

Succession Planning and Competitive Advantage of Family-Owned Businesses in Anambra State

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Abstract: This work explained what succession planning is and the role it plays in granting competitive advantage to Family Owned Business (FOB) that implement it. FOBs are business entities that have ties with family, as many big corporations today started as FOBs. It is ubiquitous and a very old businesses form, but its survival rate is not encouraging as statistics reveals. Hence, this work looked at how the principles of succession planning can be used to perpetuate the existing of FOBs by giving them a sustainable competitive edge. Succession planning deals with making plans for when the founders/owners of such businesses are no longer around. This study examined the challenges facing succession planning in FOBs and reasons for succession management in businesses. Five works were empirically examined to see how they did their studies and their findings. The work concluded that to look at the sustainability of FOBs and their competitive advantage thereof, the issue of success planning is key. Following the conclusion, the study recommended among others that succession planning should not be left in the hands of businesses alone, seeing that these businesses are major economic players, the government needs to take a lead role in educating and ensuring they have succession plans in place.

Keywords: Succession Planning, Family-owned businesses, Competitive advantage and Anambra state.

INTRODUCTION

Family-owned businesses (FOBs) form the fulcrum of many economies of the world. Many big corporations started as FOBs and many small and medium scale enterprises fall within the ambit of FOBs. They are one of the most ancient and prevalent forms of businesses in both advanced and advancing countries (Nnabuife, Okoli & Arachie, 2018). Hence, their contributions to the enhancement and development of economies of the world can hardly be overemphasized. To buttress the significance of FOBs to the global economy, Asikhia, Oduyoye and Bienose (2021) posit that they account for most business entities globally and their roles in major economies are invaluable. Similarly, the World Bank (2019) captures it thus, that the total economic impact of FOBs on the Gross Domestic Product (GDP) of many nations is over 70 per cent.

The sublime roles played by FOBs worldwide are not different from what they do in Nigeria, as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) (2012) points out that in Nigeria, FOBs contribute about 46.54% to the nation's GDP and

plays significant roles in job creation. But the disturbing part is that, despite these contributions, their sustainability and viability over a long period are usually not assured. Accentuating this point, Ogundele, Idris and Ahmed-ogundipe (2012) contend that, despite the importance of FOBs to major economies throughout the globe, their long-term survival rate is extremely poor, especially in Nigeria. Furthermore, Burns (2014) posit that only around 30% of FOBs survive the transition from the first to the second generation, only 12% survive the transition to the third generation, and only 3% survive the fourth generation and beyond. FOBs seldom outlast their creators, according to Price Water Corporation (PWC) (2019), meaning that they have a limited existence since only a handful outlive the first generational founder.

This has led many researchers to look into what is responsible for the short lifespan of FOBs globally and locally, and some of the results have shown that it has a thing or two to do with succession related issues. Succession in this context has to do with handing over the business to another or the active navigation of the whole process of taking over a

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business when the initial owner/founder of the business is no longer active. Adedayo, Olanipekun and Ojo (2016) state that succession within the FOB parameter involves the handover of any form of commercial investment from the proprietor to a family member deemed capable and chosen to continue the business operations. Following the definition of succession, the conscious planning of it gave birth to the concept of succession planning.

Succession planning deals with the identification and preparation for the handover of a business or leadership position to a successor. It is a strategic operation that ensures seamless handover of power, control and authority of a business within the FOB realm. Monyei, Agbaeze, Omonona, Kelvin-Iloafu and Obi-Anike (2021) aver that it is a dynamic, ongoing process of discovering, assessing, and developing future leadership prospects. It's also utilised to identify, analyse, and develop essential contributors who can meet the future strategic and operational needs of a firm. It is a key strategic tool for business survival and competitive advantage in the knowledge economy (Lowan & Chisoro, 2016).

According to Yahaya (2013), succession planning is the process of determining how and when to transmit the leadership torch from the current owner/manager to a successor who will either be a family member or a non-family member (a professional management), while the family retains ownership. What is sacrosanct in this is that successful succession planning and execution have the potential of elongating the lifespan of FOBs and ensuring their continuity and sustainability even after the death of the owner. It gives a competitive edge over other FOBs that do not know about or successfully planned and executed succession planning before.

In pointing out the contribution of succession planning to the competitive advantage of FOBs, Dauda (2013) states that it is the proactive construction of a strong future staff resource base, which is critical to attracting and retaining the best and most important people who will contribute to the company's current and future growth. Similarly, Lowan and Chisoro (2016) posit that it enables continuity in FOBs, should the current owners/founders leave the organisation for various reasons, including death, old age or retirement. It also ensures smooth handover of power, creation, sharing and retention of knowledge, if experts leave the organization which makes for a competitive edge over firms that do not have such things (succession planning) in place (Lowan & Chisoro, 2016).

Despite the place of succession planning in the dynamics of competitive edge for businesses, most FOBs in Anambra State seem not to be actively taking part in planning for their succession and this could account for many dead FOBs after the death of their

founding fathers. Hence, this study intends to look at how succession planning aids in giving a competitive advantage to FOBs that practice it in Anambra State.

REVIEW OF RELATED LITERATURE

Succession Planning

Succession planning as it relates to FOBs entails the active and conscious thinking of whom to take over a business and taking steps to make sure that they are aware and prepared for the handover. It is a deliberate and formal process that facilitates the transfer of management control from one family member to another (Miller & Meloed, 2005).

Acree-Hamann (2016) and Stephens (2016) identified succession planning as a resource that businesses utilise to fulfil objectives when employees or owners leave. Organizations that do not have adequate succession planning, according to Acree-Hamann (2016), are likely to have a bleak future. According to Stephens (2016), vacancies in important roles resulted in the aforementioned bleak future since poor choices and operations are frequently adopted during crucial vacancy times. Furthermore, Stephens (2016) avers that businesses can rapidly fall into a hasty crisis mode when vacancies appear without planned succession. Following the loss of important personnel, strategic planning, like succession planning, assists businesses in managing issues and executing accurate plans and policies (Acree-Hamann, 2016).

The availability of experienced and talented people who are ready to assume these responsibilities when they become available is increased via succession planning. Replacement planning for critical jobs, taken narrowly, is at the foundation of succession planning (Karim, 2014). It ensures that an entity's continued existence, to maintain and develops new competencies, and leverages its development, based on a strategic view of what one expects of the future (Rothwell, 2005).

As a proactive step, succession planning allows for a smooth transition of the business from the proprietor to a designated successor (Akpan & Ukpai, 2017). As a result, the succession process motivates businesses to adopt strategic approaches to personnel capacity appraisal, talent management, and leadership development (Dauda, 2013) In addition, succession planning necessitates identifying successors and engaging key personnel in the firm to guarantee their involvement and commitment on a long-term basis (Dauda, 2013).

From an organisational standpoint, succession planning includes assessing risk in key roles, limiting risk via proper remuneration, recognition, and management, and ensuring successor readiness by identifying and educating high potential personnel (Robb, 2006). Through the succession planning process,

superior employees are recruited, and subsequently, their knowledge, skills, and abilities, are developed in order to prepare them for advancement or promotion into ever more challenging roles (Johnson and Brown, 2004).

Succession management is more concerned with securing the future of a firm by ensuring a smooth transition to the next generation. Rothwell (2005) avers that a systematic organisational effort to secure the entity's continuous existence, sustain and build new competencies, and leverage its development, based on a strategic vision of what one anticipates of the future is what succession planning is characterised as. It is an act that ensures that an organisation continues to exist after the founders have passed away by ensuring that the right people are brought in to manage the firm, either from within the family or from outside (Nnabuife, Nwogwugwu & Okoli, 2019). Based on the position of Ahmad and Keerio (2019), they insinuate that it is an organization's purposeful and methodical attempts to guarantee leadership continuity in important positions, retain and grow intellectual and knowledge capital for the future, and promote individual progress.

Challenges facing Succession Planning in FOBs

- a) Lack of succession planning knowledge
- b) The size of the family
- c) The structure or family type
- d) Lack of continued support from funders
- e) Internal employees sabotage
- f) Politics in the organization
- g) Gender issues/bias
- h) Family crises
- i) Presumed successor's lack of interest in the business
- j) Not wanting to give away control of the business
- k) Fear of death
- l) Perception of availability of time by the owners/funders

Reasons for Succession Management:

- a) Expand opportunities for high-potential employees
- b) Identify replacement requirements so that appropriate training, education, and development may be targeted
- c) Increase the pool of personnel that could be promoted
- d) Assist in the execution of the organization's strategic business goals.
- e) Assist employees in achieving their career goals inside the company.
- f) Leverage the organization's intellectual capital potential.
- g) Promote the progress of people from a variety of backgrounds.
- h) Enhance employees' capacity to adjust to changing needs in the workplace

- i) Raising staff morale
- j) Determine which employees may be fired without causing harm to the company.
- k) Deal with the consequences of downsizing

Source: Portions of this material in *Effective Succession Planning*. Copyright 2001 AMACOM, a division of American Management Association, New York, NY. <http://www.amanet.org>.

Competitive Advantage

Anything that gives an organization's upper hand is said to be a competitive advantage. That is, when an organization has some competencies and skill that other organizations do not have, it could be said to be the edge such an organization has over and above others. Many things could constitute the advantage an organization has over another, one of such is the succession plan such an organization has. This is because, a well-planned succession gives an organization guide and direction to follow. It prepares people for leadership and control positions ahead of time, so as to avoid haphazardly doing things.

Proper management of the skills and abilities of various members of an organization to decipher who could handle some positions hands a competitive edge to that firm. Capturing this succinctly, Nejadirani, Namvar, Rasouli and Yadegari (2012) opine that organizations have managed to achieve competitive advantages through proper management of the skills and abilities of employees who are prepared for certain top positions, which is pointing to the role of succession planning. Vitee (2016) emphasises the importance of succession planning, as it will ensure that individuals leading the next generation will be competent to manage the organisation through future challenges.

The organisation needs to have good future leaders, to be able to identify these leaders at an early stage and be able to mentor and mould them to step effortlessly into a superior's position, and organizations that can do this already possess an edge over those that cannot, and this could differentiate a firm that will die off and one that will continue as a going concern (Suzette & Rishaad, 2019). An FOB that does not have people readily available to take over when there is a gap in ownership or control is already at a disadvantageous position (Dauda, 2013). Hence, the alarming rate of FOBs that could not continue following the death of the owner/founder. Kellermanns and Eddleston (2004) opine that lack of succession planning is a major cause of the high mortality rate in small scale businesses.

Succession planning is, therefore, a competitive advantage tool for firms that do it effectively and efficiently, as it ensures smooth transition of the business. Dumbu (2018) insists that succession planning is the lynchpin for the continuity of enterprises despite the form. This is because it develops people to ensure that the organization has highly

qualified members who are capable of filling critical positions when it presents itself either in a planned or unplanned absence (Rollinson, 2017). It prepares an organization for the time when a key member or member of the workforce moves on through retirement, resignation, incapacitation and or death (Oyewole, 2018). It is critical to the sustainability and competitive advantage of any organization irrespective of its ownership nature (Dauda, 2013).

Succession plans have a significant impact on an organization's long-term strategic sustainability because they assist in putting the proper people in place to achieve the goals and demands of stakeholders (Deshwal, 2015). As a result, succession plans have the potential to have a major influence on strategic and competitive capacities, according to the literature (Adeyemi & Adeyemi, 2019; Asiri, 2019; Deshwal, 2015; Hildebrand, 2015; Keerio & Ahmad, 2019). Employees' requirements are balanced when succession planning rules are in place, and appropriate replacements for senior roles are easily recognised (Nel, Werner, Haasbroek, Poisat, Sono & Schultz, 2008).

Empirical Underpinnings

Monyei, Agbaeze, Omonona, Kelvin-Iloafu, and Obi-Anike (2021) studied the impact of succession management on the long-term viability of small and medium-sized enterprises (SMEs) in Lagos, Nigeria. Participants for the study, which employed a descriptive survey research technique, were recruited from five SMEs across Lagos State based on their number of years in operation, employee strength, and branch locations. The hypotheses were examined using the Pearson product moment correlation coefficient, which revealed that succession planning was associated with corporate sustainability among SMEs in Lagos State, Nigeria ($r = 0.934$, p -value 0.05).

Bienose, Asikhia and Oduyoye (2021) did a study which examined the influence of management succession planning on family business continuity was investigated in Lagos State, Nigeria. The study was conducted using a survey research approach. When this study was done, there were 8712 registered family businesses in Lagos State. The study employed the Cochran formula sample size determination method to pick a sample size of 477 participants using a standard random sampling strategy. The data was analysed using descriptive and inferential statistics. The findings showed that management style had no significant impact on the survival of family businesses in Lagos State, Nigeria, that organisational structure had a significant impact on business growth, that organisational culture had a significant impact on business performance, and that the managerial transition process had a significant impact on sales growth.

Osita, Kekeocha and Ojimba (2020) conducted study in South-East Nigeria on succession planning and small and medium firm sustainability (SMEs). 1000 SME owners from the region's two primary marketplaces made up the population. A survey research design was used in this study. A self-structured questionnaire was used to collect data. Regression analysis was used to analyse the data, and the hypothesis was tested at a 5% level of significance. The majority of businesses, according to the statistics, are still in their first generation. According to the hypothesis test, mentorship has a statistically significant relationship with SMEs' continuity in the research area's defined markets ($r = .933$; $R^2 = .871$, $F = 6562.226$; p -value 0.05).

Onyeukwu and Jekelle (2019) conducted research in Anambra, South-East Nigeria, on leadership succession and the sustainability of small family-owned businesses. The research was carried out in the commercial and industrial centres of Onitsha and Nnewi in Anambra State, using a survey research approach. A five-point Likert structured 6-item questionnaire was utilised to collect data. The link between the dependent and independent variables in the study was determined using Pearson Product Moment Correlation. The Paired Sample t-test was also performed to see whether there was any statistical evidence that the mean difference between the paired observations in the hypothesis was significantly different from zero. Mentoring and human capital development has a significant influence on small family-owned farms' long-term stability.

Mierzal, Ritz, Gómez, and Bergfeld (2017) investigated the succession planning process in family companies across many countries, as well as the influence of culture on succession planning disparities. To understand what the differences were, the researchers compared an online poll done in Mexico with a comparable survey conducted in Germany. The findings demonstrated that different cultural origins might explain predicted variations in risk aversion and long-term orientation. Mexican culture is more short-term oriented, risk-averse, and collectivist in nature. The findings mirrored those in Germany, with a larger importance put on family opinion and less preparation. However, there were some commonalities in the data, such as the presence of succession plans in roughly 25% of the respondents.

CONCLUSION

Family businesses around the world suffer from lack of or inappropriate succession planning/management, leading to the discontinuation and untimely death of businesses. These businesses which could have contributed to the economic growth of the state and country as the case may be end up being lost. Therefore, this study concludes that to look at the

sustainability of FOBs and their competitive advantage thereof, the issue of success planning is very important.

RECOMMENDATION

Following the conclusion, the study recommends that:

- a) Succession planning should not be left in the hands of businesses alone, seeing that these businesses are major economic players, the government needs to take a lead role in educating and ensuring they have succession plans in place.
- b) Incentives could also be provided by the government to businesses to encourage succession, given that if the businesses succeed, the government would have succeeded in indirectly protecting jobs and fighting poverty and improving living conditions.

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