SUCCESSION PLANNING IN SMALL BUSINESS ENTERPRISES IN EDO STATE OF NIGERIA

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Abstract
Small business enterprises occupy an important place in any economy. The rate of failure of small business enterprises in the Nigerian economy has been of great concern to all and sundry. One of the reasons for the failure of small business enterprises in Edo State of Nigeria is the lack of succession planning. This study examined the process of succession planning in small business enterprises in the hotel industry in Benin City, Edo State. Two hotels were sampled. Questionnaires were used to elicit information from the chief executives and employees. The findings in this study show that most of the small business enterprises have no succession plan in place and the ability and competence of the successors are not considered in succession planning. This study recommends that small business enterprises should develop a formal plan for succession, communicate the identity of successor, provide basic business management education, provide training/monitoring to the incumbent Chief Executive Officer (CEO) and all stakeholders to help him in planning succession and ensuring that owners are comfortable after disengagement.

Keywords: Succession, planning, small and medium scale businesses

Introduction
Researchers have long stressed the importance of succession planning in ensuring the continuity and growth of a business (Brockhouse, 2004). Some have even gone to the extent of stating that dealing effectively with the issue of succession planning is the single most lasting gift that one generation can bestow upon the next (Ayres, 1990). Unfortunately, succession planning appears to be left to chance by many small business owners (Leason-Guerrero, 1998). Some researchers attribute apparent neglect of succession planning to the emotion generated by the process; it forces
incumbents to face their mortality and makes other small business members contend the need for change (Beckhard and Dyer, 1983, Stern, 2004).

Additional complication arises because the Chief Executive Officer Succession process within small business firms is quite different from that of large firms. This is due, in large part, to the coincidence of personal and business interest in small firms (Davis, 1993). For example, in the large corporations the date at which the Chief Executive Officer is replaced is usually agreed upon in advance and is determined by the Board of Directors. Also, the frequency of succession is greater in large firms because these companies themselves produce large number of successors (Gorden and Rosan, 1981). On the other hand, in typical small or medium sized firms, there is unlikely to be any consensus on when succession is going to take place. Moreover, the number of potential successors is limited to the number of family members available.

Unfortunately, research studies (Beckhard and Dyer, 1983; Maynad, 1999) have indicated that when owners/managers retire, less than one-third of the small businesses are continued to the second generation, and less than half second generation firms make it with the third generation (Brahan-Miller et al, 2004). Consequently, successful succession of the Chief Executive Officer is a crucial goal for small business enterprises. Without the next generations’ leadership and direct management, the firm cannot maintain its character, let alone survive.

The present study examines the process of succession planning in small business enterprises, focusing on selected hotels in Benin City, Nigeria.

Literature Review

Small and Medium-sized Enterprises Defined

It is important to note that, in general, there is no single official universal definition for a small firm. A wide range of definitions is used in practice. (Mukhtar, 1998). The US Small Business Administration (SBA) has defined small business as one with fewer than 500 employees (SBA, 2001). While its size standards were recently revised to vary by industry as defined by the North America Industrial Classification system (NAICS), the maximum size for most sectors remains at 500 employees. However, other studies that have followed this definition of small business may have failed to detect and discriminate the differences and nuances between “large” and small firms.

The white committee’s definition of small business is often used by researchers and it states that “……. It is a business in which one or two persons are required to make all the critical management decisions such as finance, accounting, personnel, purchasing, processing, or servicing,
marketing, selling, without the aid of internal specialist and with specific knowledge in only one or two functional areas ……” (Berryman, 1983).

The European commission offers a more exact definition. Its definition for SMEs, first adopted in 1996, specifies size graduations for micro, small and medium-sized firms based on three factors:

1. **Headcount**
2. **Annual turnover and**
3. **Annual balance sheet total.**

Accordingly, the 2003 definition by the Commission of the European Communities states that:

- **Micro:** <10 employees, turnover ≤ €2 million, balance sheet ≤ €2 million.
- **Small:** <50 employees, turnover ≤ €10 million, balance sheet ≤ €10 million.
- **Medium:** <250 employees turnover ≤ €50 million, balance sheet ≤ €43 million.

In 1985, a small scale business was defined by the Nigeria Bank for Commerce and Industry (NBCI) as a firm with assets (including working capital but excluding land) not exceeding N750,000 (seven hundred and fifty thousand naira). But Nwoye, (1994) used:

1. **Total investment cost**
2. **Size of work force**
3. **Level of turnover**
4. **Operational environment, to define small business.**

In the Companies and Allied Matters Act (CAMA) of 1990, a small business company was defined as one with annual turnover of not more than N2 million and net assets value of not more than N1 million.

Central Bank of Nigeria (CBN) Monetary Policy Circular No 22 of 1998 also defined SME as any enterprise whose investment (excluding land but including working capital) is less than N300,000.00 with annual turnover of N5m.

The concept of SMEs is dynamic and relative (Olorunshola, 2003; Ogunkuye, 2004). Several institutions and agencies define SMEs using different parameters such as employee’s size, asset base, turnover, financial strength, working capital and size of the business. These definitions include that of the Nigerian Industrial Policy (1989) which defines SME as any enterprise whose investment in working capital is between N106,000.00 and N2m excluding cost of land. The (now defunct) Industrial Development Bank (NIDB) defined small enterprise as one with investment and working capital not exceeding N750,000.00 and medium enterprise as having between N750,000.00 and N3m. The Federal Ministry of Industry Guidelines to NBCI also defined SME as any business with a total cost not
exceeding N500,000.00 (excluding cost of land but including working capital) while the centre for industrial Research and Development (CIRD) of Obafemi Awolowo University, Ile-ife says an SME is any enterprise with capital base not exceeding N250,000.00 and employing, on full-time basis, fifty workers or less. Former Nigerian Bank for commerce and industry (NBCI) also defined SME as any business with a total capital not exceeding N750,000 (excluding cost of land but including working capital).

Another definition of SME is that of the national council on industry which is subject to change four years. It defined SME as any enterprise with fixed assets above N1m but not exceeding N10M (excluding working capital), while a medium-scale enterprise is one with fixed asset more than N10m but less than N40m (including working capital but excluding cost land).

The national council on industry (NCD) in 2001 offered the following definition for micro, small, medium, and large-scale enterprises in Nigeria.

a) Micro/cottage: An enterprise with a labour size of not more than 10 workers, or total cost of not more than N1.5m (including working capital but excluding cost of land).

b) Small-scale: an enterprise with a labour size of 11-100 workers or total cost of over N50m (including working capital but excluding cost of land).

c) Medium-scale: An enterprise with a labour size of 101-300 workers or a total cost of over N50m but not more than N200m (including working capital but excluding cost of land).

d) Large-scale: An organisation with a labour size of over 300 workers or a total cost of over N200m (including working capital but excluding cost of land).

In the current industrial policy of Nigeria, small and medium enterprises (SME) are defined on the basis of employment, thus:

I. Micro/ Cottage Industries............. 1 and 10 workers

II. Small Scale Enterprises...............11 and 100 workers

III. Medium Scale Enterprises..........101 and 300 workers

IV. Large Scale Enterprises.............301 and above

For the purpose of this paper, small businesses shall refer to all businesses having between 11 and 100 employees.

**Succession Planning**

The research done in the area of succession planning is mainly in family-owned business. Several research studies provide comprehensive definition of the term succession planning in family-owned businesses. They see it as the process by which a shift occurs in the ownership and/or control...
of the entrepreneurial firm from the owner/founder to a successor (Cliffe, 1998; Miller, 1998; Theune, 2000). These articles include topics such as the need to plan for succession, in other words, the need for succession planning is focused on small to medium size enterprises (SME) and is especially critical (Brockhouse, 2004 Staron, 2003).

Within family-owned organizations, unique sets of issues arise. This is because of the presence of the “family” dimension in addition to the “business” dimension of the enterprise which means that additional factors must be taken into account to understand organizational planning process. Family-owned firms are organized around a set of emotionally charged interpersonal relationship that can lead to positive or negative consequences (Guillmette, 1999). In short, “what works for one family in one situation will not work for another family in another situation (Sharmal et al, 1997:7). Differences are reflected in the goals, strategy, and implementation and organization performance of the family firms (Sharma et al, 1997, Stummer et al, 2004).

Since leaders of family firms remain closely tied to their firms even after transferring its leadership to their successor, it is important for them to feel comfortable with the critical factors such as family dimension and attributes of their successors including skills and qualifications (Drozdow and Carroll, 1997) The succession process in family-own firms involves numerous participants: family members, other executive in the firms, suppliers, bankers and customers which affect the behavior and expectation of the CEO, parent and employed offspring. For the succession process to unfold smoothly, key participants must come to feel comfortable with one another. (Guillmette, 1999, Mace and Williams, 2000, Spector, 2000). Consideration of important elements involved in the succession planning process which include continuity, growth beyond the capacity of the founder, profitability and national economic growth and stability, (Ceynowa, 1999, Hutcheson, 2000, Theune, 2000) and the guideline for effective succession planning, include:

(a) Accentualization of the separate legal entity status of the business enterprise. The owner/founder of the small business must begin to operate the business as a separate legal entity. A practical step in this direction is to separate the founder/entrepreneur personal funds from those of the business enterprise and maintain a separate account for the business. This implies that properties which belong to the entrepreneur but which are being used by the business enterprise could either be leased or sold to the business enterprise.

(b) Restructuring of the management system of the entrepreneurial firm. The goal here is to build up an organizational system capable of carrying on the operation of the business enterprise independently of the founder entrepreneur. To achieve this goal requires recruiting and
developing a team of professional managers and empowering them; developing an effective control system through the formalization of policies and operating procedure especially accounting procedures; the recruiting of the Board of Directors to become a functional organ in the management of the business enterprise (Beech, 1998, Emley, 1999, Fenn, 1998 among others).

(c) Recruiting and systematic training of potential successors: Deliberate effort must be made to recruit potential successors into the enterprise and to initiate a systematic and coordinated training for them in various operations of the enterprise. Training may take the form of rotation of the potential successor through the different operations of the business so that they can acquire hand-on experience in these areas. It also includes the founder entrepreneur introducing the potential successor to key customers and suppliers, coach, mentoring and monitoring and evaluations of the performance of the potential successor by the entrepreneur.

(d) Designation and installation of the successor to the top leadership position of the firm. It is important to mark the occasion of the installation of the new chief executive with an appropriate ceremony, the purpose of which is to signal to all concerned including the founder entrepreneur of the change of baton in the business enterprise.

(e) Emotional support for the entrepreneur: Having disengaged from the top management position of the firm but before launching into new role in life, the founder entrepreneur may feel lost and abandoned, indeed he or she may doubt the wisdom of disengagement from the leadership role of the enterprise. If the entrepreneur ever needs support and encouragement from the family, friends and relatives, it is at this time.

The first one is the one concerned with the developing conceptual models for accessing and implementing succession planning strategies in family-owned businesses. Several researchers have developed theoretical models/strategies dealing with succession planning in family-owned businesses, these include:

(i) Transfer of ownership and control of the business enterprise from the owner/founder to a direct heir, usually the children. In most Nigerian communities, the transfer of ownership and control is to the first male child of the founder.

(ii) From the owner/founder to a relation other than the children; this is rare in Nigeria but it occurs where the children are infants. The wife of the entrepreneur, a brother or other trustees may gain control of entrepreneurial firms in trust for the infant children of the founder.

(iii) From some one who is a senior partner or majority shareholder to a co-partner or other shareholders of the firm.
(iv) From the owner to a professional manager who, invariably has worked for a considerable length of time and has risen to the level of general manager in the enterprise. When the professional manager assumes control, the ownership may still be retained by the owner.

(v) From the owner to an outsider: This occurs where there are outright sales of the firm, a merger or in the even of bankruptcy. In a later event, a receiver may be appointed to oversee the affairs of the firm.

(vi) Going public: This involves sale of shares to the general public such that key investors are constituted into a Board of Directors for the management and control of the company (Bjuggren and Sund, 2001, Harveston et al, 1997). Even though the models/strategies suggested by the authors are detailed, the main criticism is that there has not been any effort to use existing theory to develop a comprehensive model of succession planning in family-owned businesses (Brahan-Miller et al, 2004).

For example, Longenecker and Schoen (1978) propose a model for parent-child succession in the leadership of the family-owned firm that involves a long term, diachronic process of socialization through seven stages, beginning in childhood. Rosenblatt et al (1985) argued that a prerequisite for a smooth succession is the ability and willingness of family members to criticize each other tactfully and accept this criticism without becoming extensively defensive. Matthew et al (1999) specify a general leadership succession model that includes the process by which the parent/leader and child/successor evaluate each other and themselves through a cognitive categorization process. More recently, Staron (2003) suggests a model for the succession process from a perspective of “extraversion. Staron (2003) proposes that owner manager business exhibits an extraverted attitude during the succession process.

The second one is the one which might be considered as the culmination of all research done on succession planning in family-owned businesses, which deals with the assessment of the actual succession planning that takes place with family-owned businesses. As noted by Sharma et al (1997), planning firms are not a homogeneous group. Past studies have suggested numerous factors that distinguish between family-own businesses and non-family-own businesses and explain differences in orientation and business practices between them including: firm demographics (e.g. age, generation, industry, product/market, and evolutionary stage), owner-manager demographics (e.g. age, gender, education, leadership style, family structure) and strategic orientation. Moreover, based on a survey of owner/managers of 40 companies in East Anglia, UK, Brown and Coverly (1999) concluded that most owners do not plan for their succession. Most of the research under this study, illustrated the extent and critical nature of succession planning in family owned businesses worldwide. Moreover,
these previous research studies demonstrated that various aspects of the “family” dimension of the business hold the potential to impact long range planning process and practices among small firms, suggesting that different criteria and patterns for succession planning might exist within family-own businesses according to size and other factors.

Objective Of The Study
The present study examines the extent to which owners of small businesses, particularly hotels in Benin City, engage in succession planning. For those that engage in succession planning, the study also examines the processes involved as well as the factors that account for this critical management behavior.

Methodology
Personal interview, with prepared guided questions, was carried out amongst the proprietors of the two selected hotels. The hotels are Randekhi Hotel, and Choice Gate Hotel and Suites, both in Benin City.

The first hotel was Randekhi hotel situated at Ihama Road GRA Benin City. It was established on 1st December, 2004 and fully incorporated on 6th May, 2005. Randekhi hotel started with twenty staff of various categories and as at the time of the research work, the staff strength has grown to fifty. The hotel has one hundred and twenty rooms of various grades, from single, double, suites, executive and king executive rooms.

In the organisation of the hotel, it has several departments which include,
I) The front desk( receptionist)
II) House keeping
III) Kitchen
IV) Accounting
V) Personnel

Each of the department is headed by a supervisor while the entire organisation is headed by a manager who is assisted by Assist manager. The accountant in the hotel holds OND in accounting and he is responsible for the keeping of the books of account for the organisation, also prepares the wages and salaries of the staff.

The personnel department is headed by OND in management who is responsible for staff matters. The hotel manager, who is the only university graduate, holds an HND in hotel and catering management. His functions cover the management of the entire staff.

Members of the family participate actively in the running of the hotel. The son of the proprietor is the assistant hotel manager. The intention of this is to prepare him to take over from the manager eventually. The wife of the
proprietor does all the purchases both consumable and otherwise. The proprietor actively participates in the day to day running of the hotel. He chairs all management meetings and takes all the importance decision of the hotel. In Randekhi Hotel, it was discovered that management meeting holds the last week of every month. This is to assess the progress of the organisation and effect necessary adjustment where necessary. As the hotel is purely a sole proprietorship, the proprietor plays the sole of managing director and he is the embodiment of the board of directors.

It is interesting to note that the hotel engages an external professional accountant to audit the books of account annually.

The second hotel of our study is Choice Gate Hotel and Suite which was registered as business name (BN021039) under the company and Allied Matters Decree (now an Act 1990) on August 20th 2001 to operate as a subsidiary of Big Choice Associates Ltd (RC 349813). Business operations commenced March 1, 2003. It was established to provide lodging accommodation and catering services. It is centrally located in the business district of Edo state capital, Benin City. Choice Gate Hotel and suite is located at No 11, Nneka Street, off ugbor road, GRA Benin city.

The hotel started operations in 2003 with staff strength of 21, and has now increased to 34 as at the time of this paper.

The hotel has several facilities which include lodging rooms, which are equipped with modern facilities, conference hall for meetings and conferences. The hotel can accommodate between 70-100 guests, it has also recreational facilities which includes swimming pool, fitness and wellness exercise equipment. It has barbeque where special roasted crokal fish, chickens, goat meat and suya are served with chips, vegetables and choice gate spices.

The kitchen is well structured and equipped to cater for out-door catering services for wedding, birthdays etc.

The business centre is also located in the hotel premises to attend to the needs of the hotel guests and outsiders.

The hotel employs specialist staffs which includes the accountant who holds B.Sc. degree in accounting and hotel manager who also holds a degree in Business Administration

Management meetings which comprise the owners, managers and supervisors are held monthly. There is no Board of Directors as the hotel is purely a family business controlled by the owners on daily basis. There was evidence of external auditors coming to examine the books of account of the hotel anomaly.

The only evidence of succession planning in the hotel was unconsciously put in place by the presence of the wife of the proprietor and
the senior sons at the time of importance business decision affecting the effective management and growth of the hotel.

Examining the extent to which the owners of these hotels engage in succession planning, it was discovered from the interaction with the proprietors of two hotels that they were aware of succession planning but no conscious efforts has been put in place. In Randekhi Hotel and Choice Gate Hotel and Suites, informal succession planning was noticed in that at Randekhi Hotel the second son is the Hotel Assistant Manager and also in Choice Gate Hotel and Suites, the son of the proprietor is the Assistant General Manager.

In the Hotels (Randekhi and Choice Gate Hotel and Suites) the process is that of parent to child, though this is not formalized. It was only implied as a result of engaging their sons as management personnel pointed to succession planning for the enterprises. The major factor that accounted for this informal succession planning in these two hotels is that of retaining the ownership of the hotels within and among family members.

Findings

From this investigation, it was revealed that:

- Most of the small size enterprise owners have little or no idea of succession planning. Those who have the idea are not consciously planning for it.
- There is lack of consciousness in succession planning because of ignorance on the part of the founder or entrepreneur;
- The fear of losing the grip or ownership of the business after disengagement; and
- The fear of the owners’ comfort after disengagement from the enterprise and fear of determining one’s date of death.

Recommendation

We recommend that this succession planning should be taken seriously by any entrepreneur if he/she wants the continuity of the business when he/she disengages or dies. For any investor or entrepreneur to establish a business that would stand the test of time, he/she must have some basic business management education. This can be done through formal education in higher institution or understudying successful entrepreneurs.

All potential entrepreneur and/ or existing ones should develop a formal plan for succession; communicate the identity of successor, and provide training/monitoring to the incumbent Chief Executive Officer (CEO) and all stakeholders so that the business does not die with the entrepreneur.

In any succession planning, as the successor is being prepared to take over, arrangement should also be put in place to make the founder or
entrepreneur who is disengaged comfortable after the disengagement. This will alleviate the fear of loosing the grip or ownership of the business.

**Conclusion**

Successful succession planning is important for the stability and growth of the economy as this will ensure continuity. Although there are several barriers to succession planning, failure to plan for it jeopardizes the future of the business enterprise.

Inability by any entrepreneur/founder to plan for succession will definitely send wrong signals to the entrepreneur’s immediate family members and key employees about the intention of the entrepreneur. Possible illness or old age of the entrepreneur or founder may result in the decline of the business and unexpected death may result in family disagreement over the distribution of estate of the entrepreneur or founder. Successful succession planning ensures smooth transition from the entrepreneur or founder to his/her successor.

**References:**


