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FAMILY BUSINESS FOUNDERS' INFLUENCE ON FUTURE SURVIVAL OF FAMILY BUSINESSES

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Abstract

Small and medium sized businesses are the engines that drive economic development and contribute significantly to the Gross Domestic Products (GDP) of most countries. The roots of such businesses are the families that form their foundations. To succeed, family business founders must establish strong foundations, structures and succession plans. This paper examined the role of African and Indian business founders in determining the future of their businesses across generations. The study targeted 52 business founders (owners) and managers operating Mombasa City (Kenya) and used stratified random sampling method to identify the respondents. A questionnaire was used as the primary data collection instrument while a documentary analysis was performed to attain secondary data. The paper found that family businesses are predominant among all respondents. It was also found that most Indian families involve family members in business during strategic development and planning. In terms of longevity, Indians businesses lasted longer while African businesses were only a few years old and rarely succeeded across two or three generations. Some the reasons given for

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successful family businesses include close family ties, trust and strong relationship among members. The study concluded that family businesses remain fundamental to economic development and the role of business founders and how they prepared their businesses for succession across generations is critical.

Keywords: Founders, Africans, Indians, Generations, Succession Plans

INTRODUCTION

Small and medium-sized businesses are recognised to make formidable contribution to world economic development in terms of job creation, technological development, growth and wealth creation (Longenecker, Moore, Petty & Palich 2006; Kuratko & Hodgetts 2007). The businesses make up over 90 percent of businesses both in developed and developing countries (Burns 2001; Stokes & Wilson 2006). However, besides their major contributions, there is little recognition that majority of small and medium businesses are family owned (Bridge, O'Neill & Cromie 1998:129; Longenecker et al., 2006). It is now becoming general knowledge that almost all businesses worldwide originated from family enterprises. Numerous researches indicate that the proportion of world businesses managed and owned by families is between 65 percent and 90 percent (Farrington, 2006; Gersick, Davis, McCollom Hampton & Lansberg 1997; Neubauer 2003). Family businesses have shaped business landscape for centuries and still remain important pillars as a source of employment, income generation, and wealth creation. These businesses are small, medium, or large and have existed for centuries (Colli & Rose, 2009). The businesses are termed as the engines of the post-industrial growth processes where they are associated with nurturing entrepreneurial talents, driving technological innovation, business success, long-term strategic commitment and creating employment (Kuratko & Hodgetts 2007; Poutziouris, 2001) and account for 70 to 90 percent GDP globally (Kangethe, 2014). As such, there is increased attention and recognition of the importance and growing contribution of family business to the national and international economies (Burns, 2001). However, family businesses are remarkably hard to define given their multidimensional and intrinsic diversities. For this study, a family business is defined as one where a family owns enough equity to be able to exert control over its operations.

Although critical to economic development, the family business sector is characterized by alarmingly deteriorating survival rates. According to Ibrahim, Dumas, and McGuire (2001), only about one third of family businesses survive the transition from the founders (first generation) to the second generation of owner-management. Moreover, only about one third of the businesses survive the transition from second to third generation of ownership. Besides this

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disturbing trend, family businesses denote a sector that has also been a neglected in business researches for many years (Dyer, 2003). And according to Family Firm Institute (Walsh, 2011:8) "while the majority of family business owners would like to see their business transferred to the next generation, it is estimated that 70% will not survive into the 2nd generation and 90% will not make it to the 3rd generation." It is important to examine the relationship between family business founders and the future survival of the businesses as they transit from one generation to the next.

Background

The survival of family businesses is heavily depends on the founders' beliefs, role in establishing sustainable structures for growth and development that will hold upon their departure. The founder of the family businesses often displays entrepreneurial characteristics which include: need of achievement, internal locus of control, creativity, innovativeness, risk taking and social networking (Korunka, Frank, Lueger & Mugler, 2003). Unfortunately, most founders' demise means crisis and failure of their businesses due to lack future succession plans (Dyer, 2003). According to Lansberg (1988) company founders encounter psychological deterrents to succession planning as it may imply a letting go of power and their business control. As such, most founders avoid planning, worrying about the subsequent loss of identity, family harmony, and privacy. Yet without proper successors' processes and structures which ensure installing capable management and growth strategy, successful family successions rarely occur. Founders of family businesses favor more personal, direct, relationship-centered approaches to successional development and cultivation of healthy relationships with their prospective successors (Wang & Poutziouris, 2003). A unique characteristic of the family business is the presence of intertwining and reciprocal relationships and systems among the members and their businesses. This makes it difficult to distinguish between business operations and family operations (Sharma 2004:9). The complex web relationship includes personal financial affairs, family member affairs, power hierarchical relationships, blood ties, emotional attachment to business and inheritance procedures within that family and outside the family (Astrachan & Astrachan 1993).

According to a study by Allouche and Amam (2003) (as citied by Fattoum & Fayolle, 2009), 90 percent of U.S. firms are family-run and contribute between 30 and 60 percent of the GDP. In Western Europe countries, the contribution of small business to economic growth is between 45 percent and 65 percent. For South Africa, family businesses account for 50 percent of the economic growth (Fishman, 2009). In Kenya on the other hand, small and medium enterprises constitute about 96 percent of all registered business enterprises majority of which

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are owned by families (KPMG and Nation Media Group, 2004). The biggest challenge for these businesses is the fragile nature as they transit between generations. A cross examination of the Kenyan family business revealed that most of them face problem of inability to transit across generations. In fact, only one third of the businesses transit successfully to the second generation with only 10% to 15% of businesses surviving to the third generation (Birley, 1986; Miller, Steier, & Le Breton-Miller, 2003). This study aimed to find out how business founders influence the future survival of their family businesses.

LITERATURE REVIEW

The origin of a family business and its founder determines its success and transition across generations. There is increasing evidence that family businesses continue to move progressively from the founders to the next generations of ownership (Aronoff, Astrachan, Mendosa & Ward 1997). To transit their businesses successfully, founders spend much time empowering their successors with appropriate leadership skills, management skills and governance mechanisms (Lansberg 1999:24; Ward 2004:7). In their study of family succession, Gersick, Lansberg, Desjardins and Dunn (1999) found that some business founders invest much energy in a pool of siblings to equip them will appropriate skills to propel their businesses to the future. Such capacity building enables businesses to have multiple successors and reduces chances of failure. The approach has increasingly led to many brothers and sisters running family businesses (Ward, 2004).

Various studies have shown that different types of founders exist, for instance, parallel, serial and novice (Alsos & Kolvereid, 1998). The parallel founders are systematic in their operations and chronologically perform one activity at a time. These founders wait till the businesses show prospects of success before putting a lot of finances and committing themselves fully as fulltime workers (Alsos & Kolvereid, 1998). Serial business founders on the other hand put more effort during start-up process than do parallel founders. They also devote more time as fulltime workers from the beginning of a venture and seek for financial funding earlier compared to parallel or novice founders. However, in terms of success, the parallel founders are known to succeed more than serial owners and receive more funding (Alsos & Kolvereid, 1998). Finally, the novice business founders start their business gestation process in the same way as their more experienced counterparts. While the novice founders devote more time to the start-up period, they put more effort towards the end of the gestation process. Unlike both parallel and serial founders, novice work alone and hire employees only when necessary. It is however notable that they are less likely to start a business compared to parallel founders and serial founders (Alsos & Kolvereid, 1998).

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Irrespective of the type of founder, family businesses face with numerous challenges. Firstly, the founders-driven family businesses may be too dependent on the founders' management and leadership. Upon loss of the founders, temporarily or permanently, the businesses can easily become non-functional if the successors are unable to continue business operations. The same challenge is expected if there is lack of preparation before transferring business ownership and management to the new generations (Bamford, Bruton & Hinson, 2006). Secondly, business family founders often face considerable difficulties when their businesses achieve high unmanageable growth due to lack managerial skills, employees' management skills and risk management capabilities (Kansikas & Kuhmonen, 2008). Thirdly, founders' leadership styles and personal characteristics can affect succession planning and management (Alvarez, Sintas, & Gonzalvo, 2002). This is a major obstacle in cases where the styles are incompatible with those of employees and successors. Fourthly, African business founders' strong family networks sometimes acts as a hindrance because of employing unqualified relatives to work in the businesses. The lack of skills leads to business failures and devastations to affected families (Ranja, 2003).

The results of these critical challenges are failure for businesses to transit from one generation to another thereby killing the original vision and dream of the owner of the business. The challenges indicate that besides being founders or having entrepreneurial characteristics, business success requires start-up skills, growth management skills, relevant experience and tacit knowledge to manage, both in short term and in the long-run (Westhead, Ucbasaran & Wright, 2005).

Problem Statement

Besides the importance contribution of small and medium businesses (family included) to world economic development, the survival rate of these businesses is very low. The failures rate of small businesses in most countries range between 70 percent and 80 percent. About 80 to 90 percent of such businesses fail in their first five years of operation (Longenecker et al., 2006; Moodie, 2003). In Kenya, research indicates that more than 70 per cent of business enterprises are family-owned, but only less than 10 and 15 per cent of them survive to the third generation (Letiwa, 2010; Steier, & Le Breton-Miller, 2003). It is however notable that the Kenyan Indian family businesses have a higher survival rate than African family businesses (Himbara, 1994; Ranja, 2003). While most African business founders establish personal businesses from scratch, Indians family members join businesses at crucial stages in their life cycles, often when internal structures are becoming formalised (Shaheena & Adrian, 2002).

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Whether Indians or Africans, business founders play critical roles in determining the growth, development and laying foundation for successful survival and success of businesses. Most founders start businesses in order to attain self-employment, independence, improve family welfare and create wealth.

However, the transition of the businesses from one generation to next is critical to its survival (Pinfold, 2001). The need to examine why many businesses don't attain the desired family success is a concern that this study addressed. Similarly, while various studies on family businesses have been conducted, the role of the founders in ensuring the survival of family businesses across generations is rarely studied. This paper therefore assesses the role of business founders and their influence on the future survival of their businesses. The paper also compares African, Indian and Arab family businesses in terms of life span and durability.

Research Objective

- To establish how family business founders ensured future survival of their businesses.
- To compare Africans, Indians and Arabs businesses life spans and durability.

RESEARCH METHODOLOGY

The study was descriptive in nature. In this study the researcher used the causal-comparative research design. The population of study was 520 business owners and managers along Moi Avenue Street in Mombasa City, Kenya. The target population were business founders (owners) and managers who are the key decision makers and determinant of business survival and durability among small, medium and large family businesses.

A sample of 52 respondents was used for the study. The study also used stratified random sampling method where the researcher stratified the population into small, medium and large business types to ensure good representation of the population.

The research instrument used to collect primary data was a questionnaire while a documentary analysis was performed to attain secondary data. The questionnaire was pretested on five respondents to ensure the reliability of the instrument content. In this study, the researcher ensured that the data is a true reflection of the variables making it accurate and meaningful, and thus reduced random error and ensured that reliability was increased. Statistical Package for Social Sciences (SPSS) version 19 was used for data coding, tabulation and analysis.

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ANALYSIS AND FINDINGS

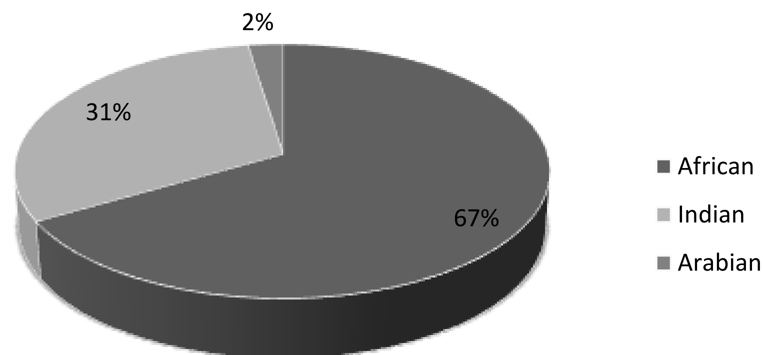
Response Rate

Out of the 52 business founders and managers targeted for this study, 42 usable questionnaires were analysed. This was a response rate of 80 percent and was considered satisfactory (Mugenda & Mugenda, 2003).

Demographic Composition of the Respondents

The study sought find out the ethnic composition of the business founders and their managers. In terms of ethnic composition, 67% of respondents were Africans, 31% were Indians while 2% were Arabs as shown in Figure 1.

Figure 1: Respondents by Ethnicity



The study also found that gender composition varied between cultures with both Indians and Arabs having no female founders or managers. However, 88% of African respondents were males and 11% are female. It was also notable that most respondents were married, that is, African (79%), Indian (92%) and Arabs (100%). This indicated that the businesses operated were family owned (See Figure 2).

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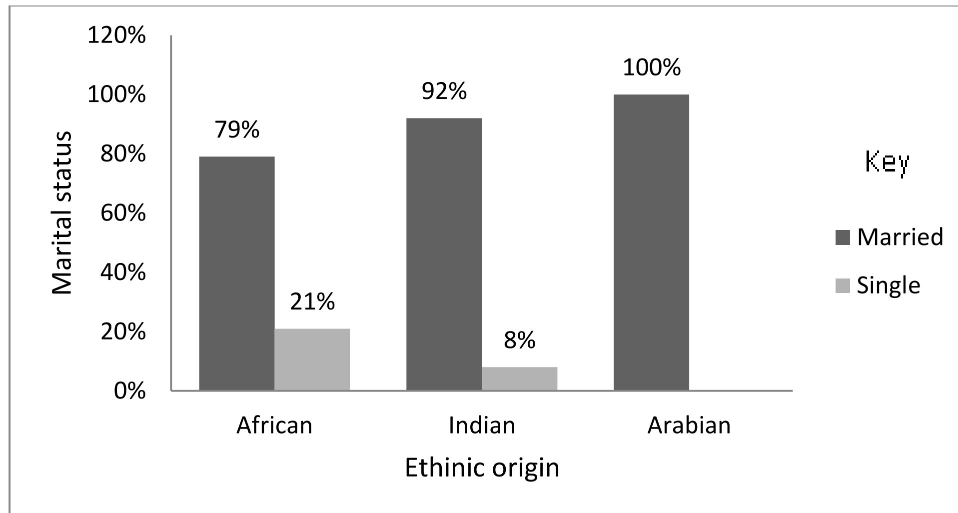
Figure 2: Marital Status of the Respondents



In terms of education, 14% of Africans and 31% of Indians had high school education while 50% of African and 38% of Indians had college education. Similarly, 32% of the African and 23% of Indian respondents had university education (See Table 1). The results indicate that both Africans and Indians business founders had a good education background necessary for their business operations.

Table 1: Education Level of the Respondents

Education level	African	Indian	Arabs	Total
Primary	0%	0%	100%	2%
High School	14%	31%	0%	19%
College	50%	38%	0%	45%
University (Undergraduate)	32%	23%	0%	29%
Masters/PhD	14%	8%	0%	5%
Total	100%	100%	100)	100%

In relation to the type of business owned, majority of the respondents indicated that their businesses were limited companies (55%), partnerships (26%) and sole proprietors (19%). However, 71% of the African respondents had limited company structure compared to 15% of the Indian respondents. The Arab respondents favored limited companies (100%). Also, 46% of the Indian respondents had the partnership structure higher than 18% of the African respondents (See Table 2).

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Table 2: Structure of the Businesses of the respondents

Structure of the business	African	Indian	Arabian	Total
Sole proprietorship	3(11%)	5(38%)	0(0%)	8(19%)
Partnership	5(18%)	6(46%)	0(0%)	11(26%)
Limited Company	20(71%)	2(15%)	1(100%)	23(55%)
Total	28(100%)	13(100%)	1(100%)	42(100%)

In relation to the age of the respondents, the study established that Indian respondents had older businesses of between 20 and 29 years (23%) or 30 years and above (62%) compared to the African respondents who had much younger businesses of 5 years or less (36 %,) and 5 to 9 years (32%). The Arabs respondents reported having businesses ranging between 9 and 10 years (100%).

Findings on Business Survival, the Founders and Survival of Businesses

The study sought to find out the survival rate of the family businesses among Africans, Indians and Arabs. The findings indicated that the Indian businesses survived longer compared to other businesses. Interestingly, the African businesses respondents (75%) agreed that Indian businesses survived longer. The Indians (54%) and Arabs (100%) also agreed that Indian businesses lasted longer than other businesses. The findings are supported by Shaheena and Adrian (2002) who states that entrepreneurs from the Indian origin are more prone to succeed in family business compared to entrepreneurs from the African origin.

The involvement of family members in business is also associated with business success rate (Shaheena & Adrin, 2002). The study therefore sought to find out how involved family members were in the operations of their businesses. The findings indicated that 75% of African did not involve family members in top managerial positions of their businesses compared to 46% of Indians and 100% Arabs who involved family members. Similarly, the Indian businesses had more family members involvement in management compared to Africans and Arabs. Astrachan and Shanker (1996) argued that a family business is one that requires direct family involvement in its daily operations. Such businesses have more than one family member performing significant managerial responsibilities. The result indicates that Indians are more inclined to own and involve family members in their businesses than the African business owners, a factor that is attributed to close family ties.

In terms of how the businesses ensured successful survival, 46% of the Africans said they did so by ensuring shared vision while 62% of the Indians said that they put in place competent leadership. The Arabs respondents emphasised that they had effective succession plans in place. There is a strong social obligation to continue family related activities and

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support its future survival. There is also strong commitment among all respondents to ensure successful family businesses.

In relation to founders' commitment to businesses' survival, several views were given. Firstly, the study sought to find out if business founders had succession plans for their businesses. Interesting all business founders indicated that they had succession plans (Africans, 71%; Indians, 38%; Arabs, 100%). The results showed that more African business owners had succession plans compared to the Indian and Arab respondents. Santarelli and Lotti (2005), suggest that succession may affect the likelihood of survival of family firms. However, the findings indicated that more Indian respondents did not have succession plans yet according to Shaheena and Adrian (2002) Indians succeed in family business than African entrepreneurs. This shows that having a succession plan does not necessarily guarantee business survival. The findings are supported by Dutta (1997) who suggests that family businesses are not merely an economic structure for most Indians but a source of social identity.

Secondly, the study findings indicated that all business founders groomed successors to take over businesses upon their departures. However, different methods of grooming were stated. The African founders groomed their successors by encouraging them to acquire soft skills. The Indian business founders groomed their successor by including them early in business strategic development and planning. The Arabs on the other hand selected qualified successors from a pool of successors. The most effective grooming method is where the successors have more experience with a specific business and are involved early in the business operations. This may explain why Indians businesses do better in successfully passing their business operations from one generation to the next (Lansberg & Astrachan, 1994).

In terms of developing the next generation of leadership that will succeed their businesses, most respondents said they had developed successors (Africans 64%; Indians, 69%; Arabs, 100%). This is helpful in the preparation of future survival of the business. The respondents also agreed that they had clear performance expectations for the next generations. The research findings are supported by Lansberg (1997), who argue that juniors should be assigned real jobs and authority and be held accountable for actual performances.

Findings on Indian and African Businesses Life Spans

The study sought to compare the longevity of both African and Arab businesses. One way to do this was to use number of employees to establish the age of the business. It was assumed that the older the business, the more employees it was expected to have (Himbara, 1994). While most African businesses had less than 4 employees (25%), 5 to 9 employees (21%) and 10 to 19 employees (36%) respectively, the Indian businesses had less than 4 employees (38%), 5 to

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9 employees (31%) and over 100 employees (15%) respectively. The findings agree with a study by Himbara (1994) who found that most Indian businesses are very old and constitute large commercial firms compared to African young start-up businesses. The argument is further supported by the current findings which indicated that most India businesses were between 20 to 29 years (23%) and over 30 years old (62%) compared to African businesses which were only between 5 and 9 years (68%). Likewise, 75% of African agreed that Indian businesses survived longer compared to those operated by Africans. The findings are supported by Shaheena and Adrian (2002) who state that entrepreneurs from the Indian origin are more likely to succeed in family business than entrepreneurs from the African origin. The reasons given for businesses surviving longer than others are:

- Trust and closer ties among the Indian families (76%);
- Continued commitment and long term vision among African businesses (9%)
- Emphasis on Islamic religion and unity in the family for Arab businesses (6%).
- Good preparation and promotion to senior positions among Indian businesses (62%).

It appears that family trust and strong ties are believed to be the main reasons for businesses to survive longer especially among Indians and Arab families. Shaheena and Adrian (2002) add that Indians are good at exploiting business opportunities and identifying niche markets in comparison to African business persons. The African often do not have an automatic heir and sometime resources may be diverted to other activities instead of re-investing in businesses as done by Indian business persons, an argument also supported by Ranja (2003).

To establish the extent to which the founders include non-family members in top management, the findings indicated that 77% of Indians did not include non-family members in their top management. Involving majority of family members in business definitely enhances the family closeness and continuity (Ranja, 2003; Shaheena & Adrian, 2002). Compared to Indians, 57% of Africans business founders involved non-family members in businesses indicating that Africans are more flexible and would not mind involving non-family members in their businesses.

The study findings also revealed that 53% of Africans did not intentionally build strongly family relationship compared to 54 % of Indians who did. Accordingly, the relationships developed easily translate into closer family trust, ties and success in the family business. Alvarez, Sintas & Gonzalvo (2002) argue that family socialization creates commitment to family businesses and desire to grow businesses together. The authors further observe that competition between siblings present among African businesses can split family businesses and threatens social trust and emotional commitment which is vital for family business survival and growth.

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DISCUSSION

This study aimed at establishing how family business founders' maintain future survival of their businesses. The study also compared the duration of both African, Indian and Arab businesses.

First, in terms of maintaining business future survival, a significant proportion of African (71%), Indian (38%) and (100%) of the Arabs respondents agreed to have succession plans in place. Supporting this finding, Santarelli and Lotti (2005), argued that succession plans do affect the likelihood of survival of family businesses. However, the findings further indicated that more Indian respondents do not have succession plans yet their businesses tend to survival and succeed compared to those started by Africans. This showed that having succession plans though important may not necessarily determine that a business would survive in the long run.

The study has established that African business founders encouraged their successors to acquire soft skills while the Indian founders included their successors in the businesses early in businesses especially during strategy development and planning. The Arabs on the other hand have a pool of potential successors. The most popular way of grooming successors according to the Indian respondents was by including potential successors early in business development. Lansberg and Astrachan(1994) have emphasized that effective successors were more experienced with business operations due to their early involvement. The more successors are involved in businesses, the more likely the businesses will be successful upon their resumption of leadership.

Another finding from the current study is that while the Indians and Arabs business founders involve their children early in business management, African founders rarely involved their children. According to Lansberg (1997), an effective succession program is where there is well-timed parent-children and mentoring as this encourages children to take active roles in business and assure its future success something that the Indians and Arabs have perfected. Similarly, all businesses founders agreed that performance expectations of the successors should be well spell-out if the businesses are to transit smoothly across generations. The findings are supported by Lansberg (1997) who strongly feels that successors should be assigned real tasks and generate actual results. When performance expectations are clear to the next generation leadership, the results are excellent control of the businesses and growth.

Secondly, the study compared the longevity of African and Indian businesses. The study findings revealed that Indian businesses had longer durations of up to 30 years or more while African businesses averaged about 10 years. Due to the longer periods, the Indians were able to employ up to 100 employees compared to African who had less than 50 employees. African businesses were very small in size compared to large Indian enterprises. Himbara (1994)

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observed that while Indian businesses had existed across several generations, African entrepreneurs had very young businesses ranging for only a few years. The findings are further supported by Shaheena and Adrian (2002) who state that entrepreneurs from the Indian origin succeed in businesses because of strong family support. This may explain why African businesses do not last beyond one or two generations.

Trust and close family ties are the glue and cement that bind family businesses and are critical for success. The Indians are very good in building and enhancing trust and support to family business members. While the African business founders believe in clear visions and their achievements, the Arabs are committed to their religious values as important in enhancing business growth. Besides this, Shaheena and Adrian (2002) observe that business success may not necessary be based on ethnicity but on the ability of the founders to exploit business niches and meet market needs. The conclusion being that family ties, trust, confidence and support are important ingredients for business success and survival across generations. It is also the ability to identify, exploit opportunities and make the right decisions that results to business success.

CONCLUSION

The study has revealed that the founder's role in a business determines its future survival across generations. The cultural values also play crucial role in determining the longevity of a business and its survival across generations. The closeness of the Indians and Arabs families has made them to provide strong pillars of support to their businesses across generations while lack of such support has made many African businesses struggle to survive across generations. The importance of identifying and exploiting opportunities and carefully managing them to maximum returns has also been singled out as critical to family business success.

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