

## INFLUENCE OF HUMAN RESOURCE PRACTICES ON SUSTAINABILITY OF FAMILY BUSINESSES IN KENYA

**Dr. Karanja Patrick Ngugi**

Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kenya

**Esther Boyani Ogoro**

Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kenya

**CITATION:** Ngugi, P. K., & Ogoro, B. E. (2018). Influence of human resource practices on Sustainability of Family Owned businesses in Kenya. *European Journal of Business Management*. Vol. 7 (9) pp 1 – 14.

### ABSTRACT

The study aimed at finding out the relationship between Human resource management practices and sustainability of the family owned small business enterprises in Kenya. Family owned enterprises play a key role in economic development through employment creation and availing of products and services to the end users. The firms have significantly transformed the face of corporate sector with massive expansion across the country and in East Africa. 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. Through well-tailored employee management practices and ensuring that the human capital is well taken care of, competitiveness of a 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 adopted descriptive research design which involves both qualitative and quantitative research methodologies. 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 377 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 be analyzed using SPSS software and presented in form of tables, figures and graphs. The study established that recruitment and selection, employee rewarding, training and engagement were significantly and positively related to sustainability of family businesses thus the conclusion that human resource practices influenced sustainability of family owned businesses in Kenya.

**Key Words:** Recruitment and selection, reward systems, training and development, employee engagement, Family owned enterprises and Firm sustainability

## 1.0 INTRODUCTION

### 1.1 Background to the Study

Modern organizations across the globe have been upholding human resource as the main factor towards promoting growth and competitiveness. According to Wilson (2013), human resource practices are key deliberate and systematic ways of promoting employees' performance and productivity a factor that is essential in enhancing business growth. The employees in every organization serves as the main drivers of competitiveness in that they're the actual implementers of every strategy put across by the management to steer growth. According to Chen (2014), human resource practices include any form of activity by the organizational management that is meant to enhance the productivity of the employees so as to ensure full utilization of their skills and competencies to the welfare of the firm. As illustrated in the resource based view, human resources form the backbone of organizational competitiveness and any practice by the organization that is designed to steer their performance is best described as a strategy towards competitiveness (Barney, Ketchen & Wright, 2011).

Family businesses have been known to be the key emerging businesses that become global leaders with time to the combined effort and commitment from the family members (Giambatista, 2014). The enterprises often start off as micro and grow into small, medium and large corporations if well nurtured (Phillips, 2012). The enterprises play an important role in employment, income generation and wealth accumulation. Qasim, Cheema and Syed (2012) defined a family owned business as a family business bearing components of the family involvement, family ownership, management and/or business succession. It is a business governed and/or managed on a substantial, potentially cross generational basis, to shape and perhaps pursue the vision of the business held by members of the same family or a small number of families. Family owned businesses bear some

element of family involvement whereby the family members are involved in one way or another in the life cycle of the business.

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. However, despite their immense contribution to the economy, the sustainability of these firms has been at a falling clip over time (Mensah, 2014) with disputes of ownership, succession and management being the order of the day.

## **1.2 Statement of the Problem**

While family businesses have been found to contribute immensely to the Kenya's economic growth and development despite their significance in the economy, their sustainability has been a challenge over a long period of time with many of the firms not surviving under more than one generation (RoK, 2017; and Kirema, 2016). On average, the lifespan of family owned enterprises has been argued to be only 3 generations with 12% of the enterprises making it to that far (Kwenin, 2013). According to Neville (2011), over 40% of family owned enterprises collapse after the exit of the initiators with most of them ending up in disputes and misunderstanding among the family members. On the other hand, human resource practices have been to be a major aspect in promoting growth and performance of modern organizations (Lynn, 2011; Robert, Matthew & Sonfield, 2012; and Giambatista, 2014). The argument has been through practices such as effective recruitment, training, performance appraisals, motivation, and promotion enhance the employee productivity and commitment to organizational matters thus steering the growth and competitiveness. However, other studies have outlined a squabbling argument that HR practices

cost the organizations more than they give return hence should not be practiced (Budhwar & Mellahi, 2017). The question therefore goes; is human resource practices the missing factor in sustainability of family businesses. Hence the study sought to establish this by unearthing the influence of human resource practices on the sustainability of family businesses in Kenya.

### 1.3 Objectives of the study

1. To establish the influence of recruitment and selection on sustainability of family owned businesses in Kenya.
2. To establish the influence of reward systems on sustainability of family owned businesses in Kenya.
3. To establish the influence of employee engagement on sustainability of family owned businesses in Kenya.
4. To establish the influence of training and development on sustainability of family owned businesses in Kenya.

## 2.0 LITERATURE REVIEW

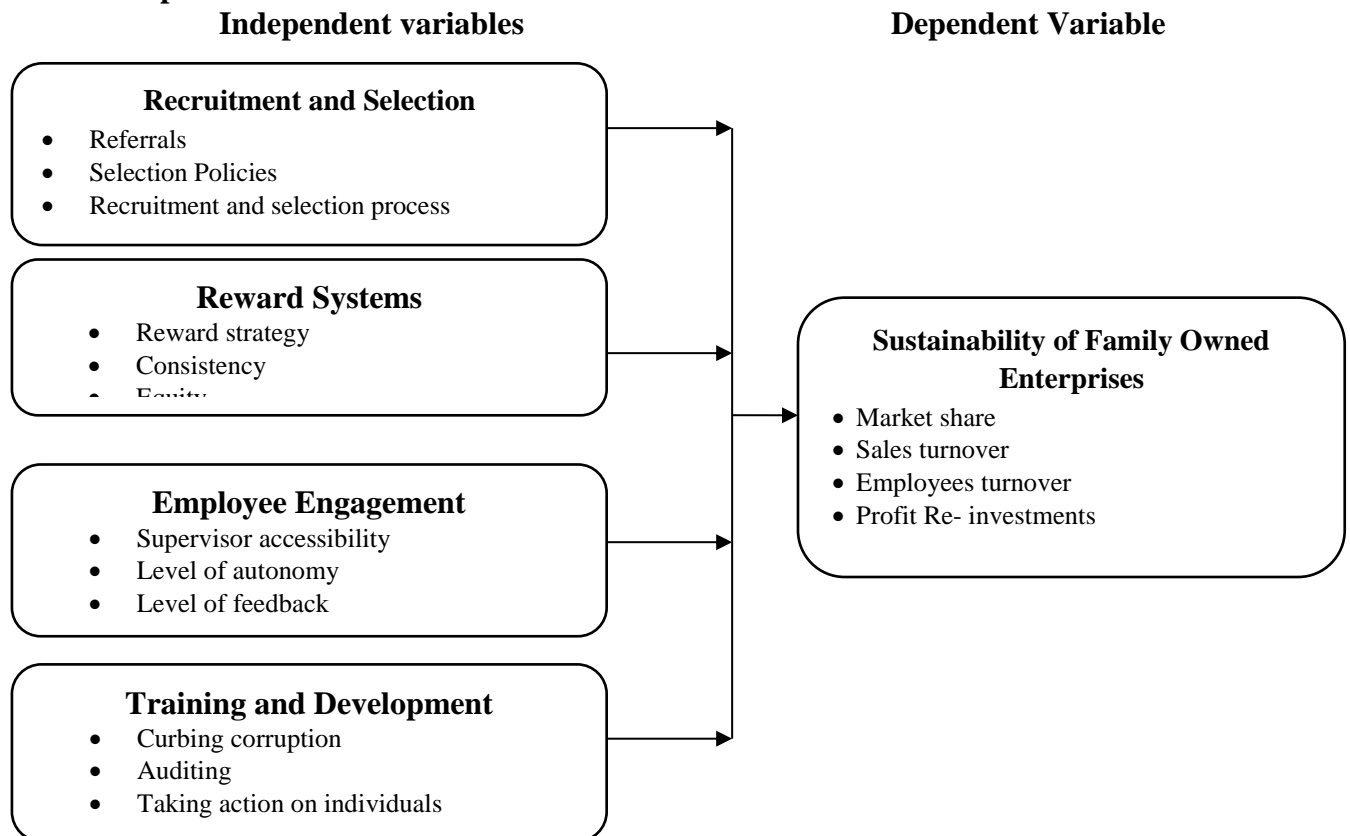
### 2.1 Theoretical Review

#### *Resource Based theory*

According to Barney (2011), resource based theory is the approach that best describes how organizations can gain competitive advantage and increase their performance. According to the RBT, organizational resources are the most important determinants of the competitiveness and performance of the organization. The theory suggests that organizations need to integrate their resources which are the key capabilities that they are assured of having for the sake of their internal operations and existence (Shivaraj & Vijayakumara, 2015).

Employees (human resources) and the skills are some of the resources that according to RBT make organizations produce different products and perform differently from the competitors despite them being in the same market and with the same chances of winning the market. Other resources can be copied by the competitors but the skills and the human resources are unique to the organization that they exist in. According to Barney (2008), the organizational resources should be valuable and rare for them to generate an impact in the firm's competitiveness and performance. Barney, Ketchen and Wright (2011) indicates that the resources of the organization are best beneficial for the company's performance only if managed well with carefully strategizing the best ways to integrate the resources different from those of the competitors. For instance, employees own the best skills of the organization (Glen, 2016).

## 2.2 Conceptual Framework



### 2.3 Empirical Review

Organizations nowadays are more concentrating on acquiring appropriate human capital because the employees are the most valued and most precious assets of an organization. It is the individual performance of employees that will converge to form the overall performance of the organization. While recruiting the employees, organizations have to devise a strategy to carefully recruit the most suitable employees because they create the competitive advantage for the organizations. The word recruitment has become a thing of concern to many organizations in order to get a rightful candidate that can effectively fill the vacant position in the organizations due to the increase in competitions (Adeyemi, Dumade and Fadare 2015). Djabatey (2012) opined that this scenario lends credence to the increasing attention being paid to the people aspect of organizational assets because the development of people, their competencies and the process of the total organization are the pivot of human resource management. Similar to this development is the contention in National University of Ireland (2006) that the continued growth and development of an enterprise depends on its ability to recruit and select high quality personnel at all levels in respective of the cost of such action

Njanja et al. (2013) argue that the task of developing a strategic rewards framework for firms is usually challenging but necessary for any company to survive in the ever changing and competitive market place. Also, a reward system should incorporate all the major areas; namely, compensation, benefits, recognition and appreciation. He further argues that benefits such as car loans, medical covers, big office space, marked car parking slots, and company vehicles are ways of rewarding.

According to Shuck and Wollard (2010), employee engagement is the individual employee's cognitive, emotional and behavioural state which is directed towards attaining the

desired organizational results. It is concerned with the extent to which individuals utilize their cognitive, emotional, and physical resources to carry out their assigned work responsibilities (Xu and Thomas, 2011). Engaged employees display an emotional connection which is deep toward their workplace. Modern businesses always keep their employees well informed about all the important affairs of its business and involve them in decision-making at all levels which can exploit the talents of its employees (Hewitt, 2002).

### 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.

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

This generated a sample size of 377 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 Human Resource Practices and Sustainability of Family Business

The analysis herein presents the findings on the relationship between human resource practices and sustainability of family businesses. The findings are based on the statistical analysis in regard to factor analysis, regression analysis, correlation analysis and variance analysis.

#### *Factor Analysis*

Using an eigenvalue cut-off of 0.4, two factors were selected that suited most to relate to the sustainability of family businesses. The two factors were employee training and rewarding of the employees. Recruitment and selection and employee engagement were complex variables could not meet the cut-off. This goes without saying that the two variables, rewarding systems and the training of employees are the key factors that affect the sustainability of family businesses as per the findings of the study. The Table below shows the factor loadings after rotation using a significant factor criterion of 0.4.

**TABLE 1: Factor Analysis**

<b>Independent Variables</b>	<b>Sustainability of Family businesses</b>
Rewarding of the employees	.659
Training of the employees	.548
Recruitment and selection	.321
Employee engagement	.161
<b>Eigenvalue</b>	<b>1.39</b>
<b>% of Variance</b>	<b>18.77</b>



*Correlation Analysis*

To establish the relationship between the independent variables (recruitment and selection, employee rewarding systems, employee training and employee engagement) and the dependent variable (employee retention). Pearson correlation method was used to analyze and the results are shown in the Table below.

**TABLE 2: Correlation**

		Sustainability of family businesses	Recruitment and selection	Employee Rewarding Systems	Employee Training	Employee engagement
Sustainability of family businesses	Pearson Correlation	1	.745**	.567**	.719**	.719**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	29	296	296	296	296
Recruitment and selection	Pearson Correlation	.745**	1	.466**	.463**	.514**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	29	296	296	296	296
Employee rewarding systems	Pearson Correlation	.567**	.466**	1	.388**	.286*
	Sig. (2-tailed)	.000	.000		.000	.011
	N	29	296	296	296	296
Employee training	Pearson Correlation	.719**	.463**	.388**	1	.487**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	29	296	296	296	296
Employee engagement	Pearson Correlation	.514**	.514**	.286*	.487**	1
	Sig. (2-tailed)	.000	.000	.011	.000	
	N	29	296	296	296	296

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

The Table above clearly shows that there is a strong relationship (correlation) between the independent variables (recruitment and selection, rewarding systems, employee training and employee engagement) and sustainability of family businesses. Recruitment and selection was the highest with  $r = 0.745$  followed by employee training with  $r = 0.719$ . The positive correlation implies that there is a significant association between the independent variables and sustainability of family businesses implying that an increase in any of the independent variables will result to a positive increase in the sustainability of family businesses and vice versa.

### *Regression Analysis*

The study sought to find out the contribution of each of the independent variables (recruitment and selection, rewarding systems, employee training and employee engagement) to sustainability of family businesses. The results are presented in tables as shown below.

**TABLE 3: Regression model**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
<b>1</b>	.912 <sup>a</sup>	.831	.822	.21126

Adjusted R squared is a coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the table above, the value of the adjusted R square was 0.822 and indication that there was a variation of 82.2% on sustainability of family businesses due to changes in recruitment and selection, employee rewarding, employee training and employee engagement. This shows that 82.2 % changes in sustainability of family businesses could be accounted to changes in employee recruitment and selection, employee rewarding systems, employee training and employee engagement.

*Variance Analysis (ANOVA)*

To determine whether the overall regression model was a good fit for the collected data, an ANOVA was done. The ANOVA analysis was intended to investigate whether the variation in the independent variables explain the observed variance in sustainability of family businesses.

**TABLE 4: ANOVA**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>1</b>	Regressi on	16.292	4	4.073	91.256	.000 <sup>b</sup>
	Residual	3.303	293	.045		
	Total	19.595	297			

The ANOVA results indicate that the independent variables significantly explain the variance in increase of the sustainability of family businesses. The results show that the regression model has a less than 0.001 likelihood of giving a wrong prediction. Hence the regression model has a confidence level of 95%. This therefore means that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%.

*Regression Model*

The researcher used the regression model to establish the relationship between the independent variables (employee recruitment and selection, employee rewarding systems, employee training and development and employee engagement) and the dependent variable (sustainability of family businesses). The findings are presented in the table below.

**TABLE 5: Regression model**

<b>Model</b>	<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
(Constant)	-.264	.095		2.783	.007
Recruitment and selection	.333	.061	.333	5.417	.000
Employee Rewarding	.189	.055	.189	3.420	.001
Employee Training	.330	.058	.329	5.639	.000
Employee engagement	.334	.059	.333	5.659	.000

## Conclusion

The study concluded that most family owned businesses do not train their employees as they deserve. The employees feel uncomfortable to work for the organizations due to lack of enough training and this leads them to seek other jobs where they are trained and developed better. Therefore the study concludes that there is a strong relationship between employee training and sustainability of family owned businesses. Further the study concluded that employee rewarding is a key determinant of sustainability of family owned businesses. This is based on the availability of enough incentives, greater recognitions and more motivation among other rewarding aspects. The study further concluded that most of the family owned businesses do not engage their employees in the matters of the enterprise such as decision making processes.

## Recommendations

The family owned businesses should embrace training of their employees both the teaching and non- teaching so as to retain them. The Family businesses through the management should ensure that the recruitment and selection of the employees is effectively done to enhance attaining the talented and productive workforce. The management of the Family businesses should fund time to time training of the employees so as to enhance their competence. This will enable the employees feel secure and having the confidence of performing their duties. Finally the management of the organizations should reward their employees regularly as this will retain them and make them feel part of the institutions.

## References

- Barney, B., R., Ketchen, P. & Wright, T. (2011). Human resource issues among SME's in Eastern Europe: A 30 month study in Belarus, Poland, and Ukraine, *International Journal of Entrepreneurship*, 10, 97-108.
- Bidyut, N. & Barua, M. (2015). Factors Affecting Employee's Retention in Automobile Service Workshops of Assam: An Empirical Study. *The SIJ Transactions on Industrial, Financial & Business Management (IFBM)*, Vol. 3, No. 1, pp.9-14
- Bogardus, Anne M. (2007). *PHR/SPHR: Professional in Human Resources certification study guide*. Indianapolis. Wiley Publishing, Inc.
- Bridget, S., and Lewin, C. (2005). *Research Methods in the Social Sciences*. London: Sage publications Inc.
- Brum, S. (2007). What impact does training have on employee commitment and employee turnover. In *Schmidt Labour Research Centre Seminar Research Series (pp. 1-13)*.
- Budhwar, P. & Mellahi, K. (2017). Introduction: Human resource management in the Middle East. *The International Journal of Human Resource Management*, 18(1), 2-10.
- Budhwar, P. & Mellahi, K. (2007). Introduction: Human resource management in the Middle East. *The International Journal of Human Resource Management*, 18(1), pp. 2-10.
- Chalkiti, R., Kalotina, R., & Sigala, M. (2010). "Staff turnover in the greek tourism industry", *International Journal of Contemporary Hospitality Management*, 22(3), 335-338.
- Chalofsky, N. & Krishna, V. (2009). Meaningfulness, commitment, and engagement: The intersection of a deeper level of intrinsic motivation. *Advances in Developing Human Resources*, 11, pp.168-188.
- Chaminade, B. (2007). *A retention checklist: How do you rate?* Human resources magazine, pp. 10-15.
- Chen, M. (2014). The Effect of Training on Employee Retention. Proceedings of the 2014 *International Conference on Global Economy, Commerce and Service Science*.
- Chen, M. (2014). The Effect of Training on Employee Retention. Proceedings of the 2014 *International Conference on Global Economy, Commerce and Service Science*.
- Chew, J., & Chan, C. (2008). Human resource practices, organisational commitment and intention to stay. *International Journal of Manpower*, 29(6), pp.503-522.
- Chew, J.C. (2004). *The Influence of Human Resource Management Practices on the Retention of Core employees of Australian Organisations*: PhD Thesis. Murdoch University.

- Cohen, B. Manion, C. and Morrison, A. (2007). Essentials of education and social science research methods. Canada: Masolp publishers. pp 12-24.
- Cooper, D., & Schindler, P. (2003). *Business research methods (8th ed.)*. New York: MacMillan
- Crabtree, S. (2005). *Engagement keeps the doctor away*. Gallup Management Journal. Retrieved May 12, 2016, from <http://gmj.gallup.com/content/14500/Engagement-Keeps-Doctor-Away.aspx>
- Giambatista, W. (2014). Factors influencing family business succession, *International Journal of Entrepreneurial Behaviour & Research*, 2 (3), 68-81.
- Hassan, T., Mehmet, A., & Demet, C. (2011). The Effect of Employees on Achievement Motivation and the Contextual Performance of Employees. *An African Journal of Business Management*. Vol.5(15), pp.6318-6329.
- Kimunge, M.W. & Were, S. (2014). Effects of Total Rewards on Employee Retention. A Case Study of Kenya Vision 2030 Delivery Secretariat. *The Strategic Journal of Business Management*, 2(15), 280-299.
- Lynn, C. (2011). Factors influencing family business succession', *Journal of Entrepreneurial Behaviour*, 2 (3), 68-81.
- Qasim, S., Cheema, F., & Syed, N. (2012). Exploring factors affecting employees' job satisfaction at work. *Journal of Management and Social Sciences*, 8(1), 31-39.
- Rothwell, J. & Sredl, H. (2000). *The ASTD reference guide to workplace learning and performance: Present and future roles and competencies*. Amherst, MA: HRD Press.
- Samaha, W., Palmatier, O. & Dant, M. (2011). Theoretical foundations for family-owned business: a conceptual and research based paradigm, *Family Business Review*, 7 (1), 3–27
- Samuel, M. & Chipunza, C. (2009). "Employee retention and turnover: Using motivation variables as a panacea", *African Journal of Business Management*, 3(8), pp. 410-415.
- Sandhya, K., & Kumar, P.D., (2011). Employee Retention by Motivation. *Indian Journal of Science and Technology*. 4(12), 1778-1782.
- Xu, J., & Thomas, H. C. (2011). How can leaders achieve high employee engagement? *Leadership & Organization Development Journal Leadership & Org Development J*, 32(4), 399-416.
- Yamamoto, H. (2011). The relationship between employee benefit management and employee retention. *The International Journal of Human Resource Management*, pp.1-15.
- Zikmund, W. (2003). *Exploring marketing research*. New Jersey: Thomson/South- Western Publishers.