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An Appraisal of Succession Planning in Family-Owned Businesses in Lagos State, Nigeria

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Abstract
Family-owned businesses in Nigeria and other nations of the world play important roles in economic growth and development some of which include creation of employment opportunities, maintenance of competition, stimulation of indigenous entrepreneurship, wealth creation, innovations and creativity, foreign exchange earnings, mobilization of savings, and contribution to the GDP. Despite these vital roles, family-owned enterprises in Nigeria are faced with the problem of succession as about 95% of family businesses do not survive the third generation of ownership. Hence, this study conducted an assessment of succession planning in family-owned business in Lagos, Nigeria with the aim of identifying the factors preventing smooth succession in family-owned enterprises. Data was elicited from questionnaires administered to founders/owners of family enterprises and analyses of the responses were done through the use of Statistical Package for Social Sciences (SPSS). The findings reveal that the lack of a succession plan is not the significant factor responsible for the problem of succession despite the fact that most family enterprises lack succession plan. There are other factors responsible for the problem of poor succession in family-owned businesses in Nigeria.
Keywords: Owner-entrepreneur, Succession planning, Family-owned business, Successor, Lagos, Nigeria

1. Introduction

Family-owned businesses constitute the world's oldest and most dominant form of business organization (Abouzaid, 2008: 11). They account for about 70 and 95% of all business entities in most countries around the world and also create between 50 and 80% employment (European Family Business, 2012: 2). There is no universal definition of a family business. However, family business can be defined using the following criteria: voting control, percentage of ownership, power over strategic direction, involvement of multiple generations, and active management by family members (Suh et al., 2008: 2). Thus, family business can be defined as a business in which the family has influence or control over both the ownership and management operations (Cabrera-Suarez, 2005).

The contribution of family-owned enterprises to the economies of nations around the world in terms of employment and GDP cannot be over-emphasized. For instance, family businesses generate about 79% jobs and account for two-third of GDP in India (Bernard, 2013). They also create about 85% employment and account for about 50% of the GDP in Brazil (Family Firm Institute). In the same vein, family businesses in Nigeria contribute 46.54% to GDP (SMEDAN, 2012).

Despite these tremendous contributions, most family-owned enterprises are faced with the challenge of continuity as 95% of family-owned businesses do not survive the third generation of ownership (Abouzaid, 2008: 11). Related studies have also shown that less than one-third of family businesses continue to the second generation and less than half of a second generation family enterprises make it to the third generation when the founder/manager retires or dies (Le Breton-Miller et al., 2004). This problem is as a result of lack of succession planning because, without effective succession planning there cannot be generational enterprises (Onuoha, 2013: 271). Succession planning can be defined as a "systemic, long-term process of determining goals, needs, and roles within an organization and preparing individuals or employee groups for responsibilities relative to work needed within an organization" (Luna, 2012: 60).

The lack of succession planning in Nigeria is a serious problem militating against the survival of family-owned businesses as 94.2% of entrepreneurs do not have a succession plan (Onuoha, 2013: 103). 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 (European Commission, 2009: 4).

The purpose of this research, therefore, is to carry out an in-depth appraisal of succession planning for the purpose of identifying the factors preventing smooth succession in family-owned businesses in Nigeria. This paper is structured into six sections; the first section is this part which introduced the topic. The second is the literature review which presents previous studies on succession planning in family enterprises. The third section presents the research methodology while the fourth section presents the findings and discussion. The fifth section is conclusions while the last section is the limitations of the study.

2. Literature Review

This section review extant literature on succession in small and medium scale enterprises, particularly family-owned businesses. Some of these studies include the work of Obadan & Ohiorenoya (2013) that examined succession planning in small businesses in the hotel industry in the ancient city of Benin-Nigeria and found that most of the small businesses have no succession plan in place. They further found that the ability and the competence of potential successors are not put into consideration.

Ogundele et al. (2012) in their studies of entrepreneurial succession problems in Nigeria's family businesses found that the succession laws coupled with the multi-cultural nature of Nigeria serve as the stumbling block to smooth succession in family-owned businesses. They also stated that the existing laws on succession are ambiguous as they encompass the native laws and customs of the people.

Musa & Semasinghe (2014) examined leadership succession problem in small family businesses in Nigeria and found that most founders of family-owned firms failed to embark on succession planning due to fear of losing control of the business to subordinate or any member of the family. In addition to their findings, they also discovered that the problem of inheritance among family members militate against the continuity of family enterprises.

Onuoha (2013) study on poor succession planning by entrepreneurs in Nigeria found the following factors to be responsible for poor succession. These include entrepreneurs' feelings of sound health; lack of interest by potential successor; entrepreneurs' lack of knowledge of what succession planning entails; and the fear of mismanagement. In the same vein, Aderonke (2014) research on culture determinants and family business succession in Jos, Nigeria found 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.

The foregoing studies highlighted several factors that tend to inhibit the succession and continuity of family-owned businesses in Nigeria. It is pertinent to mention that the common factor, as noted above, often mentioned as the cause of succession and continuity problem in small and family businesses in Nigeria is the lack of succession planning. Hence, the aim of this study is to conduct an appraisal on family-owned businesses in Lagos in other to bring to bear whether the lack of succession planning is significantly responsible for the problems of succession.

3. Methodology

3.1 Population

The population of the study includes all family-owned enterprises in Lagos state, Nigeria. The study was conducted in Lagos due to the problem of unorganized association of family-owned enterprises in Nigeria and the lack of access to information. Besides, Lagos is the commercial hub of Nigeria as 60% to 70% of businesses and industrial transactions are executed in Lagos (Lucky et al., 2011: 111).

3.2 Sample

This study adopted a purposive sampling technique to select 80 participants (owners/founders of family businesses) from the population. A total of 20 usable questionnaires were completed and returned, providing a final return rate of 25%. Purposive sampling is also known as judgemental, selective or subjective sampling. It is a type of non-probabilistic sampling that relies on the judgement of the researcher when it comes to selecting the units that are to be studied. The rationale for using this technique is that it is suitable for qualitative or mixed methods (both qualitative and quantitative) research design and it is also popular in qualitative research. The sample covered family-owned businesses that cut across different industries such as manufacturing, commercial, construction, and service. It is important to mention that certain criteria were used in selecting the participating family-owned businesses for this study. These criteria include family firms: existing for over three years; run by the family member (s), and evidence to pass the business to the next generation.

3.3 Data Collection Method

The study used primary data, which were collected through the administration of questionnaires to founders/owners of family-owned enterprises in Lagos. The questionnaires consist of a combination of both closed-ended and open-ended questions. A seven-point Likert scale, which ranges from strongly disagree and strongly agree, was used to rate the responses from respondents.

3.4 Data Analysis Techniques

The data analyses techniques employed in this study include descriptive and factor analysis. The study used descriptive analysis to summarise the profile of participants. Factor analysis was equally employed to reduce the data and choose those items that actually measure the constructs in this study. It is also important to state that the Statistical Package for Social Sciences (SPSS) software was used in running the analysis.

4. Results and Discussion

4.1 Nature of the Business

Table 1: Nature of the Family Business

Nature of Business Activities	Frequency	Percentage
Commercial	3	15%
Manufacturing	4	20%
Construction	1	5%
Service	10	50%
Others	2	10%
Total	20	100%

Table 1 depicts that most of the family-owned enterprises in Lagos state are service-oriented followed by manufacturing firms. A possible explanation for this is that the cost of setting up manufacturing firms in Nigeria is very high, coupled with unfavourable business environment. Most raw materials requisite for production cannot be sourced locally, and the cost of importation is rising due to the falling value of the Naira.

4.2 Geographical Origin of Managing Director

Table 2 Geographical Origin

Geographical Origin	Frequency	Percentage
South-West	5	25%
South-South	6	30%
South-East	6	30%
North-East	3	15%
North-Central	0	0
North-West	0	0
Total	20	100%

Table 2 indicates that most family-owned businesses in Nigeria are centred in Lagos state as virtually all the six (6) geo-political zones (except for North-Central and the North-West regions) are represented. This, however, validate the assertion by Lucky et al. (2011) that 60-70% of family-owned firms in Nigeria are centred in Lagos state.

4.3 Number of Employees

Table 3: Number of Employees

Number of Employees	Frequency	Percentage
None	0	0
1-9 (Micro)	2	10%
10-49 (Small)	7	35%
50-100 (Medium)	5	25%
101-249 (Large)	2	10%
250 or more (Large)	4	20%
Total	20	100%

Table 3 reveals that about 55% of the family-owned businesses are medium and large businesses which employ an average of 50 employees (medium) and 125 employees (large). These results suggest that, these family-owned firms absorb a reasonable proportion of persons thereby creating employment.

4.4 Succession Planning

Table 4 Rating of Succession Planning in Family Businesses

	1	2	3	4	5	6	7		
Succession Planning	***Strongly Disagree***	***Disagree***	***Slightly Disagree***	***Neutral***	***Slightly Agree***	***Agree***	***Strongly Agree***	***Mean***	***SD***
Formal, written succession plan exist in the company	2 (10%)	6 (30%)	2 (10%)	6 (30%)	2 (10%)	0 (0%)	2 (10%)	3.40	1.73
Inheritance issue and plans have been clearly addressed within the family	1 (5%)	6 (30%)	1 (5%)	6 (30%)	0 (0%)	2 (10%)	4 (20%)	4.00	2.03
The company has formal criteria for choosing a successor	1 (5%)	6 (30%)	2 (10%)	5 (25%)	2 (10%)	3 (15%)	1 (5%)	3.70	1.72
All the family members working in the company are aware of the succession plan.	3 (15%)	6 (30%)	2 (10%)	4 (20%)	0 (0%)	2 (10%)	3 (15%)	3.50	2.09
It is important that a successor has worked outside the organisation before joining the business	2 (10%)	3 (15%)	2 (10%)	0 (0%)	7 (35%)	4 (20%)	2 (10%)	4.45	3.88
Family members joining the business are given preferential positions.	3 (15%)	5 (25%)	3 (15%)	3 (15%)	3 (15%)	2 (10%)	1 (5%)	3.40	1.82
There is a clear commitment from the successors to the business.	0 (0%)	4 (20%)	1 (5%)	6 (30%)	0 (0%)	3 (15%)	6 (30%)	4.75	1.94
There exists sibling rivalry within the family business	5 (25%)	6 (30%)	3 (15%)	7 (35%)	3 (15%)	2 (10%)	0 (0%)	2.85	1.73
There is currently a clear identified successor for the business	1 (5%)	7 (35%)	0 (0%)	5 (25%)	1 (5%)	2 (10%)	4 (20%)	4.00	2.08

Table 4 shows the results of respondents' views on the matter relating to succession planning. The results reveal that most of the family-owned businesses do not have formal written succession plans and do not have formal criteria for choosing successors. This outcome lends credence to the assertion by Onuoha (2013: 103) that about 95% of family-owned enterprises in Nigeria do not have a succession plan. The result also shows that even where succession plans exist, not all the members of the family are aware of such plans. The results further indicate that only a few of these firms address inheritance issues and plans within the family.

Majority of the respondents, however, subscribed to the fact that the potential successor need to work and acquire experience from other organisations before joining the family business. About 55% of the respondents indicate that other family members are not given preferential positions in the business. Furthermore, 70% of the respondents deny the existence of sibling rivalry in the family business. This implies that, despite the lack of formal succession plan, family members are aware of the potential successor. The reason for this is that most culture in Nigeria believes that the first boy of the family is always the heir-apparel even though he is unsuitable for the position. Consequently, culture significantly influences succession in family businesses in Nigeria (Aderonke, 2014; Musa & Semasinghe, 2014 Ogundele et al., 2012).

5 Conclusions

This study has shown that most family-owned businesses in Lagos state, the commercial hub of Nigeria, do not have a formal and well-written succession plan and procedures. The study, however, reveals that, the lack of a succession plan is not the significant factor responsible for the problem of succession in family-owned firms in Nigeria. This is because; most Nigeria's culture and tradition believe that the first son of the founder is usually the heir to the family business. This justifies why there is less-existence of sibling rivalry in the family. Consequently, this study concludes that, even though most family enterprises lack succession plan, there are other significant factors responsible for the problem of poor succession in family-owned businesses in Nigeria.

6. Limitations of the study

This study is limited by a sample collected from Lagos state. Although one can assume that the results reported would also be considered important in other parts of Nigeria. Hence, there is a need to conduct further studies in the future using a larger sample size. The findings also provide direction for further research. It is important that more empirical studies be conducted as regards the issue of succession in family-owned firm in Nigeria in other to bring to bear other factors inhibiting succession.

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