



Effect of Succession Plan On Survival of Small and Medium Scale Enterprises (SMES) in Ogun State, Nigeria.

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ABSTRACT

Small and medium scale enterprises have been traced to the growth and development of many nations, though little research seems to have been conducted in the area of survival of SME sector in Nigeria as many studies focused on performance of the SMEs. The yawning gap between the needs, demands and policy response in this unorganized sector has always dampened the sector's prospects. The rate of failure of small business enterprises in the Nigerian economy has been of great concern and one of the reasons for the failure of these small business enterprises in Nigeria is the lack of succession planning. It has been established that many SMEs due to lack of effective succession planning strategies to facilitate the transfer of technical expertise from retiring employees to younger employees failed; ; hence this study examined the effect of succession planning on the survival of SMEs in Ogun State, Nigeria. Survey research design was employed for the study. The population was 1794 registered SMEs in Ogun state, Nigeria with sample size of 420 determined by Cochran's sample size technique. Four hundred and twenty copies of structured questionnaires were administered, 400 were completed and returned representing 95.2% response rate. Multi – stage sampling technique was used for this study. The research instrument was found to be valid. The Cronbach Alpha reliability coefficient was 0.815. Data was analyzed using both the descriptive and inferential analysis. Findings of the study revealed that succession planning had a positive significant effect on survival of SMEs in Ogun State ($\beta=0.581$, t value = 16.990, p -value<0.05, $R^2 = 0.420$). It was recommended that there should be an Institutional framework put in place by the government to ensure that Entrepreneurs have a successor while registering their businesses to ascertain a succession plan and enlighten them on how to cope and adapt to their environment in other to survive and grow beyond ten years of establishment.

Keywords: Small and medium enterprise, Succession plan, Technical expertise, Employees and Survival.

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1. INTRODUCTION

Small and medium enterprises (SMEs) play a significant role in all economies and are key agents of employment, innovation and growth. In business, succession planning entails developing internal people with the potential to fill key business leadership positions in the organisation. Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression. In contrast, replacement planning is focused narrowly on identifying specific back-up candidates for given senior management positions. Many organizations devise models to plan their succession and development processes with trustees.



Most reflect a series of regular activities that include these fundamentals: Identify key roles for succession or replacement planning; define the competencies and motivational profile required to undertake those roles; assess people against these criteria with a future orientation; identify pools of talent that could potentially fill and perform highly key roles. In many organizations, over the past several years, the emphasis has shifted from job assignments to developing competencies, with a focus on managing experiences that are critical to supporting trustees in reaching the aims of the organization. Are you giving trustees the new experiences?

It is imperative to note that employees leave their jobs either voluntarily (retirement or pursue new aspirations) or involuntarily (relieve of appointment or death). SMEs are therefore, faced with vacancies in leadership or inadequacy or lack competent and capable successor to fill the vacancies. Organizations are to act now and begin to plan for succession before top managers are ready for retirement. According to Ebitu, Basil &Ufot, (2016) the death of the owners of most small/medium scale enterprises especially in developing countries always mark the end of such business due to no succession planning for the business. However, for organizations to survive there is need to plan for succession of older (outgoing) employees. Majorly, Abeh (2017), Ebitu *et al.* (2016) and Ackah &Vuvor (2011), established that majority of SMEs in developing countries and also in Nigeria do not survive and grow due to inadequate capital base of most SMEs to meet the collateral requirement by the banks before credit is given out to them. In most other areas of the business, formal processes and plans are followed to reduce cost and uncertainties and to build value.

This is seen in recruiting talent and tracking job costs which are all step-by-step processes within the business. Succession planning also should be a step-by-step process to mitigate risk and build value. The first step of the process is to identify key decision makers and succession planning goals and objectives. You'll need to gather the following information: who are the current owners; which top management will be involved in the succession planning; who is the outside advisers to consult; what is the transition timeline; what do you want your legacy to be and the company's legacy to be. Management may have expectations of future ownership or different roles within the company. Succession planning is an important tool that is used to identify areas where a business might be at risk for losing key staff members, identify potential candidates internally to fill those positions and identify the need for training and development activities designed to close such gaps that may exist.

By matching skills needed with the availability of potential internally, there is opportunity for internal growth and development while limiting the risk of potential secrets of the company being exposed. Will continuity among advisers provide stability during the transition process, or is it time to seek other counsel that aligns with the vision of the new ownership group. These questions are not easily answered, nor is there a common right answer. Every organization and succession plan is different and should be handled accordingly.

The step of communicating objectives with key members of the organization is vital. Will management be on board with the goals of the succession plan, Are family members on board with changes of control among generations, A misstep in communication could cause costly disruptions such as power struggles between key employees or family members and stress for external players, including suppliers, customers, lenders and advisers. If the succession plan includes transfer to a third party buyer, how do you keep key stakeholders incentivized throughout the entire transition? The most complex step in the succession process is to decide how to transfer ownership. Contributing to the complexity of the process is the multitude of ways ownership can be transferred. The options include, but are not limited to, gifting stock, stock redemptions, buy/sell agreements; employee stock ownership plans (ESOPs) and stock recapitalization.



Studies have long stressed the importance of succession planning in ensuring SMEs performance (Brockhouse, 2004; Ibiidunni, Iyiola & Ibiidunni, 2014; Kamunge, Njeru & Tirimba, 2014; Nikolić, Dharmo, Schulte, Mihajlović & Kume, 2015; Ogungbemi, Bubou & Okorhi, 2014 and Suh, 2010); but these past studies have not linked how succession planning will affect SMEs survival. Obadan & Ohiorenaya, (2013) stated that the rate of failure of small business enterprises in the Nigerian economy has been of great concern and one of the reasons for the failure of these small business enterprises in Nigeria is the lack of succession planning. Ejakpomewhe, (2017) established that many SMEs due to lack of effective succession planning strategies to facilitate the transfer of technical expertise from retiring employees to younger employees failed.

Generally, Olabisi, Andrew & Adewole, (2012); Okunbanjo, Adewale & Akinsulire, (2017) and Ibiidunni *et al.*, (2014) succinctly stated that Nigeria in particular, despite the support and incentive programmes to small scale business the rate of SMEs business failure continued to increase because of the obstacles affecting its survival. Succession plan is attributed to the selection of talented employers to replace senior managers who left the firm because of retirement, reassignment or other reasons. C.E.O turnover rates have risen over the years in the 12th Annual Global C.E.O succession study, Favaro, Karlson & Neilson, (2016) noted that in 2016, 10.2 percent of the private organizations, C.E.O were replaced. This number was sharply higher than the previous year turnover rate of 7.6 percent. With these problems identified, this paper examined the effect of succession plan on survival of SMEs in Ogun State, Nigeria.

1.1 Objective of the study

The main objective determined the effect of succession plans on the survival of SMEs in Ogun State, Nigeria. The specific objectives include the following:

1. examine the effect succession plan has on survival of SMEs in Ogun State, Nigeria.
2. determine how succession plan has been able to improve the efficiency and effectiveness of the staff of the organization
3. determine the development that succession plan has on the company's growth.

1.2 Research questions

1. What is the effect of succession plan on the survival of SMEs in Ogun State, Nigeria?
2. To what extent does succession plan increase the efficiency and effectiveness of staff?
3. To what extent does succession plan affect the organisation's growth?

1.3 Research Hypotheses

Ho1: Succession Plan has no significant effect on the survival of SMEs in Ogun State.

Ho2: Succession plan does not increase the efficiency and effectiveness of staff.

Ho3: Succession plan does not significantly affect the organisation's growth.

2. LITERATURE REVIEW

Succession planning is an extremely useful tool to help manage the transfer and diffusion of knowledge within an organisation's knowledge, both tacit and codified, is one of the most important sources of competitive advantage in contemporary organization (Feffer, 2014). In addition, succession planning can be used as a means to generate knowledge in order to achieve cost and operational efficiencies. Peet, (2013) opined that innovative ways to access, transfer, and generate knowledge within organizations in a number of different contexts, not surprisingly the potential loss of knowledge via retirement is of a great concern, particularly in the private sector. Koc-Menard, (2011) suggested phased or flexible retirement, as well as cooperate alumni networks to help manage knowledge transfer. Appelpaum, (2012) described the value in providing training to senior leaders with plans to retire in the next five years.



He noted that training should not necessarily be directed to the acquisition of hard skills or competencies, but rather should focus on soft skills related to public speaking, teaching, and multi-generational communication strategies. Senior leaders could then be tasked with running training learning and monitoring session for potential successors.

Concomitantly transferring, and generating knowledge while maintaining high motivation and affirmation, (Peet, 2013) examined in detail the innovation practice of generating knowledge interviewing (GKI). The GKI process involves experimental base or story telling interview between potential successor and senior leaders. Some researchers further argue that even where formal succession procedures are poor or nonexistent, the alignment and consistency of value systems between current owner and the successor is often enough to facilitate successful succession (Kimuyu, 2008). Therefore, family business owners planning for succession need to consider culture and values surrounding them (Magasi, 2016). It is necessary to note that Nigerian businessmen and entrepreneurs hardly voluntarily retire. This characteristic of Nigerian entrepreneurs further complicates succession issues which Okafor (2008) described as 'the thorniest issues within family-owned businesses'.

Generally, succession problems may arise from internal or external 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 (Akande & Yinusa, 2014). Succession planning in small scale business is associated with the transfer of ownership and management to the next generation. This has been found to contribute to firm growth, survival and to organizational success in general (Kellermanns & Eddleston, 2006). Passing a business from one generation to the next can pass on family tradition, wealth and legacy. Succession planning involves more than just the transfer of business, stock or assets. Planning for the continued success of the business ensures what you have built will continue to provide for the people and causes you care about most. Simply because several family members are part of a management does not ensure the business can survive transfer to the next generation. Planning for succession in the event of retirement or sudden loss of leadership ensures the stability and financial resources to survive (Presti & Naegele, 2012).

2.1 Scharmer's Theory U Model

Scharmer argues that the top management team should embrace and act in order to implement succession planning. This model views succession planning as beginning from the immediate future and supports a concept of a U process of five movements that can make change possible. These movements are; Co-initiating in the words of Scharmer, at this stage, organization establishes a common purpose (common intent) with all stakeholders about a future event. Co-sensing is the second movement stage in which an organization sees the need at hand collectively across boundaries. Also, at the stage, new ideas and innovation occur through collective input. It is the field of change. Presencing is the third stage whereby the leadership of organization begins to see the future they envisage. This futuristic plan establishes a foundation for change, thereby spurs an organization to an expected end.

Further, at this stage, it is observed that the leadership let go off unresolved past issues and forges ahead to a more realistic future. Co-creating is the fourth stage and Scharmer argued that at this stage; leadership of organization explores the future and prototypes what the future might look like. He goes further to suggest that leadership should make succession planning a long-term concept rather than working on organizational immediate requirements. Kartz, (2006) argued further that there was need to assess company's strategy and policy that highlight the required qualifications of the successor in order to have a sustainable and dynamic succession plan in place. Scharmer's fifth movement in Theory U stage 'co-evolving' could help an organization to embrace change and implement succession planning strategies in the context of an emerging future.



Succession planning is a crucial factor in the continuity of businesses. This is emphasized in the accounting concept of going concern which stipulated that a business firm will continue to carry on its activities for an indefinite period of time (Royer, Simons, Boyd & Rafferty, 2008). The study of Mugo, Minja & Njanja, (2015) investigated the effect of succession planning on growth strategy among the local family businesses in the manufacturing sector in Nairobi County. The study was conducted through descriptive census survey. The target population consisted of 97 local manufacturing family businesses and questionnaire was used as the data collection tool. The study revealed that succession planning significantly improved SMEs survival.

3. METHODOLOGY OF THE STUDY

Survey research design was employed for the study. The population was 1794 registered SMEs in Ogun state, Nigeria with sample size of 420 determined by Cochran's sample size technique. Four hundred and twenty copies of structured questionnaires were administered, 400 were completed and returned representing 95.2% response rate. Multi – stage sampling technique was used for this study. The research instrument was found to be valid. The Cronbach Alpha reliability coefficient was 0.815. Data were analyzed using both the descriptive and inferential analysis.

4. RESULT FINDINGS

Linear Regression Coefficients between Succession Plan and survival of SMEs

Model	Coefficients					
	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficient			
1	(Constant)	2.629	.547		4.810	.000
	Succession Planning	.581	.034	.648	16.990	.000

a. Dependent Variable: SME Survival

$$SSMEs = 2.629 + 0.581SP \dots\dots\dots (eq.i)$$

Where:

SSMEs = Survival of SMEs

SP = Succession Plan

Based on the results, the null hypothesis four (H_{04}) which stated that succession Plan has no significant effect on the survival of SMEs in Ogun State was rejected.



Linear Regression Summary between Succession Plan and survival of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.648 ^a	.420	.419	2.48610	1.893

a. Predictors: (Constant), Succession Planning

b. Dependent Variable: SME Survival

The table showed that there was a strong relationship ($R = 0.648$) between succession plan and survival of SMEs in Ogun State. Furthermore, the table showed that $R^2 = 0.420$ which showed that succession plan accounted for 42% of the variations in the survival of SMEs in Ogun State. The remaining 58% was explained by other factors not contained in the model.

5. CONCLUDING REMARKS

Succession plan had a positive significant effect on survival ($\beta=0.581$, t value = 16.990, p -value <0.05 , $R^2 = 0.420$). There is a significant relationship between succession plan and the efficiency of staff of the organization and there is a significant linear relationship between career development and company growth. It was recommended that there should be an Institutional framework put in place by the government to ensure that Entrepreneurs have a successor while registering their businesses to ascertain a succession plan and enlighten them on how to cope and adapt to their environment in other to survive and grow beyond ten years of establishment



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