

**AN INVESTIGATION INTO FACTORS THAT INFLUENCE  
LEADERSHIP SUCCESSION IN FAMILY OWNED BUSINESSES IN  
KENYA: A CASE OF FAMILY OWNED SMALL AND MICRO  
ENTERPRISES IN NAIROBI CENTRAL BUSINESS DISTRICT**

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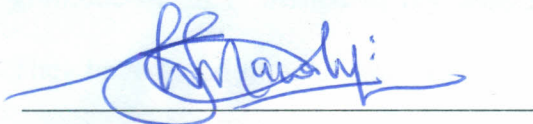
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## DECLARATION

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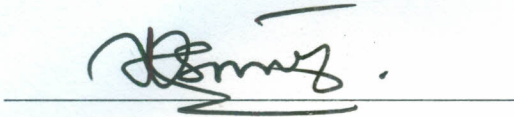
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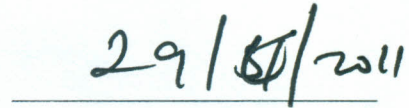
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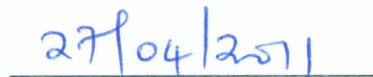
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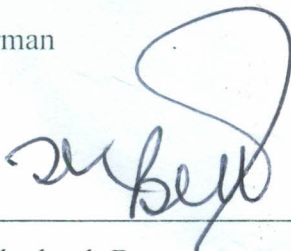


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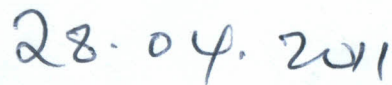


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This research project report has been submitted for examination with my approval as chairman



Mr. Shadrack Bett



Date

Chairman, Business Administration Department

## DEDICATION

This project is dedicated to my family members and friends. My greatest debt of gratitude of all is owned to my wife Esther, and our children Theophilus and Mercy. They have loved me and supported me in untold ways as I was working throughout this project. They have willingly sacrificed their time, comfort, and means on my behalf.

## ACKNOWLEDGEMENTS

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## OPERATIONAL DEFINITION OF TERMS

**Family owned Business-** Is a business where the majority ownership is controlled by the family, decisions about the management are influenced by the family, and two or more members are employed and actively participate in the management of the firm.

**Incumbent-** Is the person who holds the top management in a family business and who must relinquish that position before another family takes over.

**Micro Enterprises** – Applying the criterion based by national Baseline Survey (GOK 1999), a micro enterprise is a business that employs up to 10 workers, whether or not they are paid salaries or wages.

**Small Enterprises** – Applying the criterion based by national Baseline Survey (GOK 1999), a small enterprise is defined as a business that employs ten to fifty workers, whether or not they are paid salaries or wages.

**Successor-** Is any family member who could assume management control of a family business when the incumbent steps down.

**Succession-**Refers to situations where both the incumbent who relinquishes managerial control and the successor who takes over are family members

**Succession process-** Refers to actions, events and developments that affect the transfer of managerial control from one family member to another.

## LIST OF ABBREVIATIONS AND ACRONYMS

FOB- Family owned business

GDP- Gross Domestic Product

GOK- Government of Kenya

MSEs- Micro and Small Enterprises

SFB- Sustainable Family Business

SPSS- Statistical Package for social Sciences

US- United state of America

## ABSTRACT

This study was to determine factors that influence leadership succession in family owned businesses in Kenya. The overall research problem that was addressed in this study was that despite family owned businesses forming a large part of the economies around the globe, such businesses fail during transitions from one generation to another. Although there are many possible explanations that suggest why such firms are unable to perpetuate themselves into future generations, leadership succession remains an area of interest to owner's, successors and researchers. In addition, despite growth of the small and micro enterprises in the recent past, little or no attention has been given specifically to family owned businesses in Kenya.

The objectives of this study was to find out through research the influences of four factors (individual and relational, education and training, leadership styles and governance and process and content factors) measured against growth and profitability of the firms. This study also critically looked at the issues surrounding the major stakeholders involved in the succession process i.e. the owners and the successors.

The research used descriptive survey and targeted small and micro family owned business in Nairobi Central Business District. A sample of 100 family owned drawn from a population of 98,608 registered small and micro enterprises registered in Nairobi County was used to arrive at the conclusion. This was because there was no national data base on family businesses and neither are businesses registered in Kenya specifically as family owned businesses.

Data was collected using questionnaires which were hand delivered to one hundred firms identified as family owned business through purposive sampling. The response rate was 52% and data obtained was analyzed using descriptive statistics as a basis to answer the research questions.

From the study the researcher found that all identified factors played a pivotal role to the succession process. The research revealed that a balance between the business system and

family system is the key to the longevity of the business. Majority of the respondents indicated they had strong family relationship and had mechanisms to address conflicts.

The researcher concludes that men and women have the same propensity to run and manage family businesses. Gender imbalance is still an issue because majority of owners prefer male successors. Succession planning was seen to be a vital element for the longevity of the firms and successors should be introduced to the business early.

The study recommends that family business should family businesses should strive to embrace a global outlook in order to compete effectively and tap from the emerging markets. In addition, to avoid split-ups caused by tensions and disagreements between the business system and family system, family businesses should have a vibrant mechanism to address conflict. Communication of family vision as well as succession plan should be communicated to successors in a timely manner. Finally, owing to their contribution in the Kenyan economy, there is need to recognize and register family owned businesses in their own category.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Leadership is the process of influencing the activities of an organized group in its efforts towards goal setting and goal achievement (Ranch and Behling, 1984). Davis and Luthans (1979) recognize that leadership events occur and that leadership is an important variable affecting organizational effectiveness. Succession refers to the **passing of the leadership of the firm from one generation to the next.** Morris, Williams, Allen, and Villa (1997) and Handler (1994) view succession as the most critical and important issue facing family firms.

The succession process is defined as the actions, events and developments that affect the transfer of managerial control from one family member to another (Sharma, Chrisman, Pablo, & Chua, 2001). Handler (1990) describes the process of succession as mutual role adjustment between members of incumbent and successor generations. Since the term leadership is already contained in the definition of succession, the researcher will use the words succession and leadership succession interchangeably.

In essence, two things take place during the various phases of the succession process. First, the leadership of the family business is transferred, which will have a consequence that the younger generation assumes the leadership function in the place of the incumbent. Secondly, it is important that the ownership also be transferred. Along with ownership and control, knowledge too is transferred. Researchers in family business literature implicitly acknowledge that leadership is vital to the success and survival of the firm. Since the inception of academic research in family businesses in the early 1980's the leading topic has been succession (Dyer & Sanchez, 1988).

Leadership succession is a major point of concern for both big corporations and those in the SMEs category. A major component of the SMEs is the dominance of family owned type of businesses. Family owned business range from limited companies to small enterprises. According to the GOK (2005) small businesses in Kenya are categorized under micro and small enterprises (MSEs). While MSEs currently

operate largely outside governments' interventions, they offer critical contribution to the Kenyan economy by offering most prolific source of employment creation, income generation and poverty eradication.

Owing to the small sectors unique potential for creation of employment and wealth, considerable attention has been focused on this sector in the recent years. The Kenyan government has recognized the importance of this sector in the general process of development and formulated policies towards its growth and development.

In its sessional paper Number 2 of 1992 on small Enterprises and Jua Kali development in Kenya, the government identifies the small scale and Jua Kali sector for support, to assist it to graduate into the formal sector and to become a major player in the creation of new jobs and economic growth. As these businesses grow both in capital and opportunities the founders may find themselves bringing in key people who are close to them to assist in the operations. The key people in this case could be: wives, sons, daughters and relatives- thus slowly turning the businesses into family firms.

The family business literature has not settled on one precise definition of the family firm. In their review of literature, Sharma, Chrisman and Chua (1996) found 34 different definitions. For the purpose of this research a Family business was defined as any business where the majority ownership is controlled by the family, decisions about management are influenced by the family, and two or more members are employed and actively participate in the management of the firm (Rosenblatt, de Mik, Anderson and Johnson 1985).

Family business is the most prevalent and pervasive form of business through all history (Keynon-Rouvinez and ward, 2005). According to the World competitiveness Report provided by the Lausanne Management Center, 80 percent of the enterprises around the world are more or less considered as family businesses. In the US, family business contributes half of the GDP and provides half of the job opportunities. In Germany, family businesses create 66 percent of GDP and account for 75 percent of the total national employment. In great Britain, the number of employees in family businesses is 50 percent of the entire workforce. In India, the total sale and net profit

of family enterprises account for 70 percent of the country's 250 largest private companies.

Family businesses contribute a lot to GDP of Southeast Asian nations and the region, with Korea reaching 48.2 percent, Taiwan 61.6 percent and Malaysia 67.2 percent. Market capitalization owned by the top ten family businesses in Philippines and Indonesia accounts for more than 50 percent of the total GDP. One third of the companies listed in fortune 500 are family businesses (Lee, 2004). They are found in every sector of the economy ranging from "mom and Pop" enterprises to giants like Ford, Levi Strauss and Walmart. As a group, family businesses have consistently outperformed the Standard & Poors 500 (Moscatello, 1990). Approximately 80 percent of businesses in South could be classified as family businesses (Ackerman 2001), which are mostly small to medium-sized (Maas 1999; Magretta 1998).

In Kenya the field of small and medium enterprises, including family owned businesses has received a lot of attention from the government, the banking industry and researchers. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Between 75 percent and 90 percent of all businesses in Kenya are family owned and they employ around 75 percent of all workers and represent the fastest growing segment of the corporate world (Whitehead, 2005). This number is bound to increase due to the fact that entrepreneurship is being taught in education system, there is high retrenchment and reorganization process taking place in large corporation and parastatals and the governments initiative to establish the Youth and Women funds.

Family businesses are therefore becoming the dominant form of business enterprises in both developing and developed economies and play a vital economic and social role in these economies. Recent research on family firms suggest that they outperform non-family firms (Anderson, Mansi,& Reeb,2003; Miller & Le Breton-Miller,2005; Villalonga & Amit, 2004). Despite their significance, past statistics indicate three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). For the ones that are able to survive for a long time, *leadership succession remains an issue of concern and among the most critical* research area facing family business researchers.

The literature suggest that 30 percent of firms survive into the second generation of family ownership, and just 15 percent survive into the third generation (Kets And Vries, 1993; Ward, 1987; Mathews, Moore and Fialko, 1999). The rate of survival for family businesses is lower, down to an average of five to ten years (Perricone et al, 2001). This represents an enormous loss of productivity to the world economy.

Succession is so important to family firms that Ward (1987) chose to define family firms in terms of their ability to complete it. The importance of family businesses in today's society and the unique features of this type of organization have inspired a growing number of scholars to study different aspects of the family business.

Although this field has been widely researched it is still not yet clear what make or breaks family businesses since there are so many factors that affect them. In addition the researcher find it extremely important to acknowledge that businesses exists in environments that are turbulent, full of competitors and a lot of dynamics. Family owned business can benefit greatly by considering and exploring the leadership concept together with succession as these firms prepare the transition between the founder and the next generation. This research intends to fill the gap of knowledge by implicitly looking at such business in the Kenyan context.

## **1.2 Statement of the Problem.**

As family owned business are a primary contributor to the economic and social well being of all capitalist societies across the world, their lack of longevity is a serious concern. The literature suggest that 30 percent of firms survive into the second generation of family ownership, and just 15 percent survive to into the third generation (Kets and Vries, 1993; Ward,1987; Mathews, Moore and Fialko, 1999). The rate of survival for small family business is lower, down to an average five to ten years (Perricone et al.,2001). The social cost of this high rate of failure will obviously have a great downward effect to the world economies.

It is revealed that from 1924 to 1984 , eighty percent of the two hundred *manufacturers no longer survived, while only 13 percent are owned by the same family as in 1924* (Ward,1987). The reasons for the demise of family owned

businesses are many; however, Ward indicates that the inability to plan strategically for the future of the firm is major cause. Similarly, Davis and Taiguri (1989) and Astrachan and Kelonko (1994) find that incumbents seldom plan the leadership succession.

While much of the succession research focuses on behavioral issues surrounding the succession process Dyer and handler (1994) recognize the need for comprehensive models that include how various dynamics of succession relate to one another to form an understanding of the complexity and the process. In addition to behavioral factors, the researcher will include the context factor category which addresses the associated changes in the economic environment.

Although internationally research in this field is extensive, Kenyan research on family firms in the area of succession is very limited. Between 75 percent and 90 percent of all businesses in Kenya are family owned and they employ around 75 percent of all workers and represent the fastest growing segment of the corporate world (Whitehead, 2005). Family businesses in Kenya may not be an exception from trend world-wide given the fact that Kenya is a developing economy with a high unemployment and poverty levels. It is against this background that the researcher finds it extremely important to investigate the factors that influence succession in family businesses in Kenya.

### **1.3 Objectives of the Study**

#### **1.3.1 General objectives**

The overall objective of the study is to determine the factors that influence leadership succession in family owned businesses in Kenya.

#### **1.3.2 Specific Objectives of the study**

- (i) To find out how the individual factors and relational factors of founders and successors in Kenya influence leadership succession among founders and successors engaged in family owned businesses in Nairobi.

- (ii) To determine how education and training affect leadership succession among founders and successors engaged in family owned businesses in Nairobi
- (iii) To find out how leadership styles and governance affect leadership succession among founders and successors engaged in family owned businesses in Nairobi.
- (iv) To find out how context and process factors affect leadership succession among founders and successors engaged in family owned businesses in Nairobi.

#### **1.4 Research Questions**

- (i) How does individual and relational factors of founders and successors influence leadership succession among founders and successors in family owned businesses in Kenya?
- (ii) Does education and training among founders and successors influence leadership succession among founders and successors in family owned businesses in Kenya?
- (iii) What leadership styles and form of governance drive successful leadership succession among founders and successors in family owned businesses in Kenya?
- (iv) Do the context and process factors among founders and successors influence leadership succession in family owned businesses?

#### **1.5 Significance of the study**

This study will be of great importance to the stakeholders in the family businesses because it will elaborate on the strategic issues facing them. It will also help the government and lending institutions in understanding the support required so that family businesses continue to play their rightful economic and social role. The study will also show areas that require attention for the two major stakeholder groups in the succession process, namely owner-managers and successors. It is also expected that the research will be used to recommend improvements in upbringing, education, training and socialization of the successors in order nurture skills that makes them credible business leaders.

The study may also be used a learning tool to those already in family business and also those who may wish to engage in such venture. The study will also contribute to the body of knowledge regarding family business and will have potential for comparison to related and future studies on the subject of succession, leadership and family owned business.

### **1.6 Scope of the Study**

The study was to investigate family owned business in Nairobi Central Business District. This is because Nairobi County has the highest numbers of family businesses and it is also the capital city of Kenya. Most successful family businesses of Indian origin were also found in Nairobi. The research was to cover family businesses in various stages of growth and age. It was to consist of profiling founders and successors engaged in family businesses in various businesses undertakings. In order to determine the variables that facilitate smooth transition the study was examine the extent to which individual and relational factors, level of education and training, leadership styles and governance and contextual and factors influence leadership succession. Against the above factors, in order to define successful succession levels of actual or projected growth in the long term basis was to be considered.

### **1.7 Limitations of the study**

Regarding the study limitations, the main one was that family owned businesses are close knit enterprises and they would want to keep their information as private as possible. In addition, results only reflect the views of family members who are currently involved in the business. It is possible that the answers of those members who are currently not in the business would not match with those who are involved in the business. Finally, it was not possible to include the businesses that have failed due to lack of smooth succession process in the sample. The researcher was able handle these limitations by firmly assuring the respondents that the research was not aimed to expose them to tax authorities. It was also assumed that because families met regularly to discuss family and business issues the views of the respondents could be generalized.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 Introduction**

This chapter reviews the literature that is pertinent to this study. This chapter specifically documents the concept of family firms, succession and critical factors that influence leadership succession in family owned businesses in Kenya. It also identifies research gaps to be filled by this study and the conceptual framework.

#### **2.2 The genesis of Family business studies.**

For many years researchers have given very little attention to the study of family businesses. Litz (1997) views this as the result of interaction between business, government and academic institutions. In the latter decades of 19<sup>th</sup> century managers of public firms desired to win confidence and approval of governmental regulating agencies and the general public for their externally financed enterprises. This brought about the compliance of the legal requirement to report their profit and loss statistics, which in turn became attractive to academic researchers.

Further, examining the historical development of the management thought, Litz (1997) recognized an attitude of disdain for inherited wealth among researchers. This attitude may have contributed to the lack of in family business studies as well. For example, Schumpeter (1934) believed that all often the children of entrepreneurs did not inherit the acumen of their forebears and subsequently would destroy the family business with their inept management. From this point of view, family businesses appear to be inefficient and therefore not likely to survive in the marketplace (Dyer, 2003).

The academic study of family business began in 1983 with the publication of a special issue of the journal, *Organizational dynamics* (Astrachan, 2003). In 1988, the first journal solely dedicated to the field of family business began publication - the *Family Business Review*.

### **2.3 Major Differences between Family Firms to Non-family Firms**

In order to understand what family firms are, it is helpful to distinguish them from firms that are not family businesses. Differences between family and non-family firms begin at the basic core of the firm. Often, family firm executives have entangled family goals with business objectives. Family goals may not be performance-oriented in nature and may take precedence over the common goals of growth or profitability (Chua, Chrisman, Steier, 2003). For instance, providing employment for less-than-fully-productive family members may be more salient to the firm than profit maximization.

Family firms have a more centralized decision-making process and less formalized control systems (Morris *et al.*, 1997). Further, Morris *et al.*, (1997) found that conflicts among family members are often sustained over long periods of time, personal family issues are mixed in with business issues, and the process of succession is much more traumatic and problematic than in the non-family business. Among other differences, family members often identify personally with their business for their entire lives, which is less common among managers in the corporate world. For family members, the failure of the firm has serious personal and career implications, although the likelihood of employment termination while the firm is still in operation is low.

Family firm leaders are largely accountable to themselves and their family, while the non-family manager is accountable to the stockholders of the corporation. Furthermore, Bjuggren and Sund (2001) propose that family firms develop idiosyncratic knowledge that is acquired by watching and participating in the company. This distinction is valuable to society and worth preserving in the family firm because such knowledge improves firm performance and thereby benefits society.

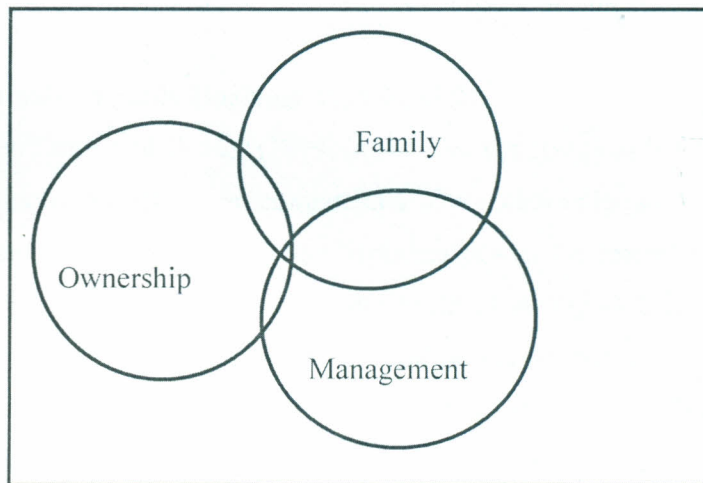
Also, managers of family businesses use a more personal approach by trusting their employees and relying less on formal written policies (Kelly, Athanassiou, & Crittenden, 2000). Finally, family firms have practiced a more conservative strategy

with slower growth and lower likelihood of entry into global markets (Donckels & Frohlick, 1991).

## 2.4 Family business models

### 2.4.1 The Three – Circle Model of Family Business

Gersick, Davis Hampton & Lansberg, 1997 proposed the three circle model of family Business- the most universal thinking in this field. Its essential sub-systems are the family system, the management system and the ownership system (Kenyon-Rouvinez and ward 2005)



(Source: Taigiuri and Davis,1992)

**Fig.2.1 The three Circles model**

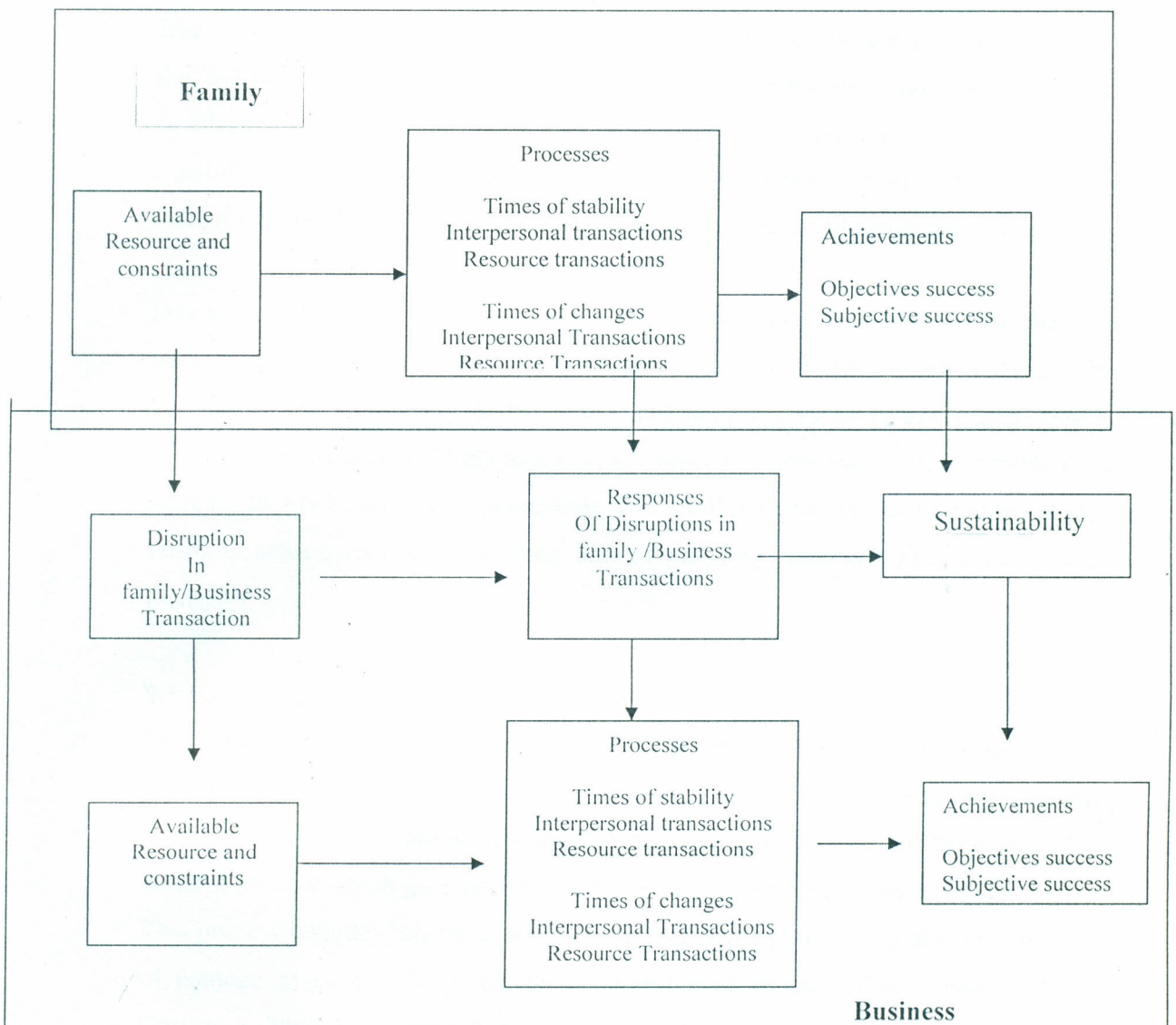
According to the above model the individual may be placed may be placed in any of the seven sub-sections concerning their relation to the family business. Frequently, tensions disagreements and conflicts arise between the family systems and business system. This is due to the fact within each family system people have different view points. Family subsystem is portrayed as emotion based and the business subsystem as task based (Habberson, *et al.*, 2003). Lansberg (1988) states that the family members see the family business as an internal part of the family identity and also as an income source, which supports lifestyle expectations. The other subsystem is the management which regards the firm as a means of professional advancement. For managers the goal for the company is to achieve growth and exceptional performance. The last component is the owner, who sees, who sees the company as an investment from which to obtain substantial return.

For the above three different family participants, Kenyon-Rouvinez and Ward (2005) proposed the following ownership for family businesses- the controlling owner, the sibling partnership and the cousin consortium. The controlling owner is the founder of the business and has effective personal power over decisions that affect the businesses. Next, is the sibling partnership, this is as a result of the owner transferring the business to the next generation. At this stage decisions are made by the partnership. Over time, ownership becomes dispersed to third and fourth generations i.e. the cousins. In this case, cousins need to collaborate over decisions and no-one has absolute control.

#### **2.4.2 The Sustainable Family Business Model (SFB).**

Stafford, Duncan, Dane, and Winter (1999) introduced the sustainable family business model (SFB), which consists of two components. The authors recognize a family side and a business side in the family firm and hypothesize that the interplay between the two sides is essential to the survival of the family firm (see Figure 2.2). Accordingly, sustainability is a function of business success and family functionality. In the family business literature, a bias toward the business side has existed (Olson, Zuicker, Danes, Stafford, Heck, & Duncan, 2003). Moreover, the family side is often considered to be full of emotion and perhaps detrimental to the business.

Stafford *et al.*, (1999) note that a unique factor, not found in non-family firms, is the potential for resource exchange. For example, the family may use personal savings to help the business through a financial crisis. Earlier, Ward (1987) reasoned that a family firm's sustainability depends on its response to change. In the SFB, Stafford *et al.*, (1999) recognize that while the business side is important for firm survival, it is not acceptable to sacrifice the family for the good of the business. Moreover, the success of a family business comes in managing this overlap. This reciprocal impact of the family and the business distinguishes family business studies from all others (Sharma, 2004). Both the family and the business must respond to external disturbances. Therefore, if the family is content, the business is successful, and if they both respond appropriately to disruptions, the family business will be sustained.



Source: Stafford, Duncan *et al.*, (1999)

Figure 2.2: The Sustainable Family Business Model (SFB)

### 2.4.3 The unified Systems perspective

Habbershon *et al.*, (2003) argue that the performances of the firm outcomes of family business are dependent on the interaction of the family unit, business entity, and individual family members. The family unit represents the family history, traditions, and lifecycle. The business entity describes the structures and strategies, which the family employs for wealth and value generation. Lastly, the individual family member symbolizes the skills and interests family managers and owners.

Due to the interactions of the three subsystems of the business entity, family unit and the individual members, an idiosyncratic pool of resources and capabilities are developed. Resources are defined as the companies' assets and attributes, whereas capabilities are company specific, embedded and nontransferable resources that increase the usefulness and productivity of other resources utilized in the business.

Due to these family internal characteristics, the resources and capabilities are attached with the family factor, resulting in resources and capabilities which make up the "familiness" in a company. If the family influence on resources and capabilities is positive, the company is likely to obtain a competitive advantage, which results in an increase in wealth and value generation. The familiness concept distinguishes family business among each other in their aim of pursuing economic and non-economic goals.

## **2.5 Factors on family business succession**

Succession is one of the most critical times of a family business. Succession is so important that to family owned businesses that Ward (1987) chose to define family firms in terms of their ability to complete it. Succession is not a one-time event, but rather a process which goes on for five to ten years (Ilse Matser, Jozef lievens 2008). This process includes "all the actions, events and developments that affect the transfer of managerial control from one family member to another" (De Massis, Chau & Chrisman, 2008). Essentially there are four distinct groups of people who play a major role in the family business succession process: the family, the family business itself, the owners of the family business and a number of individuals, including firstly the transferor (incumbent leader) and the (potential) successor.

As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya (Michael Bowen *et.al.*, 2009). The research will therefore adopt scholarly studies from developed countries to determine which of them are critical to the Kenyan situation. From literature reviewed from the past studies, several factors that influence leadership succession have been identified by different authors. These factors include: Individual and relational factors, Education and training, Leadership styles and governance and lastly context and process factors.

### **2.5.1 Individual and Relational factors.**

Many studies of succession assert that problems occur due factors that operate at the individual level (Kets de vries, 1985; Kets de vries & Miller, 1984). The main stakeholders in family business are the incumbent and the successor. The individual in this case will therefore refer to the incumbent and the successor. If the successor is not endowed with the necessary skills to take over management of the business, then succession may not take place (Barach & Gatinsky, 1995). Such an under qualification may lead to the potential successor declining to take over the business.

A willing and a committed successor is such a key element in the succession process (Chrisman, Chua, & Sharma 1998). Thus, successor dissatisfaction or lack of motivation could prevent succession from taking place either because the potential successor refuses to take over or the family refuses to appoint him. Because of successors' ability to refuse or withhold cooperation, these individuals exercise great power over succession timing and the satisfaction of family members with the process. A reluctant successor will not be fully committed, may project resentment towards other family members, and may not co-operate in the leadership transition (Goldberg and Woolridge, 1993). Empirical evidence shows that the presence of a willing successor significantly influences the quality of succession in family firms (Morris *et.al.*, 1997).

An incumbent's inability to let go is the most cited barrier to effective succession (Sharma *et al.*, 2001). If the incumbent is too attached to the business, the potential successors might not be given the opportunity to develop the skills necessary to take the leadership roles. One of the reasons that make succession critical is that the firm is often closely related to the manager-owner. This may result in difficulties for the transferor to let go the business but also difficulties for the younger generation to continue a success often based on the personality and competence of the original leader (Neubauer 2003).

To succeed in the process of succession the incumbent must be prepared to change the business to match the values and competences of the successor (Barach, Gantisky, Carson and Doochin 1988). *The successor on the other hand has to adapt to the*

operations and culture built up by the older generation. According to Sten (2006) the process of succession is a long process and it involves both parties a long time.

Unexpected or pre-mature loss of both the incumbent and the successor can also be a major hindering factor to the succession process. Usually, the incumbent has a central role in succession decisions (Kelly, Athanassiou, & Crittenden, 2000). This premature loss could occur when the successor is not ready. The unexpected loss of the incumbent during the succession process could therefore prevent succession from occurring. Succession might also be prevented if the potential successor dies or becomes ill (Handler & Kram, 1988). This could pose a big challenge especially if only one potential successor occurs. This could result to a non family member being appointed to manage the business.

Relational factors are the ones that revolve around the relationship between individual and groups. The literature on family business (Churchill & Hatten, 1987; P.S Davis, 1983; Lansberg 1983; McCollom, 1988) recognize the pivotal role played by relationships between different groups of individuals, arguing that bad relationships are the cause of potential conflicts that obstruct succession. Lansberg (1988) notes that the quality of the relationship between the incumbent and the potential successor is essential for succession.

Family harmony is essential for the succession process to be complete (Churchill & Hatten, 1987). Nearly half of all businesses owners expect to pass on leadership and ownership to two or more of their offspring (Sheetal Shal, 2006). Relationships among siblings are often intense and if serious conflicts occur frequently they negatively impact on the existing ownership structure. Approximately half of all sibling partnerships result in split-up (Ward and Aronoff, 1992). By recognizing potential conflicts and developing guidelines in advance, families may be able to resolve conflicts before they occur (Astrakhan and Steir in Keynon-Rouvinez and Ward, 2005). According to Bedosky (2002), family conflict is the biggest obstacle to passing business to the successors.

The presence of a trustworthy successor has been suggested in the literature as a major factor that determines an incumbent's willingness to step aside (Handler and

Kram, 1988; Sonnenfeld and Spence, 1989). Chrisman, Chua, and Sharma's (1998) found that two most important attributes of a successor sought by family firms are integrity and commitment to the business supports this point. A successor must be trusted or he or she may not be considered legitimate leader and will not be selected to manage the family firm (Barach *et al.*, 1988).

Keatling and Little (1997) considered gender the main factor in the successor election process, whereas Stravrou (1999) found out that, even if the daughter was the primogenitor, she was not considered to run the family business. While sons are grown up for entering in the family business daughters usually lack the opportunity to succeed their fathers (Dumas, 1992; Miller *et al.*, 2003). Studies show that daughters usually enter the business because of a crisis such as an illness in the family (Barnes, 1988; Dumas, 1992; Salganicoff, 1990). This situation is changing in recent years and women are creating their own firms and joining their family firms pursuing professional careers.

### **2.5.2 Education and Training**

Barack & Gantasky (1995) emphasized that many thriving successors had rich experiences at other companies and jobs. These could help the successor develop a knowledge base, sense of identity, self-confidence and credibility (Barach *et al.*, 1998). Thus, the successor's proven skills, performance, and experience could help him/her to gain credibility and legitimacy as the new leader (Barach *et al.*, 1988).

An accurate evaluation of the gaps between the skill requirements for the successor and the abilities of a potential successor is necessary to set up an appropriate management development plan (Fleming, 2000). If these gaps are not correctly evaluated, the potential successor's training may not be suitable and this could forestall his or her appointment.

The training successors go through to acquire knowledge, develop capabilities, and achieve credibility is a vital factor for effective succession (Morris *et al.*, 1997). Ward (1987) discovered that the successor's development and preparation for a *leadership role was one of the most important factors among the family owned businesses that survived a succession.*

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with large stocks of human capital, in terms of education and vocational training are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). Mentorship will depend on the relationship between the founder and the successor.

The training of a potential successor is a vital factor for succession (Morris et al., 1997). Formal leadership training plans including work both inside (Churchill & Hatten, 1987) and outside the family business (Ward, 1987) may be required. If attention is not given to formal training, the succession may not take place because the potential successor will be inadequately prepared to assume the top management position

In reference to knowledge, we can refer to both explicit and implicit type. The former is easy to perceive and to articulate while the latter is the hidden part which is more difficult to articulate and also to perceive. The implicit represents the tacit dimension of knowledge. Michael Polanyi (1996), often seen as the father of tacit knowing, expressed it as "we can know than we can tell". This tacit dimension of knowledge is valuable to a business as it is an important component of expertise (Brown & Duguid 1998; Nonaka & Takeuchi 1995). As a result of the characteristics of tacit knowledge it is also difficult to imitate. Many researchers agree on tacit knowledge as a source for competitive advantage (Birchall & Tovstiga 1999). That is why the diffusion of tacit knowledge is essential for the result of a family business succession.

Handler (1992) suggests that the fit between the career interests of a successor and opportunities in the family firm is important in determining whether a potential successor joins the family business. If the fit is less than desirable, successors will make changes to align the firm more closely to their competencies and aspirations (Goldberg, 1996). Thus, misalignments of the successor's career interests with the business will not only increase agency costs but may cause the successor to shy away. Therefore, the better the possible fit between the successor's career interests and the family business, the higher the willingness on the part of the successor to take over the leadership role.

### 2.5.3 Leadership styles and Governance

Aronoff and Ward (1992) talked about the importance of developing leadership skills in potential successors. Their goal was to help founders prepare successors who are not only ready to follow in their footsteps, but to revitalize the family business vision for the future. They pointed out that in most family businesses, the development of future leaders seems to be a low priority because nurturing new leadership is not something that comes naturally for most entrepreneurs. Even when entrepreneurs plan on passing their businesses on to their children, they do an inadequate job of preparing them for that responsibility.

Preparation of would-be successors is one of the keys to a successful business transition from one generation to the next. Founders who embrace certain leadership styles may find that succession planning comes more easily to them than to others. If this is the case, founders' could be trained in these styles of leadership that would enable them to become more comfortable with the thought of succession process.

Sorenson (2000) studied the relationship between leadership styles that family business owners' employ and how their leadership style had an impact on the success of both the business and the family. The leadership styles Sorenson (2000) used were based on Dyer's (1986) study of family business cultures.

The five leadership styles were participative, autocratic, laissez-faire/mission, expert, and referent. Autocratic leaders retain all key information and decision-making authority, and they are very reluctant to share their power. Participative leaders are group oriented and their relationships are based in trust. Status and power are not so important to them. Laissez-faire/mission leaders have high levels of trust in their employees, authority is shared, decisions are made together, and goals are met as a team. Expert leaders gain their positions of leadership because of their expertise in a particular area or because they have a particular Skill. Referent leaders are charismatic leaders who have high regard for others and have a desire to please them.

*Sorenson (2000) found that participative leadership had a positive impact on family and business outcomes as well as employee satisfaction and commitment. Referent*

leadership had a positive impact on family outcomes and employee satisfaction and laissez-faire/mission leadership had a positive impact on employee commitment. Other leadership styles that are of great benefit to this study are charismatic, transformational and servant leadership.

Charismatic leaders developed faith among their followers and led because of their exemplary character. Further, charismatic leaders were extraordinary, super individuals, who possessed abilities far greater than the average person, as well as a vision for the future. Charismatic leaders differ from others because of their ability to formulate and communicate an inspirational vision and their capacity to take actions that appear extraordinary to followers. Further, the charismatic approach is concerned with the perception of leader behavior, rather than follower outcomes, which concerns transformational leaders (Conger & Kanungo, 1994).

Superior leadership performance or transformational leadership occurs when leaders broaden or elevate the interests of their followers (Seltzer & Bass, 1990). Transformational leaders influence their followers to perform at the highest levels, transcending self-interest (Shoemaker, 1999). Transformational leaders stimulate their followers to change their motives, beliefs, values, and capabilities so that the followers' own interests and personal goals become congruent with the leader's vision for the organization (Goodwin *et al.*, 2001).

In the concept of transformational leadership the leader reaches beyond the transactional elements of initiation of structure and consideration (Judge & Bono, 2000). Transformational leaders handle problems in transactional areas, but their leadership does not stop at this level. Transactional leaders, on the other hand, do not reach the higher levels of transformational leadership. Bass and Seltzer (1990) empirically demonstrated that transformational leadership complements the transactional components of initiation and consideration.

The basis of servant leadership is to serve others first and the results will be judged in the growth of the followers. As opposed to transformational leaders, servant leaders do not seek power, fame, or self interests. Servant leadership seeks to positively impact the employees and the community above the pursuit of short-term profit.

Smith *et al.*, (2004) observed that servant leadership worked better in a stable external environment and transformational leadership worked better for organizations facing intense external pressure. In conclusion, the business owner's leadership style may also be related to her/his willingness to plan for succession.

Family business governance is a system of processes and structures put in place at the highest level of the business to facilitate the best decision process. Good governance fosters shareholder commitment, promotes better market place performance and facilitates transparency and trust. These are key determinant for the long-term sustainability of any family business (Gallo and Keynon-Rouvinez, 2005). Good governance leads to clarity within the family, between the family and the board and therefore a stronger business (Gallo and Keynon- Rouvinez, 2005).

Outside of the immediate family, advisory boards are seen as one of the most important stakeholder groups in the succession process. Their position in the governance of the firm provides them with considerable legitimacy and power. Furthermore, members of advisory boards have claims on the firm that are important and demand timely action. It is generally agreed that family business managers can benefit from the objective counsel of outsiders, individuals beyond the immediate management group (Danco, 1975).

Literature strongly suggests that the presence of an active advisory board can influence the succession planning process (e.g., Ward, 1991). These boards may be either formal or informal; the most important condition is the degree to which the advisory board is active both in terms of the frequency of its meetings and exerting its influence over the strategic direction of a business.

It is evident that an active advisory board may increase the extent to which a family firm engages in succession planning. Harveston *et al.*, (1997) found a positive link between the extent of formality in a firm (measured using four items: written job descriptions, fixed compensation plans, formal employee performance reviews/ holding regular board meetings) and succession planning.

The primary roles of boards in business have been identified as governance and provision of resources. Through the roles, boards contribute to their firms' performance (Hillman & Dalziel, 2003).

#### **2.5.4 Context and Process factors**

Contextual factors can influence succession because uncertainties and contingencies in the business environment affect the distribution of power and control within the firms. Thus, the context category includes factors associated with changes in the economic environment in which the family business operates.

A change in the business environment may significantly alter the family's assessment of future business prospects. For instance, if the changing market conditions dramatically increase the probability of business failure, the pressure on the incumbent will be to sell it off and this could prevent succession from taking place. In addition, an actual or expected decline in firm performance reduces the financial attractiveness of the family business for the potential successor and this may cause him or her to seek opportunities outside the firm (Sharma *et al.*, 2001).

Stavrou (1999) suggests that there is positive correlation between business size and the intentions of the successor to join the family firm. Thus, a decrease in size may lead to a potential successor to leave as a result of perception that the future monetary and non monetary rewards will be unattractive.

Certain authors regard succession as a transfer of social capital from one generation to the next (Cabrera- Suarez *et al.*, 2001). Social capital can be defined as the resources which are available in and through personal and business networks. These resources include information, ideas, contacts, opportunities, power, influence, emotional support, goodwill, trust and cooperation (Baker, 2000).

Customers or suppliers of a family business are often accustomed to interacting with the owner with whom they develop a personal relationship over time. Potential successors may experience difficulties establishing similar relationships. If they insist **that the incumbent continues to handle their accounts, then they affect the firm's survival hence the succession process.**

The process factors encompass those that deal with the successor preparedness, evaluating him or her and communicating with the family firm's key stakeholders. Having a clear transitional role for both the incumbent and the successor is vitally important (Lansberg, 1998). Lack of a clear role for the incumbent during the transition may hinder the successor's ability to earn respect and, as a result, prevent him or her from gaining the commitment of other family members and nonfamily managers. Equally, if the potential successor's role during the succession process is unclear, the potential successor may lose motivation and, eventually, decide not to accept the top management position. This could prevent succession from taking place.

The importance of succession planning has been widely recognized in the literature. In the absence of such planning, the sudden departure of the founder-manager can cause major upheavals of power and authority, conflict among heirs, and thorny estate issues (e.g., Lansberg, 1988). Thoughtfully developed succession plans can increase the likelihood of co-operation among stakeholders in the business, thus enhancing the chance of a smooth and satisfactory succession (e.g., American Family Business Survey, 1997; Hayes and Adams, 1990; Morris *et al.*, 1997).

Succession in family firms is a rare event, happening once per generation, so there are few people either in the family or the business with any experience of when and how the issue should be dealt with (Fox *et al.*, 1996). Founders face an unavoidable succession dilemma of making either an explicit or implicit strategic decision about transferring ownership of the family business. The main alternatives were to sell the business to someone outside the family or to make arrangements for an interfamily succession (Bjuggren & Sand, 2001).

A succession plan may involve input from a number of family stakeholders. Having a voice in the process may provide a sense of ownership to family members, increasing their feelings of legitimacy, power, and stakes in the success of the business. Such involvement may therefore positively affect their initial satisfaction with the process. Furthermore, the development of a plan implies that the process will be conducted in *an orderly fashion with allowance for preparation before, during, and after the*

succession event, as well as the development of specific criteria for the selection of a successor.

Sharing views about the critical objectives of the family business is believed essential to succession (Dyer, 1986; Ward, 1987). If sufficient attention is not paid to creating a shared vision, the succession may not take place because of the possible conflicts arising from misunderstandings on the part of family members or non family managers.

Early exposure to the business is needed for the potential successor to establish relationships with key suppliers, customers, and lenders; to build credibility within the company; and to understand the culture and intricacies of the firm (Lansberg & Astrachan, 1994). If the potential successor is exposed to the business too late, these aspects may be lacking, thus preventing succession from taking place.

During the succession process, changes in expectations, succession goals, strategy, or industry context may reshape succession requirements (Osborne, 1991). Without periodic feedback about how things are progressing, the potential successor may become frustrated and decide to leave the family business, thus preventing succession.

## **2.6 Overview of literature review and Research gaps.**

The discussion about family owned business in this chapter illustrates their own unique ownership, governance and family attachment serves as an explanation for the success of these firms and their positive impact on the global economy. Several studies have been conducted in the developed economies such as America, Britain and Germany. Authors such as Handler, Dyer, Le-Bretton & Miller have concentrated on succession issues in the developed economies. Whereas the empirical results found in there research is generally held to be true, it is important to recognize the business environment and culture in the developing world is quite different. Hence there is a need to get a comprehensive in depth analysis of the developing economies such as Kenya.

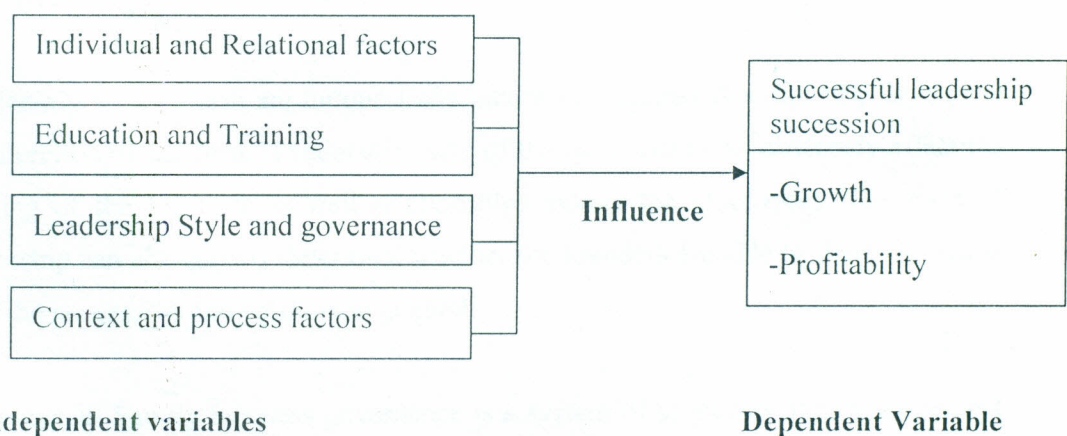
While longevity of family owned businesses is a major concern, the family business literature has recognized the importance of succession; leadership literature on the

other hand has proven that leadership is essential for the survival and success of such firms. The researcher intends to bridge this gap so that the family business literature can be greatly enhanced.

The studies on family owned businesses in Kenya are very limited. Sheetal Shah (2006) studied the critical success factors for Indian family owned businesses in Kenya. However her findings did not reflect leadership as a critical success factor in the Indian owned businesses. No published report could be found that addresses succession cases in family owned businesses in Kenya. This study is intended to address this void.

### 2.7 Conceptual framework

The conceptualization of this study is based on the assumption that identifying the factors that influence leadership succession in family owned business will lead to successful transition and hence greater growth, survival, sustainability and profitability of family owned business. The dependent variable is successful leadership succession in FOBs which is indicated by growth and profitability of the firm. . The independent variables are the factors that influence successful leadership succession and they were categorized in four broad categories: individual and relational factors, education and training, leadership styles and governance and context and process factors. The relationships between the variables are depicted as follows:



(Source: Author, 2011)

Fig 2.3. Conceptual framework

### **Operationalization of study variables**

Growth- According to Jennings and beaver (1997), there is no single criterion label or definition of growth. The term growth may mean earning profits, growth in sales/turnover, growth in profitability, avoiding losses, being cost efficient or performing well in the market.

Profitability- Profitability refers tom high growth in overall revenues at reduced costs. Most business exists to create profits as well as maximization of wealth. In family business context, the possibility of high payoffs from the business should increase both the stakes and urgency of family stakeholders with regard to actions that will ensure continuation of the business (Malone, 1989).

Individual factors- These are the embedded factors in the founder and successor, they include the willingness of the founder to let go, the willingness of the successor to take over and gender. Relational factors are related to relationships both at the family and business level. They include lack of family harmony, conflicts and lack of trust.

Education and training- Education is one of the factors that impact positively on growth of firms (King and McGrath,2002). Those entrepreneurs with large stocks of human capital, in terms of education and vocational training are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). Mentorship will depend on the relationship between the founder and the successor.

Leadership style- These are unique traits inborn or acquired that can help determine the direction of the firm. Leadership style of the incumbent will obviously affect the running of the business as well relationships among the employees. The style of leadership can also greatly determine whether the founders are able to share the vision with the successors and workers in general

Governance- Family business governance is a system of processes and structures put in place at the highest level of the business to make the best possible decisions *regarding its direction and assurance of accountability and control. The presence of an*

active advisory board will greatly influence the process and the outcome of the succession events.

Process factors –This category encompasses factors related to aspects of the succession process that can cause succession not to take place smoothly. Factors like succession planning, strategic planning, clear definition of roles, proper communication, sharing of vision will fall in this category.

Context factors- These are factors that are associated with changes in the economic environment which the family business operate. Since family owned businesses do not exist in a vacuum, they are vulnerable to changes in macro and micro environments. In these category factors such as change in business performance, decrease business scale and loss of key suppliers and customers have considered.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### **3.1 Introduction**

In this chapter, the research design and methodology that was applied in this study is presented. The chapter aims to identify the research design, population, sampling techniques, research instruments, data collection procedures and data analysis.

#### **3.2 Research Design**

The study used a descriptive survey of all family owned businesses in Kenya. The descriptive survey was to help to locate and obtain data for the study and described issues as they were. Gay (1981) defines survey as “an attempt to collect data from members of a population in order to determine the current status of a population with respect to one or more variables”. He asserts that a descriptive study determines and reports the way things are and commonly involves assessing attitudes and opinions towards individuals, organizations and procedures.

#### **3.3 Target Population**

The target population for this study was family owned businesses in Kenya and specifically Nairobi Central Business District. According to Nairobi City Council Licensing Department there are 98,608 businesses registered as micro and small businesses registered in Nairobi. However, there is no documentation as to how many of these are located in Central Business District and those that are family owned. The researcher therefore targeted founders/owners and possible successors by hand delivering questionnaires to them.

#### **3.4 Sampling Strategy**

Due to difficulties in identifying family owned businesses snowballing method was used. Snowballing is the technique whereby initial subjects with desired characteristics are determined using purposive sampling and from such referrals are obtained. This methodology is consistent with that of other family business researchers who have been constrained by a lack of a national database of family firms (Sonfield and Lussier, 2004). This was found to be true in Kenya as there is no national database of family owned businesses. The sample consisted of one hundred

family owned businesses. From the identified firms, each was required to provide a single respondent- a manager/ owner or successor making the total respondents to be one hundred. This was to help achieve data which was free from bias or intra firm collision.

### **3.5 Data collection Procedures**

Data collection tool that was used in collecting the primary data were questionnaires. The researcher collected primary data by hand delivering the questionnaires to the selected family firms in Nairobi. This questionnaire was addressed to the owners and successors of the family firms. The questionnaire was designed on the basis of the objectives of the research and study's literature review.

Prior to data collection, a pilot study comprising of 5 respondents was conducted to verify the instrument, ensure that all intended dimensions of research were covered and that all questions were clear and unambiguous. This is in line with Mugenda and Mugenda (2003) who asserts that the pretest sample should be between 1% to 5% depending on the sample size. However this was not included in the final tally.

### **3.6 Data analysis and Presentation**

Once the responses were received the questionnaires were edited for completeness and consistency before processing. Thereafter the data was coded to facilitate categorization. The quantitative data was entered in a computer and analyzed using Ms Excel and SPSS. The data was analysed using descriptive statistics and presented in tables. In analyzing factors that were held to provide impetus to the succession process correlation coefficient between variables was tested.

## CHAPTER FOUR

### RESEARCH FINDINGS

#### 4.1 Introduction

This chapter presents the analysis and interpretations of findings. The analysis was done with the help of SPSS. Most of the results have been presented in the table format. This is because the tabular format is detailed and is easy to visualize at a glance. Correlation between variables was also presented in tabular format.

#### 4.2 Response rate

There were a total of fifty two responsive questionnaires out of the sample of one hundred family owned businesses. This represents a response rate of 52 percent, 24 percent of owners declined to fill the questionnaires while 15 percent of successors also declined. The rest 9 percent were not properly completed and hence were rejected.

#### 4.3 Major characteristics of the sample

##### 4.3.1 Spread of family owned businesses in various business activities.

According to the survey it was evident that business activities were mutually exclusive. Retail businesses were the dominant category of all the businesses surveyed with a percentage of 42 percent. Communication, training and transport had the percentages of 3.8, 3.8 and 1.9 percent respectively. This analysis is shown in the table 4.1.

**Table 4.1 Nature of business**

Nature of Business	Frequency	Percent	Valid Percent
Retail	22	42.3	42.3
Wholesale	14	26.9	26.9
Professional services	6	11.5	11.5
Training	2	3.8	3.8
Communication	2	3.8	3.8
Transport	1	1.9	1.9
Others	5	9.6	9.6
Total	52	100.0	100.0

**Source: (Field survey, 2011)**

This shows that most of the family businesses are small in nature and also in activity. This is consistent with (Donkels & Frohlick, 1991) who asserts that family firms have practiced a more conservative strategy with slow growth and lower likelihood to enter into global markets.

#### 4.3.2 Age of family owned business entrepreneurs

The study sought to find out the age distribution of respondents involved in family businesses. The ages of the respondents is distributed as shown in the table 4.2. The mode age of successors is 26-35 years showing there is high level of successor entrants in the business. The median age of both owners and successors is 36-45 years. According to the survey 27 percent of respondents were aged above 46 years.

**Table 4.2 Age of respondents**

Age	Frequency	Percent	Valid Percent
18-25	4	7.7	7.7
26-35	20	38.5	38.5
36-45	14	26.9	26.9
46-55	9	17.3	17.3
56-65	2	3.8	3.8
Over 65	3	5.8	5.8
Total	52	100.0	100.0

Source: (Field Survey, 2011)

#### 4.3.3 Number of employees

According to the survey family businesses engage relatively few numbers of workers. Majority indicated they have two workers in management level. 44 percent of the respondents indicated that their firms employed less than ten workers. However, 14 percent of the respondents indicated that their firms employed over 30 employees. The results are shown in the table 4.3.

**Table 4.3 Number of employees**

Number of employees	Frequency	Percent	Valid Percent
1-10	23	44.2	44.2
10-20	21	40.4	40.4
20-30	6	11.5	11.5
30-50	2	3.8	3.8
Total	52	100.0	100.0

Source: (Field Survey, 2011)

#### 4.3.4 Years of experience in business

The study sought to find out the years of experience the respondents were involved in business. According to the survey thirty six percent of the respondents had operated businesses for a period of over 10 years. In addition, twenty five percent of the respondents were involved in the business for a period of five to ten years. The lowest percentage was four percent indicating those who had the least experience of between one and two years. These results are shown in the table 4.4

**Table 4.4 Years of experience**

Years of experience	Frequency	Percent	Valid Percent
1-2	2	3.8	3.8
2-5	18	34.6	34.6
5-7	6	11.5	11.5
7-10	7	13.5	13.5
10-15	9	17.3	17.3
Over 15	10	19.2	19.2
Total	52	100.0	100.0

Source: (Field Survey, 2011)

#### 4.4 Dependent Variables

##### 4.4.1 Growth of the business

The study sought to find out whether family businesses experienced growth in the last five years. According to the survey 51 respondents (98 %) indicated that their firms recorded growth in the said period. This is shown in table 4.5

**Table 4.5 Growth of business**

Response	Frequency	Percent	Valid Percent
Yes	51	98.1	98.1
No	1	1.9	1.9
Total	52	100.0	100.0

Source: (Field Survey, 2011)

From the results in table 4.5 it is noted that majority of the businesses reported significant growth for the period under consideration. Growth means that the firm is likely to generate high financial pay offs which is more likely to be attractive to the potential successor (Malone, 1989).

#### 4.4.2 Business financing

Business financing is the most critical aspect to both family and non-family firms. The study sought to find out how various family businesses financed their operations. According to the survey twenty nine percent of the respondents indicated that their businesses were financed through equity and debt. 18 percent indicated their businesses were purely financed through equity. The businesses that were financed through debt accounted for only 10 percent. The results are illustrated in the table 4.6

**Table 4.6 Mode of financing**

Mode of financing	Frequency	Percent	Valid Percent
Equity	18	34.6	34.6
Debt	5	9.6	9.6
Both	29	55.8	55.8
Total	52	100.0	100.0

Source: (Field Survey, 2011)

This implies that family businesses are able to finance their activities mainly from their own family resources. This shows that most of these businesses have been able to cushion themselves from debt financing and therefore can be able to overcome succession challenges that are brought about by finances. This is consistent with Lansberg (1997) who found out that family businesses are reluctant use debt financing.

#### 4.4.3 Revenue changes in the last five years

According to the survey eighty four percent of the businesses indicated that they experienced growth in revenue changes between 1 and 30 percent. The highest growth in revenue was experienced by three firms indicating a percentage growth of

over 50 percent. The percentage of businesses that reported decline was only two percent. The results are shown table 4.7

**Table 4.7 Revenue changes in business for the last five years.**

Revenue changes	Frequency	Percent
Growth 1%-10%	14	26.9
Growth 10%-20%	20	38.5
Growth 20%-30%	10	19.2
Growth 30% -50%	4	7.7
Growth over 50%	3	5.8
Decline 1%-10%	1	1.9
Total	52	100.0

**Source: (Field Survey, 2011)**

This implies that most of the businesses grew in revenue which is an indication that most of them were able to respond to the changing trends in the market. Owners will also be motivated to handover “health businesses” to the prospective successors.

#### 4.4.4 Projected revenue changes in the next five years

The study sought to find out whether family business had put in place any projection on revenue for the next five years from 2011 to 2015. According to the survey 25 percent of the businesses indicated that they were expecting a growth of between 1 to 10 percent. Most of the business (33 percent) expected a growth of between 10 to 20 percent. The highest growth in revenue was expected by four firms indicating an expected percentage growth of over 50 percent. The percentage of businesses that expected a decline was only two percent. This is shown table 4.8.

**Table 4.8 Projected revenue changes in business for the next five years.**

Projected revenues	Frequency	Percent
Growth 1%-10%	13	25.0
Growth 10%-20%	17	32.7
Growth 20%-30%	12	23.1
Growth 30% -50%	5	9.6
Growth over 50%	4	7.7
Decline 1%-10%	1	1.9
Total	52	100.0

**Source: (Field Survey, 2011)**

This implies that most of the businesses expected a growth in revenue for the next half a decade. This will help in both short term and long term planning. Owners, advisory boards and successor can use projected revenues to determine the direction of the firm.

#### 4.4.5 Operating margin/ markup of the Business

According to the survey over 40 firms indicated that they operated on markup/ margin of over 20 percent, this represented a cumulative total of 77 percent. However, only 6 percent of the firms were found to operate on a margin of over 50 percent. The table 4.9 illustrates various percentages in each category.

**Table 4.9 Operating margin/ markup**

Margin / Markup	Frequency	Percent
0-5%	4	7.7
5-10%	16	30.8
10-20%	20	38.5
20-30%	2	3.8
30-40%	2	3.8
40-50%	5	9.6
Over 50%	3	5.8
Total	52	100.0

**Source: (Field survey, 2011)**

From the table 4.9 it is noted that all the businesses operated at some profit. According to Lee *et al.*, (2003) the success of a family firm in terms of its profitability often depends on idiosyncratic knowledge that the family members possess. This knowledge consists of important personal contacts and networks and the ability to motivate employees to cooperate, as well as knowledge about local conditions and internal process in the family firm. An insider can acquire this knowledge by learning, doing and observation.

#### 4.5 Factors influencing leadership succession

##### 4.5.1 Individual and relational factors

100 percent of the respondents indicated that their family relationships were good and family harmony was okay. This is in line with Lansberg (1998) who noted that the

quality of relationship between the incumbent and successor is essential for succession. It was found that most owners preferred to handover their firms to their male children. This is in consistent with Stavrou *et al.*,(1999) that daughters historically have not been considered for succession into management positions in family businesses.

The study investigated how often family business owners, successors and their entire families meet to discuss business issues. The results are shown in the table 4.10

**Table 4.10 Frequency of meetings**

Meetings	Frequency	Percent
Monthly	20	38.5
3 Months	17	32.7
6 Months	2	3.8
Yearly	5	9.6
Do not	4	7.7
Others	4	7.7
Total	52	100.0

**Source: (Field survey, 2011)**

According to the survey most of the respondents (38.5%) usually meet on monthly basis to discuss business issues at the family level. This is closely followed by those who meet quarterly at 32.7%. This implies that matters arising from the business can easily be assed and corrective decisions made on regular basis. This is consistent with Habbershon *et al.*, (2003) who argues that performance of the firm outcomes of family businesses are dependent on the interaction of the family unit, business entity and individual family members.

The study sought to find out whether there was any correlation between the frequency of meetings and growth of the firm. The results are shown in table 4.11

**Table 4.11 Results of Correlation between meetings and growth**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	.228	.113	1.655	.104(c)
Ordinal by Ordinal	Spearman Correlation	.196	.097	1.413	.164(c)
N of Valid Cases		52			

a Not assuming the null hypothesis.

b Using the asymptotic standard error assuming the null hypothesis.

c Based on normal approximation.

**Source: (Field survey, 2011)**

According to the results there was positive but low degree of correlation of 0.164. This implies that the frequency of meetings did not determine the growth of firms to a large extent.

The study sought find out whether there was any correlation between the frequency of meetings and mark up / margin of the firm. The results are shown in table 4.12

**Table 4.12 Results of Correlation between meetings and mark-up / margin**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	.131	.172	.934	.355(c)
Ordinal by Ordinal	Spearman Correlation	.047	.150	.331	.742(c)
N of Valid Cases		52			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on normal approximation.

**Source: (Field survey, 2011)**

According to the results there was positive and high degree of correlation of 0.742. This implies that the frequency of meetings largely determined the margins and mark-ups of firms.

#### **4.5.2 Education and training**

The study sought to find out whether education and training influenced succession process in family owned businesses. It was found that 85 percent of the respondents agreed that education and training was vital for smooth succession process. This is shown in the table 4.13

**Table 4.13 Level of Education**

Education level	Frequency	Percent	Valid Percent
Secondary	4	7.7	7.7
College	31	59.6	59.6
University	17	32.7	32.7
Total	52	100.0	100.0

**Source: (Field survey, 2011)**

According to the results 59.6 percent indicated they had attained secondary school education. In addition, 32.7 percent indicated they had attained university education. 87 percent of the respondents indicated that additional training would assist them to run the businesses in a better way. It was found that 83 percent of respondents had other professional skills and that 88 percent of them found these skills useful in the current business. This is consistent with Barack and Gatantasky (1995) who emphasized that many thriving successors had rich experiences at other company jobs. 60 percent were in the opinion that the level of education did not deter them in doing the business. This implies the fact that basic education enhances overall quality of the owners providing them with basic numeric and literacy skills, thus increasing the chance of survival (Storey, 1994).

The study sought to measure whether there was any correlation between the level of education and growth. The results are shown in the table 4.14

**Table 4.14 Results of Correlation between education level and growth**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	-.060	.036	-.424	.673(c)
Ordinal by Ordinal	Spearman Correlation	-.070	.041	-.495	.622(c)
N of Valid Cases		52			

a Not assuming the null hypothesis.

b Using the asymptotic standard error assuming the null hypothesis.

c Based on normal approximation.

**Source: (Field survey, 2011)**

Karl Pearson's correlation coefficient between level of education and growth indicated a high positive degree of 0.622. This implies that level of education determined to a large extent the growth of the firms.

The study also sought to measure the correlation between education level and the operating mark up /margin of the firms. The results are shown in the table 4.15

**Table 4.15 Results of Correlation between education level and mark up / margin**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval	by Pearson's R	-.005	.129	-.036	.971(c)
Interval					
Ordinal	by Spearman	-.020	.143	-.145	.885(c)
Ordinal	Correlation				
N of Valid Cases		52			

a Not assuming the null hypothesis.

b Using the asymptotic standard error assuming the null hypothesis.

c Based on normal approximation.

**Source: (Field survey, 2011)**

According to the results correlation coefficient between level of education and margin was also found to be high and positive at 0.855. This implies that level of education determined to a large extent the mark up / margin of the firms.

#### 4.5.3 Leadership and Governance

From the survey it was noted that 96 percent of the respondents said they had leadership skills to steer the business during the succession period. However, only 56 percent of them had attended training on leadership. In addition, 96 percent of the respondents were of the opinion that leadership skills were essential for business continuity.

Eighty seven percent of the respondents agreed that a formal organizational structure was important to guide the succession process although only 71percent had such a structure in place. This is consistent with Harveston *et al.*, (1997) who asserts that there is a positive link between the extent of formality in a firm and strategic planning. It was found that 77 percent of the firms had strategic plans although only 39 percent had advisory boards. From the on going analysis it is evident that

leadership and governance are critical in determining whether succession occurs or not.

The study also sought to find out the various generations the respondents belong. This is illustrated in the table 4.16

**Table 4.16 The generation in which the respondents belong**

Generation	Frequency	Percent	Valid Percent
Founder	23	44.2	44.2
1 <sup>st</sup> generation	18	34.6	34.6
2 <sup>nd</sup> generation	8	15.4	15.4
3 <sup>rd</sup> generation	3	5.8	5.8
Total	52	100.0	100.0

**Source: (Field survey, 2011)**

From the results of table 4.16 the oldest firms were being operated by the third generation which only accounted for 6 percent of the total. 79 percent of the businesses were being operated by the owners and first generation. This implies that as the firms aged their longevity was on the decline.

The study also sought to measure the correlation coefficient between generation of the business and the growth of the firms. The results are shown in the table 4.17

**Table 4.17 Results of Correlation between generation and growth**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	-.130	.065	-.925	.359(c)
Ordinal by Ordinal	Spearman Correlation	-.145	.073	-1.037	.305(c)
N of Valid Cases		52			

a Not assuming the null hypothesis.

b Using the asymptotic standard error assuming the null hypothesis.

c Based on normal approximation.

**Source: (Field survey, 2011)**

According to the study Karl Pearson's correlation coefficient between generation in which the businesses belong and growth indicated a low but positive degree of correlation of 0.305. This implies that the generation in which firms belong do not largely influence their growth.

The study sought to measure whether there existed any correlation between generation in which the business belong and mark up / margin. This is illustrated in table 4.18

**Table 4.18 Results of Correlation between generation and markup/ margin**

		Value	Asymp. Error(a)	Std. Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	-.019	.162	-.137	.891(c)
Ordinal by Ordinal	Spearman Correlation	-.055	.143	-.387	.701(c)
N of Valid Cases		52			

a Not assuming the null hypothesis.

b Using the asymptotic standard error assuming the null hypothesis.

c Based on normal approximation.

**Source: (Field survey, 2011)**

From the results in table 4.18 the Karl Pearson's correlation coefficient between generation and mark up /margin was found to be high and positive at 0.701. This implies that the generation to which the businesses belong largely determines the mark up / margin of the firms.

#### 4.5.4 Context and Process factors

According to the survey 76.9 percent of the respondents said change in business performance would affect the succession process while 59.6 percent were of the opinion that a change in business scale would affect the succession process. This is in line with Sharma *et al.*,(2001) who asserts that a decline in firm performance reduces the financial attractiveness of the family business for the potential successors and this may cause him or her to seek opportunities outside the firm. 90 percent of the respondents said proper definition of roles would enhance the succession process. In addition 79 percent agreed that proper communication and sharing of family vision was already in place. On entry into the business 77 percent of the respondents said

they would prefer early entry of the successors in to the business. 90 percent of the respondents indicated that a succession plan was vital to guide the succession process. According to Lansberg (1999) in the absence of a succession plan, sudden departure of the founder can cause major upheavals of power authority, conflict among heirs, and thorny estate issues.

The study sought to measure whether there was correlation between succession planning and the operating margin of the business. These results are shown in the table 4.19.

**Table 4.19 Results of Correlation between succession planning and mark up / margin**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	-.117	.079	-.831	.410(c)
Ordinal by Ordinal	Spearman Correlation	-.105	.121	-.744	.460(c)
N of Valid Cases		52			

a Not assuming the null hypothesis.

b Using the asymptotic standard error assuming the null hypothesis.

c Based on normal approximation.

**Source: (Field survey, 2011)**

The Karl Pearson's correlation coefficient between succession planning and margin was found to be moderate and positive at 0.406. The implication is that succession planning to some extent influences the mark up / margin of firms.

The study sought to find out whether correlation existed between succession planning and growth of the firms. These results are shown in the table 4.20

**Table 4.20 Results of Correlation between succession planning and growth**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Interval by Interval	Pearson's R	-.046	.025	-.323	.748(c)
Ordinal by Ordinal	Spearman Correlation	-.046	.025	-.323	.748(c)
N of Valid Cases		52			

a Not assuming the null hypothesis.

b Using the asymptotic standard error assuming the null hypothesis.

c Based on normal approximation.

**Source: (Field survey, 2011)**

According to the study the correlation between succession planning and growth of the firms was found to be high and positive at 0.748. This implies that succession planning largely influences the growth of the firms and therefore would be vital for the succession process.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the summary, conclusion and recommendations of the study.

#### 5.2 Summary findings

The study intended to find out the factors that influence leadership succession in family owned businesses in Kenya. Since family owned businesses are a major contributor to the economic and social well being of all capitalist societies across the world their lack of longevity is a major concern. Although national statistics are unavailable, estimates of their number vary from 65% to 90% of all businesses in various nations (eg. Beckhard and Dyer, 1983). Thus, the economic impact of family businesses range from very large to overwhelming (Astrachan *et.al.*, 1996). Estimates show that only 30% of family firms survive the transition to the second generation, and only 10% make it to the third generation.

It was revealed by the research that individual and relational factors were a major determinant of the succession process. These factors were measured using parameters such willingness to handover to the next generation, trust on the successor, conflict resolution mechanisms and frequency of meetings. All the respondents indicated that all these parameters were vital for the succession process.

According to the survey, most respondents agreed that education and training was an important factor in the succession process. It was noted that none of the respondents had education of the primary school level. In, addition most of the respondents were willing to take additional training to help the run and manage their businesses well.

On leadership and governance, it was noted that majority of respondents had not attended any training on leadership although they believed they had leadership skills to steer their firm to succession process. Majority of the respondents indicated that their firms had strategic plans in place. It was also noted that majority of the businesses were managed by first generation and founders.

The study revealed that communication and sharing of family vision is vital for the continuity of the firms. Majority of the respondents preferred early entry of the successors in the business although rational criteria should be followed when selecting them.

### **5.3 Conclusion**

While there are numerous studies carried out on family businesses, most of them tend to concentrate on the developed countries, very little is available on the succession issues in the Kenyan aspect. The study sought to fill this gap, by testing four owner/successor characteristics. All these factors (Individual and relational, education and training, leadership and governance and context and process factors) measured against growth and profitability were found to influence leadership succession.

The pattern that emerges from the findings is that men and women have the same propensity to run and manage family owned businesses, male dominance in taking over family firms is still very common, middle aged and elder entrepreneurs tend to run growth oriented firms, the level of education and training is vital in managing family firms, succession planning is not optional for a firm seeking to continue beyond the current generation.

### **5.3 Recommendations**

- Based on the survey and available literature, the research researcher recommends that it is important that all family businesses should try to embrace a global outlook. This is because globalization is now a reality. With the advent internet and social networks, businesses of all size can greatly benefit through interaction and sharing of information.

Compared to non family firms, family owned businesses are delicate because of the tensions that arise between the family and business systems. From this context a balance is vital between these two antagonistic systems. It is therefore important to have a vibrant mechanism to address conflict and communicate succession plans to all family members in a timely manner.

With the empowerment of women through education, funding by government and other lending institutions, family businesses can reinvent themselves by placing women at the top as managers as well as successors.

On the legal aspect, the government through the registrar of societies should come with a category to register family owned businesses. This will have a far reaching effect to their performance, increase competition and provide better ways of benchmarking. This will also help researchers in this field to get resourceful information in these businesses.

#### **5.4 Further research**

This research has investigated factors that influence leadership succession in family owned small and micro enterprises in Kenya. Whereas a lot was done on the ground under extremely difficult circumstances the findings also provide the following areas for further research:

- (a) Leadership succession in non family firms.
- (b) The role of women in family owned business.
- (c) Business capital formation in family owned businesses.
- (d) Relationships between employees and family members in family firms.
- (e) Culture and value changes over time say five, ten and fifteen years compared to non family firms in the same industry.

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**APPENDIX 1:**  
**INTRODUCTION LETTER TO THE RESPONDENTS**

Josiah Njeru Maina  
P.o Box 27661-00506  
Nairobi  
Tel 0721 475 370  
Email [njerujm2002@yahoo.com](mailto:njerujm2002@yahoo.com)

Dear sir/madam

**Re: REQUEST TO OBTAIN INFORMATION ABOUT YOUR FAMILY OWNED BUSINESS.**

As part of the programme leading to a masters degree in Business Administration (Strategic management), I am undertaking a study entitled “An **investigation into factors that influence leadership succession in family owned businesses in Kenya**”. The aim of the attached questionnaire is to assist me develop an understanding of those factors for my final research towards my MBA studies at Kenyatta University (KU). Your ideas will be helpful in understanding of succession issues in family firms. It is hoped that they will make the path of upcoming family owners and successors smoother and easier.

Please note that data obtained using this questionnaire is purely for academic purpose and your identity will remain anonymous.

Yours faithfully,

Josiah Njeru Maina  
REG. No. D53/OL/16169/06

**APPENDIX II:**  
**RESEARCH QUESTIONNAIRE**

Identification N0.....

Date.....

This questionnaire contains six sections, kindly fill all the sections by ticking or writing in the space provided. Where multiple businesses are involved another set of questionnaire should be used. Please do not tick one question twice.

**SECTION A**

**INTRODUCTION**

1) Company name.....

- 2) Nature of business (a) Retail Business  (b) Wholesaling   
(C) Professional services  (d) Training   
(e) Communication  (f) Transport   
(g) Others Specify.....

- 3) How old are you? (a) 18-25  (b) 26-35  (C) 36-45   
(d) 46-55  (e) 56-65  (d) Over 65

- 4) How many years have you been in business? (a) 1-2  b) 2-5   
(c) 5-7  d) 7-10  (e) 10-15  (f) Over 15

- 5) Are you an owner or successor? (a) Owner  (b) Successor

- 6) Are you male or female? (a) Male  (b) Female

7) How many employees does your organization have?

- (a) 1-10  (b) 10-20   
(c) 20-30  (d) 20-50   
(e) Other Specify.....

8) How many of these are in top management?.....

- 9) How many of these top management are (i) Brothers?.....  
(ii) Sisters?.....  
(iii) Cousins?.....

## SECTION B

### INDIVIDUAL AND RELATIONAL FACTORS.

- 10) (a) As an owner what is your marital status? (a) Single  (b) Married   
(c) Separated  (d) Widowed
- b) How many children do you have? Male..... Female.....
- 11) As a successor what is your marital status? (a) Single  (b) Married   
(c) Separated  (d) Widowed
- b) How many children do you have? Male..... Female.....
- 12) As an owner do you feel okay to handover the firm to your children? (a) Yes   
(b) No
- 13) Which child would you prefer as the successor? (a) Male  (b) Female
- 14) In your opinion do you feel they are ready? (a) Yes  (b) No
- 15) How is the family relationship? (a) Good  (b) Bad
- 16) Is there family Harmony? (a) Yes  (b) No
- 17) As a successor would you be comfortable to join the business without any experience? (a) Yes  (b) No
- 18) As a successor do you think you have the right skills (a) Yes  (b) No
- 19) As an owner do you trust your successor intentions for the business?  
(a) Yes  (b) No
- 20) Is there Sibling rivalry in the family? (a) Yes  (b) No
- 21) Do you have a mechanism to address conflict in the family?  
(a) Yes  (b) No

22) How often do you meet as a family to discuss business issues?

- (a) Monthly  (b) once in 3 months   
(c) Once in 6 months  (d) yearly   
(e) Do not meet  (f) Others Specify.....

### SECTION C

#### EDUCATION AND TRAINING.

23) What is your highest level of education? (a) Primary  (b) Secondary   
(c) college  (d) University

24) Has your level of education deterred you in doing business?

- (a) Yes  (b) No

25) Do you have any other professional skills? (a) Yes  (b) No

26) Has these skills helped you in doing business? (a) Yes  (b) No

27) Had you worked in another place before joining the business?

- (a) Yes  (b) No

28) Are the skills acquired previously helpful in the current business?

- (a) Yes  (b) No

29) Do you think additional training would assist you in running the business?

- (a) Yes  (b) No

30) Do you think education and training would assist you in the succession process?

- (a) Yes  (b) No

SECTION D

LEADERSHIP AND GOVERNANCE

31) Do you think you have the leadership skills to steer the business during the succession process? (a) Yes  (b) No

32) Have attended any training in leadership? (a) Yes  (b) No

33) Does your leadership motivate others in the business?

(a) Yes  (b) No

34) Do you think leadership skills are essential for business continuity?

(a) Yes  (b) No

35) Is there a formal organizational structure in the business?

(a) Yes  (b) No

36) Do you think a formal organizational structure is important to guide the succession process? (a) Yes  (b) No

37) Is there a strategic plan in your business? (a) Yes  (b) No

38) Is there an advisory board in your firm? (a) Yes  (b) No

39) Which generation of the family business do you belong?

(a) Founder  (b) 1<sup>st</sup> generation

(c) 2<sup>nd</sup> generation  (d) 3<sup>rd</sup> generation

(e) other (specify).....

## SECTION E

### CONTEXT AND PROCESS FACTORS

- 40) Do you think change of business performance can affect the succession process?  
(a) Yes  (b) No
- 41) Do you think the change in business scale, (size) would affect the succession process?  
(a) Yes  (b) No
- 42) Do think the loss of key suppliers and customers would affect the succession process?  
(a) Yes  (b) No.
- 43) Do you think proper definition of roles would enhance the succession process?  
(a) Yes  (b) No
- 44) Is there proper communication in sharing of family vision?  
(a) Yes  (b) No
- 45) Would you prefer early or late successor entry in to the business?  
(a) Early  (b) Late
- 46) Do you think it is important to have rational criteria in selecting a successor?  
(a) Yes  (b) No
- 47) Do you think a succession plan is important to guide the succession process?  
(a) Yes  (b) No

## SECTION F

### SUCCESSFUL SUCCESSION INDICATORS

- 48) Has your firm experienced growth in the last five years?  
(a) Yes  (b) No
- 49) How is your business being financed?  
(a) Equity  (b) Debt  (c) Both

50) What was your sales revenue / turnover of your business for the year 2010?

(a) Ksh 0-10m

(b) Ksh 10-20m

(c) Ksh 20-50m

(d) Ksh 50-100m

(f) Over 100m

51) What was the average increase/ decrease in revenue per annum between 2005-

2010? (a) Growth 1%-10% p.a

(b) Growth 10%-20% p.a

(c) Growth 20%-30% p.a

(d) Growth 30%-50% p.a

(e) Growth over 50 p.a

(f) Decline 1%-10% p.a

(g) Decline 10%-20% p.a

(h) Decline 20%-30% p.a

(i) Decline 30%-50% p.a

(j) Decline over 50 p.a

52) What is the average increase or decrease in projected revenue per annum between

2011 to 2015? (a) Growth 1%-10% p.a

(b) Growth 10%-20% p.a

(c) Growth 20%-30% p.a

(d) Growth 30%-50% p.a

(e) Growth over 50 p.a

(f) Decline 1%-10% p.a

(g) Decline 10%-20% p.a

(h) Decline 20%-30% p.a

(i) Decline 30%-50% p.a

(j) Decline over 50 p.a

53) What is the approximate mark up /margin that your business operate in?

(a) 0%-5%

(b) 5%-10%

(c) 10%-20%

(d) 20%-30%

(e) 30%-40%

(f) 40%-50%

(g) over 50%