DO LEADERSHIP ROLES AFFECT SURVIVABILITY OF FAMILY BUSINESSES IN DEVELOPING ECONOMIES?

Olayinka A. Abiodun, University of Nigeria
Emmanuel K. Agbaeze, University of Nigeria
Bamidle S. Adeleke, Ladoke Akintola University of Technology
Nwanneka C. Ghasi, University of Nigeria
Anthony O. Ude, University of Nigeria

ABSTRACT

Family businesses in many developing economies have continually been plagued with the issues of leadership tussle emanating from the owner-manager power. The study assesses the effect that leadership plays on the survivability (survival success) of family businesses in Nigeria. This study utilized a survey design, to gather data from five hundred and two respondents who were owners/founders and top management of selected family businesses in southwestern Nigeria. The data collected through the closed ended questionnaires were tested with linear regression at 0.05 level of significance. The finding revealed that leadership roles positively affect the long-run success of family businesses in Nigeria. Informed by this finding, the study concluded that there is a positive link between leadership method and survivability (i.e., survival) of family businesses in developing economy like Nigeria. The study advised that a new paradigm shift in leadership (i.e., adaptive type of leadership) should be considered by family businesses operating in Nigeria. This would ameliorate the owners-managers leadership tussle that derails many family businesses in Nigeria.

Keywords: Owner-Manager Tussle, Leadership Method, Adaptive Leadership, Family Businesses.

INTRODUCTION

Family business is a component of entrepreneurship development and critical aspect of economic development and economic transformation offering jobs opportunities, lasting legacies and wealth creation for families and other people working in family business; as well as played a very significant role both in the stability and health of the global economy (Ward, 2003). As (Gerick et al., 2005) observed, family-owned businesses support almost fifty percent of the entire population, and during these difficult economic times, they put many of the unemployed back on the payroll thus playing a significant role in the economy development.

Family business is the world’s most prevalent and pervasive form of business organization. family business is seen to include the whole spectrum of enterprises, from large, family- controlled conglomerates to small and medium sized enterprises (SMEs) owned and managed by families. Worldwide, the data estimate shows that more than 75 percent of all business enterprises are established and controlled by families and almost one-third of these large companies in the world are controlled by families (Ramachandran, 2009). In many capitalist developed economies, family businesses account for such countries 50 to 90 percent of
the Gross Domestic Product (GDP) (Kenyon-Rouvinez & Ward, 2005). Also regarded as family firms (the term interchangeably used in the study), family business largely consist of private sector, and are crucial for economic development of the nations. The family lines of businesses are necessary, but they are well economically viable. Study conducted in the recent times on family controlled firms revealed that most of the best 500 companies in the world have family businesses performing better than non-family firms (Kenyon-Rouvinez & Ward, 2005).

History also revealed that family businesses are among the most lived and present organizations in the world with record showing that some date back to the sixth century despite harsh economy issues such as the rise and fall of multiple state regimes, recessions, war and famines, and other crises (James, 2006; Landes, 2006). Although the source of their longevity are not well understood. Undoubtedly, the most important driver of their longevity and sustainability remains the family unit (Pieper, 2007). Evidences however show that family influence can also have detrimental effects for the business and the family group; therefore, since the greatest assets and the hardest challenge facing the family business is the family itself, the most important issue is to manage the family in such a way that it will continue the founder’s legacy profitably (Miller & Le Breton-Miller, 2003).

Family business is owned or controlled by a group of people related by blood, marriage or adoption. Businesses are complex, dynamic organisms, with plenty of opportunity for conflict to develop over a range of issues, and between ranges of players within this organism. A business with family members adds another level of complexity to an already complicated system. As family businesses experience the transition into second and then later generations, the number of involved family members (children, grandchildren, and a host of cousins, brothers, sisters and in- laws), and thus family complexity, often increases (Miller & Le Breton-Miller, 2006). Family businesses are part of our economic life, provide jobs, lasting legacies, creating wealth and make a substantial contribution towards the global economy (Maas et al., 2005).

The family firm as organizational form is a cornerstone of the economy in most countries of the world (Astrachan & Shanker, 2003). This is so because they represent a major engine of economic growth, wealth creation and they also significantly contribute to their country’s economic growth (Villalonga & Amit 2006, 2009).

The low rate of survival of many the family business has become a source of concern to many national economies all over the world. Davis & Harveston, (1998) explains that 30% of family businesses survive beyond the first generation while about 10% to 15% moves into third generation. Despite this high rate of mortality, there are successful family businesses that are still in existence in Nigeria and notable among them include: Ibrus Group of Companies, the Bruce family’s Domino Groups, Dangote Group of Companies, Dantata Group of Companies, Ekene Dili-Chukwu transport, Iyare transport, Owodunni & Sons, God is Good Transport, Ehidenro & Sons, Alhaji Folawiyo Group of companies among others who have stays decade without issues of liquidattion (Momoh, 2010).

One of the greatest derelictions of leaders in Nigerian society is their failure to mentor or nurture their successors to carry on founders’ legacy profitably. This problem emanates from the view of Rothwell’s (2005) who observed that the survivability of any organizations depends largely on the people who controls and manage such organizations. Ineffective succession planning has continued to be the major cause for the poor survival rate of family firms (Poutziouris, 2000). The role that organizational continuity and sustainability could be thwarted if a successor is necessary and when there are no effective mentoring on who take over the mantle. Most scholars, (Yusuf, 2000; Bagby, 2004), agree that leadership method was an integral
part of the transformation strategy to facilitate family businesses survivability. Though, the preliminary investigations conducted into the cause of failure and demise of family businesses in Nigeria shows that leadership tussle and planning for succession has been one major problem creating the ineffectiveness. The high failure rate of family businesses in Nigeria leads to negative social and economic growth.

Planning for trans-generational transition with the inclusion of pragmatic leaders leading to survivability and longevity of family businesses in Nigeria was, however, politicized, treated with nepotism and favoritism (ineffectiveness), leading to their general lack of longevity as they suddenly become mortal just as their founders since they also die with their proprietors (i.e., rendering most of these firms in serious shallows especially when the owner-manager died). It is against this background that this study evaluates the roles that leadership plays on survivability (survival success) of family businesses in Nigeria.

REVIEW OF LITERATURE

Leadership in Family Business

Leadership is one of the social sciences most examined phenomena in academic (Dreux, 2000). This is not surprising, seeing that it is a world-wide activity evident in humankind and in animal species. According to Dreux (2000), there is widespread belief that leadership is critical for effective organizational and social functioning while extraordinary efforts necessary to solve existing problems is made possible by leadership.

Leadership is about setting a vision, guiding the followers and influencing them to reach the vision and to achieve common goals in order to achieve organizational sustainability (Ponder, 2005). It is a process of transforming a business from what it is to what the leader wants it to become. There are many theories and models describing these critical components and concepts of leadership within individuals and organizations.

Lubatkin et al., (2007) identifies certain characteristics and practices in this process of getting things done through other people. Leadership defines the role rather than the person and leadership is understood by most people as having the freedom in their role to make a difference. Authors posit that leadership is one of the world’s oldest preoccupations that can be measured and taught (Lubatkin et al., 2007). Though, there are many definitions of leadership. Bass and Bass (2008), identify various approaches to the definition, which particularly focus on group processes, personality, specific acts or behaviors, goal achievement, group interaction effects, differentiated roles, initiation of structure, as well as the ability to induce compliance, influence, forms of persuasion, and power relationships. Leadership is seen defined as a social influencing process through which leader focuses on obtaining participation of employees to achieve corporate goals (Sharma & Manikutty, 2005).

As agreed by most scholars’ leadership can be defined ways and process of influencing people and the outcomes that occur between a leader and followers. There are many distinctive challenges confronting family businesses due to different family members being involved in different business issues (Sorenson, 2000). There are different fundamental theories that could be used to explore the relationship between leadership qualities in the family business and the performance of the business. The family systems theory suggests there is an understanding that making leadership decisions includes overlapping the requirements of the family, ownership and the business management (Poza, 2014).

The theory of entrepreneurship and entrepreneurial activities were possibly a part of the
success of the primary venture of the family business by the founder (Poza, 2014). Bird, Welsch et al. (2002) posits that the platform for the development of family business theories is grounded in entrepreneurial theory, which provided a platform to develop early family business theories (Bird et al., 2002); whereas, the neo-charismatic theories, which represented the dreams of the leaders, formed the basis of leadership attributes in the founders and their successors.

**The New Leadership Approach**

Cater (2006) believes that theories on new leadership gave explanations concerning the way leaders accomplish results that are exceptional in their businesses. It also explains ways of to which employees can be motivated to attain the value, trust, and performance, while influencing these followers to share their leader’s dream for the continued success and sustainability of the business. The main focus of the new leadership approach is on neo-charismatic leadership theories and it uses the model of the exemplary leader to form the basis of the measurement of leadership practices of founders and successors of family businesses.

This leadership approach has received the most scholarly attention (Avolio, 2005). Brooks (2001) avers that the concept refers to action in which leader seeks beyond the transactional elements of initiation, so fosters the followers so that superior organization performance can occur (Bryman & Bell., 2003). Boehnke et al. (2003) also explain that transformational leadership is more than just inducing desired performance. More than that the followers are motivated to perform at the highest levels, transcending self-interest (Shoemaker, 1999).

Several principles underline transformational leadership (Podsakoff et al., 1990). First is by identifying and articulating a corporate vision. The behavior on the part of the leader aimed at identifying new opportunities for his unit and developing and inspiring others with his vision of the future. Further, is by providing an appropriate model. This means that behavior on the part of the leader is consistent with the values the leader advocates. Third, is fostering the acceptance of group goals. It is the behavior on the part of the leader aimed at promoting cooperation among employees and getting them to work towards a common goal. Also, providing individualized support. The behavior on the part of the leader that indicates that he respects followers and is concerned about their personal feelings and needs.

**The Roles of Leadership in Business Success and Performance**

A good indicator of the success of a business is the presence of strong leadership characteristics. However, Ready (2004) discovered that leaders who lacked neo-charismatic leadership skills faced some difficulties aggregating and advancing enterprises. The managers of many developing economies enterprises lack the ability to lead larger businesses even though they possessed sufficient skills to lead smaller business units (Ready, 2004). Grinnell (2003) investigated whether leadership styles were different in small firms using centralized structures as opposed to entrepreneurial firms using decentralized approaches and found few differences. This is important for two reasons. Firstly, it was observed by Grinnell that CEO’s did not alter their leadership approach when moved from small firm to large firm. Secondly, Grinnell avoided the focus on transformational leadership behavior’s and suggested that the small business leader use visionary, transactional and empowering behavior’s rather than autocratic approaches.

Overall, the relationship between leadership attributes and economic performance indicators of the business are supported by researchers in the literature (Duffy, 2002). However,
Neo-charismatic leaders with their collaborative, adaptability, visionary and emotive traits appear to be suited to face the challenging aspects of family businesses. According to Cater (2006), research on leadership peculiar to the study of family business is needed. Scholars in family business literature acknowledge that leadership is critical to the survival and success of the business. According to Morris, Allen and Avila (1997), the main topic of academic research into family business, which began in the 1980s, is succession (i.e. transition). Succession refers to the next generation taking over the leadership of the family business and is considered a crucial issue that faces family businesses globally (Poza, 2010).

Going by the foregoing, the study therefore hypothesized that:

\[ H_1: \text{leadership would positively affect the survivability of family businesses in Nigeria.} \]

**Theoretical Framework**

The work anchored on Principal-Agent Theory. Principal-Agent theory (PAT) describes possible issues that come from conflicts of interest and asymmetric information between two parties to a contract (Jensen & Meckling, 1976). Principal-agent theory assumes opportunistic behavior of individuals in the sense that one contract party, the agent, tends to behave in his or her own interest rather than the interest of the other contract party, the principal, thereby creating problems such as moral hazard (Holmström, 1979) and adverse selection (Eisenhardt, 1989; Jensen & Meckling, 1976). The transaction costs incurred during the process of detecting, mitigating or preventing agency problems (control or incentive systems, governance structures, etc.) and the economic damage caused by opportunistic managerial behavior (e.g. free-riding, shirking) are referred to as agency costs (Jensen & Meckling, 1976). One key assumption of this theory is that agency costs increase when there is a separation between ownership and control (Fama & Jensen, 2003). What this means is that, whenever managers hold an equity stake in the company, agency costs will be drastically reduced (Ang et al., 2000; Lubatkin & Ling, & Schulze, 2007). The personal ownership incentivizes managers from expropriating shareholder wealth through the consumption of perquisites and misallocation of resources (Schulze, Lubatkin & Dino 2002).

**METHODS**

The study adopted a survey method. The population of the study consists of all family businesses (Small and Medium Enterprises) in South-West of Nigeria. The target population understudy was twenty six thousand, seven hundred and forty-four (26,744) family businesses in South-West, Nigeria. The names, addresses and core businesses of the firms were identified through Small and Medium Enterprises Development Association of Nigeria (SMEDAN) and National Bureau of Statistics Collaborative Survey of 2016. The target respondents were the founders/successors and top management staff of the selected firms. A systematic random sampling technique was employed in the selection of five hundred and thirty one (531) from the total firms’ population. Data for the study was collected from the primary source through questionnaires that were self-administered to the founders/successors and top management staff of the selected firms. Out of the five hundred and thirty one questionnaires administered, only five hundred and two, representing 94.5%, were returned for the data analysis. Information collected through the questionnaire was analyzed with frequency distribution and percentage table. Test-retest method was used to determine the reliability of the instrument while Spearman
Rank Correlation Coefficient was used to determine the Coefficient of the reliability of the instrument. The result (r) is 0.93 which indicate that the research instrument (questionnaire) in this study is very reliable.

RESULTS

A total of five hundred and thirty one (531) copies of questionnaire were distributed to prospective respondents of the selected family business firms in Southwest Nigeria. Of the 531 copies of questionnaire distributed, only five hundred and two (502) were returned resulting in a 94.5% level of questionnaire return. Twenty nine copies of questionnaire were never returned making it 5.5% percent of questionnaires not returned.

The statistics showed that 325 (64.7) of the respondents were male while 177 (35.3) were female in sex distribution of founders/successors and top management of the family businesses in South West, Nigeria. The result also displays that the marital distribution of the respondents revealed that single respondents were 76 (15.1), married were 328 (65.3), divorced were 23 (4.6), remarried were 19(3.8) and widowed respondents were 56 (11.2). The statistics indicated that the research subjects were mostly married people. The educational qualification distribution of respondents in family businesses in Southwest, Nigeria was also analyzed. The sample of respondents for Ph.D. was 23(4.6), M.Sc./MA/MBA/MPA 67(13.3), Professional qualifications 34(6.8), HND/B.Sc./BA 102(20.3), ND/NCE and others 276(55.0). The statistics indicated that family businesses in South West, Nigeria attract all categories of educational qualifications and this perhaps responsible for longevity of some of them. The statistics demonstrated that 357 (71.1) were founders, 123(24.5) respondents were successors while 22(4.4) top management staff across the South West, Nigeria.

Table 1

<table>
<thead>
<tr>
<th>S/N</th>
<th>ITEMS</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>D</th>
<th>SD</th>
<th>(X)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Our family leadership challenge people to try out new and innovative</td>
<td>105</td>
<td>198</td>
<td>47</td>
<td>123</td>
<td>29</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>ways to do their work.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-20.9</td>
<td>-39.4</td>
<td>-9.4</td>
<td>-24.5</td>
<td>-5.8</td>
<td>3.5</td>
</tr>
<tr>
<td>2</td>
<td>Our family leadership ensures that people grow in their jobs by</td>
<td>137</td>
<td>145</td>
<td>19</td>
<td>126</td>
<td>75</td>
<td>3.3</td>
</tr>
<tr>
<td></td>
<td>learning new skills and developing themselves.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-27.3</td>
<td>-28.9</td>
<td>-3.8</td>
<td>-25.1</td>
<td>-14.9</td>
<td>3.3</td>
</tr>
<tr>
<td>3</td>
<td>Our family leadership makes sure that people are creatively</td>
<td>79</td>
<td>218</td>
<td>17</td>
<td>123</td>
<td>65</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>rewarded for their contribution to the success of our projects.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-15.7</td>
<td>-43.4</td>
<td>-3.4</td>
<td>-24.5</td>
<td>-12.9</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Research Survey, 2018. The figures in brackets are percentage analysis

Table 1 demonstrates the effects of leadership dimension on the success of family businesses in Nigeria. The respondents affirmed that family leadership challenge people to try out new and innovative ways to do their work 3.5; family leadership ensures that people grow in their jobs by learning new skills and developing themselves 3.3; family leadership makes sure that people are creatively rewarded for their contribution to the success of our projects 3.0. This is clearly demonstrated as the mean scores of the respective items were well above the criterion mean of 3 in the Likert 5 point scale continuum responses of strongly agree to strongly disagree. Regression Analysis was used to test the hypotheses on the effect of leadership on success of family business in Nigeria.
Table 2A
DESCRIPTIVE STATISTICS

<table>
<thead>
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<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adaptive leadership</td>
<td>2.7151</td>
<td>1.46705</td>
<td>502</td>
</tr>
<tr>
<td>Product innovation of family business</td>
<td>2.5458</td>
<td>1.22877</td>
<td>502</td>
</tr>
</tbody>
</table>

Source: SPSS version 23 computation

Table 2B
MODEL SUMMARY

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.940a</td>
<td>0.884</td>
<td>0.884</td>
<td>0.41924</td>
<td>0.074</td>
</tr>
</tbody>
</table>

Source: SPSS version 23 computation
aPredictors: (Constant), leadership roles
bDependent Variable: survivability of family business

Table 2C
ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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</thead>
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<tr>
<td>1</td>
<td>Regression</td>
<td>1</td>
<td>668.564</td>
<td>3803.742</td>
<td>.000b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>500</td>
<td>0.176</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>501</td>
<td>756.446</td>
<td></td>
<td></td>
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</tbody>
</table>

Source: SPSS version 23 computation
aDependent Variable: survivability of family business
bPredictors: (Constant), leadership roles

Table 2D
COEFFICIENTS

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>0.408</td>
<td>0.039</td>
<td>10.353</td>
</tr>
<tr>
<td></td>
<td>Leadership roles</td>
<td>0.787</td>
<td>0.013</td>
<td>0.94</td>
</tr>
</tbody>
</table>

Source: SPSS version 23 computation
A linear regression analysis conducted to determine the effect of leadership on the survival success of family business. (Table 2b) shows that there is strong positive effect of leadership on the success of family business (R- coefficient=0.940). The R square and the coefficient of determination show that only 88.4% of the variation in the success of family business can be explained by the leadership methods. With the linear regression model, the error of estimate is low, with a value of about 0.41924. The regression sum of the square 668.564 is more than the residual sum of the square 87.882 indicating that the variation is not due to chance. The F-statistics=3803.742 shows that the model is significant. Since the P-Value 000<0.05, we reject the null hypothesis (Ho) and then conclude that there is significant positive effect of leadership on success of family businesses in Nigeria.

DISCUSSION

The result from the finding from the test of hypothesis demonstrated that a linear regression analysis conducted to determine the effect of leadership roles on success of family business. Table 2A-2D showed that there is strong positive relationship between leadership and success of family business. The finding of the present study is in agreement with that of Kanji (2005). Using comparative methodology, discussed Kanji’s Business Excellence Measurement System (KBEMS) where he provided a multi-dimensional focus that combines a variety of measurements for internal and external stakeholders of the organization. The result is also in consonant with the finding of Havaleschka (1999) who explained the evidence for the role of leadership, determined by the personality of the top manager and the composition of the personalities of the group of managers, in making difference between success and failure of organizations. The finding of the study is also compatible with that those of Simon and Hitt (2003), who in their research discussed the strategic leadership capabilities that were related to organizational success. The submission from this study deviates from the findings of Gerick, Raila & Sehouli (2005) who question the imperative of leadership styles on business performance. Similarly, the finding negates the results of Oludare et al. (2016) who explained that transformational leadership has an influence on the company’s performance only if the company best practice management does takes place (i.e., company should constantly compare its own achievements and processes with the superior standards all over the world).

CONCLUSION AND MANAGERIAL IMPLICATIONS

The study concluded that success factor such as effective leadership is a key determinant of family businesses continuity and longevity. It revealed that the leadership method determines the survivability of owned and managed by families. Furthermore, they play a significant role in both the stability and health of the global economy but despite their importance to the Nigerian economy, the survival rate of family firms beyond the founder’s generation is extremely low and this was due to many factors among which is the leadership problem. In lieu of this, it was recommended that for Nigerian family business to be very successful and effective, a new paradigm shift in leadership (i.e., adaptive type of leadership) should be considered by family businesses.

Various studies have been conducted in the area of survivability of family business all over the world with each adopting different research paradigm. However, the inadequacy in these studies is reflected through the lack of consensus and inconsistent findings leading to empirical,
methodological and theoretical gaps in family business sustainability research. The study contributed to the body of knowledge through empirical analysis. The empirical evidence on family business sustainability were mostly in developed countries and a very few were done in the developing countries. This study therefore contributed to knowledge since most of the extant studies do not consider the efficacy of leadership methods on family businesses survivability in a developing economy like Nigeria.

REFERENCES


