Succession Planning And Family-Owned Business Continuity In The Wa Municipality

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Abstract:  
The focus of this paper was to determine the extent of succession planning by owners/founders of family businesses and its importance in ensuring the continuity and prosperity of businesses in the Wa Municipality. The design was an exploratory study on the extent to which family-owned businesses (FOBs) appreciate succession planning as an important aspect of business continuity. A sample of 205 was drawn randomly from a population of 440 family businesses in the Municipality. An interview schedule was used to collect and analysed data with descriptive and inferential statistics. The findings indicated that many of the FOBs in the Municipality do not have formal or written succession plans for their businesses; founders/owners of FOBs preferred the appointment of a family member as a successor and the selection and training of a successor is paramount in the succession process.

Key words: Continuity, Family-Owned Business (fob), planning, Succession.

1. Introduction
Small-scale rural and urban enterprises are major areas of importance to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognised as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that small and medium enterprises (SMEs), the majority of which are family-owned businesses (FOBs), employ 22 percent of the adult population in developing countries (Gallagher & Robson, 1995).

Succession is an event that confronts virtually all viable organisations. In cases where the incumbent dies, retires or resigns, succession is forced upon the organisation. In instances like firing or internal relocation of the incumbent, such as transfer, promotion or demotion, succession is a decision over which an organisation’s decision-makers do have some control (Gephart, 1978). According to Gephart, succession is inevitable and, for this reason, it should be both anticipated and managed for the continuity of business organisations. In this context, the succession should be planned ahead to avoid the circumstance of a void in the management of family-owned businesses.

Succession planning is a crucial factor in the continuity of businesses. This is emphasised in the accounting concept of going concern which stipulates that a business firm will continue to carry on its activities for an indefinite period of time (Wood, 1999). But for this important assumption to be a reality, businesses will have to pay more attention to succession planning.

Successful management succession for family firms consists of two interactive dimensions (Handler, 1989). One is family members’ satisfaction with the manner in which the succession process is carried out. This is a subjective assessment of an individual about the process and decision regarding the selection of a new top manager. On the other hand, effectiveness deals with the subsequent performance of the firm and assesses objectively, the impact on the performance of the firm following the replacement of one top manager with another. In a professionally managed firm with widely distributed ownership, financial performance may be the predominant goal, and success in management succession may be essentially a function of the firm’s post-succession performance (Pitcher, Burrige, Wassenberg, Smith, & O’Connor, 2000).
In family firms, however, maintaining good family relationships is also extremely important. At times, family members may give this goal a higher priority than profitability (Tagiuri & Davis, 1992). Therefore, understanding the factors that influence satisfaction with the succession process, from the perspective of family member stakeholders, is important because a lack of satisfaction with the process may adversely influence family relationships. It is in relation to the agency issues as postulated by agency theory that FOBs strive to retain the decision-making powers within the family.

According to stakeholder theorist, succession in a family business entails three components including a leader who hands over the leadership role, a successor who takes over the role, and a mechanism by which the transition takes place (Davis, 1982). A well-thought out succession plan is essential for the continuation of a business, regardless of its size and structure. The relay race theory gives an increased understanding of executive succession. Considering the analogy, the theory often uses the metaphor “passing the baton” in a 4x100 relay race (Vancil, 1987).

Scholars of family business argue that succession can lead to an important infusion of entrepreneurial energy based on the potential of new owners and managers to rejuvenate their firms (Habershon & Pistrui, 2002; Nordqvist & Melin, 2009). DeTienne, (2010) argued that the entrepreneurial process does not end with the creation of a new venture but that firm succession is a vital part of the entrepreneurship process.

An estimate in Europe made by the European Commission in 2001 was that about 30 per cent of firms in transfer situations were at the verge of collapse as a result of poor preparation for the succession. Aligned to the European Observatory for Small and Medium-Sized Enterprises’ estimate of 6.3 million jobs at risk in Europe for poor succession planning, the European commission instituted a package of measures to make sure that the succession problem was addressed in the member states.

Nonetheless, family-owned businesses (FOBs) have still been grappling with many challenges, including their ability to survive for a long period of time and achieve their set objectives (Hamilton, 2003). The challenges of FOBs include, but are not limited to planning, satisfying customers’ expectations, competing effectively, and gaining wealth for survival. Aside these, FOBs face some internal issues such as the inability or desirability of founders to determine succession, less in-house staff with the expertise to develop and manage an integrated succession planning initiative (Hamilton, 2003). Conceptually, Lansberg (1988), as cited in Leach and Bogod (1999), identified a whole range of obstacles in succession planning, categorising them into those connected with the founder, the family, the employees and the general environment in which the firm operates.

Succession planning is also important in Ghana, especially for FOBs which form the bulk of the enterprises. Ghana’s economy is largely characterised by micro and small scale enterprises (Basu, Blavy & Yulek, 2004). Many businesses in the Wa Municipality of the Upper West Region are FOBs. As such, they are susceptible to experiencing the challenges of succession that others face elsewhere. Succession planning of FOBs in the municipality is important for business continuity, job creation for a large number of unemployed youth, tax contribution to the economy, and a source of living for families of owners in both short and long terms (Agyapong, 2010).

This paper thus sought to explore the extent of succession planning activities engaged in by family-owned businesses in the Wa Municipality, to give an insight to the practice and how it compares with other empirical studies. The rest of the paper is made up of the theoretical and conceptual discussions and the methodology that underpinned the study. These are followed by discussions of the results or empirical evidence. The paper ends with conclusions and discussions of the policy implications.

1.1. Theoretical And Conceptual Discussions On Succession Planning
The theories discussed include agency cost, relay race, planned behaviour and stakeholder. Concepts such as succession planning, succession planning processes and family-owned businesses are discussed with a conceptual framework of succession planning and family-owned business continuity.

1.2. Succession Planning
Succession is interpreted as the explicit process by which a family business will be passed on to the family’s next generation to manage and control (Motwani & Schwarz, 2002). This suggests that succession planning is a pre-mediated process that spans a period of time and not an adhoc, one-time activity. When it is pre-planned and carefully implemented, taking into account, the dynamics of both family and business, there is the likelihood that the succession process will be successful and effective. Scholars and consultants alike stress the importance of such a process to ensure continuity and prosperity of family businesses but remark that it is left to chance by many family firms (Sharma, Chua & Chrisman, 2000). According to Dyer and Handler (1994), succession is the transfer of leadership and ownership to the next family generation.

1.3. Succession Planning Process And Family Businesses
Succession planning is borne out of the family firm’s intention to pursue succession for two reasons: activities related to succession planning are part of the succession process; and because succession planning increases the probability of a successful succession (Sharma, Chrisman, Pablo, & Chua, 2001). While previous studies either tend to treat succession planning as a one-dimensional process or combine its dimensions into one overall measure. Hence, it is deemed appropriate to support the views of Dyck, Mauws, Starke and Mischke (2002) by treating succession planning as a long-term process involving multiple activities and examine all activities independent of others.

According to Litz (1997) a family firm is a business in which ownership and management are concentrated in a family unit [and in which] individuals within the firm seek to perpetuate or increase the degree of family involvement. It follows that chances of smooth
and satisfactory succession is enhanced if the succession process seeks input from family stakeholders and develops a sense of ownership (Morris, Williams, Allen & Avila, 1997). The authors further suggested that the development of a plan implies that the succession process will proceed in an orderly fashion, allowing for preparation before, during, and after the succession event. In succession discourse, continuity considerations are unavoidable if success is to be achieved in a business. Many business researchers however focus on succession and neglect its impact on business continuity. Succession is however, irrelevant just for the sake of it if the entity does not live to satisfy the expectations of stakeholders. According to Esuh et al. (2011), business failures are a common feature amidst abundant studies on succession in family business. The authors posited that the failures arose as the issue of succession and how it affects family business continuity was yet to be addressed. While agreeing that continuity is important in succession considerations and requires a process, the authors failed to include the process dimension in their model.

1.4. Conceptual Framework Of Succession Planning And FOB Continuity
From the foregoing discussion on succession and continuity in family–owned businesses, it can be imputed that succession is necessary just as continuity. Thus, as continuity is an ultimate vision after succession, it is not achieved by chance but through planning which follows a process. Figure 1 presents the framework and how the various parts relate in order to achieve a successful succession that leads to continuity. The founder/owner’s willingness to step aside and preference for a successor either within or outside the family is an indication of the need for succession. The successor’s personal interest and competence/experience facilitate his willingness to take over points to a possible succession. The environment comprising both internal and external, together with the founder and the successor through the succession process will yield a successful succession that leads to continuity.

Figure 1: The Model Of Succession And FOB Business Continuity
Source: Adapted From Esuh Et Al. (2011)

2. Methodology
The Wa Municipality has a population of 677,763 people projected from the 2010 population and housing census, made up of 333,355 males and 344,408 females with a 17.5 percent increase over the 2000 population and housing census, 2010 figures (Ghana statistical Service, 2011). The municipality is predominantly populated by small and medium-sized enterprises, which are mostly owned and or managed by family members. The design is an exploratory study on the extent to which family-owned businesses engage in succession planning as an important aspect of business continuity and growth. An exploratory study was chosen because there is no known study on the topic undertaken in the Municipality.

With a confidence level of 95 percent, margin of error of five percent and targeted population of 440 (N=440), the sample size was computed as two hundred and five (S=205) family-owned businesses using the systematic random sampling technique. Respondents were the owners and or managers of the family-owned businesses. The sample fraction was determined by N/S = 440/205 = 2.15 and rounded-up to 3. The first sample unit was then randomly selected between 1 and 3 and from there, every 3rd unit in the frame was selected to obtain the desired sample.

An interview schedule was used to collect data on business transfer plans of FOBs and factors that influence succession planning among FOBs, with internal consistency co-efficient of 0.808 and 0.906 respectively. The data were analysed using descriptive and inferential statistics.
3. Empirical Evidence/Results And Discussion

Demographic characteristics

The various variables included: gender, age, level of education, type of business and number of employees. In all, there were 67.8 percent males and 32.2 percent females. From the results, it can be deduced that there is a male dominance in family business ownership. This implies that fewer women own and run family businesses. This might arise from the patrilineal system of inheritance where women do not become family heads and probably are less entrepreneurial (Dyer Jr., 1986).

The ages of the respondents were skewed, hence the median age (35) was reported as the average (N = 205, mean = 37.65 and skewness = 0.983). Another observation from the result was that the minimum age among owners of FOBs is 20 years while the maximum is 70 years. Majority (99%) of the current owners of FOBs in the study area have had some amount of formal education. About 28 percent of the total respondents have college education, while another 27.7 percent of the respondents also had SHS/tech school education with only one percent of the respondent without any formal education.

On the type of businesses, 57 percent of the respondents were artisans, 42 percent were engaged in trade, and only one percent owned private schools. The type of businesses was further examined with regard to sex of the respondents. The results revealed that the type of business activity engaged in by the respondent is significantly influenced by the gender of the founder/owner (N = 205, \( \chi^2 = 52.800 \), df = 8, p-value = 0.000). For businesses such as building and construction, education and mechanic shops, the results revealed a 100 percent male dominance, while 85.7 percent of the female respondents were into seamstress and tailoring activities. Majority of the FOBs (74.6%) in the Municipality were established and managed by their current owners and therefore have not had any succession experience.

Succession planning in family businesses

The longest period that some respondents had been in business was 58 years while the shortest was three years. The median number of years in business was seven (N = 205, mean = 10, mode = 4, skewness = 2.55). The issue was also examined with respect to gender and the chi-square test showed a significant association (\( \chi^2 = 38.456 \), df = 21 and p-value = 0.012). Many of the businesses which had operated for a relatively longer period were established and or owned by males while those that had operated for a shorter period were established or owned by females.

On the issue on succession plans in FOBs, 43 percent, indicated that their businesses have written succession plans; 33 percent have unwritten succession plans for their businesses; while 24 percent of FOB owners/managers have neither a written nor unwritten succession plan for their businesses. The result is similar to the report of the Government of Alberta (2007), that majority of business owners were not sufficiently prepared for the future of their businesses, with only 10 percent having a written plan, 38 percent an unwritten plan, while 52 percent had no plan at all.

With regard to how the idea of planning the succession and future management of the business was borne, 85.2 percent of the 88 respondents indicated that they had the idea out of their personal initiatives, while 9.1 percent stated that they had that idea from their friends. Another 2.3 percent said they had that idea as result of interest they had in their family, with the remaining 3.4 percent indicating the idea was born out of advice from the sons and daughters.

This implies that the written succession plans on the average were initiated and developed by the owner/manager. This is in line with the assertion of Arnold, Robertson and Cooper (1991) as cited by Armstrong (2003), that initiative taking is informed by motivation which in turn is influenced by three factors – the direction, effort, and persistence. It stems from this then, that a succession that is a planned behaviour must have an initiator who possesses these three attitudes about succession.

However, it contradicts the views of Sharma, Chua, and Chrisman, (2003), that succession planning may be as a result of a push by the successor rather than a pull by the incumbent. The conceptual framework of this study emphasises the need for mutual understanding and interest on how the succession process should be accomplished. Thus, the founder/owner should show desirability for succession with willingness to step aside, with the successor also showing willingness to takeover by personal interest, competence and experience. With the internal and external environment as stakeholders and an effectively planned succession process should achieve a successful succession.

With regards to why some FOBs have no written succession plans, the results showed that 32.5 percent of respondents, of the 117 did not see the need for any formal planning as far as succession is concerned. Some (31.6%) respondents had not yet given succession planning a thought, while 2.3 percent indicated that the fear of losing control was the reason why they did not have succession plans in their businesses. Other reasons include the lack of skills to devote to the development of a succession plan. This confirms the comment by scholars that succession planning in some FOBs is left to chance (Sharma, Chua, & Chrisman, 2000).

It however, contradicts the interpretation of succession planning by Motwani and Schwarz (2002), as the explicit process by which a family business will be passed on to the family’s next generation to manage and control. This suggests that succession planning is a pre-mediated process that spans a period of time and not an adhoc, one-time activity. In assessing the succession options opened to FOB owners/managers, it was revealed that 64.4 percent of the respondents will appoint a family member as a successor; 31.2 percent of the respondents will appoint a caretaker manager, while 1.5 percent of the respondents will liquidate their businesses when confronted with the issue of succession.

This means that more owners/managers of FOB in the sampled population prefer the appointment of a family member for a succession option whereas fewer owners/managers of FOB prefer to liquidate the business. It further confirms that FOB successions are to family generations and this corroborates the findings of Dyer and Handler (1994), Sharma (1997) and the American Family Business Survey (1997) which assert that succession usually takes the form of transfer of leadership and ownership to the next family generation.
According to Lansberg (1988), as part of the succession process, it is expected that founders will train their prospective successors to be able to function effectively. This is evident by the findings of this study which indicate that 67 percent of the respondents agree that there should be an appropriate selection whiles 4.4 percent disagreed. Lansberg (1988) noted that to a large extent, proper succession comes as result of appropriate selection of the successors. It is imperative therefore to note that the appropriate selection of successors is not an end in itself.

However, Ward (1987) pointed out that there is the need for effective training of the successor to equip him or her with the requisite skills for effective performance. As an attestation to this claim, 87 percent of the respondents strongly agreed that training is an essential ingredient for effective performance of successors. Scholars of family business argue that succession can lead to an important infusion of entrepreneurial energy based on the potential of new owners and managers to rejuvenate their firms (Habbershon & Pistrui, 2002; Nordqvist & Melin, 2009).

In exploring the relationship between variables relating to the incumbent’s desire for succession and succession planning activities, a bivariate Spearman’s correlation was run to determine the relationship. The results showed that there was a significantly positive relationship between the incumbent’s desire for succession and the committee to continue the family business on the one hand (r = .248**, p-value = .000) at an alpha level of 0.01 (2-tailed), and between the incumbent’s desire and invitation of children to join the family business on the other hand (r = .148*, p-value = .034) at 0.05 alpha level (2-tailed).

This reveals that an incumbent’s desire to engage in succession planning activities is related to the incumbent’s willingness to continue the business as a family business and the invitation of children to join in the business. Thus, a high desirability in the founder or incumbent for succession is shown by a high commitment to continue the business as a family business and a high level of willingness to invite children to take part in the family business. Consequently, a low commitment to continue and unwillingness to invite children to the business means a lack of desire for succession and succession planning.

There was also a positively significant relationship between the incumbent’s desire for succession and the incumbent’s confidence in the integrity of the successor which facilitates succession planning (r = .221**, p-value = .001) at the 0.01 alpha level (2-tailed). It can be deduced that the incumbent’s desire for succession is influenced and facilitated by the level of confidence that the incumbent has in the integrity of the successor. Thus, a lack of confidence in the integrity of the successor will negatively affect succession planning in the business. This finding corroborates that of Malone (1989) that the management of succession planning process is a function of the incumbent who is believed to have some reservations with succession because of various psychological barriers.

On the other hand, the relationship between incumbent’s desire for succession and the invitation of other family members to take over the business, though positive, was not significant at the five percent alpha level (r = .121, p-value = .085, N = 205). The relationship between the incumbent’s desire for succession and how trust in the ability of the successors affects willingness to handover was also positive but not significant (r = .096, p-value = .169, N = 205).

This finding is consistent with those of Arnold, Robertson and Cooper (1991) as cited in Armstrong (2003), that motivation is influenced by three factors; the direction, effort, and persistence. The actions of the founder, family and successor, are all attributable to their motivation since people are motivated when they anticipate that a course of action could lead to the achievement of a goal or a valued reward which satisfies their needs. Situating this assertion in the conceptual framework, the willingness of the founder to step aside, the interest of successor and the environment are all attributable to their motivation that their action will result in the expected outcome.

Succession planning in family businesses was not given sufficient attention and most founders /owners of FOBs will appoint a family member as a successor. The selection and training of a successor is paramount in the succession process and is facilitated by confidence of the incumbent in the integrity of the successor. Correlation for this is significant at the 99 percent confidence level (r = 0.221, p = 0.001 and N = 205). The number of years in business, level of education, level of communication with stakeholders and the desire of founder’s as well as successors for succession significantly affect succession planning in FOBs.

4. Conclusion And Policy Implications

Succession planning in family businesses in the Wa Municipality is not given sufficient attention. Many of the FOBs in the Municipality do not have formal or written succession plan. Those who had unwritten plan were those who seem to have given succession planning a thought but had not taken the pains to develop a formal plan. This shows that succession planning among founder/owners of family businesses had been left to chance. When a business is relatively older or the founder’s level of education is relatively high, there is the likelihood of succession planning in the business as compared to when the business is younger with a relatively lower educational level of the founder. Also, succession is likely to be successful if communication is effective.

Family business is a component of entrepreneurship development and an important aspect of economic development and economic transformation. It offers jobs and creates wealth for families and other people working in family businesses. Therefore, successful succession in family business through a process that takes into account the concerns of all stakeholders would lead to family business continuity. Based on this, the paper emphasised the importance of three key factors: the founder, successor and environment, through an effective planning process that jointly affects succession in family business, could guarantee continuity of family business.

5. References