
SUCCESSION PLANNING AND SUSTAINABILITY OF FAMILY OWNED BUSINESSES IN LAGOS AND OGUN STATES

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Introduction

- Family businesses make an important contribution to economic growth and wealth creation in the world (Merwe, 2009; Basu, 2004; and Morck & Yeung, 2004).
- 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 (Bechard and Dyer, 1983; Ibrahim & Ellis, 2006; Lansberg, 1983; Weidenbaum, 1996; Moffett, 1995).
- Figures of family businesses in Nigeria may not be easily ascertained according to Ogundele, (2012), but the researchers are of the view that it will be similar to what operates in other countries or even higher.

Introduction

- Succession is critical to ensuring the continuation of any family owned business (Singhry, 2010).
- An effectively developed succession plan provides for a smooth transition in management and ownership.
- Lack of planning could put large numbers of family businesses at undue risk and have serious impact on the national economy. (Bewayo, 2009).
- The challenge of how best to identify, select, and train a successor in family business becomes important

Statement of Research Problem

- It is estimated that less than one-third of family firms survive into the second generation and only 13 percent survive through the third generation (Breton-Miller et.al, 2004, quoting Beckhard & Dyer, 1983; Heck & Trent, 1999; Ward, 1987).
- The survival rate of family owned businesses beyond the founder's generation is extremely low especially in Nigeria (Ogundele, 2012).
- In Nigeria, this situation is prevalent since many organizations, promising and vibrant ones have gone under at the demise of their founder due to lack of adequate planning for succession (Ogundele 2012).

Statement of Research Problem

- In Nigeria, history abounds of many big family businesses that disappeared with the death of their proprietors.
- Examples are Odutola Brothers, Abiola Group, Tabansi Group, Alata Group and many others spread across Nigeria.
- The purpose of this research is to investigate the reasons and problems of succession planning of family businesses in Nigeria.
- This way it can attend to some major research gaps in the succession literature.

Objective of the Study

1. Examine the reasons why family business owners/CEO does not make deliberate plans for succession and its effect on the firm's sustainability.
2. Gain an insight into how the personal exposure and experience of the owner/CEO prior to his founding/joining the family business affect the firm's sustainability
3. Determine the need for proper grooming and mentoring of offspring(s) of the owner/CEO to successfully assume higher managerial capability and how it affects sustainability.
4. Find out the effect of family conflict on the sustenance of the family business over the long run.

Research Questions

1. To what extent does the family business owner/CEO make plans for succession in their organizations in order to ensure its sustainability?
2. How will the personal experiences and exposures of the CEO, prior to joining/founding of the family business ensures the firm's sustainability?
3. How does mentoring and grooming of the successor of the owner manager/CEO helps to ensure firms' sustainability?
4. To what extent will the issue of family conflict among family members affect the sustainability of the family business?

Hypotheses

Ho -1: There is no significant relationship between CEO ability to plan and the sustainability of the family business.

Ho -2: There is no significant relationship between the CEO personal experiences and exposure before joining the family business and the firm's sustainability.

Ho -3: Mentoring and grooming of the successor will not significantly enhance the sustainability of the family business.

Ho -4: There is no significant relationship between family conflict and firm's sustainability

Scope of Study

- Succession is applicable to all cadres of organizations, both small, medium and multinational organizations.
- This study is targeted at family owned, small businesses and medium scale businesses that are members of National Association of Small and Medium Enterprises (NASME), and that are located in Lagos and Ogun State.
- By small and medium scale business, we mean businesses that have as low as 5 staff and a maximum of 350 or an annual turnover of N250million (SMEDAN, 2010; CBN 2011)

Literature Review

Entrepreneurship

- According to Fatoki (2010), “Entrepreneurship” is the capacity and willingness to undertake conception, organization, and management of a productive venture with all attendant risks, while seeking profit as a reward.

Succession

- Sharma et al (2001) define succession as the actions and events that lead to the transition of leadership from one family member to another.

Small & Medium Enterprises

- Any organization that is grouped as Microenterprises, if its full time employees number less than 5 workers, a Small-enterprise, with full time employees between 5 and 50 workers, and a Medium-enterprise with full time employees between 20 and 350 workers and an annual turnover of N250million (SMEDAN, 2010, CBN 2011).

Family Business

- A business in which one or more members of one or more families have a significant ownership interest and significant commitments towards the business’ overall well being (Charkrabarty, 2009).

Literature Review

Name	Findings
Sambrook 2005	Succession planning is a process where firms plan for the future transfer of ownership. Succession planning is generally considered to be a unique, case-by-case process, where a one-size-fits-all mentality is simply not appropriate.
Francis 1993	A dynamic process requiring the current ownership to plan the company's future and then to implement the resulting plan.
Charan, Drotter, Noel, 2001	Effective succession or talent-pool management, concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression
Amundson, 1997	it provides a means of transferring a company's accumulated store of trust, respect and goodwill to new company leaders.

Literature Review

Name	Findings
Astrachan, 2005	“Experience” means the accumulation experience that the individual has brought into the business, over time
Scotland, 2010	Many older generation family members will argue that outside experience is not really necessary, since the family firm offers unique opportunities for younger adults. The core issue is not the merit of outside work experience, but rather a young adult’s basic need to become autonomous.
Astrachan et al. (2002) and Klein et al. (2005)	Experience refers to information that is laden with knowledge, judgment, and intuition that is embedded within individuals and develops over time. In the family business setting, this longitudinal knowledge base and family-focused memory orientation is brought to the business through leadership succession.

Literature Review

Name	Findings
Handler (1991)	Handler argues that the following factors influence the effectiveness of succession criteria: degree of training, degree of responsibility, and experience outside the organization, communication concerning succession and planning around succession.
Edwin & Crego, 1997	Mentoring includes providing direction on the kinds of opportunities and experiences that the successor should pursue, evaluating the successor's performance, serving as a role model, explaining company dynamics and politics, and introducing the successor to key contacts inside and outside of the company.
Danco, 1997	Regardless of who officially serves in the role of mentor, mentoring is likely to be most effective when all involved in the business are committed to the idea

Literature Review

Name	Findings
Jehn & Mannix, 2001	Conflict has been described as “awareness on the part of the parties involved of discrepancies, incompatible wishes, or irreconcilable desires”
Ogundele, Idris & Ahmed-Ogundipe, 2012	The extent to which such organization’s life can be stretched while fulfilling its purpose can be termed as <i>sustainability</i>
Ward, 1997	The long-term health and sustainability of any family business depend on its ability to anticipate and respond to change
Aaker, 1992; Nolte, 1999; Freiling, 2001	Sustainability refers to long-lasting or durable competitive advantages

Empirical Review

S/N	Findings	Name
1	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	(Seymour, 1993; Lansberg, 1991; Handler, 1990; Dyer, 1986; Levinson, 1971).
2	Lack of succession planning as a major cause of the high mortality rate in family businesses and noted that succession planning does not take place in most family firms	Handler 1989
3	Large corporate family-owned firms in the U.S. prefer external succession than internal succession. They also found that external successions improved firm sustainability and performance but internal succession did not.	Lauterbach et al. (1999)
4	Business founders often have difficulty giving up what they have created	Churchill and Lewis, 1983; Dyer, 1986; Kets de Vries, 1985

Empirical Review

S/N	Findings	Name
5	The study indicates that 90% of executives interviewed advocated a succession strategy in which a newcomer earns credibility by gaining the necessary experience to do the job better than anyone else.	Barach et al. (1988)
6	Functional experience (output vs. throughput) in members of the top management team has implications on corporate performance and sustainability.	Norburn and Birley (1988)
7	CEOs in family firms do not consider prior experience to be an important form of preparation.	Fiegenger et. al. (1996)

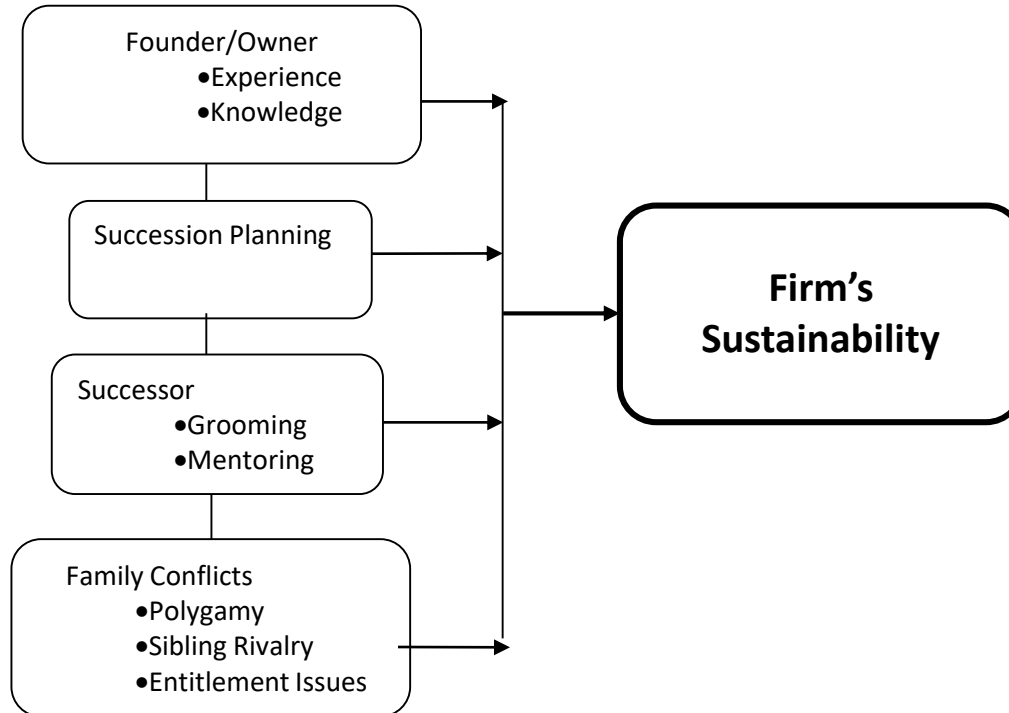
Empirical Review

S/N	Findings	Name
8	The successor should have a clear idea of expectations and the process to be followed as communicated by the incumbent	Wang, Watkins, Harris and Spicer (2004:62)
9	The success of the succession process is linked to the quality of the relationship that exists between the incumbent and successor and the degree of commitment of the family to the business	Langsberg and Astrachan (1994)
10	Mentoring should be consistent and systematic and may assist in dealing with issues such as conflict between founding parents and siblings.	Grote, 2003:121

Empirical Review

S/N	Findings	Name
11	Constructive conflict can drive the family business system toward its objectives, whereas sustained and/or unaddressed conflict can mire the system	Ward, 1997
12	Planning for change may not occur because of conflicts within the business	Kaye, 1991
13	An increase in the number of active and passive family shareholder after succession may lead to intrafamily conflicts	Davis & Harveston, 1999; Harvey & Evans, 1995
14	Intra family conflicts are a major contributor to family business failure	Beckhard and Dyer (1983) and Paul (1996)

Conceptual Model of the Research



Population of the Study

- 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.
- Total registered members on roll of NASME 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. Family owned businesses in NASME from Ogun and Lagos states were 9,000 members.
- The sampling frame is therefore limited to these numbers.

Sampling Size

- Sample size of 327 firms used was derived from Yaro Yamane formula of 1989.
- 10 CEOs was 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).

Results and Analysis

- 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

Results and Analysis

Correlating Planning for Succession and Firm's Sustainability

- There is a positive and strong correlation (0.93**) between CEO planning for succession and firm's sustainability.
- This result shows that planning for succession accounted for 93% of a firm's sustainability.
- There is a very positive and strong relationship between the dependent and the independent variable i.e. firm's sustainability and CEO planning for succession.

Correlating Previous Experience and Firm's Sustainability

- It is observed that the r value of correlation coefficient is 0.753** between Previous Experience and Firm's sustainability..
- There is a positive and significant relationship between the previous experience of the owner/manager and firm's sustainability.
- Firm's sustainability is positively influenced by previous experience of the owner/managers, with 75% correlation coefficient.

Results and Analysis

Correlating Mentoring & Grooming and Firm's Sustainability

- The correlation coefficient is 0.777** between Mentoring & Grooming and Firm's sustainability.
- This result indicated that Mentoring & Grooming accounted for about 78% of the firm's sustainability.
- A positive significant relationship between the dependent and the independent variable of mentoring & grooming and firm's sustainability with a significant level of $P < 0.05$ @ 0.000.

Correlating Family Conflict and Firm's Sustainability

- The correlation coefficient is 0.863** between Family conflict and Firm's sustainability.
- This result indicated that Family conflict account for about 86% of the firm's sustainability.
- It shows a high and positively significant relationship between the dependent and the independent variable of family conflict and firm's sustainability with a significant level of $P < 0.05$ @ 0.000.

Recommendation

Succession Planning is essential ingredient to a firm's sustainability

- 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.
- 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.

Summary of Findings

Previous Experience and Exposure before starting the business

- Successors need both experience and exposure to develop the visioning and evaluative skills to strategically direct the family business.
- Successors also need to see how the rest of the world operates and garner as much experience to use in the family business.
- Again, earning a higher education degree, training, and obtaining outside work experience are important requirements to be ready to take up a management role.
- Gaining experience in other companies can also provide the potential successor with a broader perspective on managerial issues and help him/her develop the capacity to adapt to far-reaching environmental change.

Summary of Findings

Mentoring and Grooming of Successor

- Family members' involvement and commitment are critical to the continuity, survival and sustainability of the family business.
- The family business culture is based on shared values and vision and these values and cultures are learned through mentoring and grooming.
- Mentoring is therefore essential to provide direction on the kinds of opportunities and experiences that the successor should pursue, evaluating the successor's performance, serving as a role model, explaining company dynamics and politics, and introducing the successor to key contacts inside and outside of the company.

Summary of Findings

Family Conflicts

- Increased conflicts among family members are the main reasons behind the stagnation of a family business.
- Problem of succession planning are inheritance conflict; owners unwillingness to let go; lack of skills by the potential successor; better career opportunities outside the family business for the successor; and intra-family conflict especially in a polygamous family; all these affects succession and sustainability.
- Family harmony will therefore help the succession process as it ensures greater trust, mutual understanding, and knowledge among the family members.
- Conflicts between family members might prevent the appointment of a successor or discourage aspiring successors for the position.
- Successor must also be trusted by the family members as the most ideal selection to take over the leadership of the family business.
- The owner/founder must therefore promote harmony while still alive among all the family members.

THANK YOU