International Journal of Economics, Commerce and Management
United Kingdom Vol. IV, Issue 8, August 2016
http://ijecm.co.uk/ ISSN 2348 0386

THE ETHNIC FACTOR IN INTERGENERATIONAL SUCCESSION IN BUSINESS AMONG THE SMALL AND MEDIUM ENTERPRISES IN NAIROBI, KENYA

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Abstract

Succession is an inevitable event in the life of a family business. The mode and the strategies employed to facilitate the trans-generational transition of ownership and control of the business have been observed to have a significant influence on the survival and performance of the business. A number of factors influence this succession. Key among them is the context. Specific contexts include culture, the business and the family. Against the background of minimal research on family business succession in Kenya, and rich entrepreneurship, this study aimed at determining the relationship between succession strategy and the ethnicity of the entrepreneurs. This study surveyed 249 SMEs in Nairobi. Chi square test of independence established that there were significant differences in terms of the businesses carried out, with Asians being more in manufacturing than African. Africans were generally underrepresented in manufacturing sector. In addition, the Asians operated slightly older businesses than the Africans. There was however no significant differences in specific succession practices of having written succession plans and formalized successor identification. This was equally supported by the correlation analysis which indicated weak correlations. The study found minor differences in the relationship between ethnicity and succession in family businesses. This has implications for the understanding of family business succession practices in Kenya. The obvious implication is that differences in ethnic representation in business ownership do not necessarily mean differences in managerial practices.

Keywords: Family Businesses, Succession Strategy, Small And Medium Enterprises, Ethnic Factor, Intergenerational Transition

INTRODUCTION

Family business succession has over the years attracted significant attention in research (Chrisman, et al., 2003) largely because of the high failure rates in trans-generational succession. According to the Price Waterhouse Coopers (PwC) global family business survey of 2007/2008, only one-third of family businesses worldwide manage the transition from one generation to the next (PwC 2009). Majority of family firms were either sold or wound up after the founder's death. Some of the reasons given for this state of affairs included inability to differentiate between business affairs and family affairs, not managing family affairs in a structured fashion, not planning succession, not having a long term vision, not being prepared for external threats like competition within the country, impact of globalization and not focusing on enhancing shareholder value. Scholars in family business have identified the long-term survival of the family business as a major concern. The manner in which they handle the intergenerational succession determine the fate of the business there after. Some cease to exist; others are sold out to third parties while others are split to many smaller entities.

In Kenya, evidence of family business succession challenges does exist. The cases of failed stock brokerage firms of Francis Thuo and Partners, Nyaga Stock Brokers and Discount Securities have been attributed to failed succession (Aron 2009). Family legal tussles between Kirima and son (a case that was in court at the time of this study in 2010) was yet another indication of challenges families face in business succession. Anecdotal evidence indicates that despite the challenges, there also exist success stories in Kenya's business families prominent among them being, the First Chartered Securities of the Philip Ndegwa family and the Chandaria family.

While succession is not unique to family firms, it takes on added importance in that context because of the interactions of the family system and the business system. This interaction takes on more complicated direction within the small and medium enterprises where the familiness is heavily concentrated. Understanding business succession can enhance the understanding of the survival and growth of the SMEs. The SMEs can survive and live long without losing the family character, akin to world's oldest family business, Kongo Gumi based in Osaka, Japan which is over ten centuries old. It was begun in the year 578 AD and has employed 39 generations of the Kongo family in the building and repairing of Buddhist temples (Iraki, 2009).

Ethnic is an adjective denoting differences in categories of people and particularly those sharing some common origin and culture. In entrepreneurship literature, ethnicity has emerged strongly to explain differences in level of entrepreneurship amongst indigenous and immigrant communities. This has attracted significant research interest. In Kenya, the ethnic communities are grouped as such based on languages spoken with 42 main tribes and a significantly large Asian and European communities. The latter are particularly most present in business ownership in Kenya. Ferrand (1996) notes that the Asian community in Kenya is significantly more business oriented than the indigenous Kenyan communities. This is what has largely motivated this current study.

The SMEs are particularly vulnerable to changes in their operating environment due to their size and resource base. The SMEs particularly face unique challenges of growth and transition which, in emerging economies, has led to a situation where they are either “missing” (Kilby, 1971; Ferrand 1996) or they are “invisible” (Esuha and Fletcher, 2000). Besides the growth challenges, there are other challenges relating to family dynamics which put pressure on the firm as it goes through the growth path.

Succession is a challenge to family businesses particularly the trans-generational handover (Royer, et.al, 2008). In family firms succession issues are unique due to the multi dimensional nature of the transition itself (Drowzdow, 1998). Existing literature on family business places heavy emphasis on the succession failures. For instance, Lansberg (1999) asserts that only 30 percent of businesses continue beyond the first generation and 10 percent make it to the third generation. Such findings have stimulated research interest in the concept of succession in family businesses. Ethnicity influences the cultural practices. Succession is hence largely expected to be influenced by the culture of the particular community. It is against this background that this study attempts to determine whether there is any significant relationship between ethnicity and succession in family businesses.

By their very nature, most SMEs are family businesses (Esuha and Fletcher, 2000). Succession within this sector therefore is expected to be a major determinant of their survival and development. The SME sector in Kenya has received significant focus over the last four decades in terms of research and policy (Bowen, et al. 2009). In the recent past, the popular media in Kenya has highlighted a number of cases of failed transitions in family business particularly the SMEs. Such instances include the failure of the stock brokerage firms in Kenya who are considered to be entering their second generation of ownership after the founders have either died or retired (Aron, 2009). Such occurrences have stimulated interest in the current study.

A significantly big proportion of studies in succession and firm performance have tended to focus on the relationship between family ownership and performance (Palvi et al., 2007; Diwisch et al., 2007; Cucculelli & Micussi, 2008; Saito, 2008). These studies have however reported mixed findings with some reporting a positive relationship while others reporting a negative relationship. This seems to suggest that the relationship between succession and performance could be moderated by other factors. A further dimension of succession and ethnicity need to be investigated.

LITERATURE REVIEW

As noted elsewhere in this paper, there are three dimensions in the definition of a family business i.e. ownership, control and succession. Each of these dimensions has a number of issues that researchers and scholars in this field are yet to resolve. On the dimension of succession, it has not been clarified what exactly constitutes succession. Indeed it's not even clear what the purpose for transition is and what it ought to be. Is the purpose to achieve transition across generations or to ensure continuity of the business? If the idea is continuity, what constitutes continuity in the business and what are the factors influencing the continuity? These questions form a good basis for future research. What do we know about them?

Intergenerational transition in ownership, management and governance has received a significantly higher treatment in the development of the literature than any other area in family business research. It is obvious that survival and growth of the business is a critical concern for entrepreneurs in all situations and levels. The entrepreneur's vision and aspirations can only be reached if the business continues to exist and grows. Concerns about survival in a family business can be viewed at two levels: One is along the business life cycle. Critical at this level is the first few years of operation. Studies have shown that majority of businesses) as high as 75% collapse in the first five years of operation (Lansberg 1999). The second level of survival and continuity come during and after the transition of ownership and control from the founder to the subsequent generations. Many family businesses have been observed to fail during this stage due to the difficulties of transition (Lansberg 1999). Some businesses have been split up (shared among the siblings) or sometimes simply liquidated. When such events occur, there is an apparent loss of capital both physical as well as social.

The early years in any business are critical in determining its long term performance and survival. There are two views that attempt to explain survival and performance. The first view is the environment dependency view (Boeker 1989). It argues that environmental conditions outside the control of the entrepreneur determine the enterprise performance. According to this view, market structures dictate appropriate strategies which ultimately determine performance. This view has been criticized for assuming that the entrepreneur is passive in the process. A more dynamic view is the resource based view, which sees the ability of the new venture to acquire and effectively manage resources as the key determinant of performance (Wernerfelt 1984). The resources could be tangible or intangible. The role of the entrepreneur is to develop or access relevant resources that allow them to solve problems and adapt to changes in the environment hence being better able to adapt, survive and grow. Barney (1991) supports this view that organizations are composed of an array of resources where decision makers can achieve success through their acquisition, combination and deployment.

As the business grows, it acquires unique assets which become its basis of competitiveness. Green & Brown (1996) identified five types of firm capital resources as human capital, social capital, physical capital, organizational capital and financial capital. Superior performance of the firm can therefore be explained in terms of the dimensions that promote acquisition, deployment of these forms of capital.

Lansberg (1999) asserts that only 30% of businesses continue beyond the first generation and only 10% make it to the third generation. The average working life of family businesses has been found to be about 24 years (Welles 1995), coinciding with the lifespan of the founders. After this time, the business may continue to exist, but it loses its family character. It is often stated that a family business goes to the dogs in three generations, an observation that is expressed quite boldly in some countries; for example, in Mexico the statement is "father-entrepreneur, son-playboy, and grandson-beggar" (Davis, 1997). Such findings have stimulated interest in the concept of continuity in businesses. Continuity beyond the founder generation can be defined in terms of the family and the business remaining together in which there is preservation of one or more of the essential and unique core elements of the two systems (Drozdow 1998). In this continuity certain elements of the two systems may be traded off or sacrificed to maintain the overall character of the business and the family relationship.

Continuity is not unique to family businesses, but it takes on a more complex character there largely due to the complex issues involving the transition across generations. Drozdow (1998) gives five dimensions of continuity in family businesses. First is strategy which is the continuity of business value proposition. Secondly ownership/Governance which could mean preserving the memory/legacy/wishes of the founder about what the business exists to do. Thirdly family leadership of the business – one or more of family members being in charge of the business management. Fourthly Family cohesion to ensure collectivity and fifth is business culture – set of values embodied by the leaders or family and the way they are institutionalized.

Lambrecht (2005) identifies three reasons why families strive for continuity in the family business. One is continuity of family values. Second is the preservation of family name and reassuring family feeling and third reason is the exploitation of the advantages of family capital. Moscetello (1990) theorizes that family businesses have competitive advantage over nonfamily businesses. This observation could be explained from a number of viewpoints all relating to the unique resources the family firm would have over the non family enterprises. Hoffman et al (2006) uses the concept of family capital to provide an explanation to this phenomenon. Family capital has its roots in the concept of social capital. He argues that the family capital can be attributed to existence of relationships appropriable (usable for other purposes). These include informational channels and family norms (obligations, expectations, reputation, trust, identity and moral infrastructure). Family capital can therefore be used to explain superior performance of the family firm. It is unique, inimitable and non substitutable and therefore a strategic resource.

Family enterprise systems are inherently complex due to the interdependency of family, ownership, and business life cycles as well as to these operating and evolving simultaneously within the subsystems of the whole entity—all within the context of trying to keep the system's constituent groups focused on a common goal over a long time period. Despite this complexity, there is support from a range of literature for a generic theoretical model of whole-system change—a model that also describes the tasks to be accomplished by the system in each of the phases of the transition period (Gersick, 1997). One of the reasons cited in the literature (if not the single most important) of the high failure rate among the first- and second-generation family businesses is their inability to manage the complex process of ownership and management succession from one generation to the next (Davis, 1997; Lambrecht, 2005).

From the foregoing literature, it is evident that family business transition is largely influenced by the culture within the family and so ethnic considerations must be made in the process. Generational transitions involve changes taking place within the internal structures of a family enterprise system as it moves from one developmental stage to the next. To function well in the forthcoming developmental stage, work may be required to adjust, reconfigure, or re-create the relational and structural linkages that make up the "deep" structure that effectively binds the system together. Gersick (1997, p. 11) finds support from a diverse range of literature for a shared paradigm and constructs that suggest revolutionary change in whole systems is brought about by punctuation of the system's equilibrium—that is, the breaking down of the inherent deep structures that had kept the system intact and in equilibrium and the rebuilding of different structures to create a new sense of order or balance.

The review of the literature suggests that there are three factors (i.e., individuals, organizations, and resources) that exert a positive effect on transition in family businesses. That is, as individual's age, education, income, and the percentage of worth they have invested in the business, the more extensive the firm's succession planning should be. Similarly, as organizations become larger and more formal, they are likely to have more extensive the succession planning. Finally, the more accessible capital becomes and the greater the reliance on internal sources of capital (i.e., family), then the more extensive the firm's succession planning. There is also the role of the environment as a mediating factor in transition. Ability of the organization to adapt to the environment for survival has been deeply researched in strategic management. Organizational adaptation is simply defined as “the ability of an organization to change itself, or the way in which it behaves, in order to survive in the face of external changes which were not predicted in any precise way when the organization was designed” (Mintzberg, 1978). Those organizations that do not adapt become irrelevant and hence expire. The existing studies have been contextual and historical, always focusing on the firm’s lifecycle and transitional stages of the family firm but forgetting about the context in which the firm is embedded (Ward, 1997; Gersick, Davis, Hampton, & Lansberg, 1997).

The succession in both ownership and management has been identified as a very significant moment in the life of a family business. Consequently, it is one of the issues that require analysis from the perspectives of family, management, and ownership systems in order to understand adequately the perspectives of the different stakeholders. Succession is interpreted as the explicit process by which a family business will be passed on to the family’s next generation to manage and control (Motwani and Schwarz, 2002). Family firm’s growth is both socially and economically important.

As the family business goes through a change of ownership from one generation to another, several challenges are realized. Drozdow (1989) observes that in most cases, the senior generation will provide experiences that help the junior generation learn how the business works, but fails to provide them with the skills to recognize new opportunities and to develop new strategies to take advantage of these opportunities. He further proposes the selection of successors who can restructure the operations of the family business or establish a new business altogether, especially in industries undergoing significant change (Drozdow, 1990).

The selection criteria in the succession of family businesses have become more objective. The potential successors’ ability to meet the strategic plans of the family business have been considered in factors such as their level of education, their technological skills, managerial skills, as well as their financial management skills. Considered of lesser importance to this succession are age, sex, and birth order. Chrisman, Chua, and Sharma (1998) established that integrity and commitment to business were of more importance than gender and birth order. Moreover, it is also frequently acknowledged that the eldest may not always be the best and that sons may not necessarily be better than daughters (Ayres, 1990).

Ethnicity and Entrepreneurial Practices

What is unique about the African or Kenyan setting? Borrowing from the earlier discussion on the family systems, it is noted that the African family unit is fragmented though still highly traditional. It is being assaulted by vagrancies of weather like urbanization and modernization. What is most likely therefore is a response pattern that is not definite. Family business transition patterns are therefore likely to be fragmented. The ethnic factor in business has received increasing research focus in Kenya.

Mungai and Madara (2012) observe that different ethnic groups have different traditions and customs, and these are likely to contribute to differences in entrepreneurial behaviour and performance. Weber (1976) argued that the protestant work ethic encouraged a culture of individualism, entrepreneurship, rationally and self-reliance, which was fundamental to the spirit of modern capitalism. Harris (1968) demonstrated a difference in entrepreneurial performance among ethnic groups in Nigeria. Marris and Somerset (1971), on the other hand, in a study conducted studies among Kenya firms found no relationship between ethnicity and entrepreneurship.

Despite the mixed findings regarding ethnicity and entrepreneurial practices ethnicity, culture and entrepreneurship has drawn a lot of attention from researchers over the years. This takes on even more prominence when considering countries in sub-Saharan Africa where the culture within ethnic communities take plays a larger role in shaping ones beliefs, behaviours and perceptions than does a national culture. As a result it can be demonstrated that there are significant differences in family business succession practices.

Previous studies have reported significant differences in entrepreneurship and business practices between the Asians and the indigenous Africans. Ferrand (1996) observed that the Asian entrepreneurs utilize informal structures in the exchange process to influence the environment in which they operate. This practice is absent among the African entrepreneurs. He argued that the informal institutions favored business.

METHODOLOGY

This study employed a cross sectional survey method. The design allowed the researcher to ensure unbiased representation of the population of interest. The survey was deemed appropriate as it allowed the researcher to capture the nature of transition in the SMEs in Nairobi in line with objectives of the study.

The population of interest in this study was all SMEs in Nairobi. According to the small enterprises baseline survey of 1999, Nairobi had the highest concentration of micro, small and medium scale firms involved in businesses supporting the large market (the city) compared to the rural other towns and rural areas. There was no clear sampling frame for all firms in the City of Nairobi and environs. Available statistics from the City Council Licensing department gave a list of about 164,000 SMEs licensed in the year 2010. A sample size of 300 was selected using random sampling technique. Data was obtained from 249 SMEs (84% response rate) using a semi structured questionnaire. The variables of interest were the business goals and objectives, exit strategy, business valuation, tax and legal plans, estate planning, successor selection, successor planning, conflicts resolution, timeliness and communication plans. These variables were based on previous studies.

The Objective, Hypothesis and Tests

Objective: Examine the relationship between ethnicity and succession strategy among the SMEs.	H: There are no significant differences in succession strategies among Asian and African family SMEs	Chi-square test of independence between ethnicity and selected succession practices were carried out. In addition, a correlation matrix was constructed between the succession strategy variables and the ethnic origins of the respondents.	Pearson Chi-square and standardized residual values were used to check for significance of relationships

Data was analyzed by use of both descriptive and inferential statistics. Descriptive statistics were used to present profiles of the firms. The Chi square test of independence was run to determine the relationship between various aspects of succession and ethnic factor. Chi-square is applied to test for statistical independence between two variables. The variables may be nominal level or higher, but it is best suited for discrete variables with limited categories. Initial analysis involved cross tabulation and Chi square test to establish if there were any associations between ethnicity and succession practices. Chi-square is sensitive to any departure from chance relationship (Plackett, 1983).

EMPIRICAL FINDINGS AND DISCUSSION

The study sought to establish whether there is any significant relationship between ethnicity and nature of succession in the SMEs in Nairobi. Previous works indicated that succession is highly culture sensitive (Santiago, 2000). The section presents the results of analysis as well as discussion of the findings

In order to conduct a Chi-square test of independence, the researcher had to carry out a cross tabulation of the relevant variables. The SPSS cross tabulation output would normally give a number of results which could lead to confusion in their interpretation (Plackett, 1983). “Continuity Correction” where it appears is supposed to provide improved results for small samples, but it is rarely used. The “Likelihood ratio” is used for data that are log linear in nature, which we can ignore in this case since our data is not such. For purposes of this research, we utilized the Pearson Chi-Square.

In using the Pearson Chi-Square when one or more cells contain less than 5 observations the results cannot be trusted. In order to reduce the number of cells with less than 5 observations, the researcher adjusted the number of categories by merging some of them to create fewer clear categories. The ethnic categories of “others” were merged with Asians to form “Asians and others”. This number cannot be interpreted by itself; we need to know the *p* value associated with it. Column 4 shows the *p* value, here labeled “Asymptotic Sig.” Asymptotic is a mathematical term meaning a distribution in which a variable approaches infinity (Webster, 1995). Both tails of a normal curve do not end, and so here SPSS uses the term to describe a two-tailed statistic.

These findings are then interpreted on the basis of the *p* value compared to the critical *p* value of 0.05. If the computed *p* value on the table is greater than the 0.05, then we fail to reject the null hypothesis. We therefore conclude that there is no association between the two variables; in this case ethnicity and the particular aspect of succession. The chi-square test of significance is useful as a tool to determine whether or not it is worth the researcher's effort to interpret a contingency table. A significant result of this test means that the cells of a contingency table should be interpreted. A non-significant test means that no effects were discovered and chance could explain the observed differences in the cells. In this case, an interpretation of the cell frequencies is not useful (Stockburger, 1996).

In cases where interpretation is necessary (where there are significant results), use of standardized residuals is recommended. Interpretation based on cell percentages may give misleading results. SPSS prints out the standardized residual (converted to a z-score) computed for each cell. It does not produce the probability or significance (Stockburger, 1996). Without a probability, we will compare the size of the standardized residuals to the critical values that correspond to an alpha of 0.05 (+/-1.96) or an alpha of 0.01 (+/-2.58). This is equivalent to testing the null hypothesis that the actual frequency equals the expected frequency for a specific cell versus the research hypothesis of a difference greater than zero. There can be 0, 1, 2, or more cells with statistically significant standardized residuals to be interpreted. Standardized residuals that have a positive value mean that the cell was over-represented in the actual sample, compared to the expected frequency, i.e. there were more subjects in this category than we expected. Standardized residuals that have a negative value mean that the cell was under-represented in the actual sample, compared to the expected frequency, i.e. there were fewer subjects in this category than we expected.

The ethnicity was cross tabulated against business sector, age of the business, whether the succession plan was written and whether successor had been identified.

Ethnicity and Business Sectors

The study sought to establish whether there was any association between ethnic origin and the business sector. The implied null hypothesis was that the ethnic background was independent of the business sector in which the business operated. Chi-square test was carried out and the results are presented in Table 1.

Table 1: Ethnicity and Business Sectors

		Sector business is in			Total
Ethnic origin of business owner		Manufacturing	Service	Commerce	
Indigenous African	Count	8	142	39	189
	% within sector business is in	42.1%	82.1%	68.4%	75.9%
	% of Total	3.2%	57.0%	15.7%	75.9%
	Std. Residual	-1.7	.9	-.6	
Asian and others	Count	11	31	18	60
	% within sector business is in	57.9%	17.9%	31.6%	24.1%
	% of Total	4.4%	12.4%	7.2%	24.1%
	Std. Residual	**3.0**	-1.7	1.2	
Total	Count	19	173	57	249
	% within sector business is in	100.0%	100.0%	100.0%	100.0%
	% of Total	7.6%	69.5%	22.9%	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.221(a)	2	.000
Likelihood Ratio	15.352	2	.000
N of Valid Cases	249		

a 1 cells (16.7%) have expected count less than 5. The minimum expected count is 4.58.

There was a significant relationship between the two variables χ^2 (2) = 17.221, $p \leq .000$. This leads us to reject the null hypothesis and conclude that the ethnic background and the sector in which the business is in are not independent.

Using a level of significance of 0.05, the critical value for a standardized residual would be -1.96 and +1.96. On examination of the standardized residuals, we find that only the cells on the Asian row are the significant contributors to the chi-square relationship with standardized residual value of 3.0. Asians are over represented in the manufacturing sector and that this accounts for the significant results. This implies that the Asians are more represented in manufacturing than the others. No other cell presented any significant differences. This implies that the Asians and others are more in manufacturing businesses than the indigenous Africans.

Ethnicity and Age of Business

The age of the business is an indicator of a number of things in business succession. An older business could indicate that the systems and structures are more developed and could facilitate succession better than a younger business. In this study, a test of independence between ethnic background and age of business was carried out. The implied hypothesis was that the ethnicity is independent of the age of business. Chi-square test of independence was run and the results are presented in Table 2.

Table 2: Ethnicity and Business Age

		Age of business				Total
Ethnic origin of business owner		Below 10 years	11 - 20 years	21-50 years	Over 50 years	
Indigenous African	Count	76	99	13	1	189
	% within Age of business	88.4%	81.8%	38.2%	12.5%	75.9%
	% of Total	30.5%	39.8%	5.2%	.4%	75.9%
	Std. Residual	1.3	.7	-2.5	-2.1	
Asian and others	Count	10	22	21	7	60
	% within Age of business	11.6%	18.2%	61.8%	87.5%	24.1%
	% of Total	4.0%	8.8%	8.4%	2.8%	24.1%
	Std. Residual	-2.4	-1.3	4.5	3.7	
Total	Count	86	121	34	8	249
	% within Age of business	100.0%	100.0%	100.0%	100.0%	100.0%
	% of Total	34.5%	48.6%	13.7%	3.2%	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	53.584(a)	3	.000
Likelihood Ratio	47.161	3	.000
N of Valid Cases	249		

a 1 cells (12.5%) have expected count less than 5. The minimum expected count is 1.93.

There was a significant relationship between the two variables χ^2 (3) = 53.584, $p \leq .000$. This leads us to reject the null hypothesis and conclude that the ethnic background and the age of the business are not independent.

Using a level of significance of 0.05, the critical value for a standardized residual would be -1.96 and +1.96. Using standardized residuals, we find that a number of cells contribute to these results. The Asians are more represented in older businesses while the Africans are underrepresented in that category. The standardized residual values for Asians in older businesses are 4.5 and 3.7 for the age brackets 21-50 and over 50 respectively. The Africans are underrepresented in the older businesses with standardized residual values of -2.5 and -2.1 in the age categories of 21-50 and over 50 respectively. This implies that the Asians are engaged in businesses that are generally older than the Africans. This is fairly consistent with the fact that entrepreneurship for the African in Kenya is a phenomenon of post independence. Only after independence the African started venturing into business as means of empowerment supported by extensive government incentive schemes (Marris and Somerset, 1971).

Ethnicity and Succession Plans

The researchers attempted to establish the extent to which the succession plans were documented and whether this was related to ethnic origins of the entrepreneurs. The respondents were required to indicate whether or not their succession plans were written. The results of cross tabulation and Chi-square tests are presented in Table 3.

There was a marginally significant relationship between the two variables $\chi^2(3) = 6.196$, $p \leq .045$. This leads us to reject the null hypothesis and conclude that the ethnic background and the age of the business are not independent. However, on examination of the standardized residual values, no single cell could explain the significance. For a level of significance of 0.05, the critical value for a standardized residual would be between -1.96 and +1.96. All the cells had less than absolute value of 1.96.

Table 3: Ethnicity and Succession Plans

Ethnic origin of business owner		If firm has a written succession plan			Total
		Yes	No		
Indigenous African	Count	38	147	4	189
	% within if firm has a written succession plan	67.9%	79.5%	50.0%	75.9%
	% of Total	15.3%	59.0%	1.6%	75.9%
	Std. Residual	-.7	.6	-.8	
Asian and others	Count	18	38	4	60
	% within if firm has a written succession plan	32.1%	20.5%	50.0%	24.1%
	% of Total	7.2%	15.3%	1.6%	24.1%
	Std. Residual	1.2	-1.0	1.5	

Table 3...

Total	Count	56	185	8	249
	% within if firm has a written succession plan	100.0%	100.0%	100.0%	100.0%
	% of Total	22.5%	74.3%	3.2%	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.196(a)	2	.045
Likelihood Ratio	5.682	2	.058
N of Valid Cases	249		

a 1 cells (16.7%) have expected count less than 5. The minimum expected count is 1.93.

Ethnicity and Successor Identification

The researcher intended to establish whether the ethnic background was related to successor identification. The implied hypothesis was that successor identification and ethnic background of the entrepreneurs are independent. A cross tabulation and Chi-square tests of independence were performed and the results are presented in Table 4.

Table 4: Ethnicity and Successor Identification

Ethnic origin of business owner		Successor has been identified		Total
		No	Yes	
Indigenous African	Count	122	62	184
	% within successor has been identified	83.0%	67.4%	77.0%
	% of Total	51.0%	25.9%	77.0%
	Std. Residual	.8	-1.0	
Asian and others	Count	25	30	55
	% within successor has been identified	17.0%	32.6%	23.0%
	% of Total	10.5%	12.6%	23.0%
	Std. Residual	-1.5	**1.9**	
Total	Count	147	92	239
	% within successor has been identified	100.0%	100.0%	100.0%
	% of Total	61.5%	38.5%	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	**7.775(b)**	**1**	**.005**		
Continuity Correction(a)	6.919	1	.009		
Likelihood Ratio	7.612	1	.006		
Fisher's Exact Test				.007	.005
N of Valid Cases	239				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 21.17.

There was a significant relationship between the two variables χ^2 (1) = 7.775, $p \leq .005$. This leads us to reject the null hypothesis and conclude that the ethnic background and the successor identification are not independent.

Using a level of significance of 0.05, the critical value for a standardized residual would be -1.96 and +1.96. Examining standardized residuals, we find that no cell exceeds the critical alpha error of 1.96. Neither of the two ethnic groups is over or under represented in any of the yes or no cells.

Ethnicity and Succession Strategy

The succession strategies in this study were measured in terms of the extent to which they are planned or emergent. Eleven dimensions of succession were considered. A correlation analysis between ethnic background and succession strategy was carried out. For the ethnic background, the researcher employed dummy variables. The results of the correlation analysis are summarized in Table 5.

Table 5: Correlations matrix for Ethnicity and Succession Strategy

		AFRICAN	ASIAN	OTHERS
African	Pearson Correlation	1		
Asian	Pearson Correlation	-.890(**)	1	
others	Pearson Correlation	-.363(**)	-.103	1
A Goals & Objectives	Pearson Correlation	-.050	.003	.102
B. Exit strategy	Pearson Correlation	-.105	.075	.078
C Business Valuation	Pearson Correlation	-.164(*)	.150(*)	.050
D Tax & Legal	Pearson Correlation	-.245(**)	.234(**)	.054
E Estate Plan	Pearson Correlation	-.055	.020	.081
F Successor Selection	Pearson Correlation	-.133	.087	.115
G Successor training	Pearson Correlation	-.004	-.033	.077
H Contingency Planning	Pearson Correlation	-.212(**)	.181(*)	.091
I Conflicts Resolution	Pearson Correlation	-.002	.031	-.060
J Timeliness	Pearson Correlation	-.020	.012	.019
K communication Plan	Pearson Correlation	-.030	-.038	.145(*)

** Correlation is significant at the 0.01 level (2-tailed) * Correlation is significant at the 0.05 level (2-tailed)

The findings indicate a significant but weak correlation in areas of business valuation, tax and legal planning and contingency planning. For the African ethnic group, there were negative correlation with business valuation, tax and legal and contingency planning of -.164, -.245, -.212 respectively. For the Asian ethnic group, the correlations were .150, .234, and .181. These results indicate that there is more formalized planning for these aspects (business valuation, tax and legal and contingency planning) among the Asians than the Africans.

CONCLUSIONS

The findings in the preceding sections leads us to conclude that among the SMEs, there exist minor differences in succession planning practices across the ethnic communities in Kenya.

Using the chi-square analysis technique, it was established that there were significant differences in terms of the businesses carried out, with Asians being more in manufacturing than African. Africans were generally underrepresented in manufacturing sector. In addition, the Asians operated slightly older businesses than the Africans. There was however no significant differences in specific succession practices of having written succession plans and formalized successor identification. This was equally supported by the correlation analysis which indicated weak correlations. This leads to accepting the null hypothesis that there are no statistically significant differences in succession strategies among ethnic communities in Kenya.

Previous studies have reported significant differences in entrepreneurship and business practices between the Asians and the indigenous Africans. Ferrand (1996) observed that the Asian entrepreneurs utilize informal structures in the exchange process to influence the environment in which they operate. This practice is absent among the African entrepreneurs. He argued that the informal institutions favored business. He goes on to indicate that history and religious background seem to explain the differences. The young nature of entrepreneurship among the Africans can be explained by the fact that only after independence did the Africans start becoming actively involved in entrepreneurship. The larger businesses and the prevalence of the Asians in manufacturing sector can be explained by access to resources by the individual entrepreneurs. The Asians can access finance from the informal networks and be able to expand their business.

IMPLICATIONS, LIMITATIONS AND FURTHER RESEARCH

The study found minor differences in the relationship between ethnicity and succession in family businesses. This has implications for the understanding of family business succession practices in Kenya. The most immediate implication being that differences in ethnic representation in business ownership do not necessarily mean differences in managerial practices. This may be explained by the similarities in business environment.

One of the limitations of the study was the focus on the SMEs. This context could greatly influence the findings of the study in the sense that certain ethnic differences could manifest more significantly in the larger businesses that it is in the SMEs. Similarly, the study conclusions were based on the survey methodology which may not always bring out the intricate and deeply seated cultural practices that have significant influence on family businesses decision making practices.

As a result of the above limitations, the researcher recommends a further research focusing on the larger enterprises and utilizing more qualitative approaches. This is likely to unearth aspects that this study could not establish.

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