SUCCESSOR ENGAGEMENT AND SUSTAINABILITY OF FAMILY OWNED SMALL ENTERPRISES IN KENYA

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ABSTRACT

Family owned enterprises play a key role in economic development through employment creation and availing of products and services to the end users. However, despite the merit that surrounds the family owned businesses, their performance has been at the threat of decline with many of them ending up closing their doors as a result of increased mismanagement as well as succession chaos. These challenges, combined with the normal business environment challenges pose a big threat to the firms’ sustainability. On the other hand, successor engagement as a human resource practice has been argued to be the central enabler of firm performance and sustainability. Through well-tailored successor engagement tactics, the continuity of the firm is enhanced. However, there has been little research on the relationship between human resource management practices and sustainability of family owned businesses hence the subject of the study. The study therefore sought to establish the influence of successor engagement on the sustainability of family owned small enterprises in Kenya. The study was informed by the two-factor theory of human resources. The study adopted descriptive research design which involves both qualitative and quantitative research methodologies. The design was considered appropriate based on its ability to give more generalized results and enhance the practicability of the variables. The study targeted family owned small business enterprises in Nairobi County which are approximately 16285. Nairobi was chosen since over 90% of the FBEs are located in the area and therefore can act as a representative of Kenya. Stratified random sampling was applied to come up with a study sample of 375 respondents who were obtained from the FBEs in Nairobi County and grouped in manufacturing, trading and service sectors. Questionnaires were used to collect data from the respondents. The data was afterwards analysed using SPSS software and presented in form of tables, figures and graphs. The study established that successor engagement significantly and positively enhances the sustainability of family owned enterprises. The study concluded that delegating duties and putting the next runners of the enterprises on toes, play to a key role in enhancing performance and sustainability of human resources. The study recommended that the family owned enterprises through the management should ensure the successors are well engaged for them to effectively run the enterprises after the exit of the initiators.

Key Words: Successor engagement, Family owned enterprises and Firm sustainability

1.0 INTRODUCTION
1.1 Background of the Study

Successor engagement is among the main practices in human resource management that play a significant role in promoting firm performance and growth. Charan, Drotter and Noel (2011) define successor engagement as the process of breeding and couching specific employees or persons within the or outside the organization as a way of making them become better leaders who are viable to take the leadership and management of the organization in future. Human resource management practices process is most effective when it is done in a systematic effort that is deliberately planned and is driven by a written, organization-wide statement of purpose and a policy (Tettey, 2016). There are several views that endorse the value of Human resource management practices in today’s modern organization. Senior leaders are keenly aware that the continued sustainability of the organization depends on having the right people in the right places at the right time (Waleed, 2011). The impact on organizational continuity would be devastating if a successor was suddenly required and none had been identified.

Successor engagement is among the major human resource management practices that have high impact on the sustainability of firms especially the small businesses (Rothwell, 2000). Many top corporate companies have comprehended their performance and continued growth through engagement of successors early enough through which they pass the strategies to the successors who take heed of the companies’ sustainability in future. The future of every organization is laid upon its ability to have a good leader who has been groomed from the beginning on how things are done out of which the leader operates similar or higher than his predecessors (Wells & Thelen, 2009; Shuck, Rocco & Albornoz, 2011; and Lynn, 2011).
Family businesses have been on the high notch as the best contributors of economic growth across the globe forming more than 60% of the SMEs sector. Their existence and continued performance has been argued to be a great step towards economic growth and development. Hassan, Mehmet and Demet (2011) contend that family businesses can be the best performing when the right procedures are followed in their management and they are detached from the owners’ interests.

Among the major sectors that emerge to be the leading in the contribution to GDP of most countries in Sub-Saharan Africa opt to be family owned businesses (Shivaraj & Vijayakumara, 2015). In Kenya, family owned businesses constitute up to 60% of the businesses, and accounts for over 50% of all people employed in the country every year (Kimunge & Were, 2014; and Nduati, 2016). Family businesses in Kenya range from small and medium-sized companies to large conglomerates that operate in multiple industries and countries.

1.2 Problem Statement

Sustainability of family owned businesses has been a subject of discussion in many countries with most of the enterprises falling day in day out despite their tremendous contribution in the economic development. In the developing countries Kenya included, many family owned entities are struggling to prolong their existence in the market with competitions, globalization, technological changes and lack of better succession measures by the present management. In Kenya, family owned businesses constitute up to 60% of the businesses, and accounts for over 50% of all people employed in the country every year (Kimunge & Were, 2014; and Nduati, 2016). Family businesses in Kenya range from small and medium-sized companies to large conglomerates that operate in multiple industries and countries. Empirical studies have revealed that sustainability of family businesses is significantly related to the successor engagement. However, most of these studies have been carried out elsewhere especially in the developed countries that leaving a gap to
be filled by the current study. It is on the above merit that the study sought to establish the influence of successor engagement on the sustainability of family owned enterprises in Kenya.

Research Objective

The motive of the study was to find out the influence of successor engagement on the sustainability of family owned enterprises in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

Two-Factor Theory

This theory was put forward by Herzberg (1959) in an attempt to bring a clear context of what entails the human resource and enhanced commitment to foster firm performance and sustainability. The theory upholds the aspect of embracing norms that satisfy employees and avoiding those that make them dissatisfied. According to Herzberg as cited by Chen (2012 the sustainability of an organization depends on its human resources which on the other hand depend on two major factors, which are, motivation and hygiene factors. Motivators or satisfiers are those factors that cause feelings of satisfaction at the workplace. They come up because the employees have a need for personal growth and they include; recognition, work itself, responsibility, achievement, promotion, and growth. These factors challenge a person to develop their talents and fulfill their full potential. Succession planning process first starts by unearthing the usefulness of the employees to the organization and making them embrace the firm goals and work towards achievement of those goals. Through continued motivation and provision of a hygienic (enabling) environment, employees are eager to learn and with time they become better leaders who can
succeed in pushing forward the firm management to sustainability (Mondy & Noe, 2005; and Sandya & Kumar, 2011).

2.2 Conceptual Framework

![Conceptual Framework](image)

**Independent Variables**

**Dependent Variable**

2.3 Empirical Review

Successor engagement is the set of human resource management practices that focus on employee decision making, power, and access to information, training and incentives through support by the initiator of the organization. Based on the merit that surrounds the successor engagement, studies from across the globe have focused on this aspect. For instance, Manzoor (2012) did a study on the effects of firm successor engagement and sustainability of financial institutions in UK. The study established that engaging successors of institutions made the employees understand the needs and strategies that organizations can carry out to sustain its performance. Engaging successors is essential in establishing the major areas that the organization should focus on to improvise its strategic position in the market. Chew and Chan (2017) carried out a study on impacts of human resource management on firm performance and focused on engagement of the employees. The study found that engagement of the employees by the firm management enhanced the passing of leadership tactics thus fostering the firm performance through sharing of skills and experiences.
3.0 METHODOLOGY

The study was guided by descriptive research design to collect and analyze the primary data. The target population was family owned businesses in Nairobi County, Kenya. According to the available records as at September 2017, there were 2373 family owned businesses registered in Nairobi under manufacturing, service and trading sectors. The sampling formula by Kothari (2004) was used to obtain the sample size.

\[ n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2(N - 1) + z^2 \cdot p \cdot q} \]

This generated a sample size of 375 respondents.

Structured questionnaire was used to collect the data. The Statistical Package for Social Science (SPSS) was used to compute quantitative data using descriptive statistics and qualitative data was analysed using thematic analysis.

4.0 FINDINGS

4.1 Response Rate

The study obtained a response rate of 78.93% where out of the 375 sampled respondents, 296 filled and returned the questionnaires for analysis. This was considered adequate for analysis and making conclusions in the study.

4.2 Successor Engagement

4.2.1 Initiator of the business

The study sought to find out whether the current owners of the businesses were the initiators of the same. The findings as shown in figure 1 portrayed that most of the respondents were the
initiators of the business as was shown by 66% whilst 34% were no the initiators of the business. This gains support from the contention by Scharmer (2007) that many of the family owned enterprises are managed by their initiators which again gives the threshold that many of them do not survive up to the second generation.

4.2.2 Engagement by the predecessor before getting into the business

The study sought to find out whether those that were not the initiators of the businesses were engaged by the predecessors before they got into the businesses. The findings as shown on figure 2 revealed that 81% of those that had inherited their businesses were engaged by the predecessors whereas 19% were not engaged. The findings imply that engaging successors is necessary and plays a key role in promoting the survival and sustainability of the enterprises (Samaha, et al. 2011).

Figure 1: Initiator of the business

Yes 66%
No 34%
4.2.3 *Frequency of delegating duties to employees*

The study sought to find out the frequent at which the respondents delegated duties to the employees as a way of engaging them. The findings as shown on table 2 revealed that most of the respondents frequently delegated duties to employees as was shown by 56% whereas 28% of the employees sometimes delegated duties to the employees as was shown by 28%. On the other hand, 13% of the total respondents rarely delegated duties to employees. The findings concur with those by Tettey (2016) that among the aspects of enhancing employee performance and firm sustainability is through frequent delegation of duties which makes the capability rotational.

<table>
<thead>
<tr>
<th>Description</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequently</td>
<td>156</td>
<td>56</td>
</tr>
<tr>
<td>Rarely</td>
<td>40</td>
<td>13</td>
</tr>
<tr>
<td>Sometimes</td>
<td>90</td>
<td>28</td>
</tr>
<tr>
<td>Not at all</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>396</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.2.4 *Level of agreement on duty delegation*

The respondents’ level of agreement on the statements related to duty delegation and sustainability of family owned enterprises was sought. The findings as shown on table 3 revealed that most of
respondents strongly agreed that they gave their employees opportunity to choose who took their
duties, chose who to delegate their duties to and delegated their duties only when they away from
the firm as was shown by low means of 1.25, 1.34 and 1.48 respectively.

Table 3: Level of agreement on duty delegation

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>I choose who to delegate my duties to</td>
<td>1.3412</td>
</tr>
<tr>
<td>I delegate my duties only when am away from the firm</td>
<td>1.4897</td>
</tr>
<tr>
<td>I give the employees opportunity to choose who to take my duties</td>
<td>1.2512</td>
</tr>
<tr>
<td>I have a specific person/employee to whom I delegate my duties</td>
<td>1.6911</td>
</tr>
</tbody>
</table>

4.2.5 Presence of organizational replacement charts

The study sought to find out whether the respondents had embraced organizational replacement
charts. The results portrayed in figure 3 showed that most of the businesses did not have
organizational replacement charts as was shown by 60% while 40% had organizational
replacement charts. This is in connection to the findings by Yamamoto (2011) that replacement
charts are not effectively embraced among organizations especially the small businesses despite
them being very crucial as far as survival of the firms is concerned.

Figure 3: Organizational replacement charts
4.2.6 Effectiveness of organizational replacement charts

For the organizational charts to be embraced and enhance sustainability through employee engagement, they had to be made effective. The study therefore sought to find out the respondents' views on the effectiveness of the organizational charts. The findings as shown on figure 4 revealed that most respondents agreed that organizational replacement charts were very effective as was shown by 45%. A further 25% of the respondents agreed that organizational replacement charts were moderately effective. Moreover, 15% however cited that organizational replacement charts were not effective. The findings imply that majority of the respondents that have embraced organizational charts have made them effective for the employee engagement and firm sustainability (Yamamoto, 2011).

![Figure 4: Effectiveness of organizational replacement charts](image)

4.2.7 Successor engagement and Sustainability of Family Owned Enterprises

The respondents’ views on the relationship between successor engagement and sustainability of family owned enterprises were sought. The findings revealed that most of the respondents agreed that successor engagement highly related with the sustainability of family owned enterprises as was shown by 38%, 32% of the respondents agreed that successor engagement moderately related
with effective of sustainability of family owned enterprises. On the other hand, 20% of the respondents were not sure while 10% cited that successor engagement had no relation with the sustainability of family owned enterprises.

![Figure 5: Successor Engagement and Sustainability of FOE](image)

**4.3 Sustainability of family owned small enterprises**

**4.3.1 Re-investment**

The respondents’ views were sought on whether they invested back the capital raised from the firms. The findings as presented on figure 6 revealed that most businesses frequently reinvested as was shown by 48%. On the other hand, 26% of the respondents occasionally re-invested while 14% re invested sometimes. Moreover, 10% of the respondents indicated that they rarely re invested their capital back into the businesses. The findings imply that as much as the majority of the respondents invested their capital back into the business, there rate at which they invested was still below the mark.
4.3.2 Number of years the business has been in operation

The study sought to find out the number of years that the businesses had been in operation so as to establish their probability of getting sustained in future. The results as indicated on table 4 showed that most of the businesses had been in operation for 7-10 years as was shown by 34% 26% of the businesses had been in operation for 3 to 5 years while 17% had been in operation for 5 to 7 years. Only 4% of the businesses had been in operation for more than 11 years.

Table 4 Number of years the business has been in operation

<table>
<thead>
<tr>
<th>Description</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 2 years</td>
<td>60</td>
<td>19</td>
</tr>
<tr>
<td>3- 5 years</td>
<td>82</td>
<td>26</td>
</tr>
<tr>
<td>5 – 7 years</td>
<td>54</td>
<td>17</td>
</tr>
<tr>
<td>7 – 10 years</td>
<td>86</td>
<td>34</td>
</tr>
<tr>
<td>Above 11 years</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>296</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.4 Inferential Statistics

\( H_A: \) Successor engagement has a positive relationship with sustainability of family owned small enterprises in Kenya

The study sought to establish the statistical relationship between successor engagement and sustainability of family owned businesses in Kenya. The model summary results as presented in table 5 revealed that the standardized coefficient (R) was 0.711 whereas the \( R^2 \) was 0.505. This implied that the model portrayed a goodness of fit thus making it suitable for conclusions and recommendations.

Table 5: Model Summary (Successor Engagement)

<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>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.711(^a)</td>
<td>.505</td>
<td>.504</td>
<td>.71280</td>
</tr>
</tbody>
</table>

* a. Predictors: (Constant), Successor Engagement  
  b. Dependent Variable: Sustainability of family businesses

The ANOVA results shown in table 6 revealed that the model was positively significant where the p-value was 0.000 which is below the standard p-value of 0.05.

Table 6: ANOVA Results (Successor Engagement)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>149.376</td>
<td>294</td>
<td>.508</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>152.571</td>
<td>1</td>
<td>152.571</td>
<td>300.288</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>301.946</td>
<td>295</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* a. Dependent Variable: Sustainability of Family Businesses  
  b. Predictors: (Constant), Successor Engagement
Table 7 shows the regression coefficient for the variable successor engagement. The model for the variable was $Y = \beta_0 + \beta_3 X_3 + \varepsilon$ which becomes $Y = 0.386 + 0.850X_3 + 0.049$. The findings imply that a unit change in successor engagement can determine up to 85% change in sustainability of family owned enterprises. The P-value for the variable was 0.000 implying that successor engagement is positively and significantly related to sustainability of family owned businesses in that it is lower than the standard p-value of 0.05.

Table 8: Regression Coefficients (Successor Engagement)

<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 (Constant)</td>
<td>.386</td>
<td>.187</td>
<td>2.065</td>
<td>.040</td>
</tr>
<tr>
<td>Successor Engagement</td>
<td>.850</td>
<td>.049</td>
<td>.711</td>
<td>17.329</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Sustainability of Family owned enterprises

To further reveal the relationship between the variables, a scatter plot was used. The findings as shown in figure 7 revealed that the model had positive gradients implying that successor engagement is significantly and positively related to sustainability of family owned enterprises in Kenya.

![Figure 7: Scatter plot (Successor Engagement)](image-url)
CONCLUSION

The study concluded that successor engagement is an important aspect in enhancing sustainability of family owned small enterprises in Kenya. Engaging successors of institutions made the employees understand the needs and strategies that organizations can carry out to sustain its performance. Engagement of the employees by the successors plays a key role in promoting the firm performance through better performance of the employees and also promotes their commitment and willingness to work in the firm.

RECOMMENDATION

Organizational stakeholders especially in the family businesses which face high risk of failure should embrace successor engagement as an aspect of promoting survival of such firms even after the exit of their predecessors. The study found that engagement the successors enabled organizations to have better leaders and thus serving the firm requirements competently. The study recommends that the management of the firms should embrace duty delegation, secondment and replacement charts which enhance nurturing of the future firm leaders.

REFERENCES


