

UDC: 334.722.24(662.6)

ENTREPRENEURIAL SUCCESSION PROBLEMS IN NIGERIA'S FAMILY BUSINESSES: A THREAT TO SUSTAINABILITY

Ogundele, O.J.K., PhD

Idris, A. A.

Ahmed-Ogundipe, K. A.

Department of Business Administration and Management Technology,
Lagos State University, Ojo

Abstract

The need to focus on entrepreneurial succession problems in Nigeria is due to the fact that many promising family businesses have collapsed over the years soon after the demise/exit of their founders. Using secondary data, the paper seeks to explore the issues involved in succession problems, the sources of the problems and how these have threatened the perpetuity principle in companies with respect to family businesses in Nigeria. The paper concludes that the succession laws of Nigeria (which includes the native laws and customs) and the multi-cultural nature of Nigeria creates a myriad of succession problems for family-owned businesses in Nigeria. Based on its findings, the paper recommends to indigenous Entrepreneurs in Nigeria, the crafting of a comprehensive, well thought-out, market-focused and people-centered entrepreneurial succession planning started early enough in the life of the business.

Keywords: Entrepreneurship, Entrepreneur, Family Business, Succession, Entrepreneurial Succession, Sustainability, Culture, Nigeria

Introduction

Ogundele [2000] citing several writers [for example Staw, Bell & Clausen, 1986; Sekaran, 1989; Meredith, Nelson & Neck, 1991] identified the influence of values, attitudes, belief and perception as influencing the behaviour of people, entrepreneurs inclusive. The social context of individuals, including their families and the groups they belong to affect their behaviour [Ogundele, 2007; Kunkel, 1971]. These socio-cultural influences play a key role in family-owned businesses in Nigeria and create multi-dimensional problems which jeopardize ‘going-concern’ in such firms and/or lead to their collapse when the founder is no more or is incapacitated.

The purpose of this paper is to identify within a theoretical framework, succession problems which threaten the existence of family businesses in Nigeria; and to proffer solutions to pre-empt and curtail such problems. The paper also benefits from practical observations of the authors.

The paper is divided into six sections. Section one is the introduction, section two briefly looks at some conceptual clarifications, section three discusses the nature of family businesses in Nigeria, section four identifies and explains succession problems and their effects on sustainability, section five considers succession planning and exit strategies available to entrepreneurs, section six is the conclusion while section seven ends the paper with recommendations.

Conceptual clarifications

Entrepreneurship and Entrepreneur

In the midst of the growing definitional confusion, Hisrich and Brush [1985 as cited in Hisrich and Peters, 2002] gave a comprehensive definition, which is adopted here. They defined Entrepreneurship as “the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic [psychological], and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence”. The person who undertakes the above process is called an Entrepreneur. Schumpeter [1934] earlier described the entrepreneur as the individual, who identifies new markets, idea[s], system or processes and brings such either by copy, acquisition, or transfer into a market.

Family Business

A family business is here referred to as any organization in which members of a family [be it monogamous, polygamous or extended households], hold controlling shares and which does not separate ownership from management. This implies that the Founder/Visioner or his appointed family members run the operations of the company or enterprise.

Succession and Entrepreneurial Succession

Succession in legal parlance is the passing of “property to persons upon the death of the owner of the property” [Animashaun&Oyeneyin, 2002]. By the simple law of nature, everyone must eventually die. However, human beings acquire properties during their lifetime and many successful Entrepreneurs have the business or enterprise as one of such assets. After the demise of the entrepreneur, the assets will have to be distributed to their living relations. The law of succession regulates the transmission of the rights and obligations of the deceased individual with respect to his estate to his successors and heirs.

In organizational theory, succession is the process of transferring management control from one generation of leader[s] to the next generation including the dynamics before, during and after the actual transition [Zacharakis, 2000 in Ukaegbu, 2003]. Erven [2007] referred to it as ‘management succession’. This he said can be “a process... over the years ... involving the 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”. Management succession can also be by ‘crisis’ rather than ‘a process’. The crisis eliciting variable(s) being either the disability or death of the founder, the outcome of the recommendations of an outside consultant hired to do a ‘quick fix’ job, divorce or threat of departure of a heir-apparent [Erven, 2007]. Referring to the context of family business, succession has been defined by Sharma, Chrisman, Pablo and Chua. [2001 as cited in Ukaegbu, 2003] as those actions and events that lead to the transition of leadership from one family member to another.

The concept of Entrepreneurial succession adopted in this entry is of the wider perspective. We posit that it is both a process and the happen-stances by which ownership and management control of the Enterprise founded by one generation is transferred to the next. The Enterprise naturally includes the production and/or commercial infrastructures

which were accumulated by the founder of the family-owned business. In the Nigerian context, the generational leaders could be from a nuclear family in a monogamous household or from a compound family in a polygamous household.

Sustainability

Every human being and product has a beginning and an end. Hence the concept of Product Life Cycle [PLC] in the case of a product. Though the concept of perpetuity in company law assumes that the corporate personality called ‘company’ is expected to exist into infinity, real life experience reveals the contrary in many cases. Companies also die. As Marketing Management battles to extend their products’ life cycles, entrepreneurs and top management also manipulate strategic variables in order to sustain the life of the organization, as far as possible. The extent to which such organization’s life can be stretched while fulfilling its purpose can be termed as *sustainability*.

Culture

Culture is that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of a society [Taylor, 1971]. To Terpstra and David [1985], culture is a learned, shared, compelling, interrelated set of symbols whose meaning provides a set of orientations for members of a society. These orientations, taken together, provide solutions to problems that all societies must solve if they are to remain viable. This paper considers culture as the totality of the way of life of a people embracing all the elements listed by Taylor [1971] above.

Nigeria

Nigeria is a country of about 140 million people located in the West African sub-region. This most populous country in Africa has over 250 different ethnic groups with their different cultures, mores, and customary laws. She operates an extended family system in which the less privileged believes the privileged has an obligation to cater for the poor. Polygamy and large families are rampant. All these have tremendous implications on succession in family businesses as well as their sustainability.

Entrepreneurship and nature of family businesses in Nigeria

Family businesses in Nigeria, as in other parts of the world, come in virtually all sizes [small, medium and large] and exist in virtually all sectors of the economy. Naturally they are more in the small bracket – the tailoring outfit, barbing, carpentry, retailing outfit, petrol and gas stations, etc. For the purpose of this paper, our emphasis is on the entrepreneurial outfits, which have been able to make a reasonable mark in the business scene in Nigeria, for example, the empires of AlhajiYinkaFolawiyo, AlhajiAlikoDangote, Dantata, Isiyaku, Rabi, Bashorun M.K.O. Abiola, Chief Ashamu, The Ibrus, Okoya-Thomas, the Ojukwu family, Chief Odili, Bobby Benson, Sanusi Brothers, Henry FajemirokunDehinde, Fernandez, Bank-Anthony, etc. These are business conglomerates that were built by known Entrepreneurs through their solo efforts and from ‘humble beginnings’. Though a number of the above and many similar Enterprises are now moribund, an understanding of their life-cycle patterns should be instructive.

Characteristics of Family Businesses

1. **Commencement.** Generally, they are kick-started through the solo effort of individuals who had a vision and the will to blaze the entrepreneurial path. Some of the individuals had mentors who usually sow a seed-capital into the business. For example, AlikoDangote of the Dangote Group of Companies is said to have been given a seed-capital of N500,000 (approximately US \$3,333) by his maternal grandfather and notable trader, AlhajiSanusiDantata [Akanbi, 2004].
2. **Entrepreneurial Activities.** These founders undertake many types of entrepreneurial activities which include
 - New concept/new business. They develop new idea[s] of new product[s] around which a new business is built.
 - New concept/existing business. A new idea/product is adopted and operated/produced within an existing business.
 - Existing concept/new business. An already existing idea/product is adopted by a new business usually with lots of systems changes and value added through creativity.

- Existing concept/existing business. An existing idea/product is adopted by an existing business.

3. **Growth Pattern.**In Nigeria, many of the family businesses started with trading activities and later metamorphosed into the collection and execution of contract jobs, which is facilitated by the Entrepreneur's unique ability to make friends and maintain a large network of social contacts – particularly in the corridors of power. Later they integrate backwards and commence manufacturing locally. Many also invest in the banking sector and finally spread across many business sectors without actually concentrating on any specific sector [Adeleke, Ogundele&Oyenuga, 2008]. They take advantage of opportunities as such emerge – be they from technological developments, from supply gaps or from demand upsurge. This supports Juneja's [1984] concept of "opportunistic entrepreneurship".

4. **Ownership and Management combined.**Family businesses in Nigeria generally operate a simple management structure, which combines ownership and management in one or few persons. For example, in Doyin Group of Companies, the founder [Chief Samuel Adedoyin] is Chairman/CEO while some of the children are directors overseeing some other Strategic Business Units [SBU's] within the group. Spouses and children of the founders, therefore, have great influence on decision-taking and operational management in such businesses.

5. **Polygamous Marital Life.**While some practice monogamy, many of the successful Entrepreneurs in Nigeria practice polygamy. It is not impossible to find an Enterprise founder with two to four wives and ten to twenty legitimate children plus some 'unknown wives and children'. As will be seen in later sections of this paper, this has its effect on succession practices.

6. **Fusion of Private and Business Lives.**The concept of legal personality of companies presupposes that the records and finances of the business will be separated from those of its owners. This legal entity principle is regularly abused in many family businesses in Nigeria. Owners find it difficult to separate their private lives from the business particularly in the areas of finance and management. Many family businesses are known to be allowance payment points for the founders numerous children, spouses and concubines. Financial discipline and record keeping is also poor in many.

7. **Flexible Decision-making.**Being a simple structure with an owner-manager arrangement, decision-making is quite flexible and quick.

8. ***Informal Employer-Employee relation.*** As an offshoot of the above characteristics, there generally exists an informal relationship between the employer and the employees. The employer is able to identify and relate with most of the staff on a first name basis. In fact many of such enterprises employ family members when they commence operation.

The behaviour and personality traits of the entrepreneur shape the organizational culture and business orientation of the family business. Hence the study of entrepreneurship usually commences with an understanding of the entrepreneur. It is found necessary to briefly highlight both the pre-emergent and post-emergent characteristics of the Entrepreneur in the family business.

The Behavioural features of Nigerian Entrepreneurs

Entrepreneurs who founded the family businesses tend to exhibit pre-emergence features such as: thriftiness, flexibility, ability to bear reasonable risk and uncertainties, creativity, unique ability to develop and maintain a large network of social contacts, and an ability to retain earnings within the business for future growth.

McClelland's personality based theory [as cited in Singh, 1986; Ogundele, 2000] identified certain *characteristics of entrepreneurs*, which remain a truism even today in family-owned businesses in Nigeria. These characteristics include a high need for achievement [N-Ach.], a need for independence [N-Ind] as he desires to take responsibility for actions/results, preference for moderate risks, optimistic/confident of success, need for and stimulation by feedback, energetic and scrupulous time user, futuristic in orientation, highly skilled in organizing and an attitude which value money as a proof of accomplishment, not an end.

However, in the Nigerian context many can be described to have a high need for power [N-Pow]. A classical example is late Chief M.K.O. Abiola who after much success in business sought power by contesting for the Presidency of Nigeria. Many others act as king-makers in the political arena. This act may be said to be an economic decision as government contracts constitute a sizeable source of business opportunities and income for a number of the Entrepreneurs.

Succession problems and sustainability

A legal description of succession had earlier been given as the passing of property to persons upon the death of the owner of the property [Animashaun and Oyeneyin, 2002].

However, in the business world, it is not compulsory that the owner must die before the issue of succession arises in the management of an enterprise. The owner-manager may choose to retire and enjoy the rest of his life after a hectic working life [for example, Sir Michael Otedola of the Zenon Group] or he may be compelled to retire for health reasons. It is necessary to note that Nigerian businessmen and entrepreneurs hardly voluntarily retire [Ogundele&Idris, 2008; Gosling &Mintzberg, 2003]. They usually die in ‘active service’ or are forced to retire by a health catastrophe, e.g. hypertension, stroke, diabetes related diseases, etc. This characteristic of Nigerian Entrepreneurs further compounds succession issues which Ortiz [2007] described as ‘the thorniest issues within family-owned businesses’. Generally, succession problems may arise from internal [i.e. endogenous] or external [i.e. exogenous] sources. At the center of both sources of the problems is the culture of the people and this, when considered against the backdrop of the over 250 different ethnic groups in Nigeria, constitutes a great cause for concern.

Internal Sources of Succession Problems

This set of problems arises as a result of the internal dynamics within the enterprise itself or between it and the family of the founder. These include:

1. ***Lack of succession planning.*** Most Entrepreneurs never give a thought to the need to prepare an acceptable successor in the event of their exit. The cultural values and beliefs of the society do not help matters as planning for death is not positively viewed. To do so is to acknowledge one’s mortality [Kets de Vires, 1993]. They always bask in the euphoria that they still have many years of healthy life ahead. Still on cultural influence, the first male child in many African cultures is automatically assumed to be the ‘heir apparent’ giving no reason for deliberate well-thought out succession plan. Sometimes when the owner-founder attempts to plan the transition, certain factors peculiar to the Nigerian environment do constrain the process [Ukaegbu, 2003; Forrest, 1994]. For example, the owner-founder may suddenly realize that the assumption of more responsibility and authority by the heir-apparent means less power and visibility to the founder. This may lead to conflict between him and the successor. In some instances when the beneficiary of the assets of an entrepreneur takes over the management of the family-owned business, a succession crisis situation may arise.

2. ***Succession Crisis.*** This is a situation whereby fear and resistance is generated within the workforce as a result of the uncertainty about what the new

leadership will portend for their future. Usually it constitutes a temporary problem if quickly and properly addressed. For example, a teenage-successor daughter of the proprietress of a flourishing Secondary School in Lagos, Nigeria, took a few clumsy decisions during her first month in office which generated so much anxiety within the workforce that some of her best teachers resigned immediately. This was followed by large withdrawals of pupils by many parents resulting in serious fall in the income of the School. The faithful foundation managers who had worked on a first-name-basis with the founder may find it difficult working with the successor.

3. **Polygamy.** The rivalry between the siblings and spouses that follows the demise of polygamous entrepreneurs coupled with a variety of cultural laws guiding inheritance in Nigeria does not make for an objective selection of the best material as successor. Where a competent CEO material exists, he may not put in his best to revamp or manage the family business. After all, it can later be taken from him by the elders and shared to the other children. For example, the heir apparent to late Chief M.K.O Abiola family business is said to be highly trained and able to revamp many of the collapsed companies [e.g. Concord Newspapers, Concord Airlines, Abiola Bookshop, Radio Communications Nigeria, Abiola Football Club, etc.]. However, he is said to be sceptical of the large family members who equally have a claim to the Abiola inheritance.

In the Nigerian context, an illegitimate child [born out of wedlock] can acquire legitimacy by mere acknowledgement such as when “the putative father does something overtly by which he recognises the child as his” [Sagay, 2006:4]. The father merely verbally informing his friends and relations [*Abisogun V. Abisogun* cited in Sagay, 2006] or his acknowledgement letter found amongst the father’s personal effects after his death [*Young V. Young* cited in Sagay, 2006:5] confers legitimacy and a right of inheritance on the child.

4. **Intestate Succession.** The Law of nature dictates that everyone must, of necessity, die. When the deceased entrepreneur made a Will, he is said to have died *testate* otherwise, he is said to have died *intestate*. The family members who may be entitled to his property [the family business inclusive] under the appropriate laws of succession are referred to in legal parlance as ‘*Beneficiaries*’ or ‘*successors*’

Animashaun and Oyeneyin [2002:9] have highlighted three ways by which the Estate of a deceased person can be shared in Nigeria. This could be by using

- The customary laws of the deceased’s society which includes Islamic laws

- The intestacy rules or the statutory law governing the administration of the estate,
- The Will made by the deceased.

On many occasions, the CEO/Founder of the family business die intestate leaving the elders to decide on the choice of distribution method of his properties. They have the option of using either the customary law [natural law and customs of the community] or to refer the matter to the courts for adjudication where the common law rules of intestacy per section 36 of the Marriage Act, 1918 will apply. Naturally the Elders almost always choose the customary laws. The ‘large family’ of the Entrepreneur [relations constitute part of the family in Nigeria] begins to jostle for the inheritance during which time the family business suffers a loss of corporate focus, loss of management commitment and financial strangulation. Some family members physically cart away expensive and valuable company properties such as power generating sets, air-conditioning systems, etc. A classic example is the Bobby Benson Hotel in Nigeria’s commercial city, Lagos – where family members removed most of the valuables and left the hotel, a shanty ghost of its former self. The hotel was later confiscated by the state government and demolished because it became an abode for social miscreants.

Salacuse [1965 as cited in Animashaun and Oyeneyin, 2002] defined *Customary Law* as a “mirror of acceptable usage, a reflection of the social attitudes and habits of various ethnic groups which derives its validity from the consent of the community which it governs and is applicable only to people indigenous to the locality where such customary law holds sway”. In Nigeria, with over 250 different ethnic groups, an equally large number of customary laws exist. The sharing of the estate of a deceased entrepreneur is based on the doctrine of inheritance and succession of property as stipulated by native laws and customs. These customary doctrines are guided by the canons of lineal descent along paternal or maternal lines [Animashaun&Oyeneyin, 2002:3]. For example, the Yoruba people of Western Nigeria and the Hausa Fulani people of Northern Nigeria follow the paternal line while the Afikpo, Abiriba and Ohafia people of Eastern Nigeria follow the maternal line though most of the Eastern communities follow the paternal lines too.

4.1 ***Yoruba Customary Law.*** For the family property, the trustee is the head of the family who is usually the eldest person. In the case of self-acquired properties of the deceased [including his Businesses], the sharing formula depends on his monogamist or polygamist status. In monogamy, the properties are shared equally between all the children. In polygamy, the sharing could either be by [a] “*Idi Igi*” – distribution per stirpes. The

properties [enterprises inclusive] will be shared equally as per the number of recognized wives irrespective of the number of siblings in each 'Idi Igi' [each wife's line], [b] "Oriojori" – distribution per capita. Every child takes an equal portion. Wives are excluded from inheriting in Yoruba land.

4.2 **Northern Nigeria Customary Law.** Many variants exist. However, the native law and customs, for example of the Birom of Plateau, the Lugada of Adamawa and the Chubok of Borno – all exclude the females. The sons come first followed by the brothers of the deceased.

Islamic law has over the years become incorporated into the customary laws of Northern Nigeria but the deceased must have shown an intention for its application. In that case, even if he dies testate, he can only distribute a third of his properties, as he desires. The sharing formula for the remaining two thirds has been divinely stipulated in the Holy Quoran [Khatib, 1986].

4.3 **Eastern Nigeria Customary Law.** In Igbo land, the rules of customary law on succession are not uniform. When an entrepreneur dies, all his properties [including the family business, his personal staff 'ofo', titles, if any, and the 'obi' - his residence where he lived], passes to his eldest son, 'okpala'. [Animashaun&Oyeneyin, 2002:17]. However, he is to administer and manage the estate and businesses in trust for the benefit of the entire family. Where the deceased founder had more than one wife, the eldest sons of the wives inherit jointly! This is irrespective of whether they are compatible or not. In most parts of Eastern Nigeria, the widow cannot inherit the business no matter the role she played during the life of the founder. In Idoma law and custom, she is a part of the entire deceased's property to be inherited by the brother of the deceased [Animashaun&Oyeneyin, 2002 : 18].

All the above create peculiar succession problems for the family business which tends to threaten the survival/going-concern of the business. Infact the sharing of the founder's assets lead to a depletion of the capital of the enterprise. For example, a female spouse who has been running a family business effectively may have to relinquish such position upon the demise of her husband. A globally successful entrepreneur had a prominent group of newspapers in Lagos, Nigeria which was hitherto run by one of his many wives [a doctorate degree holder and journalist of great repute]. Upon the demise of the founder, the wife had to relinquish the position of CEO. The newspaper publishing house finally folded up because the heir-apparent and successor [the first son] was not interested in newspaper publishing.

The widow of the deceased founder now writes a regular column for a competing newspaper in Lagos, Nigeria.

5. **Management Misfit Succeeding the Entrepreneur.** Following from the above an incompetent person may finally inherit a blooming unit of the family business, which he may be unable to run effectively. In this case, the heir has not been adequately trained or prepared to effectively run the business. This could lead to the management and financial ill-health and final collapse of the business.

6. **The Extended Family System.** This creates severe pressures for the successors and the family business as cultural values and customary laws operational in Nigeria give them a claim to the properties of the entrepreneur. The extended family which includes uncles, aunts, nephews, nieces and cousins could also be deemed survivors to the estate of the enterprise founder. The head of the extended family [‘Oloriebi’ in Yoruba land of Western Nigeria, ‘NnanweEzi’ in Igbo land of Eastern Nigeria] wields great powers and influence in the sharing of the estate of a deceased founder. All of these scenarios escalate conflicts within the family because many members engage in intrigues, lobby and campaign to secure power in the new entrepreneurial dispensation. In fact the founder’s choice of a successor may be reversed or the enterprise fragmented upon the death of the founder as a result of fierce posthumous antagonism within the family members. This is a great threat to the sustainability of the family-owned business.

7. **Lack of or inadequate Insurance Cover.** As a result of management incompetence, mis-judgment or inadequate funding, the enterprise may not be adequately insured. A catastrophe or business mishap could lead to illiquidity resulting in the collapse and/or sale of the business. This is a forced succession. Two classical examples in the Nigerian business environment are the defunct Amicable Insurance, which failed to re-insure its operations properly; and WTN, Agbara, which has no cash defalcation insurance cover but suffered a huge cash loss. Losses suffered by these companies eventually led to their collapse.

8. **Founder’s Children – induced Problems.** Sometimes the founder’s children may not be interested in the family business. Again they may disagree with the founder’s choice of sibling heir and may decide to leave the business for such a reason [Ortiz, 2007; Forrest, 1994]. Where some are interested, they still run their own parallel business outside of the family business even during the life time of the founder. This is done knowing fully well that upon the demise of the founder, the business may be shared according to custom. Hence they

invest little time into the family business. This tends to atrophy the family business over time.

External sources of succession problems

These are succession problems which arise from the external environment within which the organization operates.

1. **Government Policy on Recapitalization.** In managing the Nigerian economy, successive governments have attempted a re-engineering of key sectors of the economy – particularly the banking, insurance and oil sectors. A change in the capitalization requirements could result in mergers [a forced succession] which jeopardize the sustainability of the enterprise. This was experienced in 2006 when the minimum capital base of banks was increased from N5 billion to N25 billion. Many banks were forced to merge. Change management also becomes a key issue in such cases.

2. **Legal Requirements.** The Legal requirements stipulated by government regulatory bodies may create sustainability problems for family businesses like for any other. For example, the Nigerian Deposit Insurance Corporation [NDIC] stipulates only a N50,000.00 (approx. US \$333) insurance cover for depositors in the case of the liquidation of any bank. This policy has created succession problems and threat to the sustainability of many family businesses. The closure of Society Generale Bank of Nigeria is an example.

3. **The Political Colouration of Government Policies.** In Nigeria, experience abound where different governments use state power to foreclose renowned entrepreneur's businesses or craft policies targeted at ruining his business. For example the Nigerian government under late General Sani Abacha in a bid to break late Chief M.K.O Abiola's resolve and denounce his presidential mandate, formulated many policies to destroy his businesses. Summit oil [one of the late Abiola's companies] had its oil prospecting license withdrawn for political reasons. This led to the liquidation of the company. It can, therefore, be said that the founder's political expedition can be a source of threat to the sustainability of a family business.

Succession planning and exit strategies

Succession planning is all about taking pre-determined steps to make sure the business continues in the face of all the above problems. In the family business, it is concerned with keeping control of the business primarily within the family or among some collection of

existing related shareholders [Dreux, Etkind, Godfrey III & Moshier, 1999]. As can be seen from various Nigerian experiences, to successfully pass a business down to a family member is an uphill task. A time span of three to five years may be required. To minimize the psychological and financial crisis, which usually arise during the transition, a good succession plan is required. Possible *succession options* and *exit strategies* include [1] transfer to family members, [2] transfer to non-family members, and [3] exit or harvesting strategies.

1. ***Transfer to Family Members – Critical Factors.*** Forrest [1995 : 238] in his study of Nigerian private enterprises, noted that an important factor which accounted for many successful transitions was the capacity to bring in children into the family – owned business and give them gradual responsibilities and authority during the life time of the founder. To be effective the succession plan must consider amongst others, the following critical factors [Hisrich & Peters, 2002: 597; Dreux et al, 1992:2].

- The role of the owner in the transition stage - whether he will work full-time, part-time or retire

- The remuneration of working family members and stakeholders. Parents/principal owners have a tendency to over-pay the child or place him or her in positions of authority beyond his or her capability. This needs careful consideration to avoid a succession crisis. Furthermore easy access to wealth at a young age tends to undermine motivation and discipline among the children. This may taint the organizational culture of the family business negatively.

- The current business environment during the transition

- Family dynamics. Are some family members unable to work together?

What is the way out?

- The tax consequences [capital gains taxation] of all aspects of the plan.

A mere academic issue in Nigeria.

- Treatment of loyal and long serving employees

- Which of the children should be given important management positions?

- At what point should the family start succession planning? Various views exist. The age 55 threshold, when the children first enter the business, or when “adequate money” has been accumulated from the business. When is “adequate money” accumulated? becomes the next question. The point is when succession

planning is not commenced early enough, some children get frustrated and actually choose to leave the business.

- Forrest [1995:238] identified a number of factors undermining the succession strategy of bringing in children into the family business in Nigeria. These include a tendency on the part of the founder to delay the handover until it was too late, "... a failure on the part of the older generation to trust their heirs and pass on the detailed understandings and confidences of business life, the entry of children at high executive levels without adequate on-the-job experience, and easy access to wealth at a young age" The older generation need to avoid these pitfalls if they desire to have a smooth transition using this succession strategy.

2. ***Transfer to Non-Family Members.*** In view of the myriads of cultural laws, and for personal reasons earlier mentioned, there may be no competent family member who is interested in the business yet the principal owner desires to retire. Available options are:

- Train an identified key employee and retain some equity,
- Retain control and hire a manager from outside of the firm.

The first option has the advantage of a new principal who understands the business and possibly strikes a good cord with the owner. The second option may require the engagement of executive search firms to help identify a right successor.

Exit or Harvesting Strategy. The entrepreneur may choose to leave the business completely. Five ways of taking cash out of the business or harvesting the business have been identified [Hisrich& Peters, 2002:599; Dreux et al, 1999].

These are:

- a. Leveraged recapitalization
- b. Going public
- c. Direct sale
- d. Management Buy-out or Management/Employee Buy out.
- e. Employee Stock Option Plan [ESOP]

Leveraged Recapitalization. The family business borrows money and distributes to the owner-founder or buys back the agreed portion of the shares of the owner. This has income tax implications. Leveraged recapitalization is not allowed in Nigerian by the Companies and Allied Matters Act [CAMA 1990] of Nigeria.

Going Public. The *public offer* implies taking the family business to the capital market after properly determining the current market value of the shares. The founder can then be paid

the agreed portion of his investment or he sells his shares on the floor of the Exchange. Most Nigerian entrepreneurs do not like losing or diluting control and are sceptical of the regulatory burdens that accompany public offers and quotations.

The Direct sale option. This is based upon the assumption that some larger firms' growth strategy is the acquisition of successful small businesses. Direct sale requires planning and time. Direct sale necessitates a cut in the big salaries and expense accounts many entrepreneurs give themselves in order to improve the profit outlook of the company prior to the offer. This is not a favoured route to succession by Nigerian entrepreneurs.

Management Buy-out or Management/Employee Buy-out. The entrepreneur may prefer to transfer the business to loyal and key management staff with or without the other members of the workforce. This means retaining the management team and corporate track records which helps guarantee sustainability. It is a form of direct sale, which could be for cash, notes, or other means of payment.

Employee Stock Option Plan [ESOP]. This is a two-to-three-year plan to sell the business to employees [Hisrich& Peters, 2002: 600]. Under this option, the entrepreneur or owner sells at least 30% of the stocks to the ESOP. The ESOP takes a loan to fund this purchase but the company pays back the loan. It works like the leverage recapitalization but there exists a tax incentive to the owner. In the U.S.A, if certain conditions are met, the owner pays no capital gains tax. Up to ten years' profit can be taken out in one year by the owner [Dreux et al, 1999]. There must be an independent trustee for the ESOP and an independent valuation of the company's stock. The company acts as a market maker for its stocks as the ESOP buys back stocks from employees who seek to leave the plan on disengagement.

Conclusion

The paper has shown conclusively that there are a number of problems associated with entrepreneurial succession in Nigeria. The succession laws of Nigeria, which comprise of native laws and customs [including Islamic law], intestacy rules and the Will of the deceased entrepreneur, coupled with the diverse culture of the people creates many succession problems for the business and portends great threat to the sustainability of the family-owned business. Entrepreneurs [owner-founders] must take cognisance of these issues and act accordingly to preserve their legacies when there is still life.

Recommendations

In view of the foregoing, the following recommendations are made:

1. The entrepreneur in a family business must act proactively by crafting a succession plan early enough.
2. The plan must reflect a true management succession. No such plan works without being people- and market-focused. The interest of the family business must be foremost at heart. The founder must, choose the best person to succeed him as the family business will neither benefit anyone nor the society if an incompetent family member runs the business down.
3. Ethical issues are involved in succession. There is need to build love, trust, confidence and loyalty within the family members. This has to be done by the founding entrepreneur before his exit.
4. Building the succession programme into the Articles of Association of the organization. This is by incorporating the entrepreneur's Will into the articles of association as was done by late Chief Ade Ogundoyin, owner of Crown Trust Limited, Nigeria.
5. The proposed successor should first be made to assume gradual operational responsibilities and authority with a competent in-firm mentor guiding him over a period of time before the final take-over.
6. The founding entrepreneur should act as an advisor during the transitional stage.
7. The new successor must be properly tutored on how to strike a balance between control, professionalism and human relations within the family business upon taking-over so as to retain and motivate the key managers in the family business.
8. The admission of partners into entrepreneurial firms should be objectively done taking cognisance of succession implications.
9. In a merger situation [forced succession], change management imperatives must be properly and humanely handled.
10. Nigeria's diverse cultures should be fine-tuned to be supportive of entrepreneurial development. This is a call to government and the various change agents in the society.
11. Tax laws which will encourage Employee Stock Option Plan [ESOP] adoption in Nigeria should be incorporated into the Nigerian tax system.

12. Younger generations of potential entrepreneurs should be educated on the dangers inherent in polygamous marriages as this can affect business succession plans. Added to this is limiting the number of children in the family and ensuring that a WILL is prepared when the entrepreneur attains the age of 50 years.

In ending this paper, we posit that entrepreneurs running family businesses should recognise that succession problems can constitute a great threat to the sustenance of the business and constitute a clog in the economic development of Nigeria. They must act proactively and pragmatically in this matter.

References:

- Aborisade, F. [2006]. Entrepreneurship development in public enterprises [PEs]: An optional approach to national development. *Lagos Journal of Entrepreneurship and Technology*, 1(1), 20-33.
- Adeleke, A., Ogundele, O.J.K., &Oyenuga, O. [2008].*Business Policy and Strategy*. Lagos: Concept Publications Limited.
- Akanbi, F. [2004, October 17]. AlikoDangote: Entrepreneur extraordinaire, *Sunday Punch*, Lagos, p.36.
- Animashaun, T.O.G., &Oyeneyin, A. B. [2002].*Law of succession, Wills and Probate in Nigeria*. Lagos: MIJ Professional Publishers.
- Dreux, D. R. IV, Etkind, S.M., Godfrey, J.E. III, &Moshier, M.E. [1999]. Succession planning and exit strategies.A panel discussion in *THE CPA Journal*, September. Retrieved from <http://www.nysscpa.org/cpajournal/1999/0999/features/f30999.htm>
- Erven, B. L. [2007]. Management succession issues in family business. *Lagos Organization Review*, 5(9), December, 122 – 129.
- Forrest, T. [1994].*The makers and making of Nigerian private enterprise*. Ibadan: Spectrum Books.
- Gosling, J., &Mintzberg, H. [2003].The five minds of a manager.*Harvard Business Review*, 81 [11], 54 – 63.
- Hammer, M. [2004]. Deep change: How operational innovation can transform your company. *Harvard Business Review*, 82 [4], 84 – 95.

- Hisrich, R.D., & Peters, M.P. [2002]. *Entrepreneurship* (5th ed.). International Edition, New York: McGraw-Hill.
- Juneja, T. S. [1984]. Marketing opportunities in African countries. A paper presented at the *EMMs seminar on export strategy*, New Delhi: National Small Industries Corporation Ltd., July.
- Kets de Vries, M. [1993]. The dynamics of family controlled firms: The good and the bad news. *Organizational Dynamics*, 21(3), 59 – 71.
- Khatib, M. M. [1986]. *The bounteous Koran: A translation of meaning and commentary*. London: Macmillan Press, chapter 4, Vs 11 & 12.
- Kunkel, J.H. [1971]. Values and behavior in economic development. In P. Kilby [Ed.], *Entrepreneurship and economic development [pp. 191 – 224]*. New York: The Free Press.
- Meredith, G. G., Nelson, R. E., & Neck, P. A. [1991]. *The practice of entrepreneurship*. Lagos: University of Lagos Press
- Ogundele, O.J.K. [2000]. Determinants of entrepreneurial emergence, behaviour and performance in Nigeria. *Unpublished doctoral dissertation*, Department of Business Administration, University of Lagos, Lagos, Nigeria.
- Ogundele, O.J.K. [2007]. *Introduction to Entrepreneurship development, corporate governance and small business management*. Lagos: Molofin Nominees.
- Ogundele, O.J.K., & Idris, A. A. [2008]. Entrepreneurial succession problems in Nigeria: A threat to sustainability. In *Proceedings of 1st Chike Okoli International conference on Entrepreneurship and Africa's quest for development, (p.396-404)*. Nnamdi Azikiwe University, Awka, Nigeria.
- Ortiz, R. [2007]. Challenges of a family-owned business. *Lagos Organization Review*, 5(9), December, 71 – 74.
- Sagay, I. E. [2006]. *Nigerian law of succession: Principles, cases, statutes and commentaries*. Lagos: Malthouse Press Ltd.
- Schumpeter, J. A. [1934]. *Theory of Economic Development (3rd ed.)*. New York: Oxford University Press.
- Sekara, U. [1989]. *Organizational Behaviour: Texts and cases*. New Delhi: Tata McGraw Hill.
- Singh, P. N. [1986]. *Developing entrepreneurship for economic growth*. New Delhi: Vikas Publishing House.

Staw, B. W., Bell, N.E., & Clausen, J.A. [1986]. The dispositional approach to job attitudes: A life time longitudinal test. *Administrative Science Quarterly*, 31, 56 – 77.

Taylor, E. B. [1971]. *Primitive Culture*. London: Murray.

Terpstra, V., & David, K. [1985]. *The cultural environment of international business*. Cincinnati, Ohio: South-Western Publishing.

Ukaegbu, C. C. [2003]. Entrepreneurial succession and post-founder durability: A study of indigenous private manufacturing firms in Igbo states of Nigeria. *Journal of Contemporary African Studies*, 21, 1.