



Assessing the Effect of Succession Planning on SMEs Performance in Gombe State

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ABSTRACT

Organizational success is critical in today's dynamic corporate climate; this requires consistent and extraordinary innovative workers. As a result, succession planning is required to avoid the power vacuum that arises when an existing leader leaves the company. It is based on this background that; this study investigated the effect of succession planning on organizational performance of selected small and medium enterprise in Gombe State. The main objective of this study was to examine the effect succession planning on the performance of SMEs in Gombe State, while its specific objectives were to examine the effect of talent management on the performance of SMEs in Gombe; to investigate the effect of skills gaps analysis on the performance of SMEs in Gombe State and to identify the effect of succession planning processes on the performance of SMEs in Gombe State. The study employed survey research design and data was collected through the use of five-points Likert-scale questionnaire. The study population was 737 registered SMEs in Gombe State and the study used Taro Yamane (1967) sample size determination formula to arrive at 259 sample size for the study. Data obtained was analysed using structural equation modelling analysis via Smart-PLS version 4.1.0. Findings from the study revealed that talent management and succession planning processes have positive and significant effect on SMEs performance in Gombe State while skills and competencies gaps analysis has no significant effect on SMEs performance. The study concludes that, succession planning has positive and significant effect on SMEs performance in Gombe State and therefore recommends that SMEs operators, owners and other stakeholders should patronize succession planning in order to improve and sustain the performance of their SMEs.

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INTRODUCTION

Small and Medium Enterprises (SMEs) are acknowledged globally as the major players in both economic growth and the fight against poverty. In Akpan (2018) and Effiom et al. (2020) opinions, small and medium enterprises is the building blocks of national development and they foster entrepreneurship and innovation while producing revenue and jobs. As such, it is critical that they survive and perform well. In Nigeria, many businesses struggle to perform the same or

better beyond their first generation when their management teams change or retire (Gabriel, et al., 2020). Therefore, the importance of succession planning in an organization cannot be overstated. According to Cavanaugh (2017), firms that fails to engage in succession planning encounters many challenges that can significantly impact their long-term stability and success. Without a structured approach for identifying and developing future leaders, these organizations encounter leadership vacancies when their

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leaders retire, resign, or unexpectedly leave their positions. Without identified successors or a plan in place, the organization may struggle to fill these crucial roles promptly, resulting in uncertainty and disruption.

In developed countries such as Canada, there is a high level of awareness about the importance of succession planning among organizations. Business leaders and executives recognize that effective succession planning is crucial for ensuring the long-term sustainability and success of their organizations (Earls & Hall, 2018). The potential risks associated with leadership vacancies and the need for smooth leadership transitions are well understood. In developing countries like Africa, organizations are increasingly recognizing the importance of talent development and professionalization in succession planning. Efforts are being made to identify and develop high-potential employees through training, mentoring, and leadership development programs.

A change in organization leadership has the potential to generate organizational instability; thus, it is a problem that all companies must learn to deal with. To avoid challenges connected with leadership transitions, companies must ensure that succession planning is not confused with replacement planning. Replacement planning is a short-term focus on training and replacing essential personnel, whereas succession planning is a longer-term and more complete strategy to training and replacing critical staff (Kigo & Gachunga, 2018). This deepens the definition of the term to include any effort made by an organization to preserve and increase its cognitive and professional resources for the future, as well as to encourage growth in its employees. Succession planning is an important process for organizations to maintain consistency, durability, and long-term viability by properly handling leadership transitions (Kigo & Gachunga, 2018). Succession planning is an anticipatory approach that encompasses the strategic thinking and preparation required for organizational performance by ensuring leadership continuity in key roles and developing cognitive and expertise resources for the years to come.

Succession planning assists in methodically identifying and nurturing internal talent to fill important leadership positions, as well as mitigating the risks associated with unexpected departures of key workers due to retirement, sickness, or other unforeseen events (Buckman, et al., 2019). Succession planning is an organization's deliberate and methodical attempt to assure leadership continuity in key roles, retain and grow mental and specialist capacity for future generations, and foster growth in oneself (Rothwell & Arnold 2007). In Schuler et al. (2008) opinion, succession planning is a process that ensures the availability of experienced and capable employees who are prepared to assume key roles as they become available. These examples highlight the proactive means of discovering and cultivating talented employees to suit the goals of the organization, hence lowering the dangers related to leadership vacancies.

There are many studies on the impacts of succession planning and organizational performance and some of these studies (such as: Hitt, et al., 2018; Sandada & Mangwandi, 2015; Al-Harbi, & Mohammed, 2017; Chandler & McEvoy, 2015; Alradhi, et al., 2020; Gabriel, et al., (2020; Buckman, et al., 2019; Theus 2019) reported that succession plan brought about greater performance and long-term profitability. However, some other studies reported contrary opinion; for instance, Mbele (2020) found that succession planning has little or no impact on employees' morale in the KwaZulu-Natal (KZN), South African Police Services (SAPS). Similarly, study by Theus (2019) reported that only 35 percent of the 1,318 chief executive officers surveyed had a succession strategy. This is despite the emphasized impact of succession planning on organizational performances.

Apart from the succession planning, the process of evaluating and choosing a successor is another critical task that organization must handle with every sense of responsibility. In Kazim et al. (2021) opinion, an important aspect of succession planning is evaluating, choosing, and nurturing the best person for the leadership role. If these procedures are omitted, the likelihood of a successful leadership transfer decreases.

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Selecting an unprepared or unfit successor for replacement may have undesirable implications on organization (Oderinde, et al., 2023).

Although many studies have been conducted on this topic, but most of the studies focused on bigger organizations and most of these organizations are outside the scope of this study. It is on the background that this study emerged. The general objective of this study was to investigate the effect of succession planning on the performance of selected small and medium enterprises in Gombe State, while its specific objectives were to: examine the effect talent management on the performance of SMEs in Gombe State; examine the effect of skills gaps analysis on the performance of SMEs in Gombe State; and to investigate the effect of succession planning processes on the performance of SMEs in Gombe State. In relation to the above objectives, the following hypotheses were formulated to achieve the set objectives.

Hypotheses of the study

- Ho1: Talent management has significant effect on the performance of SMEs in Gombe State
Ho2: Skills and Competencies gaps analysis has significant effect on the performance of SMEs in Gombe State
Ho3: Succession planning has significant effect on performance of SMEs in Gombe State

LITERATURE REVIEW

This study is guided by four theories namely, dynamic capacity theory, institutional theory, agency theory and stewardship theory.

Theoretical Review

The dynamic capabilities theory, as introduced by Teece et al. (1997), emphasizes an organization's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. In the context of succession planning, this theory highlights the necessity for organizations to develop and nurture leadership talent continuously in order to remain competitive and adaptable. The institutional theory proposed by DiMaggio and Powell (1983) suggests that

organizations conform to institutional norms and practices to gain legitimacy and support from external stakeholders. This theory is relevant to succession planning because organizations usually adopt best practices recognized within their industry or geographic context to enhance their credibility and operational stability. Agency Theory, introduced by Jensen and Meckling (1976), addresses the relationship between principals (e.g., shareholders) and agents (e.g., executives), focusing on the conflicts that arise when the interests of principals and agents diverge.

However, the stewardship theory proposed by Davis et al. (1997) contrasts with agency theory by emphasizing intrinsic motivation and the alignment of interests between leaders and their organizations. Under this theory, managers and leaders are viewed as stewards whose behaviors are aligned with the objectives of their principals (e.g., shareholders, boards). In conclusion, the theoretical framework explored in this study provides a comprehensive lens through which succession planning can be understood within organizational contexts. By integrating dynamic capabilities theory, institutional theory, stewardship theory, and agency theory, this framework explains the complex dynamics of leadership development, organizational behavior, and strategic management. These theories collectively underscore the importance of aligning succession planning practices with organizational goals, adapting to institutional norms, fostering stewardship behaviors, and mitigating agency conflicts. This holistic approach enhances understanding of how succession planning contributes to organizational resilience, sustainability, and long-term performance.

Conceptual Framework

The framework consists of independent and dependent variables. Independent variables include talent management, skills gaps analysis and succession planning processes, while the dependent variable focuses on the performance of small and medium enterprises in Gombe State using profitability, product quality, and customer satisfaction variable measurements.

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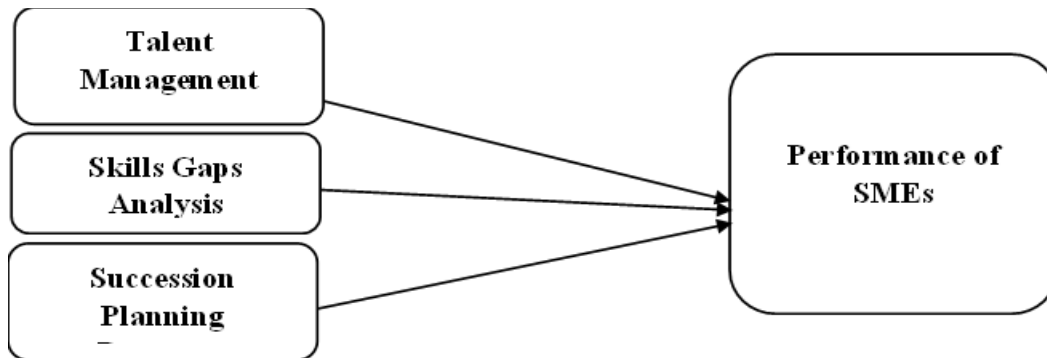


Figure 1: *Conceptual Framework*

Conceptual Review

Concept of Succession Planning

Succession planning is an essential component of organizational strategy, facilitating the smooth transition of leadership and important functions within an organization. Succession planning is defined as an organization's deliberate and methodical attempt to assure leadership continuity in key roles, retain and build intellectual and knowledge capital for the future, and promote individual growth (Rothwell, 2010). In the words of Seniwoliba (2015), succession planning is the process of identifying one or more successors for important roles (or groups of comparable key posts) and planning career moves and/or development activities for those successors.

The primary goal of succession planning is to ensure that suitable managers are available to fill gaps caused by promotion, retirement, death, or departure, as well as to ensure that a cadre of managers is ready to fill future appointments (Ali, Mehmood, Ejaz, & Ashraf, 2014). Gandhi and Kumar (2014) highlighted succession planning as an important strategic strategy to maintain the continuity of essential staff knowledge and competencies, particularly when key people depart the firm. For a successful succession planning to exist, Gandhi and Kumar (2014) opine that a firm must be willing to develop leadership programs that go beyond just staff development activities and interventions. This was also supported by Ali et al. (2014) who asserted that organization must identify professional

knowledge and expertise amongst their employees, empower and motivate the employees to follow developmental paths, and also encourage training and retraining within and outside the business premises. Succession planning can be described as any effort designed to ensure persistence effective performance of an organization through the development, replacement and strategic application of its key personnel over time (Drotter, & Charan, 2011; Mohammad, & Pirzad, 2016; Pandey, & Sharma, 2014; Bernthal, & Wellins, 2013).

Talent Management

Talent management is defined as a systematic approach to attracting, screening, and selecting the right talent, as well as engaging, developing, deploying, leading, and retaining high-potential and performing employees in order to ensure continuous talent feeding within the organization and increase workforce productivity (Thunnissen & Buttiens 2017). The purpose of talent management is to build a high-performance, long-term company that achieves its strategic and operational objectives (Campbell & Smith, 2014). The five primary objectives of talent management are to attract, select, engage, develop, and retain personnel. The demand for human capital will continue to drive talent management as organizations seek a competitive advantage (Oladapo, 2014). Latest developments in Human Resource Management are constantly influencing workforce performance and organizational productivity (Goswami, 2016). Organizational performance is an organization's capacity to

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achieve its objectives by utilizing resources efficiently and effectively.

It is also an organization's ability to meet its goals and objectives (Rop, 2015). Talent management must be viewed as critical to attaining the organization's goals and objectives if appropriately managed in a holistic manner (Milky, 2013). Organizations cannot compete without highly qualified personnel, and without ongoing investment in human capital, having the right people in the right places at the right time is impossible. Furthermore, the success of any firm is heavily reliant on having talented workers. Talent management improves staff efficiency and productivity in workplaces (Goswami 2016). According to Optimis (2011), the talent management and organization performance model identifies various talent management components and links them to workforce performance, which eventually leads to organization performance. This talent management components according to Optimis (2011) include, plan and attract, engage, build, retain and reward.

Skills and Competencies Gap Analysis

Skill gaps can be described as a situation when workers' skill levels are insufficient to match the demands of their present job position. This study noticed a limited study in this area and it surprising given that skill gaps is one of the major reason for employees' training expenditure decisions in organization. Skill gaps have the potential to affect firm-level productivity since average worker productivity is likely to be lower in the face of significant skill gaps. Additionally, skill gaps tend to inflate average labor costs because organizations require more workers per unit of output (McGuinness & Ortiz 2016).

Performance and Measurement

Crandall and Crandall (2015), defines performance as the record of outcomes produced on a specified job function or activity during a specified period of time. Therefore, performance is measured in terms of output and outcome, profit, internal processes and procedures, organizational structures, employee attitudes, and

organizational responsiveness to the environment among others. According to Richard (2009) organizational performance should be related to factors such as profitability, improved service delivery, customer satisfaction, market share growth, and improved productivity and sales. Organizational performance is therefore affected by a multiplicity of individuals, group, task, technological, structural, managerial and environmental factors. Individual incompatibilities between the employees and in their groups can adversely affect their work output resulting in decreased performance (Rummler & Brache 2013).

Empirical Review

Talent Management and SMEs Performance

Oderinde et al. (2023)'s study on succession planning and organizational performance among Lagos State painting firms found that human resource planning significantly impacts performance. Career development and selection procedures also had a significant impact. The study suggests that succession planning can enhance the painting industry's performance by focusing on talent management through proper human resource planning. Similarly, Kitayi's (2017) study examined the impact of succession planning on the performance of family-owned horticulture businesses, specifically Mara Farming Ltd. The research, which included senior management, middle-level management, and supervisors, found that training and development significantly impact organizational performance, leading to increased morale and reduced production costs by eliminating risks.

Ruth and Onuoha's (2023) study examined the relationship between succession planning and organizational performance in transport companies in River's state. The cross-sectional survey, involving 160 employees from 8 companies, found a significant association between talent management and performance measures. The study recommends that transport companies implement policies for competence building, leadership development, and talent



recruitment and retention to enhance their performance.

Sholesi et al. (2022) and Beryl et al. (2020) conducted studies on succession planning and organizational performance. Sholesi's study found that mentoring, employee development, and talent retention significantly improved organizational performance. Beryl's study found that succession planning significantly impacted business performance in private universities in Ogun State, Nigeria. The transition process had a substantial effect on business continuity, and performance metrics positively correlated with corporate image. Succession training and development significantly affected customer satisfaction, indicating that succession planning is an effective strategy for ensuring business performance.

Zhang et al. (2023) conducted a systematic literature review on the impact of succession planning on firm performance. The study found a positive correlation between effective succession planning and firm performance, with dimensions such as successor identification, robust talent management, employee development, and retention being essential. This leads to improved organizational commitment, innovation promotion, and strategic alignment. Chirchir and Koros (2021)' study on succession planning in county governments found that training, benchmarking, mentorship programs, selection planning, and human resource planning significantly impacted staff performance. The study also found that the county had policies reducing retrenchment, practiced performance appraisals, promoted performing employees, and had an independent Public Service Board, indicating the existence of an abstract succession plan. The findings suggest that these strategies can improve staff performance.

Akinyele et al.'s (2015) study examined the impact of succession planning on organizational survival at Covenant University. Using a survey and cross-sectional research design, the study found significant positive impacts of talent management, career

development, mentoring, and organizational survival on the institution.

Skills and Competencies Gap Analysis and Organizational Performance

Mwithi (2016) investigated the impact of leadership competencies on the performance of state enterprises in Kenya. Mwithi found that all leadership abilities predicted a favorable and substantial association with the financial performance of Kenyan state businesses. The distinction, however, was in the extent of the influence on key leadership characteristics. Employees with these competencies contribute to improved job performance. Competencies are the foundation for peak performance and engagement at work. Identifying and strengthening unique talents can help employees enhance their job performance over time. Similarly, Misra and Srivastava (2018) investigated team-building, job happiness, and personal effectiveness competencies: the mediating role of transformational leadership and technology. The findings revealed a favorable link between the outcome factors and team-building competencies. This demonstrates that team abilities are key in determining employee effectiveness and satisfaction.

Seemiller (2018) researched on enhancing leadership competencies for career readiness. His research discovered that implementing a basic set of leadership characteristics equally throughout an organization benefits everyone because it uses a universal language that can be easily understood. Rofiaty (2017) also conducted research on the influence of leadership competencies, organizational culture, and employee motivation. The results showed that there is no significant direct influence between leadership competencies and organizational performance, but there is an influence of leadership competencies and organizational culture on employee motivation, and also there is a significant influence of motivation on employee performance.

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Succession Planning Processes and Organizational Performance

Zafar and Khawaja-Hummayun's (2020) study analyzed the impact of succession planning on organizational growth and the association of gender variation. A survey of 300 workers revealed that effective succession plans increase employee numbers and retain key personnel, while gender variation has no significant impact on organizational growth. Froelich et al. (2009) examined succession planning in nonprofit organizations. They found that non-profit organizations are doing little about succession planning, yet they consider it important. Naldi (2007) investigated family business succession and firm performance, where they employed both financial and non-financial measures. They found out that succession planning has positive effects on the firm performance of family-owned firms.

METHODOLOGY

The study adopted a survey research design, and the population of the study was 737 registered small and medium enterprises in Gombe State. The study used Taro Yamane's (1967) sample size determination formula to arrive at 259 sample sizes. The study employed five points Likert-scale questionnaire adapted from Ahmed (2021) and Amos-Fibi et al. (2023), and the study's unit of analysis were owners-

managers of the selected SMEs in Gombe State, northeast Nigeria.

The questionnaire was subjected to both professional and academic scrutiny (content and facial validity), and all identified lapses were dully corrected before the data collection. The questionnaires were physically administered to 259 respondents, out of which 247 were retrieved; 6 were not correctly filled, and 12 were deleted due to outliers. A total of 229 questionnaires were used for the analysis. Data gathered was keyed-in into SPSS version 23.0 for screening and reliability testing, after which the data was analyzed using structural equation modelling analysis via Smart-PLS version 4.1.0.

RESULTS

Evaluation of measurement model

The study's variables were found to be reliable and acceptable, with Cronbach's alpha, composite reliability, and AVE values within the thresholds. The AVE values for SMEs performance, talent management (TM), skills and competencies gaps analysis (SCGA), and succession planning processes were 0.612, 0.605, 0.501, and 0.632 respectively. The study found Cronbach's alpha values of 0.909, 0.892, 0.841, and 0.904 for SMEP, TM, SCGA, and SPP, while the composite reliability values of 0.925, 0.915, 0.851, and 0.923 were found. Figure 2 shows the measurement model of the study.

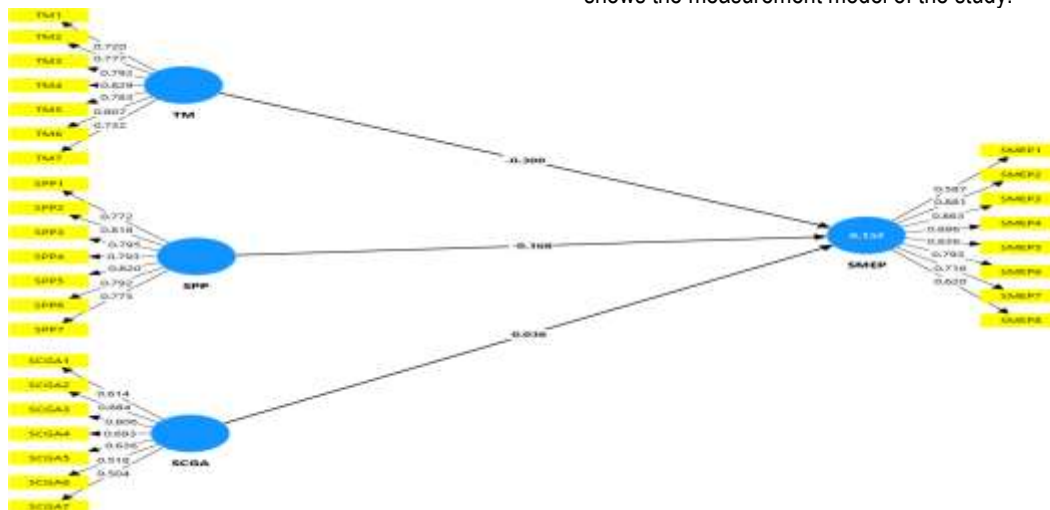


Figure 2: Measurement Model of the Study.,

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Furthermore, the study presents the discriminant validity of the constructs using the Heterotrait-Monotrait (HTMT) ratio criterion. Henseler et al. (2015) opine that Heterotrait-

Monotrait ratio criterion is superior ratio to the Fornell-Lacker and cross-loading criterion due to its higher specificity and sensitivity rate. Table 1 present the HTMT ratio criterion.

Table 1: HTMT Ratio Criterion Results

Construct	SCGA	SMEP	SPP	TM
SCGA				
SMEP	0.173			
SPP	0.315	0.244		
TM	0.312	0.345	0.262	

Source: Field Survey, (2024).

Table 1 presents the Heterotrait-Monotrait (HTMT) ratio for the constructs. it compares the values to a predefined threshold. A value close to 1 indicates a lack of discriminant validity; hence Kline ((2011) suggest a threshold 0.90. in this regard, the highest value of 0.345 is below the HTMT ratio of 0.90 which indicated that

there is no multi-collinearity among the variables in this model.

Evaluation of Structural Model

Upon the successful evaluation of the measurement model, the study considered the structural model of the study. Here, the variance inflated factor (VIF), R² value, and effect size (F²) value were considered as presented in Table 2.

Table 2: Effects Size of the Exogenous Variables and R Square (R²)

Construct	F-Square	Effect Size	R ²
TM	0.001	Small	0.152
SCGA	0.029	Small	
SPP	0.097	Small	

Source: PLS-SEM V4.0 effect size, (2024)

Table 2 indicated that talent management (TM) has 0.001 effect size on SMEs performance, skills and competencies gaps analysis (SCGA) has 0.029 effect size, and succession planning processes (SPP) has 0.097 effect size on SMEs performance in Gombe state. The three (3) exogenous variables has small effects size on the endogenous variable (SMEs Performance). The R² is another essential tool for the assessment of structural model (hair et al., 2014; Hair et al., 2011, 2012; Henseler et al., 2009). The R² value stands at 0.152, indicating that TM,

SCGA, and SPP accounted for 15.2% of the variation in SMEs performance in Gombe State, while other factors not investigated in this study accounted for the remaining 84.8%.

Coefficients Relationship (Hypotheses Testing)

The relationships between the study's independent variable and the dependent variable is presented in table 3 while the diagrammatic representation of the relationship is presented in figure 3.

Table 3: Coefficients Relationships

Hypotheses	Sample(M)	STDEV	T. Statistics	P-Value	Decision
TM->SMEP	0.300	0.141	2.126	0.034	Accepted
SCGA->SMEP	0.036	0.188	0.193	0.847	Rejected
SPP->PERFM	0.168	0.072	2.325	0.020	Accepted

Source: Field Survey, (2024).

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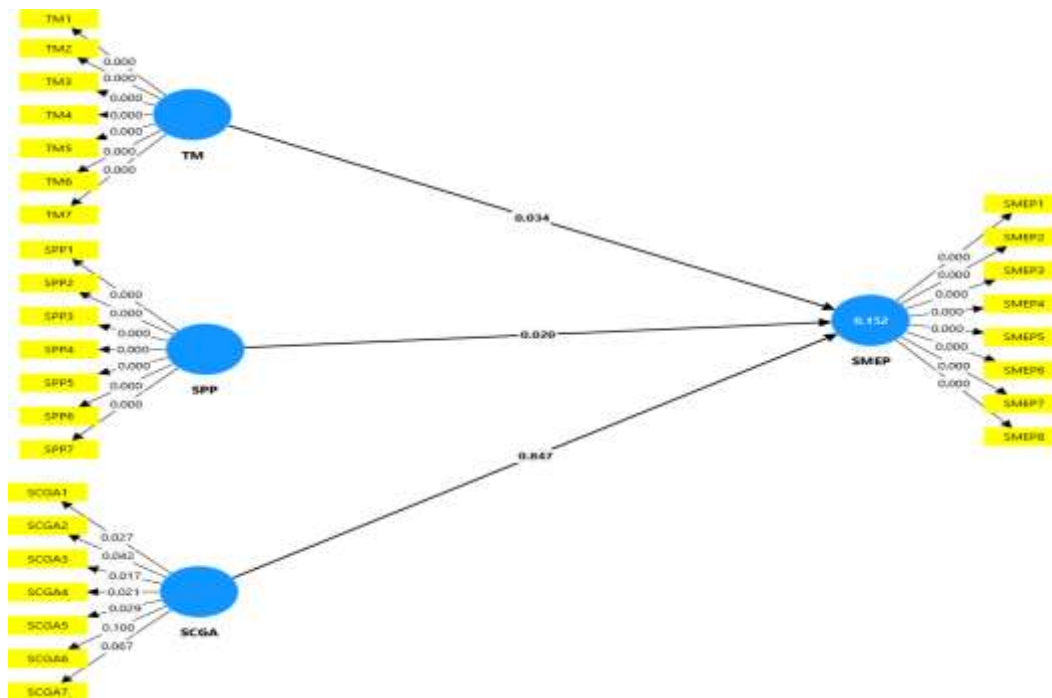


Figure 3: Bootstrapping Model
 Source: Field Survey, (2024).

Table 3 and figure 3 show how significant the independent variables are with the dependent variable. Specifically, the effect of talent management (TM) on SMEs performance in Gombe state was positive and statistically significant at β -value of 0.300 and p-value of 0.034. However, the effect of skills and competence (SCGA) on SMEs performance in Gombe state was not statistically significant at β -value of 0.036 and p-value 0.847. The study findings also revealed that succession planning processes (SPP) has a positive and significant effect on SMEs performance at a β -value of 0.168 and p-value of 0.020.

DISCUSSION OF FININGS

This study was on the effect of succession planning on organizational performance with the objective to investigate the effect of talent management on organizational performance of selected SMEs in Gombe state; examine the effect of skills and competencies gaps analysis on organizational performance of

selected SMEs in Gombe state and to identify the effect of succession planning processes on organizational performance of selected SMEs in Gombe state. Subsequently, three hypotheses were formulated in this study and they were all in alternative forms. Hypotheses one (H₁) projected that talent management has significant effect on SMEs performance in Gombe state, Nigeria and the results of this study also shows that TM has significant effect on SMEs performance at p-value less than 0.05%. ($p < 0.05$). This mean every 1 percent variation in talent management will account for about .222 (22.2%) in SMEs performance. This finding aligned with that of Oderinde et al. (2023), Ruth and Onuoha's (2023), Sholesi et al. (2022), Beryl et al. (2020) and Zhang et al. (2023) who reported that talent management have significant effect on organizational performance.

The second hypothesis (H₂) projected that skills and competencies gaps analysis has significant effect on SMEs performance in Gombe state. However, the study's finding indicated that skills and competencies has no significant effect

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on organizational performance of selected SMEs in Gombe state. This was insignificant at t-value of 0.193 and p-value of .847 ($t=0.193$; $p>.0.05$; .847). The finding of this study contradicted the findings from Mwithi (2016), Misra and Srivastava (2018) and Seemiller (2018) who reported that leadership ability, competencies and skills significantly affect organizational performance. However, the finding aligned with the report of Rofiaty (2017) which indicated that there is no significant direct influence between leadership competencies and organizational performance. Additionally, hypothesis three (H_3) projected that succession

planning processes and SMEs performance are significantly related. This was also supported by this study's finding and it aligned with the findings of Zafar and Khawaja-Hummayun's (2020), Froelich et al. (2009) and Naldi (2007) who found that succession planning processes have significant effect on organizational performance.

Predictive Relevance of Exogenous Variables

This study used the RMSE Q^2 to assess the predictive relevance of the exogenous variables. The result is presented in Table 5.

Table 5: Predictive Relevance

Construct	Q^2 predict	RMSE	MAE
MSMEs Performance	0.030	1.007	0.702

Source: PLS-SEM V4.0 Prediction Summary (2024)

Table 5 shows the study's predictive relevance, Q^2 , root mean square error, and mean absolute error. A Q^2 value of 0.030 indicates good predictive relevance, while a RMSE of 1.007 indicates better prediction accuracy with a MAE score of 0.702.

CONCLUSION AND RECOMMENDATIONS

The study investigated the effect of succession planning on organizational performance of selected SMEs in Gombe State. Based on the findings, the study concludes that succession planning has significant effect on SMEs performance in Gombe state. The study therefore recommends that SMEs owners-managers and other stakeholders should focus on succession planning and take note of talent management, skills and competencies gaps analysis, and succession planning processes. Because their contributions to organization performance cannot be overestimated as evidenced by this study finding where the three components were statistically significant to organizational performance.

Limitation and Suggestion for Future Study

The study took a quantitative research approach without considering a qualitative research methodology. Similarly, questionnaires

were distributed to only SMEs in Gombe State, ignoring SMEs in neighboring states like Yobe, Adamawa, Bauchi, and Taraba. Furthermore, performance criteria such as return on investment, return on assets, and return on equity, which could provide more useful information, were disregarded. The study indicates that future research should use a qualitative research approach to conduct analogous studies in other parts of northeast Nigeria, and as well us financial performance factors like return on assets, return on investment, and return on equity, to analyze the performance of SMEs.

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