



DETERMINANTS OF FAMILY BUSINESS
SUCCESSION PLANNING IN GUINEA

BY

OURY BAILO DIALLO

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ABSTRACT

The family business is the oldest type of business organizations worldwide. It has been the most reliable source of income for millions of families around the world and is the backbone of the world economy. In guinea, the family business has a tremendous contribution to the Guinean economy and its people by providing income to families, employment and tax revenue to the state. Despite its merit, family businesses have always had a major weakness, that is, its low survival beyond the first generation or, in other words, lack of continuity beyond the founder tenure. It is estimated that fewer than 6% of all family businesses across the world survive only up to the fourth generation. In guinea, many successful businesses in the past have ceased to exist after their founder's death. This study investigated how factors such as the incumbent's attributes, the successor's attributes, the family relationship, the firm's attributes, and the estate tax and polygamy practices affect the succession planning of Guinean family businesses. This is a cross-sectional quantitative study which used the primary data obtained through a survey. A total of 383 respondents participated in this study. The researcher used the theory of succession planning and mentoring, the resource-based theory and theory of family business rivalry. Structural equation model (SEM) was utilized to validate the model featuring factors influencing family business succession planning (FBSP). The findings of this study show that factors such as the incumbent's attributes, the firm's attributes, the polygamy practices and the estate tax do not have a significant influence on the succession, while the successor's attributes and the family relationship have a significant effect on the succession planning. The polygamy practices are found to have an indirect influence on the succession planning through the family relationship. The findings have implications on the academic and family business community in guinea. The new generation of entrepreneurs will have to invest more time, money and efforts on the education and training of their potential successors and ensure that they maintain a healthy relationship based on trust and cooperation between family members. The new generation of entrepreneurs should be more aware of the consequences of polygamy and the possible harm to their businesses. This study has some limitations; therefore, a generalization of these findings should be done with caution as more studies are needed on the topic of family business succession in guinea.

مُلخَصُ البَحْث

تعتبر الأعمال العائليّة أقدم أنواع مُؤسّسات الأعمال في جميع أنحاء العالم، وقد كانت مصدر الدّخل الأكثر موثوقيّة لملايين العائلات في جميع أنحاء العالم، وهي العمود الفقري للاقتصاد العالمي. في غينيا، تُساهم العائلة بشكلٍ هائلٍ في اقتصاد غينيا وشعبها من خلال توفير الدّخل للأسر والعمالة والإيراد الضّريبيّة للدولة. على الرّغم من الجدارة، فإنّ الشّركات العائليّة كانت دائماً تعاني من ضعف كبير، أيّ بقاءها منخفضاً بعد الجيل الأول، أو بعبارة أخرى، عدم الاستمراريّة إلى ما بعد فترة التأسيس. وتُشير التقديرات إلى أنّ أقل من 6٪ من جميع الشّركات العائليّة في جميع أنحاء العالم تعيش فقط حتى الجيل الرابع. في غينيا، توقفت العديد من الشّركات النّاجحة في الممر عن الوجود بعد وفاة مُؤسّسها. بحثت هذه الدّراسة عوامل مثل سمات شاغل الوظيفة، والسمات اللاحقة، والعلاقة العائليّة، وخصائص الشّركة، وضريبة العقارات، وممارسات تعدد الرّوجات في التخطيط لتعاقب الشّركات العائليّة الغينيّة. هذه دراسة كميّة مقطعيّة استخدمت البيانات الأوليّة التي تمّ الحصول عليها من خلال المسح. ما لا يقل عن 383 شركة عائليّة مقرها في كوناكري. استخدمت نظريّة والتّوجيه، ونظريّة تستند إلى الموارد، ونظريّة التّنافس الأعمال العائليّة. تمّ استخدام أنموذج المعادلة الهيكلية (SEM) للتحقق من صحة أنموذج يَصُمُّ العوامل التي تؤثر في تخطيط تعاقب الشّركات العائليّة (FBSP). تظهر نتائج هذه الدّراسة أنّ عوامل مثل صفات صاحب الوظيفة، وسمات الشّركة، وممارسات تعدد الرّوجات والضّريبة العقاريّة ليس ذات تأثير كبير في الخلافة، في حين أنّ سمات الخلف والعلاقة الأسريّة ذات تأثير كبير في تخطيط الخلافة. ووجد أنّ ممارسات تعدد الرّوجات ذات تأثير غير مباشر في تخطيط الخلافة من خلال العلاقة الأسريّة. التّنتائج لها آثار في المجتمع الأكاديمي وعائلات رجال الأعمال في غينيا. سيتعين على الجيل الجديد من رجال الأعمال استثمار المزيد من الوقت، والمال، والجهود في تعليم وتدريب خلفائهم المحتملين والتّأكد من الحفاظ على العلاقة الصحيّة القائمة على التّقة والتّعاون بين أفراد العائلة. يجب أن يكون الجيل الجديد من رجال الأعمال أكثر وعياً بعواقب تعدد الرّوجات والضّرر المحتمل على أعمالهم. هذه الدّراسة لديها بعض القيود. لذلك، يجب أن يتمّ تَعْمِيم هذه التّنتائج بحذر حيث إنّ هناك حاجة لإجراء مزيدٍ من الدّراسات لموضوع الخلافة العائليّة التجاريّة في غينيا.

APPROVAL PAGE

The dissertation of Oury Bailo Diallo has been approved by the following:

Arif Hassan
Supervisor

Suhaimi Mhd Sarif
Co-Supervisor

Moha Asri Abdullah
Internal Examiner

Juhary Hj Ali
External Examiner

Rosli Mahmood
External Examiner

Radwan Jamal Yousef Elatrash
Chairperson

DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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I dedicate this work to: my beloved wife, Aissatou Bah, and my children Ousmane and Amadou Tidiane Diallo and my late twin baby-boys (who pass away few days before the final submission of this thesis) mommy and daddy and your brothers love you and miss you so much (Rest in Peace sons), to my parents, Hadja Mariama Telly Bah and Elhaj Mamadou Bobo Diallo, who have sacrificed so much for my education; my uncles Bappa Elhaj Nabika Diallo (who invested a lot for my education and the education of all the children of bourouwal and we will always be grateful to you and may Allah reward you), Bappa Saidou Bella Diallo, Bappa Sadigou, Bappa Abdoulaye, Bappa Boubacar and Late Kawu Amadadou Soulahah Bah (May Allah accept him in paradise; my brothers, Late Koto Alphadjo, Koto Youssuf, and Koto Billo, who was instrumental to sending me back to school after I dropped out; my late sister, Aissata Diallo (May Allah accept her in paradise); to all my teachers, Mr Sanousy Camara (EP Bourouwal), Mr Sow (EP Yimbaya Tannerie); and lecturers, who have contributed to my education.

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LIST OF ABBREVIATION

AVE	Average Variance Extracted
CEO	Chief Executive Officer
CFA	Confirmatory Factor Analysis
CFA	Confirmatory Factor Analysis
DTI	Department of Trade and Industry
EFA	Exploratory Factor Analysis
EFB	European Family Businesses
ET	Estate Tax
EU	European Union
FA	Factor Analysis
FA	Family Relationship
FA	Firm Attributes
FB	Family Business
FBSP	Family Business Succession Planning
F-PEC	Family-Power, Experience, and Culture
GDP	Gross Domestic Products
GNP	Gross National Products
GOF	Goodness-of-fit
IA	Incumbent Attribute
IMF	International Monetary fund
KMO	Kaiser-Meyer-Olkin
MBA	Master of Business Administration
NR	National Registration des companies
PCM	Principal Components Extraction Method
PG	Polygamy Practices
PME	Petit au Moyenne Enterprises (SMEs in French)
PPP	Purchasing Power Parity
RMSEA	Root Mean Square Error
SA	Successor Attribute
SBS	Small Business Services
SEM	Structural Equation Modeling
SME	Small and Medium Enterprises
SP	Succession Planning
TPB	Theory of Planned Behaviour
UNICEF	United Nations Children's Fund:
VIF	Variance Inflation Factor
WTO	World trade organization

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Family business (FB) represents the oldest and most prevalent type of business organisations worldwide (Colli, 2003). It is defined as:

A business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families. (Chua, Chrisman, & Sharma 1999, p. 25)

Family business consists of all types of businesses ranging from a sole proprietorship to big registered corporations such as Wal-Mart, Samsung, Sony, Ford and many others (IFC, 2008). It is unique in the sense that it has many elements that are different from non-family business, e.g. continuity, purpose, business and family relationship, business value, family culture, decision making, flexibility, and succession. Family businesses are owner-operated and managed by family members, who are predominantly involved in the administration, operations and strategic determination of corporate destiny (Poutziouris et al., 2006). Family businesses differ from other types of firm regarding ownership, business and social philosophies, and their approach to leadership and relationships (Miller & Le Breton-miller, 2005). Family businesses are more complex to run than non-family businesses, and decision making is influenced by considering the interests of the business, family and the owners, and impacts on strategic direction and decision making (Gersick et al., 1997). Family businesses are an engine of post-industrial growth and are credited for nurturing generations of entrepreneurial talents, sense of loyalty to business success,

long-term strategic commitment and corporate independence (Poutziouris, 2001). In most countries, family businesses represent between 70% and 95% of all business entities.

Family businesses play a major role in the economy by employing a majority of the workforce, creating new jobs and generating a significant proportion of the gross domestic product (Astrachan & Shanker, 1996). According to statistical data provided by Small Business Services (SBS), the SMEs account for 50% of employment in the United Kingdom, and greater than 70% in Wales and Northern Ireland (SBS, 2003).

According to European Family Businesses (EFB, 2012), family businesses in most countries provide between 50% to 80% of all private sector jobs. Family firms' contribution to the national economy is evident as they offer higher employment rates and profitability than non-family companies. Also, family firms in Finland transact sustainable and employment friendly business (Tourunen, 2009).

There are over 10.8 million family businesses in the United States, which account for 59% of the GDP, contributing US\$5.5 trillion to the economy, and 58% of the workforce, employing some 77 million workers (Poutziouris, Smyrniotis, & Klein, 2006).

According to the European Family Business (2012), family businesses contribute between 60% and 90% of the non-governmental GDP around the world. They are a major contributor to the world's gross national product (GNP) estimated to be between 40% and 60% (Trevinyo-Rodriguez & Bontis, 2010). The most important economic benefit for small- and medium-scale businesses is employment creation. This is a high priority in economic policies of most African countries (Apthorpe, 1970; World Bank, 1978; Osaze, 1984). The high rate of population growth increases

the labour forces with corresponding increases in the creation of jobs. The civil service and the large multinational companies can only absorb a limited fraction of the workforce. Therefore, family businesses with simple technology and locally available raw materials, low capital requirement and more labour-intensive tend to absorb the bigger portion of the workforce in these countries. They (family businesses) can create more jobs per unit capital invested than large businesses (Maphosa, 1999).

The prevalence of FB is estimated to be over two-thirds which is about 66% of all businesses worldwide (Gersick, 1997). It is the most common form of business organization in the world and family-owned or-controlled businesses account for over 80% of all firms in the U.S., 12% of GDP, and 15% of the workforce, according to conservative estimates by Shanker and Astrachan (1996). While many family businesses are small, they also make up about 35% of companies listed in the Standard & Poor 500 or Fortune 500 Indexes (Anderson & Reeb, 2003).

Family businesses are not only limited to small start-up or medium-size companies; different studies on the prevalence of family in public corporations in the United States also found that good portions of big corporations to be family owned. Burch (1972) found that over 47% of the 1965 Fortune 500 companies were family businesses and McConaughy (1994) found that 21% of the *Business Week* 1000 list qualified to be labelled family businesses, while Jetha (1993) found that 37% of the 1992 Fortune 500 businesses qualified as family businesses. Despite using different methods in their studies, the findings suggest that one-third to one-half of the largest public companies in the US are family businesses. Some of the key family businesses include Wal-Mart, Mars Limited, and Saarland (Flintoff, 2002).

Family ownership represents nearly one-third of the S & P 500 and holds nearly 18% of the firm's equity (Anderson & Reeb, 2003). However, it is much higher

in Canada, with 80% of the companies listed on the Toronto Stock Exchange closely held in family trusts (Leighton & Thain, 1997). Even in Malaysia, family businesses account for over 43% of the companies listed on the Main Board of Bursa Malaysia (Abdul Rahman, 2006). Many listed companies in Malaysia are owned and controlled by families and these companies appear to be inherited by their descendants or second generation. Cespedes and Galford (2001) argued that family businesses make up 40% of the Fortune 500 companies in the United States of America, generate about two-thirds of the German Gross Domestic Product (GDP), and employ about one-half of the labour force in Britain. The situation in developing countries is no different. In India, 70% of sales and net profits of 250 largest private companies in the country are derived from family enterprises (Pramodita Sharma & Rao, 2000). The contribution of family enterprises to the GDP of Asian nations is large, with 48.2% in South Korea, 67.2% in Malaysia, and 61.6% in Taiwan (Claessens et al., 2000). A study on the separation of ownership and control in nine East-Asian countries found that Malaysia has the third highest concentration of family business behind Thailand and Indonesia. Regarding family control, Malaysian businesses increased from 57.7% to 67.2% over short periods (Moha Asri Abdullah et al., 2011). The Department of Trade and Industry (DTI, 2003) reported that about 99% of the UK businesses are small- and medium-sized, and the vast majority are family operated, managed and/or controlled. The European Family Business (EFB, 2012) reported that family businesses account for between 70% and 90% of all business entities in most countries around the world. For example, in Europe, it represents 90% of all businesses, and up to 85% of all start-ups are invested with family money. In Finland, 46% of middle-sized and 30% of all large-sized companies were family companies in 2005 and their total contribution to annual sales stood at 57% of all sales.

1.2 THE REPUBLIC OF GUINEA

This subsection presents a contextual picture of the Republic of Guinea regarding its geographical location, economic outlook, demographic, and social-cultural perspectives. This enables us to gain an insight into the dynamics of the nature of FB and their practices.

1.2.1 Geographical Location

The Republic of Guinea is situated on the western coast of Africa; it is bordered by Guinea-Bissau, Senegal, Mali, Ivory Coast, Liberia and Sierra Leone. It has a superficies of 246,857 square kilometres and rank 79th in the world (CIA, 2014) with a population of 11.75 million. It gained independence from France in 1958, and French is the official Language (refer to Appendix 1).

1.2.2 Economic Profile

Guinea is one of the richest countries in the world with regards to mineral resources; it is the world's second exporter of bauxite, and top exporter of iron ore, diamonds, gold and uranium; and has a huge reserve of petrol in the Gulf of Guinea. According to the World Bank (2014), GDP of Guinea stood at USD 6.19 billion in January 2014.



Figure 1.1 The Gross Domestic Products of Guinea Over 10 Years

The per capita income of Guinea stood at 1,215.26 USD (2013) when adjusted for purchasing power parity (PPP). Guinea transitioned to a market economy in 1984 after 26 years under extreme communism under the regime of Ahmed Sekou Toure, which banned any private ownership and the free market. After his death in 1983, the military led by General Alhassane Conte seized power by coup-d'état and ruled the country for 24 years. After the death of President Conte in 2008, the army took over and organised a highly-contested election in 2010, which saw Alpha Conde elected as the new president of Guinea.

1.2.3 Demographic Profile

Guinea has a population of 11.75 million, and it is growing at a rate of 2.63% per year with a young population consisting of 61.5% below the age of 25 (CIA Fact Book, 2014). The population is divided into four main ethnic groups: the Fulani (40% of the population), Mandingo (30%), the Sousou (20%) and the people of the Forrest region

(10%). The main religion is Islam, with over 85% of the population being Muslims, 8% Christian and 7% of indigenous belief. The average gender ratio in the country is one male to one female; however, this can vary according to the age group (CIA, 2014).

1.2.4 Sociocultural Practices

The Guinean cultural practices and traditional values are unique to each ethnic group; each has a set of beliefs and cultural practices that are different from other groups. These cultural practices can manifest in the following ways:

1.2.4.1 Family Size

The first of these social issues is the practice of having a big family; the typical Guinean family can comprise between 9 and 15 members, including relatives (The World Economic Fact book, 2014). The husband has a huge responsibility; besides providing for his wife or wives and children, he also has to provide for his brothers, sisters, cousins and their children. It is also a normal practice to support the in-laws such as brother- and sister-in-laws, and their children. In the rural areas where farming is the only source of income, having a bigger family is a blessing as it is a means having a huge number of workers to boost production. However, it is the opposite in urban areas where having a large family can be a burden as there are few employment opportunities and family members tend to rely solely on the father's support.

The Guinean tradition dictates that the rich should show generosity to their relatives and support them without preconditions. It is a taboo to deny shelter and food to a relative, who decides to live under his relative's care. Regardless of how distant the relationship is, one has the right to enjoy the wealth of his relative, and turning his