

**CORPORATE GOVERNANCE AND PERFORMANCE OF FAMILY-OWNED
BUSINESSES IN KENYA**

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DECLARATION

Declaration by the Student

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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I do hereby confirm that I have examined the master's dissertation of

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And have certified that all revisions that the dissertation panel and

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ABSTRACT

Corporate governance is a system designed to professionally guide businesses by implementing solid corporate governance procedures. Corporate governance provides a framework for determining the company's goals. It also functions as a tool for measuring corporate performance and accomplishing objectives. The study sought to examine how corporate governance affects the performance of family-owned businesses in Kenya. A family business is a commercial enterprise in which different generations of family members, whether related by blood, marriage, or adoption, have a role in decision-making. Its objectives were to examine the impact of governance structures, succession planning, conflicts of interest, and board composition on the performance of these businesses. This research will benefit the management of family-owned businesses in Kenya and other organizations by providing insights into effective corporate governance practices. It will also be valuable for research organizations interested in further studies in this field. This study was supported by resource dependency theory, profit maximization theory and agency theory to clarify how corporate governance influences the performance of family-owned businesses. The study targeted 100 staff members, management, directors, and business owners from 32 family-owned businesses in Nairobi County and adopted the census method as a sampling technique. A descriptive research design was employed, utilizing structured questionnaires for data collection. The analysis was conducted using both descriptive and inferential statistics in SPSS version 25. Three diagnostic tests of multicollinearity, normality and heteroskedasticity confirmed the reliability and validity of the collected data. The descriptive statistics revealed the suitability of the sampled respondents. The inferential analysis demonstrated that governance structure, succession planning, conflict of interest and board composition have varying insignificant relationships with firm performance with all four having p-values greater than 0.05. The coefficient of determination, R^2 was 0.3478 which indicates that the estimated regression equation can predict only 34.78% of the variation. The adjusted R^2 was 0.0296 which tells us there was a 2.96% variation in company performance of the corporations due to changes in governance structure, succession planning, conflict of interest and board composition. The research recommends that family-owned firms should strive to change their current governance structure, and boards should initiate succession plans and involve external equity owners for better performance. The study suggests that research on other determinants of better performance should be revisited to evaluate their effects on corporate governance in family-owned businesses.

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LIST OF ACRONYMS

BMW	- Bavarian Motor Works
CEO	- Chief Executive Officer
CMA	- Capital Markets Authority
GLS	- Generalized Squares
KCGI	- Kenya Corporate Governance Index
KPMG	- Klynveld, Peat, Marwick, Goerdeler
NSE	- Nairobi Securities Exchange
PWC	- Price Water House Coopers
RDT	- Resource dependency theory
SME	- Small and Medium Sized Enterprises
US	- United States

LIST OF KEY TERMS

- Corporate Governance:** Corporate governance is the mechanisms, processes, and relations by which corporations are controlled and operated, (Ma et al. 2025)
- Performance** A performance is an act or process of staging or presenting a play, concert, or other form of entertainment. It is also defined as the action or process of carrying out or accomplishing an action, task, or function, (Siraj et al. 2023).
- Family-Owned Businesses** A family-owned business is a commercial organization in which decision-making is influenced by multiple generations of a family, related by blood, marriage or adoption, who have both the ability to influence the vision of the business and the willingness to use this ability to pursue distinctive goals, (Adriansah et al. 2023).
- Governance Structures** Governance structure refers to the framework of rules, practices, and processes by which an organization is directed and controlled (Hinga et al. 2022).
- Succession Planning** Succession planning is the process of identifying and developing internal personnel to fill key positions within an organization, ensuring leadership continuity (Rothwell, 2019)
- Conflict of Interest** A conflict of interest occurs when an individual's personal interests or relationships interfere with their duty to act in the best interest of their organization (Keller, 2017).
- Board Composition:** Board composition refers to the makeup of a company's board of directors, including the diversity, expertise, and balance of skills among its members (Carpenter & Westphal, 2021)

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Chapter one is the foundational chapter of the study from which stems the background of the study. It presents different perspectives of the study globally, regionally, and locally. It also presents the statement of the problem, the objectives of the study, the research questions, justification and the significance of the study and the scope of the study.

1.2 Background of the Study

Organizations remain critical to increasing the level of living and global economic advancement. Family-owned firms provide an investor-friendly climate, generate job possibilities, share information and technical competence, increase capital formation, and maximize returns on investment, (Mwangi, 2018). Each of these factors plays a crucial role in achieving sustained economic success. Family-owned businesses have created unique governing structures to safeguard shareholders' interests and ensure that the organization's mission, goals, and objectives are fulfilled. Many organizations have adopted corporate governance principles, which attempt to improve performance while encouraging responsibility, transparency, honesty, and stewardship in preserving the interests of partners and investors, (Unjunwa, 2018).

Family-owned business systems have been observed to have an enduring advantage over all other kinds of enterprises in large part because of their long-term goals, plans, and commitments (Davis, 2019). In a family-owned business, a significant percentage, though not necessarily a majority, of the stock, and family members were actively involved both on the board and in management (Nicolas, 2018).

Family being in control of the business enables them to ensure their strategy is focused on protecting their people, embedding relationships securing loyalty from clients and being flexible enough to respond to changing market conditions. Family businesses typically feature ownership and board structures that reflect the much more complex governance issues that occur as the company progresses through the three stages: founder(s), sibling(s), and cousin(s). In these businesses, the board of directors is typically composed of family members, or sometimes, the business lacks a formal board entirely, (Esposito, 2018).

Worldwide, a significant number of businesses are family-owned, with most being private, which limits our understanding of private family businesses. A large body of research has revealed that success is judged using both non-financial and financial criteria. Financial success is not the sole goal of these organizations, as non-financial criteria provide a more realistic picture of family firm performance than financial ones. (Eisenberg *et al.*, 2018). According to research, firm governance, which includes ownership and board arrangements, has an impact on both financial and non-financial outcomes. Despite the limited number of studies investigating the relationship between corporate governance dimensions and the financial and non-financial performance of private family businesses, there is disagreement about the relationship, (Hussain and Hadi, 2018).

Family management now manages more than 80% of all corporations in numerous countries, as the bulk of businesses began as family endeavours. According to Pearson, Carr, and Shaw (2018), 51.5% of Brazil's 200 largest enterprises are family-run. The world's most well-known companies are Ito-Yokado and Kikkoman in Japan; Siemens, Volkswagen, and BMW Motors in Germany; Samsung, Hyundai Motors, and LG Group in South Korea;

Carrefour Group, L'Oréal, LVMH, and Michelin in France; Ford Motors, News Corp, Wal-Mart Stores, Nike, and Oracle in the United States, (Global Financial Corporation, 2017).

In the USA, family-owned businesses have evolved by adopting more formal corporate governance structures. Unlike Indian firms, U.S. family businesses tend to separate ownership from management, allowing professional managers to run operations while the family retains control through the board. Research has shown that strong governance, including independent board members and succession planning, positively affects profitability and longevity. A study by Hinga et al. (2022) found that family-owned businesses with strong governance in the USA often outperform their non-family counterparts, especially when family members play active roles in leadership. This approach reduces agency costs, increases accountability, and enhances strategic decision-making, contributing to the overall sustainability and success of these businesses.

In India, family businesses face challenges in maintaining governance due to concentrated ownership and control within the family, which can sometimes lead to inefficiencies and conflicts. However, strong governance mechanisms, such as having independent directors and well-defined roles, have been shown to improve decision-making and financial performance. Studies suggest that Indian family-owned firms that implement transparent corporate governance practices, such as adherence to regulatory frameworks and engaging external professionals, achieve better operational performance and long-term growth (Adriansah et al. 2023). Additionally, governance practices, including board diversity and external oversight, have positively influenced financial stability in these businesses.

Regionally, In Africa, poor firm performance resulting from poor governance is evident in failures such as Cadbury in Nigeria and KPMG, Naspers and SAP scandals in South Africa.

However, according to Kyereboah-Coleman (2017), firm performance is strongly related to specific corporate governance aspects. The business climate in Africa does not fully align with the procedures and frameworks adopted in Western countries. Two examples of how this has resulted in further corporate governance difficulties are the collapse of Afri-Bank in Nigeria and the Steinhoff debacle in South Africa. This could be attributed to a variety of issues, including a lack of detailed research, and understanding in the field of corporate governance. To thrive, corporate governance must devise a variety of innovative solutions to these difficulties. As a result, Kenya, Nigeria, Egypt, Mauritius, and South Africa amended their requirements, (Yurtoglu, 2019).

The Commonwealth Association of Corporate Governance and the Ghana Management College (IoD-Ghana) conducted surveys on Ghana's corporate administration. The Ghana Manual on Corporate Governance was created in response to survey data indicating that enterprises in Ghana are becoming increasingly open to excellent corporate governance practices. The Report of the Committee on Corporate Governance of General Companies in Nigeria laid the groundwork for the Nigerian statutory framework's implementation in 2003 (Ozili, 2021). The Egyptian Institute of Directors, on the other hand, was founded to raise awareness among family-owned firms and highlight the duties and responsibilities of executives in managing company operations and achieving organizational goals, (Shahwan and Habib, 2020).

Corporate governance has a significant influence on the performance of family-owned businesses in South Africa. Strong governance practices, such as the implementation of clear roles and responsibilities within family businesses, improve accountability and transparency, which in turn enhances overall business performance. Studies indicate that family-owned firms

in South Africa that adhere to governance frameworks, such as the King IV Report on Corporate Governance, demonstrate better financial outcomes and long-term sustainability (Ntim & Soobaroyen, 2013). These governance frameworks ensure that family businesses operate with a structured board of directors, risk management strategies, and stakeholder engagement, which are critical for decision-making and performance improvement.

Furthermore, governance in South African family-owned businesses influences succession planning, which is crucial for maintaining continuity and stability. Research shows that firms that plan for leadership transitions by establishing corporate governance structures tend to experience less conflict and a smoother transfer of control from one generation to the next (Khosa 2023). This, in turn, positively affects business performance by ensuring strategic continuity, preventing power struggles, and aligning the goals of family members with the business objectives. Therefore, sound governance frameworks not only contribute to operational efficiency but also to the longevity and resilience of family-owned enterprises in South Africa. Studies show that family firms with formal governance structures in Tanzania are better positioned to address internal conflicts and navigate market challenges (Mfaume, 2020).

Corporate governance plays a critical role in enhancing the performance of family-owned businesses in Tanzania by promoting accountability, transparency, and professional management. Many family businesses in Tanzania struggle with informal decision-making, nepotism, and a lack of clear succession planning. By adopting formal corporate governance practices, such as establishing independent boards of directors and separating ownership from management, these businesses experience improved decision-making, resource allocation, and overall performance.

According to a study by Mwakyembe (2019), governance helps family-owned businesses in Tanzania secure external financing and partnerships, which are crucial for growth. Financial institutions and investors often prefer businesses with clear governance structures as they demonstrate reduced risks and higher levels of accountability. This is particularly important in Tanzania, where access to capital is limited for small and medium-sized family enterprises. Research suggests that family businesses with robust governance mechanisms attract more investment opportunities and are more resilient to market disruptions, leading to long-term sustainability and intergenerational success.

A study by Mugume (2020) in Uganda, found that family businesses that adopted formal governance structures, such as independent boards of directors, experienced a 20% increase in profitability compared to those with informal governance. This is largely because independent oversight reduces conflicts of interest, encourages strategic decision-making, and enhances resource management. Furthermore, the separation of ownership from day-to-day management mitigates the risks associated with nepotism and inefficient decision-making, resulting in improved operational efficiency and competitiveness (Mugume, 2020).

Nyende (2020) conducted a survey in Uganda and found that family firms with formal governance mechanisms were 30% more likely to secure bank loans than those without, as financial institutions perceive them as less risky. The introduction of corporate governance frameworks, such as transparent financial reporting and clearly defined management roles, increases investor confidence and attracts external financing. This access to capital enables

family-owned businesses to invest in expansion and innovation, directly contributing to improved business performance and long-term sustainability (Nyende, 2020).

Locally in Kenya, more than 60% of Kenya's SMEs are family-owned. APA Insurance Company Ltd., Sameer Africa, Rea Vipingo, Bidco Africa, Mabati Rolling Mills, and Brookside Dairies are some of the most well-known family-owned businesses. Even when the founders die, family businesses tend to have a shorter lifespan than publicly traded organizations. According to Rodrigo (2013), just 5% of family-owned businesses survive beyond the third generation of owners. Listing can increase the market worth and visibility of a family firm while also reinforcing its governance. Family being in control of the business enables them to ensure their strategy is focused on protecting their people, embedding relationships securing loyalty from clients and being flexible enough to respond to changing market conditions (KPMG Family Business, 2019).

A study by Kinyua (2020) revealed that family businesses with formalized governance structures, such as independent boards and clear separation between ownership and management, achieved a 25% increase in operational efficiency compared to those without such structures. This improvement is attributed to the reduction in nepotism and more strategic decision-making, as external directors bring objectivity and expertise to the table. Additionally, governance mechanisms prevent the concentration of decision-making power within the family, leading to better conflict resolution and more effective management practices (Kinyua, 2020).

Mungai (2019) surveyed 100 family businesses, showing that those with formal governance structures were 35% more likely to secure loans and other forms of external investment. This is

largely because financial institutions and investors perceive such businesses as less risky and more transparent.

Family-owned firms with clear governance frameworks are more likely to produce accurate financial reports and have well-defined roles, making them more attractive to lenders. As a result, these firms can access capital for expansion and innovation, directly boosting their performance (Mungai, 2019).

According to Musila (2017), weak corporate governance norms and a lack of transparency in the financial industry have harmed investor confidence in family-owned enterprises. The failure of companies such as Nakumatt Limited, Uchumi Supermarkets, and, most recently, Athi River Mining which is currently in receivership is a sign of poor commercial performance. Furthermore, based on his research into the relationship between corporate governance and financial performance, Njenga (2017) discovered a strong link between the degree of governance structures within an organisation and the economic success of NSE-listed companies.

Moreover, corporate governance supports the sustainability and longevity of family businesses in Kenya. Research by Wambua (2021) indicates that family-owned firms with established governance structures are 40% more likely to survive intergenerational transfers compared to those without. This is because formal governance frameworks promote succession planning and ensure the alignment of family and business interests. Effective governance reduces the risks associated with family conflicts during leadership transitions, thus safeguarding the long-term survival of the business. This longevity is crucial in maintaining

competitiveness in the market and ensuring continued success across generations (Wambua, 2021).

1.2.1 Corporate Governance

Corporate governance, broadly speaking, refers to the policies, rules, and regulations that control how businesses and organizations are managed, governed, and operated. It talks about the duties that management, owners, and outside directors have and how those duties impact the way the business runs (Ma et al. 2023). In this context, owners and managers are typically motivated by ideals that go beyond personal gain to act in the best interests of the company and its stakeholders. Because stakeholders often advocate for various levels of stewardship and control for family-owned firms and large corporations, several portions of the corporate governance literature on family-owned businesses address issues of kinship in managerial control and altruism (Yurtoglu, 2017). It is critical to view the connections in corporate governance between managers, family owners, and minority shareholders as ordinary agency issues or conflicts of interest that may be resolved by contract, (Monks and Minow, 2019)

Corporate governance is a relatively recent concept in the business cycle. It involves the frameworks, processes, rules, and procedures that oversee and manage organizations to ensure that managers uphold the rights and interests of stakeholders and investors, while also safeguarding the organization's profitability (Dignam & Lowry, 2019). It encompasses the laws, regulations, and procedures that govern the distribution of authority, rights, and power among stakeholders, investors, and management. Furthermore, it provides sophisticated procedures for evaluating and analyzing the company's goals and objectives. Most firms have been able to create effective systems of checks and balances to handle conflicts of interest between investors,

stakeholders, and management because they have adopted corporate governance concepts. Because of this, organizational performance has become more efficient. (Okiro, 2018)

Kenya, a developing country, has been a major advocate for the implementation of corporate governance frameworks to improve the performance, accountability, transparency, and efficiency of state-owned enterprises and other public organizations, as well as to maximize investor value. With the emancipation and privatization of publicly owned businesses in the early 1990s, corporate governance was pushed to adapt to business cycles. To assist them in accomplishing their social and economic goals, the vast majority of family-owned and managed firms have adopted high corporate governance standards as guiding principles. (Butler & Baysinger, 2019).

For a global economic system to function as it should, employees, investors, consumers and the public in general must have assurance that they will benefit from it and from the work of companies that support it. Although corporate governance has remained to be rendered as an issue of compliance, both analysts and business leaders are increasingly viewing good governance as a part of good business (Finance Agenda, 2023). Tafara and Peterson (2019) argued that globalizing high-quality corporate governance measures is in everyone's collective best interest as such measures reassure investors, lower the costs associated with investor due diligence and consequently, reduce the costs otherwise associated with corporate governance measures which are not always perceived to be of individual interest.

A Latin American study conducted by Kompanek (2016) revealed that a company in Peru managed to expand its corporate governance and their CEO estimates resulted in an additional

20% increase when conducting a market valuation. Improved corporate governance further reduced the cost of capital while attracting and retaining shareholders. On the other hand, another company known as Credit Suisse elevated its valuation of Brasil Telecom from grip to outdo because of governance improvements. A company's reputation in corporate governance programs can be boosted if such a company broadcasts its corporate governance policies and details how they work, as more stakeholders will be willing to work with such a company.

(Ashe-Edmund, 2016). This is realized when most organizations embark on wealth creation for their shareholders but their contributions to the economy extend well beyond the return of profit. As such, these organizations can provide employment, purchase goods and services, support innovation, pay taxes and support various social and charitable programs. This predominant role which organizations play in society has led to increased concerns about the use of power and expectations for the board continue to expand thus calling for the board to manage integrity as one way of building trust with suppliers, customers and employees as well as investors. The board can only communicate integrity through continuous reporting both internally and externally (Greggory & Austin, 2014).

1.2.2 Performance of Family-Owned Businesses

According to Payne (2018), in order to achieve the company's goals, which are held by a single family or a small group of families, a family enterprise is controlled and/or managed by a large number of people, perhaps spanning generations. Family members are involved in various stages of the business's life cycle, hence family-owned businesses usually include a household component. According to Basco (2021), a family business is defined as a company that is

owned, operated, and managed by one or more generations of the same family, adhering closely to the principles, goals, and objectives set by its founders.

Chege and Suntu (2020) describe performance as the effective application of knowledge rather than merely possessing it. Furthermore, performance is as significant to SMMEs as it is for large corporations as with it, the application of cost-effective and modest mechanisms and processes will establish structure, contribute to business growth and improve operations, as such, guarantee functioning compliance with the law. However, due to the varied ways in which performance is defined, operationalized, and measured, comparing performance across different contexts can be challenging. According to Kamau and Oluoch (2021), a variety of personal and business characteristics must be considered while analyzing the performance of small firms. These include demographic characteristics, funding amounts, technology use, business age, operating location, business structure, and number of full-time employees.

To thrive, family-owned businesses must improve their performance and adapt to changing business demands. Drucker (1993) identifies three critical variables for characterizing and evaluating a company's performance: profit, market expansion, and return on equity (ROE) invested. A company's financial performance is measured using four indicators: equity, liquidity, return on equity (ROE), and return on assets (ROA). In today's business environment, more accurate performance evaluation is required in addition to traditional accounting and measurement. These metrics include product quality, personnel turnover, and consumer happiness. A company's governance structure supports its corporate pillars, strategy, and financial stability. Furthermore, it raises revenue, resulting in more consistent and robust

performance. (Oudah, Jabeen, and Dixon, 2018).

Family-owned businesses in Zambia are crucial to the country's economy, contributing significantly to employment and GDP. These businesses typically exhibit resilience and adaptability, especially in challenging economic climates, due to their long-term orientation and family governance structures. However, many Zambian family businesses face challenges such as succession planning and maintaining trust among customers and stakeholders. To remain competitive, some are focusing on expanding into new markets and improving governance practices. Reports of wrongdoing in public companies persist despite stronger governance laws; examples of these companies include Kenya Airways, Mumias Sugar, CMC Holdings, and East African Portland Cement (Namusonge, Mugambi, & Koech, 2017).

Very little attention is being paid in the literature to how family dynamics affect fundamental entrepreneurial processes. The vast majority of businesses are family businesses, and research findings show that family and business dynamics are highly interrelated (Aldrich and Cliff, 2018). Enterprising families understand that today's dynamic and hypercompetitive marketplace requires families to act entrepreneurially. Family businesses must generate new economic activity if they intend to survive and prosper over long periods (Spinelli and Adams, 2012). Successful families use entrepreneurial action as a strategy for growth. They encourage innovation within the business as an extension of the family values that inspire entrepreneurship. Less successful family businesses have leader-centred cultures and lack world-class corporate governance, which are two flaws that limit entrepreneurship (Haar and Brenes, 2012).

According to Danes, Lee, Stafford and Heck (2008), families and businesses provide resources for the entrepreneurial endeavours of family members in the form of social capital, human capital, and assets, including both financial and physical capital. Social capital includes the interrelations between and among family members. Human capital includes the human attributes of the individuals in the family, such as personal time and energy as well as emotional support. The concepts of financial and physical capital include money, credit and financial investments, as well as land, real estate and equipment. Within a family business, entrepreneurial skills have to be managed within a continuing entrepreneurial culture. Too many businesses start off being entrepreneurial but lose this drive as the business develops and stabilizes (Danes et al., 2018).

In order to remain dynamic and entrepreneurial, the family business needs a challenging and realistic vision of its future (Maas and Diederichs, 2018). This vision should be a motivating and energizing statement and should be spread throughout the workforce. This will enable all family members to contribute to the entrepreneurial character of the business (Maas and Diederichs, 2018). A family business usually develops as a result of true entrepreneurship, with many family businesses being founded to meet a demand for a specific service or product, while having developed the skill and know-how to deliver this (PricewaterhouseCoopers (PwC), 2018). In Kenya, a firm's strategy has a big influence on both financial and non-financial success, according to Namada et al, (2014). Only an organization's internal business processes are impacted by its governance frameworks; enhanced sales revenue, market value, and return on investment are not impacted.

1.3 Problem Statement

Family-owned businesses account for two-thirds of all businesses around the world. In most countries around the world, family-owned businesses are between 70% and 95% of all business entities. Family-owned businesses cover a vast range of firms in different sectors and of different sizes that range from sole proprietors to large international enterprises (Family Firm Institute, Inc., 2019). Family-owned businesses that raise capital from public shareholders at a low cost can expand more rapidly than those constrained by family wealth. Family-controlled pyramidal groups arose everywhere as devices to tap public equity financing on a huge scale but retain family control over all key decisions (Morck, 2020). Given that family members are considered the majority shareholders, controlling most privately held and publicly traded enterprises globally, a wealth of research demonstrates that family-owned businesses have a significant economic impact on many different countries. Despite accounting for a sizable portion of Kenya's GDP, family firms continue to struggle to implement strong corporate governance standards (Nyamongo & Temesgen, 2018).

Tuskys, a once-dominant retailer, lost its roar twenty years after Joram Kamau, the company's founder, passed away. The Kenyan supermarket business was among the biggest in the Great Lakes Region during its height. In Kenya, it employed more than 6,000 people, and in Uganda, 150. The heirs to Tusky's empire forcibly removed Dan Githua, CEO of Tusky's chain of supermarkets, from his office in 2016. According to reports, the grandchildren barged into his office and told him to leave. Two months later, he was called back. The multibillion-dollar supermarket, which had multiple locations in large cities, fell victim to several factors, including competitive pressure, aggressive debt-fueled growth, internal fraud, and sibling rivalry. It had accrued debt totalling Kshs 6.2 billion to creditors and suppliers by August 2020. The closing of

its final branch in Nakuru proved to be the final nail in its coffin, even though it had entered into a Kshs 2 billion agreement with a Mauritius company to stave off financial restraints.

The Nakumatt chain of supermarkets started and owned by the Atul Shah family was one of Kenya's most profitable supermarkets as of December 2015, with gross yearly revenue exceeding Kshs 48.5 billion. At the time, Nakumatt employed approximately 5,500 people and operated 65 stores in the African Great Lakes nations of Kenya, Uganda, Rwanda, and Tanzania. In 2016, Nakumatt started to have severe cash flow problems. It could not afford to pay its employees, suppliers, and landlords. To aid in its financial recovery, an administrator was hired. However, as a result of the retail chain's decision to sell its last six locations to Naivas Supermarkets in December 2019, its brand was eliminated. A devastating audit report released in June 2018 disclosed that Kshs 18 billion vanished when former leader Atul Shah was in charge. The court-appointed administrator of the company, Peter Kahi, revealed a plethora of significant fraudulent operations and outright theft in a dossier he gave to the creditors. As a result, the once-largest retailer in East Africa was bankrupt and deeply in debt. Among the creditors in the case were Standard Chartered Bank for Kshs 805 million, Kenya Commercial Bank (KCB) for Kshs 1.7 billion, and Damond Trust Bank (DTB), which was purportedly owed Kshs 3.6 billion. In addition, the business owed Kshs 328.4 million to the Bank of Africa, Kshs 126.2 million to the United Bank of Africa, and Kshs 104.8 million to GT Bank. On January 7, 2020, creditors formally voted to liquidate the business.

Kenyan politician and businessman James Njenga Karume, who passed away, had a keen interest in agriculture, logistics, and hospitality. The former Cabinet member left behind property valued at billions of shillings when he passed away on February 24, 2012, in Nairobi's

Karen Hospital. His children and trustees are at odds over who gets to manage his inheritance nine years after his death, leaving his enterprise in tatters.

In their study of board composition and business performance among Family Small and Medium-Sized Enterprises (SMEs) in Spain, Arosa, Iturralde, and Maseda (2021) examined how factors such as the CEO's tenure, the size and activity of the business, leadership structure, and board composition influence company success. Family businesses represent over 60% of all European companies, spanning various sizes and sectors. Approximately 70% to 80% of businesses in Europe are family-owned, contributing to 40% to 50% of employment (Mandl, 2008). In the United States, family businesses form a crucial part of the economy, with around 35% of Fortune 500 companies being family-owned, ranging from small enterprises to large corporations. They contribute 50% to the U.S. gross domestic product, generate 60% of employment, and are responsible for 78% of new job creation (Conway Centre for Family Business, 2006). Globally, family-owned businesses constitute between 70% and 95% of all business entities. While specific statistics for Kenya are lacking, it is likely that from the trend there is no significant difference.

A significant amount of research on corporate governance has been conducted locally. Oyoga (2016) investigated the relationship between business performance and corporate governance among financial institutions listed on the Nairobi Stock Exchange. Opondo (2020) explored how corporate governance practices affect the operational performance of unlisted financial institutions in Kenya. Ahmed (2019) examined corporate governance and dividend policies in Kenyan companies listed on the Nairobi Securities Exchange. Miniga (2018) explored how corporate governance policies influence financial outcomes in state-owned enterprises in Kenya. Research on family-owned businesses includes Abdille's (2019)

examination of strategic succession planning's effects, and Maalu's (2018) study on the operations and succession strategies of small and medium-sized family businesses in Nairobi. However, these studies have not thoroughly investigated how corporate governance affects firm performance in family-owned businesses. This research sought to fill this gap by providing new insights into corporate governance and its impact on performance within family-owned businesses in Kenya.

1.4 Research Objectives and Questions

1.4.1 General objective

The general goal of the study is to examine how corporate governance affects the performance of family-owned businesses in Kenya.

1.4.2 Specific objective

- i. To establish how governance structures impact the performance of family-owned businesses in Kenya.
- ii. To determine the influence of succession planning on the performance of family-owned businesses in Kenya.
- iii. To find out the effects of conflicts of interest on the performance of family-owned businesses in Kenya.
- iv. To determine the impact of board composition on the performance of family-owned businesses in Kenya.

1.4.3 Research questions

- i. How do governance structures affect the performance of family-owned businesses in Kenya?
- ii. What is the impact of succession planning on the performance of family-owned businesses in Kenya?
- iii. How do conflicts of interest influence the performance of family-owned businesses in Kenya?
- iv. What role does board composition play in the performance of family-owned businesses in Kenya?

1.5 Justification of the Study

The study on corporate governance and the performance of family-owned businesses in Kenya is crucial due to the significant role these businesses play in the country's economy. Family-owned firms often face unique governance challenges such as conflicts of interest, succession planning issues, and limited transparency, which may affect their performance. Inadequate corporate governance can lead to inefficiencies, mismanagement, and a lack of accountability. Understanding how governance practices influence performance will help develop tailored policies and frameworks to improve the sustainability, competitiveness, and profitability of family-owned enterprises in Kenya's dynamic market.

Several studies have recently addressed challenges concerning family-owned businesses. However, not much attention has been paid to how the conflicts of interest, succession planning, board composition and governance structures all combined influence the success or failure of family-owned businesses. In addition, the small, and medium-sized businesses of which a

considerable proportion is family-owned have major contributions to the economies of growing countries such as Kenya. As a result, well-managed family-owned businesses can boost national GDP and increase residents' living standards by, for example, creating new jobs.

1.6 Significance of the study

Family-owned companies contribute significantly to the creation of wealth on a worldwide scale and are frequently the main drivers of economic growth and income. According to a joint study undertaken by Ernst & Young and the University of St. Gallen, the family firms under investigation brought in an incredible \$US8.02 trillion in revenue in 2023. Compared to their earlier findings from 2021, this indicated a noteworthy 10% increase (Robertsson 2023). A large number of globally recognized and prosperous brands originated as family-run enterprises. For example, the Waltons' company, Wal-Mart, reported \$572.8 billion in revenue in 2022 (Ozgun 2022) and employed 2.3 million people globally in the same year (Walmart 2023). Similarly, the Porsche family's ownership of Volkswagen contributed to total revenues of US\$18.8 billion worldwide with total market revenue amounting to US\$1.8 trillion in 2021 (Robertsson 2023).

1.6.1 Policy Makers and Regulatory Authorities

The observations from the study will assist the policymakers and other regulating authorities in understanding regulatory issues in family-owned businesses. Awareness of these challenges will enable policymakers to craft policies and regulations that encourage improved governance structures for family businesses. These are all ideas that can improve the general business environment, encourage sustainability, and foster family enterprise growth. In addition, findings from the research may inform support programs and resources that cater to challenges faced by family businesses in Kenya.

1.6.2 Investors and Financial Institutions

Investors as well as financial institutions will benefit from these findings through detailed insight into governance practices and performance indicators of family-owned businesses. The insights will help shape investment decisions, risk assessments and due diligence practices. Recognizing the linkage between corporate governance and business performance can help investors along with financial institutions to make informed decisions while supporting or lending against family-owned businesses. Areas where governance changes might impact performance are also identified, identifying potential areas for strategic partnerships and investments.

1.6.3 Managers of Family-owned businesses

The observations and findings of the study will assist family-owned businesses by supporting them in developing corporate strategies that will foster growth and performance. Owners and managers will know how corporate governance as well as what strategies they can use to tackle different elements and build on existing strengths. The study offers insights into how to successfully manage succession, and continued operations without loss of performance or sustainability over generations. Moreover, the study identifies key corporate governance challenges enabling business owners/managers to take specific measures and overcome such hurdles leading towards improved operational efficiency as well as strategic alignment.

1.6.4 Academia

This study offers new/additional knowledge on the importance of corporate governance in enhancing the performance of family-owned businesses, especially in Kenya. It complements the academic literature regarding governance actions and firm outcomes. The results will

provide a base for research and the students of business administration to study other aspects of corporate governance which have an impact on family businesses' performances. This broadened knowledge will facilitate more explorations and tests leading to a comprehensive appreciation of the dynamics in business operations and enhancing scholarly discussion over issues as well as future directions for research on family firm management.

1.7 Scope of the study

The scope of the research on corporate governance and performance of family-owned businesses in Kenya included examining governance structures, decision-making processes, and succession planning within these businesses. It focused on how these governance practices impact financial performance, competitiveness, and sustainability. The study covered family-owned businesses across various sectors in Kenya, with a focus on medium and large enterprises. It also explored the role of governance structures, succession planning, board composition and conflict of interest. Data was gathered from top managers, and middle and lower-level managers with a target population of 100 employees drawn from 32 family-owned businesses.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a literature review aimed at understanding the role of corporate governance in the performance of family-owned businesses in Kenya. It begins with an overview of theories that offer the theoretical foundation for the study. The second section reviews empirical literature related to the topic. The final part discusses other relevant studies that contribute to the context of this research.

2.2 Theoretical Literature Review

This study was guided by Resource Dependency Theory (RDT), Profit-Maximization Theory, Agency Theory and Locke's Goal Setting Theory. The objective was to examine the impact of corporate governance on the performance of family-owned businesses in Kenya.

2.2.1 Resource Dependency Theory (RDT)

According to their 1978 publication "The External Control of Organizations: A Resource Dependence Perspective," Jeffrey Pfeffer and Gerald Salancik developed the resource dependence theory (RDT). According to the resource dependency theory, an organization's power is determined by its ability to manage its strategic resources. As a result, this theory is built on the idea that control and access to resources are critical to organizational development. Open system theory is the foundation of resource dependency theory because these types of organizations rely to varying degrees on the outside world, particularly for the resources they require to function. Resource Dependency Theory (RDT), which posits that organizations depend on external resources to survive and grow, has been critiqued for its limited focus on external factors while underplaying internal dynamics. The theory emphasizes how firms must manage dependencies with external entities, such as suppliers or regulators, to mitigate

uncertainty and secure essential resources (Pfeffer & Salancik, 1978). However, critics argue that RDT overlooks the role of internal capabilities, such as innovation, leadership, and organizational culture, which also significantly influence a firm's success. By focusing too heavily on external dependencies, RDT may underemphasize how companies can reduce reliance on outside resources through vertical integration, diversification, or building internal competencies (Barney, 1991).

Another critique of RDT is its assumption that power asymmetries and resource dependencies are always negative for firms. Critics suggest that resource dependency can, in some cases, foster collaboration and lead to positive outcomes like knowledge sharing and innovation. Additionally, in today's globalized and digital economy, firms may have access to more flexible and diversified resources, reducing the criticality of any single dependency. Modern strategies like alliances, partnerships, and joint ventures often balance power dynamics and create mutual benefits, challenging the adversarial view of resource dependencies that RDT promotes (Gulati & Gargiulo, 1999).

According to this view, board members who are executives and managers of the company who report to the shareholders seek to safeguard and increase firm profitability for the benefit of the owners (Ahmed & Hamdan, 2015). According to the theory, stakeholders become content and driven when an organization achieves success. The resource dependency theory acknowledges the significance of trust-based systems that provide maximal autonomy and steward empowerment (Chiang & Lin, 2011). It emphasizes the need for CEOs to exercise greater autonomy to maximize returns to shareholders.

Dogan, Elitas, Agga, & Ogel (2013) argued that CEO duality has a negative effect on both the financial and non-financial performance aspects of a firm. According to the Resource dependency theory, firms whose CEOs are separate from the board perform better due to increased supervision and better governance. However, in family businesses, Resource dependency rarely exists since the owners are board members who still form the majority of the top management team.

This theory suggests that the board of directors can help manage a firm's external environment by controlling external dependencies, reducing environmental uncertainty, and minimizing transaction costs associated with environmental interdependencies (Fernández, 2015). Ameer et al. (2010) argue that this theory supports using a more appropriate theoretical framework to explore the relationship between board membership and company performance, particularly in family-owned businesses. This theory emphasizes how family-owned businesses in Kenya rely on external resources to improve performance. Corporate governance structures can help these firms secure vital resources (e.g., financing, partnerships and collaborations) by establishing relationships with key stakeholders, thus enhancing their competitiveness and long-term viability.

2.2.2 The Profit-Maximization Theory

Adam Smith's, *The Wealth of Nations* (Lynch, 2000) is where the company's profit maximization theory, also known as Neo-Classical economic theory, originated. Adam Smith maintained that people who own their enterprises will behave in their best interests to maximize profits, thus benefiting society as a whole. Alfred Marshall extensively explored this concept in his 1890 work, *Principles of Economics* (Hornby 1995). Significant contributions to the theory were made by Robinson (1933), Chamberlain (1933), and Coase (1933). The core assumption of

the theory, rooted in economics, is that firms aim to maximize profits by equating marginal revenues and costs.

In the 1950s and 1960s, key figures like Igor Ansoff, Alfred Chandler, and Alfred Sloan introduced the theory into strategic management (Lynch, 2000). Ansoff (1989) argued that businesses reach their goals by generating profit, which involves transforming resources into products or services and selling them. A company risks failure if it fails to generate and reinvest revenue to ensure future profitability and resource sustainability. Friedman's 1962 book further popularized the theory, igniting substantial debate on corporate social responsibility.

The Profit-Maximization Theory, which argues that firms should aim to maximize profits by optimizing pricing, output, and cost structures, has been widely critiqued for oversimplifying business objectives. One key criticism is that it relies on the assumption of perfect competition and rational actors, conditions that rarely exist in real-world markets. Firms face information asymmetry, market imperfections, and regulatory constraints, which complicate profit-maximizing decisions. Additionally, it overlooks other goals businesses may pursue, such as building customer loyalty, maintaining long-term relationships, and investing in innovation. In this context, behavioural economics has highlighted how decision-making is often influenced by psychological and social factors, challenging the idea of purely rational, profit-maximizing behaviour (Simon, 1955).

The Profit-Maximization Theory has been criticized for its narrow focus on short-term profits while neglecting other important objectives such as social responsibility, customer satisfaction, and long-term sustainability. Critics argue that focusing solely on profit can lead to

unethical behaviour and disregard for stakeholders other than shareholders (Boatright, 2010). Additionally, the theory assumes that firms operate in a perfect market with no externalities, which is rarely the case in real-world economies (Baumol, 1967). Modern perspectives emphasize broader corporate objectives, such as creating shared value and balancing profit with societal welfare (Porter & Kramer, 2011).

Another significant critique of the Profit-Maximization Theory is its potential to encourage unethical behaviour and short-termism. By focusing solely on maximizing financial returns, firms might engage in practices that harm stakeholders, such as exploiting labour or depleting natural resources. This can undermine long-term sustainability and corporate reputation. Furthermore, the theory ignores the rise of corporate social responsibility (CSR) and environmental, social, and governance (ESG) concerns, which have become increasingly important in business strategies. Firms today are expected to balance profit with social and environmental considerations, making the traditional profit-maximization model outdated and narrow in scope (Freeman, 1984).

In a free-market, private-property system, a corporate executive serves as an employee of the firm's owners. Their responsibility is to manage the firm according to the owners' desires, which is to maximize profit while adhering to societal, legal, and ethical standards. Profit maximization remains a valid goal as long as it aligns with the law and ethical norms. In family-owned businesses, corporate governance plays a role in ensuring decisions are aligned to maximize profits. Good governance structures ensure that the pursuit of profit does not compromise sustainability, balancing short-term financial goals with long-term business success.

2.2.3 Agency Theory

Agency theory, developed by Jensen and Meckling (1976), explains the conflicts between principals (owners or shareholders) and agents (managers) in an organization, focusing on the separation of ownership and control. According to Shogren, Wehmeyer, and Palmer (2017), the theory is grounded in the idea that the primary objective of an organization is to maximize shareholder wealth. It emphasizes that because ownership and control are separate, qualified managers are hired to run the company for the benefit of the owners. Conflicts can occur when these managers do not act in the owners' best interests. Agency theory also highlights that firms often operate under conditions of uncertainty and incomplete information, with adverse selection and moral hazard being two significant issues. Adverse selection occurs when principals cannot verify if agents are suited for the tasks they are hired to perform. A moral hazard arises when principals cannot confirm if agents are exerting maximum effort. (Bosse & Phillips, 2016)

Fama (1980) pursues this concern and finds that the agency problem is controlled efficiently by a large firm through internal devices established in response to competition from other firms. Fama and Jensen argue that firms typically segregate decision management from the decision control rights both at the top (the board and managers) and lower levels (managers and workers) of the firm's hierarchy. These in turn form the corporate governance structures that govern the business. Agency theory is consistent with the practice of family-owned businesses where control and authority are exercised by one person or a group of people. Ward (2004) notes that family ownership concentrates control and allows greater agency in the governance of the business. This, in turn, can lower the cost of governance and enable unconventional, but strategically advantageous, decisions.

Agency Theory has been criticized for its overly simplistic assumption that agents (managers) and principals (owners) always have conflicting interests, with agents seeking to maximize their utility at the expense of shareholders (Eisenhardt, 1989). Critics argue that this perspective downplays the role of trust, shared goals, and intrinsic motivation in managerial behaviour. Additionally, it assumes that all agency problems can be mitigated through contracts and incentive mechanisms, which may not always be effective in complex, dynamic environments (Perrow, 1986). It also fails to fully consider the costs and limitations associated with monitoring and aligning interests.

One critique of agency theory is its overly simplistic view of human behaviour, assuming agents are purely self-interested and driven by monetary incentives. This reductionist perspective fails to account for intrinsic motivators like professional ethics, reputation, or personal values, which can play a significant role in guiding managerial behaviour. Furthermore, agency theory's emphasis on monitoring and aligning incentives often leads to increased costs, as firms implement elaborate governance mechanisms to mitigate risks. These costs may sometimes outweigh the benefits of controlling agency problems (Eisenhardt, 1989).

Another critique stems from agency theory's applicability across different organizational contexts. The theory predominantly focuses on the relationship between shareholders and managers in public corporations, but this perspective may not fully capture the complexities of other organizational forms, such as family-owned businesses or nonprofits, where the dynamics of control and incentives are more complex. Additionally, it presumes that all principal-agent relationships are inherently adversarial, overlooking instances where mutual trust, shared goals,

or long-term relationships mitigate conflicts. The theory's narrow focus on financial metrics of performance also limits its ability to explain non-financial contributions that agents might offer, such as innovation and organizational culture improvements (Hill & Jones, 1992).

Advocates of agency theory believe that top management exerts greater influence when a company's stock is widely held, and the board consists of individuals who may not be deeply familiar with the company. The theory posits that top management should have a significant ownership stake to align their interests with the company's governance (Bendickson & Davis, 2016). Bosse and Phillips (2016) argue that without a substantial ownership stake, top management might avoid accountability for their decisions, leading to organizational issues. Family-owned businesses in Kenya often face conflicts between owners (family members) and managers (non-family members). Corporate governance frameworks help mitigate agency problems by aligning interests, improving accountability, and ensuring that managers act in the best interests of the family shareholders to enhance performance.

2.2.4 Locke's Goal Setting Theory

This theory was advanced by Edwin Locke in the 1600s. It is the main theory underpinning the current study. According to Locke, task performance is the greatest motivator of goal setting. The identified goals must be specific and challenging and must foster appropriate feedback which will lead to higher performance of work. That means in a job appraisal system, supervisors must set clear goals that are specific, measurable, attainable, relevant and time-bound (SMART) which will encourage their employees to accomplish them and become more productive. In simple terms, goals help to guide what needs to be done, how it ought to be done and the amount of effort to be put in to accomplish a particular task. Employees should strive to work towards the attainment of the goals. However, clear, specific and difficult goals are greater

motivating factors than easy and general ones. Thus, the more challenging the goal, the greater the reward and hence the greater the motivation towards achieving it. Similarly, better and appropriate employee appraisal feedback directs his behaviour and leads to enhanced work performance. Moreover, feedback helps build employee reputation and confidence in the organization, improves organizational relationships and leads to greater job satisfaction.

Thus, this theory posits that setting specific and challenging goals can lead to higher performance when compared to ambiguous or easy goals. The theory has found strong support for the effectiveness of goal setting across various tasks and responsibilities in different organizations. Further, the theory notes that setting goals is a recipe for enhancing motivation. This is because, goals provide a roadmap with clear objectives to strive for leading to individuals putting in a lot of effort in performing their tasks (Locke, et al. 2022).

The theory has gained great significance due to its focus and clarity. It opines that by setting specific goals, individuals are clear about what needs to be achieved. In other words, they are more focused on their performance. The clarity on performance enables individuals to direct more resources and efforts towards the attainment of their goals (Smith et al., 2020). Furthermore, this theory emphasizes the importance of feedback in goal attainment. Regular feedback allows individuals to track their progress towards achieving goals, to make informed decisions like change of strategies if they are interfering with results and adjust to those that will enhance performance (Erez & Zidon, 1984).

The theory has suffered several drawbacks despite its relevance and applicability in goal attainment. Firstly, it is more focused on the quantitative aspect of goals rather than the quality of work done (Austin & Vancouver, 2016). Secondly, the theory downplays other aspects of performance such as individual differences, task complexity, and situational constraints (Lunenburg, 2011). This criticism points to the theory's inapplicability in complex and dynamic environments. Thirdly, setting overly challenging goals can lead to stress and burnout, especially when individuals perceive goals as unattainable or when goal pursuit interferes with other important aspects of life (Locke & Latham, 2006). Finally, the theory's shortsightedness has challenged its relevance. Some studies suggest that its effects may diminish over time, especially if individuals become disengaged or lose interest in pursuing their goals (Klein et al., 2019).

In conclusion, Locke's Goal Setting Theory remains relevant due to its empirical support and practical applications in enhancing motivation and performance. However, criticisms regarding its narrow focus, neglect of contextual factors, and potential drawbacks highlight the need for a more nuanced understanding of goal-setting processes in various contexts including corporate governance.

2.3 Empirical Literature Review

This review has been selected for this research dissertation since it highlights previous research and illustrates the methods and findings pertinent to this study. It focuses on reviewing empirical literature from various scholars to understand the role of corporate governance and the performance of family-owned businesses in Kenya.

2.3.1 Governance Structures on Performance of Family-owned Businesses

The term "governance structures" refers to fundamental principles concerning interactions and relationships that create the systems and procedures that regulate an organization's operations and activities. Governance structures in business promote accountability, transparency, trust, and confidence. Stakeholder views on practices (Khan & Nouman, 2017). For any family governance system or institution to function well, some level of formalization is required.

Depending on their ownership position in the company, these families will formalize their efforts with various documents when they establish standards for the family's approach to the business and its operation, (Kao, Hodgkinson & Jaafar, 2019)

Governance structures significantly impact the performance of family-owned businesses. A study by Le Breton-Miller and Miller (2006) found that well-defined governance frameworks, such as boards of directors and clear succession plans, contribute to enhanced decision-making and overall performance in family firms. Effective governance structures mitigate conflicts among family members and professionalize the management processes, which in turn improves the firm's operational and financial outcomes. Moreover, companies with balanced governance, where family control is coupled with professional management, tend to perform better compared to those with weak governance mechanisms.

Zahra and Sharma (2004) support the idea that governance structures in family businesses influence innovation and strategic adaptability. Family firms with established governance structures tend to balance tradition with innovation, leveraging both family values and professional management to drive performance. Governance frameworks that integrate non-family members into leadership roles foster diversity of thought and reduce insular decision-

making, which can lead to better market competitiveness and higher financial returns. Therefore, family-owned businesses with robust governance frameworks often outperform those with more informal or opaque governance models.

Schulze et al. (2001) emphasized that governance structures like independent boards and external auditing mechanisms help reduce agency problems, which are prevalent when ownership and management roles overlap in family businesses. These mechanisms ensure accountability and transparency, leading to improved financial performance. Furthermore, firms that adopt strong governance practices tend to experience fewer internal conflicts and benefit from a clearer strategic direction, ultimately boosting long-term performance.

Establishing a governance structure in a company requires holding managers, who are frequently the business owners in a family-owned operation, accountable to outside parties. According to Ullah and Mehmood (2017), family-owned firms encourage productive, procedural participation across the system, whereas traditional businesses often focus on setting boundaries and emphasizing the separation of decision-making powers. Regardless of size, family businesses have a unique set of personal dynamics that influence ownership, strategy, and decision-making. Concerns about ageing, succession, and power can also cause a domino effect, (Chancharat & Chancharat, 2019)

Empirical research on the relationship between Kenyan enterprises' performance and adherence to corporate governance structures was conducted by Lishenga and Mbaka (2020). The companies listed on the Nairobi Securities Exchange (NSE) were the main focus of the investigation. The capital market authority (CMA) required financial reporting openness, and financial performance was measured concerning this disclosure and compared to the Kenya

Corporate Governance Index (KCGI). The study's major purpose was to identify a link between share value, transparency, and financial success. A sample of 35 organizations was chosen from a total population of 55 NSE-listed enterprises. ROA, ROE, and Tobin Q performance metrics were used. A multiple regression model was used to assess the corporate governance variables board size, number of directors, organization size, and leverage.

According to the study, companies with more than 50% outside directors fared better financially and were worth more as their share price grew.

Craig et al. (2018) state that in one of the scenarios utilized in their research, the company recognized the necessity to implement business strategies to secure the explicit transmission of the founder's principles. This is consistent with their findings on how to use family-based brand identity and improve performance. To this end, the family hired advisers to help them build governance structures. A family council, a board of directors, and a family constitution were formed by best practices. However, in a following study, Gimeno et al. (2019) discovered that family council functionality directly affects performance in terms of satisfaction, whereas governance structure functionality has an indirect effect on profit and satisfaction.

According to a recent study by Selekler-Goksen and Öktem, (2019), family businesses in Turkey use 'avoidance', 'defiance', and 'manipulation' strategies to resist institutional pressures on their boards of directors. This study paints quite a different picture, demonstrating that family businesses make deliberate judgments and act rather actively. As a result, the contrasting findings highlight the need to learn more about the extent to which family businesses use such a structure and whether they function passively or actively.

2.3.2 Succession Planning on Performance of Family-Owned Businesses

Although the phrase "succession planning" can have many different meanings, this study describes it as the process by which firm founders select and train their heirs before leaving the company (Noe et al., 2021). Succession plans, by definition, consist of a distinct set of components, all of which must occur before the actual succession event. In their groundbreaking work, Davis, and Harveston (2018) identified a few of the factors that would generally be included in such a plan: The steps involved in succession planning include selecting a pool of potential successors, appointing a designated successor, and informing both the successor and other key management leaders. The Christensen elements provide a framework for comprehending the duties necessary for an all-encompassing approach to succession planning. For example, when several potential successors are considered, it can indicate a more comprehensive succession.

According to Sharma, Chrisman, Pablo, and Chua (2021), a family firm's commitment to succession drives the steps involved in succession planning, which are integral to the succession process and enhance the likelihood of a successful transition. Supporting the perspectives of Dyck, Mauws, Starke, and Mischke (2020), it is beneficial to view succession planning as a long-term process with various activities and to examine each activity separately, rather than treating it as a single dimension or combining its aspects into one overall measure, as was done in previous studies. Litz (2017) defines a family firm as a company where the management and ownership are centralized in a family unit and where employees desire to preserve or increase the level of family ties inside the company.

Succession planning plays a critical role in the long-term performance of family-owned businesses. A study by Miller et al. (2003) found that family firms with formalized succession plans are more likely to experience smooth leadership transitions, reducing disruptions that could negatively impact performance. Effective succession planning helps in transferring leadership to capable family members or external professionals, ensuring continuity and preserving the company's vision and values. Additionally, well-structured succession processes help mitigate internal family conflicts, which are often detrimental to business performance.

De Massis et al. (2008) underscores that succession planning not only ensures leadership continuity but also preserves organizational knowledge, which is critical for maintaining business performance in family-owned firms. Companies that incorporate a clear succession plan tend to minimize the risks associated with leadership turnover, such as loss of tacit knowledge and key relationships. By fostering intergenerational leadership development and ensuring a smooth handover of managerial roles, succession planning enhances both financial performance and organizational stability in family businesses.

Research by Sharma et al. (2004) indicates that family-owned businesses with successful succession planning not only maintain their financial performance but often exceed expectations in the post-transition period. These businesses tend to leverage the unique advantages of family cohesion and long-term strategic orientation, ensuring that successors are groomed early. This proactive approach to succession also fosters innovation and adaptation to market changes, both of which are vital for sustained growth. Without structured succession plans, businesses often face leadership vacuums, leading to operational inefficiencies and diminished competitive advantage.

Esuh et al. (2021) note that company failures are common in studies of family business succession. They attribute these failures to not adequately addressing succession issues and their impact on the survival of family businesses. While the authors acknowledged the importance of a structured succession planning process and continuity, their model did not incorporate the process dimensions. The writers went on to note that developing a plan allows for preparation to take place before, during, and after the event, and it indicates that the succession process would be orderly. If a business is to thrive, continuity concerns must be discussed during succession planning.

In Kenya, Cherono, Towett, and Njeje (2017) looked into how succession planning affected small manufacturing businesses. All of the respondents to the cross-sectional survey used in the study were workers in small manufacturing companies. The study's findings, which look at the process of succession planning in firms, will greatly improve corporate management. The article recommends that an organization's strategy for improving business performance should include mentoring initiatives. Shulman (2021) advocates that family businesses should start thinking about transferring ownership and managerial responsibility five to twenty years in advance, while Dyck et. al., (2020) and Davis (2019) all express similar sentiments. According to Price Waterhouse Coopers (PwC) global family business survey of 2017/2018, only one-third of family businesses in the whole world, effectively manage the transition from one generation to the next (PwC, 2019).

Akani performed research on banks in Port Harcourt (2021). The goal was to assess the impact of management succession planning components on firm survival measures such as

flexibility and dynamic capability. These components included managerial development, mentoring, and retention efforts. The research population consisted of the 21 deposit money banks currently operating in Port Harcourt. The study made use of primary data. The findings indicate a positive relationship between management succession planning and firm survival. The report recommended that policymakers and management teams implement succession planning into corporate management strategies to promote business survival in Nigeria's banking sector.

Vongani and Clever (2016) conducted a case study on Kwalita Firm Consultants in Johannesburg, South Africa, to examine how succession planning affects firm sustainability. Their research aimed to evaluate the significance of succession planning for businesses, identify obstacles to its implementation, and assess the current state of succession planning at Kwalita Business Consultants. The sample of 100 people was assured to be representative. The findings reveal that despite the absence of succession planning legislation at KBC, the founding directors implemented some type of succession planning strategy. The findings demonstrate that succession planning is an important undertaking that must be incorporated into the process of establishing and implementing a company's strategy.

2.3.3 Conflicts of Interest in Performance of Family-Owned Businesses

According to Harvey and Evans (2018), there is a high likelihood of conflict in family businesses due to the following factors: "dominant presence of the family, the lack of formalized systems and structures to deal with conflict, having no formal organization structure or operating systems, and the commingling of business and family roles." Disagreements can have a substantial impact on the performance of family enterprises. According to Faccio et al. (2021), family enterprises often perform poorly due to conflicts that arise when family members attempt

to operate the business. Daily and Dollinger (2018) note that it can be challenging to comprehend the conflict in these enterprises due to the family's dominant role and the overlap of control and management-related tasks.

Diverse circumstances, such as differing attitudes, expectations, and goals among family members running a firm, can lead to conflicts of interest. These differences can cause instability in business management and inhibit successful decision-making. According to Margaretha (2017), conflict in a family business happens when two or more family members have opposing ideas, viewpoints, discussions, and opinions; as a result, they blame each other, which harms the firm. Malikah (2019) claims that internal concerns frequently contribute to family business failures. A family quarrel is one example of a long-running argument that interrupts corporate operations and creates employee disorganization, low morale, and poor performance. According to the aforementioned idea, a conflict of interest arises when there is a disagreement involving the private interests of family members. Family disputes and the underdevelopment of the family business may result from this. (Malikah, 2019)

Conflicts of interest within family-owned businesses can significantly impact performance by undermining decision-making and eroding trust among key stakeholders. Chrisman, Chua, and Litz (2004) assert that family firms often struggle with conflicts between family goals and business objectives, particularly when family members prioritize personal interests over the firm's profitability. These conflicts can result in suboptimal business decisions, such as hiring less competent family members in key roles or resisting necessary changes to maintain harmony within the family, which ultimately harms the firm's performance. Additionally, Schulze et al.

(2003) highlight that unresolved conflicts of interest can lead to managerial inefficiencies and diminish innovation, further reducing the competitive advantage of family businesses.

Gompers et al. (2015) examined corporate governance and conflict management to promote the concept of power-sharing relationships and company or comparable value for 1,500 large firms in the United States of America (USA). The governance factors used were shareholders' voting rights and powers, compliance with state laws (including anti-greenmail acts), director transparency, and the company's response timescales. Multiple regression models were tailored to each governance variable. Gompers et al. (2015) in his study found that democratic enterprises had higher revenues and were related to positive connections. Due to the high standards imposed on them, the firms were recognized for their transparency, and directors and complainants displayed thorough deliberation while making choices. Democratic companies were found to respect the minority's right to shareholding through financial disclosure and adherence to state laws, which raised the firm's worth (Jehn and Mannix, 2001).

Conflicts of interest also emerge when ownership and management roles overlap, leading to governance challenges. Research by Gomez-Mejia, Haynes, and Nunez-Nickel (2007) found that family-owned businesses are often reluctant to delegate control to professional managers due to trust issues or a desire to retain influence, which can result in conflicts between family managers and non-family employees. This dynamic can foster tensions and reduce overall employee morale, leading to poor organizational performance. Family firms with unresolved conflicts of interest tend to struggle with succession planning, as personal interests and rivalries complicate leadership transitions, thereby reducing long-term business viability. (Kellermanns & Eddleston, 2004)

According to a 2022 study performed by Mass Mutual Financial Group and the Raymond

Institute, 60% of 1,143 US family businesses did not have a strategy plan, and 38% of shareholders were unaware of the elder generation's estate planning and ownership transfer intentions. In the United States, 89 medium-sized family firms had senior management, and 79 per cent lacked practices to ease or avoid dispute resolution. According to Price Waterhouse Coopers (2017/2018), disagreements about the company's future direction are the most difficult worries, raised by a full third of respondents. These serious issues have the potential to cause significant division and have an influence on the efficiency and effectiveness of the family business.

Furthermore, conflicts of interest can exacerbate agency problems, where family members may exploit business resources for personal gain, thereby affecting overall firm performance. Villalonga and Amit (2006) argue that family members in leadership positions often pursue personal goals, such as wealth preservation or favouritism in resource allocation, which can contradict the firm's strategic objectives. This behaviour not only increases agency costs but also leads to inefficient resource allocation and diminished profitability. Such conflicts of interest often arise in family businesses that lack transparent governance mechanisms or formal conflict resolution processes, thus impairing their financial and operational performance over time.

According to an empirical study undertaken by accounting firm KPMG, more than half of the evaluated firms had no formal method in place for replacing a CEO, and more than one-third lacked a mechanism for identifying and training a successor. 36% of the surveyed enterprises lacked a firm continuity plan. Sixty per cent of those polled said they had experienced family strife within the last year. The most difficult task was finding a balance between family and company obligations (KPMG and Family Company Australia, 2018,

Family Business Survey). The research brought to light the serious issues confronting family-run businesses. Family members' diverse positions in the company could be one of the main sources of conflict. The remuneration and rewards for family members involved in a business should be separated into two methods: payroll and dividends. Family members can play various roles in the company, such as employees, management, or owners. In some cases, individuals may fulfil all three roles, while others might only hold one. It's important to distinguish between these roles to ensure fair and transparent compensation, avoid conflicts of interest, and maintain proper financial management (Deutsch, 2019).

2.3.4 Board Composition on Performance of Family-Owned Businesses

The connection between board composition and the financial performance of family-owned businesses has been a contentious topic in corporate finance literature for some time (Eddleston, 2018). However, despite the widespread attention given to the succession and generational issues by family business researchers, little systematic interest has been taken in the impact of these issues on the firm's governance system. Hence, the exit or failure of a significant number of family ventures could be avoided by implementing well-functioning governance mechanisms, such as a formal board of directors (Bammens et al., 2019). These mechanisms help to ensure the business's survival as they enhance the cohesiveness of the controlling family. In recent years, media coverage of corporate misconduct has surged, with new instances of widespread corruption among top management and failures in board oversight emerging almost every month, affecting both commercial and charitable organizations, (Lamers, 2019)

Insiders on the board are not expected to fulfil their responsibilities as good managers' monitors and supervisors, as is the case with many family-run Asian banks (Malaysian banks).

This is especially true when the CEO is also the board chairwoman. Additionally, outside directors help organizations connect with the external environment, enhancing networking opportunities and access to valuable resources. Daily and Dalton (2022) reviewed 54 empirical studies on board membership and 31 studies on board leadership structure to explore their connections with firm financial performance. Their analysis found limited evidence linking either board leadership or composition to financial success. This finding aligns with the conclusions of Hermalin and Weisbach (2019), who also observed that changes in board structure or leadership had minimal impact on a company's financial outcomes.

Rashid et al. (2020) conducted a study on 274 companies in Bangladesh to assess the impact of independent directors on board effectiveness and financial performance. Their research revealed that the presence of independent directors did not have a significant effect on the companies' financial outcomes. While independent directors are often valued for enhancing governance practices and increasing transparency, the study highlighted that their potential benefits might not translate into economic advantages without considering the unique institutional and cultural contexts of emerging markets like Bangladesh. Ghoshal and Moran (2018) emphasized the effects of existing good social relationships between owners and managers. These relationships are important in family firms where some of the board members, as well as managers and owners, belong to the same family. The close social relations among family members may allow the firm to build informal, relational governance mechanisms (Huse, 2021).

Badu and Appiah (2019) conducted an empirical analysis of the effect of corporate board size on business performance, using data from 137 listed companies in Ghana and Nigeria. Their study revealed a significant positive correlation between board size and firm performance,

suggesting that larger boards are associated with improved business outcomes in these countries. In a similar vein, Topak (2020) explored the impact of board size on the financial performance of Turkish firms, further examining how the size of the board influences company success in Turkey. Both studies highlight the potential benefits of larger boards in enhancing organizational performance. By employing panel data techniques, the study analyzed a sample of 122 Turkish firms from 2014 to 2019 and identified unique characteristics of Turkey as an emerging market, including its ownership structure, social culture, and legal system.

Several studies have linked the preponderance of independent directors on the board to improved performance. Petra (2018) evaluated the impact of outside independent directors on the company's success and shareholders' wealth. He concluded that having independent directors strengthens company boards. Gordon (2007) and Mura (2017) discovered comparable results in similar studies. It appears that an independent director-dominated Board of Directors is here to stay. Nonetheless, Dalton et al.'s 2018 meta-analysis found no relationship between BOD composition and firm success (Dalton, Daily, Ellstrand, & Johnson, 2018). The fact that this study was conducted before SOX may have influenced the findings.

2.4 Research Gaps

Ujunwa (2017) researched Nigerian listed firms' financial performance and governance framework. The survey selected 122 quoted companies from a total of 212. To test the hypothesis, the study employed generalized squares (GLS) with fixed and random effects. The study investigated and hypothesized many corporate governance variables, including business size, age, CEO duality, board gender, board size, number of PhD-educated directors, and board nationality and ethnic diversity. The study's findings on board nationality were significant and promising, especially in cases involving foreign-based enterprises. Ghoshal and Moran (2016)

emphasized the effects of existing good social relationships between owners and managers. These relationships are important in family firms where some of the board members, as well as managers and owners, belong to the same family. The close social relations among family members may allow the firm to build informal, relational governance mechanisms. The board's gender diversity also has been shown to positively impact financial performance, although this finding comes from studies conducted outside Kenya, highlighting a research gap.

Board composition plays a critical role in the operation, stability, and longevity of businesses. The Corporate Governance Code mandates that organizations uphold integrity, transparency, and professional ethics, ensure effective board oversight, maintain regulatory independence, and communicate transparently with investors. These requirements are vital for fostering robust corporate governance and enhancing organizational performance (Nhung & Nguyen, 2017). Despite increasing literature about family businesses, there is still a huge gap in knowledge about the impact of conflict of interest, and the effect of board composition and governance structures on the performance of family businesses. Previous research tends to focus more on specific aspects without fully understanding how the various aspects of corporate governance impact the overall performance of family-owned businesses. Ward and Handy (2018) present a typology of board composition which may include several board roles. Finkelstein and Hambrick (2016) differentiate between inside directors, outside directors, affiliated directors and family directors. Pearce and Zahra (2018) discuss the importance of two groups of outside directors, namely affiliated and non-affiliated external directors. According to Whisler (2018) and Bammens et al., (2016), the knowledge input of boards of directors can be very valuable during the life cycle. Therefore, the study sought to find out how the four variables interlink and impact the performance of family-owned businesses.

2.5 Conceptual Framework

This section outlines the relationship between the variables being examined. The independent variables are governance structures, succession planning, conflicts of interest, and board composition, while the dependent variable is the performance of family-owned businesses.

Figure 1
The conceptual framework

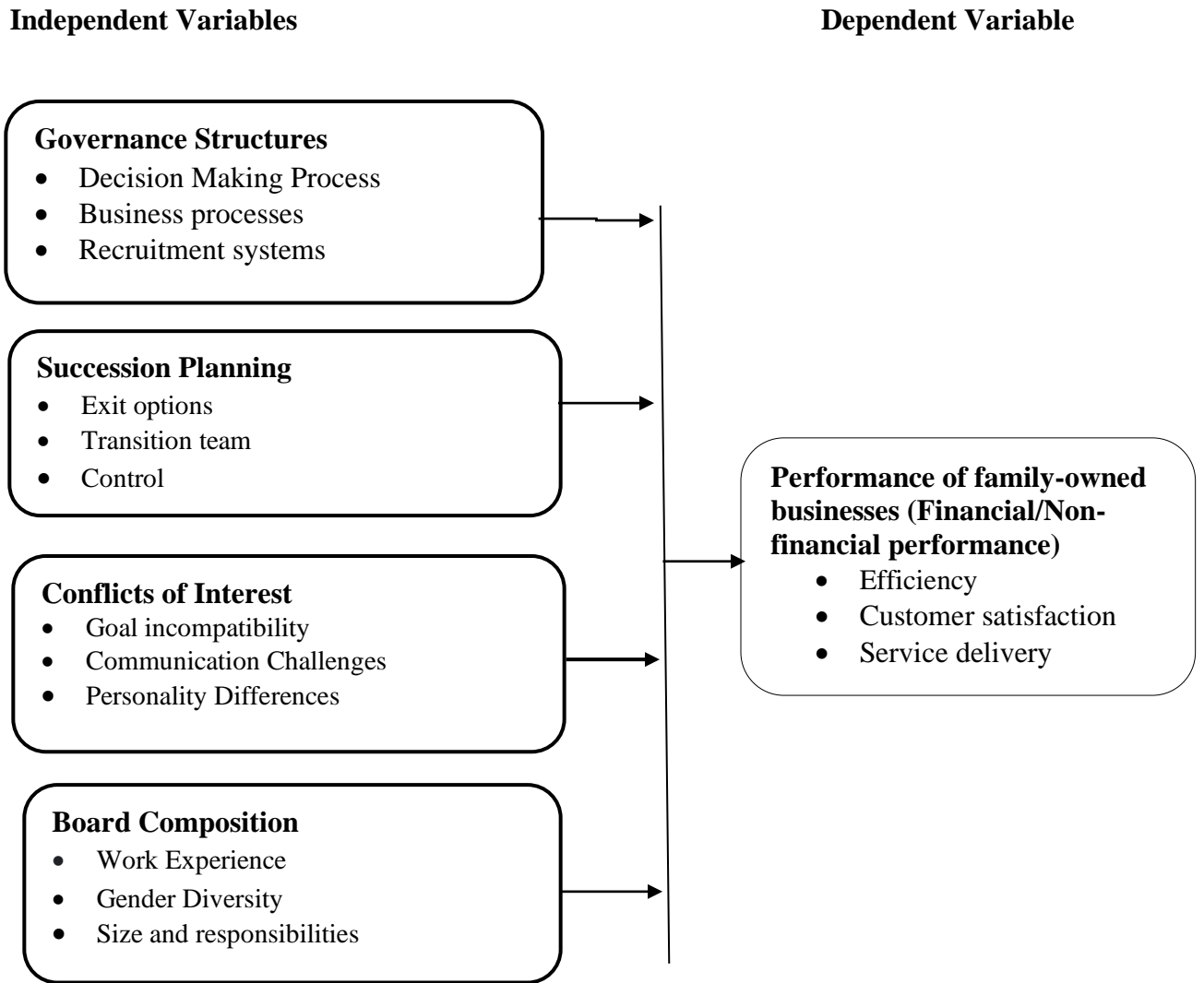


Figure 1 Conceptual Framework (Source: Researcher, 2025)

2.6 Operationalization of Variables

Table 1

Operationalization of Variables

Variables	Sub variables/measures	Measurement Scale	Type of Scale
Governance structures	<ul style="list-style-type: none"> • Decision Making Process <ul style="list-style-type: none"> ➤ Speed of decision-making ➤ Inclusiveness (e.g., involvement of stakeholders) ➤ Transparency of decisions • Business process <ul style="list-style-type: none"> ➤ Efficiency and effectiveness of processes ➤ Adaptability and flexibility to changes. ➤ Compliance with regulations, guidelines (Internal/external) • Recruitment systems <ul style="list-style-type: none"> ➤ Diversity in recruitment (DEI) ➤ Criteria for selection ➤ Training and development 	5-point Likert Scale	Interval Scale
Succession planning	<ul style="list-style-type: none"> • Exit Options <ul style="list-style-type: none"> ➤ Voluntary retirement plans ➤ Buyout options ➤ Emergency succession plans • Transition Team <ul style="list-style-type: none"> ➤ Composition of the team ➤ Experience and expertise of team members ➤ Transition timeline • Control <ul style="list-style-type: none"> ➤ Mechanisms for maintaining control during transitions ➤ Leadership handover processes ➤ Stakeholder communication during transitions 	5-point Likert Scale	Interval Scale
Conflicts of interest	<ul style="list-style-type: none"> • Goal Incompatibility <ul style="list-style-type: none"> ➤ Short-term vs. long-term goals 	5-point Likert Scale	Interval Scale

	<ul style="list-style-type: none"> ➤ Profit vs. sustainability goals ➤ Individual vs. organizational goals • Communication Challenges <ul style="list-style-type: none"> ➤ Frequency of communication ➤ Clarity and openness of communication ➤ Channels used for communication • Personality Differences <ul style="list-style-type: none"> ➤ Leadership styles ➤ Conflict resolution styles ➤ Interpersonal skills 		
Board composition	<ul style="list-style-type: none"> • Work Experience <ul style="list-style-type: none"> ➤ Industry experience ➤ Years of experience ➤ Role variety • Diversity <ul style="list-style-type: none"> ➤ Leadership representation ➤ Gender ratio ➤ Diversity, inclusivity ➤ Meeting frequency • Size and Responsibilities <ul style="list-style-type: none"> ➤ Functional diversity ➤ Company size 	5-point Likert Scale	Interval Scale

Source: Researcher (2025)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter outlines the methods and procedures used to collect and analyze data for this research. The research design, target research population, sample size and selection, research instruments, data analysis, considerations on data reliability, and ethical considerations are all covered under the ensuing headings. The study's primary focus was on Kenyan family-owned business performance and corporate governance.

3.2 Research Design

A descriptive research design, which focuses on describing the characteristics of a particular individual or group, was used in this study (Kothari, 2023). A method for acquiring data that is suitable for in-depth research is descriptive research design, which entails interviewing and surveying a sample of people. It is useful and maintains a strict level of confidentiality while enabling speedy data collection. It is an excellent instrument for assessing the characteristics of a large population (Orodho, 2003). A descriptive approach was therefore appropriate for this study since it enabled the researcher to collect quantitative data from family business members using questionnaires.

3.3 Target Population

Creswell & Creswell (2017) define the target population as the complete group of individuals, events, or items that a researcher intends to study. In this study, the target population consisted of 32 family-owned firms whose annual turnover is over Ksh. 50 million as detailed in Appendix III. On this, the target population was a total of 345 top managers, middle-level managers, and lower-level managers and staff from 32 family-owned businesses based in Nairobi County.

Table 2
Distribution of Target Population

Category	Target Population
Top managers	80
Middle-level managers	122
Lower-level managers and staff	143
Total	345

Source; (Researcher, 2025)

3.4 Sample Size and Sampling Procedure

Creswell & Creswell (2017) sampling is the method of selecting and examining a small group of individuals, items, or events to conclude the entire population. A sample represents a smaller, carefully selected portion of the target population. The researcher used census since it involves the comprehensive collection of data from every member of the population or group under study. This method is advantageous for studying heterogeneous units, as it ensures a high level of accuracy. In this context, using a census was particularly suitable because the number of employees that were used in the study was relatively small, making the thorough enumeration both practical and necessary.

Table 3
Sample Distribution

Category	Sample Size
Top managers	32
Middle-level managers	45
Lower-level managers and staff	23
Total	100

Source; (Researcher, 2025)

3.5 Validity and Reliability of the Research Instruments

Questionnaire distribution was authorized by the organization's relevant departments. To ensure the questionnaire's reliability, five respondents were subjected to a pre-test for this study. Willie (2023) describes dependability as the extent to which a research instrument consistently yields the same results or data when used in different trials. To ensure this, the researcher utilized the Statistical Package for Social Sciences (SPSS) Version 25 for data code and summarized the pilot study responses, after which the Cronbach alpha index was calculated. Cronbach's alpha, a low-cost and simple test, was used in this study to assess internal consistency and reliability. Clark et al. (2021) advocate a Cronbach alpha coefficient of 0.7 or above on a scale of 0 to 1.

The validity of a questionnaire can be internal or external. Internal validity refers to an instrument's ability to measure what it is designed to measure, whereas external validity refers to the data's ability to be generalized across multiple scenarios (Chen et al., 2023). According to Mahuika and Mahuika (2020), there are three major categories of validity. Validity in terms of criterion, construct validity, and content validity. While construct validity necessitates an approximation to validate measures of behaviours that cannot be directly seen, content validity refers to the inclusion of numerous meanings within the context of the notion (Tabachnick & Fidell, 2020). Construct validity requires that the variables have a logical relationship. This study utilized content validity and construct validity, which can be assessed through expert judgment and evaluations by a panel of specialists. Confirmatory Factor Analysis was conducted to test construct validity.

3.6. Pilot Study

Before the major data collection exercise began, the researcher pre-tested the equipment to guarantee their accuracy. Proofreading ensures that the tools are finished before pre-testing is performed. This ensures that, before administering the instruments; corrective procedures are performed to address any ambiguities that may have arisen during the development of the data collection instruments. To ensure that the instruments were provided appropriately, the researcher supervised their administration at the study sites. Singh (2022) proposes using 5%-10% of the sample size for pilot analysis. Ten percent of the sample was used for instrument pre-testing. This represented 10% of the actual sample, which is within the 10% to 20% recommended by Clark, Foster, Bryman, and Sloan (2021). This allowed for the modification of questionnaires and interviews to improve their validity and reliability.

3.7 Data Collection Procedure

Because questionnaires are easy to produce and distribute to respondents, the researcher employed them. It was possible to leave specific questions for respondents to fill in their own time. This was used to inform the drop-and-pick-later method for asking both closed-ended and open-ended questions. This strategy is advantageous since it decreases the amount of working capacity required, saves time, and is more convenient for both the researcher and the respondent. Guidelines for completing the questions without difficulty were supplied. The questionnaire was broken into two parts: the first comprised the respondent's personal information, and the second contained the variable being investigated. Questionnaires were appropriate for studies since the collected information was not directly observable as they inquired about the feelings, motivations, attitudes, accomplishments as well as experiences of individuals (Borg and Gall, 2016). Satyanarayana (2013) stated that a questionnaire is useful in obtaining objective data.

3.8 Data Analysis and Presentation

Willie (2023) defines data analysis as the packaging, organizing, and primary component structuring of gathered information to explain the findings simply and concisely. According to Saunders (2018), data analysis is the act of distilling obtained data and analyzing, organizing, and condensing its constituent elements in a way that makes the results easier to express. Before being analyzed, the data was changed, coded, and tabulated. The data was also examined to ensure its completeness, clarity, and relevance to the study's objectives. Before presenting the analysis with pie charts and graphs, the researcher used SPSS version 25 to process the data. Pearson correlation was applied to explore the relationships between variables. Additionally, regression analysis was used to evaluate how factors such as governance structures, succession planning, conflicts of interest, and board composition affect the performance of family-owned businesses in Kenya. The multiple regression model outlined below demonstrated the relationships among these variables, with coefficients indicating the strength of these relationships between the dependent and independent variables.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon.$$

Where, Y = performance of family-owned businesses

β_0 = y-intercept or constant-this is autonomous default

$\beta_1 - \beta_3$ = Coefficients beta for each variable.

X_1 = Governance Structure

X_2 = Succession Planning

X_3 = Conflict of Interest

X_4 = Board composition

ε = is the error term or residual that can't be explained by the model.

3.8.1 Diagnostic Tests

A set of diagnostic tests was performed as part of the study to assess the research structure's applicability. We utilized the Shapiro-Wilk and Kolmogorov-Smirnov residual tests to determine the study's initial normality. A non-significant result (p-value greater than 5%) in either test was regarded as normal. Furthermore, the study used variance inflation factors (VIF) and tolerance to determine the presence of multicollinearity. A tolerance figure of less than 0.2 or a VIF of more than 10 was thought to indicate multicollinearity. The study assessed heteroskedasticity using the Breuch pagan test and residual graph charting. It also used the Durbin-Watson test to determine serial correlation, or autocorrelation, with a score of 1.5 to 2.5 indicating the lack of autocorrelation.

CHAPTER FOUR

DATA RESULTS AND DISCUSSIONS

4.1 Introduction

This study's main aim was to establish through the data analysis, the corporate governance structures and performance of family-owned businesses in Kenya. The data is analyzed and presented in the form of tables, proportions, as well as charts. The section provides the descriptive statistics that is the mean scores and frequencies of the responses while the inferential statistics shows the final regression results of the study.

4.2 Response Rate

The primary data was collected from structured interviews where the researcher visited company secretaries and offices physically and also used telephone questionnaires for those who were not available physically. This process ensured that we were able to get responses from all the sampled respondents as we could reach them physically or through the telephone.

Table 4
Response Rate

Response	Frequency	Percentage (%)
Response	62	62
Non-response	38	38
Total	100	100

Table 4.1 above indicates the response rate of this study. 100 were sampled and given the questionnaires but only 62 (62%) returned properly filled questionnaires. 38 of them (38%) did not return the questionnaires. 62% response rate is worth reporting according to Creswell & Creswell (2017).

4.3 Demographic Information

4.3.1 Gender Distribution

Table 5
Gender of the Respondents

Gender	Frequency	Percentage (%)
Male	35	56.5
Female	27	43.5
Total	62	100

The majority of the respondents for the companies that were targeted for this study were male. This does not necessarily mean that there is a higher number of male employees in their overall human resource establishment. The findings also indicate that there are no distinctive differences between the number of male and female staff in the firms.

4.3.1 Length of Service with Company

The majority of the respondents have been in those positions and organizations for over nine years. This indicates that there is high retention for the respondents who are custodians of the company's corporate governance structures. This also implies that the information received for the study's objectives is satisfactory given that the majority have had significant years of experience with the company. This is illustrated in the table 6.

Table 6
Length of Service

Length of Service	Frequency	Percentage (%)
1 – 3 Years	21	33.9
4 – 5 Years	3	4.8
6 – 8 Years	12	19.4
Above 9 Years	26	41.9
Total	62	100

Note that most of the respondents sampled had served for above 9 years by the time of data collection. These are followed in number by those whose years of service were between 1 and 3 years. This suggests that many of the sampled firms choose to recruit candidates for upward progression from within their ranks, as opposed to hiring personnel from outside. This trend is a common phenomenon for many family-owned firms, i.e. as a way of maintaining loyal family members or acquaintances in powerful offices as a strategy for consolidating control.

4.3.2 Respondents' Level of Education

One of the goals of the study was to ascertain the respondents' educational backgrounds. Table 7 shows the distribution of academic qualifications of interviewed respondents.

Table 7
Academic Qualifications

Academic qualifications	Frequency	Percentage (%)
Certificate	22	8.1
Diploma	27	43.5
Bachelors' Degree	42	46.8
Masters' Degree	0	0
PhD Degree	1	1.6
Total	62	100

Source: Researcher, (2025)

Table 4.4 reveals that 8.1% of the respondents possessed certificate level of education, 43.5% had diplomas and 46.8% had bachelors as their highest level of education. There were no master’s level graduands among the respondents but there was a single holder of a PhD as depicted in Figure 4.3. These results show that the respondents were well informed on the subject of study and thus appropriate for the study.

4.3.3 Job Designation

Table 8
Job Designation

Job Designation	Frequency	Percentage (%)
Directorship	4	6.5
Corporate Management	32	51.6
Corporate Staff	26	41.9
Total	62	100

As indicated in Table 4.5, the majority of the respondents were in corporate management at 51.6% whereas corporate staff were 41.9%. The directorship was the minority with a percentage of 6.5%. All the respondents sampled were well conversant with corporate governance as applied within their firms and its effect on the financial and non-financial performance aspects of their firms.

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 the constructs of each variable.

4.4.1 Governance Structure

The respondents were in general concurrence that the controlling family does not maintain tight control on their respective firms. Responses under this variable generally endorsed the current ownership structure of their employer firm, in which one family controls more than a quarter of

a voting block. 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 governance structure variable is shown in Table 4.6.

Table 9
Governance Structures on Performance of Family-Owned Businesses

Item	N	Mean	Rank	Std. Dev.
Bad corporate structures can destroy a company's operations and ultimate profitability	62	1.94	4	1.006
There is a positive and significant link between corporate governing structure and the sustainability of family business	62	2.34	2	1.187
Family businesses ought to define a clear governance structure and the agreed road map documented	62	2.18	3	.967
Governance structures play a crucial role in any organization that aims to maintain a stable and effective workforce	62	2.44	1	1.111
Effective governance structures can help minimize conflicts of interest and enhance a company's overall performance, including both financial and non-financial aspects	62	2.18	3	1.109

As per the findings in Table 4.6, most of the study respondents generally agreed that governance structures play a crucial role in any organization that aims to maintain a stable and effective workforce demonstrating a mean of 2.44 with a standard deviation of 1.111 at rank 1. Ranked 2 was the predictor of there being a positive and significant link between corporate governing structure and sustainability of family business with a recorded mean of 2.34 and a standard deviation of 1.187. Two predictors tied with a mean of 2.18 namely the family businesses ought to define a clear governance structure and the agreed road map documented and effective

governance structures can help minimize conflicts of interest and enhance a company's overall performance, including both financial and non-financial aspects. Finally, the predictor of bad corporate structures can destroy a company's operations and ultimate profitability revealed a mean of 1.94 with a standard deviation of 1.006. The study concurs with Chancharat and Chancharat (2019) who agreed that a family enterprise regardless of size has a unique mix of personal dynamics that may interfere with business strategy, ownership, and decision-making and with ageing, succession and power issues can create cascading concerns.

4.4.2 Succession Planning

Table 10
Succession Planning

Item	N	Mean	Rank	Std. Dev.
The longevity of family businesses in the market is often linked to the lifespan of their founders	62	2.10	3	1.141
Education and personal characteristics are key considerations during succession planning.	62	2.15	2	1.157
Succession planning is crucial for ensuring the continuity of a business into the next generation	62	2.00	4	.923
The strategies implemented by the business owner significantly shape the future of the business	62	1.68	5	.621
Family-owned businesses are likely to thrive across future generations when there is a central unifying figure within the family	62	2.32	1	1.083

As provided in Table 4.7, the majority of the respondents generally agreed that family-owned businesses are likely to thrive across future generations when there is a central unifying figure within the family with a revealed mean of 2.32 and a standard deviation of 1.083. The study

outcome also revealed that education and personal characteristics are key considerations during succession planning with a recorded mean of 2.15 and a standard deviation of 1.157. The study findings also revealed that the respondents generally agreed that the longevity of family businesses in the market is often linked to the lifespan of their founders with a mean of 2.10 and a standard deviation of 1.141. In addition, the respondents generally into the agreement that Succession planning is crucial for ensuring the continuity of a business into the next generation with a mean of 2.00 and a standard deviation of .923. Finally, the respondents were in general agreement that the strategies implemented by the business owner significantly shape the future of the business with a recorded mean of 1.68 and a standard deviation of .621. The findings concur with Magasi (2016) who revealed that succession management effectively shapes development and management has categorized succession management as active planning along with performance reviews, mentorship, training and development of employees.

4.4.3 Conflict of Interest

Table 11
Conflict of Interest

Item	N	Mean	Rank	Std. De v.
Mitigation of conflict of interest provides an enhanced customer experience to clients of family-owned businesses	62	2.21	2	1.058
Low frequency of board meetings will worsen firm performance	62	2.39	1	1.030
Organizational management should always resolve and Understand the Implications of conflicts	62	2.18	3	.915
A high frequency of board meetings can improve company performance	62	2.16	4	1.119

Employees working for a competitor can lose their jobs or be sued by their employer during conflicts	62	2.39	5	.964
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On the issue of conflict of interest, there was strong evidence that board members of the sampled firms were dedicated to serving their organizations and had no conflict of interest. There was also general concurrence that the family-owned businesses could witness increased board unity in the next few years. As per the study findings shown in Table 4.9, the majority of the study respondents generally agreed that low frequency of board meetings will worsen firm performance and also employees working for a competitor can lose their jobs or be sued by their employer during conflicts as supported by a mean of 2.39 and standard deviations of .915 and .964 respectively. The majority of the respondents were also in agreement that mitigation of conflict of interest provides an enhanced customer experience to clients of family-owned businesses as evidenced by a mean of 2.21 and a standard deviation of 1.058. In addition, the majority of the respondents agreed that organizational management should always resolve and understand the implications of conflicts as shown by a mean of 2.18 and a standard deviation of .915. Finally, the respondents also agreed that a high frequency of board meetings can improve company performance as demonstrated with a mean of 2.16 and a standard deviation of 1.119. Zainal and Akib (2018) found that the relationship within the family has the single greatest impact on successful succession between generations of family businesses. It also agreed with Oudah et al. (2018) that conflict and disagreement about management decisions are included as a variable influencing family business succession for this study.

4.4.4 Board Composition

This section handles information which was collected under the variable about board composition. The study sought to explicate key attributes of the composition of boards of

family-owned businesses using the constructs outlined in Table 4.8 below. Responses under this section were less enthusiastic than in the previous section, but they had a generally positive outlook. The respondents generally agreed with the statement that the directors behave impartially to protect the interests of other stakeholders including shareholders as supported by a mean of 2.56 and a standard deviation of 1.018. The respondents further agreed that through their expert capacity, business connections, and effective networking, directors add value to the board with a demonstrated mean of 2.44 and a standard deviation of 1.236. The responses under this section debunk the myth that family-owned businesses are run haphazardly and are often mismanaged by the controlling families. The respondents were also in agreement that board members should perform the business of the organization with responsibility and ethics supported by a mean of 2.18 and a standard deviation of 1.235. Likewise, the respondents agreed that directors in family-owned businesses have an impact on board choices and tactics which was revealed by a mean of 2.15 and a standard deviation of .903. Lastly, the respondents concurred that the board members' oversight function has helped to improve the organization's financial performance which was revealed by a mean of 2.05 and a standard deviation of .948.

Table 12.
Board Composition

Item	N	Mean	Rank	Std. Dev.
Through their expert capacity, business connections, and effective networking, directors add value to the Board	62	2.44	2	1.236
Board members should perform the business of the organization with responsibility and ethics	62	2.18	3	1.235
The board members' oversight function has helped to improve the organization's financial performance	62	2.05	5	.948
Directors behave impartially to protect the interests of other stakeholders including shareholders	62	2.56	1	1.018
Directors in family-owned businesses have an impact on board choices and tactics	62	2.15	4	.903

4.5 Diagnostic Tests

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

4.5.1 Multicollinearity Test

When two or more independent variables in a dataset have a strong enough correlation to be described as linear combinations of one another, this is known as multicollinearity. Regression analysis becomes less robust as a result of the model becoming extremely sensitive to even minute changes in the data. The researcher developed a correlation matrix of all four variables to highlight the correlation coefficients between each pair of variables to investigate

multicollinearity in the dataset. As evident in Table 4.10, all correlation coefficients were below 0.5. We can safely deduce therefore that there was no multicollinearity in the dataset.

Table 13
Correlation Matrix

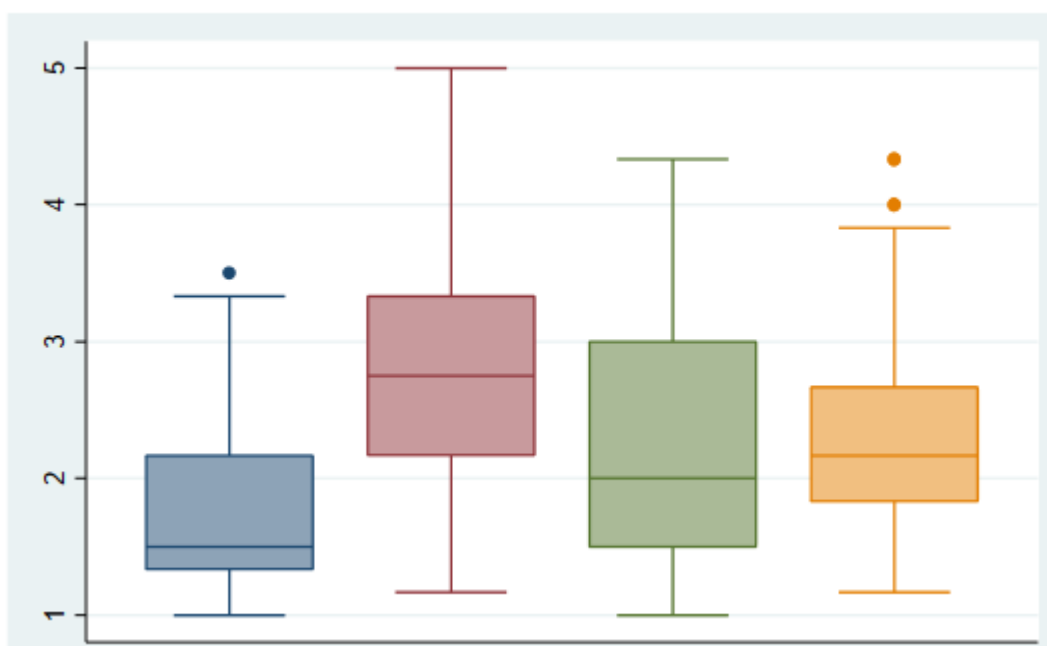
Items	Governance Structure	Succession Planning	Conflict of Interest	Board Composition
Governance Structure	1			
Succession Planning	.484	1		
Conflict of Interest	.465	.477	1	
Board Composition	.339	.296	.118	1

Source: Researcher (2025)

4.5.2 Normality Test

The researcher used box plots to explore the normality of the four research variables. The data in the “succession planning” variable was found to be normally distributed while data on the other three variables was slightly left skewed. Additionally, outlier observations were noted in the “Governance structure” and “Board composition” variables. Nevertheless, the fact that all variables were not normally distributed didn’t mean that the data was not appropriate for regression analysis since regression analysis requires the normality of residuals and not observations.

Figure 2
Box Plot.



■ Governance Structure ■ Succession Planning ■ Conflict of Interest
■ Board Composition

4.5.3 Testing for Heteroscedasticity

An occurrence known as heteroscedasticity occurs when the error term's variance is not constant. As a result, estimators that were formerly BLUE (Best Linear Unbiased) estimators are no longer. Biased standard errors are a common effect of heteroscedasticity, and they can further cause biased parameter estimates and p values, which can result in incorrect conclusions being drawn from the data. The heteroscedasticity of the research data was examined using the White test.

The results of this test are shown in Table 14

Table 4-11. White test for H_0 : homoskedasticity

Against H_a : unrestricted homoskedasticity

chi2 (9) = 12.18

prob > chi2 = 0.3356

Table 14

Cameron & Trivedi's decomposition of the IM-test

Source	chi2	df	p
Heteroskedasticity	12.18	9	0.3356
Skewness	9.38	3	0.0256
Kurtosis	0.46	1	0.5176
Total	22.02	12	0.8788

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.

4.5.4 Reliability Analysis

The data obtained from the research was evaluated for reliability by calculating Cronbach's Alpha coefficient for each regressor. The respective values of this coefficient are as Table 4.12.

Table 15
Cronbach's Alpha

Variable	Cronbach's Alpha	Acceptable
Governance Structure	.892	Yes
Succession Planning	.774	Yes
Conflict of Interest	.881	Yes
Board Composition	.905	Yes

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 Inferential Statistics

Inferential analysis was conducted using Pearson's bivariate and regression analysis to examine whether there is any significant relationship between the performance of the companies and the independent variables of corporate governance, succession planning, conflict of interest and board composition.

4.6.1 Pearson's Correlation Analysis

The Pearson's correlations analysis sought to find whether there was any significant relationship between the independent variables; corporate governance, succession planning, conflict of interest, board composition and dependent variable: firm performance. From the findings, the results revealed that there is a strong positive correlation of 0.4085 between succession planning and firm performance. There is also a strong correlation between governance structure and conflict of interest with firm performance. Board composition demonstrates a weak correlation with firm performance. Table 4.13 provides the details.

Table 16
Pearson's Correlation

Items	Firm Performance	Governance Structure	Succession Planning	Conflict of Interest	Board Composition
Firm Performance	1				
Governance Structure	(0.0764)	1			
Succession Planning	0.4085	0.4462	1		
Conflict of Interest	0.5812	(0.4817)	0.6943	1	
Board Composition	0.06293	0.6114	0.7129	0.2413	1

Source: (Researcher, 2025)

4.6.2 Regression Analysis

A regression model was used to test the significance of the influence of the independent variables on the dependent variable. Regression analysis was used to determine the coefficient of the following model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y = Firm Performance, X₁ = Governance Structure, X₂ = Succession Planning, X₃ = Conflict of Interest, X₄ = Board Composition, β₀ = the constant term, β₁, β₂, β₃ & β₄ = Coefficients to be determined and ε = Error term which captures the unexplained variations in

the model. The regression model can be written as follows using the regression coefficients for Table 4.14 with the regression coefficient.

$$Y = - 6.846 - 1.454X_1 - 1.442X_2 + 2.116X_3 - 0.042X_4$$

Table 17
Regression Coefficients

Items	Coefficients	Standard Error	t-Stat	p-value
Intercept	(6.846)	5.243	(1.174)	0.284
Governance Structure (X ₁)	(1.454)	1.442	1.173	0.296
Succession Planning (X ₂)	(1.442)	1.476	(0.936)	0.376
Conflict of Interest (X ₃)	2.116	1.186	1.662	0.194
Board Composition (X ₄)	(0.042)	0.414	0.623	0.723

Source: (Researcher, 2025)

The p-value for this model is higher than 0.05 which means that the relationship is not statistically significant. We can therefore argue that governance structure, succession planning, conflict of interest and board composition are not related to firm performance for family-owned businesses as all these independent variables measure have p-values greater than 0.05.

4.6.3 Significance of the Model

The significance of the model is explained by the regression statistics summary and the ANOVA results. Table 4.15 and Table 4.16 have results of the regression statistics summary and ANOVA results.

Table 18
Regression Statistics Summary

Regression Analysis				
Multiple R	R ²	Adjusted R ²	Standard Error	Observations
0.5898	0.3478	0.0296	0.8940	31

Table 19
ANOVA

Model	df	SS	MS	F	Significance F
Regression	5	3.426	0.7726	1.102	0.3821
Residual	8	5.228	0.6996		
Total	13	8.654			

Table 4.15 indicates that the adjusted R² is equal to 0.0296. This means that corporate structure, succession planning, conflict of interest and board composition could be used to explain 2.96% of the variability of firm performance. We can therefore say that these independent variables have insignificant bearing on firm performance.

Table 4.16 shows the Analysis of Variance (ANOVA). The output shows that the F ratio value of 1.102 with 5 and 8 degrees of freedom (df) has a probability of occurrence by chance alone of 0.4278. The significance f of 0.3821 is way higher than 0.05. This means that the model using corporate structure, succession planning, conflict of interest and board composition to measure firm performances cannot be relied on for family businesses.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study aimed to examine how corporate governance affects the performance of family-owned businesses in Kenya. Guided by this aim, this chapter discusses the findings, conclusion and recommendation for further research based on the specific research objectives. More importantly, the chapter triangulates the results with the literature review.

5.2 Summary of Findings

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

5.2.1 Governance Structure

The study sought to establish how governance structures impact the performance of family-owned businesses in Kenya. It found an insignificant relationship between governance structure and the performance of family-owned businesses in Kenya. The findings however seem to be divergent from the findings of 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 consistently high performance. With evidence from the research generally yielding a non-favourable view of the controlling families, a 100% advancement in this variable would lead to a 14.54% decrease in company performance.

5.2.2 Succession Planning

The study was to determine the influence of succession planning on the performance of family-owned businesses in Kenya. It found an insignificant relationship between succession planning and the performance of family-owned businesses in Kenya. The data analysis found that there was no significant relationship between succession planning and performance in family businesses and this was attributed to the fact that the value of $p=.376$ since lack of competence and skills in family succession planning caused stagnation of family business after the exit of the founder. With evidence from the research generally yielding a non-favourable view of the controlling families, a 100% advancement in this variable would lead to a 14.42% decrease in firm performance.

5.2.3 Conflict of Interest

The third independent variable of the study was to find out the relationship between conflict of interest and performance in family businesses. After data analysis, the study found that there was no significant relationship between family conflicts and business performance in Nairobi County where the p-value is .194. This is due to classic family business conflicts like succession results in in-fighting for control of certain positions and this impact negatively in the functioning and operations of the business. Also, family conflicts and disagreement about management decisions affect family business succession thus negatively influencing business performance and growth. With evidence from the research generally yielding an average view of the conflict of interest, a 100% advancement in this variable would lead to a 21.16% increase in firm performance.

5.2.4 Board Composition

The other study objective was to determine the impact of board composition on the performance of family-owned businesses in Kenya. 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 knowledge bases. They also opined that diversity enhances the ability to recognize different stakeholder needs and influence sustainability decisions. Sanna-lena 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 this variable would therefore lead to a 0.42% increase in firm performance.

5.3 Conclusion

The study concluded that all four independent variables had an insignificant relationship with the performance of the family-owned businesses. The coefficient of determination, R^2 was 0.3478 which indicates that the estimated regression equation can predict only 34.78% of the variation. The adjusted R^2 statistic is preferred by some researchers as it helps avoid overestimating the impact of adding an independent variable on the amount of variability explained by the estimated regression equation. The adjusted R^2 was 0.0296 which tells us there was a 2.96% variation in company performance of the corporations due to changes in governance structure, succession planning, conflict of interest and board composition. This does

not answer the objective of the study and leads us to reject the hypothesis that there is a relationship between these variables and the firm performance of family-owned businesses in Kenya.

5.4 Recommendations

The research recommends that family-owned businesses should strive to change their current governance structure since it was found not to positively influence performance. The controlling families should seek ways of bringing in external equity holders in their respective firms, since this devaluation of equity may post positive repercussions for performance. This has been adopted by the Naivas chain of supermarkets and their balance sheet has changed tremendously. This will increase the pool of knowledge and experience on the corporate board which can translate to the institution of better corporate governance measures. Ultimately, well-governed firms are the ones which attain profitable performance.

Boards should be keen on initiating succession plans. Many corporate boards tend to be passive and disinterested in the succession of the company once the charismatic founder leaves the scene. An active board would leverage the powers and expertise of its members to guide the firm in the right plans to its structured succession plan which distinguishes the importance of establishing ownership of the succession plan and aligning the internal culture with external branding. Additionally, the study recommends that organizations should perform critical internal examinations of their current methods and strategies for the communication of their succession planning program. This is a better strategy that is followed by most boards which only implement reactionary measures after an unfavorable occurrence has taken place.

The study further recommends that businesses do not give sole leadership and management in all departments to family members but rather employ outsiders who may have other competencies and are more qualified. This will not only bring impartialness in making decisions but will also reduce conflict of interest among the family members in leadership positions.

The study recommends that more family businesses should adopt multiple directorship structures of governance since the members provided important information related to new policies, trade secrets and practices among business organizations which inspires better performance.

5.5 Suggested Areas for Further Research

The researcher suggests that the study of the determinants of better performance should be revisited to evaluate the effects of other aspects of corporate governance, e.g., CEO duality, gender diversity of board members, age of directors, etc. on the sustainability of family-owned businesses. This study used family-owned firms since it wanted to examine how corporate governance affects the performance of family-owned businesses in Kenya. Future researchers can design similar research using non-family-owned businesses and investigate other factors of corporate governance. Future researchers can also conduct a comparative study: replicating this research, but with a focus on non-family-owned businesses to evaluate whether there are any discrepancies in results and their probable explanations.

5.6 Limitations of the Study

One of the key limitations of this research was the availability of accurate and comprehensive data from family-owned businesses in Kenya. Due to the informal nature of some family-owned enterprises, many of these businesses may not have detailed financial or governance records

readily available for analysis. To overcome this challenge, the research focused on businesses with well-documented governance structures and employed qualitative interviews to fill in gaps where quantitative data was lacking. This approach ensured that insights were still gathered, even when hard data was incomplete.

Another limitation was the potential bias in responses from participants. Since family-owned businesses are often closely controlled, respondents hesitated to provide complete information due to concerns about privacy or revealing internal challenges. To address this, confidentiality and anonymity were strongly emphasized throughout the research process. This reassured respondents, allowing them to participate more openly. Additionally, the use of multiple respondents from different levels within the businesses helped reduce individual bias, providing a more balanced perspective on governance practices and their effects on business performance.

Finally, the diversity of family-owned businesses in terms of size, industry, and generational involvement presented a challenge in creating a standardized framework for assessing governance. Different businesses face different challenges based on these factors, making it difficult to draw universal conclusions. To mitigate this, the study employed a comparative approach, analyzing businesses of varying sizes and sectors. By segmenting the findings according to these variables, the research was able to provide tailored insights relevant to different types of family-owned enterprises in Kenya.

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APPENDICES



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BOARD OF POSTGRADUATE STUDIES

KCAU/BPS/2024

Date: Tuesday, September 24, 2024

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: KELVIN GAKUYA MURAGURI REG NO: REG.NO. 23/02733

It is my distinct pleasure to introduce to you Kelvin Gakuya Muraguri who is a student in our institution pursuing a Masters of Business Administration (Corporate Management) degree in the School of Business.

Kelvin is conducting a research on a topic titled: "*Corporate Governance and Performance of Family-Owned Businesses in Kenya.*" which is part of the requirements of the program he is pursuing. The research as well as the data procured thereof shall be used for academic purposes only.

Any assistance accorded to him is highly appreciated.

In case of further inquiry, do not hesitate to contact the undersigned.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Dr. Jackson NdoLO', written over a faint watermark of the KCA University logo.

DR. JACKSON NDOLO
DIRECTOR, BOARD OF POST GRADUATE STUDIES

Appendix II: Questionnaire

Kindly tick the box that matches your answer to the questions and list the answers in the spaces provided appropriately.

General Questions

Section A

1. Gender Male Female

2. What is your job designation?

Directorship [] Corporate Management [] Corporate Staff []

3. What is your highest level of education?

Certificate [] Diploma [] Degree []

Masters [] PhD []

4. How long have you served in the capacity?

1 – 3 years

4 – 5 years

6 – 8 years

Above 9 years

Section B: Governance Structures on Performance of Family-Owned Businesses

Please provide your feedback on the following statement using the scale where 1 represents Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree, and 5 Strongly Disagree.					
QUESTIONS	1	2	3	4	5
1. Bad corporate structures can destroy a company's operations					
2. There is a positive and significant link between corporate governing structure and the sustainability of family business					
3. Family businesses ought to define a clear Governance structure.					
4. Governance structures play a crucial role in any organization that aims to maintain a stable workforce.					
5. Effective governance structures can help minimize conflicts of interest and enhance a company's overall performance					

Section C: Succession Planning on Performance of Family-Owned Businesses

Please provide your feedback on the following statement using the scale where 1 represents Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree, and 5 Strongly Disagree.					
QUESTIONS	1	2	3	4	5
1. The longevity of family businesses in the market is often linked to the lifespan of their founders.					
2. Education and personal characteristics are key considerations during succession planning.					
3. Succession planning is crucial for ensuring the continuity of a business into the next generation.					
4. The strategies implemented by the business owner significantly shape the future of the business.					

5. Family-owned businesses are likely to thrive across future generations when there is a central unifying figure within the family.					
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Section D: Conflicts of Interest in the Performance of Family-Owned Businesses

Please provide your feedback on the following statement using the scale where 1 represents Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree, and 5 Strongly Disagree.					
QUESTIONS	1	2	3	4	5
1. Mitigation of conflict of interest provides an enhanced customer experience to clients of family-owned businesses					
2. Low frequency of board meetings will worsen firm performance					
3. Organizational management should always resolve conflicts of interests					
4. A high frequency of board meetings can improve company performance					
5. Employees working for a competitor can lose their jobs easily in a family business					

Section E: Board Composition on Performance of Family-Owned Businesses

Please provide your feedback on the following statement using the scale where 1 represents Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree, and 5 Strongly Disagree.					
QUESTIONS	1	2	3	4	5
1. Through their expertise and business connections, directors add value to the Board.					
2. Board members should perform the business of the organization with responsibility and ethics.					

3. The board members' oversight function has helped to improve the organization's financial performance.					
4. Directors behave impartially to protect the interests of other stakeholders including shareholders.					
5. Directors in family-owned businesses have an impact on board choices and tactics.					

Section F: Corporate Governance on Performance of Family-Owned Businesses

"Please provide your feedback on the following statement using the scale where 1 represents Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree, and 5 Strongly Disagree.					
QUESTIONS	1	2	3	4	5
1. Corporate governance can help minimize conflicts of interest and enhance the company's financial performance.					
2. Family-owned businesses often have weaker corporate governance practices					
3. Effective corporate governance can boost shareholders' return on investment.					
4. Strong corporate governance supports organizations in executing effective strategic planning.					
5. Good corporate governance ensures quick access to information, clearly defined roles and responsibilities, and effective communication among team members.					

Appendix III: List of Family-Owned Businesses in Kenya

No	Business name
1	Bidco Africa
2	Haco Industries
3	Family Bank
4	Sameer Africa
5	Athi River Mining
6	Rea Vipingo
7	Menengai Group
8	East African Educational Publishers (EAEP)
9	Sarova Hotels
10	Mabati Rolling Mills
11	Kenya Orient Insurance services
12	Chandarana Foodplus
13	Royal Media Services
14	Keroche Breweries
15	Naivas Supermarket
16	Blowplast Limited
17	Davis and Shirtliff Limited
18	Devki Group of Companies
19	Kenafic Industries Limited
20	Rai Group Limited
21	Kapa Oil Refineries Limited
22	Kenya Sweets Limited
23	Mayfair Holdings Limited
24	Chandaria Industries Limited
25	Khetia Drapers Limited
26	Quick Mart Limited
27	Apollo Investments Limited
28	Family Bank Kenya Limited
29	Windsor Golf Hotel and Country Club
30	Muguku Farm
31	Prime Bank Kenya Limited
32	Simba Corp

Source: (Registrar of Companies, Kenya-2025)