Family Conflict and Sustainability of Family Owned Businesses in Lagos and Ogun States, Nigeria

ADEDAYO, S. Oludare\(^1\) and OJO, J. Olanipekun\(^2\)*

\(^1\)Department of Business & Marketing, Babcock University, Ilishan-Remo, Ogun State, Nigeria.
\(^2\)Department of Business Administration, McPherson University, Seriki Sotayo, Ogun State, Nigeria.

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Abstract

Family businesses constitute a large number of commercial activities worldwide, contributing significantly to the global economy. Family Conflict is a key issue influencing the sustainability of family businesses. There are many family business failures in Nigeria, especially at the demise of the owner/founder. This study investigated the factors that are creating conflicts and how they affect the sustainability of family businesses in Lagos and Ogun States of Nigeria. The study adopted a survey design with a population of study limited to the family business owners who are members of the National Association of Small and Medium Scale Enterprises (NASME). A stratified sampling technique was used to select the family businesses, from where a random sample of 327 was selected. Pearson’s Product Moment Correlation and Multiple Regression were used to analyze the data. The results revealed that there was a strong positive correlation between family conflict and firm’s sustainability, with an r value of correlation coefficient of 0.86 and significant level of P<0.05 @ 0.000. Issues that can create conflicts should be avoided like appointing an incompetent successor, while the successor should be made to come into the family business early enough to gain the confidence and respect of other family and non-family workers. Potential entrepreneurs should be educated on the dangers inherent in polygamous marriages as this can affect business succession plans; there should be clear communication with both the family and the nonfamily employees that the succession is taking place and to offer incentives to the prospective successors so as to ensure their cooperation.

Keywords: Family Business, Succession, Sustainability, Family Conflict.

INTRODUCTION

Succession is critical to ensuring the continuity of any family owned business (Singhry, 2010). An effectively developed succession plan provides for a smooth transition in management and ownership (Chrisman, Chua, Sharma and Yoder, 2009). Although the bulk of family owned businesses, intends to pass the control of the business to the next generation of family members, it is surprising that such family members are not gifted with the skills required for the operation and management of the businesses. (Merwe, 2009). The net result of this is that very few family businesses survive to the second generation (Merwe, 2009). A variety of factors might be responsible, but a large number of family businesses fail because they have no plan for business succession (Liroff, 2008; Merwe, 2009; and Yan and Sorenson, 2006).

The majority of the research works on family business
succession in extant literatures have been on big multinational organizations, corporate and global companies. Few efforts have been devoted to finding out why small and medium scale family businesses do not survive beyond the founder’s generation. This situation is rife among small/medium scale businesses in Nigeria that this research work is all about. Many vibrant organizations that were doing well when their owner/founder was in the saddle, suddenly disappeared at the death of the founder. The reason for this collapse becomes the major gap and the fulcrum of this research work.

In order to ensure a smooth transition from the owner/founder to the successor, the need to guide against conflict within the family business is important. Conflict management is a special concern for those in family businesses for maintaining long-term viability (Kaye, 1991). Constructive conflict can drive the family business system toward its objectives, whereas sustained and/or unaddressed conflict can mire the system (Ward, 2006). Planning for change may not occur because of conflicts within the business (Kaye, 1991). Too much conflict can threaten the survival of the family business or the family itself; family members may leave the business, diminishing its capacity, or a needed change may not be made within the business at a crucial regeneration point.

The purpose of this research therefore is to investigate the reasons why family businesses that were doing well when their owner/founder was managing the business suddenly went under after the death of the founder due to unresolved conflicts and how these conflicts have impacted the sustainability of family businesses in Lagos and Ogun States of Nigeria.

STATEMENT OF THE PROBLEM

Family business represents the oldest and most prevalent type of business organizations worldwide (De Alwis, 2011). As such, they play a significant role in both the stability and health of the new global economy. It is estimated that 90 percent of all businesses in the US, Canada and Europe are family owned and operated. (Ibrahim, McGuire & Soufani, 2009). Family business also represents the prevailing type of organization in most Asian and Latin American countries due to the strong clan type culture (Ibrahim & Ellis, 2006). Figures of family businesses in Nigeria could not be easily determined, due to paucity of data (Esuh, Mohd & Adebayo, 2011), the researchers however feel it will be similar to what operates in other countries. Despite their importance to the national economy, the survival rate of family firms beyond the founder’s generation is extremely low especially in Nigeria (Ogundele, 2012).

In Nigeria, history abounds of many big family businesses that disappeared with the death of their proprietors. We have the likes of Odutola Group, Sir Louis Odumegwu-Ojukwu, Lawrence Omole, Sir Mobolaji Bank-Anthony, Igwe Mathais Ugochukwu and J. K. Ladipo; they laid the foundation for modern business in Nigeria. Businesses of Chief Moshood Kashimawo Olawale Abiola’s, the Tabansi Group, Alhaji Haruna Kassim, Alhaji Baballe Ila, Alhaji Mamman Goda, Alhaji Adamu Muri and Alhaji Sule Garo. Others are Alhaji Mai Deribe, Alhaji Umar Ali, Alhaji Inuwa Usman and Alhaji Ali Koloko, Danboyi Zang, Alhaji Ali Ilyya, Alhaji Bakari and Alhaji Namata, all went moribund at the death of their founders. (Arogundade, 2011)

From the catalogue of businesses that have gone under at the demise of their owners/founders, the major problem confronting Nigerian family business owner is the need to manage conflict that may arise while the owner is alive. Due to increased number of children, polygamous marriages, the choice of who to mentor or groom is difficult, therefore the choice of a successor becomes a problem and this will invariably affect the firm’s survival beyond the owner/founder. Conflict when unresolved and handled effectively can affect the fabric of any family business, the need for proper management, as it crops up is essential. Conflict has been described as “awareness on the part of the parties involved of discrepancies, incompatible wishes, or irreconcilable desires” (Jehn & Mannix, 2001). Polygamous families, nepotism, favoritism, lack of trust and respect among siblings, etc can create conflict thereby affecting the business. As these factors are rampant among Nigerian entrepreneurs and family business owners, an objective was set to find out the effect of family conflict on the sustenance of the family business over the long run.

OBJECTIVE OF THE STUDY

The objective of this study is to examine how family conflict affects the sustainability of family business after the owner/founder has passed away

CONCEPTUAL REVIEW OF LITERATURE

Family business is an approach to entrepreneurship, and it has sometimes been referred to as family entrepreneurship. Unlike “entrepreneurship“, there appears to be no standard definition of family business. It has even been suggested that the definition of family business varies with culture (BirdThistle, 2009). The defintional problem is compounded by a lack of consensus about what constitutes a family; whether it should include only parents and children, or all blood relations and in-laws.

Nwankwo (1990) is of the opinion that when a family business is basically owned and operated by one person, he or she usually does the necessary balancing
automatically. For example, the founder may decide that the business needs to build a new plant and decide to take less money out of the business to live on for a period of time in order for the business to generate the cash needed to expand. In making this decision, the founder is balancing his personal interest (taking cash out) with the needs of the society (expansion). The justification for the emergence of the field of family firm research lies in the assumption that family and non-family firms are different. Family firm is defined operationally by the components of a family’s involvement in the business: ownership, management, or business succession (Chrisman et al., 2003). The family enterprises are business concerns in which members of a nuclear or extended family hold majority shareholdings in them (Onuoha, 2012).

**Succession**

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 a family business, Sharma et al (2001) defines succession as the actions and events that lead to the transition of leadership from one family member to another. By extension, succession is the process by which ownership and control of the production or commercial infrastructure accumulated by one generation of a nuclear or extended family is transferred to the next. In the context of this research work, it entails the transfer of a commercial investment of any type from the owner-founder to his prospective survivors. These could be members of a nuclear family in a monogamous household such as a wife and children, or members of a family compound in a polygamous household, namely wives and children.

**FAMILY CONFLICTS**

Conflict has been described as “awareness on the part of the parties involved of discrepancies, incompatible wishes, or irreconcilable desires” (Jehn & Mannix, 2001). Based on work-groups conflict literature (Sharma, 2004), three types of conflicts have been conceptualized: task (disagreement on what tasks should be accomplished), process (disagreement on how to accomplish the tasks), and relationship (based on interpersonal incompatibilities about values, attitudes, etc.). Cross-sectional studies in this literature (Sharma, 2004) have revealed that relationship conflict is detrimental to individual and group performance, reducing the likelihood that members of a group will work together in the future. A moderate level of task conflict has been found to increase group performance in cognitively complex tasks as it allows groups to benefit from different opinions and avoid group thinking while process conflict has been associated with lower levels of productivity and group morale (Sharma, 2004). Most of these studies, however, have been cross-sectional in nature, focusing on static levels of conflict and ignoring temporal issues. Even in a case where an attempt was made to understand patterns of conflict over time (Jehn & Mannix, 2001), the study was conducted by graduate students who, at best, have to work together on projects for the relatively limited duration of their program of study.

The family business literature is just beginning to develop conceptual models to understand the nature, causes, and implications of different types of conflict. Scholars recognize the positive and negative aspects of conflict, comparing it to “social friction” (Mitchell, Morse and Sharma, 2003). Building on this idea, Kellermanns and Edellston (2002) suggest that task and process conflicts interact with relationship conflict to influence firm sustainability. These researchers also theorize that the relationship between conflict and sustainability is moderated by the ownership structure of the firm.

Another stream of literature has attempted to understand how conflicts may be resolved and the impact of adopted resolution strategies on financial and nonfinancial dimensions of firm sustainability. Kellermanns et.al examined the five conflict management strategies of competition, collaboration, compromise, accommodation, and avoidance used by family firms. Although collaboration strategies lead to positive outcomes on both family and business dimensions, the avoidance and competition strategies performed poorly on both dimensions. Compromise and accommodation were better for the family-related outcomes, but not for the business-related ones.

**Sources of Family Conflicts**

The following are some of the sources of family conflicts which are mainly prevalent among Nigerian family businesses:

**Polygamy**

The rivalry between the siblings and spouses that follows the demise of polygamous entrepreneur coupled with a variety of cultural laws guiding inheritance in Nigeria does not make for an objective selection of the best material as successor. Where a competent CEO material exists, he may not put in his best to revamp or manage the family business. After all, it can later be taken from him by the elders and shared with other children.

**Nepotism**

The employment of staff on the basis of personal relationships rather than due to qualification is more widespread in the family than in non-family businesses.
Most family businesses are a mixture of people who have differing viewpoints based on their involvement in the different domains. As a result of family management, weaknesses arise, such as

1. Nepotism instead of objective standards of employee hiring, evaluation, and reward, which then can cause conflict for those who are less involved;
2. Conflicts between the interests of the family and the interests of the business as a whole;
3. Lack of discipline over profits and performance in the organization; and
4. Failure to meet new business challenges in a timely manner (Gersick, Davis, Hampton, & Lensberg, 1997).

It has been said that nepotism is the obvious way to destroy a family-owned business in a single generation. According to John Ward (2006), “Stories of family failure are quite common, and known to all. The deleterious effects of nepotism are one example of such received wisdom” (Ward, 2006). In family businesses where the family system is dominant, the succession planning and process is often replete with nepotism or custom. In these firms, who will succeed to the helm of power is typically based on who is the eldest among the siblings or family relatives. In contrast, family businesses wherein the business system is dominant choose among those most prepared for the job.

Sibling rivalry can pose another obstacle to smooth succession in cases where the retiring owner is transferring company leadership to more than one child. While some rivalries are inevitable, these must be managed so as not to impair business judgment or prevent collaboration from taking place. A wide variety of approaches — such as enlisting one of the retired owners’ trusted advisors or a very senior non-family manager as a mediator — can prove successful in preventing rivalry from becoming destructive. As noted by Ivan Lansberg (1997) in The Family Business Succession Handbook, “What seems to matter more than the substance of . . . Conflict-management techniques used by sibling groups are that some sort of functional process is put in place in which they all agree.” Lansberg also says that openly acknowledging rivalries, and diffusing them with humor, can help the successors to rise above them.

The Entitlement Issue: Another challenge to family succession occurs when members of the next generation believe they are entitled to a future ownership/leadership role within the company. Succession-planning experts caution — and common sense dictates — that this belief can spell disaster for the entire business if left unchecked. Many family businesses that have weathered succession have established specific criteria that family members must meet in order to assume a management role within the business. Earning a college degree and obtaining outside work experience are among the most common of these requirements. Research indicates that a commitment to the principles and practices of stewardship — the sense that the family business “is not a personal possession, but a trust that has been given to [family members] for safe keeping and for which they have deep caring and respect” — is critical to the success of the succession process. The practice of stewardship begins with the business owner, who must model the attitude that business ownership is a privilege and not a right.

**Sustainability**

Every human being and product have a beginning and an end. Hence the concept of Product Life Cycle [PLC] in the case of a product. Though the concept of perpetuity in company law assumes that the corporate personality called ‘company’ is expected to exist into infinity, real life experience reveals the contrary in many cases. Companies also die. As Marketing Management battles to extend their products’ life cycles, entrepreneurs and top management also manipulate strategic variables in order to sustain the life of the organization, as far as possible. The extent to which such organization’s life can be stretched while fulfilling its purpose can be termed as sustainability (Ogunsede et al., 2012). The long-term health and sustainability of any family business depend on its ability to anticipate and respond to change (Ward, 2006). According to family business research sustainability here defined as social, economic and ecologic long-term orientation, seems to overlap partly with the resources of long-lived family businesses.

In resource theory, the meaning of sustainability refers to long-lasting or durable competitive advantages (Aaker, 1992; Nolte, 1999; Freiling, 2001). This wide definition does not cover the ecological aspects of sustainability. The Brundland Commission (World Commission on Environment and Development, 1987) defines sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

Sustainability in businesses contributes to sustainable economic growth and development. In this relation, family-owned businesses, their presence and sustainable development is believed to contribute greater impact on the economy as Small and Medium Enterprises (SMEs) that constitute a significant proportion of family-owned businesses in many countries (Abdullah, Hamid & Hashim, 2011). Based on the various arguments and the conceptual analysis proffered above, this proposition is formulated that;

There is a significant relationship between family conflict and the sustainability of the family owned business.

**RESEARCH METHODS**

The descriptive survey research design was adopted for
Table 1. Distribution and Return of Questionnaires

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
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</thead>
<tbody>
<tr>
<td>Total Questionnaires Administered</td>
<td>350</td>
<td>100%</td>
</tr>
<tr>
<td>Total Questionnaires Received</td>
<td>338</td>
<td>96.5%</td>
</tr>
<tr>
<td>Invalidated Questionnaires</td>
<td>11</td>
<td>3.1%</td>
</tr>
<tr>
<td>Valid Questionnaires</td>
<td>327</td>
<td>93.4%</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2016

Table 2. Age group of the Respondents – To show the age distribution of entrepreneurs in Nigeria

<table>
<thead>
<tr>
<th>Age group</th>
<th>Frequency</th>
<th>Percent %</th>
<th>Valid Percent %</th>
<th>Cumulative Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-35yrs</td>
<td>7</td>
<td>2.1</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>36-40yrs</td>
<td>71</td>
<td>21.7</td>
<td>21.7</td>
<td>23.9</td>
</tr>
<tr>
<td>41-45yrs</td>
<td>247</td>
<td>75.5</td>
<td>75.5</td>
<td>99.4</td>
</tr>
<tr>
<td>46 and Above</td>
<td>2</td>
<td>0.6</td>
<td>0.6</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>327</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey, 2016

this research work, as it helps in gaining understanding of the issue of variables responsible for entrepreneurial collapse occasioned by conflicts and reasons why founders do not make adequate preparation for the succession. The descriptive method follows the use of quantitative method of analysis. The quantitative method is generally designed to ensure objectivity, generalizability and reliability.

Population

Due to the problem of unorganized association of family business in Nigeria and the lack of access to information from the database (Esuh, Mohd & Adebayo, 2011), the population of this study relied on family owned businesses that are members of NASME (National Association of Small Scale Enterprises) in Nigeria as at December 2015. Family owned businesses in NASME from Ogun and Lagos states were 7,690 members. Total registered members on roll of NASME (National Association of Small & Medium Scale Enterprises) as at December 2015 was 25,000 members. According to Akande & Ojikutu 2008, Lagos and Ogun States accounted for 60% of business and industrial transactions in Nigeria. Therefore Lagos and Ogun States member companies in NASME are 15,000. The sampling frame, therefore consisted of family businesses in Lagos and Ogun States that are members of NASME and the figure was 7,690 members.

Sample

Members of NASME that are Family Owned Businesses (as at December 2015) in Ogun and Lagos states were 7,690 companies. Therefore the sample size of the study is determined by using this formula: \( n = \frac{N}{1+N(e)^2} \) (Yaro Yamane, 1998). The sample size of 327 firms used for this study was derived through this method, 10 CEOs were also randomly selected to participate in the qualitative in-depth interview from the 327 companies. The choice of the 10 CEOs for the in-depth interview was in line with previous research that puts the success rate at between 2 – 5% of the sample size (Frankfort-Nachmias and Nachmias, 1996: 226).

Analysis of Respondents

A total of 350 questionnaire were administered, 338 were collected which represented 96.5% of the total questionnaires sent out. Of this value 11 were invalidated leaving 327 as the valid questionnaires used for analysis. This represents 93.4% of the total questionnaires administered. The sample size of this study is 327 respondents. In testing the proposition that there is a significant relationship between family conflict and the sustainability of the family owned business, all data obtained from the demographic variables, the qualitative discussion and its content analysis and the use of Pearson Product Moment Correlation were analyzed and discussion drawn appropriately.

Most of the respondents, about 247 (75.5%) are in the 41-45years bracket, 71 (21.7%) in the 31-35years bracket and only 2 (0.63%) are aged 46years and above. The result shows that all respondents are above age 30 and they are all married with children averaging 3 per respondents. Conflict will necessarily happen, either because of position or for entitlement.. Planning for change may not occur because of conflicts within the business. Too much conflict can threaten the survival of the family business or the family itself; members may leave the business, diminishing its capacity, or a needed change may not be made within the business at a crucial regeneration point. The need for the owner/founder to put in place structures that will ensure harmony among the children and other
Table 3. Factor Analysis- Family Conflict and Firm’s Sustainability Descriptive Statistics

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Analysis N</th>
</tr>
</thead>
<tbody>
<tr>
<td>If family members are not committed to the succession, it is capable of blocking opportunity to demonstrate the requisite management abilities of the successor</td>
<td>4.71</td>
<td>0.49</td>
<td>327</td>
</tr>
<tr>
<td>Bad interpersonal relationship is a cause of potential conflicts that can obstruct the succession</td>
<td>4.76</td>
<td>0.47</td>
<td>327</td>
</tr>
<tr>
<td>Conflicts between family members might prevent the appointment of a good and qualified successor.</td>
<td>4.83</td>
<td>0.37</td>
<td>327</td>
</tr>
<tr>
<td>If there is a conflict, the succession process might be put at risk because the potential successor may decide to leave the business or incumbent might block the appointment</td>
<td>4.80</td>
<td>0.40</td>
<td>327</td>
</tr>
<tr>
<td>Family harmony is said to help the succession process as it ensures greater trust, mutual understanding, and knowledge among the participants</td>
<td>4.80</td>
<td>0.40</td>
<td>327</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2016

Table 4. Analyzing the proposition that there is a significant relationship between family conflict and the sustainability of the family owned business

<table>
<thead>
<tr>
<th></th>
<th>Family Conflict</th>
<th>Firm’s Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>863(**)</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>327</td>
<td>327</td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.863(**)</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>327</td>
<td>327</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey, 2016

family members becomes very important in ensuring effective succession and a family business sustainability.

If there is a conflict, the succession process might be put at risk because the potential successor may decide to leave the business or incumbent might block the appointment has the Mean and Standard Deviation value of (4.80 ±0.40) of the factor analysis

Interpretation

The above result shows that the r value of correlation coefficient is 0.863** between Family conflict and Firm’s sustainability using the Pearson’s Product Moment Correlation Coefficient (PPMC). This result indicates that Family conflict account for about 86% of the firm’s sustainability. This shows a high and positive significant relationship between the dependent and the independent variable of family conflict and firm’s sustainability with a significant level of P<0.05 @ 0.000.

DISCUSSION

This result is in congruence with the empirical result arrived at by Danes & Rettig, 1993; that there is potential for even greater conflict under harsh economic conditions when the tensions between family and business goals are high. The result also supports the works of Davis & Harveston, 1999; Harvey & Evans, 1995, Schwass, 2005; which suggest that intra-family conflicts are a major contributor to family business failure. Based on the works of Ward (2006), it was found that increased conflicts among family members are one of the main reasons behind the stagnation of a family business.

Kets De Vries (1998) emphasized the dark side of succession when non-family employees are not consulted in the succession process and the sense of frustration, betrayal and resentment that they harbour towards the successor and the family firm in general. Therefore, some researchers have proposed a balanced approach in which all stakeholders, including non-family employees are considered in the decision making process in family firms to ensure success (Mitchel et al., 2003; Astrachan & Keyt, 2003).

CONCLUSION

Family business owners need to understand that their valued family business may not survive the next generation
if they do not get serious about managing potential conflict that may arise. Family conflict is thus an important practice that must be cautiously managed. The owner must put in place structures that will ensure that potential conflicts can be resolved amicably after his exit without affecting the sustenance of the family business.

RECOMMENDATIONS

1). Owner/founder should avoid and do away with nepotism in the choice of a successor; the succession plan must reflect a true management succession. No such plan work without being people and market-focused. The interest of the family business must be foremost at heart. The founder must as a necessity, appoint a board of trustee if he suspect that problems may occur after his exit. All family members must agree with the trustee.

2). Arising from the values subscribed to by the owner founders, ethical issues are involved in succession. There is a need to build honesty, love, trust, confidence and loyalty within the family members. This has to be done by the founding entrepreneur before his exit.

3). The Nigerian culture, though diverse, should be fine-tuned to be supportive of entrepreneurial development. There is nothing that should preclude the best hand from running an organization, so long as he/she possesses the requisite knowledge and capability.

4). Potential entrepreneurs should be educated on the dangers inherent in polygamous marriages as this can affect business succession plans.

5). There should be clear communication with both the family and the nonfamily employees that the succession is taking place and to offer incentives to the prospective successors so as to ensure their cooperation.

6). The offspring’s positions as well as the nonfamily member’s positions should be determined at the beginning of the business in order to minimize possible future conflicts that can undermine managerial effectiveness.

7). Conflicts that always arise after the exit of the founding owner should be avoided. It is advisable that the owner devises a means of equitably distributing his/her inheritance, including the family business before his exit and settles all issues with all inheritors.

8). Right from the onset the founder/manager should create genuine interpersonal relationships and harmonious culture between the family and nonfamily employees. Such relationships are easy to achieve because employees in family firms are usually either family or friends of the family, or referred by family or friends. If well established, the business expects little resistance to a succession of managers in the family firm.

REFERENCES


