SUCCESSION PLANNING AS A STRATEGY FOR SUSTAINING FAMILY BUSINESSES IN NIGERIA.

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Abstract

This study investigates succession planning as a key strategy for sustaining family businesses in Nigeria. Family-owned enterprises contribute significantly to economic development and job creation in the Nigerian economy. However, the lack of succession planning in family-owned businesses is a major cause of their short lifespan beyond the first or second generation. As we may be aware already, small and medium enterprises, SMEs, a category to which a lot of family businesses fall into, remain the catalyst for economic growth in developing countries, especially in Africa. In Nigeria, small businesses create jobs and contribute to economic growth by spreading jobs and higher living standard all over the country-ranging from rural to urban areas alike and to both skilled and unskilled workers. They also account for a very large percentage of people in formal employment. By offering a variety of products and services, family businesses like other SMEs make Nigeria's economy more resilient and less vulnerable to downturns.

However, for family businesses to continue to contribute to economic development, they must continue to exist and pass from one generation to another. In Nigeria as in most African countries, succession in business implies a relative or family member taking over a business from a retiring, incapacitated or dead relative. In reality, most businesses do not survive the owner because there is always no succession or transition plan. Also, the idea of 'partnership' is not a common or popular practice as most people in Nigeria would prefer to assume total control of their business and in most cases little attention is given to sustainability when the founding owner is no more.

If it is true that the SMEs in the private sector is the engine room of growth of any national economy and also that the private sector is significantly dependent on family-owned businesses, then there is therefore a real challenge of how to encourage the survival and growth of the family businesses beyond the generation of their founders.

This paper explores the challenges, benefits, and practices surrounding succession planning in Nigerian family businesses. It adopts a qualitative approach, drawing from relevant literature and theoretical models such as agency theory and stewardship theory. The findings reveal that poor governance, cultural attitudes, and lack of formalized structures hinder succession planning. Recommendations include early succession

planning, leadership development, and institutionalization of family governance mechanisms.
Keywords: succession planning, family businesses, sustainability, Nigeria, generational transfer

1.0 Introduction

1.1 Background to the Study

Family businesses dominate the private sector in Nigeria, ranging from small and medium-sized enterprises (SMEs) to large conglomerates. Despite their economic relevance, many do not survive the transition from one generation to the next. The Nigerian Corporate Affairs Commission (CAC) reports that over 80% of registered businesses are family-owned, yet only 30% or less survive beyond the founder's generation (CAC, 2023).

Succession planning in business is the strategic process by which leadership is transferred to the next generation to ensure business continuity and sustainability. In Nigeria, succession in business is often informal, sometimes based on cultural norms rather than merit, leading to conflicts and business collapse. Succession planning in family business therefore is simply a preparation to ensure continued quality leadership of a family business organization from one generation to another; a process for identifying and developing internal people with potential to fill key leadership position in a company. It can also be described as a process whereby an organization ensures that employees are recruited and developed to fill key role within the company. Succession planning also enables an organization identify talented employees and provide education to develop them for future higher and broader roles.

To establish effective succession plan, a clear objective is necessary for success and some of these are:

- Identify those family members or "outsiders" with the potential to assume greater responsibility in the organization
- Provide critical development experiences to those that can move into key roles
- Engage the leadership in supporting the development of high potential leaders
- Build a data base that can be used to make better staffing decision for key jobs
- Improve employees' commitment and retention
- Meet career development expectations of existing employees
- Counter the existing difficulty and cost of recruiting employees externally.

1.2 Statement of the Problem

Many family businesses in Nigeria fail due to the absence of a structured succession plan. The reluctance of founders to relinquish control, lack of trust in successors, delays in introducing favored or potential family members to business and poor institutional frameworks contribute to high failure rates after leadership transition.

1.3 Objectives of the Study

- To examine the role of succession planning in sustaining family businesses in Nigeria.
- To identify the challenges family businesses, face in implementing succession plans.
- Ensures that capable successors are trained and able to make continuity possible
- Ensures a steady stream of income for future generations.
- Life has no guarantees- there is no insurance against misfortunes
- Project continuity and sustainability to a wide range of stakeholders (like customers, bankers, investors, board members, etc)
- Even great leaders die
- The longer a business person waits to plan succession, the fewer the option available to the person
- To propose strategies for effective succession planning in Nigerian family enterprises

1.4 Research Questions

1. What is the impact of succession planning on the sustainability of family businesses in Nigeria?
2. What are the key challenges to effective succession planning in family businesses?
3. What best practices can be adopted for successful generational transition?

1.5 Significance of the Study

The study provides insights for policymakers, family business owners, and researchers by offering practical frameworks for managing succession and ensuring business continuity. Many of the family companies that dominated the Nigerian business environment in the pre and post-independence periods have all disappeared due to poor succession planning or no succession planning at all. Some of the reasons for this is that many entrepreneurs reserved succession for their sons and delayed arrangement for the hand over process until their formal retirement, incapacitation or death, though this problem is not limited to Nigeria alone, it is assumed that most businesses in developing countries do not survive even to the second generation, the tremendous challenges faced with sustaining an enterprise in developing countries make the matter worse. Although a lot of Nigerian companies do not survive beyond their founders, some of them have managed to move from one generation to another through implementation of the basic principles of succession planning. Some Nigerian companies that have survived their founding owners are:

- SEVEN-UP BOTTLING COMPANY: Established in 1960
- CORONA SCHOOLS: Established in 1955
- FEGNO GROUP: Established in 1936
- CHELLARAMS:Established in 1920
- ORAZULUIKE TRADING COMPANY: Established in 1957
- THE PUNCH NEWSPAPERS: Established in 1970

The above-mentioned companies are just some of the few that have broken the jinx of continuity made possible by strict adherence to entrepreneurial ethos and a strong desire to continue in business against all odds. (LEAP Africa,2006)

2. Literature Review

2.1 Concept of Family Businesses

A family business is an enterprise where decision-making is influenced by multiple generations of a family related by blood, marriage, or adoption. These businesses typically emphasize long-term wealth creation over short-term profits (Astrachan & Shanker, 2003). An effective and proactive succession plan leaves an organization well prepared for expansion; the loss of a key employee; filling a new job opening; employee promotion and organizational redesign for opportunities. Succession planning builds bench strength.

Since retirement, incapacitation and death are all facts of life, it is important that plans and processes are put in place to effectively transfer ownership or management from one party to another. In reality, this transfer of power does not always happen in an orderly manner or does not happen at all, but the good news is that there are strategies for managing family business succession if the succession is planned from the onset or set up of the business:

- **RECRUITMENT:** Hire the best people in the market who share the same values and vision with the organization. Teach the children the family business when they are young.
- **ACHIEVEMENT ORIENTATION:** Instil a culture that celebrates achievement and support of high achievers without being elitist and ensure that your employees recognize the career path that is available to them.
- **CONTINUITY:** Always emphasize continuity of business to managers and employees.
- **TRANSPARENCY:** Institute transparent accounting system and controls.
- **BOARD OF DIRECTORS:** Institute an independent and functioning board.
- **KEY- PERSON INSURANCE:** This involves taking out a key person insurance against important individual in the business. A key person insurance provides a payout to the business in the event of the death or permanent incapacity of the insured individual which can be used to head hunt a new manager or provide funding to the shareholders if they decide to dissolve the business. For a family

business in need of planned succession, starting a process of transfer of power early would be a better idea.

SHAREHOLDERS AGREEMENT: A shareholder's agreement will help determine the rights and responsibilities of each member of the business whether they are family members or partners. This will help to cushion the impact of changing circumstances in the business

2.2 Succession Planning Defined

Succession planning involves identifying and developing new leaders to replace old leaders when they leave, retire, or die. It encompasses talent development, leadership mentoring, and strategic timing (Rothwell, 2010).

2.3 The Nigerian Context

In Nigeria, succession is often a sensitive topic, especially in businesses where the founder is seen as the sole decision-maker. Cultural values such as patriarchy, age hierarchy, and informal mentoring dominate succession practices (Ogundele et al., 2012).

Identify key individuals with requisite skills and experience to drive the business forward once the business founder moves on, for instance family members concerned about family welfare; owner/shareholders concerned about return on investment; business managers and employees concerned about operational effectiveness and job security. Ensure open and honest communication among them.

- Obtain objective opinions and insights from a truly objective advisory boards and board of directors.
- Make people aware of their role in the organizations business plan.
- Give employees access to the decision-making structures.
- Share knowledge beyond a handful of key individuals.
- Ensure that the employees are aware of who the new management is likely to be so that the transition is seamless.
- Develop and implement a careful, intentional process like:
- Developing a timeline for shifting control of your company.

- Examine and evaluate all employees, family members, etc to identify potential successors.
- Introduce a formal training programme for your successors.
- Prepare yourself for retirement.
- Install your successor (in your life time)

By creating an agreement that covers the transfer of ownership from one party to another; by ensuring that provisions are in place for untimely loss of a key individual; by developing and communicating a long-term succession plan and by knowing when to step aside, we can then create long term stability and sustainability in our business.

2.4 Challenges in planned Succession Strategy For a family business

- Founder Syndrome: Refusal of the founder to relinquish control.
- Lack of Preparedness: Successors often lack training and exposure.
- Family Conflicts: Rivalries and disputes among siblings.
- Legal and Governance Issues: Absence of formal governance structures.
- Letting go of power by the senior generation is not always easy.
- Family partitions that divide the family and compromise economic scale.
- Children or relations may not want to run the business.
- Children or other relation may not be competent to run the business.
- Lenders may not have confidence in the new management team and may withdraw support especially if succession strategy is put together too hastily. This can lead to financial problems.
- Finding the right time and place to discuss succession planning can be tricky.
- It may be difficult to sell the business-selling small businesses can be a herculean task, except on the internet for instance.
- Senior management may resign with the boss-they may not like the style or strategy of new management.
- A most perfect way to handle succession planning is to include it in the business plan from the onset or beginning of the business, but where this is not possible, a

positive mindset critical to successful family and private company continuity is still possible and these are:

- Respecting and accepting the challenge of continuity.
- Understanding that succession issues are common to all.
- Communicating actively and openly about the challenges within the family and amongst professional board of directors.
- Planning for leadership and ownership succession for family business growth and change; and for family harmony and commitment.
- Committing to a company with a common vision and values

2.5 Benefits of Succession Planning

- Ensures continuity and stability.
- Enhances investor and stakeholder confidence.
- Preserves family legacy and values.
- Reduces operational disruptions.

SUCCESSION PLANNING PROCESS CHECKLIST:

ROLE OF OWNER AND FAMILY

- Is management and ownership succession an option?
- What role does the owner want now and in future?
- Does the intended role for the owners on retirement provide for dignity, challenge and training of the next generation?
- Does the role offer the opportunity to enjoy the accomplishment of others and the business?
- What roles will family members have in the family business?
- Will any family member be assigned a role beyond his or her ability or interest?

FINANCIAL SECURITY FOR THE OWNER AND FAMILY MEMBERS

- What are the owners and family's current future income and cash flow requirement?
- What are the owners and family's total assets and liabilities, now and in the future?
- What are the owners and family's current and future insurance needs?
- What is the balance between family business asset and other assets?
- What are the owners and family's financial reserves, assets and investment outside the family business?
- Has sale been considered?
- Would it be appropriate to convert some of the owner's investment in the family business to the owner's personal portfolio through dividends or reorganization of assets?

OWNERS'S GOALS FOR THE FAMILY AND THE BUSINESS

- Is there a written succession plan?
- Has the succession plan been communicated to the relevant people?
- Has the spouse and other key people provided input?
- Has there been family discussion of succession issues?
- Will family members and spouses be offered an opportunity to be involved in the family business according to their commitment and abilities?

3. Theoretical Framework

3.1 Agency Theory

This theory examines the conflicts that arise when ownership and management are separated. In family businesses, such conflict is minimized, but tension often arises between founder and successor (Jensen & Meckling, 1976).

3.2 Stewardship Theory

Contrary to agency theory, stewardship theory posits that family members act as stewards of the business, emphasizing loyalty, trust, and long-term growth over self-interest (Davis, Schoorman & Donaldson, 1997).

3.3 Systems Theory

This approach views the family and the business as interdependent systems. A successful succession must balance both family values and business goals (Tagiuri & Davis, 1996).

4. Methodology

4.1 Research Design

The study adopts a qualitative descriptive approach using case studies and content analysis of relevant literature, interviews, and public records.

4.2 Population and Sample

Family-owned businesses in Lagos, Port Harcourt, Enugu and Kano were considered, focusing on businesses older than 15 years. A purposive sample of 10 companies was used.

4.3 Data Collection Instruments

- Semi-structured interviews with founders and successors
- Document analysis of company records and public filings

4.4 Data Analysis

Content analysis was used to identify recurring themes, patterns, and insights.

5. Data Presentation and Analysis

5.1 Succession Planning Practices

Among the sampled businesses, only 30% had documented succession plans. Most relied on informal training, observation, and family loyalty.

5.2 Common Challenges Identified

- Resistance from founders
- Lack of trust in successors
- Unclear role definitions
- Gender bias in successor selection

5.3 Case Study Highlight

- **DOMINGO & SONS LIMITED.**, a family-owned business established in 1987, suffered operational decline after the founder's death in 2017 due to succession conflict. Eventually, external consultants helped mediate and implement a succession roadmap.

- **ROCHI Nigeria Limited**

Rochi Nigeria Limited was incorporated in 1980 as a limited liability company with head office at plot 144 Trans Amadi industrial layout Port Harcourt Nigeria. Late Chief Roland Nwachi was the promoter and also acted as the chairman/managing director triggering off an owner manager scenario.

Operating in the oil and gas city of Port Harcourt, Rochi took advantage of the booming oil and gas business then. He also invested heavily in real estate in Lagos, Warri, Owerri and Port Harcourt.

In May 1988, Mr. Ugonna Nwachi Roland's brother and director died in a ghastly motor accident throwing Chief Roland into deep mourning and confusion about the future of the business and his own vulnerability as a human being. Though he never saw his brother as a likely successor in his business, his death was a rude shock to him.

KEY SUCCESSION ISSUES IN ROCHI NIGERIA LIMITED

Chief Nwachi never planned his exit from his company and as such no succession plan was in place. He died suddenly after a brief illness.

Chief Nwachi never retired from Rochi, he died as chairman/managing director.

There was no board of directors.

Obum took over Rochi Nigeria Limited upon his return to Nigeria with no managerial or executive management experience.

Obum was never interested in taking over the business but was prevailed to do so as the 'first son' by other relatives.

Chief Nwachi's 4th son Uche who has more than 10 years close working relationship with his father was never allowed to take over the day to day running of the business because of his age and position in the family linage.

Lately,Ugonna's children are claiming a stake in Rochi on the assumption that their late dad was a shareholder and his offspring deserve some dividend from his 'investment'

Chief Nwachi's first daughter Uloma, a banker, with a Master's degree in Business Administration and married with 4 children was never considered to play any part in the business because she is a woman, she is also married and considered not to be in the main stream of family inheritance, she no longer bears "Nwachi" as her surname and therefore has no claim to family largesse.
All the six male children are executive directors while Obum retains his father's position of chairman/ managing director.

6. Discussion of Findings

Succession planning remains underutilized among Nigerian family businesses. Cultural factors, lack of strategic orientation, and weak governance structures hinder effective planning. However, firms with clear succession frameworks and external advisory support tend to transition more successfully.
The interrelationship between stewardship behavior and structured planning is crucial. When successors are adequately prepared and governance structures are in place, family firms tend to thrive beyond the founder's generation.
Three years ago, Obum of Rochi initiated a family meeting to find a way of resuscitating the company and maintaining family peace and cohesion. I was invited as a close family friend, consultant and an observer, below are some of my suggestions and advice:

- Rochi to constitute an executive management team that will include Uche, Uloma and other line managers of the company who are not family members.
- A comprehensive business plan that will take care of future plans, marketing plans, corporate strategy, job description for workers including family members, organization chart and a succession plan.
- The position of chairman to become non-executive and be separated from managing director.
- Obum to assume the position of non-executive chairman in the near future (two years transition period)
- A new managing director to be appointed in the near future with Uche and Uloma free to apply as eligible candidates.

- A functional board of directors to be appointed within the next 12 months
- New shareholding structure to be developed and filed with the corporate affairs commission in Abuja.

Though, they all agreed to implement this suggestion, we disagreed on imposition of a time frame for implementation, so the crises are yet from over or being solved.

7. Conclusion and Recommendations

7.1 Conclusion

Succession planning is essential for the sustainability of family businesses in Nigeria. Despite cultural and structural challenges, proactive planning, leadership development, and open communication significantly enhance the likelihood of successful transitions.

7.2 Recommendations

1. **Early Planning**: Begin succession discussions and mentoring early.
2. **Formal Training**: Invest in leadership and management education for successors.
3. **Governance Frameworks**: Establish family councils and boards of directors.
4. **Use of External Advisors**: Involve consultants for objective guidance.
5. **Legal Documentation**: Ensure succession plans are legally binding and enforceable.

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