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Strategic Management and Generational Issues in Family Businesses in Nigeria

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Abstract

Family owned businesses play a fundamental role in world economy as a key driver of global business and growth, significantly contributing to the creation of new jobs and the development of communities and countries. So their sustained long-term value creation is important for the global economy as a whole. Unfortunately, a major obstacle to the development of most family-owned enterprises and SMEs in the Third World Nations to becoming multinational corporations is their poor attitude to strategic management. Hence, their high mortality rates and poor global competitiveness. Consequently, this paper theoretically explores the generational issues in family business in Nigeria and the role of strategic management. A thorough review of extant literature, revealed that the major generational issues that family business fact include length of tenure of founder/CEO, next generation's willingness to engage, timing of succession and smooth succession, and the successor. It was concluded that family business leaders need to have a long-term lens of the business, to be able to think and plan strategically to unlock sustainable business value. The managerial implication of these findings were discussed afterwards.

Keywords: Strategic Management, Generational Issues, Family Business

INTRODUCTION

According to recent research on the issue of family business, 60 percent to 90 percent of businesses in the world are owned or managed by family members. The percentages differ based on the definition used by the researcher. Family businesses, on the other hand, make up the great majority of businesses globally (Martinez & Aldrich, 2014; Sharma et al., 2014). Family firms account for 70% of global GDP and 60% of global employment, according to a new INSEAD Business School study. They play a key role in the global economy as significant drivers of global commerce and growth, contributing to the creation of new jobs and the development of communities and countries (Colli, Fernandez-Perez & Rose, 2003; Heck & Stafford, 2001; Roll, 2018). As a result, their ability to generate long-term value is important for the global economy.

Family enterprises, on the other hand, are not guaranteed to survive in the long run, and it is surely not an easy task. This isn't unconnected to the plethora of issues that arise when ownership, management, and family roles merge and have less visible distinctions. When the next generation takes over from the original founder, who personally poured everything into the company, but the next generation has less of an emotional attachment to the company, a dilemma arises (Roll, 2018). Founders and successive generations, on the other hand, have responsibilities to fulfil in order to ensure efficient succession to future generations. Unfortunately, they may be reluctant or unable to participate, leading to conflict, disagreement, and a lack of commitment from the next generation.

Continuous change, according to Roll (2018), will have an influence on leadership in the twenty-first century. To name a few, next-generation family leaders will have to effectively deal with a variety of challenging global issues, including geopolitical volatility, technological developments, economic and political uncertainty, the rise of new rivals such as China, and changing demographics, to name a few. Learning to view challenges in both the short and long term, developing resilience and character, maintaining both a horizontal (industry) and vertical (company) perspective, balancing global perspectives and local insights, and developing strong leadership strategies are all implications for next generation family business leaders.

According to Barton (2007), if the next generation is expected to take over the company when the current owner retires or dies, they must understand how the company runs and have an effective management system in place to make critical resource allocation decisions. Because the next generation is often inexperienced and young, strategic management is critical to their success. A strategic management system aims to create a framework for decision-making that allows for ongoing change and managerial adaptation. This mindset affects every opportunity and resource allocation decision the organisation makes. Because a strategic management system is dynamic, it can provide value in an ever-changing context (Barton, 2007).

In an empirical study, Tagiuri and Davis (1996) discovered the six most important goals of family businesses: having a company where employees can be happy, productive, and proud; providing financial security and benefits for the owner; developing new quality products; serving as a vehicle for personal growth, social advancement, and autonomy; promoting good corporate citizenship; and providing job security.

It's worth noting that none of these objectives, and only one of the 74 in the study, have anything to do with future generations. The lack of a strategic mentality, according to Onuoha (2016) in his book "Family Business: Owning and Managing Generational Firms," is a major hindrance to the evolution of most family-owned firms and SMEs in Third World countries into worldwide organisations. He went on to explain that this deficiency is to blame for their high mortality rates and lack of global competitiveness. As a result, they contribute a meagre amount to their countries' GDP and economic growth. As a result, this research looks into the generational challenges that Nigerian family businesses face, as well as the role of strategic management in these businesses.

CONCEPTUAL REVIEW

Strategic Management

Strategy creation (strategic or long-range planning), execution, assessment, and control are all aspects of strategic management that affect a company's long-term success. Environmental scanning (internal and external) is also a part of strategic management (Onouha, 2012; 2016; Wheelan & Hunger, 2008). The authors Thompson, Strickland, and Gamble (2007) explain the significance of strategy in corporate organisation in two ways.

The first thing to remember about strategy is that it requires proactive planning on the part of management to determine how the organization's operations will be handled. According to these experts, management's prescription for conducting business, road map to competitive advantage, and game plan to satisfy consumers and improve financial performance is a well-defined strategy.

As for the bottom line, they suggest strategy-focused companies outperform those whose management considers strategy as a secondary concern and places their attention elsewhere. Making and executing effective strategies may have a substantial influence on sales growth, profitability, and returns on investment. The bottom line is that companies that use strategic management are more successful and outperform their competitors (Onuoha, 2016).

Strategic Management and Generational Issues in Family Businesses

According to scholarly consensus, successful family firms employ different strategies than non-family firms (e.g., Chrisman et al, 2005; Sharma et al, 1997); second, the process of strategic formulation differs between family-owned and non-family firms (Chua et al, 2003); and third, family dynamics influence how strategy is built and implemented (Astrachan, 2010). Strategy in family businesses is important for research since it influences their long-term survival and financial worth.

Aside from succession challenges, family businesses must deal with a variety of generational and intergenerational issues that have an impact on strategic management (Sharma et al., 1997). Among the issues are the founders' length of stay as CEOs and the following generation's willingness to engage, to name a few. Other considerations include succession timing and a smooth transfer, as well as who will succeed whom.

According to Barton (2007), the average tenure of a CEO of a successful family-owned business is 25 years. A significant publicly traded company's average lifespan is only seven years. It's not hard to figure out why there's a discrepancy. When the next generation reaches their forties, they frequently succeed their parents as CEO of the firm. CEOs of publicly traded businesses frequently select their successors from a pool of executives who are similar in age and have more general management experience than the departing leader. The extended tenure of CEOs in family firms, according to Barton (2007), needs the establishment of an effective strategic management structure. Because it is natural for anyone in charge of any organisation for an extended period of time to become set in their ways with respect to what the business does and how it does it, strategic management will constantly challenge the business model and thus protect the company from problems resulting from unexpected and often rapid changes.

Another generational problem in family businesses is determining whether the following generation wants to take over. When next-generation members are ultimately brought on board, they may have little interest in continuing on the family business, which can lead to disagreements, indifference, and a lack of focus (Barton, 2007; Onuoha, 2012). Entrepreneurs have less time to establish ties within their families and excite the interest of the next generation due to the rigours of operating a business.

Furthermore, there is the issue of time and smooth succession to consider. In a family business, succession planning is just as important as ensuring a smooth handover. To ensure a smooth transition, succession planning is essential. The founder's inner cycle's sense of time, on the other hand, continues. Even if the transfer from the founder to the new CEO is smooth (i.e. successful), the company's primary stakeholders must agree on the timing of the shift so that the new boss may thrive in a harmonious atmosphere and lead successfully (Sharma et al., 1997).

One of the most sensitive generational concerns in family businesses is who will take over as the new owner. Because of the differing viewpoints of different stakeholders, selecting a successor to the founder has always been challenging (such as the founder, his family, the board of directors, outsiders on the board, and external consultants, among others). There is little question that the acceptance of a successor will have a significant impact on how easily a transfer occurs and, ultimately, how well a firm performs economically (Tagiuri & Davis, 1996).

CONCLUSION AND IMPLICATION

The importance of an efficient strategic management approach in family enterprises has been adequately shown (Barton, 2007; Onouha, 2012; 2016; Roll, 2018). This is due to the ambiguous and overlapping responsibilities of ownership, management, and family members that define this form of organisation. Despite the severe generational difficulties that family companies face, there are some examples of firms that have developed and endured the test of time. That is, with the correct strategic procedures, governance, and management, family-owned firms may be profitable for decades. As a result, family company executives must have a long-term perspective on the firm in order to think and plan strategically in order to create sustainable economic value.

To do this, they must guarantee that goals are defined, strategies are developed to attain the chosen goals, and the chosen plan is implemented. Furthermore, it is vital to identify and analyse options, make judgments, and ensure that appropriate control systems are in place at all stages in order to make required modifications. The performance of an organisation is determined by how successfully it completes these duties in light of the possibilities and risks in its environment, the resources it owns or can get, and the values and noneconomic obligations held by its management.

Family enterprises should also guarantee that fresh plans are developed for each generation that enters the company. This may be accomplished by establishing a new business unit and developing the skill sets of successors and newcomers to the organisation. Furthermore, family company leaders must examine succession-related issues such as ownership continuity or change, management continuity or change, power and asset distribution, the firm's function in society, and the degree and pattern of engagement for both family and non-family members. Also, in order to raise interest and improve the odds of the next generation being involved in the family business, family leaders/founders must take purposeful and early initiatives to integrate future successors in the firm.

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