevated to higher position of responsibility.

6. 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.

Competing interests

The authors declare that they have no competing interests.

REFERENCES


De Alwis (2010). Business Succession model for family own businesses: Faculty of Management and Economics, Tomas Bata University in Zlin


Liroff S (2008)."Family businesses: firm grows but acknowledge challenges", Financial Executive, March
Nwankwo GO, (1990) The Igbo man in the political economy of the fourth republic Evergreen Associate Press. Lagos.