
Ownership succession and family business sustainability in Kaduna metropolis

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ABSTRACT

Discontinuation of family business operations after ownership succession continues to be an issue as many family businesses collapsed after their owners have passed on. The research investigates the impact of quality ownership succession plan and early successor preparation on sustainability of family businesses within Kaduna town. A cross-sectional survey research design was used to collect data from family business owners/managers in Kaduna Metropolis. It was analyzed with the use of PLS-SEM and found that quality ownership succession plan and early successor preparation positively and significantly impact on sustainability of family businesses in Kaduna Town. The research recommends that family business owners/managers in Kaduna State should institute quality ownership succession plan as part of their management strategy for sustainability and also prepare the successor early enough to be able to manage the family business after taken over.

Keywords: Early Successor Preparation; Family Business; Quality Succession Plan; Sustainability

1. INTRODUCTION

Intergenerational sustainability of family business operations continue to be very critical issue to deal with (European Commission, 2009). It is important for every successful business owner to show concern and courage to face the challenges of how the firm will continue into the next generation as the business owner cannot live forever. Family business continuity into the next generation directly relates

with smooth transition of ownership to a younger successor, which requires a multiple activities to be processed in advance to achieve the desired success (Sundaram, 2019). Process of ownership transition in family run businesses could become complicated due to the emotions and relationship involved, but due to its a strategic nature, it is expected to be taken seriously in order to keep the business in the family and operating from one generation to another.

It is a good decision to start ownership succession process early in the life of the family firm, as its absence can put the family business under undue risk of extinction in case the incumbent dies or retires due to incapacitation. A good succession process need to commence with a plan based on the incumbent owner's strategic passion for the future and willingness to hand over to an identified successor (Devins & Jones, 2015). The willingness of the incumbent owner to step down and availability of successor adds quality to the succession plan just like having a documented timeline for the commencement and termination of the transition process (Perret, 2019). The succession plan also needs to include a successor selection process to direct the family business inheritance to the heir with appropriate competency to manage it for growth and continuity.

It is expected that the incumbent owner's willingness to step down and availability of a successor should lead to early preparation of the successor. The successor preparation is important to start early when the incumbent is strong and healthy enough to offer support and guidance. Early preparation can increase the length of time the incumbent will work with the successor before stepping down. Good and long working relationship between the incumbent and the successor can make their goal compatible for the continuity and growth of the family firm. Conversely, a bad working relationship with the incumbent can make the potential successor uncomfortable to take over the family firm which can put the succession process at risk as the incumbent may become reluctant to transfer ownership (Ashanda, 2015). The preparation needs to start early to create space for the resolution of any differences between the incumbent and the successor to match their business vision. Early successor preparation is very important as it can position the business for both planned and unplanned transition of ownership and prevents stiff contest for ownership of the family firm especially at the demise of the incumbent (Nnena, 2021). It can also improve the relationship standing of the successor with other family members which is important for the achievement of a successful ownership transition.

Family businesses are the easiest, oldest and the most popular type of business in any economy including Nigeria, because most startup businesses are owned and

managed by family members (Oluata & Alli, 2021). Family business includes majority of corner shops, large multinational corporations and listed firms owned or controlled by families (Aderemi & Awotona, 2019). They dominate the landscape of streets, communities and countries, and makeup about 78.5 percent of all business ventures in Nigeria (Ifekwem, 2018). They contribute greatly to economic development by way of employment generation, boost to family income and over all GDP growth. The importance of family businesses makes it very imperative to be maintained as a going concern by ensuring its sustainability from generation to generation.

Family businesses are of great importance to national, regional and community economy but their survival beyond the founder remain very low (Ogundele, 2012). History abounds of many promising and high performing family businesses that disappeared with the death of their owners, for example, Abiola Bookshop, Concord Publishers Ltd, Sunrise Group of Companies, Odutola Tyres among others (Adebayo, Olanipekun & Ojo, 2016). Presently there are few family businesses in Nigeria that have survived up to second and third generations (Eluka, olayinka & Agaeze, 2018). To corroborate this, Price Waterhouse Coopers (PWC) Survey of (2018) estimated that about 70 per cent of family business in Nigeria collapsed at the death of their founder. The devastating effect of business discontinuation on the owners and the employees in terms of income and job losses calls for concern due to its contribution to negative social-economic growth, increase in poverty and insecurity.

Discontinuation of family business operations after ownership succession appears common in Kaduna metropolis like many other parts Nigeria where a lot of family businesses collapsed after their owners have passed on, for instance, Kabo Air, Chachangi Transport, Chachangi Airline, Sanusi Brothers Group of Companies, Ascon Oil Group, Choice Oil and Gas among others (Arogundade, 2011; Benedict, 2016). Family business ownership succession continues to be an important topic for research but most of such studies were on value fit between incumbent and successor, the intention of the incumbent to hand over and successor intention to take over (Zhu, 2020). Some other critical factors or processes may be responsible for this lack of intergenerational sustainability of family especially in Kaduna metropolis.

Firstly, it seems one of the major issues confronting intergenerational sustainability of family business could be as result of improper ownership succession plan. Most family business owners appears to devout more time in growing their business that they do not have ownership transition period as part their strategic growth plan

(Ashanda, 2015; Kaplan & Warren, 2007). Ownership succession plan with no specific transition period could mean that the owners have not made up their mind when to step down or successors have not been identified for the business. Quality ownership succession plan requires investigation as it can affect the sustainability of the family business in case of sudden incapacitation of the incumbent owner.

Secondly, it seems most successors to family business ownerships were not prepared early enough for their role as most ownership transition processes are mostly initiated when the incumbent becomes old or ill (Shanda, 2015). It is like most successors to family businesses were not prepared at the right time but wait until it becomes too late to effectively implement any preparation procedures (Hisrich, Piers & Shepherd, 2013). Early successor preparation is expected to make incumbent and the successor have a mutual understanding about the future of their family firm (Sandu & Nye, 2020). Lack of mutual understanding about the business vision can breed conflict among family members and other employees which can destabilize the progress of the firm and eventual collapse of the family firm. Hence early successor preparation needs to be thoroughly investigated.

Therefore, the study seeks to access the impact of quality ownership succession plan and early successor preparation on sustainability of family business within Kaduna metropolis, by raising the following research questions: What is the impact of quality ownership succession plan and early successor preparation on the sustainability of family businesses in Kaduna town?

The write up is divided into five sections; section one and two are basically on introduction and review of related literatures, while the third and fourth dwells on methodology and discussion of findings and the fifth is on conclusion of the study.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Family Business

Family business is any business owned by members of the same family in which the family has control to enforce changes and pursue the vision of the business and where there is intention to continue the business to the next generation (Nnenna, 2021). Most times, it is only when a business is doing well that the incumbent owner will be interested in handing it over to the next generation (Buowari, 2015). A poorly performing business maybe sold off and the proceeds used for the benefit of the family (Cho, Limungaesowe & Vilarndiisoh, 2018). A family firm where there is no intention to continue the business to the next generation but the business

operates clearly with great family influence and control cannot be denied being a family business.

Stephen, Aanuoluwa, Maxwell, and Ogbari (2020) observed that family business has no legal definition unlike micro, small and medium enterprises (MSME), as the size of the business is not a yardstick. But they suggest at least 25% of the ownership and management of the business should be within a family related by blood or marriage. Hence, while entrepreneurship study is concerned more with the foundation phase of the business and focuses on how to consolidate growth, family business study is about matured businesses that have intention to hand over to the next generation (Oyeladun, 2020). For the purpose of this research, a family business is any business owned and managed by a family for at least ten years and where there is intention to maintain family control in the next generation.

Quality Ownership Succession plan

According to Abubaker and Yahaya (2013), family business ownership succession plan is the design of the process of how and when to pass the ownership baton from the present owner to a successor especially a family member. This suggests that the issue of when the transition will take place is very critical and depends on when the incumbent is willing to step down for an available successor. Hence, Sharma, Chrisman, Pablo and Chua (2001) define quality ownership succession plan as a transition arrangement based on the incumbent's willingness to step down, a successor willing to take over within a time frame. Researchers have identified absence of ownership succession plan as major reason for low intergenerational sustainability of family run businesses but little is known about how or why planning increase success (Long & Chrisman, 2013). Most literature focused on succession problems without given much attention to identification of components of succession plan that can lead to success (Barba & Alberto Ivo, 2009). They further observed that not much has been written about quality of ownership succession plan which is focused on identifying the components that influence success and views succession as a long term process and not a single event.

Early Successor Preparation

Early preparation of successor is the development of ownership and management vision in the next owner early in the life of the business for continuous performance (Chrisman, Chua & Sharma, 1998). It can make the goal of incumbent compactible with that of the successor even as leadership styles differ widely according to personality and experience (Otika, Okocha & Ejiofor, 2019). It is important for the

incumbent to prepare the successor early enough by grooming the selected successor into acquiring some of the leadership styles that have helped the family business. This can be done by allowing the successor to shadow the incumbent. Early successor preparation gives room for proper execution of other important activities that support the transfer process (Ifekwem 2018; Murat & Michael, 2019).

Family Business Sustainability

Sustainability is the ability of the family business to meet the needs of the present generation without compromising the ability of future generations from meeting theirs (Abdulrahman, Adeleke & Esator, 2021). Family business sustainability is mostly viewed from the perspective of business continuity and trans-generational ownership (Sundaram, 2019). Family business sustainability model is anchored on satisfaction of the major stake holders like customers, employees, family members and others (Perret 2016; Svoboda, 2019). They suggest that family businesses that maintain or improve their relationship with these major stakeholders can achieve continuation of operation through generations. In the context of this research, improvement of; customer relationship, employee retention, family member's relationship, retirement package for retiring family members and venture funding were adopted as a formative measure of sustainability of family business. And sustainable family business is a family run firm that continues to exist for at least ten years after the demise of the incumbent owner or founder.

Theoretical Framework

This research was based on the Stewardship theory, developed by Donaldson and Davis (1993) as new way to provide an understanding of the relationship between ownership and firm management. It explains a situation whereby managers left on their own will act as responsible stewards of the assets they control (Alves & Gama, 2020; Mucci et al., 2020). The stewardship perspective is an assumption of a higher level of commitment due to family involvement and wiliness to sacrifice present gain for sustainability of the firm (Miller, Le Breton-Miller, & Scholnick, 2008). Scholars relying on stewardship theory maintains that family businesses exhibit higher-order needs other than purely economic ones, such as firm longevity and intra-generational succession (Farah, Rida, Cristine, & Glenn, 2020). Founders of family businesses are extremely keen on the perpetuity of the business and thus make long-term and future-oriented business decisions and investments (Alves & Gama, 2020). It becomes important for family business owner/manager to willingly step down and handover when required to avoid crises. Stewardship approach

enables other family members to allow the best heir to come into the family early to lead the firm for organizational and family progress. Family firms place more weight on family and social ties, loyalty, trust, and stability, which in turn increases goal congruence (Ahrens, 2019). Stewardship theory provides the best guide in this research because stewardship orientation enhances the bright side and suppresses the dark side of family involvement. It motivates family members to support the process of succession early in the life of the firm purely for the interest of family and business sustainability.

Review of Related Empirical Literature

Family business researchers in Nigeria, other African countries and the rest of the world have shown some interest in the issue of family business succession and sustainability for example from other continent of the world: Bokhari, Muhammad and Zakaria (2020) tested the impact of succession planning (cognitive, structural, and relational ties), strategic flexibility and organizational improvisation towards the business sustainability. This research was based on triple bottom line theory. It used survey method and structural modeling technique to test the hypotheses. The findings showed that cognitive, structural, strategic flexibility, organizational improvisation and relational ties indicate a positive and significant relationship with business sustainability. The work recommends that family-owned businesses need to consider succession planning particularly cognitive, structural, relational ties and strategic flexibility to gain business sustainability. The research define succession plan narrowly and did not consider the willingness of the successor to step down and availability of the successor as bases of a good plan.

Gracia, Tmotius and Teofilus (2020) researched how the preparedness of the successor and family members' relationship with other business members impact on the performance of the family firm. The quantitative research used a population of family business community in University of Ciputra Indonesia using a sample of 93 people, purposively and randomly selected. The data was analyzed with the use of Partial Least Square (PLS) and the results showed that, the preparation level of heirs, relationship between family and business members have positive and significant effect on family business performance. The research was on successor preparation and family relationship on family firm performance. Performance is important for sustainability but not enough for sustainability and the successor preparation studied required further test in a different cultural setting.

Zhu (2020) examined the effect of value fit between successors and incumbents, successors and the organization, on succession success in China. This qualitative

study was based on succession and value fit. It was found that successors who have a higher value fit with incumbents and the organization are more willing to take over the business. They are also more likely to succeed in family business succession. This work was about a match between the value fit of the incumbent and the successor which is the major reason for early successor preparation. Succession process is not only about the incumbent and the successor alone as other family members need to accept the successor to achieve a seamless transition.

Ng, Jacob, Sugiarto, Anton and Rudy (2021) studied the major strategies large family firm in Indonesia use to achieve successful generational succession. The research was to expose the incumbent owner's mindsets and experiences during the ownership transfer process. Qualitative data was obtained from field interviews, observations and notes taken from members of five family companies. The findings showed that incumbent owners select their preferred successor by way of appointments and use apprentice approach to train and develop them. The successors are made to adapt to external forces while imbibing entrepreneurial mind sets through the use of simulation process in which the incumbent is the model. The research findings may not be generalizable as it is a qualitative study and due to cultural difference. Their conclusions may be due to the peculiarities of the cases. The research recommends a quantitative approach which this current effort addresses.

From other parts of Africa, Sindambiwe (2020), researched how family business owner builds business' continuity as day-by-day survival to ensure long-term orientation in the context of developing country. The qualitative approach was on multiple cases. The result shows that family businesses in Rwanda are focused on preserving their firms to retain the family legacy but no plan for this long-term legacy of continuing the family businesses. The research exposed how Rwandans see sustainability as a daily struggle that needed no plan which calls for this research on how quality ownership succession plan impact on sustainability of family business in Kaduna metropolis. Ghamloush (2021) explored the business strategies used by leaders of three family-owned businesses (FOB) to transfer their business to younger generation in Ghana. Data was collected from semi-structured face to face interview of the leaders that have successfully sustained their firms after ownership transfer. The analysis of the data was done through word frequency analysis, coding and generation of themes. The research found that successors were chosen as result of their commitment, values and adherence to organizational culture of knowledge and experience. It recommends that FOB leaders should select the successors based on their display of interest, commitment and

knowledge. The qualitative study was on three cases and the findings could be the attributes of those cases, hence not generalizable. It was on successor selection process and development which form part of the variables of this study.

Back here in Nigeria, Ugoani (2020), explored the challenges of succession among family businesses in Aba South-East Nigeria. The exploratory research design was used for the study and data collected were analyzed. The result shows a positive association between ownership succession plan and organizational sustainability. The research observed a limitation in terms of relevant literature and scope and recommend further research in the areas of organizational leadership and sustainability. This research is filling that gap. Same year, Adebayo (2020) examined why the robust efforts of founder's investment and commitment in majority of family businesses still failed to survive especially during transition to younger generation. The survey qualitative research found that the sources of failure in family businesses are family conflicts, poor entrepreneurial exposure, incompetency of the next generation and flamboyant lifestyles among others. The research explained why family businesses fail which creates need for this current research on how ownership succession plan can lead to sustainability

Olatunbosun and Onuoha (2020) investigate the relationship between succession planning and sustainability of family-owned schools in Rivers State. The accessible sample comprises of ten (10) family-owned, government approved private schools in the three senatorial districts. The population and sample size is one hundred and nine (109) owing to the adoption of census study. The result indicates a significant positive relationship between the dimensions of succession planning (successor selection and successor preparation) and sustainability. The research concluded that family-owned school stand a better chance at optimizing economic and social sustainability level and recommends that: successor selection increases commitment to firm goals, encourages individual development. The research was only on private schools owned by families and did not consider other family businesses. This current effort is on all family businesses within Kaduna Metropolis, on whether ownership succession plan can lead to family business sustainability.

Abdulrahman, Adeleke and Esator (2021) evaluated the effect of succession planning on the performance of family-owned Small and Medium Enterprises (SME's) in Port Harcourt with a quantitative approach. They employed a cross-sectional research design on a population of 323 family-owned SMEs successors with the use of questionnaire. Data were analyzed with the use of descriptive and inferential statistics and concludes that succession planning affected the

performance of family-owned SMEs in the study area. The research recommends that family-owned business founders should choose their successors and train them to gain experience and skills suitable for owning and managing the family business. The study is only on successor training but sustainability of family business is beyond training of successors as research have shown that family business ownership succession rarely involves only the incumbent and the successor (Asikhia, Oduyoye, & Bienose, 2021).

Based on the above reviews, the following null hypotheses were formulated to guide the study.

H₀₁: Quality ownership succession plan has no impact on sustainability of family business in Kaduna Metropolis.

H₀₂: Early successor preparation does not impact on sustainability of family business in Kaduna metropolis.

3. METHODOLOGY

This research adopted a quantitative research approach to take care of complexities involved in studying family businesses with regards to quality succession plan, early preparation of successor and sustainability, to enable to generalization of the findings. Cross-sectional survey research design is adopted, as it has capacity of a high level of general representation from a large population at given point in time. Likert-type questionnaire was used to collect responses from family business owners and managers of indigenous family businesses that have existed for at least ten years within Kaduna metropolis.

The study concentrate on the 704 registered family businesses that are members of Kaduna State Chamber of Commerce, Industries, Mines and Agriculture (KADCCIMA), which form the population of the study. Based on Krejcie and Morgan (1970) table of sample size determination, for a population of 700, the recommended sample size is 248. Therefore questionnaires were administered to 300 family firms but only 250 samples were selected and analyzed with aid of Partial Least Square –Structural Equation Model (PLS-SEM). PLS-SEM is a very robust and advanced technique with causal-predictive approach, as it emphasizes prediction in estimating statistical models designed to provide causal explanation (Hair, Sarstedt & Ringle, 2019). Recent studies stressed the usefulness of the PLS-SEM statistical package in the field of family firms. PLS-SEM overcomes the dichotomy between explanation needed in academic research and prediction

required for managerial implication of research. It simultaneously conduct measurement models while testing the structural models and combines simple and multiple regressions (Gracia, Timotius, Satrinso, & Teofilus, 2020; Hair, Ringle, Risher & Sarstedt, 2018). Dependent variable in this study is family business sustainability (FBS), while the independent variable is Quality Ownership succession plan (QSP) and Early Successor Preparation (ESP).

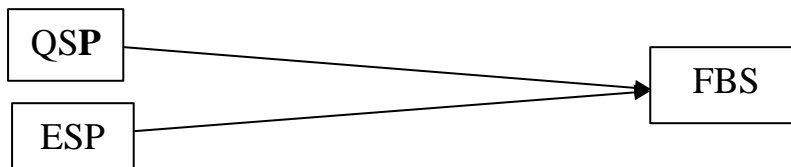
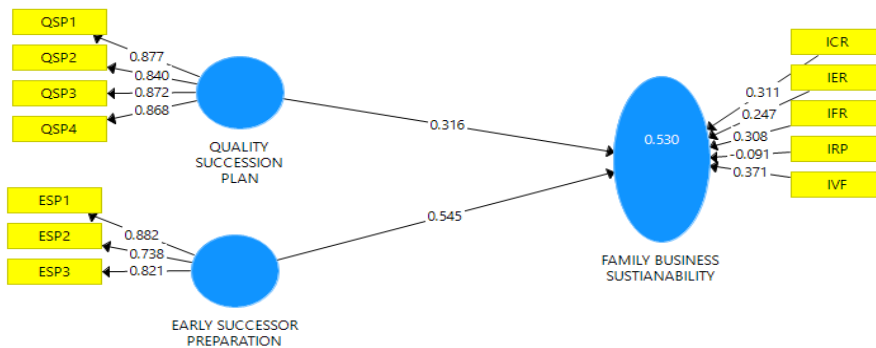


Figure 1. Conceptual Model
Source: Researcher’s Illustration

4. RESULT AND DISCUSSION

This section presents the results of the variables analyzed and discussion of hypothesis tested.



Source: PLS3 Output

Table 1
Model Quality Criteria Results

Variables	Construct Reliability and Validity		Discriminant Validity				HTMT
	Cronbach Alpha	Composite Reliability	Fornell-Larcker criterion				
			AVE	ESP	FBS	QSP	
ESP	0.777	0.855	0.665	0.816			
FBS	0.53			0.667			
QSP	0.888	0.922	0.747	0.384	0.525	0.864	0.418

Source: PLS 3.0 Output (see Appendix)

Model Quality Assessment:

All reflective indicators loadings are all above 0.7, hence reliable (Risher, 2018) and from table 1. above; The Coefficient of determination R^2 also referred to as in-sample predictive power for family business sustainability is 0.530 which means the two latent variables quality succession plan and early successor preparation explain 53% variations in sustainability of family business (Rigdon, 2012) . The constructs are reliable and valid as Cronbach’s Alpha and composite reliability are all within the range of 0.8 to 0.9 (Risher, 2018) and the AVE are also more than 0.5, which proved that the construct explains more than 50% of the variance on its items (Bagozzi & Yi, 1988; Risher, 2018). The discriminant validity according to Fornell & Larcker Criterion and HTMT are within the acceptable threshold as shown in the table above and after bootstrapping the upper bound of the 95 per cent confidence interval of HTMT have values that are significantly less than one (1) and not more than 0.9 (Henseler et al., 2015; Risher, 2018 ;Voorhees et al., 2016). Hence the construct achieved discriminant validity.

Table 2
Structural Model Result

Variables	Path coefficients	F- Square		VIF	IPM A	Q^2	P-Values	
		T-statistics	T-statistics					
ESP → FBS	0.545	8.335	0.539	2.884	1.173	84.1	0.373	0.000
QSP → FBS	0.316	3.896	0.181	1.746	1.173	81.1		0.000

Source: PLS 3.0 Output (see Appendix)

Test of Hypothesis: Quality Ownership Succession Plan and Sustainability of Family Businesses

Hypothesis 1: Quality ownership succession plan has no impact on the sustainability of family business in Kaduna metropolis. From table 4.1 above, quality ownership succession plan has a strong effect on sustainability with a path coefficient of 0.316 which is significant at 1% hence we reject the null hypothesis and accept the alternative. This is consistency with the findings of Nnabuife and Okoli (2017) and Cho, Limungaesowe and Vilarndndiisoh (2018). A family businesses in Kaduna metropolis, that have a quality ownership succession plan as their development and growth strategy can achieve sustainability.

Early Successor Preparation and Sustainability

Hypothesis 2: Early successor preparation does not impact on sustainability of family business in Kaduna metropolis. From table 4.1 above Early successor preparation has path coefficient 0.545, which is also significant at 1%, therefore we reject the null hypothesis and accept the alternative, that when the successor is prepared early in the life of the family firm it leads to intergenerational sustainability of business operations.

In this model, collinearity is not an issue as the VIF values of 1.173 are below 3.0 and the predictive relevance Q^2 also called out-of-sample prediction and in-sample explanatory power value of 0.373 is more than zero, hence the model has medium predictive relevance (Sarstedt et al., 2017; Shmueli et al., 2016). Impact-performance of quality succession plan and early preparation of successor are 81% and 84% respectively, which give construct unstandardized effects of 0.352 and 0.916 respectively.

5. CONCLUSIONS AND RECOMMENDATIONS

Based on the findings, the research concludes that quality ownership succession plan and early successor preparation have positive and significant impact on the sustainability of family business in Kaduna town. The research recommends that, family business in Kaduna metropolis should institute quality ownership succession plan and prepared the potential successor early enough in the life of the firm. These should be part the firm's strategic plan to make the business operations sustainable from one generation to another. The preparation of the successor should not wait until the period of the transition or when the incumbent becomes ill or incapacitated.

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Appendix

Construct Reliability and Validity

Matrix	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (...)	Copy to Clipboard
	Cronbach's Al...	rho_A	Composite Rel...	Average Varian...	
EARLY SUCCES...	0.777	0.917	0.856	0.665	
FAMILY BUSINE...		1.000			
QUALITY SUCC...	0.888	0.900	0.922	0.747	

R Square

Matrix	R Square	R Square Adjusted
	R Square	R Square Adjus...
FAMILY BUSINE...	0.530	0.520

Discriminant Validity

Fornell-Larcker Criterio...	Cross Loadings	Heterotrait-Monotrait R...	Hetero
	EARLY SUCCES...	FAMILY BUSIN...	QUALITY SUC...
EARLY SUCCES...	0.816		
FAMILY BUSINE...	0.667		
QUALITY SUCC...	0.384	0.525	0.864

Discriminant Validity

Fornell-Larcker Criterio...	Cross Loadings	Hetero
	EARLY SUCCES...	QUALITY SUC...
EARLY SUCCES...		
QUALITY SUCC...	0.418	

Collinearity Statistics (VIF)

Outer VIF Values		Inner VIF Values	
	EARLY SUCCES...	FAMILY BUSIN...	QUALITY SUC...
EARLY SUCCES...			1.173
FAMILY BUSINE...			
QUALITY SUC...			1.173

