HUMAN CAPITAL ORIENTATION AND SUSTAINABILITY OF FAMILY OWNED SMALL ENTERPRISES IN KENYA

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ABSTRACT
Family owned enterprises form the major part of small and medium enterprises with immense contribution in economic development and growth through provision of employment opportunities and contribution to the country’s annual GDP. Nevertheless, performance and sustainability of these firms has been prone to high range of dynamics and risks ranging from competitions to family wrangles and lack of responsible and appropriate successors. Many of these firms have ended up closing their doors as a result of increased mismanagement as well as succession chaos. These challenges, combined with the normal business environment challenges posses a big threat to the firms’ sustainability. On the other hand, human resource capital orientation which is a key aspect of human resource management has been argued to be the central enabler of firm performance and sustainability. Through well-tailored employee management practices and ensuring that the human capital is well taken care of, competitiveness of a firm is enhanced. However, there has been little research on the relationship between human capital orientation and sustainability of family owned businesses hence the subject of the study hence the purpose of this study. The study adopted descriptive research design which involves both qualitative and quantitative research methodologies. The study targeted family owned small business enterprises in Nairobi County which are approximately 16285. Stratified random sampling was applied to come up with a study sample of 375 respondents. Questionnaires were used to collect data while it was analysed using SPSS software and presented in form of tables, figures and graphs. The study established that human capital orientation was positively and significantly related to the sustainability of family owned enterprises in Kenya. The study concluded that through motivation, promotion and retention of employees, family enterprises were more sustainable. From the findings, it was recommended that family business owners and managers could focus on retaining their employees through motivation and promotion out of which they orient human capital thus ensuring firm sustainability.

Key Words: Human capital orientation, family owned enterprises and firm sustainability
1.0 INTRODUCTION

1.1 Background of the study

Many organizations are currently facing mounting pressures to ensure their sustainability, flexibility, and responsiveness to the increasing uncertainty and limitations in the economic world. Ultimately, increased turbulence in the employment environment, characterized by organizational restructuring, funding uncertainties, and increasing program complexities have substantial effects on the ways organizations respond to workforce replacement (Leonard, 2012). Human capital orientation and employee satisfaction form part of action HR planning which is concerned with staffing and both have a direct impact on reducing staff turnover. Armstrong (2013) says the main aim of Human resource management practices is to ensure that suitable managers are available to fill vacancies created by promotion, retirement, death or leaving and ensures that a cadre of managers is available to fill the new appointments that may be established in the future. According to Stefanovic et al. (2011), Human capital orientation entails the imposition of leadership and managerial skills to the employees so as to increase their ability to take positions of other colleagues who may at one time leave the organization.

Family companies have failed to sustain their performance due to poor human capital orientation practices which end up denying better employees a chance to continue showcasing their capabilities thus affecting sustainability. When new managers are appointed, they change the strategy based on their knowledge without the knowhow on its impacts on the performance thus affecting sustainability (Charan et al., 2011; and Rich, Lepine & Crawford, 2010). Most family businesses have no clear measures and dimensions to promote their employees and motivate them
hence they often than not do not retain any employees which affects their sustainability in the long run.

According to Steers and Porter (2009) human capital orientation contributes to grooming of employees into reliable organizational leaders through ensuring that they are well paid and motivated for them to continue committed to the organization. Torrington and Hall (2015) contend that human capital is the employee knowledge, competence and experience in an organization. Human capital orientation entails the practice of influencing and enhancing employee performance, commitment and retention for the betterment of the organization.

1.2 Statement of the Problem
Sustainability of family owned enterprises has been a challenge over a long period of time with many of the firms not surviving under more than one generation (RoK, 2017; and Kirema, 2016). On average, the lifespan of family owned enterprises has been argued to be only 3 generations with 12% of the enterprises making it to that far (Kwenin, 2013). According to Neville (2011), over 40% of family owned enterprises collapse after the exit of the initiators with most of them ending up in disputes and misunderstanding among the family members.

On the other hand, human capital orientation is an important aspect in ensuring firm sustainability. Many studies have found that through human capital orientation approaches such as motivation and retention, organizations are able to prolong their existence in the market an argument that some studies have argued against. The motive of the current study was therefore to find out the influence of human capital orientation on the sustainability of family owned enterprises in Kenya.

1.3 Research Objective
The aim of this study was to determine the influence of human capital orientation as an aspect of human resource management practices on the sustainability of family owned enterprises in Kenya.
2.0 LITERATURE REVIEW

2.1 Theoretical Review

Resource Based Theory

The theory suggests that organizations need to integrate their resources which are the key capabilities that they are assured of having for the sake of their internal operations and existence (Shivaraj & Vijayakumara, 2015). According to Muhammad (2010), resource based theory is based on two assumptions in an effort to bring into light the ways of integrating the organizational resources to win competitive advantage. Employees (human resources) and the skills are some of the resources that according to RBT make organizations produce different products and perform differently from the competitors despite them being in the same market and with the same chances of winning the market. Other resources can be copied by the competitors but the skills and the human resources are unique to the organization that they exist in. Kyndt et al. (2009) complements that the resources of the firm and the uniqueness of the resources does not necessarily influence the performance of the organization but other determinants such as the managerial strategies injected on the resources supplement the overall performance of the organization.

2.2 Conceptual Framework

**Sustainability of Family Owned Small Enterprises**
- Initial capital invested
- Sales turnover
- Number of employees
- Re-investments

**Human capital orientation**
- Employee retention
- Employee motivation
- Employee Promotion
Independent Variables | Dependent Variable

**Figure 1: Conceptual Framework**

### 2.3 Empirical Review

Ellis and Soerensen (2017) did a study on the impacts of human capital orientation on firm performance. The study focused on the activities practiced by organizational management to have a proper human capital through improvement of skills and capabilities. The study established that human capital orientation is a key contributor to firm performance through engagement of employee capabilities. According to Ellis and Soerensen (2017) human capital orientation enhances the updating of human skills which are key organizational resources.

Kwenin (2013) did a study on human capital orientation and firm performance and focused on the work environment. The study adopted a descriptive research design and had a sample of 103 respondents. The study established that human capital orientation is a key aspect in firm performance. According to Kwenin (2013) the skills possessed by the organizational employees are critical to firm performance since the ability of a firm to implement the set decisions rely on the ability of the employees to handle specific issues in the firm. This therefore means that enhancing the skills through human capital orientation is critical (Kwenin, 2013).

### 3.0 METHODOLOGY

The study was guided by descriptive research design to collect and analyze the primary data. The target population was family owned businesses in Nairobi County, Kenya. According to the available records as at September 2017, there were 2373 family owned businesses registered in
Nairobi under manufacturing, service and trading sectors. The sampling formula by Kothari (2004) was used to obtain the sample size.

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

This generated a sample size of 375 respondents.

Structured questionnaire was used to collect the data. The Statistical Package for Social Science (SPSS) was used to compute quantitative data using descriptive statistics and qualitative data was analysed using thematic analysis.

4.0 FINDINGS

4.1 Response Rate

The study obtained a response rate of 78.93% where out of the 375 sampled respondents, 296 filled and returned the questionnaires for analysis. This was considered adequate for analysis and making conclusions in the study.

4.2 Human capital orientation

Frequency of Adopting Human capital Orientation Aspects

The study sought to find out the frequent at which human capital orientation aspects were adopted among the family owned enterprises. The findings as presented on table 1 shows that most of the businesses frequently rewarded, promoted and recognized employees as was shown by 80%, 70% and 62%. Moreover, 20% of the businesses sometimes recognized their employees whilst 10% never promoted their employees at all. The findings compare with those by Kwenin (2013) who
found that adopting effective human capital orientation aspects is key to promoting a good working environment for the employee as well as making the employee perform better.

Table 1: Human capital orientation aspects

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequently</th>
<th>sometimes</th>
<th>Rarely</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee rewarding</td>
<td>80%</td>
<td>10%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Employee Promotion</td>
<td>70%</td>
<td>14%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>Employee recognition</td>
<td>62%</td>
<td>20%</td>
<td>10%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Level of Agreement on Human Capital Orientation
The study sought to find out the respondents’ level of agreement on the statements on human capital orientation and sustainability of family owned enterprises. The findings as shown on table 2 revealed that most respondents strongly agreed that they offered educational support to the employees, encouraged employee participation in organizational matters and took employees responsible for their actions. The findings compare with the arguments by Brum (2010) and Msengeti & Obwogi (2015) that human capital orientation puts the employees motivated and up to task thus enabling them to perform better and enhance firm sustainability.

Table 2: Human capital orientation

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage employee participation in organizational matters</td>
<td>1.6789</td>
</tr>
<tr>
<td>Creating time to meet employees and hold discussions</td>
<td>1.4897</td>
</tr>
<tr>
<td>Offering educational support to the employees</td>
<td>1.3412</td>
</tr>
<tr>
<td>Taking employees responsible for their actions</td>
<td>1.6911</td>
</tr>
</tbody>
</table>

Relationship between human capital orientation and Sustainability of Family owned enterprises
The respondents’ views were sought on the relationship between human capital orientation and sustainability of family owned enterprises in Kenya. The responses as presented in figure 2
revealed that most respondents highly related human capital orientation with effectiveness as was shown by 52%. A further 30% moderately related human capital orientation with effectiveness. Moreover, 14% of the respondents indicated that they were not sure on whether human capital orientation related with sustainability of family owned enterprises. As indicated by Shoaib, Noor, Tirmizi and Bashir (2009) human capital orientation serves a central role in enhancing the sustainability of the firms through proper employee motivation which makes them more productive and competitive.

![Chart showing human capital orientation and its effectiveness](chart)

**Figure 2: Human capital orientation and its effectiveness**

### 4.3 Sustainability of family owned small enterprises

**Re-investment**

The respondents’ views were sought on whether they invested back the capital raised from the firms. The findings as presented on figure 3 revealed that most businesses frequently reinvested as was shown by 48%. On the other hand, 26% of the respondents occasionally re-invested while 14% re invested sometimes. Moreover, 10% of the respondents indicated that they rarely re invested their capital back into the businesses. The findings imply that as much as the majority of
the respondents invested their capital back into the business, there rate at which they invested was still below the mark.

![Figure 3: Re-investment](image)

**Number of years the business has been in operation**

The study sought to find out the number of years that the businesses had been in operation so as to establish their probability of getting sustained in future. The results as indicated on table 3 showed that most of the businesses had been in operation for 7-10 years as was shown by 34% 26% of the businesses had been in operation for 3 to 5 years while 17% had been in operation for 5 to 7 years. Only 4% of the businesses had been in operation for more than 11 years.

<table>
<thead>
<tr>
<th>Description</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 2 years</td>
<td>60</td>
<td>19</td>
</tr>
<tr>
<td>3- 5 years</td>
<td>82</td>
<td>26</td>
</tr>
<tr>
<td>5 – 7 years</td>
<td>54</td>
<td>17</td>
</tr>
<tr>
<td>7 – 10 years</td>
<td>86</td>
<td>34</td>
</tr>
<tr>
<td>Above 11 years</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>296</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.3 Inferential Statistics on Human Capital Orientation

\(H_A: \text{Human capital orientation has a positive relationship with sustainability of family owned small enterprises in Kenya}\)

The study sought to bring out a clear relationship between human capital orientation and sustainability of family owned enterprises using inferential statistics analysis. The coefficient of determination \(R^2\) and correlation coefficient \(R\) shows the degree of association between human capital orientation and sustainability of family owned business enterprises in Kenya. The results of the linear regression indicate that \(R^2=0.625\) and \(R=0.791\) this is an indication that there is a strong linear relationship between human capital orientation and sustainability of family owned business enterprises in Kenya. ANOVA results were also presented and as table 4 reveals, human capital orientation positively and significantly influenced sustainability of family owned enterprises with a p-value of 0.000 which was lower than the critical p-value of 0.05.

The regression coefficient results in table 5 also revealed a positive and significant relationship between human capital orientation and sustainability of family owned enterprises. The model for the variable was \(Y = \beta_0 + \beta_4X_4 + \epsilon\) which becomes \(Y = 0.362 + 0.887X_4 + 0.040\). This implies that a unit change in human capital orientation can explain up to 88.7% variation in sustainability of family owned enterprises in Kenya.

A scatter plot was also used to bring out clearer relationship between human capital orientation and sustainability of family owned enterprises. The findings revealed that the gradients for the variables were positive implying that there was a positive and significant correlation between human capital orientation and sustainability of family owned enterprises in Kenya. Figure 4 has the presentation.
Table 4: Model Summary (Human Capital Orientation)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.791^a</td>
<td>.625</td>
<td>.624</td>
<td>.62067</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Human capital orientation  
b. Dependent Variable: Sustainability of family owned businesses

Table 5: ANOVA Results (Human capital Orientation)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1</td>
<td>188.689</td>
<td>489.810</td>
<td>.000^b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>294</td>
<td>.385</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>295</td>
<td>301.946</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Sustainability of family owned enterprises  
b. Predictors: (Constant), Human capital Orientation

Table 6: Regression Coefficients (Human capital Orientation)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.362</td>
<td>.148</td>
<td>2.444</td>
</tr>
<tr>
<td></td>
<td>Human capital orientation</td>
<td>.887</td>
<td>.040</td>
<td>22.132</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Sustainability of family owned enterprises

Figure 4: Scatter plot (Human Capital Orientation)
CONCLUSION

The study concluded that there is a relationship between human capital orientation and sustainability of family owned small enterprises in Kenya. Human capital orientation is a key contributor to firm performance through engagement of employee capabilities and it enhances the updating of human skills which are key organizational resources. The skills possessed by the organizational employees are critical to firm performance since the ability of a firm to implement the set decisions rely on the ability of the employees to handle specific issues in the firm. This therefore means that enhancing the skills through human capital orientation is critical.

RECOMMENDATION

Firm managers should put forward human capital orientation through retention of the best performing employees, motivation of the employees and promotion. These aspects ensure that employees are put on note to fully support firm activities thus enhancing firm sustainability through proper implementation of the decisions of the firm.

The study was limited to family owned enterprises in Kenya. There is therefore need for a similar study to focus on other sectors such as the government agencies, NGOs and other enterprises that are not family owned since they also face sustainability issues.

REFERENCES


