Effect of Entrepreneurial Skills on the Sustainability of Small and Medium Family Enterprises After the Exit of the Founders

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Abstract

Small and medium enterprises are a vital economic base for any economy as they have the ability to create employment. A family enterprise is an enterprise that is influenced by two or more family members through their participation, ownership, strategic preference or culture. Most business enterprises start as family enterprises. In the United States of America for example, seventy percent of the five hundred fortune companies are family enterprises and ninety percent of all businesses in that country are family businesses. Empirical researches reviewed show that as vital as they are, family enterprises have very low survival rate. Less than a third of family businesses survive the transition from first generation to second generation and of those that survive, half do not survive the transition from second to third generation. There are several reasons why Small and Medium Family Enterprises are an important sector in modern business. Some of the key reasons are; the encouragement of entrepreneurship; the greater likelihood that Small and Medium Enterprises will utilize labour intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; Small and Medium Enterprise development can encourage the process of both inter- and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises. This article focuses on the effect of entrepreneurial skills on the sustainability of Small and Medium Family Enterprises. The role of the principal confidant is also examined in this article. Specifically, the article aims at establishing the effect of entrepreneurial skills on the sustainability of Small and Medium Family Enterprises after the exit of the founders, among other objectives. The article reviews relevant literature on the subject of entrepreneurship and makes conclusion based on the results of the study that entrepreneurial skills have a great positive influence, on sustainability of Small and Medium Family Enterprises. The results indicate that seventy per centum (70%) of the corresponding change in sustainability of Small and Medium Family Enterprises after the exit of the founder can be explained by a unit change in entrepreneurial skills. The findings suggest that an entrepreneur/owner inculcates an entrepreneurial culture in the enterprise and that entrepreneurial skills of the entrepreneur/managers drive the enterprise to above average performance leading to high profitability for the sustainability of the of Small and Medium Family Enterprise. The study, however, recognizes that other factors such as managerial skills, succession planning individual behaviors and human resource management skills also play a significant role in the sustainability of Small and Medium Family Enterprises after the exit of the founders.

Keywords

Family Enterprises, Family Business Founder, Entrepreneurship Skills, Sustainability, Principal Confidant and Mentorship

I. Introduction

Moore, Petty, Palich and Longenecker (2008) observe that one way of entering into entrepreneurship is through family enterprises. Most family enterprises start as sole proprietorships. Others start as partnerships and others as private companies, with spouses as directors or sometimes with children as the additional directors. Swanepoel (2004) defines family enterprises as those influenced by family members through their participation, ownership, strategic preference and culture. Moore et al. (2008) define a family enterprise as one owned by two or more members of the same family where they operate together or in succession. Family enterprises are defined as businesses in which ownership and/or policymaking are dominated by members of an emotional kinship group (Carsrud, 1994). They differ from other businesses in that ownership and/or control overlap with family membership (Harvey and Evans, 1994) as all major operating decisions and plans for leadership succession are influenced by family members in management positions or on the board (Handler, 1989). Astrakhan, Klein and Smyrnios (2007) observe that due to the complexity of the family enterprises, a standardized measure of the impact of the family on outcomes such as success, failure, strategy and operations should be developed. They then developed F-PEC scale for continuous assessment of family influence in enterprise decisions. F-PEC comprises three variables for measurement; power, experience and culture.

Family enterprises, like other business concerns, pose leadership, management and succession challenges that normally require a unique approach to their solutions (Dunemann and Barrett, 2004). For family business to survive, there is always a pertinent need for leadership, good managerial skills, human resource management and a succession strategy that envisions the exit of founders; or others, who at one time or another, reached the helm of company leadership and authority - company politics notwithstanding. Bennedsen, Perez-Gonzalez, Nielsen and Wolfenzon (2006) have the view that when family members work together, emotions may interfere with business decisions; conflicts may arise as relatives see the business from different perspectives. Ward (1987) writes that those who are silent partners, stockholders and directors are likely to judge capital expenditures, growth and other critical matters primarily in terms of money. Those engaged in daily operations are more likely to be concerned about production and sales figures and personnel matters. Obviously, there is potential for conflict. In some family companies, daily operations are hampered by conflict; in others, the challenge is normally a high turnover rate among nonfamily employees. Growth also may be a dilemma if some relatives are reluctant to plow profits back into the business. Poza and Maheshwari (1997) say that conflict in the business also can be aggravated by family members who have little talent for money or business – the offspring of company founders who lack business acumen or in-laws who must be employed without regard of their ability or the enterprise's needs. The manager of a family-owned enterprise faces the same challenges as the owner-manager

of any small firm. However, the job of a family manager may be complicated by relatives who must be reconciled to working together in a business.

Bowman (2006) observes that about 90 percent of all U.S. businesses are family owned or controlled and that they range from micro to large enterprises. They generate about half of the country's Gross National Product (GNP) and half the total wages paid. In addition, Dana (2008) note that family firms have long been the backbone of both worldwide and American enterprise with between 65% and 80% of worldwide businesses in this category.

II. Small and Medium Enterprises in Kenya

Small and Medium Enterprises (SMEs) are an important economic base to any country as they are a great source of employment creation (Miller and Le Bretton-Miller, 2003). The National Baseline Survey, Central Bureau of Statistics, Centre for Economic Growth, K-Rep Holdings (CBS/CEG/KREP, 1999) notes that the growth of enterprises from micro to small, small to medium and then medium to large means, employment creation, increase in revenue and capital base. The economic impact of SMEs can be measured by their contribution to output, employment, income, investment, exports and other economic indicators (Prasad, 2004). According to Kenya's Economic Survey 2008 (RoK, 2008), out of the total new jobs created, Micro, Small and Medium Enterprises (MSMEs) created 426.9 (89.9%) thousand new jobs out of a total of 474.8 new jobs created in 2007 in Kenya. In 2008 MSMEs created 433.5 (79.9%) new jobs out of 543.3 thousand new jobs created in Kenya (Economic Survey, 2009). In the same year the sector contributed Kshs 806,170 million of GDP which is 59 percent of total GDP (RoK, 2009). The Kenya Economic Survey 2010 (RoK, 2010) notes that this same sector generated 390.4 thousand new jobs which translate into 87.6 percent of the total jobs generated that 2009.

Most countries, Kenya included, cluster Small and medium Enterprises based on employment (Prasad, 2004). Sessional Paper No. 2 of 1992 and National Baseline Survey of 1999, cluster enterprises in the following order: Micro Enterprises – 1-9 employees; Small Enterprises -10-49 employees; Medium Enterprises -50-99 employees; Large Enterprises -100 and above (RoK, 1992; CBS/CEG/KREP, 1999). Advantages for SMEs are various, including: the encouragement of entrepreneurship; the greater likelihood that SMEs will utilize labour intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; SME development can encourage the process of both inter- and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises (Longenecker, Moore and Petty, 2003) .

III. Entrepreneurship Theories

Kuratko & Hodgetts (2008) define entrepreneurship theories as verifiable and logically coherent formulations of relationships, or underlying principles that either explain entrepreneurship, predict entrepreneurial activities, or provide normative guidance. Early scholars like Joseph Schumpeter, Marx Weber, David McClelland and others looked at entrepreneurship from hypothesizing several theories among them; psychological, sociological and economic theories. Schumpeter and McClelland were the main proponents of the psychological theories which looked at the individual Characteristics of entrepreneurs which made them different from other people. Marx Weber and others, proponed sociological theories of entrepreneurship, and they hypothesized that the social environment under which an entrepreneur lived in, shaped a person to become an entrepreneur. Proponents of economic theories were Adam Smith and Richard Cantillon in the 17th and 18th centuries that saw entrepreneurs as people of 'creative destruction' for economic growth (McClelland, 1965; Weber, 1958; Schumpeter, 1928; Holt, 1992; Dollinger, 1995).

A. Psychological Theories

Psychological or personal theory brings out the difference in individuals' attitudes. According to these theories, the difference in attitudes (i.e. the internal attitudes) and the ability to judge and forecast the situation lead a man to become a successful entrepreneur (Holt, 1992). Islam (1989) observes that, perhaps the first and certainly, the most important theory of Entrepreneurship's psychological roots was put forward in early 1960's by David McClelland, who found that certain kinds of people, including and especially those who become entrepreneurs have a high need for achievement, high need for affiliation, and high need for power. High need for achievement (N-ach) is the desire to do well, not so much for the sake of social recognition or prestige but for the sake of an inner feeling of personal accomplishment. McClelland proposes that people with high N-ach have: strong desire to solve problems on their own; enjoy setting goals and achieving them through their own efforts; like receiving feedback on how well they are doing; are highly motivated; are likely to take calculated risks and like autonomy (McClelland, 1972).

McClelland noted that these are formed during middle childhood. However, McClelland's theory faced criticism as it failed to discuss competence and ignored the influence of external environment. High need for affiliation (N-aff) is characterized by a desire to belong, an enjoyment of teamwork, a concern about interpersonal relationships, and a need to reduce uncertainty (McClelland, 1965). High Need for Power (N-p) is characterized by a drive to control and influence the others, a need to win arguments, and a need to persuade and prevail on others. According to McClelland, the presence of these motives or drives in an individual indicates a predisposition to behave in certain ways. Therefore, from a manager's perspective, recognizing which need is dominant in any particular individual affects the way in which that person can be motivated (Dollinger, 1995).

Specifically, achievement motivation is defined as a non-conscious concern for achieving excellence through individual efforts. Such individuals set challenging goals for themselves, assume personal responsibility for goal accomplishment, are highly persistent in the pursuit of these goals, take calculated risks to achieve the goals, and actively collect and use information for purposes of feedback (Weightman, 2008). High achievement motivated managers are also strongly inclined to be personally involved in performing their organizational tasks. However, they may also be reluctant to delegate authority and responsibility. Thus, high achievement motivation may be expected to result in poor performance of high- level executives in large organizations. Locus of Control; there are two types of people: Those with External locus of control believe that what happens to them is a result of fate, chance, luck, or forces beyond their control; those with internal locus of control believe that for the most part, the future is in their control through their own effort (Shane, 2003).

Risk taking propensity; new venture creation involves taking risk and financing of such a venture is called risk capital. McClelland and Everett Hagan ascribes The inculcation of the achievement

motive is associated to child rearing practices which stress; standard of excellence, material warmth, self reliance training and low father dominance are formed during childhood and produced by reasonably high standards of excellence imposed at a time when the child can attain them, i.e. a willingness (McClelland, 1972). Shane (2003) notes that there are several ideas as to why someone becomes an entrepreneur, some of which belong to the psychological theories of entrepreneurship, which basically suggests that there are a number of psychological traits possessed by the entrepreneur which allow him or her to undertake such a task. The following are the psychological traits noted by Shane (2003): (a) there is a leader, the entrepreneur, who is the driving force behind economic events. (b) Inside the mind of this entrepreneur is a vision of a future state that is preferred to the present state. (c) Through a semiconscious process of intuition and insight, rooted in experience, the entrepreneur develops this vision and a strategy of how to implement it. (d) This vision is promoted diligently and passionately by the entrepreneur. The job for many provides a feeling of being "alive" or the satisfaction of serving society. (e) The strategy is deliberate and the overall vision is clear, however details may be malleable, incomplete, and emergent. (f) Entrepreneurial strategies tend to go along with simple centralized organizational structures that respond quickly to the entrepreneur's directives. (g) Entrepreneurial strategies tend to be used in niche markets that have not been noticed by the large industry leaders.

B. Sociological Theories

This approach tries to explain the social conditions from which entrepreneurs emerge and the social factors that influence the decision (Osborne, 1991). Weber and others hypothesized that the adoring entrepreneurial energies are generated by the adoption of exogenously supplied religious beliefs (Weber, 1946). For the faithful, these believes, both in their direct implications for practical conduct and in the entrained anxiety to generate signs of favorable predestination, produce intensive exertion in occupational pursuit (Weber, 1958). The occupational pursuit is the systematic orderly of means to ends, and the accumulation of productive assets. Can these entrepreneurial theories contribute to sustainability of small and family enterprises after the exit of the founders? These triggered the second research question:

IV. Entrepreneurship and Business

The word entrepreneur comes from the word 'entreprendre' a French word meaning 'one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods' (Shane, 2003). The term came into being from the work of Richard Cantillon in 1755 but entrepreneurship as a discipline was ignored and came into being in 1970s (Holt, 1992; Dollinger, 1995). Entrepreneurship borrows concepts and theories from economics, psychology, anthropology, management, sociology, and religion (Hisrich, Peters & Shepherd, 2005). Economists see entrepreneurs as agents of economic growth: Ely & Hess (1893) saw entrepreneurs as people who combine factors of production for economic growth; Mr. Say (1803-1815) linked growth of England with entrepreneurs; Kirchhoff (1994) described an entrepreneur "as a person who combines factors of production in optimum proportions in order to maximize returns as well as taking tentative risks;" Schumpeter (1946) saw entrepreneurs as people who see disequilibrium and who cause equilibrium; Adam Smith in 1776 described entrepreneur as "an individual who undertook the formation of an organization for commercial purposes" (Bird, 1989; Holt, 1992; Dollinger 1995; Timmons & Spinelli, 2007).

Schumpeter (1911-1949), from the sociological perspective saw "Entrepreneurs as movers of society who had the joy of creating private industries and as means of transforming and improving society" (Bird, 1989).

A. Entrepreneurial Process

Longenecker et al. (2003) define entrepreneurship as the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time and career commitment of providing value for some product or service. The product may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources. Entrepreneurial process also includes openness to new information and people, motivation, making independent and self directed decisions, the ability to see opportunities in a rapidly changing and uncertain environment, persistence, the motivation to achieve, technical know-how, personal integrity, taking ownership and being accountable, the capacity to manage and organize as well specific categories of cultural characteristics (Johnson (1999).

Morris et al. (1994) give the entrepreneurship process in the model in figure 1 below. The model is built around the concepts of inputs to the entrepreneurial process and the outcomes from the entrepreneurial process. The input component identifies five key elements that contribute to the process: environmental opportunities (demographic change), entrepreneurial individuals (the person who assumes personal responsibility for conceptualizing and implementing a new venture), an organizational context (could range from a sole proprietorship run out of the entrepreneur's home to an autonomous business unit within a large corporation) and wide range of financial and nonfinancial resources (required on an ongoing basis). On the outcome component, the process can result in any number of entrepreneurial events and can produce events that vary considerably in terms of how entrepreneurial they are (Morris et al., 1994).

Independent entrepreneurial actions provide the impetus needed to explore business opportunities, bring forth business concepts, and carry them through to completion (Bird, 1989; McMullen & Shepherd, 2006). The environment provides to the entrepreneur a number of resources and all that is required is for the entrepreneur to note an opportunity, combine these resources optimally, process them and the outcome will be a profitable venture creating employment and value addition to the entrepreneur and the community (Kuratko & Hodgetts, 2008). Figure 2 in the next page explains these relationships.

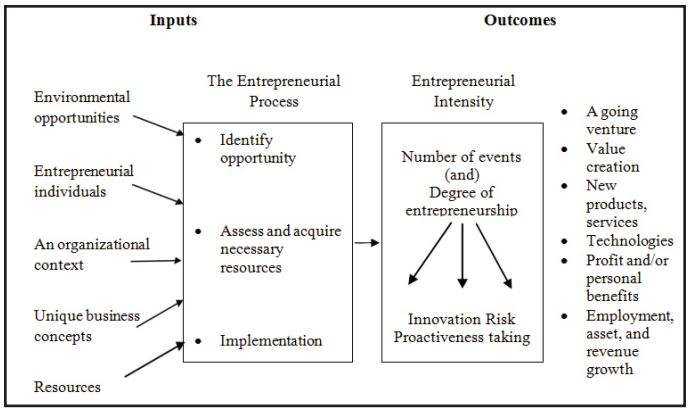

Fig. 1: An Integrative Model of Entrepreneurial Inputs and Outcomes; (Adopted from Morris et al., 1994)

ISSN : 2230-9519 (Online) | ISSN : 2231-2463 (Print)

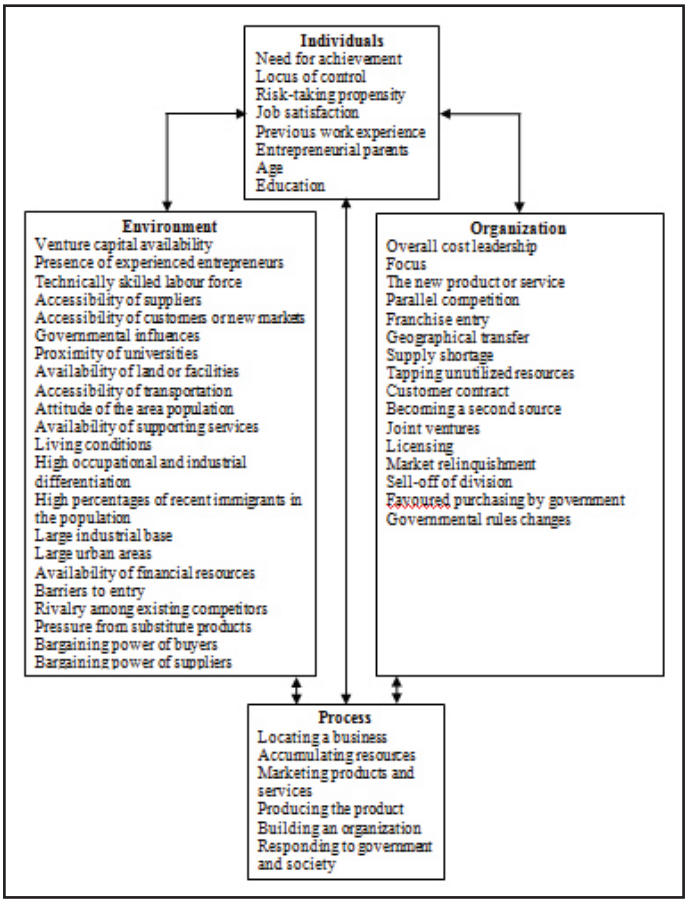

Fig. 2: Variables in New-Venture Creation (Gartner, 1985)

B. Entrepreneurial Skills

Entrepreneurship is the creation of an innovative economic organization (or network of organizations) for the purpose of gain or growth under conditions of risk and uncertainty (Dollinger, 1995). Timmons & Spinneli (2007) define entrepreneurship as a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced. According to Schumpeter (1942), entrepreneurship is the central figure of the development process because the entrepreneur in the modern complex economic world can create opportunities for production technology, by expanding or discovering new market, new product, new source of resources, etc.

Moore et al. (2008) define an entrepreneur as an individual who discovers market needs and launches new firms to meet these needs. Kuratko & Hodgetts (2008) define entrepreneurs as individuals who recognize opportunities while others see chaos or confusion and are aggressive catalysts for change within the marketplace. Entrepreneurship is more than the mere act of enterprise creation. Enterprise creation is an important facet in entrepreneurship, but the characteristics of seeking opportunity, taking risks beyond security and having the vigour to push an idea through to reality make people with an important mindset (Holt, 1992). In more recent times, the term entrepreneurship has been extended to include elements not necessarily related to enterprise formation. Activities like conceptualization of entrepreneurship are a specific mindset resulting in entrepreneurial initiatives like social entrepreneurship, political entrepreneurship and knowledge entrepreneurship. For the purpose of this study, all active owner managers of enterprises are considered as entrepreneurs. Entrepreneurs have different characteristics from other people. Investors intending to finance entrepreneurial ventures try to measure the commitment of entrepreneurs by for example willingness to mortgage their houses, take a cut in pay, sacrifice family time and reduce their standards of living (Dawood, 2008).

C. Entrepreneurial Dimensions

Bird (1989) and Dollinger (1995) note that to understand entrepreneurship, one can look at three dimensions whose interactions make each venture unique. These three dimensions are: individuals, environments and organizations. Individual: The role that individuals play in entrepreneurship is undeniable. Each individual's psychological, sociological, and demographic characteristics contribute to or detract from his or her abilities to be an entrepreneur. Personal experience, knowledge, education and training are the accumulated human resources that the founder contributes to the enterprise (Dollinger, 1995). The personal integrity of the entrepreneur and the way the entrepreneur and the new venture are viewed by others is captured in the reputation of the firm. The risk profile of the entrepreneur determines the initial configuration of the venture, for example, financing, product offerings and staffing. Frequently the entrepreneur is not alone even though we speak of other people, other business people, and other entrepreneurs. These contacts are personal resources that help them acquire additional resources and start their businesses (Smit & Cronje, 2002). So it is true that "who you know" and 'who knows you" are sometimes very valuable resources in new venture creation.

1. Environment

The environment poses both opportunities and threats for new venture creation. The opportunities come mostly in the form of resources, money, people, and technology. The entrepreneurial challenge is to acquire resources from the environment, combines them with other possessed resources and configures them into a successful venture. The threats, or constraints, imposed by the environment are those inherent in any competitive market place (Hisrich, Peters & Shephered, 2005). The entrepreneur can overcome these constraints, or protect against their worst effects, by designing strategies that effectively and efficiently combine the firm's resources to give it a competitive advantage over its competition. The key elements of the environment are the government and politics, the economy, technology (i.e. innovation and invention), socio-demographics, and the ecosystem (Kuratko & Hodgets, 2008). Since the environment is characterized by change, uncertainty and complexity, the entrepreneur must continuously monitor events and trends and make adjustments to their organizations and strategies in order to remain competitive in the market place.

2. Organizations

The result of nearly all entrepreneurial start-ups is the creation of a new organization. The organization has a form and structure. It has a strategy that enables it to penetrate or create a market (entry wedges) and protect its position (Isolating mechanisms). It possesses resources that it transforms into value for its customers (Hisrich, Peters & Shephered, 2005). But an organization can be even more than this. An organization is made up of people who have skills and talents, values and beliefs, and maybe recognition that by working together they can create something special (Bird, 1989). The organization can have a culture that supports high performance, high quality, and high ethical conduct. This is something that is quite rare and difficult to achieve, and because of its rarity, a culture can be a source of competitive advantage. Fig. 3, below summarizes the important elements.

Smith (1960) as in Bird (1989) gives alternative ways to types of entrepreneurs. For the purpose of this study, two are of interest.

(i). Craftsman Entrepreneur

Smith (1960) observes that such entrepreneurs are of blue colour origin, they have narrow low- technology work experience, they are mechanical genius, their business contacts are on plant floor, they have a reputation in the industry and they are 'marginal' people who neither identifies with the management nor with labour unions.

(ii). Opportunistic Entrepreneur

Smith (1960) further classifies these people as of middle class origin, well educated, they have a variety of work experience, may have been in high ranking in employment, they have contacts with top management, they have a reputation across industries and they identify with management. This study will try to establish the above facts.

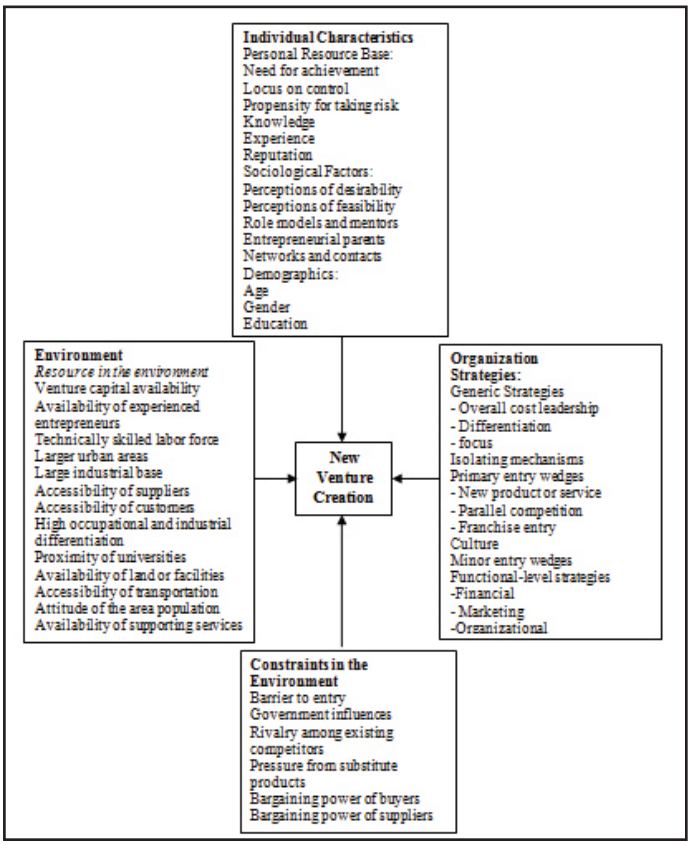

Fig. 3: A Framework for Entrepreneurship (Adopted from Dollinger, 1995)

V. Sustainability

The word sustainability is derived from the Latin sustinere (sus, up; tenere, to hold) (Atkinson, Dietz and Neumayer, 2007). It is the long-term continuity of an enterprise or keeping the enterprise going over time (Bookchin, 2007). Sustainability is a call to action, a task in progress or "journey" and therefore a political process. It can also refer to a future intention; "sustainable business" is not necessarily a current situation but a goal for the future, a prediction. It has also been described as a "dialogue of values" that defies consensual definition (Blackburn, 2007).

Successors of small and medium family enterprises should keep the enterprises ongoing continuously overtime. They should further strengthen the enterprises by maintaining growth of the same. The Kenya National Baseline Survey (K-Rep, 1999); Prasad (2004) describe enterprise growth as increase in the number of employees, increase in revenue, increase in capital investment and expansion in branches or outlets. Ngugi (2008) observes that expansion of an enterprise can be horizontal where many branches or subsidiary enterprises are established or vertical growth where an enterprise acquires related and supporting enterprises. However, not much is known about the growth strategies of family businesses.

Family businesses are stereotypically known for conservative planning and organic expansion which could limit their growth compared to non-family enterprises (Okoroafo, 1999). On the other hand, recent evidence shows that family businesses are not shy of acquiring larger (family and non-family) businesses to sustain their growth for example; Haniel's acquisition of Metro AG, Porsche's takeover of Volkswagen, or Fiat's acquisition of substantial Chrysler assets (Graves and Thomas, 2006). When it comes to growth through internationalization, the results are mixed. Some research and mostly narrative evidence suggest that family businesses are relatively slow to internationalize (Fernandez and Nieto, 2006; Graves and Thomas, 2006; Okoroafo, 1999).

Empirical evidence reviewed shows, however that, family businesses are found to compete successfully in international markets (Zahra, 2003); some even being global market leaders in their niches (Simon, 2009). Recent research suggests that family influence, and family ownership in particular, has a curvilinear effect on the internationalization of family businesses: moderate levels of ownerships are related to higher levels of internationalization whereby low and high levels of ownership are related to lower levels of internationalization (Sciascia et al., 2009).

In addition, family businesses are among the longest-lived organizations in the world with some dating back to the sixth century, having weathered the rise and fall of multiple state regimes, recessions including the dark ages, nearly all the 'great' wars, plagues and famines, and other crises (James, 2006; Landes, 2006). But the sources of their longevity are not well understood. A family is an important driver of their longevity and sustainability (Pieper, 2007). But evidence shows that family influence can also have detrimental effects for the business and the family group (Miller and Le Breton-Miller, 2003; Miller, Le Breton-Miller, and Scholnick, 2008). Thus, the following questions may be asked: Why do some family businesses survive and thrive while so many others fail? What strategies for managing the family business are successful? What are the strategic implications of taking a survival versus a growth orientation? Are there any characteristics of family involvement that foster or inhibit longevity? Do family goals (psychological and financial) for business influence strategic orientation? This study will attempt to answer some of these questions.

Papulova and Mokros (2007) observe that knowledge and experience in business management aspects are critical components of sustainability of family businesses. Family members should act as mentors to siblings in order to create a practical understanding of business management concepts. This is over and above any potential formal training that the sibling may have undergone. A specific area that is important is the establishment of financial prudence early in the experience curve of the sibling as well as to instill strong cultural values in making business decisions.

With regards to the satisfaction dimension, the "incumbent's propensity to step aside", the "successor's willingness to take over", the "agreement among family members to maintain family involvement", the "acceptance of individual roles", and "succession planning" are quite significant (Sharma, Chrisman

and Chua, 2003) and are very crucial in the future sustainability of the family business. Research suggests that the characteristics of successful successions are the "well prepared successors", the "positive relationships" and the "succession planning attempts" (Morris et al., 1997).

Other factors that have a negative impact on the succession process are the "family rivalries" (Dyer and Whetten, 2006) and the "incompetent or unprepared successors" (overdependence, conservatism, rebellion, excessive change, ambivalence, confusion, stagnation or abandon, compulsive consensus or conflict, stifling bureaucracy or chaos). From another perspective, the "positive succession experience" (fulfilled career, psychosocial, and life stage opportunities in the context of the family firm, the capability to exercise personal influence in the family business, the achievement mutual respect and understanding with the incumbent, and finally the high commitment to the continuation of the family business) plays an important role in the succession process (Handler, 1989). Furthermore, it is claimed that the "sequence" (appropriate skills and experience of successor), the "timing" (effective passing), the "baton passing technique" (succession details) and "communication" are crucial for the successfulness of the transition (Dyck et al., 2002).

VI. Rationale for the Study

The foregoing literature reveals the importance of small and medium enterprises (SMEs) on basis of employment creation and heavy contribution towards Gross Domestic Production (GDP) in all nations (Timmons & Spinelli, 2007; Poza, 2004). The literature reviewed also shows that family enterprises comprise 70% to 80% of all enterprises in all free economies (Timmons & Spinelli, 2007; Bowman, 2006; Poza, 2004).

As vital as they are, family enterprises have very low survival rate. Less than one third of family businesses survive the transition from first to second generation ownership and of those that do, about half do not survive the transition from second to third generation ownership (Bowman, 2006). Eighty-five per cent (85%) of all family businesses fail within the first five years of operation and among those that survive; only 30% are successfully transferred to the second generation of the founding family owners (Poza, 2004).

More often than not, we hear of families making applications in court to bar other family members from running or interfering with the running of family businesses. To quote a few: (a) Parts of the world outside Kenya; Leger Robic Lawyers report (1992) in Montreal Canada, reported on the trademarks court of appeal judgment in Gucci case where Paolo Gucci had been taken to court by family members over the use of his surname "Gucci" as he had quit the family business as a result of disagreement. The family business Guccio Gucci, S.p.A. had registered 'GUCCI' trademark on its products which had been designed by Paolo Gucci; Another case was reported in the Wine Spectator Magazine of Virginia Minnesota on 17th May 2008 pp7 concerning Robert Mondavi family wine business dispute, http://www.winespectator.com retrieved on 3rd March 2010; Bina Udeshi Free Press Journal of 24th July 2004 in Gujarat, India reported on the dispute of the Ambani family which owned Reliance Company of India. This dispute led to the split of the company between Ambani's sons - Mukesh and Anil. (b) In Kenya: The East African Standard of Thursday 16th March 2008 pp9, quoted a popular politician's family in court over succession issues; Joseph Kanyotu's family members, making an application in court over a dispute on the spy master's business empire – The East African Standard Tuesday 29th September 2009 pp1 and pp7; The court judgment on Kirima's dispute and his son over Kshs. 750 million business management – Daily Nation, Friday 18th December 2009. Other Kirima family disputes were also reported in subsequent daily issues until his death in January, 2011.

Why do members of a family take disputes to courts of law threatening to split these enterprises or leading to eventual death of the same? The literature reviewed shows that most of the studies conducted on family enterprises are on large enterprises and have been conducted in the developed and developing countries outside Africa; save for a case study on a Greek family business in Bloemfontein, South Africa (Buuren, 2008). Kenyan family micro, small and medium enterprises contribute heavily to the GDP. Yet, there are little or no empirical studies on this important sector of the economy. It is therefore imperative to scientifically explore the actual situation on how to shield this important sector and this study embarks to fill this gap.

VII. Purpose and Methodology

This study aimed at investigating the challenges hindering the sustainability of Small and Medium Family Enterprises (SMFEs) after the exit of the founders in Kenya. In particular, the study wanted to establish the effect of entrepreneurial skills on sustainability of SMFEs after the exit of the founders. Exploratory research design, using descriptive survey and ex- post facto was employed in the study. The study targeted a population of 2470 SMFEs in Nairobi's Enterprise road and Thika's light industrial areas in Kenya. The enterprises targeted had been in operation for 5 years and above and employed between 10-99 people. A stratified random sample of 247 Small and Medium Enterprises (SMEs) was selected. Responses were received from 225 SMFEs. Of the 225 SMEs, 168 enterprises, representing 74.6% of the SMES were SMFES.

VIII. Definition of Terms

A. Family Enterprises

Businesses in which ownership and/or policymaking are dominated by members of an emotional kinship group (Carsrud, 1994). Brunninge, Nordqvist and Wiklund (2007) adopt a common definition, according to which a firm, of any size, is a family business, if: the majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs; the majority of decision-making rights are indirect or direct; at least one representative of the family or kin is formally involved in the governance of the firm; listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital. A family business refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants (Neubauer and Lank, 1998). The family enterprise ownership is the total percentage of ownership held by one or more families in the firm (Ward, 1987).

B. Family Business Founder

A family business founder is an entrepreneur who starts a family enterprise (Dyer and Whetten, 2006). A Founder is an individual who, either by her or himself or in concert with others starts a new

company from scratch; if there are multiple founders of a given business, they can be referred to as either founders or cofounders (Lansberg, 1992). The family business founder is the person who experiences the institutional contradictions most strongly, sits at the head of both the family and the task systems.

C. Entrepreneurial Skills

These are the skills that complement the ability of the entrepreneur to analyze situations, opportunities and environments and assist the entrepreneur/manager to organize, manage and assume the risks and rewards of a business or enterprise (Kuratko and Hodgetts, 2008).

D. Sustainability

Sustainability is keeping something going over time or continuously. It can also be defined as strengthening or supporting someone or something physically or mentally (Bookchin, 2007). It is also strengthening the enterprises by maintaining growth of the same. The Kenya National Baseline Survey (K-Rep, 1999); Prasad (2004) describes enterprise growth as increase in the number of employees, increase in revenue, increase in capital investment and expansion in branches or outlets.

E. Principal Confidant

A person close to the family enterprise leader, who adherently advices that leader and ensures that important and classified information is kept confidential (Harwood, 2006). A spouse of a family enterprise leader acts as a keeper of family values, steward of the family; facilitator of communication and touchstone of emotional intelligence in family relations (Poza, 2004).

F. Mentorship

Guiding and supporting the work and development of a new or less-experienced enterprise family member(s) (Aronoff and Ward, 1992).

IX. Results

The study was out to investigate the influence of entrepreneurial skills on sustainability of small and medium family enterprises after the exit of the founders. The study started by investigating the drive/impetus to entrepreneurship in order to establish previous exposure into entrepreneurship.

A. Drive/Impetus to Entrepreneurship

Table 1 shows that 27% (39) of the respondents entered into business through succession, 24% (35) through peer influence, 20% (30) through their professions, 18% (26) through lack of autonomy/supplementing their insufficient employment income, 9% (14) lack of something to do and 2% (3) through immigrant status as shown in Table 1.

Shapero & Sokol (1987) discussed the social influences that drive one into entrepreneurship as impetus of the momentum factors and situational factors. The momentum factors include life path factors like push and pull from peers, parents and others, in between things, divorced, sacked and immigrant factors. Situational factors include perception of desirability and perception of feasibility. These imply that the social environment dictates whether entrepreneurship is desirable and whether it is feasible.

The findings shown in table 1 indicate that a cumulative figure of 73% (18+20+9+24+2)) of the respondents entered into business through momentum or situational factors as listed in the table. The remaining 27% entered into business through succession where some of them had not been mentored into entrepreneurship. It is therefore prudent to conclude that the majority of the respondents did not have previous exposure into entrepreneurship.

Table 1: Drive/Impetus to Entrepreneurship

Drive	Frequency	Percent (%)
Autonomy/ supplementing income	26	18
Profession	30	20
Lack of something to do	14	9
Influence by peers	35	24
Immigrant status	3	2
Family succession	39	27
Total	147	100

B. Creativity and Innovativeness

The findings show that entrepreneurs who involved their management staff in decision making on creativity and introduction of new products were 54% (79), those who involved customers and employees at the same time were 30% (44) those who relied on employees only were 5% (8), those who involved their customers (customer relationship marketing) were 10% (14) and those who made decisions on their own were 1% (2) as shown in Fig. 4.

The findings tally with other scholars' findings that small and medium enterprises have a distinct competitive advantage over large enterprises which results from their creativity and innovativeness. In a study conducted on Japan SMEs, Malecki (1995) found that SMEs were disadvantaged in terms of resource munificence compared with larger companies, but however, SMEs who had an innovative climate and culture were able to effectively compete with larger companies. Another study on Finnish and U.S.A. entrepreneurs and small business owners, Hyrsky & Tuunanen (2001) found that a creative and innovative individual with originality of thought was motivated to develop novel solutions than conservative thinkers and valued new ideas and liked to improvise.

Schultz (1996) observes that creativity is the development of novel solutions to perceived organizational problems while innovativeness involves transferring creativity into practice. Armstrong (2007) further observes that the drive for revenue growth means that companies must be creative and innovative and this means encouraging the free flow of information and shared learning among employees.

From the findings presented in figure 4, 59% (54%+5%) of the entrepreneurs practice intrapreneurship in their enterprises to tap creativity and innovativeness. 40% (30%+10%) the entrepreneur/managers practice customer relationship marketing (CRM). Intrapreneurship and customer relationship marketing are two important management practices that promote high customer retention, tapping newer markets for increased profitability (Moore et al., 2008; Hisrich & Peters, 2007; Brink & Berndt, 2004). These two aspects promote sustainability of small and medium family enterprises after the exit of the founders.

ISSN : 2230-9519 (Online) | ISSN : 2231-2463 (Print)

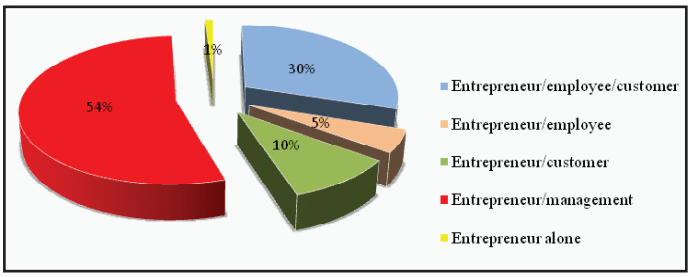

Fig. 4: Decision on Innovativeness

C. Risk Taking Propensity

Seventy seven (51%) entrepreneur/managers use bank loans to finance development of new products, while sixty five (44%) entrepreneur/managers use business savings and five entrepreneur/managers finance from the directors' contribution as shown in fig. 5.

Moore & Gergen (1985) in their study on risk-taking businesses found that the process of risk-taking involves both making the decision to take a risk and developing a strategy that minimizes the risk. They concluded that a well-seasoned risk-taking requires careful decision making. Hursky & Tuunanen (2001) found that American entrepreneurs have rich entrepreneurial traditions which involve high risk-taking propensity than Finnish entrepreneurs which made them more successful. One of the characteristics possessed by successful entrepreneurs is risk taking propensity (Kuratko & Hodgetts, 2008). Risk taking propensity is the willingness to undertake risk with the opportunity of gaining an increased payoff (Phil & Macduffie, 1996).

Fig. 5 shows that 99% (59%+40%) of the entrepreneurs take calculated risks by borrowing loans from banks to finance new products and use their own personal security guarantee for these loans. Such risks are important when making some hard decisions on long-term sustainability of small and medium family enterprises.

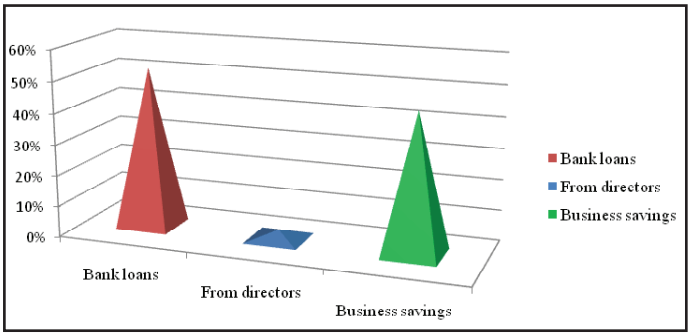

Fig. 5: Source of Finance for New Products

D. Role of Principal Confidant

1. Roles

The roles of principal confidant involve confiding, discussing and influencing business matters as well as handling conflicts in the family enterprises. Most respondents 46% (67) confided with their spouses, 22% (33) with their children, 15% (22) with their friends, 14% (21) with other relatives and 3% (4) did not confide with anyone at all.

Poza, Alfred & Maheshwari (1997), note that the principal confidant may be a family member or a non-family member who has a wide-ranging influence to the entrepreneur/manager/founder. Poza (2004) further observes that the principal confidant plays very important roles in the family enterprise in that he/she is the conflict handler, the chief trust officer, the senior advisor, the keeper of family values, facilitator of communication, touchstone of emotional intelligence in family relations and the steward of the family legacy. The unique role of principal confidant often plays a determining role in successful generational transitions (Pieper, 2007) therefore the principal confidant of the small and medium family enterprises assume a key role in initiatives to improve the relationship between the family and the management of the family business.

From the findings, 97% entrepreneur/managers had principal confidant ensures that family concerns are appropriately handled.

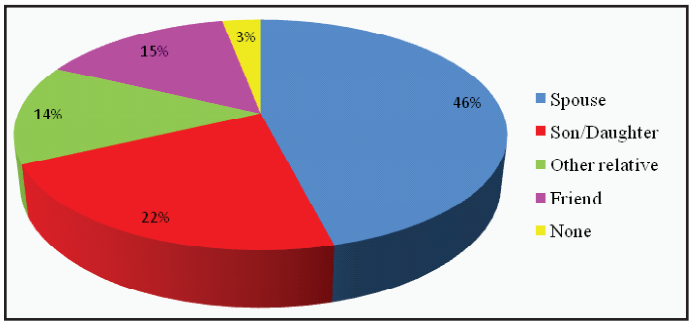

Fig. 6: Principal Confidant

2. Discussing with the Confidant on Enterprise Succession Matters

One hundred and forty three respondents indicated that they have principal confidants out of which 124 143 (87%) entrepreneur/managers discussed enterprise succession matters with their confidants while 19 out of 143 (13%) entrepreneur/managers did not discuss these matters with their confidants.

Poza (2004) observes that, the principal confidants are often effective at putting succession planning and transition to retirement on the founder/entrepreneur's agenda. Lee, Lim & Lim (2003) note that through principal confidants' ability to understand and articulate various stakeholders' points of view, they are able to broaden the dialogue from an elusive focus of facts to a wider view, encompassing both facts and feelings, so that better decisions can be made.

From the findings, and as the literatures show most family enterprises 87% entrepreneur managers discuss with their principal confidants matters on enterprise succession, which ensures smooth transition.

Table 2: Discussion on Enterprise Succession Matters

Discussion	Frequency	Percent (%)
Yes	124	87
No	19	13
Total	143	100

3. Conflict Handler in the Enterprise

Figure 7 shows that, majority of the respondents 52% (76) had spouses handling family and business conflicts, 30% (45) had their sons or daughters handling family and business conflicts, 10% (15) had other relatives handling the same and 8% (11) had their friends handling these conflicts.

Ward (1987) observes that the best practices for the family enterprises start with the family which is evidenced from the findings that 82% (121) of conflict handlers (spouse, son/daughters) come from the family itself. Poza (2004) observes

that the founder's spouse is the chief banker in the family's emotional bank. Sometimes differences at the enterprise level, in either personality or self-esteem among the family members raise disagreements that require the participation of a third party (Walton, 1997) and calls for a relative or a friend to intervene. These have a huge impact on the chances of success, and also enable family members to meet the challenges and opportunities that influence sustainability of the enterprise.

From the findings in fig. 7, this is confirmed as a true statement. The singles, divorced and the widow(er) entrepreneur/managers use other parties to handle their conflicts.

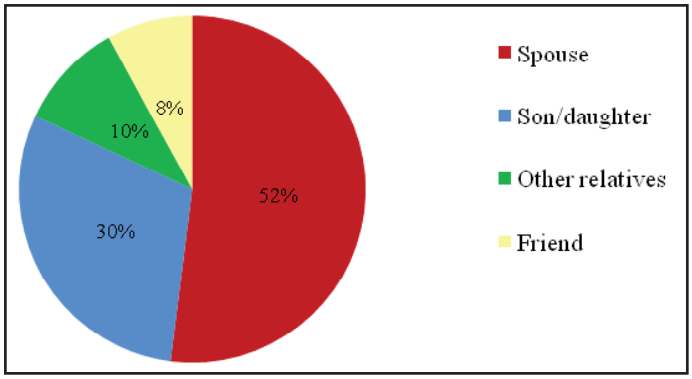

Fig. 7: Conflict Handler

E. Sustainability

The study started by investigating the correlation of experience to sustainability. It further examined sustainability in relation to business growth, increase in capital invested, increase in number of employees, increase in number of branches and increase in gross turnover. This helped to find if the enterprises included in the study were indeed sustainable.

1. Experience in Business

Table 3 shows that the respondents who had experience of between 5 to 10 years were 24% (35), 10 to 15 years were 30% (44), 15 to 20 years were 29% (43), and 20 years and above were 17% (25). Ross & Ross (1999); Landes (2006) found that apart from ensuring that the correct type of skills are obtained from a formal training perspective, family businesses also have operational experience in the business to shape decision making abilities in a related manner.

The findings show all entrepreneur/managers had sufficient experience in running the enterprises and as they all were past business incubation period, then sustainability required only ensuring good business management practices.

Table 3: Experience in Business

Experience in Years	Frequency	Percent (%)
5-10 years	35	24
10 - 15 years experience	44	30
15 - 20 years experience	43	29
Over 20 years experience	25	17
Total	147	100

2. Business Growth

The Kenya National Baseline Survey (K-Rep, 1999); Prasad (2004) describe enterprise growth as increase in capital investment, increase in number of employees, increase in revenue turn over, and expansion in branches or outlets.

An enterprise growth is the development process that the enterprise keeps the tendencies of balanced and stable growth of total performance level (including output, sales volume, profit and asset gross) or keeps realizing the large enhancement of total performance and the stage spanning of development quality and level (Olson, 1991). As shown in Figure 8, Table 3, Figure 9 and Table 5 (respectively), most enterprises had experienced growth, albeit at different levels.

(i). Increase in Capital Invested

As can be seen in Figure 8 the majority of the respondents 52% (76), had accumulated/increased their capital investment by 500%, 16% (24) by 400%, 2% (3) by 300%, 12% (18) by 200% and 18% (26) by 100% in a span of five years.

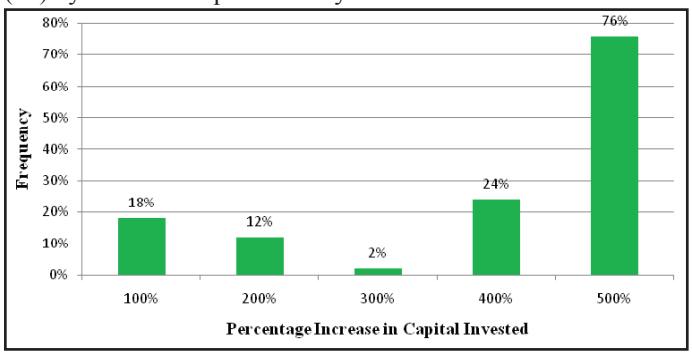

Fig. 8: Increase in Capital Invested

(ii). Increase in Number of Employees

Most of the respondents 43% (63) had increased their employees by 200%, 24% (36) had increased by 400%, 21% (31) by 300% and 12% (17) by 100% over a period of five years as shown in Table 4.21.

Table 4: Increase in Number of Employees

5-year Percentage Increase in Number of Employees	Frequency	Percent (%)
100	17	12
200	63	43
300	31	21
400	36	24
Total	147	100

(iii). Increase in Gross Turnover

Figure 9 shows that 7% (10) SMFEs had increased their turnover by 200%, 29% (43) by 400%, 35% (51) by 600%, 25% (37) by 800% and only 4% (6) by 1000% over a five year period.

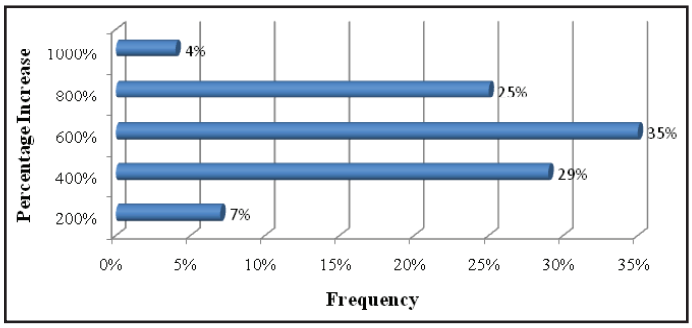

Fig. 9: Rate of Gross Turnover Increase

ISSN : 2230-9519 (Online) | ISSN : 2231-2463 (Print)

(iv). Increase in Number of Branches/Sister Companies

Most respondents 77% (113) did not have branches or sister companies, 16 (23%) had branches, 6% (9) had sister companies while 1% (2) of the respondents had branches and sister companies elsewhere. Most respondents interviewed confessed that they opted to diversify at totally different lines of business avoiding vertical or horizontal growth for personal and tax reasons. On further probing they resisted mentioning the sister enterprises although observations proofed they had. Table 5 shows that all SMFEs had experienced overall growth in revenue, capital and number of employees though at different rates which leads to their sustainability.

Table 5: Increase in Number of Branches/Sister Companies

Branches/Sister Companies	Frequency	Percent (%)
Branches	23	16
Sister companies	9	6
Both	2	1
None	113	77
Total	147	100

F. Results on Observations

1. Entrepreneurial Skills

A visual examination of the scatter plot suggests that there is a strong positive linear relationship between Sustainability of SMFEs after the Exit of the founder and Entrepreneurial skills. Therefore the level of influence of Entrepreneurial Skills on the sustainability of SMFEs after the exit of the founder can statistically be determined by performing a linear regression analysis.

Scatter plot Sustainability of SMFEs after the Exit of the founder against Entrepreneurial skills

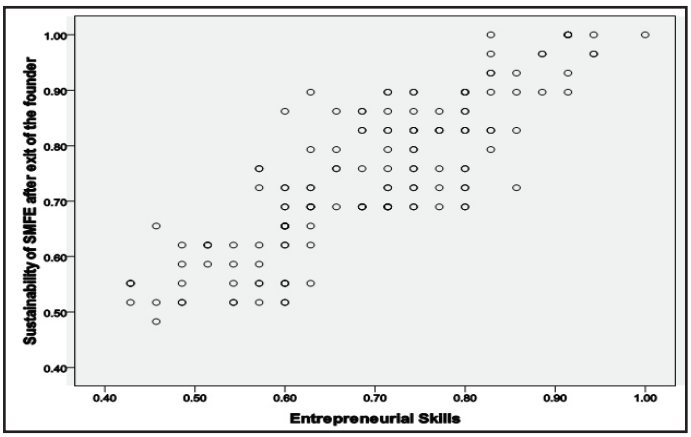

Fig. 10: Scatter Plot of Sustainability/Entrepreneurial Skills

Regression model of Sustainability of SMFEs after the Exit of the founder and Entrepreneurial skills keeping the intervening variable (Role of Principal Confidant) constant.

Table 6: Model Summary of Sustainability/Entrepreneurial Skills

Model

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.838[a]	.702	.700	.07458

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.898255	1	1.898255	341.3023	.000[a]
	Residual	0.806461	145	0.005562		
	Total	2.704717	146			

Coefficients

Model		Coefficients B	Std. Error	Sig.
1	(Constant)	.133	.034	.000
	Entrepreneurial Skills	.885	.048	.000

The regression analysis shows a very strong linear relationship. R = 0.702 and R2 = 0.700 which shows that 70% of the corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by unit change in Entrepreneurial skills. A further test on the beta coefficient of the resulting model, the constant $\alpha = 0.133$ is significantly different from 0, since the p value p = 0.000 is less than p= 0.05. The coefficient $\beta = 0.885$ is also significantly different from 0 with a p=0.000 which is less than p=0.05. This explains α that if were held constant then sustainability will be 0.133 (low) and therefore the gradient (β) and the sustainability would be very low. The Anova test in Table 6 shows that the significance of the F-statistic is less than zero. This implies that the null hypothesis $\beta_1=0$ is rejected and the alternative hypothesis $\beta_1 \neq 0$ is taken to hold implying that the model $Y= \beta_0 + \beta_1 X_1 + e$, is significantly fit.

The model Sustainability of SMFEs = α + β (Entrepreneurial skills) holds for as suggested by the test above. This confirms that there is a positive linear relationship between Entrepreneurial skills and Sustainability of SMFEs after the exit of the founder.

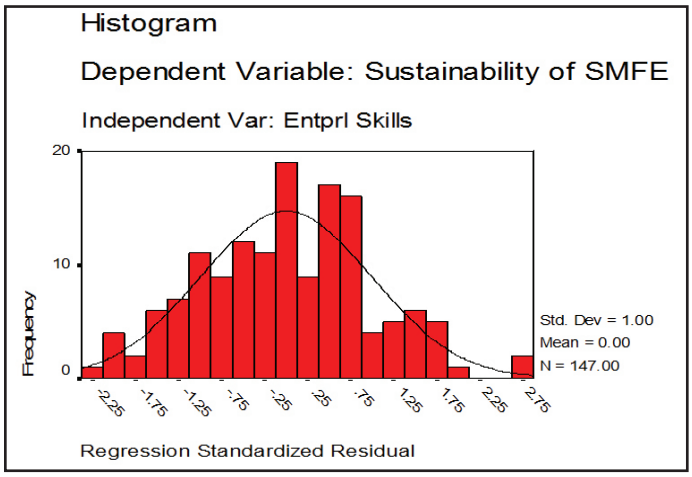

Fig. 11: Histogram of Sustainability/Entrepreneurial Skills

A visual examination of the histogram suggests a normal distribution of the standardized residuals. The statistics at the legend also show that the residuals have a mean of zero and a standard deviation of 1 as of a standard normal distribution.

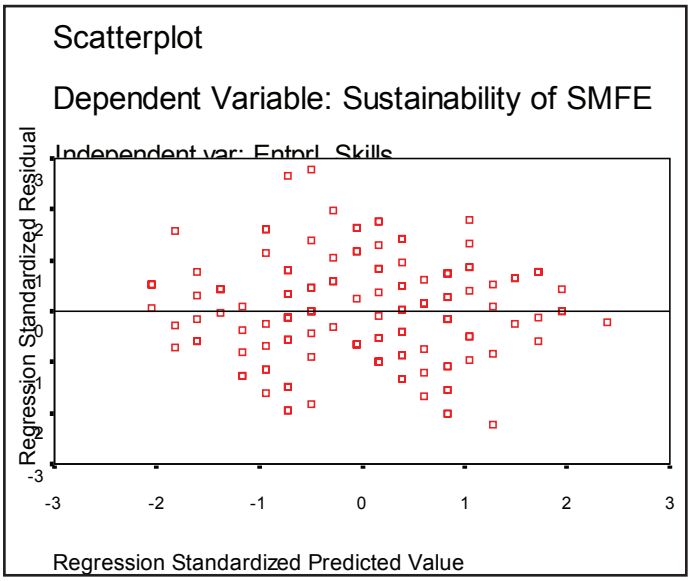

Fig. 12: Scatter Plot of Standardized Residuals on Sustainability/ Entrepreneurial Skills

The Scatter plot of the residuals also suggests a normal distribution of the residuals since the plots are evenly distributed on both the positive and negative ends. A normality test was also done and the results are as in Table 7.

Table 7: Tests of Normality on Sustainability/Entrepreneurial Skills

	Shapiro-Wilk		
	Statistic	Df	Sig.
Standardized Residual	.993	147	.643

The test for normality, the Shapiro-Wilk test shows that the Standardized residuals are significantly normally distributed with a significance 0.643 which is greater than 0.05. The findings proof that the independent variable, entrepreneurial skills has a strong influence on sustainability of SMFEs after the exit of the founder.

X. Conclusion

The research found out that entrepreneurial skills have a great positive influence on sustainability of SMFEs. Seventy per centum (70%) of the corresponding change in sustainability of SMFEs after the Exit of the founder can be explained by a unit change in Entrepreneurial skills. The entrepreneur/owner inculcates an entrepreneurial culture in the enterprise. Entrepreneurial skills of the entrepreneur/managers drive the enterprise to above average performance leading to high profitability for the sustainability of the SMFE.

XI. Recommendations

The entrepreneur/owner/manager of an SMFE requires entrepreneurial skills to propel the enterprise to long term sustainability. The entrepreneurial skills help the leader to impart an entrepreneurial culture in the enterprise which drives the family members as well as the employees to create continuously new and improved products for competitive advantage. The social environment under which the entrepreneur/manager/owner was brought up and under which the enterprise is based determines the individual behaviour of this leader. The individual behaviour of this leader has effect on sustainability of the enterprise from the values this leader imparts on the enterprise. These values are particularly influenced by cultural, religious and family values. All stake holders need to pay attention to these values to be able to predict the direction and behaviour of an SMFE.

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ISSN : 2230-9519 (Online) | ISSN : 2231-2463 (Print)

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