FAMILY-OWNED BUSINESSES IN AFRICA: SUCCESSORSHIP ISSUES AND SUGGESTIONS

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Abstract: Worldwide, most Small and Micro-Enterprises (SMEs) are family-owned. Analytically, therefore, Family-Owned Businesses (FOBs) are a type of SME, as this paper will demonstrate. Africa and most developing economies are known for FOBs, most of which are less formal or institutionalised than their counterparts in the developed economies. As a result, FOBs in Africa are short-lived and have life spans that rarely transcend those of their original founders. This chapter surveyed four FOBs in Nigeria and found that several reasons account for their non-succession or unsustainability beyond their original founders. The chapter argues that, for Africa to bolster its productive economic capacity, in order to effectively address its domestic challenges and become a more relevant player in the global economy, FOBs must become more institutionalised and, hence, more sustainable beyond the lifespan of their original founders. The chapter proposes a sustainability model for FOBs in Africa and discusses its implementation and policy implications. The chapter concludes that sustainable FOBs play very vital roles in enhancing the productive capacities of individuals and societies, and are a critical part of the foundation for a viable economy in Africa.

Keywords: family and founders owned enterprises; family business; FOB; business succession; SMEs.

PURPOSE AND RATIONALE OF CHAPTER

The purpose of this chapter is to use the insights gained from surveys of FOBs in Nigeria, combined with conceptual and empirical data from the literature, to formulate a succession or sustainability model for FOBs in Africa. The chapter discusses the implementation and policy implications of the model.

The rationale for the chapter is that small and medium-scale enterprises, largely family-owned, have to, and must, play a critical role to enhance the productive capacity of Africa's economy. Africa has a historic tradition of entrepreneurship at the family level. Most colonial African country or sub-economies were powered by cooperatives, which were built on, or fuelled by, FOBs. In post-colonial Africa, however, the sub-economies are grossly underperforming, and this

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is hampering people's ability to afford basic human needs, pay their due taxes and, hence, for public infrastructure and services, and enjoy a decent quality of life. By extension, these problems impoverish Africa's economy, limiting its ability to execute its domestic economic functions and agenda effectively, and to honour its domestic and international financial obligations responsibly. To reverse this situation of economic underperformance and distress, the institutionalisation, and thus the survivability, of FOBs is a policy and technical imperative.

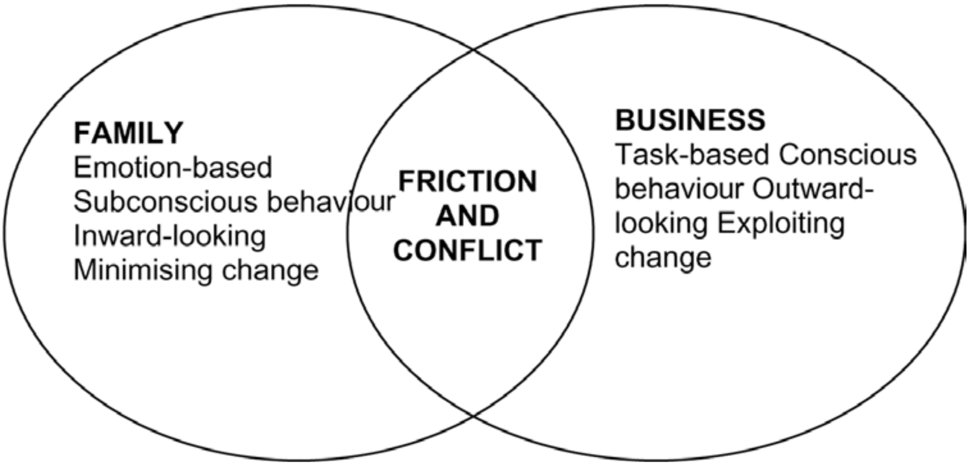
METHODOLOGY

This study adopted the method used by Sam (2003) in his study of the problem of succession in small firms in Nigeria from 1971 to 1980. This was an unstructured and open-ended interview with surviving relatives of the founders of the four sample businesses selected for study. Complementary to the interviews was a detailed exploration of the conceptual and empirical literature, for information and insights that were used to formulate the sustainability model in this chapter.

The four businesses surveyed for this study were well established firms in Lagos, the commercial, trade and entertainment capital of Nigeria. Three of them are no longer in business, and the fourth is barely holding on. All four share some similarities. Each was founded, owned and managed by a family unit; was located in Lagos, Nigeria, but served the West African market; died or face extinction after the death of the founder. All the companies also faced similar social and family issues. The first three of the firms, all of which folded up after their founders passed away, are the Henry Stephen Group of companies, founded by Henry Fajemirokun, Nigeria's first shipping magnate; Defacto bakery, which gained international attention in the 1960s when the owner featured in both *Newsweek magazine* and the *Wall Street Journal*; and FFF, a popular furniture factory and showroom. The fourth firm, which is on the verge of extinction, is the Concord Group of Companies, which consists of publishing, airline, bookstore, shipping and bakery functions. The company was founded and owned by the late Chief M.K.O. Abiola, a Nigerian industrialist and international philanthropist who won Nigeria's aborted presidential election of 1993.

FAMILY-OWNED BUSINESSES: WHAT THEY ARE

FOBs can be analytically grouped as a category of SMEs. Yet, the literature on FOBs clearly distinguishes them from SMEs, also dubbed traditional businesses, in two fundamental ways. First, ownership and/or control of FOBs reside(s) in the hands of one family. Second, total control of the strategic direction of the firm is by family members (Astrachan and Carey, 1994). Family values and relationships are also said to add uniqueness to FOBs, as different from non-family SMEs (Dunn, 1999; Hubler, 1999). These values influence how a business is run, and the juxtaposition of family and business interests makes FOBs a complex, dual system, consisting of the family and the business. According to Leach (1994), the family members involved in the business are part of a task system (the company), and part of a social system (the family). Bowman-Upton (1991) noted that the overlap of these two systems tends to cause conflicts, because each system has its own rules, roles and requirements. Families may misplace their priorities by putting personal concerns before business concerns, or mixing them unnecessarily, instead of trying to achieve a balance between the two This is depicted in Figure 1.



Source: Leach (1994, p.24)

Figure 1 Overlapping family and business systems

Most of the characteristics of FOBs presented thus far derived from the more systematic and elaborate studies of FOBs in western industrialised economies. Arguably, it is possible and easy to assume similar characteristics for FOBs in developing economies. Yet, this chapter would caution against this 'broad brushing' of FOBs, especially for those in Africa, where the political-economic, legal and socio-cultural environments are remarkably different from those in developed economies. To provide a glimpse of some of the fundamental differences between FOBs in Africa and in developed economies, this chapter developed a profile of a typical FOB in Africa, using what the chapter considers to be critical elements of a viable and sustainable FOB. The profile is shown in Table 1.

FAMILY-OWNED BUSINESSES: THEIR IMPORTANCE AND CHALLENGES

From the ample empirical literature on FOBs, their importance and challenges can be examined from two basic levels, viz., the individual family economic level, and the local (societal) economic level. On the individual family level, FOBs have the potential to add significantly to a family's assets or income, as much as it can be a source of identity and prestige for the family in the local community (Astrachan and Carey, 1994). On the challenge side, family issues and concerns can and do strongly influence firm conduct or operations. This influence can pose unique and complex problems for FOBs, problems that are uncommon in more traditional businesses (Davis and Stern, 1980).

On the local economic level, Venter et al (2003) noted, for example, that FOBs are the dominant form of enterprise in both developed and developing countries. They are a primary contributor to the economic and social well-being of all capitalist societies In the USA, for instance, they constitute approximately 90% of all business establishments (Beckhard and Dyer, 1983), and approximately 84% in South Africa (Thornton, 2004a, 2004b, 2004c). According to Family Business Network, the

Table 1 A profile of FOBs in Africa (Compared with FOBs in Developed Economies)

Profile criteria		*FOBs in Africa*		*FOBs in developed economies*
1 Ownership	a	Founder is sole owner, decision maker, manager and comptroller	a	Founder and spouse, and often a Board of Directors or Advisors
2 Legal status	a	Most are informal and unregistered. A few may be registered with government	a	Most are formal and registered. A few may be unregistered but hide from government
	b	Operate without license	b	Can only operate with required licenses
3 Organisational structure	a	Totally hinged on founder (see 1a)	a	May revolve around founder, but often with input from souse or Advisory Board
	b	No defined structure or hierarchy		
4 Source of start-up debt capital	a	Rarely start with debt. May borrow from relatives	a	Most secure debt from financial entities by qualifying
	b	Debt capital very rare from financial entities	b	Debt may be rarely secured from relatives
5 Source of start-up equity capital	a	Most start with equity capital	a	A rare few start with equity capital
	b	A rare few secure debt to add to large equity	b	Most mix small equity with debt capital
6 Source of expansion capital	a	Often from personal funds, savings	a	May be from business profits
	b	Rarely from business profits	b	Debt financing (mezzanine fund)
7 Insurance	a	Totally unavailable or unaffordably pricy	a	Often required and enforced by government
	b	Often not required or enforced by government	b	May be pricy, but can shop for providers
8 Management decisions	a	Often made solely by founder	a	Often solely by founder, but may consult with spouse or Board of Advisors
	b	No written guidelines and made on an ad hoc basis	b	May have written general guidelines
9 Operational decisions	a	Often made solely by founder	a	Often solely by founder, but may consult with spouse or Board of Advisors
	b	No written guidelines and made on an ad hoc and situational basis	b	May have written general guidelines
10 Accounting functions	a	Services of certified accountant not contracted	a	Services of certified accountant contracted
	b	No filing of annual tax	b	Annual tax filed
11 Marketing and advertisement functions	a	Handled solely by founder via word of mouth	a	Often handled by founder, using print and electronic media
	b	No budget for task	b	Tasks involves cost and modest budget

Table 1 A profile of FOBs in Africa (Compared with FOBs in Developed Economies) **(continued)**

Profile criteria	*FOBs in Africa*	*FOBs in developed economies*
12 Production functions	a Handled solely by founder with unpaid assistance from family members b Production may be outsourced	a Handled solely by founder, but may employ paid assistance b Production may be outsourced
13 Procurement functions	a Handled solely by founder b Procurement sources change often c May purchase from 'shadowy' sources	a Handled by founder or paid staff b Procurement sources do not change often c Purchase from 'shadowy' sources unlikely
14 Recruitment criteria	a Rarely recruit, except unpaid family help b No recruitment process or guidelines	a Recruitment of paid labour by founder or employment agency b Flexible interview process
15 Banking	a Most have no bank account b Bank transactions by owner only c Deposits made at owner's convenience	a Most have bank accounts b Bank transactions by owner or legally designated official c Deposits made consistent with pre-determined times
16 (Strategic) Business plan	a No written business plan b Founder is only source of business ideas	a Business plan required for financing and strategic reasons b Founder may seek professional help to write plan
17 Payment of employees	a Most have no paid employees b A rare few employees paid inconsistent wages at the discretion of the owner	a Employees paid salaries or wages by law b Salaries and wages determined by market and law, and paid by contract
18 Stock options	a No stock options	a Rarely have stock option b May issue stocks or shares to raise capital
19 Distribution of dividends	a Founder solely controls profits b No written record of dividend	a Founder controls profits, except where there are shareholders b Keep detailed accounts of profits for tax filing and loan financing
20 Location of head office	a Often no formal, registered office b May have home or suitcase workspace	a Office location is registered with government b May have workspace at home or at the firm

worldwide association for families in business, FOBs are significant contributors to the global economy. They not only account for an estimated 70–80% of businesses worldwide, they also account for more than 50% of all employment and contribute between 50% and 75% of the gross national product of countries in which they operate

(Thornton, 2004a, 2004b, 2004c). In the USA, Schoeffler and Oak (2002), observed that about 37% of Fortune 500 companies are family-owned, as are 60% of all public companies. FOBs account for 60% of total US employment, 78% of all new jobs, more than 50% of the Gross Domestic Product, and 65% of all wages paid.

It can be surmised from the studies referenced above, that FOBs do and can play a very critical role in enhancing the productive capacities of individuals and of whole economies or societies. Individual productivity allows people to meet their basic human needs, and to discharge the duties and obligations as members of society. In the same realm, productive economies allow governments to perform the duties to citizens and other pertinent entities responsively, responsibly and cost-effectively. This chapter opines that, for Africa, enhanced productive capacity at the individual and societal levels can ultimately increase the chances or prospects for sustained economic growth, a better quality of life for citizens, political stability, and direct foreign investment.

FOB RESEARCH AND THE 'BUSINESS SUCCESSION' QUESTION

As earlier indicated in this chapter, much of the extant research on FOBs focuses on FOBs in the developed world, due, among other reasons, to what this chapter suspects to be the relative ease of collecting and accessing data on FOBs in the west. It is encouraging, however, that, under the rubrics of micro-enterprise development and financing, the scope of research on FOBs in the developing world is growing, due to the efforts of international agencies, such as the United Nations, the World Bank, the United State Agency for International Development, and other agencies alike.

The existing FOB research in the west generally looks at various aspects of FOBs, the most explored aspects being the operational dynamics of FOBs (Grant Thorton); the priorities and concerns of FOB owners, the influence of culture on the business attitudes of FOB owners, the failure rate of FOBs and the main causes (Schulze and Dino, 1998); and, least of all, the succession or sustainability problems of FOBs (Fleming, 1997; Bowman-Upton, 1991; Dunn, 1999; Martin et al., 2002; etc.).

Like most of the studies referenced above, the very limited research on FOBs in Africa is also silent on the issue of business succession or sustainability, which is the central focus of this chapter. In his study of Ghanaian traders, for example, Garlick (1971) observed that the traders were aware of the importance of the succession issue, but did not consider it a major problem. Similar findings were reported for traders and small craftsmen in Zambia by Beveridge and Oberschall (1979), among Nigerian entrepreneurs by Akeredolu-Ale (1975), and in another small group of entrepreneurs in Port Harcourt, Nigeria (Sam, 1988). Sam attributed the no-problem perception to the normative cultural inheritance practice that requires the splitting up of assets of the owner's property among several heirs. Oshagbemi (1983), in a textbook on small business management, merely listed the succession problem among the disadvantages of small businesses. Forest (1994) acknowledged the disruption that the succession problem can cause small businesses, but pointed out that it was not a problem for the successful family businesses that he studied. Kilby and Sam (1995) also merely mentioned its potentially disruptive effect but failed to discuss it. What appears to be the first attempt at a systematic study of the succession problem in Nigeria is the one by Sam and Kilby (1998). Reanalysing

Kilby's 1961 data, they found that slightly more than half of the business closures were succession-related and these occurred mostly after the year of infancy. Additional light is shed on the succession problem by Sam and Kilby (1998) detailed analysis of its relationship to the customary practices of inheritance.

BUSINESS SUCCESSION: A CONCEPTUAL OVERVIEW

Business ownership succession is used in this chapter to mean the transfer of firm leadership or management for the purposes of maintaining family ownership or control (Applegate, 1994; Handler, 1994). While succession usually occurs at the death or retirement of the principal owner, succession can occur while the principal owner is still active in the business.

In her study of FOBs in the USA, Bowman-Upton (1991) noted that succession occurs in four phases, viz:

- *Initiation*, where children, from birth, learn about the family business
- *Selection*, when the owner chooses who will be the firm's leader in the next generation
- *Education*, which is when the training or education of the successor begins
- *Transition*, which is when the actual transfer of control to the successor occurs.

Generally, succession failure occurs when a business fails, or is diminished, because the founder or owner is unable to achieve a successful succession outcome (Martin et al., 2002). Several reasons are identified in the literature regarding why family businesses do not always successfully pass down through the generations. Bowman-Upton (1991) listed four reasons, which are non-viability of the business; lack of planning; little desire on the owner's part to transfer the firm; and reluctance of offspring to join the firm. Fleming (1997) noted that the lack of a management team in a firm may hamper successful succession. Some other reasons include little trust in the successor's ability to manage the family business (Donckels and Lambrecht, 1999; Golberg and Wooldridge, 1993; Lansberg, 1988); the extent of identity with the business (Donckels and Lambrecht, 1999; Handler and Kram, 1988; Hubler, 1999; McGivern, 1989); existence of interests in activities other than the management of the family business (Barach and Ganitsky, 1995; Donckels and Lambrecht, 1999; Lansberg, 1988; Leach, 1994); the family values and relationships as well as the quality of the relationship between the successor and the founder (Dunn, 1999; Golberg and Wooldridge, 1993; Hubler, 1999; Leach, 1994; McGivern, 1989); and lack of interest and willingness on the part of the successor to manage the family business (Barach and Ganitsky, 1995; Golberg and Wooldridge, 1993; Handler, 1994).

In order to address the potential pitfalls of business succession identified above, Bowman-Upton (1991) suggested four basic options for succession planning, before the business founder exits the firm. They are firm closure, sale of firm to employees or outsiders, retention of firm ownership but transfer of management to a non-family entity, and full retention of family ownership and management control.

KEY CHALLENGES OF FOB SUCCESSION IN NIGERIA: A SUMMARY OF SURVEY FINDINGS

FOBs in Africa operate in a very volatile environment, where the multiplicity of

Table 2 Clusters of factors affecting FOBs in Africa, and the factoral issues

Clusters of factors	*Main issues*	
Resource financial factors	a	Lack of debt/credit facilities
	b	Impractical lending requirements
	c	Lack of equity capital and collateral
	d	Lack of insurance
Technical resource factors	a	Poor business education, training
	b	Limited business knowledge, skills
	c	No management structure
	d	No support technology
	e	No purchasing and pricing plan
	f	No strategic business plan
	g	No marketing plan, nor customer satisfaction, retention incentives
	h	Poor inventory, storage facilities
	i	Zero research and innovation plan
Socio-Cultural Factors	a	Over-rated family status and ego of founder
	b	Overwhelming family obligations and expectations
	c	Family squabbles, envy, competition and sabotage
Political-Economic Factors	a	Bureaucratic corruption, inaction
	b	No budget priority/allocation
	c	Inadequate, unfavourable lending and insurance policies
	d	Top-down policy processes (limited participation from business)

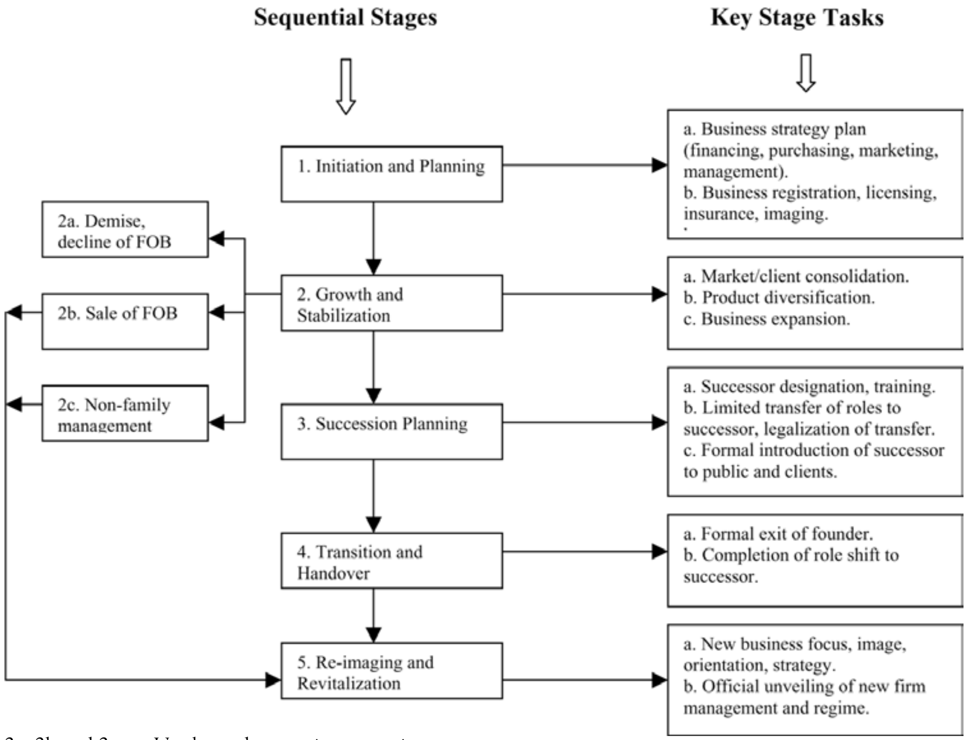
factors listed in Table 2 interact or combine to constrain the productive capacity and profitability of the businesses. From the survey of FOBs in Nigeria for this chapter, the complex issues or challenges under each factor cluster are summarised in Figure 2. A detailed analysis of these issues is included in a longer version of this chapter.

A SUSTAINABILITY MODEL FOR FOBS IN AFRICA

The sustainability model proposed for FOBs in Africa is cognizant of, and based on, the challenges that FOBs face, as well as the political-economic and socio-cultural environments in which they operate. In this sense, the model is a performance-based model, anchored in the principle of capacity building; an information-driven model, grounded in the principle of social learning; and a partnership-based model, perched on the principle of multi-agency partnerships.

CONCLUSION AND RECOMMENDATIONS

Africa is the poorest continent in the world. There is an urgent need for new and more contextual paradigms, initiatives and tools to address the continent's simmering and debilitating problems. Over the centuries, Africans have embraced and practiced family entrepreneurship as a way of life, and as a means of livelihood. Internal and cross-country migration in search of entrepreneurial opportunities makes Africans among the most mobile people in the world. Yet, most if not all of the resources for FOBs come from the sweat and equity of the individuals and, to some extent, their closest relatives.



2a, 2b and 2c are Unplanned succession scenarios.

Figure 2 Stages of the FOB sustainability model

In every practical sense, the environment and infrastructure for entrepreneurship in Africa are grossly non-conducive, totally irrelevant, or inappropriate. Yet, the imperative for Africa's economy to develop the capacity to meet its domestic priorities and international obligations is undeniable and indubitable. This chapter contends that FOBs are a formidable foundation for building, strengthening and sustaining Africa's economy. For FOB to serve their purpose effectively, they themselves must be profitable, viable and sustainable. Short of this, Africa's economy will be seriously marginalised in a rapidly globalising world, where opportunities for profitable ventures are moving from local to regional and global markets. The standards and guidelines being set in these markets require African governments and entrepreneurs to take initiatives such as institutionalisation, product standardisation and FOB succession more seriously than they have thus far.

Sustainable, productive and profitable FOBs have the potential to make citizens more self-fulfilled and able to meet their basic human needs. In turn, self-fulfilled citizens are likely to be more patriotic and civically inclined, minimising the chances for the kinds of political unrest and instability, social stratification and oppression, crime and corruption, and illiteracy and unemployment that continue to undermines people's quality of life in Africa.

This chapter submits that the arduous task of sustaining Africa's FOBs, hence Africa's economy, must be handled collaboratively by all the stakeholders in the

Table 3 The roles and contributions of stakeholders in the FOB sustainability process

Public sector	*Corporate sector*	*Non-profit sector*	*Civic/Grassroot sector*
1 Fiscal/tax policies 2 Revenue allocation 3 Labor welfare laws 4 Research / Development 5 Infrastructure planning 6 Education/ Training 7 Investment policies 8 Technical assistance 9 Direct contracting with FOBs	1 Technical assistance (with strategic planning) 2 Management assistance 3 Debt capital 4 Banking/ investment services 5 Reinvestment in FOBs 6 Marketing support 7 Mentoring of FOBs 8 Contracting with FOBs 9 Equity partnership options.	1 Training/ Education 2 Advocacy for FOB issues. 3 Contracting with FOBs 4 Research/ Development 5 Reinvestment 6 Intermediary/ brokers for FOB services and policies 7 Technical assistance 8 Equity capital/ Grants	1 Patronage of FOBs 2 Advocacy for FOBs 3 Labor force supply for FOBs 4 Investment, stocks in FOBs 5 Equity partnerships with FOBs

society. As shown in Table 3, the stakeholders have roles that each is best at playing, as well as strengths and resources that can and must be deployed, to enhance the productive capacities and sustainability of FOBs. The Table suggests some specific tasks or initiatives that each stakeholder sector can undertake to create a nurturing and sustaining environment for FOBs. Table 3 surmises the recommendations of this chapter for FOB sustainability in Africa.

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