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Succession Planning and Family Business Continuity: Perspectives from Lagos State, Nigeria

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SUCCESSIONPLANNINGANDFAMILYBUSINESSCONTINUITYPERSPECTIVESFROMLAGOSSTATENIGERIA

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Succession Planning and Family Business Continuity: Perspectives from Lagos State, Nigeria

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Abstract- Environment scrutiny has shown that family businesses are the common form of business in Nigeria and their going concern has generated academic debate and public discourse worldwide. Yet, the features orchestrating continuity in these family businesses are different and geographically diverse. One of the major issues to which this can be attributed to is the uncommonness of adequate succession planning practices. The objective of this paper is to examine the effect of succession planning on family business continuity in Lagos State, Nigeria. A survey research design was adopted for this paper with 503 selected SMEs operating in Lagos State as the target population. Taro Yamane sample size method was adopted and data was collected through the use of structured questionnaire adapted and validated for the study. The Cronbach's alpha coefficient for the questionnaire items ranges between 0.850 and 0.775. The questionnaire response rate was 93.20%. The gathered data were analyzed using descriptive and inferential (Pearson product moment correlation and regression analysis) statistics. The analysis of the data revealed that succession planning had a significant effect on family business continuity ($R=0.738$, $R2 = 0.545$, Adj. $R2 = 0.538$, $F (78.821) = 1.95$); $p<0.05$). This paper concludedthat, succession planning is pertinent to the enhancement of continuity in family businesses in Lagos State. The paper therefore, recommend that for family businesses to continue to perform and achieve continuity, succession planning must be put into strategic plan of the organization so that employees have adequate leadership competence and mentoring culture.

Keywords: business continuity, family business, mentoring, performance, resources, succession planning.

I. Introduction

Family-owned businesses are the majority of all businesses in the world according to Aderonke, (2014). The academic research and policy-makers' interests in Small and Medium-sized Enterprises (SMEs) have grown due to their role in the economy development of many countries. An Irish report asserted that 75% of SMEs are family-owned businesses, while over 60% of all businesses in most nations are classified as family businesses Osunde, (2017). Largely literature support that SMEs are seen as an important alternative sector in fostering socio-economic developments and reduction of poverty in both developed and developing. Therefore, Small businesses are expected to contribute in three areas: creating jobs, promoting economic growth, and reducing poverty level in poor countries, Arteaga and Menéndez-Requejo,(2017).

Family business research has been gaining impetus in recent years (De-Massis, Sharma, Chua, & Chrisman, 2012; Kellermanns & Eddleston, 2010; Rondi, Emanuela, De Massis, and Josip (2019), Sharma, Chrisman, & Chua, (1997) since they possess great potentials for employment generation, improvement of local technology and development of indigenous entrepreneurship within large scale industries. Central Bank of Nigeria (CBN, 2011) articulated that SMEs or family businesses have the capacity to reduce poverty, inequality disparity and social vices and are catalysts of innovations, inventions and creativity; stimulate indigenous entrepreneurship. Although family businesses have the capacity to sustain the economy, yet their survival and continuity has been of great interest to researchers. One of the key research areas in the family business that has been discussed and still to be investigated further is intergenerational transferability which Zellweger, Nason, and Nordqvist (2012) alluded to and can be addressed through knowledge management and succession planning as a cushion for family business continuity. Despite known tremendous contributions, family-owned enterprises are facing the challenge of continuity, as 95% of family-owned businesses do not survive the third generation of ownership (Akani, 2015). Related studies have also shown that less than one-third of family businesses continue to the second generation and less than half of second-generation family enterprises make it to the third generation when the founder/manager retires or dies (Chacha, 2016). This problem is because of lack of succession planning because, without effective succession planning there cannot be generational enterprises Olulana, (2015). Succession planning is perceived as a systemic, long-term process of

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determining goals, needs, and roles within an organization and preparing individuals or employee groups for responsibilities relative to work needed within an organization in the near future Motwani, (2016).

The lack of succession planning in Nigeria is a serious issue militating against the survival of family-owned businesses, as 94.2% of entrepreneurs do not have a succession plan Okon, and Isong, (2016). Despite the challenge, posed by a lack of succession planning, most studies failed to examine succession planning and its effects on the continuity of family-owned enterprises in Nigeria. Few of the research conducted on succession planning tend to focus more on the small and medium scale enterprises, paying less attention to family-owned businesses. This situation is appalling considering the fact that a large majority of SMEs are family-owned enterprises (Ugwu, Ekwochi & Everist, 2017). The purpose of succession planning therefore is to minimize the gap and risk in the operations of the organization, when key leader suddenly leaves the business. The objective of this paper is to examine the effect of succession planning on family business continuity in Lagos State, Nigeria.

II. Review of Literature

Succession is arguably one of the most critical issues a family business has to face. It is also one of the most difficult phases in family business. Succession is a reciprocal interaction that occurs between the predecessor and successor throughout the transferring process of leadership (Motwani, 2016) and a common organizational contest to ensure the survival of incumbent firms in operation. Succession planning is a dominant theme in family business research and it is seen as intergenerational transfer and a process in which the business owner plans for the transfer of knowledge, skills, values, management, control and ownership of a business entity to the next generation. According to Tiller, (2012) succession planning was first introduced by Henri Fayol French management theorist in 1916 who believed that if succession-planning needs were ignored, organizations would not be prepared to make necessary transitions. Stability of tenure is one of Fayol's 14 principles of management indicating that high employee turnover leads to inefficiency and consequently to a need for succession planning Sharma, and Agarwal (2016). Without doubt, the succession processes in family firms represent the most critical period confronting family businesses, since it is precisely when the business is transferred from one generation to the next Okon, and Isong, (2016). Supportably one of the main dreams a founder typically has is to hand down his legacy to his offspring, given that he has accumulated capital, commitment of potential members, entrepreneurial skills, and legitimacy Williams, and Ahmed, (2018). Moreso, successful companies, agencies and organizations have one thing in common, having culture of succession management (Walsh & Seaward, 2006). Succession of the leadership is considered one of the biggest challenges for most family businesses. It emerges as an important area of study because one of the primary reasons family businesses failures is lack of a written succession plan (Chacha, 2016). Succession in organizational theory and practices refers to the process of transferring managerial control from one leader or one generation of leaders to the next.

a) *Benefits of Succession Planning*

Succession planning is not just important for the company and its current employees, but also for investors, customers, the community the employees and their families. Succession planning is widely believed to help business organizations with internal re-sourcing, reduce attrition of the work force caused by job-hopping high-fliers, and prepare qualified candidates for appointment to senior management positions" Motwani, (2016). Succession planning is critical to the sustainability and competitive advantage of any organization irrespective of its ownership nature.

b) *The Succession Management Process*

Whatever the approach to be used, the basic steps of succession planning are almost always similar, based on Zellweger, Nason, and Nordqvist (2012) there are six basic steps of succession planning: Establish knowledge, skills, and abilities needed at each leadership level, identify a pool of qualified candidates for various leadership roles, assess candidates for respective leadership positions, Implement individual development plans, select leadership replacements as positions become available, implement leadership transition. However according to Sentot, Wahjoedi, and Nirbito (2014), identified four reasons that cause the succession process to be accelerated which is called the four D's which are: Death, Divorce, Disability, and Departure.

The succession management process model by Harvey and Evans (1995) will be presented here. The model has three phases, which included:

1. Pre-succession, phase in which the potential successor has not entered the business yet.
2. Succession, phase in which the successor moves through the formal hierarchy of the business.
3. Post-succession, phase in which conflict or damage in relationships and ambiguity that result from the previous phase are assessed and managed.

c) *Family Business Continuity*

The discourse on family business continuity will not be complete without looking at the possibility of the impact of the knowledge management as well as succession planning practices. Different studies have given different measures of family business continuity with Venter, Farrington, and Boshoff, (2009)having them as perceived future continuity and family harmony, Lucio, Kosmas and Rui (2015) presented these measures as stewardship, governance, communication, professionalization, education and development of family members, continuity planning and corporate citizenship. Having seen that, this study due to its nature as being domiciled in Nigeria and depending on the attendant factors that crop up in the business environment decided to adopt profitability and business growth as measures of family business continuity. Business continuity (BC) is defined as the capability of the organization to continue delivery of products or services at acceptable predefined levels following a disruptive incident, Elis, (2007). Furthermore, business continuity (sometimes referred to as business continuance) describes the processes and procedures an organization puts in place to ensure that essential functions can continue during and after a disaster.

d) Family Business in Nigeria

The percentage family businesses occupy in some of the important economies are as follows: Brazil – 90%, USA – 96%, Belgium – 70%, Finland – 80%, France – 60%, Germany – 60%, Netherlands – 74%, Poland – 80%, Portugal – 70%, Spain – 79%, UK – 70%, Australia – 75% (Timmons & Spinelli, 2009). In the United States alone, researchers estimate that there are more than 12 million family businesses ranging from small private businesses to large publicly traded corporations.

Family business is prevalent in Nigeria as in other parts of the world, and it is perceived as key to Nigeria's economic growth, poverty alleviation and employment generation. In Nigeria, ample size of the family businesses belongs to small and medium-sized enterprises and most of the family businesses are actively involved in manufacturing, retailing and service industries. The Federal Bureau of Statistics (FBS) conducted a survey across the 36 States of the federation and the Federal Capital Territory (FCT) and the result indicated that there were 17.28 million SMEs in the country, out of which 17.26 million Ayobami, Olanireti, and Babarinde, (2018).

Therefore, it is worthy of note that family businesses are becoming the fastest growing sector of the economy in Nigeria. Family businesses are active in all sectors of Nigerian economy and they contribute significantly to economic activities and employments. Family businesses in Nigeria started gaining prominence in Nigeria in the early 1970s when many personal enterprises started springing up and they come in virtually all sizes: small, medium and large firms. Some noted examples of family businesses as per categorization are: small firms examples of these are Boluke chemist, Timi Olubiyi Consulting and large firms with examples like Global Communication Ltd (Glo), Tasty Fried chicken (TFC), The founders companies is another form of categorization with examples of Jide Taiwo and Co, similarly private firm also have examples like Guardian Newspaper Nigeria, while public traded companies that are family owned are Dangote Sugar Plc, Dangote cement Plc, Dangote Flour Plc, Honeywell PLC, Diamond Bank among others.

III. Theoretical Review

a) The Resource-Based View (RBV)

The resource-based view (RBV) provided the framework for the theoretical and empirical approach for this paper. The resource-based view (RBV) perceives the family as a resource contributing to the success and continuity of the business. The resource-based view has been one of the dominant theories used to explain strategy in family businesses Litz, (1995). The resource-based view (RBV) holds that family businesses build strategies and compete on the basis of their resources. This view sees the employment of a family member as a benefit to the business, because the family member is likely to have more at stake in the continuity of the business and is likely willing be more committed, work harder, and make more sacrifice in the business. In literature the resource-based view has been applied within the family business research (Neubauer, & Lank, 2016; Simonazzi, 2016). The resource based view of the firm offers tools for understanding the basis of competitiveness and the sustainability of competitive advantage (Litz, 1995; Ward, 1987).Resources that are valuable, unique, and cannot be imitated can be the basis for a sustainable competitive advantage, Kuratko, and Hodgetts (2004). The family characteristics that are difficult to imitate may provide several advantages to the Family business and it could be classified as a valuable resource.

IV. Emperical Review

According to Esuh, Mohd, and Adebayo (2011) succession planning is a process where firms plan for the future transfer of ownership. 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). Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression (Sambrook,2005). Succession planning arises from the family firm's intention to pursue succession for two reasons.

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First, activities related to succession planning are part of the succession process. Second, succession planning is believed to increase the probability of a successful succession (Sharma, Chrisman, and Chua, (1997). Previous studies tend either to treat succession planning as a one-dimensional process or to combine its dimensions into one overall measure. However, as noted above, although that approach adds to knowledge, this paper follows Dyck, Mauws, Starke, and Mischke (2002) by treating succession planning as a long-term process involving multiple activities and examines the activities separately.

Sharma, Chrisman, and Chua, (1997) in the previous work of Christensen 1953suggested that succession planning as a process should include identifying the pool of potential successors, designating the successor, and notifying the successor designate and other management leaders of the decision made. To this set of activities, Lansberg (1988) and Ward (1987) added the need to train the successors and to formulate a vision of the company after succession, whereas Sharma, Chrisman, and Gersick, (2012) add defining a role for the retiring CEO. To summarize, the literature suggests that the succession-planning process consists of the following discrete components, which include the following among others- selecting and training a successor, developing a vision or strategic plan for the company after succession, defining the role of the departing incumbent and communicating the decision to key stakeholders.

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 prepare 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 according to Williams, and Ahmed, (2018).

V. Methodology

A survey design was adopted for this paper. The adoption of this design was influenced by the research problem and its corresponding research questions. The population of the study is given as 11,663 Small and medium enterprises relying on data from the 2013 Survey report on SMEs in Nigeria conducted by the National Bureau of Statistics (NBS) in collaboration with SMEDAN, and these firms are categorized as family businesses. The selected local governments are Apapa, Ibeju-Lekki, Ikeja, Lagos-Island and Lagos Mainland. The choice of Lagos as the location for the study is informed by the economic and strategic importance of the state to Nigeria. The sampling size for this study was determined using the formula for sample determination for a finite population as expressed by Yamane (1967). In order to determine a representative sample from the general population, Yamane (1967) sampling formula was adopted and used. The sample size of 387 was arrived at from the population. According to (Samani, 2016) there is a need to give allowance of 30% non-response rate from the sample size. Therefore, the non-response rate allowance of 30% (116) was added, which brings the total sample size for the study is 503 SMEs operating in Lagos State. Validity of the research instrument was carried out to ensure that the correct variables measured what it supposed to measure. Furthermore, the reliability test was carried out on the research instrument; this test is an indicator of internal consistency. The internal consistency test revealed that the overall Cronbach coefficient for the entire questionnaire was (α) = 0.850 (with the lowest being 0.775; and the highest 0.851). The result of the pre-test carried out by the researcher showed that the scales were considered reliable because the Cronbach's alpha was greater than 0.84 recommended by Nunnally (1970), one can comfortably conclude that the instrument is highly reliable, Gefen, Straub, and Boudreau, (2000)since it is greater than 0.70 the acceptable level.

VI. Data Analysis, Results and Discussion of Findings

The number of questionnaires administered to all the respondents, was 503. After coding and checking for accuracy in the data, 469 questionnaires were found useful for the study. This gave a response rate of 93.2% and 34 questionnaires were not received which represented 6.8% of the total questionnaires distributed. In order to test the hypothesis, standard multiple regression analysis of ordinary least square method (OLS) was used. The data employed was obtained by summing responses of all items for succession planning and family business continuity. In the analysis, succession planning is independent variable and family business continuity is dependent variable. The results of the regression are presented in Table 1.1, 1.2, 1.3.

Table 1.1: Summary of correlation coefficient between succession planning and family business continuity in Lagos State, Nigeria

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.738[a]	0.545	0.538	17.97060
a. Predictors: (Constant), Governance, Family Values, Succession Plan, Founders Influence, Mentoring, Competence of Successors, Family Business Stakeholders				

Source: Field Survey, December 2020

The data in Table 1.1 presents a summary of regression model comprising of the value of R, R^2 and Adjusted R^2 equal to 0.738, 0.545, and 0.538 respectively. The results show the seven independent variables (succession planning factors) when combined together to determine their effect on the family business continuity of owners in Lagos State produced a coefficient of multiple correlation (R) = 0.738 and adjusted coefficient of multiple determination (Adj. R^2) of 0.538 which is significant at 0.05 level.

The adjusted coefficient of multiple determination (Adj. R^2) of 0.538 suggests that the seven independent variables (governance, family values, succession plan, founders influence, mentoring, competence of successors, and family business stakeholders) of succession planning that were studied jointly accounted for 53.8 percent of the variance in family business continuity of owners in Lagos State, Nigeria. The remaining unexplained 46.2 percent could be due to other factors that were not considered in this model. With this value (53.8%), there is an indication that the stated succession planning factors affect the family business continuity of owners in Lagos State, Nigeria.

Table 1.2: Summary showing the analysis of variance of effect of succession planning on family business continuity in Lagos State, Nigeria

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	178182.497	7	25454.642	78.821	.000[b]
	Residual	148553.503	460	322.942		
	Total	326736.000	467			
a. Dependent Variable: Business Continuity						
b. Predictors: (Constant), Governance, Family Values, Succession Plan, Founders Influence, Mentoring, Competence of Successors, Family Business Stakeholders						

Source: Field Survey, December 2020

The results in Table 1.2 show that the analysis of variance (ANOVA) of multiple regression produced F value of 78.821, which is significant at 0.05 level. This implies that the independent variables that are governance, family values, succession plan, founders influence, mentoring, competence of successors, and family business stakeholders jointly have significant effect on the family business continuity of owners in Lagos State, Nigeria. It further indicates that statistically, the model applied can significantly predict the changes in the family business continuity of owners in Lagos State, Nigeria. To test the hypothesis, the F value (78.821) is compared against the *F* Table at 7 and 460 degree of freedom and 5% level of significance, which is at 1.95. Therefore, since *F* value (78.821) is greater than F table (1.95), hence we reject the null hypothesis two (H_{02}) which states that there is no significant effect of succession planning on business continuity in Lagos State, Nigeria. This conclusion can be confirmed by the correlation coefficient R at 0.738 or 73.8% (see table 4.23a).

Hence, it is hereby concluded that there is a significant effect of succession planning on business continuity in Lagos State, Nigeria.

Table 1.3: Multiple regression coefficients of effect of succession planning on family business continuity in Lagos State, Nigeria

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.123	4.904		0.841	0.401
	Succession Plan	-1.442	0.183	-0.357	-7.896	0.000

	Founders Influence	1.912	0.385	0.252	4.960	0.000
	Competence of Successors	-2.931	0.380	-0.444	-7.714	0.000
	Family Values	4.337	0.406	0.613	10.674	0.000
	Family Business Stakeholders	-0.264	0.446	-0.036	-0.593	0.553
	Mentoring	1.090	0.346	0.147	3.150	0.002
	Governance	2.957	0.324	0.537	9.134	0.000

a. Dependent Variable: Business Continuity

Source: Field Survey, December 2020

The results in Table 1.3 reveal that holding independent variables that is, governance, family values, succession plan, founders influence, mentoring, competence of successors, and family business stakeholders training to a constant zero, family business continuity of owners in Lagos State would be at 4.123. The column labeled "Unstandardized Coefficients" reveals unstandardized regression coefficients for governance, family values, succession plan, founders influence, mentoring, competence of successors, and family business stakeholders to be 2.957 ($t = 9.134$, $p = 0.000$), 4.337 ($t= 10.674$, $p= 0.000$), -1.442 ($t= -7.896$, $p= 0.000$), 1.912 ($t= 4.960$, $p= 0.000$), 1.090 ($t= 3.150$, $p= 0.002$), -2.931 ($t= -7.714$, $p= 0.000$), and -.264 ($t= -.593$, $p= 0.553$) respectively.

The results reveal governance, family values, succession plan, founders influence, mentoring, and competence of successors have significant influence on family business continuity of owners in Lagos State, because their p-values are greater than 0.05 overall significance level. However, the coefficient of family business stakeholders is negative and not statistically significant (p-value > 0.05).An assessment of the coefficients of succession plan and competence of successors in Table 1.3 reveal that both succession plan and competence of successors have negative and significant coefficients of -1.442 and -2.931 respectively, implying that family business continuity of owners in Lagos State moves in the opposite direction with the changes in succession plan and competence of successors and that a 1 unit change in succession plan and competence of successors respectively causes -1.442 and -2.931 respectively units changes in family business continuity of owners in Lagos State.

Additional check on coefficients of founders influence, family values, mentoring, and governance reveal that founders influence, family values, mentoring, and governance have positive and significant coefficient equals to 1.912, 4.337, 1.090 and 2.957 respectively suggesting that founders influence, family values, mentoring, and governance and family business continuity of owners in Lagos State moves in the same direction and that a 1 unit change in founders influence, family values, mentoring, and governance results to positive 1.912, 4.337, 1.090 and 2.957 units change in family business continuity of owners in Lagos State respectively. The t-statistic for the independent variables shows that coefficients of governance, family values, succession plan, founders influence, mentoring, and competence of successors are statistically significant while coefficient of family business stakeholders is not. The regression equation generated from the analysis is stated as follows:

$$Y = 4.123 - 1.442SP + 1.912FI - 2.931COS + 4.337FV - 0.264FBS + 1.090M + 2.957G$$

Where:

Y = Family Business Continuity
SP = Succession Plan
FI = Founders Influence
COS = Competence of Successors
FV = Family Values
FBS = Family Business Stakeholders
M = Mentoring
G = Governance

The regression model above shows the significant effect of succession planning on family business continuity of owners in Lagos State. As regards the relative contribution of each of the independent variables to the family business continuity of owners, the standardized coefficients (beta weights) of the independent variables indicates that family values made the highest contribution (beta weight = .618 or 61.8%). This is followed by governance (beta weight = .537 or 53.7%), Founders Influence (beta weight = .252 or 25.2%), Mentoring (beta weight = .147 or 14.7%), Succession Plan (beta weight = -.357 or 35.7%), Competence of Successors (beta weight = -.444 or 44.4%), and Family Business Stakeholders (beta weight = -.036 or 3.6%).

VII. Discussion

The result of the analysis in this paper shows that succession planning significantly affects business continuity in Lagos State, Nigeria. The result concurs with findings of Ogbechie and Anetor (2015), Kaunda and Nkhoma (2013), Sardeshmukh and Corbett (2011) and Aderonke (2014). They agree that cultural factors such as extended family system, inheritance tradition (such as preference for sons, marriage), and education have significant impact on the successful succession of family enterprises. However, it contracts the result of study by Oyewole, (2018) who establish that poor succession planning by entrepreneurs in Nigeria found the following factors to be responsible for poor succession.

The findings of this paper similarly agreed with the findings of Osibanjo, Abiodun, and Obamiro, (2011) that there was a strong positive correlation between planning for succession and firm's sustainability. Ugoani, (2015) stated that succession is critical to ensuring the continuity of any family-owned business. Motwani, (2016)reported that lack of succession planning could put large numbers of family businesses at undue risk and have serious impact on the national economy. Based on the findings of this study and its relationship with similar findings in the extant literature, the study therefore rejects the null hypothesis (H_{02}) which states that there is no significant effect of succession planning on business continuity in Lagos State, Nigeria.

VIII. Conclusion and Recommendation

The extant literature shows that family-owned businesses are a unique and dynamic field of study. The extant literature also revealed that family-owned businesses are not in hiding, and can be seen all around us throughout the world. The findings of this paper could help to educate family business managers in Lagos State on some of the factors that are associated with not only perceiving business continuity, but also experiencing family business profitability. This paper recommend that potential 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.

In the light of the findings, direction for future research is suggested that similar research is conducted annually within the businesses in the study area to measure to what extent the family businesses have implemented their specific succession planning. The reasons for not having a proper succession planning by these family businesses/SMEs can be studied as an extension of this paper. This paper carried out research on selected SMEs that are family businesses in Lagos State thus the same study could be carried out in the other States and sectors to find out if the same results will be obtained.

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