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Succession Strategies and Performance of African Family Businesses: An Empirical Investigation of Nairobi Central Business District of Kenya

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Abstract
A good number of African family businesses in Kenya do not survive to the third generation because of family disputes, greed of some family members, and lack of business professionalism among many others. However, succession of family businesses has been an issue of concern for decades in terms of the subject, audience and theories. Therefore, this research attempted to investigate the influence of succession strategies which were proxied by leadership strategies, ownership strategies, wealth transition strategies, as well as family values and legacy strategies, on business performance. The study employed descriptive research design. The population of interest consisted of 600 African family businesses operating within Nairobi central business district from which a sample size of 120 businesses was picked. The data was collected through use a questionnaire and analyzed by descriptive statistics and multiple regression. Regression model was used to estimate the effects of succession strategies on the performance of African family businesses. The study findings show that leadership strategies as well as family values and leadership strategies affect the performance of African family businesses positively. On other hand, ownership strategies were found to have a negative effect on the performance of family business. It was recommended that family businesses should show leadership by coming up with clear business visions and missions; they should embrace professionalism to avoid nepotism and favouritism in the management of their businesses; and that, they should respect the values and legacy strategies of their business founders.
Keywords: Succession Strategies, Leadership Strategies, Ownership Strategies, African Family Business, Business Performance, Family Values and legacy

1. Introduction

A family business is an enterprise that two or more members of the same family own or operate together or in succession (Abdille, 2013). Succession has been an object of research for decades, evolving over time in terms of the subject, audience and theories (Izzo, 2014). Akani (2015) posits that an effective succession planning and management effort is that which is capable of building talent from within and ensures leadership continuity. A business is said to be family business if the majority of votes is in the possession of the natural person(s) who established the firm, in the possession of the natural person(s) who has/have acquired the share capital of the firm or in the possession of their spouses, parents, child or child's direct heirs. The majority of votes may be indirect or direct.

According to recent statistics, only 35 percent of family businesses survive past the first generation of ownership. Only 20 percent survive to the third generation. Some of the reasons why family businesses don't successfully pass down the generations are planned, and others are not (Carter III, Kidwell & Camp, 2016). This statistics is alarming in Kenya, in that more than 70 percent of business enterprises owned by families only 10 to 15% of them survive to the third generation (Lilian, 2016). According to (Caruso & Leah, 2016), the major emerging strategies in leadership today are top management involvement, targeted processes to focus on clearly defined specific goals, assessment programs based on competences, identification of future talent requirements and development programs such as trainings.

There are various studies that have been conducted in line with leadership such as the effect of leadership on financial performance of family-owned supermarkets in Nairobi county (Rotich, 2014), where it was acknowledged that there was a positive correlation between leadership and financial performance, firm capital structure and firm age, Gakure, Ngugi, Waititu and Keraro (2013) also conducted a study on leadership and sustainability of small and medium family enterprises after the exit of its founders, Akinyele, Ogabari, Akinyele and Dibia (2015), conducted a study on leadership and its impact on organizational survival. There is limited literature review in terms of leadership strategies that are used by family businesses; thus the study intended to bridge the gap between the current literatures of leadership by identifying the effects of leadership strategies, that family businesses need to incorporate during leadership which are the key aspects to their performance.

1.1 Succession Strategies

Succession strategies are systematic approaches to ensuring leadership continuity within an organization by recruiting and encouraging individual employee growth and development. It is about having the right people in the right place at the right time (Shellie, 2016). Succession planning if conducted adequately may be a solution

to the following issues which are increased cost of external searches, there is loss of organizational memory once the enterprise leader retires, there is lack of retention of existing talent and lack of succession planning promotes decreased employee loyalty which leads to increased turnover.

According to Caruso and Groehler (2016), the major succession strategies that are considered essential for the survival of an enterprise are: top management involvement, targeted processes to focus on clearly defined specific goals, comprehensive assessment programs based on competencies, generation of development plans and development monitoring and review. Top management involvement entails aspects such as whether the leaders are able to communicate adequately on the importance of planning for the future, whether management is able to allocate resources adequately. According to Hazlehurst (2015), high quality of succession occurs when mutual respect, understanding and communication between generations exist in the process of succession planning so that the family unit can feel an informed decision was made. Targeted processes as a succession planning practice entails the stipulation of clearly defined set goals, meaningful executive reviews of family transactions, the elimination of administrative burdens and possibly the use of technology to facilitate data gathering, tracking and decision making in the business. There should be a clear organizational structure from the objectives the firm intends to satisfy to the vision of the enterprise indicating where they want to go and the different individuals that will facilitate these ambitions.

Adequate comprehensive assessment programs based on competencies should also be put in place. This entails identification of behavioral defined competencies that will suit the enterprise such as proactive leadership, creativity, honesty as is seen in most family businesses, Caruso and Groehler (2016). Performance and potential should be defined during the assessment process; identification of talent should also be considered in the line of identifying competencies fit for the firm. Development plans are road maps, blue prints that family enterprises should strive at developing which support various positions of the firms. Monitoring and review is also essential as a succession plan practice in that it ensures success plan still aligns with strategic goals and visions, it tracks and reports the extent of progress, it also updates the development plan for individuals as needed and provides opportunity for on-going feedback (Shellie, 2016).

These aspects are considered as essential during succession planning there is a challenge in terms of transition in African businesses such as in Kenya a number of families have gone to court with intentions of barring other family members from taking control of the family businesses or barring them from getting a share of the family estates after retirement or death of the first generation entrepreneurs. There is also lack of succession justice where non-family members with competencies are not given an opportunity to run the enterprise (Lilian, 2016). Such strategies lead to the survival rate of family enterprises in African to range from 10 to 15%.

1.2 Business Performance

The concept of business performance is different from the broader construct of organizational effectiveness. According to Santos and Brito (2012), the broader construct covers three overlapping concentric circles, with the largest representing organizational effectiveness. The organizational effectiveness covers all aspects related to the functioning of the organization (Rajesh, Selvam, Raja, Lingaraja & Vasanth, 2015). Business performance or firm performance is a subset of organizational effectiveness that covers both operational and financial outcomes. The operational performance could be best viewed as an antecedent to financial performance, mediating the effect of resources (Isaiah, Selvam, Vinayagamoorthi, Kasilingam & Mariappan, 2015).

While the customer satisfaction may be an antecedent to financial performance, is it not a performance outcome in itself as well? This depends on how a researcher defines firm performance for his/her studies (Mgbame & Ilaboya, 2013). It is significant that defining the performance, as the satisfaction of stakeholders, helps to differentiate between antecedents and performance outcomes. In this case, customer satisfaction is clearly an outcome (using the customer – a stakeholder – perspective) and thus become part of firm performance (Lingaraja, Selvam & Vasanth, 2015). Besides, in today’s highly competitive environment, the organizations need to protect the long term interests of customers.

1.3 African Family Businesses

The term ‘family business’ has many meanings and applications; however, it is used to describe the role of the family in business activities of all types (Zwack, Kraiczy, Schlippe & Hack, 2016). Steven (2015) defines family businesses as those in which two or more members of the same family control, are directly involved in, and own a majority of the business. A family business is a unique synthesis of ownership control (15% or higher) by two or more members of a family or a partnership of families; strategic influence by family members on the management of the firm, whether by being active in management, by serving as advisors or board members, or by being active shareholders; concern for family relationships; and finally, the dream (or possibility) of continuity across generations (Scheemaecher, 2017).

Family businesses are also often a substitute for a lack of regulation by financial markets in developing

economies and are found to offer effective protection to minority shareholders. Emerging economies are volatile and fragile, which endangers the survival of entrepreneurial ventures, including family businesses (Pounder, 2015). In most African countries, no reliable database pertaining to family businesses exists. However, estimates indicate that family businesses are the predominant form of business. Enterprising families understand that today's dynamic and hypercompetitive marketplace requires families to act entrepreneurially. Family businesses must generate new economic activity if they intend to survive and prosper over long periods of time (Ozer & Tinaztepe, 2014).

The importance of family businesses cannot be understated (Maguta, 2016). The Family Firm Institute of Boston (USA) estimated that 30% of family-owned businesses survive to the second generation of family members, while only 12% survive to the third generation, with a mere 3% surviving to the fourth generation and beyond (Craig, Duncan, Barbera & Eberhard, 2013). In South Africa, family businesses account for 50% of the economic growth of South Africa (Collins & Grisoni, 2012). The rapid growth in family businesses in Africa can be attributed to the rationalization process taking place in many large organizations, as well as to a growing inability of the informal sector to create new jobs (Byers, 2016).

1.4 Nairobi Central Business District

Family-business owners in Kenya agree that compliance with the regulatory environment affects them to such an extent that they become uncompetitive, while the financial incentives and assistance afforded to them are not sufficient (Keter, 2014). Furthermore, many family businesses do not have the expertise or financial resources to meet the regulatory compliance requirements (Kibugi, 2015). Family businesses are characterized by the concentration of ownership, control, and, often, key management positions among family members, even after the retirement of the businesses' founders. These types of businesses are generally found in countries with weak legal structures where trust among family members may function as a substitute for lackluster corporate governance and contractual enforcement (Konecny, 2015).

Issues pertaining to family relationships are a threat that influences the growth, success and survival of family businesses. It is from conflict laden family relationships that many family issues emanate (Becker, 2017), while managing both the family and the business appears to be a constant challenge facing family-business owners (Schuman, Stutz & Ward, 2010). Some family businesses do not focus solely on 'business agendas' (profit maximization). Rather, some family business owners place more emphasis on 'family agendas' and broader 'social agendas' such as social cohesion, protection of a local culture and/or a minority language, employment of local people, and the utilization of local suppliers (Westhead, Wright & McElwee, 2011).

1.5 Conceptual Framework

The conceptual framework shown in Figure 1 is comprised of succession strategies namely leadership strategies, ownership strategies, family values and legacy strategies, wealth transition strategies which are found to influence business performance.

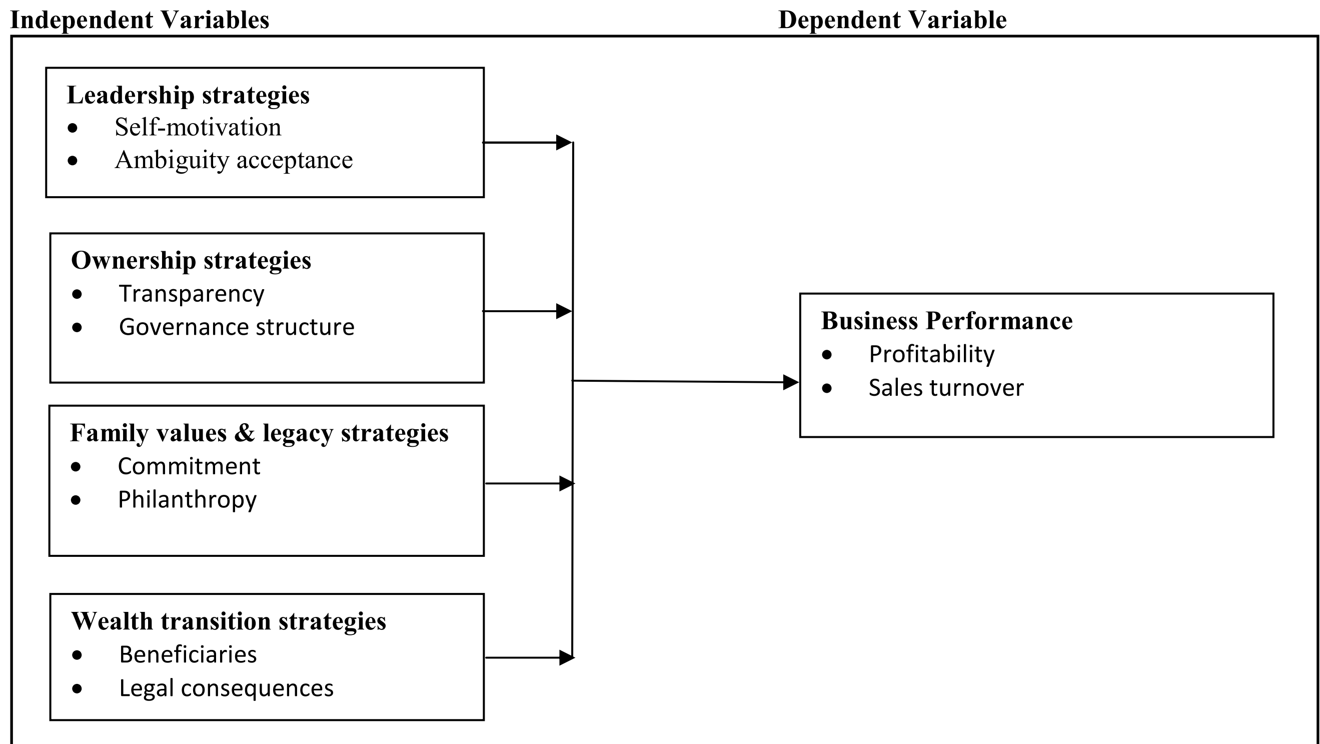

Figure 1: Conceptual Framework

Literature tells us that succession strategies refer to potential of business manager to express a strategic vision to the subordinates, or, to motivate others to acquire organization vision which result in business performance. On the other hand, ownership strategies are the inputs of the owners to the company which are believed to have an influence on the firms' performance. Family values and legacy strategies are the plans of action that are put in place to take care of the sustainability of family businesses which leads to business performance. In addition, wealth transition strategies refer to the social mechanisms that are used in redistribution of wealth and income among the family members to others. Nevertheless, in this study, business performance is represented by the profitability and sales turnovers of any given family business.

2. Methodology

Descriptive research design was used in the study. The population of interest consisted of family members working in the African family businesses in Nairobi CBD. The target population consisted of the family businesses listed on the Nairobi Central Business District Association (NCBDA) directory. Currently, the association had over 600 registered members (NCBDA, 2016). The association has divided its members into groups according to their industry. The study then used stratified random sampling to sample the 120 respondents.

The data was collected through the use of drop and pick method where the researcher after identification of the study participants gave each of them the questionnaires to fill and agreed/requested them to hand to her or agree on time to collect the filled questionnaire. In this research, the descriptive analysis was conducted to gather the details about the personal particulars of the respondents such as gender, age, and education level in the organization. The multiple regression analysis was used to investigate the effects of succession strategies on the performance of African family businesses within Nairobi CBD using the following model:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

Where Y is business performance, α is the constant, X_1 represents leadership strategies, X_2 stands for ownership strategies, X_3 are family values and legacy strategies, X_4 is a set of wealth transition strategies, β_{1-4} are regression coefficients, while *e* is the error term

3. Findings

3.1 Descriptive Statistics

It was established that 59% of the respondents were male while 41% were female. Among them, 34.2% were found to be between 36 and 45 years old, 31.7% were between 46 and 55 years old. The respondents who were in the age group of between 26 - 35 years and above 55 years old had a representation of 13.3% each, while the respondents of 18 - 25 years old accounted for 7.5%. it was found out that 46.7% of the respondents had

college/tertiary as their highest level of education, followed by 27.5% who attain university level of education, about 21.7% of the respondents were secondary school leavers and 4.2% were primary dropout.

The study indicates that 38.3% of the African family businesses have been in operation for a period ranging from 6 – 10 years. Around 33.3 percent were found to have been in operation between 11 to 15 years. It was estimated that 15% of family businesses had operated for less than 5 years. It is interesting to note that 75% of the businesses were run by family members, while 25% of the businesses under study had employed non-family members.

3.2 Inferential Statistics

Regression analysis was used to estimate the effect of the succession strategies on the performance of African family businesses and the results are as indicate in the Table below. The *R* value (multiple correlation coefficients) of 0.741 indicates that there is a positive association between succession strategies and performance of African family businesses. The adjusted *R* square value of .535 indicates that 53.5% of the variations in the performance of businesses can be explained by succession strategies jointly. The ANOVA results indicate that the *P* – value of the *F* statistics (38.914) is 0.000. This suggests that we reject the null hypothesis that leadership strategies, ownership strategies, family values and legacy strategies, as well as wealth transition strategies jointly have no significant effect on the performance of African family businesses.

The coefficients of the regression model show that leadership strategies (β = 0.465) have a significant effect on the performance of businesses. This finding is agreeable with the study finding of Igbaekeman and Odivwri (2015) who established that leadership impacts significantly on employee performance and participative leadership styles helps to improve performance among employee. Likewise, a study done by Lear (2012) indicated that strategic leadership positively influences organizational performance.

Table 1: Effect of Succession Strategies on the Business Performance

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.741[a]	0.549	0.535	0.43091

a. Predictors: (Constant), Leadership strategies, Ownership strategies, Family values and legacy strategies and Wealth transition strategies

ANOVA Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	28.903	4	7.226	38.914	0.000[b]
	Residual	23.768	128	0.186		
	Total	52.671	132			

a. Dependent Variable: Business performance

b. Predictors: (Constant), Leadership strategies, Ownership strategies, Family values and legacy strategies and Wealth transition strategies

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.041	.280		7.280	.000
	Leadership strategies	.465	.061	.521	7.663	.000
	Ownership strategies	-.299	.059	-.386	-5.087	.000
	Family values and legacy strategies	.307	.083	.280	3.708	.000
	Wealth transition strategies	.005	.083	.004	.066	.948

a. Dependent Variable: Business Performance

Source: Research Data (2018)

Ownership strategies was found to have a negative influence (β = -0.299) on business performance. These findings seem to contradict the study findings of Abira (2014) which revealed that financial performance of Kenyan firms can best be explained by ownership concentration and ownership identity. This could be so because of different sizes of the businesses in question. The target population of this study was African family businesses which tend to be in the category of small and medium enterprises. While the businesses that Abira researched on, were public limited companies which usually fall in the category of large scale businesses in Kenya. Furthermore, family members tend to be favoured when it comes to promotion and positions in family businesses which counters productivity, since some of the family members favoured might not be the best suited to occupy such positions.

The results further indicate that family values and leadership strategies (β = 0.307) have a significant effect

on the performance of businesses. This conforms to Thomas (2013) assertion that personal values, organizational values, and the congruence of these values do affect ethical work behaviors and organizational commitment which consequently leads to better business performance. Johnson and Jackson (2009) argue that organizational values predict the commitment of employees with strong individual identities that result to good performance. The study shows that wealth transition strategies do not have a significant effect on business performance. This revelation makes sense because many African family businesses tend to have challenges at the wealth transition stage.

4. Conclusion and Recommendation

The paper established that leadership strategies, ownership strategies as well as family values and legacy strategies have significant effect on performance of African family businesses. Leadership strategies are important because they are the plans of action that give business a sense of direction and hence if they are followed to the latter will consequently lead to lead to good business performance. Leadership vision and mission are realized by following leadership strategies.

Ownership strategies tend to have a negative effect on the performance of family business because such strategies tend to benefit more of the family members which is usually counterproductive to the overall performance of business. Family values and legacy strategies are essential elements of succession strategies, since they explain the philosophy and aspirations of the founders of family businesses. Therefore, when family values and legacy strategies are upheld, good performance and business sustainability can be realized.

The study therefore recommends that family businesses should show leadership by coming up with clear business visions and missions. African family businesses should embrace professionalism to avoid nepotism and favouritism in the management of their businesses. For the sake of sustainability and good performance, African business should respect the values and legacy strategies of business founders.

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