

**EFFECT OF CORPORATE GOVERNANCE ON SUSTAINABILITY OF FAMILY
OWNED BUSINESSES: A CASE OF LISTED FAMILY OWNED FIRMS IN KENYA**

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

In as much as family businesses make up more than two thirds of all businesses in the world, their sustainability has been questioned since most of the family owned businesses do not live to see their third generation. This could be attributed to the fact that family owned businesses are fundamentally distinct from public firms, especially in issues pertinent to corporate governance. When a business is family owned, it is likely to have concentrated control and less stringent corporate governance procedures. This study therefore sought to investigate the effect of corporate governance on the sustainability of Kenyan family owned businesses. The objectives of the study were to establish the effects of ownership structure on the sustainability of family owned enterprises, to determine the effects of board composition on the sustainability of family owned enterprises, and to assess the effects of board functioning on the sustainability of family owned enterprises in Kenya. This study used a sample of listed family owned businesses since such firms have overcome all early stage challenges and have gone ahead to get listed although their founding families still hold a substantial stake in them. The study adopted a descriptive research design and the target population was senior level managers of the fourteen firms. Five managers from each of the firms resulted in a sample of seventy respondents. The study used primary data for empirical analysis. All the independent variables yielded a positive and significant relationship with the dependent variable, confirming a causal relationship between sustainability and the regressors.

Keywords: Family Businesses, Corporate Governance, Board Functionality, Board Composition, Ownership Structure, Financial Performance

DEDICATION

This project is dedicated to my wife Jane, children Evelyne, Terry, Ignatius and most trusted business associates. Thank you all.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The contemporary world has witnessed increased control of firms by people other than their owners (Shu, 2013). The essence of corporate governance is to ensure that all stakeholders of the firm have a mechanism of ensuring that the firm's management does not engage in actions which would harm the shareholders' interests. Corporate governance involves divorcing ownership from control of the business. According to Shaker *et al.* (2004), family businesses have fundamental differences with other types of businesses. Nevertheless, family businesses continue to play an integral role in the economies of many nations.

According to Sarbah & Wen (2014), today, family-owned businesses comprise of over 95 percent of all the business establishments worldwide. It is also noted that families control 53 percent of publicly traded firms estimated at the cost of more than \$500 million in market capitalization in more than 27 countries (La Porta, *et al.*, 1999). Studies in Canada, United States, Latin America and Europe show that family firms account for the highest proportion of businesses in these countries and their impact on the growth of their respective economies is tremendous. (Mustakallio, 2002). In Australia, Glassop *et al.* (2005) noted that firms comprise of close to 80 percent of the economy. In Norway, approximately 68% of active Norwegian firms are family owned (Sondergaard & Almlil, 2011). Alderso (2010) noted that in the Middle East, most of the businesses are family owned.

Sarbah and Wen (2014) noted that family owned businesses represented over 90 percent of private business and they contributed to more than most of the employment and GDP in Africa. In Ghana for instance, small enterprises provide about 85 percent of the manufacturing employment (Aryeetey, 2001). In Kenya, family businesses generate more than 60% of the country's employment. According to Dyer and Whetten (2006), there is a tendency for family firms to outperform other firms on social and corporate parameters.

Despite the contributions of the family owned businesses to the economies, their state of governance is a cause for concern to many scholars. Their sustainability is disturbingly low which according to Astrachan (2012) could be linked to management. Studies done across the world have demonstrated that only 40 percent of the family owned businesses survive to see their second generation, 12 percent to see their third, and 3% to their fourth. This has led or brought the issue of governance in family businesses to the spotlight in the past few years, with Hussein (2013) positing that indeed they could be having a governance crisis. For corporate governance efforts to yield results which are actionable by the principals of a business, the principals need to deploy appropriate tools of corporate governance. Such tool would include: formation of a well balanced and active board, commissioning of audits, ensuring financial disclosure, societal & institutional arrangements, etc (Mwaniki, 2010).

Research into the corporate of family businesses has remained scanty until recently. (Sarbah & Wen, 2014). Nevertheless, there has been a high rate of failure of family owned business, leading to an investigation of the probable causes of this failure. (Fahed-Sreih, 2009). Gompers et al (2003) posit that the corporate governance concept

envisions how different players within a firm, its board, owners and managers can work in synergy to enhance the firm's efficiency and competitiveness in the market. How the issue of corporate governance is handled across the globe tend to vary from nation to nation Hua et al (2006) posits that the historical, political, cultural, and social aspects of countries affect their corporate governance practices. This position is reinforced by Lubatkin et al., (2005) who sees these contextual elements as essential for corporate governance since they help to reduce the confusion which so often surrounds key aspects of family businesses such are financial management, succession and acquisition by other entities.

1.2 Statement of the Problem

Family owned businesses exist on a global scale. However, their influence is often invisible to management theorists and business schools (Gerick et al, 2005). Their sustainability is always put under scrutiny as according to Fleming (2003), only 30% of family businesses will survive to the second generation, and only 10% will survive to the third generation. The fact that nearly half of the world's economy is made up of family owned businesses makes it clear that the perpetuation of the world economy is rooted in the long-term sustainability of the family owned business.

In Kenya, the concerns have been raised on the rate at which family owned businesses never get to the fourth and fifth generation or very few manage to that level (Hussein, 2013). The statistics in Kenya indicates that most family business survives for up to 2nd generation. A case in point is the struggle for the control of the family businesses by the late Kirima's Family (Mumo, 2013). The recent example is the Njenga Karume where despite him appointing trustees to manage his businesses, the businesses

are near collapse barely one year since his demise. Currently, there are a few family owned businesses in Kenya that have survived to the third and fourth generation. A good example of a family business that has grown to the 3rd generation in Kenya is Sarit Centre which had grown to be one of the modern shopping malls in East Africa (Whitehead, 2012).

Several studies have been done on corporate governance in Kenya. Kalume (2012) did a study on the corporate governance in private hospitals in Coast Province. Maina (2012) did a study of the role of company secretary on corporate governance in Kenya listed companies. Jebet (2001) did a study on corporate governance on listed companies in Kenya. Munyuru (2005) did a study on the effect of corporate governance on organizational performance among companies quoted at NSE. While these studies are of importance to the researcher, they were on the general application by the various companies. The studies mainly concentrated on the listed firms with only one looking at a private hospital. However, none of the studies looked at the effect of corporate governance on sustainability of the private owned enterprises in Kenya, hence a knowledge gap. It is this gap that the researcher sought to fill.

1.3 Objectives of the Study

The general objective of the study was to investigate the effect of corporate governance in family owned businesses' sustainability on listed family owned enterprises in Kenya.

1.3.1 Specific Objectives

The following were the specific objectives of the study.

1. To establish the effect of ownership structure on the sustainability of listed family owned enterprises in Kenya

2. To determine the effect of board composition on the sustainability of listed family owned enterprises in Kenya
3. To assess the effect of board functionality on the sustainability of listed family owned enterprises in Kenya.

1.4 Research Questions

The research was guided by the following research questions:

1. What is the effect of ownership structure on the sustainability of listed family owned enterprises in Kenya?
2. What is the effect of board composition on the sustainability of listed family owned enterprises in Kenya?
3. What is the effect of board functionality on the sustainability of listed family owned enterprises in Kenya?

1.5. Significance of the Study

The study is expected to be of importance to the business owners in Kenya and beyond. It will help management in comprehending the effects that various aspects of corporate governance could have on the firm's operations & sustainability. The policy makers will obtain knowledge of the family owned enterprises dynamics and the responses that are appropriate; they will therefore obtain guidance from this study in designing appropriate laws that will govern the management of family owned enterprises. The study will provide information to potential and current scholars with regard to the effect of leadership and corporate governance on the sustainability of family owned businesses in Kenya.

1.6 Scope of the Study

The study focused on the effect of corporate governance on sustainability, with a focus of three aspects of corporate governance: ownership structure, board composition and the board functionality. It was limited to listed family firms trading in the Nairobi Stock Securities (NSE).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of related literature. Included in the chapter are the theoretical frameworks, sustainability of family owned business, corporate governance, the effect of corporate governance on sustainability of family owned businesses. Also presented is the conceptual framework.

2.2 Theoretical Framework

The research employed the stewardship theory, principal - agent theory and the three circle theory in elucidating the relationship between family business and corporate governance.

2.2.1 Principal-agent theory

Corporate governance is predominantly based on the principal-agent theory, which is a part of the new institutional economics, as it was classified by Ulrich (2009) (Ulrich 2011). The principal-agent theory deals with the appearance of specific problems within a contractual relationship between a principal and his or her agent. Alchian & Woodward (1988) and Arrow (1985) determine these problems as the adverse selection, moral hazard, hidden actions, information and characteristics (Ulrich 2011; Hack & Meyer 2012). The adverse selection describes the fact that the principal cannot exactly evaluate the agent before engaging him due to hidden characteristics. Furthermore, the hidden action and hidden information problems appear after the conclusion of the contract.

Hidden action circumscribes that the principal is not able to know all potential actions of the agent as the total supervision would exceed the principal's capabilities.

Moreover, there is information, which is only known to the agent and this is defined as hidden information. The moral hazard explains the relation of the agent who could benefit from information asymmetries and therefore harm the principal (Ulrich 2011; Hack & Meyer 2012).

According to Hendry (2002) these problems arise due to decision uncertainty, diverging interests, limited rationality, information asymmetries, individual utility maximization and opportunistic behavior (Nippa & Grigoleit 2006). Therefore it can be assumed that the principal's interests are affected negatively by inappropriate agents or the opportunistic behavior of the agent (Nippa & Grigoleit 2006).

In family companies the applicability of the principal-agent theory is depending on the owner structure. Jensen & Meckling (1976), as well as Fama & Jensen (1983) stated that no transaction costs occur, if ownership and management are unified in one person (Fama & Jensen 1983; Witt 2008; Hack & Meyer 2012). Family businesses, in which one partner holds all shares and is at the same time managing the company, do have the unity of ownership and management. The same is true for companies in which all partners hold the same number of shares and are all participating in the management of the company (Witt 2008). Therefore it can be assumed that those kinds of family businesses have the most efficient way of governance, as they do not have any agency costs (Daily & Dollinger 1992).

However, in all other family businesses the principal-agent conflict can emerge. In many family businesses not all partners are participating in the management of the company, but they are divided into active and passive partners. This can lead to moral hazards, as Jensen & Meckling (1976) argued that not all family members have the same

interests (Hack & Meyer 2012). There might be conflicts about the objectives of the company or about roles and positions of single family members within the company. Those conflicts can be solved with suitable incentives and means, but this causes high costs. Due to emotional complexity, the agency problems and therefore the transaction costs are higher in family businesses than in non-family companies (Hack & Meyer 2012).

2.2.2 Stewardship theory

As the principal-agent theory cannot be totally justified in family businesses, Argyris (1964) stated that the stewardship theory can give helpful implications for corporate governance in family businesses (Papesch 2010). Moreover, Hirsch, Michaels & Friedman (1987) and Tricker (2009) criticize the opportunistic behavior of the homo oeconomicus as not maintainable and not evidence-based (Welge & Witt 2013). According to Donaldson & Davis (1991) the stewardship theory assumes that managers also might be influenced in their behavior by altruism (Ulrich 2011). Furthermore, Davis, Schoorman & Donaldson (1997) highlight that agents are acting socially and serve the common good and therefore, they do not behave opportunistically towards the shareholders (Hack & Meyer 2012).

The stewardship theory is based on the idea of man of a steward, which benefits more from the success of the company than from individual advantages, which are at the expense of the company. Besides, stewards feel strongly tied and obliged to the company they work for. This is especially consistent with the situation in a family business, where individual family members, who are working in the company, are more oriented on collective benefit of the family and the maximization of the corporate value than on the

increase of his or her own benefits. Despite these numerous advantages of the stewardship theory, it is quite complicated to determine whether a manager, both family member and external manager, behaves more like a steward or rather like an agent (Papesch 2010; Welge & Witt 2013).

According to Davis et al. (1997) the shareholder of companies, in which the management can be seen as stewards, can trust them, give them extensive autonomy and abstain from control in companies (Welge & Witt 2013). Karra, Tracey & Philips (2006) have proven in a case study that altruism can help to converge the different interests of family members. This then leads to the reduction of transaction costs and therefore family businesses would need corporate governance only to a limited extent. However, this perception has limitations. In older and bigger family businesses altruism can cause other agency problems with raising transaction costs, because altruism occurs mostly within the immediate family (Hack & Meyer 2012).

2.3 Sustainability of Family Owned Businesses

There is no clear definition of sustainability according to many scholars (Pearce, 2002; Levin, 1997; Pearce & Vanegas, 2002). According to Jennings and Zandbergen (1995) sustainable organizations' requires first understanding how consensus is built around the meaning of 'sustainability'. Addressing the sustainability issue does not simply require discovery of the best definition of sustainability, it helps understand how definitions of sustainability are constructed and accepted.

Previous studies on sustainability of family businesses have focused on interrelationship between ownership, succession and management (Fletcher 2000). Research suggests that only 30 percent of family businesses in the USA are likely to

survive into the second generation while 15 to 16 percent are likely to survive into their third generation. The comparable numbers in the UK are 24 percent and 14 percent respectively. In another study, only 30 percent of family firms in the UK reach the 2nd generation and only 13% survive through the 3rd generation. The fact that very few family businesses survive beyond the first generation could be a pointer that the efficient functioning of family businesses is often affected by the life cycle of the founder (Astrachan & Shanker, 2003).

Bjuggren & Sund (2001) argued that the reason for the low survival rates of family businesses is attributed to the practice business inheritance by the offspring, instead of more competent professional managers. According to him the third generation lacks the drive to sustain the business due to the fact that they are more likely born with a silver spoon. A number of studies on the succession planning of family business from one generation to another. Studies have listed failures and break-ups of family businesses as power struggles and internal feuds amongst siblings and members of the extended family (Klein, 2000).

Most countries have family firms constituting the largest category in terms of ownership estimated at above 75 percent (Watts & Tucker, 2004). About a third of the companies listed in Fortune 500 are family businesses (Lee, 2004). Since they normally do not have short term orientation but are interested in growing the family wealth with necessary precautions and have a different set of strategic goals compared to non-family owned private companies, their long term contribution to economy is significant. This is true with the Indian economy too (Kowalewski, Talavera, & Stetsyuk, 2010).

However, long term sustenance of family business depends on its smooth survival across generations. Families that successfully survive three or four generations have a complex web of structures, agreements, councils and forms of accountability to manage their wealth (Jaffe & Lane, 2004). This seems to be more evident in the west compared to emerging economies such as India. Reflecting on the complexity of the process involved, succession planning has been an area of keen interest for researchers. This could be for a variety of reasons.

Organizational transition from an entrepreneurial stage to a system driven, professionally managed firm is not easy, and involves evolutions, revolutions and crisis. Also, there is often a simultaneous process of transformation taking place in the family and business with the size of activities of both growing (Chrisman & Chua, 2003).

Although ownership and management succession are the key concerns of a large number of business families, they do not devote enough attention to the process involved. A Study by (Watts & Yucker, 2004) has reported that families hesitate to address this issue. Succession dilemma is also closely related to the family policy on entry of new generation, retirement of incumbents and mechanisms for resolving conflicts.

2.4 Overview of Corporate Governance

The term ‘governance’ derives from the Latin *gubernare*, meaning ‘to steer’, which implies that corporate governance involves the function of direction rather than control. Therefore, corporate governance is a function of governing a corporation. The concept of corporate governance incorporates the question of accountability, ethics and social responsibility to society and stakeholders, and it concerns the structures and procedures associated with the direction in which an organization plans to chart (Shamsher, 2002).

Corporate governance promotes fairness, openness, and transparency in its responsibilities to stakeholders. The rise in prominence of a corporation's environmental reporting has been closely linked to the recognition that good corporate governance requires consideration of the impact a corporation has on the wider community and the environment. Irrespective of its definition, corporate governance relates to the fundamental processes whereby ultimate corporate authority and responsibility are shared and exercised by shareholders, directors and management to ensure that corporate assets provided by investors are being put to appropriate and profitable use.

Bain and Band (1996) point out that there are “widely divergent views on the nature of governance.” In its narrowest sense, corporate governance can be viewed as a set of arrangements internal to the corporation that define the relationships between managers and shareholders. For example, an influential survey article on corporate governance by Shleifer and Vishny (1997) states that: “Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.” Thus, Shleifer and Vishny (1997) define corporate governance as a set of actions and procedures that ensure a company is soundly managed so all investors receive a return on their investment that is reasonable given the risks involved.

In its broadest sense, corporate governance is concerned with maintaining a balance between economic and social goals and between individual and communal goals and, thereby, the governance framework is aimed at encouraging the efficient use of resources and, equally, requiring accountability for the stewardship of those resources (Cadbury, 1999). The aim is to align, as closely as possible, the interests of individuals,

corporations, and society.

A simple definition of corporate governance is provided by Cadbury (1999) who stated that corporate governance was “the system by which companies are directed and controlled.” Thus the concern is primarily with management and stewardship issues. Given its simplicity, this definition contains the duality of an internal (directed) and external (controlled) element (Lanno 1999). Van den Berghe and De Ridder (1999) commented that the essential principles in Cadbury’s (1999) definition are disclosure (openness is the basis of gaining public confidence in the corporate system) and checks and balances (guard against undue concentrations of power).

The governance problems that need to be addressed vary depending on the ownership structure of the corporation concerned. Where a publicly traded company has a widely diffused shareholding, the challenge of outside shareholders is to control the performance of managers. Since managers dominate the decision-making, the key governance mechanism rests with the board of directors, who need to have sufficient independence to ensure they are able to properly monitor managers’ performance. On the other hand, where a publicly traded corporation is dominated by a controlling shareholder, the primary governance issue is how the controlling shareholder can be prevented from extracting excess benefits through self-dealing or expropriation of minority shareholders’ economic rights.

2.5 Empirical Review

According to Taguiri & Davis (1996), the family and the company are separated but overlapping subsystems. Likewise, their governance systems, i.e. Business Governance and Family Governance are also interconnected. This interrelationship might obscure the

boundary of where family ends and business begins. These systems are jointly known as the family governance system; which seeks to advance the interest of both family and business simultaneously. (Koeberle-Schmid, Witt & Fahrion 2010).

The family business governance system has two constituent pillars: the business governance pillar & the family governance pillar. On the business governance pillar is the system's instruments of internal control, risk management strategy, tools of compliance management, the actual management of the firm, the firm's board, etc. On the other hand, the family governance pillar entails issues such as family involvement, education, philanthropy, management of disputes etc. Nevertheless; different families could be having different specific requirements.

Gersick, Davis, Hampton & Lansberg (1997) argue that not all tools of the family – business framework are necessary in family companies since firms tend to have different priorities & circumstances. Koeberle-Schmid et al (2010) adds that family firms rather should decide on the management strategies that suit them best.

2.5.1 Ownership Structure

According to Jensen and Meckling (1976 cited in Kennesaw & Gallen, 2010) higher firm values is achieved by companies which are controlled by their owners or by a small group of persons with aligned interests. There has been an increased study on agency theory and ownership (Morck et al. 1988; McConnell, Servaes 1990). However, the nature of relationship between performance and ownership by management, if there is any at all, is still not clear. McConaughy et al. (2001) presented evidence that family ownership control is associated with higher firm performance. However, when the family

control was split into ownership concentration and monitoring, they found that the positive effect of family control on firm performance was not clear.

Cho (1998) in his study discovered that managerial ownership did not show explanation for the firms' characteristics such as investment and value. Mahérault (2000) on the other hand opines that market concerns over the issue of the entrenchment of insiders and its effect on governance could be at play since the influence of other players tends to be suppressed by the controlling family. Likewise, Anderson et al. (2003) suggested that family ownership should be limited at 12% to avoid discouraging other investors. He noted that equity ownership for the family above this point had no further effect on lowering the cost of debt financing.

Similarly, some argue that family control can have a positive impact on value and efficiency. For example, Anderson and Reeb (2003) suggested that family ownership is an effective organizational structure and that FOFs perform better than non-FOFs. Indeed, Daily and Dollinger (1992) argued that FOFs represent one of the least costly forms of organizational governance. Jensen and Meckling (1976) also posited that formal monitoring mechanisms in FOFs are not necessary and incurring such additional costs might harm corporate performance; this is consistent with Fama and Jensen's (1985) assertion that family relationships provide improved monitoring.

Miller and Le Brendon-Miller (2005) argued that there are a number of reasons that agency costs might be reduced under FOFs. First, family members running a business have incentives to protect the family's assets (Davis et al. 1997). Second, close relationships among family members (by kinship ties, loyalty ties, joint socialization and common values) motivate family members to cooperate with each other and this reduces

the motivation for self-interest among family members (Becker 1974). Third, FOFs are managed with a long-term orientation (James 1999).

On the other hand, a number of studies (Johnson et al. 2000; Bae et al. 2002; Bertrand et al. 2002) provide evidence of various forms of private benefits enjoyed by controlling shareholders. A controlling shareholder (family) has various ways of expropriating wealth from minority shareholders and these are not limited to the use of a company's finances to pay for perquisites.

While these studies were beneficial to the researcher in that they showed that ownership structure influenced the performance of the firms in terms of investment, business returns and cost of debt financing, none of the studies linked the ownership structure to the family business sustainability, hence a need for this study to investigate the effect of ownership structure on family owned business sustainability.

2.5.2 Board Composition

The family has traditionally been the model of governance for private businesses (Gomez, 2005). Families were used for centuries to manage private estates, and in private businesses the power was in reality in the hands of the family man acting as *bonus paterfamilias*. Within the business they could act as they pleased as an owner, but also as a good father respecting laws and business rules. They are economically responsible for the business, and morally they are also responsible in relation to their families, their employees and their environment. The ownership assumptions found in a paternalistic logic are clearly different from those derived from agency theory (Johannisson and Huse, 2000). Present research based on agency theory describes faceless and heartless owners. In paternalism owners have faces and hearts (Aronoff and Ward, 2001).

A main concern in family businesses is to balance the interests of the family and the business (Carlock and Ward, 2001). Business decisions are often found to be taken in the realm of the family and family values rather than in the realm of the business (Sanna-Lena & Jenny, 2015; Johannisson and Huse, 2000). In studies about governance in SMEs we hear anecdotes about how family matters when making decisions in the business. It is reported that board meetings take place almost every day, but around the kitchen table. Others report how family concerns for the business are shared and discussed in family gatherings like a Christmas party. Both the in-kitchen discussions and the Christmas parties may be important governance mechanisms in many family businesses (Sanna-Lena & Jenny, 2015).

The traditional monitoring role of the board of directors is based on a principal-agent theory of the firm (Hillman & Keim, 2003). Also known as the finance view of corporate governance (Sanna-Lena & Jenny, 2015; Letza, Sun, & Kirkbride, 2004), this perspective asserts that the primary goal of corporations, thus, the obligation of the board, is to create maximum shareholder value (Jensen & Meckling, 1976). This perspective has, however, been questioned as being too narrow and insufficient, as it fails to see how a wider group of stakeholders can influence firm performance (Letza et al., 2004). Instead, Pfeffer (1972) suggests that directors can be seen as an instrument with which the firm manages various external stakeholders. An optimal board structure regarding size and capabilities of the directors can facilitate stakeholder management (Sanna-Lena & Jenny, 2015).

Sanna-Lena & Jenny (2015) admits that there is a dearth of studies using multi-dimensional approaches in examining the effect of board diversity on sustainability.

Instead, most researches tend to focus on individual characteristics of boards and their impact on corporate sustainability (Johnson et al., 2013). Harjoto et al. (2014) investigated the family impact on sustainability of US firms using a multidimensional approach, which gender, ethnicity, age, director experience, tenure, director power, and expertise/education) This research found out that more diverse boards are more appealing to stakeholders than less diverse ones since they are more responsive to their concerns.

As each director brings different sets of human capital, e.g. knowledge, expertise and education (Hillman, Cannella, & Harris, 2002), a more diverse board brings together different perspectives and knowledge bases. Diversity therefore enhances the ability of recognizing different stakeholder needs and influencing sustainability decisions. A board composition that potentially enhances sustainability issues, thus, becomes important for stakeholder management, which if handled properly may lead to a competitive advantage and financial success for the company (Hillman & Keim, 2003; (Sanna-Lena & Jenny, 2015).

The reviewed literature highlighted the importance of the board composition to the organizational performance where it highlighted that the influence of the family may interfere with the management of the firms. However, none of the studies highlighted the effect of board composition on the sustainability of the family owned firms, hence a knowledge gap.

2.5.3 Board Functionality

William, et al (1992) in a research about participation of the board of directors in strategic decision making discovered that it depended on the reaction of board of directors to institutional pressures and external strategic adoption. They interviewed 114

board members to collect the required data for their study (Mahmoud & Ghasem 2013). Data analysis revealed that the directors' participation in strategic decision making was negatively related to number of board members and their combination and positively related to the age of organization. Therefore, it is possible to conclude that participation of board of directors in strategic decision making is directly related to corporate financial performance (Mahmoud & Ghasem 2013).

Zahra and Pearce (1992) studied the combination of board of directors from strategic point of view. They examined the relation between combinations of board of directors versus past performance, corporate strategies, and expected future financial performance. Study sample included 119 industrial corporations from Fortune 500 for the period from 1983 to 1989. They used non-executive board members as indicator of boards' combination. They used rate of return on assets, rate of return on shareholder equity, and dividend per share as indicators of corporate financial performance. Study analysis revealed significant positive relation between board member combination and corporate financial performance (Mahmoud & Ghasem 2013).

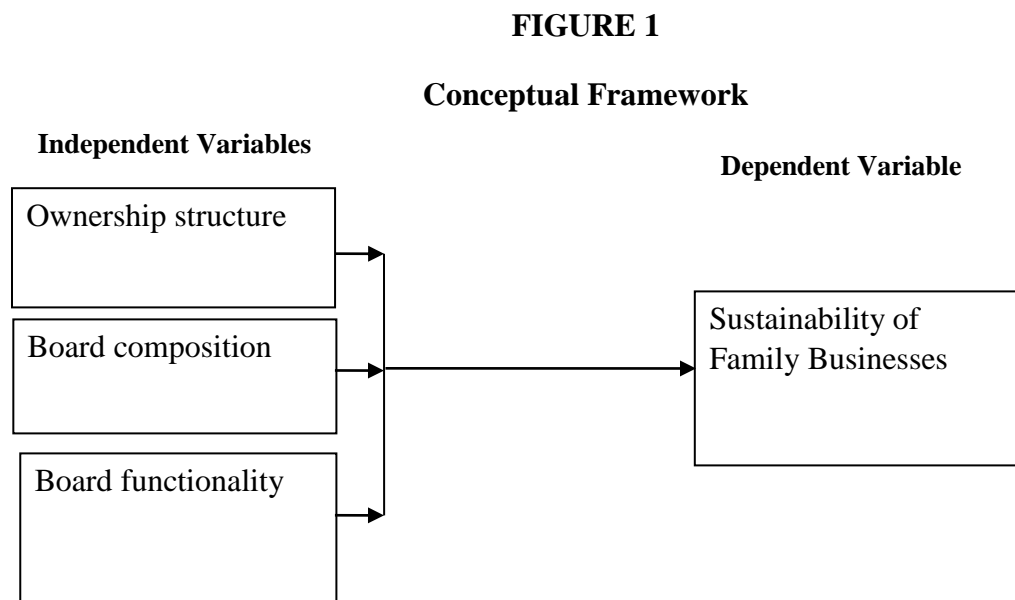
Millstone and McAvory (1998) studied the effect of active board of directors on corporate performance in large enterprises. They analyzed the economic information on 154 large enterprises for a period from 1991 to 1995. They discovered a direct relation between active board of directors and corporate financial performance (Mahmoud & Ghasem 2013). In a research about participation of board of directors in strategic decision making, Pugliese and Wenstop (2007) examined the real commitment on the part of board members for exercising their strategic role. Their research model focused on board activities and its view of quality. They considered these two factors to be more important

than board make up, number of directors, membership of chief executive, and the ratio of executive and nonexecutive board members.

Judge and Zeithaml (1992) believed that the role of board of directors in strategic management is related to corporate financial performance. They examined the effect by evaluating certain controlling variables including industry type and number of board members. They believed that board of directors helped top management to avoid mistakes by providing regular consultation and assistance (Mahmoud & Ghasem 2013).

2.6 Conceptual Framework

A conceptual framework is a logical illustration of the interrelationships between the study variables as envisaged by the research. The conceptual framework for this study is elucidated in figure 1 below.



Source: Author (2015)

2.7 Operationalization of Variables

The operationalization of variables table (table 1) shows the various theoretical statements through which the research used to measure the study constructs. The research questionnaire was designed in such a manner to allow the respondents to provide structure responses to each of the measurements shown for the research variables.

TABLE 1

Operationalization of Variables

Variable	Measurement
Ownership Structure	<ul style="list-style-type: none"> - Level of control by the controlling family - Influence of controlling family on executive-level hiring - Perceived effect of dilution of controlling family's stake - Perceived appropriateness of the current shareholding structure
Board Composition	<ul style="list-style-type: none"> - Perceived openness to board membership - The extent of power to veto board decisions by controlling family - Probability of success of a board candidate without the support of the controlling family. - Probable board composition trend in the next few years.
Board Functionality	<ul style="list-style-type: none"> - Perceived level of dedication of board members - Number of board committees. - Ability of board to act when and if needed to. - Suitability of Board members - Impact of board decisions in day to day life at the firm
Sustainability	<ul style="list-style-type: none"> - corporate social responsibility involvement - Deliberate measures to perpetuate the longevity of the firm - Efforts to mitigate the firm's adverse environmental impact. - Commitment to staff's personal development and career growth here. - The firm has a keen customer focus fostering customer loyalty.

Source: Author (2015)

All the measurements above were covered in a five point likert scale, with the possible responses for each being: SA= Strongly Agree, A= Agree, U= Uncertain, D= Disagree, and SD=Strongly Disagree

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, we first discuss the research design of this study. Next, we explain the population, sampling procedure, and data collection. Finally, we explore the data analysis methods which were used in this research.

3.2 Research Design

This study employed the descriptive research design. The descriptive research design attempts to describe a given situation or phenomenon in a bid to generate more information about the issue at hand, i.e. it tries to fill in missing information in a certain discourse to have a better understanding of the issue at hand. (Kowalczyk, 2014). Cooper and Schindler (2003) on the other hand describe a descriptive research as one which focuses on the what, where and how aspects of a given scenario. As such, it focuses on the qualities of relationships between the distinct variables of a study. In our case for instance, the focus was on the relationship between corporate governance and sustainability of listed family businesses.

3.3 Target Population

The target population of a study comprises respondents within a wider population who can yield the required information to fully execute the study. For this study, the target population was senior level executives (i.e. officials in charge of at least a functional department at their respective firms) of listed firms which met the criteria for classification as family owned firms. In order for a listed firm to be described as a family owned business, at least a quarter of the voting block must be held by members of the

pertinent family. There were 14 such companies at the time of data collection for this research. Each firm's senior level executives are as table 2 below.

TABLE 2

Target Population

Company	Family	Controlling Family' Stake	No. of Senior Level Managers
Standard Group Limited	Moi Family	69%	28
Sasini Limited	Naushad Merali	64%	18
Eveready East Africa Limited	Naushad Merali	60%	13
Rea Vipingo Plantations Limited	Robinow family*	57%	11
Sameer Africa Limited	Naushad Merali	57%	34
Kenol Kobil Limited	Nicholas Biwott	55%	28
Williamson Tea Kenya Limited	Williamson Family*	51%	14
Kapchorua Tea Co. Limited	Williamson Family*	50%	12
ARM Cement Limited	Paunrana Family	46%	24
Longhorn Kenya Limited	F.T. Nyammo	35%	15
Access Kenya Group Limited	Somen Brothers	30%	23
Carbacid Investments Limited	Patel Family	26%	14
Centum Investment Co Limited	Chris Kirubi	25%	34
NIC Bank Limited	Ndegwa Family	25%	58
TOTAL			326

**Foreign Family*

Source: Annual Reports (Disclosures)

3.4 Sampling and Sampling Procedure

A sample is a subset of a population on which a study is conducted to arrive at results which can be generalized over the entire population. To ensure a homogenous sample, free from any firm-specific bias, the researcher used simple random sampling to sample five respondents from each of the fourteen firms. This led to a final sample size of seventy respondents. The sample size is shown in table 3 below.

TABLE 3**Study Sample**

Firm	Respondents
Standard Group Limited	5
Sasini Limited	5
Eveready East Africa Limited	5
Rea Vipingo Plantations Limited	5
Sameer Africa Limited	5
Kenol Kobil Limited	5
Williamson Tea Kenya Limited	5
Kapchorua Tea Co. Limited	5
ARM Cement Limited	5
Longhorn Kenya Limited	5
AccessKenya Group Limited	5
Carbacid Investments Limited	5
Centum Investment Co Limited	5
NIC Bank Limited	5
TOTAL	70

Source: Author (2015)

3.5 Data Collection Procedure

The study used both primary and secondary data for empirical analysis. This data was collected via means of a well structured questionnaire from the sampled respondents. The questionnaire was divided into two sections: The first section sought respondents' biodata information and other general responses while the second section sought to capture information relevant to each of the three independent variables and the dependent variable. Secondary data was used to demarcate and describe the sampled firms. It was extracted from annual reports of the sampled firms and the Capital Markets Authority.

3.6 Validity of the Instrument

Validity is the degree to which a test measures what it purports to measure (Borg and Gall 2003). To ensure validity of the research instrument, the researcher took into account the opinions of expert raters and his research supervisor. The researcher was

particularly keen on content validity and construct validity. Construct validity measures the extent to which the independent variables measure the theoretical constructs while Content validity of an instrument is the degree to which a test appears to measure a concept by logical analysis of the items. The emphasis is on adequate coverage by the instrument of the scope implied by the topic of study.

3.7 Reliability of the Instrument

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials Mugenda and Mugenda (2003). To test the reliability, the researcher conducted a pilot study in which questionnaires were issued at one firm not comprising the actual study respondents. (Mugenda & Mugenda 2003). The pilot study data was analyzed, interpreted and the instruments reviewed instruments in readiness to the main data collection study. Reliability was tested using Cronbach's Alpha coefficient. Generally, values above 0.7 for the Cronbach's alpha are acceptable.

3.8 Data Collection Procedure

The researcher administered each of the instruments personally to the respondents for the purpose of collecting data. This method assisted the researcher not only to introduce the survey to the respondents but also to develop rapport with them. After that the researcher left and returned after one week to pick the filled questionnaire.

3.9 Data Analysis

Data collected through questionnaires was first cleaned, edited, coded. After coding, it was entered into STATA 12. Descriptive statistics of the combined dataset were computed at first. Next, the researcher carried out some pre-estimation diagnostics to measure the appropriateness of the data for OLS regression analysis method. Finally, the

data was analyzed using regression analysis. Results were presented through tables and figures. The regression model was of the form:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon_i \dots\dots\dots(i)$$

Where:

Y= Sustainability of Family Businesses

β_0 = Sustainability of Family Businesses in the absence of all explanatory factors.

X_1 = Ownership Structure.

B_1 = Coefficient of X_1 (change in the dependent variable due to a unit change in X_1)

X_2 = Board Composition.

B_2 = Coefficient of X_2 (change in the dependent variable due to a unit change in X_2)

X_3 = Board Functionality.

B_3 = Coefficient of X_3 (change in the dependent variable due to a unit change in X_3)

CHAPTER FOUR
FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the actual analysis which was carried out in this research. Analysis started with a presentation of the respondents' demographic information. The researcher then described the responses received for each statement posed under the independent variables. He then culminated this chapter with an ordinary least squares regression analysis to quantify the relationship between the independent variables and the dependent variable.

4.2 Response rate

Out of the seventy questionnaires which were issued in this study, 62 questionnaires were filled satisfactorily and submitted to the researcher. This implies a response rate of 88.57%, which was deemed satisfactory. According to Mugenda & Mugenda (2003), a fifty percent response rate is adequate. A response rate of sixty percent is deemed good while one which is above seventy percent is rated very well. The response rate of the study is shown in table 4 below.

TABLE 4

Response Rate

	Questionnaires administered	Questionnaires filled & returned	Percentage
Respondents	70	62	88.57%

Source: Author (2015)

4.3 Demographic Information

This section presents general demographic information of the study respondents. This is to help in forming a general profile of the respondents, thereby providing a reasonable basis of putting their responses in the remaining part of the study into perspective.

4.3.1 Gender of the respondents

From the sixty two respondents, forty eight people were men while only fourteen were women. Considering this percentage-wise, more than three quarters (77.4%) of the respondents were men. This is a testimony to the continued domination of men at the senior level in corporate Kenya. Table 4.2 outlines the gender of the respondents.

TABLE 5

Gender of Respondents

Gender of Respondents	Frequency	Percent
Female	14	22.6
Male	48	77.4
Total	62	100.0

Source: Author (2015)

4.3.2 Age of Respondents

According to table 6 below, majority of the respondents were aged fifty and above. This result is not surprising given the fact that Kenyan firms' tend to appoint senior level managers primarily by years of service and level of experience. Inasmuch as the average age of senior managers has been going down, this doesn't appear to be the trend in family-controlled businesses. Probably the fact that many members of the controlling

family tend to hold senior positions for long durations of time could be the cause of this trend.

TABLE 6

Age of Respondents

Age of Respondents	Frequency
30-34	5
35-39	11
40-44	18
50 and above	28
Total	62

Source: Author (2015)

4.3.3 Highest level of Education

The education levels of the respondents, as shown in table 7 below were absolutely impressive. Out of the sixty two respondents, only six didn't have a university degree. The other fifty six respondents had at least one university degree. The figure for respondents with a Masters degree was quite good. However, what was unexpected even to the researcher is the fact that five of the respondents were doctorate degree holders.

TABLE 7

Highest Level of Education

Highest Level of Education	Frequency	Percent
tertiary	6	9.7%
Undergraduate	27	43.5%
Masters	24	38.7%
Doctorate	5	8.1%
Total	62	100.0%

Source: Author (2015)

4.3.4 Years of Service

The research sought to know the number of years each respondent had spent at their respective employer. This was a key metric since people with many years of service would ordinarily be acquainted with the internal processes of the family controlled firms. Additionally, since they are senior employees, they would be acquainted with the modus operandi of their respective boards making it easier for them to provide meaningful responses to the questions posed in the questionnaire. The years of service for the respondents are summarized in table 8 below:

TABLE 8
Years of Service

Years of Service	Frequency	Percent
0 to 3	0	0.0%
3 to 6	4	6.5%
6 to 9	15	24.2%
9 to 12	23	37.1%
Above 12	20	32.3%
Total	62	100.0%

Source: Author (2015)

Note that most of the senior managers sampled had served for between 9 to 12 years by the time of data collection. These are followed in number by those whose years of service were more than twelve years. This suggests that many of the sampled firms choose to recruit candidates for upward progression from within their ranks, as opposed to hiring managers from outside. This trend is infact a common phenomenon for many family controlled firms, i.e. as a way of maintaining loyal family members or acquaintances in powerful offices as strategy for consolidating control.

4.4 Study Variables

In this section, the data collected on study variables is discussed in detail. The researcher used a five point likert scale to collect information pertinent to constructs of each variable.

4.4.1 Ownership Structure

The respondents were in general concurrence that the controlling family does not maintain a tight control on their respective firms. Infact, responses under this variable generally endorsed the current ownership structure of their employer firm, in which one family controls more than a quarter of voting stock. This approval could be attributed to the fact that the Capital Markets Authority's regulations for listed companies allow no meaningful leeway for controlling families to interfere with the operations of listed firms. A summary of responses under the ownership structure variable is shown in table 9.

TABLE 9**Ownership Structure**

	PERCENT OF RESPONDENTS					Mean	Std. Deviation
	SA	A	U	D	SD		
The controlling family doesn't maintain a tight control on the firm.	48.4	33.9	11.3	1.6	4.8	1.8065	1.03763
The management of the firm is competitively recruited.	43.5	41.9	6.5	8.1	.0	1.7903	.88960
Dilution of the controlling family's stake can be advantageous for the firm.	54.8	25.8	11.3	3.2	4.8	1.7742	1.09274
CMA regulations have made family interference with listed firms harder.	38.7	41.9	12.9	4.8	1.6	1.8871	.92515
The current shareholding structure is appropriate for the firm.	45.2	37.1	12.9	1.6	3.2	1.8065	.95538

Source: Author (2015)

4.4.2 Board Composition

This section handles information which was collected under the variable pertaining board composition. The study sought to explicate key attributes about the composition of boards of family controlled businesses using the constructs outlined in table 10 below. Responses under this section were less enthusiastic than in the previous section, but nevertheless they had a generally positive outlook.

The respondents generally agreed with the statement that the composition of their respective boards reflected the fact that there are outsider shareholders. There was also a general denial of the existence of veto powers over board decisions for members drawn

from the controlling families. The respondents agreed that one could get elected as a board member even without the backing of the controlling family.

The responses under this section debunk the myth that family controlled listed firms are run haphazardly and are often mismanaged by the controlling families.

TABLE 10

Board Composition

	PERCENT OF RESPONDENTS					Mean	Std. Deviation
	SA	A	U	D	SD		
The current board composition reflects the fact the firm is owned by outsiders too.	38.7	43.5	14.5	3.2	.0	1.8226	.80009
Members of the controlling family do not have undue influence over board decisions.	33.9	40.3	12.9	11.3	1.6	2.0645	1.03814
The current board has members from diverse backgrounds and professions.	29.0	41.9	24.2	3.2	1.6	2.0645	.90302
One can become elected as a board member even without the backing of the controlling family.	27.4	37.1	22.6	11.3	1.6	2.2258	1.03098
The representation of other shareholders in the board is likely to rise in the next few years	29.0	43.5	16.1	6.5	4.8	2.1452	1.06889

Source: Author (2015)

4.4.3 Board Functionality

Board functionality is a term used to describe the level of engagement of a board of directors with the management of a firm. A highly functional board takes a keen interest in the firm it oversees. Such boards provide crucial input when needed by the business

and aptly take any interventionist measure as necessary to ensure the smooth running of the firm. From the responses under this part, boards of family controlled public firms appear not to have very strong functionality. Nevertheless, a sizeable level of functionality was suggested by the research data. Please see table 11 below.

The respondents, for instance, generally agreed that their respective boards have formed a sufficient number of committees to execute their mandate effectively. On the issue of member dedication, there was strong evidence that board members of the sampled firms were dedicated to serve their organizations. There was also general concurrence that the listed firms should witness increased board utility in the next few years.

TABLE 11

Board Functionality

	PERCENT OF RESPONDENTS					Mean	Std. Deviation
	SA	A	U	D	SD		
The board has a sufficient number of committees to execute its mandate effectively.	29.0	35.5	22.6	4.8	8.1	2.2742	1.17584
Board members are dedicated to serve the organization.	30.6	27.4	22.6	19.4	.0	2.3065	1.11014
The board makes decisions with implications on the firms' management as necessary.	27.4	33.9	21.0	11.3	6.5	2.3548	1.18870
Board members possess helpful skills, expertise, and experience	22.6	38.7	19.4	17.7	1.6	2.3710	1.07481
The utility of the board is bound to increase in the next few years.	37.1	37.1	12.9	8.1	4.8	2.0645	1.12892

4.4.4 Sustainability of Family Businesses

Sustainability was the dependent variable of this study. The researcher's responses on the constructs about sustainability are summarized in table 12 below.

TABLE 12

Sustainability of Family Businesses

	PERCENT OF RESPONDENTS					Mean	S.d
	SA	A	U	D	SD		
The firm has invested resources in corporate social responsibility.	19.3	32.4	31.4	11.6	5.3	2.5121	1.09216
There has been reasonable measures to perpetuate the longevity of the firm.	17.4	32.9	30.9	14.5	4.3	2.5556	1.07286
Management has made efforts to mitigate the firm's adverse environmental impact.	16.4	28.5	35.7	13.0	6.3	2.6425	1.09621
Employees of the firm can expect personal development and career growth here.	7.2	24.2	41.5	24.2	2.9	2.9130	.94107
The firm has a keen customer focus fostering customer loyalty.	22.2	36.7	23.7	12.6	4.8	2.4106	1.11062

Source: Author (2015)

The responses in this part imply that all indicators of sustainability didn't receive enthusiastic responses. Management has a responsibility therefore of implementing decisions which will make their respective firms sustainable in the long run, will fulfilling its social responsibilities and supporting the development of its staff members.

4.5 Pre estimation Diagnostic Tests

The researcher carried out a number of diagnostic tests on the data to appraise its suitability for usage with the envisaged empirical model, i.e. multiple linear regression. These are the test for multicollinearity, normality, and heteroscedasticity.

4.5.1 Testing for Multicollinearity

Multicollinearity occurs when two or more independent variables in a dataset are highly correlated such that they can be expressed as linear combinations of each other. It reduces the robustness of regression analysis by making the model to be highly sensitive to small changes in data. In order to explore multicollinearity in the dataset, the researcher created a correlation matrix of all four variables to bring out the correlation coefficients between each pair of variables. As evident in table 13 below, all correlation coefficients were below 0.5. We can safely deduce therefore than there was no multicollinearity in the dataset.

TABLE 13

Correlation Matrix

	Ownership Structure	Board Composition	Board Functionality
Ownership Structure	1		
Board Composition	.152	1	
Board Functionality	.087	.114	1

Source: Author (2015)

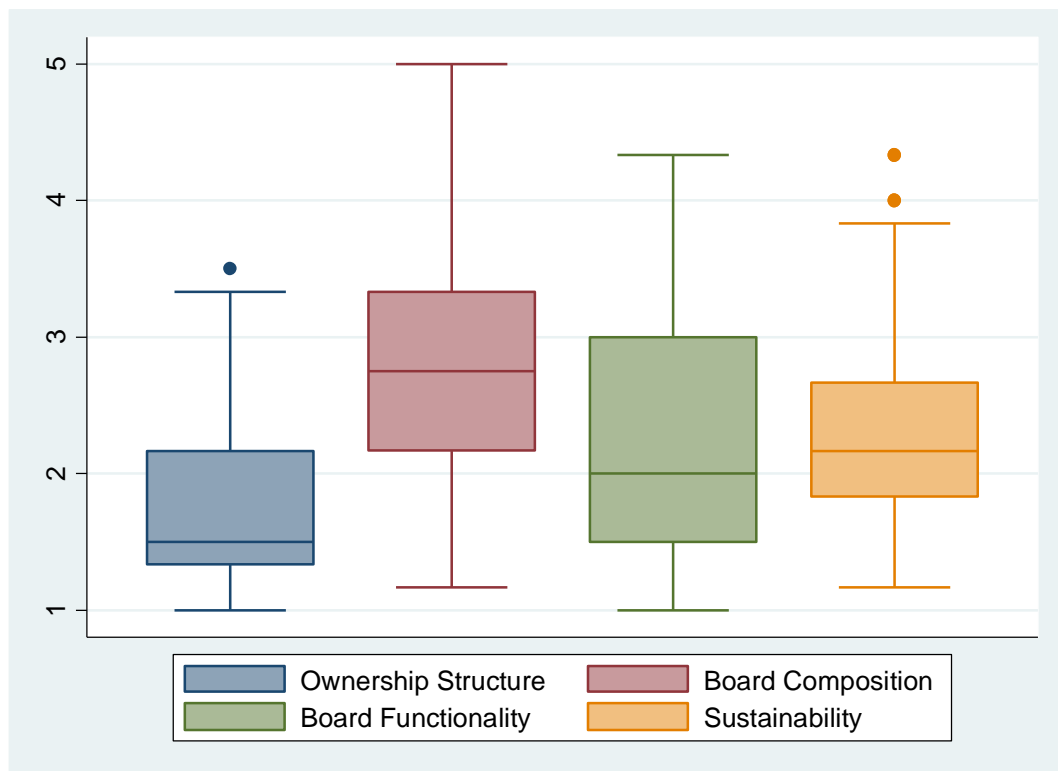
4.5.2 Pre estimation test for Normality

The researcher used box plots to explore the normality of the four research variables. The data in the “board composition” variable was found to be normally distributed while data on the other three variables was slightly left skewed, as shown in figure 2 below.

Additionally, outlier observations were noted in the “ownership structure” and “sustainability” variables. Nevertheless, the fact that all variables were not normally distributed didn’t mean that the data wasn’t appropriate for regression analysis since regression analysis require the normality of residuals and not observations.

FIGURE 2

Box Plots



Source: Author (2015)

4.5.3 Testing for Heteroscedasticity

Heteroscedasticity is a condition which arises when the variance of the error term is not constant. This results in estimators which are no longer BLUE (Best Linear Unbiased) estimators. A common consequence of heteroscedasticity is biased standard errors; which

might further lead to making wrong inferences on data due to biased parameter estimates and p values. The white test was used to test the research data for heteroscedasticity. The results of this test are shown in figure 3 below:

FIGURE 3

White test for Heteroscedasticity

```
. estat imtest, white

White's test for Ho: homoskedasticity
against Ha: unrestricted heteroskedasticity

chi2(9)      =      11.81
Prob > chi2  =      0.2245

Cameron & Trivedi's decomposition of IM-test
```

Source	chi2	df	p
Heteroskedasticity	11.81	9	0.2245
Skewness	9.37	3	0.0247
Kurtosis	0.44	1	0.5087
Total	21.62	13	0.0616

Source: Author (2015)

The decision criterion of the white test is that the null hypothesis of constant variance should be rejected when the p value is less than 0.05. Since the p value of the test is larger than 0.05, we accept the null hypothesis and conclude that the data doesn't have heteroscedasticity.

4.6 Regression Analysis and Post Estimation Results

The generally acceptable results of the diagnostic tests gave the researcher the green light to conduct ordinary least squares regression analysis. The results of this analysis together with those of other salient post estimation procedures are described in this part. Table 14 below shows the output of regression analysis.

TABLE 14

Regression Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.219	0.393		8.2	0.000
	Ownership Structure	.345	0.166	0.266	2.078	0.042
	Board Composition	.217	0.100	0.232	2.162	0.033
	Board Functionality	.121	0.037	0.143	3.276	0.012

a. Dependent Variable: Sustainability

Source: Author (2015)

According to the regression analysis, all regressors had a positive impact on sustainability. Low (<0.05) p values indicated that the relationship between the dependent variable (sustainability) and each regressor was significant. The general regression equation can therefore be re-written as:

$$Y = 3.219 + 0.345X_1 + 0.217X_2 + 0.121X_3 \dots \dots \dots (ii)$$

Where:

Y= Sustainability of Family Businesses

3.219 = Sustainability of Family Businesses in the absence of explanatory factors.

X₁ = Ownership Structure.

0.345= Coefficient of X₁

X₂= Board Composition.

0.217 = Coefficient of X₂

X₃= Board Functionality.

0.121 = Coefficient of X₃

4.6.2 Reliability Analysis

The data obtained from the research was evaluated for reliability by calculating the Cronbach's Alpha coefficient for each regressor. The respective values of this coefficient are as table 15 below.

TABLE 15

Cronbach's Alpha

Variable	Cronbach's Alpha	Acceptable?
Ownership Structure	.881	Yes
Board Composition	.704	Yes
Board Functionality	.903	Yes

Source: Author (2015)

The threshold for the Cronbach's alpha is 0.7. If the value of this coefficient for a variable exceeds 0.7, the data of the pertinent variable is deemed to have strong internal consistency and hence reliable.

4.6.3 R - Squared

The R-Squared of a regression indicates the percentage of variability within the dependent variable which can be explained by variability within the independent variables. A high value of R – Squared therefore indicates both goodness of fit of the

empirical model used in analysis and a high level of construct validity for the research questionnaire. The r – squared for this regression was 0.551 as shown in table 16.

TABLE 16

R - Squared

Model	R	R Square	Adjusted R Square
1	0.542	0.351	0.285

Source: Author (2015)

This means that 35.1% of variation in sustainability of family-controlled can be attributed to variation in ownership structure, board composition, and board functionality.

4.6.4: Analysis of Variance

The analysis of variance (ANOVA) test results for this study are shown in table 17.

The researcher concluded that the overall regression was significant since the p value of the ANOVA test was less than the level of significance (0.05).

TABLE 17

Analysis of Variance

ANOVA ^b						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.774	3	1.591	2.781	.049 ^a
	Residual	33.193	58	.572		
	Total	37.968	61			
a. Predictors: (Constant), Board Functionality, Ownership Structure, Board Composition						
b. Dependent Variable: Sustainability						

Source: Author (2015)

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The findings from chapter four are first summarized in this chapter. Conclusions and recommendations are then presented and then the chapter concludes with an elucidation of suggested areas for further research.

5.2 Summary of Findings

This part provides a discussion of the main findings of the research, with respect to the relationship between each independent variable and the dependent variable.

5.2.1 Ownership Structure

The study found a positive and significant relationship between ownership structure and sustainability of family-controlled listed firms in Kenya. The findings concur with McConaughy et al. (2001) who presented evidence that family ownership control is associated with higher firm performance. Likewise, James (1999) concluded that tight control by the founder's family makes it less probable for management to lose the strategic vision of the firm, thereby resulting in consistent high performance. With evidence from the research generally yielding a favorable view of the controlling families, a 100% advancement in this variable would lead to a 34.5% increment in sustainability.

5.2.3 Board Composition

The researcher noticed a general preference for a more diversified board. This observation was found to be in tandem with the findings of Hillman, Cannella, & Harris (2002) who concluded that a more diverse board brings together different perspectives

and knowledge bases. They also opined that diversity enhances the ability of recognizing different stakeholder needs and influencing sustainability decisions.

Sannalena and Jenny (2015) further supported this view by suggesting that board composition is a key issue in ensuring corporate sustainability and hence it should be approached with utmost criticality. They suggested that diversity is the trump card for board vibrancy and effectiveness in its governance mandate. A well diversified board therefore may lead to a competitive advantage and financial success for the company

On average, respondents were happy with the composition of their current boards especially as far as board members who are not from the controlling family are concerned. A 100% joint improvement in the constructs that form the variable would therefore lead to a 21.7% increase in firm sustainability.

5.2.4 Board Functionality

The responses felt that board functionality, although not extremely poor, can be improved. The general sentiment was that boards can and should do more. This was generally in tandem with Millstone and McAvory (1998) who studied the effect of active board of directors on corporate performance in large enterprises. They analyzed the economic information on 154 large enterprises for a period from 1991 to 1995.

Mahmoud and Ghasem (2013) further discovered a direct relation between active board of directors and corporate financial performance. Likewise, In a research about participation of board of directors in strategic decision making, Pugliese and Wenstop (2007) examined the real commitment on the part of board members for exercising their strategic role. Their research model focused on board activities and its view of quality.

They considered that aptness of the board in engaging in matters relating to the firm determined to a great extent its success in its governance role. The current research suggested that a 100% improvement in board functionality would lead to a 12.1% improvement in sustainability of family controlled firms.

5.3 Conclusion

The study concluded that all three independent variables had a positive and significant relationship with sustainability of family controlled listed firms.

5.4 Recommendations

The research recommends that family controlled firms should maintain their current ownership structure since it was found to influence sustainability positively. The controlling families should continue holding their stakes in their respective firms, since this concentration somewhat has positive repercussions for sustainability.

Boards of family controlled firms should continue being diversified to include members who are not drawn from the controlling family. This increases the pool of knowledge and experience in the corporate board which can translate to institution of better corporate governance measures. Ultimately, well governed firms are the ones which attain long term sustainability.

Boards should be keen on improving their functionality. Many corporate boards tend to be passive and disinterested in the management of the company. An active board would leverage on its powers and expertise of its members to guide the firm in the right paths to its various destinies, e.g. growth in market share, improved profitability, sustainability, etc. This is a better strategy than that followed by most boards which only implement reactionary measures after an unfavorable occurrence has taken place.

5.5 Recommendation for Further Study

The researcher suggests that the study of the determinants of sustainability should be revisited with an aim of evaluating the effects of other aspects of corporate governance, e.g. CEO duality, Percentage of female board members, age of directors, etc on sustainability on family owned businesses.

This study used listed family- controlled firms since it wanted to investigate the effect of board characteristics on sustainability, and many non listed family owned businesses do not have boards. Future researchers can design a similar research using private family controlled firms and investigate other factors of use appropriate proxies for board characteristics.

Future researchers can also conduct a comparative study: replicating this research, but with a focus on listed non-family controlled firms to evaluate whether there are any discrepancies in results and their probable explanations.

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APPENDICES

APPENDIX 1

QUESTIONNAIRE

Kindly answer the following questions as honestly and accurately as possible. The information given will be treated with a lot of confidentiality. Please do not write your name anywhere on this questionnaire. You are encouraged to give your honest opinion.

Part I

Demographic Information

1. Please indicate your gender?
Male Female
2. Please indicate your age?
30-34 years 35 to 39 years 40 to 44 years Over 50 years
3. What is your level of education?
Tertiary Undergraduate Degree Masters Degree Doctorate Degree
4. How long have you been in this Company?
Less than 3 years 3 to 6 years 6 to 9 years 9 to 12 years
More than 12 years

Part II

In this part, there are four tables named Ownership Structure, Board Composition, Board Functionality and Sustainability. Please mark (√) in the box which best describes your agreement or disagreement level on each statement in each table. The scale is SA = Strongly Agree, A = Agree, U = Unsure, D = Disagree and SD = Strongly Disagree.

1. Ownership Structure

	SA	A	U	D	SD
The controlling family doesn't maintain a tight control on the firm.					
The management of the firm is competitively recruited.					
Dilution of the controlling family's stake can be advantageous for the firm.					
CMA regulations have made family interference with listed firms harder.					
The current shareholding structure is appropriate for the firm.					

2. Board Composition

The respondents were asked to indicate their level of agreement with the statements regarding the board composition of the family owned businesses on a scale of SA = Strongly Agree, A = Agree, U = Unsure, D = Disagree and SD = Strongly Disagree.

	SA	A	U	D	SD
The current board composition reflects the fact the firm is owned by outsiders too.					
Members of the controlling family do not have undue influence over board decisions.					
The current board has members from diverse backgrounds and professions.					
One can become elected as a board member even without the backing of the controlling family.					

The representation of other shareholders in the board is likely to rise in the next few years					
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3: Board Functionality

The study sought to determine the extent to which the respondents agreed with the statements regarding the functionality of board of family owned businesses on a scale of SA = Strongly Agree, A = Agree, U = Unsure, D = Disagree and SD = Strongly Disagree.

	SA	A	U	D	SD
The board has a sufficient number of committees to execute its mandate effectively.					
Board members are dedicated to serve the organization.					
The board makes decisions with implications on the firms' management as necessary.					
Board members possess helpful skills, expertise, and experience					
The utility of the board is bound to increase in the next few years.	37.1	37.1	12.9	8.1	4.8

4. Sustainability

The study sought to determine the extent to which the respondents agreed with the statements regarding the overall sustainability of family owned businesses on a scale of SA = Strongly Agree, A = Agree, U = Unsure, D = Disagree and SD = Strongly Disagree.

	SA	A	U	D	SD
The firm has invested resources in corporate social responsibility.					
There has been reasonable measures to perpetuate the longevity of the firm.					
Management has made efforts to mitigate the firm's adverse environmental impact.					
Employees of the firm can expect personal development and career growth here.					
The firm has a keen customer focus fostering customer loyalty.					

APPENDIX II

NSE LISTED COMPANIES

AGRICULTURAL		Trading Status
1	Eaagads Limited	
2	Kakuzi Limited	
3	Kapchorua Tea Co. Limited	
4	The Limuru Tea Co. Limited	
5	Rea Vipingo Plantations Limited	Suspended
6	Sasini Limited	
7	Williamson Tea Kenya Limited	
AUTOMOBILES & ACCESSORIES		
8	Car & General (K) Limited	
9	CMC Holdings Limited	Suspended
10	Marshalls (E.A.) Limited	
11	Sameer Africa Limited	
BANKING		
12	Barclays Bank of Kenya Limited	
13	CFC Stanbic of Kenya Holdings Limited	
14	Diamond Trust Bank Kenya Limited	
15	Equity Bank Limited Ord	
16	Housing Finance Co. Kenya Limited	
17	I&M Holdings Limited	
18	Kenya Commercial Bank Limited	
19	National Bank of Kenya Limited	
20	NIC Bank Limited	
21	Standard Chartered Bank Kenya Limited	
22	The Co-operative Bank of Kenya Limited	
COMMERCIAL AND SERVICES		
23	Express Kenya Limited	
24	Hutchings Biemer Limited	Suspended
25	Kenya Airways Limited	
26	Longhorn Kenya Limited	
27	Nation Media Group Limited	
28	Scangroup Limited	
29	Standard Group Limited	
30	TPS Eastern Africa Limited	
31	Uchumi Supermarket Limited	
CONSTRUCTION & ALLIED		
32	ARM Cement Limited	
33	Bamburi Cement Limited	
34	Crown Paints Kenya Limited	
35	E.A.Cables Limited	
36	E.A.Portland Cement Co. Limited	

ENERGY & PETROLEUM		
37	KenGen Co. Limited	
38	Kenol Kobil Limited	
39	Kenya Power & Lighting Co Limited	
40	Total Kenya Limited	
41	Umeme Limited Ord 0.50	
INSURANCE		
42	British-American Investments Co.(Kenya) Limited	
43	CIC Insurance Group Limited	
44	Jubilee Holdings Limited	
45	Kenya Re Insurance Corporation Limited	
46	Liberty Kenya Holdings Limited	
47	Pan Africa Insurance Holdings Limited	
INVESTMENT		
48	Centum Investment Co Limited	
49	Olympia Capital Holdings Limited	
50	Trans-Century Limited	
MANUFACTURING & ALLIED		
51	A. Baumann & Co Limited	Suspended
52	B.O.C Kenya Limited	
53	British American Tobacco Kenya Limited	
54	Carbacid Investments Limited	
55	East African Breweries Limited	
56	Eveready East Africa Limited	
57	Kenya Orchards Limited	
58	Mumias Sugar Co. Limited	
59	Unga Group Limited	
TELECOMMUNICATION & TECHNOLOGY		
60	AccessKenya Group Limited	
61	Safaricom Limited	
GROWTH ENTERPRISE MARKET SEGMENT (GEMS)		
62	Home Afrika Limited	
BONDS MARKET		
	UAP Holding Limited	
	MRM	