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FACTORS RESPONSIBLE FOR FAILURE IN SUCCESSION PLANNING AMONG FAMILY BUSINESSES IN NIGERIA

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Abstract

Any business that is owned, managed controlled and overseen by a family is termed as family business. These types of entrepreneurial businesses are well known in Nigeria. One outstanding feature of these types of businesses is that they lack succession and succession plan. Succession planning is one of the greatest challenges facing family entrepreneur businesses all over the world not only Nigeria, for that most of such businesses have died with their founder because of lack of succession planning. The objective of this paper is to address family businesses management succession in terms of the role of the founder, the prospect of the next generation, succession as a process, reasons why succession plan failed and the characterization of effective succession. Drawn from a of study ten family businesses in Zaria, Kaduna State Nigeria. The methodologies used for this paper were mainly primary and secondary data. For primary data, a set of questionnaire was constructed, the responses of the participants were analysed, some business owners were also interviewed. The hypotheses of this paper was tested at 0.05 level of significance using chi-square statistics, and also secondary data where text books, journals, internet materials among other documented materials were explored to identify reasons why succession failed in family businesses in Nigeria. The major finding of this paper is unfairness of treatment by the founder to family members. A major recommendation is that families with their own businesses should handover the businesses to more competent members that are capable of continuing with the businesses.

Keywords: family businesses, succession planning, entrepreneur, and entrepreneurship.

Introduction

The aim of every entrepreneur is to establish a business that would outlive him or that would continue perpetually from one generation to the other, that means such a business should have perpetual successor.

Succession planning is one of the most difficult and critical problem facing family businesses. However, a business with good succession plan will not die irrespective of what happen to the founder, be it death, ill health or otherwise. The process will provide opportunity to create multi-generational successors that embodies the founder mission, vision and values. An end would be put only to the life of business by winding up as provided by the companies and Allied Matters Decree (CAMD) 1990.

Succession planning is very important because as entrepreneur continue to run the business, events such as old age, death, incapacitated either by accident or other events that he or she has no control over or the business may grow beyond the capacity of the entrepreneur to cope with that will make it impossible for them to continue to run the business. So the only way the businesses can continue perpetually, is to have capable successors. (Gana 2001).

According to Nelton (1988), ensuring perpetuatior is often difficult and at times the transition is seldom smooth since the founder of the business often finds it difficult to "led go".

The overall objective of this paper is to identify ways of succession planning as a means of continuity of family entrepreneurs businesses in Nigeria. In order to achieve this, attempt were made on the following.

i) To identify reasons for lack of succession plan in family businesses in Nigeria
ii) To find out why founders of businesses do not have or are willing to have succession plan.
iii) To ascertain first hand information of the opinions, feelings of some key founders of family businesses
iv) To rank the identified bottle necks militating against successful family businesses succession planning in Nigeria

Ho: succession planning has no significant effect on family business continuity.
H1: succession planning has significant effort on family business continuity.

Concept of Family Businesses and Entrepreneurship

There are many misconceptions about the term family businesses. Perhaps the most pervasive is the "mummy and daddy" image that the very word, "family business" engenders. Although many small and micro businesses are also fast growing businesses and very large successful ones.

Handier, (1989), Hollander and Elman (1988) defined family businesses as businesses that are owned managed and controlled by one or more family members. Davis and Tagiuri (1982) defined family businesses as "organizations were two or more extended family members influencing the direction of the businesses through the exercise of Kinshipties, management roles or ownership rights". Gallo (1994) asserted that family businesses are essentially the same in every country in the world relative to other problems, issues and interests.

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

Political scenario: it is a case of business linked to a large family where it is expected that through succession, the business would 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 possible distinguished who should occupy the general position of leadership of the business. However, we should note that the existence of many family members in the family businesses can turn into conflicts of power, making it unnecessary to establish agreements, and occasionally recognize the businesses in terms of those individual who, because of the obvious professional and human qualities can be recognized as leaders.

Openness: this is when members of the next generation are numerous, and among them it is not possible to identify a persons or persons who possesses the characteristics necessary to assume leadership position as expertise's in family businesses. Arieu said, there is a scenario called "open" as a strategy to shift 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 businesses, creating more value for society and above all retention of jobs for the employees.

Foreign management: this scenario occurs 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 (CEO) to run the businesses.

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, few heirs, who in turn have identified among themselves worthy successors, strong and good names adequate enough to drive the growth of the businesses.

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

Rothwell (2001), defined succession planning as a process for identifying and developing internal people with the potential to fill key business leadership positions in the company. Succession planning is an essential part of doing business no matter how certain your future appears it is easy to put off planning when everything seems to be going so well. Below are some reasons why succession planning cannot and should not wait.

i) You are planning for disaster
ii) Succession planning benefit the business now.
iii) Succession planning gives other members of the family voices to have a say in the family businesses decision making.
iv) Succession planning help to give you a picture as to where the family business is going.

Succession planning strengthens relationship between family members. The concept entrepreneurship emphasizes the inner intuitive concerns of the individual as the prime mover for risk bearing and innovation. Schumpeter (1934) for example introduced the concept of innovation which is very important when talking of entrepreneurship. It is brought about by the intuitive capacity of the individual to develop new ideas.

Gana (2006) defined entrepreneurship "as the willingness and ability of an individual to seek out investment opportunities in an environment, and be able to establish and run ~~on~~ an enterprise successfully based on the identified opportunities". Duniya (2008) also defines entrepreneurship as "action-oriented and highly motivated individual who has the ability to see and evaluate business opportunities to gather the necessary resources, to take risk to achieve the goals".

According to Omotosho (2002), defines the concept of entrepreneurship as "the dual or group of persons who search for investment opportunities, establish and run a business unit successfully.

Entrepreneurship has three essential and linked attributes; first, the ability to perceived profitable business opportunities, second the willingness to act on what is perceived. And thirdly, the necessary organizing skill associated with a project. According to Neale (2004) he defined an entrepreneur as "a person who risks time and money to start and manage a business".

The third concept is entrepreneurship. Sexton and Bowman (1991) define entrepreneur "as one who can recognize an opportunity in the market place and is willing to marshal the resources necessary to exploit that opportunity for long term personal gain". Manolova, Manev, Carter and Gyosheve (2006) defined entrepreneur as an individual who notice opportunities and take responsibility for mobilizing the resources necessary to produce new and improved goods and services".

Drucker (1993) sees "an entrepreneur is a person that always searchers for change, responds to it and exploits it as an opportunity". Masen (2006), sees an entrepreneur as "a person who has the ability to see and evaluate business opportunities, to gather the necessary resources to take advantage of them and to initiate appropriate action to ensure success".

In a nutshell, an entrepreneur is someone who focuses on finding opportunity instead of accepting security, getting results instead of following routines, earning profits instead of earning pay check, trying new ideas instead of avoiding mistakes and creating a long term vision instead of seeking a short term pay off (Mole, 2002).

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

i) The key goals succession process
ii) A timetable of the transition stages from identifying a successor to the full transfer of responsibilities
iii) Make a contingency plans in case the unforeseen happens, such as when the intended successor declines the role.

Succession can be a process taking place 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 responsibility, gradual decrease in the role of previous managers and final discontinuation of any input by previous managers.

In contrast to the above process, 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 apparent, 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 a 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. Stagnant businesses with disappointing profits cause founders to concentrate on today's predicaments. An attitude of "I've got to solve today's problems before I can worry about the future". Makes treating succession as a process difficult if not impossible.

Optimistic, systematic and business oriented founders are more likely to plan for and follow through on succession than pessimistic, unsystematic and production oriented founders. Family characteristics also influence whether succession will be a process or a crisis. As the number of adults and their children in the business increases, the complexity of succession increases. Similarly, difficulty in management succession is likely to increase with an increase in the number of heirs expecting cash from their parents' estates. Tightly knit families with strong commitment to honouring their parents' wishes about business continuity should face fewer problems than fragmented contentious families.

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 a Family Business

The founder of every family business is the most influential person in the business set up. He the founder sets the tone for successful succession, makes the rules, and more than anyone else determines the success or failure of the succession. It is a reality that each family business will eventually have a different generation of managers/leaders or it will no longer exist. The founder's acceptance of this reality undergirds and fosters a successful succession planning (Bernard, 2011)

Bernard (2011) again observed that, where the 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 businesses should be the primary role of the founders.

Ideally, role of the founders should integrate the succession plan if any into strategy planning and try and involve all the family members in 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.

The founders have three vital roles to play during the latter stages of their activities in their business life.

- i) As leaders, founders should be actively and purposefully transferring vital knowledge to their successors.
- ii) As mentor, founders should serve as guides for successors to apply their skills and knowledge wisely.
- iii) As a door opener, founders should be planfully transferring key contacts and relationships to provide continuity (Reidel, 1994).

The greatest challenges facing indigenous businesses today is the crisis of succession, that is, uncertainty about the future of the businesses beyond the founder (Vinçent, 2009). Below are some of the reasons 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 or incumbents normally resist succession planning because of the lifestyle, psychological and behavioural reasons.
iv) Failure on the side of the founders to initiate succession process.
v) The level of education of founders is another reason too. Some of them have negative perception about the on the job training and formal business education. They favour on the job training and see formal business education as a hindrance to the growth and development of the family businesses.
vi) Most family businesses do not have plans for handing the power to the next generations.
vii) Lack of talent: hiring family members who are not qualified or lack skills and abilities.
viii) Paternalistic; control is centralized and influenced by tradition instead of good management practices.

Question about succession within the family members could be a very sensitive subject since it is somewhat taboo to discuss matters that could be related to death. (Barness and Hershon, 1976). Regardless of how the founder may 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.

Setting up a family business can be an exciting challenge. When deciding who will succeed you. It is very important to consider how you'll deal with a number of issues that commonly confront such business; first of all think about how:

i) The business shares will be allocated between family members and non family shareholders if any.
ii) Ensure that business decisions are taken for businesses reasons rather than personal ones.
iii) The roles and responsibilities will differ between family members, shareholders who are active in the businesses and those who are not as well as the outside shareholders. If any
iv) How to cope with conflict when it arises.
v) The need to communicate with your family members when you are also their boss.
vi) In deciding who will succeed you, try to avoid resentment as much as possible.
vii) Make sure that the family finances are not entirely dependent on the businesses;

Another challenges faced by the family business owners are how best to pass their businesses to the next generations. Right decision need to be made in this direction, for the family members and the businesses.

Methodology

The methodology employed in this paper entailed a combination of questionnaire, personal interview, and library research. A set of questionnaire was constructed for the owners of family businesses, that is, the fathers, mothers and children.

Library materials were used such as books, publications, journals both national and international were utilized in the course of this paper writing. These sources helped a great deal in providing relevant information and data regarding succession planning as a means of family continuity.

Below are the analysis of the results and distribution of questionnaires

Respondents	Number of questionnaires administered	Number of questionnaire returned	%
Fathers	10	8	80
Mothers	15	14	93
Children	12	10	83
Total	37	32	86

Source: Survey, 2011

The table gives a summary of the breakdown of questionnaires administered and responded to by the three categories of the respondents. It shows that the mothers in family business has highest responds of 14 at 93%, while the children has the next higher level of 10, which constitutes 83% of the questionnaires administered, and finally the fathers who return 8 which is 80% of the questionnaires.

The impressive nature of the response from the mother could be their nature of putting all effort to sustain the family businesses and their belief in predictive outcome of events in the business operation.

Analysis of responses from the categories

Table 1 Responses from the Fathers

Succession plan in family business	Yes	%	No	%	Total
Is there clear written plan on who the next leader of this business will be?	8	100	-	-	8
Will other business members accept your choice of successor	7	88%	1	12%	8
Does the family members spend time discussing about the business?	8	100	-	-	8
Is the intended successor interested in the line of business you run?	6	75	2	25	8
Total	29	91	3	39	32

From the 1 above, 91% of the total responds answered "yes" while only 9% answered "No" to the questionnaires distributed to the fathers as members of the family businesses. The high percentage could be as a result of their concerted effort to ensure succession in the business and adequate plan to identify interested successor in the business.

Table 2: Responses from the Mothers

Succession plan in family business	Yes	%	No	%	Total
Do you have a better plan than succession of the business?	12	83	2	17	14
Should family members and others working in the business posses the appropriate qualification?	7	50	7	50	14
Would you choose a non-family member, is qualify to take over the business	4	29	10	71	14
Total	**23**		**19**		**42**

From the table 2 the table showed a positive response of 55% and negative response of 45%. On the above, it can be observed that mothers has other plans other than succession plan in family business.

Table 3 Responses from the Children

Succession plan in family business	Yes	%	No	%	Total
Are you interested in the line of business the family runs	9	90	1	10	10
Do you have a plan to fund the retirement of the initial founder?	8	80	2	20	10
Total	**17**		**3**		**20**

Observed Contingency Table

Respondent	Yes	No	Total
Father	29	3	32
Mother	23	19	42
Children	17	3	20
Total	**69**	**25**	**94**

To test the hypothesis at 5% level of significance that succession plan has no significance effect on family business continuity. To calculate the expected frequency using

$$\frac{\text{Row total x column total}}{\text{Ground total}}$$

The critical value at 5% level of significance with 2 degree of freedom is 5.991.

Decision rule: since the critical value is less than the calculated value, the null hypothesis which states that 'succession planning has no significant effect on family business is rejected, while the alternate hypothesis is accepted.

Results and Discussions

The research revealed some factors that could slow down the growth of family-owned businesses in Nigeria. The ability to carry out a successful business plan is still lacking in most family owned businesses in Nigeria, because of lack of basic information and planning, and this act as impediment to their survival and growth. The research revealed that most family businesses started without any formal documented business plan.

In the course of this work different reasons were given by the respondents for not planning their businesses. Some said it was expensive, others said they were discouraged by government policies while some complained of lack of knowledge and complexity of information to be analyzed. Some of them also argued about the possibility of rigidity. That is, after invested in planning there will be resistance to abandoning it considering the inconsistency in Nigeria business environment.

Other factors to be responsible for this shortcoming include individualistic spirit and power tussle. That is must family business owners don't want to have joint ventures. Record keeping is another problem. Owners do not maintain any form of accounting records and those who tried to keep records are misleading and haphazardly done. The reasons for lack of recording keeping are fear of high tax and ignorance of the need of it too.

Human capital if well utilized goes a long way in enhancing business venture. There are low quality and high turnover of staff in most businesses. Considering that these entrepreneurs hired unskilled labour pay them to get the job done while the staff see themselves as just managing until they find a better job. Once they find something better, they move out and the various circle of investing in training continue at the business. This has prove to be very expensive for the businesses that do not seem to realize they would save a lot if they invested much in hiring the right people and paying them well so that they stay much longer and the firm will make profit.

Conclusion and Recommendations

In conclusion, on economy that is made up of businesses that have limited life spans, absence of corporate culture and growth structure can neither progress nor survive against both local and global competition. There should be a change of focus, a change of mindset towards being individualistic.

The following are recommendations made:

The founders should have viable businesses that will give the next generations chance of succession and not just transfer of assets instead of transfer of management skills. Like any other businesses, family businesses should have a clear mission statement, purposes and goals setting. A clear chain of command, lines of authority for decision making and plan accomplishment.

There should be effective communication in the family about the family businesses and family issues. The successors should have some basic qualities such as; personal and need fulfillment, career interest, personal identity, influential mutual respect for other members of the family and employees as well as having interest in the family businesses.

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