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The Effect of corporate governance structures on firm performance among family-owned businesses in Nairobi County Kenya.

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THE EFFECT OF CORPORATE GOVERNANCE STRUCTURES ON FIRM PERFORMANCE AMONG FAMILY-OWNED BUSINESSES IN NAIROBI COUNTY KENYA

BY

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DECLARATION

Student's declaration

I declare that this work has not been previously submitted and approved for the award of a degree by this university or any other university. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

Diana Itumbi Munyoki 053082

Signature

Date…………04/11/2021……………..

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ABSTRACT

Family-owned businesses form a significant pillar of most economies across the globe because these organizations are a major contributor to wealth creation and employment creation. Most successful worldwide businesses started their activities as family businesses and have effectively become global brands. Like any other business though, corporate governance is a concern here too. Family business continuity plans are expected to establish a governance structure for the family and for the family business. These structures are aimed at improving procedural and control mechanisms of the family-owned company and for coordinating the correspondence and connection between family proprietors and business executives. With more and more family businesses opening to the world, such firms can no longer keep away from execution of the corporate governance standards for reasonable and transparent functioning. However, there is scanty empirical evidence on the extent to which corporate governance structures affect firm performance among family-owned businesses. Therefore, the fundamental aim of this study was to research the effects of corporate governance structures on firm performance by relying on resource-based theory and institutional theory. The specific objectives of the study were:-to determine the effect of ownership structure on firm performance of family-owned businesses in Kenya, to establish the effect of board structure on firm performance of family-owned businesses, and to establish the effect of management structure on firm performance. The study used a descriptive research design to collect data from a sample of 220 family-owned businesses; a structured questionnaire was employed to obtain data while analysis was done with the use of the statistical package for social sciences (SPSS). The quantitative data generated was subjected to descriptive statistical analysis, correlation and regression analysis. The study found that there was a significant and positive relationship between ownership structure and firm performance in family-owned businesses. Further, the study established that there was a positive significant relationship with CEO-duality, however women on board, board composition and board Committee were not significant in influencing firm performance in family-owned business. The study further found that separate chairman and CEO roles had a positive effect on a corporate's reputation hence influence on the firm performance in family-owned businesses. The findings for management structures were observed to be positively related to firm performance. Of all the three structures ownership structure had a greater influence on firm performance. The recommendations of the study are: -hiring of a professional CEO, strategic differentiation to create more growth opportunities, introduction of a governance code by policy makers that accommodates the complexities of family businesses that are publicly traded. The study was however limited by the Covid – 19 crisis, where holding a one on one interview was a challenge following the government directive of social distancing, hence most of the interviews were done over the telephone. Information withholding was also another challenge encountered given the nature of family businesses.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations around the globe look to attract financing from financial backers to expand and develop further. However, before financial backers choose to put resources into a specific business, regular affirmation is looked for on whether the business is financially solid, (Mallin, 2010). In order to have this assurance investors, examine published reports and accounts of the business and any other information released by the company with the expectation that the books of account represent a true picture of the company's present position.

Various prominent corporate breakdowns have occurred notwithstanding the manner in which organizations' yearly reports and records appear good. Mallin, (2010) highlights some of these corporate collapses to include: - Barings bank which collapsed in 1995 due to lack of effective internal controls. Enron collapsed due to lack of integrity and honesty by directors in 2001, it also highlights the need for external auditors to ask searching questions. Royal ahold which collapsed in 2003 draws attention to what may happen if investor involvement is suppressed and there is dominance of a chief executive. Royal bank of Scotland which collapsed in 2008 emphasizes that a board might find it difficult to question and limit the activities of a powerful chief executive. Parmalat which collapsed in 2003 indicates the deficiencies that may be exhibited in a family-owned firm where members of the family take a controlling role across the board which can be viewed an absence of board autonomy.

From the above corporate collapses, it can be concluded that although the annual reports of such organizations seemed fine, the businesses still failed. The issues that stand out from the collapses are:- lack of effective internal controls, lack of integrity and honesty by directors, negligence on the part of external auditors for failing to ask searching questions, lack of investor involvement ,presence of a dominant and powerful chief executive and a lack of board independence due dominance of family members across the board. These issues point out to the issue of corporate governance structures. Corporate governance has been regarded as a preserve of the listed and large firms. However, it is important to MSEs as it provides a framework for scrutinizing the actions and performance of the agent. Corporate governance protects both the future of the business and the interests of the owners and investors (Mirkovic, 2015).

IFC (2018) defined corporate governance as the processes and structures that direct and control the organizations relatedness among the administration, governing body, controlling investors, minority investors, and different partners to improve responsibility, obligation, straightforwardness, and reasonableness. Mallin (2010) suggests that good corporate governance can help avert such corporate collapses from recurring and encourages transparency and accountability which investors look for. With proper corporate governance structures there is an assurance that a business is well managed in the interest of both the shareholders and stake holders. It also forestalls any single individual from having powerful influence; further it assists in ensuring that adequate and appropriate systems of controls are in place to safeguard assets; it is thus concerned with the relationship between the management, directors, shareholders and stakeholders (Mallin, 2010).

World over, family-owned businesses are viewed as pivotal drivers of numerous economies, contributing an estimated 70 - 90% of worldwide Gross Domestic Product (GDP) annually (Fatoki, 2014; IFC,2018; Kotlar, Cuomo, & Zatton, 2019). European Commission (2008) decipher a family owned business as a firm where initially, most of the dynamic rights are in the ownership of the individual who set up the firm, or in the ownership of the individual who has gained the offer capital of the firm, or in the ownership of their life partners, guardians or children; Secondly most of dynamic rights are indirect or direct; Thirdly, in any event one member of the family or kinfolk is officially associated with the governance of the firm; and ultimately, an organization meets the meaning of family undertaking if the individual who set up or obtained the firm (share capital) or their families or relatives have 25% of the dynamic rights commanded by their offer capital.

Attributable to this order, family-owned businesses are needed to ascend to an undeniable level as performance is concerned (Brenes, Madriga & Requena, 2011; Moche, 2014).

As indicated by McCormick, K'Obonyo, and Machuki (2013) family-owned business performance is concerned with the results of an organization whereby they quantify and measure the efficiency and effectiveness of their actions, decisions and processes against its projected goals and objectives as per the strategic plans. Besides, studies position performance as the most significant and enduring strategy in ensuring survival of family-owned businesses and a fundamental route to excellence of any enterprise (Brenes et al., 2011; IFC,2018).

However, despite the fundamental role of performance as articulated above, the performance attributable to the family-owned businesses in Kenya continues to deteriorate (Kiilu & Ntale, 2018; Wamaitha 2016). Absence of effective leadership, conflicts among family members, lack of management skills and questionable regulatory frameworks within the sector deteriorate the performance of family-owned businesses (Wamaitha, 2016; Karanja, 2012). Despite numerous interventions and reforms such as enhanced family law, this situation has persisted (John, Kidwell, & Camp 2016). Various interventions have been used to improve this situation such as accommodating regulatory environment, improved institutions for capacity building, proper legislations and enforcement, facilitation of international trade and investments, better frameworks that support enterprise creation and growth among other interventions (World Bank, 2015).

As per 2016 statistics, only 35 percent of family ventures tend to survive past the first generation of proprietorship. Subsequently, out of 35 percent only 20 percent survive to the third generation (John et al.,2016). Moreover, a study conducted by Wamaitha (2016) on impact of succession planning management strategies on performance of medium sized family-owned businesses in Kenya indicated that of the more than 70 percent of enterprises owned by families, only 10 to 15% of them live to the third generation. Could this be attributed to absence of appropriate governance structures set up to guarantee a smooth progress and maintainability of the privately-run company? .Corporate governance has been appraised as a unique attribute to improved performance of family-owned business (Brenes et al., 2011; Che & Langli,2015 ; Kamau, Aosa, Machuki, & Pokhariyal, 2018 ; Kenga, 2018).

The corporate governance theories on which this research relied upon were institutional theory and Resource-based theory of the firm. Of these, the overriding theory was the resource-based theory of the firm. Resource based theory (RBT) centers on analyzing the nature, attributes and capability of a firm's resource base. The family business uniqueness is to a great extent attributed to the peculiar assets and capacities that are produced when the family framework and the business framework collaborate and exist together in unison (Basco & Rodríguez, 2009; Nordqvist & Melin, 2010; Piper & Klein, 2007).

According to Scott (2004) institutional theory explains the resilient aspects of social structure. It takes into consideration the technique by which structures, rules, norms, and routines, become set up as authoritative guidelines for social behavior. It probes into how these components are made, diffused, and embraced throughout existence; and how they fall into decay and neglect. Institutional theory is therefore about "homogeneity in structure, culture and yield between organizations." (DiMaggio & Powell, 1983).

1.1.1 Corporate governance and corporate governance structures

The concept of corporate governance has been defined in a variety of ways by different scholars. Keasey, Thompson and Wright (1997) define corporate governance as the interaction and design used to synchronize and deal with the business issues of the organization towards upgrading the business with a definitive goal of acknowledging long-term investor needs, while considering the premium of different partners. Larcker, Richardson and Tuna (2005) further define corporate governance as the arrangement of components both institutional and market-based which impact regulators of an organization to settle on choices that advance the performance of the organization. Monks and Minow (2011) rather portray corporate governance as the connection between investors, the executives, individuals from top managerial staff, representatives, clients, suppliers and other vested parties deciding the way and performance of the corporation.

IFC (2018) denote corporate governance as the structures and processes that direct and control organizations concerning the interrelatedness among the managers, board of directors, controlling investors, minority investors, and different partners with the principle point of improving responsibility, duty, transparency and fairness. The organization for economic co-operation and development [OECD] (2004) depicts corporate governance as a set of relationship between an organization's board, its investors and other partners .it likewise gives the instrument through which the objectives of the organization are set and the methods of achieving them and observing performance are resolved. The corporate governance structures describe the appropriation of rights and obligations among various members in the organization and sets out the guidelines and systems for settling on choices for corporate undertakings. By doing this, it gives the format through which the organization objectives are set, and the methods for achieving those goals and observing execution.

World Bank (1999) hypothesized that, the main attributes of effective corporate governance are transparency (exposure of significant monetary and operational data) and internal processes of board oversight and control. Protection and enforceability of the rights and prerogatives of all shareholders; and directors capable of independently approving the corporation’s strategy and major business plans & decisions, and of independently hiring management, monitoring management’s performance and integrity, and replacing management when necessary.

From the diverse definitions above, corporate governance can be termed as a set of structures and processes that are aimed at directing, controlling and managing a business. Corporate governance structures as seen from the different definitions of corporate governance include: -ownership structure, board structure and management structure. The ownership structure indicators include:- family type, percentage of family ownership, control ownership wedge, managerial ownership, family founder ownership. The board structure indicators include: - board independence, board composition, board size, board committees, and board functioning and board tenure. The management Structure indicators are:-percentage of family in top management, family CEO/ chairman, founder

CEO/chairman, family/founder management, heir/descendant CEO (Edem, Honyenuga, Berent, & Kil, 2018).

Based on the above structures this research examined corporate governance structures (ownership structures, board structure and management structure) and their effect on firm performance. According to Scholten (2014) ownership can be total ownership concentration and insider ownership or inside and outside ownership. The concept insider ownership refers to all managers, directors and board members and total ownership concentration is about the presence of large shareholders. The board of directors play out a significant part in the governance structure of organizations. They are liable for setting coordinated arrangement of internal and external controls and incentive arrangements that are utilized to synchronize the interests of the directors (proprietors or investors) with the interests of the supervisors (Ferrero, Fernández, & Muñoz, 2015). Fauzi and Locke (2012) define board composition as consisting of board demographics, board structure, board recruitment, board member motivation and criteria, board education and evaluation, and board leadership. Board composition is one of the important factors affecting firm financial performance. Langton and Robbins (2007) contended that board structure serves to appropriately facilitate taking all things together board individuals to accomplish the objectives. Langston (2007) viewed that board structure, and its competencies are the most important organizational resources.

1.1.2 Firm Performance

Taouab and Issor (2019) described firm perfomnce as an achievement or the outcome obtained by management, economics and marketing in providing competitiveness, efficiency and effectiveness to the company.Richard , Devinney, Yip, & Johnson, (2009) defined firm perfomance as encompassing three areas of firm outcomes : (a) financial perfomance-profits, return on assets, return on investment , (b) product market performance - sales, market share, (c) Shareholder return -total shareholder return, economic value added. Ismyrlis (2019) described firm perfomance as comprising of the actual output or results of an organization (or else the company's performance) as measured against its intended outputs (or goals and objectives). Baum and Rowley (2002) further elucidated that firm performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). It is a broad construct which captures what organizations do, produce, and accomplish for the various constituencies with which they interact. From the above definitions firm performance can be termed to be the outcome obtained by a firm as a result of utilization of its resources. Firm perfomance can be measured using various ways and approaches.

According to Kaplan and Norton, (1992) firm performance measurement was defined as a technique used to identify the performance of a business with the aim of giving a balanced picture of the business. The assessment criteria is expected to reflect global outcomes of the business in terms of financial and non-financial.

According to Michaela and Marketa (2012), performance measurement tools that are often used include but not limited to: - the balanced score card, the four-level performance pyramid and the performance prism. The Balanced Scorecard (BSC) as advanced by Kaplan and Norton (1992) provides a technique to evaluate performance from four viewpoints: customers/stakeholders, internal (quality and efficiency), innovation/learning (human capital, infrastructure, technology, culture and other capacities that are key to performance), financial (financial performance and the use of financial resources). It intimates that the organization is viewed from four viewpoints and helps to develop objectives, measure key performance indicators (KPIs), targets, and initiatives (actions) relative to each of these viewpoints.

The four lever performance pyramid as proposed by Lynch and Cross (1991) ties up corporate strategy with operations through the pecking order by deciphering targets from the top and measures from the base .The top tier represents a corporates vision and strategy, the second tier represents business unit objectives and measures defined in the market and financial terms, and the third tier represents objectives and measures for core processes of the business units defined in terms of customer satisfaction, flexibility and productivity. At the bottom of the pyramid, objectives are translated into specific operational criteria: quality, delivery, cycle time, and waste for each department or component of the business.

The Performance Prism by Neely, Adams, and Kennerley (2002) comprises of five dimensions, each representing: - stakeholder satisfaction, strategies, processes capabilities, stakeholder contribution. These five dimensions provide a comprehensive and integrated framework for managing organizational performance.

Finally Azila-Gbettor, Honyenuga, Berent-Braun and kil, (2018) articulate that performance evaluation can be defined as a system that is concise and characterized by a bunch of measures (financial or non-financial) that aids the decision-making process of an organization by collecting, processing, and analyzing quantified data of performance information. The financial or accounting measures include return on assets investment, return on equity, return on capital employed, sales growth, financing decisions, and acquisition decision among many other. Non-financial measures include market share (Tobins Q) corporate reputation, entrepreneurial evidence, CEO compensation, strategic conformity, acquisition behavior, strategic change, social performance among many other non-financial measures.

It can be concluded that from the three tools of measuring performance, inclusivity of all various stakeholders in the business in conducting the performance measurement helps achieve a better-rounded and close to accurate indication of the firm’s performance. Different appraisal criterions are also considered which include financial and non-financial measures. According to Tidd and Pavitt (2011), firm performance measures may be either on the financial or non-financial aspects. Non-financial measures can include market share, new market development, employee satisfaction and customer loyalty; while financial measures include share price, profits, return on investment and sales revenue. He further argues that accounting and finance performance indicators concentrate only on the short-term measures of performance thus undervaluing innovation. Ittner & Larcker (2003) contended that utilization of non-monetary measures empowers managers to get a glimpse of a business progress before monetary judgment. Moreover, non-monetary measures empower financial backers to have a superior comprehension of the whole business performance.

Therefore, based on above firm performance measures the current study adopted non-financial measures as articulated by Azilla et al,.(2018). This is because use of non-financial performance measures enables managers to get an understanding of the business progress well before a financial judgment is made. Additionally, non-financial measures enable investors to have a better sense of the overall performance since non-financial indicators usually reflect more of intangible value such as research and development productivity that accounting rules rarely recognize as assets. The indicators of non-financial performance used in this research were: - entrepreneurship as strategic change and renewal, corporate reputation and strategic conformity and differentiation.

Wartick, (1992) described corporate reputation as the stakeholder's perception of how well organizational responses are meeting the demands and expectations of organizational stakeholders. Following similar arguments, Fombrun (2012) elucidated that corporate reputation can be termed as the collective representation of a company's past actions and future prospects that describes how key resource providers interpret a company's initiatives and assess its ability to deliver valued outcomes." Finally, Waddock (2000) defined reputation as the organization's perceived capacity to meet its stakeholders' expectations. The above definitions indicate that corporate reputation is dependent on assumptions regarding the capacity of a firm to satisfy its partners and it is worked by the conglomeration of all partners' assumption.

Waeraas and Sataøen (2016) portrayed conformity and differentiation as techniques that organizations follow in order to improve key organizational outcomes. Conformity signifies acting as per a set of norms, standards, or policies, while differentiation infers to standing apart as not quite the same as others as for specific certain attributes. Both strategies emerge from different theoretical positions, are selected on the basis of different strategic considerations, and are generally assumed to have different effects on a firm's performance.

Audretsch, Keilbach and Lehmann (2006) defined entrepreneurship as the ability of a firm to translate inventions or technologies into products and services. In this sense, entrepreneurship describes activities on the part of both established firms and new businesses (Brunninge and Nordqvist, 2004) alluded to the fact that entrepreneurship leads to strategic change and renewal. Corporate entrepreneurship can improve competitive positioning and transform companies, their markets and industries as the result of exploitation of new business opportunities (Brunninge and Nordqvist ,2004). From the above statement strategic renewal of a company can be termed as a pervasive activity that is related to the rejuvenation and transformation of key strategic ideas on which the company is built, this can all be achieved through corporate entrepreneurship hence the term entrepreneurship as strategic change and renewal.

1.1.3 Family-Owned Businesses in Kenya

European Commission (2008) interpret a family business as an entity where first and foremost, most of dynamic rights is in the ownership of the normal person(s) who set up the firm, or in the ownership of the common person(s) who has/have obtained the offer capital of the firm, or in the ownership of their life partners, guardians, kid or immediate beneficiaries; Secondly most of dynamic rights are aberrant or direct; Thirdly, in any event one agent of the family or kinfolk is officially engaged with the administration of the firm; and finally, a recorded organizations meets the meaning of family undertaking if the individual who set up or procured the firm (share capital) or their families or relatives have 25% of the dynamic rights commanded by their share capital.

Family businesses assume a significant part in many economies universally and in Kenya they are the predominant type of business ownership. They form a significant piece of the worldwide economy offering in excess of 75% of the Gross Domestic Product (GDP) in many economies and offer work to in excess of 85% of the working populace around the globe (Poza, 2007). They are postulated as the originating form of businesses dominating the economic landscape of most major economies in the world (Castillo & Wakefield, 2006). As reported by Jean & Li (2008) family businesses in the United States contribute half of the job opportunities, in Germany, they contribute 66% of GDP and accounts for 75% of total national employment. In Great Britain, the number of employees in family enterprises is 50% of the country’s workforce. In Southeast Asian nations, family enterprises contribute significantly to the GDP with Korea for example reaching 48.2%, Taiwan 61% and Malaysia 67.2 %. Internationally, majority of family businesses are small or medium sized (Bjuggern & Sund 2001).

In Kenya, small and medium sized enterprises (SMEs) are family owned and they provide employment constituting of 83.4% of the total employment, according to KNBS (2017). As drivers of economic development and the foundation of many businesses in Kenya, family-owned SMEs provide employment. As such family businesses are an important source of economic growth and development in many countries (Astrachan & Shanker, 2010). They are considered to be the engines of employment, alleviating poverty and improving equality (Ayyagari, Demirguc, & Maksimovic, 2011). The SMEs are therefore critical to the economies of numerous nations yet little consideration has been offered explicitly to the family claimed organizations in Kenya.

Although the family business dominant role is evident in most economies, such businesses fail particularly during the transition from one generation to another raising concern on their performance and sustainability. Poza (2007) explained that approximately 85% of new businesses collapse within their first year of operation and among those that survive; only 30% are successfully passed on to the second generation of the founding owners. The circumstance deteriorates in the progress between the second and third generation and the third and fourth generation where just 12% and 4 percent of such organizations individually, stay in the founding family. A survey by the Kenya National Bureau of Statistics released early 2017 indicated that approximately 400,000 micro, small and medium enterprises do not celebrate their second birthday. Few reach their fifth birthday- leading to concerns of sustainability of this sector.

1.2 Statement of the Problem

The importance of businesses adopting corporate governance best practices cannot be overemphasized since global best practices demonstrate a strong connection between good corporate governance and firm profitability. Corporate governance is a key concept that has been linked to a corporate value performance analysis by numerous studies in the past (Onguka, Iraya & Nyamute, 2020). Onguka et al. (2020) further stated that poor corporate governance had proven in part to be a major impediment to improving the corporate value of firms besides not being able to attract capital in an environment with ever-increasing capital mobility. In Kenya, cases of underperformance and corporate failures continue to increase in magnitude and frequency despite attempts by regulatory authorities to strengthen financial discipline and corporate governance through the implementation of improved governance principles and financial discipline through regular reporting and oversight.

Notably, in Nairobi County, despite efforts to improve the performance of family-owned business, there are instances of evident failure (Moche, 2014; kiilu & ntale, 2018). Statistically, performance of these enterprises remains at a worrying condition. This is indicated by high level of exit of family-owned businesses from the market, weak financial systems, untimely payment of staff, poor sales volume, costly litigation cases, lack of respect to organization's values, clear vision and mission, non-professionalism, questionable legal strategic framework, among others (Wamaitha, 2016; Moche, 2014; Kiilu & Ntale, 2018).

Various studies have been done covering the area of corporate governance in Kenya and around the world. Malik and Makhdoom (2016) sought to find out if corporate governance affects firm performance in Fortune Global 500 companies, the study established a positive connection between corporate governance and firm performance. Nehme, Richard, and Georges (2015) analyzed the connection between corporate governance structure and family firms' performance in Lebanon and found that there was a significant relationship between board size and family firm performance. There was no relationship between board composition and family firm performance. The study concluded that there was no connection between CEO tenure and family firm performance. Anum and Ghazali (2010) looked at ownership structure and firm performance in Malaysia, they analyzed the impact of corporate governance on corporate performance, the results showed weak proof to demonstrate that companies which adopted good governance practices performed better than others. None of the corporate governance variables (CEO duality, Independent directors, Board size) were statistically significant in explaining corporate performance. Dalwai (2015), on the other hand, investigated the relationship between corporate governance and firm performance among GCC banking sector and the findings showed that board size had a positive relationship with firm performance.

Ehikioya (2009) researched on corporate governance structure and firm performance in developing economies, the empirical investigations demonstrated that ownership concentration had a positive impact on performance. Albeit the outcomes uncovered no proof to support the impact of board composition on performance. Another variable, identified as more than one family member on the board, was found to adversely affect firm performance. Kyereboah (2008) conducted a study on corporate governance and firm performance in Africa, the findings indicated that large and independent boards improved firm value and that combining the positions of CEO and board chair had a negative impact on corporate performance.

Opanga (2013) analyzed the connection between corporate governance and firm performance in insurance firms in Kenya, the study established that the number of board committees, board meeting frequency, number of resolutions passed in an AGM and number of board of directors were all positively correlated with firm performance. In conclusion, each of the independent variable studied played a key role in the firm performance of insurance firms in Kenya. Moche (2014) analyzed the effect of corporate governance on firm performance of listed family firms; the study concluded that corporate governance was not related to firm performance for family-owned business. In particular, the corporate governance structures were measured using shareholding, board composition, board functioning, control mechanisms and disclosures. Wanjiku (2014) embraced an examination pointed toward deciding the connection between corporate governance practices and firm performance small and medium enterprises in Kenya. The findings revealed that the number of board of directors, percentage of inside ownership, number of board meetings were emphatically associated with improved firm performance while the number of board committees, percentage of outside directors and CEO duality was adversely related to organizational performance. From the above studies there was a bias on listed firms and financial performance. The researchers also relied on the board structure to arrive at their conclusion.

From the above empirical literature, it is evident that more studies need to be done on corporate governance and firm performance of family-owned businesses in Kenya focusing on non-financial performance. Evaluation of firm performance based on the financial aspect of performance can be inconclusive and skewed. Non-financial performance measures or aspects of firm performance give an all-inclusive perspective of the firm. Majority of the studies conducted so far have examined firm performance on financial measures. It can also be noted that the studies carried out relied on a single structure of the corporate governance structures. A substantive number of the studies have focused on board structure to arrive at their conclusion without considering the other structures namely ownership structure and management structure to give a conclusive finding. A single structure approach might not bring out all characteristics of the firm, a combination of multiple structures can help bring out a better opinion of governance structures in a firm. This study sought to examine the three structures of corporate governance: namely, ownership structure, board structure and management structure on firm performance. Whereas majority of the studies relied on secondary data, which is historical in nature, this study relied on primary data by administering a closed ended questionnaire and conducting interviews. The purpose of this research was to bridge these knowledge gaps by establishing the effects of corporate governance on firm performance of corporate governance in Nairobi Kenya.

1.3 Purpose of the Study

The purpose of this study was to establish the effects of corporate governance structures on performance of family-owned businesses in Kenya.

1.3.1 General Objectives of the Study

The general objective of this study was to establish the effects of corporate governance structures on firm performance of family-owned businesses in Kenya.

1.3.2 Specific Objectives of the Study

i. To determine the effect of ownership structure on firm performance of family-owned businesses in Kenya.

ii. To establish the effect of board structure on firm performance of family-owned businesses in Kenya.

iii. To establish the effect of management structure firm performance of family-owned businesses in Kenya.

1.3.3 Research Questions

i. What is the effect of ownership structure on firm performance of family-owned businesses in Kenya?

ii. What is the effect of board structure on firm performance of family-owned businesses in Kenya?

iii. What is the effect of management structure on firm performance among family-owned businesses in Kenya?

1.4 Scope of the Study

The research study focused on examining the effects of corporate governance Structures, on performance of medium and large family-owned businesses with an annual turnover of 5million dollars to 10 million dollars in Nairobi county Kenya. To empirically obtain satisfactory and informative data, the study covered Nairobi County in Kenya. This was because it is considered as the main center for the establishment of family-owned businesses. In this context, top managers, chief executive officers and firm owners, formed the unit of inquiry since they were at the mainstream of family-owned business management. This study involved filling of questionnaires for collection of data. The study focused on the period between June 2020 to September 2020. The study was anchored on two theories which are institutional theory and resource-based theory.

1.5 Significance of the Study

This research will help practitioners and policy makers to overcome the deficiencies regarding the ownership structure, board structure and family in top management, and to exercise the best combination of ownership structure, board structure and family in top management to get the desired goals. Policy makers need a reference point for policies regarding a particular subject. This study would provide such basis for articulating policies that would help family businesses transition into reputable firms and create wealth and employment in the economy

This research study will empower the board of directors to re-think their corporate structure and make a balance of ownership structure, board structure and family in top management, which will enhance the firm value and non-financial performance. It will help to guide businesses on how to integrate corporate governance structures in their firms to help strengthen firm performance. The research study findings will contribute to improving the performance of family firms which in return adds into the economy positively. The research study findings will be of importance to family-owned businesses management, by providing strategies to improve corporate governance structures and performance of their businesses.

An academic study is desired to be able to build into academia by adding new insights into a variable of study. This study therefore, not only adds to the body of knowledge of corporate governance in family run businesses but will also form basis for further research to academia in the area of corporate governance and firm performance in family businesses. This research further adds into the existing body of knowledge related to the relationship between of ownership structure, board structure and family in top management.

1.6 Chapter Summary

This Chapter presents the background of corporate governance and its effect on firm performance of family-owned businesses in Kenya. It also presents the problem statement, purpose of the study, research questions to be answered by the study, scope of the study and importance of the study. Next is Chapter two which reviews the literature underpinning the study based on the research questions and theories that help support the study variables.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews theoretical and empirical literature. Empirical studies on effects of corporate governance on firm performance and theories thereon are discussed as they relate to the objectives of the study. The chapter also presents a summary of knowledge gaps arising from this review which inform the conceptual framework and operationalization of study variables presented towards the end of the chapter.

2.2 Theoretical Foundations

A theoretical foundation serves as the guide on which to build and support a research study, It can be defined a structure that guides research by relying on a formal theory constructed by using an established, coherent explanation of certain phenomena and relationships" (Grant & Osanloo, 2014). It is based on an existing theory in a field of inquiry that is related and mirrors the speculation of a study. It is additionally considered as an outline that is regularly 'acquired' by the researcher to build his/her own research inquiry. The following section discusses the different theories on which this study is anchored on, namely the resource based theory and institutional theory.

2.2.1 Resource Based Theory

This theory was first postulated by Penrose (1959) who argued that a firm was more than an administrative unit; it was seen as a collection of productive resources the disposal of which between different users and over time is determined by administrative decision.She emphasized on the internal resources of a firm. A firm's growth is reliant on a firm's resources and is limited by managerial resources. This theory was further developed by Andrews (1971) who emphasized on management of internal resources. Resource based theory emphasis is on analyzing the nature, characteristics, and potential of a firm's resource base. It has been suggested that the family business uniqueness is largely because of the idiosyncratic resources and capabilities that are generated when the family system and the business system interact and co-exist in Unison (Basco & Pérez Rodríguez, 2009; Nordqvist & Melin, 2010).

Resources are defined as factor which could be thought of strength or weakness of a firm and at any given time can be the assets that are either tangible or intangible and which are tied semi-permanently to the firm (Wernerfelt, 1984). Miller and Shamsie (1996) extended the definition further by differentiating intangible and tangible resources. They termed intangible resources as the knowledge-based ones while the tangible ones were property based. Intangible resources more than likely to lead to sustained competitive advantage because they are often unknown hence difficult to identity and are firm specific.

Resource based theory is anchored on several assumptions. These assumptions are linked to persistent superior firm performance theories. In particular, they focus on how to assess superior performance in order to evaluate a firm's competitiveness. Resource based logic, for instance, adopts the assumption that firms are profit- maximizing entities and that managers in firms are bounded rational (Simon, 1945). Over and above these basic assumptions, resource-based logic makes two additional issues that distinguish it from other strategic management theories: the concept of resource heterogeneity and that of resource immobility (Barney, 1991). These assumptions are: Resource heterogeneity: competing firms may possess different bundles of resources and Resource immobility: these resource differences may persist.

According to Barney (1991) the main prepositions of resource based theory are:- Factor market competition and temporary rents. Firms that acquire or develop valuable resources in imperfectly competitive strategic factor markets can gain at least temporary economic rents by using them to develop and implement strategies.

Factor market competition and sustained economic rents: - Firms that utilize valuable resources to develop and implement strategies in ways others cannot anticipate can gain sustained economic rents. Resource heterogeneity and temporary competitive advantages: - Firms that control valuable and scarce resources can gain temporary competitive advantages by using them to develop and implement strategies. Resource heterogeneity and immobility and sustainable competitive advantages: - Firms that control valuable, scarce, and non- substitutable resources that are inelastic in supply can gain persistent competitive advantages by using them to develop and implement strategies.

Barney (1991) explains that a firm is said to possess a competitive advantage when it is implementing a value creating strategy that is not being executed by its current or potential competitors and when the competitors are unable to duplicate the benefits of this strategy.

According to Habbershon and Williams (1999), a far-reaching perspective of the resource-based theory suggests that unique bundles of resources and capabilities serve as a source of competitive advantage for the firm. The objective then of resource-based theory is in understanding how firms can acquire and keep their upper hand advantage through resource heterogeneity (Barney, 1991). The resource-based theory also helps us to understand the heterogeneous character of the family business. The theory opines that firms with valuable, rare and inimitable resources have the potential of achieving superior performance (Barney, 1996; Barney et al., 2001). This view has been tended to by several researchers who contend that resourced based theory is useful in examining strategic alliances between firms.

Resource based theory (RBT) of the firm is the original theoretical basis for the familiness construct (Barney, 1991; Makadok, 2001). It centers on the internal capabilities of the firm and how these can best be used for the firm's advantage. The theory expands our understanding in regard to how firm resources are applied and consolidated, what makes competitive advantage sustainable, the nature of rents, and the origins of heterogeneity (Peteraf, 1993). Resource based theory particularly highlights the intangible resources that influence a firm's competitive advantage; like the uniqueness and intricacies of the intangible resources which is usually referred to as "familiness" in family businesses.

Resource based theory has also dominated the literature in the study of entrepreneurship and family businesses due to their simplicity of measurement. Capabilities and competence have been found to be far weightier in explaining competitive advantage and performance (Newbert, 2007). This makes the application of resource-based theory in the family business context generally significant. The theory proposes that unique bundles of resources and capabilities serve as a source of competitive advantage of the firm (Habbershon & Williams 1999). Familiness is the set of resources resulting from the interaction between the family, individual members and the business. As a theoretical framework, resource-based theory has been key in developing a theory for family business (Chrisma et al., 2005). The theory is likewise used to identify the resources and capabilities that make family firms unique and to examine the family's influence on the formation of a firm's strategy (Chrisma et al., 2003).

The Resource based theory was consequently most suitable for this study because it highlights the complexities and uniqueness of the internal mechanisms in the family business that operates in when the family and the business interact. Moreover, the resource-based theory perspective highlights the need for a fit between the external environment context in which the company operates and its internal capabilities. It proposes that a firm's unique resources and capabilities provide the premise for strategic choice hence performance. Family business characteristics comprise of a firm's resource base which are either a strength or weakness and can influence the firm's performance which in this study's perspective include corporate reputation, strategic conformity and differentiation and strategic change and renewal. While numerous family firms may have similar characteristics, founder and cultural influences and how the individual families utilize their resources may determine their firm performance differences. This theory provides a basis for both our independent (corporate governance structures) and our dependent variable which is firm performance. Proper structures need to be put in place to enable strategic utilization of the firm resources which in turn assist the firm to achieve a competitive advantage over its competitors leading to superior long term performance.

2.2.2 Institutional theory

Institutional theory was proposed by (Meyer & Rowan, 1977) as an approach to understanding organizations and management practices as the product of social rather than economic pressures.

According to Scott (2004) institutional theory tends to center on the more profound and stronger parts of social design. It respects the cycles by which structures, including blueprints, rules, standards, and schedules, become grounded as legitimate rules for social conduct. It tests into how these components are made, diffused, embraced, and adjusted throughout existence; and how they fall into decrease and neglect. Institutional theory is about the “homogeneity in structure, culture and output” between organizations (DiMaggio & Powell, 1983). As claimed by Scott (2008), institutional theory is "a widely accepted theoretical posture that emphasizes rational myths, isomorphism, and legitimacy." Researchers building on this perspective accentuate that a key perception of institutional theory is imitation(conforming): as opposed to optimizing their decisions, practices, and structures, organizations look to their peers for cues to appropriate behavior.

In defining institutions, Scott (1995) intimates that there is no single and universally agreed definition of an 'institution' in the institutional school of thought. Scott (1995) further states that, institutions are social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artifacts. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships.

Institutional theorists contend that the institutional environment can strongly have effect on the advancement of formal structures in an organization, more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are permitted in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent". At this point new and existing organizations will adopt the structural form even if the form doesn't improve efficiency. Meyer and Rowan (1977) argue that often these "institutional myths" are merely accepted formally in order for the organization to gain or maintain validity in the institutional environment. Organizations adopt the "vocabularies of structure" common in their environment such as specific job titles, procedures, and organizational roles. The adoption and display of these institutionally acceptable "trappings of legitimacy" help preserve an aspect of organizational action based on "good faith". Legitimacy in the institutional environment helps ensure organizational survival.

However, these formal structures of legitimacy can bring down effectiveness and hamper the organization's competitive position in their technical environment. To limit this negative effect, organizations often will decouple their technical core from these legitimizing structures. Organizations will minimize or formalize evaluation and neglect program implementation to maintain external (and internal) confidence in formal structures while reducing their efficiency impact.

DiMaggio and Powell (1983) infer that the final product of institutional pressure is to increase the homogeneity of organizational structures in an institutional environment. Firms will embrace similar structures as a result of three types of pressures. Coercive pressures, which come from legal mandates or influence from organizations they are dependent upon; Mimetic pressures to copy successful forms arise during high uncertainty and finally, normative pressures to homogeneity come from the similar attitudes and approaches of professional groups and associations brought into the firm through hiring practices.

This theory causes us to comprehend both "old" and "new" institutionalism which add valuable viewpoint for the analysis of family businesses. "Old" institutionalism encourages the study of structural change because of environmental pressures. "New" institutionalism focuses on the symbolic nature of organizations. Hence the theory is relevant to this study in as far as it offers an explanation for family businesses choosing conformance over differentiation. It also forms a strong basis for both our independent (corporate governance structures) and our dependent variable which is firm performance in that Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Legitimacy in the institutional environment helps ensure organizational survival which can be viewed at from a firm's performance perspective.

Combining these two theories reveals that they are distinctive yet complementary regarding the consequences of an organizational behavior such as the choice of instituting corporate governance structures to aid a firm's performance. While the institutional theory draws attention on how prevailing institutional norms may impact market structure in general and organizational behavior in particular, the resource based theory highlights the outcomes rather than antecedents of a firm's behavior. These two theories will anchor the choice of the research variables, both the independent (corporate governance structures) and the dependent variable (firm performance).

2.3. Empirical Literature Review

Different researchers have investigated the relationship between corporate governance and the performance of firms in various dimensions. The next section discusses some of these studies while bringing out the knowledge gaps arising.

2.3.1 Ownership Structure and Firm Performance

Scholten (2014) sought to determine the effect of total ownership and insider ownership on firm performance in the Netherlands. The researcher used a data set of two annual observations of 2011 and 2012 of 80 Dutch listed companies; a quadratic effect of total ownership on firm performance measured by the return on asset-ratio was found. It was also found that firm performance measured by the return on asset-ratio increased when insider ownership increased. After a certain point though, firm performance decreased, and later on increased.

García, Quevedo, and Fuente (2010) researched on the effect of ownership structure on corporate reputation. They found that ownership concentration in the hands of the largest shareholder erodes corporate reputation, whereas contestability of the main shareholder's power enhances it. Insider ownership showed a non-linear relationship with corporate reputation, with lower corporate reputation at low and very high levels of insider ownership. Finally, if the largest shareholder was either a pressure-resistant or a pressure-sensitive institutional investor, as opposed to other types of largest shareholder, corporate reputation was lower.

Che and Langli (2015) examined the effect of governance structure and firm performance in private family firms in Norway using a sample that covered private limited liability firms in Norway, spreading over 11 years. The results showed a U-shaped relationship between family ownership and firm performance. High ownership of the second largest owner, high percentage of family members on the board, strong family power, and small boards were associated with high firm performance. In addition, the positive association between the ownership of the second largest owner and firm performance also occurred when the second largest owner was a member of the controlling family, but the association was stronger when the second largest owner is a non-family member. The authors' further tested the relative importance of these test variables and found that ownership structure was more associated with firm performance than board structure.

Moche (2014) sought to study the relationship between corporate governance and firm performance of listed family-owned firms in Kenya. The author relied on corporate governance structures namely shareholding, board composition, board functioning, control mechanisms and disclosures and compared the structures to firm performance. Firm performance was measured using return on equity, sales growth, net margins, as well as Tobin q. The results of the study concluded that corporate governance is not related to firm performance for listed family-owned business.

A review of prior studies therefore shows that most of the studies carried out on this relationship were conducted in developed economies with minimal attention given to developing economies. It can also be noted that most of the studies relied on financial measures to measure performance. Minimal attention was given to non-financial measures. This study was carried out on a developing economy (Kenya) and relied on non-financial performance measures to measure performance.

2.3.2 Board Structure and Firm Performance

Nehme et al., (2015) investigated the relationship between corporate governance structure and family firms' performance in Lebanon. A survey of 40 family businesses was carried out with semi opened questionnaires. The researchers explored the relationship between board composition and firm performance. The study concluded that there was no relationship between board composition and family firm performance.

Shahrier, Jessica, and Gaur (2015) instead sought to establish the relationship between board composition and firm performance. The findings revealed that the presence of professional directors led to superior firm performance. However, the positive effect of board independence on firm performance reduced in firms that had a high-ownership concentration. Additionally, a high-ownership concentration reduced the positive effects of board size and board competence. The sample for this study was on the listed firms on the New Zealand Stock Exchange between 2004 and 2007.

Likewise, Ehikioya (2009) investigated the connection between corporate governance structures and firm performance in developing economies. The study relied on the regression model to analyze publicly available data for a sample of 107 firms quoted on the Nigerian stock exchange for the fiscal years 1998 to 2002. The results indicated that ownership concentration had a positive impact on performance. Although the results revealed no evidence to support the effect of board composition on performance, there was significant evidence to support the fact that CEO duality adversely affected firm performance. The results also suggested that firm size and leverage affected firm performance. More than one family member on the board, was found to have an adverse effect on firm performance. In their research Joshua and Nicholas (2007) investigated corporate governance, ownership structure and firm performance of SMEs in Ghana. The study sampled 120 firm's. The data used in the empirical analysis was derived from the financial statements of SMEs in both the industrial and services sectors during a six-year period, 1998-2003. Information on governance and ownership issues was also obtained through interviews from the management of the firms. The results showed that board size, board composition, management skill level, CEO duality, inside ownership, family business, and foreign ownership had a significant positive impact on profitability.

Moche (2014) sought to study the relationship between corporate governance and firm performance of listed family-owned businesses in Kenya. The author relied on corporate governance structures which included: shareholding, board composition, board functioning, control mechanisms and board disclosures and compared the structures with firm performance which was measured using return on equity, sales growth, net margins and Tobin q. The results of the study concluded that corporate governance was not related to firm performance for listed family-owned business.

From the above studies most, researchers relied on financial measures to measure performance and their study subjects were in developed and evolved markets. This study was conducted in Kenya which is a developing country and firm performance was measured using non-financial measures.

2.3.3 Management Structure and Firm Performance

Hoffmann, Wulf and Stubner (2014) sought to establish the performance repercussions of family members in the top management team on family firms in Germany. The study investigated the relationship between long-term orientations, family involvement in the top management team (TMT), and family firm performance. The researchers recommended that the inclusion of family members in the top management team only enhances firm performance if it brings about a long-term orientation among management. The study was based on an empirical analysis involving 201 privately owned family firms from Germany. The findings reinforced their theory that a long-term orientation helps align family and organizational goals. As such, it represents an important mediator that links family involvement in the top management team to performance.

Alessandro, Corbetta and Ian (2010) investigated the impact of top management team in family-controlled companies on financial performance. The results revealed that while the presence of a family CEO was beneficial for firm performance, the coexistence of ‘groups’ in family and non-family managers within the top management team had the potential to create division among the subgroups and consequently affect negatively the firm performance. There was U-shaped relationship between the ratio of family members in the top management team and firm performance.

Patriciah, Zachary, Kennedy and Ogutu (2016) scrutinized group cohesion and strategic context on the relationship between top management team composition and performance of family firms. They sought to establish the effect of top management team composition on firm performance in family firms. The study established that the impact of top management team composition on firm performance in family firms was mediated by group cohesion. The reason being that the family firm is fraught with many dynamics among the family members some of which are not related to the business. This led to the conclusion that whether the top management team composition in the family firm impacted performance positively or not, was dependent upon the family's ability to pull in the same direction that is how cohesive the family was. In addition, it was established that family firms pursuing complex strategies in terms of their products or markets were likely to benefit the most from top management team composition. The reason being the strategic context triggered deliberations and information sharing which harnessed the diverse skills availed by the top management team composition. Thus, the strategy context moderated the relationship between top management team composition and firm performance.

Most studies carried out on this relationship are based on developed economies with minimal attention given to developing economies. It can also be noted that most of the studies relied on financial measures to measure performance. This study thus sought to address these knowledge gaps by focusing on a developing economy (Kenya) and relied on non-financial performance measures to measure performance.

2.5 Research Gaps

From the above empirical review, several gaps have been identified. Most of the past studies have been carried out in developed countries with proper and established governance mechanisms; on the contrary minimal attention has been given to developing countries where the corporate structures and mechanisms are still being established. From the review it was also established that many studies relied on financial measures to evaluate firm performance and minimal attention had been given to non-financial performance measures. This study therefore sought to address this knowledge gaps. Table 2.5 presents a summary of these knowledge gaps.

Table 2.5 Research Gaps

Author	Title	Findings	Research Gap	How the current study aims to fill the gaps
Nehme et al.., (2015)	The relationship between corporate governance structure and family firms' performance among Lebanon firms	A strong relationship between duality and Family Firm Performance was observed. There was no degree of association between board composition and family firm performance.	The study was carried out in a developed country whose strategic approach and corporate governance systems are not similar to those of Kenya. It used accounting measures to measure performance	This study was carried out in Kenya which is a developing country.
Shahrier et al., (2015)	Ownership concentration, board characteristics and firm performance	Presence of professional director's increased firm performance. Lack of ownership concentration led to agency problems resulting in inferior performance. High-ownership concentration reduced the positive effects of board size and board competence.	This study used accounting measures to measure performance. The study was also carried out in a developed country with advance corporate governance structures as compared to Kenya, which is a developing country.	This study used non-financial measures to measure firm performance
Ehikioya (2009)	Corporate governance structure and firm performance in developing economies:	Ownership concentration had a positive effect on performance. No evidence was found to support the effect of board	This study used accounting measures to measure performance. It also considered	This study used non-financial measures to measure firm performance. The study was

	evidence from Nigeria	composition on performance, there was significant evidence to support that CEO duality negatively affects firm performance.	only listed firms.	carried out on family businesses that were not listed on the Nairobi stock exchange
Scholten (2014)	Ownership structure and firm performance: Evidence from the Netherlands.	Firm performance increased when insider ownership concentration increased. At a certain point firm performance decreased, and later on increased.	The study only considered a single structure of corporate governance which is ownership structure	This study focused on the four structures of mechanisms of corporate governance, which included: Board structure, management structure and ownership structure
García et al..,(2010)	The impact of ownership structure on corporate reputation: evidence from Spain	Ownership in the hands of the largest shareholder erodes corporate reputation. Contestability of the main shareholder’s power enhances it. There was low corporate reputation at low and very high levels of insider ownership. Finally, if the largest shareholder is an institutional investor, as opposed to other types of largest shareholder, corporate reputation is lower.	The study only considered a single structure of corporate governance which is ownership structure	

Che and Langli (2015)	Governance structure and firm performance in private family firms.	Ownership of the second largest owner, high percentage of family members on the board, strong family power, and small boards were associated with high firm performance. The positive relation between ownership and firm performance also arose when the second largest owner was a member of the controlling family, The relationship was stronger when the second largest owner was a non-family member. Ownership structure is more associated with firm performance than board structure.	This study used accounting measures to measure performance. It also considered only listed firms.	This study used non-financial measures to measure firm performance. The study was also carried out on non-listed family firms.
Moche (2014)	Corporate governance and firm performance of listed family-owned firms in Kenya(using the corporate governance structures shareholding, board composition, board functioning, control mechanisms	Corporate governance was not related to firm performance.	This study was based on accounting measures to measure performance. It also considered only listed firms.	This study used non-financial measures to measure firm performance. The study was also carried out on non-listed family firms

	and disclosures)			
Hoffmann et al.., (2014)	Understanding the performance consequences of family involvement in the top management team: The role of long-term orientation.	Inclusion of family members in top management only enhances firm performance if it induces a long-term orientation among management.	The study only considered a single structure of corporate governance which is management structure	This study focused on the four structures of mechanisms of corporate governance, which included: Board structure, management structure and ownership structure
Alessandro et al..,(2010)	Top management teams in family-controlled companies: ‘familiness’, ‘faultiness’, and their impact on financial performance.	A family CEO is beneficial for firm performance. There was U-shaped relationship between the ratio of family members in the top management and firm performance.	The considered a single structure of corporate governance which is management structure.	This study focused on the four structures of mechanisms of corporate governance, which included: Board structure, management structure and ownership structure
Patriciah et al.., (2016)	Group cohesion and strategic context on the relationship between top management team composition and performance of family firms	Firm performance was dependent upon the family’s ability to pull in the same direction, regardless of the top management team composition.	The study considered a single structure of corporate governance which is management structure.	This study focused on the four structures of mechanisms of corporate governance, which included: Board structure, management structure and ownership structure.

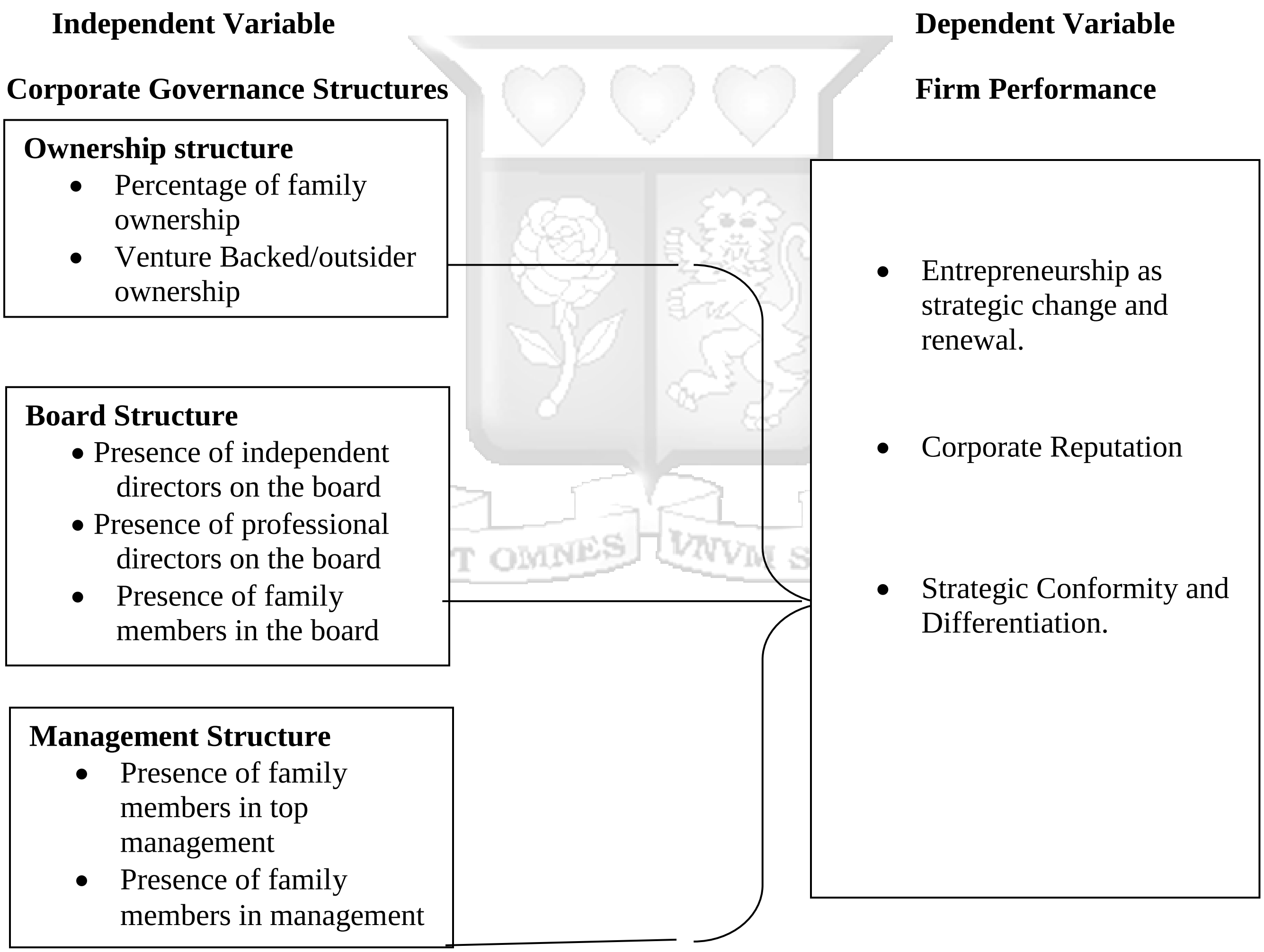
Source: Author 2021

2.6 Conceptual Framework

To study the relationship between corporate governance structures and firm performance of family-owned businesses, a conceptual framework was used to illustrate the interaction of these variables. The study's independent variable was corporate governance structures measured by ownership structure, board composition, board disclosures, and extent of family in top management, while the dependent variable was firm performance measured by corporate reputation, entrepreneurial evidence, and strategic conformity.

Figure 2.1 shows the hypothesized relationship that was investigated.

Figure 2. 1: Conceptual Framework



Source: Author 2021

2.7 Operationalization of variables

This section presents a table demonstrating how the study variables were operationalized.

Table 2.7: Operationalization of study variables

Variable	**Indicators**	**Data collection measure**	**Supporting literature**
Ownership structure	Family type family shareholding in business Ownership concentration control ownership wedge family founder ownership	5-point Likert scale 5=strongly agree, 4=agree, 3=neutral 2=disagree 1=Strongly Disagree	Ehikioya (2009) Moche (2014) Mburu (2019) Njagi (2014) (Abor, 2017) (Brunninge, 2004)
Board Structure	Presence of independent directors on the board Presence of professional directors on the board Presence of family members in the board	5-point Likert scale 5=strongly agree, 4=agree, 3=neutral 2=disagree 1=Strongly Disagree	(Ehikioya 2009) (Moche 2014) (Mburu 2019) Nehme et al.., (2015) (Njagi 2014) (Abor, 2017) (Brunninge, 2004)

Management Structure	Presence of family members in top management. Presence of family members in management of the business	5-point Likert scale 5=strongly agree, 4=agree, 3=neutral 2=disagree 1=Strongly Disagree	(Ehikioya 2009) (Mburu 2019) (Njagi (2014) (Abor, 2017) (Brunninge, 2004)
Firm performance	Entrepreneurship as strategic change and renewal. Corporate Reputation. Strategic Conformity and Differentiation	5-point Likert scale 5=strongly agree, 4=agree, 3=neutral 2=disagree 1=Strongly Disagree	(Brunninge, 2004) Fombrun (2012) Wartick (1992) Waddock (2000) Waeraas (2016)

Source: Author 2021

2.8 Chapter Summary

This chapter highlighted the theoretical and empirical review of the subject matter, that is, corporate governance and firm performance. It provided an analysis of the topics key concepts and discussed the nature of the relationship between the two variables. Research gaps were identified which formed the basis for hypothesizing of relationships depicted in the conceptual framework. The chapter winds up with the conceptualization of study variables guided by existing literature.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used for this study. It comprises of the research design employed, data collection instrument, method and data collection process, data analysis techniques and data presentation methods that were employed. The chapter ends with the ethical standards the researcher was expected to uphold.

3.2 Research Philosophy

Saunders, Lewis and Thorn hill (2009) define research philosophy as a system of assumptions that explain the development of knowledge. Burrell and Morgan (1979) noted that there are assumptions that a researcher is bound to make during the research, including assumptions about human knowledge (epistemological assumptions), about the realities encountered in research (ontological assumptions) and the extent of how own values influence the research process (axiological assumptions). Zukauskas, Vveinhardt and Andriukaitiene (2017) classify research philosophy into three clusters namely positivist research philosophy, which asserts that the social world can be understood in an impartial way where the scientist is viewed as an impartial analyst who dissociates himself from personal views and works independently. Interpretivist research philosophy, which asserts that the social world can be interpreted in a subjective manner. Attention is given to understanding ways in which people experience the social world. This research philosophy concludes that the resaerch is based on the researchers interest. Pragmatist research philosophy is based on facts and practical results are considered important. It holds claim that the choice of a research philosophy is determined by the research problem. Based on the above research philosophy definantions and descriptions, this research therefore relied on the positivist research philosophy. This study focused on facts and tested theories in an attempt to understand the phenomenon .

3.3 Research Design

Kothari (2004) defines research design as the prearrangement of events for data collection and analysis in a way that strives to combine significance to the purpose of the research.

In this study, the researcher utilized descriptive research design. Descriptive research attempts to explore and explain while providing additional information about a topic. Descriptive research design tries to describe what is happening in more detail, filling in the missing parts and expanding our understanding (Kowalczyk, 2016). According to Cooper & Schindler (2003), a descriptive study is one that finds out what, where and how of a phenomenon. Descriptive research is used to determine the relationships between variables. This study sought to determine the relation between corporate governance structures and firm performance specifically for family-owned business. This research design was most appropriate for the study due to the nature of inquest this research was carried out for and finding the relation between the research variables.

3.4 Target Population

Population alludes to people or items (unit of analysis) with the features that a researcher desires to study. The unit of analysis can be a person, a group, an organization, a country, an object or any an entity that a researcher desires to draw scientific inferences about (Bhattacherjee, 2012). As stated by Mugenda and Mugenda (2003) target population is a set of individuals who have common observable characteristics. Zikmund (2003) also defined a population as any complete group of people or a collection of items under consideration for research purpose. The population for this study was family-owned businesses operating in Nairobi County in Kenya. As per the institute of family-owned businesses in Kenya there were 490 family businesses registered with the institute as at of January 2019, with an annual income of 5million dollars to 10 million dollars (asoko, 2019).

3.5 Sampling Design

Kothari (2004) defines a sample design as a method for selecting a sample from a population under study. It is the strategy the researcher uses to select items for the sample. There are different types of sample designs depending on the representation basis and the element selection criteria. A sample may be acquired using probability sampling through random selection or using non-probability sampling. Element selection refers to the sample being unrestricted or restricted. When each sample element is selected individually from the population at large, then the sample so drawn is known as 'unrestricted sample', whereas all other forms of sampling are covered under the term 'restricted sampling'. For this study, non-probability sampling, in particular, judgmental sampling procedure was used to select the family-owned businesses. According to Frey (2018) judgment sampling occurs when units are selected for inclusion in a study based on the professional judgment of the researcher. The goal of judgment sampling is to deliberately select units (e.g. individual people, events, objects) that are best suited to enable researchers to address their research questions. This is often done when the population of interest is very small, or desired characteristics of units are very rare, making probabilistic sampling infeasible (Frey, 2018). To select the respondents, a judgmental sampling technique was applied in which either the CEO, or founders or top manager of these businesses were targeted to participate in the study.

3.5.1 Sample Size

A sample refers to a part of the target population from which data is to be obtained to estimate the traits of the population as a whole. According to Creswell (2006), a sample size should be large enough to ensure that the responses obtained are a true representative of the target population. According to Bhattacherjee (2012) whenever a sample is obtained from the population, it is important to use a sample size determination formula to put into consideration the margins of error and confidence levels. Slovin's Formula was used to determine the sample size for this study as shown below.

n=N/1+ (N*0.0025)

Where by:

n = no. of samples

N = total population (490)

E = error margin (0.0025)

N=490/1+ (490*.0025) = 220 were the targeted respondents

3.6 Data Collection Instrument

The study collected data using questionnaires with closed ended questions whose aim was to enhance uniformity and obtain quantitative data. The questionnaire was divided into three sections; Section A was for general or demographic information, which sought to find out the gender, age, education level, marital status, and work experience of the respondents. Section B contained the corporate governance structures which included ownership structure, board structure and management structure. Section C contained the firm performance indicators. The respondents comprised of company CEOs, top management, and owners of the businesses as they were in charge of proper functioning of the corporate governance structures.

3.6.1 Data Collection Procedure

A letter of introduction and assurance of confidentiality was prepared and presented to the respondents to enable the researcher get cooperation from the respondents. Data was collected with the aid of a structured questionnaire, which was administered face to face after booking an appointment with the respondents. This was to ensure high response rate and cooperation. However, owing to the Covid pandemic where physical interactions were restricted, data was also collected using telephone interviews.

3.7 Data Analysis and Presentation

Data analysis is the process of applying statistical and/or logical techniques to describe and illustrate, condense, and recap, and evaluate data. The data for this study was analyzed quantitatively. The data collected was keyed in, coded, cleaned and analyzed with the aid of the statistical package for social sciences (SPSS), with the quantitative data generated subjected to descriptive, correlation, and regression statistical analysis.

3.8 Analytical Model

Multiple regression analysis makes it possible to use other variables to predict one variable (Oludhe, 2011). The model shows the correlation between corporate governance structures and firm performance as measured by entrepreneurship as strategic change and renewal, corporate reputation, and Strategic conformity. Corporate governance structures was measured by: - board structure, ownership structure and management structure. Regression analysis was used to establish the relationship between corporate governance structures and the firm performance, and the nature of this relationship was depicted using the regression model below. The researcher chose to use correlation analysis and regression analysis due to their ability to quantify the degree to which the variables understudy are related and the capability of the models to show how much the dependent variable changes when the independent variable changes.

Regression model

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon$$

Whereby:

Y= Firm Performance

$\beta 0$ = Constant term

$\beta 1 - \beta 3$ = Coefficients of determination

X1= Ownership structure

X2= Board structure

X3= Management structure

ε= Error term

3.9 Diagnostic Tests

A regression model is based on several assumptions including linear relationships between variables, collinearity/multicollinearity, multivariate normality and homoscedasticity. The below diagnostic tests were performed on the data collected.

3.9.1 Collinearity/multicollinearity Test

Collinearity is a situation in which the independent variables in a linear regression model are linearly related and hence they cannot independently predict the value of the dependent variable and this in turn reduces the statistical significance of the model (Woolridge, 2002).

3.9.2 Normality Test

Normality test is used to test if a variable is normally distributed or not. Sujianto (2009) states that normality distribution test is a test to measure whether data has a normal distribution. The main reason for conducting normality testing is that it is necessary for the researcher to know whether the data involved in the research normally distributed.

3.10 Research Quality

This section addresses the validity and reliability of instruments. Quality research describes the scientific process including all aspects of study design.it relates to the judgment regarding the match between the methods and questions, selection of subjects, measurement of outcomes, and protection against systematic bias or non-systematic bias, and inferential error (Boaz & Ashby, 2003; Lohr, 2004; Shavelson & Towne, 2002).

To achieve a quality research, the researcher ensured that: - the research questions were true and informing the respondent of its aim. The sample provided reliable conclusions, the research design was suitable to answer the research question, the criteria measures demonstrated reliability and validity for both the independent and dependent variable, statistical tests were applied on the data obtained and ethical standards were met.

3.10.1 Internal Validity of the Instruments

Mugenda and Mugenda, (2003) defined validity as the extent to which a data collection instrument measures what it's intended to measure. It is the accuracy and meaningfulness of inferences, which are based on the research results. Internal validity refers to whether the outcomes observed in a study are due to the independent variables or experimental manipulations investigated in the study and not to some other factor or set of factors. To determine whether a research study has internal validity, a research should ask whether changes in the outcome could be attributed to alternative explanations that are not explored in the study. Studies that specifically explain how alternative explanations were ruled out are more likely to have internal validity.

3.10.2 Construct Validity

Construct validity alludes to how much a variable, test, questionnaire or instrument measure the theoretical concept that the researcher hopes to measure. To assess whether a study has construct validity, a research should ask whether the study has adequately measured the key concepts in the study. Studies that use measures that have been independently validated in prior studies are more likely to have construct validity.

3.10.3 External Validity

External reliability refers to the degree to which research findings can be used to generate conclusions relevant to similar contexts (Saunders et al., 2012). External Validity also refers to the extent to which the results of a study can be generalized to other settings (ecological validity), other people (population validity) and over time (historical validity). To assess whether a study has external validity, a research consumer should ask whether the findings apply to individuals whose place and circumstances differ from those of study participants.

3.10.4 Reliability of the Instruments

Reliability refers to the consistency of data arising from the use of a particular research method. Mugenda and Mugenda (2003), states that reliability is the measure of the degree to which a research instrument yields the same result after repeated trials over a period. This study relied on Cronbach's alpha as a measure of reliability. Consistency and stability in measurement of a research instrument is understood as reliability. Alpha scores ranging from zero (no internal consistency) to one (complete internal consistency have been furnished under the rule of thumb as furnished by Cronbach's Alpha values of 0.9 and above being 'excellent', 0.8 to be 'good', 0.7 to be 'acceptable', 0.6 to be considered as 'questionable',0. 5 to be deemed 'poor' and less than 0.5 to be 'unacceptable'. From the test conducted on the study variables, the variables had a Cronbach's alpha of greater than 0.5 which was acceptable. Ownership Structure had a Cronbach's alpha of 0.745, Board Structure a Cronbach's alpha of 0.822, Management Structure Cronbach's alpha of 0.932 while Firm Performance the dependent variable had a Cronbach's alpha of 0.768.

Table 3.1 Summary of Reliability of Cronbach's alpha Reliability Coefficient

Variables	Number of Items	Cronbach's alpha
Ownership Structure (X_1)	**3**	**0.745**
Board Structure (X_2)	**6**	**0.822**

Management Structure (X_3)	**3**	**0.932**
Firm Performance (DV)	**7**	**0.768**

Source: Primary Data, 2021

3.11 Ethical Considerations

The researcher gave the respondents the assurance that the data collected was confidential and was to be utilized for academic purposes only with no disclosure of their names. In addition, the study participation was voluntary, and no respondent was compelled to participate in the interview. Ethical clearance was also obtained from Strathmore University's Internal Review Board before commencement of data collection.

The researcher further observed the following: - Respect for persons - the research subjects were not coerced into participating in the study and requires the protection of research subjects who have diminished autonomy. Beneficence - the researcher ensured that the research did not harm research subjects and minimized the risks for subjects while maximizing the benefits for them. Justice – the researcher ensured that all forms of differential treatment among research subjects were justified.

Informed Consent The researcher first obtained informed consent from the participants before participating in the study. For participants to give informed consent the researcher informed the participants of the study's purpose, content, duration, and potential risks and benefits. The researcher informed the participants that they could stop participating in the study at any point.

Confidentiality Unless consent is given otherwise, it is imperative that researchers keep participants' identities confidential. Confidentiality means that participants cannot be identified in any way. In survey research, this includes but is not limited to making sure that participants' identifiers are not linked to their survey responses. Common identifiers include names, social security numbers, addresses, and telephone numbers. Such Personal Identifying Information or PII must be safeguarded.

Anonymity The researcher assured the respondents that they will remain anonymous. Anonymity is an even stronger safeguard of participant privacy. If a researcher assures anonymity, it means that the researcher is unable to link participants' names to the information they provide.

An application was made to National Commission for Science, Technology and Innovation (NACOSTI) for a research permit and the research permit was granted. The aim of the permit was to assure respondents that the research was purely for academic purposes and also assure them of the credibility of the researcher.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis of the data that was collected in relation to corporate governance structures and firm performance of family businesses in Kenya. The data was analyzed and presented in the form of tables, proportions as well as charts. The section also provides the descriptive statistics showing the frequencies of the responses while the inferential statistics indicate the correlation and regression results of the study.

4.2. Response Rate

Primary data was collected using structured questionnaires which were mainly administered over the telephone owing to the Covid 19 pandemic where physical interaction was limited. Questionnaires were filled based on the responses acquired. According to Mugenda and Mugenda (1999), a 50% response rate is adequate, 60% good and above 70% is rated very well. Based on this assertion, the response rate for this study was at 59% which in this case was very good. The results obtained are presented on table 4.1.

Table 4.1 Response rate

Category	Questionnaires	Percentage %
Response	130	59
None Response	90	41
Total	**220**	**100**

Source: Primary Data, 2021

According to Table 4.1 above, 59% of the respondents participated in the interviews while 41% did not participate. Based on the analysis the response was high and this indicated that the study was a success.

4.2.1 Respondents by title

The study sought to establish how respondents were distributed in terms of gender and further enabled the classification of employees in terms job title**.**

Table 4.2 Respondents by title

	Frequency	Percent
CEO	21	16.2
Chairman	17	13.1
CFO	30	23.1
Manager	45	34.6
Owner	17	13.1
Total	**130**	**100.0**

Source: Primary Data, 2021

According to Table 4.2, 16.2% of the total respondents were CEO's, 13.1% chairman's, 23.1% CFO's, 34.6% managers and 13.1% owners of the family businesses. Majority of the responses were availed by managers who were easily contacted and available.

4.2.2 Respondents by gender

The study sought to establish the respondent's distribution by gender and further enabled the classification of employees in terms of male and female.

Table 4.3 Respondents gender

	Frequency	Percent
Female	34	26.2
Male	96	73.8
Total	**130**	**100.0**

Source: Primary Data, 2021

From table above the total number of male respondents was 96 represented by 73.8% while the number of female respondents was 34 represented by 26.2%. This indicated that a big percentage of the top managers in family businesses were male showing an inclination by family businesses to hire male managers.

4.2.3 Respondents marital status

Table 4.4 Respondents marital status

	Frequency	Percent
Married	114	87.7
Single	6	4.6
Others	10	7.7
Total	**130**	**100.0**

Source: Primary Data, 2021

Table 4.2 indicated that 114 of the respondents with a percentage of 87.7% were married, 6 of the respondents were single representing 4.6% and ten of the respondents were in the category of others with a percentage of 7.7%.This analysis indicated that a big percentage in top management in family businesses were married.

4.2.4 Respondents age bracket

Table 4.5 Respondents age bracket

	Frequency	Percent
25years to 35 years	10	7.7
36 years to 45 years	50	38.5
46years and above	70	53.8
Total	130	100.0

Source: Primary Data, 2021

Table 4.4 presented the data analysis on the age of the respondents. As per the analysis 7.7% were at the age of 25 - 35 years, 38.5% at the age of 36-45 years, and 53.8% at the age of 46 years and above. From the study analysis the biggest percentage of the respondents were in the age bracket 46 years and above.

4.2.5 Length of service with the organization

Table 4.6 Length of service with the organization

	Frequency	Percent
Less than five years	28	21.5
more than five years	102	78.5
Total	130	100.0

Source: Primary Data, 2021

Table 4.5 presents the analysis of respondents based on number of years worked in the family business. Majority of the respondents with a percentage of 78.5% had worked in the businesses for more than five years, only a small percentage of 21.5% had been in the business for less than five years. This is an indication to family businesses retaining employees for long with low employee turnover rates. This gives creates organizational memory which comes in handy for future plans and strategy setting, benchmarking with prior years.

4.2.6 Respondents level of education

Table 4.7 Respondents by level of education

	Frequency	Percent
College	3	2.3
University	38	29.2
Postgraduate	89	68.5
Total	130	100.0

Source: Primary Data, 2021

Table 4.7 gives analysis of respondent's according to level of academic qualifications. Majority of the respondents had post graduate level of education representing a 68.5%, followed by undergraduate level with 29.2% and only three representing a 2.3% had only college level of education. This shows that family businesses tend to have a preference for post graduate qualifications in their managerial hiring process. Post graduate education most oftenly exposes one to critical and analytical thinking, this provides knowledge to the organization for strategic thinking. Employees most oftenly than not tend to think outside the box.

4.2.7 Length of existence of the organization

Table 4.8 Length of existence of the organization

	Frequency	Percent
Less than five years	6	4.6
more than five years	124	95.4
Total	**130**	**100.0**

Source: Primary Data, 2021

Table 4.8 shows analysis of the length of existence of the family businesses that the respondents work in.95.4% of the businesses under study had been in operation for more than five years, only 4.6% had been in operation for less than five years. This showed an increased sustainability of family businesses.

4.3 Descriptive results on study variables

4.3.1 Ownership Percentage

This sought to understand the percentage of ownership of family businesses in comparing insider ownership to outsider ownership.

Table 4.9 Ownership percentage

	Frequency	Percent
Any other (combined ownership)	8	6.2
Successor	3	2.3
Venture backed	49	37.7
Founder / owner	70	53.8
Total	**130**	**100.0**

Source: Primary Data, 2021

Table 4.9 shows the ownership structure and status of the family business in the study samples.53.8% of the businesses are under founder owner which forms the majority of the businesses, followed by venture backed family businesses with 37.7%,businesses with combined ownership which can be termed as 50-50 ownership form 6.2% and lastly families under successors form the least percentage 2.3%.This shows that most family businesses running even to the third generation retain business ownership within the family.

Table 4.10. Proportion of share ownership

	Frequency	Percent
Non-Family members more than 50%	11	8.5
Family Members more than 50%	114	87.7

Combined ownership (50% - 50%)	5	3.8
Total	**130**	**100.0**

Source: Primary Data, 2021

Table 4.10 analysis the percentage of ownership or shares held by majorly family members or non-family members (venture).From the analysis we can deduce that 87.7% of the business in the study are majorly owned by family with more than 50% shares, 8.5% by non-family with more than 50% shares and the least is the combined ownership with 3.8% of the total population size.

Table 4.11 Generation of the family that owns/runs the company

	Frequency	Percent
Third Generation	14	10.8
Second generation	42	32.3
First generation	74	56.9
Total	**130**	**100.0**

Source: Primary Data, 2021

Table 4.11 presents the analysis of the generation that presently runs the family businesses.56.9% of the businesses were run by the first generation of the family, 32.3% were in the hands of the second generation and 10.8% were run by the third generation of the family. This indicated that a big percentage of family businesses in Kenya were still in the hands of the first generation.

4.3.2. Ownership Structure and firm performance

Table 4.12 presents the Principal Component Analysis (PCA) output for all the indicators before and after extraction with a factor loadings value of more than 0.4 is presented. Indicators with factor loading more than 0.4 were extracted and their components retained for further univariate analysis. The result of the output loadings gave one dimension labelled as Ownership Structure dimension with a factor loading of 0.4 and above were retained, all the indicators under the variable Ownership Structure were retained.

Table 4.12: Principal Component Analysis and Reliability of Ownership Structure

Indicators	Component Ownership Structure
Total (family) ownership in a family firm leads to better corporate reputation compared to venture backed ownership	**0.862**
Venture backed ownership of a family firm increases strategic conformity of a firm.	**-0.634**
Venture backed ownership of a family firm increases corporate reputation	**-0.792**
Venture backed ownership of a family firm increases strategic change/entrepreneurial activities of a firm	**-0.624**
Family founder ownership improves Strategic Conformity and Differentiation	**0.837**
Family founder ownership improves corporate reputation	**0.833**

Factor Extracted	Variance Accounted For Total (Eigenvalue)
Ownership Structure	3.556
Total	3.556

Source: Primary Data, 2021

4.3.3. Board Structure and firm performance

Table 4.13 presents the Principal Component Analysis (PCA) output for all the indicators under Board Structure before and after extraction with factor loadings value of more than 0.4 being adopted while factor loading with loadings below 0.4 being dropped. Indicators with factor loading more than 0.4 were extracted and their components retained for further univariate analysis. The result of the output loadings gave two dimensions labelled as board structure and board structure independence/dependence dimensions with 2.905 and 2.563 Eigen values respectively of 0.4 and above were retained, all the indicators under the variable on board structure were retained while three variables under board structure independence/dependence namely: a well-diversified board with women sitting on the board improves corporate reputation with factor loading (**-0.254)**; existence of board committees responsible for oversight in key areas (audit, governance) positive affects strategic change and renewal and increases strategic conformity and differentiation (**-0.201)** and a well-defined board committee (e.g. audit, nomination, risk) improves the efficiency of board meetings and are a vital component of governance and improves an organization's strategic conformity and differentiation (**-0.213)** were dropped.

Table 4.13: Principal Component Analysis and Reliability of Board Structure

	Components	
Indicators	Board Structure	Board Independence/ Dependence
The Right mix of professional skills (e.g., marketing, strategy, international financial markets, and audit committee expertise) on the board enhances strategic change and renewal and increases strategic conformity and differentiation.	**0.658**	**0.650**
A board comprising of professional independent directors has a positive effect on strategic change and renewal	**0.709**	**0.588**
A well-diversified board with women sitting on the board improves corporate reputation.	**0.743**	-0.254
Separate chairman and CEO roles has a positive effect on a corporate's reputation	**0.691**	**-0.425**
Existence of board committees responsible for oversight in key areas (Audit, Governance) positive affects Strategic change and renewal and increases strategic Conformity and Differentiation	**0.868**	-0.201
A Well-defined board committee (e.g. audit, nomination, risk) improves the efficiency of board meetings and are a vital component of governance and improves an organization's Strategic Conformity and Differentiation.	**0.881**	-0.213

Factor Extracted	Variance Accounted For Total (Eigenvalue)
Board Structure	**3.496**
Board Dependence or Independence	**1.101**
Total	4.596

Source: Primary Data, 2021

4.3.4. Management Structure and firm performance

Table 4.14 presents the Principal Component Analysis (PCA) output for all the indicators before and after extraction with a factor loadings value of more than 0.4 presented under the variable of Management Structure. Indicators with factor loading more than 0.4 were extracted and their components retained for further univariate analysis. The result of the output loadings gave one dimension labelled as Management Structure dimension with a factor loadings of 0.4 and above were retained, all the indicators under the variable on management structure were retained. The extracted factor had an Eigen value of 3.145

Table 4.14: Principal Component Analysis and Reliability of Management Structure

Indicators	**Components** **Ownership Structure**
A Family member as the CEO of an organization improves the firm's corporate reputation.	**0.684**
Family led firms outperform non-family led firms	**0.747**
Family employees provide better human resource than non- family employees	**0.867**
Family members in top management encourage strategic conformity and strategic differentiation.	**0.855**
Family firms with high number of family members in operation exhibit less strategic change and renewal compared to firms led by a non-family member.	**-0.798**

Factor Extracted	Variance Accounted For Total (Eigenvalue)
Ownership Structure	3.145
Total	3.145

Source: Primary Data, 2021

4.3.5. Firm Performance

Table 4.15 presents the Principal Component Analysis (PCA) output for all the indicators before and after extraction with a factor loadings value of more than 0.4 presented under the dependent variable of Firm Performance. Indicators with factor loading more than 0.4 were extracted and their components retained for further univariate analysis. The result of the output loadings gave two dimensions labelled as differentiation by entrepreneurial change and corporate reputation by conformance with the Eigen values of 3.496 and 1.101 respectively.

Table 4.15: Principal Component Analysis and Reliability of Board Structure

	Differentiation by entrepreneurial change	**Corporate reputation by conformance**
Corporate reputation is an important indicator of firm's performance.	**0.300**	**0.765**
Entrepreneurial activities/strategic change and renewal is a clear indicator of improved firm performance	**0.801**	-0.225
Strategic conformity in a family firm is an indicator of better firm performance	**0.632**	-0.030
An increase in entrepreneurial activity in a firm is an indicator of a firms improved performance.	**0.821**	-0.363
Strategic differentiation plays a key role in improving a firm's performance.	**0.834**	-0.076
Strategic conformity protects an organizations reputation	**0.556**	**0.544**
Strategic differentiation increases entrepreneurial activities in a firm which in turn enhance an organizations performance	**0.621**	-0.015

Factor Extracted	Variance Accounted For Total (Eigenvalue)
Differentiation by entrepreneurial change	**3.496**
Corporate reputation by conformance	**1.101**
Total	4.596

Source: Primary Data, 2021

4.4 Reliability Results

Consistency and stability in measurement of a research instrument is understood as reliability. Alpha scores ranging from zero (no internal consistency) to one (complete internal consistency have been furnished under the rule of thumb as furnished by Cronbach's Alpha values of 9 and above being 'excellent', 8 to be 'good', 7 to be 'acceptable', 6 to be considered as 'questionable', 5 to be deemed 'poor' and less than 5 to be 'unacceptable'.

Table 4.16: Summary of Reliability of Cronbach's alpha Reliability Coefficient

Variables	Number of Items	Cronbach's alpha
Ownership Structure (X_1)	**3**	**0.745**
Board Structure (X_2)	**6**	**0.822**
Management Structure (X_3)	**3**	**0.932**
Firm Performance (DV)	**7**	**0.768**

Source: Primary Data, 2021

4.5 Pearson's Correlation Analysis

The Pearson's correlation analysis sought to find out whether there was any significant relationship between the independent variables and the dependent variables. The results of the correlation analysis for independent variables presented in table 4:17 below. The results show that ownership structure was negatively related to board structure (-0.263 < 0.01) and positively related to management structure (0.748 < 0.01). Board structure was negatively related to management structure (-0.178 < 0.05). The findings for ownership structure was observed to be positively related to firm performance with a Pearson's Correlation Coefficient of r = 0.233. The findings for board structure was observed to be positively related to firm performance with a Pearson's correlation coefficient of r = 0.243 and at level of significance of 0.01, was statistically significant as the p-value is less than 0.01;

this relationship was classified as low positive effect (Hinkle et al., 2003).The findings for management structure was observed to be positively related to firm performance with a Pearson's correlation coefficient of $r = 0.318$ and at level of significance of 0.001, was statistically significant as the p-value is less than 0.01;

This relationship was classified as low positive effect.

Table 4.17: Pearson's Correlation

		Ownership Structure	Board Structure	Management Structure	Firm Performance
Ownership Structure	Pearson Correlation	1			
	Sig.(2-tailed)				
	N	130			
Board Structure	Pearson Correlation	-.263**	1		
	Sig.(2-tailed)	.003			
	N	130	130		
Management Structure	Pearson Correlation	.748**	-.178*	1	
	Sig.(2-tailed)	.000	.048		
	N	130	130	130	
Firm Performance	Pearson Correlation	.233*	.243**	.312**	1
	Sig.(2-tailed)	.008	.005	.000	
	N	130	130	130	130

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

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Primary Data, 2021

4.4.1 Univariate Analysis

In this section the study sought to determine whether the corporate governance structures as related to ownership, board and management influenced the firm performance of family-owned businesses in Nairobi County through univariate analysis.

4.4.2. Influence of Ownership Structure on Firm Performance

The findings on ownership structure are presented in the subsequent sections.

a. Regression analysis of ownership structure and firm performance

Regression analysis was used to determine the significance of the relationship between ownership structure and firm performance of family-owned businesses. Table 4.18 shows the coefficient of determination was 0.360 implying that about 36 percent of the variation in firm performance is explained by ownership structure.

Table 4.18: Model Summary for Ownership Structure

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.600[a]	0.360	0.350	0.80603214

a. Predictors: (Constant), Percentage of Family Ownership, Venture Backed Ownership

Source: Primary Data, 2021

Table 4.19 presents the results of the Analysis of Variance (ANOVA) on ownership structure versus firm performance of family-owned business. The ANOVA results for regression coefficients indicate that the significance of the F is 0.0001 which is less than 0.001. This indicates that the regression model statistically significantly predicts the outcome variable (meaning it is a good fit for the data). Ownership Structure therefore significantly affects firm's performance in family-owned businesses, F (2, 129) = 35.778, $p < .001$, $R^2 = .360$.

Table 4.19: ANOVA Analysis for Ownership Structure

Model[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.490	2	23.245	35.778	.000[b]
	Residual	82.510	127	0.650		
	Total	129.00	129			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Percentage of Family Ownership, Venture Backed Ownership

Source: Primary Data, 2021

From table 4.20, the linear regression model for this relationship is represented as:

: $Y = - 0.001 + 0.715X_{1a} + 0.509X_{1b.}$

From regression results, a unit increase in ownership structure specifically with an increase in venture backed ownership and percentage of family ownership with 0.715 and 0.509 units respectively resulted in an increase of 71.5% and 50.9% change in Firm performance of family owned businesses in Nairobi County. The general regression model will be specified as

Table 4.20: Coefficients for Firm Performance

Model[a]		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-0.001	0.071		0.000	1.000
	Venture Backed Ownership	0.715	0.086	0.715	8.326	0.000
	Percentage of Family Ownership	0.509	0.086	0.509	5.927	0.000

a. Dependent Variable: Firm Performance

Source: Primary Data, 2021

The research sought to determine the beta coefficients of ownership structure verses firm performance of family-owned businesses. Table 4.20; shows that there was a positive relationship since the coefficient of venture backed Ownership and Percentage of family Ownership was 0.715 and 0.509 which is significantly greater than zero. The t statistics (8.326 and 5.927) was also greater than zero. This demonstrated that the determinant of ownership structure had positive influence on the firm performance of family-owned business. With the significant coefficient value of 0.001 which is less than the p-value of 0.05, the null hypothesis that there is no significant relationship between ownership structure and firm performance in family-owned businesses in Nairobi County is rejected. The research therefore accepts the alternative hypothesis that there exists a significant and positive relationship between ownership structure and firm performance in family-owned businesses in Nairobi County.

4.4.3. Influence of Board Structure on Firm Performance

The findings on board structure are presented in the subsequent sections as elaborated from the indicators of Board composition, Women on the board, Board Committees and CEO duality.

a. Regression analysis of Board structure and firm performance

Regression analysis to determine the significance relationship of board structure against firm performance of family-owned businesses was conducted. Table 4.21 shows that the coefficient of determination is 0.135; therefore, about 13.5 percent of the variation in firm performance is explained by board structure.

Table 4.21: Model Summary for Board Structure

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.368[a]	0.135	0.108	0.94462424

a. Predictors: (Constant), Board of Committee, Composition of Board, Separate chairman and CEO roles has a positive effect on a corporate's reputation, A well-diversified board with women sitting on the board improves corporate reputation.

Source: Primary Data, 2021

Table 4.22 presents the results of the Analysis of Variance (ANOVA) on board structure versus firm performance of family-owned businesses. The ANOVA results for regression coefficients indicate that the significance of the F is 0.001 which is equal to 0.001. This indicates that the regression model statistically significantly predicts the outcome variable (meaning it is a good fit for the data). Board Structure therefore carries a significant effect on firm performance in family-owned businesses, $F(4, 129) = 4.892$, $p < .001$, $R^2 = .135$.

Table 4.22: ANOVA Analysis for Board Structure

Model[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.461	4	4.365	4.892	.001[b]
	Residual	111.539	127	0.892		
	Total	129.000	129			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Board of Committee, Composition of Board, Separate chairman and CEO roles has a positive effect on a corporate's reputation, A well-diversified board with women sitting on the board improves corporate reputation.

Source: Primary Data, 2021

From table 4.23, the linear regression model for nature of transactions determinant,

$$Y = \beta_0 + \beta_2 X_{2a} + \beta_2 X_{2b} + \beta_2 X_{2c} + \beta_2 X_{2d} \ \mathcal{E}$$

Where;

Y = Firm Performance of Family Owned Businesses in Nairobi County

β_0 = Constant (Y- Intercept)

$\mathcal{E}$= Standard Error term

B_2, = Coefficient of Firm Performance equation

X_{2a} = Board of Committee.

X_{2b} = Composition of Board.

X_{2c} = CEO-Duality.

X_{2d} = Women on Board.

From regression results, a unit increase in board structure specifically with an increase in separate chairman and CEO roles with 0.401 units resulted in an increase of 36.1% in Firm Performance of family-owned businesses in Nairobi County. The rest of the descriptors did not have a significant effect on firm performance of family-owned businesses. The general regression model was specified as: $Y = -1.948 + 0.061X_{2a} + 0.401X_{2b.} - 0.012X_{2c.} - 0.045X_{2d.}$

Table 4.23: Coefficients for Firm Performance

Model [a]		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-1.948	0.559		-3.482	0.001
	Women on Board	0.061	0.121	0.056	0.506	0.614
	CEO-Duality	0.401	0.119	0.361	3.354	0.001
	Board Composition	-0.012	0.096	-0.012	-0.123	0.903
	Board Committee	-0.045	0.113	-0.045	-0.393	0.695

a. Dependent Variable: Firm Performance

Source: Primary Data, 2021

The research sought to determine the beta coefficients of board structure firm performance of family-owned businesses. Table 4.23 shows that there was a positive relationship with the coefficient of CEO-duality (0.401) being significant with a t statistics score of 3.354 which was greater than zero, however Women on Board, Board Composition and Board Committee were not significant in influencing firm performance in family-owned business in Nairobi County. This univariate analysis demonstrated that the indicator named as separate chairman and CEO roles has a positive effect on a corporate's reputation and consequently had positive influence on the firm performance in family-owned businesses in Nairobi County.

4.4.4. Influence of Management Structure on Firm Performance

The findings on Management structure are presented in the subsequent sections as elaborated from the indicators of Percentage of family in top management and Family members as employees.

a. Regression analysis of Management Structure and firm performance

Regression analysis to determine the significance relationship of management structure against firm performance of family-owned businesses was conducted. Table 4.24 shows that the coefficient of determination is 0.133; therefore, about 13.3 percent of the variation in firm performance is explained by management structure.

Table 4.24: Model Summary for Management Structure

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.365[a]	0.133	0.119	0.93836513

a. Predictors: (Constant), Percent of Family in Top Management, Family Member Involvement

Source: Primary Data, 2021

Table 4.25 presents the results of the analysis of variance (ANOVA) on management structure versus firm performance of family-owned business. The ANOVA results for regression coefficients indicate that the significance of the F is 0.0001 which is less than 0.001. This indicates that the regression model statistically significantly predicts the outcome variable (meaning it is a good fit for the data). Management Structure therefore significantly affects firm's performance in family-owned businesses, F (2, 129) = 35.778, $p < .001$, $R^2 = .133$.

Table 4.25: ANOVA Analysis for Management Structure

	Model[a]	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17.173	2	8.586	9.751	.000[b]
	Residual	111.827	127	0.881		
	Total	129.000	129			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Percent of Family in Top Management, Family Member Involvement

Source: Primary Data, 2021

From table 4.26, the linear regression model for nature of transactions determinant,

$Y = \beta_0 + \beta_3 X_{3a} + \beta_3 X_{3b} + \mathcal{E}$

Where;

Y = Firm Performance of Family Owned Businesses in Nairobi County

β_0 = Constant (Y- Intercept)

Ɛ= Standard Error term

B_3, = Coefficient of Firm Performance equation

X_{3a} = Percent of Family in Top Management.

X_{3b} = Family Member Involvement.

From regression results, a unit increase in management structure specifically with an increase in Family Member Involvement with 0.634 units resulted in an increase of 63.4% change in Firm Performance of family-owned businesses in Nairobi County. The general regression model was specified as: $Y = -0.001 + 0.634X_{3a} + 0.306X_{3b.}$

Table 4.26: Coefficients for Firm Performance

Model [a]		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-0.001	0.082		0.000	1.000
	Family Member Involvement	0.634	0.232	0.634	2.736	0.000
	Percent of Family in Top Management	0.306	0.232	0.306	1.319	0.189

a. Dependent Variable: Firm Performance

Source: Primary Data, 2021

The research sought to determine the beta coefficients of management structure verses firm performance of family-owned businesses. Table 4.26 shows that there was a positive relationship with the coefficient of Family Member Involvement was 0.634 was found to be significantly greater than zero, the t statistics (2.736) was also greater than zero. However, the coefficient on Percent of Family in Top Management was found not to be significant.

4.4.5 Multivariate Regression Results

In this section, the combined effect of the independent variables to the dependent variable was determined by multiple regression analysis. The independent variables of ownership structure, board structure and management structure with the dependent variable being firm performance. The results showed that the coefficient of determination was 0.240 which meant that 24.0 percent of variation in firm performance was explained by ownership structure, board structure and management structure. This implies that a low variation can be explained by the model as presented in table 4:27

Table 4.27: Model Summary for firm performance of family owned businesses

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.490[a]	0.240	0.222	0.90899869

a. Predictors: (Constant), Predictors: (Constant), Management Structure, Board Structure, Ownership Structure
b. Dependent Variable: Firm Performance

Source: Primary Data, 2021

The ANOVA results for the regression coefficients in table 4.28 Showed that the significance of F statistics is 0.001 which is less than 0.05. This implied that there was a significant relationship between ownership structure, board structure, management structure and firm performance.

Table 4.28: ANOVA Analysis for family firm performance

Model[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.974	3	10.325	13.271	.000[b]
	Residual	98.026	126	0.778		
	Total	129.000	129			

a. Dependent Variable: firm performance

b. Predictors: (Constant), Management Structure, Board Structure, Ownership Structure

Source: Primary Data, 2021

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Table 4.29: Coefficients of firm performance of family-owned businesses

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	-.00001	.077		.000	1.000
Management Structure	.205	.083	.205	2.467	.015
Ownership Structure	.295	.100	.295	3.052	.003
Board Structure	.500	.100	.500	5.475	.000

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), management structure, board structure, ownership structure

Source: Primary Data, 2021

From table 4.29, the linear regression model for firm performance in family-owned businesses,

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mathcal{E}$

Where;

Y = Firm performance in family-owned businesses

β_0 = Constant (Y- Intercept)

$\mathcal{E}$= Standard Error term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Coefficients of corporate governance structures on firm performance of family-owned businesses in Nairobi County.

X_1 = Management Structure

X_2 = Board Structure

X_3 = Ownership Structure

Firm performance of family-owned businesses in Nairobi County in terms of nature of transactions, Y = - 0.001 + 0.205 management structure + 0.295 board structure + 0.500 ownership structure. The general regression model arrived at was $Y = - 0.001 + 0.205X_1 + 0.295X_2 + 0.500X_3$. The Regression results show that a unit change in management structure resulted to 20.5% increase in firm performance of family owned businesses;

unit change in board structure resulted to 29.5% increase in firm performance of family owned businesses and a unit change in the ownership structure resulted to a 50.0% increase in firm performance of family owned businesses.

The Beta (β) coefficients values help us to compare the relative strength in each of the independent variable's relationship with the dependent variable. From table 4:29 Ownership structure X_1 (β=0.205, $p < 0.05$), Board Structure X_2 (β=0.295, $p < 0.05$) and Management Structure X_3 (β=0.500, $p < 0.05$) had a significant positive effect to firm performance of family-owned businesses in Nairobi, County.

4.5 Chapter Summary

The chapter explains how data collected was analyzed, from an overall response rate of 59 %, summary results of respondents' titles, gender, marital status, and years of service, education level and the length of time in operation of the businesses are presented. The variables measured were**: -** ownership structure, board structure, management structure and firm Performance. Information on the variables was collected using questionnaires and content analysis. The questionnaires used contained closed questions which were refined using Liker scale. The respondents made a choice of "Agree" "strongly agree" "Neutral" "Disagree" "Strongly Disagree" answers. Descriptive statistics such as frequencies and percentages were used in data analysis. The analyzed data was presented in tables and pie charts. In general, the key observation was that most of the corporate governance variables tested greatly affected the performance of family businesses, derived from the samples obtained. The findings revealed that corporate governance is positively and significantly related to firm performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of findings, conclusions, recommendations and proposes future areas of research other researchers may focus on.

5.2 Summary of the Findings

The main aim of this research was to establish the effect of corporate governance structures on firm performance among family-owned businesses in Nairobi County Kenya**.** The specific objectives of the study were: to determine the effect of ownership structure on firm performance of family-owned businesses in Kenya, to establish the effect of board structure on firm performance of family-owned businesses in Kenya, to examine the effect of management structure firm performance of family-owned businesses in Kenya. The study used descriptive design. The population of the study comprised of 220 family-owned businesses. The sample was selected through judgmental sampling technique. Research data was collected through questionnaires. This study used descriptive and inferential statistics to analyze the data collected. The independent variable for the study was corporate governance structures (ownership structure, board structure and management structure) while the dependent variable was firm performance measured by (entrepreneurship as strategic change and renewal, corporate reputation, strategic conformity and differentiation.

5.3 Discussion of findings

5.3.1 Effect of ownership structure on firm performance of family-owned businesses

The Regression analysis to determine the significant relationship of ownership structure against firm performance of family-owned businesses showed that ownership structure significantly affects firm's performance in family-owned businesses. About 36 percent of the variation in firm performance was explained by ownership structure. From the regression results, a unit increase in ownership structure specifically with an increase in venture backed ownership and percentage of family ownership resulted in a change in firm performance of family-owned businesses. The study findings also relate to Che and Langli (2015) the researchers established that high ownership of the second largest owner was associated with high firm performance, in addition, the positive association between the ownership of the second largest owner and firm performance also occurs when the second largest owner is a member of the controlling family, but the association is stronger when the second largest owner is a non-family member. García, Quevedo, and Fuente (2010) concluded that ownership concentration in the hands of the largest shareholder erodes corporate reputation, whereas contestability of the main shareholder's power enhances it. Insider ownership showed a non-linear relationship with corporate reputation, with lower corporate reputation at low and very high levels of insider ownership. (Ehikioya, 2009) asserts that ownership structure affects firm performance. On the contrary Moche (2014) found that corporate governance - ownership structure, was not related to firm perfomance.

5.3.2 Effect of board structure on firm performance of family-owned businesses

The Regression analysis to establish the significant relationship of board structure against firm performance of family-owned businesses indicated that a variation in firm performance could be explained by board structure. Board Structure therefore carried a significant effect on a firm's performance in family-owned businesses. About 13.5 percent of the variation in firm performance was explained by board structure.

The regression analysis further showed that there was a positive relationship with the coefficient of CEO with firm performance, however women on board, board composition and board committee were not significant in influencing firm performance in family-owned businesses. This univariate analysis demonstrated that the indicator named as separate chairman and CEO roles had a positive effect on a corporate's reputation and consequently had positive influence on the firm performance in family-owned businesses in Nairobi County. From the regression results, an increase in board structure specifically with an increase in separate chairman and CEO roles resulted in an increase of in firm performance of family-owned businesses. The rest of the descriptors did not have a significant effect on firm performance of family-owned businesses.

The study findings are similar to Shahrier, Jessica, and Gaur (2015) who established that the presence of professional directors led to superior firm performance. However, the positive effect of board independence on firm performance reduced in firms that had a high-ownership concentration. Additionally, a high-ownership concentration reduced the positive effects of board size and board competence. Ehikioya (2009) found significant evidence to support the fact that CEO duality adversely affected firm performance. The results also suggested that firm size and leverage affected firm performance. More than one family member on the board, was found to have an adverse effect on firm performance. Joshua and Nicholas (2007) observed that board size, board composition and CEO duality had a significant positive impact on a firm's performance. Contrary to these findings Nehme et al., (2015) concluded that that there was no relationship between board composition and family firm performance. Moche (2014) reiterated that his study findings found that board structure had no relation to firm perfomance.

5.3.3 Effect of management structure firm performance of family-owned businesses

The Regression analysis to determine the significant relationship of management structure against firm performance of family-owned businesses was conducted and it showed that the about 13.3 percent of the variation in firm performance is explained by management structure. Management Structure is therefore a significant affects firm's performance in family-owned businesses. From the regression results, a unit increase in management structure specifically with an increase in family member involvement resulted in a change in firm performance of family-owned businesses.

The regression analysis showed that there was a positive relationship with the coefficient of family member involvement and firm performance, however, the coefficient on percent of family in top management was found not to be significant. The study findings also relate to Hoffmann, Wulf and Stubner (2014) the researchers recommended that the inclusion of family members in the top management team only enhances firm performance if it brings about a long-term orientation among management ,Alessandro, Corbetta and Ian (2010) research results revealed that while the presence of a family CEO is beneficial for firm performance, the coexistence of 'groups' in family and non-family managers within the top management team has the potential to create division among the subgroups and consequently affect negatively the firm performance.Patriciah, Zachary, Kennedy and Ogutu (2016) established that the impact of top management team composition on firm performance in family firms is mediated by group cohesion. The reason being that the family firm is fraught with many dynamics among the family members some of which are not related to the business, in addition, they established that family firms pursuing complex strategies in terms of their products or markets were likely to benefit the most from top management team composition.

5.4 Conclusions

The study findings indicated that corporate governance structures are pivotal in improving or affecting a firm's performance. The structures namely: - ownership structure, board structure, management structure when blended improve a firm's performance.

On the effect of ownership structure on firm performance of family-owned businesses, the study concluded that ownership structure significantly affects firm performance. A change in ownership structure with an increase in venture backed ownership and percentage of family ownership resulted in a change in firm performance of family-owned businesses.

On the effect of board structure on firm performance of family-owned businesses, the study concluded that board structure carried a significant effect on a firm's performance in family-owned businesses. The regression analysis indicated that there was a positive relationship between CEO duality with firm performance. Separate chairman and CEO roles had a positive effect on a corporate's reputation and consequently had positive influence on the firm performance. Separate chairman and CEO roles resulted in an increase of in firm performance

On the effect of management structure on firm performance of family-owned businesses. Management Structure had a significant effect on firm's performance. An increase in family member involvement resulted in a change in firm performance. The analysis indicated that there was a positive relationship between family member involvement and firm performance, however, the percentage of family members in top management was found to be less significant in affecting firm performance. The study overall concluded that corporate governance structures are very pivotal in a firm's performance. Putting in place proper governance structures enhances a firm's performance.

5.5 Recommendations

From the above findings the research was able to come up with the below recommendations to policy makers, management and theoretical recommendations/implications.

5.5.1 Hiring a professional CEO.

Most of the family firms have a family member as a CEO, this works well when the firms have low requirements in managerial skills and a high potential for expropriation but when the firm requires high managerial skills, using a professional CEO can help firm performance, especially if the family has low cash-flow rights and weak control. The study findings indicate that separate CEO and chairman roles affect a firm's performance.CEO duality can affect a board's independence. Similar research also point out that while the presence of a family CEO is beneficial for firm performance, the coexistence of 'groups' in family and non-family managers within the top management team has the potential to create division among the subgroups and consequently affect negatively the firm performance. It is from this findings that the researcher recommends hiring of a professional CEO compared to a family member as a CEO.

Although family firms exhibit family involvement in ownership and management, one important decision many family firms have to make is related to professionalization There currently exist two, seemingly contrary, perspectives on the antecedents and consequences of professionalization in family firms. On the one hand, scholars in developed economies tend to believe that due to the preservation of socio-emotional wealth and the avoidance of potential principal-agent family governance exhibits relatively less professionalization, and professionalization often brings in undesirable results such as the rise of agency and the loss of family socio-emotional wealth .On the other hand, scholars in developing economies tend to endorse family firm professionalization because the majority of market players in developing economies are non-professionalized family firms. Thereby, professionalization may yield first-mover advantage and above-average-returns that no other approaches can match and substitute.

5.5.2 Strategic differentiation.

Most family firms conform to the industry norms and standards for fear or the two competing pressures: to look like peers to ensure social acceptance and legitimacy, and to differentiate to gain social recognition. Family firms should look more to differentiate and create more growth opportunities. From the theoretical basis of this research which are the resource based theory and the institutional theory, the former asserts that a family firm is endowed with an intangible asset which is familiness. Familiness is the set of resources resulting from the interaction between the family, individual members and the business. Firms that acquire or develop valuable resources in imperfectly competitive strategic factor markets can gain at least temporary economic rents by using them to develop and implement strategies. It can be further noted that a firm can be said to possess a competitive advantage when it is implementing a value creating strategy that is not being executed by its current or potential competitors and when the competitors are unable to duplicate the benefits of this strategy, this strategy is differentiation. The later theory argues that firms should conform to in order to gain legitimacy, there is need to differentiate in order to deal with uncertainty and become competitive while achieving sustainability in the market place.

5.5.3 Policy recommendations

The code of corporate governance in place in Kenya favors the listed and publicly traded companies in Kenya. Little attention has been given to family businesses which are still emerging and commanding a share in the marketplace. Given the complexities of family businesses, policy makers should come up with a code of corporate governance which borrows a leaf from the code applicable to listed companies and still is accommodative to different challenges and technicities in emerging family businesses. Guidance on the three structures of corporate governance as outlined in this research study is very key in ensuring continuity and sustainability of family businesses through incorporation of investors into the business. The code should address issues of CEO duality which has an impact on a firm’s performance. It should also outline the most acceptable ownership or shareholding structure that gives an investor assurance of their investment.

5.5.4 Theoretical Implications/recommendations

This study relied on two theories, namely the resource based theory and the institutional theory. The resource based theory asserts that a family firm is endowed with an intangible asset which is familiness. Familiness is the set of resources resulting from the interaction between the family, individual members and the business. Firms that acquire or develop valuable resources in imperfectly competitive strategic factor markets can gain at least temporary economic rents by using them to develop and implement strategies. From the research findings when the three structures of corporate governance are combined they provide a competitive advantage for the family firm leading to improved firm performance and sustainability. Family businesses should strive to utilize its uniqueness in its resources and strive to make them rare and none duplicable.

Relying on the second theory that is the institutional theory that advocates for organizational conformity to the institutional norms in order to gain legitimacy. The theory examines interactions between organizations and the institutional environment. Institutional theorists contend that the institutional environment can strongly have effect on the advancement of formal structures in an organization, more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are permitted in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent". At this point new and existing organizations will adopt the structural form even if the form doesn't improve efficiency. Based on this research findings, there is need for family businesses to find a balance between conformity and differentiation to be able to create a niche in the market and enhance their firm performance and business sustainability.

5.6 Suggestions for further research

The study indicates a positive relationship between corporate governance structures and firm performance in family businesses and the relationship is made stronger by combining the governance structures. Ownership structure in this study had a larger percentage influence on firm performance as compared to management structure and board structure. Further research should be undertaken on family business in a specific industry or sector e.g. education sector or hospitality industry. Secondly, inclusion of moderating variables could also be included in further research. Thirdly combining both quantitative and qualitative measures as indicators of performance could be used in further research.

5.7 Limitations

When conducting the data collection exercise, the researcher experienced certain limitations: -

Being a time when the country was facing the Covid – 19 crisis, holding a one on one interview was a challenge following the government directive of social distancing, hence most of the interviews were done over the telephone.

The nature of the businesses under study being family businesses information sharing was a huge challenge despite the assurance by the researcher that the study was purely for academic purposes.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

THE EFFECT OF CORPORATE GOVERNANCE STRUCTURES ON FIRM PERFORMANCE AMONG FAMILY-OWNED BUSINESSES IN NAIROBI COUNTY- KENYA.

Dear Sir / Madam,

My name is Diana Itumbi Munyoki, a Master of Commerce student at Strathmore University. In partial fulfillment of the master's degree programme, I am required to carry out a research project and write a dissertation on a contemporary subject within my field of specialization. Among other activities, the project involves data collection and analysis.

I hereby request to gather information to be used in this research in your firm. The information obtained will be used for this academic purpose only and will be kept confidential. The results of the survey will not disclose any individual, company name or information in any way.

If you have any further questions about this study, you may also contact my supervisor directly, Dr. Stella Nyongesa at snyongesa@strathmore.edu

Thank you very much for your time and cooperation.

Sincerely,

Diana Itumbi Munyoki

APPENDIX II: LIST OF FAMILY BUSINESSES

LIST OF FAMILY OWNED BUSINESSES IN KENYA-NAIROBI COUNTY

1 Zucchini Greengrocers Limited
2 Wood Manufacturers Ltd
3 Window Plus (E.A) Ltd
4 Warren Concrete Company
5 Victoria Courts- Mombasa Road
6 Veg-Pro Group
7 Veefarm limited
8 Up Stores
9 UNEECOPS Technologies Limited
10 Twiga Stationers & Printers Ltd
11 Twiga Foods Limited
12 Twiga Chemical Industries Limited
13 Tusker Mattresses Limited
14 Tumaini Self Service Limited
15 Tucha Wholesalers
16 Trinity Petroleum Limited
17 TransAfrica Water Systems Limited
18 Trade House East Africa ltd
19 The Copy Cat Ltd
20 The Riara Group Of Schools Ltd
21 The Karen Hospital
22 Thames Electricals Ltd.
23 Tetra Pak Limited
24 Telemas Company Limited
25 Techpak Industries Ltd
26 Super Fit Tyres
27 Sunshine Secondary School
28 Sun culture Kenya Limited
29 Success Signature Co, Ltd
30 Stat pack Industries Ltd
31 St.annahs school

32 St. Mary's School-Nairobi
33 Spice World Limited
34 Spectra Chemicals Kenya Limited
35 Space & Style Limited
36 SOWITEC Kenya Limited
37 Smooth Tel Data and solution ltd
38 Shamas Motor Parts Ltd
39 Shade Nett Ltd
40 Seven Seas Technologies Limited
41 Serare School Limited
42 School Equipment Production Unit
43 Sayani Investments Limited
44 Savanis Book Centre
45 Sarova Hotels Limited
46 SAP East Africa
47 Sambika Steel / Wood
48 Sai Office Supplies Limited
49 Sai Office Supplies Limited
50 Rusinga School Nairobi
51 Rupas Gift Centre Ltd
52 Rosewood Furniture Manufacturers Limited
53 Rodent kill Cleaning Co. Ltd
54 Right Choice Tours & Safaris
55 Riara University
56 Rexe Roofing Products Ltd
57 Resolution Insurance Company Limited
58 Rentco East Africa Limited
59 Real Auto Parts Limited
60 Razco Ltd
61 Ramco Printing Works Limited
62 Rai Group Limited
63 Quick Mart Limited
64 Puretech Enterprises Limited

65 Propack Kenya Ltd
66 Prime General Fabricators
67 PrideInn Paradise Beach Resort
68 Prideinn Hotels & Investments Limited
69 Power Point Systems E.A Limited
70 Power Governor Limited
71 Potterhouse School and Kindergarten
72 Pop Metal
73 Polyplay Limited
74 Plast Packaging Industries Limited
75 Pipe Manufacturers Ltd
76 Peponi House Preparatory School
77 Paytree Group Limited
78 Patco Industries Limited
79 Palm House Dairies Ltd
80 Packhard Limited
81 Osho Chemicals Industries Limited
82 Osaka Auto Spares
83 Orchard Juice Limited
84 Orbit Engineering Ltd
85 One Time Supply
86 Norda Industries Limited
87 Njoroge Regeru & Company Advocates
88 Njimia Pharmacy Ltd
89 Ngariama Papers & Stationers
90 New Westlands Stores Ltd.
91 New Light Junior Academy
92 Natural World Kenya Safaris
93 Naivas Supermarket Limited
94 Nairobi Water company
95 Nairobi Sports House
96 Nairobi County Secondary School Activity Fund
97 Multiple Hardware & Traders (k) Ltd

98 Mukiri Global Associates
99 Mukashi Africa
100 Mugoya Vegetable Shop ltd
101 Motor Rank Enterprises Ltd
102 Morison Engineering Ltd
103 Mombasa Maize Millers Ltd
104 Modern Fire Engineers
105 M-KOPA Limited
106 Mini Bakeries
107 Microskills I. T. (K) Ltd
108 Melvin Tea (K)
109 Melvin Marsh International Limited
110 Melchizedek Hospital
111 Mecol Ltd
112 Mbame Construction Company Limited
113 Mayfair Holdings Limited
114 Mawingu Dairy Farm
115 MauWest Company Limited
116 Mascal Investment company
117 Mars Wrigley Confectionery Kenya Limited
118 Mangu Auto & Hardware Ltd.
119 Makini Schools
120 Mabati Rolling Mills Limited
121 Lukenya High School Limited
122 Lloyd Masika Ltd
123 Liwan Auto Spares & Hardware Limited
124 Lavera Luiza Levi & Kenneth Michael Levi
125 Koko Networks Limited
126 kobo safaris
127 Kids Fun Supermarket
128 Khetia Drapers Limited
129 Kevian Kenya Ltd - Head Office
130 Keroche Breweries Limited

131 Kenya Sweets Limited
132 Kenya Expresso Tours & Safaris
133 Kenpoly Manufacturers Ltd
134 Kenchic Limited
135 Kenbro Industries Limited
136 Kenblest Limited
137 Kenafric Industries Limited
138 Kartasi Industries ltd
139 Kapa Oil Refineries Limited
140 Kamco Stainless Steel Works Ltd
141 Jomu Glassmart and Hardware
142 Jamii Telecommunications Limited
143 J & J Veterinary Ltd
144 Iway Africa Kenya Limited
145 Impala Auto Spares Limited
146 Ikram Sheet Metal Works
147 Human Capital Synergies Africa Limited
148 HACO Industries Kenya Limited
149 Grindstone Limited
150 Good Testimony Junior School Limited
151 Gilani Butchery Limited
152 Geokang Enterprises
153 Garden Veterinary Services Ltd
154 Garden Centre Ltd
155 Garbage.Com Ltd
156 Fushia Kenya Limited
157 Furniture Palace International (K) Ltd
158 Fun City
159 Fremodex Consult Ltd
160 Finsbury Trading Limited
161 Feedwaters Treatment Ltd
162 Farmers Choice
163 Fairdeal Furniture - Msa Road

164 Fair Link Auto Spares
165 Excel Chemicals Limited
166 Events & Promotions Ltd
167 English Press Limited
168 Empire Feeds Limited
169 Elite Renovators & General Supplies
170 Elgon Kenya Limited
171 Educate Yourself Ltd
172 East Africa Steel Structures Ltd
173 East Africa Glassware Mart Ltd
174 Drill bit ltd
175 Drick Electrotech Systems
176 Doshi & Company (Hardware) Limited
177 Doshi & Company (Hardware) Limited
178 Dodhia Packaging ltd
179 Devki Group of Companies
180 Desley Holdings (k) ltd
181 Densey Tours and Travel Ltd
182 Davis and Shirtliff Limited
183 Crown Paints Kenya PLC
184 Credible Sounds
185 Computer Pride Limited
186 Cleeveland Autotech Limited
187 Chiuri Kirui & Rugo Advocates
188 Chemicals & School Supplies Limited
189 Charlie Photographic & Video Productions
190 Chandaria Industries Limited
191 Chandarana Supermarket Limited
192 Challenge Enterprises
193 Carton Manufacturers Ltd
194 Capsule Partners Ltd (Fridah Rutere)
195 Caffe Del Duca Ltd
196 Brush Manufacturers Limited

197 Brooms Limited
198 Brookside Dairy Limited
199 Brands & Beyond Limited
200 Bountiful Safaris
201 Borehole masters
202 Bonfire Ventures
203 Bollore Transport & Logistics (K) Limited
204 Bobmil Industries Ltd
205 Blue Nile Rolling Mills Limited
206 Blowplast Limited
207 Biogas Power Holdings (EA) Limited
208 Bidco Oil Refineries
209 Bidco Africa Limited
210 Basco Paints
211 Autoxpress Limited
212 Autoline Parts & Hardware
213 Auto Moon Spares Ltd
214 ASHUT
215 Apex Boreholes & Engineering Ltd
216 Ansie's Laundry & Dry Cleaners
217 Animet Limited
218 Alpha Fine Foods Ltd
219 All Tymes Tents
220 Primarosa Flowers Limited

APPENDIX III: QUESTIONNAIRE

Please answer the questions below as precisely and truthful as possible. Any information provided will be held with strict confidentiality and anonymity. In addition, your answers will only be used for academic purposes only. Kindly tick your responses against each question in the spaces provided. The information provided here will be used solely for academic purposes and will be treated with maximum confidentiality.

SECTION A: DEMOGRAPHIC INFORMATION

Name of the Organization……………………………………………………….

1. Which of the following is your current title? CEO[ ] Chairman [ ] CFO [ ] Manager [ ] Owner [ ]
2. Gender Female [ ] Male [ ]
3. Marital status Married [ ] Single [ ] Others [ ]

4. Age Bracket: Below 25 Years [ ] 25 to 35 Years [ ] 36 to 45 Years [ ] 46 years and above [ ]

5. How long have you worked for your current organization? Less than five years [ ] more than five years [ ]

6. State your highest level of education

Secondary School [ ] College [ ] University [ ] Postgraduate [ ]

7. For how long has your organization been in existence? Less than five years [ ] more than five years [ ]

SECTION B: CORPORATE GOVERNANCE STRUCTURES

This Section is concerned with assessing the role of corporate governance structures.

B1. Ownership Structure

8. Please indicate the status of ownership of this company.

Founder / owner	**4**		Venture backed	**3**	
Successor	**2**		Any other	**1**	

9. Please indicate the proportion of share ownership held by family and non-family

Family Members	**2**		Non family members (venture backed)	**1**	

10. What generation of the family owns/runs the company?

First generation	**3**		Second generation	**2**	
Any other	**1**				

This likert scale seeks your opinion regarding ownership structure of the organization. To what extent do you agree with the following statements in relation to ownership structure? Using a scale of 1 to 5 please tick the number corresponding to your opinion for each question.

#	Statement	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
		1	2	3	4	5
11	Total (family) ownership in a family firm leads to better corporate reputation					

	compared to venture backed ownership					
12	Venture backed ownership of a family firm increases strategic conformity of a firm.					
13	Venture backed ownership of a family firm increases corporate reputation.					
14	Venture backed ownership of a family firm increases strategic change/entrepreneurial activities of a firm.					
15	Family founder ownership improves Strategic Conformity and Differentiation					
16	Family founder ownership improves corporate reputation					

B2.Board Structure

17. Does your organization have a formal board?

Yes	**2**		No	**1**	

18. If yes, please indicate the composition of the board

Family members	**2**		Non Family Members	**1**	

19. How often does the board of directors meet?

Regularly	**3**		Not Regularly	**2**		Not at all	**1**	

20. What is the average level of education of board members in your organization?

College	**1**		Undergraduate	**2**		Post graduate	**3**	

To what extent do you agree with the following statements in relation to the board composition? Using a scale of 1 to 5 please tick the number corresponding to your opinion for each question.

	STATEMENT	1 **Strongly disagree**	2 **disagree**	3 **Neutral**	4 **Agree**	5 **Strongly agree**
21	The Right mix of professional skills (e.g., marketing, strategy, international financial markets, and audit committee expertise) on the board enhances Strategic change and renewal and increases Strategic Conformity and Differentiation					
22	A board comprising of professional independent directors has a positive effect on strategic change and renewal					
23	A well-diversified board with women sitting on the board improves corporate reputation.					
24	Separate chairman and CEO roles has a positive effect on a corporate's reputation					

25	Existence of board committees responsible for oversight in key areas (Audit, Governance) positive affects Strategic change and renewal and increases Strategic Conformity and Differentiation					
26	A Well-defined board committee (e.g. audit, nomination, risk) improves the efficiency of board meetings and are a vital component of governance and improves an organization's Strategic Conformity and Differentiation.					

B3.Family in Top Management Structure

27. Please indicate the composition of the top management team in this company.

Family members more than 5	**4**		Family members less than 5	**3**	
Non family members more than 5	**2**		Non family members less than 5	**1**	

To what extent do you agree with the following statements in relation to the Family in top management and Firm performance? Using a scale of 1 to 5 please tick the number corresponding to your opinion for each question.

	STATEMENT	Strongly disagree 1	disagree 2	neutral 3	agree 4	Strongly agree 5
28	A Family member as the CEO of an organization improves the firm’s corporate reputation					
29	Family led firms outperform non family led firms					
30	Family employees provide better human resource than non family employees					
31	Family members in top management encourage strategic conformity and strategic differentiation.					
32	Family firms with high number of family members in operation exhibit less strategic change and renewal compared to firms led by a non family member.					

SECTION C: FIRM PERFORMANCE

To what extent do you agree with the following statements in relation Firm performance in a family firm? Using a scale of 1 to 5 please tick the number corresponding to your opinion for each question.

	STATEMENT	Strongly disagree 1	disagree 2	neutral 3	agree 4	Strongly agree 5
33	Corporate reputation is an important indicator of firm's performance.					
34	Entrepreneurial activities/strategic change and renewal is a clear indicator of improved firm performance					
35	Strategic conformity in a family firm is an indicator of better firm performance					
36	An increase in entrepreneurial activity in a firm is an indicator of a firms improved performance.					
37	Strategic differentiation plays a key role in improving a firm's performance.					
38	Strategic conformity protects an organizations					

	reputation					
39	Strategic differentiation opens up an organization to increased entrepreneurial activities which in turn enhance an organizations performance.					

THANK YOU VERY MUCH FOR YOUR COOPERATION.

APPENDIX IV: NACOSTI RESEARCH LICENCE

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **958581**

Date of Issue: **30/July/2020**

RESEARCH LICENSE

This is to Certify that Ms.. Diana Judy Munyoki of Strathmore University, has been licensed to conduct research in Nairobi on the topic: THE EFFECT OF CORPORATE GOVERNANCE STRUCTURES ON FIRM PERFORMANCE AMONG FAMILY-OWNED BUSINESSES IN NAIROBI COUNTY KENYA. for the period ending : 30/July/2021.

License No: **NACOSTI/P/20/6008**

958581

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

APPENDIX V: STRATHMORE ETHICS APPROVAL LETTER.

Strathmore
UNIVERSITY

4th August 2020

Ms Munyoki, Diana
dianamunyoki@gmail.com

Dear Ms Munyoki,

RE: The Effect of Corporate Governance Structures on Firm Performance Among Family-Owned Businesses in Nairobi County Kenya

This is to inform you that SU-IERC has reviewed and **approved** your above research proposal. Your application approval number is **SU-IERC0866/20.** The approval period is **4th August 2020 to 3rd August 2021.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-IERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-IERC within 72 hours of notification
iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-IERC within 72 hours
v. Clearance for export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days upon completion of the study to SU-IERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) https://oris.nacosti.go.ke and also obtain other clearances needed.

Yours sincerely,

for. Dr Virginia Gichuru,
Secretary; SU-IERC

Cc: Prof Fred Were,
Chairperson; SU-IERC

STRATHMORE UNIVERSITY INSTITUTIONAL
ETHICS REVIEW COMMITTEE
(SU-IERC)
04 AUG 2020
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