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When founding entrepreneurs leave: the problem of succession in small firms in Nigeria, 1971–1980

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ABSTRACT

Like its counterparts elsewhere, the small business sector of the Nigerian economy is extremely volatile. A corollary of this volatility is the dearth of long-established firms. One issue that can help to account for the scarcity of long-established firms and also contribute to our understanding of the sector's volatility is succession, the ease with which ownership changes from one hand to another. This paper explores the issue of succession in privately incorporated small firms in south-eastern Nigeria. The finding that nearly half of the closures are attributable to the succession problem has implications for research on the small business sector, and on the development expectations of the sector.

INTRODUCTION

In the early 1970s, immediately after the Nigerian Civil War, the bread market in Port Harcourt, Nigeria, was dominated by one bakery, the Anirolf Bakery.[1] Its bread, 'anirolf bread', was so popular that the bakery became synonymous with bread. It was common for children and even adults to speak of wanting to eat 'anirolf'. In 1977, the owner of Anirolf Bakery died suddenly. Soon after that, 'anirolf bread' disappeared from the dining tables of Port Harcourt residents. Why did this evidently successful bakery close soon after the demise of the founder-owner?

The problem of succession, replacing exiting owner-entrepreneurs, ultimately confronts all small businesses, several of which share the fate of the Anirolf Bakery.[2] Even in the well-organised business ambience of advanced societies, fully 70% of small businesses reportedly fail to make

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the transition from one generation to another (Beckhard & Dyer 1983; Handler & Kram 1988). The small business sector of developing economies such as Nigeria is even more volatile. One related but analytically distinct aspect of this volatility is the paucity of second or third-generation firms. While the sector's general volatility has been extensively researched, only elliptical references are made to the scarcity of long-established firms. One potential source of this volatility which has escaped explanation and which can also account for the scarcity of long-established firms is the question of succession. Despite the prospect it holds of elucidating the dual problems of high mortality and paucity of long-established firms, the issue of succession has remained largely unexplored in the small business literature.

Scant attention is paid to succession in both the small business literature and in mainstream sociology. The neglect of succession in small business analysis can be attributed to an implicit monolithic assumption about the size and ownership structure of small businesses, which inextricably ties the life and continuity of the firm to the owner-entrepreneur. This is the view of small businesses as stereotypically sole-proprietorships whose link to the owner-entrepreneur is self-evident: the self-employed tailor, tinker, road-side auto-mechanic whose shop closes when his/her health fails. It renders any specific study of succession unnecessary, but it is also entirely incongruent with the widely acknowledged diversity of the sector. Organisational sociology is equally dismissive of the mortality implication of succession, accentuating the structural characteristics of organisations and the external environment, neglecting the role of individual leaders. Organisational leaders, it is asserted, are self-selected regarding the crucial personal characteristics, so that varying organisational outcomes cannot be imputed to them. The pertinence of this argument in relation to small businesses in Nigeria is challenged by the well-documented heterogeneity of the small business operators there (Berry 1984; Forrest 1992; Kilby 1965; Nafziger 1977; Onyeiwu 1993).

Succession presents a serious and unique problem for small businesses for a number of reasons. Unlike large formal organisations in which ownership and control are separate and ownership is either dispersed or institutionalised, small businesses are characterised by the fusion of these attributes in one individual, the owner-entrepreneur, who embodies the 'structural blue-print' of the enterprise. Small businesses restrict the selection of successors to this individual to a specific social unit, typically the family, which may not readily provide capable and willing successors. Furthermore, there are no established procedures, in the Nigerian context, for smoothly replacing this individual, and succession is often unplanned.

The customary practices of heir selection that prevail on the demise of the entrepreneur are inimical to the persistence of the business (Sam 1998). As a result, the exit of this individual triggers the succession problem.

For most enterprises, the link between their continuity and the life of their owners is self-evident. Only a category of small firms not so apparently linked to their founder-owners can sharply depict the succession problem. Privately incorporated small firms are the best candidates in this regard, because of the advantages they have over other forms of small business. As products of relatively well thought out rather than haphazard or spontaneous economic activity, they are expected to have some organisational form. Legally, they have an identity independent of their owners and are required to observe the separation between ownership and control. These characteristics should, in theory, minimise the mortality implication of succession.

This article seeks to contribute to our understanding of the mortality of small firms by exploring the extent to which their closure has to be attributed to the succession problem, and in so doing, contribute to an explanation of the dearth of long-established firms. To this end, we draw on the experience of privately incorporated, Nigerian-owned firms. Overall, 127 firms incorporated between 1971 and 1980 and sited in Port Harcourt and Aba, two neighbouring cities in south-eastern Nigeria, were surveyed.[3] The firms range in size of initial investment from N96 to N206, 540.[4] They are engaged in thirty-four different business activities which are classified into SIC sectors. The survival technique is used to analyse the survey data. In the following sections, we undertake a cursory survey of the literature, discuss the methodological aspect of the study, present and analyse the data, and offer our conclusions.

SUCCESSION IN THE SMALL BUSINESS LITERATURE

The small business literatures on Africa generally and Nigeria in particular are largely silent on the problem of succession. In the 1970s and 1980s, a few authors mentioned it in their writings without offering any serious discussions of it. In his study of Ghanaian traders, Garlick (1971) observed that these traders were aware of the phenomenon but they did not consider it a problem. Similar findings were reported for traders and small craftsmen in Zambia by Beveridge and Oberschall (1979) and among Nigerian entrepreneurs by Akeredolu-Ale (1975). The small group of entrepreneurs Sam (1988) interviewed in Port Harcourt, Nigeria, also did not consider succession a problem. He attributed the no-problem perception to the normative cultural inheritance practice that requires the splitting up of assets at the owner's death among several heirs. Oshagbemi (1983), in a textbook on small business management merely listed the succession problem among the disadvantages of small businesses. Forrest (1994) acknowledged the disruption 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 the Nigerian small business scene is Sam and Kilby (1998). Reanalysing Kilby's 1961 data, they found that slightly more than half of the closures were succession related and these occurred mostly after the years of infancy. Additional light is shed on the succession problem by Sam's (1998) detailed analysis of its relationship to the customary practices of inheritance.

The literature which deals with research on family businesses in the USA and western Europe pays most attention to the issue of succession. Here, its disruptive effect is readily acknowledged. Family business researchers report that only about 30% of these businesses survive to the second generation (Beckhard & Dyer 1983) and less than 15% make it to the fourth generation (Ward 1987). Less consensus prevails in the discussions of the various aspects of the phenomenon. For instance, while some scholars view succession as a process (Danco 1982; Farquhar 1989; Handler 1990; Vancil 1987), others see it occurring in cycles or stages (Churchill & Hatten 1987; Davis 1982). Succession planning and adequate grooming of the successor are stressed in most writings as critical to the continuity of the business (Christensen 1953; Trow 1961; Ward 1987). Astrachan and Kolenko (1994) hold a contrary view and argue that succession planning is not crucial to the long-term survival of the family business. Some writers explore the roles of the incumbent and the successor in perpetuating the family firm (Barnes & Hershon 1976; Danco 1982; Goldberg 1996; Goldberg & Wooldridge 1993; Levinson 1974, 1983; Patrick 1985). Others examine the relationship between family dynamics and succession (Friedman 1991; Handler & Kram 1988) which Lansberg and Astrachan (1994) argue is mediated by the family's commitment to business continuity and the relationship between the incumbent and the successor. Different barometers are set for measuring effective succession. Goldberg (1996) measures effective succession by increases in revenues and profit margins. Handler (1994) considered the complex combination of firm growth, family dynamics and the quality of life of the business family, while Harvey and Evans (1995) stress the capacity for resolving post-succession issues in defining successful succession.

METHODOLOGY

The data for this article were collected in Nigeria between January and August 1997. Two types of data were collected: archival data from the records of the Corporate Affairs Commission (CAC) in Abuja,[5] and survey data from personal interviews. Retroactive data on all incorporations that occurred between 1 January 1971 and 31 December 1980, and sited in Port Harcourt and Aba, were collected from the CAC in February 1997. The base-line data are limited to information yielded by the Commission's computerised database and the *Directory of Companies* (CAC 1996). From these sources, information on the following was derived: name and address of firm, date of incorporation, names and addresses of directors, line of business, and capital investment at inception. A total of 752 incorporations were made during the decade under study and sited in Port Harcourt and Aba, excluding state-owned companies and one foreign-owned company. The CAC files in the computerised database constitute the frame from which a sample of 200 firms was selected.

The survey data were obtained through personal interviews with entrepreneurs, co-directors of the firms, or close relatives of the founding entrepreneurs, from April to August 1997. The survey used structured and open-ended questions.

The most tedious part of this study was ascertaining the whereabouts of these companies and their founders, nearly three decades after their incorporation. Even in the more organised business environments of developed societies, researchers describe the search for founders of small businesses as 'a scavenger hunt' (Handler 1990; Rubenson & Gupta 1997). This assignment is particularly daunting in a context characterised by a high rate of mortality among firms and the absence of reliable records on the movements of the firms. To assist in this task, two field assistants were recruited, each assigned to the site he knew best.[6]

Effective on-field over-sight and quality control of results were maintained in a number of ways. Each assistant was assigned to the city he was most familiar with. Initially, we met every Wednesday and Friday mornings. From June, our meetings were reduced to Fridays only. In the Friday meetings, we reviewed our activities for the outgoing week and spelt out the daily schedule for the coming week. We exchanged notes on problems and how to handle them. Wednesday meetings were basically review sessions to make sure that the survey was on course. In addition to oral accounting, the assistants submitted written reports on each of the calls they made during the week, providing information on who they spoke with and the status of each case. The principal researcher used the written accounts to personally verify the status of cases when assistants declared them untraceable. Completed questionnaires were submitted during these meetings. They were scrutinised and return calls made on respondents where necessary. In addition to the above, the field assistants were required to fill in some baseline information on the firms in the field as a measure to gauge the correctness of their reports. These weekly reports facilitated timely intervention when necessary.

Tracing steps and techniques

Locating owners of firms established two decades ago required devising elaborate tracing techniques and following them rigorously before deciding the final status of each case. Most of the tracing activity involved the use of written sources and actual leg-work scouting the streets and industrial locations in the cities. From the CAC records, we obtained the names and addresses of both the companies and the directors. In most cases, the records provide the residential addresses of the directors. This list was the starting-point of the search for the sampled companies and their directors.

Each city list was rearranged by street so that all firms on the same street appeared in numerical order on the same sheet. We christened the first week of the survey 'the blitz', during which we stormed through the sites obtaining preliminary information on the status of all the cases in the sample. The measure offered two advantages. First, we updated the sample list reflecting address changes. Second, we gained, early in the research, a fair knowledge of the number of prospects for interview as well as the cases that would be difficult to trace. This enabled us to appropriately allocate our resources between the two categories of cases, and commence the search for the problematic cases early on. The tracing steps and techniques described below relate mainly to the search for the cases that the 'blitz' reported as disappearances.

There were three steps in tracing these cases. The first step was on-site questioning of residents at the address. Here, we first questioned businesses in the building or within the vicinity, about the firm, its owner, and relatives or friends of the owner. Where businesses were relatively recent tenants, which was the case most of the time, we then looked for and questioned long-time residents.[7] The last on-site source was the landlord of the building. Landlords were very helpful in providing useful tracing information on their former tenants. When all the sources in this first step failed, we embarked on a second step. This involved searching for the other directors using the information from the CAC record. This step was successful in most cases where the record contained the directors' residential addresses. In the final step tracing the most difficult cases, documentary sources including telephone directories and records of the relevant government and private sector organisation offices, were consulted for information on these firms. For Port Harcourt, one of the longest-practising chartered secretaries in Rivers State gave us access to the register of his clients between 1971 and 1980. Also in Port Harcourt, two Muslim entrepreneurs were traced through their local mosques.

Analysis of sample

Based on the outcome of the tracing, the firms in this study fall into three categories: disappearances or untraceables, phantoms and traced. Firms are deemed to have disappeared if having followed through the tracing steps just described, no information emerged that could lead us to a respondent. As a result, their actual operational status is unknown. To be categorised as untraceable, informants at the original address had to confirm that the company actually operated there in the past. A total of 60 cases or 30% of the sample fell into this category. They split almost evenly between the first and second halves of the decade in date of incorporation. The untraced cases in the first half constitute a larger proportion of the incorporations of that period (46%) than those of the second half which account for 23% of that period's incorporations; 42% of the disappearances were engaged in General Merchandise. The rest were registered in a variety of activity areas. The phantoms category, on the other hand, consisted of cases that were proved to have existed mainly on paper. Three types of cases fell into this class. The first were cases about which on-site informants who should know, like long-time residents and landlords, had no recollections whatsoever about the company and/or its owner. The second consisted of companies which were floated specifically to funnel lucrative government contracts on commission, or in anticipation of bank loans that never materialised. Their classification as phantoms was based on disclosures by the founder-directors.[8] The third type of phantom cases were those that used non-existent addresses. This status was determined after physical searches proved futile and the records of the relevant authorities showed that the purported addresses did not exist at the time the companies were registered. There were eleven cases in the phantom category, i.e. 6% of the sample. The final category was made up of the traced cases. There were 127 cases in this category, i.e. 64% of the sample. There were two non-responses.

Variables and measurements

The dependent variable in this study is succession problem, difficulties in changing ownership of small businesses. Operationally, it is closure occurring within twelve months after the exit of the founding entrepreneur. The term succession-related closure is coined to refer to these cases.

Four independent variables are examined in this study: age of firm, ownership structure, entrepreneurial tradition, and entrepreneur's education. Age of firm is the lifespan of the firm, calculated in months, from incorporation to closure of this study. The age of the firms in this study ranges from 9 months to 26 years. Ownership structure is derived by combining two factors: whether the office space was owned or rented by the entrepreneur or the enterprise, and the last names of the directors, giving more weight to the former. It produced the following ownership structures:

Individual-owned: office space owned or rented in entrepreneur's name, whether or not directors bear the same last name.
Family-owned: office space owned or rented in the company's name, and directors have the same last name.
Non-family owned: office space owned or rented in the company's name, and directors do not have the same last name.

Of these, 58% of the firms were individual-owned, 17% were family owned, and 25% were non-family firms. Entrepreneurial tradition is the extent to which the entrepreneur's extended family embrace entrepreneurship, operationalised as the number of persons in that family who are entrepreneurs, and classified as none (53%), low (29%), and high (17%). Entrepreneur's education is the highest level of formal education the entrepreneur possesses; 47% had up to high school diploma (low), 44% had bachelor's degree or its equivalent (medium), and 9% had a degree at the master's level or above (high).

Hypotheses

The following hypotheses are tested:

Hypothesis 1: Succession-related closure will occur mostly in the infancy[9] of the firms.
Hypothesis 2: Individual-owned firms are likely to be the most susceptible to the succession problem, followed by family-owned firms, with non-family firms being the least vulnerable.

Hypothesis 3: Businesses owned by entrepreneurs whose families are high in entrepreneurial tradition are more likely to survive succession than those owned by families who are low in, or do not have, an entrepreneurial tradition.

Hypothesis 4: As the level of education of the entrepreneur increases, the vulnerability of the firm to the succession problem will also increase.

Technique of data analysis

The data in this study are analysed using the dynamic technique, the survival function. The survival function is defined as the probability of a firm not failing (surviving) during a period, having entered that period alive. It is calculated by dividing the number of survivors at the end of a period by the number of firms in the 'risk set', the risk set being all the firms that entered that period alive.

The survival technique is preferred to other dynamic models because it is the most suited for exploratory studies such as this. Unlike the others, this method does not require any parametric assumptions about the distribution of the dependent variable. In addition, the survival procedure is easy to accomplish on SPSS,[10] and can be used simultaneously in the search for models, to test for heterogeneity, and to build confidence in the dynamic model. The negative of the survival function, the simple hazard graph, can also be obtained on the SPSS plot command.

Generally, dynamic or duration analysis is preferred to ordinary least squares techniques in the analysis of state change in social phenomena because of the latter's drawbacks. Least square techniques share a static assumption of time that undermines the researcher's ability to examine the change process. Second, dynamic analysis is more efficient in handling cases where the change of interest, succession-related closure in this case, has not occurred. This is usually referred to as the censoring problem. Because the dynamic method uses only event-histories, information about the timing of events, it takes care of cases where the event has not occurred. Such cases are referred to as being censored.[11] Ordinary least square techniques ignore this difference and treat all cases as complete observations, which is to say closed in this case, thereby over-stating the rate of closure. In this analysis, the relevant event-histories are the dates of the incorporation of the firms, the dates the entrepreneurs exited the firms, and the dates of the closure of the firms. Finally, dynamic models are flexible enough to incorporate time-varying independent variables to explain discrete dependent variables.

Limitations and problems of the study

There are general problems associated with survey research as well as those specific to this study. The former are sampling errors, and non-sampling errors that occur in the execution of the survey. In this study, sampling errors are minimised, in part, by using stratified sampling technique: the sampling frame is organised by year of incorporation and cases systematically selected. Other questions of sample representativeness specific to this study due to the immense size and diversity of the small business sector are not, and indeed cannot be, addressed adequately in this study. Nor can the issue of the temporal and spatial location of the study: the boom times of the 1970s when these firms were established, and the two medium-sized cities in south-eastern Nigeria in which they were located. They point, however, to the need for a cautious interpretation of the observations reported here.

Non-sampling errors could be severe for surveys relying on the recall of respondents and their willingness to respond honestly in the absence of reliable records, as is typical of small business operators.[12] This study minimises these by seeking information mainly on 'stock' variables such as size of initial investment, business sector, and structure of ownership which could be cross-checked with the CAC data. Besides, where respondents were not forthcoming, indirect measures were used.

The exclusion of the disappearances and the phantom cases may be analytically problematic unless these are randomly distributed. Phantom cases constitute a relatively small fraction of the sample and their status as non-entities was authenticated, so they may have no significant effect on the result. Disappearances, on the other hand, cannot be so simply discarded because we are not certain of their status and their number is substantial. Presuming these to be dead, we examine their effect in the section on closure.

Interview surveys in developing societies are especially time consuming. In the absence of reliable telephones, every step in the interview process requires physical contact with the respondent, to book, reschedule, and keep appointments. Access to certain official records may involve fees which may constrain the researcher's ability to gather information on the range of variables of interest to him/her, even as their data are subject to the problems of secondary sources. Specifically, there are probable discrepancies between the official record and what exists on the ground.

CLOSURE

The closures in this study are attributed to a variety of factors; 37% of businesses closed because they were not viable;[13] 49% of the closures

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occurred when the incumbent entrepreneur left and was not replaced. Operationally, these are closures occurring within twelve months of the exit of the founder-entrepreneur. We refer to them as succession-related closures. Personal and family misfortune accounted for 14% of the closures.

Overall, 71% of the traced sample is closed. If the disappearances or untraced firms which are presumed dead are added, the closure rate in this study rises by four percentage points to 75%. This is still a slightly lower closure rate than the 79% Akeredolu-Ale (1973) reported for businesses in Lagos about one decade after their incorporation. Relative to Kilby and Sam (1995) and Frishman (1979), the closure rate in this study is rather high. However, if the untraced firms in both studies are treated as closed, the difference narrows appreciably: Kilby and Sam's closure rate of 35% nearly doubles to 63%, and Frishman's 17% almost quadruples to 67%. Mead and Liedholm (1998) also appear to underestimate the closure rate for Zimbabwean firms (11·5%) since they fail to consider the 42% of the firms they could not relocate.

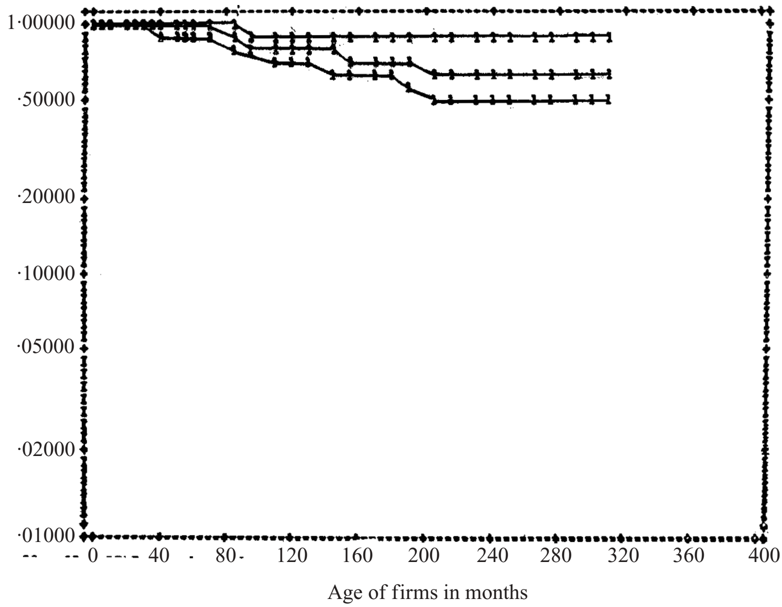
SUCCESSION-RELATED CLOSURES

Here, we explore the succession problem in the traced sample; 54% of the sample experienced the exit of the founding owner; half of these closed instantly; up to 18% closed within a year after the exit of the founder-owner under successor-entrepreneurs; 32% survived the succession experience, and these constitute 17% of the sample. In the following sections, we focus on succession-related closure, ascertaining its age distribution, and the effect of ownership structure, entrepreneurial tradition, and entrepreneur's education on the distribution.

Age of firm

The evidence in the small business literature on Africa shows that these businesses die mostly in their infancy, typically in their first three years of life (Fapohunda & Lubell 1978; McPherson 1992; Mead & Liedholm 1998). Mirroring this body of evidence, we hypothesise that succession-related closure will be highest in the infancy of these firms. Theoretical support for this reasoning comes from two views on the timing of succession. First, succession is viewed as a component of the routine management phase of entrepreneurship identified with the mature years of the firm. In the formative years, entrepreneurial work consists mainly of organisation founding and building. Succession problems occurring in the formative

FIGURE 1
Logarithmic survival plots for three types of closure.



Note: Top plotted line is Other; middle is Management/Environment related; lower is Succession related.

years do so at a time when the firms are least able to cope with them (Carland *et al.* 1984; Carroll 1982). Second, it is theorised that the psychological bonds that owners have with their firms embodied in the syndrome of owner indispensability and immortality which inhibit succession planning are strongest in the formative years of the small firm (Danco 1982; Handler & Kram 1988).

To examine for age-dependence in succession-related closure, its logarithmic survivor function is plotted against age. The resultant graph shows a non-linear survivor plot (see Figure 1), indicating age-dependence in succession-related closures. It maintained the maximum survival value of 1·00 until about 50 months when it began to fall. This means that succession-related closures did not occur until the early childhood of the firms.[14] As a preliminary test of the hypothesis, the shape of the slope does not bear out the prediction.

To properly test the hypothesis, we divide the observation period into 5-year intervals and obtain data on the proportion surviving at the end of each age interval. The result is shown in the topmost panel of Table 1.

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TABLE I
Succession survival by age intervals*

Sample	N 127	0–5 0·76 (0·24)	6–10 0·50 (0·26)	11–15 0·34 (0·16)	16–20 0·28 (0·06)	21–26 0·28
Type of Closure						
Succession-Related		0·88 (0·12)	0·70 (0·18)	0·57 (0·13)	0·51 (0·06)	0·51
Env/Managt. Related		0·88 (0·12)	0·77 (0·11)	0·68 (0·09)	0·63 (0·05)	0·63
Others		0·97 (0·03)	0·91 (0·06)	0·86 (0·05)	0·86 (0·00)	0·86
Independent Variables						
Ownership Structure						
Individual	73	0·88 (0·12)	0·65 (0·23)	0·48 (0·17)	0·43 (0·05)	0·43
Family	22	0·89 (0·11)	0·89 (0·00)	0·73 (0·16)	0·65 (0·08)	0·65
Non-Family	32	0·89 (0·11)	0·70 (0·19)	0·70 (0·00)	0·64 (0·06)	0·64
Entrepreneurial Tradition						
None	67	0·93 (0·07)	0·72 (0·21)	0·56 (0·16)	0·45 (0·11)	0·45
Low	37	0·82 (0·18)	0·59 (0·23)	0·47 (0·12)	0·47 (0·00)	0·47
High	21	0·84 (0·16)	0·78 (0·06)	0·71 (0·07)	0·71 (0·00)	0·71
Education of Entrepreneur						
Low	59	0·85 (0·15)	0·66 (0·19)	0·53 (0·13)	0·44 (0·09)	0·44
Medium	56	0·92 (0·08)	0·68 (0·24)	0·54 (0·14)	0·54 (0·00)	0·54
High	11	1·00	1·00	0·90 (0·10)	0·76 (0·14)	0·76

* The figures in parenthesis are the closure rates.

This permits the determination of the age interval in which the highest proportion of succession-related closures occurred.

Succession-related closures are highest in the second and third age intervals, when 18 % and 13 % respectively of the sample closed from the succession problem. A slightly lower proportion of the sample, 12 %, closed from succession in the first five years that encompasses the years of infancy when succession-related closure is predicted to be highest. In fact, three times as many succession-related closures occurred outside this age-bracket as in it. This result varies remarkably from the infant mortality pattern reported in most studies, and suggests that this observation does not hold universally. With the exception of a few, small business studies typically treat the sector as monolithic, presumably because it is made up overwhelmingly of micro-enterprises whose experience the observation apparently reflects. The reported sectoral pattern thus obscures inherent deviations. While non-micro entities constitute a tiny fraction of the sector, the sheer size of the sector means that these are numerically substantial, merit an independent treatment, and can display patterns not typical of the sector. Incorporated firms, the subjects of this study, differ from micro-entities in aspects significant to the issue of infant mortality: they are likely to be products of well thought-out investment, motivated by profit, require more initial capital and skill to run. They are thus more likely than micro-enterprises to survive the treacherous infancy years. Second, our finding that most of the closures occurred after the years of infancy challenges an assumption implicit in the infant mortality thesis that firms that survive this age are out of the woods.

Ownership structure

Very little information exists on the relationship between the succession problem and the ownership structure of firms. In mainstream organisational analysis, this is a mute issue because formal organisations have dispersed or institutionalised ownership, and succession is routinised. Moreover, the positions involved are not strategic to the persistence of the organisation. The notable exception has been Carroll's (1982; 1984) study of newspaper organisations in the USA, which found that succession-related closures varied by type of ownership. The small business literature also neglects this issue due to an implicit monolithic assumption about small businesses as sole proprietorships.

In this study, we adapt Carroll's ownership typologies and classify the ownership structures at the founding of these firms into individual, family and non-family. Individual-owned businesses are expected to be the most vulnerable to closure from succession. Family businesses may relate to succession in an ambivalent manner: the family offers a larger pool for selecting successors, but family values, principles and attitudes may interfere with succession planning. Non-family firms appear best equipped to overcome the succession problem because their context for recruiting successor-partners is even larger, and the remaining partners can run the business until a departed partner is replaced.

Succession-related closures are highest in individual-owned firms, 57 % of which closed. In family and non-family firms, the closure rates are 35 % and 36 % respectively (Table 1, Panel 2). From the second age interval, individual-owned businesses consistently recorded the highest closure from the succession problem. The difference in the rate of closure between family and non-family businesses remained negligible for most of the time. The chi squared test of this observation, comparing all the ownership structures simultaneously and in pairs, did not produce statistically significant results (Table 2, Panel 3). No statistically significant results emerged when destination ownership structure was controlled for.[15] The data revealed, however, that individually owned businesses are more likely than the others to change ownership structure on succession: only 43 % of

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TABLE 2

Succession survival statistics (probability) calculations using Lee-Desu Statistic

Independent Variables	χ^2	DF	Prob.
Ownership Structure			
All Structures	2·470	2	0·29
Individual/Family	1·801	1	0·18
Individual/Non-Family	1·120	1	0·29
Family/Non-Family	0·114	1	0·74
Entrepreneurial Tradition			
All Levels	2·331	2	0·31
None/Low	1·892	1	0·16
None/High	0·275	1	0·60
Low/High	1·216	1	0·27
Entrepreneur's Education			
All Levels	5·040	2	0·06**
Low/Medium	0·763	1	0·38
Low/High	4·432	1	0·03*
Medium/High	3·617	1	0·05*

Notes:
* Significant at 0·05 confidence level.
** Significant at 0·10 confidence level.

individually owned firms maintained their 'original' ownership structure compared to 66% of family firms and 83% of non-family firms. Up to 79% of the ownership change occurred through inheritance. Only one case changed hands through purchase.

The lack of a statistically significant relationship between ownership structure and succession-related closure, though unexpected, is not entirely surprising considering how the ownership structures were derived. It is common practice for small business owners in Nigeria to list the names of family members and close friends as shareholders to meet the legal requirement regarding ownership. Such listed co-owners play little, if any, part in running the company. As a result, most small businesses which, on paper, are family or non-family businesses, are operationally run by one person, making them susceptible to the succession problem irrespective of their documented ownership structures.

Entrepreneurial tradition

The ability of the small business to survive the exit of the founder-owner depends, to a large extent, on the entrepreneur's family. The family–business relationship, even in the well organised business setting of the advanced societies, has not been conclusively determined. The family business literature discusses different aspects of this relationship (Boswell 1972; Friedman 1991; Goldlberg 1996; Lansberg & Astrachan 1994; Malone 1989). In Nigerian studies, Forrest (1994) and Silverstein (1984) document how family members are groomed for roles in several small businesses, a practice that may mitigate the succession problem. On the other hand, Sam (1998) shows how intra-family feuding led to the demise of a business.

In this study, we explore the extent to which the presence of entrepreneurial tradition in the family influences succession. We define entrepreneurial tradition as the extent to which entrepreneurship is embraced in the entrepreneur's extended family, operationalised as the number of persons in that family who are entrepreneurs, and classified as none, low and high. We expect that businesses owned by entrepreneurs whose families are high in entrepreneurial tradition will experience the least difficulty in replacing an exiting founder-entrepreneur.

Only 29 % of the firms in families with high entrepreneurial tradition closed from succession. In contrast, 55 % of those owned by entrepreneurs whose families had no entrepreneurial tradition closed (Table 1, Panel 14). A close scrutiny of the statistics by age interval reveals that the firms in families high in entrepreneurial tradition recorded the lowest closure from succession in nearly all the age intervals. But, in the first two age intervals, the firms in families with no entrepreneurial tradition had a lower death rate than those in families that were low in entrepreneurial tradition. Thus, although the cumulative survival rates suggest a negative relationship between succession-related closure and entrepreneurial tradition, over the observation period, the pattern is not consistent. The chi squared test comparing all the categories simultaneously and in pairs did not produce any statistically significant result (Table 2, Panel 13).

The presence of entrepreneurs in the family does not necessarily inoculate the firm from the succession problem, because they may not be keen on taking over a deceased kin's business. Prospective heirs may not be interested if taking on additional firms would thin their supervision and raise the risk of failure to their own firms. Conversely, the heirs may struggle over their inheritance and jeopardise the continuity of the firm. Yet, putting in place a workable succession arrangement in the context of the customary system of multiple heirs may prove to be quite complicated and problematic. As Sam (1998) reported, even where such arrangements are negotiated, they may unravel where rivalry, mutual distrust and suspicions prevail among the parties.

Entrepreneur's education

Generally, education is acknowledged to positively affect entrepreneurial performance and the survival of businesses. Succession, however, deals directly with the supply rather than the performance aspect of entrepreneurship, which may be influenced by expected returns from non-entrepreneurial pursuits. In other words, where education increases the expected returns from other pursuits *vis-à-vis* entrepreneurship, it will be difficult to recruit individuals with higher levels of education into entrepreneurship (Nafziger & Terrell 1996). In the Nigerian context, the attractions of secure and high earnings from employment with multinational corporations (MNCs) and select public offices in a recessionary economy might make highly educated individuals especially reluctant to test the turbulent waters of the Nigerian business environment.[16] A countervailing view is that since posh positions in MNCs and public offices are limited and those well connected to land them also few, the great majority of educated Nigerians would turn to entrepreneurship to earn their living. And, education can increase an entrepreneur's concern for the continuity of the business beyond his/her life, and lead to succession planning. We nevertheless expect a positive relationship between education and succession-related closure. In other words, businesses owned by highly educated entrepreneurs will show a higher level of vulnerability to the succession problem than those owned by entrepreneurs with lower levels of education.

In practice, however, the closure rate from succession proved to be lowest for firms owned by highly educated entrepreneurs, and highest for those owned by entrepreneurs with a low level of education: 24% of the former and 56% of the latter (Table 1, Panel 4). Of the firms owned by entrepreneurs with middle level education, 46% closed through succession. Contrary to the prediction, the rate of closure from succession falls as the level of education rises. The result does not change when it is examined by age interval. In every age interval, the businesses owned by entrepreneurs with a high level of education consistently have the lowest closure rate and those owned by entrepreneurs who have a low level of education have the highest closure rate. The chi squared test comparing the differences for the three levels of education simultaneously is statistically significant (Table 2, Panel 3). When the results are compared in pairs, statistically significant differences are found between the firms owned by entrepreneurs with a low level of education and those with a high level of education. The difference between the firms owned by entrepreneurs who have a middle level of education and those who have a high level of education is also statistically significant.

The above result reflects the increasing involvement of well-educated Nigerians in entrepreneurship. In particular, they are more likely than their illiterate counterparts to incorporate their businesses. There are more well-educated entrepreneurs in this study than in most prior studies (e.g. Ekpenyong & Nyong 1992). More than half of our respondents (53 %) had education beyond the high school level compared to only 16 % in the Ekpenyong and Nyong study. Sam and Kilby (1998) have reported that, on average, second-generation entrepreneurs have more than twice the education of their predecessors. This is a clear departure from earlier observations about the level of education of entrepreneurs, especially in the immediate post-independence period. The increasing resort by well-educated Nigerians to entrepreneurship can be attributed to their dwindling fortunes with work in the government sector and with multinational corporations. As the economic recession restricts posh positions in the government and with MNCs to a handful of the well connected, the vast majority throng the cavernous small business sector to earn their livelihood, and even to seek upward social mobility.

AWARENESS OF THE SUCCESSION PROBLEM

Small businesses the world over typically restrict ownership to family members, a practice that places the burden of providing successors on a social unit that may not readily meet this need. In the Nigerian context, the cultural practice of group inheritance, the multiple heirs system, poses an added threat to the continuity of the small business at the demise of the founder-owner (Sam 1998). Are small business operators aware of the potential continuity problem that their exit poses for their businesses? Researchers who made this enquiry in the 1970s and 1980s (Akeredolu-Ale 1975; Beveridge & Oberschall 1979; Garlick 1971; Sam 1988) found that their respondents did not consider succession a problem. In this study, we tested this awareness by asking the respondents to list all the problems currently facing their firms and those they anticipate will confront them in the future. Only one respondent listed choosing a successor among his future problems. He planned to bequeath the business to his cousin who had worked with him since he began his business, and was cognizant of the transmission tension that would embroil the business and his family. He anticipated the succession problem because his two college-educated children would, as he put it, 'fiercely contest' the transfer legally and culturally.

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In several African countries, a combination of demographic, economic and political factors has led to the proliferation of small business activities. Increasingly, scholars, governments and international donor agencies have come to view these activities as assets not only in the fight against poverty and unemployment, but also in income equalisation and overall economic development. The long-term goal of economic development is predicated, in part, on small firms growing into large organisations, a feat seldom attained in a single generation, because development, however conceptualised, involves a process of accretion in which each generation builds on the achievements of those preceding it. This cumulative process is undermined if small businesses are unable to change ownership generationally. It is thus imperative that small firms cross the generational threshold in adequate numbers to meet this development expectation. Surprisingly, the issue of succession so central in this process has largely evaded the scrutiny of analysts and is even unacknowledged by practitioners in the sector.

Like its counterparts in other developing countries, the small business sector of the Nigerian economy is extremely volatile. In view of the expectations of the sector in relation especially to development, it is imperative that all potential sources of this volatility be explored. One source which is not captured by the extant explanatory models and which can also account for the paucity of long-established firms is the question of succession. Succession is thus relevant to the sector's ability to meet the long-term development goal, the understanding of its general volatility, and the scarcity of long-established firms.

In this article, we draw on the experience of small firms in two cities in south-eastern Nigeria to explore the issue of succession. In this study, succession accounted for more closures than any other factor. Nearly half of the closures were succession-related. Another significant finding is that a majority of these closures occurred after the infancy of these firms, contradicting the widespread belief that small firms die in their infancy. Of the variables used to explain these findings, education of the entrepreneur produced the strongest statistically significant relationship. Among these firms, succession survival increases with the entrepreneur's level of education. This finding reflects the increasing involvement of well-educated Nigerians in entrepreneurship which Sam and Kilby (1998) also noted, rather than an elevation of awareness of the succession problem among educated entrepreneurs. Indeed, only one entrepreneur cited it among his future problems and this is because he anticipated the struggle his choice of successor would generate.

This study only begins to explore the question of succession in small businesses, as is evident in its limited scope. More studies are needed to further clarify this issue. Such future studies should aim to achieve results that can be widely applied and explore ways of determining the succession problem that are methodologically beyond this study. For instance, could the company files in the CAC's archive provide evidence of ownership change that interviews cannot yield? Such a study should be national in scope and examine a wide range of variables including business profitability, gender of entrepreneur, size of firm, among others. Succession research is retrospective in nature. This combines with the volatility of the small business sector and the absence of a record-keeping culture to impose a daunting challenge for the researcher. There are no guide-rails from previous studies, so succession researchers must devise ingenious ways to relocate their respondents, obtain information from reluctant or evasive respondents, or apply creative but unorthodox methods to derive some variables. In the final analysis, succession research must have practical relevance. In this regard, succession analysts should throw their searchlight on the policy arena as well, and seek to raise awareness among small business owners. To what extent do entrepreneurship development policies and programmes by governments, donor agencies and other institutions, reflect a recognition of the Sisyphean nature of their endeavours if the issue of succession is not adequately handled?

NOTES

1. To protect the privacy of the individuals concerned, the actual name of the bakery is not used.

2. The term 'small business sector' refers to a broad range of income-generating activities outside the state/formal economy, from subsistence activities that evolve spontaneously to the more or less organised business enterprises. Collectively they are variously referred to 'as small businesses', 'micro' and 'small enterprise' (MSE), or 'informal sector'. In this paper, the terms 'small business' and 'small firm' are used interchangeably to refer to entities in this sector.

3. The sites were selected to take advantage of the principal researcher's familiarity with them, particularly Port Harcourt, where he spent most of his adult life schooling and working. Both are burgeoning centers of economic activity with a profusion of opportunities for small businesses. As capital of the Rivers State and headquarters of the oil industry, Port Harcourt hosts several industrial plants including the largest chemical fertiliser plant in West Africa, a petrochemical plant, two refineries, two seaports, and an international airport. Aba is renowned nationally as a centre of commerce, its people equally famous for their entrepreneurship in commerce and small-scale industrial production. It hosts subsidiaries of multinational corporations like Coca-Cola, 7 Up, and Vita Foam.

4. In 1971, the Nigerian pound/naira exchanged for $3.04 (*International Financial Statistics*, 26, 1973).

5. The incorporation of businesses in Nigeria began in 1912 when the Colonial Trade Office was given this statutory responsibility. Up to 1990, the statutory regulation of the business environment in Nigeria through incorporation and the registration of business names was done by the Federal Ministry of Trade and Industry. In December 1990, the Companies and Allied Matters Decree of 1990 was promulgated, creating the Corporate Affairs Commission and transferring to it all responsibilities dealing with the regulation of the local business environment including the incorporation of businesses and the registration of business names. This Commission became the custodian of all records hitherto maintained by the Federal Ministry of Trade and Industry. As the sole regulatory

authority of local businesses, its records contain the most authentic and reliable data on indigenous businesses.

6. One held a bachelor's degree in Political Science from the University of Port Harcourt, and was unemployed at the time of the survey. He was assigned to cover Aba, where he lived. The other was a professional marketer specialising in conducting market surveys for companies in Port Harcourt. They were initially assigned to trace the sampled companies and respondents but were eventually eased into the survey as they demonstrated their skill in the field.

7. We discovered that the turnover rate for commercial/business tenants in buildings is far more rapid than that of individual residents. We found individuals who had lived at these addresses for nearly three decades but that was rarely the case with businesses. A common pattern of splitting buildings between commercial and private users permits this co-residence: rooms facing the streets/roads are taken up by businesses while those at the back are rented as living quarters.

8. The cavalier manner in which these disclosures were made could be amazing. In one case, I traced a founder-director to his home village. When he eventually remembered the company, he said: 'Oh, that company? It wasn't a real company. We floated it specifically to get contracts in the "Spiff regime". There is no information I can give you on it except that it never really functioned.' All the directors were highly-placed officials in the 'Spiff regime'. He was recruited, he further revealed, while he was studying overseas, in Britain, as a front for the company.

9. Infancy is defined as the first three years of life of the firm, after incorporation.

10. To perform the survival procedure on SPSS, the researcher needs to create three variables: the survival, interval and status variables. The survival variable expresses the longest survival time, in months for firms in this study, denoted with the dummy MONTALIV. First and second-order control variables can be inserted with the survival variable using the word by, e.g. MONTALIV by EDUC. The interval variable operationally is a breakdown of the survival variable into smaller time-units. The procedure allows the researcher to vary the size of this unit. The status variable operationalises the state-space concept and determines whether or not an observation is complete. A dummy, OPSTATUS coded 1 for dead and 2 for alive, is used when examining general mortality. SURVIVAL produces a life table which contains, among others, the hazard rate for each interval along with the standard error.

11. Observations can be censored on the left-hand and on the right-hand. Left-hand censoring is the determination of the origin, in time, of the observation which, in this study, is 1971. Right-hand censoring takes into account cases in which the event of interest – succession-related closure – has not occurred.

12. Family business researchers in advanced societies also cite privacy/secrecy norms for the low response to surveys (Lansberg & Astrachan 1994; Wortman 1992).

13. These are closures blamed on problems of finance, fraud, inadequate demand, preventable mishaps like fire and the adverse economic conditions. Often, by adverse economic conditions the respondents meant the drying up of government patronage due to the prolonged economic recession.

14. Early childhood being ages 4 and 5.

15. By destination ownership structure is meant the ownership structure that emerges after succession.

16. Akeredolu-Ale (1975) also explained the shortage of educated Nigerians in entrepreneurship in the immediate post-independence era in a similar manner: they were engaged in the political arena and in the civil service.

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