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Challenges of Succession on Family Business Success-Kitchen Model

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Abstract

A family business refers to one that is owned and controlled by one or more families. Such businesses are usually under the overbearing influence of the founder who mostly runs away from agency costs by the unwillingness to involve professional agents. Such family businesses though often profitable have always suffered setbacks due to the absence of definite succession plans that would ensure their survival. Some polygamous founders adopt what can be described as the kitchen model to evolve succession. The research designed to explore the challenges of succession among family businesses adopted the survey method. 350 respondents were asked to fill researcher designed questionnaire about aspects of managerial technique. Personal interview was also conducted to supplement data generated. Data were analyzed through ANOVA. It was found that the absence of succession plan has negative effect on the success of family businesses. Six recommendations were made based on the result.

Keywords

Family Business, Succession, Agent-Led, Owner-Led, Kitchen Model, Polygamous

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1. Background

A family is composed of a group of people usually living together in society. There are basically two major types of families. One is a family that is comprised of a father, mother and their children. Or husbands and wives and their children in the case of a polygamous family This is called a nuclear family. The children related to each other as brothers, half brothers, sisters, and half sisters. The other types of families are called extended family. This is made up of husbands, wives and their children, as well as all those who are related to them by blood. This will include great-grandfather, grandmother, step brothers and sisters, uncles, cousins, aunties, nephews, nieces among others. The transitions between development stages of a family business (FB) are complemented or in some instances frustrated by the ability or inability of the entrepreneur/founder to make a change in style. A major transition occurs during the growth stage of a business if the founder moves into a managerial style. This is not easy to do. Probably the most important thing for enterprise development is that of moving from one man entrepreneurially managed family business to one managed by a functionally organized professional management team. Problems in making such an important transition include factors such as highly centralized decision-making systems, an overdependence on one or two key family members, an overly paternalistic approach, and of course inadequate level of skilled manpower. Such methods while frequently effective at the beginning, pose a serious threat to the growth and development of the family business. To stand the wave of the times, a family business must modify its strategies that encompass succession planning for its growth and survival (Hofer & Charan, 1984).

Despite the amazing innovative approaches to the complex

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issues related to family business, past literature on business studies has not sufficiently emphasized its important nature in Nigeria. Family businesses abound all over Nigeria and some of them have grown from micro to large, while others have died due to lack of credible successors. Entrepreneurs' who decide to manage their business in conjunction with their family members to some extent aspire to avoid all the troubles associated with agent-led management. Owner-managers argue that whenever there is a separation of the owners (principals) and the managers (agents) of an enterprise, the potential exists for the wishes of the owners to be ignored. This fact, and the recognition that agents are expensive, established the basis for a set of complex but helpful ideas in owner- led management. The entrepreneurs role is not merely that of manager and risk-taker, but also visionary-someone who seeks as much to create something new by destroying old ways of doing things. The entrepreneur believes that profit is assigned to innovation. In general, owners seek value maximization. But when agents hold positions they seek to maximize their own benefits to the detriment of the enterprise. (Schumpter, 1934, 1954, Kalu, 1986, Pearce & Robinson, 2003) According to Princeton University (2007) a family business is an enterprise that is entirely owned and managed by the members of a single family. The concept of family business has been subject to self-defined definitions. It can be defined as a business owned and managed by the family head and one or more members of his extended family. Finance and management have frequently been discussed as problems of family businesses, but another major challenge that spells doom for family businesses is the lack of succession planning. It is common-place today that most family businesses die with the demise of the founder due to the absence of succession plans. The problem is worse were a polygamous family is involved. In some cases where there is no defined succession plan, it becomes a do or die affair for the family members struggling for the leadership of the family business. In some cases in Nigeria, what can be called the "kitchen model" where leadership is rotated among the first sons from different wives of the founder is adopted. Because of the problems of informal relationships management in family businesses is unique and sometimes difficult. Particular difficulties arise when a growing family business is passed on from one generation to another, resulting in a mix of family and nonfamily members, and other employees. Some family members may use employees as "pawns" in disagreement with other employed family members. Also, nonfamily employees may see different policies and rules being used for family members than for them. The key to a successful transition of a family business from one generation to another is having a clearly defined succession plan. For a family business to stand the wave of the times and aim for continued success its management has to be strategically put in place. This is to ensure a succession or placement of talented managers for immediate replacement of any member who vacates his/her seat either due to retirement, death, dismissal etc. The purpose of succession is to ensure that the right kind of people are available to fill key management positions at all times, to raise the standard of management in the family business and above all to ensure survival of the enterprise. Most indigenous family businesses lose sight of this very important element. (Mathis & Jackson, 1994, Akanwa, 1997, Denis and Denis, 1994, Sharma 2004, Okenwa, 1999, Ang. et al., 1997).

According to Aganga (2013) The National MSMEs collaborative survey (2010) put the member of MSMEs in Nigeria at about 17.3m that generates 32.41m employment, composed mainly of family businesses. Again, Nigerian entrepreneurs have the tendency to insist in their sons and grandsons taking over from them but Nickels, et al (2005) report that Tami Longbaberger Basket Company in the USA is an example of the growing number of daughters taking over family businesses. (Willard, et al, 1992, Anderson, and Reeb, 2003)[3]

2. Statement of the Problem

Although there is no up to date official record of failed family businesses in Nigeria, it is widespread knowledge that most of them collapse at the demise of the first generation founders. Some of them that till exist are involved in long court cases bordering on management succession problems. Over 90% of the about 17.3m micro, small and medium enterprises (MSMEs) in Nigeria are family businesses, that generate employment. If they are nurtured to grow into large family businesses through succession planning there will be significant reduction in unemployment in a country where about 67m out of about 160m people are unemployed. (Aganga, 2012, Oshehobo, 2012)

Delimitation of the Study

The study was delimited to Aba South-East Nigeria because it has the largest concentration of family businesses in the geopolitical zone.

3. Limitation of the Study

The study was hampered by poor road network as well as lack of research grant.

3.1. Hypotheses

To guide the course of the study these hypotheses were formulated and tested at 0.01 level of significance.

H_0: Succession challenges have negative effect on family business success.

H_i: Succession challenges have no negative effect on family business success.

3.2. Literature Review

The major argument for owner-led family businesses is that as the owners they watch over their businesses with keen interest, they are apt to give attention to small matters, and very easily give themselves the task of leading the enterprise to survival Jensen and Meckling (1976) opine that where the manager is the sole shareholder, he acts in the best interest of the shareholder, that is, himself. There is a convergence in the incentives for the management and ownership, information asymmetric are absent and managerial opportunism non-existent. Such family businesses do not require corporate governance mechanism as far as the conflict between owner and manager is concerned. (Akbar & Joshi, 2012). This may last as long as the founder lives, but without him comes the challenges of succession, which if not handled leads to the demise of the enterprise itself. Many Nigerian family businesses consider insufficient funds to be the main bottleneck of the growth of their enterprises. This may be true but the fact remains that sound management succession is inevitable for success. Bringing both human and material resources together to achieve enterprise goals require efficient people whether they be owners or agents. In Nigeria for example, many banks which grew out of a family business backgrounds failed partly due to lack of succession plan and poor management control. In contrast many others that had good succession plans have survived the wave of the times. Without a definite succession plan and at the demise of the founder who may be a polygamist the struggle for leadership starts. Sometimes it takes the "kitchen model" to come nearer to an acceptable arrangement. The kitchen model is demonstrated below in figure 1.

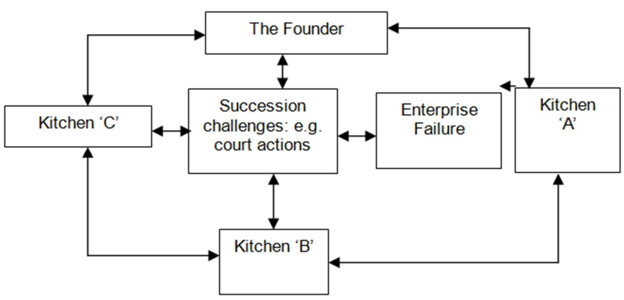

Figure 1. Kitchen Model of Succession

This psychometric model illustrated a hypothetical polygamist founder who had three wives on incapacitation or demise the struggle for leadership rotates from the first son from the first wife in kitchen 'A', to the first son of the second wife in kitchen 'B,' and to the first son of the third wife in kitchen 'C' in that order or from whoever is the first son in the same order. This type of arrangement is always fraught with serious challenges such as blackmail, name calling, litigations and even threats to life, among brothers, sisters and other members of the same family or the extended family. Even if the founder dies without will, a definite succession plan could well serve to minimize the challenges and make for the growth of the enterprise. Succession plan simply identifies specific people to fill key positions within an enterprise irrespective of its status. It is an important human resource management technique that helps in the smooth management and survival of businesses. The kitchen model is borne out of field work experience and it is in vogue in Nigeria where the founder has polygamous status. Children of the same parents also face succession problems as they even query the originality of each other for a successor to emerge. The challenges of succession in Nigeria is assuming alarming proportions as the courts are being stampeded with many high profile family cases on succession. The worry is that most succession cases emanate from the families of well-educated and exposed first generation founders but who could not put any definite succession plan on ground before their demise. For example, Omoruyi, (2013) has reported the court case of the Ojukwu family business tussle. (Durand and Vargas 2003, Tripath, 2004, Stevenson and Gumpert, 1985) Starting and nurturing a family business have proved to be beneficial even in developed societies like the USA, because of the observation of American culture, sense of responsibility to both society, state, leaders and employees. Some of the family businesses have grown to the status of transnationals today. For example, Johnson and Johnson is well known for its ethical culture that it was judged to have the best corporate reputation for two consecutive years based on a survey of over 26,000 consumers conducted at New York University years ago. Johnson and Johnson grew from a family business founded by General Robert Wood Johnson in 1930s to become a major maker of pharmaceutical and medical products. Attesting to be role of managers in creating ethical organizational cultures, Johnson emphasized the importance of ethics and responsibility to stakeholders and wrote the first Johnson and Johnson popular credo in 1943. The credo continues to guide employees at Johnson and Johnson today and outlines the Company's commitments to its different stakeholders, groups, emphasizing the organization's responsibility to them. Johnson and Johnson offers a wonderful example to the extent that a large business today was a family business yesterday, but this has been made possible through good succession plans. (Jones and Goerge, 2003).

Table 1. Characteristics of Respondents.

Variables	Measuring group	Frequency	Percentages
Gender	Male	215	61.43
	Female	135	38.57
	Total	350	100
Education	No education	51	14.57
	Up to FSLC	103	29.43
	Up to WASC	151	43.14
	Up to tertiary	45	12.86
	Total	350	100
Age	20 – 35	76	21.71
	36 – 50	161	46.0
	51 – above	113	32.29
	Total	350	100
Dependents	No children	25	7.14
	1 – 3	105	30.00
	1 – 10	118	33.72
	Others	102	29.14
	Total	350	100
Business group	Self employed	95	27.14
	Govt. employed	187	53.43
	Others	68	19.43
	Total	350	100

Source: Ugoani, 2013

Among the problems of family businesses in Nigeria are lack of ethical values that lead to self-destruction. Bill Gates, Michael Dell, and Steve Jobs run companies that started as small family businesses while they were still in school, and they have succeeded by planning and managing well. According to Nickles, McHugh and McHugh (2005) about 90 percent of all small business failures are as a result of poor management. It could mean planning, poor record keeping, poor inventory control, poor promotion, or poor employees relations. Most likely it may include poor capitalization. For a family business to grow the promoter most focus on these functions of planning, financing, knowing your customer, human resource development, and keeping accounting records. Although all of these functions are important in both startup and management phases of the business, the first two functions- planning and financing- are the primary concerns when starting. The remaining functions are the heart of the actual operations. Once the business is on, all human resource development issues become critical so as to produce a definite succession plan. A succession plan can easily be determined if the business has an original business plan. A business plan is a written statement that describes the nature of the business, the target market and the chances the business will have in relation to competition and the resources and qualifications of the owners. A business plan makes potential small business owners to be quite specific about the products or services they intend to offer. They must analyze competition, calculate how much money they need to start and cover other details of operation.

A business plan is also mandatory for talking with bankers or other investors. It is believed that less than 10 percent of prospective family business borrowers go to the bank adequately prepared. This is the result of not employing qualified and competent people. Finding money to run any business is not usually easy for a less informed entrepreneur even in the face of many sources of funding. Surely an entrepreneur has several potential sources of funding: personal savings, relations, former employers, banks, government agencies, venture capitalists, and business groups such as the Nigerian Association of Small and Media Enterprises among others. A small business promoter may even consider borrowing from a potential supplier. The idea of growing in a field like business involves networking and this is all about talking with people about your business and products. The objective is to collaborate with others and groups. For growth to be possible the owner-founder of a family business has to set in motion the necessary framework for succession, find a suitable person among the family members or employees and start to coach. Tell him or her that you are eager to handover the management of the business and for him or her to learn the business. Make the person your deputy and that will free you to take off weekends and holidays and a great good deal of opportunity for the deputy. The period of your temporary absence will allow the deputy to work very hard to learn more about the business: suppliers, inventory, bookkeeping, customers, promotion and so on. At the end of a specific timetable when he or she must have demonstrated commitment you can make the generous offer: you are my successor as managing director. You can still remain as the chief executive officer (CEO) but this is a good way of managing succession, if you like. (Nelson, 2003, Barth, et al, 2005, Birley, et al, 1999)

Table 2. Key characteristics of family business.

Nature	Features	Management control
Agro-Allied	Usually located in rural/urban centres	Family members
Merchandising	Highly concentrated in commercial cities like Aba, Onitsha, Lagos, etc.	
Building and construction	Across the states	
Hospitality and tourism	Common in high density cities like Owerri, Port Harcourt, Lagos, etc.	
Education and training	Mostly found in the cities	
Health care	Across the states	
Banking and finance	Highly concentrated in the cities	
Food and beverages	Mainly found state capitals	
Farming	Across the states	
Security and welfare	Across the states	

Source: Author

3.3. Methodology

The survey research design was adopted for the study. The questionnaire and personal interviews were used to generate data, and the simple random sampling technique was used to choose 350 respondents for the study. Data generated were organized and coded before they were classified. Analysis of Variance (ANOVA) statistical method was used to analyze data. Opinions, recommendations and conclusions was based on the result of the analyses.

4. Presentation and Analyses of Data

From the ANOVA table 3, F (1) (4) (95%) = 7.71. Therefore, we accept the null hypothesis since F-ratio is less than F-table and conclude there is no significant relationship between succession planning challenges and FBs growth agrees with the views of Akanwa (1997) that most indigenous organizations lose sight of management succession because the managers lack the experience and the problems therefore are not recognized until they rear their ugly heads and when they eventually do such organizations utilize the fire fighting method to solve such crisis situations.

5. Discussions

Traditionally, the head of the family, like in Nigeria is usually the father, or grandfather, as the case may be who usually tries as much as possible to cater for the economic and social wellbeing of all the members of the family and in some cases try to perpetuate their interest in society. In an effort to achieve this motive, family businesses are engineered by farsighted parents in which members of the family have controlling interest and take active participation in its affairs. Some of them easily fail for the most part due to lack of succession plan. In Nigeria some large businesses today grew out of family business background and have survived the wave of the times as a result of good succession plans. Good examples would include the Ibru Organization started in 1956 by Olorogun Micheal Ibru as LAIBRU, and the Folawiyo Group started in 1957 with ₤120 pocket money by Alhaji Yinka Folawiyo. Other giants would include the Dangote Group, Odogwu group of companies, the family business inherited by Dr. Mike Adenuga (Jnr) among others. (LOR, 2006)

6. Recommendations

Owner-led family businesses should recognize the necessity for management succession. This will enable them plan well in advance for the future growth of the enterprise.

Owner-led family businesses should not shy away from employing qualified staff. Running away from agency costs is counterproductive because quality manpower will help in proper planning and profitability of the business.

The influence of family members in family businesses should be minimized. Most international businesses have grown out of family business status, thus reducing the influence of family members will help in projecting them to the outside world.

Table 3. Result of ANOVA.

Source of Variation	Ss	Degree of freedom (df)	Mean Square (MS)	F-ratio = MS/DF
Succession Planning	383.99966	1	383.99966	0.01
Error	175291.333	4	43822.833	
Total	175675.333	5		

Family businesses need to observe professional business ethics. Employees should be treated fairly. This will lead to motivation needed for higher performance. Johnson and Johnson is a good example.

Owner-managers should be exposed to family business theories to equip them better in their functions.

7. Conclusions

Family business management should embrace succession planning to ensure the growth of their businesses. Despite agency costs, qualified personnel should be employed by family businesses to ensure professional management. Where the founder of a family business is polygamous, definite succession plan must be put in place and to be adopted in his absence. The ‘kitchen model’ could be relied upon in charting a succession plan. Overbearing influence of family members in a family business could be counterproductive, and employees should be treated with dignity to motivate higher output. It was statistically found that challenges of succession planning have negative effect on the growth of family businesses. The kitchen model is in vogue in Nigeria, and its beauty lies in the fact that it is in tandem with the customary belief which allows the headship in a polygamous environment to rotate among the first sons of the wives (kitchens).

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Biography

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