

# How Succession Planning Initiatives May Effect the Growth of SMEs in Malaysia: A Conceptual Visit



Ahmad Fadhly Arham, Nor Sabrena Norizan, Mohd Natashah Norizan, Fatrisha Mohamed Yussof

**Abstract:** *Development of a country's economy is depended upon how well the businesses contribute towards the economy. In a developing economy such as Malaysia, the role and function of SMEs is important. Finding ways on how these establishments can sustain their businesses and develop their own competitive advantage is crucial. To sustain a strong competitive position, SMEs need to identify its distinctive competency. Having a solid workforce could be one of its distinctive competencies. Thus, SMEs need to find ways on how to retain employees as this would help them to retain their important and valuable knowledge within the company. Once employees decided to leave the organization, there will be intangible losses that the organizations need to bear. Thus, strengthening its internal position and practices through succession planning such as training, strong management support, clarifying career path, strong positive vision and organizational culture and cultivating technological advancement are contended as efforts towards retaining knowledge within organization and ensuring sustainable growth of SMEs in the country. This study offers several implications. The managerial implications out of this research could be an increase understanding about managing and retaining knowledge within organization are important for organizational survival. Managing and retaining knowledge means managing employees and employees are valuable internal resources. Second, developing a good succession planning is an integral part of forward-thinking strategy that is important for strategic planning for any SMEs.*

**Keywords:** Knowledge Retention, SMEs, Succession Planning, Sustainable Growth

## I. INTRODUCTION

Knowledge acts as the foundation of human capital towards determining the success and competitive advantage of organization (King and Zeithaml, 2003). Valuable

knowledge is valued by organization as it helps organization to structure its strategic moves towards creating and sustaining its competitive advantage. Recently, many employers started to realize the importance of knowledge management (KM) towards the effectiveness of organizational operational and innovative activities [1].

Preservation and acquisition of knowledge are two important aspects in building talent within the organization. Most organization face the risk of knowledge loss that may affect their ability to create and maintain competitive advantage [2]. As a result, as a way to be more successful, most companies have started investing more in knowledge retention.

Scholars have contended that, there were many studies conducted to understand employee retention, but not knowledge retention [3]. Reference [4] found that the average company loses half of its expertise every five years due to staff retirement, retirement and other job search. Reference [5] voiced the importance of tapping into the knowledge asset of employees who are reaching retirement age, those who are about to switch job or even simply just quit. These potential risks of knowledge loss must be identified as they present risks to knowledge retention.

Thus, managing knowledge retention is also managing employees. Managing employees is just like any other management or strategic planning in the organization. It is a scientific process that requires a comprehensive planning and monitoring to ensure its effectiveness and efficiency. However, [6] have contended that many businesses tend to ignore the importance of a comprehensive career and succession management process. What many of them is lacking the most is a talent strategy and talent management system. On the other hand, the employees also perceived that the company is not doing enough to supervise an effective succession planning programs and many of the training and development programmes implemented were not transparent and less effective [6].

There are many factors that could affect succession planning. Among the factors highlighted are lack of commitment from top management, lack of communication, lack of employee engagement, time and financial constraint [6]. In Malaysia, one of the factors that contribute to the loss of knowledge is insufficient knowledge among the entrepreneurs [7]. Perhaps, their lack of knowledge, training and experience prior to starting up ventures are affecting their ability to set up a proper business and strategic plan [8].

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Therefore, this study aims to develop and implement successful succession planning initiatives as a part of a knowledge retention strategy among employees in SMEs.

Part of organization responsibility is offering a career development for employees as an effort to show respect to their needs as well as effort to attract and retaining them in the organization [9]. Therefore, this study intends to model the intertwining between succession planning initiatives as determinants for knowledge retention among employees of SMEs in Peninsular Malaysia. The main research question that is to be addressed is how could succession planning initiatives and knowledge retention contribute to SMEs industry?

It is hoped that due to high failure rate among SMEs, a new model on how to fully utilize the management of knowledge through the development of a thoughtful succession planning initiatives could be embedded in policy development concerning the SMEs establishment in Malaysia. It can help the SMEs to form a trusting and loyal employee that will acquire a long-term-benefits, higher productivity levels, increase monetary revenue and overall organization performance.

## II. LITERATURE REVIEW

### A. Succession Planning

In today's world, due to instability and competitive business environment, staff turnover starts to increase. Factors that contribute to the imbalance of an organization's workforce are illness, retirements, attritions and finding better job opportunity [10]. Reference [11] believed that by having a well-implemented succession planning can overcome the losing the key employee issues as it is found that this initiative has significant impact on the performance.

Succession planning is essential to an organization's survival, regardless whether it is a small or large organization as the loss of employees could happen without notice [12]. Reference [13] confirms retiring and employees' leaving the organization can give the organization a big impact. A well-planned succession planning can help the organization to face resignation of key employees, business growth and promotions as it provides an assurance that the company is able to fill up the positions as needed based on its pool of talents [14].

Succession planning was first introduced by Henri Fayol with the writings of the fourteen points on management in the early 20th century. He revealed that stability of tenure personnel is important and if this element is ignored, the key position ends up being filled by ill-prepared people. It was then in 1960's and early 1970's, formal succession planning was implemented and practice to assist the management of talent within organization [15] [16].

### B. Knowledge Retention

In general, academic research and business situation in knowledge management is not a new issue as many knowledge management methodologies have existed over time [17] [18] [19] [20] [21]. Knowledge retention also known as knowledge continuity. It is part of knowledge management that relates to the loss of knowledge due to the loss of employees.

Nonetheless, [3] found that the preservation of knowledge is still in its infancy stage academically. It is found that, most of the knowledge management methodologies are focusing on knowledge subjects instead of the specific individual [22]. In addition, [19] suggested that knowledge management only implies a long-term solution and not immediate aids needed to gain the immediate knowledge of an individual, thus transferring it to others within the organization.

Knowledge retention involves capturing knowledge in the organization so that it can be used later. As knowledge becomes an organization's main asset, knowledge retention tends to become a main challenge in many countries in the world [3]. In general, knowledge retention is a sub-discipline of knowledge management. The main concern of knowledge retention is to make sure that the organization does not loss the knowledge acquire by knowledge workers who is going to leave the organization [23]. Due to this awareness, numerous business has started investing further in the acquisition of knowledge as a technique of being more competitive.

Retaining knowledge is a strategy that focused on the protecting valuable knowledge that is about to loss [24]. The organizational, governance, networks and relationships knowledge that the employees owned have been developed within the organization over time, and this valuable knowledge is essential for organization's triumph and performance [25].

Reference [5] found out that the main concern of knowledge retention is to retain the valuable knowledge of workers who retire, resign and leave the company for a new job. Organizations need to start identifying the risks and issues of knowledge loss that can affect them from retaining the employee's knowledge. Therefore, when planning for the knowledge retention strategy, the organization must first identify their strategic risk of loss of knowledge [26].

### C. The Link between Succession Planning Initiatives and Knowledge Retention

High level of mobility and competition in employee's skill has made it difficult to retain employee's knowledge. Due to that, it is found that succession planning initiatives play an important role to ensure that the organization can cope with the evolving new world of work [27]. It is supported by [16] who confirmed that implementation of succession planning in the organization can ensure the organization's sustainability in the future and retain of organizational and professional knowledge.

In reality, the organization is retaining organizational knowledge when they are attracting and keeping knowledgeable employee, which is essential part for exploration for future innovation [28]. Succession planning is considered to be essential initiatives to be used in retaining employee's knowledge and skill [27]. Succession management allows knowledge to be preserved and disseminated by activities such as coaching and mentoring that avoid knowledge loss.

Research has indicated that having an effective succession initiative contribute to retention. Reference [29] argued that intention to leave the organization is reduced when employees value organizational efforts towards career and personal development. Reference [30]

conducted a study on the rail industry highlighted that training and retention are the most important issues in the industry.

#### D. Conceptual Framework

Based on the review of literatures, the following framework and propositions are proposed:

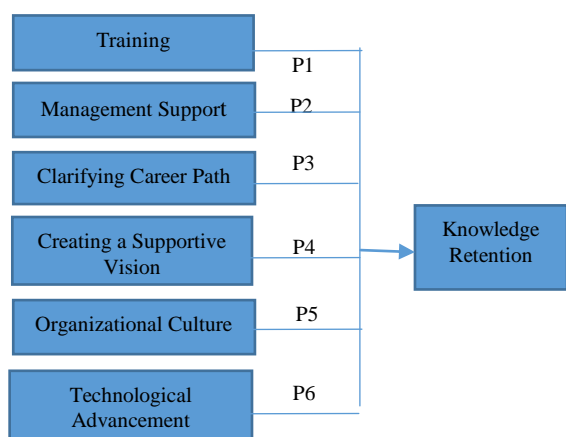


Figure 1: Conceptual Framework adapted from [31].

#### E. Propositions:

- P<sub>1</sub>: Training has a significant positive effect on knowledge retention.
- P<sub>2</sub>: Management support has a significant positive effect on knowledge retention.
- P<sub>3</sub>: Clarifying career path has a significant positive effect on knowledge retention.
- P<sub>4</sub>: Creating a positive vision has a significant positive effect on knowledge retention.
- P<sub>5</sub>: Strong organizational culture has a significant positive effect on knowledge retention.
- P<sub>6</sub>: Technology advancement has a significant positive effect on knowledge retention.

### III. METHODOLOGY

This study will be a quantitative study. The sample of population will be drawn from SMEs in Malaysia. The target respondent will be employees. The researchers will obtain the list of SMEs registered under the SME Corporation Malaysia. From the list, 100 SMEs will be selected as samples and three sets of questionnaires will be sent out to each organization which in turn will gather about 300 respondents. Each of the organization selected will be contacted via email to initiate the intent of doing this research. Should they agree to participate, the questionnaires will be sent out to respective organizations. For questionnaire developments, items to measure all variables will be adopted from measures that have been proven to possess internal consistency such as from [31]. For data analysis, PLS-SEM will be used. This method of data analysis has become particularly popular in social science research especially strategic management and also family-related business such as SMEs [32] [33].

### IV. DISCUSSION

Development of a country's economy is depended upon how well the businesses are contributing towards the economy. In a developing economy such as Malaysia, the role and function

of SMEs is highly important as SMEs made up almost 98% of all business establishments in the country. Finding ways on how these establishments can sustain their businesses and develop their own competitive advantage is important. Thus, managing and retaining knowledge is seen as important factor towards a better strategic human resource management practice. The following are potential and expected conclusion to be drawn from the analysis.

This study postulates training will have a significant positive effect on knowledge retention. Training is referred as the planned involvement that is directed to improve employees' performance [34] [35]. Training is important for organizational effectiveness because lack of training contributes to poor quality and implementation [36] [37]. Previous research in HR development field shows that when the organization supports training, its employees are more motivated to share the knowledge they obtained during training [38] [39] [40] [41]. Thus, P<sub>1</sub> is supported.

Organizational support will positively affect knowledge retention. It is found that support from direct supervisor such as mentoring and coaching can help to increase employee commitment as the employees find the opportunities and encouragement for personal development. Well trained managers know on how to act to induce positive effect on the well-being of employees [42]. Thus, P<sub>2</sub> is supported.

Employees feel that they are valued when they believe that their organization cares about their growth and provides path for them to achieve personal goal and fulfilling the company's mission [43]. Thus, the ability for SMEs to have a structured organizational system within the firm will present growth opportunity for the employees. Thus, P<sub>3</sub> is also supported.

This study also posits that creating a vision is important for organizational success. In strategic management, vision serves important functions. Besides giving sense of direction, it also acts as a motivation [44]. Vision is found as the fundamental element to be considered for every organization as vision will provide a better understanding and stand as a guideline for every subordinates to follow. Thus, P<sub>4</sub> is supported.

This study also contends that a strong organizational culture will positively affect knowledge retention. Reference [45] highlighted that organizational culture can be used by the organization to control its members. The common and shared values, the philosophy and understanding inspire people and generate guidelines. Employees who believe and uphold the culture and values of organization are expected to stay within the organization and thus provide support to P<sub>5</sub>.

Finally, [46] stated that technology advancement influence on organizational performance and productivity as when it is combined with other resources effectively like human resources. Its influence also is materialized when it is managed efficiently with the use of technology products ethically [47]. Thus, P<sub>6</sub> is expected to be supported.

### V. CONCLUSION

As a conclusion, this study recommends that organizations, especially SMEs must give important consideration towards factors affecting knowledge retention as previously discussed.



To sustain a strong competitive position, SMEs need to find ways on how to retain employees as this would help them to retain their important and valuable knowledge within the company.

Once employees decide to leave the organization, there will be intangible losses that the organizations need to bear. Thus, strengthening its internal position and practices such as training, strong management support, clarifying career path, strong positive vision and organizational culture and cultivating technological advancement are contended as efforts towards retaining knowledge within organization and ensuring sustainable growth of SMEs in the country.

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