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EFFECT OF SUCCESSOR CAPACITY ON BUSINESS SURVIVAL OF SMALL AND MEDIUM SCALE ENTERPRISES IN KWARA

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Abstract

The study evaluated the effect of successor capacity on the business survival of block making businesses in Kwara State. The study adopted cross sectional survey with descriptive approach from a sample of 376 drawn from owners of block firms in Kwara State. Data was analyzed using Smart PLS. The study revealed R square of 0.466, business survival, profitability. The study concluded that the successor capability, is essential ingredient succession planning as it ensure business survival of the block industry. Successor capacity affords a block industry with a market value by enabling the industry to define itself in a unique characteristics. The study observed that most block businesses lack innovation hence might not be attractive to the younger generation who possess unique ability a good reason why businesses hardly survive generation.. The study therefore recommend that key stakeholders in block making industry should evaluate the industry characteristics to ascertain the market value of the business to attract a worthy successor.

Keywords: Business Survival, Small Businesses Successor Capacity, Succession Planning

Introduction

The process of succession planning is intricate and involves several business disciplines. Many privately held companies operate with exemplary professionalism and exceptional earnings, but often fall short in adequately preparing for and carrying out the changeover to the next generation of leaders. Even the most experienced and competent business people can become entangled in a web of complex problems. In actuality, a lot of business owners forego managing the transition to a replacement leadership team. Only 30% of family-owned firms continue to function into the second generation, 16% into the third, and only approximately 3% continue into the fourth and beyond (Ayodeji, 2021). Effective succession planning ensures that the firm has capable and trained personnel on staff, which is essential for long-term viability and survival of small and medium-sized businesses. Effective succession management is a key factor in the lifespan of many well-known global corporations, and these outstanding businesses start preparing for their exit strategy as soon as they are appointed (Cummings, 2022).

The issue of successor capability and training is also essential to the sustainability of SMEs. This is dependent on the quality of the successor and the gradual handoff of authority to the following generation. The total effect of this is that few SMEs survive to the second generation, as just 33% of enterprises survive the first ten years, according to the small business association (SBA). Low profitability, instability, discontinuity, and eventually the closure of the organization may result from a lack of planning, poor staff mentoring, and inept personnel who will replace them after their retirement, resignation, death, incapacitation, or termination. Given the foregoing, the paper evaluated how successor capability affected business survival in Kwara State.

Literature Review

A succession plan entails documentation that ensures an organization will continue to function when important members leave due to events like termination, retirement, or death. It outlines the changes that will take place as leadership is transferred between generations. During management transitions, succession plans can help retain key workers, lessen tax obligations, and maintain stock and asset

value. The term "succession planning" refers to a strategy for replacing family members who are retiring from family-owned businesses; the family leader's job was to choose and train the successor (Avanesh, 2011). According to Fapohunda (2015), there must be three elements for succession to happen in a family business: a leader who transfers the leadership role—often referred to as the incumbent or antecedent—to a successor; a method by which the transition takes place. It is crucial that the other family members support keeping the business going. The successor must be extremely motivated to lead the family business and find working there fascinating and fulfilling.

Operation of a business organization is referred to as business survival; maintaining a business is sometimes referred to as managing to stay in business (Akindele, Oginni, & Omoyele, 2012). Organizations frequently go through structuring and restructuring processes in an effort to keep up with ongoing activities that enable organizations to function. These activities can take the form of complexities such as leadership styles, changes, uncertainty, conflict, culture, technology, structure, competitive markets, profitability, and workplace motivation (Adeoye, 2012). The organization must strategically plan and create the most suitable and adaptable structure in light of these problems in order to use and maximize its resources and eventually accomplish organizational goals (Mullins, 2002 and Akindele et al., 2012).

Successful companies are those that can accomplish their aims and objectives and maintain them over an extended period of time (Ebitu, Basil, & Ufot, 2016). All aims are supported by the objective of organizational survival (Adewale 2011). Since Ebitu, Basil, and Ufot (2016) assert that the concept of survival is an unwritten law of any organization, focusing on this aim helps to achieve and carry out other organizational goals. He contends that any institution must see its ability to survive as a crucial requirement for fulfilling any interest at all, and that any that do not ought to have their priorities reevaluated. Keeping an eye on an organization's survival is the most objective approach to gauge its success (Sheppard 2016). How successfully a company learns to adapt to its surroundings and fully utilize its resources, both human and material, will determine whether it survives in a dynamic and competitive business climate (Abor & Quartey, 2010).

Small manufacturing operations, such as basic product processing, handicrafts, construction projects, and repair services are often covered by the idea of small scale firms. There is no universal definition for SMEs, according to the Small Firm Association (SFA) (2013), who also noted that it depended on the authorities. For instance, in Canada, a small business is one with fewer than 100 employees, while a SMEs is one with fewer than 500 employees (SFA, 2013). However, the World Bank (2006) defines SMEs as organizations with up to 500 employees. SMEs in developing countries are defined by the United Nations Industrial Development Organization (UNIDO) (2009) based on the number of employees. The ever-present small stores in cities like hair salons and chop bars are examples of tiny enterprises, which typically employ 5 to 19 people. A medium-sized business employs 20 to 99 people and includes manufacturing and exporting businesses. Others categorize SMEs based on their legal standing and kind of production (Anetor, 2015).

Theoretical Framework

The Stewardship theory, which was created by Donaldson and Davis in 1991, is a fresh viewpoint that aids in understanding the current connections between corporate ownership and management. To promote development, better performance, and ultimately the success of the firm, successive generations must develop, implement, and, in certain cases, completely alter the business vision. According to stewardship theory, managers act as stewards by aligning their actions with the goals of their principals (Akume, & Iguisi, 2022). The theory promotes and examines a distinct type of motivation for managers who are devoted to the organization and interested in obtaining excellent performance. These managers are motivated by factors other than money, according to the theory.

The notion contends that a company needs a structure that enables managers and owners to achieve harmonization most effectively. Stewardship makes the static premise that it only takes into account

the manager-manager relationship at a particular moment in time. As a result, it does not accurately reflect the driving forces behind agents' decisions to switch from an agent to a steward role. The first acts opportunistically and the second feels betrayed when an agent and steward get together, which leads to a situation where the two parties end up taking on an agent role (Azizi, Bidgoli, Maley, & Dabi, 2022).

According to the theory, the aim of governance is to identify the systems and structures that enable the most efficient coordination between the two parties without creating any conflicts of interest between managers and owners. According to stewardship theory, there is no inherent issue with executive control, thus managers typically take responsibility for their decisions (Azizi,, et al., 2022). According to stewardship philosophy, becoming a steward is the outcome of a logical process. The end outcome of this logical process is that one becomes a steward. The person weighs the advantages and disadvantages of each stance in this rational process. Contributions to the literature on stewardship by Mitter, Kuttner, and Berchtenbreiter (2022) contend that while stewards are not always selfless, there are times when CEOs believe that acting in the best interests of shareholders also serves their own interests. In this circumstance, agents would understand that perceptions of their own performance have a direct impact on the company's performance.

Empirical Review

The goal of this study is to apply a systemic method to assess the dynamic effects of intra-family succession on different business areas in family-run businesses, in contrast to Gabriel and Bitsch (2018) who concentrated on the mono-causal effects of succession. The study, which involved system analysis with a participatory approach, was carried out for a model family-run business that operates in Germany's horticultural retail industry. The study discovered that critical characteristics related with succession, such as "strategic planning," "productivity," and "financial flexibility" were revealed by the input and analysis of variable co-occurrence.

Jannah and Muhammad (2021) investigated succession planning and the variations in its execution in Saudi Arabian family enterprises. The study employed qualitative research techniques like an interview and the case method approach. To ascertain differences in family company succession planning between the companies, generation level, industry, type of ownership, and succession process and application, interview analysis and comparison were conducted. The main information was gathered using qualitative techniques. Semi-structured interviews were utilized as an instrument in a case study methodology. Secondary data was gathered by the fata from information in literature reviews from prior studies and scholarly journal articles. The responders were chosen based on a number of factors, including their past in a major family business in Saudi Arabia that had survived the first generation and was now being run by the second generation. The interview revealed that different cases' family business succession plans varied significantly. As a result, recommendations for further research would include triangulation and various measurement in family business succession planning.

Azhari (2021) examined how family company succession is impacted by financial technology, succession planning, financial self-efficacy, and personality systems. They are using a sample of 110 MSME owner respondents from both online and offline surveys. Multiple linear regression was used to evaluate the data, and SPSS 26 was used for processing. This study demonstrates the strong favorable impact of the variables financial technology, financial self-efficacy, and personality system. The flexible succession planning, on the other hand, has a very detrimental impact. In order for the succession of family enterprises to be sustainable, it is intended that the Surabaya government will use the findings of this research to enhance socialization surrounding financial technology, financial self-efficacy, and personality systems.

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Methodology

A cross sectional survey research design was adopted to measure the effect of successor capacity on business survival. This is justified by issues of succession planning are attitudinal in nature which are measured base on perceptions. As a result the study approach shall be descriptive to enable the study make inferences on the subject matter to support further research. A descriptive research design was appropriate because to help in describing current practices regarding the subject matter. The population of the survey was compiled from all SMEs engaged in block manufacturing in Kwara State. Due to the many cultural and racial backgrounds of the business owners, there is a disproportionately high concentration of Block-making firms in the State. Kwara State is regarded as one of the regions with the quickest recent growth, with Ilorin serving as the development's epicenter. The fact that various communities with various cultural characteristics coexist in Kwara State is another benefit that makes it possible to generalize the study. The Ministry of Enterprise in Kwara State used the study's trade listing when researching SMEs prior to the creation of Covid (2019). According to the data, there are 12,342 SMEs. The list was significant because it included information that was crucial to the study, such as the formality of the businesses, their physical addresses, contact information, and descriptions of their sizes (small and medium). The Block-making family enterprises that met the study's eligibility requirements were distinguished by all of these corporate features.

Based on the study population, Godden (2004) formula was used to determine the sample size. This is informed by the scientific and accuracy of the formula. The formula also supports situations of indefinite population especially when the suggested population is less than 50,000. Also, the sample for the interview was hypothetically selected in line with the views of Creswell and Creswell (2012) which state that the smaller the sample in a qualitative data, the better.

Sample Size - Infinite Population (where the population is lesser than 50,000)

$$SS = \frac{Z^2 x(p) x(1-p)}{c^2} \quad \ldots\ldots (3.1)$$

SS = Sample Size

Z = Z-value(1.96 for a 95 percent confidence level)

P = Percentage of population picking a choice, expressed as decimal (0.5)

C = Confidence interval, expressed as decimal (.04 = +/- 4 percentage points)

$$SS = \frac{7301 \times .5 \times .5}{0.0016}$$

SS = 600

$$NewSS = \frac{SS}{[1+\frac{(SS-1)}{Population}]} \quad \ldots\ldots (3.2)$$

Note: Calculate the sample size using the infinite population formula first. Then, use the sample size derived from that calculation to calculate a sample size for a finite population.

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Example:

$$NewSS = \frac{600}{[1 + \frac{(600-1)}{7,301}]}$$

New SS = 375.631

New SS ≈ 376

This study employed both multistage and purposive sampling techniques (probability and non probability sampling techniques) to sample the respondents of the study. Multi-stage sampling techniques was employed because of the complexity of the population. The first stage involved selection of the LGAs which was purposively selected. The second stage involved the classification of the local government areas of Kwara State. Consequently, the respondents were selected based on stratified random sampling. The interview respondents will be purposively selected.

Research hypothesis

Research hypothesis one which states that successor capacity has no significant impact on business survival of small and medium scale enterprises in Nigeria. This research hypothesis was tested by using succession planning and performance of block industry. This hypothesis was tested with the regression analysis to examine the effect of the successor capacity and business survival in Kwara State. Table 4.20 presents the outcome of the regression analysis. The null research hypothesis was formulated as follows:

H_{O1}: successor capacity has no significant impact on business survival of small and medium scale enterprises in Nigeria.

Table 1 Successor capacity and Business survival of the Block Industry

Source	SS	df	MS			
				Number of obs	=	351
				F(4, 346)	=	75.47
Model	72.5806913	4	18.1451728	Prob > F	=	0.0000
Residual	83.1856905	346	.240421071	R-squared	=	0.4660
				Adj R-squared	=	0.4598
Total	155.766382	350	.445046805	Root MSE	=	.49033

Source: Stata Result

Table 1 illustrates the regression model result that is statistically performed to investigate the effect of succession planning on market value of block making industry in Kwara State. The Table obtained 0.4660 for R square and 0.4598 for adjusted R square. This means that succession planning 46.6% of the variations of business survival at Kwara State, Nigeria. The interpretation from obtained adjusted R square value with 46.6% suggest that there were 53.3% unexplained variations that were not considered in this study. Accordingly, beta value and P value obtained from the Table 1 above is recorded at F value = 75.47, $p < 0.000$.

Table 2: Regression Residual Result

bs	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ic	.0918007	.0466285	1.97	0.050	.0000897	.1835116
sp	.3017132	.0546211	5.52	0.000	.194282	.4091444
dt	.2261322	.0527945	4.28	0.000	.1222937	.3299707
fh	.1323124	.0395321	3.35	0.001	.054559	.2100658
_cons	1.03615	.1740961	5.95	0.000	.6937305	1.37857

Source: Stata Result

The outcomes of Table 2 in the regression output supported the result of the statistical analysis performed using regression coefficient which indicate significant the two variables. Succession planning was measured using industry characteristics, successor capability, documented transition and family harmony. The null hypothesis which stated that ''successor capacity does not significantly impact on business survival of small and medium scale enterprises in Nigeria'' is rejected. Therefore, the outcome of this result means that the research objective which establish whether successor capacity have significant impact on business survival of small and medium scale enterprises in Nigeria.

Table 3 ANOVA Business Survival

Source	Partial SS	df	MS	F	Prob>F
Model	171.38181	13	13.183217	62.53	0.0000
ic	37.646518	3	12.548839	59.52	0.0000
sp	10.048094	3	3.3493647	15.89	0.0000
dt	6.2351879	3	2.078396	9.86	0.0000
fh	6.0040812	4	1.5010203	7.12	0.0000
Residual	71.051234	337	.21083452		
Total	242.43305	350	.69266585		

Discussion of Findings

The study's goal was to determine how successor capacity affected small and medium-sized businesses in Nigeria's ability to survive. In Kwara State, there was a significant correlation between firm survival and the elements of succession planning. According to the regression analysis's findings, there is a strong correlation between block business sustainability and succession planning. The association was statistically significant and positive. In order to quantify the impact of entrepreneurial orientation on family company performance, the study also performed a regression analysis. The study found that, when entrepreneurial attitude was adjusted, there was a positive and substantial association between succession planning and performance. Flanegan and Mans-Kemp (2022) Observed that, in order to maintain business continuity, there is a clear need for proactive succession planning that takes smart board renewal and director development into account. The findings of Salau and Nurudeen (2022) that the Small and Medium Enterprises Development Association of Nigeria reported in 2017 that over 2.783 million SMEs were temporarily closed down owing to the death or illness of the proprietors were also supportive of these findings. INGOs have poor succession

planning initiatives, which is concerning for the sustainability of the relevant organizations, according to Wangombe and Assumptah's (2015) analysis of the literature.

Conclusion and Recommendations

The study concludes that the successor capability is essential ingredient that ensures business survival of the block industry. The study therefore recommends the businesses should also consider involvement of family members with unique capability to get involved in various activities of the business. The study observed that most block businesses lack innovation hence might not be attractive to the younger generation who possess unique ability a good reason why businesses hardly survive generation. The survey also discovered that the block-making industry does not employ many skills, which is a sign that the companies are able to pass on their entrepreneurial spirit from one generation to the next.

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