

# A Study of Succession Planning Among Family Businesses in Lafia Metropolis, Nasarawa State, Nigeria: An Issue for Business Sustainability

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## Abstract

*Succession planning is one of the greatest challenges facing family businesses all over the world. As result, most of such businesses have died with their founders, because of lack of succession planning. The objective of the study is to assess the impact of succession planning on family business continuity in Lafia Nasarawa State Nigeria. A set of questionnaires was constructed and administered to 100 target business owners in Lafia metropolis. Descriptive statistics and frequencies were performed on the data. The responses of the participants were analyzed and personal interviews with the business owners were also conducted. The major finding is that succession planning activity has significant impact on family business continuity. It was recommended that family business should have a clear mission statements purpose and goals setting for sustainability.*

**Key words:** Family business, succession and succession planning, sustainability. entrepreneurship.

## Introduction

Family Business is one of the easiest, oldest and most common types of economic organizations in existence today. The vast majority of businesses throughout the world, from corner shops to

multinational, publicly listed organizations with hundreds of thousands of employees can be considered as family businesses.

The main aim of every entrepreneurial and family business is to establish such a business that would out live him or her which would continue perpetually, from one generation to the other. This actually implies that such a business should have a perpetual successor(s).

The issue of succession planning has however, become one of the most difficult and critical problems facing family businesses in our present days. However, it is pertinent to know that a business with good succession and succession plan will not experience any demise, irrespective of what happens to the founder, be it ill-health, death or otherwise. The process will provide opportunity to create multi-generational successors that embodies the founder mission, vision and values. The business can only witness its demise by winding up as provided by the Companies and Allied Matters Decree (CAMD) of 1990.

Succession planning is a very important issue, because as business men and women continue to run their businesses, events such as old age, death, incapacitation either by accident or other events that he or she has no control over the

business may grow beyond the capacity of the entrepreneurs to cope with that will make it impossible for them to continue to run the business.

### **Statement of the Problem:**

Succession planning is one of the greatest challenges facing family business all over the world, in Nigeria, one outstanding feature of these types of business is that they lack succession plan. As a result most of such businesses died with their founders.

### **Objective of the study:**

To determine the extent of the impact of succession planning on family business continuity.

### **Research Question:**

What is the extent of the impact of Succession Planning on family business continuity?

### **Statement of hypothesis**

**H<sub>0</sub>:** Succession Planning has no significant impact on family business continuity.

### **Literature Review:**

#### ***Classes of Family Businesses:***

Arievu (2010) has proposed a model in order to classify family businesses into four scenarios, namely: political openness, foreign management and natural succession.

#### ***Political Scenarios:***

It is a case of business link to a large family where it is expected that through succession, the business will spread quickly, possibly faster than the growth of the founders' businesses, resulting in a dividend per head. Identifying suitable members in the family will incorporate to address and possibly distinguish who should occupy the position of leadership of the business. The existence of many family members in the family business can turn into conflict of power, making it unnecessary to establish agreement, and occasionally recognize the business in terms of those individual who, because of the obvious professional and human qualities can be recognized as the leaders.

#### ***Foreign Management:***

This scenario happens when family members who control the family businesses are not many and yet not having any of its members with a natural profile of leadership succession so they choose to appoint a non family Chief Executive Officer to run the business.

#### ***Natural Succession:***

These are families seeking to preserve the legacy of their businesses in the presence of a stage of natural succession. These are the cases of businesses that are controlled by few family members, heirs, who in turn have identified among themselves worthy successors, strong and good names adequate enough to drive the growth of the business.

#### ***Openness:***

This is a situation where members of the next generation are numerous, and among them. It is not possible to identify a person or person who possesses the characteristics necessary to assume leadership position as expertise in the family businesses. According to Areiu (2010), there is a scenario called 'open' as a strategy to shift to some capital to others who would provide not only management skills, but also liquidity for family members. This will help in securing the future of the business, creating more value for society and above all retention of jobs for the employees.

### ***Succession and Succession Planning:***

Succession is a shift in the ownership and control from one person to another in entrepreneurial and family businesses (Gana, 2006). According to oxford Advanced Learner's Dictionary, it is an act of taking over an official position. Also, succession in family businesses is seen as a number of people that follow each other in time or order; especially to become the next leader in the family.

According to Rodrigo (2013), succession planning is the process of identifying and preparing suitable employees through mentoring, training and job rotation to replace key players within an organization as those key players leave their positions for whatever reasons such as retirement, advancement and attrition. Family business succession is the act of succeeding an organization to a family heir or the decision to sell the business to another party. Succession planning is a strategy of workforce planning. Succession planning is critical for the sustainability of family owned businesses and the

overall economy, accounting for about seventy percent of the private sector. Globally, family-owned businesses support about fifty percent of the population, and during these difficult economic times, they put many of the unemployed back on the payroll thus playing a significant role in the economy.

Succession planning is a process for identifying and developing internal people with the potential to fill key business leadership positions in the company. It is an essential part of doing business, no matter how certain your future appears. It is easier to put off planning when everything seems to be going so well. It is a key element of an effective strategy for managing talent and ensuring that an organization achieves its future goals.

According to Dagher (2012), some of the importance of succession planning is as follows:

- i) Succession planning benefits the business itself
- ii) Succession planning gives other members of the family voices to have a say in the family business decision making.
- iii) Succession planning helps to give the picture of the business at a point in time as to where the family business is heading to.
- iv) Succession planning also strengthens relationship between family members.

The plan of succession can be made early, when one sets up the business immediately. The succession plan should include the following among others:

The key goals succession process

A timetable of the transition stages from identifying a successor to the full transfer of responsibilities

Make a contingency plan in case the unforeseen happens, such as when the intended successor declines the role. Succession can be a process taking over many years requiring cooperation of all people on the management team. The succession steps involve planning, selection and preparation of the next generation of managers, transition in management responsibilities, gradual decrease in the role of previous managers and financial discontinuation of any input by previous managers. In contrast to the above, management succession can be by crisis. The crisis may be brought about by the death or disability of the founders, divorce threat of departure by the heir or hiring of an outside manager. In the absence of design and implementation of a process, succession will almost certainly be by crisis.

Whether succession is a process or crisis depends on several characteristics of the business senior founders and family members growing, profitable and successful business causes founders to think about expanding opportunities and continuity.

For succession to be a process rather than crisis, the family business must deal with wide range of problems and integration of expertise that offers great synergistic potentials.

### ***The Role of the Founder of Family Business:***

The founder of every family business is the most influential person in the business set up. He sets the tone for successful succession, makes the rules than anyone else, and determines the success or failure of the succession. It is the

reality that each family business will eventually have different generation of managers. The founders' acceptance of this reality fosters a successful succession planning (Bernard 2011).

Where founders do not have viable succession plans that give the next generation chance to succeed, the issue will be transfer of assets to the next generation rather than transfer of managerial skills; therefore, understanding and communicating the current status of the business should be primary role of the founders.

Actually, the role of the founders should integrate the successions plan, if any into strategy planning and try to involve all the family members on the strategic planning processes. He must also deal with the integration of plans for the businesses differently from that of the family, because family issues ultimately shape the business strategies.

According to (Reifel, 2013) in Bagobiri (2012), founders have three vital roles to play during the latter stages of their activities in their business life.

- i. As leaders, according to him, should be actively and purposefully transferring vital knowledge to their successors.
- ii. As mentors, founders ought to serve as guides for successors to apply their skills and knowledge wisely.
- iii. As a door opener, founders should be transparently transferring key contacts and relationships to provide continuity.

Vincent (2010) asserted that the greatest challenge faced by indigenous businesses is the crisis of succession, and that means the

uncertainty about the future of the businesses beyond the founder.

Here are some of the reasons advanced why succession in family businesses failed.

- i. Nigerian entrepreneurs hardly dedicate time and resources to plan for and execute succession process.
- ii. Lack of willingness of the founders of the family businesses to let go of the businesses for their successors.
- iii. The founders normally resist succession planning because of the lifestyle, psychological and behavioral reasons.
- iv. Most family businesses members do not have plans for handing over the power to the next generation.
- v. Control is centralized and influenced by tradition instead of good management practices

Succession within the family members could be a sensitive issue. Chrisma and Chua (2014) stated that no matter how the founder might have conducted the affairs of the family business, the next generation of managers faced the certainty that success of a business is dependent on more than just hard work, but sacrifices as well as adoption of new technologies.

Another challenge faced by the family business owners is how best to pass their businesses to the next generation. Appropriate decisions need to be

## **Results and discussions**

**Rating Key:** A =Agree, SA =Strongly Agree, D = Disagree, SD = Strongly Disagree.

made in this direction for the family members and business.

## **Research Methodology:**

The population of the study is 133 family businesses in Lafia metropolis. the sample size is computed to be 100. Stratified Random Sampling (SRS) procedure was used to administer 100 copies of questionnaires and personal interview was conducted to obtain data from the target family businesses in Lafia metropolis.

## **Data Analysis**

The statistical tool used to test the hypothesis earlier formulated is the Chi-square ( $X^2$ ) statistical tool.

The Chi-squared statistic is given as follows:

$$\text{Chi-squared } (X^2) = \frac{(\sum (F_o - F_e)^2)}{F_e}$$

The data from questionnaires is summarized with simple percentages and cross tabulation and chi-square statistical analysis was performed on the data. In this section of the paper, a set of questionnaire was constructed for the owners of the family businesses.

**Table 1**

Response scale	A	SA	D	SD	Total
Succession planning enhances smooth running of family business thereby facilitating its continuity					
Frequency (f)	28	45	20	07	100
Percentage (%)	73%		27%		100%

**Source:** Field survey, (2017)

Data in table 1 shows that 73 respondents (73%) stated that succession planning enhances the smooth running of family businesses which

eventually culminates in fostering its continuity.

27 respondents disagree with that.

**Table 2**

Response scale	A	SA	D	SD	Total
Succession planning ensures members decide who should succeed the current leaders for continuity					
Frequency (f)	34	44	14	8	100
Percentage (%)	78%		22%		100%

**Source:** Field survey, (2017)

The data on table 2 shows that 78 respondents (78%) are of the view that succession planning activities ensure that and who should succeed the

current leaders of the family business, while 22

respondents (22%) did not believe that.

**Table 3**



Response scale	A	SA	D	SD	Total
Succession Planning strengthens the relationship between family business members					
Frequency (F)	30	30	25	15	100
Percentage (%)	60%		40%		100%

**Source:** Field survey, (2017)

Data on table 3 shows that 60 respondents (60%) agreed that succession planning strengthens the relationship between family business members

which could lead to business continuity in turn.40 respondents disagreed with that assertion.

**Table 4**

Response scale	A	SA	D	SD	Total
Succession planning makes possible the transfer of key contacts and cohesive relationship to provide for business family continuity					
Frequency (f)	30	43	21	06	100
Percentage (%)	73%		27%		100%

**Source:** Field survey, (2017)

The data on table 4 depicted that succession planning enhances the transfer of some key contacts as well as the relationship to provide for family businesses continuity. 27 respondents, representing (27%) strongly disagreed with that opinion

**Table 5**

Response scale	A	SA	D	SD	Total
Succession planning gives the picture of the family business at a point in time, including profit and loss of the biz.					
Frequency (f)	43	43	09		100
Percentage (%)	86%		14%		100%

**Source:** Field survey, (2017)

The data in table 5 shows that 86 respondents, representing (86%) agreed that succession planning gives the financial picture of the family

business at any point in time, while 14 respondents (14%) stated that it does not.

**Table 6**

Response scale	A	SA	D	SD	Total
In succession planning process, it ensures that strategies and plans applied are given by professionals/experts					
Frequency (f)	35	35	13	17	100
Percentage (%)	70%		30%		100%

**Source:** Field survey, (2017)

The data in table 6 depicted that 70 respondents representing 70%, agreed that succession planning strategies applied in family businesses

are given or supplied by professionals or experts so as to enhance business continuity. 14



respondents stated that they are not supplied by professionals or experts.

**Table 7**

Response scale	A	SA	D	SD	Total
Succession planning benefits the business itself					
Frequency (f)	45	30	17	08	100
Percentage (%)	75%		25%		100%

**Source:** Field survey, (2017)

The information on table 7 has shown that 75 respondents (75%) believed that lots of benefits are being derived from succession planning activities of family businesses, while 25 respondents representing 25% disbelieved that benefits are not being derived from the mentioned business activities.

**Table 8:** shows observed contingency table of respondents

Variables	SA	A	D	SD	Total
<b>Table 1</b>	45	28	20	07	100
<b>Table 3</b>	30	30	25	15	100
<b>Table 4</b>	43	37	11	09	100
<b>Total</b>	118	95	56	31	300

**Source:** Field survey, (2017)

### Test of hypothesis

In order to test the hypothesis earlier formulated at the introduction stage, the following computations are being performed using chi-squared ( $X^2$ ) statistical tool.

**Table 9:** Contingency table

$F_o$	$F_e$	$F_o - F_e$	$(F_o - F_e)^2$	$(F_o - F_e)^2 / F_e$
45	39.33	05.67	32.15	0.81
28	31.66	-03.66	13.39	0.42
20	18.66	01.34	01.79	0.09
07	10.33	-03.33	11.09	01.07
30	39.33	-09.33	87.05	02.21
30	31.66	-01.66	02.76	0.08
25	18.66	06.34	40.19	03.89
15	10.33	04.65	21.62	02.09
43	39.33	03.67	13.46	0.34
37	31.66	05.34	28.51	0.90
11	18.66	-07.66	58.67	03.14
09	10.33	-01.33	01.76	0.17
Total				15.21

$$\frac{\sum (F_o - F_e)^2}{F_e} = 15.21$$

**Decision Rule:**

If the value of the calculated Chi-squared ( $X^2_{cal.}$ ) is greater than the tabled Chi-squared ( $X^2_{tab.}$ ) or

critical value, we reject the null hypothesis ( $H_0$ ) and accept the alternative ( $H_A$ ) hypothesis and vice-versa.

The value of the calculated chi-square ( $X^2_{cal.}$ ) is **15.21** while the critical value or tabled value ( $X^2_{cal.}$ ) is **12.592**. We therefore reject the null hypothesis to accept the alternative hypothesis. We conclude that Succession Planning has significant impact on family business continuity. If family businesses successfully develop their individual business plans, it will positively impact on their performance in terms of strengths, productivity, profitability, efficiency and effectiveness.

### **Discussions of Findings:**

The study revealed that succession planning has significant impact on family business continuity and enhances its smooth running, which eventually culminates in fostering its continuity. Through the activity of succession planning, members of the family businesses are able to take

rational decisions as to who and who are qualified, capable and should succeed the current leadership of the business.

The study further revealed that succession planning activity of the business impact on the business continuity thereby strengthening the relationship between family business members and this act is likely to propel the business into continuity. This finding is consistent with the findings in Dagher (2012).

The study revealed that successful planning process enhances the transfer of some key contacts as well as certain cohesive relationship to provide for continuity of the business and also gives the picture of the business at any point in time. It has also shown that strategies applied in family business are often the architects of professionals and experts in the business. This finding is consistent with the finding in Reifel (2013).

The study has also shown that lots of benefits are being realized from the business in the course of running family businesses as a result of the cohesive relationship established.

### **Conclusions**

In conclusion, succession planning has significant impact on family businesses continuity. Successfully embarking upon succession planning and development of individual businesses plans, translate into business viability, higher profitability, productivity, business efficiency and effectiveness.

### **Recommendations**

- Founders of family businesses should have viable businesses that will give the next generation, chances of succession and not just transfer of assets, instead of transfer of management acumen and skills.

- Family businesses should have a clear mission statement, purposes and goals setting for sustainability.
- Successors of businesses should have some basic qualities such as influential mutual respect for other members of the family, employees as well as having interest in the family businesses.

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