

**The collective effect of succession planning,  
succession timing and successor  
commitment on corporate growth strategy  
among local family businesses in the  
manufacturing sector in Nairobi County**

**BY**

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## *Introduction and Background*

- A family business can be defined as a business that will be passed on for next generation to manage and control OR a business run by at least one family member OR founder operated business with anticipation of passing the business to the next generation OR where at least 51% of the business is owned by a single family or at least two family members are involved in the management of operational activities in the business and transfer of leadership to next generational family members is anticipated.



## ***Introduction and Background continued***

- ❑ Management succession is considered a potential source of danger and conflict in family business.
- ❑ Generally 3 out of 10 family businesses survive to second generation and 16% to the third
- ❑ 3 out of 5 business in Kenya fail within the first 3 years of operation
- ❑ It is estimated half of family businesses fail to make it to next generation because of inefficient succession.



## *Introduction and Background continued*

- ❑ Those family businesses that survive 3 to 4 generations have complex web structures, agreements, councils and forms of accountability.
- ❑ **Succession** is the process through which leadership of the business is transferred from the outgoing generation to successor generation.
- ❑ Succession is a process and not an event and doesn't just happen neither can it be settled at a short notice. It entails planning and preparation for several years.



## *Introduction and Background continued*

- ❑ Participants in the succession process must devote time and commitment to the process.
- ❑ The overlap between the family and business systems may lead to emotional tensions, conflicts, rivalry and even emotional problems of the founder who needs to let go.
- ❑ Other difficult question is whether to keep the business in the family irrespective of successor qualifications or hand it over to external owners or managers.



## *Introduction and Background continued*

- ❑ Succession should be seen as a lifelong and continuous process.
- ❑ **Succession timing** are those actions that lead to the transition of leadership from one family member to another.
- ❑ The timing of family business succession can occur either while the owner is alive or when passed away.
- ❑ Well timed transfer of management power and ownership promotes and preserves family relationships and contribute to financial security of the family.



## *Introduction and Background continued*

- ❑ However many families believe succession will fall into place when the time comes.
- ❑ **Successor commitment:** successors need to be willing, capable and committed to taking over the family business.
- ❑ Successor should be chosen according to abilities (leadership, managerial, entrepreneurial, formal education)
- ❑ Important to involve successor in the business early (on the job training)



## *Introduction and Background continued*

- ❑ Successor commitment characterised by successors frame of mind or psychological state that compels the individual the focal behaviour of continuing to profitably operate the family business.
- ❑ Low level interest and commitment of family members may hinder the growth of a family firm.
- ❑ The bases of commitment may be affective, normative or continuance.





## *Introduction and Background continued*

- ❑ Affective is based on individuals emotional attachment, identification with and involvement in the organisation.
- ❑ Normative is based on individuals feeling of obligation, sense of duty and expectation.
- ❑ Continuance is based on an individuals awareness of the cost associated with leaving the organisation/based on cost avoidance mind set.



## *Introduction and Background continued*

- ❑ Family members with higher levels of affective and normative based commitment to the business are likely to support efforts to promote change important to their performance and survival.
- ❑ Continuance based commitment motivates the person to go beyond the call of duty to protect or extend their financial interest in the company.



## *Introduction and Background continued*

- ❑ **Growth Strategy:** little research on how strategy is shaped in family business.
- ❑ The fact that family firm is family owned and controlled implies succession and strategy are intertwined
- ❑ Successful family business implies both successful strategy and succession transfer of power to later generation.



## *Introduction and Background continued*

- ❑ Different types of growth strategies available to a firm include Integration, Diversification, New Product Development, Modernisation and Internationalization.
- ❑ Every firm has to develop its own growth strategy according to its own characteristics and environment.
- ❑ Three theories used to understand and evaluate family businesses and strategy:- Agency, Resource based and Stewardship Theories



## *Objectives of the study*

- The objective of this study was to establish the combined effect of succession planning, succession timing and successor commitment on corporate growth strategy in local family businesses in the manufacturing sector in Nairobi County.



## *Hypothesis of the study*

- ❑ Succession planning, succession timing and successor commitment collectively do not influence corporate growth strategy in local family businesses in the manufacturing sector in Nairobi County



## *Analytical Model*

$$Y = \beta_0 + \beta_1 SP + \beta_2 ST + \beta_3 SC + e$$

Where;

- $Y$  = Aggregate mean score of the growth strategies
- $\beta_0$  = Model equation intercept
- $\beta_1$  = Partial coefficient for succession planning
- $SP$  = Succession Planning
- $\beta_2$  = Partial coefficient for succession timing
- $ST$  = Succession timing
- $\beta_3$  = Partial coefficient for successor commitment



## *Research Methodology*

- ❑ **Research Design:** Descriptive Census Survey.
- ❑ **Target Population:** 97 local manufacturing family businesses.
- ❑ **Sample:** Census study
- ❑ **Instrumentation:** Questionnaire
- ❑ **Reliability:** Cronbach Alpha used to test whether the variables were within acceptable range, results reviewed they were.





## ***Results and Discussion***

- ❑ **Response rate:67%** which was appropriate for drawing conclusion of this study.

### **Succession Planning**

- ❑ Assessed using 19 measures
- ❑ 23.2% consider succession planning to a very great extent
- ❑ 24.6% to a great extent
- ❑ 7.7% to a small extent
- ❑ 22.2% don't consider succession planning at all.



## *Results and Discussion continued*

- ❑ Trust among family members was a key aspect in succession planning. Other key issues were formal delegation of duties, good relationship among family members and amicable communication among family members.
- ❑ Existence of family councils to deal with succession, use of external boards and business consultants to make strategic decisions and existence of formal criteria for naming successor are not considered by family businesses in succession planning.



## *Results and Discussion continued*

### **Succession timing**

- ❑ Assessed using 7 measures.
- ❑ 27.7% consider succession timing to a very great extent
- ❑ 25.5% to a great extent
- ❑ 15.4% to a moderate extent.
- ❑ 8.2% to a small extent
- ❑ 23.2% do not consider at all



## *Results and Discussion continued*

- ❑ Family relationships are preserved when making strategic decisions on succession timing.
- ❑ Family businesses consider to a great extent early introduction of next generation into business and believe an early introduced successor performs better.

### **Successor Commitment**

- ❑ Assessed using 15 measures
- ❑ 40.9% consider successor commitment to a very great extent.



## *Results and Discussion continued*

- ❑ 28.7% to a great extent
- ❑ 13.1% to a moderate extent
- ❑ 5.7% to a small extent
- ❑ 11.6% do not consider it at all.
- ❑ Family commitment to the growth of the organisation and commitment of successor with responsibility were considered to a very great extent.
- ❑ The cost of leaving the organisation was considered to a very small extent.



## *Results and Discussion continued*

### **Corporate Growth Strategy**

- ❑ Assessed using 22 measures
- ❑ 23% engage in corporate growth strategies to a very great extent
- ❑ 15.5% to a great extent
- ❑ 9.2% to a moderate extent
- ❑ 6.4% to a small extent
- ❑ 44.9% did not engage on corporate growth strategy at all.



## *Results and Discussion continued*

- Most family businesses engaged in the following growth strategies:

Distributing and selling own products, adding new products to existing product lines, substantially modify an existing product, upgrading technology to increase production, upgrading technology to improve quality, upgrading technology to reduce wastage and cost of production and selling products to other countries



## *Results and Discussion continued*

❑ Most family businesses did not engage in the following growth strategies:

Supplying own raw materials and basic concepts,  
Entering a parallel product market, Combining with a competing firm, Introduction of other businesses related to present business, introduction of other business not related to present business, allowing other firms to use their knowledge, processes and trademarks, having contractual agreement with other firms to allow use of brand name, patent and property,





## *Results and Discussion continued*

Having business arrangement with another firm to enable pooling of resources, combining with another company to form a new company, purchasing another company, arrangement with another company to share resources for undertaking specific project, contracting another company to manufacture their products and 100% ownership of subsidiary in another country,



## *Test of hypothesis*

The study formulated the following null hypothesis;

- ❑ *H<sub>01</sub>: Succession planning, succession timing and successor commitment collectively do not influence the corporate growth strategy in local family businesses in the manufacturing sector in Nairobi County.*
- ❑ Aggregate mean score of the growth strategies measures was regressed against the aggregate mean scores of succession planning, succession timing and successor commitment variables



## *Test of hypothesis*

The hypothesized relationship was presented with the following multiple regression model;

$$GS = \alpha + \beta_1 SP + \beta_2 ST + \beta_3 SC + e$$

Where;

- GS = Aggregate mean score of the growth strategies
- $\alpha$  = Model equation intercept
- $\beta_1$  = Partial coefficient for succession planning
- SP = Succession Planning
- $\beta_2$  = Partial coefficient for succession timing
- ST = Succession timing
- $\beta_3$  = Partial coefficient for successor commitment



## *Test of hypothesis*

- ❑ Overall multiple regression model was statistically significant.
- ❑ The adjusted R-square statistic indicated that 14.8% of the variance in the growth strategies adopted by family businesses in the manufacturing sector was collectively explained by the succession planning, succession timing and successor commitment.
- ❑ Examination of the individual coefficients reveals a statistically significant positive linear relationship between the succession planning and corporate growth strategies



## *Test of hypothesis*

- ❑ The relationship between the succession timing and corporate growth strategies was positive but statistically not significant
- ❑ Likewise the relationship between the successor commitment and growth strategies was negative and not statistically significant
- ❑ These findings supported rejection of the null hypothesis that succession planning, succession timing and successor commitment collectively do not influence the corporate growth strategies in local family businesses in the manufacturing sector in



## *Recommendations*

- ❑ Family businesses should develop formal written succession plans and should do this in good time
- ❑ Formally and consciously plan and prepare for succession if company growth has to be achieved
- ❑ Choose their successors based on abilities rather than gender and the successors should not only be committed but also willing and capable.
- ❑ Involve the successor in the business early and train them on the job
- ❑ Engage in more risky growth strategies if they have to internationalize



## *Direction for further research.*

- ❑ The study was conducted in Nairobi County and considered the manufacturing firms only, other studies involving family firms in other counties and sectors could be done.
- ❑ Study with different operationalizing for succession planning, succession timing and successor commitment could be done.



**THANK YOU**

*QUESTIONS*