Family Business Succession Planning, Entrepreneurial Orientation and Firm Performance Among Small and Medium Enterprises

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ABSTRACT

Family-owned businesses continue to form the backbone of most of the national economies. However, because of the tenuous nature of the ownership structure of most family businesses only one in three family businesses succeeds in making it to the second generation. These smaller businesses are particularly vulnerable to the impact of unexpected, life-altering events that affect the business owner and often the business itself, therefore need to consider proper succession of the businesses. The paper therefore seeks to review literature on the relationship between planning, family business succession entrepreneurial orientation and firm performance of small and medium enterprises. The review also gives the back ground of the study on family business and their role in economic development ,having successful succession planning in mind. The aim is to shed some light on what other scholars have written about the role of family business succession planning and entrepreneurial orientation on firm performance. The paper also looks at the theoretical foundation of entrepreneurship that gives a firm foundation of study.

Keywords: Family business Succession planning, Entrepreneurial Orientation and firm performance.

INTRODUCTION

Background of the Study

Internationally, the overwhelming majority of family businesses are small or medium-sized, it is estimated that the proportion of all worldwide business enterprises owned or managed by families at between 65% and 90% (Sharma, Chrisman and Chua, 2000). Another report by (UNIDO, 1999) estimates that SMEs represent over 90% of private business and contribute to more than 50% of employment and of GDP in most African countries (Al Masah, 2011). In Ghana, SMEs represent about 92% of businesses and contribute about 70% to Ghana's GDP and over 80% to employment. SMEs also account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002). Only 10 % of the Family businesses survive up to the third generation this is attributed to many reasons key being lack of succession planning

Study of family businesses is relatively new, because of this novelty there has been several debates on definitions, the scope, the characteristics and the relationships between SP and firm performance (Colli, 2003). We tend to believe that the public side of the corporate world defines our global economy contrary to this when we explore further, a subset of the business world, a more private, low profile side turns out to be the main driver, the Family businesses.

SMEs are universally acknowledged as effective instruments for employment generation and economic growth. In developing countries, they play a critical role in stimulating economic growth and wealth creation (Maalu, 2010). SMEs in Kenya employed 3.2 million people in 2003 and this accounted for 18% of national GDP. Entrepreneurship is always linked with performance and succession planning.. The main focus of this paper is therefore the role played by Succession planning and entrepreneurial orientation to achieve firm's performance.

Family Businesses

There are quite distinct definitions of family business, Wortman (1995) contends that more than 20 definitions are in use and researchers usually develop a definition that suits their needs. Handler (1989) notes a lack of definition consensus. Most definitions focus on family ownership, family involvement family control and or the intention to transfer the family firm. Donnelly (1964) suggests that a family firm is one which has closely identified at least two generations of a family and company policy and family interests are related. The husband-wife business is largely different from a large family company considering the participation of family members in ownership and day-to-day management. Gersick et al. (1997) propose a three-dimensional view of the family firm taking account of the position of a company in terms of family, ownership and business life-cycles. Litz (1995) has categorised family firms in three groups considering ownership and management, avoiding a static perspective, since successful family firms usually develop into larger firms with non-family ownership but with family managers involved in day-to-day management or even going public but with family members still in senior management positions.

The difficulty with the definition of a family firm is compounded with the finding that family-business relationship changes according to the structure and size of the business (Fletcher, 2000). A few business surveys associate family business with SMEs and emphasize the issue of family ownership. GEM UK Family Business Adult Population Survey (GEM, 2006) the criteria used is where a family or individual owns more than a 50 % controlling stake in the business, it could be a micro business, SME, large company, partnership or publicly quoted. There has been more effort to differentiate between different types of family firms. (Westhead et al, 2002) useful typology of family firms where a company has undergone an inter-generational transition, where 50 % of ordinary voting shares owned by a family group related by blood or marriage.

Family Business Succession Planning

Succession planning may be broadly defined as a process for identifying and developing potential future leaders or senior managers, as well as individuals to fill other business-critical positions, either in the short- or the long-term. It requires tailored work experience that will be relevant for future senior or key roles. Researchers show that only a small percentage of family firms survive the transition to the second generation and many intergenerational transitions fail soon after the second generation takes control (Davis & Stern, 1998; Handler, 1989)

The main reason for the failure being economic and financial issues and others caused by the inability of the firm to overcome the loss of key contributors (Lussier & Sonfield, 2004), hence the importance of succession planning. Thus, is it not surprising that management succession is the most important concern of family business leaders (Chua, Chrisman, &Sharma, 2003), the issue for which family business consultants are most frequently engaged.

Entrepreneurial Orientation

Entrepreneurship is the dynamic process of wealth creation. Individuals create wealth by taking major risks such as time; financial and social and/or career they commit to provide value for some product or service Ronning (2006). The product or service may be old or new or unique, value creation is infused by the entrepreneur by receiving and allocating the necessary skills and resources. Entrepreneurial activity represents one of the key engines of economic growth and today accounts for the majority of new business development and job creation in the world.

Innovation is at the heart of entrepreneurship Drucker (1985), it helps in coping with rapidly changing environmental condition. Innovation could be in the form of new products, services, and processes, or in a combination of these (Schumpeter, 1934) The role of innovation in driving growth has been recognized by governments, business and academia. The high death rate of start-up and small firms has been attributed to their newness and size (Maaluand McCormick, 2011), the enterprises are forced to make innovations and be more proactive so as to survive.A study of innovation in Ghanaian SMEs found that entrepreneurs have introduced innovations in a range of products, services, production processes, work practices, and marketing that have brought benefits to their firms (Robson et al. 1994).Researchers such as (Covin & Slevin, 1991) Have argued that entrepreneurship is an essential feature of high-performing firms.

Firm Performance

Firm performance measures are defined as metrics employed to measure the efficiency and effectiveness of actions, but remain an issue for debate in business research. A diverse range of measures used constitutes on additional sources of methodological heterogeneity (Venkatraman and Ramanujam, 1986). There has been no generally accepted definition of performance; this has complicated the gauge to be used as a measure of performance. It is important to control variables such as firm age and size, otherwise a firm performance can be considered ambiguous. The most common financial measures include Profit margin or ROS which determine a firm's ability to withstand competition, adverse rising costs, falling prices, and future declining sales. The other measure is ROA which is the ability to utilize assets. Finally we have ROE which is payment of dividends to stockholders.

There are other non quantitative measures of performance such as s customer and employee satisfaction, they complement the hard measurement practice. Customer-based measures are becoming more popular because of an endeavor by firm to offer quality customer improvements, which ultimately lead to company profits. Other measure includes customer complaints surveys (Stone & Banks, 1997). For small firms however their main purpose is to stay in business, the best measure would then be subjective performance and non-financial measures. The recognition of Family businesses (Timmons, 2007) and the roles they play in wealth creation has encouraged discussions in this area.

LITERATURE REVIEW

Theoretical foundation of the study

Entrepreneurship is multidisciplinary by nature, Several theories have been put forward by scholars to explain the field of entrepreneurship. According to researchers the field of entrepreneurship lacks a distinct professional identity, one defined by a unified body of knowledge based on generally accepted social science theories (Bull & Willard 1993). There have been debates and contributions from Entrepreneurial scholars like Cantillon, Schumpeter and Schultz to date regarding this field.

Resource Based Theory of the Firm

Economist entrepreneurship only takes place where economic conditions are most favorable, although its foundation is high on high order in social, psychological, ethical or patriotic. Entrepreneurial activity deals with forms, the transformation of ideas or raw materials to finished goods that can be consumed. Alvarez and Busenitz (2001) look at the theory as the cognitive ability of individual entrepreneurs, entrepreneurship theory looks at the heterogeneity in beliefs about the value of resources. However the belief about the resource is its value (Alvarez & Busenitz, 2001). There has to be recognition of an opportunity, the ability in terms of human capital to take advantage of it and a market for the final products.

The classical theory extolled the virtues of free trade, specialization, and competition (Ricardo, 1817).The theory was the result of Britain's industrial revolution which took place in the mid 1700 and lasted until the 1830s.The classical movement described the directing role of the entrepreneur in the context of production and distribution of goods in a competitive marketplace (Say, 1803). Classical theorists articulated three modes of production: land; capital; and labor.

The neo-classical model emerged from the criticisms of the classical model and indicated that economic phenomena could be relegated to instances of pure exchange, reflect an optimal ratio, and transpire in an economic system that was basically closed.

Psychological Theories

Psychological factors are an important consideration in planning for succession in family Business, Sharma, Chrisman, and Chua, (2003). These theories emphasize personal characteristics that define entrepreneurship. Personality traits, need for achievement and locus of control are the personal characteristics key to Entrepreneurial Orientation. Other characteristics that have been found to be associated with entrepreneurial inclination are risk taking, innovativeness, and tolerance for ambiguity.Personality traits are stable qualities that a person shows in most situations, to the trait theorists there are enduring inborn qualities or potentials of the individual that naturally make him an entrepreneur Coon (2004). However, the theory gives some insight into these traits or inborn qualities by identifying the characteristics associated with the entrepreneur. Some of the characteristics or behaviors associated with entrepreneurs are that they tend to be more opportunity driven, demonstrate high level of creativity and innovation, and show high-level of management skills and business know-how. They have also been found to be optimistic, , emotionally resilient and have mental energy. They also believe that they can personally make a difference, are individuals of integrity and above all visionary.

While the trait model focuses on enduring inborn qualities and locus of control on the individual's perceptions about the rewards and punishments in his or her life, need for achievement theory by McClelland (1961) explained that human beings have a need to succeed, accomplish, excel or achieve. Entrepreneurs are driven by this need to achieve and excel. While there is no research evidence to support personality traits, there is evidence for the relationship between achievement motivation and Entrepreneurship. Achievement motivation may be the only convincing person logical factor related to new venture creation (Shaver & Scott, 1991).

Social Network Theory

Entrepreneurs are embedded in a larger social network structure that constitutes a significant proportion of their opportunity structure (Clausen, 2006). An individual may have the ability to recognize that a given entrepreneurial opportunity exist, but might lack the social connections to transform the opportunity into a business start up. It is thought that access to a larger social network might help overcome this problem in a similar vein, Reynolds (1991) mentioned social network in his four stages in the sociological theory.

The literature on this theory shows that stronger social ties to resource providers facilitate the acquisition of resources and enhance the probability of opportunity. Other researchers have suggested that it is important for nascent founders to have access to entrepreneurs in their social network, as the competence these people have represents a kind of cultural capital that nascent ventures can draw upon in order to detect opportunities (Gartner et al, 2004).

Entrepreneurial Orientation

Entrepreneurial Orientation is an economic process of creative destruction by which wealth is created. when existing market structures is disrupted by the introduction of new goods or services, new combination, new ideas, new technology that shifted resources away from existing firms and caused new firms to grow. Innovations vary in their degree of radicalness (Hage, 1980), it represents a basic willingness to depart from existing technologies or practices and venture beyond the current state of the art. There are numerous methods by which to classify innovation but perhaps the most useful distinction is between product-market innovation and technological innovation.

There has been focus on technological innovativeness, which consists primarily of product and process development, research, and an emphasis on technical expertise and industry knowledge. Product-market innovativeness suggests an emphasis on product design, market research, and advertising and promotion (Miller & Friesen, 1983). Subsequent researchers have endeavored to capture additional aspect of innovativeness, for example, Zahra and Covin (1995), who focused on technology policy. This is firms commitment to acquiring, developing, and deploying technology. Innovativeness is an important component of family business, it reflects an important means by which firms pursue new opportunities for survival and growth.

Risk is uncertainty of venturing into the unknown, committing a relatively large portion of assets, and borrowing heavily. In entrepreneurship literature there are uncertainties such as personal risk, financial risks, social risk, or psychological risk. In broad sense risk is probability of a loss or negative outcome (Miller and Friesen, 1978). The early entrepreneurship literature equated the idea of entrepreneurship with working for oneself, seeking self-employment rather than working for someone else for wages, in this case assuming personal risk (Shane, 1994b). Entrepreneurial and non-entrepreneurial behaviors are clearly distinguished with the risk taking features of the individuals and organizations. In this sense business risk taking is conceptualized as the organizational orientations to go for new initiatives for the purpose of family business profit and growth by tolerating the possible calculated loses.

The term Proactiveness is acting in anticipation of future problems, needs, or changes. As such, Proactiveness may be crucial to an entrepreneurial orientation because it suggests a forward-looking perspective that is accompanied by innovative or new-venturing activity. Entrepreneurial managers are important to the growth of firms, this provides the direction and imagination necessary to engage in opportunistic expansion, Penrose (1959). First-mover is the best strategy for capitalizing on a market opportunity. By exploiting advantages in the market-place, the first mover can capture unusually high profits and get a head start on establishing brand recognition, this has become very common with entrepreneurs. In an early formulation is the Proactiveness of a firm's decisions to determine on the survival of the business introducing new products, technologies, administrative techniques.

Family Business Institutions

Institutional theory is traditionally how various groups and organizations better secure their positions and legitimacy by conforming to the rules and norms of the institutional environment (Meyer & Rowan, 1991; Scott, 2007). The term institution broadly refers to the formal rule sets (North, 1990), less formal shared interaction sequences and taken for-granted assumptions (Meyer & Rowan, 1997) that organizations and individuals are expected to follow. These are derived from rules such as regulatory structures, governmental agencies, laws, courts, professions, and scripts and other societal and cultural practices that exert conformance pressures (DiMaggio & Powell, 1997). These institutions create expectations that determine appropriate actions for organizations (Meyer & Rowan, 1997), and also form the logic by which laws, rules, and taken-for-granted behavioral expectations appear natural and abiding. Institutions define therefore what is appropriate in an objective sense, and thus render other actions unacceptable or even beyond consideration (DiMaggio & Powell, 1991).

The cognitive pillar summarized by Scott (2007) and derived heavily from the recent cognitive turn in social science (DiMaggio & Powell, 1983) represents models of individual behavior based on subjectively and constructed rules and meanings that limit appropriate beliefs and actions. The cognitive pillar may operate more at the individual level in terms of culture and language (Carroll, 1964 and Scott, 2007), and other take no seriously taken behavior that people barely think about (DiMaggio & Powell; Meyer & Rowan, 1991). This pillar is increasingly important to entrepreneurship research in terms of how societies accept entrepreneurs, inculcate values, and even create cultural beliefs whereby entrepreneurship is accepted and encouraged.

Family Business Succession

Succession planning is a contingency plan an organization develops to address the eventual loss of key human resources. More specifically, it is the process of developing key people through a process that identifies candidates and tracks their progress and development (Nardoni, 1997). Succession planning has gained wider acceptance in the corporate world. Studies conducted show 67% of those surveyed reported that succession planning had grown in importance in the last decade (Howard & Associates, 2003). The emergence of succession planning in larger firms can be credited to the teamwork and bureaucracy needed to run a large organization. In addition, the corporate boards of large organizations have forced senior management to consider succession planning (Howard & Associates, 2003). One poll of executives found 100% of those surveyed believed it useful to identify and groom a successor. However, the same study found that only 72% were actually grooming people for these key roles (Messmer, 2002).

No matter how successful, every small business will, at some point, experience the loss of key contributors. Oftentimes, these losses are in the form of an owner or founder whose vision helped build and sustain the culture. In fact, given that half of all U.S. small business owners are aged 60 or older (Fleming, 1997), it appears that planning for the eventual turning over of the reigns is more important than ever. For most family and closely held businesses, planning for succession is the toughest and most critical challenge they face. Yet succession planning can also be a great opportunity to maximize opportunities and create a multi-generational institution that embodies the founder’s mission and values long after he is gone.

A low-level job entry strategy in the FOB facilitates the establishment of strong relationships with key stakeholders. However, a major disadvantage associated with this entry strategy is that mistakes may be too readily viewed as a sign of incompetence on the part of the successor. While the delayed entry route allows the successor to build self-confidence and credibility, the main drawback of this strategy is that specific expertise and/or an understanding of the culture of the family business may be lacking once the successor joins the FOB (Fox et al., 1996). Handler (1989) argues that factors such as degree of training, degree of responsibility, and experience outside the organization, communication concerning succession and planning around succession influence succession effectiveness.

Family level succession process

The Three Circle Model is generally accepted as the standard model for family businesses and includes family, business and ownership as the three main components (Gersick et al, 1997). The acknowledgment that there are three separate circles is a significant accomplishment for a family business. Too often, the circles are constantly intertwined. This results in poor communication, resentment and a lack of commitment to the future the very things the business family is trying to prevent. Each circle has a governance structure and a plan. A family council would govern the family and prepare a family plan. A management team would lead the business and prepare a management development plan for succession and a business plan.

The board monitors company performance, advises the chief executive officer and makes decisions regarding dividends and reinvestment of profits. The board oversees succession planning, sets the strategic direction of the business by developing or approving the strategic plan, and develops leadership continuity plans and contingency plans (Gersick et al, 1997). A team of advisors would be required to assist the board in preparing a succession plan. These advisors would include a lawyer, accountant, financial planner, insurance broker, banker, and a succession planning consultant who could lead and coordinate the team on behalf of the business family.

Fostering good communication between all the individuals involved in the succession process emerges as a prime concern during succession planning. Whereas open honest dialogue, where respect for others is maintained, can help foster a rational focus on the most important considerations for achieving a smooth succession (Hamilton, 2003), creating a genuine cross-generational dialogue is crucial as it provides the basis for negotiating the succession planning processes. Preparedness of each individual is for the transition will have a major bearing on the outcome of family business successions. (Morris, et al,. 1997). The willingness and preparedness of the incumbent to relinquish control and the willingness and preparedness of a successor to assume control are major influences on succession planning. Incumbents are in a powerful position to resist an orderly succession due to personal considerations or choices. This can be despite the needs of the firm, and others, for a sufficiently long and comprehensive process that is able to ensure the acquisition of skills and experience necessary for continued good business performance.

Family Business Performance

Family Performance

Performance is an important variable in SMEs and large firms; it is always the concern of the business for Managers and the Business. Besides this academicians (Venkatraman & Ramanujam, 1986) are also keen on the end results of any venture. A diverse range of measures used constitutes on additional sources of methodological heterogeneity, a variety of approaches applied to study performance in research settings together with a lack of agreement on basic terminology, make performance measurement complicated. Three most common financial measures include: Profit margin/return on sales, Return on assets and Return on equity. Different authors have combined several factors both qualitative and quantitative to measure performance in their studies. This is because of difficultiesin obtaining quantitative data (Venkatraman & Ramanujam, 1986) particularly for small and medium businesses. Using a combination of several indicators takes care of both operational and financial issues both which both has link to the performance a firm. Frank, Kessler and Fink (2010) combined two measures, sales growth and cash-flow growth relative to competitors to capture performance. They measured both factors using seven-point Likert scales which constitute a reduced version of the measure used by (Wiklund & Shepherd, 2003). Hannan and Freeman (1984) also asserted that firm growth has been associated with the ability to better withstand environmental shocks and is a core element underlying the resource-based view of the firm (Barney, 1991) where theorists propose that resource endowments are the crux of a firm's ability to grow. Thus, firm growth is an important dependent variable in the study of organization.

Softer non-financial issues such as customer and employee satisfaction are complemented by hardmeasurement practice. Customer-based measures are gaining popularity because of an enthusiasm for customer-led quality improvements, which ultimately lead to company profits. A common measure includes procedures and surveys on customer complaints (Stone & Banks, 1997). Softmeasures can also be used to monitor or induce cultural change, improve communications, morale, and team spirit. For small firms however, subjective performance and non-financial measures appear to be more essential than quantitative measures. E.g. cash, rather than the maintenance of a smooth cash flow from profit is an important indicator to owner managers whose objectives are to stay in business.

Family Succession and Firm Performance

Maalu (2010) examined Succession strategy and performance among SMEs in Kenya; he used a cross sectional survey and also case studies in Nairobi. The selected cases were able to provide information which has longitudinal information and can facilitate measurement of changes of variables over time. He found out that succession strategy has a positive relationship with firm performance. Noor, et al, (2010) examined the relationship between family successions attributes and firm performance among Malaysian Companies. This study adopted balanced panel data analysis for 975 companies listed on Bursa Malaysia for the year 2003 to 2007. The findings indicate that some of the family succession attributes do influence firm performance. Family succession was found to be positively related with firm performance. Families are motivated to work efficiently when more shares were in their hands. Furthermore, the results reveal that successors-managed firms have better firm performance than founder-managed firms.

Another study in Italy, by Cuccuelli and Micucci (2008) on firm performance and succession, focusing on impact of founder Chief Executive officer succession as opposed to management being passed to the outsiders. They further analyzed the by assessing the performance of the firms after the succession in the midst of competition within the sector. They found out that family business that maintained formal management performed poorly at the expense of the best performers that where family managed. This indicated that organizational structures in family businesses did not have any positive impact on performance especially in the middle of competition and so recommended the importance of analyzing the governance within those firms.

In Denmark a study was carried out by Bennedsen et al (2007) on the relationships between the succession and firm performance. They investigated the impact of family characteristics in corporate decision making and the results of these decisions on the firm performance. The focus was on the decision to appoint either external or internal CEO, they also looked at gender of departing CEOs and also first born child. They found that around transition period the firm's performance fell by four per cent. They also found out that the CEOs performance of the firm fell in fast growing large firms that have high skilled labor force.

Entrepreneurial Orientation and Firms Performance

Empirically, most research studies employ the construct of business performance to examine a variety of entrepreneurship content and process issues. Some empirical studies done have expressed concerns about the relationship between entrepreneurial orientation and performance (Dess, Ireland & Hitt, 1997; Lyon, Lumpkin & Dess, 1996; Wiklund & Shepherd, 2003). They suggested that entrepreneurial orientation may affect firm performance; however environment or other organizational factors also play an important role (Dess et al, 1997; Lumpkin & Dess, 1996; Zahra & Covin, 1995). Other researchers have found support for a direct relationship between EO and firm performance (Wiklund, 1999; Lee, Lee & Pennings, 2001).

A study in Malaysia on Entrepreneurial Orientation and Performance by Amran et al (2009) found that EO was significant and has positive relationship with performance. Moderating impact showed significant interaction effect of human capital and information technology munificence on Proactiveness-performance relationship. The finding strongly supported the resource-based view when the main effect of EO and moderating effect of environment showed significant change in the relationship. Innovativeness and risk taking direct impact on performance supported studies in EO-performance relationship. Moderating impact of human capital and information technology munificence on EO-performance relationship were crucial for proactive firm in achieving superior performance. The study reconfirms that independent effect of each EO dimension on performance contributes more in-depth knowledge in the differential relationship of innovativeness, Proactiveness and risk taking with objective performance.

Fakhrul and Selvamalar, (2011) in their study on entrepreneurial orientation and firm performance, they found out that innovative, risk-taking and proactive has a direct relationship with the firm performance of a firm. Business owners must therefore seriously think about implementing policies and procedures to promote EO to ensure a firm's survival and best performance. The findings of the study disclosed that indigenous Malaysian entrepreneurship differs slightly from the conventional Western concepts of entrepreneurship; this is due to the Malaysian culture. The study also reveals that to develop an entrepreneurship culture on a historically agrarian society is a challenging and demanding task that requires time and relentless efforts. The conclusions reached by this study demonstrate that Malay entrepreneurs are not hindered by Malay entrepreneurial developments but by misconceptions as well as lack of knowledge in financial management.

Emerging Issues in Entrepreneurship

Hundreds of millions of people in developing countries earn their living through small-scale Business (World Bank, 2004; de Soto, 1989). Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. The Small and Micro Enterprises (SMEs) play an important role in country's economy, in

Malaysia; this norm is no exception SMIDEC (2008). In order for vision 2020 to be fully developed and become an industrialized nation by the year 2020, the future progress seems to depend greatly upon development of SMEs.

In the year 2020, the country will develop to become an industrialize nation by capitalizing on the country's strengths and able to overcome weaknesses. In response to the drastic changes, SMEs play an important role in developing country to a higher level. According to Schlogl (2004), small and medium-sized firms dominate economies in terms of employment and number of companies, yet their full potential remains remarkably untapped. Although there is a broad assumption stating that SMEs generally has positive effects on country economic growth, the notion of economic imperatives for SMEs remains largely untested.

The increasing demand of the SMEs is the recognized feature of most nations, for example in Bangladesh the aim of Small and Medium Enterprise Programmes is to support government efforts to foster development of the SME sector by strengthening the policy environment for SMEs and improving SMEs' access to credit and related services. This will enable the sector to attain its full potential for contributing to sustainable economic growth and, through generation of employment, the reduction in poverty. Poverty reduction target is more than 3% per year that was 1.5% during 1990s. Accordingly, Government's priority is to accelerate and expand a sustainable SME sector for pro-poor economic growth and employment generation. The Kenya Economic Survey (2011). Impact Accelerate development of SME sector and enable SMEs to attain their full potential for contributing to sustainable economic growth and Poverty reduction.

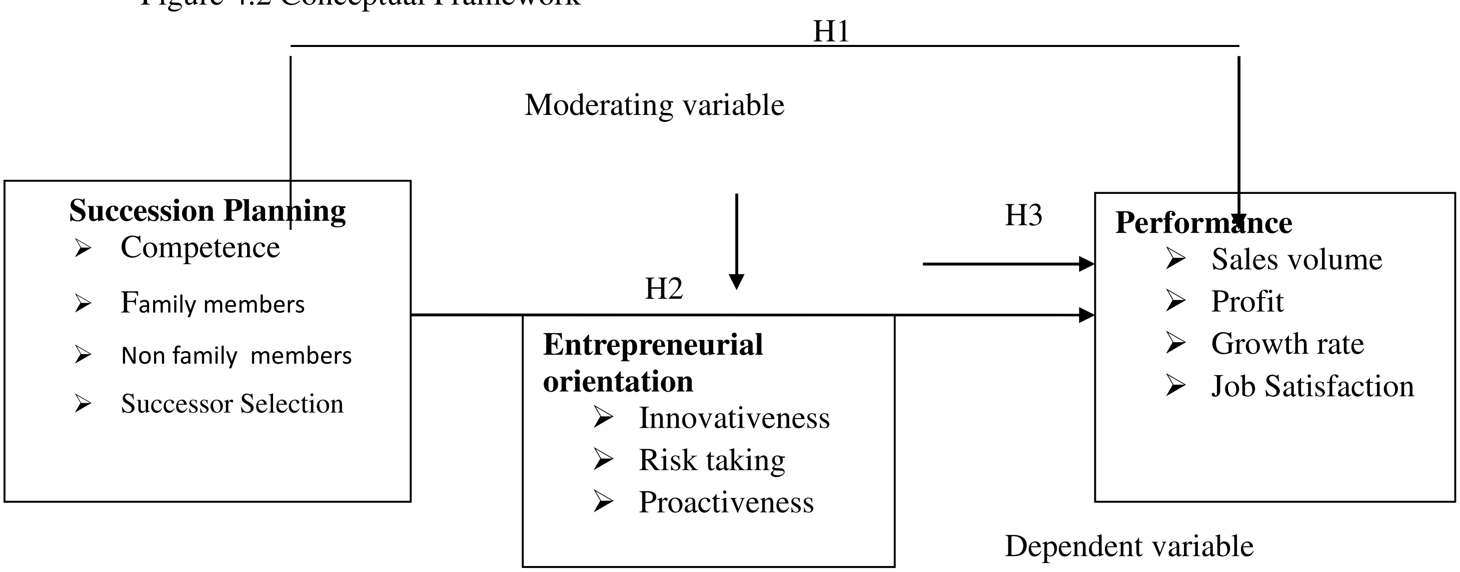
Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). One of the most significant challenges is the negative perception towards SMEs (Amyx, 2005). Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone. Because of the liability of size and newness of small firms (Maalu, 2010), a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes (Bowen, Moraa and Mureithi 2009).

SMEs face challenges such as; competition among themselves and from large firms, lack of access to credit Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko & Dondo, 1992; Kiiru, 1991), cheap imports, insecurity, lack of skills and debt collection. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, *et al.,* 2006). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo & Mutiso, 1999)
This aspiration to support SMEs has consistently been reflected in various Government policy documents such as the Sessional Papers and National Development Plans for example 1997-2001. Youth Enterprise Development Fund (YEDF) is another initiative which was formed in 2007 to

stimulate economic opportunities for and participation by Kenyan youth. The fund expected to make you more entrepreneurial and create jobs for them (Youth Enterprise Development Fund, 2012. Vision 2030 is another initiative which was developed and launched by the Government of Kenya in 2007 as national planning strategy, Vision 2030 was born, its main pillars are Economic, Social and Political governance. The main objective of the vision 2030 is to make Kenya - a newly industrializing, middle income country and to improve the lively wood of Kenyans; the initiative will be implemented in successive five year Medium Term plans.
There is a major link between vision 2030 and entrepreneurial orientation especially that it is meant to maintain a sustained economic growth of 10% p.a. over a five year period (Kenya Vision 2030, 2012). The promulgation of the new constitution in August 2010 forms a very strong anchor for entrepreneurship as it provides the necessary legal framework for devolved government (National Council for Law Reporting, 2010). The county governance of the country will be based on democratic principles for efficiency and effectiveness for better and increased entrepreneurial activities, this is expected to improve the performance of the SMEs whose majority are Family business.

Conceptual Framework
The literature review indicates that there are several variables that affect the relationship between Succession Planning and Firm Performance. Succession planning has an effect on the Firm Performance and the Entrepreneurial Orientation enhances the relationships between Succession Planning and Firm Performance.

Figure 4.2 Conceptual Framework



The model presents Succession Planning as Independent Variabl, EO as a Moderating Variable and Performance as the Dependent variable. The model will thus test and determine the relationships between Succession Planning and EO and Firm Performance.
Hypotheses

The following hypotheses have been formulated for testing in the conceptual model:
H1: There is a direct relationship between SP and Family Business Performance.
H2: EO has a Moderating effect on the relationship between SP and Firm Performance.
H3: EO has positive relationship on Family Business Performance.

SUMMARY AND CONCLUSION

Family businesses are complex and vary over a range of characteristics however, for a public or private business to be considered a family business, family members must have a controlling ownership interest and be actively involved in the business at the strategic level and thereby influence its strategic direction. Majority of the world businesses are Family Businesses, this is to the tune of between 65% to 90% depending on the country, further every existing business started as a family business.

Most studies have observed the positive relationship between the family business succession planning and performance, other indicate mixed findings between the two variables. Succession planning is not the most key contributor of firms success (Santiago, 2000), it is how well the business and family issues are tackled and therefore the relationship is moderated by family and other factors like entrepreneurial orientation.

It is important to have succession policies or plans in place. In the early stage of the business, the owner will control all key decisions and functions of the organization. As the business grows it gets more complex and therefore it is recommended that the business gets the owners to appoint capable managers who will be more qualified to handle the complex business functions. This is in contrast with many owners who will still want to retain control of the key business functions.

Replacing legendary managers is usually a very a big challenge, in most cases there are conflicts due to the incoming generation opting to pursue different interest other than the family business. However there must be prudent planning for the business by both existing leaders and a third party, this may lead to smooth transition.

Lastly entrepreneurial orientation is key to success of family businesses, this is in terms of innovation, risk taking and being proactive to ensure that one takes full advantage of business opportunities. Considering that family businesses are economic power houses in terms of creation of employment, paying taxes and building vibrant societies all over the world, there is need to nature them and ensure smooth transition ,this is the core reason for the study.

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