

FACTORS FOR SELECTING INCOMPETENT SUCCESSORS IN FAMILY OWNED MANUFACTURING FIRMS IN DAR-ES-SALAAM REGION, TANZANIA

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Abstract

The study aimed at exploring the factors that lead to selecting incompetent or unsuitable successors in the family owned manufacturing firms (FOMFs) in Dar es Salaam region. The study utilised interpretivism philosophical paradigm and an inductive approach. The study employed qualitative research design, in-depth interview and it was cross-sectional in nature. Primary data were collected from ten owner-managers using snowball sampling technique. Content analysis was employed through categorising, arranging and analysing interviews, field notes and audio files into relevant themes and the findings were matched with relevant literature and theory. The study findings revealed that lack of succession planning, lack of confidence, lack of wisdom and communication problems were the major factors leading to selecting incompetent successors in the FOMFs. The study recommends that FOMFs should develop and implement the policies with plans and guidelines necessary for developing and selecting the business successors basing on merits such as qualifications, competency and suitability.

Key words: *Incompetent successor, family owned manufacturing firms*

1. INTRODUCTION

Family owned manufacturing firm (FOMF) means “the business, firm or company of the family which is passed on for the next generation of the firm’s employees to manage and control in a manner that is sustainable across generations (Labaki *et al.*, 2013; Lorna, 201; Rettab *et al.*, 2005). Incompetent successor means the successor who is unable to use knowledge and other capabilities for successful and efficient accomplishment of an appointed task, transaction of work, goal realization, or performance of a certain role in the business process (Gruban, 2003). Family owned manufacturing firms (FOMFs) are engines of the country’s development because they create jobs, pay tax and bring revenues, contributes to GDP growth and reduce inflation by exporting their products (Kingu & Ndiege, 2018; Saan, Enu-Kwesi, & Nyewie, 2018; Scheemaecker, 2017). For example, the gross value added manufacturing in China contributes to 27.7% of the national GDP and 12.1% for the USA (Morrison, 2018). The African manufacturing industries including FOMFs contribute to 1% of global GDP and merely 10% of Africa GDP (Weiss & Jalilian, 2015). The manufacturing industries in Kenya contribute to only 10.3% while in Tanzania contribute to about 8% of the total GDP (Were, 2016; Wangwe *et al.*, 2014).

Globally, 30% of family owned businesses (FOBs) including FOMFs survive to the second generation, less than 14% survive to the third generation, and less than 3% survive beyond the third generation (Beckhard *et al.*, 1983; Filep, 2012; Maas *et al.*, 2005). Akpan and Ukpai

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(2017) argue that as the FOMF passes on from the first generation to subsequent generation, management tends to become weak. Eventually business growth deteriorates. The FOMFs low survival problem is also existing in Africa due to selecting incompetent or unsuitable successors to lead those businesses (Akinyele, 2007; Magasi, 2016; Sadock, 2018; Were, 2016). The study conducted in Nairobi Kenya shows that FOMFs underperform economically because of having incompetent or unsuitable human resources (Sadock, 2018). In addition, Sadock (2018) argues that recruiting, developing and appointing unqualified successors to lead FOMFs is a total loss like committing suicide because it automatically lowers both the product quality and productivity.

Furthermore, despite the establishment of manufacturing firms including FOMFs in Tanzania been increased by 50% between 1960's and early 1970s (Wangwe *et al.*, 2014), only 13% of the FOMFs survived to 2015 due to incompetent or unsuitable successors (Maseyi, 2016). However, available studies in Tanzania fail to address why FOMFs select the incompetent successors (Magasi, 2016; Mhede, 2012; Tonya, 2015). This study therefore investigated the factors that contribute to recruiting and selecting incompetent successors as the CEOs in FOMFs.

2. LITERATURE REVIEW

2.1 Theoretical Foundation

Since the study aimed at investigating the factors leading some of the FOMFs select incompetent successors, the theoretical framework underpinning this work arises from the principal and agent relationships because the principal has the duty of developing the competent agent/successor. This study was therefore guided by the Agency cost theory (ACT) because it deals with the conflicts emanating from the principal-management relationship. ACT is believed to stem from Jensen and Meckling (1976). The origin of ACT is the existence of the conflicts of interests between the principal and the agent due to misalignment of the agent's interest and principal's interest. The agent is the manager while the principal is the owner (Fama, 1980). ACT is the economical model of man which describes the behaviour of the principal-agent relationships and the resulting structural mechanisms of the organization. ACT proposes that the agent will prefer egoistic behaviour against the behaviour expected to maximize the principal's interest (Eisenhardt, 1989; Jensen and Meckling, 1976).

The principal counteracts with the agent's opportunistic behaviour by enacting the governance and control mechanisms, hence generating the agency problems and associated costs (Fama and Jensen, 1983; Eisenhardt, 1989). ACT implicitly accentuates recruiting the compatible and competent family business successor as the agent in the proposed tenure for avoiding mismanagement of FOMF and eliminating conflicts of interest between the management and the principal. However, ACT has scant information on why some FOMFs appoint unqualified or incompetent successors to lead them. ACT is suitable for this study because it explains how the behaviour of the principal-agent relationships affects the survival of the FOMFs.

2.2 Empirical Literature Review

Chen *et al.* (2013) conducted a study on "Family Ownership and CEO Turnovers". The aim of the study was to analyze the variations in CEO turnover-performance sensitivity. The study interviewed the CEOs in panel discussion from different business firms covering a period from 1996 to 2005. The findings reveal that higher family ownership marks higher turnover-performance sensitivity among the family firms professional CEOs. These findings indicate that, with regard to successor turnover decisions, better monitoring of the competent successors by family owners leads to the alleviation of agency conflicts, but the power of family successors leads to potential family entrenchment. However, the study lacks information on why higher family ownership results into higher turnover of family firms professional CEOs. The study

filled the gap by investigating the possible reasons on why the FOMFs frustrate the competent successors and select the incompetent ones to lead them.

Tonya (2015) conducted a study on strategic succession planning and sustainability of transport enterprises in Njombe and Iringa regions. The aim of the study was to explore whether strategic succession planning influences the sustainability of transport enterprises. The study was guided by trait and behavioural theories of leadership management. The study used a sample size of 70 respondents and applied the stratified sampling techniques. The study applied qualitative content analysis. Findings reveal that the causal factors influencing the higher failure rate of transport business and its sustainability includes lack of strategic succession planning particularly in the case of the first generation retirement from the transport business. The study however lacks information on how lack of succession planning leads to selecting incompetent leaders into the key FOMFs organisational positions.

Rivolta (2018) conducted a study on “Heir to the Throne: Choice of the Replacement CEO after Unexpected CEO Turnovers”. The aim of the study was to analyze firms’ choice in replacing CEOs after unexpected successor turnovers, and the impact of the replacement decision on shareholder wealth. The final sample contained 112 unexpected successor turnovers with 61 replacement successors from a population of 2,522 CEOs turnovers from the period of 1996 to 2008. The study utilized the event study methodology to calculate the cumulative abnormal returns around the earliest announcement of old successor exit and replacement of the new CEO. The findings indicate that selection and replacement of CEO from the existing board members allows the company to fill the CEO position quickly and hence reducing uncertainty and transitional costs. The author however argues that quick selection and replacement of CEO may not be beneficial to shareholders because of the CEO being not well developed for that position. Nevertheless, the study has discrete information on why the sub-Saharan FOMFs select incompetent and unsuitable successors to lead them.

3. RESEARCH METHODOLOGY

3.1 Research philosophy

This study used interpretivism philosophical approach as it uses an inductive approach that normally begins with gathering of data and then attempt to build a theory on the subject of interest from analysed and interpreted data (Bhattacharjee, 2012). Inductive approach mostly ends with the generation of the new knowledge and improvement of a theory in question (Bhattacharjee, 2012). Interpretivism research largely depends on qualitative data although it may also rarely use quantitative data (Bhattacharjee, 2012).

3.2. Research strategies

This is a typical qualitative research because it used in-depth interview to gain the deep knowledge and understanding on the phenomenon under the study. This study utilised a case study design in a few selected FOMFs because it is appropriate for obtaining rich, detailed, and in-depth information on the phenomenon under the study (Berg, 2009). Case studies facilitate the ability to provide answers to the how and why questions and it is mostly exploratory in nature (Yin, 2014). The rationale for selecting the exploratory case study research design is due to little information available. Cross-sectional survey design was used because it allows data to be collected at one point of time using structured instruments (Kothari, 2009).

3.3 Study area and population

The study was conducted in FOMFs in Dar es Salaam region which has over 50% of all FOMFs in Tanzania (NBS, 2016). Besides, the findings by Magasi (2016) indicate that the manufacturing firms in Dar es Salaam region have inadequate succession planning and therefore leading to business deterioration after the first generation.

3.4. Sampling design and procedures

This study employed snowball sampling technique. The procedure for snowball sampling is implemented by collecting data from the members of the target population that can be located and then asking those individuals to provide the information needed to locate other members of the population whom they may know (Trochim & Donnelly, 2008). Snowball sampling is primarily applied for exploratory and qualitative research (Tan, 2009). Snowball sampling technique was chosen because of being economical, efficient and effective method for qualitative studies (Atkinson & Flint, 2001). Snowball sampling was reasonable for this study because most of the FOMFs rejected to interview any of their staff for being worried of the disclosure of their confidential information. Participant N of firm A was the first to be interviewed because was well known to researchers. Therefore, researchers asked participant N to refer them to another FOMF participant and the chain continued until a sample size of ten participants was attained.

3.5 Variables and measurement procedures

This research is a typical qualitative research and it intended to analyse the participants' views, thoughts, feelings, intentions, and experiences. Therefore, it misses direct sets of dependent and independent variables. The in-depth interview guide questions were however adapted from Rivolta (2018) and Sadock (2018) and were thereafter modified to fit the objective of this study. The interviews lasted for one to two hours in the specific FOMF. Although researchers had the interview guide for focus purpose, the interviewees were given a chance to explain issues in details.

3.6. Sources of data and methods of data collection

The study collected primary data using interview guide by interviewing the participants of a few selected FOMFs in Dar es Salaam region particularly in Kipawa, Vingunguti and Chang'ombe industrial areas where there is high concentration of FOMFs (NBS, 2016). Thereafter, some case studies were developed before the analysis was carried out. Researchers adhered to principles of privacy and confidentiality, that all information given during the fieldwork should be private and strictly confidential. Researchers instead used the letters N, P, R, S, T, U, V, W, Y and Z to represent the participants and the letters A, B, C, D, E, F, G, H, I and J to represent the names of the respective FOMFs since Trang (2016) adopted the similar approach.

3.7. Data processing and analysis

Content analysis through categorising, arranging and analysing interviews, field notes and audio files is a common method of qualitative data analysis ((Anania & Bee, 2018; Creswell, 2014; Trang, 2016). Raw qualitative data such as transcripts, field notes and audios were organised and prepared for analysis. Researchers keenly read all the data and systematically classified them into relevant themes. Thus, qualitative data were first transcribed into text and thereafter relevant themes were developed and the findings were matched with relevant literature and theory. The themes were interrelated, analyzed and interpreted accordingly. Validation of information accuracy was done to reduce misunderstanding and to develop a common scientific body of knowledge before discussing the research findings (Bhattacharjee, 2012).

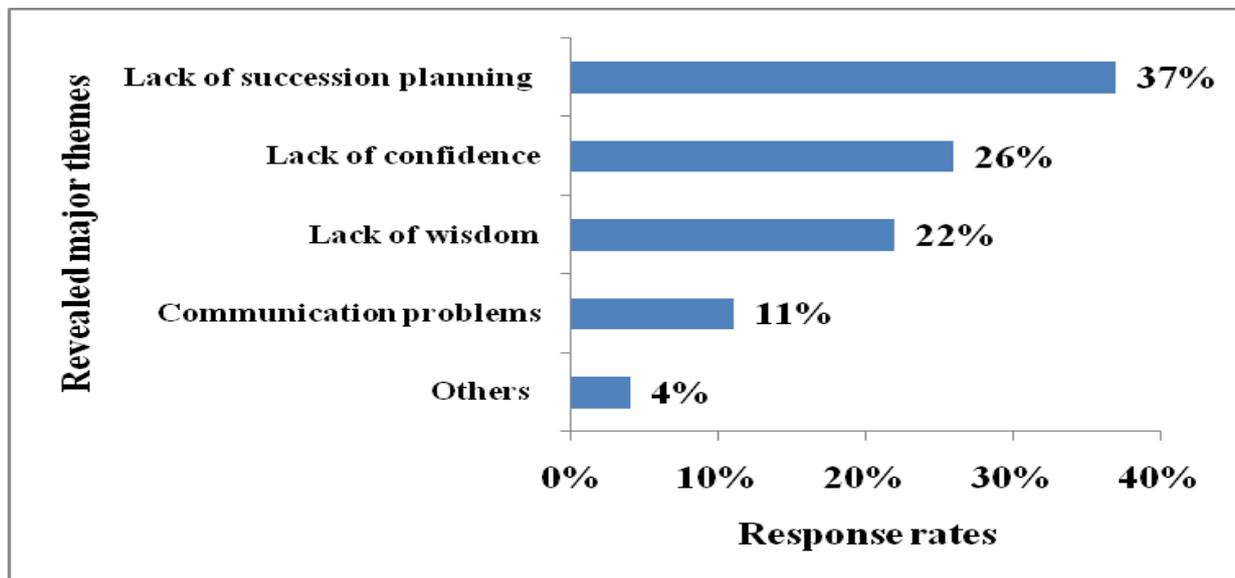
4. FINDINGS AND DISCUSSION

Table 1 presents the firms' secret names, interviewed participants' secret names, firm's sector and its location.

Table 1: Firms' names, interviewed participants' names, firm's sector and location

Firm's name	Participant's name	Firm's sector	Firm location
A	N	Plastic and Rubber Products	Chang'ombe
B	P	Food, Beverage and Tobacco	Kipawa
C	R	Timber, Wood Products and Furniture	Chang'ombe
D	S	Paper, Paper Products and Printing, Publishing and Packaging	Vingunguti
E	T	Timber, Wood Products and Furniture	Chang'ombe
F	U	Metal and Metal Products	Vingunguti
G	V	Plastic and Rubber Products	Vingunguti
H	W	Metal and Metal Products	Chang'ombe
I	Y	Paper, Paper Products and Printing, Publishing and Packaging	Chang'ombe
J	Z	Food, Beverage and Tobacco	Vingunguti

The study investigated the factors that contribute to recruiting the incompetent successor as the CEO in FOMFs. As shown in figure 1, the respondents offered a number of reasons as to why some of the FOMFs select the incompetent or unqualified successors. The findings show four main themes as the factors leading to selecting or appointing the incompetent successors in the FOMFs. These include lack of succession planning (37%), lack of confidence (26%), lack of wisdom (22%), communication problems (11%) and others (4%).

**Figure 1: Factors leading to selecting incompetent successors in the FOMFs**

4.1 Lack of succession planning

Lack of succession planning emerged as the major reason (37%) for selecting the incompetent or unqualified successors in the FOMFs. Sambrook (2005) defines succession planning as the attempt to plan for the right number and quality of managers and key-skilled employees to cover retirement, resignation, termination, sudden death, serious illness or promotion. The purpose of succession planning is preparing the competent employees, with the right qualifications at the right time to fill the key organizational positions if left vacant or newly created by the firm. When asked why they were not effectively practising succession planning, the participants argued that lack of succession planning was attributed by lack of education on how to get the qualified CEO, lack of ability to assess the potential successor skills, lack of succession planning guide and failure to timely prepare the potential business successors. For example, one of the participants responded that:

“...My firm has neither succession plan nor succession planning guide. Yes, we can prepare future leaders.....but who is sure that they are going to remain in this firm. It is therefore worth to spend most of our time in nurturing the business rather than preparing the so called business successor...” (Interview held with participant P from firm B on 23rd April, 2019 at Kipawa in Dar es Salaam region).

Basing on that argument, the respondent is in doubt that those who are prepared as the successors sometimes are likely to quit to other businesses and thus a loss to the firm. However, lack of succession plan in place is a threat to the firm’s continuity because that firm will fail to have the competent successor and is likely to practise leadership replacement if the vacant positions arise. If the management and board of directors do not have the succession planning guide, they fail to understand the strengths, weaknesses, required qualifications, characteristics and developmental needs of the potential successor (Tan, 2009; Rothwell, 2010; Trang, 2016). As the evidence, participants claimed that most of the FOMFs were purely practising leadership replacement and not succession planning. The participant narrated that:

“...In 2015 our company had the sales manager aged 60....but looked tired. It is the business principle that the sales manager should at least be energetic and aggressive. We however failed to get the competent person from the company who could immediately replace him and we extended his contract on the six-to six months tenure...” (Interview held with participant V from firm G on 27th April, 2019 at Vingunguti in Dar es Salaam region).

4.2 Lack of confidence

Lack of confidence (22%) was identified as the second reason for appointing the incompetent successor to lead the FOMFs. Fear of confidence is mainly triggered by socio-cultural issues (Taruwinda, 2011). Some owner-managers think that earlier development of the successors could result in injustice or unfairness among the family members. For example, one of interviewees opined that:

“...Having early succession planning in this firm is not good because some of the family members will think that I am not fair to them and that I only love one family member who is being prepared as the successor...” (Interview held with participant R from firm C on 24th April, 2019 at Chang’ombe in Dar es Salaam region).

This argument is in harmony with Scotland (2010) who argued that having inequality among the family members results in breakdown in communication and cooperation; thus, disturbs the stability of the family business. Besides, one of the respondents opined that:

“...Unfortunately those family members who are not in favour of holding the main leadership positions in the firm, would feel to be left out, and thus create the dissatisfied behaviours...and consequently, family members out of the management group will start to hate those who are in the management...” (Interview held with participant R from firm C on 24th April, 2019 at Chang’ombe in Dar es Salaam region).

The findings imply that earlier preparation of the family members who are deemed to fit in holding the key organisational position is likely to create sibling rivalry. It is therefore right to argue that some incumbents fall short of having succession plan in place simply because they want to be fair parents to every family member. Thus, the only solution to fill up the vacant organisational positions is by leadership replacement. Contrary to the given information, Netsianda (2008) is of the opinion that inter-sibling comparisons, mode of justice and parental role affect the sustainability of the family businesses. In addition, some of interviewees argued that formalizing succession planning while they are still alive and energetic is not culturally acceptable because is likely to attract catastrophic problems to somebody’s life. For instance, one of the participants argued that:

“...You have already told me that succession planning is important because we human beings may exit from the management of the firm for different reasons including retirement, stepping down, medical reasons, firing or death. Why should I predict bad things to my life? Let us leave everything to Almighty God. If unfortunately it happens that I exit from this firm before developing the successor, by nature everything will adjust itself including the next top leader...” (Interview held with participant T from firm E on 25th April, 2019 at Chang’ombe in Dar es Salaam region).

The information given supports Hofstede (2001) argument that culturally rooted issues take time to change and if they are harmful, may progressively affect economic development of the particular society for a long time. The claim given by the respondent is misleading that succession planning is not important as long as one is still alive. The incumbents should realize that the exit from the business management for several reasons including retirement, medical reasons or death is inevitable. To the contrary, some participants argued that it is economically sound to involve the potential successors in business management by assigning them with the relevant duties and responsibilities from the low levels and practically seeing and doing what is transpiring in the business. The participant stated that:

“...If you want potential successors to be competent, proactively involve them in managing the business by assigning them with the relevant duties from the low levels.... for example, duties related to business operations, production, marketing and sales. Thereafter, shift those potential successors to finance and accounting section; introduce them to customers, suppliers, financial institutions, and systematically train them on how to deal with all important business stakeholders. They must visit the customers to collect debts and train those customers on how to use the company’s products...” (Interview held with participant N from firm A on 22nd April, 2019 at Chang’ombe in Dar es Salaam region).

The findings imply that the respondent is aware of what is succession planning and how to successfully practice and handle it. He posits that stepwise development of the potential successor by introducing that successor to every important section of the company could improve his or her skills, knowledge, experience, behavioural attitude and competency. It is therefore worth to argue that sequential involvement of the family members in business management and control will make them future strong leaders. Conversely, if the successors are given the key leadership positions immediately after the formal education, they are likely to fail in leading the business because of taking a long learning curve to gain the necessary business knowledge, skills, experience and ethics (Anzanello & Fogliatto, 2011).

Similarly, scholars argue that succession planning must be a continuous process within the firm like the pipeline so that the competent and qualified successors are always available to fill the key vacant leadership positions in time for business continuity (Drucker, 1999; Rothwell, 2010; Almessabi, 2017; Saan, Enu-Kwesi, & Nyewie, 2018). Surprisingly, one participant bitterly and seriously disqualified all the family members from leading or managing the firm. He claimed:

“...Managing the manufacturing firm is a difficult task because it needs competency, creativity, hard working spirit and confidence. It even becomes an illness when all the family members are either weak in managing the firm or could steal everything you have in that firm. All my children are not trustful...On the other hand it is difficult for non-family members to inherit this business. To me I am in the dilemma who will manage this firm after exiting from the management...” (Interview held with participant U from firm F on 26th April, 2019 at Vingunguti in Dar es Salaam region).

The findings are linked to ACT in that there is a relational thinking in terms of individual’s self-interests and personal gains between the owner manager and expected successors. The argument clearly indicates that probably all the family members had not been prepared as the

successors. The reason given by the respondent that all family members were not trustful is difficult to prove unless one interviews them. The interviewee also is in doubt to prepare the successor who is a non-family member. However, under this circumstance the business is likely to collapse as soon as the owner-manager exits from the management because it is unknown who will be the potential successor.

4.3 Lack of wisdom

Lack of wisdom emerged as the third reason (22%) for selecting the incompetent or unqualified successors in the FOMFs. The meaning of wisdom legitimately depends on the context and purpose. Maxwell (2013) defines wisdom as the capacity and the active desire to realize – apprehend and make real – what is of value in life, for oneself and others. Wisdom is therefore the capacity and active desire to realize, apprehend and appoint the successor who knows the history and values, vision and objectives for establishing the particular FOMF. Lack of wisdom aspects stated include nepotism, lack of patience, lack of credibility, and involving incompetent family members in the board of directors. Nepotism was considered as one of the socio-cultural issues emanating from the family members. For example, one participant argued that:

“...This business was mainly created for my family. The only strategy to maintain it intact to family members is selecting one of the family members to lead it in order to avoid unnecessary conflicts between the family members and non-family members. Non-family members are good leaders but can create unnecessary conflicts ...” (Interview held with participant N from firm A on 22nd April, 2019 at Chang’ombe in Dar es Salaam region).

This is in harmony with Fama and Jensen (1983) that it is cost-conscious to choose the successor who has close relations with other shareholders in the family owned business in order to lower the conflicts of interest among the family members. However, nepotism attitude is likely to promote the selection of unqualified relatives to hold the key leadership positions in the FOMFs.

4.4 Communication problems

Communication problems emerged as the fourth reason (11%) for selecting the incompetent or unqualified CEOs in the FOMFs. Family firms are often hampered by communication problems and in particular lack of information flow on aspects of tasks and stakeholders relations (Kets de Vries, 1993; Magasi, 2016; Mokhber, Tan, Rasid, Vakilbashi, Zamil, & Seng, 2017). The participants said that lack of clear communication between predecessor and business stakeholders and in particular the family members, is one of the factors, which threaten the selection, or appointment of the competent business successors. For example, a participant claimed that:

..It is wise to involve family members while planning for future leaders in this firm. However, basing on relational thinking and individual preference principle, every family member would like to be given the first priority as the future leader or manager in this firm. Every family member is thinking of individual self-interests such as getting prestige and personal profit. As a result, it is very difficult to reach a consensus who should be the next business successor. In my view, it is worth for the business owner to personally think, assess and make a decision on who should be the prospective leaders in any family business... (Interview held with participant Z from firm J on 30th April, 2019 at Vingunguti in Dar es Salaam region).

The explanations given by participant Z are contrary to Deloitte (2015) argument that the owner- manager has the duty of articulating the goals and vision of the family business to all family members although the aim is not serving equality among them but inculcating a sense of ownership feelings. Dyck, Mauws, Starke, and Miske (2002) assert that it is important to ensure that succession planning in the family business is effectively communicated to family members for the purpose of developing a warm trust relationship and reduce unnecessary conflicts among

them. Furthermore, Dyck, Mauws, Starke, and Miske (2002) emphasise the importance of sequential succession planning in which appropriate skills and experiences are in series and timely communicated to potential family business successors. The predecessors should therefore facilitate communication and update the family members on important FOMFs matters through daily, weekly, monthly and annual meetings for the purpose of exchanging views and building a sense of ownership and trustful relationship among them.

5. CONCLUSIONS, RECOMMENDATIONS AND FUTURE STUDIES

The study aimed at exploring the factors that lead to selecting the incompetent or unsuitable successors in the family owned manufacturing firms (FOMFs) in Dar es Salaam region. It was revealed that lack of succession planning, lack of confidence, lack of wisdom and communication problems are the major constraints for selecting the competent successor in the FOMFs in Dar es Salaam region. The study recommends that in order for the FOMFs to get the competent and suitable successors, they must be trained on how to carry out succession planning, establish succession planning policy and implement it intact. Besides, FOMFs should stick to merit factors during recruitment and selection and effectively communicate important business matters to family members. The study contributes to knowledge by revealing the important factors leading to selecting incompetent successors in the FOMFs and thus calling for further research on how to overcome them. This study was purely qualitative in nature and only involved ten participants. Future studies can employ questionnaire and large sample size to make generalizable conclusion. In addition, researchers have to investigate the effects of incompetent chief executive officers (CEO) on the sustainability of the FOMFs moderated by cultural influence.

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