

# Influence of Financing on the Growth of Family Businesses in Kenya.

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**Abstract:** *Financing has remained one of the key managerial problems that keep confronting business enterprises today. The purpose of this study was to determine the influence of financing on the growth of family businesses in Kenya, with specific interest in the County Government of Mombasa. The parameters of financing used were planning for funds and financial leverage. Mixed research approach was used to carry out this study. The target population comprised of the owners and managers of family businesses across different business sectors in the region. There were 48,187 registered businesses as at 31<sup>st</sup> December, 2015. A sample size of 397 family businesses was drawn using Slovin's formula from which a response of 309 was obtained. Purposive sampling was then employed considering the nature of family businesses being carried out. Sample business units were selected deliberately by the researcher from the sample size. Both primary and secondary data were collected for this study. Data analysis and interpretation was based on descriptive and inferential statistics. Regression analysis, Pearson correlation, factor analysis and analysis of variance (ANOVA) were employed. The study results indicate that financing had a significant and positive influence on the growth of family businesses. The study concludes that financing positively influences growth of family businesses in Kenya and recommends that financing business activities should be done to promote growth of the business but at lower levels to reduce bankruptcy risks and maintain control of the business*

**Key words:** *Financial Management, Financing, Planning for Funds, Financial Leverage, Growth, Family Businesses*

## 1. Introduction

Family businesses have dominated the economic landscape around the world (Liu, Yang & Zhang, 2010 and Wee & Ibrahim, 2012), contribute an average of 75% of the GDP (Prior, 2012 and Buang, Ganefri & Sidek, 2013) and are widely seen as the backbone of the economy (Schwass, 2013). Family businesses, particularly the small-to-medium sized, are the grassroots of the global

economy (Wallace, 2010), and are clearly the majority of all the businesses in the world (Buang *et al.*, 2013). By their very nature, most SMEs are family businesses (Maalu, MacCormick, K'Obobyo & Machuki, 2013). Such family businesses continue to dominate most of the world's economies. Whether large or small, family businesses play an important role in emerging and developed economies (Wee & Ibrahim, 2012).

Financial decision making has been widely acknowledged as one of the important factors that influences financial capability and financial well-being. Thus, identifying factors that are significantly associated with financial decisions is relevant and is one of the crucial issues for individual and national development. With the dynamism in the nature of current financial landscape, not only does it highlights the importance of research in investment decision but also on the level of financial literacy and its impact on financial decision. Moreover, wealth accumulation has been identified as an important implication for the relative well-being of households (Janor, Yakob, Hashim, & Wel, 2016).

Since non-economic goals play an important role in the case of family businesses, their behaviour is to some extent different than other types of business. One of the behaviour is their choice of financing and the structure of their capital (Mohamadi, 2012). Alfred & Xaio (2013) confirms that financing family business is not a not an easy task, especially when financing with debt capital, but the problem worsens when financing is through equity. Factors that are likely to affect financing and investment decisions in family business include family culture, family cohesion, age and size of the family and firm, individual and family risk orientations, entrepreneurial characteristics, capital structure – including level and type of debt (short-term versus long-term), and family and business goals.

According to Phillips (2012), the majority of non-family businesses use share capital, retained profits and bank loans, although five out of thirteen non-

family businesses use bank overdrafts as methods of financing. Conversely, the family businesses use methods of venture capital and retained profits rather than loan capital and share capital. Some of the family businesses obtain intercompany loans as a method of sustaining their business. However, very few of the family businesses borrow loans to assist their businesses although majority of owner-managers prefer to keep their firms small. For firms that grow, the pace may be faster for non-family than family firms, partly a consequence of the sources from which growth is financed; with family firms preferring internal sources and avoiding external long-term debt.

Access to finance is essential to the survival and growth of any business enterprise. As it is the life-blood of any business enterprise, no matter how well managed, no enterprise can survive without enough funds for working capital, fixed assets investment, employment of skilled employees, etc. Businesses need financing for two basic purposes: (1) financing the production cycle since it has been stabilized i.e. working capital financing, and (2) financing capital expenditures to expand the current business, to create new ones, or simply for maintenance purposes. The two basic forms of financing for business are internal financing and external financing. The basic internal financing sources are the retained or undistributed profits from the business obtained in previous years and fresh capital injections by the owner(s) of these firms. External financing can be provided by financial institutions, suppliers and other types of creditors. Most of the SMEs, family businesses included, rely on internal financing and/or short term credit from suppliers and/or some specialized financial products. Only rarely do family firms recur to a direct loan from banks and other financial institutions to financing their needs (Harash, Al-tamimi and Alsaadi, 2014).

Krah, Aveh and Addo (2014), pointed out that financial management is one of the several functional areas of management but it is central to the success of any business. This emphasizes the central role and position of financial management in relation to the other specific areas of business management. Financial management is concerned with all areas of management, which involve finance, not only the sources and uses of finance in the enterprises, but also the financial implications of investment, production, marketing or personnel decisions and the total performance of the enterprise. Thus, financial management is concerned with what is going to happen in the future and its purpose is to look for ways to maximize the effectiveness of financial resources.

In addition, financial management involves raising the needed funds to finance the firm's assets and activities, the allocation of these scarce funds between competing uses, and with ensuring that the funds are used effectively in achieving the firm's overall goal.

## 2. Research Problem

Financing the small business sector has long attracted the attention of researchers. Depending on different objectives, researchers emphasize different aspects of financial management practices (Asuquo *et al.*, 2012). Family firms, just like any other form of business, are supposed to carry out financial management functions such as planning for funds that will enable them to be competitive, allocate resources to the most useful projects or investments and make profits as well as realize growth for the many years to come. Whether or not, family business managers and owners are able to utilize financial knowledge to carry out financial management practices and to achieve growth in the long-run is still unknown. Family business failure, among other reasons, can also be attributed to lack of proper planning for funds when undertaking financial and investment decisions for their businesses in order to achieve growth.

Financial management is one of the several functional areas of management but it is the centre to the success of any business. Inefficient financial management, combined with the uncertainty of the business environment often led business enterprises to serious financing problems. Lack of proper planning for funds are the main cause of failure for business enterprises in most developing countries. Regardless of business led by owner or hired manager, if the financial decisions are wrong, profitability of the business will be adversely affected. Consequently, a business organization's growth could also be affected because of inefficient financial management (Lakew & Rao, 2009).

In order to help family business owners and managers better understand family business issues relating to growth and profitability and to help them grow their businesses, more research should be conducted to determine the factors that are associated with financial management practices and business growth. Although many studies have been conducted on entrepreneurship and SMEs (Buang *et al.*, 2013), in Kenya and many other parts of developing world, the study on financial management practices on family firms is still lacking (Wallace, 2010). Most studies done on family business performance, for example, Wallace

(2010), Wee & Ibrahim (2012), Amran & Ahmed (2010), Prior (2012), Buang *et al.*, (2013), Sharma *et al.*, (1997) and Phillips (2012), discussed the importance of succession planning, but there are many other aspects of family businesses, specifically on financial management practices, that are yet to be given more attention.

### 3. Objective of the Study

The objective of the study was to determine the influence of financing on the growth of family businesses in Kenya, with specific interest in the County Government of Mombasa.

### 4. Research Hypotheses

The study was guided by the following hypotheses:

- $H_{01}$ : There is no statistically significant influence of financing on the growth of family businesses in Kenya.
- $H_{0A}$ : There is statistically significant influence of financing on the growth of family businesses in Kenya.

### 5. Justification of the Study

Family businesses are some of the most common forms of business in the world. Their role in economies of nations including both developed and developing countries is undeniable as many of the existing companies have started as a family business at the beginning (Mohamadi, 2012). There is a growing interest in family business research, and one reason for this development is the often reported notion that the majority of businesses may be classified as family businesses (Sten, 2007) and are small in nature (Danes, Loy and Stafford, 2005). The trend towards family business research and its importance is evidently global, as it has been recognized as the fastest growing discipline in business research (Prior, 2012).

Family firms are a promising area of research (Bennedsen, Perez-Gonzalez & Wolfenzon, 2010). Wallace (2010) points out that the benefits of family business research can be far-reaching. Not only can it contribute to the existing literature and provide information for further scholarly research, it also has the potential to give family business owners, managers and consultants information that can help them in their business endeavours. There are many family business owners who are currently struggling in terms of perceiving their business to be successful and maintaining business growth and

profitability. This study will thus contribute in raising the awareness and attract the attention that it deserves.

Comprehensive reviews on scholarly publications related to family businesses reveal that the most frequent researched topics include variables like interpersonal family dynamics, succession, consulting to family firms, gender and ethnicity issues, legal and fiscal issues, estate issues, and business performance and growth (Wee & Ibrahim, 2012). Family firms are widespread around the world and are also correlated with significantly more variation than other firms in measures of economic output (Bennedsen *et al.*, 2010).

### 6. Review of Literature

#### 6.1 Theoretical Framework

There is currently no framework or a theory of the family business to help researchers design adequate empirical research and to properly interpret the results of their investigations. Until recently, this developing academic field lacked depth in terms of theoretical foundations of the “theory of the family firm”. The basis for the firm governance discussion in science was until recently almost only constituted by the principal-agent theory. Moreover, different theories are provided to lead theoretical perspectives and make progress in the construction of a framework in which empirical research can be properly interpreted for better understanding the features, outcomes and behaviours of the family firms. Lately, researchers have begun to rely more and more on other theoretical perspectives, such as the Agency theory, Capital Structure theories (Pecking Order Theory and Trade-off Theory) and Resource Based View theories (Molina & Rutterford, 2011).

#### 6.2 Pecking Order Theory

According to Frank & Goyal (2005), the pecking order theory stems from Myers (1984) who was influenced by the earlier institutional literature including the book by Donaldson (1961). They showed Myers (1984) argument that adverse selection implied that retained earnings are better than debt and debt is better than equity. The ranking was motivated with reference to the Myers and Majluf’s (1984) adverse selection model. The ordering, however, stems from a variety of sources including agency conflicts and taxes.

According to Hancock (2009), the Pecking Order Theory proposes that there is uneven information between managers and investors. This provides

another means of overcoming one of the limitations of the original Modigliani and Miller (1958) capital structure view. This asymmetry leads to firms preferring internal funds over external funds; however, when internal funds are no longer available, debt is preferable to equity due to the riskiness of equity. Internal funds hold no adverse selection risk. The cost is internal and completely controlled by the entrepreneur. Debt is a higher risk, there is the need to repay it, but the costs are external and therefore are considered to be moderate, or incur minor adverse selection risk. Equity comes with a higher adverse selection risk and information asymmetries between the investor and firm are significant. Therefore, the cost of such finance is much higher with the investor factoring in the higher risk thus looking for a higher return. Therefore, equity is only sourced after the ability to borrow funds is exhausted.

The approach of the Pecking Order stated that firms pursue a hierarchical sequence in their selection of the financing sources, in order to reduce costs of finance. Thus, firms rely on the internal sources firstly, then the debt (whether the issuance of debt instruments or loans) when internal sources are insufficient, and they leave the finance by the issuance of equity as a later option. This implies that firms with a high level of profits have a lower leverage ratio due to being capable to finance investment needs by internal sources, and external sources are not necessary. However, when the business is unprofitable, their cash flows are not enough to fulfil investments needs, and they tend to use debt within the alternatives of external financing, as it is closest to the top of the hierarchy. In this regard, the need of external borrowing will decrease with an increase in the profitability of the company although some studies documented that the relation between profitability and debt is negative (Dwaikat, Queiri & Aziz, 2014).

Although Pecking Order Theory was developed for large, quoted companies, it is equally applicable to small or family firms. Firms tend to use cash credit as a first choice for financing their working capital needs. However, the excessive reliance on the banking system for working capital finance exerts some pressure on the banks, and a significant portion of their available resources are first channelled to the large firms. It is also noted that the long-term sources of funds for working capital appear to be dominant in many industries and that cash credit is the next major source for financing working capital. Another important dominant source for funding the working capital requirement is trade credit. Trade credit is usually called a spontaneous source of finance and is normally available as part of the trade terms. Most firms with

limited access to the long-term capital markets tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their operations. Managers thus, prefer internal funds because this form of funding ensures that they can maintain control over operations and assets. If debt financing becomes necessary, the managers are assumed to favour short-term debt because this source does not tend to involve any demand for collateral security. There is also increased dependence on short-term financing for the less profitable firms. The less profitable a firm is, and therefore the less self-sufficient it is through the reinvestment of profits, the more likely that it will need to depend upon short-term debt financing for its assets and activities (Padachi, Howoth and Narasimhan, 2012).

Vilaseca & Aznarez (2010) developed a theoretical framework that clarifies why family businesses show a low debt level when compared to non-family businesses. It can be added to the accepted view of capital structure theory and provides a new dimension for the evaluation of family business performance. They defined this dimension as “family capital” and it reflects the unity and harmony that prevails among family members. They claim that this factor is closely linked to financial leverage. In the capital structure of a business there is a decision to be made as to how much of the operations volume should be financed with debt and how much with own resources. In both alternatives, bearing in mind that each of the suppliers of these resources (the bank and the shareholders, respectively) will demand an appropriate return. The resulting capital cost will then be the weighted average cost of capital. The actions that the family business undertakes as a result of the decision making process of its management have an impact on the “family capital” level. In particular, the capital structure decision-making process reveals the existence of issues that are in conflict regarding the effects on the family capital level compared to the business performance (economic dimension). Their proposal concerning the concept of family business performance combines both series of factors that are intrinsic to the shareholder value. On the one hand, the business performance (represented by the economic dimension) and on the other hand, the family capital (represented by performance achieved by the family dimension).

Pecking Order Theory has been supported by a number of other studies in various environment. However, there is no evidence at all that there is a pecking order regarding debt and equity. There is some evidence that start-up entrepreneurs skip the search for debt altogether and move straight to

equity finance. This could be for a number of reasons; chiefly amongst them is that there is a belief that banks simply do not lend money to start-ups. When they do, they actually lend on the basis of a steady income independently of the start-up business and adequate security in the form of collateral (invariably real estate). Because of this, any debt that an entrepreneur is able to secure is personal. This has interesting ramifications for this theory. In the case where an entrepreneur is able to secure a business loan, what appears to be occurring is that loans are provided to the entrepreneur. Then, that capital is injected into the business. Thus, it is owner's equity rather than external equity. Therefore, the concept of using internal funds then debt is not relevant in a start-up situation (Hancock, 2009).

### 6.3 Trade-off Theory

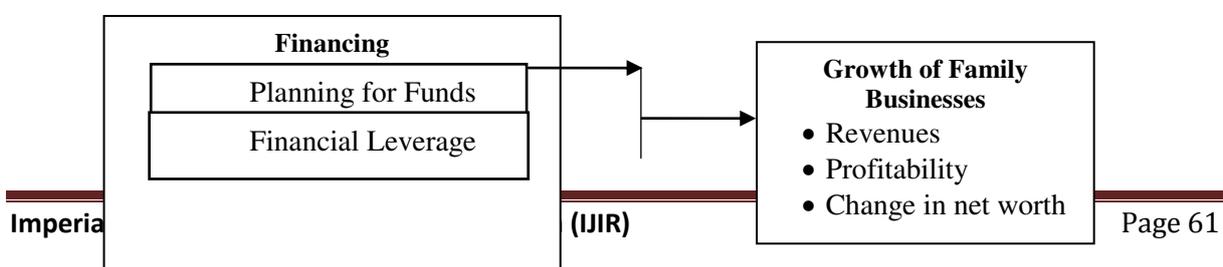
Hancock (2009) explains that trade-off theory first proposed by Modigliani and Miller in 1958 essentially predicts that firms moved toward a point of ideal debt to equity ratio. This ratio is independent of the market value of the firm and lifecycle stage. The concept is the starting point for many other theories regarding how firms arrive at their capital structure. The major variation that is evident when accounting for the assumptions underpinning Modigliani and Miller's original theory is that of taxation regulations. Modigliani and Miller's (1958) theory can be used to describe how firms utilize taxation to manipulate profitability to develop an optimum debt level. However, the theory has been both criticized and supported. Criticisms have predominately been from the perspective that the theory is based on assumed perfect knowledge in a perfect market and in many cases, firm behaviour tends not to follow the predictions of the theory. The theory predicts that highly profitable firms will have higher debt levels in order to maximize taxation benefits and increase the availability of capital. However, many observations of firm behaviour show highly profitable firms with comparatively low debt levels. There has been some recent support for the theory that firms do indeed attempt to establish an ideal debt to equity ratio and then move toward achieving that goal.

The Trade-off theory gathers the pros and cons of the usage of debt. On one side, the usage of debt in capital structure gives a reduction of tax burdens. An increase in the level of debt comes with the risk of bankruptcy, since the likelihood of bankruptcy rises with the degree of the company's indebtedness at a lower level of leverage, and the likelihood of the firm's bankruptcy may not be serious, but at a higher level of indebtedness, agency problems and costs of bankruptcy become serious, and costs of bankruptcy are more than the tax benefits of debt. Therefore, there is an optimal leverage ratio, which is the point where the cost of failure and the tax benefits of debt are equal. The trade-off theory proposes that a firm selects its optimal capital structure through balancing the benefit and cost of using debt (Dwaikat *et al.*, 2014).

According to Frank & Goyal (2005), the seminal paper by Myers (1984) considered a contest between two perspectives on corporate debt. Myers calls the hypothesis that firms balance tax savings from debt against deadweight bankruptcy costs the trade-off theory. They affirm that firms first look to retained earnings, then to debt, and only in extreme circumstances to equity for financing the pecking order theory. In their review, they considered the literature and evidence that has developed out of Myers's contest that there are at least two key implications of these theories. The key implication of the trade-off theory is that leverage exhibits target adjustment so that deviations from the target are gradually eliminated. The key prediction of the pecking order theory is the strict order into financing. Myers presented these two theories as broad organizing frameworks that can potentially help account for many facts. But it is also possible to view both theories as part of a much broader set of factors that determine the capital structure of a firm.

### 6.3 Conceptual Framework

The conceptual framework of this study looks at the influence of financing as an independent variable on the growth of family businesses as the dependent variable. The sub-variables for financing are planning for funds and financial leverage. The sub-variables for growth of family businesses are revenues, profitability, and change in net worth.



Independent Variables 

*Figure 1: Conceptual Framework*

#### 6.4 Review of Financing Variables

Family businesses have played important role in most developed economies. They have proved to be the most viable engines of economic growth and development. Due to their size and scope of operations, family businesses require relatively small capital investment to start, thereby offering a relatively high labour-to-capital ratio. They also demand low technology and managerial skills, which are readily available within the society (Alfred & Xiao, 2013).

According to Asuquo *et al.*, (2012), financial management is an integral part of overall management. It is concerned with the duties of the financial managers in the business firm and how they deal with procurement of funds and their effective utilization in the business. Financial Management is mainly concerned with the effective funds management in the business. Thus, financial management practices in the family business sector have long attracted the attention of researchers. Depending on different objectives, researchers emphasize different aspects of financial management practices.

According to Taiwo & Falohun (2016), small and medium enterprises, family businesses included, constitute the driving force of such industrial growth and development and this is due to their great potentials in ensuring diversification and expansion of industrial production as well as the attainment of the basic objectives of development. Given the great potentials of small family businesses to bring about social and economic development, it is of no surprise that the performance and financing small family businesses is of huge concern especially to the developing world. Small family businesses in both developing and developed countries play important roles in the process of industrialization and economic growth, by significantly contributing to employment generation, income generation and catalyzing development in urban and rural areas.

An important factor to the growth and survival of a business is obtaining external financing. Their study provided models for efficient financial management practices. The models can then be used to provide a trajectory for improving business performance. Thus financial management practices,

which have been largely ignored among small businesses since majority of these businesses, are individually owned or family owned, and may be advanced as a standing solution to their performance problems (Turyahebwa *et al.*, 2013).

Alfred & Xaio (2013) point out that studies conducted on some selected family businesses revealed that there is no clear distinction between family businesses and non-family businesses with regards to the sourcing of finance for their businesses. Hence, there is no special financial package that exists solely for family businesses. Small (family) businesses often cite inadequate finance, coupled with high interest rate charged by the traditional banks when accessing loans, as the major constraints on the day-to-day running of their businesses. The main sources of capital for small and growing enterprises are retained earnings, and investments from family and friends. Majority of African entrepreneurs use family loans to finance their business, whilst others used private equity. However, once these sources are fully exhausted, entrepreneurs face the challenge of tapping other sources of capital such as bank loans. Bank lending policies favour more well-established firms compared to new ones, given their lack of historical financial and bank records.

Mohamadi (2012) asserts that some of the listed sources of financing in different entrepreneurial finance books cause involvement of the external financiers. They include angel investors, venture capitalist firms and public offering. There are in contrast some internal sources of financing such as unpaid dividends which do not lead to involvement of outside investors. Debt, including asset based lending and other forms of the commercial bank lending usually does not lead to loss of control of the business. Equity, on the other hand, if financed by an external source causes loss some of the control over the firm because the financiers may want to make sure they have the best compensation by the best possible management.

According to Phillips (2012), majority of non-family businesses use share capital, retained profits and bank loans, although few non-family businesses use bank overdrafts as methods of financing. Conversely the family businesses use methods of venture capital and retained profits rather than loan capital and share capital. Some of

the family businesses borrow intercompany loans as a method of sustaining this business. However, very few of the family businesses borrow loans to assist their businesses. The majority of owner-managers prefer to keep their firms small. For firms that grow, the pace may be faster for non-family than family firms, partly a consequence of the sources from which growth is financed; with family firms preferring internal sources and avoiding external long-term debt and equity.

Financing has remained one of the key managerial problems that keep confronting business enterprises today. For the family businesses, the accessibility to funds and the cost of raising them have remained issues limiting the working capital requirements, leading to premature collapse of many firms. Getting access to finance has continued to be the major leading problem. Most firms started their businesses with their own capital with sometimes minimal help from relatives and friends. The banks normally require collateral such as land, house, or automobiles to guarantee loans that are given beyond the reach of most entrepreneurs. This collateral demands stems from the perception of high risk associated with small businesses and the view that most of them are manned by one person or family owned business which have no future of continued operation once the owner dies (Alfred & Xaio, 2013).

Alfred & Xaio (2013) further explains that the difficulties that family business encounter when trying to access finance can be due to an incomplete range of financial products and services, regulatory rigidities or gaps in the financial legal framework, lack of information on both the bank's and the firm's side. Banks may avoid providing financing to certain types of businesses, in particular, startups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibilities of high returns but at a substantial risk of loss.

### **6.5 Empirical Review**

Padachi *et al.*, (2012) conducted a study on working capital financing preference in Mauritanian manufacturing firms. The study focused on the financing variables and examined the financing preferences of the firms that were requesting working capital financing. They also examined the extent of trade credit, short-term borrowing, traditional sources (bank loans and bank overdrafts), formal working capital finance, equity finance, bootstrap finance and retained profits as sources of finance among the Mauritanian manufacturing SMEs. The sample firms were asked about their sources for the funds used during the

start-up phase and also for financing their current needs. The responses regarding these different sources of funds should provide an indication as to whether the financing pattern follows a pecking order. The survey results demonstrated a clear preference for using their own savings and short-term borrowing to finance the start-up phase and for relying mostly on internally generated funds (retained profit) and short-term borrowings (bank overdrafts and bank loans) to finance the current needs of the business.

### **6.6 Critique of Existing Literature**

Wilson, Wright and Scholes, (2013) argued that family firms may be more likely to survive than non-family firms due to greater efficiency. Family firms may be more efficient in part due to their propensity to be more prudent or thrifty in resource use because they fund their activities with their own money. Family firms rely on internal sources of financing hence may scrutinize business opportunities with greater intensity and forgo inefficient unrelated diversification. To the extent that family firms engage in fewer diversifying acquisitions, business risk may also be reduced and survival chances increased.

According to Romano, Tanewski, & Smyrniotis, (2000), Myers (1984) stated that financial theories do not adequately explain financing behaviour. Despite this acknowledgment, the key determinants of capital structures of SMEs do not appear much clearer today. Obviously, without a clear appreciation of the magnitude and direction of relationships between antecedent organization and owner-manager characteristics and capital structure, researchers are unable to explicate satisfactorily how family business owners choose between different types of finance. Family business owners typically reinvest most, if not all, of their funds during the early stages of the life cycle of their business. However, in later years, because of families' growing financial demands, owners tend to use company profits rather than reinvesting capital for additional growth.

## **7. Research Methodology**

### **7.1 Research design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose (Kothari & Garg, 2014). This study adopted a mixed research design where both quantitative and qualitative approaches were used to determine the influence of financial management practices and growth of family firms. According to Creswell

(2014), both forms of data provide different types of information. Each type of data collection has both limitations and strengths that can be combined to develop a stronger understanding of the research problem or questions (and, as well, overcome the limitations of each). This “mixing” or blending of data provides a stronger understanding of the problem or question than either by itself.

**7.2 Target population**

Kothari & Garg (2014) describes target population as total items about which information is desired.

**Table 1: Target Population**

Business (Industry) Activity	Total Number
Trading, Shop & Retail	29,247
Transport, Storage and Communications	2,172
Agriculture, Mining and Natural Resources	1,505
Tourism, Hotel and Restaurants	3,604
Financial, Professional and Technical Services	6,834
Education, Health and Entertainment	1,897
Manufacturing, Industrial and Plant	2,928
Total Number	48,187

**7.3 Sampling Technique and Sample Size**

The researcher used data or list of all registered businesses provided by the County Government of Mombasa as at 31<sup>st</sup> December, 2015. The sample size obtained was adequate and yielded desired precision. In determining the sample size, Slovin’s formula was used to calculate the sample size (at 95% confidence level and P = 0.05) as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where,

n = is the desired sample size

N = is the population size

e = margin of error (at 95% confidence level)

Therefore, sample size was given as,

$$n = \frac{48,187}{1 + 48,187(0.05)^2} = 397$$

**Table 2: Sample Size**

Business (Sector) Activity	Total	Population Percentage
Trading, Shop & Retail	29,247	60.7%
Transport, Storage and Communications	2,172	4.5%
Agriculture, Mining and Natural Resources	1,505	3.1%
Tourism, Hotel and Restaurants	3,604	7.5%

Since most small businesses are family businesses (Maalu *et al.*, 2013), the target population of this study comprised of all registered businesses by the County Government of Mombasa as at 31<sup>st</sup> December, 2015, that have been in operations for over three years with a focus on the family owners and/or managers of these family firms. The target population comprised of 48,187 registered businesses in Mombasa County as at 31<sup>st</sup> December, 2015, from different sectors as classified by the County Government of Mombasa registry as shown in Table 1 below.

With a total population of 48,187 registered businesses in the County Government of Mombasa, the sample size was 397. The study employed purposive sampling technique due to the specialized nature of family businesses being carried out in the study area. Purposive sampling is a valuable kind of sampling for special situations to increase diversity of the sample in search for different properties (Phillips, 2012).

Simple random sampling was then used to select the sample size as the researcher observed that almost all family businesses in the study area had been operating in at least more than one industry as classified in the sampling frame. The sample business units were selected deliberately by the researcher on the basis that the sample unit selected out of the sample size was typical or representative of the whole (Kothari & Garg, 2014).

Financial, Professional and Technical Services	6,834	14.2%	
Education, Health and Entertainment	1,897		3.9%
Manufacturing, Industrial and Plant	2,928	6.1%	
Total Number	48,187		100%

The selected sample units show a general representation of other family businesses in the region considering that the County Government of Mombasa generally harbours most family businesses that operate in different industries (business sectors).

#### 7.4 Data Collection Methods

Both primary and secondary data were collected for the purpose of this study. Primary data was collected from the Chief Executive Officers, General Managers and Finance Managers of family businesses in the County Government of Mombasa. The researcher used questionnaires as primary data collection instrument. Kothari & Garg (2014), defines a questionnaire as a tool that consists of a number of questions printed or typed in a definite order on a form or set of forms, sent to persons concerned with a request to answer the questions and return the questionnaire. It can be administered or mailed to the respondents. In this study, due to specialized nature of family businesses, the questionnaire were self-administered by the researcher and with the help of research assistants. Sasaka, Namusonge & Sakwa (2014) showed that self-administered questionnaires are usually preferred for purposes of developing close relationship with the respondents and also assists in providing clarifications sought by respondents on the spot. The questionnaires were collected immediately after they are filled and any omission can be detected. Both structured questions and Likert scale were used to capture relevant information for the study. The questions were formulated to address the objective of the study. Secondary data was collected from various financial journals, published financial statements and documents. Secondary data collected was used to complement and validate the primary data collected.

#### 7.5 Data Collection, Processing and Analysis

Data was collected through administration of questionnaires that were self-administered to either the Chief Executive Officer, General Manager, or Finance manager who are considered to be holding the top management positions in the family business operating in the County Government of Mombasa. The researcher also used face-to-face interviews to get highest response rate and capture important aspects apart from the questions asked in the questionnaire.

The data was collected, processed and analysed with respect to the study objective, using both descriptive and inferential statistics. The tool of analysis used for this study was Statistical Package for Social Sciences (SPSS) version 22.0 for descriptive data and Microsoft Excel for quantitative data. The data was analysed using descriptive statistics such as mode, median, mean, standard deviation. Research hypothesis was tested by use of F-Statistics (ANOVA) to measure and determine the statistical significance between the variables and to draw conclusions of the study. The data was assumed to take a normal distribution. Correlation and linear regression analyses were also used to determine the relationship between the financing and the growth of family businesses.

### 8. Research findings and Data analysis

The data collected in this study was evaluated, discussed and inferences made in an effort to address the objective of the study. Descriptive and inferential statistics were used to analyze the data on each variable. Data was presented in the form of frequency distribution tables to facilitate description and explanation of the study findings. The inferential statistical analysis was conducted for the purposes of testing hypothesis. Data analysis was in line with study objective where patterns were investigated, interpreted and implications drawn on them. Data was presented in figures and frequency tables. The researcher tested reliability and regression model results were provided.

#### 8.1 Sample Adequacy Results on Financing

The KMO and Bartlett's tests were used to test the correlation between financing variables. The KMO measure of sample adequacy results is 0.803 as shown in Table 3. This indicates good partial correlation exhibited in the data for this study. According to Ali *et al.*, (2016), the KMO index ranges from 0 to 1, with 0.5 and above considered suitable for factor analysis. The Bartlett's Test of Sphericity should be significant at  $p < .05$  for factor analysis to be suitable. The Bartlett's Test of Sphericity was used at significant level of  $p < .05$  to confirm sufficient correlation among the financing variables. The Bartlett's Test of Sphericity result is 0.0001 which shows high significance. Rusuli *et al.*, (2013), explained that Measure of Sampling Adequacy should exceed 0.5 and for Bartlett's test

of Sphericity the significant level of p at less than 0.05.

**Table 3 KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.803
Bartlett's Test of Sphericity	Approx. Chi-Square	2804.795
	Df	45
	Sig.	.000

**8.2 Factor Analysis Results of Financing**

Factor analysis was done on financing variables where constructs were subjected to a variance test through the principal component analysis test. The principle component analysis was thus used for data reduction and interpretation of the large set of data. Four factors were found to have negative

values hence expunged. The remaining six measures of financing were subjected to factor analysis and the results showed that one factor extracted was explaining the financing at 65.812%% of the total variance in this construct. This factor had Eigen values greater than 1 as shown in Table 4.

**Table 4 Financing Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.911	65.182	65.182	3.911	65.182	65.182
2	.785	13.080	78.262			
3	.498	8.305	86.567			
4	.412	6.862	93.429			
5	.210	3.506	96.935			
6	.184	3.065	100.000			

Extraction Method: Principal Component Analysis.

After expunging of 4 constructs on financing variables that had negative loadings, the remaining variables of financing have a factor loading of

higher than 0.5 as shown in Table 5. Therefore, the component values indicate that the remaining variables are highly interrelated with each other.

**Table 5 Financing Component Matrix**

	Component 1
The firm is able to plan for the funds obtained from external sources.	.864
External debt acquired is used for long-term investment purposes.	.837
Financial planning has enabled the firm to manage the firms' cash flows from business operations	.809
Family business activities are financed by debt.	.792
Planning for funds has enabled family firm to understand when to seek for financing for the business.	.771
The firm has lower levels of debt at less than 50% of the firm's capital structure.	.767

**8.3 Financing Data Normality Test Results**

Normality was used to test for significance and construction of confidence interval estimates of the parameters. The assumption is that the variables are normally distributed. In their study, Ali *et al.*, (2016), showed that the assumptions and application of statistical tools as well as suitability of the tests are important aspects for statistical

analysis. To check for normality, the study adopted the One-sample Kolmogorov-Smirnov test, Skewness and Kurtosis test, and Auto correlation test.

**a) Kolmogorov-Smirnov Test Results**

The Kolmogorov-Smirnov and Shapiro-Wilk tests were used to compare the scores in the sample to a normally distributed set of data. The decision rule in K-S test is, if the value sig. > 0.05 then the data is not normal (Ali *et al.*, 2016). Based on output co-

efficient obtained in Table 6 the value obtained in 0.000, hence sig. < 0.05. It can be concluded therefore, the data on financing is normal and did not deviate significantly from the normal distribution.

**Table 6 Tests of Normality**

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
FINANCING	.208	309	.000	.922	309	.000

Lilliefors Significance Correction

**b) Skewness and Kurtosis Results**

Measures of skewness is based on mean and median while kurtosis measures the peaked-ness of the curve of the frequency distribution (Kothari & Garg, 2014). The results presented in Table 7 show

that a skewness coefficient of 0.126 and kurtosis coefficient of 0.365. Based on these results, it was concluded that data was normally distributed since their statistic values were between -1 and +1.

**Table 7 Skewness and Kurtosis Test Results**

Variable	N	Skewness Statistic	Skewness Std. Error	Kurtosis Statistic	Kurtosis Std. Error
Financing	309	.126	.139	.365	.276

**c) Durbin-Watson Test Results**

A high degree of correlation among residuals of the regressions' data sets may produce inefficient results. As such, the presence of serial correlation among the OLS regressions is checked using Durbin and Watson's test statistic (Yupitun, 2008). Durbin-Watson statistic ranges in value from 0 to 4 with an ideal value of 2 indicating that errors are

not correlated, although values from 1.75 to 2.25 may be considered acceptable. Some authors consider Durbin-Watson value between 1.5 and 2.5 as acceptable level indicating no presence of collinearity (Makori & Jagongo, 2013). Durbin-Watson value of 1.910 indicates that the model did not suffer from autocorrelation.

**Table 8 Durbin-Watson (Autocorrelation) Test Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.732	.535	.534	3.51596	1.910

Predictors: (Constant), FINANCING

Dependent Variable: GROWTH

**8.4 Descriptive Statistical Analysis of Financing**

Descriptive data on Table 9 above shows responses on statements regarding the influence of financing on the growth of family businesses. The researcher had two parameters to determine the influence of financing namely planning for funds and financial

leverage. The factor analysis results showed than one parameter, access to finances, had less than the threshold value of 0.4 and was therefore dropped. In the analysis, the researcher intended to establish the influence of financing on the growth of family businesses in Kenya.

**Table 4.36 Financing Descriptive Statistics**

Opinion Statement	N	Min.	Max.	Mean	Std. Deviation
Planning for funds has enabled family firm to understand when to seek for financing for the business.	309	3	5	4.02	.398

The firm is able to plan for the funds obtained from external sources.	309	3	5	4.04	.444
Financial planning has enabled the firm to manage the firms' cash flows from business operations	309	1	5	4.12	.483
Family business activities are financed by debt.	309	2	5	4.16	.705
The firm has lower levels of debt at less than 50% of the firm's capital structure.	309	2	5	3.86	.955
External debt acquired is used for long-term investment purposes.	309	2	5	4.13	.866

Key: Ranked on a scale: 1.0-1.5 (strongly disagree), 1.6-2.4 (disagree), 2.5-3.4 (undecided), 3.5-4.1 (agree) and 4.2-5.0 (strongly agree)

The respondents agreed that planning for funds has enabled the family businesses to understand when to seek for financing (as indicated by mean score of 4.02) and plan for the funds acquired from external sources such as banks (as indicated by mean score of 4.04), for continued business operations. It was also agreed by respondents that due to proper financial planning, the family businesses were able to manage the firm's cash flows (as indicated by mean score of 4.12).

The respondents agreed that, on average, family business activities were financed by debt from financial institutions e.g. banks (as indicated by mean score of 4.16), and as far as possible the debt acquired by family firms were maintained at less than 50% of the capital structure (as indicated by mean score of 3.86). It was also agreed that the external debt acquired by family businesses were

mostly used for long-term investment purposes (as indicated by mean score of 4.13).

**8.5 Financing and Growth Correlations Results**

Correlation analysis was used to establish the relationship between financing and growth of family businesses in Kenya. Table 10 shows correlation matrix showing the correlation analysis with varied degree of interrelationship between financing and growth of family businesses. The Pearson correlation coefficient was generated at 0.01 significance level (2-tailed). The output indicates a strong positive relationship between financing and growth of family businesses in Kenya,  $r(307), p = 0.000$ . The  $p$ -value  $< 0.01$ , significant at 0.01 level as the correlation matrix indicates. Financing is therefore a very important factor in the growth of family businesses.

**Table 10 Financing Correlation Results**

		GROWTH	FINANCING
GROWTH	Pearson Correlation	1	.732**
	Sig. (2-tailed)		.000
	N	309	309
FINANCING	Pearson Correlation	.732**	1
	Sig. (2-tailed)	.000	
	N	309	309

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

**8.6 Financing ANOVA Results**

**Table 11 Financing ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4369.724	1	4369.724	353.481	.000 <sup>a</sup>
	Residual	3795.123	307	12.362		
	Total	8164.847	308			

Predictors: (Constant), FINANCING

Dependent Variable: GROWTH

Table 11 above presents the analysis of variance of the study. The results reveal that a significant relationship exists between financing and growth of family businesses with a  $p$ -value of 0.000. This value is less than 0.05, thus indicating that the predictor variable explain the variation in the dependent variable which is financing on the growth of family businesses. If the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable (Lakew & Rao, 2009).

## 8.7 Regression Results of Financing and Growth

Table 12 Regression Coefficients of Financing

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.872	.641		16.965	.000
	FINANCING	.992	.053	.732	18.801	.000

Dependent Variable: GROWTH

Regression analysis was conducted to empirically determine whether financing had a significant influence on the growth of family businesses in Kenya. Table 12 displays the regression coefficients results of the independent variable i.e. financing. The results reveal that the explanatory power of financing on the variability of growth of family businesses was strong at 73.2 per cent (R Square = 0.732). Financing, therefore, is statistically significant in explaining growth of family businesses in Kenya. This is supported by ( $\beta=0.992$ ,  $p$ -value = 0.000). This implied that the null hypothesis failed to be accepted and the alternative hypothesis failed to be rejected i.e.  $H_{0A}$  is accepted since  $\beta \neq 0$  and  $p$ -value < 0.05. The regression model is summarized as shown below:

$$Y = 10.872 + 0.992X_2$$

## 8.7 Discussion of Key Findings

The objective of the study was to analyze the influence of financing on the growth of family businesses in Kenya. Financing was assessed by two operational variables namely; planning for funds and financial leverage. The study results indicate that financing has a significant and positive influence of on the growth of family businesses (R Square = 0.732,  $\beta = 0.992$ ,  $p$ -value = 0.000) as shown on the regression Table 4.39. The Pearson coefficient of correlation (R) also indicated a strong positive relationship between financing and growth of family businesses in Kenya,  $r(307)$ ,  $p = 0.000$ . The  $p$ -value < 0.01, significant at 0.01 level as shown on the correlation matrix Table 4.37. Through R, it was evident that financing greatly influences the growth of family businesses in Kenya.

On planning for funds, the respondents agreed that planning for funds has enabled the family businesses to understand when to seek for financing and plan for the funds acquired from external sources such as banks, for continued business operations. This finding was supported by Omar (2014) that sound financial management, in

which financial planning is a component, is crucial for the survival and well-being of enterprises. It was also agreed by respondents that due to proper financial planning, the family businesses were able to manage the firm's cash flows. These findings are consistent with findings by Le Breton-Miller & Miller (2006) where they point out that family businesses invite long-term investments and increase the resources (funds) to invest.

On financial leverage (debt-equity mix), the respondents agreed that, on average, family business activities were financed by debt from financial institutions e.g. banks, and as far as possible the debt acquired by family firms were maintained at less than 50% of the capital structure. This finding is supported by Vilaseca & Aznarez (2010) and Dwaikat *et al.*, (2014), that lower levels of debt are preferred reducing the risk of bankruptcy. It was also agreed that the external debt acquired by family businesses were mostly used for long-term investment purposes. These findings were consistent with study done by Alfred & Xaio (2013) and where they point out the difficulty family businesses face when it comes to financing their operations and maintaining levels of debt-equity mix. The findings were also in agreement with Phillips (2012), Hancock (2009), and (Harash *et al.*, (2014) that family firms borrow less, preferring internal sources and avoiding long-term debt. Findings also contradicts study by Ampenberger Ampenberger, Schmid, Achleitner, & Kaserer (2013) who found out a positive and significant correlation between firm size and leverage i.e. as family size and firm age increases financial leverage also increases.

## 9. Conclusions and Recommendations

## 9.1 Conclusions

The objective of the study was to analyze the influence of financing on the growth of family businesses in Kenya. The indicators of financing were planning for funds and financial leverage. Descriptive statistical methods were used to reach

at the results. Most of the respondents agreed that planning for funds and financial leverage greatly influences growth of family businesses in Kenya. Inferential statistical methods also gave findings and deductions. Findings on correlation and regression analyses indicated that there was a significant and strong positive association between financing and growth of family businesses. The financing indicators were found to be statistically significant in explaining the influence of financing on the growth of family businesses. As such, a unit change in financing resulted in a change in the growth of family businesses in Kenya.

The study results indicate that financing has a significant and positive influence of on the growth of family businesses. The regression results reveal statistically significant positive linear relationship between financing and growth of family businesses in Kenya. This was attributed by proper planning for business funds and maintaining adequate levels of financial leverage (firms' capital structure) to maintain control of the business. It can therefore be concluded that financing greatly influences the growth of family businesses in Kenya.

### 9.2 Recommendations

For any business, family or non-family, financing is important aspect to bridge the financial gap between the creditors and debtors as well as to increase the net worth of business assets. This calls for proper financial planning and budgeting. Business financing is key especially to achieve growth of the family businesses as funds are allocated to projects/assets that increase the firms' value. It was noted from the study that financing was mostly done at less than 50% of the family business capital structure. This is recommended in order to maintain control of the firm.

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