
Executive Competency and Sustainability of Family-Owned Enterprises in Lagos and Ogun States Nigeria

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Abstract: *The main objective of the study is to determine executive competency on sustainability of family-owned business in Lagos and Ogun States of Nigeria. The descriptive research design was used to study 1,806 family-owned businesses registered in Lagos and Ogun states (NAMSE, 2012). The stratified sampling method was used to select 327 enterprises from the two states. Questionnaire was the main instrument for data collection measured on a 5-point Likert scale from Strongly Agree to Strongly Disagree. Data were analysed using the Pearson's Correlation statistical technique with the aid of SPSS software. The study reveals that executive competency significantly affect sustainability of family-owned business ($r = 0.93$; $p < 0.01$) and therefore recommends that family members should be willing to transit into new and different roles in order to gain the big picture and be involved in corporate policy and planning to enhance better awareness of business needs and have access to opportunities in order to develop effective succession strategies. This will clearly help to articulate that competent and high performing employee, irrespective of being a family or nonfamily person to be picked as the successor.*

Keywords: *Executive Competency, Succession Strategy, Sustainability.*

1.0 Introduction

Family business advisers often recommend that next generation family members work for several years outside the family firm to gain knowledge and experience. Many older generation family members will argue that outside experience is not really necessary, since the family firm offers unique opportunities for younger adults. The core issue is not the merit of outside work experience, but rather a young adult's basic need to become autonomous. (Scotland, 2010)

Experience refers to information that is laden with knowledge, judgment, and intuition that is embedded within individuals and developed over time. In the family business setting, this longitudinal knowledge base and family-focused

memory orientation is brought to the business through leadership succession. (Astrachan et al., 2005). Three items measuring experience included (a) the generation of the family owning the company, (b) the generation of the family managing the company, and (c) the generation active on the governance board. "Experience" means the accumulated experience that the individual has brought into the business, over time (Astrachan, Klein, Smyrniotis, 2005). As suggested by Astrachan et al. (2005), these items were weighted where the greatest experience of family succession was gained between the first and the second generations and the benefits of experience diminished with each successive generation.

Barach & Gantisky (1995) indicate that 90% of executives interviewed advocated a succession strategy in which a newcomer earns credibility by gaining the necessary experience to do the job better than anyone else. In addition, Norburn and Birley (1988) found that different functional experience (output vs. throughput) in members of the top management team has implications on corporate performance and sustainability. However, despite expert opinion on the necessity of external experience, an empirical study by Fiegenger et. al. (1996) revealed that CEOs in family firms do not consider prior experience to be an important form of preparation.

Gaining experience in other companies can also provide the potential successor with a broader perspective on managerial issues and help him/her develop the capacity to adapt to far-reaching environmental change. Furthermore, achievement outside the family business can win the entrant credibility and respect when joining the family firm. Handler (1991) argues that the following factors influence the effectiveness of succession criteria: degree of training, degree of responsibility, and experience outside the organization, communication concerning succession and planning around succession.

1.1 Statement of Research Problem

Most of the Nigerian Entrepreneurs and successful business owners are opportunistic businessmen and women (Ogundele, & Idris 2008). They move from one business to the other – whichever area that money can be made becomes ideal – through politics, relationships and the like. There is the need to share their accumulated wisdom and experiences with their successor. What we see in our environment is that the owner/founders do not share this knowledge and experience because most businesses they run are not formal businesses that they can really leave behind as a legacy, but successors need both experience and training to develop the visioning and evaluative skills to strategically redirect the businesses. They also need to develop the ability to conceive alternative ways of doing business and to choose those which make the business more effective. Responsibility for experience in the different management functions can help deepen the understanding and broaden the perspective of the successor (Klinefelter, 2012). This is lacking among Nigerian family business owners, which is why at the incapacitation of the founder, the business also becomes incapacitated. In order to solve the above problem, the research work therefore explore the objective of how personal exposure and experience of the owner/founder prior to his founding/joining the family business affect the firm's sustainability.

1.2 Research Objective

To determine executive competency skills for sustainability of family-owned business.

1.3 Research Question

How does executive competency skills affect sustainability of family-owned business?

1.4 Research Hypothesis

Executive competency does not significantly affect sustainability of family-owned business.

2.0 Literature Review

A critical part of the succession process concerns the grooming of the successor. Experience and grooming can decrease the likelihood of failure when one generation succeeds the next. Yet, research seems to show that very few successors are explicitly identified and fewer are prepared in advance to assume the founder's mantle. Several literatures in this area appear to focus on two things: competence and legitimacy. Competence refers to operational know-how, while legitimacy deals with relational skills (Phan, Butler & Lee, 2005).

In the empirical works of Phan et al, 2005 (while quoting (Barach et al. 1995), they indicated that 90% of executives interviewed advocated a

succession strategy in which a newcomer earns credibility by gaining the necessary experience to do the job better than anyone else. There are two ways for the successor to earn legitimacy. One is to start from the bottom of the company and accumulate actual experience by working up the corporate ladder. The other is to obtain substantial external experience before joining the company (Stevens, 1990). Furthermore, the substance of a successor's experience may also make a difference to his or her legitimacy. For example, Norburn and Birley (1988) found that different functional experience (output vs. throughput) in members of the top management team has implications on corporate performance and sustainability. Although that study was targeted at large corporations, one could surmise similar patterns in family firms.

However, despite expert opinion on the necessity of external experience, an empirical study by Fiegenger et. al. (1996) revealed that CEOs in family firms do not consider prior experience to be an important form of preparation. Another study found the "duo" mode of top management succession the most common (Vancil, 1987). Here, two top-level executives, a chairman and a CEO, share power, with the latter eventually succeeding the former. Such a structure implies that the legitimacy of the successor is partly derived from the successor's prior position as second-in-command.

It is also from the position of second-in-command that the chosen heir is more likely to be involved in strategic planning, an experience considered critical for success (Ward, 1988). The study by Fiegenger et al. (1996), however, finds that unlike non family-related CEOs, family-related CEOs rate this particular task among the least important of preparations for the successor, possibly because of their preference for maintaining rigid and personal control over the direction of the business during their tenures.

The most significant finding in Fiegenger, et al. (1996) is that family-related CEOs placed more emphasis on their successors' "managing relations with customers and vendors" and "managing relations with stockholders and lenders" than their non family-related counterparts. Thus, they prefer a more direct and internally oriented approach by their successors in preparing for the CEO role, one that emphasizes building strong personal relationships among the stakeholders. The same study also found that non family-related CEOs were more externally oriented and emotionally detached from the succession process. Their favored forms of task preparation consisted of those that are outsourced, such as executive

development seminars and university-level coursework.

Studies have generally found that SME owner/managers with more managerial, sector experience or prior SME experience as owner/manager tend to correlate with greater growth. Kalleberg and Leicht (1991) in their study found no relationship between prior SME experience and firm growth. There is reasonable evidence indicating a negative relationship between being unemployed before starting a business and subsequent business growth. They also found out in their study that SME owner/managers in the UK with little experience at the start-up phase could have problems remaining solvent with an increase in expenditure in relation to their earnings.

Functional experience enhances on-the-job performance (Becker, 1993), and it also provides the basis for building specific human capital that is

4.0 Results and Analysis

Table 1: Relationship between Executive Competency and Firm’s Sustainability

		CEO Competency for Succession	Firm's Sustainability
CEO Competency for Succession	Pearson Correlation	1	0.93(**)
	Sig. (2-tailed)	.	0.000
	N	327	327
Firm's Sustainability	Pearson Correlation	0.93(**)	1
	Sig. (2-tailed)	0.000	.
	N	327	327

** Correlation is significant at the 0.01 level (2-tailed).

From the above table, there is a positive and strong correlation (0.93**) between CEO Competency and Firm's Sustainability (r = 0.93; p < 0.01). This result shows that competency for succession accounted for 93% of a firm’s sustainability hence, the study confirms that Executive Competency skills significantly affect the sustainability of the family-owned business.

5.0 Discussion

The result above is in tandem with the previous works of (Ifekwem, Oghojafor and Kuye, 2011; Ogundele, Idris and Ahmed-Ogundipe, 2008; Chakrabarty (2009), Utomi 2008, Kets de Vries, 1993; Handler, 1995, 1992 and 1990; Handler 1989), which confirms that planning for succession

particularly valuable in an organizational context (Becker, 1993). Experience is a fundamental condition for learning and therefore, is always expected to have a positive impact on job performance (Hambrick and Mason, 1984; Armstrong, Pecotich and Mills, 1993). This implies that new CEOs who are groomed for the job would be more likely to succeed than those who have not been groomed.

3.0 Methodology

The population for the study comprise 1,806 family-owned businesses in Lagos and Ogun States of Nigeria (NAMSE, 2012). The stratified random sampling method was used to select 327 family-owned enterprises. Questionnaire was the main instrument for data collection measured on 5-point Likert scale from Strongly Agree to Strongly Disagree. Data were analysed using the Pearson Correlation statistical technique with the aid of Statistical Package for Social Sciences (SPSS).

ensures the firm’s survival and sustainability over the long run. Failure to plan for succession has been cited as the primary cause for the poor survival rate of family firms (Merwe, 2009; Liroff, 2008; and Yan and Sorenson, 2006; Poutziouris, 2000, Handler, 1989; Dyer, 1986; Beckhard and Dyer, 1983).

The findings of this study is in agreement with the empirical work of Ifekwem, Oghojafor and Kuye, 2011, carried out on family business owners in the South Eastern States of Nigeria which identified the non-availability of succession plan in most family businesses. They found out that 70 percent of the respondents have no plans on who succeeds them. Those institutions which would have deepened the roots of enterprises seem to be

compromised by attitude towards use of professionals. According to Utomi 2008, professionalizing business succession and planning, trust in ownership structure that makes a broad block of stakeholders committed to ensuring smooth transition of enterprise leadership from one team to another is important to ensure business sustainability

The study of Le Breton-Miller et.al (2004) also confirms the result of this research work as it suggests that the rules of the game and processes for succession must be communicated early and clearly. Stated plainly and well in advance, the process and rules of the game will eliminate much of the indecision, insecurity, uncertainty, and delay. It also concluded that, there must be a level of agreement on the mode of succession. For example, major stakeholders must agree on what positions, rights, and ownership assets will be given, when, and on what basis. The planning must also establish the time frame and timing of succession and also shows a slow and subtle process of role adjustment between the incumbent and successor as very key. Their findings also shows that researchers and practitioners should engage in planning the succession well in advance, they even mention a time frame of 20 years or starting the moment a CEO assumes his or her job, this Also corroborate the works findings of Barach & Gantisky, 1995; Ward, 1987). They also suggest the importance of timing a succession to coincide with when the successor is well prepared and the business is in good condition.

Observer (2007) found that two thirds of family businesses do not require family members to have the qualifications or related experience necessary to be successful when entering the business, though 25 percent think the next generation is not competent enough to take the reins. However despite the various expert opinion on the necessity of external experience, an empirical study by Fiegenger et. al. (1996) revealed that CEOs in family firms do not consider prior experience to be an important form of preparation. They opined that learning on the job, knowing the values, culture and creating personal relationships with internal staff are core criteria for successful performance and survival of the family business.

6.0 Conclusion

It is critical for any family members considered for key positions or as successor candidates to have a commitment to develop the skills and competencies necessary over time in order to meet the business needs in the future. It is not as easy as it sounds, rather it is a complex area because of the interrelated factors which include; trust and

confidence, delegation and decision making, personal sacrifices (opportunity costs) in order to learn the business and in overall assuming leadership roles and responsibilities (Burke, 2003). Therefore, the study recommends that at this stage the family members should be willing to transit into new and different roles in order to gain the big picture and to be involved in corporate policy and planning. In this way, they become acutely aware of the business needs, are fully informed and involved and have access to opportunities in order to develop an effective succession strategy (Burke, 2003; Kottke and Pelletier, 2006; Doescher, 1993; Fenn, 1994; Osborne, 1991, Perryer & Te, 2010).

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