

## DOES SUCCESSION PLANNING MATTER FOR SMES SUSTAINABILITY? A CASE OF NORTH-CENTRAL GEOPOLITICAL ZONE OF NIGERIA

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### ABSTRACT

In this paper, the relations between succession planning and sustainability of small and medium scale enterprises (SMEs) in North-central of Nigeria was assessed. The paper focused on two fundamental dimensions of succession planning (internal and external development and retaining of talent) and how they affect SMEs sustainability. The descriptive research survey design (via the administration of questionnaires) and One Way Analysis of Variance (ANOVA) were employed and findings indicated a significant difference in perception of respondents on succession planning and SMEs sustainability in North-central of Nigeria. Based on the findings, it was recommended that SMEs should have succession laws to ensure smooth transition as well as the roles of the successor should be greatly reemphasized. Again, SMEs succession plans should be a combination of internal and external development and retaining of successors. More importantly, successors for SMEs should be based on merit to ensure that the right and experienced person manage the enterprises.

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**Keywords:** Succession planning; Enterprise Sustainability; Small and Medium Enterprises; Internal Talents; External Talents

**JEL Classification:** M13; M19; Q56

### INTRODUCTION

In recent times, small and medium enterprises (SMEs) has emerged as one of the remarkable concerns in entrepreneurial development literature given its immense contributions to poverty and unemployment reduction, particularly in developing countries like Nigeria. Accordingly, succession planning and sustainability has been of paramount interests to owners of

SMEs, national and international governments and researchers as well. This interest stems from the fact that SMEs in Nigeria are faced with issues relating to their continuous existence in face of dwindling economy.

The Ministry of Economic Planning (2018) statistics reveal that SMEs account for about 35% of businesses with 10-20years of operations and 32% with more than 20years of operations in Nigeria. Moreover, the Global Family Business Survey (2018) reports suggest that only 5% of SMEs had abstemiously sound succession planning, which was far below global average level at 16%. Notwithstanding the sound succession planning of several SMEs in Nigeria, only few are able to realize their succession plans smoothly (Obadan & Ohiorenoya, 2013). Nnabuife and Okoli (2017) observed that succession planning has grown over the years due to the vital role it plays in ensuring swift transition of SMEs ownership or management from one to another.

According to Collins (2009), succession planning refers to providing continual management or ownership transition across SMEs. Similarly, King (2015) sees succession planning as a process of continued and effective performance of an enterprise as well as putting in place, a process of developing and replacing employees over time. Dessler (2011) identified three key steps to succession planning in an organization: identifying key needs creating and assessing people and selecting those who will fill key positions within the organization.

Sustainability on the other hand, refers to safeguarding business existence, intergenerational welfare, productivity and resilience of economic systems as well as preserving capital stocks and regenerative capacity of businesses (Wang, Fang & Weng, 2019). Owing to the fact that SMEs must create a giant stride towards becoming successful and continue in operations for an unforeseeable time, succession planning and sustainability has become a veritable tool for realizing this.

Prior researches (see Wang, Fang & Weng, 2019; Nyoni, 2019; Nyalita, 2018; Magasi, 2016; Wahjono, *et al*, 2014; and Garg & Weele, 2012) have indicated that succession planning contributes significantly to enterprises sustainability, performance, growth and innovation in other countries; however, the few studies on succession planning and sustainability of SMEs in Nigeria (see Ifekwem, 2018; Akpan & Ukpai, 2017; Nnabuife & Okoli, 2017; Adedayo, Olanipekun & Ojo, 2016; Obadan & Ohiorenoya,

2013) were conducted in other geopolitical zones of Nigeria with lack of studies in North-central geopolitical zone of Nigeria; hence this study was carried out to fill the gap in literature and to provide proof of empirical evidence on whether succession planning matter for SMEs sustainability in North-central.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

The review of literature encompassed conceptual and theoretical frameworks, extant studies as well as the conceptual model of the study.

### ***Succession Planning***

Succession planning poses a foremost contest for SMEs in developing countries. Management literature indicates that while most SMEs are managed by owners or small management team, there are few with suitable succession planning. The dearth of succession planning according to Wang, *et al* (2019) result in the collapse of SMEs specifically when key drivers exit from the enterprise in pursuit of other options.

Rothwell (2011) sees succession planning as a premeditated and systematic move aimed at ensuring leadership or management continuity in key positions, retaining and developing of human capitals and encouraging human capital advancement for the future existence of the enterprise. In this milieu succession planning not only include retaining of employees in key positions, but it also embraces a number of dynamics like procedures needed for a successful transfer, legal and financial considerations, leadership development and exit strategies (Ip & Jacobs, 2016).

Several dynamics have been recognized as constituents for effective transition of succession planning of SMEs: role clarification of predecessors, succession autonomy, communication and justice. Presently, succession planning is an impending drawback for most SMEs mainly when initiators of SMEs retire or die (Mirel, 2016). Succession planning unfolds in two forms - internal (developing and retaining internal talents) and external (purchasing and retaining external talents) (Nyoni, 2019; and Magasi, 2016); this paper used both dimensions (internal and external) in its investigation.

### ***Conceptualization of Enterprise Sustainability***

The term 'sustainability' has been defined in numerous ways; sustainability originates from 'sustain' which means the ability of an entity to maintain or to keep existence of something intact. Sustainability is akin to the going concern concept of enterprise, which foretells that an enterprise is deemed to continue for an unforeseeable period of time. In the views of Wanget.al (2019), enterprise sustainability refers to the process of safeguarding the existence of SMEs, productivity, intergenerational welfare, and preserving human capital and regenerative capacity.

Furthermore, enterprise sustainability can be described as an approach that helps in creating long-term shareholders value by embracing opportunities and managing risk resulting from the business environment and social developments (Garg & Weele, 2012; and Wahjono, *et al*, 2014). Enterprise sustainability according to Nnabuiife and Okoli (2017) refers to management of the environment, social and financial demands towards ensuring responsible, ethical and ongoing success of business.

Recent studies (see Wang, *et al*, 2019; Nyoni, 2019; Nyalita, 2018; Ifekwem, 2018; Akpan & Ukpai, 2017; Nnabuiife & Okoli, 2017; Adedayo, *et al*, 2016; Magasi, 2016; Wahjono, *et al*, 2014; Obadan & Ohioyenoya, 2013; and Garg & Weele, 2012) have shown succession planning contributes significantly enterprise sustainability; however, whether this is the case for SMEs in North-central is an issue not researched. Given the above assertion, we therefore postulate that:

***Ho: There is no significant difference in the perception of respondents on succession planning and SMEs sustainability***

### ***Theoretical Framework***

This paper is anchored on two (2) paradigms - Leadership Succession Paradigm (LSP) and Requisite Organization Paradigm (ROP). *First*, LSP advocates that for an enterprise to realize effective succession, it must maintain redundancy in management structure in order to boost plans ahead of executives retiring and appointing of a successor before the current leader exit, groom internal employees by allowing them to shoulder the current leaders and prevent conflict by making leadership changes swiftly (Ibrahim, Soufani, & Lam, 2001).

*Second*, ROP advocates that employees' capability is the key driver in spotting talent within a succession management plan and measured in unit of time-horizon. Time-horizon is length of time into the future enterprise can plan and work towards its succession plan. Shepherd and Zacharakis (2000) asserted that making succession plans and initiating them in the foreseeable future requires an increasing amount of complex mental work by existing management or leadership.

### ***Extant Studies***

There is avalanche of empirical evidences on the relations between succession planning and SMEs sustainability in developed nations with few studies in Nigeria, particularly in North-central geopolitical zone. This section reviewed extant studies on succession planning in both developed and developing nations. For instance, Wang, *et al* (2019) assessed family business successors' knowledge and sustainable innovation with moderating role of leader's approval in Taiwan. Using questionnaire and regression analytical technique, the study established that leaders' approval significantly and positively affects the link between business succession and sustainable innovation.

Similarly, Nyoni (2019) examined the factors affecting succession planning of SMEs in Zimbabwe. Using questionnaire and descriptive tool, the study found that proper succession planning circumvents the issues of discontinuity after death or retirement of founder. Equally, Nyalita (2018) assessed the relations between succession planning, entrepreneurial orientation and SMEs performance in Kenya. Using questionnaire and descriptive tool, the study revealed that succession planning contributes significantly to SMEs performance.

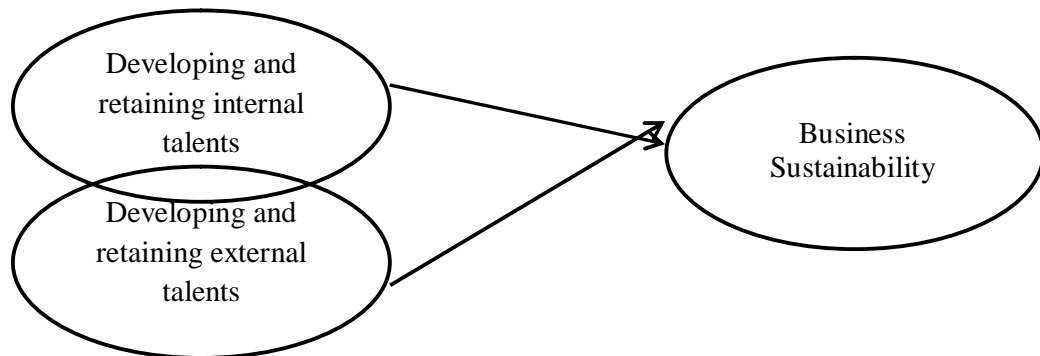
Likewise, Ifekwem (2018) studied the extent to which successor panning affects sustainability of family owned businesses in South-East, Nigeria. Questionnaire and the Pearson correlation tool was adopted. Findings showed a significant link between successor planning and family business sustainability. Akpan and Ukpai (2017) evaluated the role of succession planning on SMEs survival in Benue state, Nigeria via questionnaire and Analysis of Variance (ANOVA) tool. Findings suggest that manpower training affects SMEs survival.

Correspondingly, Nnabuife and Okoli (2017) explored role of succession planning of family owned businesses and its sustainability in Anambra

State, Nigeria using questionnaire. The Pearson's correlation results indicated that mentorship has a high positive and significant link with business sustainability while no statistical variation between perceptions of incorporated family owned business and unincorporated family owned business on succession planning was established.

Comparably, Adedayo, Olanipekun and Ojo(2016)used questionnaire in evaluating succession planning and enterprise's sustainability in Nigeria. The multiple regression results showed a strong positive link between succession planning and enterprise sustainability. In Tanzania, Magasi (2016) investigated the factors affecting business succession planning of SMEs using questionnaire and chi-square statistical tool. Findings showed that higher the age of SMEs, higher the likelihood of preparing the business successors.

In Indonesia, Wahjono, Wahjoedi, Idrus and Nirbito(2014) appraised succession planning and economic education as an avenue for improving family business performance. The descriptive results showed that succession planning has the propensity of enhancing family business performance. Obadan and Ohiorenoya (2013) studied the presence of succession planning in SMEs in Nigeria via questionnaire. Descriptive result showed that there are limited succession plans by SMEs and ability of successors is not considered in succession planning. Given the above framework, the following conceptual model was developed:



**Fig. 1: Conceptual Model of Study**  
Source: Conceptualized by Researcher, 2020

## RESEARCH METHODS

In this study, the survey research design was used and primary data (questionnaire) was the instrument of data collection; this design was

adopted since the study seeks to obtain people's perceptions on succession planning and SMEs sustainability. More so, convenience sampling technique was employed to obtain respondents likely to be conversant and informative about the research subject. Consequently, a total of two hundred and seventeen (217) SMEs owners and employees were sampled in North-central (federal capital territory, Abuja and Nassarawa states).

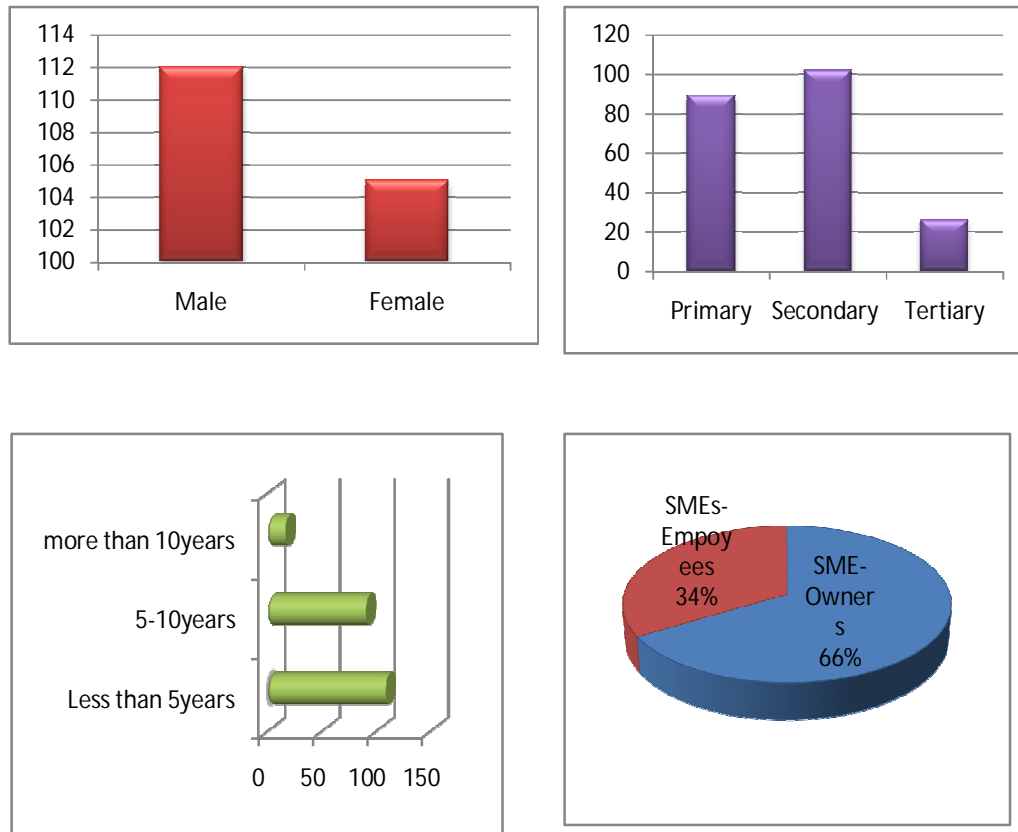
Furthermore, SMEs owners were given a higher percentage in the study sample (144 samples) while the remaining respondents (73 samples) were employees; reason being that succession planning directly revolves around owners of SMEs. Questionnaire was designed on a 5-point scales (strongly agree, agree, undecided, disagree and strongly disagree) using dimensions of business succession (developing and retaining internal and external talents) and sustainability. Following the design of questionnaire, a pilot test was conducted and Cronbach reliability coefficient of 0.79 was obtained.

The data obtained in the study was analyzed via the use of descriptive methods (charts, frequency count, mean and standard deviation) and inferential methods (One Way Analysis of Variance-ANOVA). The ANOVA result was used to ascertain the difference among means of the study variables as well as in validating the hypothesis of no significant difference in the perception of respondents on succession planning and SMEs sustainability. The statistical analysis was carried out by means of STATA 13.0 Microsoft statistical software.



## RESULTS AND DISCUSSIONS

The bio-data of respondents (gender, educational level, SMEs years of operations; category of respondents) were presented using graphical illustrations.



*Source: Compiled by Researcher, 2020*

The figures captured the bio-data of the respondents; however, 112 of the respondents are male while 105 female. In addition, 89 and 102 of the respondents had obtained primary and secondary education respectively while 26 had obtained tertiary education. Also, it was found that 109 and 91 of the sampled SMEs had operated for less than 5years and 5-10years while few SMEs had operated for more than 10years representing 17 respondents. The respondents' category indicated 144 are SMEs-owners while 73 SMEs-employees.



**Table 1: Descriptive Results of Succession Planning and SMEs Sustainability**

Factors	Obs.	Mean	Standard Deviation
Internal succession	217	3.412	.39888
External succession	217	3.381	.41974
SMEs sustainability	217	3.094	.40931

*Source: Field Survey, 2020*

With regards to the independent variable (succession planning – measured using internal and external dimensions) and dependent variable (SMEs sustainability) as shown in Table 1, all the variables scored above the mean benchmark of 2.50; the average respondent answered with a scale value of above 2.50, thus indicating that the respondents perceive these factors as some of the issues pertaining to succession planning and SMEs sustainability in North-central of Nigeria.

**Table 2: One Way Analysis of Variance (ANOVA) of Succession Planning and SMEs Sustainability**

		Sum of Squares	Df	Mean Square	F	Sig.
Internal Groups	Between	12.4532	2	.58682	12.31	0.0000
	Within	88.4493	215	.25354		
	<b>Total</b>	<b>100.902</b>	<b>217</b>	<b>.27127</b>		
External Groups	Between	21.3811	2	.58846	12.39	0.0000
	Within	136.109	215	.66533		
	<b>Total</b>	<b>157.490</b>	<b>217</b>	<b>.71443</b>		

*Source: Field Survey, 2020*

From Table 2, the variables have degree of freedom between groups (df) = 2 and 215 within groups. It could be seen that the computed values for succession planning dimensions-internal (F = 12.31) and external (F = 12.39) have obtained values higher than the tabulated value; an indication that the difference in mean response is significant. Consequently, we reject the null hypothesis of no significant difference in perception of

respondents on succession planning and SMEs sustainability. The result established that a significance difference in perception of respondents on succession planning and SMEs sustainability in North-central of Nigeria.

Impliedly, succession planning (internal and external developments and retaining of talents) contributes significantly to SMEs sustainability in Nigeria. The results of this study conforms with those of Wang, *et al* (2019); Nyoni (2019); Nyalita (2018); Ifekwem (2018); Akpan and Ukpai (2017); Nnabuiife and Okoli (2017); Adedayo, *et al* (2016); and Magasi (2016) that succession planning contributes significantly to enterprise sustainability.

## CONCLUSION AND RECOMMENDATIONS

In this paper, the link between succession planning and SMEs sustainability in North-central of Nigeria was assessed. The study focused on two vital dimensions of succession planning (internal and external development and retaining of talent) and how these succession planning dimensions varies among SMEs owners and employees in their perception. The descriptive survey design (via the administration of questionnaires), purposive sampling and analysis of variance (ANOVA) approaches were adopted. Findings indicated that succession planning affects SMEs sustainability in North-central geopolitical zones.

In view of the findings, it was recommended that SMEs should have succession laws to ensure smooth transition as well as the roles of the successor should be greatly reemphasized. In fact, SMEs succession plans should be a combination of internal and external development and retaining of successors. More importantly, successors for SMEs should be based on merit to ensure that the right and experienced person manage the enterprises.

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