FAMILY BUSINESS CHARACTERISTICS AND PERFORMANCE OF SMALL TO MEDIUM SIZED FAMILY OWNED MANUFACTURING ENTERPRISES IN KENYA.

DEDAN KIMATHI UNIVERSITY OF TECHNOLOGY

BY

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B311-005/2010

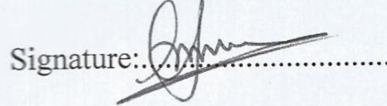
A Dissertation Project Submitted to the Department of Post Graduate Studies in Entrepreneurship and Small Business Management in Partial Fulfillment of the Requirements for the Award of the Doctor of Philosophy Degree of Dedan Kimathi University of Technology

DECLARATION

This Project is my original work and has not been submitted to any other Institution, College or University.

Miriti Gilbert Mugambi

B311-005/2010

Signature:.................................... Date: 23/04/2014

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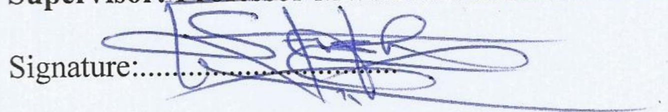

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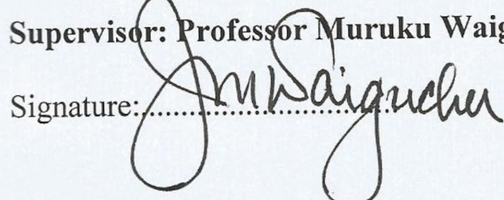
Signature:........................... Date 23/4/2014

DEDICATION

I dedicate this work to my wife Dr. M. Mugambi and children M. Mawira, C. Makena and M. Mwende for their support and encouragement.

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ABSTRACT

The purpose of this study was to explore the relationship between family business characteristics and firm performance. The specific objectives guiding the study were to investigate family involvement in the business, family business governance practices, entrepreneurial orientation, family business decision making and family business succession practices and their influence on firm performance.

The study used descriptive survey design. The target population was 146 businesses registered by Kenya Association of Manufacturers operating businesses in food and beverages. Sample size included 84 businesses which were confirmed as family owned. Respondents were sampled using non-probability convenient sampling procedure. Data was collected using a questionnaire which had both open ended and closed ended items. The study generated both qualitative and quantitative data. The collected data from the sample was analyzed using inferential and descriptive statistics. The regression analysis showed that the family decision making, family involvement and management succession planning were found to have the highest level of significance influencing the overall family business performance with family governance practices and entrepreneurial orientation having the lowest level of significance. The principal component analysis confirmed that the three of the components related to the variables accounted to 89.92 percent of total variability with each of the successive components accounting for smaller and smaller of the total variance. The findings revealed that family decision making is critical to family business performance and that family members are greatly involved in the family business in various ways both directly and indirectly; majority of family businesses had a formal board which met regularly and others having family business councils which also met regularly; the owner/ managers is supportive and encourages new ways of doing business; business decisions are made using formal structures; family businesses have a succession criterion in place or developed for identifying the successor. On basis of these findings the following recommendations were made; family businesses to limit family member involvement in businesses and source for competent outside talent; family businesses should strengthen the business governance practices; entrepreneurial orientation family business should embrace entrepreneurial culture and CEO and founders to create necessary environment that would encourage and reward those working in the family business to be more innovative, creative and risk takers; decision making mechanisms in the family business should be more structured and succession plan should be seen as inevitable and practiced by family businesses if they are to continue existing beyond the life span of the founder.

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ABBREVIATIONS AND ACRONYMS

MFIs	Microfinance Institutions
GDP	Gross Domestic Product
SMEs	Small, Micro-Enterprises
KAM	Kenya Association of Manufacturers
RBV	Resource Based View
EO	Entrepreneurial Orientation
VIRN -	Valuable, Imitable, Rare, Non-Substitutable
KBS	Kenya Bureau of Statistics
KNBS	Kenya Baseline Survey
PWC	Price Waterhouse and Coopers
TMT	Top Management Teams

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Family businesses are the dominant form of business ownership and play a critical role in the economies of most counties globally and in Kenya. They are an important segment of the global economy contributing more than 75 percent of the Gross Domestic Product (GDP) in most countries and employ more than 85 percent of the working population around the world (Poza, 2007). They are said to be the originating form of any business activity (Wakefield, 1995) dominating the economic landscape of most major economies in the world (Klein, 2000; Heck et al., 2001). In the world competitive report as reported by Lee and Li (2009) family enterprises in the United States contributes half of the job opportunities. In Germany, they contribute 66 percent of GDP and accounts for 75 percent of total national employment. In Great Britain, the number of employees in family enterprises is 50 percent of the country's workforce. In Southeast Asian nations, family enterprises contribute significantly to the GDP with Korea for example reaching 48.2 percent, Taiwan 61 percent and Malaysia 67.2 percent.

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Internationally, majority of family businesses are small or medium sized (Bjuggern and Sund, 2002; Serrano, 2000).They dominate the economies of developing countries from 80-90 percent of total businesses (Frijins vanVliet, 1999). In Kenya, Small and medium sized enterprises (SMEs) sector which majority are family owned employed 8.3 million people in 2009 which is 75 percent of total employment in Kenya and contributed 18.4

percent of GDP according to Kenya National Bureau of Statistics (KNBS) (2010). As drivers of economic development and the foundation of many businesses in Kenya, the family owned SMEs provides goods and services, provide employment and sustain the family in various ways among other contributions. As such family businesses are an important source of economic growth and development in many countries (Astrachan and Shanker, 2003). They are seen as the engines of employment, alleviating poverty and improving equality (Okpukpara, 2009; Ayyagari et al; 2011). The SMEs are therefore important to the economies of many countries yet little attention has been given specifically to the family owned businesses in Kenya.

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Although the family business dominant role is evident in most economies, such businesses fail particularly during the transition from one generation to another raising concern on their performance and sustainability. Poza (2007) explained that approximately 85 percent new businesses fail within their first year of operation and among those that survive; only 30 percent are successfully transferred to the second generation of the founding family owners. The situation gets worse in the transition between the second and third generation and the third and fourth generation when only 12 percent and 4 percent of such businesses respectively, remain in the same family. Price Waterhouse Coopers (PWC) global family business survey of 2007/2008 made similar observation noting that only 1/3 of family businesses worldwide manage the transition from one generation to the next PWC (2009). Majority of the family businesses were ether sold or wound up after the founder’s death. The reasons given for this state of

affairs include the inability to separate between the business affairs and those of the family, not planning succession and inability to deal with competition among others.

In Kenya, like many other countries in the world most businesses fall under the SMEs category and within them majority are family owned. The poor performance as indicated by longevity and growth rate has been reported. According to KNBS (2007) three out of four or at least 60 percent of Kenya businesses fail within the first few months of operation. In a survey carried by Institute of Development Studies (IDS) University of Nairobi (2006) revealed that 57 percent of the small businesses are either in stagnation or failing with only 33 percent showing some level of growth. The most common problems cited for failure included lack of capital, competition, access to market, infrastructural problems and unfavorable business operating environment among others. Amyx (2005) observed that one of the significant challenges is the negative perception towards the SMEs where customers perceive the sector as lacking in ability to provide quality and satisfy customer needs. While studying on the factors that are responsible for the high failure rate among SMEs sector, Megginson et al. (2003) included poor business knowledge, poor management, insufficient planning and inexperience. It is evident from these studies and others that family business characteristic has rarely been cited in Kenya as contributing to the poor performance of these businesses. Dyer (2003) explained that business researchers usually overlook the family business dimension even when it strongly exists in the firm that a number of research areas would benefit from including family business characteristic variables such as governance, leadership succession, conflict and others.

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Factors that contribute to business failure whether family owned or non family owned may be the same but those that are family owned face additional challenges attributable to the family business characteristics. Nieman (2006) for example, attributes family business failure to factors such as conflict between family members, nepotism, tradition, a paternalistic / autocratic culture existing in the business, improper handover to the next generation, a lack of leadership and ineffective communication. Holt (2005) attributed family business failure to lack of clear succession plan. In the absence of a successor, the life of a business is limited to the working life of its founder. Charantimath (2006) asserts that family business can never realistically expect to be completely rid of problems created by sibling rivalry. The best that family business can hope to accomplish is to minimize the conflict. Moore et al. (2008) observes that just within a family, there can also be sibling rivalry within family business. Business issues tend to generate competition, and this affects family, as well as non-family members.

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The fighting drama among brothers at Tuskys Supermarket highlighted in the Kenyan media, on 28th February, 2012 in the East African publication of the Nation Media Group is evident of problems facing many Kenyan family businesses. As reported by Kimani (2012) Kenyans got a rare and embarrassing peep into the lives of the secretive family that runs Tuskys' Supermarket chains one of the region's biggest and most successful Supermarket chains. Three of the brothers had accused the elder brother over fraudulent dealings in the company. This clearly is an illustration of how problems of management succession planning and lack of good corporate governance can tear family business apart. At the Naivas Supermarket which was founded by the brother of Tuskys

Supermarket there has been a similar family dispute. Again as reported in the East African publication of 28th, September 2013 by Thiongo (2013) family dispute delayed an acquisition deal between one of the fastest growing chain of Supermarket Naivas with a South African chain Massmark. One of the brothers had gone to court to stop the sale over ownership wrangles. The factors that contribute to the high failure rate of family businesses originate from the complexity of such forms of business organizations. The complexity occurs as a result of the family dimension being added to the common governance roles found in any business, namely that of the owner, management and employees. This is even more common where there is no separation between the business and the family. Bula (2013) established that family size in most small Kenyan African businesses affected the business performance if the business is family owned. Families were found to use income from the business to support their families on food, clothing education and other needs leaving little to finance business operations. Family responsibilities also interfered with business operations bringing conflict between family roles and those of the business. The number of roles that need to be managed is significantly complicated by this complexity, and may lead to conflict and ultimately the failure of the business (Nieman, 2006; Rwigema and Venter 2004; Van Duijin et al., 2007).

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Although the family firm is a popular business model in the world, the issue of whether or not the family firm is effective business system or flawed has not yet yielded a consensus conclusion among researchers (Johannes and Mbebeb, 2013). Work by (Anderson and Reeb, 2003; Dyer, 2006; Villalonga and Amit, 2006) has evidence that

some of the family firms have been found to financially outperform their non family counterparts. Other studies have found conflicting results concluding that family firm is inherently inefficient. Work by Faccio, Lang, and Young (2001) noted that family firms are relatively poor performers due to the conflicts that arise as a family attempts to manage an enterprise. Although there are many positives in having a family business, there is also evidence of threats to the family business model. Lansberg (1999) identifies common theme to be dreams not being congruent between spouses, siblings and other family members. Molly (2009) observed that goals can be seen as a driving force in directing company behaviour and family firms are not exclusively wealth maximizing organizations but can also care about non-economic goals and the needs of the family. Cowling (1998) asserts that family business can become retarded if the family's management is reluctant to raise external funds because it fears loss of control. The influence of the founder may also determine how much they will allow '0utsiders' to be involved in the family business (Kets de Vries, 1993). Studies done earlier suggest that a family might influence firm performance, its basic characteristics, the quality of its management and possibly even industry (Dyer, 2003; Morck and Yeung, 2003). Other studies such as Daily and Dollinger (1992) have noted that certain firm characteristics such as its strategy, structure and human resource systems differed somewhat between family and non-family firms and therefore the influences were the result of family involvement.

Research on family firms has long recognized the unique characteristics of family business (Soufani et al., 2009). Several studies also suggest that the overlap between both

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the family and the business systems and the simultaneous interaction between them, accounts for the unique behavior of these firms (Sharma, 2004; Aldrich & Cliff, 2003). While some studies argue that the dual relationship between the family and business systems could provide the family business with a unique competitive advantage, others see it as a source of major problems that could affect its survival (Zahra & Sharma, 2004; Aldrich & Cliff, 2003). Other studies extend the Resource-Based View of the firm (RBV) dimension to family business and suggest that the family involvement contribute to "familiness'' which represents the bundle of resources that are unique to each family business hence performance differences among different family firms.

The presence of the family in the ownership and management of the firm according to Moores and Barret (2003) can be a benefit or a disadvantage for company competitiveness, thus creating unique paradoxical conditions to cope with in the family business. The so called familiness as stated by Habbershon et al. (2003) which is the summation of the resources and competences generated by the interaction of family business and individual family members can influence the process of value creation and provides potential differentiator for firm performance. These resources such as strong organizational commitment, flexible human resource practices, the loyalty of family members, their motivation, social ties, and the ability to tap family resources and goodwill can be valuable intangible assets (Anderson, Jack & Dodd, 2005; Simon& Hitt, 2003).

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Dyer (2006) has added another angle to the family involvement and states that the family 'effect' on firm performance is not only related to the possession of family specific resources but also to the costs and benefits related to the reduction or the enlargement of agency problems. Anderson et al. (2004) and James et al. (2004) also examined the agency implications and suggest that family controlled firms show higher performance than non-family businesses. These finding were found to be congruent with the Resource-Based View (RBV), which argues that reduced agency cost can be an intangible resource to the family business. What is however, not clear from these studies, is what contributes to the performance differences among different family firms even with similar resources. The high performance among some family firms is perhaps the result of the inherent strengths that family business has compared to non-family firms and likewise the poor performance is as a result of the inherent weakness. This indeed is a paradox that many studies have attempted to unravel. Aldrich & Cliff, (2003) and Nordqvist (2005) have suggested that family businesses are deeply embedded in complex network of ties which can provide unique resources to these firms. Miller et al. (2005) also revealed that the extraordinary success of some large family firms is due to a number of characteristics including stable strategies, clan culture and lifetime tenures. They argue that these factors have allowed successful family firms to build a formidable competitive advantage from generation to generation. Indeed a number of other researchers come up with similar findings and argue that family capital is an important source of sustained competitive advantage.

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The involvement of the family in the business may however, contribute to the strength or weakness, what is not clear is what family business characteristics contribute to the different bundle of resources. Molly (2009) asserts that what sets family business apart from the non family ones is the nature of their heterogeneity brought about by the overlap between the business, the family system and their different goals. A study by Olson et al. (2003) established that the success of the family business is influenced by how the family manages overlap between the family and the business. The power of the family establishment is clearly evident in the fact that three of the Kenya's four of the largest retail firms Nakumatt, Tuskys and Naivas Supermarket were built and still run by families. However, the Tuskys and Naivas as reported earlier have exposed the negative side of running a family business due family wrangles as highlighted in the Kenyan media. For Tuskys and Naivas, family is both the strength with which they have grown to dominate the industry and sadly, the weakness that threatens their future. In the early years, families draw on pooled resources in the form of finance and human capital as well as trust, focus on the long-term and swift decision making becomes their advantage. However, with all the advantages, family businesses face various challenges ranging from succession, poor governance structures, lack clear roles and low accountability among others.

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Although family firms have attracted substantial attention (Zahra & Sharma, 2004) the case of small family firms has been minimally studied (Gomez-Mejia et al., 2001). Many studies focus on bigger firms and those that focus on small firms rarely consider the family effect or family business characteristics and its influence on the firm performance.

Brice (2005) observes that limited research has been carried out to understand the intricacies of family businesses while Astrachan (2010) highlighted that the field of family firms need greater attention and more outlets for theory and research. According to Herreo (2011) the conflicting results of family firm performance is because such firms are studied in very different contexts hence the argument against family firms performing poorly are flawed when the firms are relatively small. Herrero maintains that small firms are very peculiar and attributes this to lower agency costs particularly when the manager of the firm is related to the family.

Given the dominance of family businesses and their contributions to the economy of most countries, the poor survival rate is, however, a continuing source of concern (Sharma, 1997; Morris et al., 1997). The collapse of some stock brokerage firms for instance in Kenya in the early 2000, which majority were family owned, led the Kenya Government to pass laws through the Kenya Finance Bill of 2008 which would bring in changes in firms' ownership structures. Over the years, investment analysts have raised concern that the line between the ownership and management of family firms had contributed to lack of controls and accountability leading to poor performance. The problems facing these family firms were also attributed to failed succession planning (Aron, 2009). The common squabbles in the family businesses and high failure among the family businesses in Kenya as reported have raised more concern over the management and performance as indicated by longevity and growth of family businesses in Kenya.

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Although a lot of research has been done on family businesses, much of the literature has concentrated on succession planning, others compares and contrasts the performance implication between family and non-family firms. The other stream of literature according to Jackiewicz and Klein (2005) investigate how the specific characteristics of family business affect the performance. The results are highly inconsistent and the questions still remain which of the family business characteristics has influence on firm performance. Furthermore, according to Astrachan and Zellweger (2008) available research on family business is ambiguous as to whether family influence is beneficial or detrimental to firm performance. These studies are, however not done in the Kenyan context. Astrachan and Shanker (2005) asserts that the concept of family business is bound to vary considering the fact that they are based on unique social-cultural realties of a given group of people and institutions. In Kenya, family business research has been scant. Studies investigating SMEs performance have not addressed the issues of family business characteristics and family involvement in the performance of the SMEs. The few that have addressed family owned businesses have concentrated on succession planning while ignoring other family business characteristics. This research therefore aims to narrow the gap in knowledge by studying specific family business characteristics and firm performance among the family SMEs in the Kenyan context.

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The SMEs were selected for this study because they comprise the largest proportion of the family businesses in Kenya while the food and beverage sub-sector of the manufacturing industries is the biggest sub-sector according to Kenya Association of Manufacturers (KAM) (2012). The Greater Nairobi has the highest concentration of the

food and beverage manufacturing enterprises in Kenya with over 80 percent. An understanding of factors that may lead to their success or solutions to their problems will greatly help this country.

1.2 Statement of the Problem

Many businesses start as family owned and are the most common form of business ownership globally and constitutes the highest proportion of the SMEs in Kenya. They play a significant role in the social and economic development of the country. Due to family involvement in the family owned business they have unique characteristics which exist in a number of dimensions such as ownership structures, governance, decision making, succession planning, roles and responsibilities among others. These characteristics are said to influence the strategic processes and ultimately performance Anderson & Reeb (2003). Despite their dominant and contribution, the survival rate of family businesses beyond the founder is extremely very low (Holt, 2005) while the performance as indicated by their longevity and growth has been less than satisfactory. This should be a major concern to the family and the government as it leads to job losses and a negative impact to the economy. There has been however conflicting results from previous studies on family businesses with some confirming that family businesses outperform their non-family counterparts (Anderson and Reeb, 2003; Dyer, 2006; Villabonga and Amit, 2006). Other studies have found conflicting results concluding that family firm is inherently inefficient, flawed and poor performers (Faccio, Lang & Young 2001).

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It is not clear which of the family business characteristics and practices hinders or contributes to good performance and growth among the Kenyan family owned SMEs. Furthermore the family business have been subject of comparatively little research and attention (Deakins & Freel, 2009). While the trend has been changing with interest in family business succession planning, there are still areas of family business that need to be examined for a more clear understanding in the Kenyan context. Many studies focus on big firms and the case of small family firms has been minimally studied (Gomez-Mejia et al. (2011). Dyer (2003) observes that most business researchers usually overlook the family dimension in their studies. Maalu (2010) notes that there has been indeed minimal family business research in Kenya. Chrisma et al. (2007) asserts that after more than two decades of extensive research on family firms there is still little knowledge of the differing characteristics of this most common form of business organization in the world. The needs to better understand these characteristics and their various degree of influence on firm performance therefore still remains.

It is therefore in view of this that the researcher sought to examine the family business characteristics and firm performance among the small to medium sized food and beverage manufacturing family enterprises in Kenya.

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1.3 Objectives of the study

1.3.1 General Objective

Based on the issues and problem stated, the general objective of this study was to establish the influence of family business characteristics on firm performance among small to medium sized food and beverage manufacturing family enterprises in Kenya.

1.3.2Specific Objectives

The specific objectives guiding this study were as follows:

1. To explore the influence of family involvement on performance of small to medium sized food and beverage manufacturing family enterprises in Kenya
2. To examine the influence of family decision is making on performance of small to medium sized food and beverage manufacturing family enterprise in Kenya.
3. To determine the influence of management succession planning on performance of small to medium sized food and beverage manufacturing family enterprises in Kenya.
4. To determine the influence of family business entrepreneurial orientation on performance of small to medium sized food and beverage manufacturing family enterprises in Kenya.
5. To establish the influence of family corporate governance on performance of small to medium sized food and beverage manufacturing family enterprises in Kenya.

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1.4 Research Questions

The following were the research questions in respect to the above specific research objectives.

1. How does family involvement influence the performance of small and medium food and beverage manufacturing family enterprises in Kenya?
2. How does the family decision making influence the performance of small and medium food and beverage manufacturing family enterprises in Kenya?

3. To what extent is management succession planning influence the performance of small and medium food and beverage manufacturing family enterprises in Kenya?
4. In what extent does the family business entrepreneurial orientation influences the performance of small and medium food and beverage manufacturing family enterprises in Kenya?
5. In what extent is family governance influence on the performance of small and medium food and beverage manufacturing family enterprises in Kenya?

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1.5 Significance of the Study

In view of the limited research on family business in Kenya, the findings of this study were expected to narrow the gap in knowledge and contribute to a better understanding of family business characteristics and their various degree of influence on firm performance. This may help the owners of Small to Medium sized family firms improve on the longevity of their firms and performance. Policy makers in Kenya may also be more informed of the family business characteristics and use the findings to formulate appropriate policies for this important segment of our economy and this may consequently improve the performance of the Kenyan economy.

It is hoped; ultimately that the study will provide academic debate, stimulate interest, further research and gradual knowledge on family owned businesses in Kenya.

1.6 Basic Assumptions of the Study

The main assumption of this study was that the respondents would provide relevant, reliable and honest information that would lead to a better understanding of family

business characteristics and their influence on the performance of small to medium sized food and beverage manufacturing family enterprises in Kenya. The study also takes into consideration that the family businesses were influenced by family values and interests.

1.7 Scope of the Study

The study focused on small to medium sized food and beverage manufacturing family enterprises in Kenya. Greater Nairobi City was selected because it hosts the capital of Kenya and comprises the highest concentration of food and beverage sector with a diverse ownership from different backgrounds. The food and beverage enterprises will include among others, bakery, confectionery, breakfast foods, dairy products, juices, meat products and vegetable oils among the food sub-sector while the beverage comprised of tea, coffee ,wines ,spirits and beer .

1.8 Limitations of the Study

Because of the nature of the family business, there was lack of reliable database on family owned businesses in Kenya. To address this problem, preliminary survey was conducted to determine family businesses from among the registered members of Kenya Association of Manufactures. Another limitation was the unwillingness of the respondents, non-availability of respondents and lack of cooperation. The respondents were assured of the confidentiality of the information provided and that the study was for academic purposes only and with the introduction letter from the University the respondents cooperated. Persistent calls and sometimes personal visits were able to overcome some of the limitations encountered.

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1.9 Theoretical Framework

Four theories were relevant in understanding and evaluating family business characteristics. They include the systems, agency theory, stewardship theory and resource based view. Punch (2007) contends that the importance of a theoretical framework was to bring order, unity and simplicity to what was being investigated. This study sought to explore the family business characteristics and their influence on the performance of small to medium sized family manufacturing enterprise in Kenya. The framework was meant to provide analytical structures within which the researcher would locate particular forms of argument in order to provide clarity and avoid misconceptions.

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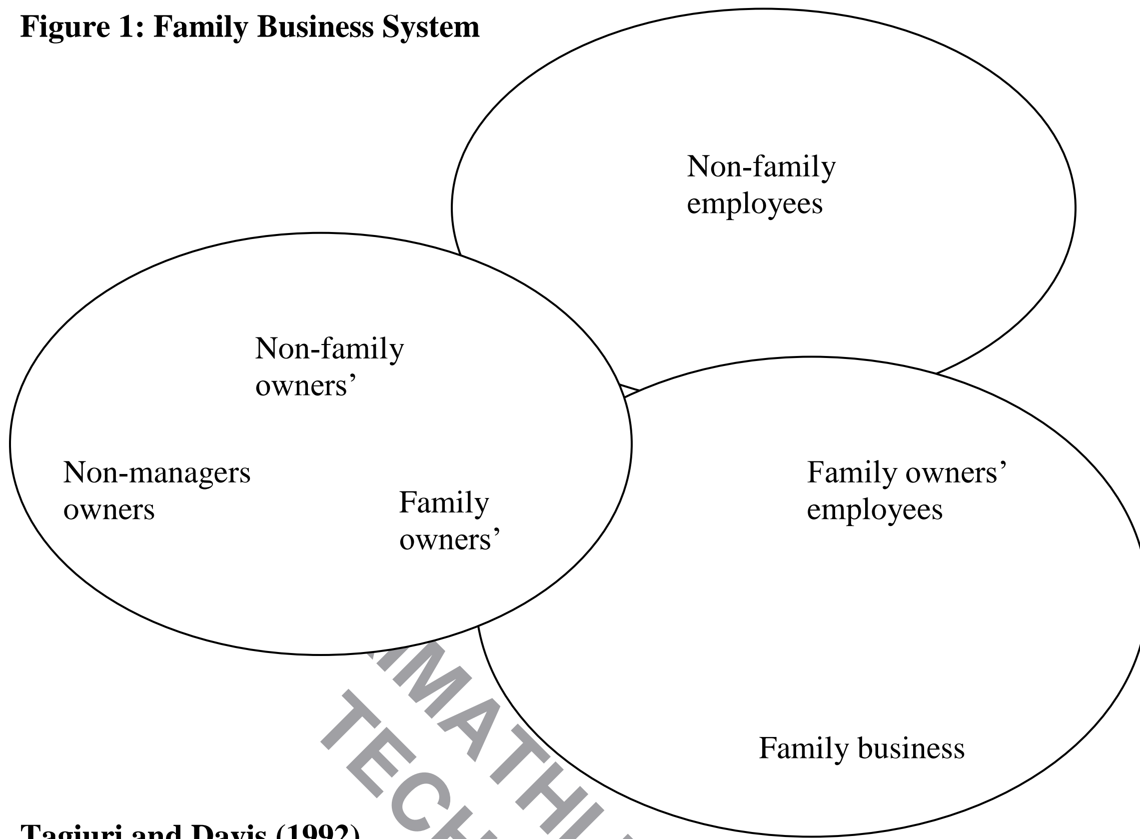
1.9.1 Systems Theory

Systems theory model or the three – cycle model as explained by Tagiuri and Davis (1992) has become the central paradigm of the family business field. The systems model of the family business is viewed as three overlapping and interdependent subsystems, the family business, the owner of the business and the family that controls the business. The subsystems interact to create family business dynamics. Russ Marion and Mary Uhl – Bien (2001) in their article on leadership in complex organizations, apply key principles of complexity theory to the practice of leadership. Their exposition of leadership through the lens of complexity theory has powerful implications for leaders of family firms. Tagiuri and Davis (1992) argue that any person involved in the family business system can be located in any of the subsystems in the three –cycle model.

Figure 1: Family Business System



Tagiuri and Davis (1992).

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Individuals can be members of one or more groups and each of these membership or roles will influence their views on the business. The overlapping cycles define seven interest groups and each interest group has a typical view on key issues in the management and control of the business. These interest groups include:

1. External investors – who own part of the business, do not work in the business and are not family members. Their main concern in the business is about high returns for their investment.
2. Management and employees. These are neither owners nor family members. Their main concern is about career prospect and job security.

3. Owner managers – These are individuals in the business who have been given some shares or equity in the response to the problem of recruiting and retaining key-non-family employees.
4. Inactive owners – They have a stake in the business but do not participate in the day to day running of the business.
5. Family – This include every members of the family who has a stake in the business and may have different interests in the family business.
6. Family employees – family members working in the family business.
7. The controlling owner – The person behind the family business who normally occupies senior position and has a lot of control and influence on the business but faces conflicting roles.

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These interactions between the family, ownership and business are usually complex. Marion and Uhl-Bien (2001) postulate that such complex interdependent systems are unpredictable and that leaders who use traditional command and control leadership styles; such as a visionary, transformational, and charismatic, may well be frustrated in their attempts to create organizational effectiveness. They suggest that leaders learn to capitalize on the correlation, randomness and interaction in such systems by focusing on creating conditions that encourage innovative solutions. The subsystems theory of family business emphasizes that the overlap among the three sub-systems often creates conflict among family business actors because of different perspectives on family business issues (Gersick, 1997; Posa, 2009).

1.9.2 Agency Theory

Agency theory attempts to account for the inability of owners of the business to control their agents effectively (Fox & Hamilton, 1994). Agency theory is most often employed to explain divergent motivations in organizations. Rooted in the economic model of man, according to assumptions of agency theory, the interests of shareholders / principals and agents diverge as each wishes to maximize their own personal wealth and utility. The assumptions of agency theory suggest that agents exploited their access to superior information for personal gain. As argued in (Demsetz, 1988; Eisenhardt, 1989; Fama & Jensen, 1983) the information asymmetry and contradictory incentives between owners and agents demands the need to introduce governance initiatives to ensure clarity, accountability and transparency for stakeholders. According to Dyer (2006) agency benefits could contribute to high family business performance when there were lower agency costs due to the alignment of principal-agents goals or due to high trust and shared values among family members. Likewise, higher agency costs due to conflicting goals in the family or from opportunism, and adverse selection because of altruism (family members fail to monitor each other) could contribute to lower performance in the family business. According to Dicke and Ott (2002) and Wasserman (2006) agency theory has driven the development of system of external control with two complementary purposes to control agents and reduce agency costs.

Schleifer and Vishny (1997) argues that theoretically there were reasons to expect that firms where ownership is concentrated in the hands of a family were more efficient than other firms, the reason being that concentrated ownership gives the owners a particular

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incentive to monitor the managers, thus reducing agency cost connected to hired management. Anderson and Reeb (2003) postulate that families tend to have long investment horizons and view their firms as an asset to be passed on to their heirs as a going concern. Founding families may also have incentives to improve performance of the firm in order to avoid damaging the family's reputation Wang (2006). Anderson et al. (2003) and Anderson and Reeb (2004) suggest that founding families reduce agency conflicts and were efficient in monitoring their firms. McConnaughy et al. (1998) argues that if family business owners also participate within the firm, this will enhance employee productivity and overall firm performance.

There were other reasons to believe that family-owned businesses may be less efficient than non-family businesses. According to Barth et al. (2005) concentrated of ownership implies a limited diversification of financial risk and a higher cost of capital due to higher risk premium. This makes family owners to be cautious when making new investment and reluctant to raise loans or invite new investors.

Some Scholars of agency theory such as Schulze et al. (2001) have found settings where assumptions of agency theory do not hold. The behavior of family members in family-owned firms is one such setting. In agency theory Davis et al. (1997) observes that there is an assumption that both owners and their agents are individualistic, opportunistic, self – maximizing wealth seekers, with divergent goals and interests. When the interests of the principal and the agent are aligned, according to Tosi et al. (2003) controlling agents

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is however, not a problem. The principal's wealth will be maximized when there is congruence between the principal and the agent (Berle & Means, 1932).

The limitations of the application of agency theoretical arguments according to Donailson and Davis (1989) led to the developments of alternative explanations which is stewardship theory. The theory defines relationships based upon behavioral premises not addressed by the agent – principal interest divergence canvassed in agency theory.

1.9.3 Stewardship Theory

Institute of Family Business (2011) defines stewardship as "the active and responsible management of entrusted resources now and in the longer term, so as to hand them on in better condition." Stewardship theory is used to understand how family businesses operate and has been used to explain the culture and relationships within family businesses. All enduring business success depends upon effective leadership and mutually rewarding relationships. It is argued that what makes the best family business different in their pursuit of success can be described in terms of stewardship of four types of capital that they accumulate and have the potential to develop and pass on through the generations. These types of capital include;

Family capital- Is an attachment to the business that goes beyond a mere financial relationship. There is a personal identification between the owners and the business. The family becomes a powerful means of transmitting vision and values across generations creating a legacy of purpose and values. As a result the business can have a clear identity and personality.

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People capital- Is the strength of knowledge, skills, behaviours, energy, loyalty and commitment which exist within the non-family members of a family business. The people who work in the family business often appear to feel a stronger identification with it, a sense of belonging which can be reinforced by relationships which can outlast a single generation.

Financial capital- Is the prudence combined with a sense of financial responsibility towards future generations. This can be manifested in dividend restraint or ambitious investment timescales rarely envisaged by other forms of business. Another benefit is a greater freedom of the owners and boards to define success in their own terms.

Social capital- This is the trust and reciprocity embedded in relationships through which is grown a deep and enduring link between the business and all those around it, to the mutual advantage of all concerned. The family develops relationships outside the family with employees, customer, suppliers and other stakeholders that generate goodwill.

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There are many synergies to be found between the four types of capital. Each type of capital needs nurturing. Good Stewardships involves achieving the right balance between them and particularly manifests through; effective leadership that creates and embeds an enduring vision and values to achieve alignment between family and business and secondly governance and succession supporting renewal across the generations. Tomorrow's company observes that stewardship is an attitude of mind which informs the behaviour of everyone involved in wealth creation and sustainability of the family business. There is already some evidence that enduring family businesses show stewardship characteristics such as stable leadership, clear purpose, lasting values, a

sense of history and commitment to long-lasting employee and stakeholder relationships. A focus on the four principles can result in stronger stewardship of the family business and open the way to better business and to better overall performance in financial and other terms (Institute of Family Business Review, 2011).

According to Stewardship theory, the steward's objectives are aligned with those of the organization such as sales growth, innovation and profitability. As such, a steward is able to maximize multiple, often conflicting, stakeholders' interests through performance because, by so doing, the steward's utility functions are maximized (Davis et al., 1997). Researchers on stewardship theory have demonstrated that good stewardship leads to superior performance and that theory was designed for researchers to examine situations in which executives as stewards are motivated to act in the best interest of their principles

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1.9.4 Resource Based View

The fourth theory is the Resource based view (RBV) which focuses on analysis of the nature, characteristics and potential of a firm's resource base. It has been suggested that the family business uniqueness is largely as a result of the idiosyncratic resources and capabilities that are generated when the family system and the business system interact and co-exist in Unison (Basco and Perez Rodriguez, 2009; Nordqvist and Melin, 2010; Piper & Klein, 2007).

While the four theories provide useful insights into family business characteristics, the systems and RBV is the framework that is commonly used. RBV, as a theoretical

framework has been instrumental in developing a theory for family business (Chrisma et al., 2005a). Marion and Uhl-Bien (2001) asserts that application of complexity theory to leadership also supports the RBV of family business.

This study adopted RBV to bring to clarity family business characteristics and their influence on firm performance. Resources have been defined as anything which could be thought of strength or weakness of a firm and at any given time can be those assets that are either tangible or intangible which are tied semi-permanently to the firm, Wenerfelt (1984). Shamsie (1996) extended the definition further by distinguishing intangible and tangible resources. They labeled intangible resources as those that were knowledge based while the tangible were property based. Intangible resources are more likely to result in sustained competitive advantage because they are often unknown hence difficult to identity, and are firm specific.

Organizational knowledge is an example of an intangible knowledge-based resource that is a source of sustainable competitive advantage (Hitt et al. 1991). Knowledge based resources may be particularly important for providing sustainable competitive advantage (Wiklund & Shephard, 2003). Knowledge-based resources can be derived from work experience, networks, education and personal background (Ibeh, 2004). Barney (1991) offers another definition when he observed that resources are all assets, capabilities, organizational processes, firm attributes, information, knowledge and others controlled by a firm that enables the firm to conceive of and implement strategies that improve its efficiency and effectiveness. Barney suggested that resources can be classified into three

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main categories; physical, human and organizational resources. He further noted that the test for whether a resource has a competitive advantage can be determined by four resource attributes; valuable, rare, imperfect imitable and non-substitutable (VRIN). The four attributes produced the VRIN framework for resource /capability analysis. Sirmon and Hitt (2003) categorized unique resources and attributes for family businesses into five classes that provide a competitive advantage. They are: Human capital, Social capital, Patient financial capital, and Governance structures and costs Survivability capital.

According to Rogan and Verbeke (2002) RBV has the following four characteristics,

1. The firm's ultimate objective in a resource based approach is to achieve sustained, above normal returns, as compared to rivals.
2. A set of resources, not equally available to all firms, and their combination into competencies and capabilities, are a precondition for sustained superior returns.
3. Competencies and capabilities lead to sustained returns, to the extent that they are firm specific (that is imperfectly mobile), valuable to customers, non-substitutable and difficult to imitate.
4. From a dynamic perspective, innovations, especially in terms of new resource combinations, can substantially contribute to sustainable superior returns.

Schoemaker (1993) brings more meaning of resources and stress that the encompassing construct previously called resources can be split into resources and capabilities. Resources here, is seen as stocks of available factors that are owned and controlled by the

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firm while capabilities are the firm's capacity to deploy these resources. Chandler and Hanks (1994), defines capability as the capacity for a coordinated set of resources to perform some task or activity. The distinction between resources and capabilities which stems from the work of Penrose (1959) is important because while resource heterogeneity is a necessary condition of RBV, it is not a sufficient condition for sustainable advantage (Alvarez and Busenitz, 2001). Perhaps, this explains differences among family firms performance. The resources require capabilities to identify and maximize their value potential (Sirmon and Hitt, 2003).

The study of the firm's capabilities or what is termed as competence has developed into what the literature refer to as the dynamic capabilities approach (Eisenhardt and Martin 2000; Teece et al., 1997). This approach identifies the dimensions of firm's specific capabilities that can be source of advantage and explain how combinations of competencies and resources can be developed, deployed and protected. Day (1994), defines capabilities as the complex bundle of skills and accumulated knowledge exercised through organizational processes that enable firms to coordinate activities and make use of their assets. It is therefore, the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environment that makes differences among firms. In other words it is not what the firm has but how the firm uses what it has. Barney (1991), explains that a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.

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Studies by Winter (2000) and Rivkin (2000) have particularly highlighted the complexity of a firm's resources base as an effective barrier to imitation. Many scholars argue that knowledge-based assets such as firm specific capabilities are particularly likely to meet these criteria, because these have emerged through complex and path –dependent historical processes and embody a great deal of knowledge that is costly to articulate (Barney, 1991; Winter, 2000). Lippman and Rumelt (2003a) observes that the resource – based view predicts that firms will focus their energies on the development of complex home-grown resources taking time and care to develop knowledge, know-how, social capital, and other socially complex, difficult – to – transfer resources. However, Macao, (2001 a, b) argues that resource development may not constitute the only causal mechanisms to explain competitive advantages. Firms may also be better than others at picking undervalued resources in the market for resources.

RBV has therefore emerged as an influential perspective that has highlighted the importance and the use of resources in unique ways to create competitive advantage. It has created a clearer conception of the complexities in understanding firms from an internal resource perspective and focuses on an analysis of the nature, characteristics and potential of a firm's resources base Irava (2009).

According to Habbershon & Williams (1999), a broad overview of RBV suggests that unique bundles of resources and capabilities serve as a source of competitive advantage for the firm. The objective then of RBV is in understanding how firms can attain and sustain their competitive advantage through resource heterogeneity (Barney, 1991). The

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RBV also helps us understand the heterogeneous character of the family business. The theory holds that firms with valuable, rare and inimitable resources have the potential of achieving superior performance (Barney, 1996; Barney et al., 2001). This view has been addressed by several scholars who argue that RBV is useful in examining strategic alliances between firms Das & Teng, (2000), has been proposed to explain entrepreneurship Alvarez and Busenitz, (2001), in understanding the growth of the firms Penrose (1959), Pettus (2001), in determining technological innovations in small firms Attanasios (2000), in understanding failures in firms Thornhill and Amit (2003), among others.

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Application of Resource Based View Theory

Resource Based View (RBV) of the firm is the original theoretical basis for the familiness construct (Barney, 1991; Makadok, 2001). It focuses on the internal endowments of the firm and how these can best be utilized for the firm's advantage. The theory deepens our understanding regarding how firm resources are applied and combined, what makes competitive advantage sustainable, the nature of rents, and the origins of heterogeneity (Peteraf, 1993). RBV has particularly highlighted the intangible resources that influence a firm's competitive advantage; like the uniqueness and complexities of the intangible resources which is usually referred to as "familiness" in family businesses. RBV has also dominated the literature in the study of entrepreneurship and family businesses due to their ease of measurement. Capabilities and competence have been found to be far more significant in explaining competitive advantage and performance (Newbert, 2007).

This makes the application of RBV in the family business context most appropriate. The theory suggests that unique bundles of resources and capabilities serve as a source of competitive advantage of the firm (Habbershon & Williams 1999). Familiness is the bundle of resources resulting from the interaction between the family, individual members and the business. As a theoretical framework, RBV has been instrumental in developing a theory for family business (Chrisma et al., 2005 a). The theory is also used to identify the resources and capabilities that make family firms unique and to discuss the family's influence on the formation of a firm's strategy (Chrisma et al., 2003).

The RBV was found to be the most suitable for this study. It was used to highlight the complexities and uniqueness of the internal mechanisms in the family business that operates when the family and the business interact. Furthermore, the RBV perspective highlight's the need for a fit between the external environment context in which the company operates and its internal capabilities. It suggests that a firm's unique resources and capabilities provide the basis for strategic choice hence performance. Family business characteristics comprise of a firm's resource base which are either a strength or weakness and have the ability to influence the firm's performance. While many family firms may have similar characteristics, founder and cultural influences and how the individual families utilize their resources may determine performance differences.

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Weakness of the RBV and its applicability

While the RBV provides an important framework for analyzing family business characteristics and the bundle of resources "familiness" that arises out of the interaction,

there is lack of clarity on what conditions give rise to “familiness,” sources and types of familiness (Chrisma et al., 2005b). Newbert (2007); Armstrong and Shimizu (2007) find only modest support for the key tenets of the RBV that connects resource characteristics to sustained profitability. Priem and Butler (2001a) assert that RBV lacks substantial managerial implications or operational validity. It seems to tell Managers to develop and obtain VRIN resources and develop an appropriate organization, but it is silent on how this should be done (Connor, 2002; Miller, 2003).

Arend (2006), also argues that resources that meet the VRIN criteria are usually identified only ex-post, making the explanation circular, secondly, the RBV is mainly used as a convenient framing device and specific implications seldom tested. The link between resource and performance is also not carefully examined for instance, in terms of organizational variables that mediate this link. Critics of RBV, argue that the key resources are hard to measure, particularly those “socially complex” and “tacit” resources, Dierick & Cool (1989). It has also been argued that there is more to performance than the presence of resources. Thus, Helfat et al. (2007) synthesizes prior conceptual work by defining a dynamic capability as the “capacity of an organization to purposefully create, extend and modify its resource base.”

Accordingly, dynamic capabilities may perform different tasks that alter the resource base, such as new product development alliance formation, or post-acquisition integration (Eisenhardt & Martin, 2000). Dynamic capabilities stress the role of the organizational processes of sensing and seizing business opportunities and the constant (re) alignment of resources (Helfat & Peteraf, 2009). According to the proponents of this view, a firm’s

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sensing ability critically depends on the organizational systems and individual capacities to learn and identify, filter, evaluate and shape opportunities. Once a business opportunity is identified the organizational structure, procedures, and incentives influence whether and how a firm Siege the opportunity and create a new strategic path that is likely to influence performance. To be of important use to this study, the researcher used the RBV of the family firm as well as attempting to incorporate the dynamic capability of the family on how the resources are utilized for firm performance while considering the uncontrollable external operating environmental factors. Other theories such as agency, stewards and systems were incorporated in the application of two or more variables used in the study.

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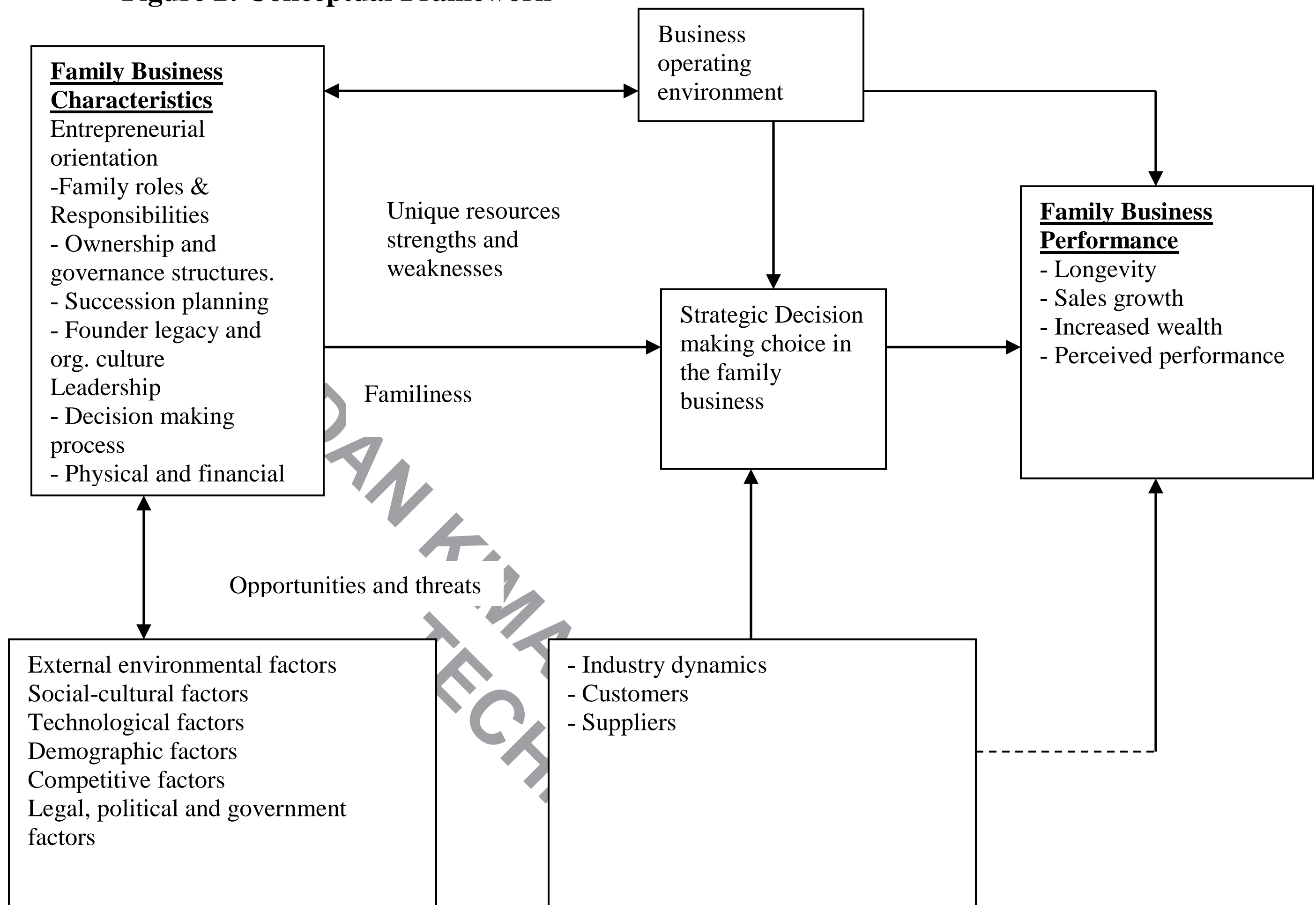
Figure 2: Conceptual Framework



Source: Researcher (2014)

The conceptual framework shows the relationship among the variables. Family business characteristics comprise various variables such as founder's personality traits and influence, succession planning practices, ownership and governance structures, EO, roles and responsibilities, social – capital among others. These family business characteristics constitute bundle of resources also referred to as familiness which arise from the interaction between the family, individual members and the business. The resources that

arise are either strengths (positive) or weakness (negative) and are likely to influence the family business performance by influencing the strategic choice taken by the family.

Family business like any other business operates within an external environment that may provide opportunities or pose a threat to the family business. These are other stakeholders such as the suppliers, customers and marketing intermediaries alongside family business characteristics influence the family business either positively or negatively. Performance is the ability of the business to efficiently and effectively utilize its resources for the accomplishment of organizational goals. Performance in this study can be positive or negative. The indicators of performance in the study will be change in the firm's wealth profit, assets, number of employees, expansion, longevity and perceived performance among others.

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1.10 Operation Definition of Terms

Business — An enterprise establishment or an economic activity involved with processing, selling or buying of goods and services for profit making.

Business failure — When the enterprise ceases operation as a result of inability to cope with the business competitiveness or as a result of inadequate demand for its product and services to sustain its operations.

Business growth	Refers to positive change in the business performance which can be measured by the increase in its operations such as sales revenue, assets, market share, and capital and technology advancement.
Business longevity	The length or life span of the business to maintain its operation since inception.
Business Stagnation	This is taken to mean a business that has remained in the same state as when it started.
Enterprise	Taken to mean the same as the business or the firm
Entrepreneurial process	The process of starting and maintaining a new business venture through risk taking, and innovative combination of factors of production.
Family	A basic unit of social structure that comprise of the father, mother, children and other close relatives in the African tradition.
Family Business	A business entity owned by one or more members of the family and in which one or more members of the family

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has direct or indirect control or influence in the direction or management.

Performance Refers to the degree of success or improvement measured on the basis of comparison such as, sales, profits, return on investment (ROI), increase in assets, employees and so on. Performance can be good or bad depending on the measure, expectation or perception.

Strategies Plan for creating common vision and common goals for business survival.

Succession planning Deciding in advance to whom and when to pass over the management, ownership and control of the business.

Sustainable To keep going, maintain certain standards or improve

Greater Nairobi These are the surrounding districts of Nairobi which includes; Thika, Kiambu, Machakos, Kajiado and Athi-River areas.

Firm and Enterprise Taken to mean the same as the business

Entrepreneurial orientation (EO) The mindset or practices of individuals, top

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management teams working within the firm to be innovative, risk takers and proactive

Family involvement	The participation of family members in the family business in terms of their roles, responsibilities, influence and decision making within and outside the business.
Decision making	Cognitive process resulting in the selection of a course of action among several alternatives or choices
Family business governance	This is the manner in which power is exercised in the management of the resources of the family business. It includes formal and informal rules, rules and procedures in the business
Family business characteristics	The unique behaviour, practices and procedures of family business which differs from those of non-family business.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter begins by reviewing the nature of family business, its performance and characteristics. It goes further to examine the relationship between Small and Medium enterprises, family business and entrepreneurship. Previous studies on family business characteristics and performance are also reviewed. This exercise is expected to provide insight into the interaction of the family, individual members and the business and their influence on the family firm performance. A critical review of the nature of family business characteristics will be reviewed and gaps in the literature.

2.2 Family Business Characteristics

In Kenya, like in many other developing countries, there is no reliable database concerning Family owned businesses. According to Bennedsen et al. (2010) a key challenge for any analysis regarding family business study is the lack of a widely accepted definition of what a family business is. Dyer (2006) points that the definition of a family business can vary widely, and perhaps this explain lack of documentation. In many countries family business is widely equated to Small and Medium Enterprises (SMEs) but a common definition categorizes family business in relation to ownership and management / strategic control. Dyer argues that two versions stand out in defining family business. The first version is subjective, defining a family business as one whose management is controlled by the family members who own it. In this case, outside

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persons are not involved in the management and ownership. The second version is more objective and considers a family business to be one that meets certain criteria such as the percentage of the family in the ownership of the business.

Broadly family business has been defined differently. Handler (1989); Hollander and Elman (1983) define a family business as one that is owned and managed or controlled by one or more family members. According to Charkrabarty (2009) a family business is one in which one or more members of the family have significant ownership interest towards the business' overall well being. It is further observed that the firm is said to be family owned if a person is the controlling shareholder, that is a person (rather than a state, corporation, management trusts and mutual fund) can garner enough shares to assure at least twenty percent of the voting rights and the highest percentage of voting rights in comparison to other shareholders. A more detailed definition is however, provided by Davis and Taguiri (1992) who defines family business as organization where two or more extended family members influence the direction of the family business through the exercise of kinship ties, management roles, or ownership rights. Moreover, Gallo (1994) has asserted that family business is essentially the same in every country in the world relative to their problems, issues and interests.

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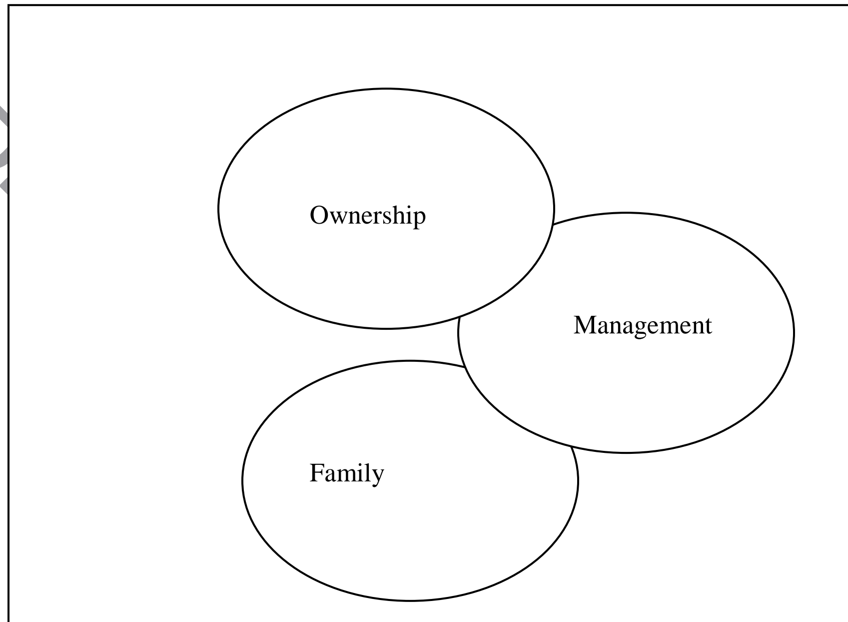
Molly (2009) observes that one of the reasons which complicate the development of a uniform family firm definition can be found in the fact that a family firm should be regarded as a system. The most frequently cited work in this respect is the model of

Taguiri and Davis (1992) which portrays family firms by means of overlap between the subsystems family, management and ownership as presented below.

Figure 3: Three - Circle Model



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The three cycle – model incorporates the view that the unique characteristics of a family business result from the interaction between these three subsystems, where each of these characteristics can be source of benefits and disadvantages for the family, owners and employees (Molly, 2009).

According to Charantimath (2006) family business writers have contributed scores of definitions in the family business literature emphasizing different aspects of a family business, particularly the firm and level of family involvement or ownership control.

There are therefore various definitions of family run business and they can be grouped into two broad categories.

1. Structural definitions focus on the firm's ownership or management arrangements for example 51 percent or more ownership by family members.
2. Process definitions stress on how the family is involved in the business, that is, its influence on company policy, and its desire to perpetuate family control of the business and so on.

According to Katz et al. (2007) family business are those with a majority family ownership and direct family involvement, Charantimath et al. (2006) considers family business as those in which two or more extended family members influence the business through the exercise of kinship ties, management roles and ownership rights and / or which the owner intends to pass to a family hair. Neubauer and Lank (1998) considers a family business when the enterprise has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interest and objectives of the family. Newbauer and Lank further explain that such a relationship is indicated when one or more of the following conditions exist,

1. Family relationship is a factor amongst others, in determining management succession.
2. Wives or sons of present or former company executives are on the board of directors.

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3. The actions of a family member reflect on or are thought to reflect on the reputation of the enterprise regardless of his or her formal, connection to management.
4. The relatives involved feel obliged to hold the company stock for more than purely financial reasons especially when losses are involved.
5. The position of the family member in the firm influences his standing in the family.
6. A family member must come to terms with his or her relationship to the enterprise in determining his or her own career.

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Matama (2006), argues that the understanding of what constitutes a family business may be contextual and therefore subjective, however, the important variables in most definitions of family business are related to the extent of family participation in the business, family control over strategic business processes and continued business existence over a number of generations. A family business can therefore be seen as one whose vision and operations are influenced by family considerations.

Family businesses are fundamentally different from other businesses. The goal structure within a family business is inherently conflicted. The need to balance between a family's personal goals and to satisfy multiple commercial stakeholders' objectives means that family business are unique (Steir et al., 2004; Randoy & Goel, 2003). In family firms espoused traits such as trust, altruism and paternalism encourage long term performance (James, 1999). The upside of this blending of family business and business goals can

result in competencies that are developed and contribute to a distinct competitive advantage (Habbershon and Pistrui, 2002). Family businesses are therefore a complex entity consisting of three overlapping subsystems, family, business and ownership (Gersick et al., 1997; Hoy and Vesper, 1994). This model for depicting the interaction of family and business as interlinking system establishes the basic character of the family business and defines its uniqueness (Davis, 1983).

Davis (1983) and Lansberg (1983) observe that a family business shares values and characteristics with both the family and the business entities but the fact that the business is not free from family influences creates many unique challenges. How family business differs from other forms of entrepreneurial or professionally managed firms has been a concern of studies that focus on family business (Bird, 2002). A number of studies have questioned whether there are significant differences (Chua et al., 1991). Empirical study carried indicate family firms differ from non-family firms in a number of key areas (Aldrich & Cliff, 2003) other study findings suggest that organizational culture of family firms may be more readily influenced than previously believed and that strategy has significant effects from social influence process (Rindova & Fombrun, 1999). Kelly et al. (2008) established that founder centrality which is manifested in many family firms may have an effect on both Top Management Teams (TMT) congruence and firm performance among the Kenyan family firms. If the relationship is the one that over emphasizes the centrality and influence of the leader it may have a negative effect.

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According to Anderson and Reeb, (2003); Carney, (2005); Chua et al. (1999) Family firms contain unique characteristics derived from patterns of ownership, governance, and succession that are argued to influence the strategic process and ultimately, the performance of such firms. There is, however, some disagreement on the extent to which these unique characteristics affect the strategic processes and practices of family firms (Chrisman et al., 2005). Less is known about the strategic orientations and organizational processes that drive family firms (Sharma et al., 1997). Whereas the basic strategic management steps are likely to be similar in family and non family firms, family dynamics may influence the decisions and process in all the three steps, formulation, implementation and evaluation (Sharma et al; 1997). Specifically, family goals, family cultures, succession, and intergenerational relationships, among others have been identified as family influences that can shape strategic choices and processes in family firms (Sharma et al; 1997).

Some scholars suggest that certain key characteristics give family firms unique set of organizational identities regarding shared views of what is central, enduring, and distinctive about the firm (Dyer & Whetten, 2006; Aldrich & Cliff, 2003) have argued that unique characteristics relevant to family firms' identities foster entrepreneurship whereas others like (Zahra, 2005) have argued that these family firm characteristics may work to inhibit entrepreneurial activities overtime. This lack of agreement and ambiguity regarding the impact of family ownership and control on entrepreneurial activity suggests that more work is required to enable a comprehensive understanding of the nature of

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family firms / distinctions (Chrisman et al; 2005) and how these distinctions influence firms' strategic behaviour and performance.

Molly (2009) observes that the three-cycle model involving the family, ownership and management as developed by Tagiuri and Davis (1996) incorporates the view that the unique characteristics of a business result from the interaction between these subsystems, where each of these characteristics can be a source of benefits and disadvantages for the family owners and employees. The insight of this model which is not common in the non-family business has increased the awareness and interest that the characteristics of the family business need to be analyzed by identifying the various degree of influence on firm performance.

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2.3 Small and Medium Family Business Ownership in Kenya

Most businesses in Kenya fall under the SMEs category and the official policy framework of SMEs in Kenya is contained in the Session paper No. 2 of 2005: Development of Micro and Small Enterprises for Wealth, Employment Creation and poverty Reduction (referred to as session paper No. 2 of 2005). Just like family business, SMEs has many definitions and varies from country to country and the economy. Many of the definitions are categorized on; ownership and formality, number of employees, sales turnover and capital investment. While Session paper No. 2 of 2005 defines a SME as an enterprise with between 1 – 50 employees, the World Bank defines an SME as one that fits to either of the following criteria.

1. A formally registered business

2. Turnover of between Kshs. 8 to 100 million.

3. Employing between 5 - 150 employees.

4. An asset base of at least Kshs. 4 million.

The MSME Bill 2011 has used two criteria to define SMEs in general that is,

a) The number of people / employees

b) The company's annual turnover.

For enterprise in the manufacturing sector, the definition takes into account the investment in plant and machinery as well as the registered capital.

According to Baseline Survey (2010), the SMEs sector of which the majority is family owned, employed 8.4 million people in 2009 representing 75 percent of the total employment in Kenya. The contribution to the GDP was estimated to be about 18.4 percent. According to Tiagha (2001), the sector is important because it absorbs a lot of new entrants into the labour market and generates incomes for women and other disadvantaged groups.

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The SMEs sector which has the majority as family owned business has been widely recognized as key and driver of social and economic development in the country. According to the Economic Recovery Strategy for Wealth and Employment Creation (GoK, 2003), acknowledges the role of the SME sector in generating growth, creating jobs and reducing poverty in Kenya. In an analytical report of labour force (GoK, 2002), 69.0 percent of the working population aged between 15 and 64 were self- employed in family agricultural holdings. Nairobi City has the highest proportion of wage employees at 73.5 percent and 22.7 percent in family businesses. The family business and SME

sector therefore employs more labour, it's innovative, productive and compliments large scale firms and because of their dominance they contribute to a more widespread income distribution which in the long run ensures stability in the society.

In Kenya as in most other developing countries, family business represents the oldest, most prevalent and the foundation of many form of business ownership. Matama (2006) observes that the concept of the family business is as old as that of commercial enterprise itself. Moreover, majority of the businesses world over start as family business though their ownership may change during their life-cycle. Individual family members start enterprises to supplement family income or as a source of livelihood. The most predominant enterprises are those owned and managed by one or more family members. According to Kenya Nation MSE baseline survey (1999) Kenyan male entrepreneurs owned about 52.3 percent of the MSEs While Women owned about 47.7 percent. More women 74.7 percent than men 55.2 percent were in the trade sector.

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The table below shows the trend of business ownership in Kenya by gender.

Table 1: Business Ownership by Gender

	Sector	Total number of MSEs per sector	No. of MSEs owned by men	No. of MSEs owned by women	% of MSEs owned by men	% of MSEs owned by women	MSEs owned by men as % of total	MSEs owned by women as % of total
	Manufacturing	172764	113522	59242	16.9	9.7	65.7	34.3
	Trade	825851	369534	457756	55.2	74.7	44.7	55.3
	Hotels/Bars and Rest.	76677	36214	39024	5.4	6.3	48.1	51.9
	Services	186195	131096	55099	19.5	9.0	70.4	29.6
	Construction	22087	20361	1726	3.0	0.3	92.2	7.8
	Total	**1283575**	**670727**	**612848**	**100**	**100**	**52.3**	**47.7**

Source: Kenya National MSE Baseline Survey 1999

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Whether owned by one, both or many, these enterprises have family influence with family business characteristics which differentiates them from other non-family businesses.

2.4 The Involvement of the Family in the Family Business and Entrepreneurship

The encyclopedia defines a family as a basic unit of social structure and this can vary greatly from time to time and from culture to culture. Among the Kenyan communities and in many other African societies, the family extends beyond the father, mother and children. A family comprises a group of persons closely related by blood, or by marriage. According to Chidi (2004), one of the most treasured values of the African peoples is the family.

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Most businesses have their origins from the family. For their sustainability, families engage in income generating activities to provide for their members, to earn a living or accumulate wealth over time. Heck et al. (2008) noted that the role of the family in the family business and entrepreneurship is paramount. The economic necessity of earning a living and supporting a family is often the underlying motivation for starting and growing a business (Winter et al., 1998).

The family and the business both coexist each supporting each other. The business supplies income to the family and the family supply paid and unpaid labour as well as contributing other resources such as finances, land, equipment and other factors of production. Worldwide, families have been critical to the creation and operations of businesses. Rogoff and Heck (2003), have argued that the combustion of entrepreneurship cannot ignite and grow without the mobilization of family forces. Indeed, families play an important role during the start –up and business development. They are the sources of human capital, social capital, financial and physical capital.

Habbershon and Pistrui (2002) observed that the family plays an important stabilizing role in social and economic value creation and trans-generation wealth perpetuation process.

The crucial role of family in creating social and economic prosperity is confirmed in different ways (Habbershon and Pistrui, 2002). The family is seen as a controlling subject in the economy and job creation (Shanker and Astrachan, 1996), as a major source of start-up capital (Steiner, 2001), and as the most enduring organizational type of entrepreneurial activity in a developing economy (Pistrui et al; 1997). The involvement of the family in the business can either be within or outside the business. Research on women for example has suggested that the majority of women continued to remain in the background staying 'invisible' (Cole, 1997; Fitzgerald and Muske, 2002), Although recognized as generally very important players, the role of women is often defined as invisible in business decision making, supportive in men's tradition business domains. They are one category of stakeholders with a vested interest in the viability of the business next to owners and employees (Davis and Tagiuri, 1991). Danes and Olson (2003) found that 42 percent of wives are major decision makers even in family firms owned and managed by men.

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According to Steir (2003), families serve three major functions in its social-systems besides the economic functions. Steir, pointed out the substantial role the familiar ties play in the entrepreneurial process as the family represents a valuable repository of social-economic resources.

1. Family represents a learning element that teaches and passes on skills that encourage economic development.
2. Family establishes a moral system, which helps the conduct of the unit.
3. Family creates its own culture, in which family creates a motivating force that is central to private enterprise formation and enterprise preservation across successive generations.

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According to sociological theory on entrepreneurship, families are vital supportive environment for entrepreneurial behaviour in the family business. Families contribute financial and human resources and are the origin of education, values, attitudes, norms, beliefs and other personal characteristics that are critical to entrepreneurs.

As stated by Rogolf et al. (2003) the family connection at every stage of a business venture is key, the sharing of resources, including social networks. Indeed families who own and manage businesses thrive best when the family can effectively mobilize the business for its well-being. Rogolf et al. continues to observe that business and families are invariably and inextricably interlocking and overlapping elements. The families create businesses and both sustain one another. Family involvement in the family business can have a direct influence on the direction of the business, strategic options, governance structures and financial returns. Family involvement may have both positive and negative influence.

Based on agency and stewardship theories, prior studies have documented a number of benefits and costs of family involvement in firms. Benefits include the long term view of

wealth creation by the family group compared to the relatively short term view of hired CEOs (James, 1999), the family's superior knowledge and ability to monitor the operations of the company (Demesetz & Lehn, 1985), the presence of the family's reputation capital that can result in a lower cost of debt (Andershon et al., 2003), and the ability of the family group to create more wealth through political connections than other owners (Faccio and Parsley, 2009). The costs in the family business include the increased incentive and opportunity of the family group to expropriate wealth from other shareholders. This can occur through excessive compensation related to party transactions, special dividends, risks avoidance and remaining active in management even when they are no longer competent to run the company (Anderson and Reeb, 2003; Anderson et al., 2003).

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Le Breton – Miller et al. (2004), asserts that there is a fundamental hurdle in all family firms which stems from family relationships complicating business activity and a CEO talent pool limited to a few family members. However, some research has shown that continued family control can be efficient, since families are, for example, able to positively affect the resource inventory and usage of their firms (Arrengle et al., 2007). Zellweger (2007), notes that families can apply a long term perspective allowing for unique strategic positioning while Anderson & Reeb (2003), note that because of family influence, family business have less agency problems and higher firm values.

These findings provide insights into how families make either negative or positive contribution to their firms. It is therefore important that research on family business

should explore how families become drivers of entrepreneurial activity and growth over time. However, the firm – level studies have drawn an inconclusive picture about the intensity and form of entrepreneurship in family firms (Zellweger et al., 2011). This is partly due to the neglect of the family as a distinct level of analysis and according to Zellweger et al.; there are at least three major reasons why the family should be considered as a distinct level of Analysis.

1. The family represents a defining element of any family firm (Chua et al., (1999) and can be seen as a stakeholder category unique to this type of organization (Zellweger & Nason, 2008).

   The involvement of this stakeholder category imbues the firm with family elements, such as benevolent ties among actors, affects, identify concerns, and extended ties among actors, and time-horizon on firm – level behaviour (Dyer & Whetten, 2006; Lumpkin et al., 2010).

2. The presence of the family as a distinct stakeholder category has an impact not only on the behavioral outcome but also on the logic guiding both the family and the firm's decision making. Families who run firms are often confronted with the management of paradoxes that emanate from the overlap of family and business systems (Nordquist & Melin, 2010).

(3) Investigating the family level of analysis is further justified if the families in the family firms are active in the ownership and management of multiple businesses. Although shifting to the family level of analysis seems justified, it also raises unique challenges. When trying to explore a family level of analysis, it seems fair

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to challenge the unity of families, and thus the appropriateness of family as a unit of analysis (Nordqvist & Melin, 2010).

Like firms and organizations business families are constituted by several individuals who may not always agree on all issues while working together. Families, first like organizations are dynamic and they evolve and change over time. Tensions, conflicts, emotions and disagreements are bound to arise and can be very destructive affecting the performance of the family firm. Supporting a unitary actor view of the family, Nordquist and Melin (2010), argue that even if a family refers to a collective of individuals, there is often, like in organizations and firms, a dominant actor or a coalition of actors that represents a vision above others which determines the future of the family's entrepreneurial activities (Chua et al.,(1999). Berger and Luckmann (1966) suggest that the family is one of the stronger and most unified societal institutions. Families play a unifying role in family firms such as social norms for harmony and mutual support. According to Astrachan (2003), the impact of individual family members and overall family involvement in the family firm may be critical to entrepreneurial behaviour and firm success.

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2.5 Family Roles and Responsibilities

Family members in the family business play different roles and responsibilities. Heck et al. (2008), noted that the role of the family in the family business and entrepreneurship is paramount. The crucial role of family in creating social and economic prosperity is confirmed in different ways and by different authors (Habbershon and Pistrui, 2002). The

family is seen as a controlling subject in the economy and job creation (Shanker and Astrachan, 1996), as a major source of starting capital (Steiner, 2001), and as the most enduring organizational type of entrepreneurial activity in a developing economy (Pistrui et al.,1997). In many Kenyan family businesses, one or two family members are the founders and during the different stages of the business growth, they are joined by other family members who play different roles and responsibilities in the business.

One type of family business that is increasing evident is that of spouses, going into business together. Barnett and Barnett (1988), refer to such firms as copreneurs as a result of them sharing joint ownership, commitment, roles and responsibilities. The relationships that exist in this type of family business are dynamic and interdependent as the activities of the family can impact the business and vice versa (Danes et al., 1999) Consequently, family member interaction may get in the way of the financial decision of the business making family business management a cause of concern (Levinson, 1999).

It has been suggested that clear roles and responsibilities and cooperative relationship between family members represent opportunities for the family business as well as the marriage relationship of the spouses in the business (Marshack, 1994). In addition, William (2008), suggests that financial, moral and spiritual support is vital to a coproneurial partnership. This view is supported by Ward (1987), who asserts that both a well-managed business and healthy family will operate particularly well when the members are mutually supportive of each other.

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In situations where the couples are running the family business jointly, roles and responsibilities have a cultural bearing as prescribed by traditional sex roles. According to Foley & Powell (1997), traditional sex roles accentuate the differences between men and women, because men and women are generally socialized to do market work and women to do domestic work. The tradition sex roles orientation also implies that the main responsibility of the wife is caring for the home, whereas the husbands' main responsibility is the business. Marsharck (1994), observes that as family businesses are closed systems, the roles they occupy at home is irrespective of their job title. Female family members working within family business are wives, mothers and daughters first, before they are employees, managers and executives.

Foley and Powel (1997), concede that each partner's outlook on his or her involvement in the business and the family is influenced by his /her individual background. This view is shared by Kadis and McClendon (1991), who asserts that many of the problems that arise in such businesses where spouses share responsibility are connected to the spouses early childhood, insights and misconceptions, as well as decisions made early in life. There is a tendency to stick to traditional models of masculinity and feminist as well as relying on a conceptual boundary between work and family based on gender differences to define their roles in the two areas (Mershack, 1994).

This view of different gender roles as prescribed by tradition can be source of conflict when played in business context. Powell (1997), notes that if partners attitudes toward traditional gender roles differ, the conceptual boundary may be more difficult to establish

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and ultimately lead to work-family conflict. For the family business to operate without the traditional gender role and conflict Longernecker et al. (2003), asserts that regardless of their arrangement or whether their roles adhere to tradition, both spouses are an essential part of their business, and their roles should be clearly defined to ensure that order and respect are maintained between them. It has been observed that, working with a partner presents definite challenge as the emotional risks are high, making separation of emotions and business essential (Duff, 2005).

As stated by Charles (2006), it is common for the couples in the family business to become bewildered about their role in the business and the home, making it important for them to accept the differences between these two domains. The business requires the spouses to work hard and have a drive to succeed, whereas the home provides a place for relaxation, comfort and safety. At times, business matters cross over to the family and likewise family matters cross over to the family business. Since these relationships are unavoidable, what matters is how the couples in business handle conflicts when they arise in course of the operations in business.

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Many researchers on couples in family business (Charles, 2006; Duff 2005; Newton, 2002) suggest that having definite separate role is essential for making a corpreneurship work. Division of labour not only makes a business run more efficiently, but also presents the partners involved with the opportunity to achieve more and learn from each other Charles (2006). Similarly, Stewart and Gross (2007), note that successful corpreneurs have responsibilities both within the business and the marriage and Charles (2006) asserts

that the sharing of responsibilities is vital to the long term success of family business run by spouses.

2.6 Role of the Founder of the Family Business

The founder of a family business plays a strategic role in business in general (Gersick, 1997) and in family business in particular Kelly et al. 2000). The founder role includes forming the culture, defining and articulating a vision, and formulating strategic goals Klein et al. (2005). The founder of a family business plays an important role in contributing to the culture of the business and entrepreneurial orientation. According to Felttham et al. (2005), personal characteristics of the CEO/ founder may be key factors in predicting entrepreneurial behaviour since family firms tend to be overly dependent on a single decision maker. Peters and Waterman (1982), pointed out that culture is a form of controlling individual behaviour and link it to company's goals.

This context was re-enforced by Zanelli and Silva (2004), that presented corporate culture as a tool used to balance individuals and organizations. The founder and other family members can impose their agenda on business strategy and management (Dyer, 2003). This outside influence may result in great emphasis on altruism and an inclusive stance towards stakeholders that makes family firms different. The family business characteristics are to be a great extent connected to the founder's role and influence.
The cultural uniqueness which originates from the founder for instance may be a source of firm advantage. Zanelli (2004) observes that in the beginning, the sharing of founder's world of vision may be non-significant, but it leads the organizational functioning

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towards the direction he or she long for. The dominant coalition tends to influence the strategic choices to its skills and competencies. Levesque & Minniti (2006), observes that entrepreneurial behaviour is contingent on intrinsic characteristics of the organizational decision maker who, in most cases is the founder / CEO of the family business.

2.7 Ownership and Control in the Family Business

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The relationship between ownership structure and firm performance has been a key issue in understanding the effectiveness of alternative corporate governance mechanism (Okoth, 2008). In this regard, family businesses are usually defined in terms of ownership and control. Chua et al. (1999), define the family firm as one owned and managed by the family. The business is governed and / or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family. In Kenya, many small and medium enterprises as in most other developing countries, take the shape of family business. The most dominant ones are those owned and managed by one or more family members. During the early stages of the family business life cycle, the business is usually directed and managed by the founder(s). Family control is very pronounced in smaller firms in Kenya (Block, 2002) and in Kenya where over 90 percent are small or micro firms the majority have family influence (Ramachadran, 1999).

Control and management structure during the early stages of a family business remain quite informal and the decision making power is concentrated in the hands of the founder (s) and a few close relatives. This arrangement may work well during this early stage of

development of the business but as the business grows in size and operations become more complex, a more formal management structure and a qualified management body become necessary. It becomes necessary for the success of the family business that some family members may have to step aside and be replaced by more professional and skilled outsiders.

2.8 Entrepreneurial Orientation in Family Business

Research on entrepreneurial orientation (EO) provides a unique conceptual lens to examine differences in the identities espoused by family firms as compared to non family firm Short et al. (2009). EO refers to the process, practices, and decision making styles of firms that act entrepreneurially (Lumpkin & Dess, 1996). In general, EO refers to top management strategy in relation to innovativeness, pro-activeness and risk taking (Poon et al., 2006). EO is a mindset of individuals who are entrepreneurs. Jones & George (2007) defines entrepreneurs as people who notice opportunities and take risk, and responsibility for mobilizing the resources necessary to produce new and improved goods and services.

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According to Stevenson & Jarillo (1990), EO has been recognized as one of the most important factors for a firm's growth and profitability. Research has shown that high growth correlates with a firm's entrepreneurial orientation. Growth can therefore be associated with innovations, pro-activeness and risk taking behavior of the individuals working in the family business and the owners have a lot of influence. Indeed, scholars argue that entrepreneurial efforts are central to firm's survival and prosperity (Ireland et

al., 2003; Li and Atuahene – Gima, 2001). Neubaum and Huse (2000), states that corporate entrepreneurship has been recognized as key factor contributing to firm success, increasing a firm's profitability, revenue streams, and growth. Entrepreneurial behaivours may be particularly crucial to a family firm as it strives to identify and take advantage of opportunities in the dynamic and uncertain competitive environment of the twenty first century (Sirmon & Hitt, 2003). The family firms that engage in the innovative, proactive and risk taking behaviors that characterize corporate entrepreneurship are major contributors to the world economy (Zahra et al., 2004).

In spite of the entrepreneurship potential to sustain family firms across generations, little research has investigated corporate entrepreneurship in family firms (Rogoff & Heck, 2003; Salvato, 2004). Entrepreneurial orientation scholars have empirically explored the independent effect of EO on performance (Covin & Slevin, 1995) and its contingent relationship with the external environment (Covin & Slevin, 1989) but have largely ignored Lumpkin & Dess's (1996) call for research that also investigate how characteristics internal to the firm moderate and mediate the EO performance relationships. According to Cahill (1996), a state of fragmentation exists in entrepreneurship research. Some theorists believe that the unique values and attitudes of individuals drive entrepreneurial behaviour (Cunningham & Lischeron, 1991).

Family firms contain unique characteristics derived from patterns of ownership, governance and succession that are argued, to influence the strategic processes and ultimately the performance of such firms (Anderson & Reeb, (2003); Carney, (2005).

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However, there has been disagreement regarding the extent to which these unique characteristics affect the strategic process and practices of family (Chrisma et al., (2005). Whereas the basic strategic management steps that are formulation, implementation and evaluation are likely to be similar in family and non –family firms, family dynamics may influence the decisions and processes in all the steps (Sharma et al., 1997). Scholars have argued that the unique characteristics relevant to family firms' identities foster entrepreneurship (Aldrich & Cliff, 2003), whereas others have argued that these family firm characteristics may work to inhibit entrepreneurial activities overtime, Zahra (2005). Overall, the ambiguity regarding the impact of family ownership and control is required to be resolved if we are to fully understand the nature of family firms' distinctions (Chrisman et al., 2005) and how these distinctions influence firm's strategic behaviour and performance. Moreover, Aldrich & Reeb (2003) asserts that more needs to be done to understand the role that the family dynamics play in influencing entrepreneurial processes in family firms.

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This study will analyze how family involvement and family business characteristics influence entrepreneurial behavior and consequently firm performance. The five components of EO as suggested by Lumpkin & Dess, (1996) are innovativeness, autonomy, pro-activeness, competitiveness and risk taking.

2.8.1 Innovation in Family Business

Innovation is key to entrepreneurship and has proven to be one of the most effective driving forces for the continued growth of most companies. Innovation is what Joseph

Schumpeter considered as a “force of creative destruction” where old ways of doing things are replaced by new and better ways. Schumpeter (2002) observed that the purest type of entrepreneur genus is the one who confines himself mostly strictly to the characteristic entrepreneurial functions of carrying out of new combinations. The innovation according to Schumpeter can take the form of new products, / services, finding new markets, new marketing methods, and new forms of organizations among others. It is by embracing the concept of innovation that has seen many companies register high growth. According to Lumpkin & Dess (1996), innovativeness reflects a tendency for an enterprise to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services or technological processes. Innovation is an important means of pursuing opportunities and so an important component of an entrepreneurial orientation (Lumpkin & Dess, 1996).

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Innovation goes beyond the generation of good ideas; it is a management process and must involve transforming those good ideas into results. For the family firm to be innovative, create value and bring new ideas to the market there must be internal changes and certain environment and founder characteristics that supports innovation. Matama (2006), notes that innovation is the actualization of ideas produced under creativity as it does jobs of converting materials into resources and combining existing resources into more productive configuration. It is one of the most important growth oriented strategies and includes other in born traits of intelligence, hard work and courage. Research examining the relationship between innovation and ownership structure appears to be nonexistent especially on the family business entities. According to George et al. (2003),

innovation research has tended to focus on large publicly held organizations although statistics suggest that, majority of innovations come from the small business section (Kuratko & Hodgetts, 2001).

2.8.2 Risk taking in Family Business

According to Lumpkin & Dess (1996), risk taking propensity is a behavioural dimension of an entrepreneurial orientation along which opportunity is pursued. Despite studies linking entrepreneurship and risk taking, this relationship has continued to puzzle researchers. According to Lucia et al. (2007), research at the individual level has found little empirical evidence to support the idea that entrepreneurs take considerable risks. Eisenhardt (1989), Fama and Jensen, (1983), notes that the problem with current literature on entrepreneurship and risk taking is that not enough attention has been paid to the role of the organizational context in which risk taking takes place.

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Firms differ in terms of their organizational context in which this risk taking takes place. Risk taking may be higher in some organizational contexts than in others as argued by agency theorists. Corporate entrepreneurship literatures also indicate that organizational context plays a role in risk taking Lucia et al. (2007). However, much more can be learned about how different organization contexts moderate the strength of EO dimensions such as risk taking (Lumpkin & Dess, 1996; Lyon et al., 2000). Agency theory argues that the extent of involvement in risk activities is likely to be influenced by the ownership and governance of the firm (Fama, 1980; Fama and Jensen, 1983).

Scholars of EO and agency theory share an interest in how risk taking affects performance (Wiklund & Shepherd, 2003).

Lucia et al. (2007) argue that the relationship between risk taking and performance is better understood by taking into account the organizational context and especially the relationship between the nature of ownership, governance and management. Family business are the organizational contexts and are likely to handle risk differently than other types of firms partly because management and ownership are not separated(Fama & Jensen, 1983) and partly because of the family nature of ownership and management Carney (2005).

According to Chua et al. (1999); Steir (2003), family firms share certain characteristics that render them unique in terms of ownership, governance and succession. Owner – families for instance, share the desire for ownership control and the continuity of family involvement in the firm. It is this involvement in the firm by family members that constitute the special characteristics of family firms and its considerable influence on entrepreneurial activities and performance. However, scholars disagree regarding to what extent family firms constitute an organizational context that supports or constrains an entrepreneurial orientation (Habberson & Pistrui, 2002; Zahra, 2005).

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According to Arnoff and Ward (1997), family firms are often characterized as conservative, resistant to change and introverted, contradicting what would be viewed as entrepreneurial .Sharma et al. (1997), asserts that the risk of losing family wealth created over a long period of time may inhibit family firms from engaging in entrepreneurial

activities. Some empirical research contradicts this view and confirms that entrepreneurial activity is a common characteristic of many family firms Hall et al. (2001); Steir, (2003). Indeed, in today's highly competitive and changing environment, firms that desire to grow must be prepared to take risks (Ward, 1997).

2.8.3 Autonomy

Lumpkin and Dess (1996), refer to the autonomy as an independent action in terms of bringing forth an idea or a vision and carrying it through to completion. It is believed that this independent spirit is necessary for entrepreneurship which is a key component of entrepreneurial orientation.

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2.8.4 Competitive Aggressiveness

Lumpkin & Dess (1996) considers competitive aggressiveness as a tendency by a firm to directly and intensely challenge its competitors to achieve entry or improve position. This tendency is characterized by responsiveness in terms of confrontation or reactive action which is contrary to pro-activeness which relates to market opportunities.

2.8.5 Pro-activeness

Pro-activeness is associated with leadership and according to Lumpkin & Dess (1996), it is related to initiative and first mover advantage and to taking initiative by anticipating and pursuing new opportunities. Pro-activeness is considered to be different from competitive aggressiveness, relating to market opportunity in entrepreneurship. The creation of demand and growth is usually considered a measure of pro-activeness.

Family business entrepreneurial orientation (OE) which greatly influences firms' performance can arise from the founders influence and that of the family members. A variety of research work suggest that leadership and entrepreneurship are vital elements of social organizational and individual success (Vecchio, 2003; Cogliser and Brigham, 2004; Antoncic and Hisrich, 2003). Given the limited investigation in regard to EO in family firms, it is unclear if and how family firms are influenced by the family firm characteristics especially in the Kenyan manufacturing SMEs sector. There has been little attention in the family business literature to the role that family dynamics play in influencing entrepreneurial process in family firms (Aldrick & Cliff, 2003).

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2.9 Family Business Governance

The global events concerning high profile business failures have put back the policy agenda and intensify debate on the efficiency of corporate governance mechanism as a means of increasing high performance (Sanda et al., 2005). International Finance Corporation (IFC) family business handbook suggests that some of the challenges faced by family business can be addressed by adapting a sound corporate governance structure which should clearly define the roles, responsibilities, rights and interaction among the company's main governing body.

According to centre for Corporate Governance of Kenya (CCG) (2004), governance is the manner in which power is exercised in the management of economic and social resources for sustainable human development and is concerned with the processes,

systems, practices and procedures, the formal and informal rules and regulations are applied and followed. Corporate governance refers to the manner in which the power of the corporation is exercised in the stewardship of the corporation's total portfolio of assets. The pillars of good governance include accountability of power, democratic values in respect of the sharing of power and efficient and effective use of resources for the production of goods and services among others. Based on the arguments advanced by Tricker (1984), Keasey and Wright (1993), emphasize the need to view corporate governance as having two broad dimensions. The first is the monitoring of management performance and ensuring accountability of management to shareholders, which emphasizes the stewardship and accountability dimensions of corporate governance. The second is governance structures and processes needed to encompass mechanisms for motivating managerial behaviour towards increasing wealth of the business.

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Corporate governance in Kenya has been top concern, particularly in the family business and financial sector. According to Centre for Corporate Governance of Kenya (CCG) (2004), focus on corporate governance in the financial sector is crucial mostly because the banking industry became highly exposed to scrutiny by the public following the collapse of certain Kenya banks. Also, following a workshop on the role of non-executive directors held at the Kenya College of Communication in November, (1998), with interest on corporate governance, debate has intensified on the corporate governance among Kenyan firms. The reasons for these developments, according to private sector initiative for corporate governance was one, the quality of governance at all levels was increasingly being seen as the most important factor for the success of both the political –

economy and its institutions. It was also noted that publicly listed companies were becoming increasingly vocal demanding better transparency and disclosure of information from their directors.

According to Blair (1995), corporate governance revolves around ownership and control and Zhuang (1999), argues that ownership structure is one of the most important factors in shaping the corporate governance system of any country. Trandelilin et al. (2007), concurs with this observation and asserts that the central concern of corporate governance has been the role of ownership structure. Attention on literature has also focused on the relationship between ownership structure and corporation performance (La Porta et al., 2000). According to Short et al. (2001), good corporate governance can be seen as referring to the mix of devices, mechanisms, structures which provide control and accountability. Matama (2006) observes that good corporate governance entails a strong performance ethic framework leading to a true meritocracy. It is essential for family businesses to acknowledge the distinction between ownership and management.

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For the proper functioning of a family owned business, there is need to have clear roles responsibilities and rules of engagement for the various stakeholders such as the owner managers and other outside professional managers working in the family business. However, in many small and medium family-owned businesses, there is no clear separation between business and the family as noted by Bula (2013). Families contribute labour and other resources to the business and in turn, they withdraw financial resources for the support of the family in times of need. The lack of separation if not controlled can

contribute to the dismal performance of the family business as the business is left with little financial resources for expansion.

Matama (2006), further observes that family ownership concentrates control and facilitates decision making, which can both lower governance costs and permit unconventional but strategically advantageous decisions. A well functioning system helps build trust within the family, and a good family dynamic, in turn becomes an asset to the business because it enables each separate piece of governance to function better and add more value while remaining aligned with the other components of the governance system. During the early stages of the family business life cycle, the founder plays an important role of providing values, ethics, and systems of control and strategic direction of the firm. He or she gets involved in almost all functions of the business such as finance, production, and marketing and the human resource. There is usually no clear separation of roles, duties, responsibilities and no formal structures. However, as the business grows, it becomes increasingly complex, creating the need for a more formal organization structure with clear roles and responsibilities based on transparency and accountability which are the key dimensions of corporate governance.

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Role of the board of directors

In a comparative analysis of family business, Rue and Ibrahim (1995), found that those who perform at a better than the industry average have higher participation by the Board of Directors in business and planning. Upton et al. (2002), observes that the boards involvement in the strategic planning process may be somewhat related to performance of

the business. The board of directors is a crucial part of a family business corporate governance structure. Its role, according to Ward (1991) and Bender (2002), is to add value by directing, guarding, monitoring and protecting assets. According to the principles for corporate governance in Kenya as prepared by private sector initiative for corporate governance, the role and functions of the board include the following among other roles.

1. Exercise leadership, integrity and sound judgments in directing the corporation as to achieve continuing prosperity and to act in the best interest of the enterprise while respecting the principles of transparency and accountability.
2. Ensure that through a managed and effective process board appointments are made that provide a mix of proficient directors, each of whom is able to add value and bring independent judgment to bear on the decision making process.
3. Determine the corporation's purpose, and values, determine the strategy to achieve its purpose and to implement its values in order to ensure it survives and thrives, and to ensure that procedures and practices are in place that protect the corporation's assets and reputation.
4. Monitor and evaluate the implementation of strategies, policies, management performance and business plans.
5. Ensure that no one person or a block of person has unfettered power and that there is an appropriate balance of power and authority on the board which is, inter alia, usually reflected by separating the roles of the chief executive

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officer and chairman, and by having a balance between executive and non-executive directors.

According to Johanisson and Huse (2000), agency theory suggests that principles that are the owners should select board members to monitor management who are the agents. Separation of ownership and control, mistrust and information asymmetric are dominant ingredients of the agency theory framework. The argument is that this reasoning implies that two main attributes are associated with outside board members. The first as Johanisson and Huse, (2000), argues is that the prospective board members are financially and psychologically independent of the executive management and will use the integrity to monitor the managers. The second is that the board, as a collective, has sufficient competencies to monitor management. From these arguments, it is therefore assumed that family owned businesses that have a board are likely to have better performance than those without a board.

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According to Charantimath (2006), effective governance in a family business system generates a sense of direction, values to live by or work by, and well understood and accepted policies that tell organization members how they should behave or what they should do in certain circumstances. Effective governance brings the right people together at the right time to discuss the right things. Good governance contributes three fundamental ingredients for a healthy family business system functioning.

1. Clarity on roles, rights and responsibilities for all members of the three systems that is, ownership, family and the business.

2. Discipline to help members of the family, business employees and owners act responsibly.
3. Regulating appropriate family and owner inclusion in business discussion. The three components of a family governance include;

a) Periodic assemblies of the family which develop clarity on roles, rights and responsibilities.

b) Family council meeting

c) A family constitution which deals with issues such as family's policies and guiding vision and values that regulates members' relationships with the business.

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According to Rwigema and Venter (2004), the successful continuation of a family business is largely dependent on an understanding of the importance of a sound governance structure. The businesses that survive the succession to second generation have good governance structures within the business and the family. Hough et al. (2008), notes that governance is a task of leadership and direction within an organization, suitable risk management and control over its performance and the way in which its performance is released to shareholders and other stakeholders. Some of the benefits of business governance according to Hough et al. (2008) include; increase the value of the business, foster the spirit of the enterprise, to give confidence to the market, improves efficiency and improve competitive advantage among others.

Good governance influences individual's attitudes towards business, responsibilities, leadership, honesty and integrity. This is likely to add to the success of a business by making leaders conscious of sound decision making in the best interests of the business, its shareholders and stakeholders (Hough et al. (2008). According to Rwigema & Venter (2004), the simplest and most common family governance structure is the family meetings. Poza et al. (1997), assert that family meetings, councils, retreats and assemblies are systematic communication forums; vital to a positive family culture as well as facilitating reinvestment in interpersonal as the family and business.

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2.10 Decision Making in Family Business

It is imperative that one necessity for the family business survival is the family members' ability to make sound decision (Tisue, 1999). Fast decision making is not only seen as necessary but crucial to ensure speed and efficiency in responding to market opportunities and maneuvering through market uncertainties and tumultuous environment. The ability to make creative decisions with the flexibility to lower operational cost could reduce operational risks and achieve rapid growth Lee and Li (1999).

Several authors Danes et al. (2002); Leach & Bogod (2003); Smith (2000) have discussed the nature of the decision making process in family business and particularly copreneurships that is business operated by spouses. Danes et al. (2002), observed that spouses running the businesses jointly or in partnership in a family business are frequently involved in the decision making process of family business and that this shared decision making will result in the development of an emotional interdependence

between the two decision makers. Decision concerning financial matters for instance, when taken jointly will result in the development of collaborative methods for dealing with disagreements about finances and in turn generate greater level of sustainability for the family business. According to Garza (2003) and Tischler (2005) a decision should be made regarding who will have the final say if there is a difference of opinion in order to prevent conflict in situations where the decision making is shared between the spouses running the family business. Leah and Bogod (2003), asserts that although many spouses experience joint decision making as being the key to success of their business, others elect to split the decision making responsibilities either according to their strengths and weaknesses in line with the roles that they have previously agreed upon. Smith (2000), found that the male spouses were mainly responsible for the decision making in their business and spent more time at work. As a result of this frequent interaction with the customers, they were perceived as the bosses.

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As noted by Longenecker et al. (2008), decision making in family business is usually complex as it involves a mixture of family and business values and interests. Matama (2006) observes that decision making in family owned businesses may not be as careful and well organized as that in public companies. Those providing input may have contrasting goals and different influences on the decision makers. Input may be multi-dimensional from a variety of sources, and not always fully informed. Family members may participate and give input in decisions formally as directors or informally as spouses or siblings and otherwise

According to Matlin (2002), the use of cognitive perspective is an emerging perspective within the field of entrepreneurship to understand entrepreneurs in making decisions and solving problems. Mitchell and Busenitz (2007) defined entrepreneurial cognition as the knowledge structure that people use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation and growth.

Baron (2004), described decision making and reasoning, and how people use stored knowledge for making decisions and in reasoning, about the situation. Decision making in family owned businesses unlike in the public companies is usually influenced by other variables such as the family business system that is the family, owners and management. Other variables that moderate the entrepreneur's decision making process in creating new ventures include the industry, family life stage and family involvement. Among the possible reasons which may differentiate family business to non-family business are the expectation of wealth creation for the family, and within the family and the need to preserve their family legacy.

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Lee & Li (2009) points out that a lot of decision making process is controlled by the family patriarch. Tisue (1999) noted that in most cases, the decision making by the founder is liken to the authoritarian style, and everyone follows it without questioning the decision or the process of carrying out the decision. Other influences that may also affect the founder's decision making according to Wells (1974) are his experiences and abilities and the team that supports him. The size of investment, cash out potential, geographical location and product differentiation may also influence (Tyebjee & Bruno, 1984) and

knowledge and personal psychology (values), (Harris, 1998). Because of the nature of the family business, one cannot separate the entrepreneur from the family context. The contribution of the members and the significance of the family dynamics, and despite the ideology of individualism, entrepreneurs belong to households that are emotional and economic units Cramton (1994). Critical variable behind the family business research is the centre of all decision making. To understand the complexities in the family business, this critical variable the family must be explored (Astracham, 2003; Rogoff & Heck, 2003; Zahra, 2003).

Habberson et al. (2003) introduced a new perspective called "familiness" in order to identify what this critical variable is all about. The 'familiness' describes the unique, inseparable and synergetic resources and capabilities emerging from family involvement and interactions. The familiness is what characterizes the family business and makes it different from other businesses. The familiness concept is supported by the resource-based view (RBV) of the firm which argues that firms are able to outperform others if they can develop valuable resources or capabilities which cannot easily be imitated or substituted by its competitors (Barney, 1991). Studies carried out prove that the connection between family and business may lead to unique advantages in the acquisition of resources, (Hayness & Hong, 1999). An appropriate method for doing that is to assess the family influence on the decision making process. Family ties may provide an advantage in opportunity identification due to a higher willingness to share information with each other between members of the same family Barney et al. (2002).

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2.11 Communication in Family Business

Individuals and organization communicate for a variety of reasons; to pass on some information, share ideas, dreams or to discuss plans for business and family. Basically, communication is the transfer of information from the sender to the receiver and the message can be verbal or non-verbal. Sometimes, the message intended to a recipient may not be received the way it was meant for a variety of reasons such as the message being misunderstood, misinterpreted or because of the wrong choice of the channel.
Open and effective communication is therefore critical to success of any organization because for individuals to work effectively towards a common objective, they must pass information form one source to another. Hough et al. (2008), refer to communication in a team as being a feature that can influence the success of a team.

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Matama (2006) observed that when family members are in business together, skill is needed to communicate plans, expectations and dreams. It helps all family members when effective communication is a cooperative effort. Families who discuss issues, and agree on issues to be taken, or compromise when views are different, promote healthier relationships in addition to creating a better work environment. This is because when things go well at home, things are more likely to go well at work and this is likely to improve business performance. Conflicts arise when there is lack of effective communication and this can affect the family business negatively. Williams (1992), asserts that effective communication is essential in a family and is a prerequisite to family business success. Open communication is essential for fostering effective teamwork between family members and particularly spouses (Copreneurs) running the family

business jointly. Gersick et al. (1997); Mc Call (2002) note that effective communication distinguished by honesty, openness and consistency, forms the foundation for resolving conflicts and encouraging harmony in both the family and the family business. According to Ward (2004), the most successful family businesses devote ample time and effort to learning communication skills and consider it very effective to learn these skills together.

From the work of Adendoff (2004), there is a positive relationship between family harmony and family commitment, and communication. Lundberg (1994), similarly asserts that marital partners who communicate about their goals, visions and strategies, will become more committed to their business as well as more capable of working together effectively during stressful business periods. Other studies have come up with similar findings. For instance both Campion et al. (1993) and Gladstein (1984) found that team ratings of open communication were positively affiliated with criteria for team effectiveness, such as productivity, employee satisfaction and manager judgments. Cowie (2007), similarly found a significant positive relationship between open communication among team members and perceived success, the ability to operate efficiently, and their readiness to cooperate with and support each other.

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Because most family owned business in Kenya and in many other developing countries involve spouses' involvement, spousal communication is important for the smooth running of the family business. Existing studies of family-owned businesses show that the spousal communication, the degree to which couples openly and often communicate effectively significantly influences the performance of new business venture Nelton

(1986). Numerous authors such as Jaffe (1990); Nelton (1986); Nieman (2006) among others consider close communication between partners to be a characteristic of successful spousal teams in a family business. Successful couples running a family business and experts have acknowledged that communication is the foundation on which couples simultaneously build both a successful business and marriage Marshack (2007); Nelton (1996); and Zimmerer & Scarborough (2002). Couples running a family business require constant communication in order to be successful (Williams, 2008).

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2.12 Management Succession Planning in Family Business

According to Taruwinga (2011), succession is considered to be one of the most important and critical issues in the family business. Ibrahim et al. (1999), observe that a proper succession planning process provides the family business with the opportunity to select the effective leaders who are able to take the business to a new level. Maalu (2010) observes that succession is inevitable and that a number of factors influence succession key among them the context, the culture, the business and the family.

Succession is a dynamic process during which the roles and duties of the two main groups of individual involved that is the owner-manager and the successor evolve interdependently and overlap, the ultimate goal being to transfer both the management and ownership of the business to the next generation (Venter, 2003). Succession is the replacement of the leader of a family business by a successor and is more of a process than an event (Churchill & Hatten, 1987) and the succession planning is a process of identifying and developing internal personnel with the potential to fill key or critical

organizational positions. It ensures the availability of experienced and capable employees that are prepared to assume these roles as they become available Venter (2003); Cabrera – Sharez et al. (2001).

Succession in a business is not a simple issue and can occur for any number of valid reasons and circumstances (Deakins et al., 2009). Martin et al. (2002) points out that ownership succession issues arise if the owner (s) wish to exit the business for harvesting or personal reasons to retire.

New owners of the business may come from external buyers or a continuation of the business from inside. It was established that ownership succession tended to be linked primarily to age –related events and the owner's personal life journey. Taruwinga (2011) on the study of the influence of cultural factors on successful succession planning in Indian South African family owned businesses identified several models for considerations on succession planning.

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One of the models is the transition period model by Gersick et al. (1999) which attempts to explain the issues involved in generational transition. The model shows the transition periods found as a business move from one generational stage to another during the first three generations. The stages involve the controlling owner stage as the first generation, sibling partnership as the second and cousin consortium as the third generation. The model emphasizes how transition becomes more complex with successive generations (Perryer & Te, 2010). The second model is Dana's Push-pull model which is a descriptive framework that emphasizes the need for pull factors to act on existing push

factors for timely voluntary succession (Dana, 2005). The model is based on Cohn (1992) who had used the words push – pull factors in reference to two forces in succession push forces as those that persuade incumbent owners to “let go” and pass on management and ownership control of the family owned business to their successors. Push forces are generally external in nature such as those generated by successor, other family members, employees or other interested parties.

Pull forces draw the incumbent away from their businesses as their primary interest and activity (Dana, 2005). The incumbent feels it is their decision and they are doing it at their own time. Such forces may include a concern to spend more time with loved ones or do something else they had wanted to do. The third model is the life cycle model developed by Churchil and Halten (1987). This model describes the succession process between father and son in a family firm and is based on the stages of one’s life cycle.

Evidence suggests that getting it wrong or ignoring the issue of succession can lead to the failure of a business. Fox et al. (1996), assert that there are many complex factors to consider in the succession, including who, will run the business, how to devolve control and how to keep the members of the management team functioning together over the transitional period. Such issues can be dealt with by proper and carefully considered succession planning. The transitional phase can be addressed by determining the qualities required from the successor and ensuring that they do not already exist either in the family or within the management team.

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Perhaps the most often cited challenge of family business is lack of clear succession plan which contributes to family business failure. Matama (2006) notes that continuity commonly referred to a succession or passing over leadership, control and ownership to the next generation is among the crucial challenges that many family businesses have to confront. Continuity can be a significant threat to a family business, survival, and success, mainly because of the disequilibrium between business preservation and individual preferences.

According to Grant (2005) and Nancy (1991) succession is a difficult process for most family business much more than for non-family business. Indeed, the greatest risk to the continued success of family business is the passing of the business from one generation to the next. Fred & Alden (1998) note that two thirds to three quarters of family businesses either collapse or are sold by the founders during their own tenure. Only five to fifteen percent continue into third generation in the hands of the descendants of the founder(s).
Holt (2005) attributes many family business failures to lack of clear succession plan. In the absence of a successor, the life of a business is limited to the working of its founder. A business is likely to operate successfully until the founder retires or dies and if there is no capable or willing person of succeeding squabbles in the family may contribute to the failure of the business. The other challenge is that, even when the successor is identified, the person that takes over may not possess the entrepreneur capabilities and leadership of the founder to steer the business to sustainability. Service family firms face even more challenges. The business heavily relies on the unique skills and vision of the founder.

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Succession in such businesses is unlikely unless the successor develops comparable skills and vision.

Fleming (2000) points out that the succession issue is avoided by family business owners for a number of reasons. Some of the reasons are that it can raise unpleasant family problems and issues that cause pain and conflict. The issue of succession forces the parents to confront their own mortality and they may fear a loss of personal control in the business. Among many African family owned business, succession is even more complicated where the family business founder may be reluctant to name and prepare the successor for various reasons some of which are to do which culture.

Ivan (1988) as cited in Matama (2006) mentions a number of forces that act against succession planning and can be classified as follows:

1. Founder – fear of death, reluctance to let go of power and control personal loss of identity, fear of losing work activity and feeling of jealousy and rivalry towards successor among others.
2. Family – founders spouses reluctance to let go of role in the business, norms against favoring siblings, fear of parental death and norms against discussing family's future beyond life time of parents.
3. Employees – fear of differentiating among key managers, reluctance to establish formal control, fear of change and reluctance to let go a personal relationship with founder.

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4. Environmental – founder's colleagues and friends continue to work, reliance of clients on founder and cultural values that discourage succession planning.

2.13 Summary of Reviewed Literature and Research Gaps

The chapter starts by looking at the family business definitions, characteristics, status of the small to medium sized businesses in Kenya and the variables used in the study objectives.

Small to medium sized businesses are dominant in Kenya and are mainly family owned. Two versions of the definitions from the literature are the subjective one which defines the family business as the one controlled by the family while the objective definition considers family business as one with certain percentage of family ownership. It is generally agreed in the literature that family business are fundamentally different from non-family business and more complex to run and understand.

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The literature shows that families are greatly involved in the family business both within and outside and based on agency theory literature has documented evidence that a number of benefits and costs arise out of this involvement hence performance differences among family firms. Disagreement regarding the extent to which the unique family business characteristic affects the strategic process and performance do exist in the literature. Some Scholars argue that family goals, cultures, succession and intergeneration relationship among others affect strategic process and performance. Regarding entrepreneurial orientation or attributes, some Scholars have argued that certain unique characteristics foster entrepreneurship while others may inhibit entrepreneurial activities

in the family business. Corporate governance according to the literature revolves around ownership and control. It is argued that effective family business governance generates a sense of direction and clarity of roles which is good for the family business performance. Decision making in the family business is complex and involves a mixture of family and business values and interests. It may not be as carefully thought as in non-family business and this may affect the family business performance. On the succession planning in the family business the literature considers it to be one of the most important and critical issues and failure to carefully select and prepare the successor could contribute to family business failure.

From the literature review, there is evident of a growing interest in the performance of family owned businesses and the factors that influence their performance. However, there has been conflicting results regarding contributors to the family owned business performance and whether the family owned business is a good business model or not. It has been shown from various studies and countries that family owned business last longer Westhead & Cowling (1998); Anderson & Reeb (2003). They are more resilient Church (1993) when compared to non-family business. Anderson & Reeb found that family business under the direction of the founding family outperform other firms. A large body of literature has identified the unique attributes of family business Vis-a- Vis non family corporations of diverse ownership. These attributes, including trust, altruism and commitment can in principle enhance firm efficiency and performance Davis (1983); Chemi (1999).

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Despite the good performance of some family business, the question of whether family business is an effective business structure remains largely unanswered. However, there are also cases of poor performance of some family owned businesses. So, the questions still persist on why some family owned business do better than others. Poza (2007) observes that family owned businesses are important segment of most economies contributing over 70 percent of the GDP and more than 80 percent of the working population but despite their vital role, most of them fail. Poza (2007) explained that approximately 85 percent new businesses fail within their first five years of operation and among those that survive; only 30% are successful transferred to the second generation of the founding family owners. This observation is also confirmed by Nierman (2006), who notes that only 30 percent of all family owned business progress to the second generation and 10 percent to the third generation. Those that manage to survive tend to outperform non-family business in performance. While some studies argue that the dual relationship between social and business systems could provide the family business with a unique competitive advantage, others see it as a source of major problem that affect its survival Zahra &Sharma (2004); Aldrich & Cliff (2003).

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According to Venter (2007) one of the biggest threats to the growth, success and survival of any family owned business, is the complexity of family relationships. Van Duijn et al. (2007) add that family problems and emotions may impinge on the business. Rwigema and Venter (2004) also point out that the inappropriate management of family relationships is a weakness of family business. Davis (1983) and Lansberg (1983) observe that a family business shares values and characteristics with both the family and

the business entities, but the fact that the business is not free from family influences, creates many unique challenges for family owned business.

While there is a large body of literature examining the effect of family involvement on firm performance and that ethnic and cultural influences impact of family business Ward (1995) observe that very few if any studies have been carried out to explore the influence of family business characteristics on the firm performance in different contexts that may influence the outcome. Most studies consider the family business as flawed and its survival depends on the replacement of family members by professionals outside the family.

As Kepner (1983) pointed out, the family business field is occupied with the wrong questions that perpetuate a mindset focused on eliminating the negative rather than developing the positive. Most family business research has been dominated by issue surrounding preservation. Hoy & Verser (1994) found that research is predominantly focused on succession, governance and survival issues. Moreover, studies are carried out on businesses in general assuming they are homogenous without taking into account of the heterogeneous characteristics of the family business. For instance, Megginson et al. (2003) observed that business knowledge and management, insufficient planning and inexperience may be responsible for the high failure rates among many small businesses. Kinyanjui (2006) in a study in central Kenya among small businesses revealed that 57 percent of the small business with majority as family business were in stagnation while only 33 percent showing some level of growth. These studies ignored the family

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involvement and influence while it is observed that research on family business which appears to be the majority in most economies must take into account the family dynamics (Ibrahim & Ellis, 2006). While it is a fact, that factors that affect business performance are similar like the above findings, family owned businesses have unique characteristics and unique challenges. On the study of family involvement in the family business, Nieman (2006) found that conflict between family members, nepotism, tradition, a paternal / autocratic culture existing in the business, improper handover to the next generation, lack of leadership and ineffective communication were some of the family business characteristics that contributed to firm performance.

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Previous research on family business has also highlighted "familiness" which is a bundle of resources emanating from the family involvement in the business as a source of competitive advantage and better performance Chrisman et al. (2005) and Nordqvist (2005). The same familiness could contribute to poor performance in the family business. However, the conditions that give rise to familiness and the sources and types of familiness are yet to be understood Chrisman et al. (2005). The three cycle model by Tagiuri & Davis (1996) incorporates the view that the unique characteristics of family business result from the interaction between these three sub-systems, the family, owners and management, where each of these characteristics can be a source of benefits and disadvantages for the family, owners and employees. The family embeddledness implies that both the family and the business are invariably intertwined, overlapping and interconnected. Indeed, it is difficult to separate these two systems, that is, the family and

the business (Ibrahim et al., 2009). These overlap account for the unique behavior of family firms Sharma (2004); Aldrich & Cliff (2003).

This overlap and involvement of the family has increased the awareness among researchers that the characteristics of the family type of business need to be analyzed by identifying various degree of influence in the business. Moreover, family owned business in Kenya remains under researched. The need to better understand to what extent family business differ from one another still remains Chrisman et al. (2007). The purpose of this study will therefore explore the family business characteristics and their influence on the performance of small to medium family owned food manufacturing enterprises in the Kenyan context.

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CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter describes and justifies the research design that was used, target population, sample and sampling technique applied. The research instruments used validity and reliability of the instruments, pretesting procedure, data collection, analysis and ethical issues were also provided in the study in this section.

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3.2 Research Design

A research design is the arrangement of conditions for collection and analyzing of data. It constitutes the blue print for collection, measurement and analysis of data (Kothari, 2007; Chandran, 2004). This study used descriptive survey design because it sought explanation for current phenomenon through the use of systematic and controlled methods in data collection Mugenda and Mugenda (2003). It also employed qualitative and quantitative mixed research methods. This has been the most commonly used methodology of family business research Bird et al. (2002). This is because the use of both methods in a methodological triangulation approach results in a more comprehensive understanding of family business characteristics and their influence on firm performance. Denzin (1978) defines triangulation as the combination of methodologies in the study of the same phenomenon. Descriptive research design was found appropriate for this study as it is undertaken to ascertain and be able to describe the characteristics of the variables of

interest in a situation. It is also undertaken to understand the characteristics of organizations that follow certain common practices Sekeran & Roger (2009). The family owned businesses appears to fall under this category and therefore this design is more suitable for this study that seeks to establish and understand the characteristics of family business and their influence on performance.

The use of quantitative methods was generally meant to ensure objectivity, generalizability and reliability and on the other hand, the qualitative method was designed to provide the researcher with the perspective of target audience under study. The advantage of this method is that it helps to generate rich and detailed data. Using this method, the researcher was able to build a complex, holistic picture, analyze words, report detailed views of information and conduct settings (Cresswell, 1998). Qualitative results can provide new dimensions of the explored concepts that are not found in quantitative analysis and vice – versa, thus advancing the understanding of the concepts themselves allowing one to create more accurate measures (Nicotera, 2008). The approach was therefore found to be relevant here for understanding family business characteristics in natural setting (Denzin and Lincoln, 1994). Yin (2003), recommends the use of qualitative approach when the phenomenon under study is related to a complex social context as is the case with the family business. Reichardt and Rallis (1994) suggested that combining the two methods can be better than one. Using both qualitative and quantitative approach in a single study is in line with mixed methods research (Tashakkori and Teddlie, 1998) also known as triangulation (Perlesz and Lindsay, 2003).

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3.3 Target Population

The target population for this study was the small and medium sized food and beverage manufacturing family enterprises in Kenya. According to Mugenda and Mugenda (2003) target population is the entire group of individuals who have common observable characteristics. Zikmund (2003) also defines a population as being any complete group or body of people or any collection of items under consideration for research purpose.

In this study, the population of family owned business in Kenya was not available. There were no records differentiating family businesses from non-family businesses when businesses are registered in Kenya. However, this is not only a Kenyan situation as it is the case with most other countries (Floren 2003); Venter, 2003). Santiago (2000), acknowledges the lack of the availability of family business databases and the secretive nature of these firms making the field of family business a challenging area of study. The option available was to use a comprehensive list of those that are registered under a reputable Trade Association such as the Kenya Association of Manufacturers (KAM) and make a preliminary survey to ascertain the family businesses according to operational definition of family business. This is a common trend among family business researchers facing unreliable database in many countries Venter (2003). The population for this study was therefore based on the companies which were listed as the members of the Kenya Association of Manufacturers (KAM) (2012). This provided a suitable representation for the Kenyan economy with a widespread representation of business ownership hence the justification for the selection of this study.

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3.4 Sampling Procedure

A sample is a subset of a population which is intended to represent a large population Kothari (2004). Collis & Hussey (2003); Cooper & Schindler (2007) also define the sample as a subset of a population or a group of participants who are carefully selected to represent a population. Given the fact that there was no complete database on family owned businesses, the purpose of defining a sampling unit took place over two stages to identify family businesses.

The first stage was to build a family business sampling frame from a trade directory of Kenya Association of Manufacturers. This was necessary because there were no existing records on family businesses in Kenya that could form the sampling frame for sampling purposes. The second stage was to identify small and medium sized family business from among the sampling frame. Following Westhead and Cowling (1999) preliminary survey was used using telephone calls and mailing with two criteria combined to identify family firms. The respondents were required to answer yes to two questions whether the ownership and management control of the business is dominated by one family and whether the business is considered or perceived to be a family business. This stage was necessary because the study was concerned with those businesses that were considered family owned or managed.

3.5 Sampling Frame and Size

The sampling frame comprised food and beverage manufacturing enterprises registered with the Kenya Association of Manufacturers. According to the directory of Kenya

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Association of Manufacturers (KAM) membership (2011) there were 670 paid up members with over 80 percent in Greater Nairobi City while the rest were located in the rest of the country. For convenient, time and cost implications, the researcher chose the 80 percent of the businesses in Greater Nairobi City. This area included the neibghbouring districts of Kiambu, Ruiru, Thika, Kiambu, Kikuyu, Limuru, Machakos, Athi-River and Kajiado. This was found to be a good representative of family owned businesses in Kenya.

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For the purpose of this study, non-probability convenience sampling procedure was used. This refers to the process of acquiring sampling units or people who are most conveniently available. It is generally used when researchers want swift and in a cost – effective manner and to obtain a large number of completed questionnaires (Zikmundi, 2003). This sampling technique and methodology was found to be consistent with those of other family business researchers who were constrained by the lack of a national database on family businesses (Sonfield and Lussier, 2004; Van Der Merwe and Ellis, (2007; Venter, 2003).

KAM Sector Distribution

KAM members were categorized into 14 sub-sectors, 12 of which were in processing and value addition while the other two offer essential services to enhance formal industry. Sub-sectors are defined by the type of raw materials companies import or the products they manufacture.

The following was the distribution of members across the 14 sectors of KAM.

Table 2: KAM Membership by sector

Sector	Members	%
Affiliate Association	2	0.3
Building, mining & Construction	19	2.8
Chemical and Allied Sector	70	10.4
Energy, Electrical and Electronics	36	5.4
Food and Beverage	**146**	**21.8**
Leather and footwear	7	1.0
Metal and Allied sector	61	9.1
Motor vehicle & Accessories	61	9.1
Paper and board sector	66	9.9
Pharmaceutical and medical equipment	24	3.6
Plastics and rubber	67	10.0
Services and consultants	70	10.4
Textile and apparels	56	8.4
Timber, wood and furniture	18	2.7
Total	670	100

Source: Kenya Manufacturers and Exporters Directory (2011).

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Food and Beverage Sector

This was the largest sector comprising of 146 members, who constitute 21.8 per cent of total KAM membership. The sub-sectors include; alcoholic, beverages and spirits, bakers and millers, cocoa, chocolate and sugar confectionery, dairy products, juices/water and carbonated soft drinks, slaughtering, preparation and preservation of meat, tobacco products and vegetable oils. From the information gathered from the Directorate of KAM and the preliminary survey carried to determine small and medium family enterprises, there were 84 that responded and confirmed that were family businesses. The sample size for this study was therefore 84 family businesses that confirmed to be family businesses. This is about 58 percent of the total manufacturing businesses in Kenya registered under KAM membership which is reasonable enough to provide good representation.

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3.6 Research Instruments

The study used both primary and secondary data. Primary data according to Sekaran (2010) refers to information obtained first-hand by the researcher on the variables of interest for the specific purpose of the study. The sources of this data included individuals who provided information when interviewed, administered questionnaires or observed. Secondary data was the information gathered from sources that already exist on family business. These sources included journal articles from the internet, books, periodicals, government publications, media reports and company's annual reports among others.

For the purpose of this study the researcher used questionnaires to gather primary data from the CEOs and/or founders of small and medium food and beverage manufacturing

family businesses. The instruments were based on those from similar research studies and modified to suit the objectives of this study. The F-PEC scale of family influence (Astrachan et al., (2002), was used to measure the independent variables such as family influence, ownership, control and governance practices. Entrepreneurial orientation was measured using scales developed by Miller (1983); Covin and Slevin (1986); and Lumpkin and Dess (1986). The instrument in the study of culture was adapted from a study by Hofsted (1984) and modified to suit the objectives related to the variable. Person and Lumpkin (2011) note that in family business studies researchers often borrow and adapt scales that are already established. The instruments contained items that directly and indirectly measure family business characteristics. According to Person and Lumpkin (2011), measurement of phenomenon in social sciences such as those of family business research refers to assessing both observed and latent variables. Person and Lumpkin observe that latent variables are those that are inferred from proxies and are used to measure an unobservable quantity of interest. Although this is not a direct measure of the desired quantity, a good proxy variable is strongly related to the unobserved variable of interest and are commonly used in the social sciences because of the difficulty or impossibility of obtaining measures of the quantities of interest (Person and Lumpkin, 2011). The dependent variable of business performance was adapted from Chandler and Jansen (1992) and Miller and Toulouse (1986) which measures sales growth, change in perceived market share, change in the number of employees, change in relative long-run profitability and change in sales or revenue over a period of time and owner's perception of performance. In using the instruments, the CEO's of family firms, Managers or Founders were the respondents.

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3.6.1Questionnaires

Kothari (2007) considers questionnaires to be the heart of survey design. The use of questionnaires allows sampling over a wide geographical area Gall et al. (1996). When questionnaires are used, they are uniform and have the potential to minimize errors from respondents. They can also allow many participants to respond to similar items allowing for comparisons. Kerlinger and Lee (2000) assert that questionnaires give factual information and Turkman (1997) observe that questionnaires make it possible for the researcher to measure what a person's knowledge, dislikes or likes are. The closed and open-ended types of questionnaires were used in this study.

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The closed questionnaires required the respondents to select one response from the given alternatives; the second category was open-ended questions which required the respondents to express their personal feelings and thoughts about the question. Sekaran & Bougie (2010) suggest that it's advisable to ask open-ended questions to get a broad idea and form some impression about the situation. The third category used was the Likert Scale which is a psychometric scale commonly used in questionnaires and widely used in survey research. The respondents were asked to evaluate according to any kind of subjective or objective criteria such as the level of agreement or disagreement.

3.7 Instrument Validity

Validity is a property of research instrument that measures its relevance, precision and accuracy (Sarantokos, 2005). Validity tells the researcher whether an instrument measures what is supposed to measure, and whether the measurement is accurate and

precise. Relevance, accuracy and precision are the attributes of validity. Relevance measures what it is supposed and nothing else while accuracy is the ability to identify true value and precision implies accuracy but in addition measurement employ the smallest possible measure. According to Kothari (2007) the instrument must measure what it is supposed to measure.

The use of experts and colleagues was also used in validating the research instruments. This is in line with suggestions by Cohen and Marion (1994) who recommends that experts and colleagues can be used to give objective opinion on contents of research instruments in terms of the level of language used and the framing of questions. For this purpose, experts in the area of family business and entrepreneurship from our local Universities were used. The instruments were also pilot tested before going to the field to test the three attributes of validity that is relevance, accuracy and precision. This exercise was geared towards evaluating the clarity of test items, suitability of language used and the feasibility of the study (Kothari, 2008).

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3.8 Instrument Reliability

According to Sarankakos (2005), reliability refers to the capacity of measurement to produce consistent results. The method is said to be reliable if it produces the same results whenever it is repeated or done. It is a measure of objectivity, stability, consistency and precision. Reliability can be internal which means consistency within the site and external reliability which refers to the consistency and explicability of data cross

sites. To ensure reliability, pilot testing of the research instrument was carried out in ten family businesses which were conveniently selected to represent the family businesses.

3.9 Data Collection Procedures

A letter of introduction and assurance of confidentiality was prepared to enable the researcher get cooperation from the respondents. Data was collected using self-administered questionnaires after booking an appointment with the respondents. This was to ensure high response rate and cooperation. As the researcher administered the questionnaires opportunity was also taken for a face to face interviews conducted to verify certain issues that needed to be clarified. Notes were taken on key issues in the conversation and other non-verbal communication such as gestures and facial expressions used by the respondents to stress a point or express a feeling noted. The researcher was assisted by four research assistants who were selected and trained on administering the questionnaires to facilitate fast data collection.

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3.10 Data Processing and Analysis

The collected data was categorized into themes and sub-themes on the research objectives and codes were assigned to each theme category to ease the analysis. Data from the open ended questions and interviews were reconstructed and analyzed using narratives. Statistical Package for Social Sciences (SPSS) was used for the quantitative data.

The researcher calculated the response rate, measures of central tendency, measures of variability, frequencies and percentages. Multiple regression models which attempts to determine whether a group of independent variables together predict a given dependent

variables was used to test the strength of the variables. In this study, the multiple regression models were given as;

$$Y_i = f(\alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3 + \alpha_4 x_4 + \alpha_5 x_5 + e)$$
$$and\, Y_i = Y_1\, or\, Y_2\, or\, Y_3$$

Where,

$$Y_1 = f(x_1, x_2, x_3, x_4, x_5)$$
$$Y_2 = f(x_1, x_{2,} x_3, x_4, x_5)$$
$$Y_3 = f(x_1, x_2, x_3, x_4, x_5)$$
$$for\, i = 1,2,3$$

x_1, x_2, x_3, x_4, x_5 are the independent variables.

x_1=Family business involvement

x_2 =Family business decision making

x_3 =Family business management succession planning

x_4 =Family business entrepreneurial orientation

x_5 =Family business governance

Y_i =Dependent variable which is the family business performance indicated by;

Y_1 =Family business longevity

Y_2 =Sales volume

Y_3 =Perceived performance

α_0 =Constant in the model

$\alpha_1, \alpha_2, \alpha_3, \alpha_4 \ldots \alpha_5$ refers to regression coefficient of the independent variables.

e= error term

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The magnitude of regression coefficient helped the researcher know the direction and magnitude of the relationship between the dependent and independent variables.

Analysis of variance (ANOVA) was engaged to calculate the statistical significance differences between means while reliability and internal consistency of the measurement models were tested using Cronbach's alpha which is defined as;

$$\alpha = \frac{K}{K^{-1}}\left(1 - \frac{\sum_{i=1}^{k}\delta_{X_i}^{2}}{\delta_{x}^{2}}\right)$$

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Where K is the number of items in the set

δ_X^2 = the variance of the observed total test scores.

$\delta_{Y_i}^2$ = the variance of compared Y for current type of family business performance.

X_i= an index which measures the family business characteristics in relation to family business performance.

Variability of the measures models were measured using SPSS: The results of the multiple regression, ANOVA and explanatory factor analysis of SPSS helped answer the question as to how family business characteristics influence the performance of small-medium food and beverage manufacturing family enterprises in Kenya. The principal of component analysis was used to determine which of the variables among others was significantly influencing the performance. The factor analysis was performed to identify the patterns in the data and to reduce the data to manageable levels (Field, 2006). A loading of 0.5 was used and therefore factors with Eigen values (total variance) greater

than 0.5 were extracted and coefficients below 0.49 were deleted from the matrix since they were considered to be of no significant.

3.11 Ethical Issues

Strict adherence to ethical standards in planning and conducting both quantitative and qualitative research is considered very important (Ary, 2006). The researcher therefore gave attention to ethical issues during the process of this study. The researcher sought the most appropriate time for conducting the research with the respondents. To ensure confidentiality of the respondents the researcher ensured that the names of individuals were not written on the questionnaires and instead number were used. Pilot testing and the review of research instruments were used to minimize biases in the study.

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CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents data analysis, presentation and interpretation of findings of the study as set out in the research objectives and the methodology. The study findings are presented to establish the influence of family business characteristics on the performance of small to medium sized food and beverage manufacturing family enterprises in Kenya. The data was gathered from the primary source through the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. The summary of the findings is given in frequency distribution, percentages, means, standard deviations, pie-charts and bar charts. Multiple regression analysis and the principle of factor analysis are used to show the level of significance among the variables.

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4.2 Research Instrument Response rate

The study targeted 84 respondents from among the CEOs/Founders of family businesses in collecting data with regard to the influence of family business characteristics on the performance of family businesses. Out of the questionnaires administered, 60 out of the 84 sample respondents filled-in and returned the questionnaires making a response rate of 72%. This return rate percentage was because of the busy schedules, reluctant to fill the questionnaire and non-availability of the CEOs/Founder of the family businesses.

However, the researcher's persistent personal pleas, calls and personal visits to remind the respondent to fill-in and return the questionnaires made it possible for this rate. The researcher considers return rate above 70 percent dependable and representative for data analysis.

4.3 Pilot Study Reliability Analysis

Pilot study was carried out and the reliability test was conducted using the data collected. A pre-test prior to the actual study was carried out. The pilot study enabled the researcher to access the clarity of the instrument and its ease of use. According to Mugenda and Mugenda (2003) pre-testing allows errors to be discovered before the actual collection of data begins. The pre-test considered 10 respondents who were picked conveniently from the targeted businesses. Reliability analysis was performed by carrying out internal consistency technique that resulted to the generation of Cronbach's alpha values that signified the reliability coefficient of each variable. The result of the pilot study assisted in determining participant interest, discovering if the questions have meaning for the participant, checking for participant modification of a question's intent, examining question continuity and flow, experimenting with question-sequencing patterns, collecting early warning data on item variability and fixing the length, and timing of the instrument. According to Gupta (2003) reliability has to do with the quality of measurement. In its everyday sense, reliability is the "consistency" or "repeatability of your measures. Cronbach's alpha for each value is shown in Table 4.1

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Table 4.1: Cronbach Alpha values

Variable	Cronbach's Alpha	No of Items
Family Involvement	.7335	15
Governance practices in the Family Business	.7334	9
Entrepreneurial Orientation	.7881	15
Decision making in the Family Business	.7176	11
Succession Planning	.7721	22
Performance Measures	.7350	10

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The values were gauged against each other at a cut off value of 0.7. Sekaran (2006) suggests that the closer the Cronbach Alpha is to 1 the higher the internal consistency reliability. The findings showed that all values were above 0.7 meaning that the instrument was reliable.

4.4 Demographic Information

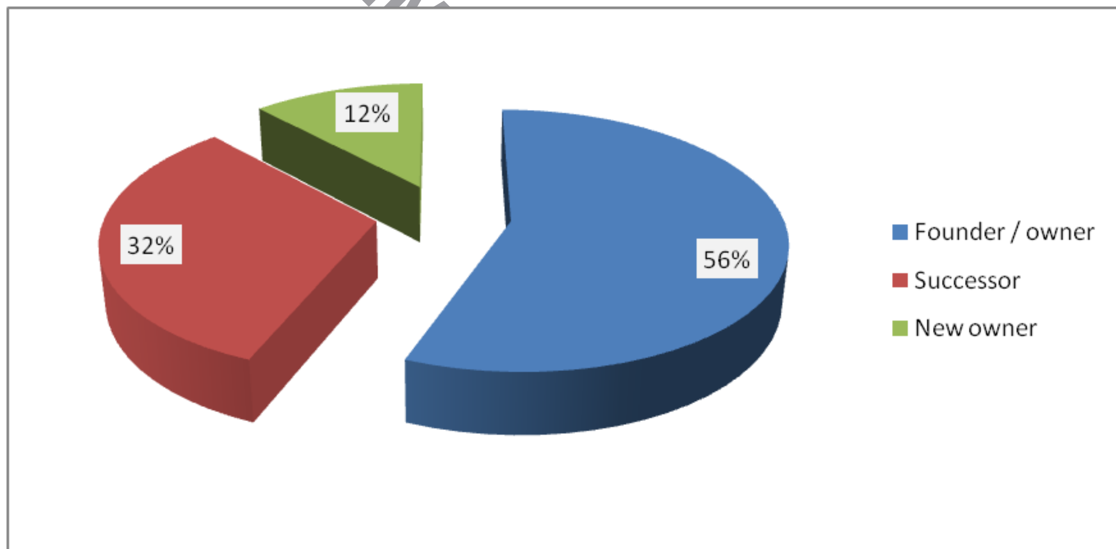
This section presents the demographic information of the respondents who are the CEOs/Founders of the family business. The information captured included the status of

business ownership, gender of the respondents, level of education, ethnic background, number of employees, business ownership, how the business came into existence and proportion of shares held.

4.4.1 Status of ownership of the respondents business

This section aimed at establishing the Status of ownership of the respondents company. The information from respondents is presented in Figure 4.1

Figure 4.1: Status of ownership of the respondents company

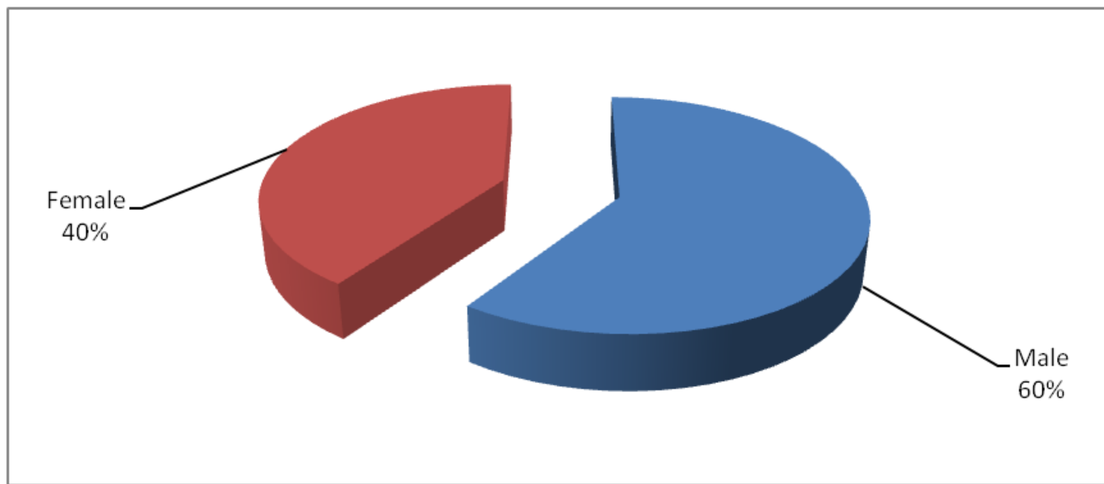


Findings from the study revealed that a majority of the businesses were owned by their founders comprising 56 percent while 32 percent were owned by successors. Twelve percent (12%) of the firms were owned by new owners. This implies that 56 percent of the family businesses have not yet gone through a succession while 36 percent have already gone through succession. It is only 12 percent that may have been either sold off or transferred to new owners.

4.4.2 Gender

The study sought to find out the gender of the respondents. Information from the respondents was as presented in figure 4.2

Figure 4. 2: Gender of the respondents



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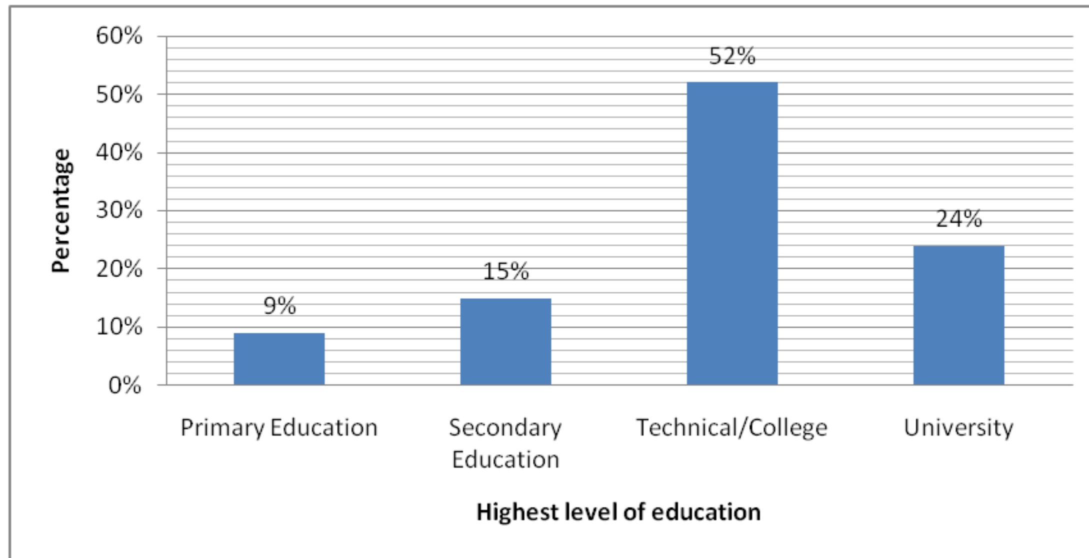
From the findings, 60% of the respondents were male while only 40% of the respondents were female. The gender ownership is consistent with the Kenya National Baseline Survey of 1999 which indicates that manufacturing businesses owned by men are 65.7%.

4.4.3 Level of education reached by respondents

The study sought to find out the highest level of education reached by the respondents. Findings are as presented in figure 4.3

Figure 4.3: Highest Level of education reached by respondents



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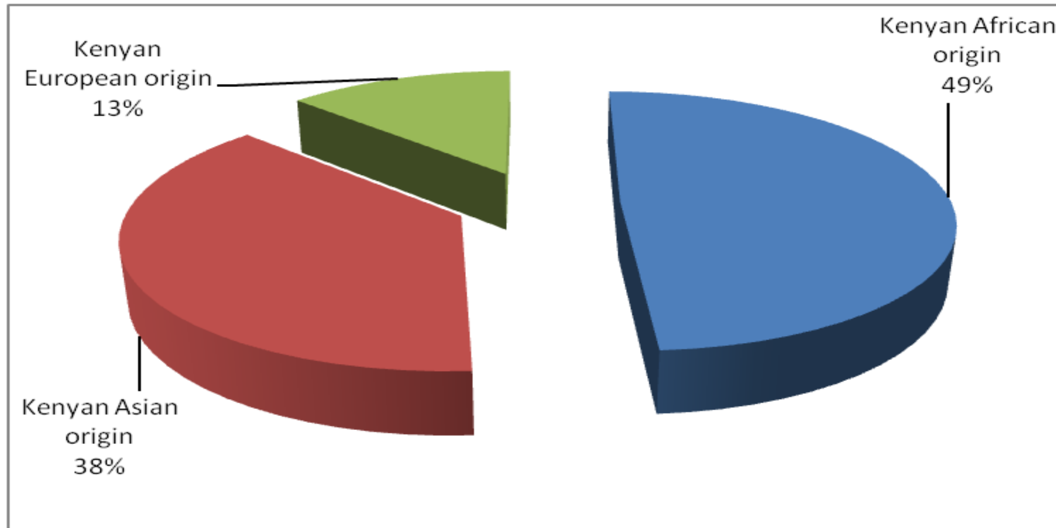
From the findings, 52% of the respondents had attained a technical/college education, 24% were university graduates, and 15% had only attained secondary education while the rest (9%) had reached primary school. This shows that majority of the business owners 76% in Kenya have technical or higher level education.

4.4.4 Ethnic background of Respondents

This study sought to find the respondents ethnic background to establish whether they were Kenyan of African origin, Asians or of European origin. This information may help the researcher establish the social-cultural background of the family business owners. Sharma et al. (1997), established that family culture among other factors have been identified as a family influence that can shape strategic choices and processes in family businesses.

Figure 4. 4: Ethnic background of Respondents



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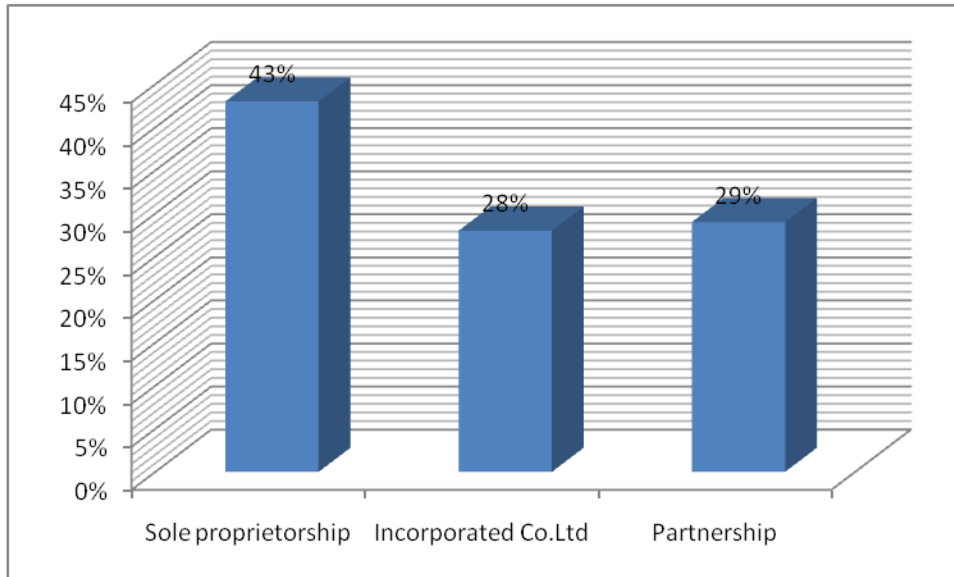
The studies further revealed that majority of the respondents were Kenyans of African origins as shown by 49%, 38% were Kenyans of Asian origin, while the remaining 13% were Kenyans of European origin. This is an indication that more Kenyans of African origin are getting into businesses.

4.4.5 Business ownership

The study sought to find out the form of family business ownership whether sole proprietorship, Partnership or Incorporated.

Figure 4. 5: Form of Business ownership



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It was further established that 43% of the businesses were owned by sole proprietors, 29% were owned by partnerships while the remaining 28% were owned by incorporated companies as shown in the figure above. This shows that majority of family owned businesses in Kenya are small and usually registered as sole proprietors with many owned by either single person or by couples.

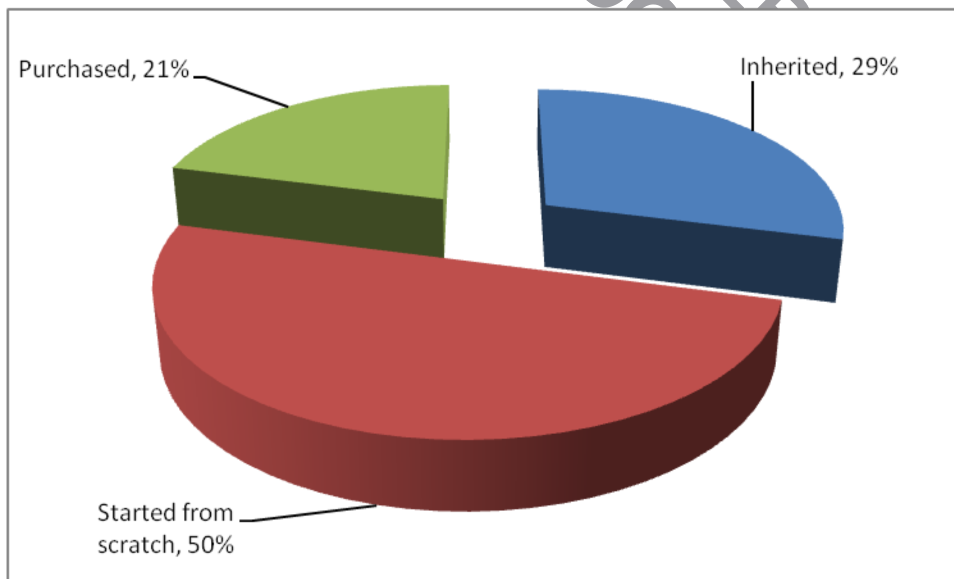
Many businesses in Kenya that are small to medium sized are usually registered as Sole proprietors owned by single person male or female and those registered as Partnership being owned by two or more persons but less than 20. In many cases these Partnerships are owned by couples. In many Kenyan family businesses, one or two family members are the founders and during the different stages of the business growth, they are joined by other family members who perform different roles and responsibilities in the family business. In this type of ownership the separation between the business and the family is

not clear. Danes et al. (1999) observed that the relationships that exist in this type of family business are dynamic and interdependence as the activities of the family can impact on the business and vice versa. Incorporated businesses may be small but with more clear roles and exist as different entities.

4.4.6 How the business came into existence

The study here sought to establish how the family business came into existence whether started from scratch, purchased or inherited. This information may provide an insight regarding the percentage of family business in the hands of the founding owners and those that may have changed ownership. The founder's role according to Klein et al. (2005) is contributing to the culture of the family business and entrepreneurial orientation which provides direction to the family business.

Figure 4.6: How the business came into existence



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The researcher also established how the respondents businesses came into existence. From the findings, majority (50%) of the businesses started from scratch, 29% were inherited, while only 21% were purchased. These findings regarding how the business came into existence may be an indication that the 50% businesses started from scratch are owned by the founding generation with 29% having gone through succession while 21% were sold implying the business changed ownership. Fred and Alden (1998) note that 2/3 to ¾ of family business either collapse or are sold by founders during their tenure.

4.4.7 Proportion of share ownership held by family and non-family members

This study here sought to find out the spread of ownership held by family and those that are held by non-family members. This information may perhaps show the extent of family involvement and control of the family business in Kenya.

Figure 4.7: Proportion of share ownership held by family and non-family

In this question, the research sought to determine from the respondents the proportion of share ownership held by family and non-family.

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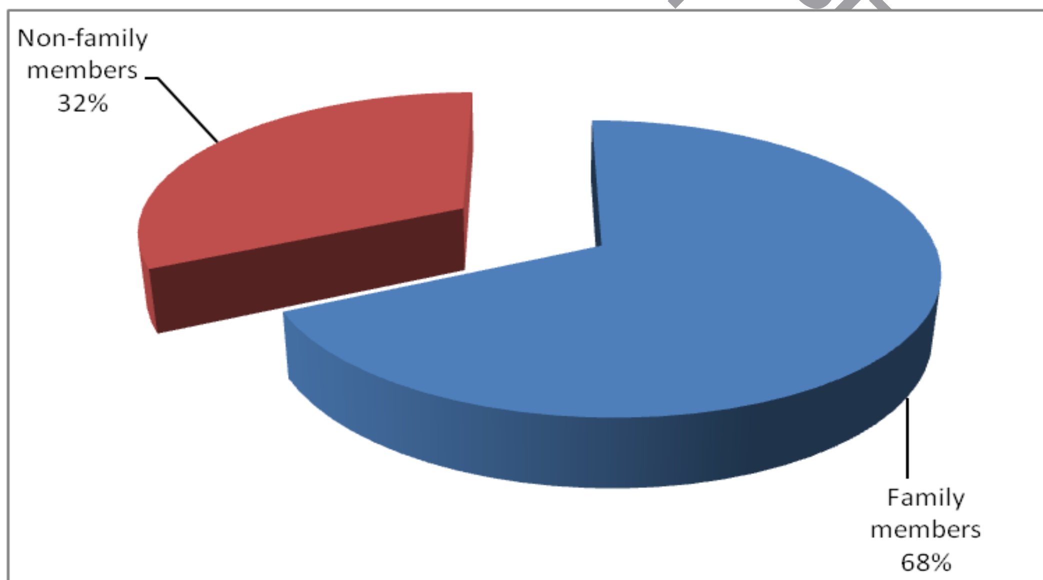

From the findings, 68% of the respondents indicated that their businesses were owned by family members, while the remaining 32% were owned by non-family members. These findings are in consistent with the definitions of a family business by Katz et.al. (2007), considered family business as one with a majority family ownership. There are two different views regarding concentrated family ownership in the business. One view by Wang (2006) considers such businesses to be more efficient as owners monitor managers hence reducing agency costs and have long term view of their businesses. On the contrary, Barth et al. (2006) considers such businesses to be less efficient as the concentrated ownership implies limited diversification.

4.5 Data Analysis on Findings of Study Variables

This section presents findings based on the specific objective of the study which included family involvement in the family business, family business entrepreneur orientation, family business governance, family business decision making, management succession planning and family business performance.

4.5.1 Family Involvement

Data was sought to establish the extent of family involvement and its influence on family business performance. A Likert type scale with five levels showing the extent of agreement was used to assess the respondent's extent of agreement regarding family's involvement in the business.

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Proportion of ownership

The extent of family business ownership was captured in various items in the questionnaire which measures ownership and control such as the proportion of shares owned by the family and those owned indirectly through a holding business or trust. Composition of the top management team in the business whether family or non-family may be an indicator of the influence and control of the business.

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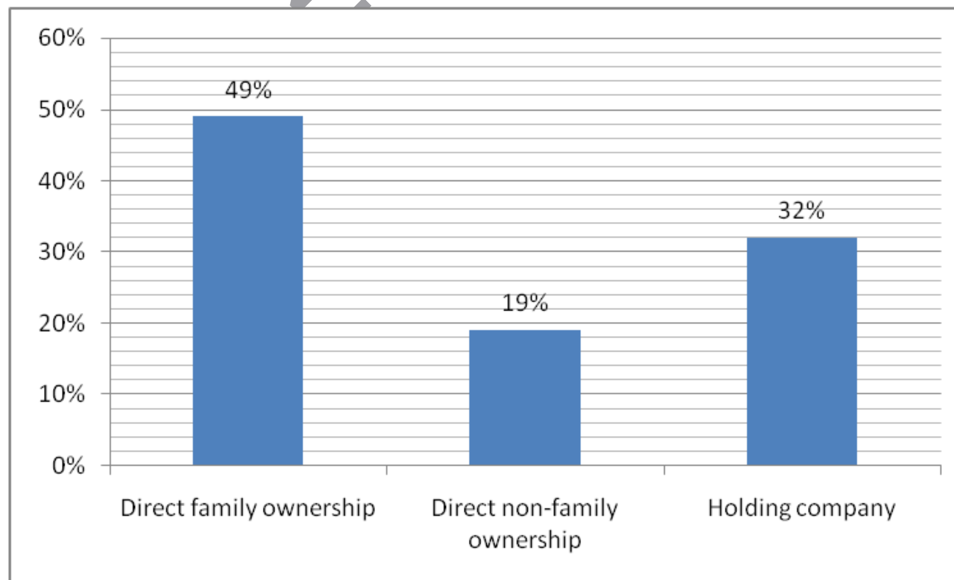
Figure 4.8: Proportion of ownership



Further, the researcher sought to find out the proportion of ownership of the shares. From the findings, 49% of the respondents indicated that the shares were owned directly by the family, 32% were owned by the holding company, while 19% of them were not directly owned by the family. These findings clearly show that the ownership of the business is in the hands of the family through direct ownership of shares combined with those held by the holding company.

Heck et al. (2008) has noted that the role of the family in the family business and entrepreneurship is paramount. Families get involved in the family business in various ways either directly or indirectly and this involvement may affect family business performance. Mazzola and Salvatore (2008) points that a number of studies have attempted to compare the performance of family business in order to understand if and how family involvement in ownership (FIO) and family involvement in management (FIM) affect performance. Moores and Barret (2003) argues that the presence of the family in the ownership and management can be a benefit or a disadvantage for the business competitiveness thus creating unique paradoxical conditions to cope with. Based on agency and stewardship theories, prior studies have documented a number of benefits and costs of family involvement in business. Benefits may include the long term view of wealth creation by the family group as compared to the relatively short term view of hired CEOs (James, 1999). Family business owners should therefore know when to have family members in the business, their extent of involvement and when to have non-family members in the family business.

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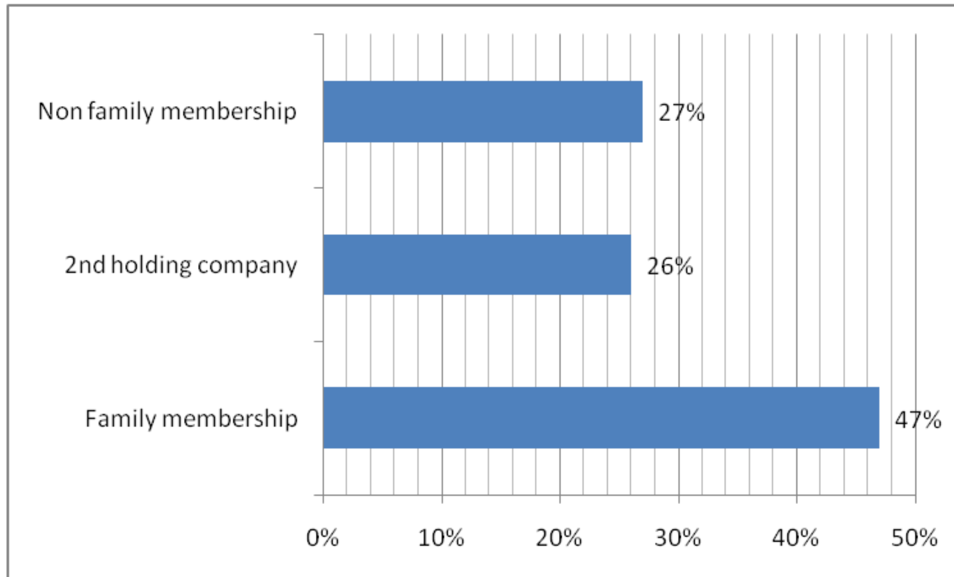
Proportion of ownership of Holding company

This item sought to establish the spread of shares held by the holding company. The proportion of shares held by the holding company is spread among family membership, non-family membership and a second holding company.

Figure 4. 9: Proportion of ownership of Holding company



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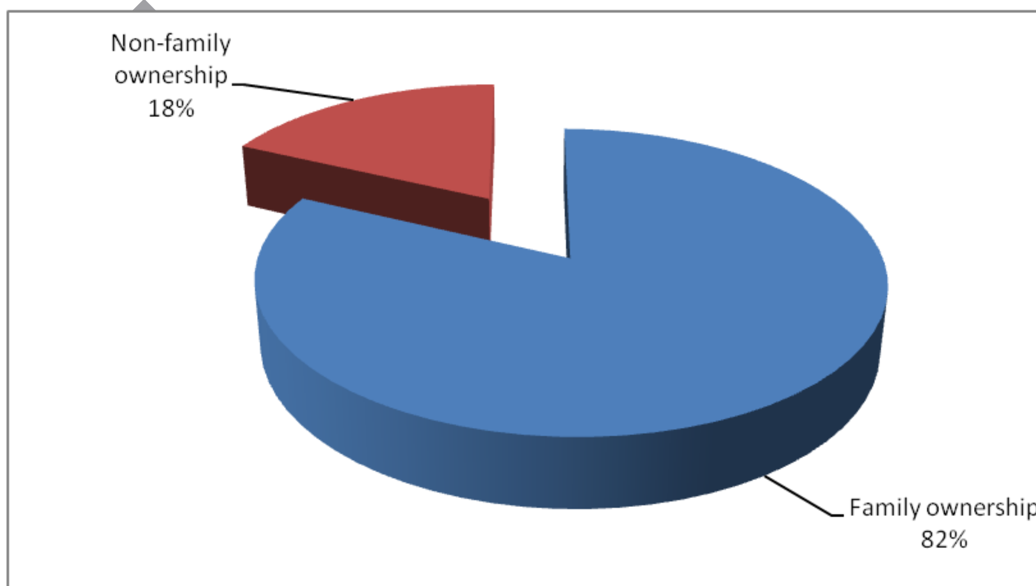
Study findings revealed that the holding companies were owned by family membership to a proportion of 47%, 27% by non family membership, and 26% by 2nd holding company This is an indication that quite a number of Kenyan family businesses may not be owned directly by family members but are owned indirectly though a holding company but still they are considered family business. There is a tendency among Kenyans to hide the identity of a business ownership by registering several businesses which hold shares in other businesses.

Proportion of ownership of 2nd holding company

Under this item the study sought to find out the spread of shares held by the family and non-family in the second holding company.

Figure 4.10: Proportion of ownership of 2nd holding company



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Study findings revealed that the 2nd holding companies were owned by family membership to a proportion of 82%, and 18% by 2nd holding companies.

This is may be an indication that families are greatly involved in control of family businesses indirectly through holding companies. One of the definitions of a family business is in terms ownership and control directly or indirectly. The implication of the family as a stakeholder category according to Zellweger et al. (2011) is that the family has an impact not only on the behaviour outcome but also on the logic guiding both the family and the business decision making. Astrachan (2003) points that the impact of

individual family members and overall family involvement in the family business may be critical to entrepreneurial behaviour and business success.

Composition of the top management team in Respondents' Business

This item in the study sought to find out the composition of top management in the family business in Kenyan family businesses. The top management of a family business can either be family members or non-family members.

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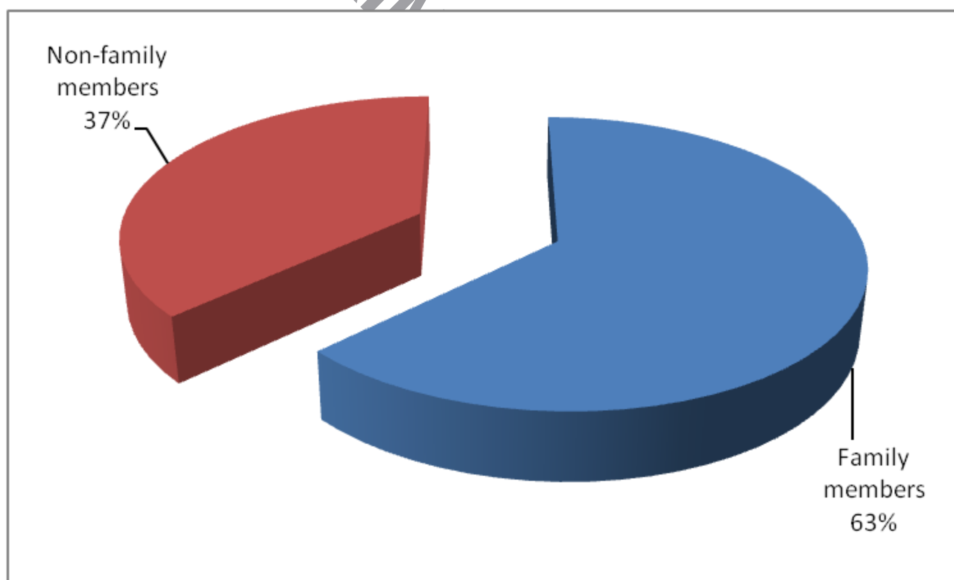
Figure 4.11: Composition of the top management team in Respondents' company



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The researcher also established the Composition of the top management team in Respondents' company. From the findings, respondents indicated that the top management comprised 63% family members and 37% non family members.

In Kenya, many small to medium sized family owned businesses are managed by one or more family members who comprise the top management team and who are usually the

founders of the business particularly during the early stages. Family control and influence through management during this stage is very pronounced and this is in consistent with earlier findings by Block (2002).

The top management is involved in strategy formulation and implementation and the direction that the business takes is influenced by this team. Kelly et al. (2008) established that the founder centrality which is manifested in many family businesses may have an effect on both Top Management Teams (TMT) congruence and business performance among the Kenyan family businesses and if the relationship is the one that over emphasizes the centrality and influence of the leader it may have negative effect.

While the concentration of the family in the top management may work well for the business during the early formative stages, it may not work well as the business grows in size and complexity. The family business may require injecting some outside managerial talent unless the family members are well trained and qualified for the various specialized functions in the business.

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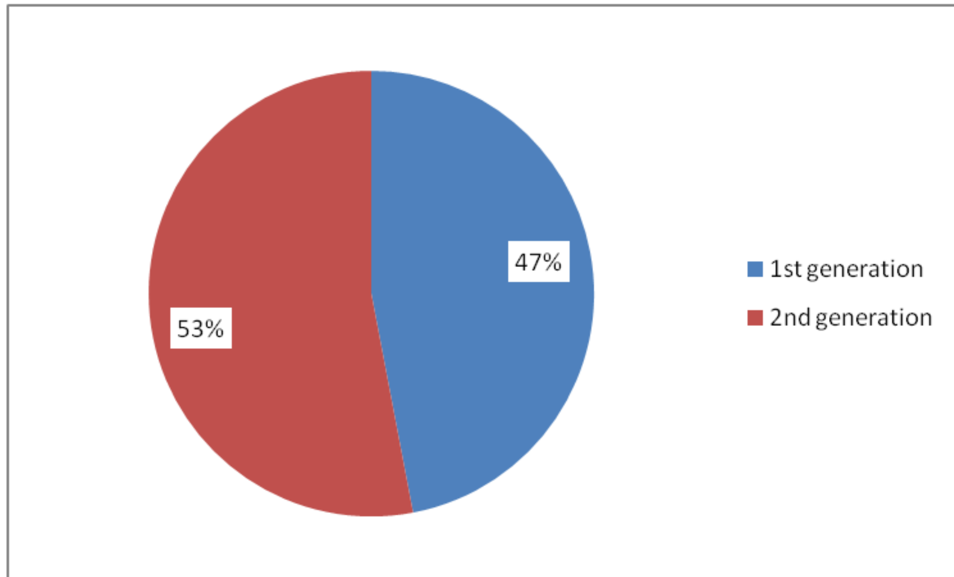
Generation of the family owning the business

The study here sought to establish the generation of the family that owns the family business in Kenya.

Figure 4.12: Generation of the family owning the business



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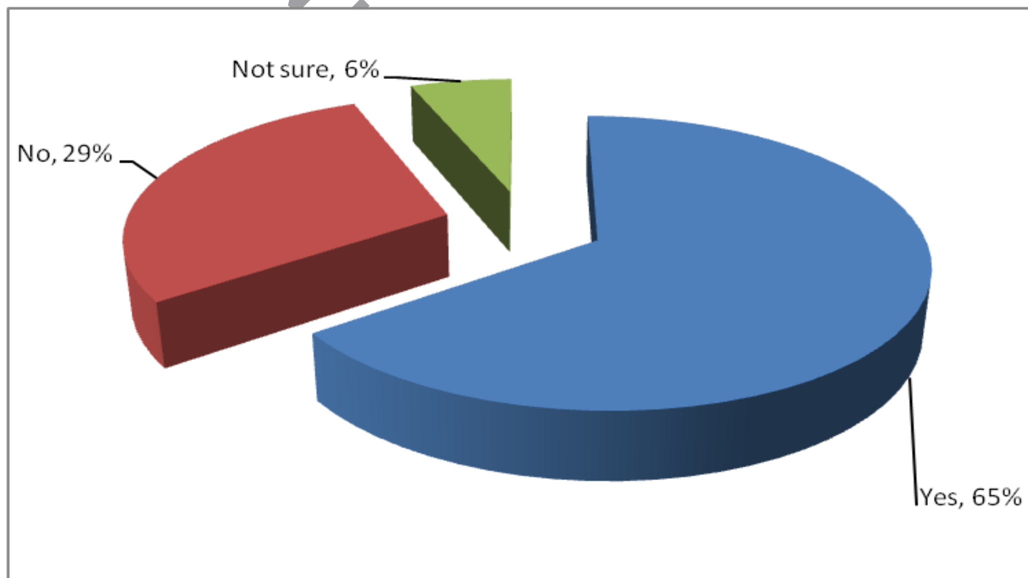
From the findings, 53% of the businesses were owned by the 2nd generation of the family while 47% were still held by 1st generation.

The implication of these findings is that majority of the Kenyan family businesses are already in their second generation having had passed ownership though succession while 43% are still owned by the founding first generation. Studies by Nieman (2006) and Hugo (1996) show that its only about 30% of family businesses progress to the second generation and only 10% progress to third generation. It is not clear the reason to such a high progression to the second generation but perhaps the businesses could be existing but with dismal performance. The second and third generations of a family business may or may not run the business the same as a result of the inability to transfer the founder's vision and the retention of entrepreneurial spirit across generations.

Respondents' opinion on whether outside competent manager(s) do a better job than family members

This item in the study sought to find out whether the respondents considered outside competent manager(s) could perform a better job than family members.

Figure 4.13: Respondents' opinion on whether outside competent manager(s) do a better job than family members



From the findings, 65% of the respondents agreed that outside competent manager(s) perform better job than family members while 29% indicated that they didn't. Only 6% were not sure. This opinion confirms the extent to which family business should rely on family members in the management or rely on competent managers. Although the family business may benefit from the talent of the family members during the start-up, as the business grows in size and complexity the family talent is usually inadequate. The family

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business to achieve good performance would require to source from outside the family for competent managers who are trained in various functional areas of the business.

The three-cycle model of the family business assumes that there are different stakeholders in the family business each with different interests and objectives. For instance, the owners of the family business may prefer their children or relatives to work in the family business to earn an income while others may prefer to hire qualified personnel from outside who can contribute more to the business. These varying interests are a source of conflict among many family owned businesses unlike in the non-family businesses. Furthermore, these findings may be an indication of different goals within the family business such that the direction that the family business takes will depend on whether the family business is family oriented or business oriented. Ward (1987) contends that family businesses differ with respect to their inclination to pursue a business first approach or family first approach philosophy. In family first- business family members are usually given first priority while in business first approach business goals takes center stage.

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Table 4.2: Extent to which respondents agreed with statements about Family Involvement

	Mean	Stdev
The family has influence on the business.	3.96	0.1
The family members share similar values	3.55	0.24
The family members are willing to put in a great deal of effort beyond that normally expected for its success	3.33	0.16
The family owners/ managers are more likely to use personal resources to benefit the family business	3.55	0.18
The family owners / managers are more likely to use company resources for personal benefits.	3.44	0.73
Family employees provide better human resource than non family employees.	3.35	0.17
The values of the family are compatible with those of the business.	3.53	0.2
There is high loyalty to the family business among the family	3.58	0.35
We are proud to tell others that we are part of the family business.	3.6	0.57
As a family, we agree with the family goals, plans and policies.	3.75	0.95
Rivalry and conflict among family members is affecting our business performance.	3.28	0.7
Each family members working in the family business is assigned a specific role	3.57	1.2
Family members can be employed in the family business if they meet the criteria as non-family persons.	2.87	0.14
Family members can be employed in the business regardless of their qualification or experience.	3.47	0.47
Family members are treated differently from non-family members.	3.61	0.18

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Further findings revealed that the family has influence on the business as shown by a mean of 3.96 and a standard deviation of 0.1. This is a clear indication that families get involved in the family business. This involvement can be direct or indirect, in employment, ownership or in decision making. For instance, research on Women in family business by Fitzgerald and Muske (2002) has suggested that the majority of Women continued to remain in the background, staying 'invisible' in spite of their influence of the family business. Danes and Olson (2003) found that 42% of wives are major decision makers even in family businesses owned by Men. The family members share similar values as shown by a mean of 3.55 and a standard deviation of 0.24. The sharing of values between the family business and the family is an indication of harmony and the existence of congruence of values implies less conflict in the family business. The finding of the study indicate that family members are willing to put in a great deal of effort beyond that normally expected for its success as shown by a mean of 3.33 and a standard deviation of 0.16; and that the family owners/ managers are more likely to use personal resources to benefit the family business as shown by a mean of 3.55; and a standard deviation of 0.21. The findings here show that family involvement can an asset to family business as they are willing to put in a great deal of effort beyond the expected as indicated and their willingness to use their personal resources for the family business. The family owners/ managers are also more likely to use company resources for personal benefits as shown by a mean of 3.44 and a standard deviation of 0.73; that family employees provide better human resource than non family employees as shown by a mean of 3.35 and a standard deviation of 0.17. The results of these findings indicate that family members, employees or owners may contribute positively or negatively to the

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performance of the family business. According to the Sociological theory on entrepreneurship, families are vital supportive environment for entrepreneurial behaviour in the family business. Rogoff and Heck (2003) have argued that the combustion of entrepreneurship cannot ignite and grow without the mobilization of family forces. Families are source of human capital, social capital financial and physical capital. Families also serve three major functions in its social systems besides the economic functions (Steir, 2003). These include a learning element that passes on and teaches skills, establishing a moral system which helps the conduct of the family business and creation of its own culture in which the family business creates a motivating force. The negative side of the family is the contribution of negative values that may be a disadvantage to the family business. Bula (2013) noted that families can draw family resources for personal use leaving the family business with little for expansion. Other findings from the study show that the values of the family are compatible with those of the business as shown by a mean of 3.53 and a standard deviation of 0.2; there is high loyalty to the family business among the family as shown by a mean of 3.58 and a standard deviation of 0.35; proud to tell others that we are part of the family business as shown by a mean of 3.6 and a standard deviation of 0.57; family agree with the family goals, plans and policies as shown by a mean of 3.75 and a standard deviation of 0.95;. The rivalry and conflict among family members which affects the business performance as shown by a mean of 3.28 and a standard deviation of 0.7; could arise when goals of the business and those of the family are not aligned. Further findings reveal that each family member working in the family business is assigned a specific role as shown by a mean of 3.57 and a standard deviation of 1.2; and also family members can be employed in the

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family business if they meet the criteria as non-family persons as shown by a mean of 2.87 and a standard deviation of 0.14;. It is also revealed from the study that family members can be employed in the business regardless of their qualification or experience as shown by a mean of 3.47 and a standard deviation of 0.47; and that family members are treated differently from non-family members as shown by a mean of 3.61 and a standard deviation of 0.18. The findings of this study confirms the paradoxical nature of family involvement in the family business as conceptualized by Habbershon et al. (2003) and that of Irava (2009) who found that family involvement is a major contributor to 'familiness' which is a bundle of resources that arise out of the interaction. The resources can either be positive or negative to the business. This study confirms that the mere presence of the resources alone does not constitute an advantage but how they are managed.

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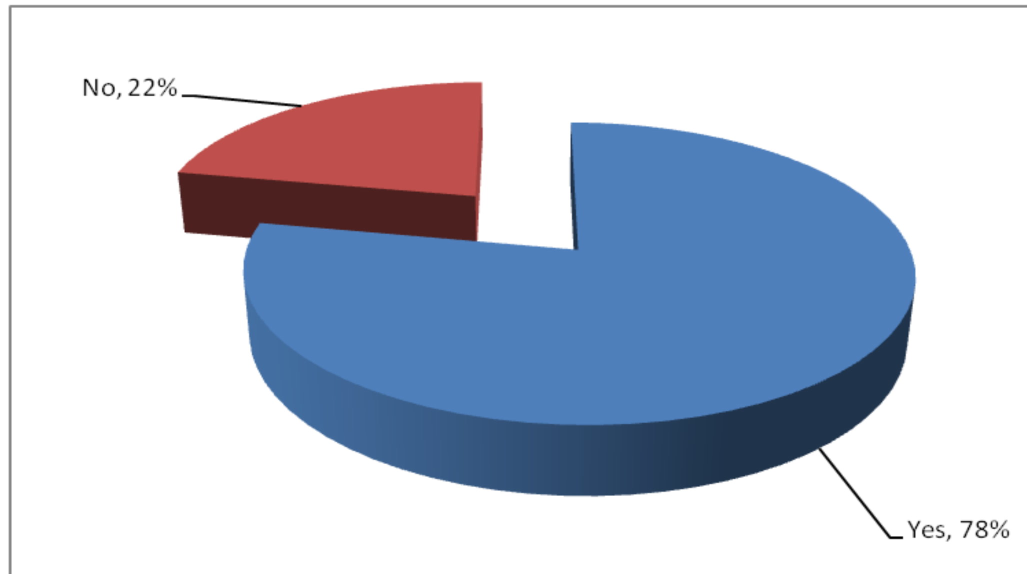
4.5.2 Governance practices in the family business

The study under this specific objective sought to evaluate the influence of the family business governance practices on the performance of the business. The items included under this objective are meant to bring clarity on the role of family governance practices in the family business. International Finance Corporation (IFC) family business handbook suggests that by adapting a sound corporate governance structures which clearly defines the roles, responsibilities, rights and interaction among the company's main governing body many of the family business problems would be minimized.

Whether respondents' businesses had a formal board

Figure 4.14: Whether respondents' businesses had a formal board



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On whether respondents' businesses had a formal board, 78% of the respondents indicated they had board that were formal while only 22% of them indicated that their businesses lacked formal boards as shown in the figure above 4.15.

The existence of the board of directors in the family business, its practices and performance is an indication of separation of roles and responsibilities between the family and the business. Rue and Ibrahim (1995) found that those that perform better than the industry's average have a higher participation by the board of directors in business and planning. Agency theory according to Johanisson and Huse (2000) suggests that principals that are the owners should select board members to monitor management who are the agents. The role of the board is to add value by directing, guarding, monitoring and protecting assets of the business. Among other functions of the board according the

principles for corporate governance in Kenya as prepared by the private sector initiative for governance is to exercise leadership while respecting the principles of transparency and accountability. Other roles include the determination of the corporation's purpose and evaluate the implementation of strategies, policies, management performance and business plan. These practices by the board are expected to give guidance to the business for better performance.

Frequency of board of directors meetings

The item of the questionnaire was meant to establish the frequency of the board of directors.

The frequency is determined by the regularity of meetings, regular, not regular and no meeting at all.

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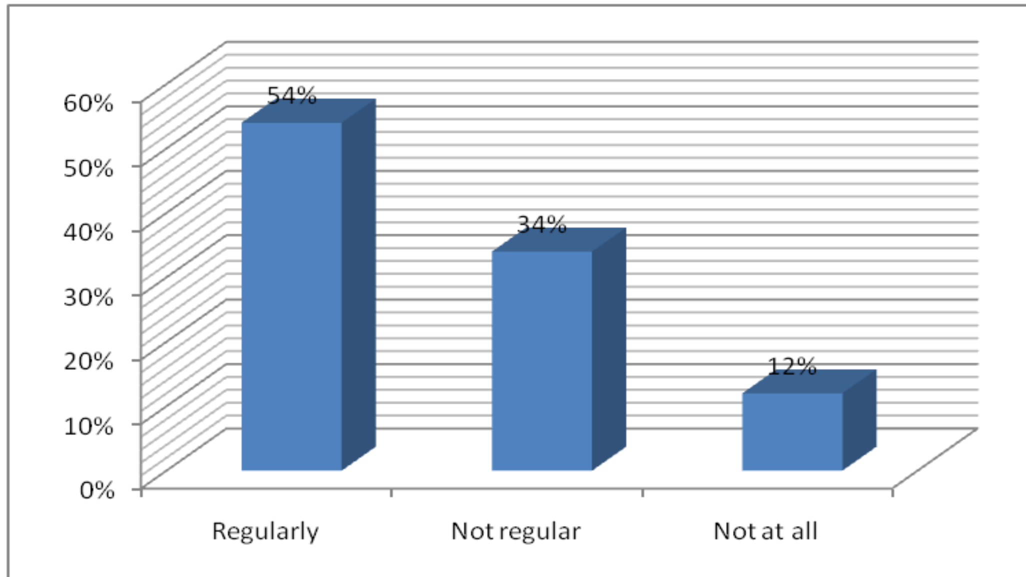
Figure 4.15: Frequency of board of directors meetings



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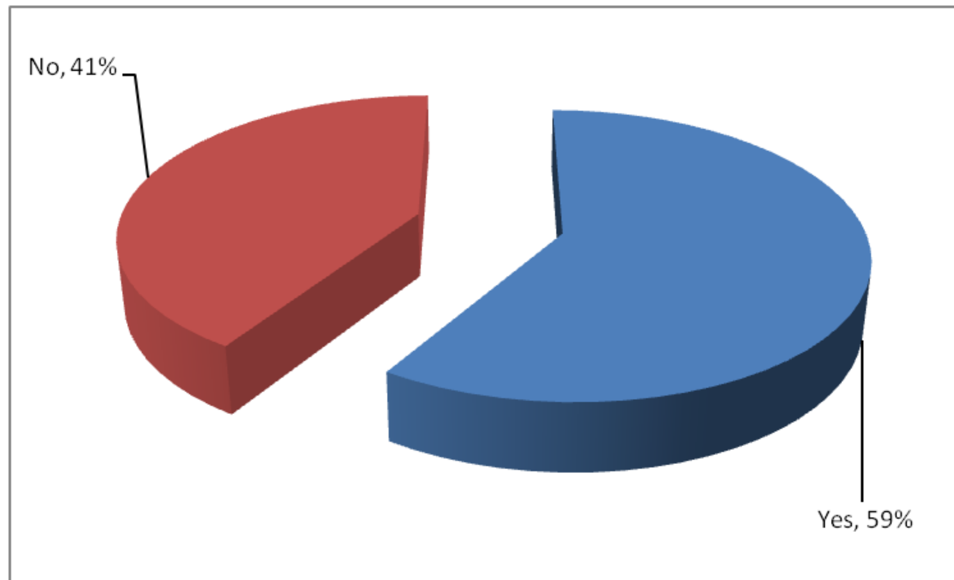
From the findings, the researcher observed that a majority of the businesses with boards (up to 54%) held meetings regularly, 34% indicated that board meetings were not regular while the remaining 12% indicated that there were no board meetings at all.

Good corporate governance is not about having a board of directors that board should have regular meeting to deliberate on the wellbeing of the business. From the findings, it's clear that majority of the family businesses had a board and that the board meet frequently. Perhaps the 12% of the family businesses that did not have a board had family council meetings which serves a similar role or did not have any at all.

Whether businesses had family councils

This item was to establish whether the family business had some form of family council.

Figure 4.16: Whether businesses had family councils



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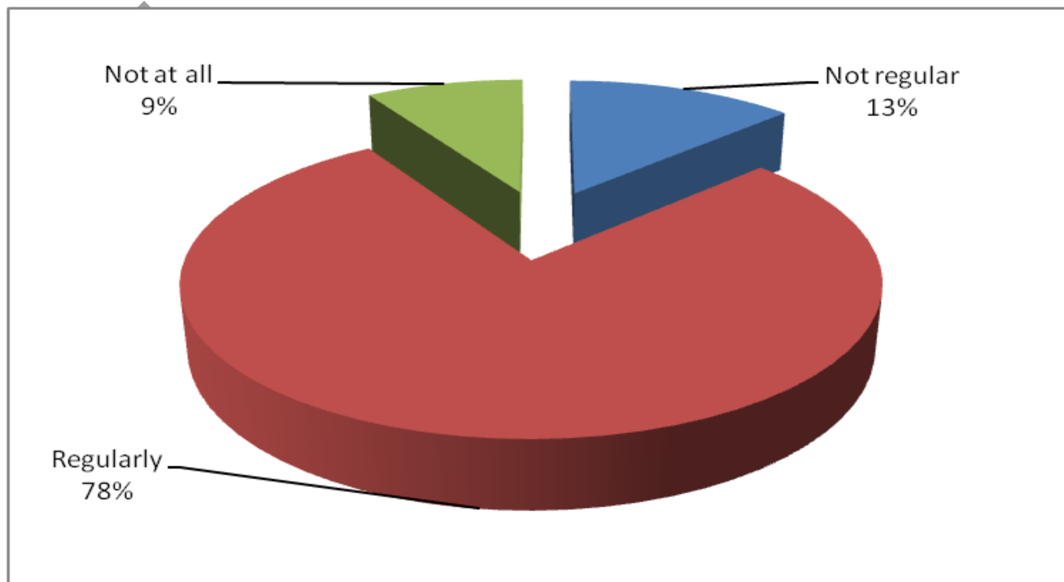
The findings reveal that 59% had family council while 41% did not have the family council. Those of the respondents that had no board perhaps had the family council.

In the absence of a board family businesses have an alternative body in the form of a family council that is concerned with governance issues in a family business system. An effective council just like in a board according to Charantimath (2006) ensures clarity on roles, rights and responsibilities for all members of the family system, discipline in the family system, periodic family meetings and a family constitution that deals with family business policy and conflict resolution among others. This system of governance was found to be more prevalent among the Kenyan of the Asian origin than among the Kenyan of African origin.

Frequency of family council meetings

This item sought to establish the frequency of the family council meetings, whether regular, not regular or no meeting at all.

Figure 4.17: Frequency of family council meetings



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According to the findings, respondents indicated that there were regular family council meetings as indicated by 78%, not regular as shown by 13%. Only 9% of the respondents indicated that there were family council meetings at all. Just like in the case of the existence of the board and frequency of meetings, the family council meetings need to meet more regularly for effective family business performance.

Table 4.3: Extent to which respondents agreed with statements relating to Governance practices in the family business

	Mean	Stdev
The board of directors has effective meeting procedures (i.e. meeting agendas are distributed in advance).	3.6	0.3
The board of Directors is responsible to the vision, mission and strategic plan.	3.6	0.2
The governance responsibilities in this business are clearly defined.	4.0	0.3
There is a clear separation between the business and the family	3.5	0.1
The business provides equal access to information for shareholders.	4.4	.89
Family members in the business follow the same work rules as non-family members.	3.4	.82
The family has a forum for family members to discuss relationship between the family and the business.	3.6	.85
The business has a family charter describing rules that guide family members in the business.	4.1	.85
Our business considers family business governance as a positive part of the family and business	4.2	.93

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In this section, the researcher sought to find out the extent to which the respondents agreed \with various statements about family business governance practices in the family business. According to the findings, respondents agreed that The business provides equal access to information for shareholders as shown by a mean of 4.4 and a standard deviation of 0.89; that our business considers family business governance as a positive part of the family and business as shown by a mean of 4.2 and a standard deviation of 0.93; that the business has a family charter describing rules that guide family members in the business as shown by a mean of 4.1 and a standard deviation of 0.85; that the governance responsibilities in this business are clearly defined as shown by a mean of 4.0 and a standard deviation of 0.3; that the family has a forum for family members to discuss relationship between the family and the business as shown by a mean of 3.6 and a standard deviation of 0.85; that the board of Directors is responsible to the vision, mission and strategic plan as shown by a mean of 3.6 and a standard deviation of 0.2; that the board of directors has effective meeting procedures (i.e. meeting agendas are distributed in advance) as shown by a mean of 3.6 and a standard deviation of 0.3; that there is a clear separation between the business and the family as shown by a mean of 3.5 and a standard deviation of 0.1; and that family members in the business follow the same work rules as non-family members as shown by a mean of 3.4 and a standard deviation of 0.82.

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The findings from the statements clearly indicate not only the existence of a board of directors or family councils but also an indication of good family governance practices among the respondents. Hough et al. (2008) points out that effective family governance practices have a number of benefits which among other include, increasing the value of

the business, fostering the spirit of the enterprise, to give confidence in the market, improve the efficiency and improve the competitive advantage.

4.5.3 Entrepreneurial Orientation (EO)

This study under this objective sought to establish the extent of entrepreneurial orientation among the family business and its influence on business performance. The statements included here are meant to determine the measures of (EO) which are the risk taking, innovativeness, pro-activeness and autonomy of the family business. Respondents were required to respond to the statements showing the extent of agreement. Entrepreneur orientation according to Jones and George (2007) is a mindset of individuals who notice opportunities and take risk, and responsibility for mobilizing the resources necessary to produce new and improved goods and services.

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Table 4.4: Extent to which respondents agreed with various statements about Entrepreneurial Orientation

	Mean	Stdev
Owner/ managers is supportive and encourages new ways of doing business.	3.6	0.34
Owner/ manager is supportive and encourages new business opportunities	3.9	0.36
Over the past three years, our company has pioneered the development of breakthrough innovations in its industry.	3.7	0.28
Our business has introduced many new products / services over the past 3 years.	3.4	0.35
Changes in product / service have not been quite dramatic in the last 3 years.	4.0	0.30
We emphasize taking bold wide ranging actions in positioning the business and its products / services in new markets over the last 3 years.	3.5	0.10
We favour strong emphasis on R&D, new technologies and innovations.	3.7	0.20
There is a strong tendency for high-risk projects with chances of high returns.	4.7	0.10
Depending on the environment, we take bold and wide ranging acts to achieve the firm's objectives	4.1	0.10
The business is highly involved in the risk and uncertain initiatives.	4.1	0.29
We generally take new initiatives and strategies rather than responding to our competitors.	4.4	0.50
In dealing with competitors, our firm is not usually the first to introduce new products / services, administrative techniques or operating technologies.	3.3	0.45
We support employees to take new initiatives in dealing with business issues.	3.4	0.68
New initiatives and innovations are rewarded and encouraged in our business.	3.2	1.25
My company adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunity.	4.4	0.50

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From the findings, it was found out that Owner/ managers is supportive and encourages new ways of doing business as shown by a mean of 3.6 and a standard deviation of 0.34; that owner/ manager is supportive and encourages new business opportunities as shown by a mean of 3.9 and a standard deviation of 0.36. Over the past three years, the businesses that have pioneered the development of breakthrough innovations in its industry are shown by a mean of 3.7 and a standard deviation of 0.28. The respondents' business that have introduced many new products / services over the past 3 years is indicated by a mean of 3.4 and a standard deviation of 0.35; while those that felt that changes in product / service have not been quite dramatic in the last 3 years is shown by a mean of 4.0 and a standard deviation of 0.30 implying that the businesses have not been very innovative and risk taking. The respondents who emphasize taking bold wide ranging actions in positioning the business and its products / services in new markets over the last 3 years is shown by a mean of 3.5 and a standard deviation of 0.10; that respondents favour strong emphasis on R&D, new technologies and innovations as shown by a mean of 3.7 and a standard deviation of 0.20; that there is a strong tendency for high-risk projects with chances of high returns. as shown by a mean of 4.7 and a standard deviation of 0.10; that depending on the environment, we take bold and wide ranging acts to achieve the firm's objectives as shown by a mean of 4.1 and a standard deviation of 0.10; that the business is highly involved in the risk and uncertain initiatives as shown by a mean of 4.1 and a standard deviation of 0.29; that respondents generally take new initiatives and strategies rather than responding to competitors as shown by a mean of 4.4 and a standard deviation of 0.50; in dealing with competitors, the respondents' firm is not usually the first to introduce new products / services,

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administrative techniques or operating technologies as shown by a mean of 3.3 and a standard deviation of 0.45; that respondents support employees to take new initiatives in dealing with business issues as shown by a mean of 3.4 and a standard deviation of 0.68; that new initiatives and innovations are rewarded and encouraged in the business as shown by a mean of 3.2 and a standard deviation of 1.25; and that respondents' companies adopt a bold, aggressive posture in order to maximize the probability of exploiting potential opportunity as shown by a mean of 4.4 and a standard deviation of 0.50.

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Innovation was considered by Joseph Schumpeter as a 'force of creative destruction' where old ways of doing things are done away with and replaced by new and better ways. The innovativeness of a business can take various dimensions such as introducing new products /services or their improvements, finding new markets and new marketing approaches, new forms production and organizations. Innovation is the engine that drives entrepreneurship and has proven to be one of the most effective driving forces for the continued business growth.

Lumpkin and Dess (1996) points out that innovation is important means of pursuing opportunities and an important component of entrepreneurial orientation. Risk taking like innovation is a behavioural dimension upon which opportunity is pursued. For the family business to grow, the CEOs/Founders must be both innovative and risk taking in order to identify and pursue new market opportunities. However, as Lucia et al. (2007) pointed out, the relationship between risk taking and performance is better understood by taking into account the organizational context and especially the relationship between nature of ownership, governance and management. For the family business to exhibit a corporate

entrepreneurship the CEO/Founder has to create an environment that encourages individuals working in the family businesses to be creative, innovative and take risk.

The other attributes associated with entrepreneurial orientation are related and are connected to a business growth. Autonomy for instance refers to the independent action of bringing forth an idea or vision and carrying it through to completion. Pro-activeness is associated with leadership and is related to one taking initiative by anticipating and pursuing new opportunities while competitive aggressiveness is involved with actions that directly and intensively challenge competition to enable entry or improve market position.

Some Scholars such as Aldrich and Cliff (2003) have argued that some family business characteristics relevant to family identities may foster entrepreneurship while others argue that other characteristics may work to inhibit entrepreneurial activities overtime (Zahra, 2005). The findings of this study are consistent with those of Lumpkin and Dess (2011) that reported lower correlation between EO and performance perhaps this can be explained by previous studies that consider leaders of family business being motivated to build a lasting legacy for their children hence more conservative as they grow. Sharma, Chrisma and Chua (1997) observed that founders of family business lose their EO over time while new generations tend to push for new ways of doing things (EO).

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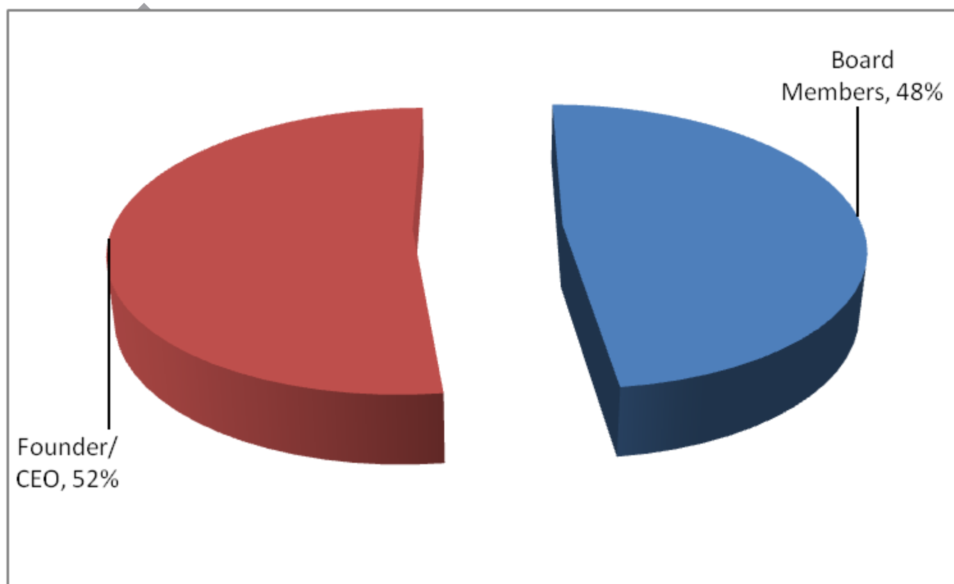
4.6 Decision Making in the Family Business

Under this study the study sought to establish how decision is carried out in the family business and how it is likely to influence family business performance in Kenya.

Final decision maker regarding major issues in the business

The study here sought to find out who makes the final decision regarding major issues in the family business.

Figure 4.18: Final decision maker regarding major issues in the business



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The findings reveal that final decisions regarding the major issues in the family business are taken by the CEO/Founder of the family business at 52% as compared to 48% decisions taken by the Board Members. It has been observed that one necessity for the family business survival is the family members' ability to make sound decision (Tisue, (1999). The findings here show that the Founder/CEO is the one who commonly makes decisions regarding major issues in the family business in Kenya. Lee and Li (2009) noted a similar trend and noted that a lot decision making process is controlled by the family patriarch. When the founder makes decision without the board, the type of decision is likely to reflect his/her personality, interests and values. Tisue (1999) noted

that in most cases, the founder' decision making is liken to the authoritarian style, and every one follows it without questioning the decision or the process. The decision by the board would be different from that of the Founder/CEO because is usually carefully considered and may not reflect personal interest to a great extent as it is done in consultation.

Table 4.4: Extent to which respondents agree with various statements on decision making in the family business

The study sought the extant of agreement from the respondents regarding how decision making is carried out in family business and its possible influence on the performance of the business.

	Mean	Stdev
Business decisions are made using formal structures.	4.7	0.10
There is faster decision making in the business.	4.1	0.10
There is greater flexibility in decision making.	4.0	0.30
Decisions made in the business are final	4.0	0.20
The founder/ CEO of the business is involved in all decisions.	3.9	0.30
Involved depending on the weight of the decision	3.9	1.40
Leaves heads of departments / Section to make independent decisions	4.1	0.60
Decision making is done in consultation	3.8	0.70
Don't have to consult.	4.2	0.60
Swift decision making has enabled us improve on our performance	4.2	0.70
Swift decision making has lead to costly moves affecting our business performance negatively	4.2	0.79
Decision making is centralized through the top/family leader	4.0	0.02

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According to the findings, respondents indicated that business decisions are made using formal structures as shown by a mean of 4.7 and a standard deviation of 0.10; there is faster decision making in the business as shown by a mean of 4.1 and a standard deviation of 0.10. There is greater flexibility in decision making in the family business as shown by a mean of 4.0 and a standard deviation of 0.30. The founder/ CEO of the business is involved in all decisions as shown by a mean of 3.9 and a standard deviation of 0.30 and that the founder/CEO is involved depending on the weight of the decision as shown by a mean of 3.9 and a standard deviation of 1.40.The heads of departments / Section do t make independent decisions as shown by a mean of 4.1 and a standard deviation of 0.60.There are times when decision making is done in consultation as shown by a mean of 3.8 and a standard deviation of 0.70 and at times they don't have to consult as shown by a mean of 4.2 and a standard deviation of 0.60. It is indicated from the findings that swift decision making has enabled the family business improve the performance of the family business as shown by a mean of 4.2 and a standard deviation of 0.70. There are however, times when swift decision making may lead to costly moves affecting the business performance negatively as shown by a mean of 4.2 and a standard deviation of 0.79. Further findings reveal that decision making is centralized through the top/family leader as shown by a mean of 4.0 and a standard deviation of 0.02.

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Research has established that decision making in the family business is usually complex as it involves various interests from the family business system. Matama (2006) has observed that decision making in the family owned businesses may not be as careful and well organized as that in public businesses. In family business decision is not always

based on economic motives as a family business may make certain decisions informed by non-economic considerations. Decision making in the family business unlike in the businesses that are publicly owned is usually influenced by other factors such as the family business system that is the family, owners and management. The other variables that may moderate the decision process are the family/business objective, the industry and family involvement among others. It has been noted for instance by some studies Danes et al. (2002) and Leach and Bogod (2003) that businesses that are jointly operated by couples face unique challenges because of the family element and emotional issues involved in the decision making.

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The findings have also revealed that flexibility and swiftness of the decision making may be an advantage to the family business in terms of pursuing market opportunities but at the same time can lead to costly move disadvantaging the family business. This is in line with the Resource Based View (RBV) of the family business that considers that it is not only the existence of resource that the family business that are owned but how they are utilized through certain capabilities like the ability to make sound decisions.

4.6.1 Management Succession Planning

The study here under management succession planning objective sought to establish the extent of management succession planning practiced in the family business and the barriers that exist in putting in place succession planning.

Table 4.5: Extent to which respondents agreed with various statements regarding succession planning

Under this section, various statements were put to the respondents to respond to in terms of the extent of agreement in regard to succession planning.

	Mean	Stdev
A succession criterion is in place or developed for identifying the successor.	4.4	.89
Efforts have been made to train the successor.	3.5	.83
No plans have been made for the successor.	3.6	.85
Family members are aware of the succession plan.	3.1	.86
There is a minimum education level or skill required to become a successor.	3.3	.93
A training programme to ensure that the successor will be competent has been designed.	4.1	1.09
Succession plan is not important.	4.1	.79
Family relations are important in choosing a successor.	4.0	.63
Ownership and control is transferred equally to all the children.	3.8	.83
Female relatives are not considered in the ownership and transfer of ownership.	4.2	.55

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Results depicted in table 4.5 revealed that a succession criterion is in place or developed for identifying the successor for most of the organizations and those efforts have been made to train the successor. Among the respondents that indicated that no plans have been made for the successor had a mean of 3.6 and those that considered succession planning as not important had a mean of 4.1 with a standard deviation of 0.79.Further findings reveal that family members were aware of the succession plan as indicated by a mean of 3.3 and that family relations were considered in choosing a successor had a mean of 4.0 and a standard deviation 0.63. The study also revealed that ownership and control is transferred equally to all the children having a mean of 3.8 while female relatives were not considered in the ownership and transfer of ownership having a mean of 4.2 and a standard deviation of 0.55. The finding further reveal that in the consideration for a successor a minimum education level or skill is required with a mean of 3.3 and a standard deviation of 0.93, while a training programme to ensure that the successor will be competent has been designed with a mean of 4.1 and a standard deviation of 1.09.

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Consideration in the succession planning

The study here sought to find what family business considers in the succession planning.

Table 4. 6: Extent to which respondents agreed with factors considered in succession planning

	Mean	Stdev
Keeping the business in the family.	4.38	1.11
Leaving a legacy.	4.76	1.55
Family harmony.	4.64	0.38
Continuity of the business.	4.38	1.10
Ongoing jobs for my employees.	4.76	0.55

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Respondents agreed that succession planning was to keep the business in the family with a mean of 4.38 and a standard deviation of 1.11, to leave a legacy finding show a mean of 4.76 while those that considered family harmony recorded 4.64 and continuity of the business with a mean of 4.38 with those that considered ongoing jobs to the family had a mean of 4.76 and a standard deviation of 0.55. From the findings the need to leave a legacy was rated as the most important followed by the need to preserve jobs to the employees.

Challenges/ barriers to succession planning

This item sought to establish the common barriers to succession planning and achieve this objective the respondents were asked to indicate their extent of agreement in regards to the statement concerning barriers.

Table 4.7: Extent to which respondents agreed with various statements on the challenges/ barriers to succession planning

	Mean	**Stdev**
Spouses unhappy with the process.	4.4	1.1
Incumbent not ready to step down.	4.8	0.50
Family conflict.	4.6	0.38
Next generation lacks interest / skills.	3.7	1.40
Taboo discussing about succession planning.	4.2	0.70
Against tradition.	4.0	1.10

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According to the findings, respondents indicated that the challenges to succession planning included the incumbent being not ready to step down having the highest mean of 4.8 followed by family conflict with a mean of 4.6. Further findings revealed that spouses were unhappy with the process having a mean of 4.4 with those who considered

taboo discussing succession planning had 4.2 as mean and a standard deviation of 0.70. It was also shown that some respondent with a mean of 4.0 felt it was against tradition talking about or preparing the successor with a few considering the next generation lacking interest or having no skill to take over the family business having a mean of 3.7 and standard deviation 1.40.

Perhaps the biggest challenge facing family businesses and one of the most cited factors as the cause of family business failure is lack of clear succession planning. Fox et al. (1996) points out that getting it wrong or ignoring the issue of succession can lead to the failure of the business. Among the many businesses lacking succession planning have their business life cycle tied to that of the founder as the business ceases to exist the moment the owner dies and if there was no clear succession the business is brought down by sibling conflict as evidenced from various media report in Kenya of sibling rivalry tearing the business apart.

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As the finding show, a number of businesses have put in place some criteria for identifying and preparing a successor while others have no plan for a successor and consider succession planning as not important. While some respondents consider family relations as important in choosing a successor, female relatives are usually not considered in the ownership and transfer of ownership.

Top consideration among family businesses in succession planning was the need to leave a legacy and having ongoing jobs for employees while keeping the business in the family and continuity of the family business were ranked the same. The biggest barrier to successful planning was the incumbent not ready to step down perhaps as a result of the

fear for losing control. Tradition and taboo were also cited as reasons why many family owned businesses are not planning for succession.

Among many African owned family businesses, succession is complicated by cultural factors where the founder of the business is reluctant to name the successor. As pointed out by Ivan (1998) and cited by Matama (2006) a number of factors hindering succession planning are to do with culture such as founders fear of death, founders spouses reluctant to let go among others. Fleming (2000) has also noted that succession issues could be avoided by family business owners if the process can raise unpleasant family problems. In such situations the founders of family business delay or avoid all together discussing about succession.

Good family business succession is not just about having a plan in place but is about careful selection and training of the successor with the right skill and ability to assume leadership, control, management and ownership of the business to ensure the success of the business.

For effective results of management succession it should be considered as a process rather than an event whereby the process starts early enough to prepare the successor not only to take over but to acquire the values, skills and vision necessary to carry the business forward.

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4.6.2 Performance Measures

The study here sought to establish the performance of the family businesses in Kenya as per performance indicators.

Table 4. 8: Performance Measures

	Mean	**Stdev**
The company has over the year's demonstrated continuous growth in profits before tax.	4.5	0.6
The business has increased market share.	4.1	1
There has been a continuous sales growth.	4	0.9
There has been a continuous sales growth	4.5	0.8
We have expanded the business overtime.	4.7	0.6
Business has created a high degree of customer satisfaction.	3.3	1
We have grown the family wealth.	4.1	1
We have created job security for our employees.	4.7	0.6
We have maintained our standard of living as a family.	4.2	0.7
Business has increased financial value.	4.4	0.5

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According to the findings, the respondent businesses have over the year's demonstrated continuous growth in profits before tax as shown by a mean of 4.5 and a standard deviation of 0.6. The businesses have indicated an increase in market share as shown by a mean of 4.1 and a standard deviation of 1.02. There has been a continuous sales growth as shown by a mean of 4.0 and a standard deviation of 0.9. The study reveal that the family business has created a high degree of customer satisfaction as indicated by a mean of 3.3 and a standard deviation of 1.02 and that businesses have grown the family wealth as indicated by a mean of 4.1 and a standard deviation of 1.11; that they have created job security for our employees as indicated by a mean of 4.7 and a standard deviation of 0.6; that they have maintained our standard of living as a family as indicated by a mean of 4.2 and a standard deviation of 0.7; and that business has increased financial value as indicated by a mean of 4.4 and a standard deviation of 0.5.

The results of these findings show that the respondents consider their family business having performed better over the years. Creation of job security for their employees who are likely to be family members and expansion of the business overtime are some of the strongest indicators of good performance as indicated by the mean of 4.7 followed by continuous in growth in profits and sales with a mean of 4.5.Degree of customer satisfaction has been ranked the lowest among the other variables indicating performance.

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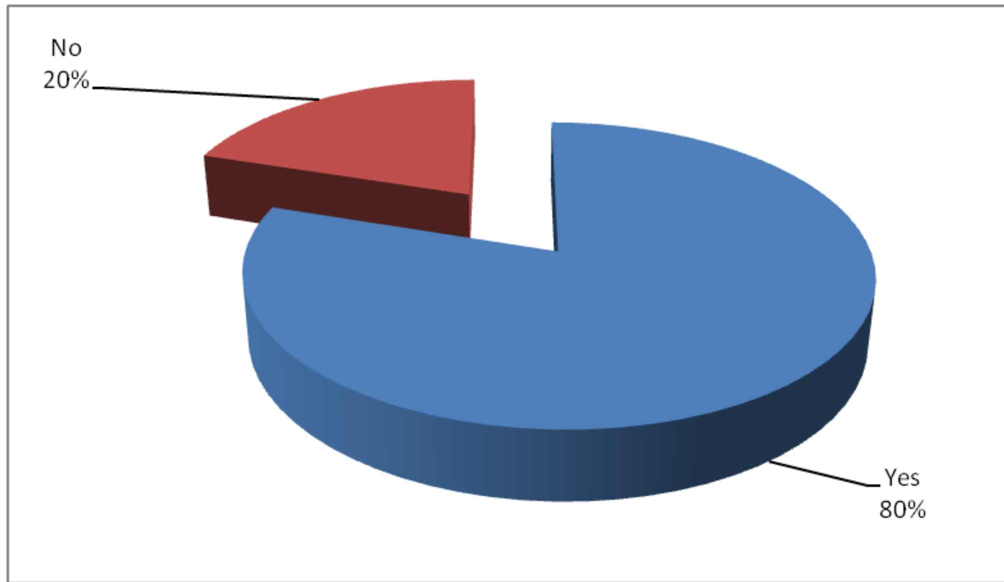
Whether respondents consider their businesses successful

This item sought to establish how the respondents considered their business successful.

Figure 4.19: Whether respondents consider their businesses successful



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From the findings, 80% of the respondents considered themselves successful while only 20% did not consider themselves successful.

This finding reveal that majority of family owned business in Kenya consider their business performing well. This is perceived indicator of performance which is based on what the family business owners had expected of their business and whether that expectation has been realized. As revealed in the literature family business may have both economic objectives and non-economic objectives and it is these objectives that are considered when evaluating their success. For instance, a family business set to provide employment to family members may consider the business successful if that objective is realized though the business may not be doing very well on the economic front.

4.7 Regression analysis

The linear regression analysis models shows the linear relationship between the dependent variable which is performance of the business and independent variables which are family involvement, governance practices, entrepreneurial orientation, decision making and Succession Planning.

Table 4. 9: Model Summary

Model	R	R Square
1	.839	.704

The coefficient of determination R2 and correlation coefficient (r) shows the degree of association between Variables and performance of the business. The results of the linear regression indicate that R2=.704 and R= .839. This means about 70% of the variation in the dependent variable performance of family business is explained or predicted by the variables family involvement, governance practices, entrepreneurial orientation, decision making and Succession Planning. The rest about 30% cannot be explained by the variables in the equation. This is a strong indication of a strong relationship between the independent variables and the dependent variable.

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Table 4.10: ANOVA

ANOVA[a]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**p-value.**
1	Regression	1809.028	5	361.806	87.391	.000
	Residual	761.775	315	4.140		
	Total	2570.803	320			

a. Dependent Variable: Family business performance

b. Predictors: (Constant), family involvement, governance practices, entrepreneurial orientation, decision making and Succession Planning

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Table 4.10 indicates that P value = 0.000 which is less than 0.05 or 5%. This shows that the overall model is significant. The closer the p-value is to 0 the stronger the significance of the variables. This implies that family involvement, governance practices, entrepreneurial orientation, decision making and Succession Planning have a significant effect on the performance of the family business.

Table 4. 11: Coefficients

Coefficients[a]					
Model		**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**p-value.**
		B	Beta		
1	(Constant)	-.119		-.168	.004
	Family involvement	.101	.374	6.255	.000
	Governance practices	-.020	-.075	-1.849	.003
	Entrepreneurial orientation	.006	.009	.210	.054
	Decision making	.170	.211	4.141	.000
	Succession Planning	.160	.371	6.414	.000

a. Dependent Variable: family business performance

The researcher conducted a multiple regression analysis so as to determine whether the group of the independent variables family involvement, governance, entrepreneurial

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orientation, decision making and succession planning which is the family business characteristics together predict the dependent variable family business performance. As per the SPSS generated table above, the equation (**$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_{5} + \varepsilon$**) becomes:

$Y = \beta_0 + 0.101X_1 + 0.020\ X_2 + 0.006\ X_3 + 0.170\ X_4 + 0.160x_5 + \varepsilon$ where:

Y = performance of the business

X1 = Family involvement

X2 = Governance practices

X3= Entrepreneurial orientation

X4= Decision making

X5= Succession Planning

ε = the error

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According to the regression equation established, taking all factors into account (family involvement, governance practices, entrepreneurial orientation, decision making and Succession Planning) constant at zero, performance of the business will be -.119. The data findings analyzed also show that taking all other independent variables at zero, a unit increase in family involvement will lead to a .101 increase in the performance of the businesses; a unit increase in Governance practices will lead to a -0.020 increase in the performance, a unit increase in Entrepreneurial orientation will lead to a 0.006 increase in the performance and a unit increase in good decision making will lead to a 0.170 increase in the performance while a unit increase in good management succession planning will contribute to an increase in the performance by o.16. This infers that decision making

contribute more to the performance of businesses followed by the Succession Planning and family involvement with entrepreneurial orientation and governance having the lowest level of significance.

At 5% level of significance and 95% level of confidence, Family involvement had a 0.000 level of significance; family governance practices showed a 0.003 level of significant, Entrepreneurial orientation showed a 0.054 level of significant, Decision making had a 0.000 while succession planning had 0 .000 level of significant, and hence the most significant factor is decision making contribute more to the performance of businesses followed by the Succession Planning.

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4.7.1 Factor analysis

Factor analysis was performed to identify the patterns in data and to reduce data to manageable levels (Field, 2006). The factor analysis analyzed the factors that measured family involvement, decision making, and management succession planning and business performance. The results were generated using the rotational Varimax methods to explore the variables contained in each component for further analysis. Factors with Eigen values (total variance) greater than 0.5 were extracted and coefficients below 0.49 were deleted from the matrix because they were considered to be of no importance. The factor loadings are the correlation coefficients between the variables (rows) and factors (columns) Farrar & Glauber 1967).

4.7.2 Principal components analysis

Factor analysis is a multivariate statistical method whose primary purpose is data reduction and summarization (Hair et al., 1987). By using factor analysis, a factor loading for each item and its corresponding construct was determined. In order to verify that the items tapped into their stipulated constructs, a principal components analysis with a VARIMAX rotation was executed. The items were forced into three factors and the output was sorted and ranked based on a 0.5 loading cut-off.

Typically, loadings of 0.5 or greater are considered very significant (Hair et al., 1987). The VARIMAX rotation was used because it centers on simplifying the columns of the factor matrix. With the VARIMAX rotational approach, there tends to be some high loadings (i.e. closer to 1) and some loadings near 0 in each column of the matrix. The logic is that interpretation is easiest when the variable-factor correlations are either closer to 1, thus indicating a clear association between the variable and the factor, or 0 indicating a clear lack of association (Hair et al., 1987).

Only the items that loaded on their corresponding factors at levels of 0.5 or greater were retained for the rest of the analysis. These items are highlighted in the last column. Items were not retained because they did not load on any factor with a value of 0.5 or greater; loaded on the wrong factor; or had cross-loadings on two factors.

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Table 4.12: Communalities table

Communalities

Communalities			
	Initial	Extraction	
Family Involvement	1.000	.971	
Governance practices in the Family Business	1.000	.746	
Entrepreneurial Orientation	1.000	.933	
Decision making in the Family Business	1.000	.967	
Succession Planning	1.000	.878	

Extraction Method: Principal Component Analysis.

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The communalities table shows the estimates of the part of the variability in each variable that is shared with others, and which is not due to measurement error or latent variable influence on the observed variable. The table indicates the proportion of variance that each item has in common with other factors. Family involvement for instance has 97% communality or shared relationship with the other factors followed by decision making with 96%, entrepreneurial orientation at 93%, succession planning 87% and governance at 74%.

Table 4.13: Eigen values- Total Variance Explained

	Initial Eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
Component	Total	% of variance	Cumulative%	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	2.717	54.333	54.333	2.717	54.333	54.333	2.034	40.679	40.679
2	1.163	23.251	77.585	1.163	23.251	77.585	1.354	27.075	67.753
3	.617	12.337	89.921	.617	12.337	89.921	1.108	22.168	89.921
4	.453	9.062	98.983						
5	.051	1.017	100.000						

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The use of the Kaiser Normalization Criterion allows for the extraction of components that have the Eigen Value greater than 1. The principal component analysis was used and three factors were extracted. As the above table shows, these three factors explain 89.92% of the total variation.

The table shows the importance of each of the five principal components. As the table indicates, only the first two have Eigen values above 1 and together explain over 67% of the total variability in the data. The third component has less than 1 and combined explain over 89% of the variability. The higher the Eigen value the higher the level of significance. This leads to the conclusion that a two factor solution will probably be adequate. After rotation sums of squared loadings the table shows lower Eigen values and percentage of variance than the initial Eigen values.

Figure 4.20: Scree Plot

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The Scree plot graph confirms the earlier findings that show three factors contribute significantly to the performance of family business which is decision making, succession planning and family involvement. The graph further indicates that of the components; only the two have Eigen values greater than 1 and together explain 77.6% of the total variability in the data. The higher the Eigen values the higher is the level of significance

and where the line drops downwards mean that successive component is accounting for smaller and smaller amounts of the total variability.

Table 4.14: Component Matrix- Unrotated factor loadings

	1	2	3
Family Involvement	.932	-.147	.284
Governance practices in the Family Business	.750	.386	-.185
Entrepreneurial Orientation	-.892	.167	-.332
Decision making in the Family Business	-.626	.446	.614
Succession Planning	.314	.875	-.120
Extraction Method: Principal Component Analysis.			

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The unrotated factor loadings show the expected pattern, with high positive and high negative loadings on the first three factors, decision making, succession planning and family involvement that have significant influence on the dependent variable family business performance.

Table 4.15: Rotated Component Matrix

Rotated Component Matrix[a]			
	Component		
	1	2	3
Family Involvement	.944	.153	-.240
Governance practices in the Family Business	.434	.675	-.319
Entrepreneurial Orientation	-.941	-.108	.191
Decision making in the Family Business	-.264	.009	.947
Succession Planning	.019	.929	.122

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

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The table shows the factor loadings that result from Varimax rotation. The three factors are just as good as the initial factors in explaining and reproducing the observed correlation matrix (Total variance explained table). In the rotated factors, family

involvement and governance have high positive loadings on the first two factors and low loadings on the third factor, whereas decision making, entrepreneurial orientation and succession planning all have positive loading on the first and second factor.

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CHAPTER FIVE

SUMMARY OF THESTUDY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the study, conclusions and recommendations of the study based on the objectives of the study.

5.2 Summary of the Study

The purpose of this study was to assess the influence of family business characteristics on the performance of small to medium sized food and beverage manufacturing family enterprises in Kenya. The specific objectives of the study were to determine the influence of family involvement in the family business, establish the influence of family business governance, to determine the influence of family entrepreneurial orientation, to establish the influence of family decision making and to determine the influence of family succession planning on the performance of the family business.

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5.2.1 Family Involvement

One of commonly used determinant of the family involvement is the family involvement in management and family involvement in ownership. The findings revealed that family members are greatly involved in the family business in various ways both directly and indirectly, as managers, owners or in influencing family business decision making as

shown in various data analyzed. Families for example held the majority of shares directly in their businesses but had also shares in other holding companies.

Contrary to the generally held view that considers family involvement as a liability, this study finds family involvement is an asset particularly the early stages of the business growth when the founder of the family business needs not only financial, human capital support but also emotional support from the family. However, the study also found that at certain stage of the family business life cycle, the continued involvement of the family turns out to be a liability. Family business owners should know when and how to limit further family involvement and source outside talent. Family members share similar values with those of the business thus indicating some level of alignment between the business and family objectives. The findings show that members of the family working in the family business were willing to put in a great deal of effort beyond that which is expected and more likely to use personal resources, time, finance and physical resources to make the family business successful. The findings of the study also indicate that there is high loyalty to the family business among the family confirming the findings by Sheetah Shah (2006) who established that loyalty and trust is a cornerstone of Kenyan Asian family owned businesses.

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The study finds some attributes of family involvement which does not benefit the family business. It was found that family owners and/or managers are more likely to use business resources for personal benefits. This was more prevalent in businesses that do not have board and lacked separation between the business and the family. It was also

found that there existed rivalry and conflict among family members which could affect family business performance. Such rivalry and conflict resulted from lack of clear roles, responsibilities and having differing goals among the business systems. The study concludes that family involvement is in consistent with the RBV theory in which family's interaction with the business contributes to a resource which can either be strength or a weakness. What is important for the family business leaders as suggested by Irava (2009) is to learn how to manage the family resource for the company's competitive advantage.

5.2.2 Family business governance practices

One of the indicators of the family business governance practices is the existence of a well performing board of directors and in the absence of a board a family council that meets regularly to resolve family business issues. The purpose of the governing bodies is to ensure separation of role and responsibilities and to provide direction to the family business.

Findings showed that 78% had a formal board which met regularly and others having family business councils which also met regularly. It was shown that the board of directors had effective meeting procedures where meeting agenda is distributed in advance as indicated by a mean of 3.6 and standard deviation of 0.3. Respondents agreed that the business provides equal access to information for shareholders as shown by a mean of 4.4 and a standard deviation of 0.89. Family business governance is considered as a positive part of the family business as shown by a mean of 4.2 and a standard deviation of 0.93.It is shown that the family business has a family charter describing rules that guide family members in the business and that the governance

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responsibilities in the family business are clearly defined as shown by a mean of 4.0 and a standard deviation of 0.3. Findings further reveal that the family has a forum for family members to discuss relationship between the family and the business which is good indication of governance practices in the family business. The Directors in the family business are responsible for the vision, mission and strategic plan. Family members in the business also follow the same work rules as non-family members as shown by a mean of 3.4 and a standard deviation of 0.82.

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5.2.3 Entrepreneurial Orientation

Entrepreneurial orientation is a mindset of individuals who having identified an opportunity, is capable of taking risk, is innovative, persistent and pro-active in pursuing those opportunities. Businesses that involved in these activities are said to be involved in corporate entrepreneurship and is more likely to realize growth and profitability than those that are not.

Study findings reveal that the owner/ managers is supportive and encourages new ways of doing business as shown by a mean of 3.6 and a standard deviation of 0.34. The owner/ manager is also supportive and encourages new business opportunities. Over the years, the family business has pioneered the development of breakthrough innovations in the category of their industry; with the respondents' business introducing new products / services over the years as shown by a mean of 3.4 and a standard deviation of 0.35.This shows clearly that the family business have made efforts to be innovative but in varying degrees as shown. It is also shown that changes in product / service have not been quite dramatic in the last 3 years as shown by a mean of 4.0 and a standard deviation of 0.30

indicating that the respondents have not been very pro-active and innovative. It is further revealed that the respondents emphasize taking bold wide ranging actions in positioning their business and products / services in new markets over the years and that respondents favour strong emphasis on R&D, new technologies and innovations as shown by a mean of 3.7 and a standard deviation of 0.20. There is a strong tendency for high-risk projects with chances of high returns depending on the environment. The CEO/Founders of the family business take bold and wide ranging acts to achieve the business objectives and the business is highly involved in the risk and uncertain initiatives as shown by a mean of 4.1 and a standard deviation of 0.29.

Study shows that respondents generally take new initiatives and strategies rather than responding to competitors as shown by a mean of 4.4 and a standard deviation of 0.50. When dealing with competitors findings show that the respondents' firm is not usually the first to introduce new products / services, administrative techniques or operating technologies as shown by a mean of 3.3 and a standard deviation of 0.45 indicating lack of entrepreneurial orientation among the family businesses. It is also revealed from the study that initiatives and innovations are rewarded and encouraged in the business as shown by a mean and that respondents' companies adopt a bold, aggressive posture in order to maximize the probability of exploiting potential opportunity as shown by a mean of 4.4 and a standard deviation of 0.50. This is an indication of a supportive environment which supports entrepreneurial orientation among the respondents family business. Findings from the factor analysis however indicated that entrepreneurial orientation had low levels of significance among Kenyan family businesses perhaps confirming findings by Morris (1998) who observed that leaders of family businesses may be motivated to

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build a lasting legacy for their families hence become conservative in their decisions hence inhibiting entrepreneurial orientation.

5.2.4 Decision Making in the Family Business

Findings revealed that business decisions are made using formal structures as shown by a mean of 4.7 and a standard deviation of 0.10; It is further shown that there is faster decision making process in the family business and greater flexibility. This was seen as an advantage to the business as it is able to respond quickly to opportunities in the market but it could also turn to be a disadvantage as indicated that swift decision making could lead to costly move. This is confirmation of what Irava (200) considered as the paradoxical nature of family business and Matama (2006) pointed that decision making in the family business is not always carefully considered. As shown in the study, most decisions taken were final with the CEO/Founder found to be involved in most decisions depending on the weight of the decision. Although at time decision is done in consultation and heads of department left to take some decisions, the opinion of the family is in most cases considered.

The study findings confirm those of Irava (2009) who observed that performance advantage of decision making is based on the ability of the family to know when to take fast or slow decision as in both case can turn to be strength or a weakness. This is in line with the Resource Based View theory (RBV) of the firm which argues that a resource that is a strength can turn out to be weakness.

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5.2.5 Succession Planning

The study findings show that family businesses have a succession criterion in place or developed for identifying the successor as shown and efforts have also been made to train the successor. It is further shown that family members are aware of the succession plan and that a minimum education level or skill is required to become a successor with a training programme to ensure that the successor will be competent has been designed. The study findings also show that a number of family businesses have no succession plan and others feel it is not important as shown by a mean of 4.1 and a standard deviation of 0.63. Family relations were considered important in choosing a successor and that ownership and control is transferred equally to all the children while the female relatives are not considered in the ownership and transfer of ownership as shown by means of 4.2 and standard deviation of 0.5. This is in consistent with observation made by Kets de Vries (1993) that lack of consideration of the successor's capabilities is one of the primary causes of succession failure common among family businesses.

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Among the factors considered in the succession planning include keeping the business in the family and preserving jobs for family members being ranked highest followed by the need to leave a legacy, continuity of the business as shown by the mean of 4.38 and a standard deviation of 1.1 and the need for family harmony.

The study findings also show a number of factors that are likely to hinder or place barriers to successful succession planning. The most common factor cited is that the incumbent who is the family business founder is being reluctant to step down and spouses

being unhappy with the process as indicated. Other mentioned factors included taboo discussing about succession planning and issue of succession being against tradition as shown. Study revealed that Kenyan of Asian origin had a more elaborate succession plan and family members participated more in the family business than the Kenyan of African origin. Perhaps this could be the reason why the Kenyan Asian family businesses are perceived to be more successful.

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5.2.6 Performance Measures

Study findings revealed that the company has over the year's demonstrated continuous growth in profits before tax as shown by a mean of 4.5 and a standard deviation of 0.6, increased market share, continued sales growth and expanded over time all with a mean of above 4. The degree of customer satisfaction has not been very impressive as shown in the study as indicated by a mean of 3.3. Perceived performance by respondents and family's achievement of their objectives were also considered as part of the family business improved performance. The ability of the business to increase family wealth and creating job security was considered and had a mean of above 4. The study findings indicate that family businesses have both economic performance indicators as well as non-economic unlike public owned businesses. The finding on the performance of family business confirms findings from the study by Molly (200) that families are not always profit maximizing but can also have non-economic objectives. Family goals are therefore seen as a guiding principal directing their behavior and performance.

5.3 Conclusions

The findings presented in this study has contributed to the growing body of family business literature in Kenya by investigating family business characteristics as a dimension of the SMEs previously ignored as a factor contributing to the performance of this sector.

Performance of small to medium sized food and beverage family manufacturing businesses in Kenya is dependent on family business characteristics such as the family involvement in business in management, ownership family business governance practices, entrepreneurial orientation, family decision practices and management succession.

The researcher concluded that although the involvement of the family in the business may beneficial during the early years stages of the business , continued family involvement may not be beneficial as the business grows both in size and complexity. It is further observed that family business decision making, family involvement and management succession plan influence performance at higher levels of performance than other variables. Entrepreneurial orientation had the lowest level of significance among family businesses in Kenya. While their business characteristic contributes to the bundle of resources owned by family businesses, it is not their ownership which is important but how they are utilized through certain capabilities which include family decision making process.

The findings of this study contributes to the growing body of research on family business characteristics an area of growing research interest (Sharma, 2008) which a number of

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Scholars such Dyer (200) recommended further investigation in the area particularly as suggested by Astrachan and Shanker (2005) that different social-cultural setting is bound to influence family business characteristics. The study has also established that family characteristics previously ignored as factor in SMEs performance is great contributor to the performance of this important sector of the Kenyan economy. The study's clear identification of family decision making as a critical dimension of family business performance is great contribution.

The practical implication of this study is realization that family business is a complex type of business organizations with unique characteristics influenced by the founders and the different social-cultural settings they are founded. Managing family should be approached differently unlike in public companies. Family businesses are not only guided by profit maximization but also by non-economic factors in their decision making. It is therefore important that having a clear understanding of their nature and characteristics will enable family business managers and policy makers address their specific needs for good performance and a sound economy.

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5.4 Recommendation

In view of the study findings, the following recommendations were made:

1) Family businesses to limit family member involvement in businesses and source for competent outside talent unless the family has capable and well trained personnel in different functional areas of the business particularly during the growth stages of the family business.

2) Family businesses should strengthen the business governance practices .The mere presence of the Board of Directors or family council is not adequate, mechanisms must be put in place to make the governance practices functional and effective. Clear separation of the family affairs and those of the business should be distinct.

3) Entrepreneurial orientation family business should embrace entrepreneurial culture and CEO and founders to create necessary environment that would encourage and reward those working in the family business to be more innovative, creative and risk takers.

4) Decision making mechanisms in the family business should be more structured and based on economic goals if they have to sustain growth.

5) Succession plan should be seen as inevitable and practiced by family businesses if they are to continue existing beyond the life span of the founder. Succession plan is not an event but a process that should start early enough by first identifying the successor, preparation, training and the eventual take over when the founder is still active in the business. This will facilitate passing on of other resources such as business values and vision besides the physical resources of the business.

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5.5 Suggestions for further research

1) The study was limited to SMEs in manufacturing family owned business in greater Nairobi. It would be useful to carry out an extensive study in other parts of the country and other sectors of the economy particularly in the service sector.

2) Although entrepreneurial orientation do exist in family business factors that foster or inhibit entrepreneurship in family business is not clearly known. Further study in this direction would be beneficial.

3) Influence of culture on family business need to be further investigated.

4) Comparative study among the Kenyan of African origin and those of Asia origin need further study.

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APPENDICES

Appendix I: Letter of Introduction

Gilbert M. Miriti
Dedan Kimathi University
P. O. Box 657-10100
Nyeri, Kenya.

Dear Respondent,

I am a PhD student of Dedan Kimathi University carrying out a study on family business characteristics and their influence on firm performance among small and medium food and beverage manufacturing family enterprises in Nairobi, Kenya.

The purpose of this letter is to kindly request you to participate in the research that I am carrying. This is in partial fulfillment of the requirements for the award of Degree of Doctor of Philosophy in Entrepreneurship and Small Business Management.

The study is important because family owned businesses are the dominant form of business ownership in Kenya and the understanding of how their characteristics influence firm performance will help the owners and policy makers as they address issues that affect their firms.

Kindly answer the items of the research instrument honestly. Your identity and that of your business will be treated with strict confidence and the response will be used for the purpose of research purposes orally.

Yours sincerely,

Gilbert Mugambi Miriti

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Appendix II: Questionnaire

THE QUESTIONNAIRE FOR FAMILY BUSINESS CHARACTERISTICS STUDY

The information provided here will be used solely for academic purposes and will be treated with maximum confidentiality.

INSTRUCTIONS

Please answer these questions to the best of your knowledge.

Write your response in the space provided.

Please put a tick (√) where appropriate.

SECTION I: BACKGROUND AND DEMOGRAPHIC INFORMATION

1.	**Please indicate the status of ownership of this company.**			
	Founder / owner	☐	New owner	☐
	Successor	☐	Any other. ………………………………..	
2.	**Gender**	Male ☐		Femal ☐

3.	**Please indicate the highest education level attained**					
	Primary Education	☐	Secondary Education	☐	Technical/College	☐
	University	☐	Any other. ……………………………………			

4.	**Please indicate the ethnic background of your family**			
	Kenyan African origin	☐	Kenyan European origin	☐
	Kenyan Asian origin	☐	Any other. …………………………………..	

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5.	**Please indicate the Business ownership**			
	Sole proprietorship	☐	Incorporated Co.Ltd	☐
	Partnership	☐	Any other. ……………………………….	

6.	**Please indicate how the business came into existence**			
	Inherited ☐	Started from scratch ☐	Purchased ☐	Any other. ……………….

SECTION II: FAMILY INVOLVEMENT

7.	**Please indicate the proportion of share ownership held by family and non-family**			
	Family members	**…………….**	Non-family members	**…………….**
8.	**Are shares held in a holding company or similar entity (e.g. trust)?**			
	Yes	☐	No	☐
9.	**a).** If yes, please indicate the proportion of ownership: **Main company owned by:**			
	Direct family ownership	**…………%**	Holding company	**…………%**
	Direct non-family ownership	**…………%**		
	b). If yes, please indicate the proportion of ownership: **Holding company owned by**			
	Family membership	**…………%**	2nd holding company	**…………%**
	Non family membership	**…………%**		

	c). If yes, please indicate the proportion of ownership: **2nd holding company owned by:**					
	Family ownership	…………%	Non-family ownership	………… %		
10.	**Please indicate the composition of the top management team in this company.**					
	Family members	……………..	Non-family members	…………….		
11.	**What generation of the family owns the company?**					
	1st generation ☐	2nd generation ☐	Any other. ………………………………….			
12.	**How many family members participate actively in the business?** ………………Members					
13.	**Would outside competent manager(s) do a better job than family members?**					
	Yes ☐	No ☐	Not sure ☐			
14.	**Please indicate the extent of agreement on the following statements.** **KEY:** Strongly Agree =5, Agree = 4, Not sure = 3, Disagreed =2, strongly Disagree =1					
	Statements.	**5**	**4**	**3**	**2**	**1**
i.	The family has influence on the business.					
ii.	The family members share similar values					
iii.	The family members are willing to put in a great deal of effort beyond that normally expected for its success					
iv	The family owners/ managers are more likely to use personal resources to benefit the family business					

v.	The family owners / managers are more likely to use company resources for personal benefits.					
vi	Family employees provide better human resource than non family employees.					
vii.	The values of the family are compatible with those of the business.					
viii.	There is high loyalty to the family business among the family					
ix.	We are proud to tell others that we are part of the family business.					
x.	As a family, we agree with the family goals, plans and policies.					
xi.	Rivalry and conflict among family members is affecting our business performance.					
xii.	Each family members working in the family business is assigned a specific role					
xiii.	Family members can be employed in the family business if they meet the criteria as non-family persons.					
xiv.	Family members can be employed in the business regardless of their qualification or experience.					
xv.	Family members are treated differently from non-family members.					

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SECTION III: GOVERNANCE PRACTICES IN THE FAMILY BUSINESS

15.	**Does your business have a formal board?**	Yes	☐	No		☐	
	If yes, please indicate how many in the board	Family members? ……………….		Non-family members? ……………………..			
16.	**How often does the board of directors meet?**						
	Regularly ☐	Not regular ☐		Not at all ☐		Any other. ……………………..	
17.	If the business doesn't have a board of directors, do you have a family council ☐ **Yes** ☐ **No**						
18.	How often does the family council meet	Not regular	☐	Regularly	☐		
	Not at all ☐	Any other. ………………………………………………					
19.	**Please indicate the extent of agreement on the following statements.** **KEY:** Strongly Agree =5, Agree =4, Not sure = 3, Disagreed =2, strongly Disagree =1						

	Statements	**5**	**4**	**3**	**2**	**1**
i.	The board of directors has effective meeting procedures (i.e. meeting agendas are distributed in advance).					
ii.	The board of Directors is responsible to the vision, mission and strategic plan.					
iii.	The governance responsibilities in this business are					

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	clearly defined.					
iv.	There is a clear separation between the business and the family					
v.	The business provides equal access to information for shareholders.					
vi.	Family members in the business follow the same work rules as non-family members.					
vii.	The family has a forum for family members to discuss relationship between the family and the business.					
viii.	The business has a family charter describing rules that guide family members in the business.					
ix.	Our business considers family business governance as a positive part of the family and business					

SECTION IV: ENTREPRENEURIAL ORIENTATION

20.	**Please indicate the extent of agreement on the following statements.** **KEY:** Strongly Agree =5, Agree =4, Not sure = 3, Disagreed =2, strongly Disagree =1.					
	Statements	**5**	**4**	**3**	**2**	**1**
i.	Owner/ managers is supportive and encourages new ways of doing business.					
ii.	Owner/ manager is supportive and encourages new					

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	business opportunities					
iii.	Over the past three years, our company has pioneered the development of breakthrough innovations in its industry.					
vi.	Our business has introduced many new products / services over the past 3 years.					
v.	Changes in product / service have not been quite dramatic in the last 3 years.					
vi.	We emphasize taking bold wide ranging actions in positioning the business and its products / services in new markets over the last 3 years.					
vii.	We favour strong emphasis on R&D, new technologies and innovations.					
viii.	There is a strong tendency for high-risk projects with chances of high returns.					
ix.	Depending on the environment, we take bold and wide ranging acts to achieve the firm's objectives					
x.	The business is highly involved in the risk and uncertain initiatives.					
xi.	We generally take new initiatives and strategies rather than responding to our competitors.					
xii.	In dealing with competitors, our firm is not usually the first to introduce new products / services,					

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	administrative techniques or operating technologies.					
xiii.	We support employees to take new initiatives in dealing with business issues.					
xiv.	New initiatives and innovations are rewarded and encouraged in our business.					
xv.	My company adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunity.					

SECTION V: DECISION MAKING IN THE FAMILY BUSINESS

21.	**Who makes the final decision regarding major issues in the business?**				
	Board Members	☐	Founder/ CEO	☐	Any Other. …………………………………

22.	**Please indicate the extent of agreement on the following statements.** **KEY:** Strongly Agree =5, Agree =4, Not sure = 3, Disagreed =2, strongly Disagree =1.					
	Statements	**5**	**4**	**3**	**2**	**1**
i.	Business decisions are made using formal structures.					
ii.	There is faster decision making in the business.					
iii.	There is greater flexibility in decision making.					
vi.	Decisions made in the business are final					
v.	The founder/ CEO of the business is involved in all decisions.					

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vi.	Involved depending on the weight of the decision					
vii.	Leaves heads of departments / Section to make independent decisions					
viii.	Decision making is done in consultation					
ix.	Don't have to consult.					
x.	Swift decision making has enabled us improve on our performance					
xi.	Swift decision making has lead to costly moves affecting our business performance negatively					
23.	Decision making is centralized through the top/family leader					
24.	Which other factors do you consider when making business decisions?	…………………………… …………………………… …………………………… ………………				

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SECTION VI: SUCCESSION PLANNING

25.	**Please indicate the extent of agreement on the following statements.** **KEY:** Strongly Agree =5, Agree =4, Not sure = 3, Disagreed =2, strongly Disagree =1.					
	Statements	**5**	**4**	**3**	**2**	**1**
i.	A succession criterion is in place or developed for identifying the successor.					
ii.	Efforts have been made to train the successor.					

iii.	No plans have been made for the successor.					
vi.	Family members are aware of the succession plan.					
v.	There is a minimum education level or skill required to become a successor.					
vi.	A training programme to ensure that the successor will be competent has been designed.					
vii.	Succession plan is not important.					
viii.	Family relations are important in choosing a successor.					
ix.	Ownership and control is transferred equally to all the children.					
x.	Female relatives are not considered in the ownership and transfer of ownership.					
26.	**Consideration in the succession planning.**	**5**	**4**	**3**	**2**	**1**
i.	Keeping the business in the family.					
ii.	Leaving a legacy.					
iii.	Family harmony.					
iv.	Continuity of the business.					
v.	Ongoing jobs for my employees.					
27.	**Challenges/ barriers to succession planning**	**5**	**4**	**3**	**2**	**1**
i.	Spouses unhappy with the process.					
ii.	Incumbent not ready to step down.					
iii.	Family conflict.					
iv.	Next generation lacks interest / skills.					

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v.	Taboo discussing about succession planning.					
vi.	Against tradition.					
vii.	Not found a suitable successor.					

28.	**In this business, who is likely to serve the position of high office?**		
	Family member	Male ☐	Female ☐
	Non family member	Male ☐	Female ☐
	Any other ……………………………………		

SECTIONVII: PERFORMANCE MEASURES

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29.	**Please indicate the extent of agreement on the following statements.** **KEY:** Strongly Agree =5, Agree =4, Not sure = 3, Disagreed =2, strongly Disagree =1.					
	Statements	**5**	**4**	**3**	**2**	**1**
i.	The company has over the year's demonstrated continuous growth in profits before tax.					
ii.	The business has increased market share.					
iii.	There has been a continuous sales growth.					
v.	We have expanded the business overtime.					
vi.	Business has created a high degree of customer satisfaction.					
vii.	We have grown the family wealth.					
viii.	We have created job security for our employees.					
ix.	We have maintained our standard of living as a family.					

x.	Business has increased financial value.					
30.	**Do you consider your business successful?**					
	Yes ☐	No ☐	don't know ☐	Any other. ………………………………		

31. What criteria would you use to measure the success of your business?

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....

32. What would you like to do to improve the performance of the business?

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Thank you for your responses!