

Developing Entrepreneurial Ventures In Ghana Through Succession Planning

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Abstract

This paper reports the results from a survey of 147 small business owners in the Adentan Municipality in Accra, Ghana. Descriptive statistics were used to analyze the respondents' general characteristics as well as their attitude toward business succession planning. Consistent with extant literature, the study revealed that though small business owners would want their businesses to outlive them and possibly transfer the business to the next generation; majority of these enterprises have not deliberately planned for their succession. It was also revealed that these small business owners do not have a clear understanding of the concept of succession planning and its benefits. This outcome has serious implications for entrepreneurship development in Ghana in relation to small businesses' economic and job creation potential.

Keywords: entrepreneurship, succession planning, small business, Ghana

1. Introduction

Small enterprises are often the backbone of the private sector in the developing world, creating jobs and providing a tax base for local government. The promotion of the private sector has become an integral part of Ghana's economic development strategy since its Structural Adjustment Program (SAP) in 1983 (Barwa, 1995). Thus, the private sector is considered one of the necessary factors for sustaining and expanding businesses, stimulating economic growth, and reducing poverty. In addition, family and privately owned businesses represent an important section of the Ghanaian economy. Statistics show that Small and Medium Enterprises (SMEs) represent over 90% of private business and contribute to more than 50% of employment and of GDP in most African countries (UNIDO, 1999). Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Steel and Webster, 1991; Aryeetey, 2001). SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana (Abor & Quartey, 2010).

Despite the proven economic and social benefits of the private sector in the developing world, the problem of succession, replacing exiting owner-entrepreneurs, ultimately confronts many small businesses in Ghana. Succession presents a serious and unique problem for small businesses for a number of reasons. Unlike large formal organizations in which ownership and control are separate and ownership is either dispersed or institutionalized, small businesses are characterized by the fusion of these attributes in one individual, the owner-entrepreneur, who embodies the organizational structure of the enterprise.

Many Small and Medium-Sized Enterprise (SME) owners have founded and built their businesses without giving much thought to what will happen when it is time to retire or when they are incapacitated. Contrary to popular opinions, indigenous businesses in Ghana are not being destroyed by high operational costs, competition, unproductive labor or insidious regulation. Rather they fail in the long run because they allow themselves to be destroyed slower by the inaction of their owner/managers. Research shows that many small firms go out of existence after ten years and only three out of ten into a second generation (Zimmerer, Scarborough and Wilson, 2007). More significant, only 12 - 16% of all family enterprises make it to a third generation and just 3% make it to the fourth generation and beyond (Kuratko and Hodgetts, 1998; Zimmerer, Scarborough and Wilson, 2007). A study demonstrated these facts by examining the life expectancy of 200 successful manufacturing firms, which revealed that the average life expectancy for a family business is 24 years, which is also the average tenure for the founders of a business (Kets de Vries, 1993; Beckhard & Dyer, 1983).

One of the major causes of SMEs' lack of continuity includes failure to prepare for the next generation through succession planning. The implication is that such businesses and future employment are at risk because they have not adequately prepared for the day when they will no longer be there. Thus, though entrepreneurs inevitably want their businesses to survive them, many seldom support their intentions by a plan to accomplish that goal. More so, the neglect of succession in small business analysis can be attributed to an implicit colossal assumption about the

size and ownership structure of small businesses, which inextricably ties the life and continuity of the firm to the owner-entrepreneur. Thus, small businesses are normally viewed as sole-proprietorships whose link to the owner-entrepreneur is self-evident.

Accordingly, because of the significance of SMEs to Ghana's economy and way of life, it is important to understand their special characteristics, and priorities, and their plans for the future. This paper therefore seeks to examine the characteristics of the small business owners and their businesses, examine their succession planning behavior and implications for entrepreneurship development in Ghana.

2. Succession Planning

Succession in organizational theory and practice refers to the process of transferring managerial control from one leader or one generation of leaders to the next. It includes the dynamics preceding the actual transition as well as the aftermath of the transition (Shepherd and Zacharakis 2000). In the context of family business, Sharma et al (2001) define succession as the actions and events that lead to the transition of leadership from one family member to another. By extension, entrepreneurial succession is the process by which ownership and control of the production or commercial infrastructure accumulated by one generation is transferred to the next (Ukaegbu, 2003). Thus, in the context of this paper, it entails the transfer of a commercial investment of any type from the owner-founder to another. This could be members of a family or otherwise.

Succession planning is a process in which the business owner plans for the transfer of knowledge, skills, values, management, control and ownership of a business entity to the next generation. It is not a one-time event; rather, it is a process that usually takes several years to do well by ensuring the continuation of a business through the generations. In essence, "succession planning is a proactive attempt to ensure that leadership in an organization will be continuous by identifying how these positions will be filled as both planned and unplanned departures occur" (Schmalzried & Fallon, 2007, p. 169). It therefore includes the transfer of ethics, values, and traditions along with the actual business itself. Huang (1999) also defines succession planning as "any type of formal rules or procedures in arranging for managerial succession". Alternatively, Rothwell (2001: 6) defines succession planning as "a deliberate and systematic effort by an organization to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement." This view clearly encompasses more positions than that of the chief executive, and implies an on-going program of individual leadership development throughout the organization. Many organisations define succession as the grooming of a small number of replacements for top executives, typically with one replacement per position. This approach commonly referred to as replacement planning still exists in many organisations (Rothwell, 2001).

Succession planning focuses on three main areas. First, it addresses the needs of the entity as senior leadership ages and retires. Second, it helps the entity prepare for an unexpected event such as the sudden illness or death of a person in a key leadership role in the organization. Finally, succession planning ensures that an organization has the right personnel in place to function at peak efficiency both now and in the future. Thus, succession planning can serve as a means to take an organizational inventory of human capital and better identify existing or future gaps.

Activities included in succession planning vary both with the breadth of perspective and in formality. A basic technique entails identifying in advance the specific subordinate best suited to serve as the next successor; a similar but somewhat more involved method is maintaining a ranking of several individuals within the organization. Evidence suggests inadequate succession planning in many organizations (Ip & Jacobs, 2006). Impediments to succession planning cover a wide range of issues, from other work/time demands and a need for performance management, to reluctance to provoke organizational politics, to inadequate awareness or even basic foot dragging on the part of top management and/or board of directors. Smaller organizations especially may perceive a lack of resources (monetary, time, expertise) to devote to succession planning, as well as thin ranks of internal talent and limited opportunity for grooming a successor (Ip & Jacobs, 2006). Morris, William and Nel (1996) suggest three general factors that are associated with effective transitions. First, preparation of heirs in terms of formal education, training, work experience, motivation is essential. Secondly, relationships among family and business members include communication, commitment, trust, loyalty, conflict, shared values and traditions, jealousy. Thirdly, planning and control activities include succession planning and creation of family council. In practical terms, approaches to succession management can range from processes aimed solely at Chief Executive Officer's replacement to broader all-encompassing leadership development programs (Taylor, Watt and Bennett, 2004).

2.1 Small Businesses in Ghana: Definitions and Characteristics

Generally, there is no universal definition for small business (Mukhar, 1998). Businesses differ in their levels of capitalization, sales and employment. Hence, different institutions have variously defined small scale enterprises. For instance, in 1971, the Bolton Committee formulated an “economic” and a “statistical” definition. Under the economic definition, a firm is regarded as small if it meets the following three criteria:

- a) it has a relatively small share of their market place;
- b) it is managed by owners or part owners in a personalised way, and not through the medium of a formalised management structure;
- c) it is independent, in the sense of not forming part of a large enterprise.

The Committee also devised a “statistical” definition to be used in three main areas:

- (a) quantifying the size of the small firm sector and its contribution to GDP, employment, exports etc.;
- (b) comparing the extent to which the small firm sector’s economic contribution has changed over time;
- (c) applying the statistical definition in a cross country comparison of the small firms’ economic contribution.

According to the European Commission (2003), the SME sector is made up of three components:

- a) firms with 0 to 9 employees are micro enterprises;
- b) firms with 10 to 49 employees are small enterprises; and
- c) firms with 50 to 249 employees are medium enterprises.

In addition, the United Nations Industrial Development Organization (UNIDO) also defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries. The classification given for developing countries is as follows:

- Large - firms with 100 or more workers;
- Medium - firms with 20-99 workers;
- Small - firms with 5-19 workers;
- Micro - firms with less than 5 workers.

The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. Besides, the National Board of Small Scale Industries (NBSSI) in Ghana defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate). A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper. The survey report classified firms into: (i) micro enterprise, less than 5 employees; (ii) small enterprise, 5 - 29 employees; (iii) medium enterprise, 30 – 99 employees; (iv) large enterprise, 100 and more employees (Teal, 2002 as quoted by Abor and Quartey, 2010).

3. Methodology

The study utilized a descriptive research design, the purpose of which was to capture the relevant issues that surround small business succession planning. Data for this study was obtained through survey involving one hundred and forty-seven (147) small enterprise owners at the Adentan Municipality in Ghana. Two hundred (200) questionnaires were initially distributed in August 2011; however, only 147 were fully completed by the respondents. Convenience sampling was deemed appropriate for the sampling technique due to the extent to which the target population was scattered in the Municipal and the difficulty involved in locating them. A structured questionnaire was employed for the collection of data. Data was analysed using descriptive statistical methods, mainly frequency distributions percentages, mean and standard deviation; generated by the Statistical Package for the Social Sciences (SPSS).

4. Results and Discussions

4.1 Characteristics of Small Businesses and Owners in Adentan Municipality

Data collected indicated that most of the respondent entrepreneurs are young. Thus, they are between 20 – 49 years. One of the major challenges facing young people in Ghana is unemployment (Mensah, 2009). It is estimated that about 60% of the unemployed in Ghana can be found in the 15-24 years age group. This makes Ghana’s youth unemployment rate one of the highest in the world (Amankrah, 2012). Unemployment in Ghana has therefore been described as a youthful phenomenon. Urged on by the survival instinct, many of the young people have resorted to starting their own businesses.

In addition, about 57% are males and majority of the respondents (53%) are singles. More so, majority of the respondents (78%) have completed up to senior high school. Education as argued by Storey (1994) provides a basis for the intellectual development, which the entrepreneur requires to be in business successfully. However, the converse argument is that business ownership is not an intellectual activity, instead, entrepreneurship is an opportunity for the less academically successful to earn high incomes.

More than 70% of the businesses have existed between a year and six years, while majority (53%) are involved in the wholesale/retail (trading) sector. The sole proprietor business is the most common, possibly due to the investment size of the respondents and the relative less complicated and costly registration procedure. Besides, there is general unwillingness among Ghanaians to form partnerships. Their investment size is averagely between three thousand and four thousand Cedis. This result fits a typical characteristic of a small business in the Ghanaian context.

4.2 Succession Planning Intentions and Attitudes of Small Business Owners

One of the greatest challenges facing many small businesses in the 21st Century is how to deliberately plan for a well-designed change of leadership while maintaining organizational continuity and meeting or exceeding organizational goals. Consequently, we examined succession planning intentions of the small business owners. The study revealed that majority of the small business owners would want their business to outlive their generation; however, about 40% of the respondents have no succession plan at all while 31% have an 'informal' succession plan. Figure 1 clearly illustrates the results.

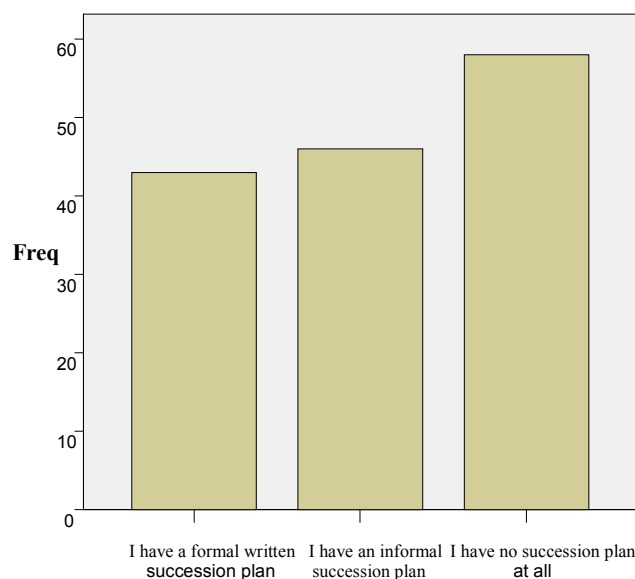


Figure 1: Availability of Succession Plan

Moreover, passing on their business to the next generation seems not to be a principal objective for the respondents. The study also revealed that 68.7% of the respondents' main objective is to grow the business, 18.4% want to increase the value of their business, while 12.9% main objective is to sell their business. It is important to emphasize that none of the respondents indicated succession planning as a priority.

It is interesting to note that although the primary objective of the respondents is to grow their business, implying that they have a vision of expanding their business; majority of the respondents have no succession plan (see Figure 1).

This suggests that a conscious effort to ensure business continuity is not a priority for the business owners. Accordingly, one may infer that majority of the respondent business ventures are unlikely to become later generation firms, not as a result of any failure on their part, but due to lack of succession planning.

Results in Table 1 show the attitude of the business owners toward succession planning. Analysis of the data in Table 1 indicates that respondents are indifferent in their attitude toward succession planning.

Table 1: Respondents Attitude towards Succession Plan
 n= 147

Variables	Mean	Std. Deviation
Succession planning is surrendering power	3.1633	.93663
Letting go of business control means losing an important part of one's identity	2.9864	1.37983
Succession involves making hard choices	3.3673	1.16502
I am not comfortable leaving my business	3.1224	1.36942
I believe my business will not survive without my leadership	3.3061	1.16814
I have not yet implemented the management succession plan	2.9320	1.32758
When my business matures, I shall be willing to allow a successor	3.4014	1.47889
In my absence I believe my business will not be managed properly	3.3469	.96977

Note: Five-point scale where 5 = strongly agree and 1 = strongly disagree

For instance, when asked about their view if 'succession planning is surrendering power,' the mean score of 3.16 with a corresponding 0.93 standard deviation is indicative of 'uncertain' opinion. Thus, inferring from the overall succession planning behavior of the respondents in Table 1, one may conclude that these entrepreneurs do not have a strong opinion (positive or negative) on the issue of the succession planning; hence, their 'in-between' responses. Several factors may account for such response: first, the general profile of the respondents indicates that majority of them are young, less educated and their businesses are quite young too. Normally, young owner-founders, who feel that they have many years of life, health and strength ahead of them, would not think about succession planning (Ukaegbu, 2003). Besides, various people avoid thinking about succession because to do so means acknowledging one's mortality (Kets de Vries 1993). Second, there seems to be little or no knowledge support or training within the enterprise support system (e.g. National Board for Scale Industries, Ghana) to assist small business owners to understand the concept of business succession and its benefits. This finding also confirms the observation of Motwani et al (2006) who remarked in their study that succession planning seems to be logically more important to larger SMEs given that larger firms have more at stake. Additionally, Sharma et al (2003) also argue that planning for succession is a function of the incumbent's desire to keep the business beyond generation. Hence, it is the desirability of business succession that leads to the intention to pursue succession, which in turn generates activities associated with succession planning.

5. Conclusion and Implications

Our study probed into succession planning behavior of small business owners. The results suggest small business owners in the Adentan municipality are relatively young, not highly educated and are mostly sole proprietors engaged in trading. Furthermore, though they have good intentions as regards to succession planning, majority of

these enterprises have not deliberately planned for their succession.

This study has particular relevance to SMEs operations in the sense that it raises awareness of succession planning which may drive planning. This outcome has serious implications for entrepreneurship development in Ghana in relation to its economic and job creation potential. In Ghana, small businesses are generally perceived to be the seedbed for indigenous entrepreneurship and generate all the many small investments, which would otherwise not have taken place. Thus, the number of people that depend on small business for their livelihoods is considered to be much higher. Succession planning is not only critical to the business owner and the small business sector. In the words of Peter Drucker (as cited by Rothwell, 2010), the question of tomorrow's succession is above all, a concern of the society. No government or society can tolerate or withstand the danger of any business decline or collapse because it has not made adequate provision for management succession. Entrepreneurship provide a way forward for solving economic problems, building sustainable development, creating jobs, generating economic growth and advancing human welfare. Small businesses therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries. Entrepreneurial process does not end with the creation of a new venture; business succession is a vital part of the process.

Consequently, small business owners must be educated to take proactive steps to plan for the future leadership needs of their business. This implies that the continuity of the seemingly small business over time requires a succession plan to ensure continuity and sustainability. There should be a policy commitment not only to promote entrepreneurship, but also to create succession awareness. Universities and second cycle institutions can also play a key role in the same direction.

More so, government agencies in charge of SMEs (e.g. NBSSI) as well as non-governmental organizations in Ghana should initiate training program in succession management to make small business owners aware of the need to address succession and give them the diagnostic tools and information that would help them to understand their own particular succession issues.

The most fundamental reason for proposing entrepreneurship development through succession planning at the micro business level is to find sustainable solutions to overcoming the injustices of poverty as evidenced by malnutrition, low life expectancy, indifferent educational attainment, poor access to water, inadequate healthcare and exclusion from the benefits of economic and technological progress in Ghana. Through succession planning, a small business may control its destiny.

6. Limitations and Implication for Future Research

This study is limited by a sample collected from one municipal in Ghana. Although one can assume that the results reported would be considered important in other parts of Ghana as well, some finer distinctions may prevail. Thus, there is a need to conduct broader sample studies in the future that uses larger and more diverse samples.

The findings also provide direction for further research. There is a need for more empirical work addressing the complexities of small business operations as regards to the issue of transition smoothness. The question of culture and inheritance also need further attention. Are there norms that influence the attitude of business succession planning? Further investigation into the demographic characteristics of business owners in relation to succession planning practices is worthy.

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