THE ROLE OF SUCCESSION PLANNING IN FAMILY ENTERPRISES
PERFORMANCE: A CASE STUDY OF BIDCO OIL REFINERIES
LIMITED KENYA

BY
MILLICENT WANJOHI
D61/5108/2017

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS OF THE MASTER OF BUSINESS
ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF
NAIROBI

NOVEMBER, 2018
DECLARATION

I hereby declare that this Research Report is my own original work and has never been presented by anybody for the award of any degree.

Signed: ..................................................Date: ......................

Wanjohi Millicent

Approval

This Research Project has been submitted for examination with my approval as the university supervisor.

Signed:..................................................Date:......................

Prof. Bitange Ndemo

Lecturer

University of Nairobi
DEDICATION

First, I wish to dedicate this project to the Almighty God, my source of strength, wisdom, knowledge, understanding and sufficient grace throughout this program and on his wings I have managed this far. I also dedicate this work to my family and friends who have encouraged me all the way and made sure that I give this project all it takes to finish that which I started.

God bless you all.
ACKNOWLEDGEMENT

My gratitude goes to God for giving me the strength and ability to undertake my MBA course. Completion of my project would not have been possible without the kind support and help of many individuals.

I would like to send my sincere thanks to all of them. I am, indebted to my supervisor Prof. Bitange Ndemo as well as my moderator Dr. Jeremiah Kagwe for their insight, time, encouragement as well as support from the time of inception up to the final submission of the project.

Gratitude to my MBA colleagues with whom I interacted with, and my friends who supported me as well. Many thanks also to the Bidco Oil Refineries Limited management for allowing me to conduct my study and gather data without much restriction.

Finally, to my parents Francis Wanjoji and Martha Wanjoji for their support throughout my education journey, am grateful for your love and support all the way.
ABSTRACT

Globally, family-owned businesses support some 50 percent of the population, and during these difficult economic times, they put many of the unemployed back on the payroll thus playing a significant role in the economy. For most family enterprises succession phase is the biggest challenge. For effective succession to take place in an organization family enterprise need to practice succession planning. The objective of the study was to determine the role of succession planning in family enterprises. The study used the following theories to support the study; game theory of succession planning, leadership model succession theory and requisite organization theory. The research design which was used in the study is case study. During data collection an interview guide was used which was issued to 5 key managers at Bidco Oil Refineries Limited as the respondents. To analyze primary data content analysis was used. The study established that Bidco two levels of senior leadership. The senior level leaders and departmental managers. Currently Bidco oil refinery is run by a second generation of the Vimal Shah family. In addition to the members of the founder’s family, there are other relatives working in the business. On how Bidco has managed to succeed this far, the Vimal Shah family members decided amongst themselves and agreed to segregate the functions from shareholders, directors, management to operations. On the succession planning methods that should be adopted to propel the family owned businesses to the future generations, the study revealed the following method are the best for succession planning; Giving successor responsibilities that require real family business sustainability, training on managerial skills required to run the business after the departure of the owner manager, transfer entrepreneurial secrets to the successor during development, family's commitment to the business influences successor training and well-timed parenting and early mentoring. Generally, it can be concluded that owners or founders of family owned businesses perceive that succession planning is important for business continuity but do not seem to demonstrate that in the form of written succession plans. The perception of many founders or owners on the importance of succession planning in relation to business continuity is nuanced, in that, those with high level of formal education tend to have positive perception on the importance and need for succession planning and business continuity as compared with those with lower levels of formal education. The highly educated tend to believe that though business planning is tedious, possessing that skill is important since it enables succession planning. The study recommends that successor should be given responsibilities that require real family business sustainability. This should include Training on managerial skills required to run the business after the departure of the owner manager. Also Transfer of entrepreneurial secrets to the successor during development should be done to enhance business sustainability. It’s from these findings the study recommends that a careful planning process for ownership, leadership, and management should be done earlier in family business. This happens to be the backbone of family business success and survival through the second generation. Old generation and new generation should have frequent constructive dialogue. These dialogues help to mentor future leadership in family business and minimize chances of conflict in management of the family business. The study thus recommends that the owner-manager should become consultant as young successor take managerial role.
**TABLE OF CONTENTS**

DECLARATION.......................................................................................................................... ii  
DEDICATION............................................................................................................................. iii 
ACKNOWLEDGEMENT............................................................................................................... iv 
ABSTRACT............................................................................................................................... v  
TABLE OF CONTENTS ........................................................................................................... vi 
LIST OF ABBREVIATIONS ....................................................................................................... viii 

CHAPTER ONE: INTRODUCTION............................................................................................. 1  
1.1. Background of the Study.................................................................................................... 1 
1.2. Research Problem ........................................................................................................... 5 
1.3 Research Objectives .......................................................................................................... 7 
1.4. Value of the Study ........................................................................................................... 7 

CHAPTER TWO: LITERATURE REVIEW................................................................................... 9  
2.1. Introduction ...................................................................................................................... 9 
2.2. Theoretical Framework ................................................................................................... 9 
2.3 Factors Affecting Survival of Family Enterprises ............................................................... 11 
2.4 Succession Planning in Family Enterprises ...................................................................... 12 
2.5 Succession Planning and Firm Performance ..................................................................... 13 
2.6 Empirical Literature ........................................................................................................ 13 
2.7 Summary of Literature Review ....................................................................................... 17 

CHAPTER THREE: RESEARCH METHODOLOGY ................................................................... 18  
3.1 Introduction ..................................................................................................................... 18 
3.2 Research Design .............................................................................................................. 18 
3.3 Data collection ................................................................................................................ 18 
3.4 Data Analysis .................................................................................................................. 19 

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION..................................................... 20  
4.1 Introduction ..................................................................................................................... 20 
4.2 Response Rate ................................................................................................................ 20 
4.3 Top managers at Bidco.................................................................................................... 21 
4.4 The Current Generation at Bidco oil Refineries Limited ................................................ 21 
4.5 High Level Managers Bidco ........................................................................................... 21 
4.6 Factors that affect the survival of Bidco oil refineries limited ........................................ 22
4.7 How Bidco has managed to succeed this far ................................................................. 23
4.8 Changes in leadership at Bidco .................................................................................. 23
4.9 Bidco succession plan ................................................................................................. 24
4.10 Provision of future road plan for the business ......................................................... 25
4.11 Factors considered before Bidco transfer leadership to the next generation .......... 26
4.12 Performance of Bidco before and after second generation succession .................. 27
4.13 Ensuring Bidco success to the third, fourth and successful generations ............... 28
4.14 Inherent pitfalls that affect the growth of Bidco into the future generations .......... 28
4.15 Succession planning methods that should be adopted .............................................. 29

CHAPTER FIVE: SUMMARY CONCLUSIONS AND RECOMMENDATIONS ........... 30

5.1 Introduction .................................................................................................................. 30
5.2 Summary ..................................................................................................................... 30
5.3 Conclusions ............................................................................................................... 31
5.4 Recommendations ................................................................................................... 33
5.5 Limitations of the Study .......................................................................................... 34
5.6 Recommendation for further studies ....................................................................... 35

REFERENCES ................................................................................................................. 36

APPENDICES ................................................................................................................... 43

APPENDIX I: INTERVIEW SCHEDULE ............................................................................ 43
LIST OF ABBREVIATIONS

GDP  Gross Domestic Product
CEO’S  Chief Executive Officers
SMEFS  Small and Medium Family Owned Enterprises
RO  Requisite Organization Theory
MORS  Manager Once Removed
SORs  Subordinates Once Removed
SPSS  Statistical Product and Services Solutions
CFO  Chief Finance Officer
COO  Chief Operations Officer
CHAPTER ONE: INTRODUCTION

1.1. Background of the Study
Succession planning as indicated by Gerick (2005) is important input for the overall in family owned businesses, the country’s economic growth and development, forming seventy percent of the private sector in an economy. Another study by Marisetty, Ramachandran and Jha (2008) indicates that succession in family enterprises is known to be good news by the market participants. The research also found that family enterprises performance improves after succession and also those businesses with good succession records better profits.

The study is anchored on game theory of succession planning. According to Watts and Tucker (2004) game theory explains that all instances require strategic thinking and using available recourses to get to the best plan to achieve one objective. Game theory examines succession as a set of related choices made by a firm about individual leadership. Another supporting theory is leadership theory of succession theory. Leadership model succession theory states that to make sure there is good succession planning, family enterprises should maintain redundancy in the organization structure, (Ibrahim, Soufani, & Lam, 2001). Requisite organization theory is the other theory that have anchored this study. This theory indicates that organisation staff capacity is one of the fundamental element in determining who to succeed and its measuring unit is time-horizon. Time-horizon is also referred to as the unit in which employee’s capability is measured (Shepherd & Zacharakis, 2000).
For most family enterprises succession phase is the biggest challenge. For effective succession to take place in an organization family enterprise need to practice succession planning. Family enterprises consist of more than 50% of the private companies. In the recent past they have created opportunities reducing the rate of unemployment in Kenya.

Succession planning helps the organization to have the right people in the different positions in family enterprises. Succession planning focus on leadership and positions key to the objective of the organization in all departments (Bjursell, 2011).

1.1.1. Succession Planning

Succession planning is a process of appointing suitable employees and preparing them through mentoring, training to replace key people in the organization who leave due to retirement, advancement and attrition (Rodrigo, 2013). Succession planning involves preparing leaders for present and future work responsibilities. Planning for succession is one of the most challenging phases within the family enterprises and also one of the key determinants of the overall success of firms (Dunemann & Barret, 2004). Planning enables identification of possible personnel at all levels of the organization. A large number of family businesses always leave succession planning to fate (Rue & Ibrahim, 1996).

Researchers argue about succession planning being a process or an event of transferring ownership control to a successor. Succession planning includes elements which must antedate the initial succession plan. Apart from succession of top level manager’s succession in family enterprises involve other factors such as; processes needed for a thriving transfer, lawful and monetary consideration, emotional factors and management development and depart strategies (Barry & Gabriel, 2006).
1.1.2. **Family Enterprises**

Family enterprises are organizations where one or more family member own. Family enterprises are unique organizations. In family businesses family and businesses interrelate. The relationships between families and businesses is considered compatible (Davis, 1968). The relationship moves to different generations which even though its natural it’s a challenging process (Farquhar, 1989; Vancil, 1987). Most firms have prepared plans to guide them in succession. Lack of proper succession is believed to cause conflicts in family enterprises (Handler, 1988; Beckhard & Dyer, 1983). Some studies differ with the argument that planning succession leads to family enterprises success (Astrachan & Korenko, 1993).

Statistics states that only 30% of family enterprises get to the following generation and 10-15% survives the third generation (Fleming, 2003).

In east Africa Kenya leads in development. Kenya has 2010 gross domestic product (GDP). Family business play a higher role in the GDP (Rodrigo, 2013). Family businesses are the key boosters of the Kenya’s economy. In their operations family businesses face several challenges due competition in the business environment. If issues are not handled with care family businesses may break families, the same families that founded the businesses. To solve this problem there is need to focus on ownership and reward, communication, rewards and benefits and participation of family members in succession (Waweru, et al, 2001).
Family businesses make up 60% of Kenya’s employment and 78% of the new careers. A research also shows that family enterprises run by 5 women have grown 37% in the last 5 years. Family businesses are known to have an average life span of 24 years (Waweru, et al, 2001). Woolworth’s supermarket was founded in 1985 and in 1997, the original company Woolmatt Ltd stopped operating and a year later Uchumi opened a company under the name Transmatressess registered in 1998. In 2010, Nakumatt holdings, claimed it had acquired woolmatt’s four branches in Nairobi. Wool matt went down at second generation.

1.1.3. Firm Performance

Mwangi (2013) defined performance as a term used in all organization activities during a period of time with reference to past of predictable costs, competence, management possibility and responsibility. Performance refers to aspects such as skills, knowledge, attitude and behavior which explain how employees accomplish the firm’s desired results. Performance can also be explained to as achievement of a certain task measured against set principles, exactness, totality cost and speed that lead to effectiveness and efficiency. Apart from profits managers of family enterprises need to focus on meeting customer requirements by satisfying emotional needs of family members such as the need for belonging, affection, intimacy and sense of indent (Mwangi, 2013).

Other scholars argue out that other disciplines include bookkeeping, money matters, strategic management, psychology, operations management and life skills, managerial skills and sociology (Marr & Shiuma, 2003). The tools that are mostly used for accessing firm’s performance is financial data.
The data is however is difficult to get since most of the family enterprises do not publish their financial statements. Many firms use ratios such as return on assets, return on equity to measure performance. Kaplan and Norton (1992) mentioned that financial dimension encourage short-termness and restricted optimization and then overlooks extended period advance strategy, ignoring opponent information and dealings with customers.

1.1.4 Bidco Oil Refineries Limited

Bidco Oil Refineries is one of the largest family businesses in Kenya. Bidco Oil And Refineries Limited head office is in Thika, Kenya. The company has branches in East Africa, Central Africa and South Africa. Bidco’s Products range from Edible Oils, fats, margarine, laundry bars and detergents, personal care products, and animal feeds. The company owns over 40 brands and is the largest producer, marketer, and retailer of consumer goods in the region (Ware, 2013). Bidco was founded in 1991 as a manufacturing organization.

The company has established a strong presence in Kenya and within east and Central Africa. Bidco belief that customer is king. To be able to satisfy customers Bidco offer its customers reliable services and affordable products. Bidco’s products are of high quality and are a popular with a vision of becoming the market leader in Africa by 2030.

1.2. Research Problem

Family enterprises exist all across the world. The biggest challenge faced by family owned businesses in Kenya succession (Astrachan, Klein & Symronois, 2002). There are many family businesses in Kenya who have court cases concerning business succession. Most of the cases are about family members stopping other family members to take
control of the business after death of the founders. Only one third of family enterprises survive to the next generation, and about 10% -15% make it into the third generation (Birley, 1986).

Froelich, McKee and Rathge (2009) did a study on succession planning in non-profitable organizations. They found out that these kinds of organizations ignore succession planning though they consider it to be one of the factors that hinder organization’s success. Naldi et al (2007) did a study on succession and firms performance where they employed financial and non-financial measures. They found out that succession planning have a positive impact on firm’s performance. The studies were done outside Kenya’s context.

In Kenya, a few researches have been done on succession of family owned businesses. Hussein (2013) did a study on effect of strategic succession planning on family owned business. He found out that succession planning is vital to future survival and success of family owned firms. Muvea (2013) did a study on strategy development of family owned businesses in Mombasa County. Her findings were that family owned businesses embraced strategic development and succession practices in order to position themselves favorably within a dynamic, complex, and ever-turbulent environment.

Kenneth (2013) did a study on effect of CEO’s succession on share price performance on listed companies. The findings of the study were CEO’s succession have an effect of share prices as per market reaction to it as bad or good succession to the firm management. Charles, John, Patrick and Gakure (2012) carried an empirical investigation
role of succession planning on sustainability of SMFES after succession in Kenya. The study findings were SMFEs hardly continue operating once the founders cease to exist.

This research papers efforts to empirically study the role of succession planning in family enterprises: A case of Bidco. Researchers in Kenya, Muvea (2013); Kenneth (2013); Hussein (2013); Charles et al (2012) have not studied the role succession planning of individual family owned businesses hence the existence of a gap.

Also their result was mainly on the effect of succession on a group of family enterprises in different industries. The study seeks to answer the following research question; what is the role of succession planning in family enterprises performance?

1.3 Research Objectives

The objective of the study is to determine the role of succession planning in family enterprises performance.

1.4. Value of the Study

The study will be of benefit to other individuals, existing family enterprises and also families intending to start family businesses. Existing family enterprises will benefit from the knowledge of how to manage succession to leading to the long term succession of their enterprises. Family investors will benefit from the knowledge of the risk family enterprises face by not undergoing a planned succession. The study will be of much help to future researchers since they will already have compiled information. It will be of much help to researchers who will further research on the topic on succession in family enterprises.
The study will be of much help to family enterprises which have faced challenges of closure after the third and fourth generations. The study will promote policy development related to family enterprises by the governors and the government at large. They can set policies on succession to ensure survival on family enterprises to promote long term success of the enterprises.
CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction
The chapter covers literature on family enterprises. It also includes the relevant theoretical review.

2.2. Theoretical Framework
There are several theories in succession of family enterprises. Amongst them are requisite organization theory, leadership model succession theory and game theory of succession planning.

2.2.1. Game Theory of Succession Planning
This theory is concerned with interdependent decisions. It was developed in 1950 by many scholars. Game theory explained numerical models of conflict collaboration between intellectual verdict makers. The problem involves many participants, each having an individual objectives related to a common system. Game theory came from analysis of competitive scenario, problems being games and participants players.

All instances require strategic thinking and using available recourses to get to the best plan to achieve one objective (Watts & Tucker, 2004). The concept of game theory is extended to interdependent decisions where options being evaluated are functions of the player’s choice. One of the biggest challenges in a family business is succession. Game theory is based on decisions regarding the future successors on an organisation. Choices are made based on leadership qualities.
2.2.2. **Leadership Model of Succession Theory**

Leadership model succession theory states that to make sure there is good succession planning, family enterprises should maintain redundancy in the organization structure, advance planning for retiring employees in managerial positions by getting successors before leaders leave and preparing the internal candidates for leadership and making the succession process take place swiftly (Ibrahim, Soufani, & Lam, 2001). Successful family enterprises have the potential to survive past the first generation.

Corporations, nonprofits or cooperatives have aspects that are similar to, but different from the founders. Succession if the process of preparing today’s leaders for tomorrow. Deciding who will take over the leadership after the founders’ retirement or death. Succession models differ based on how family enterprise has been managed (Bjuggren & Sund, 2001).

2.2.3. **Requisite Organization Theory (RO)**

This theory as used in this study states that organisation staff capacity is the key factor in determining who to succeed and its measuring unit is time-horizon. Time-horizon is the period of time a person can plan and work. Time-horizon is also referred to as the unit in which employee’s capacity is quantified (Shepherd & Zacharakis, 2000). As per the requisite theory, family enterprises identify major talents during succession planning by analyzing employee’s age and capability in steering the organisation to high levels of performance. The potential progression characteristics helps the founders have clear path while appointing successors (Bird, Welsch, Astrakhan, & Pistrui, 2002).
2.3 Factors Affecting Survival of Family Enterprises

In the US only 30% of the family enterprises get to the next generation after the founders leave. 15%-16% of the businesses survive to the third generation. Researchers in the Uk found out that only 30% of family businesses survive to the second generation and only 13% survive into the third generation (Zahra & Sharma, 2004). good performance of family businesses is affected by lifecycle of the founder (Astrachan & Shanker, 2003).

According to Bjuggren and Sund (2001) one of the reasons for low survival rates among family enterprises is succession to offspring’s rather instead of handing over to professional managers. The third generations are born while there is a lot to spend on than strive to get hence they see no need to work harder. Studies in succession have suggested end of operations in family enterprises are due to wars on who will succeed when there is no clear determination on who will succeed in running the entreprise amongst the family members and the extended family members (Klein, 2000).

Most countries have family enterprises forming the largest percentage in terms of ownership; estimate is above 75% (Watts & Tucker, 2004). family businesses that survive to future generations have good structures and agreements (Jaffe & Lane, 2004). There are a lot of activities happening between families and businesses making it difficult for both to grow at the same time (Chrisman & Chua, 2003).
Family enterprises do not devote themselves to the process involved in ownership and management succession. A Study by Watts and Yucker (2004) stated that family enterprises avoid addressing the issue of ownership and succession planning. Succession is also influenced by family policy on succession in key positions and ways of resolving conflict.

2.4 Succession Planning in Family Enterprises

The process of preparing tomorrow’s leaders today is referred to as succession. Transferring ownership involves focusing on the future of the organization (Mazzola, Marchisio & Astrachan, 2008). Transfer of ownership and leadership in family businesses is an event. The family business success depends with how soon they start the succession process. Family enterprises founders come up with ideas on succession but leave without implementing them. After succession situations make successors make critical decisions which may affect the operations of the businesses (Molly, Laveren, & Deloof, 2010).

A research carried by Sonfield and Lussier (2004) revealed that negligible family enterprises endure to the second generation. One of the reasons why family enterprises don’t survive to the second generation is unqualified successors. The other major reason that makes family enterprises not to succeed in to the future generations is lack of succession planning.
Some businesses fail to consider all aspects when deciding who to choose as the successor amongst the family members (Gilding, 2005). Families tend to connect better with people who share their culture i.e. values, styles and beliefs (Bocatto, Gispert, & Rialp, 2010). Zellweger and Nason (2008) states that successors need to commit themselves to manage the all-important family component.

### 2.5 Succession Planning and Firm Performance

The main purpose of succession planning is good performance in the organization which is one of shareholder’s key objective. There are cases of contradiction of this fact due to the complicated nature of family enterprises. This has led to application of different empirical and theories. Allen, Panion and Lotz (1979) argued that succession planning affects the performance of the organization negatively since it interferes with work routines, interrupts command and increases employee’s insecurity. The difference in performance comparison is explained by the fact that family an enterprise has a good effect to firm’s performance up to a certain degree. Increased family involvement may contribute to firm’s performance, but for large firms it may have negative effects to the family ownership and management and eventually reducing performance (Kowalewski, Talavera, & Stetsyuk, 2009).

### 2.6 Empirical Literature

Many scholars have researched about succession. Different aspects of succession have been looked at ranging from succession in different types of industries. This section will highlight different researches on succession and the results of the researches.
Marisetty, Ramachandran and Jha (2008) examine a research on the Indian family enterprises succession plan. The research used descriptive research design. The study used a sample size of 124 Indian family businesses; the finding of the study was that succession in family enterprises is known to be good news by the market participants. The research also found that family businesses performance improves after succession and also those businesses with good succession records better profits.

Cucculelli and Micucci (2008) carried an empirical review on family business succession and organisation financial performance on a group of Italian family businesses. This study used descriptive research design and used questionnaires to collect primary data and financial reports were obtained from secondary data. The researchers found out that family members in the management have a bad effect on the organization’s performance.

Diwisch et al (2007) did a study aimed at establishing the relationship between succession planning and organisation financial performance. The study used a sample of 4000 Australian companies. The study used both primary and secondary data. The findings of the study were that there was no significance difference in growth of employment between firms that planned succession in the next 10 years and firms which did not plan succession.

Froelich, Mckee and Rathge (2009) did a study on the effect of succession planning on non-profit organizations. The study used descriptive research design and used questionnaires to collect primary data. Their desire for such organizations was the lack of enough
study, that will cover these organizations, yet management of such organizations can be more difficult due to lack of experienced executives, poor wages and lack of organizational infrastructure which are less lucrative to younger generation. The findings of the study were that non-profit organizations do not put a lot of weight on succession planning yet they considered it to be one of the factors that affect their performance.

In Kenya the number of empirical studies done on family businesses is few: Charles, John, Patrick, and Gakure (2012) carried an empirical investigation on role of succession planning on sustainability of SMFES after succession in Kenya. The researchers used descriptive research design. The target was 237 respondents. The study conclude that the degree of monitoring affect the survival of SMFES succession. Another finding was that literacy and training affected the survival of SMFES after succession.

Hussein (2013) did a study on the effect of strategic succession planning on family owned firm. The study used descriptive research design .The sample size of the research was three supermarkets. Hussein used questionnaires to collect primary data and used SPPS to analyze data. The study concluded that strategic succession planning effect on future success and survival of family owned business. The success of the business according to majority of the respondents is dependent on the strategies applied in sustaining its success hence strategic succession planning is a platform on future success or failure of an organisation.

Muvea (2013) study on strategy development of family owned business in Mombasa. Descriptive research design was used in the study. The study took a sample size of family
businesses registered in the county. Through apply regression analysis she ascertained that majority of the family businesses in Mombasa County practice strategic succession and development. The study found out that most family businesses practice have embraced strategic succession in order to position themselves favorably within a very dynamic, complex, and ever-turbulent environment.

Rotich (2013) did a study on succession planning of financial performance of family owned supermarkets in Nairobi County. The study used descriptive research design. They sampled 45 supermarkets within Nairobi County. Primary data was collected using open questionnaires which based on the research question and the objective of the study. The data was analyzed using SPSS and specific statistical methods such as correlation and multiple linear regressions. The study found succession planning was positively related to financial performance which supports findings of studies done by (Jackson, et al, 2013)

Muhia (2009) did a study of family business succession practices of private schools in Nairobi. The study used descriptive research design. The sample size was 50 private schools registered in Nairobi County. Data was collected using questionnaires. Data was analyzed using SPSS. After the study found out that there was existence of succession plan in the private schools, owners have the plan as an idea in their mind and have not put it down into writing. 34% of Institutions which did not have succession plans attributed the non-existence to the year of inception, that is, they have just started and hence they are still put up their processes in place. For school that had succession plan, 75% had identified the successor while 25% had not.
2.7 Summary of Literature Review

Many theories have explained succession in family business. Game theory of succession planning examines succession as a number of related choices made by a firm about individual leadership. Leadership model succession theory dictates that family enterprises must maintain redundancy in management structure to ensure transfer of leadership and ownership, maximum coverage as well as prior planning for retiring employees in key positions. Lastly Requisite organization theory (RO) states that employees’ capabilities is the main aspect in indentifying ability in the succession management and is measured in the unit of time-horizon. The common evident from these theories is that Succession planning is an ongoing process for most of the family owned firms and that those responsible for planning and developing succession plans must have future business vision.

Muvea (2013) and Hussien (2012) both determine the implication of succession planning practices in the family owned business and supermarkets respectively and found positive impact on success of family firm. The work of Charles, John, Patrick and Gakure (2012) found out that succession planning play a big role on survival of SMFES after succession. Mariselty, Ramachandran and Jha (2008 and Cuculelli&Mucucci (2008) examined effects of succession on firm performance in difference context and arrived at the same conclusion that good succession helps improve firm’s performance. The empirical evidence Muvea (2013);Kenneth (2013);Hussein (2012) in Kenya show that there is no study that have been done focusing on a single family business in Kenya, The gap exist because international scholars carry their study in different context, hence the research will examine whether the result are true for Bidco Oil Refineries Limited.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter included the research methods employed to collect and analyze data, it involved the design and the population used in order to achieve the study’s objective.

3.2 Research Design

The research design which was employed by the study is case study. A case study is preferred because it aids in giving the researcher a clear understanding of the study in single instances, Bidco Oil Refineries Limited. (Cooper and Schindler, 2006) stated that case studies emphasize on contextual analysis of less event and conditions, and their relationships. According to (Kothari, 2000) research design is the collection of conditions or collecting and analyzing data in a way that aims to come up with relevance to the research purpose with economy in procedure. Secondary data used in the study included data that exist in published journals, periodicals, economic reviews annual company accounts and commercial sources (Kothari, 2000).

3.3 Data collection

During data collection an interview guide was used which was issued to 5 key managers at Bidco Oil Refineries Limited as the respondents. Interview guides help in enabling oral administration of questions directly in an involving interview encounter hence collecting data in depth. This involved individual meetings with managers. With unstructured questions, the person responding to the questions respond’s in depth without missing out any information (Copper and Schindler, 2006). Further investigation was also done to get additional information when presiding over the interview guide.
3.4 Data Analysis

To analyse primary data content analysis was used, Mugenda and Mugenda (2003) stated that the reason most people use content analysis is because it analysis information already there to find out why something happened the way it did. Responses obtained from different responses were summarized as per the research objectives. Content analysis is mostly used due to its flexibility in analyzing non-structured questions and letting objectives, systematic and quantitative description of content communication (Cooper and Schindler, 2006).
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the analysed data collected from 5 key managers at Bidco Oil Refineries Limited. The study intended to determine the role of succession planning in family enterprises. Primary data was collected using interview guides and analysed using content analysis method.

4.2 Response Rate

The target population was ninety seven family owned businesses in the manufacturing industry in Nairobi County. The study was a census and therefore 97 (100%) questionnaires were administered to the family owned businesses in the manufacturing industry in Nairobi. A total of 65 completed questionnaires were returned while 32 questionnaires were not received even after follow-up. Consequently, the response rate was 67.0%. Mugenda and Mugenda (2003), and Saunders, Lewis & Thornhill., (2007) have argued that a response rate of 50 per cent is adequate, a response rate of 60 per cent is good, and a response rate of 70 per cent is very good. Sixty seven per cent response rate was therefore appropriate for drawing conclusion of this study.

The target population 5 key managers at Bidco Oil Refineries Limited. The searcher managed to do interviews on all the five targeted respondents therefore giving a 100% response rate. According to Mugenda and Mugenda (2011) stated that a response rate of 50% is adequate, 60 % is good, and 70% is rated very well. This study had a 100% response rate therefore rated very well.
4.3 Top managers at Bidco

The study wanted to establish the number of top managers both family members and non-family members. The study established that the company has two levels of senior leadership. The senior level leaders and departmental managers. The senior-level leaders include Chief Executive Officers(CEO), Chief Financial Officer(CFO), Chief Operations Officer (COO) and Supply Chain Manager. The departmental managers head the various departments established by company. The company has a total of 23 managers in Kenya who manage the Kenyan market, the subsidiaries and distributorships across 16 countries. Among the 23 managers, 10 are Vimal Shah close family members. The rest are hired based on merits.

4.4 The Current Generation at Bidco oil Refineries Limited

This study established that Bidco is currently run by the second generation. These are family members of both the nuclear and the extended family of Vimal Shah. In addition to the members of the founder’s family, there are other relatives working in the business. According to respondents the all the generations have their unique challenges which is a common observation among many family enterprises. It further established that the first generation have a higher business acumen as compared to the second and third generation. Their only challenge is that they never consider succession a challenge and never factor it in their business until it’s too late.

4.5 High Level Managers Bidco

The high level management at Bidco includes the Chief Executive Officers (CEO) who also doubles up as the managing director, Chief Financial Officer (CFO), Chief
Operations Officer (COO) and Supply Chain Manager. Among the four high level managers it’s only the supply chain managers who is a non-family member

4.6 Factors that affect the survival of Bidco oil refineries limited

According to the study respondents, the major factor that might affect the survival of Bidco is succession planning. Planning for business succession was mentioned to be the greatest impediment to survival of family enterprises. Conflict among family members is one of the major factors that threaten the existence of family business into the foreseeable future. The success of a family business can as well be affected by lack of documented framework on succession. A classic example of a bitter succession feud in the family owned businesses that exposed the negative impact of lack a clear strategic succession planning is seen in a recent fierce court battles involving siblings who own Naivas and Tuskys supermarket chains respectively, both of which are in the 2nd generation (Mumo, 2015).

Other factors which were highlighted by the respondents included: lack of cooperation, family wrangles and its management, directors vision, and future business prospects, availability of potential successor and capability of the current leadership. Issues always arise once power has been transitioned to the succeeding generation. The findings corroborate Weigel (2015) who claim that the continuity of the business and family may be jeopardised by the lack of a succession plan.
4.7 How Bidco has managed to succeed this far

On how Bidco has managed to succeed this far, the respondents stated that the Vimal Shah family members decided amongst themselves and agreed to segregate the functions from shareholders, directors, management to operations. Initially, the founders of the business were involved in all four stages but as the business grew, the operations role was the first to be delegated. With more Bidco growth the founders felt that it was prudent that the management function also be delegated, moving the family founders into the very senior positions in the company.

Overall, to avoid conflict, the Vimal Shah family have clearly defined each member’s role and hold them accountable for it. Equally critical to long-term survival of the business is succession planning where founders make an early determination on who to pass on the business to. This is discussed and put in writing for authenticity purposes and for the sake of continuity of the Bidco business. This argument is supported Clutterbuck (2012), succession planning needs a vision and/or mission to give it purpose or shape. It also needs to be linked timely to the business values, and to be integrated into other strategic processes. Annual succession planning reviews tend inevitably to emphasize replacement and continuity as core purposes. With continuous review, however, there is more likely to be a values-based mindset.

4.8 Changes in leadership at Bidco

Based on the findings, the study respondents indicated that the Bidco would be looking for changes in its leadership not necessarily just immediately but in the future. The respondents
were of the view that Bidco do not change their leaders unless there are serious concerns or voluntary need to change the leadership. The study findings are in line with those of Weigel (2013) who revealed that lack of a well prepared and organized succession plan will lead to business failure. This is further supported by the Froelichet (2011) who states that the family member’s commitment plays a fundamental role in talent development and frequent monitoring of the successors skills level.

4.9 Bidco succession plan

The study revealed that the company have a well elaborated succession plan. The succession planning is based on talent focused and skills capacity. The company further emphasizes on the different demographics leadership in different departments. Further key components such as corporate governance, mode of internal and external communications, critical information availability, modes of decision making, human capital development such as employee recruiting, employee talent development and staff retention.

According to Wolfred (2013), an organization that gives ongoing attention to talent-focused succession planning can be nimbler and flexible, having the skills and capacity at hand to meet whatever challenges that may arise. In turn, the executive’s job becomes more manageable because leadership is shared. From the findings, majority of the respondents agree that strategic succession plan helps smooth running of family business and that succession plan does not help without family willingness. The findings clearly bring out the importance of strategic succession planning on the family owned businesses and the key role the family plays in realising successful succession. The success of
the business according to majority of the respondents is dependent on the strategies applied in sustaining its success. This agrees with studies by Mazzola, Marchisio, & Astrachan, (2016) that strategic succession planning a roadmap guiding an organisation in its achievement of future goals. Further, the findings brought out the important role experts/professionals play in prescribing strategies suitable to the success of the family owned businesses

4.10 Provision of future road plan for the business

On whether Bidco provides a future road plan for the business, the study revealed that the Vimal Shah provided the future road map of the businesses. Majority of the respondents indicated that businesses requires strategies to remain sustainable in future and that strategic succession planning is the key factor for future moving to the next generation. The findings clearly brought out the significance of strategies to help maintain sustainability of family businesses in future. Further, the findings suggest the need for a unifying figure and family cohesion in the family businesses to enable growth and movement into subsequent generations. This explains lower survival rates among family businesses that lack succession strategies and a unifying figure, particularly after incapacitation of mostly male founders either due to ill health or death.

These finding are consistent with the opinions of Christensen (2013) and Chrisman (2014) who suggested planning in succession involves a number of activities which includes; identifying the most appropriate successors, training and mentoring the successors, giving them responsibilities related to their future designation and notifying
the management team. Their views also included the need to train the successors and to formulate a vision of the company after succession, as well as defining a role for the retiring CEO. The cited authors suggest that the succession planning process consists of discrete components which include selecting and training a successor, developing a vision or strategic plan for the company after succession, defining the role of the departing incumbent, and communicating the decision to key stakeholders.

4.11 Factors considered before Bidco transfer leadership to the next generation

On factors considered on transfer of leadership at Bidco, respondents stated that age was one of the main factor considered in leadership transfer. Obviously, the older the owner, the more proximate succession is likely to be for the organization and hence, the greater the impetus for implementing a comprehensive succession planning process. With respect to the gender, it was being found that there is a significant impact of gender on business succession planning and that sons are likely to be successors than their counterpart female owners. This finding is consistent with current debate on gender issues where it is argued that women are not given equal opportunity on asset inheritance. In line with this woman lie behind in making succession decision even to their own business. The two major reasons based on the sense that daughters would be married to other families and that sons are normally hard workers, aggressive and committed to their jobs.

With respect to education, the research results show that levels of education were also a major factor considered while transferring leadership. This finding is consistence with Sam (2013) who revealed that business owned by entrepreneurs with high level of
education consistently practice more succession planning evidenced by existence of succession plan and low rate of business closure at succession. As the owner/manager's level of education increases, so too will the extensiveness of the succession planning process. The research has further found that as business growth increases chances of business succession planning. This finding is consistent with a study by Dunemann and Barrett (2014) who considered the life stage of business and argued that stage of development and market changes may require different approaches or new skills in order to succeed hence influencing succession process.

4.12 Performance of Bidco before and after second generation succession

The study also wanted to determine how the second generation had been fairing in terms of performance as compared to the 1st generation. This study established that the first generation operated the company from 1991 to 2015. The second generation has been occupying the critical departments from the year 2015 to date. The study established that performance has immensely improved after the second generation took over. Productivity went up by over 15% while the profits margins also improved by 12%. This was further coupled by the establishment of numerous dealership in all across Africa. The company has also started farming sunflower oil in large scale in Uganda. The first generation has also played a significant role in guiding the second generation in terms entrepreneurship and business development.

The findings are in line with those of Rothwell and Poduch (2014) who argues that successor training is mediated by the family's commitment to the business and the quality of the relationship between owner-manager and successor. They conclude that the family's commitment to the business is positively associated with the degree of successor training and that the quality of the relationship between owner-manager and successor
is positively associated with the extent of successor training.

4.13 Ensuring Bidco success to the third, fourth and successful generations

On what is needed to ensure Bidco succeed to the third, fourth and successful generations, the respondents indicated that many business owners ignore the idea that they will one day exit the business. But for their enterprises to survive, this attitude has to change. This implies that the Bidco will be able to survive through 1st, 2nd, 3rd and 4th generation largely due to strategic planning, management succession planning, and leadership development. The findings clearly brought out the significance of strategies to help maintain sustainability of family businesses in future. Further, the findings suggest the need for a unifying figure in the family businesses to enable growth and movement into subsequent generations. This explains lower survival rates among family businesses that lack succession strategies and a unifying figure, particularly after incapacitation of mostly male founders either due to ill health or death.

4.14 Inherent pitfalls that affect the growth of Bidco into the future generations

From the findings, compensation issues in family business affected Bidco future growth. The study found that majority of the respondent agreed that top managers from the family member pay themselves high salary resulting to conflicts. Poor remuneration leads to high employees turnover and conflict. This has led to the numerous unrest among the Bidco employees in the recent past. According to Kamau (2013) better pay in family business lead to improvement in production. Staff reward and remuneration should be
based on market value of their position. Family business employees should enjoy pension schemes and Family member should know the salary scale of family business employees.

4.15 Succession planning methods that should be adopted to propel the family owned businesses to the future generations

On the succession planning methods that should be adopted to propel the family owned businesses to the future generations, the study revealed the following method are the best for succession planning; Giving successor responsibilities that require real family business sustainability, training on managerial skills required to run the business after the departure of the owner manager, transfer entrepreneurial secrets to the successor during development, family's commitment to the business influences successor training and well-timed parenting and early mentoring. As indicated by Rothwell and Poduch (2014), the most appropriate strategy is to link succession planning with the overall business performance strategy.
CHAPTER FIVE: SUMMARY CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter provides the summary conclusion and recommendations.

5.2 Summary of the Findings

The study established that Bidco two levels of senior leadership. The senior level leaders and departmental managers. The senior-level leaders include Chief Executive Officers (CEO), Chief Financial Officer (CFO), Chief Operations Officer (COO) and Supply Chain Manager. The company has a total of 23 managers in Kenya who manage the Kenyan market, the subsidiaries and distributorships across 16 countries. Among the 23 managers, 10 are Vimal Shah close family members. The rest are hired based on merits. Among the four high level managers it’s only the supply chain managers who is a non-family member.

This study established that Bidco is currently run by the second generation. These are family members of both the nuclear and the extended family of Vimal Shah. In addition to the members of the founder’s family, there are other relatives working in the business. According to the study respondents, the major factor that might affect the survival of Bidco is succession planning. One of the greatest threats to family business existence in the near future is poor succession planning. Other factors included: lack of cooperation, family wrangles and its management, directors vision, and future business prospects, availability of potential successor and capability of the current leadership.
On how Bidco has managed to succeed this far, the Vimal Shah family members decided amongst themselves and agreed to segregate the functions from shareholders, directors, management to operations. Overall, to avoid conflict, the Vimal Shah family have clearly defined each member’s role and hold them accountable for it. It was further revealed that Bidco do not change their leaders unless there are serious concerns or voluntary need to change the leadership. The study revealed that the company have a well elaborated succession plan. The succession planning is based on talent focused and skills capacity. Further the study revealed that Vimal Shah has provided the future road map of the businesses. On factors considered on transfer of leadership at Bidco, respondents stated that age gender and education were the major factors considered.

On the succession planning methods that should be adopted to propel the family owned businesses to the future generations, the study revealed the following method are the best for succession planning; Giving successor responsibilities that require real family business sustainability, training on managerial skills required to run the business after the departure of the owner manager, transfer entrepreneurial secrets to the successor during development, family's commitment to the business influences successor training and well-timed parenting and early mentoring.

5.3 Conclusions

Generally, it can be concluded that owners or founders of family owned businesses perceive that succession planning is important for business continuity but do not seem to demonstrate that in the form of written succession plans. The perception of many founders or owners on the importance of succession planning in relation to business
continuity is nuanced, in that, those with high level of formal education tend to have positive perception on the importance and need for succession planning and business continuity as compared with those with lower levels of formal education. The highly educated tend to believe that though business planning is tedious, possessing that skill is important since it enables succession planning.

From the findings the study found the various aspect of succession planning that affects family enterprises. The study thus concludes that succession planning strongly affect business sustainability in family business. From the finding the study revealed that giving successor responsibilities that are attached to real family business sustainability brings him close to the business. As a result, he is able to incorporate plans that address business obstacles.

On the various possible successor development activities in family business the study concludes that family businesses typically provide limited career growth opportunities for family members. The successor’s development steps involve planning, selection and preparation of the next generation of managers, transition in management responsibility, gradual decrease in the role of previous managers and finally discontinuation of any input by previous managers. Thus giving successor responsibilities and training on managerial skills regarding running of the family business transfer entrepreneurial secrets to the successor and enhances family's commitment to the business. Therefore, the study further concludes that training on managerial skills should be enhanced through cultivating positive relationship between the owner-manager and successor.

The study also concludes that the issues that should be addressed between the old generation and new generation when taking over the family business is the initiation of constructive dialogue between incumbent and successor.
Owner-manager failing to give up management of the family business may result to offspring potential conflicts arising within family businesses when parent departs. The study thus concludes that the owner-manager should become consultant as young successor take managerial role.

From the findings the study concludes that better pay in family business lead to improvement in production. Staff reward and remuneration should be based on market value of their position in the family business. The study further concludes that conflict also arise because of the top managers from the family member pays themselves high salaries. Family business employees should enjoy pension schemes and they should know their salary scale.

5.4 Recommendations from the Study

The study recommends that successor should be given responsibilities that require real family business sustainability. This should include Training on managerial skills required to run the business after the departure of the owner manager. Also Transfer of entrepreneurial secrets to the successor during development should be done to enhance business sustainability.

It’s from these findings the study recommends that a careful planning process for ownership, leadership, and management should be done earlier in family business. This happens to be the backbone of family business success and survival through the second generation. Old generation and new generation should have frequent constructive
dialogue. These dialogue helps to mentor future leadership in family business and minimize chances of conflict in management of the family business. The study thus recommends that the owner-manager should become consultant as young successor take managerial role.

The study also recommends that improvement should be done on staff reward and remuneration should and this should be based on market value of their position in the family business. The study further concludes that conflict also arise because of the top managers from the family member pays themselves high salaries.

This study further recommends that outside boards and consultants should be involved by family business to make strategic decisions. Further, written succession plans should be developed for smooth and effective business succession and generation transition.

5.5 Limitations of the Study

This study views that more research needs to be carried in this area of study. Sophisticated multivariate statistical analyses need to be constructed in order to detect whether family-owned businesses outperform non-family businesses. More specifically the use of focus groups should be considered. In addition, the no availability of data constrained the extent of financial analysis to substantiate the findings. The study would have been subject to social desirability bias and hence administration of interview guide might have reduced this bias.
5.6 Recommendations for further studies

The study has led to the establishment of further areas of study the future researchers should concentrate on. The study has concentrated on a small population hence the researcher recommends that study should be carried out using a larger population.
REFERENCES


APPENDICES
APPENDIX I: INTERVIEW SCHEDULE

1. How many of the top managers are family members and how many are non-family members?

2. What is the current generation at Bidco oil Refineries limited?

3. How many high level managers do Bidco have?

4. How many of the high level family members are family members and how many are non-family members?

5. What are the factors that affect the survival of Bidco oil refineries limited?

6. Explain how Bidco has managed to succeed to this far?

7. How often does Bidco change leadership?

8. Does Bidco have a succession plan? If yes please take me through the succession plan.

9. Does Bidco provide for the future road plan for the business?

10. What factors are considered before Bidco transfer leadership to the next generation?

11. Kindly rate performance of Bidco before and after second generation succession?

12. What should be done to ensure Bidco succeed to the third, fourth and successful generations?
13. What are the inherent pitfalls that affect the growth of Bidco into the future generations?

14. What succession planning methods should be adopted to propel the family owned businesses to the future generations?